

Momentum factors shut down value strategies

September 2020

Research Signals

Many regional stock markets struggled in September, trimming their advance over the quarter, with concerns that the rising number of coronavirus cases may result in further restrictions to contain its spread. However, investors sought high momentum stocks, while avoiding undervalued names across most of our coverage universes (Table 1). Business sentiment also hit its highest level since May 2018, according to the J.P.Morgan Global Manufacturing PMI survey, with the headline figure rising to a 25-month high.

- US: Price Momentum measures returned to their leading role, replacing Deep Value which traversed to the bottom of the factor performance spectrum, as confirmed directionally by Industry-adjusted 12-month Relative Price Strength and Book-to-Market, respectively
- Developed Europe: Investors' style preferences mirrored that of US large caps, as captured by outperformance to measures such as Rational Decay Alpha and underperformance to Book-to-Market
- Developed Pacific: Demand Supply Ratio, a Short Sentiment indicator measuring the amount of stock borrowed relative to its lendable inventory, was a highly rewarded indicator in markets outside Japan
- Emerging markets: Investors showed a preference for high momentum stocks (e.g., Rational Decay Alpha), while avoiding high risk names (e.g., 60-Month Beta)

Contacts

Research Signals · MK-
ResearchSignals@ihsmarkit.com

Table 1

Global factor quantile return spread performance snapshot, Sep 2020

Factor	Factor Group	US Large Cap	US Small Cap	Developed Europe	Developed Pacific ex Japan	Japan Standard Cap	Emerging Markets
Book-to-Market		-5.39	-3.30	-6.10	2.55	-7.92	-1.90
Forward 12-M EPS-to-Enterprise Value	Deep Value	3.51	-0.67	3.13	1.99	1.99	0.46
TTM EBITDA-to-Enterprise Value		0.89	1.00	1.12	1.02	-1.34	-0.14
TTM Free Cash Flow-to-Enterprise Value		2.46	-1.31	1.76	1.98	3.56	1.33
Industry Relative Leading 4-QTRs EPS to Price	Relative Value	0.84	3.25	0.14	2.47	-1.27	0.12
Industry Relative TTM Dividend Yield		-1.17	-2.40	-2.34	3.42	-2.87	-0.37
Fixed Assets Turnover Ratio	Management Quality	2.61	0.99	1.38	-2.72	7.52	-0.66
Inventory Turnover Ratio		-2.32	-5.55	-3.57	-0.83	3.11	0.51
Net Operating Asset Turnover		3.41	2.23	0.35	1.58	3.33	0.11
Change in Accruals to Assets	Earnings Quality	-2.02	-5.25	0.85	-0.35	-0.18	-0.45
Change in TTM COGS vs. Inventory Level		1.00	-0.28	2.47	0.54	-3.31	1.36
Change in TTM Sales vs. Accounts Receivable		-1.04	-1.26	0.71	0.33	-1.56	0.15
Working Capital Accruals		-0.65	0.37	-0.13	-1.31	1.08	0.27
1-yr Growth in TTM Free Cash Flow		0.98	-0.91	3.24	1.99	2.48	1.28
Reinvestment Rate	Historical Growth	2.98	1.38	4.28	1.10	4.86	1.16
Average Monthly Trading Volume-to-Market Cap	Liquidity, Risk & Size	-2.35	-0.65	-5.09	-3.53	-0.46	-0.13
60-Month Beta		5.95	3.34	4.58	2.18	0.14	4.06
Asset Quality Index		1.04	0.32	-1.08	2.42	0.06	0.21
Operating Leverage		0.95	-1.84	2.43	-0.04	0.52	-0.54
Natural Logarithm of Market Capitalization		-5.38	-0.48	-4.89	0.88	4.23	2.76
2-Year Ahead EPS Growth	Earnings Momentum	-1.28	0.14	-4.73	-0.12	-3.59	-1.24
3-M Revision in FY2 EPS Forecasts		-0.09	1.66	5.46	0.80	5.03	2.25
Real Earnings Surprise		4.00	1.30	-0.14	1.41	4.30	1.02
24-Month Value at Risk	Price Momentum	8.67	2.00	6.43	1.66	0.10	2.90
5-day Industry Relative Return		1.67	4.68	0.88	-0.77	5.57	1.73
Industry-adjusted 12-month Relative Price Strength		2.61	2.22	4.04	-2.68	2.52	0.98
Rational Decay Alpha		1.86	3.93	4.81	-1.45	2.06	2.93
Demand Supply Ratio		4.74	-2.00	1.72	2.56	-0.30	3.63
Implied Loan Rate	Short Sentiment	2.82	-3.42	-0.05	0.39	-3.78	1.94

Source: IHS Markit

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United States

US Large Cap

The health of the US goods-producing sector continued to improve at a solid pace last month, signaling further recovery off April's low. The manufacturing PMI posted 53.2 in September, broadly in line with 53.1 seen in August, the sharpest improvement since early-2019. Yet, business confidence eased in September, along with investor sentiment, on election and virus uncertainty, sending stocks to the largest monthly declines since March, chipping away at an otherwise healthy quarterly gain.

