

Irrationally exuberant flight to safety

April 2017

Research Signals

While the post-election Trump reflation trade has lost some steam in the US in recent months as the President struggles to get his legislative agenda passed, European investors turned more optimistic in April after the first round of the French presidential election showed the pro-euro candidate as the front runner. Factor performances also diverged across regional markets as a risk-on trade prevailed in European and emerging markets, while US and developed Pacific markets moved more toward a risk-off stance (Table 1).

- US: Investors disfavoured high risk shares and those with the highest demand to sell short, captured by 24-Month Value at Risk and Demand Supply Ratio, respectively
- Developed Europe: Optimism fed into price trend indicators such as Industry-adjusted 12-month Relative Price Strength and toward small cap names gauged by Natural Logarithm of Market Capitalization
- Developed Pacific: Valuation remained a preferred style across developed Pacific markets, with strong performance associated with factors such as Forward 12-M EPS-to-Enterprise Value
- Emerging markets: Price momentum's rebound in March was reinforced last month with positive returns to Rational Decay Alpha

Contacts

Research Signals · research-signals@markit.com

Table 1

Global factor quantile return spread performance snapshot, Apr 2017

Factor	Factor Group	US Large Cap	US Small Cap	Developed Europe	Developed Pacific ex Japan	Japan Standard Cap	Emerging Markets
Book-to-Market		-3.29	0.45	-1.75	0.90	0.34	-0.51
Forward 12-M EPS-to-Enterprise Value	Deep Value	2.26	6.27	2.44	2.51	1.59	-1.14
TTM EBITDA-to-Enterprise Value		0.60	4.81	-0.25	0.63	2.29	0.30
TTM Free Cash Flow-to-Enterprise Value		0.62	5.66	0.36	0.73	0.72	-0.80
Industry Relative Leading 4-QTRs EPS to Price		1.32	3.78	1.16	3.96	1.28	-1.04
Industry Relative TTM Dividend Yield	Relative Value	-1.02	-0.99	0.43	-0.38	0.43	-1.26
Fixed Assets Turnover Ratio		2.54	5.76	1.81	0.89	1.34	1.70
Inventory Turnover Ratio	Management Quality	-0.28	1.06	-0.55	-1.20	0.37	0.19
Net Operating Asset Turnover		1.41	3.53	0.34	1.03	1.75	0.27
Change in Accruals to Assets		0.77	1.54	0.97	1.32	0.50	0.38
Change in TTM COGS vs. Inventory Level	Earnings Quality	1.30	1.94	-0.36	0.14	0.78	0.05
Change in TTM Sales vs. Accounts Receivable		0.98	2.59	0.21	-0.39	0.67	-0.06
Working Capital Accruals		-0.56	-0.88	2.37	0.51	2.20	1.36
1-yr Growth in TTM Free Cash Flow		2.66	2.37	0.05	-0.20	1.94	-0.28
Reinvestment Rate	Historical Growth	3.81	5.50	2.26	2.02	1.90	2.32
Average Monthly Trading Volume-to-Market Cap		-4.22	-7.06	-1.29	-1.72	1.57	-1.23
60-Month Beta	Liquidity, Risk & Size	1.03	2.67	0.77	0.34	1.48	-1.72
Asset Quality Index		1.64	-3.12	0.81	3.07	0.35	-0.33
Operating Leverage		-0.18	-0.30	0.56	-0.21	-0.27	0.12
Natural Logarithm of Market Capitalization		-1.45	-5.69	1.69	-1.49	-0.63	-0.04
2-Year Ahead EPS Growth		-3.67	-1.90	-0.12	-2.59	-1.14	1.79
3-M Revision in FY2 EPS Forecasts	Earnings Momentum	-0.59	-0.75	0.69	0.53	-0.50	-0.88
Real Earnings Surprise		-0.39	-1.10	-0.53	1.21	0.74	0.63
24-Month Value at Risk		2.80	7.97	0.99	3.31	0.42	0.46
5-day Industry Relative Return	Price Momentum	0.69	-0.78	0.94	-0.73	2.17	-0.35
Industry-adjusted 12-month Relative Price Strength		1.15	2.67	0.94	-2.01	0.08	1.91
Rational Decay Alpha		-3.59	-3.25	-1.25	-2.25	-0.14	2.70
Demand Supply Ratio	Short Sentiment	1.99	4.34	0.51	1.17	1.85	2.40
Implied Loan Rate		0.79	5.03	-0.98	0.70	2.27	1.08

Source: IHS Markit

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United States

US Large Cap

The US manufacturing sector saw the slowest improvement in business conditions since September 2016 according to the April headline PMI, which registered at 52.8 compared with 53.3 in March. While sustaining an upturn in manufacturing production, the slower rise in output volumes largely reflected a more subdued pace of new business growth. In equity markets, stocks grinded higher toward their March 1st highs as volatility dropped off precipitously after the French election.

Amidst hints of irrational exuberance with the NASDAQ topping 6,000 for the first time, top outperforming factors in April (Table 2) surprisingly demonstrated a risk-off stance. This bias toward low uncertainty is captured across a variety of metrics including Std Dev of FY2 EPS Estimates-to-Price (5.71%), 1-Month Realized Stock Return Volatility (4.66%), At the Money Call Option Implied Volatility (4.21%) and Distress Measure (4.03%). This trend has been in place for the past three months, as demonstrated by the latter (Figure 1).

