

Risk trade tariffs

November 2018

Research Signals

The risk-off trade, which prevailed in October, carried over to November, as markets reacted to trade and tariff headlines over the course of a month that culminated with the G-20 summit in Buenos Aires. In turn, low beta was again a successful signal in several of our developed market coverage universes (Table 1). While crude oil prices slumped and Brexit uncertainty loomed, US-China relations and their impact on global growth remain forefront, as international trade flows were the main drag on the new orders component of the J.P.Morgan Global Manufacturing PMI which remained unchanged last month.

- US: 60-Month Beta posted a second month of strong performance, complemented by Demand Supply Ratio and Implied Loan Rate, gauges of short sentiment
- Developed Europe: Measures based on analyst outlook were negative signals for the month, as captured by the downturn in 3-M Revision in FY2 EPS Forecasts, reversing its trend of positive performance in two-thirds of months since the start of 2017
- Developed Pacific: Investors favored recently underperforming shares, as gauged by short-term reversal metrics such as 5-day Industry Relative Return
- Emerging markets: Valuation was a highly rewarded style, represented by factors such as Forward 12-M EPS-to-Enterprise Value

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Table 1

Global factor quantile return spread performance snapshot, Nov 2018

Factor	Factor Group	US Large Cap	US Small Cap	Developed Europe	Developed Pacific ex Japan	Japan Standard Cap	Emerging Markets
Book-to-Market		-2.96	-2.36	0.43	1.41	-5.01	0.87
Forward 12-M EPS-to-Enterprise Value	Deep Value	0.30	-1.05	-1.54	-1.60	-2.92	1.93
TTM EBITDA-to-Enterprise Value		-0.70	-0.57	-1.21	3.06	-1.43	1.67
TTM Free Cash Flow-to-Enterprise Value		2.23	-0.44	-0.67	-1.09	0.14	0.38
Industry Relative Leading 4-QTRs EPS to Price	Relative Value	-0.65	0.51	0.49	0.09	-4.30	2.17
Industry Relative TTM Dividend Yield		2.03	0.01	-0.16	1.16	-3.24	1.02
Fixed Assets Turnover Ratio		0.72	-2.63	-0.90	0.88	-0.39	2.31
Inventory Turnover Ratio	Management Quality	-1.50	-3.01	0.63	-1.58	1.72	-2.17
Net Operating Asset Turnover		0.34	-1.33	-1.40	2.83	0.14	2.23
Change in Accruals to Assets		-0.59	0.55	1.54	-3.78	-0.29	0.50
Change in TTM COGS vs. Inventory Level	Earnings Quality	1.04	1.40	1.41	-0.07	-1.14	0.23
Change in TTM Sales vs. Accounts Receivable		-2.02	-0.66	-0.32	0.01	2.60	-0.05
Working Capital Accruals		-0.59	0.42	-0.36	-1.01	1.45	-2.20
1-yr Growth in TTM Free Cash Flow	Historical Growth	2.14	1.00	-1.10	-1.60	0.06	0.11
Reinvestment Rate		0.81	-0.28	0.64	1.75	0.61	-0.28
Average Monthly Trading Volume-to-Market Cap	Liquidity, Risk & Size	-3.64	-6.37	-1.00	-5.69	-0.95	2.61
60-Month Beta		3.65	-0.51	4.80	-1.32	4.51	-2.36
Asset Quality Index		-2.04	-2.28	2.33	-0.30	-2.34	0.17
Operating Leverage		0.85	1.18	-0.47	3.05	-1.82	-1.57
Natural Logarithm of Market Capitalization		-2.74	-3.02	-0.62	-7.52	1.22	1.81
2-Year Ahead EPS Growth	Earnings Momentum	-4.89	-4.37	-1.80	3.85	-1.71	0.76
3-M Revision in FY2 EPS Forecasts		-2.94	-1.07	-1.33	-3.80	-6.39	-3.12
Real Earnings Surprise		-0.20	-0.40	-2.04	-2.31	-0.62	0.94
24-Month Value at Risk		3.12	3.79	2.90	-6.53	-3.68	-4.65
5-day Industry Relative Return	Price Momentum	1.37	1.01	2.40	7.59	2.46	2.07
Industry-adjusted 12-month Relative Price Strength		-2.37	0.63	-1.42	0.23	-0.85	-0.02
Rational Decay Alpha		-4.43	-2.11	-2.71	0.35	-1.87	-0.10
Demand Supply Ratio	Short Sentiment	3.60	-0.03	-2.48	-4.29	-3.54	-9.97
Implied Loan Rate		3.24	1.08	-0.82	-2.42	-2.01	-6.37

Source: IHS Markit

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United States

US Large Cap

Despite dipping to a three-month low, US manufacturers saw solid improvement in business conditions. The November manufacturing PMI registered at 55.3, down slightly from 55.7 in October, though new orders rose at the fastest rate for six months. Cost burdens rose markedly on a combination of tariffs and supplier shortages. Stocks were up and down over the course of the month which commenced with midterm elections and ended with dovish Fed comments and positive comments on a possible trade deal, pushing stocks to their best week in nearly seven years and recovering some of October's losses.

