

Stocks injected with a shot of hope

November 2020

Research Signals

Encouraging vaccine news boosted equity markets worldwide, with many major regional indexes notching solid double-digit monthly gains. As investors looked beyond the virus on hopes of life returning to normal in the coming year, coupled with reduced uncertainty with the US election in the rear-view mirror, high risk and beaten-down value stocks that would benefit from economic growth outperformed (Table 1). Optimism for the economic recovery taking hold was buttressed by the J.P.Morgan Global Manufacturing PMI posting a 33-month high, furthered by firmer sentiment in future output on vaccine hopes.

- US: The high-risk trade was prominent in US markets, dragging down measures that favor lower risk, including 60-Month Beta and 24-Month Value at Risk
- Developed Europe: Traditional value measures of Book-to-Market led the expanded rotation to value stocks
- Developed Pacific: In markets outside Japan, 2-Year Ahead EPS Growth was highly rewarded, while Short Sentiment signals including Demand Supply Ratio and Implied Loan Rate outperformed in Japan
- Emerging markets: Investors favored undervalued and high-risk names, gauged by Book-to-Market and 60-Month Beta, respectively

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Table 1

Global factor quantile return spread (%) performance snapshot, Nov 2020							
Factor	Factor Group	US Large Cap	US Small Cap	Developed Europe	Developed Pacific ex Japan	Japan Standard Cap	Emerging Markets
Book-to-Market		14.29	11.44	21.91	8.17	-5.37	8.85
Forward 12-M EPS-to-Enterprise Value	Deep Value	-13.49	-6.28	-8.14	-12.96	-5.44	-5.03
TTM EBITDA-to-Enterprise Value		-8.53	-6.01	2.56	-4.23	-4.95	2.03
TTM Free Cash Flow-to-Enterprise Value		-3.72	-3.08	1.89	-1.71	-2.66	-1.01
Industry Relative Leading 4-QTRs EPS to Price	Relative Value	-2.44	-11.50	1.46	-7.82	-6.54	-3.17
Industry Relative TTM Dividend Yield		2.86	6.46	6.58	-1.09	-4.27	-3.57
Fixed Assets Turnover Ratio	Management Quality	-4.84	-3.19	-1.26	-2.14	2.28	0.07
Inventory Turnover Ratio		5.03	1.59	3.83	1.09	-1.45	0.04
Net Operating Asset Turnover		-3.90	-2.08	0.87	-3.34	1.16	-3.27
Change in Accruals to Assets	Earnings Quality	9.59	4.39	3.10	-2.91	2.50	0.82
Change in TTM COGS vs. Inventory Level		-2.80	-2.58	-3.01	3.84	-0.05	-0.16
Change in TTM Sales vs. Accounts Receivable		2.61	-0.47	-0.23	0.64	1.68	0.62
Working Capital Accruals		-1.19	-0.75	0.52	-0.24	-0.18	0.55
1-yr Growth in TTM Free Cash Flow	Historical Growth	-8.61	-7.29	-1.98	-4.28	-1.52	-2.50
Reinvestment Rate		-5.74	-1.37	-2.66	-5.00	3.03	1.08
Average Monthly Trading Volume-to-Market Cap	Liquidity, Risk & Size	20.05	17.76	11.37	1.57	4.09	3.91
60-Month Beta		-26.05	-22.91	-20.50	-8.41	-9.17	-10.51
Asset Quality Index		-0.41	-3.01	3.50	0.46	-0.95	0.96
Operating Leverage		-1.49	-1.20	-2.63	-2.85	-1.60	0.37
Natural Logarithm of Market Capitalization		14.39	11.95	4.49	-2.96	-8.70	0.18
2-Year Ahead EPS Growth	Earnings Momentum	15.62	11.47	20.82	11.77	4.82	9.12
3-M Revision in FY2 EPS Forecasts		-9.98	-4.41	-19.56	-9.65	-1.36	-7.70
Real Earnings Surprise		-6.18	-3.12	-0.65	-6.75	-2.36	-2.68
24-Month Value at Risk	Price Momentum	-28.55	-26.45	-24.70	-9.76	-8.43	-12.16
5-day Industry Relative Return		13.27	16.71	15.48	2.29	6.34	6.59
Industry-adjusted 12-month Relative Price Strength		-11.77	-6.57	-18.19	-7.25	-2.06	-4.47
Rational Decay Alpha		-16.16	-13.38	-22.83	-9.44	-3.28	-6.29
Demand Supply Ratio	Short Sentiment	-9.07	-9.68	-8.11	-4.04	1.68	-0.79
Implied Loan Rate		-4.55	-0.79	-5.39	4.14	1.90	-0.17

Source: IHS Markit

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United States

US Large Cap

Notable improvement in the US manufacturing sector was signaled in November, with the manufacturing PMI posting at 56.7, up from 53.4 in October, the steepest improvement since September 2014, supported by marked expansions in output and new orders. Business confidence regarding the outlook for output over the coming year was also the strongest since February 2015, boosted by encouraging vaccine news and hopes for life returning to normal in the coming year. COVID-19 vaccine optimism also spilled over into equity markets, particularly for small caps which logged their best month on record.

