

Investors go to the securities lending polls

October 2020

Research Signals

Several regional stock markets saw a reversal in factor performance and Short Sentiment signals, such as Implied Loan Rate, were voted for in many developed markets (Table 1), as equities struggled particularly in the last week of October ahead of the US election amid rising numbers of coronavirus cases and new restrictions to curb its spread. Signs of a global economic rebound, including that seen in the J.P.Morgan Global Manufacturing PMI and the accompanying business sentiment both rising to a 29-month high, leave investors and businesses alike looking for clues as to whether the fragile recovery can be sustained.

- US: Investors flip flopped once again on their preference for value stocks, with positive performance recorded by Book-to-Market and Forward 12-M EPS-to-Enterprise Value
- Developed Europe: Industry-adjusted 12-month Relative Price Strength extended its positive trend for the year, with investors favoring high momentum stocks in all but one month
- Developed Pacific: Rational Decay Alpha and 24-Month Value at Risk captured investors' preference for high momentum and high risk names in Japan and the reverse in markets outside Japan
- Emerging markets: 3-M Revision in FY2 EPS Forecasts continued a generally positive trend for earnings momentum measures for the year, while Natural Logarithm of Market Capitalization saw a trend reversal, as small caps underperformed

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Table 1

Global factor quantile return spread performance snapshot, Oct 2020

Factor	Factor Group	US Large Cap	US Small Cap	Developed Europe	Developed Pacific ex Japan	Japan Standard Cap	Emerging Markets
Book-to-Market		5.59	4.24	1.55	5.67	-2.57	0.09
Forward 12-M EPS-to-Enterprise Value	Deep Value	4.90	10.39	0.54	2.69	-1.27	1.65
TTM EBITDA-to-Enterprise Value		-0.84	7.28	1.50	3.43	-0.80	0.74
TTM Free Cash Flow-to-Enterprise Value		-0.15	6.22	-0.81	1.61	-0.91	0.04
Industry Relative Leading 4-QTRs EPS to Price	Relative Value	0.78	7.48	-1.04	3.12	-2.24	0.36
Industry Relative TTM Dividend Yield		-0.86	-4.57	-0.85	7.99	0.48	-0.44
Fixed Assets Turnover Ratio	Management Quality	-0.14	3.32	-0.40	1.87	1.77	2.57
Inventory Turnover Ratio		0.07	1.20	-0.55	0.20	2.00	-0.57
Net Operating Asset Turnover		-0.17	-0.17	-1.32	0.33	-0.19	2.36
Change in Accruals to Assets	Earnings Quality	0.73	-1.71	0.29	1.04	0.10	0.60
Change in TTM COGS vs. Inventory Level		0.09	5.80	0.88	4.12	-0.97	1.33
Change in TTM Sales vs. Accounts Receivable		-0.11	-0.19	-0.82	-3.22	-0.25	-0.17
Working Capital Accruals		0.36	-0.41	1.35	-3.28	1.30	-0.86
1-yr Growth in TTM Free Cash Flow	Historical Growth	-2.36	0.55	-2.22	0.52	-0.60	0.83
Reinvestment Rate		-2.22	5.44	-0.59	-0.51	1.14	0.65
Average Monthly Trading Volume-to-Market Cap	Liquidity, Risk & Size	2.95	-6.50	0.73	-0.44	1.38	-1.32
60-Month Beta		-1.21	-0.30	0.27	-1.85	-4.59	-1.33
Asset Quality Index		1.15	-0.56	-1.43	2.25	2.56	-1.23
Operating Leverage		-2.50	1.96	0.64	-0.19	1.44	0.30
Natural Logarithm of Market Capitalization		5.51	-1.81	2.49	1.09	-1.03	-3.51
2-Year Ahead EPS Growth	Earnings Momentum	3.65	-3.92	-0.28	-0.97	2.97	-1.42
3-M Revision in FY2 EPS Forecasts		-1.28	3.58	-0.36	-0.59	0.88	1.00
Real Earnings Surprise		0.43	3.66	2.47	0.66	-1.37	0.58
24-Month Value at Risk	Price Momentum	-3.01	7.99	-0.68	1.04	-2.41	-1.77
5-day Industry Relative Return		-1.37	-0.37	-1.97	-1.29	-1.46	1.78
Industry-adjusted 12-month Relative Price Strength		-5.24	0.43	4.54	-4.75	0.40	0.48
Rational Decay Alpha		-1.39	0.88	1.55	-6.79	1.05	1.03
Demand Supply Ratio	Short Sentiment	-0.04	8.81	3.30	6.92	0.47	-3.11
Implied Loan Rate		3.38	9.21	5.20	8.61	-0.78	0.66

Source: IHS Markit

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United States

US Large Cap

The health of the US manufacturing sector continued to improve at a solid pace last month, signaling further recovery off April's low. The manufacturing PMI posted 53.4 in October, up slightly from 53.2 in September, the sharpest improvement since January 2019, stemming largely from accelerating rates of output and new order growth, despite contracting export orders. Yet, stocks fell for a second month on a late month decline ahead of the presidential election and on concerns surrounding surging coronavirus case counts around the globe.

