

January melt-up

January 2019

Research Signals

Contrary to the bitter cold temperatures that gripped a large swath of the US in January as the polar vortex sent frigid Arctic air southward, warming thoughts of patience from the Federal Reserve and other central banks and improving US-China trade developments sent stocks soaring in the first trading month of the year. In turn, high risk stocks heated up, resulting in negative performance from 60-Month Beta and 24-Month Value at Risk across all our coverage universes, reversing December's trends (Table 1). Investors must now wait and see if January's thawing of the December stock market chill will continue, while the global manufacturing sector slowed closer to stagnation, according to the January J.P.Morgan Global Manufacturing PMI which fell to its lowest reading since August 2016.

- US: High risk names outperformed, dragging down performance of 60-Month Beta and 24-Month Value at Risk, which both recorded significant double-digit negative spreads across large and small caps alike
- Developed Europe: 60-Month Beta was the weakest performing factor across our entire factor library, as investors took on more risk while also taking advantage of the market's attractive valuations, lifting performance of factors such as TTM EBITDA-to-Enterprise Value
- Developed Pacific: Valuation signals outperformed in Japan, as captured by factors such as Forward 12-M EPS-to-Enterprise Value and Industry Relative TTM Dividend Yield, at the expense of Price Momentum measures including Industry-adjusted 12-month Relative Price Strength
- Emerging markets: Following suit with our other coverage universes, short-term price reversal measures dominated factor performance, as demonstrated by 5-day Industry Relative Return

Contacts

Research Signals · research-signals@markit.com

Table 1

Global factor quantile return spread performance snapshot, Jan 2019

Factor	Factor Group	US Large Cap	US Small Cap	Developed Europe	Developed Pacific ex Japan	Japan Standard Cap	Emerging Markets
Book-to-Market		3.98	1.44	-0.86	3.85	1.38	2.54
Forward 12-M EPS-to-Enterprise Value	Deep Value	-1.57	-0.60	2.75	2.78	5.03	1.88
TTM EBITDA-to-Enterprise Value		-2.53	-2.42	3.92	5.64	2.33	4.96
TTM Free Cash Flow-to-Enterprise Value		-2.10	-5.22	0.86	-0.05	1.29	2.52
Industry Relative Leading 4-QTRs EPS to Price	Relative Value	4.74	3.36	1.27	2.99	6.66	3.58
Industry Relative TTM Dividend Yield		-1.56	2.20	0.75	2.43	5.53	4.64
Fixed Assets Turnover Ratio		0.05	1.23	-0.32	-2.09	2.22	-0.35
Inventory Turnover Ratio	Management Quality	2.50	1.89	-0.94	0.34	-2.27	1.56
Net Operating Asset Turnover		-2.53	-3.70	2.22	1.01	0.04	1.26
Change in Accruals to Assets		-0.33	0.63	0.50	-3.91	-1.24	1.11
Change in TTM COGS vs. Inventory Level	Earnings Quality	-3.83	-2.87	-1.23	4.01	-2.84	-0.79
Change in TTM Sales vs. Accounts Receivable		3.03	-1.00	1.18	0.57	1.11	-0.32
Working Capital Accruals		-1.49	2.38	0.10	-0.72	1.07	-1.15
1-yr Growth in TTM Free Cash Flow	Historical Growth	-1.37	-1.09	2.51	2.73	-0.39	0.12
Reinvestment Rate		-4.93	-3.64	1.24	2.22	2.52	-0.92
Average Monthly Trading Volume-to-Market Cap		7.30	13.56	0.63	3.19	5.29	4.60
60-Month Beta	Liquidity, Risk & Size	-11.25	-11.68	-8.32	-7.78	-8.09	-2.89
Asset Quality Index		1.68	-2.65	0.06	1.21	0.91	-0.34
Operating Leverage		0.78	-1.04	1.84	-0.26	0.47	0.79
Natural Logarithm of Market Capitalization		8.49	6.75	0.08	-0.13	-1.22	3.22
2-Year Ahead EPS Growth		2.30	-0.27	0.45	3.08	2.40	1.25
3-M Revision in FY2 EPS Forecasts	Earnings Momentum	-4.76	-4.59	-0.95	-3.52	-3.20	-1.03
Real Earnings Surprise		-1.09	-1.75	2.79	1.02	-0.05	2.54
24-Month Value at Risk		-11.86	-16.48	-5.02	-1.96	-5.60	-1.52
5-day Industry Relative Return	Price Momentum	-2.41	4.31	2.14	3.03	2.07	3.20
Industry-adjusted 12-month Relative Price Strength		-5.77	-5.87	1.40	1.94	-3.89	1.77
Rational Decay Alpha		-1.96	-3.56	2.86	3.00	1.99	2.85
Demand Supply Ratio	Short Sentiment	-5.59	-4.31	-2.03	0.53	-3.10	-0.81
Implied Loan Rate		-2.55	-2.40	3.53	4.24	-1.58	-0.94

Source: IHS Markit

© 2019 IHS Markit

United States

US Large Cap

US manufacturers started the year with renewed strength, as the January manufacturing PMI registered at 54.9, up from a 15-month low of 53.8 in December. The US remained one of the stronger performing nations, going against the grain of the slowing trend seen at the global level. Domestic demand drove new business growth, as new export orders rose only marginally. Business confidence also picked up among manufacturers, coincident with equity investors who pushed stocks to their best January in 30 years on a dovish Federal Reserve and strong corporate earnings.

