

# Risk-on trades defy stay-at-home order

April 2020

## Research Signals

The global COVID-19 pandemic continued to cause significant economic disruption in April, as confirmed by the lowest reading in the J.P.Morgan Global Manufacturing PMI since the financial crisis, though softened by the relatively resilient China PMI from its severe downturn in February. However, investors who sought the safety of low risk stocks during the height of the pandemic energetically reversed course, as a breath of fresh air rejuvenated the risk-on trade (Table 1).

- US: After surging in performance among large caps the prior month, 60-Month Beta recorded its largest monthly percentage point drawdown in our factor history in April
- Developed Europe: Investors increased exposure to small caps gauged by Natural Logarithm of Market Capitalization (USD) and higher risk stocks captured by 24-Month Value at Risk
- Developed Pacific: High quality firms, such as those with favorable Fixed Assets Turnover Ratio scores, outperformed for a second month in Japan, while Implied Loan Rate was a strong performer in markets outside Japan
- Emerging markets: Valuation measures such as TTM EBITDA-to-Enterprise Value were positively rewarded

## Contacts

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Table 1

## Global factor quantile return spread performance snapshot, Apr 2020

Factor	Factor Group	US Large Cap	US Small Cap	Developed Europe	Developed Pacific ex Japan	Japan Standard Cap	Emerging Markets
Book-to-Market		15.22	13.76	-0.82	2.72	-7.94	0.33
Forward 12-M EPS-to-Enterprise Value	Deep Value	-10.93	-0.55	1.64	0.19	0.55	0.24
TTM EBITDA-to-Enterprise Value		2.63	6.27	1.27	2.00	-1.96	3.32
TTM Free Cash Flow-to-Enterprise Value		-3.58	-4.23	6.90	3.80	2.48	-0.04
Industry Relative Leading 4-QTRs EPS to Price	Relative Value	1.50	8.76	4.31	1.89	-0.62	2.20
Industry Relative TTM Dividend Yield		2.27	13.10	2.37	4.64	2.03	-1.08
Fixed Assets Turnover Ratio	Management Quality	-4.05	-4.85	7.98	-2.09	8.58	0.72
Inventory Turnover Ratio		8.13	10.29	1.70	8.77	2.33	-0.07
Net Operating Asset Turnover		4.72	0.08	4.94	4.25	5.25	3.95
Change in Accruals to Assets	Earnings Quality	2.74	1.59	0.95	0.90	0.97	-0.17
Change in TTM COGS vs. Inventory Level		-3.30	5.27	0.27	0.94	-3.90	-2.67
Change in TTM Sales vs. Accounts Receivable		-1.95	-1.64	-2.69	3.19	-0.26	2.50
Working Capital Accruals		-0.73	-2.22	0.34	-1.41	0.81	0.62
1-yr Growth in TTM Free Cash Flow		Historical Growth	0.44	0.40	2.00	-0.17	1.80
Reinvestment Rate	-13.00		-3.89	-0.78	-2.80	5.74	-0.53
Average Monthly Trading Volume-to-Market Cap	Liquidity, Risk & Size	18.91	24.21	3.09	-3.52	4.10	7.84
60-Month Beta		-25.86	-28.99	-11.84	-14.96	-12.53	-9.37
Asset Quality Index		4.03	2.87	-0.72	-0.96	0.65	1.73
Operating Leverage		5.01	-1.73	4.34	-2.40	0.11	-0.82
Natural Logarithm of Market Capitalization		21.16	18.19	3.04	-0.09	1.87	2.81
2-Year Ahead EPS Growth	Earnings Momentum	4.72	3.35	3.92	-0.79	2.28	3.85
3-M Revision in FY2 EPS Forecasts		-21.03	-15.37	-3.47	-5.30	1.64	0.27
Real Earnings Surprise		-7.38	-0.20	0.15	-5.77	0.53	-1.12
24-Month Value at Risk	Price Momentum	-29.42	-34.58	-14.48	-13.87	-9.24	-11.97
5-day Industry Relative Return		5.81	6.82	3.03	-4.82	3.99	-1.73
Industry-adjusted 12-month Relative Price Strength		-2.52	7.62	1.87	5.16	5.48	1.34
Rational Decay Alpha		-11.56	-14.31	1.84	2.21	7.33	1.94
Demand Supply Ratio		-11.33	-15.40	0.21	1.51	-0.75	-11.40
Implied Loan Rate	Short Sentiment	-3.16	-8.74	0.82	5.09	-4.83	-6.85

Source: IHS Markit

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## United States

### US Large Cap

The US manufacturing sector suffered an unprecedented contraction in production in April, overwhelmingly linked to measures implemented to contain the COVID-19 outbreak. The PMI posted at 36.1, down from 48.5 in March, driven by the steepest decline in output which turned negative for the first time in the series history. Surveyed firms also recorded their first pessimistic outlook for output over the coming year on average; however, equity investors were much more ebullient on the economic outlook, as stocks posted their best month since 1987.