Deep Value measures returned to the top of the factor performance leaderboard for US large caps in October (Table 2). Net Asset Value to Price (7.24%) took the lead, posting its best decile return spread since November 2016 (Figure 1). Other top performers include Tobin q (6.58%) and Capital Expenditure-to-Total Assets (6.41%). On the other hand, the weakest performing factors last month (Table 3) spanned a broad group of styles, including Assets Turnover Ratio (-6.75%), Averaged Last 6-M EPS Revisions for FY1 (-5.25%), Industry-adjusted 12-month Relative Price Strength (-5.24%) and Housing Starts Sensitivity (-5.21%).

Table 2

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

Factor	Decile spread (%)	Factor group
Net Asset Value to Price	7.24	Deep Value
Tobin q	6.58	Liquidity, Risk & Size
Capital Expenditure-to-Total Assets	6.41	Management Quality
Normalized Earnings Yield	6.23	Deep Value
Leading 12-Month Median Earnings Yield	6.20	Deep Value
Price-to-Total Assets	6.18	Deep Value
Leading 12-Month Mean Earnings Yield	6.13	Deep Value
Graham Number Fair Value Premium	6.00	Deep Value
Book-to-Market	5.59	Deep Value
Natural Logarithm of Market Capitalization (USD)	5.51	Liquidity, Risk & Size
Price-to-Book Return-on-Equity Combination (PB-ROE)	5.43	Deep Value
TTM Growth Flow-to-Price	4.98	Deep Value
Forward 12-M EPS-to-Enterprise Value	4.90	Deep Value
Time Weighted Book Yield	4.78	Deep Value
Operating Liability Leverage	4.39	Management Quality