Stocks which were the most downtrodden rebounded the most in January, as demonstrated by the top factor performers in the US Large Cap universe (Table 2). Short-term price reversal metrics topped list, led by 3-Month Active Return (12.78%) which posted its largest spread since October 2011 on systematic trades across deciles (Figure 1). Long-term relative value was also a winning theme as captured by measures such as 5-yr Relative TTM Sales-to-Price (9.01%). Investors also moved out on the risk curve as factors such as Product of Beta and Sigma (-13.22%) and 60-Day Residual Risk (-12.11%) were among the weakest performing factors for the month (Table 3).

Table 2

US Large Cap top decile return spread factor performance, Jan 2019

Factor	Decile spread (%)	Factor group
3-Month Active Return	12.78	Price Momentum
1-Month Active Return	11.27	Price Momentum
4-week Industry Relative Return	10.92	Price Momentum
2-Month Active Return	10.28	Price Momentum
Implied Volatility	9.30	Liquidity, Risk & Size
5-yr Relative TTM Sales-to-Price	9.01	Relative Value
Natural Logarithm of Market Capitalization	8.49	Liquidity, Risk & Size
Natural Logarithm of Market Capitalization (USD)	8.49	Liquidity, Risk & Size
5-yr Relative TTM EBITDA-to-Price	8.31	Relative Value
5-yr Relative TTM Dividend Yield	7.68	Relative Value
Industry Relative TTM Sales-to-Price	7.65	Relative Value
5-yr Relative Book-to-Market	7.47	Relative Value
Average Monthly Trading Volume-to-Market Cap	7.30	Liquidity, Risk & Size
14 Day Relative Strength Index	7.00	Price Momentum
Natural Logarithm of Closing Price (USD)	6.79	Liquidity, Risk & Size