Energy stocks were the clear winners in April, sending Oil Prices Sensitivity to the top of the factor leaderboard for the month (Table 2), an interesting development as crude oil futures entered negative territory for the first time in history. Energy sector active (D1-D10) exposures also had some influence on other top and bottom (Table 3) performing factors, including 3-Month Active Return (spread: 26.04%; active exposure: 37.2%) and Product of Beta and Sigma (spread: -31.08%; active exposure -31.3%). We also draw attention to the large swing in risk measure performance following the surge in safety trades in March. 60-Month Beta (-25.86%) exemplified this event (Figure 1), with the largest monthly percentage point drawdown (-43.6%) in our factor history and only outmatched in magnitude with the Feb 2001 increase of 61.0%.

Table 2

#### US Large Cap top decile return spread factor performance, Apr 2020

Factor	Decile spread (%)	Factor group
Oil Prices Sensitivity	29.02	Macro
3-Month Active Return	26.04	Price Momentum
1-Month Active Return	23.97	Price Momentum
2-Month Active Return	23.04	Price Momentum
5-yr Relative TTM Dividend Yield	22.34	Relative Value
Natural Logarithm of Closing Price	21.18	Liquidity, Risk & Size
Natural Logarithm of Market Capitalization	21.16	Liquidity, Risk & Size
Leading 12 Month Cash Yield	20.34	Deep Value
5-yr Relative TTM Sales-to-Price	20.06	Relative Value
60-Month Alpha	19.21	Price Momentum
Average Monthly Trading Volume-to-Market Cap	18.91	Liquidity, Risk & Size
Leading 12 Month Book Yield	18.31	Deep Value
5-yr Relative Book-to-Market	17.90	Relative Value
Time Weighted Book Yield	17.89	Deep Value
5-yr Relative TTM Oper Cash Flow-to-Price	17.62	Relative Value

Source: IHS Markit

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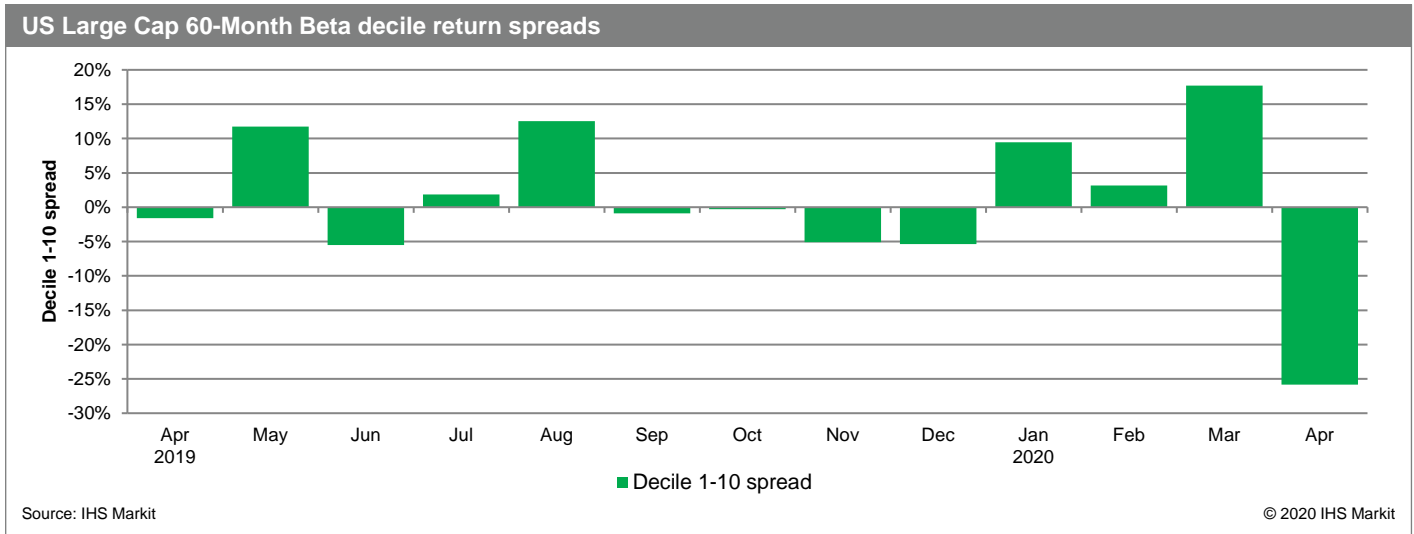
Table 3