Price Momentum measures returned to the top of the factor performance leaderboard for US large caps in September (Table 2). 18-Month Active Return with 1-Month Lag (9.39%) took the lead, continuing a cyclical pattern of spreads over the past six months after a solid run at the start of the year during the height of the coronavirus-induced volatility (Figure 1). Balance sheet based valuation measures sat at the opposite end of the performance spectrum (Table 3), captured by long-term price reversal metrics such as 60-Month Alpha (-8.90%) and price ratio measures such as Time Weighted Cash Yield (-7.18%), although forward earnings valuation factors saw positive performance.

Table 2

US Large Cap top decile return spread factor performance, Sep 2020

Factor	Decile spread (%)	Factor group
18-Month Active Return with 1-Month Lag	9.39	Price Momentum
39-Week Return with 4-week Lag	9.03	Price Momentum
52-Week High	8.85	Price Momentum
24-Month Value at Risk	8.67	Price Momentum
30-75 Week Stock Price Ratio	8.19	Price Momentum
24-Month Active Return with 1-Month Lag	8.10	Price Momentum
9-Month Active Return with 1-Month Lag	7.94	Price Momentum
4-52 Week Price Oscillator	7.63	Price Momentum
3-M Revision in FY1 EPS Forecasts	7.63	Earnings Momentum
50-200 Day Stock Price Ratio	7.54	Price Momentum
Yearly TTM Total Sales Growth Rate	7.44	Historical Growth
Distress Measure	7.34	Liquidity, Risk & Size
12-Month Active Return with 1-month Lag	7.34	Price Momentum
Std Dev of FY2 EPS Estimates-to-Price	7.31	Earnings Momentum
Std Dev of FY1 EPS Estimates-to-Price	7.31	Earnings Momentum