Factors that underperformed for the month (Table 3) were those plagued by Energy sector exposures, as oil prices tumbled during April. Namely, long-term price reversal metrics such as 60-Month Active Return with 1-Month Lag (-6.44%) were the weakest performers, accompanied by Oil Prices Sensitivity (-5.05%).

Table 2

US Large Cap top decile return spread factor performance, Apr 2017

Factor	Decile spread (%)	Factor group
Std Dev of FY2 EPS Estimates-to-Price	5.71	Earnings Momentum
Std Dev of FY1 EPS Estimates-to-Price	5.50	Earnings Momentum
60-Month Trading Volume Trend	4.87	Liquidity, Risk & Size
1-Month Realized Stock Return Volatility	4.66	Liquidity, Risk & Size
Yearly TTM Total Sales Growth Rate	4.50	Historical Growth
NOPAT Margin	4.27	Management Quality
1-Month Stock Return Interquartile Range	4.26	Liquidity, Risk & Size
At the Money Call Option Implied Volatility	4.21	Liquidity, Risk & Size
FY2 EPS Forecast Dispersion	4.20	Earnings Momentum
3-yr Change in Price-adj TTM EPS	4.15	Historical Growth
TTM Growth Flow-to-Price	4.12	Deep Value
At the Money Put Option Implied Volatility	4.12	Liquidity, Risk & Size
60-Day Residual Risk	4.11	Liquidity, Risk & Size
1-yr Growth in TTM Earnings per Share	4.08	Historical Growth
Distress Measure	4.03	Liquidity, Risk & Size

Source: IHS Markit

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Figure 1

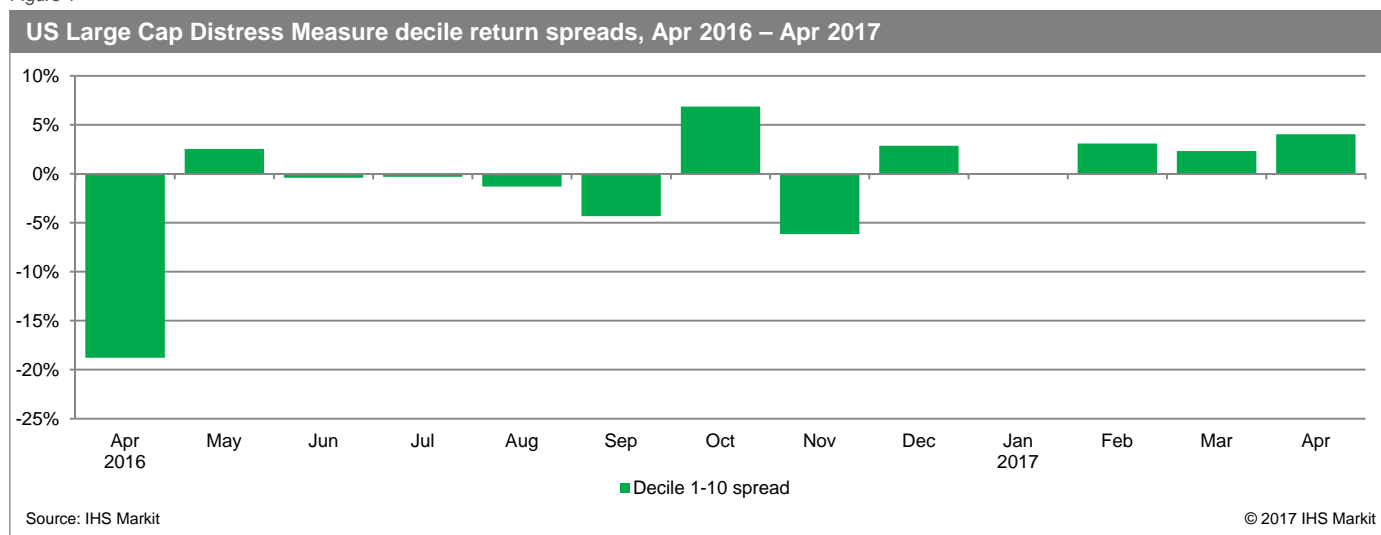


Table 3

US Large Cap bottom sector-neutral decile return spread factor performance, Apr 2017

Factor	Decile spread (%)	Factor group
60-Month Active Return with 1-Month Lag	-6.44	Price Momentum
36-Month Active Return with 1-Month Lag	-6.37	Price Momentum
60-Month Alpha	-6.27	Price Momentum
60-Month Active Return with 12-Month Lag	-6.18	Price Momentum
Altman Z Score	-5.93	Liquidity, Risk & Size
36-Month Sharpe Ratio	-5.32	Price Momentum
Sortino Ratio	-5.16	Price Momentum
Oil Prices Sensitivity	-5.05	Macro
Net Cash to Equity	-4.92	Liquidity, Risk & Size
3-Month Active Return	-4.78	Price Momentum

Source: IHS Markit

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US Small Cap

Small cap factor performance closely resembled that of large caps, with top (Table 4) performers similarly leaning toward gauges of low volatility and bottom performers (Table 5) toward long-term price momentum. The factors which topped each list include Std Dev of FY2 EPS Estimates-to-Price (9.46%) and 36-Month Active Return with 1-Month Lag (-8.24%), respectively. Management Quality also remained a rewarded style, represented by Return on Assets (7.01%) and Operating Cash Flow to Assets (6.96%). We also note the pronounced underperformance to the smallest of the small caps, confirmed by Natural Logarithm of Closing Price (Figure 2).