Source: IHS Markit

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Figure 1

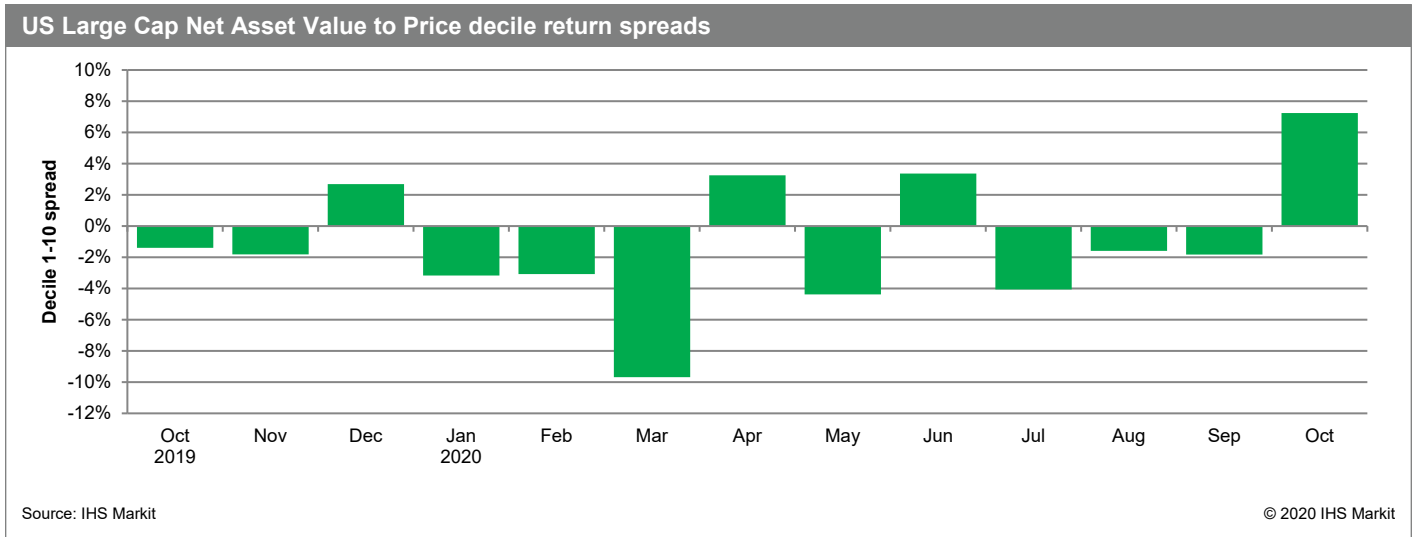


Table 3

Factor	Decile spread (%)	Factor group
Assets Turnover Ratio	-6.75	Management Quality
Cash Flow Leverage	-5.71	Liquidity, Risk & Size
Market Cap per Analyst	-5.34	Liquidity, Risk & Size
Averaged Last 6-M EPS Revisions for FY1	-5.25	Earnings Momentum
Industry-adjusted 12-month Relative Price Strength	-5.24	Price Momentum
Housing Starts Sensitivity	-5.21	Macro
Market Volatility Sensitivity	-4.70	Macro
Revenue per Employee	-4.62	Management Quality
Cash Earnings Return On Equity	-4.51	Management Quality
Stability of 3-yr TTM Oper Cash Flow	-4.43	Historical Growth

Source: IHS Markit © 2020 IHS Markit

US Small Cap

Net Asset Value to Price (10.79%) also led Deep Value’s resurgence among small cap factor performance in October (Table 4), followed by Forward 12-M EPS-to-Enterprise Value (10.39%). Investors also turned to the securities lending market, with Implied Loan Rate (9.21%), which favors stocks with low cost to borrow, reaching its highest spread since September 2015 (Figure 2). At the opposite extreme, high dividend yield stocks were an exception to Value’s track record for the month, with measures such as Industry Relative TTM Dividend Yield (-4.57%) and Leading 12 Month Regular Dividend Yield (-3.99%) among the bottom performing factors for the month (Table 5).

Table 4

US Small Cap top decile return spread factor performance, Oct 2020		
Factor	Decile spread (%)	Factor group
3-yr MAD of TTM Net Income	13.48	Liquidity, Risk & Size
Tobin q	12.39	Liquidity, Risk & Size
Natural Logarithm of Total Assets (USD)	11.30	Liquidity, Risk & Size
Net Asset Value to Price	10.79	Deep Value
Forward 12-M EPS-to-Enterprise Value	10.39	Deep Value
TTM EPS after Extra Items-to-Price	9.66	Deep Value
TTM EPS before Extra Items-to-Price	9.39	Deep Value
TTM Pretax Income-to-Price	9.38	Deep Value
Implied Loan Rate	9.21	Short Sentiment
TTM Core Earnings-to-Price	9.12	Deep Value
Utilization	9.09	Short Sentiment
24-Month Residual Return Variance	9.04	Price Momentum
5-yr Relative Leading 12-Month Earnings Yield	9.01	Relative Value
5-yr Relative TTM Earnings-to-Price	8.92	Relative Value
Active Utilization	8.87	Short Sentiment