US Large Cap bottom decile return spread factor performance, Apr 2020		
Factor	Decile spread (%)	Factor group
Product of Beta and Sigma	-31.08	Liquidity, Risk & Size
52-Week High	-30.80	Price Momentum
Stock Return Volatility	-30.02	Liquidity, Risk & Size
24-Month Value at Risk	-29.42	Price Momentum
CV of Prior 90-Day Closing Prices	-28.71	Price Momentum
Distress Measure	-28.55	Liquidity, Risk & Size
Std Dev of FY2 EPS Estimates-to-Price	-27.87	Earnings Momentum
24-Month Residual Return Variance	-27.44	Price Momentum
Regression Error of 60-Month CAPM	-26.33	Liquidity, Risk & Size
60-Month Beta	-25.86	Liquidity, Risk & Size

Source: IHS Markit

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Figure 1



Source: IHS Markit

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## US Small Cap

Top (Table 4) and bottom (Table 5) factor performers for small caps in April took on similar representation as for large caps, including 1-Month Active Return (35.49%) and Oil Prices Sensitivity (28.71%) among the leaders and 52-Week High (-34.80%) and 60-Month Beta (-28.99%) among the laggards. We also highlight Relative Value measures such as 5-yr Relative TTM Oper Cash Flow-to-Price (23.24%) which experienced a 36.8 percentage point increase in monthly performance (Figure 2), reaching its highest spread in our factor history.

Table 4

US Small Cap top decile return spread factor performance, Apr 2020		
Factor	Decile spread (%)	Factor group
1-Month Active Return	35.49	Price Momentum
2-Month Active Return	32.88	Price Momentum
3-Month Active Return	31.91	Price Momentum
Oil Prices Sensitivity	28.71	Macro
4-week Industry Relative Return	27.10	Price Momentum
Average Monthly Trading Volume-to-Market Cap	24.21	Liquidity, Risk & Size
Price-to-Book Return-on-Equity Combination	23.31	Deep Value
5-yr Relative TTM Oper Cash Flow-to-Price	23.24	Relative Value
5-yr Relative TTM Sales-to-Price	22.06	Relative Value
Natural Logarithm of Closing Price	20.24	Liquidity, Risk & Size
14 Day Relative Strength Index	20.18	Price Momentum
TTM Operating Cash Flow-to-Price	19.17	Deep Value
Natural Logarithm of Market Capitalization	18.19	Liquidity, Risk & Size
5-yr Relative Book-to-Market	17.34	Relative Value
Current Liabilities-to-Price	17.10	Liquidity, Risk & Size

Source: IHS Markit

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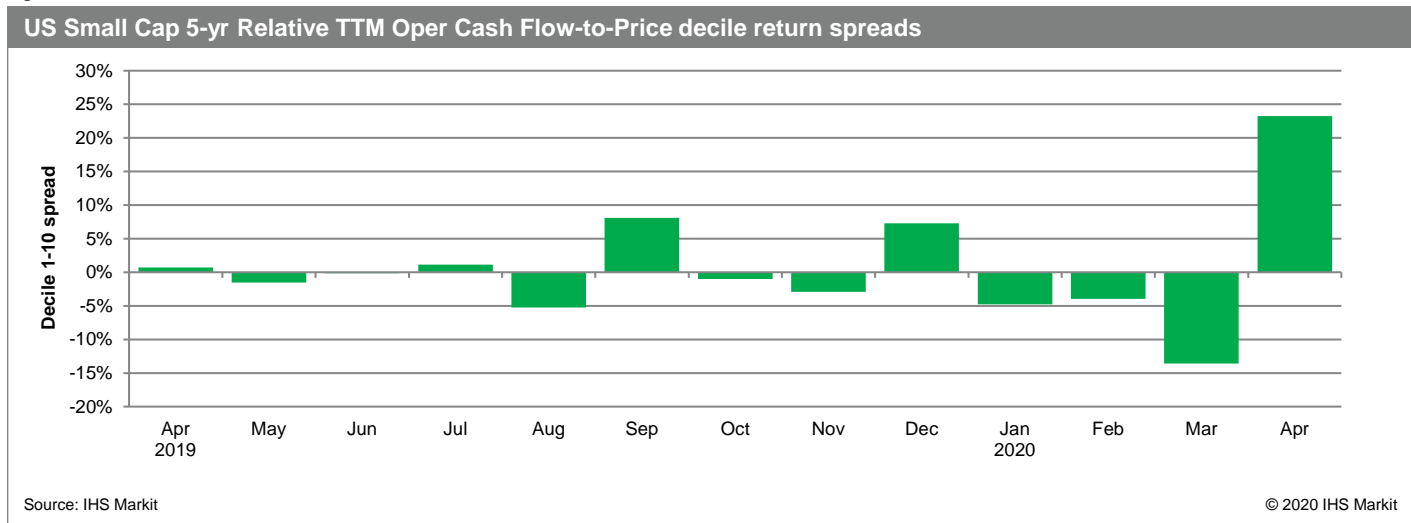
Table 5