Table 4

US Small Cap top decile return spread factor performance, Apr 2017

Factor	Decile spread (%)	Factor group
Std Dev of FY2 EPS Estimates-to-Price	9.46	Earnings Momentum
60-Day Residual Risk	9.37	Liquidity, Risk & Size
Std Dev of FY1 EPS Estimates-to-Price	8.29	Earnings Momentum
1-Month Realized Stock Return Volatility	8.01	Liquidity, Risk & Size
24-Month Value at Risk	7.97	Price Momentum
52-Week High	7.89	Price Momentum
CV of Prior 90-Day Closing Prices	7.55	Price Momentum
1-Month Stock Return Interquartile Range	7.47	Liquidity, Risk & Size
Market Cap per Analyst	7.30	Liquidity, Risk & Size
Return on Assets	7.01	Management Quality
24-Month Active Return with 1-Month Lag	6.96	Price Momentum
Operating Cash Flow to Assets	6.96	Management Quality
At the Money Put Option Implied Volatility	6.86	Liquidity, Risk & Size
Yearly TTM Total Sales Growth Rate	6.78	Historical Growth
TTM Gross Profit to Assets	6.66	Management Quality

Source: IHS Markit

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Table 5

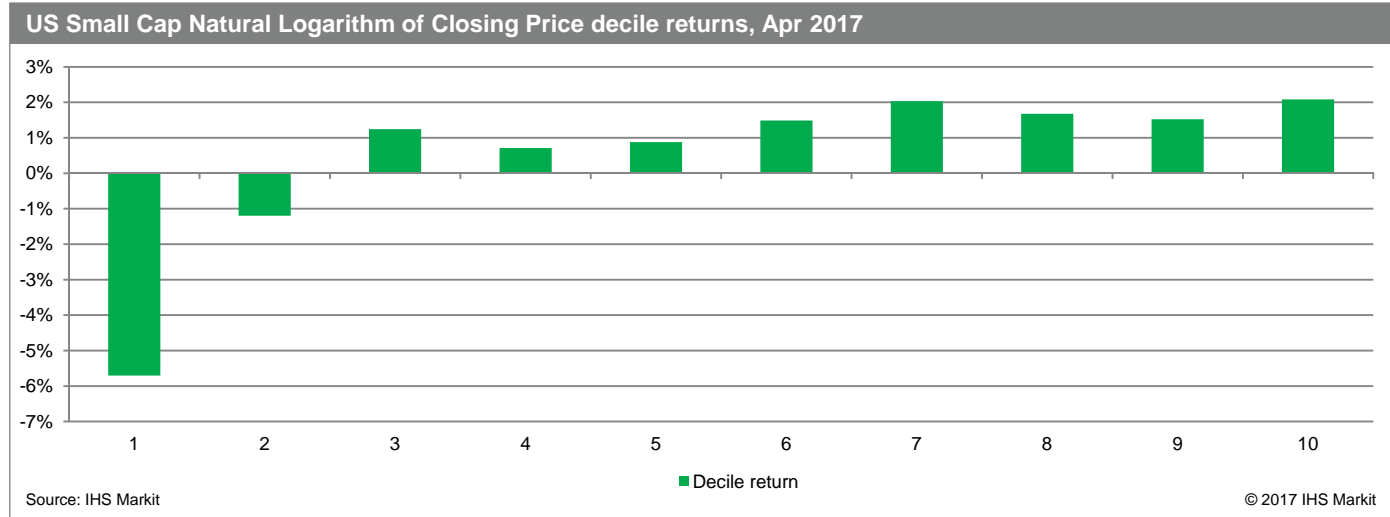
US Small Cap bottom decile return spread factor performance, Apr 2017

Factor	Decile spread (%)	Factor group
36-Month Active Return with 1-Month Lag	-8.24	Price Momentum
Ohlson Bankruptcy Score	-8.18	Liquidity, Risk & Size
Natural Logarithm of Closing Price	-7.79	Liquidity, Risk & Size
Average Monthly Trading Volume-to-Market Cap	-7.06	Liquidity, Risk & Size
60-Month Active Return with 1-Month Lag	-7.05	Price Momentum
Implied Volatility	-6.73	Liquidity, Risk & Size
Altman Z Score	-6.62	Liquidity, Risk & Size
1-yr Change in Total Assets	-5.96	Historical Growth
60-Month Active Return with 12-Month Lag	-5.73	Price Momentum
Natural Logarithm of Market Capitalization	-5.69	Liquidity, Risk & Size

Source: IHS Markit

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Figure 2



Europe

The eurozone manufacturing sector continued to gain momentum at the start of the second quarter, with the PMI at a six-year high of 56.7 in April, up from 56.2 in March. Seven of the eight nations covered recorded an improvement in operating conditions, led by Germany, Austria and the Netherlands. Greece was the sole exception, with a deterioration signaled for the eighth straight month. European stocks recorded a third monthly gain, fueled by results from the first round of the French presidential election.