Source: IHS Markit

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Figure 2

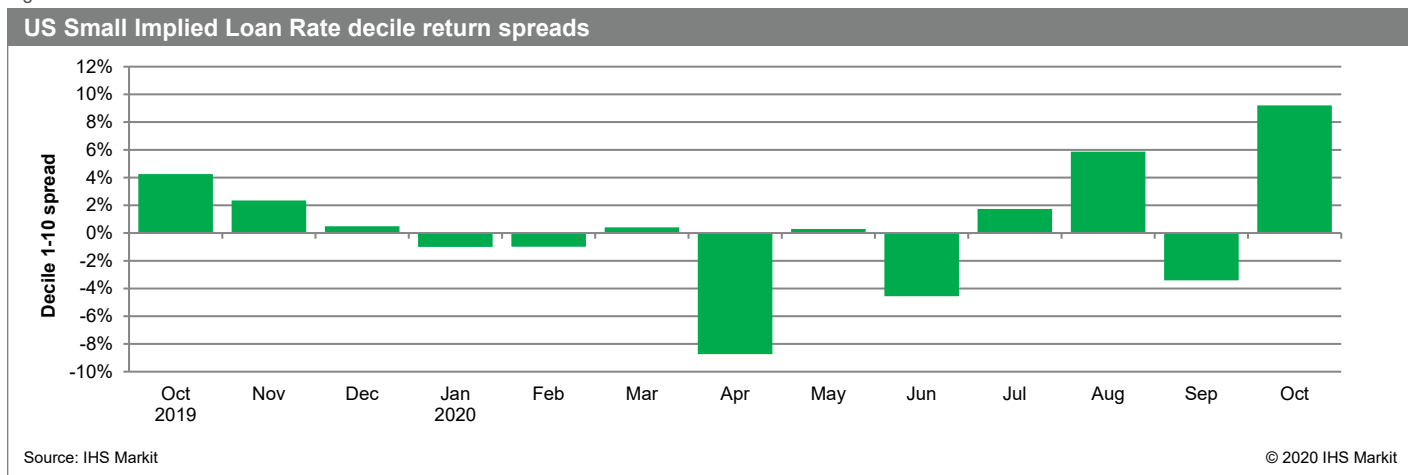


Table 5

US Small Cap bottom decile return spread factor performance, Oct 2020		
Factor	Decile spread (%)	Factor group
Cash Flow Leverage	-9.22	Liquidity, Risk & Size
Average Monthly Trading Volume-to-Market Cap	-6.50	Liquidity, Risk & Size
Accounting Accruals	-4.98	Earnings Quality
Comprehensive Debt to Total Assets	-4.84	Liquidity, Risk & Size
Product of TTM FCF Yield and Forward ROE	-4.68	Earnings Momentum
Industry Relative TTM Dividend Yield	-4.57	Relative Value
TTM Dividend Yield	-4.55	Deep Value
Natural Logarithm of Closing Price (USD)	-4.47	Liquidity, Risk & Size
Leading 12 Month Regular Dividend Yield	-3.99	Dividend Forecast
2-Year Ahead EPS Growth	-3.92	Earnings Momentum

Source: IHS Markit

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Europe

Eurozone manufacturing growth continued to strengthen in October, with the PMI registering at 54.8, up from 53.7 in September, reaching the highest reading for 27 months. Germany was again the best-performing country, followed by Austria and Italy, while growth was only marginal in the Netherlands and Ireland and Greece was the only country to record a deterioration in operating conditions. However, new restrictions and lockdowns due to rising COVID-19 cases risk the sustainability of the recovery and sent stocks on a mid-month slide, ending the month at the lowest level since May.

Investors in Developed Europe markets took cues from the securities lending market in their trading decisions, sending Short Sentiment signals to the top of the factor performance leaderboard in October (Table 6). Implied Loan Rate (5.20%) took the lead with its largest decile return spread since February 2012. Price Momentum measures also remained among the outperformers, led by Industry-adjusted 12-month Relative Price Strength (4.54%), which has recorded positive spreads every month this year, with the exception of June (Figure 3). Factors which lagged for the month (Table 7) include several sales-based valuation metrics such as Time Weighted Sales Yield (-5.17%) and Industry Relative TTM Sales-to-Price (-3.96%).

Table 6

Developed Europe top decile return spread factor performance, Oct 2020

Factor	Decile spread (%)	Factor group
Implied Loan Rate	5.20	Short Sentiment
Earnings Torpedo	4.55	Earnings Momentum
Industry-adjusted 12-month Relative Price Strength	4.54	Price Momentum
1-Month Active Return	4.16	Price Momentum
Short Interest	3.54	Short Sentiment
Second Preceding 6-month Return	3.39	Price Momentum
Demand Supply Ratio	3.30	Short Sentiment
20-Day Volume Volatility to Price Volatility	3.21	Liquidity, Risk & Size
Net Asset Value to Price	3.14	Deep Value
Risk-adjusted PEG Ratio	2.96	Earnings Momentum
3-yr Change in Assets-adj TTM Cash Flow	2.89	Historical Growth
Days to Cover	2.72	Short Sentiment
Utilization	2.70	Short Sentiment
Natural Logarithm of Market Capitalization	2.49	Liquidity, Risk & Size
Real Earnings Surprise	2.47	Earnings Momentum