US Small Cap bottom decile return spread factor performance, Apr 2020		
Factor	Decile spread (%)	Factor group
52-Week High	-34.80	Price Momentum
24-Month Value at Risk	-34.58	Price Momentum
CV of Prior 90-Day Closing Prices	-33.66	Price Momentum
20-Day Volume Volatility to Price Volatility	-31.82	Liquidity, Risk & Size
Market Cap per Analyst	-29.20	Liquidity, Risk & Size
60-Month Beta	-28.99	Liquidity, Risk & Size
Product of Beta and Sigma	-28.77	Liquidity, Risk & Size
Trading Turnover Ratio	-27.22	Liquidity, Risk & Size
Average Trading Volume in Preceding 6-month	-26.50	Price Momentum
26-Week Relative Price Strength	-25.96	Price Momentum

Source: IHS Markit

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Figure 2



Source: IHS Markit

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## Europe

The eurozone manufacturing economy contracted at a record pace in April, sending the PMI down to 33.4, from 44.5 in March, as government restrictions to limit the spread of COVID-19 weighed on the sector and sentiment fell to a new series low. PMIs were down across the region, with Greece and Spain recording the lowest PMI numbers, followed by Italy and France, while the Netherlands fared the best. Yet, stocks continued to improve from their lows on 18 March, suggesting that investors are looking for the rate of economic decline to moderate.

Short-term price reversal metrics, led by 4-week Industry Relative Return (14.07%), sat beside Oil Prices Sensitivity (12.60%) on the list of top performing factors in Developed Europe in April (Table 6). The risk-on trade also thrived in Europe, as demonstrated by outperformance to Natural Logarithm of Market Capitalization (USD) (8.28%). The totality of the list of bottom performing factors (Table 7) also captured this trade, with Product of Beta and Sigma sitting at the furthest extreme. The distribution of decile returns across both factors (Figure 3) demonstrates investors willingness to increase exposure to small caps and higher risk stocks, respectively.

Table 6

### Developed Europe top decile return spread factor performance, Apr 2020

Factor	Decile spread (%)	Factor group
4-week Industry Relative Return	14.07	Price Momentum
Oil Prices Sensitivity	12.60	Macro
2-Month Active Return	12.00	Price Momentum
1-Month Active Return	11.76	Price Momentum
3-Month Active Return	9.82	Price Momentum
14 Day Relative Strength Index	9.61	Price Momentum
3-yr Compound Annual Sales Growth	8.55	Historical Growth
5-yr Relative TTM Sales-to-Price	8.43	Relative Value
Natural Logarithm of Market Capitalization (USD)	8.28	Liquidity, Risk & Size
Fixed Assets Turnover Ratio	7.98	Management Quality
5-yr Relative TTM Oper Cash Flow-to-Price	7.87	Relative Value
5-yr Relative Leading 12-Month Earnings Yield	7.71	Relative Value
TTM Free Cash Flow-to-Enterprise Value	6.90	Deep Value
TTM Gross Profit to Assets	6.85	Management Quality
5-yr Relative Book-to-Market	6.55	Relative Value