Valuation measures extended their lead as the top performing factors among US large caps in November (Table 2). 60-Month Alpha (24.74%), a long-term price reversal measure, topped the list with a solid double-digit spread (Figure 1) not seen since markets bounced off the financial crisis lows in April 2009. Macro indicators including Oil Prices Sensitivity (19.49%) and Industrial Production Sensitivity (16.18%) also posted strong performance, as energy and industrial stocks benefitted from the expanded rotation into beaten-down value stocks. The same dynamics pushed measures favoring low risk to the laggard board (Table 3), including 24-Month Value at Risk (-28.55%) and 60-Month Beta (-26.05%), along with Momentum measures such as 30-75 Week Stock Price Ratio (-26.75%).

Table 2

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

Factor	Decile spread (%)	Factor group
60-Month Alpha	24.74	Price Momentum
36-Month Active Return with 1-Month Lag	22.17	Price Momentum
60-Month Active Return with 1-Month Lag	21.90	Price Momentum
Average Monthly Trading Volume-to-Market Cap	20.05	Liquidity, Risk & Size
Natural Logarithm of Closing Price (USD)	19.68	Liquidity, Risk & Size
Oil Prices Sensitivity	19.49	Macro
Implied Volatility	18.76	Liquidity, Risk & Size
Altman Z Score	18.45	Liquidity, Risk & Size
5-yr Relative TTM Sales-to-Price	18.33	Relative Value
Market Leverage	18.20	Liquidity, Risk & Size
Cash-to-Price	17.55	Deep Value
2-Month Active Return	17.48	Price Momentum
Treynor Index	16.49	Price Momentum
Current Liabilities-to-Price	16.46	Liquidity, Risk & Size
Industrial Production Sensitivity	16.18	Macro