Source: IHS Markit

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Figure 3

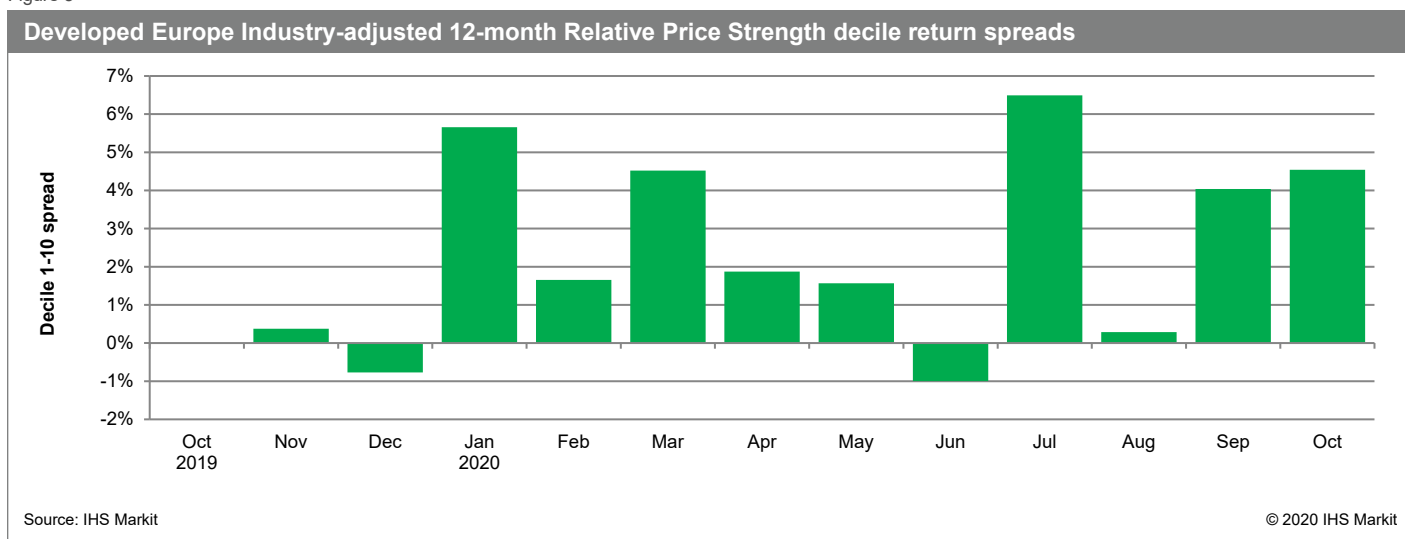


Table 7

Developed Europe bottom decile return spread factor performance, Oct 2020

Factor	Decile spread (%)	Factor group
Time Weighted Sales Yield	-5.17	Deep Value
Leading 12 Month Sales Yield	-5.13	Deep Value
Inverse of PEG Ratio	-4.40	Earnings Momentum
Industry Relative TTM Sales-to-Price	-3.96	Relative Value
The Visibility Ratio	-3.91	Price Momentum
On Loan Value Concentration	-3.90	Short Sentiment
Altman Z Score	-3.75	Liquidity, Risk & Size
Short Concentration Ratio	-2.91	Short Sentiment
Total Coverage	-2.70	Liquidity, Risk & Size
Market Cap per Analyst	-2.69	Liquidity, Risk & Size

Source: IHS Markit © 2020 IHS Markit

Asia-Pacific

Manufacturing operating conditions improved in the two largest Asian economies of China and Japan last month, though continued to straddle the cutoff between contraction and expansion. In China, the headline PMI rose to 53.6 in October, from 53.0 in September, the highest reading since January 2011, on a sharper increase in total new work. In Japan, the manufacturing sector moved closer to stabilization, with the PMI further picking up to 48.7 in October, from 47.7 in September, the softest rate of contraction since January, supported by slower falls in output and new orders and sustained improvement in business optimism. Both countries also saw relatively flat equity markets for the month, though on different paths, as stocks in Japan remained in a fairly tight trading channel, while stocks in China gave up much of the early month bounce.

Short Sentiment and valuation factors were highly rewarded in developed Pacific markets outside Japan in October (Table 8), represented by factors such as Implied Loan Rate (8.61%) and Industry Relative TTM Dividend Yield (7.99%). We also highlight 24-Month Residual Return Variance (7.27%) and Slope of 52 Week Price Trend Line (-

7.61%, which represented Price Momentum's broad showing on the laggard board (Table 9), both capturing a recent developing trend away from high risk, high momentum names (Figure 4).

Conversely in Japan, Price Momentum metrics remained at the top of the factor performance board in October (Table 10), while risk measures trailed (Table 11). 26-Week Relative Price Strength (3.62%) and 60-Month Beta (-4.59%) represent these respective trends, as captured by the distribution of decile average returns (Figure 5), which further demonstrate that these trades were especially concentrated in high momentum and high risk names. Positive earnings momentum was also a favored strategy, as gauged by measures such as 2-Year Ahead EPS Growth Percentage Change (3.52%) and Street Consensus Rating (3.17%).