Source: IHS Markit

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Table 7

## Developed Europe bottom decile return spread factor performance, Apr 2020

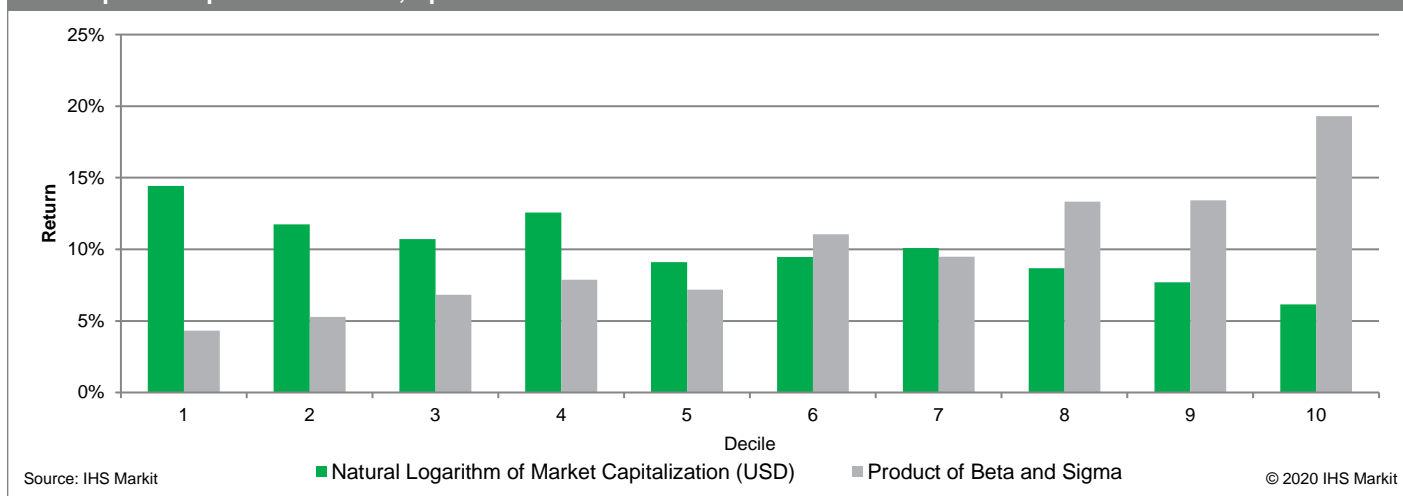
Factor	Decile spread (%)	Factor group
Product of Beta and Sigma	-14.98	Liquidity, Risk & Size
24-Month Value at Risk	-14.48	Price Momentum
52-Week High	-14.03	Price Momentum
Stock Return Volatility	-12.78	Liquidity, Risk & Size
CV of Prior 90-Day Closing Prices	-12.65	Price Momentum
60-Month Beta	-11.84	Liquidity, Risk & Size
Distress Measure	-11.08	Liquidity, Risk & Size
24-Month Residual Return Variance	-10.38	Price Momentum
Natural Logarithm of Total Assets (USD)	-9.69	Liquidity, Risk & Size
Regression Error of 60-Month CAPM	-9.37	Liquidity, Risk & Size

Source: IHS Markit

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Figure 3

## Developed Europe decile returns, Apr 2020



Source: IHS Markit

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## Asia-Pacific

While manufacturing operating conditions declined in the two largest Asian economies of China and Japan in April, Japan suffered a sharper deterioration as the PMI dropped to an 11-year low of 41.9, from 44.8 in March, on plummeting domestic and overseas demand. Meanwhile, after broadly stabilizing in March, the China PMI fell back below the 50.0 no-change mark, slipping to 49.4 in April, from 50.1 in March, as the global impact of the COVID-19 pandemic led to a substantial drop in export sales. However, stocks in Asia recovered from their sharp declines in March, finishing in positive territory in April.

Factor performance in the Asia Pacific region followed suit with our other coverage universes in April. In developed Pacific markets outside Japan, top performing factors in April (Table 8) included 4-week Industry Relative Return (16.71%) and Oil Prices Sensitivity (11.70%). We also draw attention to Lending Supply (7.63%), a proprietary Short Sentiment measure of the total quantity of stock made available by custodians in their lending programs relative to shares outstanding and a proxy for institutional ownership, which saw a 16.8 percentage point monthly jump in spread last month (Figure 4). At the opposite extreme, the weakest performing factors in April (Table 9) demonstrated

investors willingness to move out on the risk curve, with 20-Day Volume Volatility to Price Volatility (-16.74%) at the furthest tail.

Beyond Oil Prices Sensitivity (9.68%) and short-term price reversal metrics such as 4-week Industry Relative Return (8.25%), Management Quality indicators were also well represented among top performing factors in Japan in April (Table 10). Fixed Assets Turnover Ratio (8.58%) took the lead and demonstrated a clear bias to high quality across its distribution of decile returns for the month (Figure 5). At the same time, investors were willing to take on more risk, as Product of Beta and Sigma (-13.06%) made its way to the weakest performing factor for the month (Table 11).