Source: IHS Markit

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Figure 1

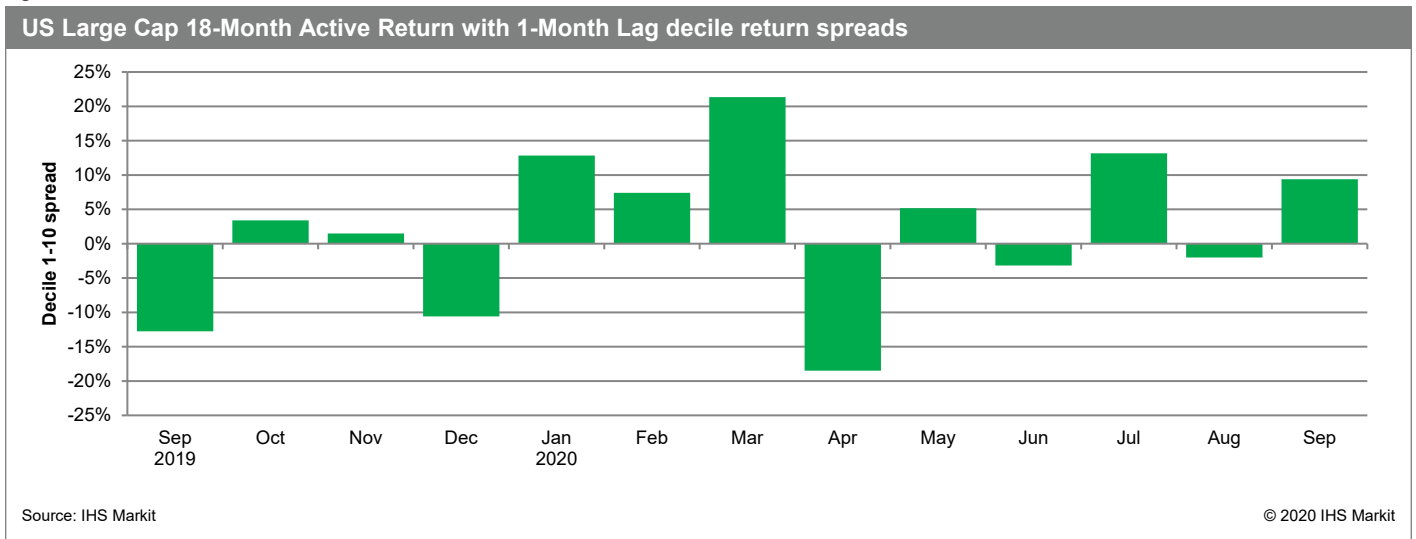


Table 3

US Large Cap bottom decile return spread factor performance, Sep 2020

Factor	Decile spread (%)	Factor group
60-Month Alpha	-8.90	Price Momentum
60-Month Active Return with 12-Month Lag	-8.57	Price Momentum
Asset Composition	-7.73	Liquidity, Risk & Size
60-Month Active Return with 1-Month Lag	-7.56	Price Momentum
36-Month Active Return with 1-Month Lag	-7.40	Price Momentum
Time Weighted Cash Yield	-7.18	Deep Value
1-yr Change in Total Assets	-7.08	Historical Growth
Current Ratio	-6.87	Liquidity, Risk & Size
Leading 12 Month Cash Yield	-6.44	Deep Value
2-Month Active Return	-6.13	Price Momentum

Source: IHS Markit © 2020 IHS Markit

US Small Cap

Small cap factor performance took on a similar pattern as with large caps in September on the lists of top (Table 4) and bottom (Table 5) performing factors. 18-Month Active Return with 1-Month Lag (8.64%) likewise led all other factors, as Price Momentum measures took a dominant stance on the leaderboard. While valuation measures were also among the weakest performers for the month, Earnings Quality factors lagged as well, with Accounting Accruals (-7.22%) on a general downtrend since its four-year high in April (Figure 2), capped by its largest drawdown since April 2002.

Table 4

US Small Cap top decile return spread factor performance, Sep 2020		
Factor	Decile spread (%)	Factor group
18-Month Active Return with 1-Month Lag	8.64	Price Momentum
15/36 Week Stock Price Ratio	8.63	Price Momentum
50-200 Day Stock Price Ratio	8.60	Price Momentum
39-Week Return with 4-week Lag	8.49	Price Momentum
9-Month Active Return with 1-Month Lag	7.92	Price Momentum
12-Month Active Return with 1-month Lag	7.92	Price Momentum
6-Month Active Return with 1-Month Lag	7.92	Price Momentum
Averaged Last 6-M EPS Revisions for FY2	7.51	Earnings Momentum
4-52 Week Price Oscillator	7.48	Price Momentum
Yearly Change in ROE - Arithmetic Difference	7.24	Management Quality
30-75 Week Stock Price Ratio	7.22	Price Momentum
1-yr Growth in TTM Cash Flow	6.87	Historical Growth
26-Week Relative Price Strength	6.83	Price Momentum
24-Month Active Return with 1-Month Lag	6.79	Price Momentum
Fama-French Momentum	6.53	Price Momentum

Source: IHS Markit

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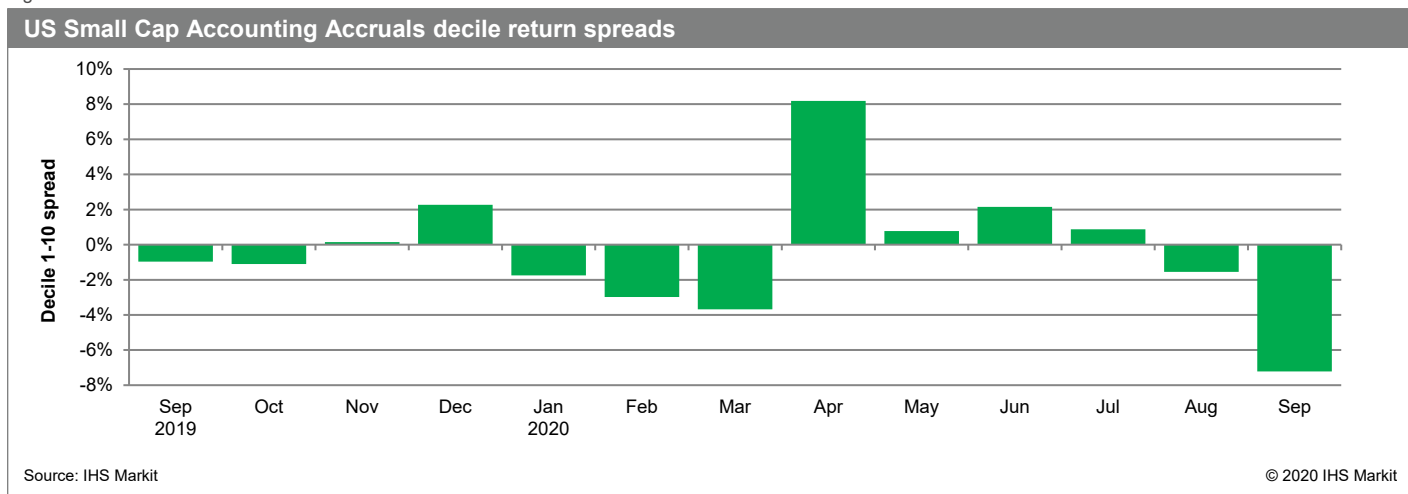
Table 5

