

## Analysts revise global forecasts

With Q3 earnings season under way, we review sector performances and analyst revisions to earnings forecasts and compared these to changes in short selling activity levels.

- Basic Materials and Energy sectors have seen the most analyst revisions
- Healthcare has a strong analyst outlook in run-up to earnings despite bearish sentiment
- Despite strong consensus for full year earnings, Lannet sees 26% of shares sold short

### Factoring in forecasts

Faced with the final quarter of 2015, analysts have revised forecasts for companies expected to report third quarter earnings shortly. Year to date, equity markets on average have erased gains as the collapse in crude oil and energy prices has led a global sell off.

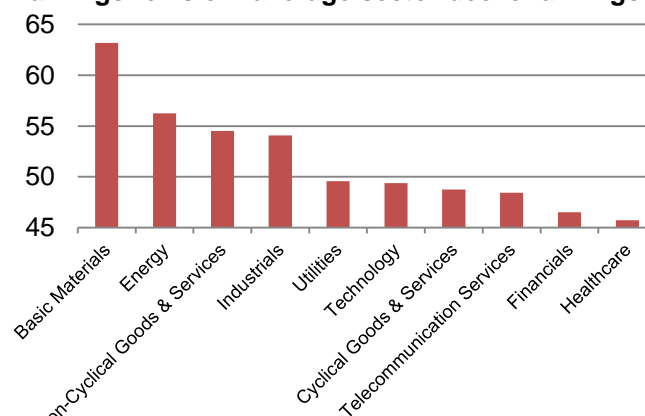
Stocks in the Apac region have particularly underperformed in the last three months as a sharp selloff in Chinese equities pulled markets lower. A 23% decline in the past three months has taken Apac stocks down by 11% year to date. Average short interest globally has increased, but particularly in Apac where it has doubled to 5.0%; higher than the global average of 4.2% (across these universes\*).

### Regional preferences

Markit **Research Signals'** equity factor; three month revision in one year earnings forecasts\*\*, provides unique insights into the change in sentiment and outlook of analysts as compared to the previous earnings results season.

The chart below ranks average scores for companies by this factor across sectors. Not surprisingly, Basic Materials and Energy rank poorly, indicating that analysts have revised and decreased their forecasts by the widest margin compared to other sectors three months prior.

Earnings revision: average sector decile rankings



Source: Markit

Within Apac, the Technology sector currently ranks below Basic Resources as the least attractive in terms of downward earnings revisions. Healthcare and Financials have seen better than average revisions across all regions over the past quarter, while Utilities has seen increasing positive analyst outlook in Asia and Europe.

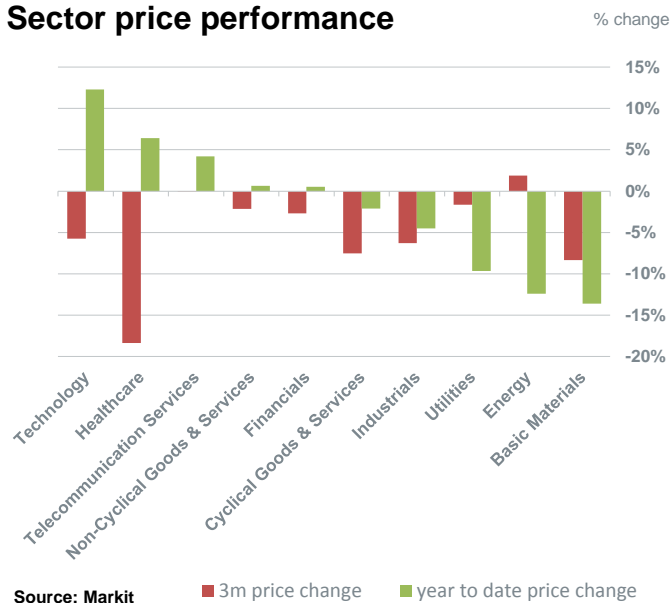
### Sector movements

Three month and year to date performances by sectors highlight the particularly strong sell off in Healthcare (biotech included) stocks recently, however the sector is still up year to date across a global universe of stocks.

Besides ranking favourably (positive relative earnings revisions) the Healthcare sector is the most shorted. The sector has seen a 16% increase in average short interest, rising to 6.3%.

Basic resources and Energy are the worst performing sectors year to date, down 13.6% and 12.4% respectively on average.

**Sector price performance**



Source: Markit

An example of a company in the Healthcare sector ranking highly according to the earnings revisions factor, but also highly short sold, is Lannet. The maker of generic pharmaceutical products has exhibited strong sales and earnings growth with a three month upward revision in consensus earnings forecasts.

**Lannett Company Inc**



Source: Markit

Despite this, short sellers have been drawn to the stock as the company has 26% of shares outstanding on loan.

\*Universes used: QSG Developed Pacific, QSF North America, QSG Developed Europe. Markit Total Cap

**\*\*Factor definition**

3-M Revision in FY1 EPS Forecasts: Dispersion Relative. This factor is defined as the change in a stock's current consensus mean earnings estimate for fiscal year 1 less that of three months ago, scaled by the standard deviation of analyst forecasts as of three months ago and gives an indication of current analyst outlook versus the previous quarterly earnings season

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