Like US large caps, several measures of uncertainty showed up on the list of top performing factors in the Developed Europe universe in April (Table 6), including Std Dev of FY1 EPS Estimates-to-Price (3.44%) and Distress Measure (2.82%). However, trend following was the more prominent theme, led by Slope of 52 Week Price Trend Line (3.69%), with a 4.8% month-on-month swing in spread performance (Figure 3).

Likewise, bottom performing factors last month (Table 7) were led by long-term price reversal measures, with a third straight month of negative spreads. The weakest performance was posted by 60-Month Alpha (-4.84%), whose monotonic return distribution in general across deciles (Figure 3) similarly demonstrates investors' preference for names with a long-term trend of outperformance. 2-Month Active Return (-3.06%) was another underperforming factor, suggesting that investors also chased near-term price appreciation, all signs of general optimism.

Table 6

Developed Europe top decile return spread factor performance, Apr 2017

Factor	Decile spread (%)	Factor group
Slope of 52 Week Price Trend Line	3.69	Price Momentum
Slope of 66 Week Price Trend Line	3.53	Price Momentum
Std Dev of FY1 EPS Estimates-to-Price	3.44	Earnings Momentum
Std Dev of FY2 EPS Estimates-to-Price	3.19	Earnings Momentum
3-yr Compound Annual Sales Growth	2.84	Historical Growth
3-yr Chg in Price-adj TTM Oper Cash Flow	2.82	Historical Growth
Distress Measure	2.82	Liquidity, Risk & Size
R Sqr of 5-yr TTM EPS Trend Line	2.80	Historical Growth
5-Year Dividend Growth Rate	2.79	Historical Growth
24-Month Active Return with 1-Month Lag	2.73	Price Momentum
FY2 EPS Forecast Dispersion	2.72	Earnings Momentum
18-Month Active Return with 1-Month Lag	2.55	Price Momentum
Forward 12-M EPS-to-Enterprise Value	2.44	Deep Value
FY1 EPS Estimates Dispersion	2.41	Earnings Momentum
Interest Coverage	2.40	Liquidity, Risk & Size