Source: IHS Markit

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Figure 1

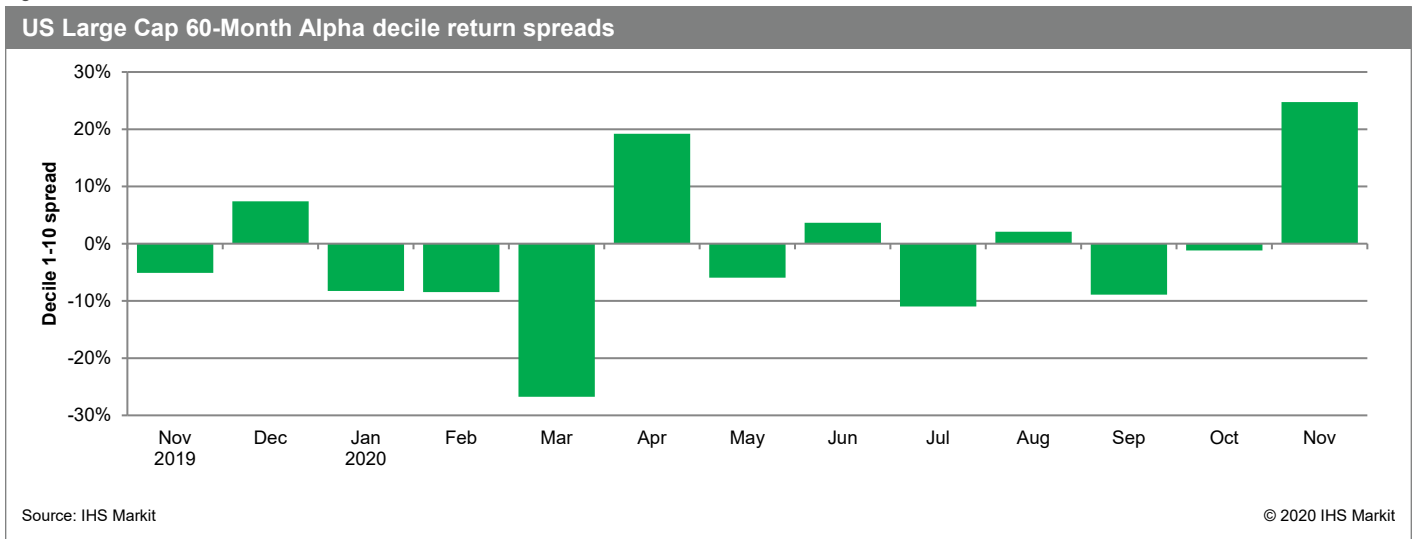


Table 3

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

Factor	Decile spread (%)	Factor group
24-Month Value at Risk	-28.55	Price Momentum
52-Week High	-28.10	Price Momentum
Time Weighted Earnings Revision	-27.66	Earnings Momentum
Averaged Last 6-M EPS Revisions for FY2	-27.09	Earnings Momentum
30-75 Week Stock Price Ratio	-26.75	Price Momentum
60-Month Beta	-26.05	Liquidity, Risk & Size
Distress Measure	-25.95	Liquidity, Risk & Size
9-Month Active Return with 1-Month Lag	-25.23	Price Momentum
Second Preceding 6-month Return	-24.97	Price Momentum
Std Dev of FY2 EPS Estimates-to-Price	-24.90	Earnings Momentum

Source: IHS Markit

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US Small Cap

60-Month Alpha (25.82%) also led the strengthening value rotation among small caps in November (Table 4), which additionally included short-term price reversal measures such as 2-Month Active Return (20.08%). Similarly, low risk and high momentum names were disfavored (Table 5), as with large caps, reflected by the significant underperformance of measures such as 24-Month Value at Risk (-26.45%) and 30-75 Week Stock Price Ratio (-24.96%). However, while the latter recorded its weakest performance since April 2009, the negative spread associated with the former was surpassed in April of this year when markets bounced off the downturn in the initial stages of the COVID-19 pandemic with an energetic bounce in the risk-on trade (Figure 2).

Table 4

US Small Cap top decile return spread factor performance, Nov 2020		
Factor	Decile spread (%)	Factor group
60-Month Alpha	25.82	Price Momentum
Current Liabilities-to-Price	23.89	Liquidity, Risk & Size
Cash-to-Price	21.84	Deep Value
60-Month Active Return with 1-Month Lag	20.16	Price Momentum
2-Month Active Return	20.08	Price Momentum
Natural Logarithm of Closing Price (USD)	20.03	Liquidity, Risk & Size
36-Month Active Return with 1-Month Lag	19.78	Price Momentum
Time Weighted Sales Yield	18.04	Deep Value
Leading 12 Month Sales Yield	17.76	Deep Value
Average Monthly Trading Volume-to-Market Cap	17.76	Liquidity, Risk & Size
TTM Sales-to-Price	17.30	Deep Value
Market Leverage	17.15	Liquidity, Risk & Size
5-yr Relative TTM Sales-to-Price	16.95	Relative Value
Net Current Assets-to-Price	16.76	Deep Value
5-day Industry Relative Return	16.71	Price Momentum

Source: IHS Markit

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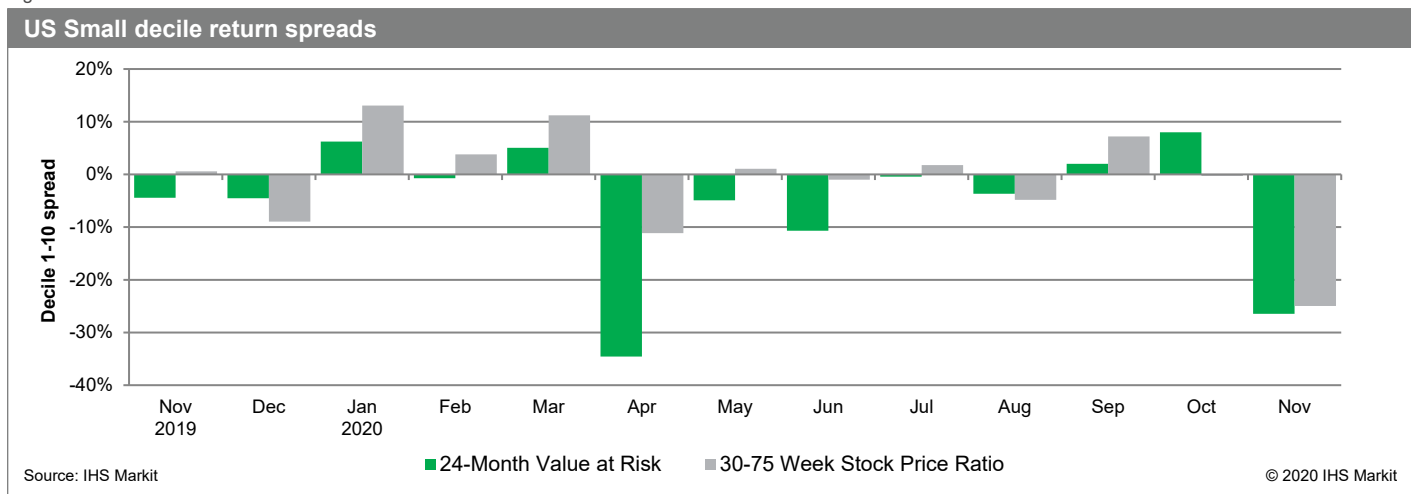
Table 5