Source: IHS Markit

© 2019 IHS Markit

Figure 1

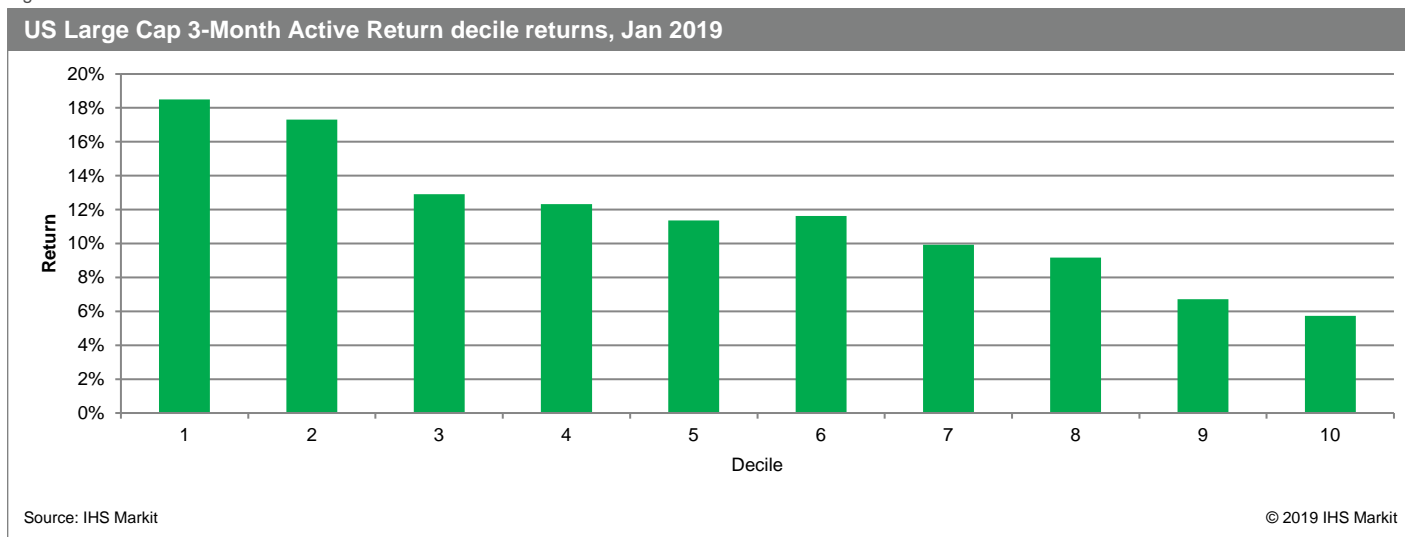


Table 3

US Large Cap bottom decile return spread factor performance, Jan 2019

Factor	Decile spread (%)	Factor group
52-Week High	-14.03	Price Momentum
Product of Beta and Sigma	-13.22	Liquidity, Risk & Size
CV of Prior 90-Day Closing Prices	-12.21	Price Momentum
60-Day Residual Risk	-12.11	Liquidity, Risk & Size
1-Month Stock Return Interquartile Range	-11.96	Liquidity, Risk & Size
At the Money Call Option Implied Volatility	-11.93	Liquidity, Risk & Size
24-Month Value at Risk	-11.86	Price Momentum
20-Day Volume Volatility to Price Volatility	-11.81	Liquidity, Risk & Size
26-Week Relative Price Strength	-11.60	Price Momentum
24-Month Residual Return Variance	-11.53	Price Momentum

Source: IHS Markit

© 2019 IHS Markit

US Small Cap

Identical factors as with large caps topped the leader (Table 4) and laggard (Table 5) boards of small caps in January. In this case, 3-Month Active Return's top performance (16.86%) was the highest since the rebound off the financial crisis period. Long-term price reversal metrics were also key performers, as gauged by 60-Month Active Return with 1-Month Lag (11.53%). At the opposite extreme, the weakest performing factor, 52-Week High (-16.69%), saw an amazing 32.3 percentage point swing in month-on-month spread (Figure 2).

Table 4

US Small Cap top decile return spread factor performance, Jan 2019		
Factor	Decile spread (%)	Factor group
3-Month Active Return	16.86	Price Momentum
5-yr Relative TTM Sales-to-Price	15.06	Relative Value
4-week Industry Relative Return	14.79	Price Momentum
1-Month Active Return	14.39	Price Momentum
Average Monthly Trading Volume-to-Market Cap	13.56	Liquidity, Risk & Size
Current Liabilities-to-Price	13.24	Liquidity, Risk & Size
2-Month Active Return	12.45	Price Momentum
14 Day Relative Strength Index	12.42	Price Momentum
Industry Relative TTM Sales-to-Price	12.09	Relative Value
60-Month Active Return with 1-Month Lag	11.53	Price Momentum
60-Month Alpha	11.47	Price Momentum
Sortino Ratio	10.71	Price Momentum
Altman Z Score	10.66	Liquidity, Risk & Size
Natural Logarithm of Closing Price (USD)	10.56	Liquidity, Risk & Size
36-Month Sharpe Ratio	10.48	Price Momentum