US Small Cap bottom decile return spread factor performance, Sep 2020		
Factor	Decile spread (%)	Factor group
Accounting Accruals	-7.22	Earnings Quality
36-Month Active Return with 1-Month Lag	-6.53	Price Momentum
Sortino Ratio	-6.26	Price Momentum
36-Month Sharpe Ratio	-5.96	Price Momentum
Aggregate Gamma	-5.79	Liquidity, Risk & Size
Earnings Shortfall	-5.65	Earnings Quality
Price-to-Total Assets	-5.34	Deep Value
Change in Net Operating Assets	-5.26	Management Quality
Change in Accruals to Assets	-5.25	Earnings Quality
60-Month Active Return with 1-Month Lag	-5.01	Price Momentum

Source: IHS Markit

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Figure 2



Europe

Eurozone manufacturing growth in September was the strongest in over two years, marking a third consecutive month of improvement. The PMI registered at 53.7, up from 51.7 in August, rounding out the largest quarterly rise since early 2018. Germany led the upswing in regional manufacturing activity, followed by Italy and the Netherlands, with all countries at or above the no-change level. However, the sustainability of the upturn may be at risk, with increased worries fueled by rising coronavirus infection rates, a sentiment shared with equity investors, as European stocks dipped in September, trimming a mostly range-bound increase for the quarter.

Top (Table 6) and bottom (Table 7) performing factors in Developed Europe mirrored that of US large caps in September (Table 6). Price Momentum measures were prominent among the outperformers, led by 9-Month Active Return with 1-Month Lag (11.46%), while valuation metrics trailed, with Price-to-Total Assets (-9.41%) turning in the weakest spread. Other bottom performing factors include a couple of Macro indicators, namely US Dollar Value Sensitivity (-6.70%) and Oil Prices Sensitivity (-6.63%), with similar distributions of returns across deciles (Figure 3), suggesting systematic trading across both signals.

Table 6

Developed Europe top decile return spread factor performance, Sep 2020		
Factor	Decile spread (%)	Factor group
9-Month Active Return with 1-Month Lag	11.46	Price Momentum
39-Week Return with 4-week Lag	10.58	Price Momentum
12-Month Active Return with 1-month Lag	9.95	Price Momentum
6-Month Active Return with 1-Month Lag	9.77	Price Momentum
18-Month Active Return with 1-Month Lag	9.67	Price Momentum
Fama-French Momentum	9.66	Price Momentum
50-200 Day Stock Price Ratio	9.53	Price Momentum
15/36 Week Stock Price Ratio	9.13	Price Momentum
26-Week Relative Price Strength	9.03	Price Momentum
52-Week High	9.02	Price Momentum
Market Cap per Analyst	8.23	Liquidity, Risk & Size
30-75 Week Stock Price Ratio	8.16	Price Momentum
Time Weighted Earnings Revision	7.81	Earnings Momentum
24-Month Active Return with 1-Month Lag	7.69	Price Momentum
Averaged Last 6-M EPS Revisions for FY1	7.69	Earnings Momentum