US Small Cap bottom decile return spread factor performance, Nov 2020		
Factor	Decile spread (%)	Factor group
52-Week High	-28.37	Price Momentum
24-Month Value at Risk	-26.45	Price Momentum
Distress Measure	-26.17	Liquidity, Risk & Size
30-75 Week Stock Price Ratio	-24.96	Price Momentum
39-Week Return with 4-week Lag	-24.26	Price Momentum
9-Month Active Return with 1-Month Lag	-23.57	Price Momentum
5-yr Relative TTM Earnings-to-Price	-22.93	Relative Value
60-Month Beta	-22.91	Liquidity, Risk & Size
18-Month Active Return with 1-Month Lag	-22.50	Price Momentum
4-52 Week Price Oscillator	-22.45	Price Momentum

Source: IHS Markit

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Figure 2



Source: IHS Markit

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Europe

Manufacturing growth remained strong in the eurozone in November, though the PMI slipped slightly to 53.8, from 54.8 in October, on slower, but still marked, gains in output and new orders. All countries recorded a weakening of their respective PMIs amid new lockdown measures, with Germany remaining the best performing country, followed by the Netherlands and Ireland. However, equity investors were buoyed by vaccine developments and the prospects of easing in COVID-19 restrictions, pushing stocks to their biggest monthly gain ever.

Investors in Developed Europe markets turned to traditional book value measures to lead value's developing resurgence in November (Table 6), with Time Weighted Book Yield (24.30%) the most highly rewarded. Another time-honored quantitative metric, Fama-French Momentum (-27.56%), was among the key factors reflecting Price Momentum's swing from the list of top to bottom performing factors last month (Table 7). Taking a closer look at the distribution of decile returns across these two factors (Figure 3), we find the strongest conviction at the tails with Time Weighted Book Yield decile 1 outpacing decile 2 by 9.3% and Fama-French Momentum decile 10 beating decile 9 by 12.1%.

Table 6

Developed Europe top decile return spread factor performance, Nov 2020

Factor	Decile spread (%)	Factor group
Time Weighted Book Yield	24.30	Deep Value
36-Month Active Return with 1-Month Lag	24.18	Price Momentum
Leading 12 Month Book Yield	23.66	Deep Value
60-Month Alpha	23.66	Price Momentum
60-Month Active Return with 1-Month Lag	22.69	Price Momentum
Market Leverage	22.55	Liquidity, Risk & Size
Book-to-Market	21.91	Deep Value
5-yr Relative TTM Sales-to-Price	21.74	Relative Value
Cash-to-Price	21.03	Deep Value
5-yr Relative Book-to-Market	20.83	Relative Value
2-Year Ahead EPS Growth	20.82	Earnings Momentum
2-Month Active Return	18.96	Price Momentum
Current Liabilities-to-Price	18.92	Liquidity, Risk & Size
Price-to-Total Assets	18.80	Deep Value
Graham Number Fair Value Premium	17.64	Deep Value