Source: IHS Markit

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Figure 3

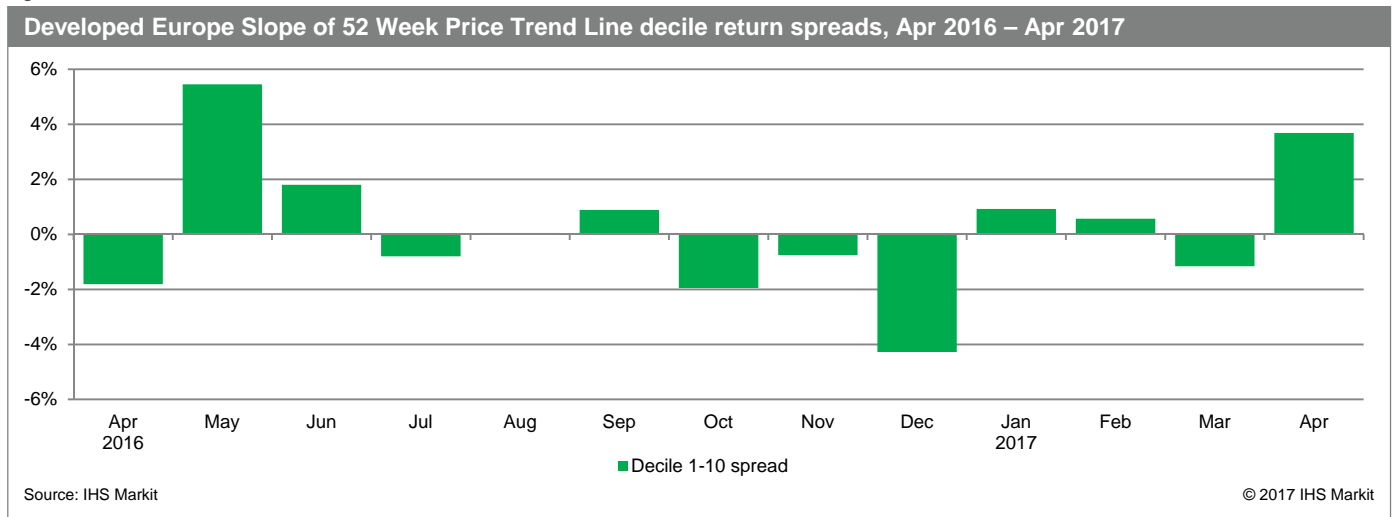


Table 7

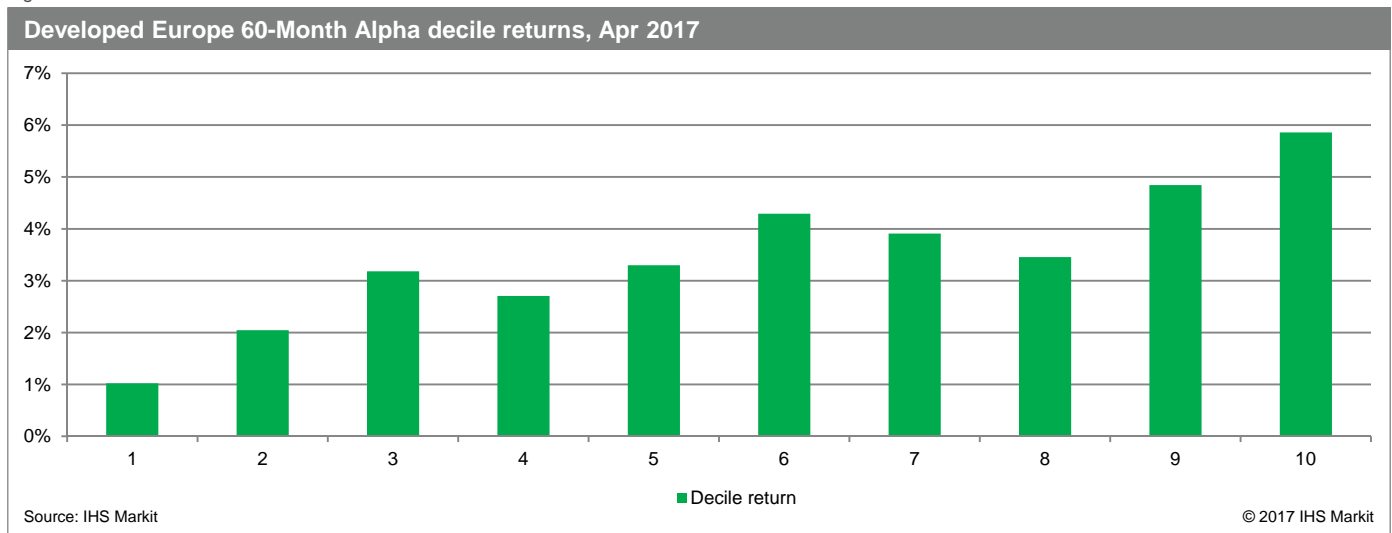
Developed Europe bottom decile return spread factor performance, Apr 2017

Factor	Decile spread (%)	Factor group
60-Month Alpha	-4.84	Price Momentum
60-Month Active Return with 1-Month Lag	-4.77	Price Momentum
60-Month Active Return with 12-Month Lag	-4.10	Price Momentum
36-Month Active Return with 1-Month Lag	-4.01	Price Momentum
Net Current Assets-to-Price	-3.90	Deep Value
Asset Composition	-3.42	Liquidity, Risk & Size
2-Month Active Return	-3.06	Price Momentum
Altman Z Score	-2.84	Liquidity, Risk & Size
Capital Gearing Ratio	-2.53	Liquidity, Risk & Size
Time Weighted Cash Yield	-2.53	Deep Value

Source: IHS Markit

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Figure 4



Asia-Pacific

Operating conditions remained in expansion territory at manufacturing companies in the two largest Asian economies; however, momentum moved in opposite directions. In Japan, the headline PMI improved to 52.7 compared with 52.4 in March, driven by a faster rise in new export orders. While the China April Caixin Manufacturing PMI registered its 10th straight month of expansion, it hit a 7-month low of 50.3, down from 51.2 in March, weighed down by slower increases in output and new orders. Meanwhile, Asia-Pacific stock markets advanced for a fourth consecutive month.

Value remained a prominent theme in Developed Pacific exJapan (Table 8), led by Industry Relative Leading 4-QTRs EPS to Price (3.96%). Distress Measure (4.20%) was also a top performer for a second month running, extending its recent trend of positive spreads (Figure 5), only to be exceeded by Utilization (4.57%), both indicative of an investor bias against high risk names. High momentum was also a negative signal with Price Momentum factors running the board of underperformers (Table 9), including Fama-French Momentum (-3.67%), though recent price appreciation was favoured, demonstrated by 1-Month Active Return performance (-4.17%).

A broad range of fundamentally derived measures led the way in the Japan Standard Cap universe in April (Table 10). Top performers include Cash-to-Sales (3.26%), Industry-relative TTM Sales to Enterprise Value (2.83%) and Sustainable Growth Rate (2.52%). As with its regional counterparts, Short Sentiment utilization indicators were also positively rewarded for a fifth consecutive month (Figure 6). At the opposite extreme, spreads for bottom performing factors were weaker in magnitude (Table 11), suggesting less conviction to the signals included in the list.