Source: IHS Markit

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Table 7

Developed Europe bottom decile return spread factor performance, Sep 2020

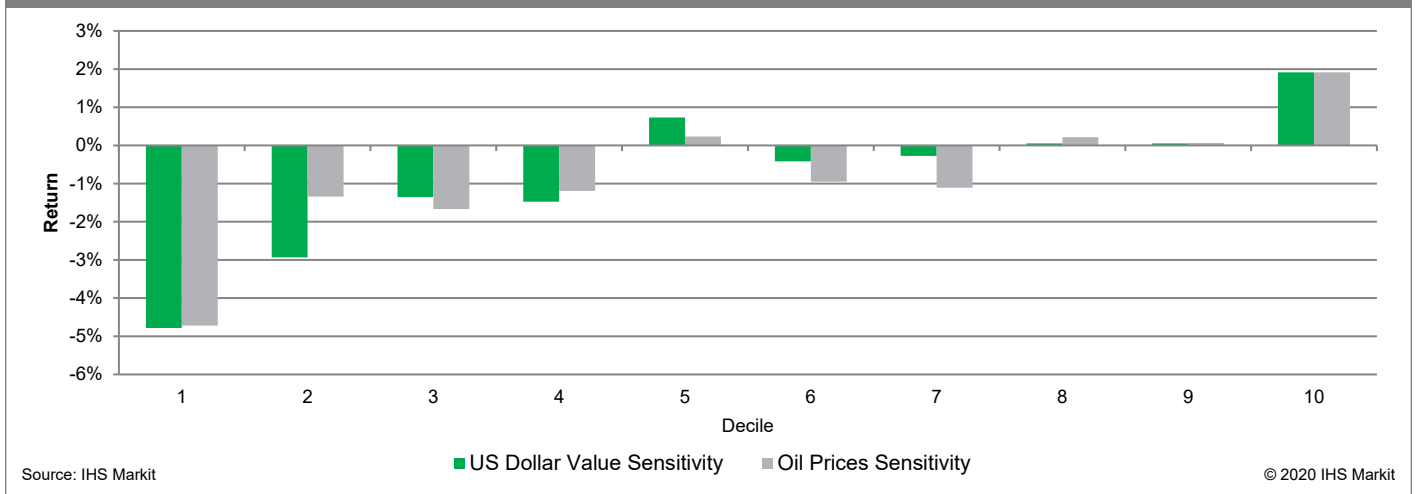
Factor	Decile spread (%)	Factor group
Price-to-Total Assets	-9.41	Deep Value
Net Asset Value to Price	-8.60	Deep Value
Ohlson Bankruptcy Score	-7.65	Liquidity, Risk & Size
Tobin q	-7.47	Liquidity, Risk & Size
Cash-to-Price	-7.05	Deep Value
Time Weighted Book Yield	-6.91	Deep Value
Leading 12 Month Book Yield	-6.85	Deep Value
US Dollar Value Sensitivity	-6.70	Macro
Oil Prices Sensitivity	-6.63	Macro
Market Leverage	-6.55	Liquidity, Risk & Size

Source: IHS Markit

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Figure 3

Developed Europe decile returns, September 2020



Source: IHS Markit

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Asia-Pacific

Manufacturing operating conditions in the two largest Asian economies of China and Japan continued to straddle the neutral 50.0 value. In China, the headline PMI edged down to 53.0 in September, from 53.1 in August, extending solid improvement in operating conditions to the best quarterly performance since Q4 2010. In Japan, the manufacturing downturn continued to ease, with the PMI further picking up to 47.7 in September, from 47.2 in August, a seven-month high supported by slower falls in output and new orders and a continued recovery in business expectations. Contrasting results were also seen in equity markets, with stocks in Japan mostly flat for the month and quarter, while stocks struggled in September in China though retaining a healthy quarterly increase.

Price Momentum and Deep Value factor performance in Asia-Pacific developed markets was diametrically opposed between Japan and the remainder of the region. In markets outside Japan, factors derived from corporate fundamentals, including Deep Value measures, were highly rewarded in September (Table 8), represented by factors such as NOPAT Margin (6.18%), 1-yr Growth in TTM Cash Flow (4.52%) and Time Weighted Book Yield (4.48%). We also highlight Active Utilization (4.65%), a Short Sentiment indicator favoring stocks with a low proportion of lending inventory out

on loan, which posted a 14-percentage point swing in performance from its largest drawdown for the year in June (Figure 4). At the opposite extreme, Price Momentum factors which lagged for the month (Table 9) include 50-200 Day Stock Price Ratio (-5.42%) and 26-Week Relative Price Strength (-5.26%).

In reverse fashion in Japan, Price Momentum metrics which topped the list of outperformers in September (Table 10) include 18-Month Active Return with 1-Month Lag (7.15%) and 50-200 Day Stock Price Ratio (6.69%). Conversely, Deep Value measures which topped the laggard board (Table 11) include Leading 12 Month Book Yield (-9.71%) and Time Weighted Cash Yield (-8.91%). The distribution of decile returns for the two factors at the extremes of each group (Figure 5) captures investors' behavior toward each style, though with higher concentration at the bottom tail of Leading 12 Month Book Yield, while 18-Month Active Return with 1-Month Lag saw broader favor at the top tails.