Source: IHS Markit

© 2019 IHS Markit

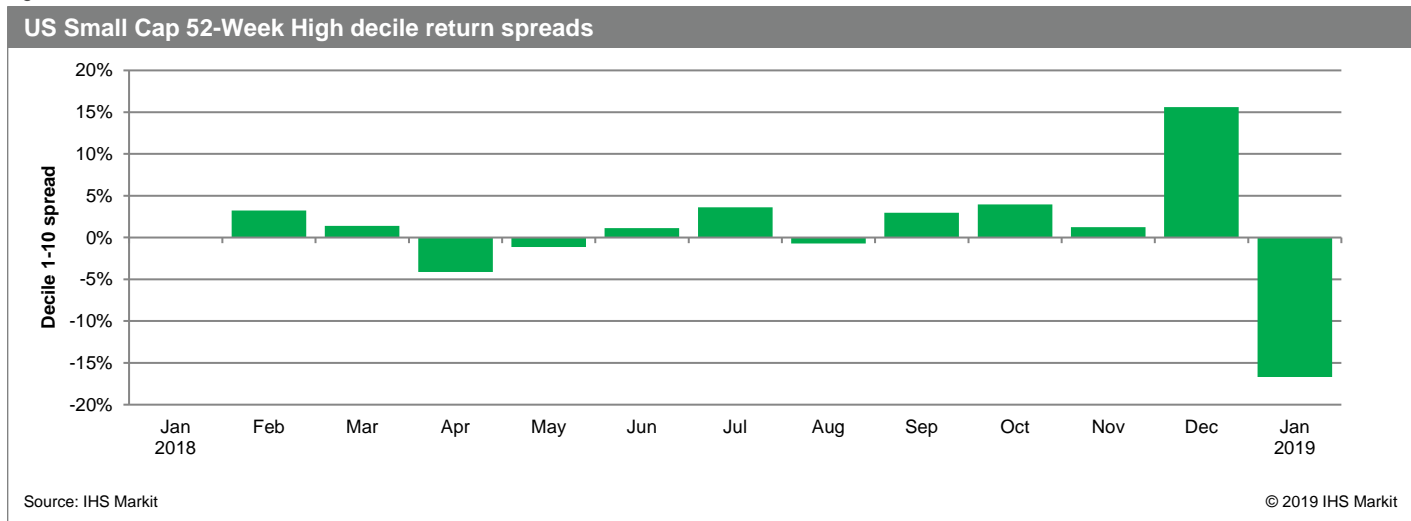
Table 5

US Small Cap bottom decile return spread factor performance, Jan 2019		
Factor	Decile spread (%)	Factor group
52-Week High	-16.69	Price Momentum
24-Month Value at Risk	-16.48	Price Momentum
20-Day Volume Volatility to Price Volatility	-16.01	Liquidity, Risk & Size
26-Week Relative Price Strength	-15.50	Price Momentum
4-52 Week Price Oscillator	-14.15	Price Momentum
Product of Beta and Sigma	-13.85	Liquidity, Risk & Size
50-200 Day Stock Price Ratio	-13.47	Price Momentum
CV of Prior 90-Day Closing Prices	-13.39	Price Momentum
Average Trading Volume in Preceding 6-month	-13.05	Price Momentum
15/36 Week Stock Price Ratio	-12.30	Price Momentum

Source: IHS Markit

© 2019 IHS Markit

Figure 2



Source: IHS Markit

© 2019 IHS Markit

Europe

The eurozone manufacturing sector moved closer to stagnation as the slowdown in growth seen throughout much of 2018 extended into 2019. The PMI posted at 50.5 in January, down from 51.4 in December and the lowest reading in over four years. Once again, the ‘big four’ economies – Germany, Spain, France and Italy – posted the lowest readings, most notably with Germany entering contraction. Continued worries over global trade and ongoing political uncertainties weighed on manufacturers’ confidence, however, stock investors were more optimistic as European equities followed other global markets higher in January.

Short-term price reversal was also the dominant strategy in European markets in January (Table 6), led once again by 3-Month Active Return (9.63%). Investors were also more attuned to the market’s attractive valuations, as measures such as Time Weighted EBITDA/EV (5.07%) were highly rewarded. Conversely, low beta (-8.32%) was the worst performing strategy for the month (Table 7), unwinding 60-Month Beta’s three-month string of positive performance (Figure 3), a sign of increased risk taking by investors.

Table 6

Developed Europe top decile return spread factor performance, Jan 2019

Factor	Decile spread (%)	Factor group
3-Month Active Return	9.63	Price Momentum
2-Month Active Return	8.75	Price Momentum
4-week Industry Relative Return	8.67	Price Momentum
1-Month Active Return	7.85	Price Momentum
14 Day Relative Strength Index	6.23	Price Momentum
Time Weighted EBITDA/ EV	5.07	Deep Value
Leading 12 Month EBITDA/ EV	4.99	Deep Value
Operating Cash Flow to Assets	4.74	Management Quality
5-yr Relative Leading 12-Month Earnings Yield	4.53	Relative Value
Assets Turnover Ratio	4.29	Management Quality
TTM EBITDA-to-Enterprise Value	3.92	Deep Value
Oil Prices Sensitivity	3.91	Macro
Averaged Last 6-M EPS Revisions for FY1	3.90	Earnings Momentum
Basic Defensive Interval	3.67	Liquidity, Risk & Size
30-75 Week Stock Price Ratio	3.66	Price Momentum

