

# Equity Utilisation and Credit Consensus

Securities finance signals and credit consensus data provides differentiated issuer insights that lowers implementation costs

Securities Finance data is widely used by quantitative equity investors as a proxy for short selling and liquidity constraints. The percentage of shares in lending programs which are already on loan, referred to as Utilization, is among the more popular fields. Ranking equities by Utilization has a consistent negative correlation with 1-month forward returns. A substantial portion of the returns are derived from the most utilized equities. The equities with the highest Utilization (most shares on loan relative to shares available for borrow) also tend to be the most expensive to borrow. The result is that a long-short portfolio constructed by ranking on Utilization will skew towards shorting the most expensive to borrow shares.

An easily available modification to the Utilization signal is to remove all hard to borrow shares, using weighted average borrow fee data. This degrades the historical returns, but the signal will be less costly to implement with the short portfolio no longer concentrated in hard to borrow shares. The loss of breadth, the proportion of equities removed by the borrow cost filter, is limited given that most of an equity universe will typically be easy to borrow.

## Can Utilization signal be improved for low borrow cost universe?

A promising answer comes from the Credit Benchmark dataset (CB), which provides credit consensus data for a wide range of entities. By further filtering the equity universe to only contain firms with a relatively high probability of default per CB, the Utilization signal substantially regains the profile of the raw signal in terms of long-short return, volatility and information ratio. The result suggests that there are subsets of the easy to borrow universe where equity Utilization is particularly powerful, even when hard to borrow shares are removed. The trade-off is a loss of breadth. However, given that the borrow cost filter has a limited reduction in breadth, combining the filters for a powerful signal with relatively low implementation costs may be attractive.

### Stronger Alpha

The new combined dataset provides stronger alpha for cheaper-to-borrow (CTB) in demand instruments. The Information Ratio (IR) in US instruments for CTB instruments has improved from 0.13 to 0.51 (304% improvement) and in European instruments from 0.47 to 0.58 (23% improvement). Prior to Apr 2020, the IR had improved from 1.08 to 1.34 in US and from 0.7 to 1.02 in Europe

### Lower Implementation Costs

Focus returns on cheaper-to-borrow instruments



## IHS Markit Securities Finance

Delivers comprehensive data on global equity and fixed income lending flow to support investment, asset allocation and risk management decisions. With more than \$25 trillion of global securities in the lending programmes of over 20,000 institutional funds, our securities finance dataset provides insight into stock supply and demand as well as availability. Along with 3 million intraday transactions dating back more than 15 years, we deliver access to crucial market signals to help refine investment decisions and manage trading risks. Data is sourced directly from leading industry participants, such as prime brokers, custodians, asset managers and hedge funds.

## Credit Benchmark

Brings together internal credit risk views from 40+ of the world's leading financial institutions to provide credit consensus ratings and analytics on 57,000 corporates, financials, funds, and sovereigns, over 75% of which are unrated. The contributions are anonymized, aggregated, and published twice monthly to provide an independent, real-world measure of risk. The data is available via the Credit Benchmark Web App, Excel add-in, flat file download, and third-party platforms.

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