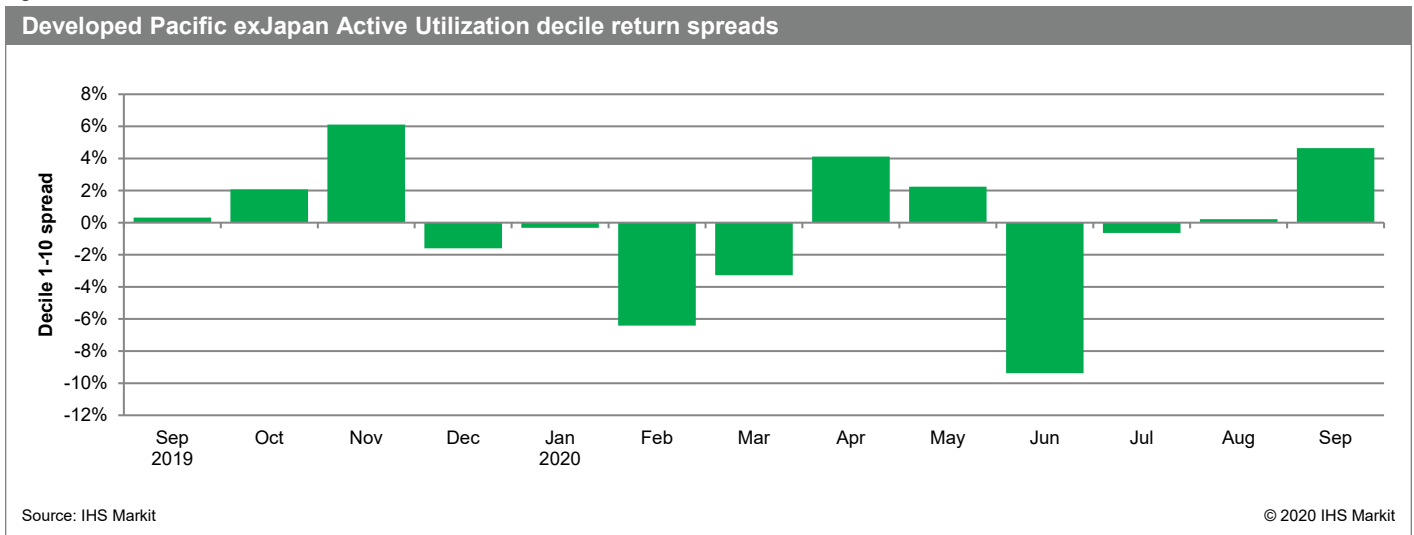
Table 8

Developed Pacific exJapan top decile return spread factor performance, Sep 2020		
Factor	Decile spread (%)	Factor group
NOPAT Margin	6.18	Management Quality
Industry Relative TTM Cash Flow-to-Price	5.12	Relative Value
Net Profit Margin	5.04	Management Quality
Operating Cash Flow Ratio	4.98	Liquidity, Risk & Size
Stock Illiquidity	4.86	Liquidity, Risk & Size
1-Month Realized Stock Return Volatility	4.74	Liquidity, Risk & Size
Active Utilization	4.65	Short Sentiment
1-yr Growth in TTM Cash Flow	4.52	Historical Growth
Time Weighted Book Yield	4.48	Deep Value
Price Above Last 260-day Lowest Trading Price	4.37	Price Momentum
Operating Cash Flow Profit Margin	4.30	Management Quality
TTM Operating Cash Flow-to-Enterprise Value	4.29	Deep Value
TTM Sales-to-Price	4.27	Deep Value
5-Year Dividend Growth Rate	4.21	Historical Growth
Leading 12 Month Book Yield	4.19	Deep 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, Sep 2020

Factor	Decile spread (%)	Factor group
50-200 Day Stock Price Ratio	-5.42	Price Momentum
26-Week Relative Price Strength	-5.26	Price Momentum
Slope of 66 Week Price Trend Line	-4.89	Price Momentum
Slope of 52 Week Price Trend Line	-4.76	Price Momentum
Yield Curve Slope Sensitivity	-4.72	Macro
6-Month Nominal Change in 18-Month Alpha	-4.41	Price Momentum
Ohlson Bankruptcy Score	-4.25	Liquidity, Risk & Size
15/36 Week Stock Price Ratio	-3.98	Price Momentum
Year-over-year Change in Current Ratio	-3.69	Liquidity, Risk & Size
6-Month Active Return with 1-Month Lag	-3.59	Price Momentum

Source: IHS Markit

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Table 10

Japan Standard Cap top decile return spread factor performance, Sep 2020

Factor	Decile spread (%)	Factor group
TTM Capital Expenditures-to-Price	9.62	Deep Value
Std Dev of FY1 EPS Estimates-to-Price	7.89	Earnings Momentum
Fixed Assets Turnover Ratio	7.52	Management Quality
18-Month Active Return with 1-Month Lag	7.15	Price Momentum
9-Month Active Return with 1-Month Lag	6.99	Price Momentum
24-Month Active Return with 1-Month Lag	6.93	Price Momentum
6-Month Active Return with 1-Month Lag	6.85	Price Momentum
39-Week Return with 4-week Lag	6.84	Price Momentum
Std Dev of FY2 EPS Estimates-to-Price	6.84	Earnings Momentum
50-200 Day Stock Price Ratio	6.69	Price Momentum
15/36 Week Stock Price Ratio	6.29	Price Momentum
Averaged Last 6-M EPS Revisions for FY1	6.23	Earnings Momentum
Forward Return on Equity	6.11	Management Quality
1-Year Percentage Growth in Regular Dividend	6.01	Dividend Forecast
Fama-French Momentum	5.78	Price Momentum