Source: IHS Markit

© 2019 IHS Markit

Table 7

Developed Europe bottom decile return spread factor performance, Jan 2019

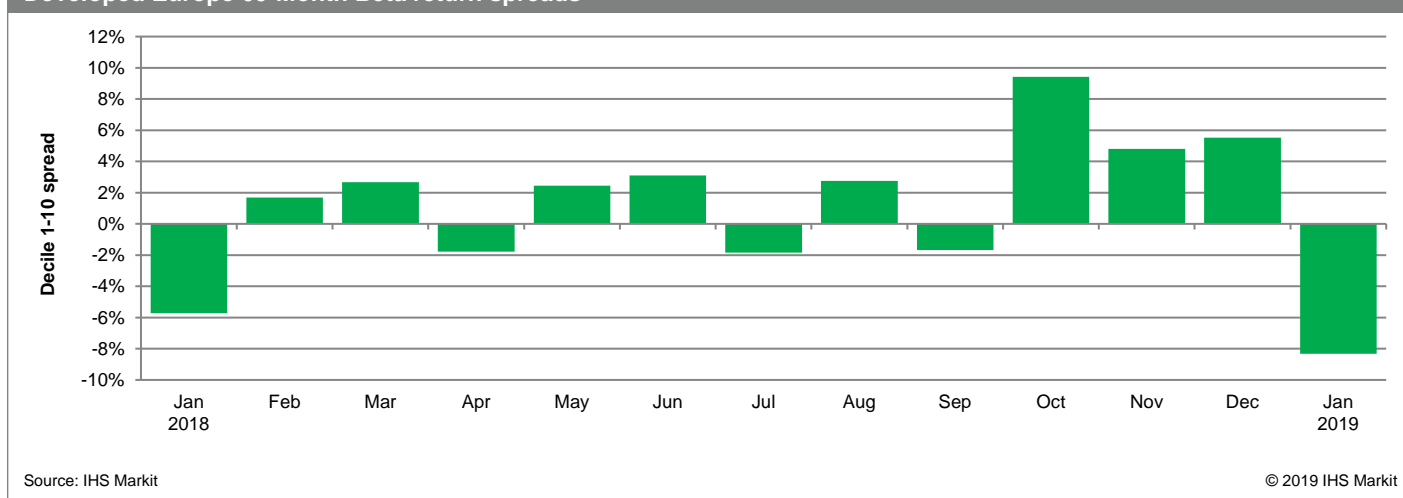
Factor	Decile spread (%)	Factor group
60-Month Beta	-8.32	Liquidity, Risk & Size
20-Day Volume Volatility to Price Volatility	-8.05	Liquidity, Risk & Size
CV of Prior 90-Day Closing Prices	-7.83	Price Momentum
Product of Beta and Sigma	-7.80	Liquidity, Risk & Size
52-Week High	-7.68	Price Momentum
1-Month Stock Return Interquartile Range	-7.33	Liquidity, Risk & Size
26-Week Relative Price Strength	-7.15	Price Momentum
6-Month Nominal Change in 12-Month Alpha	-5.73	Price Momentum
Trading Turnover Ratio	-5.72	Liquidity, Risk & Size
1-Month Realized Stock Return Volatility	-5.70	Liquidity, Risk & Size

Source: IHS Markit

© 2019 IHS Markit

Figure 3

Developed Europe 60-Month Beta return spreads



Source: IHS Markit

© 2019 IHS Markit

Asia-Pacific

Manufacturing sector growth was subdued in the two largest Asian economies of Japan and China. In Japan, the PMI fell to its lowest reading since August 2016 at 50.3, down from 52.6 in December, with new export orders declining at the sharpest rate in two-and-a-half years. PMI data in China also fell, remaining below the neutral 50.0 level at 48.3 in January, down from 49.7 in December, though confidence and export orders have rebounded. A more positive outlook on the global trade cycle helped push equities higher globally and Asia-Pacific stocks followed suit.

Style performance in developed Pacific markets closely followed our other coverage universes in January. Outside of Japan, 4-week Industry Relative Return (8.92%) was the top performing factor (Table 8), though similar strong performance was also witnessed in November (Figure 4). However, the most prevalent style on the list of outperformers was Deep Value, led by TTM EPS after Extra Items-to-Price (7.36%). Signals which underperformed for the month (Table 9) include measures of low risk including 60-Month Beta (-7.78%), alongside high momentum metrics such as 26-Week Relative Price Strength (-6.39%).

In Japan, valuation measures also occupied about half of the top spots on the factor performance leaderboard in January (Table 10), including indicators such as Industry Relative Leading 4-QTRs EPS to Price (6.66%). However, top spreads were associated with short-term price reversal metrics, led by 3-Month Active Return (9.84%). The distribution of returns across deciles for this factor (Figure 5) were a mirror image of 26-Week Relative Price Strength (-9.75%) which was one of the weakest performers for the month (Table 11), suggesting systematic trading across these technical measures.

Table 8

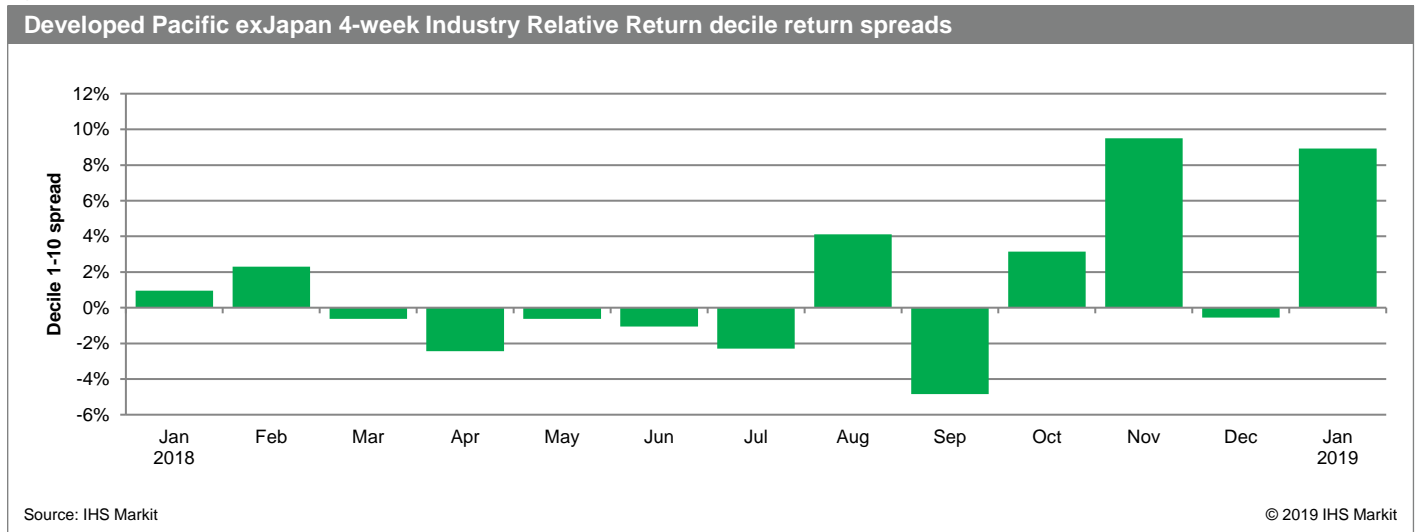
Developed Pacific exJapan top decile return spread factor performance, Jan 2019