Volatility-based measures continued to dominate the factor performance leaderboard in the US Large Cap universe in November (Table 2). Top measures span a broad swath of styles represented by Std Dev of FY2 EPS Estimates-to-Price (6.79%), 24-Month Residual Return Variance (6.31%), Stability of 3-yr TTM Cash Flow (6.15%) and Regression Error of 60-Month CAPM (6.13%). Oil Prices Sensitivity (-7.97%) was again among the weakest performing factors for the month (Table 3), this time topping the list, as the cumulative spread for the year reached -18% (Figure 1) during a time when crude prices were volatile, though on a general uptrend, before capping their biggest monthly slump in a decade.

Table 2

US Large Cap top decile return spread factor performance, Nov 2018

Factor	Decile spread (%)	Factor group
Std Dev of FY2 EPS Estimates-to-Price	6.79	Earnings Momentum
24-Month Residual Return Variance	6.31	Price Momentum
Stability of 3-yr TTM Cash Flow	6.15	Historical Growth
Regression Error of 60-Month CAPM	6.13	Liquidity, Risk & Size
Stock Return Volatility	5.78	Liquidity, Risk & Size
FY2 EPS Forecast Dispersion	5.73	Earnings Momentum
Stability of 5-yr TTM Earnings per Share	5.68	Historical Growth
FY1 EPS Estimates Dispersion	5.66	Earnings Momentum
60-Day Residual Risk	5.50	Liquidity, Risk & Size
Cyclically and Inflation Adjusted Earnings-to-Price	5.33	Deep Value
Product of Beta and Sigma	5.30	Liquidity, Risk & Size
CV of Oper Income per Share in Last 12 QTRs	5.18	Historical Growth
Stability of 3-yr TTM Sales	5.01	Historical Growth
Std Dev of FY1 EPS Estimates-to-Price	4.97	Earnings Momentum
20-Day Average of Bid-Ask Spread-to-Price	4.94	Liquidity, Risk & Size

Source: IHS Markit

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Table 3

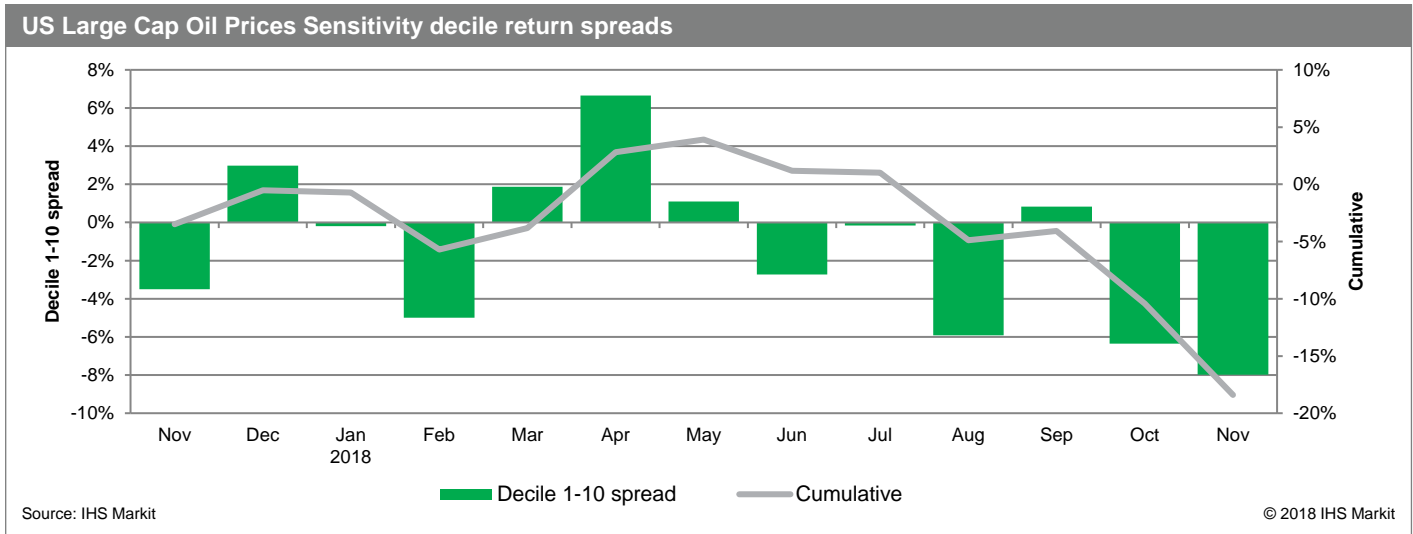
US Large Cap bottom decile return spread factor performance, Nov 2018