Source: IHS Markit

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Table 11

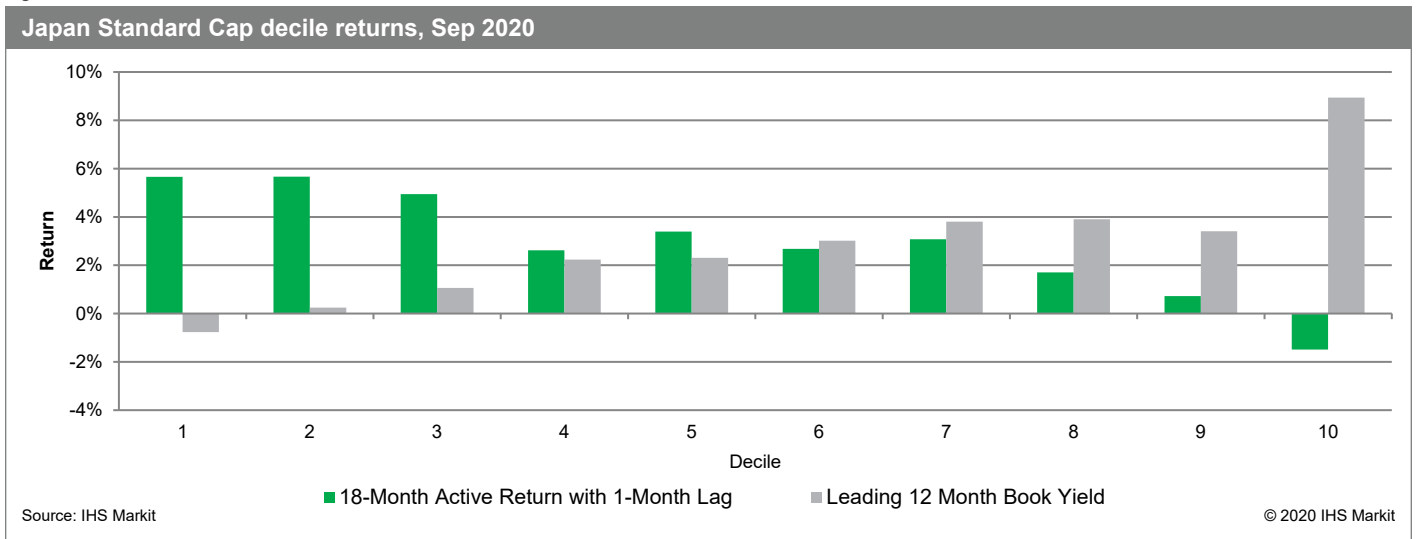
Japan Standard Cap bottom decile return spread factor performance, Sep 2020

Factor	Decile spread (%)	Factor group
Leading 12 Month Book Yield	-9.71	Deep Value
Time Weighted Book Yield	-9.62	Deep Value
Natural Logarithm of Total Assets (USD)	-9.35	Liquidity, Risk & Size
Time Weighted Cash Yield	-8.91	Deep Value
Natural Logarithm of TTM Sales (USD)	-8.66	Liquidity, Risk & Size
Current Liabilities-to-Price	-8.18	Liquidity, Risk & Size
Net Asset Value to Price	-8.13	Deep Value
Altman Z Score	-8.09	Liquidity, Risk & Size
Leading 12 Month Cash Yield	-8.07	Deep Value
Book-to-Market	-7.92	Deep Value

Source: IHS Markit

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Figure 5



Emerging Markets

Lastly, we review top (Table 12) and bottom (Table 13) performing factors in emerging markets in September. Price Momentum measures returned to the leaderboard, however, in this case accompanied by several risk measures, as captured by 52-Week High (4.53%) which was followed closely by 60-Month Beta (4.06%). The distribution of quintile returns across both factors (Figure 6) illustrates investors’ preference for stocks trading nearest their 52-week high, while avoiding high risk names. Alternatively, factors which lagged for the month include several Deep Value measures such as Price-to-Total Assets (-4.10%) and Net Asset Value to Price (-3.72%).