Table 8

Developed Pacific exJapan top decile return spread factor performance, Apr 2017

Factor	Decile spread (%)	Factor group
Utilization	4.57	Short Sentiment
Distress Measure	4.20	Liquidity, Risk & Size
Industry Relative Leading 4-QTRs EPS to Price	3.96	Relative Value
Total Coverage	3.86	Liquidity, Risk & Size
Return on Assets	3.86	Management Quality
TTM Growth Flow-to-Price	3.75	Deep Value
3-yr Compound Annual Sales Growth	3.74	Historical Growth
NOPAT Margin	3.71	Management Quality
TTM EPS before Extra Items-to-Price	3.60	Deep Value
Return on Equity	3.58	Management Quality
TTM EPS after Extra Items-to-Price	3.38	Deep Value
24-Month Value at Risk	3.31	Price Momentum
TTM Pretax Income-to-Price	3.28	Deep Value
Leading 12-Month Median Earnings Yield	3.26	Deep Value
Industry Relative TTM EBITDA-to-Price	3.24	Relative Value

Source: IHS Markit

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Figure 5

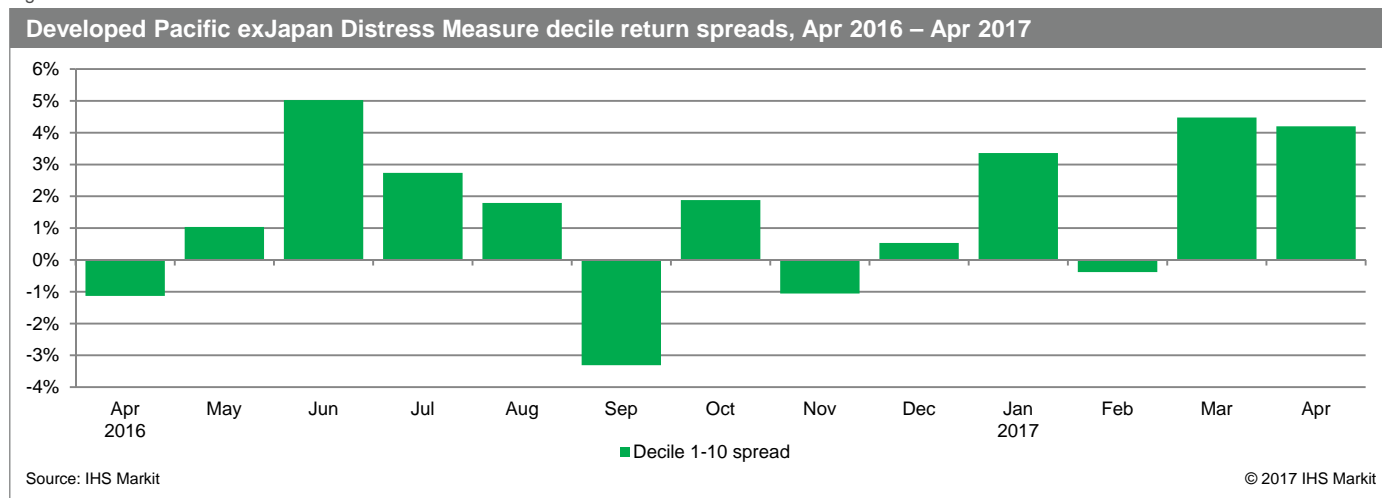


Table 9

Developed Pacific exJapan bottom decile return spread factor performance, Apr 2017

Factor	Decile spread (%)	Factor group
1-Month Active Return	-4.17	Price Momentum
Fama-French Momentum	-3.67	Price Momentum
Oil Prices Sensitivity	-3.24	Macro
1-Yr Change in Net Profit Margin	-3.04	Historical Growth
15/36 Week Stock Price Ratio	-2.98	Price Momentum
39-Week Return with 4-week Lag	-2.87	Price Momentum
6-Month Active Return with 1-Month Lag	-2.73	Price Momentum
Year-over-Year Change in EBITDA-to-Debt	-2.72	Liquidity, Risk & Size
60-Month Active Return with 1-Month Lag	-2.70	Price Momentum
18-Month Active Return with 1-Month Lag	-2.70	Price Momentum

Source: IHS Markit © 2017 IHS Markit

Table 10

Japan Standard Cap top decile return spread factor performance, Apr 2017

Factor	Decile spread (%)	Factor group
Cash-to-Sales	3.26	Management Quality
Active Utilization	2.86	Short Sentiment
Industry-relative TTM Sales to Enterprise Value	2.83	Relative Value
Industry Relative TTM Cash Flow-to-Price	2.69	Relative Value
Net Income per Employee	2.64	Management Quality
Assets Turnover Ratio	2.63	Management Quality
Basic Defensive Interval	2.55	Liquidity, Risk & Size
Sustainable Growth Rate	2.52	Historical Growth
Retained Earnings-to-Total Assets	2.52	Management Quality
TTM Capital Expenditures-to-Sales	2.49	Management Quality
Industry Relative TTM EPS-to-Price	2.46	Relative Value
1-yr Growth in TTM Earnings per Share	2.40	Historical Growth
Utilization	2.37	Short Sentiment
Interest Coverage	2.30	Liquidity, Risk & Size
TTM EBITDA-to-Enterprise Value	2.29	Deep Value