Table 8

Developed Pacific exJapan top decile return spread factor performance, Oct 2020		
Factor	Decile spread (%)	Factor group
Average Trading Volume in Preceding 6-month	12.15	Price Momentum
Trading Turnover Ratio	10.85	Liquidity, Risk & Size
Implied Loan Rate	8.61	Short Sentiment
Industry Relative TTM Dividend Yield	7.99	Relative Value
60-Month Alpha	7.37	Price Momentum
24-Month Residual Return Variance	7.27	Price Momentum
Natural Logarithm of Total Assets (USD)	7.16	Liquidity, Risk & Size
60-Day Residual Risk	7.11	Liquidity, Risk & Size
Regression Error of 60-Month CAPM	7.10	Liquidity, Risk & Size
Stock Return Volatility	7.04	Liquidity, Risk & Size
Short Concentration Ratio	7.01	Short Sentiment
CV of Prior 90-Day Closing Prices	6.99	Price Momentum
Demand Supply Ratio	6.92	Short Sentiment
Distress Measure	6.51	Liquidity, Risk & Size
1-Month Realized Stock Return Volatility	6.48	Liquidity, Risk & Size

Source: IHS Markit

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Table 9

Developed Pacific exJapan bottom decile return spread factor performance, Oct 2020		
Factor	Decile spread (%)	Factor group
Days to Cover	-8.01	Short Sentiment
Slope of 52 Week Price Trend Line	-7.61	Price Momentum
Inventory Quantity	-7.44	Short Sentiment
Slope of 66 Week Price Trend Line	-7.39	Price Momentum
Market Cap per Analyst	-7.16	Liquidity, Risk & Size
Rational Decay Alpha	-6.79	Price Momentum
Fama-French Momentum	-6.75	Price Momentum
30-75 Week Stock Price Ratio	-6.41	Price Momentum
39-Week Return with 4-week Lag	-6.35	Price Momentum
15/36 Week Stock Price Ratio	-6.32	Price Momentum

Source: IHS Markit

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Figure 4

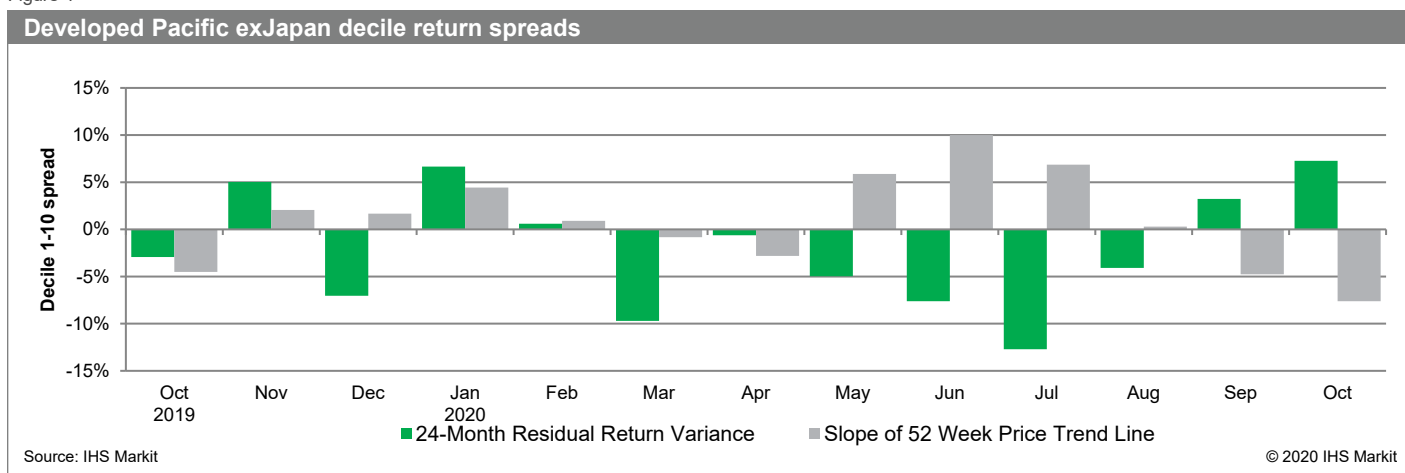


Table 10

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

Factor	Decile spread (%)	Factor group
Number of Analyst Coverage	4.27	Liquidity, Risk & Size
26-Week Relative Price Strength	3.62	Price Momentum
15/36 Week Stock Price Ratio	3.61	Price Momentum
2-Year Ahead EPS Growth Percentage Change	3.52	Earnings Momentum
Street Consensus Rating	3.17	Earnings Momentum
2-Year Ahead EPS Growth	2.97	Earnings Momentum
Lending Supply	2.83	Short Sentiment
Asset Quality Index	2.56	Liquidity, Risk & Size
18-Month Active Return with 1-Month Lag	2.54	Price Momentum
Liquidity Coefficient	2.50	Liquidity, Risk & Size
52-Week High	2.49	Price Momentum
4-Year Change in the Average Trading Volume	2.47	Price Momentum
6-Month Active Return with 1-Month Lag	2.42	Price Momentum
Industrial Production Sensitivity	2.38	Macro
Net Debt to EBITDA	2.30	Management Quality