Source: IHS Markit

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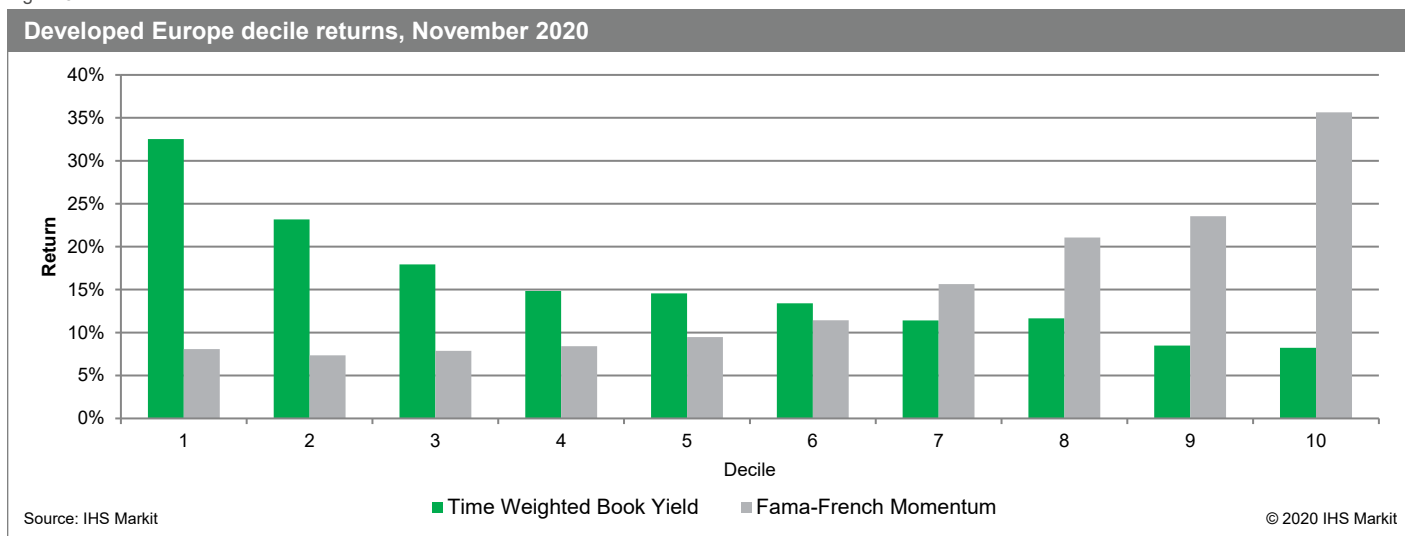
Table 7

Developed Europe bottom decile return spread factor performance, Nov 2020		
Factor	Decile spread (%)	Factor group
52-Week High	-33.19	Price Momentum
30-75 Week Stock Price Ratio	-29.29	Price Momentum
39-Week Return with 4-week Lag	-28.93	Price Momentum
Fama-French Momentum	-27.56	Price Momentum
9-Month Active Return with 1-Month Lag	-27.52	Price Momentum
50-200 Day Stock Price Ratio	-27.21	Price Momentum
12-Month Active Return with 1-month Lag	-26.95	Price Momentum
18-Month Active Return with 1-Month Lag	-26.92	Price Momentum
Time Weighted Earnings Revision	-26.30	Earnings Momentum
1-Year Price Momentum Indicator	-25.76	Price Momentum

Source: IHS Markit

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Figure 3



Asia-Pacific

Manufacturing operating conditions continued to improve in the two largest Asian economies of China and Japan last month, though continued to straddle the cutoff between contraction and expansion. In China, manufacturers signaled the strongest improvement in operating conditions for a decade, with the PMI rising to 54.9 in November, from 53.6 in October, on 10-year highs in output and new orders growth. In Japan, the manufacturing sector continued to move towards more stable operating conditions, with the PMI rising slightly to 49.0 in November, from 48.7 in October, the softest rate of contraction since January, supported by softer contractions in production and new orders and sustained improvement in business optimism on hopes of an end to the pandemic. Positive developments on the vaccine front lifted major Asia-Pacific equity markets for the month, as investors look for a return to business as usual.

Developed Pacific markets outside Japan saw an interesting juxtaposition of both value and growth measures on the list of top performing factors in November (Table 8). While 36-Month Active Return with 1-Month Lag (11.80%) turned in the top performance, 2-Year Ahead EPS Growth (11.77%) followed closely behind (Figure 4), posting its highest spread since July 1989. At the opposite extreme, momentum measures dominated the list of bottom performing

measures (Table 9), represented by measures such as Time Weighted Earnings Revision (-19.36%) and 18-Month Active Return with 1-Month Lag (-13.61%).

In Japan, contrary to our other coverage universes, high momentum remained a favored theme in November (Table 10), captured by factors such as 6-Month Active Return with 1-Month Lag (6.69%). Short Sentiment measures also outperformed, including Lending Supply (9.32%), a proxy for institutional ownership measuring the total quantity of stock made available by custodians in their programs, which recorded its highest spread of the year (Figure 5), a level not seen since April 2009. Investors also moved further out on the risk curve, as confirmed by underperformance (Table 11) to measures including Product of Beta and Sigma (-9.28%) and 60-Month Beta (-9.17%).