Source: IHS Markit © 2017 IHS Markit

Figure 6

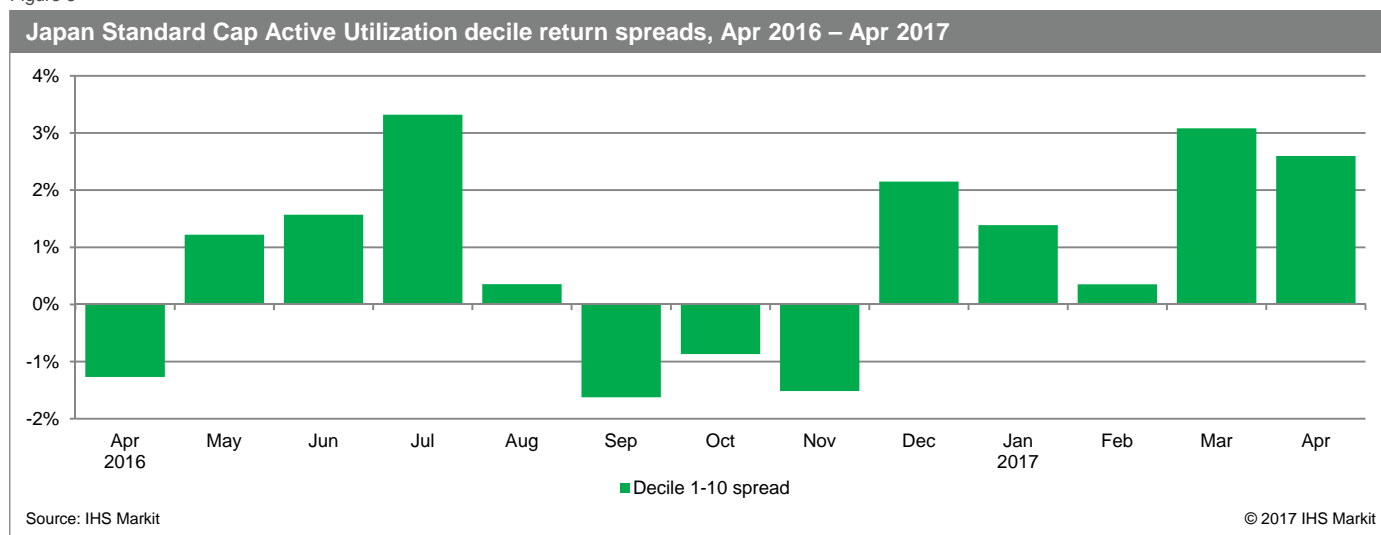


Table 11

Factor	Decile spread (%)	Factor group
Operating Profit Margin	-2.12	Management Quality
Latin America Sales Exposure	-2.08	Macro
50-200 Day Stock Price Ratio	-2.04	Price Momentum
Total Debt to Total Assets	-1.97	Liquidity, Risk & Size
Long-term Debt-to-Cash Flow	-1.95	Liquidity, Risk & Size
6-Month Nominal Change in 36-Month Alpha	-1.90	Price Momentum
Cash Earnings Return On Equity	-1.90	Management Quality
15/36 Week Stock Price Ratio	-1.87	Price Momentum
Cash-to-Price	-1.79	Deep Value
TTM Gross Profit Margin	-1.78	Management Quality

Source: IHS Markit © 2017 IHS Markit

Emerging Markets

Lastly, we review top (Table 12) and bottom (Table 13) performing factors in the Emerging Markets universe in April. Price Momentum added another leg to its March bounce back, led by 52-Week High (3,18%) on a high conviction trade (Figure 7). Cash Earnings Return on Equity also made a second monthly appearance as the top rewarded indicator. This factor has been a profitable trade over the past year with a 15% cumulative spread (Figure 8). On the other hand, after turning sharply south in March, investors’ outlook on firms positively ranked according to North America Sales Exposure (-2.50%) remained negative last month.

Table 12

Emerging Markets top quintile return spread factor performance, Apr 2017

Factor	Decile spread (%)	Factor group
Cash Earnings Return On Equity	3.67	Management Quality
52-Week High	3.18	Price Momentum
Dividend Coverage Ratio	2.92	Liquidity, Risk & Size
Slope of 52 Week Price Trend Line	2.92	Price Momentum
Rational Decay Alpha	2.70	Price Momentum
Net Fixed Assets to Long-term Debt	2.35	Liquidity, Risk & Size
Fama-French Momentum	2.34	Price Momentum
Reinvestment Rate	2.32	Historical Growth
Sustainable Growth Rate	2.30	Historical Growth
Slope of 66 Week Price Trend Line	2.29	Price Momentum
1-Year Price Momentum Indicator	2.28	Price Momentum
Cash-to-Sales	2.27	Management Quality
Book Leverage	2.26	Liquidity, Risk & Size
12-Month Active Return with 1-month Lag	2.23	Price Momentum
Second Preceding 6-month Return	2.21	Price Momentum

Source: IHS Markit

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Table 13

Emerging Markets bottom quintile return spread factor performance, Mar 2017

Factor	Decile spread (%)	Factor group
Price Above Last 260-day Lowest Trading Price	-2.99	Price Momentum
36-Month Active Return with 1-Month Lag	-2.72	Price Momentum
North America Sales Exposure	-2.50	Macro
1-Month Active Return	-2.43	Price Momentum
CV of Prior 90-Day Closing Prices	-2.27	Price Momentum
3-Month Active Return	-2.17	Price Momentum
14 Day Relative Strength Index	-2.14	Price Momentum
6-Month Nominal Change in 36-Month Alpha	-2.12	Price Momentum
Credit Risk Premium Sensitivity	-2.12	Macro
2-Month Active Return	-2.10	Price Momentum