Source: IHS Markit © 2020 IHS Markit

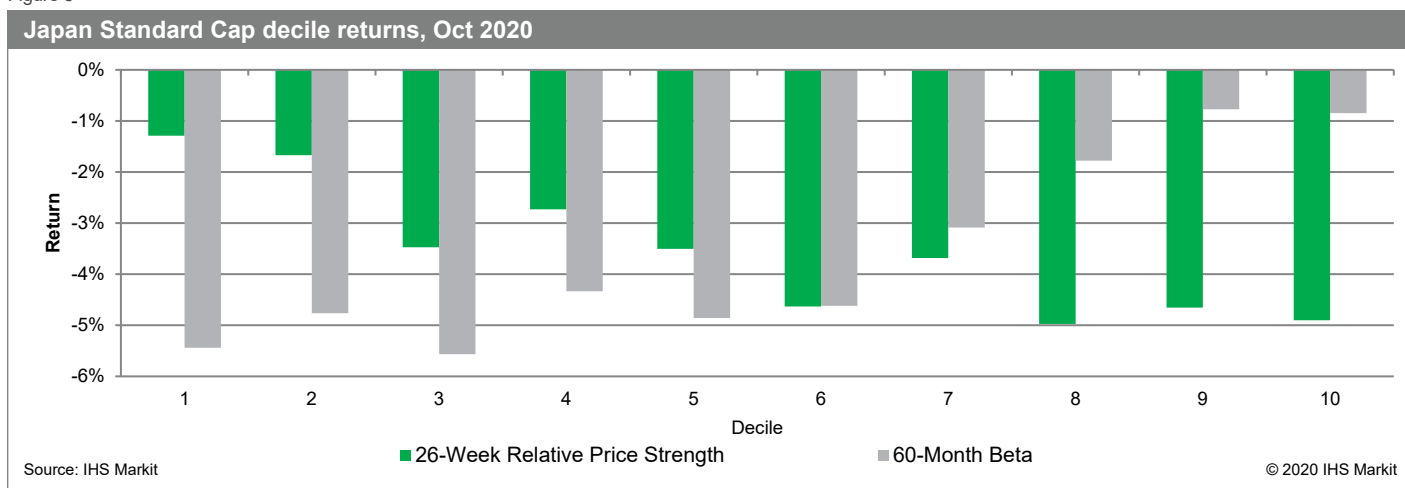
Table 11

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

Factor	Decile spread (%)	Factor group
TTM Cash Flow from Investment to Total Assets	-5.34	Management Quality
60-Month Beta	-4.59	Liquidity, Risk & Size
3-Month Active Return	-3.96	Price Momentum
Trading Turnover Ratio	-3.88	Liquidity, Risk & Size
Product of Beta and Sigma	-3.69	Liquidity, Risk & Size
Unexpected Profitability	-3.30	Management Quality
1-yr Chg in QTR Inventory as % of Sales	-3.28	Historical Growth
Leading 12 Month Book Yield	-3.27	Deep Value
Housing Starts Sensitivity	-3.27	Macro
Unexpected Change in Inventory Level	-3.27	Earnings Quality

Source: IHS Markit © 2020 IHS Markit

Figure 5



Emerging Markets

We round out the report with a review of top (Table 12) and bottom (Table 13) performing factors in emerging markets in October. Investors rewarded high earnings momentum names, while disfavoring those with low market cap. Street Consensus Rating (4.54%) and Natural Logarithm of Market Capitalization (-3.51%) are two such measures of these respective themes; however, a time series of quintile return spreads reveals consistent behavior with recent trends for the former and the reverse for the latter (Figure 6). We also draw attention to investors' preference for improving profit margins, as gauged by measures such as 1-Yr Change in Net Profit Margin (3.65%) and Net Profit Margin (2.38%), which is based on the most recent fiscal period ratio. This trade is also consistent with the underperformance of TTM Gross Profit Margin (-2.78%), which is based on full year data, and 3-yr Compound Annual Operating Profit Margin (-2.35%), which is sorted to favor lower growth.