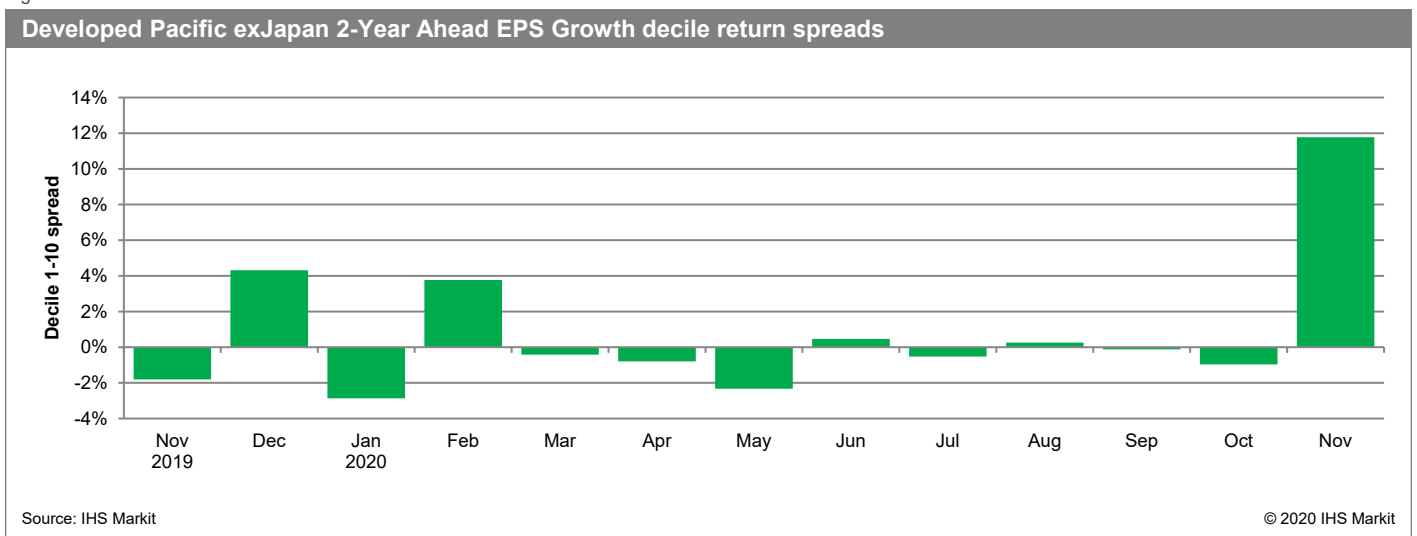
Table 8

Developed Pacific exJapan top decile return spread factor performance, Nov 2020		
Factor	Decile spread (%)	Factor group
36-Month Active Return with 1-Month Lag	11.80	Price Momentum
2-Year Ahead EPS Growth	11.77	Earnings Momentum
Altman Z Score	9.98	Liquidity, Risk & Size
3-yr Compound Annual TTM EPS after Extra Items-to-Price Growth Rate	9.70	Historical Growth
3-yr Compound Annual ROIC Growth	9.39	Historical Growth
Acquisition Multiple	8.93	Deep Value
2-Year Ahead EPS Growth Percentage Change	8.91	Earnings Momentum
Leading 12 Month Book Yield	8.61	Deep Value
60-Month Alpha	8.55	Price Momentum
Tobin q	8.24	Liquidity, Risk & Size
Book-to-Market	8.17	Deep Value
5-yr Sales Growth	7.83	Historical Growth
Price-to-Total Assets	7.82	Deep Value
Asset Composition	7.75	Liquidity, Risk & Size
Time Weighted Book Yield	7.58	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, Nov 2020

Factor	Decile spread (%)	Factor group
Time Weighted Earnings Revision	-19.36	Earnings Momentum
Time Weighted Earnings Revision Dispersion	-14.52	Earnings Momentum
Forward Return on Equity	-14.01	Management Quality
18-Month Active Return with 1-Month Lag	-13.61	Price Momentum
30-75 Week Stock Price Ratio	-13.56	Price Momentum
24-Month Active Return with 1-Month Lag	-13.48	Price Momentum
Forward 12-M EPS-to-Enterprise Value	-12.96	Deep Value
9-Month Active Return with 1-Month Lag	-12.67	Price Momentum
39-Week Return with 4-week Lag	-12.62	Price Momentum
12-Month Active Return with 1-month Lag	-12.53	Price Momentum