Table 12

Emerging Markets top quintile return spread factor performance, Sep 2020		
Factor	Decile spread (%)	Factor group
52-Week High	4.53	Price Momentum
Second Preceding 6-month Return	4.21	Price Momentum
60-Month Beta	4.06	Liquidity, Risk & Size
24-Month Residual Return Variance	3.92	Price Momentum
Std Dev of FY1 EPS Estimates-to-Price	3.86	Earnings Momentum
Product of Beta and Sigma	3.86	Liquidity, Risk & Size
30-75 Week Stock Price Ratio	3.82	Price Momentum
Retained Earnings-to-Total Assets	3.76	Management Quality
Distress Measure	3.65	Liquidity, Risk & Size
60-Day Residual Risk	3.40	Liquidity, Risk & Size
Cash Burn Rate	3.38	Management Quality
Fama-French Momentum	3.38	Price Momentum
Stock Return Volatility	3.27	Liquidity, Risk & Size
12-Month Active Return with 1-month Lag	3.25	Price Momentum
39-Week Return with 4-week Lag	3.23	Price Momentum

Source: IHS Markit © 2020 IHS Markit

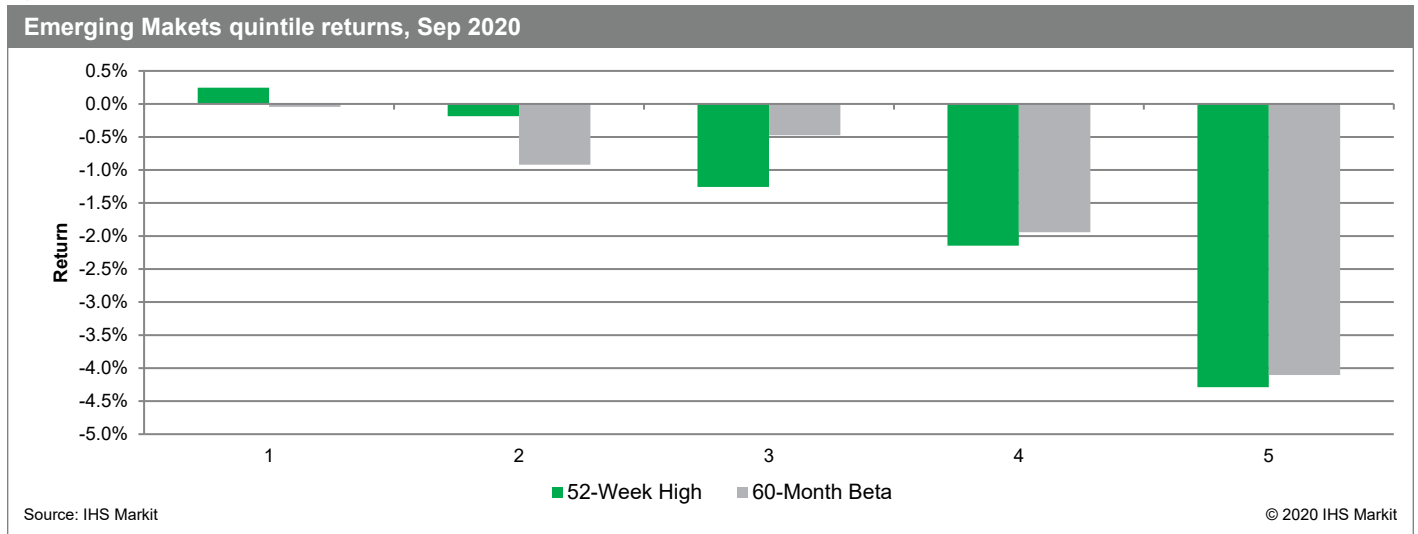
Table 13

Emerging Markets bottom quintile return spread factor performance, Sep 2020		
Factor	Decile spread (%)	Factor group
Price-to-Total Assets	-4.10	Deep Value
Book Leverage	-3.96	Liquidity, Risk & Size
Natural Logarithm of Closing Price (USD)	-3.73	Liquidity, Risk & Size
Net Asset Value to Price	-3.72	Deep Value
Altman Z Score	-3.54	Liquidity, Risk & Size
Natural Logarithm of Total Assets	-3.52	Liquidity, Risk & Size
Natural Logarithm of TTM Sales	-3.51	Liquidity, Risk & Size
Cash-to-Price	-3.48	Deep Value
Operating Liability Leverage	-3.41	Management Quality
Revenue per Employee	-3.24	Management Quality

Source: IHS Markit

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Figure 6



Source: IHS Markit

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Support@ihsmarkit.com

Americas: +1 877 762 7548

Europe, Middle East, and Africa: 00800 6275 4800

Asia and the Pacific Rim: +65 6922 4210

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