Factor	Decile spread (%)	Factor group
4-week Industry Relative Return	8.92	Price Momentum
2-Month Active Return	8.79	Price Momentum
1-Month Active Return	8.75	Price Momentum
TTM EPS after Extra Items-to-Price	7.36	Deep Value
TTM EPS before Extra Items-to-Price	7.19	Deep Value
3-Month Active Return	7.09	Price Momentum
Latin America Sales Exposure	6.98	Macro
14 Day Relative Strength Index	6.96	Price Momentum
TTM Cash Flow-to-Price	6.77	Deep Value
TTM Core Earnings-to-Price	6.75	Deep Value
TTM Growth Flow-to-Price	6.38	Deep Value
Short Concentration Ratio	6.36	Short Sentiment
Price-to-Book Return-on-Equity Combination (PB-ROE)	6.36	Deep Value
Graham Number Fair Value Premium	5.87	Deep Value
On Loan Value Concentration	5.84	Short Sentiment

Source: IHS Markit

© 2019 IHS Markit

Figure 4



Source: IHS Markit

© 2019 IHS Markit

Table 9

Developed Pacific exJapan bottom decile return spread factor performance, Jan 2019		
Factor	Decile spread (%)	Factor group
52-Week High	-10.38	Price Momentum
60-Month Beta	-7.78	Liquidity, Risk & Size
26-Week Relative Price Strength	-6.39	Price Momentum
Std Dev of FY2 EPS Estimates-to-Price	-6.28	Earnings Momentum
20-Day Volume Volatility to Price Volatility	-6.04	Liquidity, Risk & Size
15/36 Week Stock Price Ratio	-5.97	Price Momentum
50-200 Day Stock Price Ratio	-5.45	Price Momentum
6-Month Active Return with 1-Month Lag	-5.34	Price Momentum
CV of Prior 90-Day Closing Prices	-5.16	Price Momentum
TTM Capital Expenditures-to-Price	-4.58	Deep Value