Source: IHS Markit

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Table 10

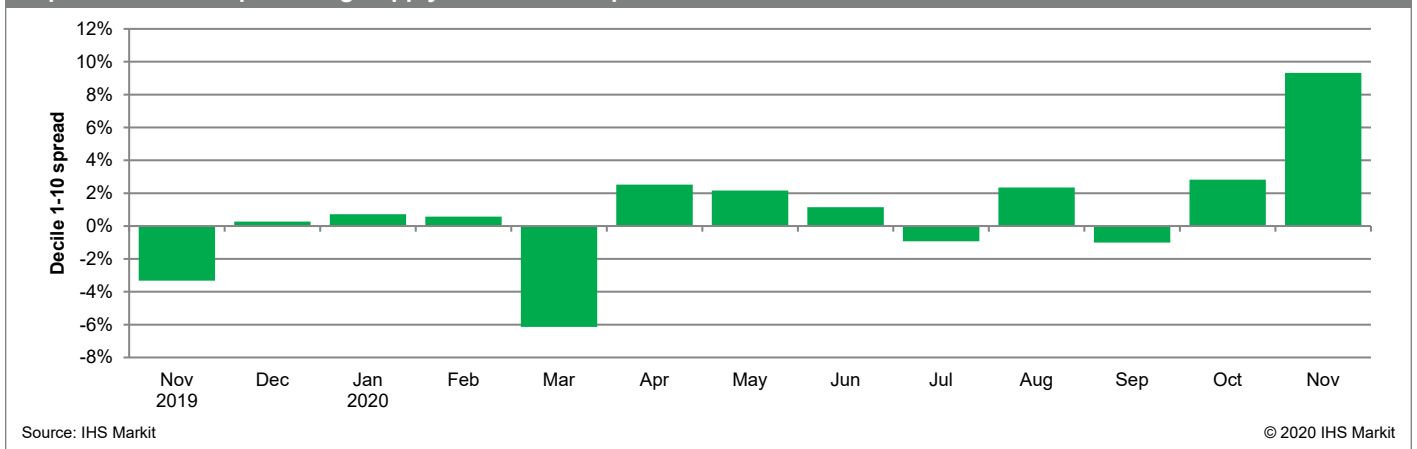
Japan Standard Cap top decile return spread factor performance, Nov 2020

Factor	Decile spread (%)	Factor group
Number of Analyst Coverage	9.93	Liquidity, Risk & Size
Lending Supply	9.32	Short Sentiment
Oil Prices Sensitivity	7.17	Macro
6-Month Active Return with 1-Month Lag	6.69	Price Momentum
Short Concentration Ratio	6.62	Short Sentiment
5-day Industry Relative Return	6.34	Price Momentum
Net Current Assets-to-Price	6.33	Deep Value
Net Cash to Equity	6.30	Liquidity, Risk & Size
26-Week Relative Price Strength	5.40	Price Momentum
On Loan Value Concentration	5.17	Short Sentiment
2-Year Ahead Regular Dividend growth	5.15	Dividend Forecast
Long-term Debt-to-Equity	5.08	Liquidity, Risk & Size
15/36 Week Stock Price Ratio	4.97	Price Momentum
2-Year Ahead EPS Growth	4.82	Earnings Momentum
2-Year Ahead EPS Growth Percentage Change	4.74	Earnings Momentum

Source: IHS Markit

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Figure 5

Japan Standard Cap Lending Supply decile return spreads

Source: IHS Markit

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Table 11

Japan Standard Cap bottom decile return spread factor performance, Nov 2020		
Factor	Decile spread (%)	Factor group
Product of Beta and Sigma	-9.28	Liquidity, Risk & Size
60-Month Beta	-9.17	Liquidity, Risk & Size
Stock Return Volatility	-8.70	Liquidity, Risk & Size
Natural Logarithm of Market Capitalization (USD)	-8.70	Liquidity, Risk & Size
24-Month Value at Risk	-8.43	Price Momentum
Stock Illiquidity	-8.19	Liquidity, Risk & Size
Edwards-Bell-Ohlson Value-to-Price	-8.05	Deep Value
Second Preceding 6-month Return	-7.89	Price Momentum
CV of Prior 90-Day Closing Prices	-7.68	Price Momentum
Average Trading Volume in Preceding 6-month	-7.62	Price Momentum

Source: IHS Markit

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Emerging Markets

We wrap up with a review of top (Table 12) and bottom (Table 13) performing factors in emerging markets in November. Factor performance closely resembled that of US and European markets, with valuation measures prominent on the leaderboard and momentum metrics dominating the laggard board. Time Weighted Book Yield (10.55%) and 52-Week High (-13.31%) sat at the respective extremes, with the former far outpacing performance over the past year with a spread not seen since April 2009, while the latter saw several episodes of underperformance this year to names trading close to their 52-week highs (Figure 6).