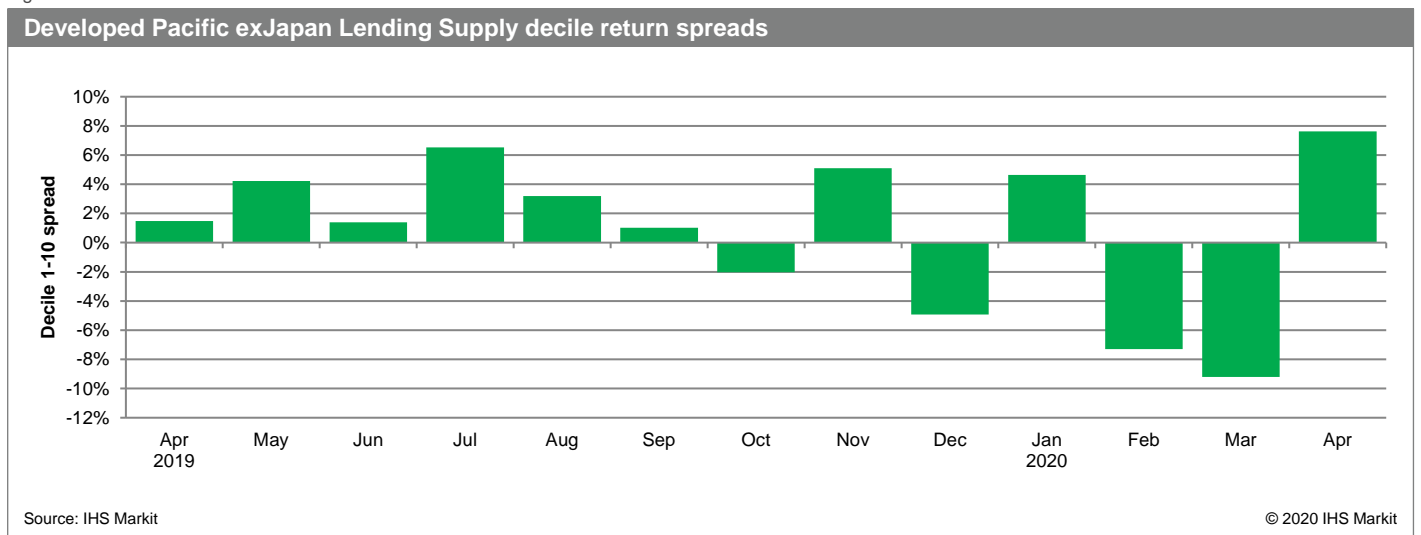
Table 8

Developed Pacific exJapan top decile return spread factor performance, Apr 2020		
Factor	Decile spread (%)	Factor group
4-week Industry Relative Return	16.71	Price Momentum
1-Month Active Return	16.19	Price Momentum
2-Month Active Return	16.14	Price Momentum
3-Month Active Return	15.32	Price Momentum
Oil Prices Sensitivity	11.70	Macro
5-yr Relative TTM Sales-to-Price	9.00	Relative Value
Inventory Turnover Ratio	8.77	Management Quality
14 Day Relative Strength Index	8.44	Price Momentum
Basic Defensive Interval	8.22	Liquidity, Risk & Size
Skewness of 90-Day Stock Daily Returns	7.85	Price Momentum
Asset Composition	7.76	Liquidity, Risk & Size
Skewness of 90-Day Stock Daily Excess Returns	7.75	Price Momentum
Lending Supply	7.63	Short Sentiment
Average Collection Period	7.52	Management Quality
5-yr Relative Book-to-Market	7.39	Relative Value

Source: IHS Markit

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Figure 4



Source: IHS Markit

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Table 9

## Developed Pacific exJapan bottom decile return spread factor performance, Apr 2020

Factor	Decile spread (%)	Factor group
20-Day Volume Volatility to Price Volatility	-16.74	Liquidity, Risk & Size
60-Month Beta	-14.96	Liquidity, Risk & Size
Yield Curve Slope Sensitivity	-13.97	Macro
24-Month Value at Risk	-13.87	Price Momentum
52-Week High	-13.75	Price Momentum
CV of Prior 90-Day Closing Prices	-13.50	Price Momentum
6-Month Nominal Change in 18-Month Alpha	-12.73	Price Momentum
26-Week Relative Price Strength	-12.72	Price Momentum
1-Month Stock Return Interquartile Range	-10.56	Liquidity, Risk & Size
Product of Beta and Sigma	-10.39	Liquidity, Risk & Size