Source: IHS Markit

© 2019 IHS Markit

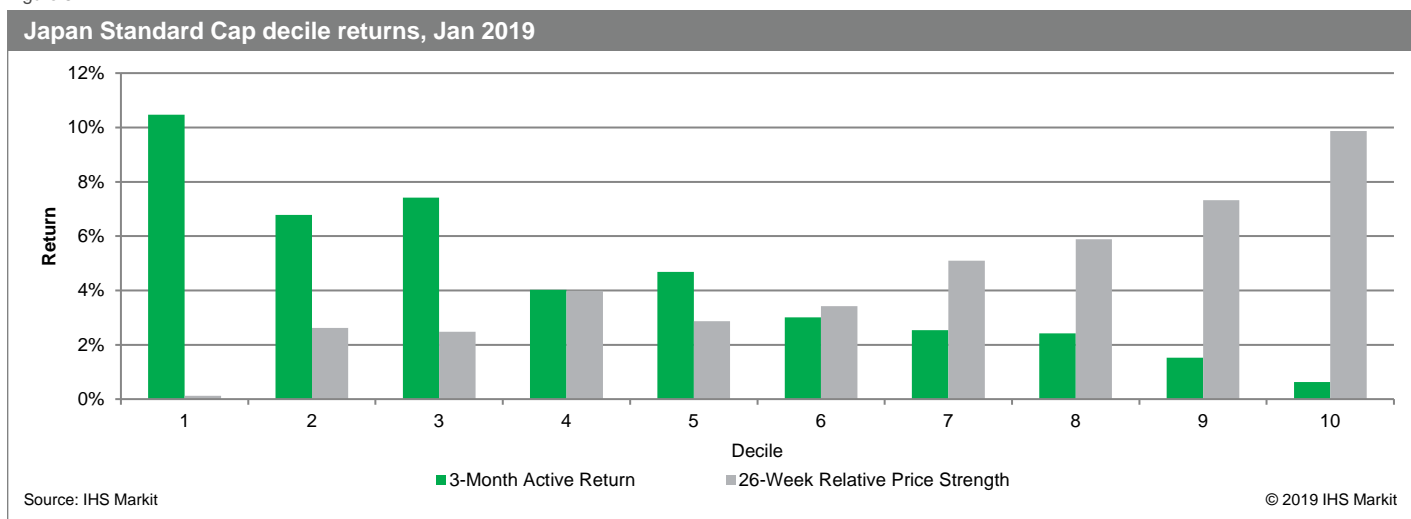
Table 10

Japan Standard Cap top decile return spread factor performance, Jan 2019		
Factor	Decile spread (%)	Factor group
3-Month Active Return	9.84	Price Momentum
2-Month Active Return	8.03	Price Momentum
1-Month Active Return	7.17	Price Momentum
4-week Industry Relative Return	7.04	Price Momentum
Industry Relative Leading 4-QTRs EPS to Price	6.66	Relative Value
Industry-adjusted Doubtful Account Receivables	5.81	Earnings Quality
Time Weighted Earnings Yield	5.68	Deep Value
TTM Growth Flow-to-Price	5.67	Deep Value
Number of Analyst Coverage	5.65	Liquidity, Risk & Size
Industry Relative TTM Dividend Yield	5.53	Relative Value
Lending Supply	5.51	Short Sentiment
Average Monthly Trading Volume-to-Market Cap	5.29	Liquidity, Risk & Size
Industry Relative TTM EPS-to-Price	5.24	Relative Value
5-yr Relative TTM Sales-to-Price	5.14	Relative Value
Normalized Earnings Yield	5.12	Deep Value

Source: IHS Markit

© 2019 IHS Markit

Figure 5



Source: IHS Markit

© 2019 IHS Markit

Table 11

Japan Standard Cap bottom decile return spread factor performance, Jan 2019

Factor	Decile spread (%)	Factor group
Trading Turnover Ratio	-10.24	Liquidity, Risk & Size
26-Week Relative Price Strength	-9.75	Price Momentum
Average Trading Volume in Preceding 6-month	-9.44	Price Momentum
9-Month Active Return with 1-Month Lag	-9.42	Price Momentum
52-Week High	-9.30	Price Momentum
39-Week Return with 4-week Lag	-9.10	Price Momentum
6-Month Active Return with 1-Month Lag	-8.74	Price Momentum
50-200 Day Stock Price Ratio	-8.70	Price Momentum
60-Month Beta	-8.09	Liquidity, Risk & Size
Std Dev of FY2 EPS Estimates-to-Price	-8.03	Earnings Momentum

Source: IHS Markit

© 2019 IHS Markit

Emerging Markets

We round out our report with a review of top (Table 12) and bottom (Table 13) performing factors in emerging markets in January. Both short- and long-term price reversal measures were top performing factors, represented by metrics such as 14 Day Relative Strength Index (8.04%) and 60-Month Active Return with 1-Month Lag (6.46%), respectively. Factors which trailed for the month span several styles, including Std Dev of FY2 EPS Estimates-to-Price (-4.83%), Dividends-to-Cash Flow (-4.66%), 24-Month Active Return with 1-Month Lag (-3.69%) and Asia-Pacific Sales Exposure (-3.61%), which has been a negative indicator for the majority of months over the past year (Figure 6).

Table 12

Emerging Markets top quintile return spread factor performance, Jan 2019

Factor	Decile spread (%)	Factor group
14 Day Relative Strength Index	8.04	Price Momentum
60-Month Active Return with 1-Month Lag	6.46	Price Momentum
60-Month Alpha	6.17	Price Momentum
Industry Relative TTM Cash Flow-to-Price	5.78	Relative Value
1-Month Active Return	5.75	Price Momentum
TTM Cash Flow-to-Price	5.55	Deep Value
Latin America Sales Exposure	5.55	Macro
3-Month Active Return	5.52	Price Momentum
Cash-to-Price	5.49	Deep Value
Natural Logarithm of Closing Price	5.43	Liquidity, Risk & Size
TTM Growth Flow-to-Price	5.13	Deep Value
Cash to Enterprise Value	5.12	Deep Value
TTM Operating Cash Flow-to-Price	5.02	Deep Value
TTM Dividend Yield	5.01	Deep Value
TTM EBITDA-to-Enterprise Value	4.96	Deep Value