Table 12

Emerging Markets top quintile return spread factor performance, Nov 2020		
Factor	Decile spread (%)	Factor group
Time Weighted Book Yield	10.55	Deep Value
Leading 12 Month Book Yield	10.21	Deep Value
5-yr Relative TTM Sales-to-Price	9.90	Relative Value
Price-to-Total Assets	9.77	Deep Value
36-Month Active Return with 1-Month Lag	9.47	Price Momentum
5-yr Relative Book-to-Market	9.18	Relative Value
2-Year Ahead EPS Growth	9.12	Earnings Momentum
Market Leverage	9.11	Liquidity, Risk & Size
Book-to-Market	8.85	Deep Value
Net Asset Value to Price	8.74	Deep Value
Tobin q	8.42	Liquidity, Risk & Size
Current Liabilities-to-Price	7.95	Liquidity, Risk & Size
Net Debt Ratio	7.88	Management Quality
2-Month Active Return	7.80	Price Momentum
Altman Z Score	7.40	Liquidity, Risk & Size

Source: IHS Markit

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Table 13

Emerging Markets bottom quintile return spread factor performance, Nov 2020

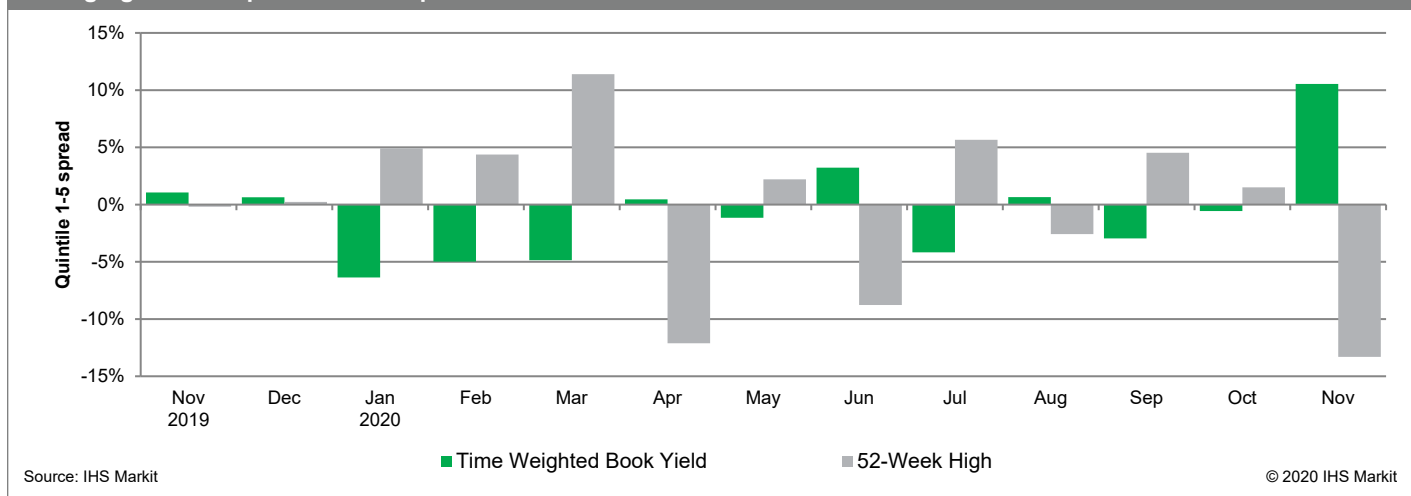
Factor	Decile spread (%)	Factor group
52-Week High	-13.31	Price Momentum
39-Week Return with 4-week Lag	-12.19	Price Momentum
24-Month Value at Risk	-12.16	Price Momentum
9-Month Active Return with 1-Month Lag	-12.02	Price Momentum
Averaged Last 6-M EPS Revisions for FY1	-11.90	Earnings Momentum
30-75 Week Stock Price Ratio	-11.70	Price Momentum
Second Preceding 6-month Return	-11.39	Price Momentum
12-Month Active Return with 1-month Lag	-11.31	Price Momentum
60-Month Beta	-10.51	Liquidity, Risk & Size
18-Month Active Return with 1-Month Lag	-10.49	Price Momentum

Source: IHS Markit

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Figure 6

Emerging Markets quintile return spreads



Source: IHS Markit

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