Source: IHS Markit

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Table 10

## Japan Standard Cap top decile return spread factor performance, Apr 2020

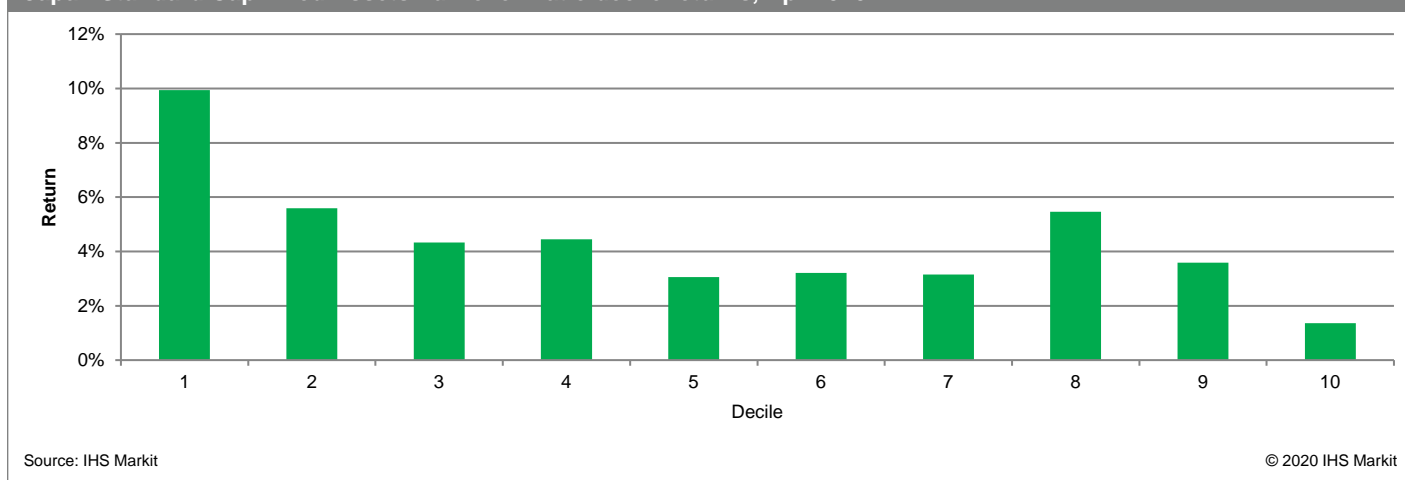
Factor	Decile spread (%)	Factor group
Oil Prices Sensitivity	9.68	Macro
Fixed Assets Turnover Ratio	8.58	Management Quality
4-week Industry Relative Return	8.25	Price Momentum
3-Month Active Return	8.16	Price Momentum
3-yr Compound Annual Sales Growth	8.01	Historical Growth
TTM Capital Expenditures-to-Price	7.91	Deep Value
Number of Analyst Coverage	7.89	Liquidity, Risk & Size
Rational Decay Alpha	7.33	Price Momentum
Profitability Ratio	7.29	Management Quality
14 Day Relative Strength Index	7.14	Price Momentum
Attention Span Ratio	6.70	Management Quality
2-Month Active Return	6.54	Price Momentum
1-Month Active Return	6.39	Price Momentum
Cash Flow Return on Invested Capital	6.04	Management Quality
Sustainable Growth Rate	5.74	Historical Growth

Source: IHS Markit

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Figure 5

## Japan Standard Cap Fixed Assets Turnover Ratio decile returns, Apr 2020



Source: IHS Markit

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Table 11

Japan Standard Cap bottom decile return spread factor performance, Apr 2020		
Factor	Decile spread (%)	Factor group
Product of Beta and Sigma	-13.06	Liquidity, Risk & Size
Stock Return Volatility	-12.59	Liquidity, Risk & Size
60-Month Beta	-12.53	Liquidity, Risk & Size
Average Trading Volume in Preceding 6-month	-11.22	Price Momentum
Regression Error of 60-Month CAPM	-10.97	Liquidity, Risk & Size
Trading Turnover Ratio	-10.94	Liquidity, Risk & Size
CV of Prior 90-Day Closing Prices	-9.44	Price Momentum
24-Month Value at Risk	-9.24	Price Momentum
Acquisition Multiple	-9.12	Deep Value
Natural Logarithm of Total Assets (USD)	-8.66	Liquidity, Risk & Size

Source: IHS Markit

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## Emerging Markets

We round out the report with a review of top (Table 12) and bottom (Table 13) performing factors in emerging markets in April. We again mention the strong returns associated with 4-week Industry Relative Return (11.56%) and Oil Prices Sensitivity (5.92%). Deep Value was also a well-rewarded theme, led by Cash-to-Price (5.62%) which saw its first positive monthly spread for the year (Figure 6). At the opposite end of the spectrum, low-risk measures trailed for the month, with CV of Prior 90-Day Closing Prices (-14.67%) the weakest of the bunch.