Source: IHS Markit

© 2019 IHS Markit

Table 13

Emerging Markets bottom quintile return spread factor performance, Jan 2019

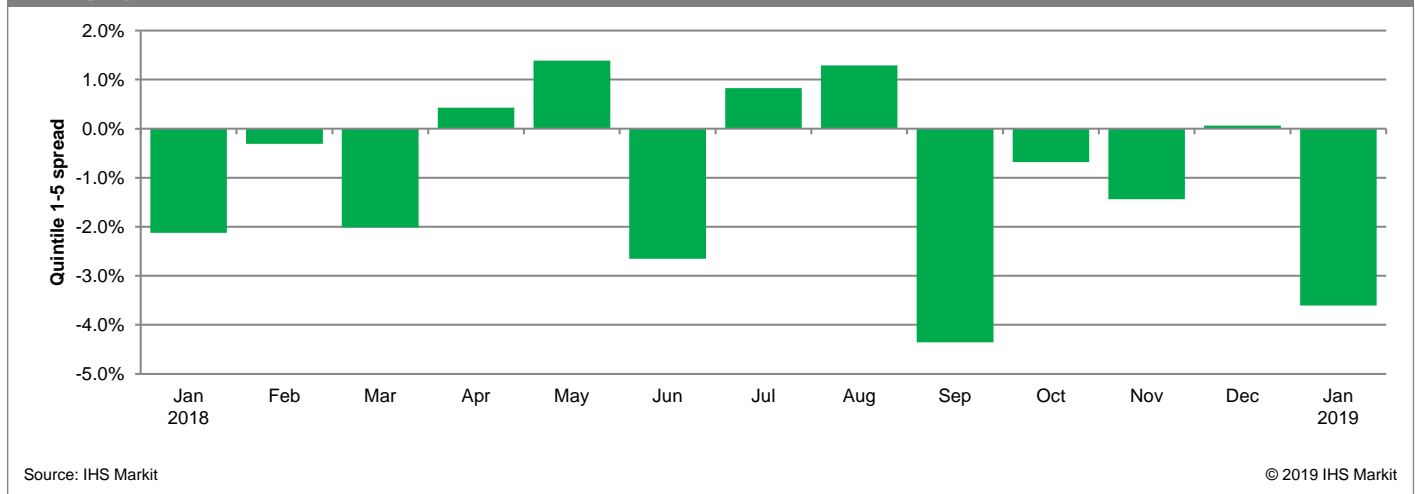
Factor	Decile spread (%)	Factor group
Std Dev of FY2 EPS Estimates-to-Price	-4.83	Earnings Momentum
Dividends- to-Cash Flow	-4.66	Management Quality
Market Cap per Analyst	-4.63	Liquidity, Risk & Size
TTM Capital Expenditures-to-Price	-4.01	Deep Value
SG&A Expenses-to-Sales	-3.93	Management Quality
Cash Earnings Return On Equity	-3.79	Management Quality
24-Month Active Return with 1-Month Lag	-3.69	Price Momentum
Distress Measure	-3.65	Liquidity, Risk & Size
52-Week High	-3.63	Price Momentum
Asia-Pacific Sales Exposure	-3.61	Macro

Source: IHS Markit

© 2019 IHS Markit

Figure 6

Emerging Markets Asia-Pacific Sales Exposure quintile return spreads



Source: IHS Markit

© 2019 IHS Markit

IHS Markit Customer Support:

Support@ihsmarkit.com

Americas: +1 877 762 7548

Europe, Middle East, and Africa: 00800 6275 4800

Asia and the Pacific Rim: +65 6922 4210

Disclaimer

The information contained in this presentation is confidential. Any unauthorized use, disclosure, reproduction, or dissemination, in full or in part, in any media or by any means, without the prior written permission of IHS Markit Ltd. or any of its affiliates ("IHS Markit") is strictly prohibited. IHS Markit owns all IHS Markit logos and trade names contained in this presentation that are subject to license. Opinions, statements, estimates, and projections in this presentation (including other media) are solely those of the individual author(s) at the time of writing and do not necessarily reflect the opinions of IHS Markit. Neither IHS Markit nor the author(s) has any obligation to update this presentation in the event that any content, opinion, statement, estimate, or projection (collectively, "information") changes or subsequently becomes inaccurate. IHS Markit makes no warranty, expressed or implied, as to the accuracy, completeness, or timeliness of any information in this presentation, and shall not in any way be liable to any recipient for any inaccuracies or omissions. Without limiting the foregoing, IHS Markit shall have no liability whatsoever to any recipient, whether in contract, in tort (including negligence), under warranty, under statute or otherwise, in respect of any loss or damage suffered by any recipient as a result of or in connection with any information provided, or any course of action determined, by it or any third party, whether or not based on any information provided. The inclusion of a link to an external website by IHS Markit should not be understood to be an endorsement of that website or the site's owners (or their products/services). IHS Markit is not responsible for either the content or output of external websites. Copyright © 2019, IHS Markit™. All rights reserved and all intellectual property rights are retained by IHS Markit.