Table 12

Emerging Markets top quintile return spread factor performance, Oct 2020

Factor	Decile spread (%)	Factor group
Market Cap per Analyst	5.01	Liquidity, Risk & Size
Street Consensus Rating	4.54	Earnings Momentum
Natural Logarithm of TTM Sales	4.26	Liquidity, Risk & Size
1-Yr Change in Net Profit Margin	3.65	Historical Growth
Natural Logarithm of Total Assets	3.35	Liquidity, Risk & Size
Net # of Revisions for Fiscal Year 1	2.98	Earnings Momentum
Change in QTR Sales vs. Gross Margin	2.82	Earnings Quality
1-yr Change in Operating Profit Margin	2.81	Historical Growth
Yearly Change In Gross Profit Margin	2.77	Management Quality
Fixed Assets Turnover Ratio	2.57	Management Quality
SG&A Expenses-to-Sales	2.56	Management Quality
Return on Invested Capital	2.51	Management Quality
Equity Turnover Ratio	2.46	Management Quality
Unexpected Profitability	2.45	Management Quality
Net Profit Margin	2.38	Management Quality

Source: IHS Markit

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Table 13

Emerging Markets bottom quintile return spread factor performance, Oct 2020

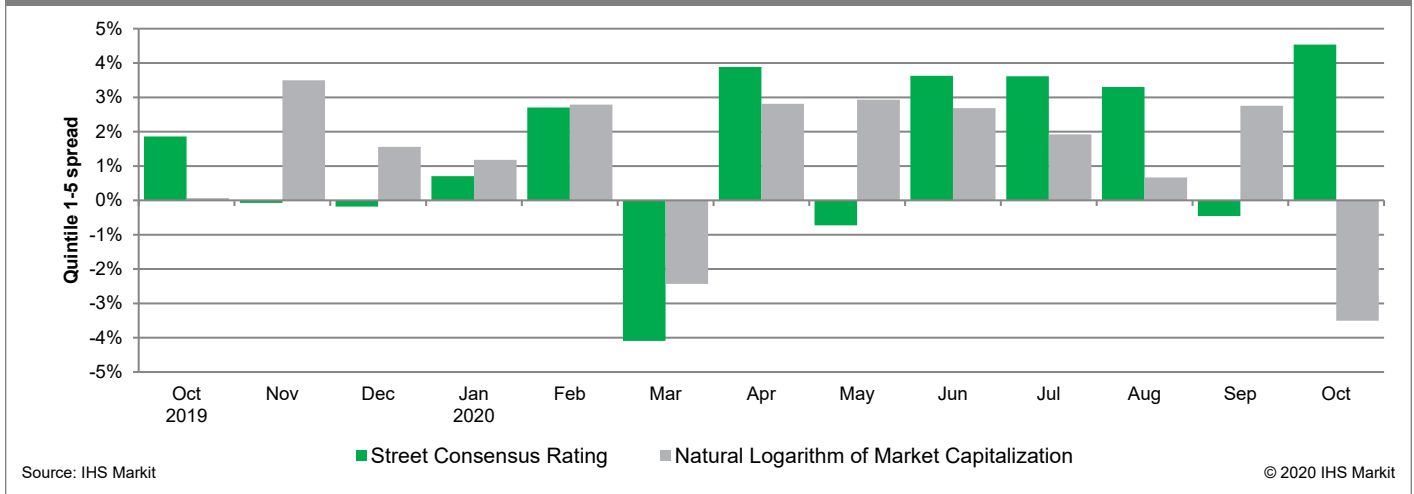
Factor	Decile spread (%)	Factor group
Natural Logarithm of Market Capitalization	-3.51	Liquidity, Risk & Size
Natural Logarithm of Closing Price	-2.86	Liquidity, Risk & Size
TTM Gross Profit Margin	-2.78	Management Quality
3-Month Active Return	-2.78	Price Momentum
Net Current Assets-to-Price	-2.77	Deep Value
Stock Illiquidity	-2.64	Liquidity, Risk & Size
Asset Composition	-2.50	Liquidity, Risk & Size
Inventory Value Concentration	-2.49	Short Sentiment
3-yr Compound Annual Operating Profit Margin	-2.35	Historical Growth
US Dollar Value Sensitivity	-2.29	Macro

Source: IHS Markit

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Figure 6

Emerging Markets quintile return spreads



Source: IHS Markit

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