Table 12

Emerging Markets top quintile return spread factor performance, Apr 2020		
Factor	Decile spread (%)	Factor group
4-week Industry Relative Return	11.56	Price Momentum
1-Month Active Return	9.36	Price Momentum
2-Month Active Return	8.95	Price Momentum
3-Month Active Return	8.73	Price Momentum
Average Monthly Trading Volume-to-Market Cap	7.84	Liquidity, Risk & Size
Natural Logarithm of Market Capitalization (USD)	6.04	Liquidity, Risk & Size
Oil Prices Sensitivity	5.92	Macro
Cash-to-Price	5.62	Deep Value
14 Day Relative Strength Index	5.54	Price Momentum
TTM Sales-to-Enterprise Value	5.52	Deep Value
TTM Operating Income to Enterprise Value	4.86	Deep Value
Skewness of 90-Day Stock Daily Excess Returns	4.79	Price Momentum
Cash to Enterprise Value	4.75	Deep Value
Time Weighted Sales Yield	4.54	Deep Value
Leading 12 Month EBITDA/ EV	4.44	Deep Value

Source: IHS Markit

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Table 13

**Emerging Markets bottom quintile return spread factor performance, Apr 2020**

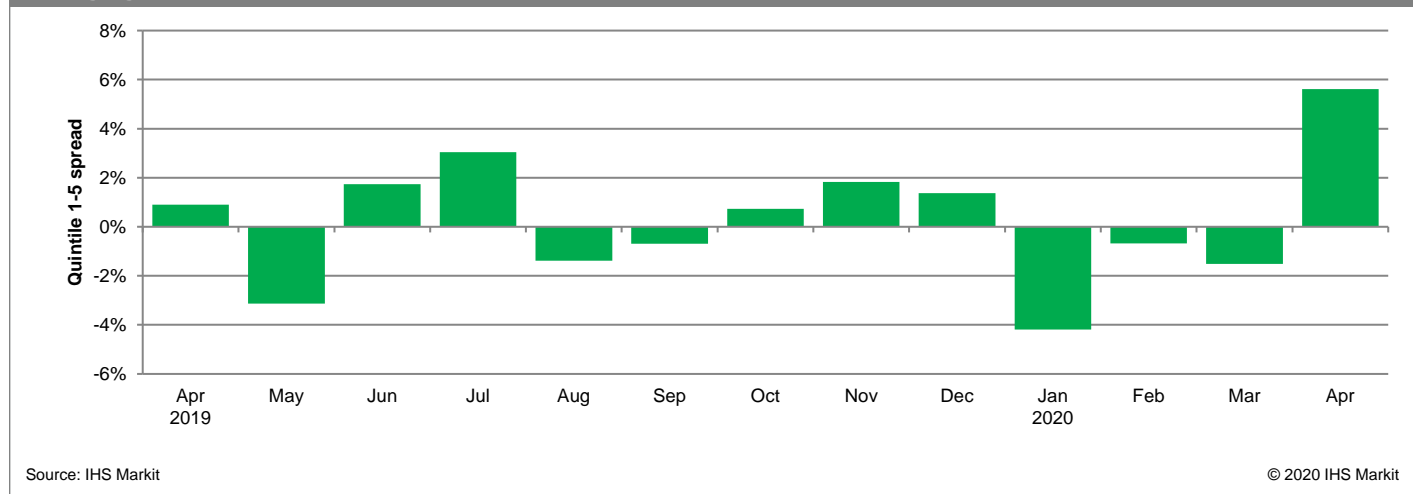
Factor	Decile spread (%)	Factor group
CV of Prior 90-Day Closing Prices	-14.67	Price Momentum
20-Day Volume Volatility to Price Volatility	-14.11	Liquidity, Risk & Size
Stock Return Volatility	-13.08	Liquidity, Risk & Size
Average Trading Volume in Preceding 6-month	-13.05	Price Momentum
Trading Turnover Ratio	-12.20	Liquidity, Risk & Size
52-Week High	-12.12	Price Momentum
24-Month Value at Risk	-11.97	Price Momentum
Product of Beta and Sigma	-11.08	Liquidity, Risk & Size
24-Month Residual Return Variance	-11.04	Price Momentum
Regression Error of 60-Month CAPM	-10.67	Liquidity, Risk & Size

Source: IHS Markit

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Figure 6

**Emerging Markets Cash-to-Price quintile return spreads**



Source: IHS Markit

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