Source: IHS Markit

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Figure 7

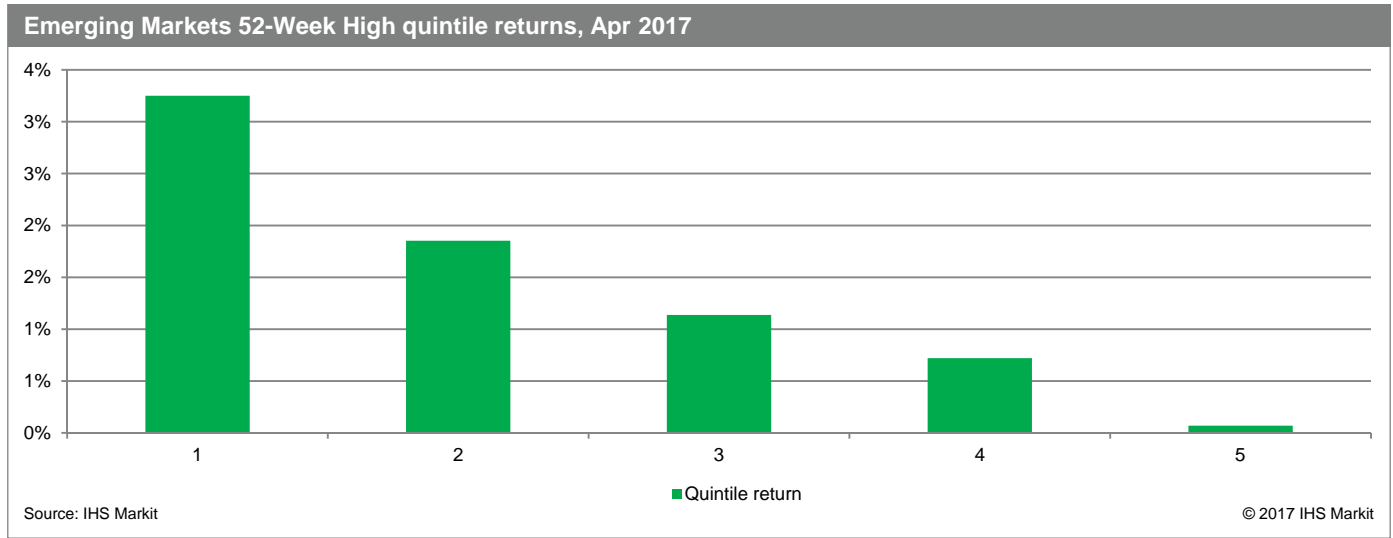
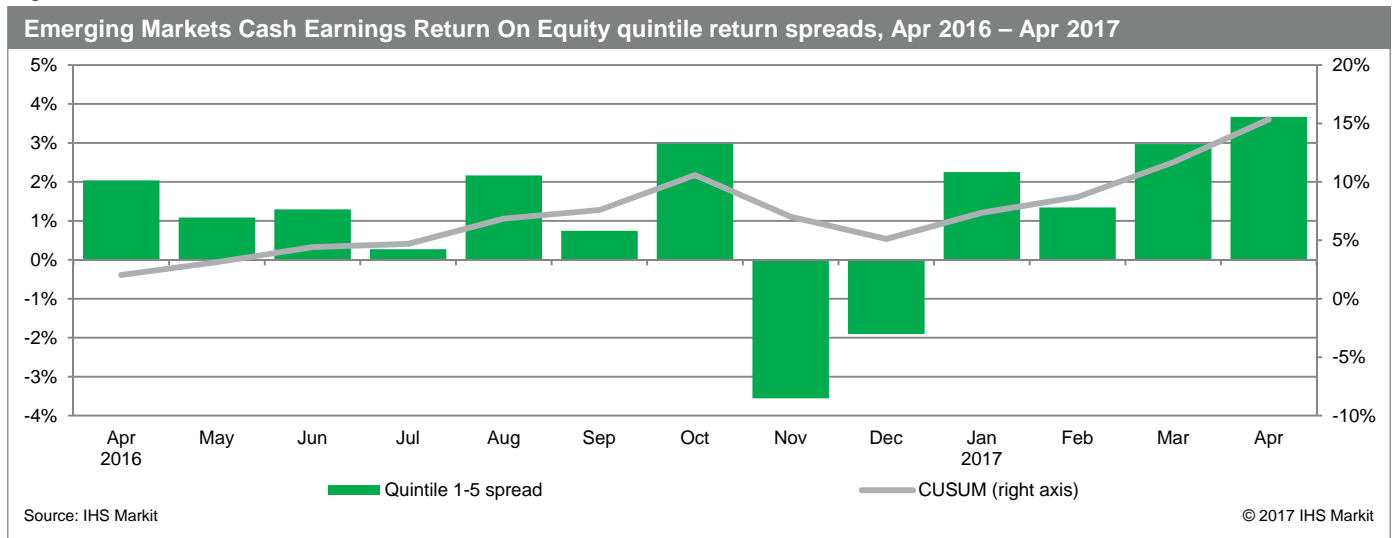


Figure 8



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