Factor	Decile spread (%)	Factor group
Oil Prices Sensitivity	-7.97	Macro
1 Year Change in Gross Profit to Assets	-6.54	Management Quality
60-Month Active Return with 12-Month Lag	-5.95	Price Momentum
1-yr Change in Asset Turnover Ratio	-5.94	Historical Growth
1-Year Ahead EPS Growth	-5.61	Earnings Momentum
Implied Equity Duration	-5.30	Liquidity, Risk & Size
2-Year Projected EPS Growth	-5.28	Earnings Momentum
Fama-French Momentum	-5.12	Price Momentum
Reciprocal of Dividend Yield-adjusted PEG	-5.11	Earnings Momentum
2-Year Ahead EPS Growth	-4.89	Earnings Momentum

Source: IHS Markit

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Figure 1



Source: IHS Markit

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US Small Cap

Top performing factors among small caps took on a different look from large caps in November (Table 4), though a safety theme was still evident. For example, outperforming factors include Stability of 3-yr TTM Cash Flow (5.29%) and Predicted Dividend Yield (4.72%), with the signal content concentrated in underperformance of names with the weakest fundamentals. However, some quality measures were among the weakest performers (Table 5), including Quarterly Change in Gross Profit to Assets (-6.66%), along with Oil Prices Sensitivity (-5.81%) as expected.

Table 4

US Small Cap top decile return spread factor performance, Nov 2018

Factor	Decile spread (%)	Factor group
Dividends- to-Cash Flow	6.82	Management Quality
Std Dev of FY2 EPS Estimates-to-Price	5.52	Earnings Momentum
Stability of 3-yr TTM Cash Flow	5.29	Historical Growth
TTM Pretax Income-to-Price	4.97	Deep Value
Stability of 3-yr TTM Oper Cash Flow	4.92	Historical Growth
TTM Growth Flow-to-Price	4.74	Deep Value
Predicted Dividend Yield	4.72	Deep Value
TTM Capital Expenditures-to-Price	4.71	Deep Value
3-Year Trough Operating Margin	4.70	Management Quality
Price Above Last 260-day Lowest Trading Price	4.54	Price Momentum
Market Cap per Analyst	4.48	Liquidity, Risk & Size
3-yr Chg in Price-adj TTM Oper Cash Flow	4.31	Historical Growth
Financial Leverage	4.23	Liquidity, Risk & Size
R-Sqr of 3-yr TTM Sales Trend Line	4.17	Historical Growth
Volatility-adj 3-yr Projected EPS Growth	4.11	Earnings Momentum

Source: IHS Markit

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Figure 2

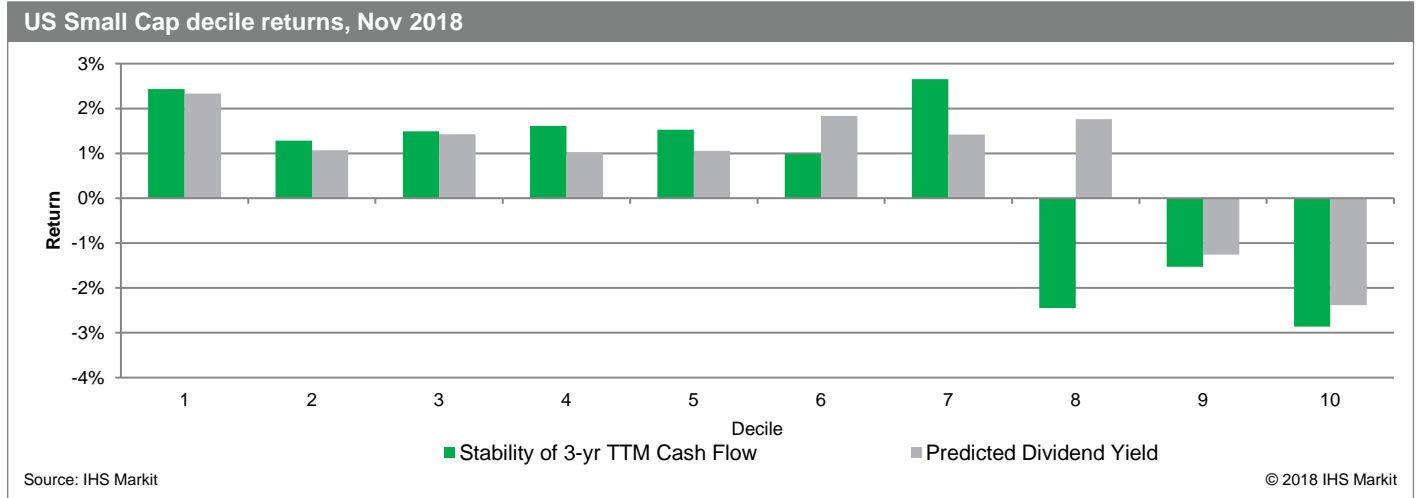


Table 5

US Small Cap bottom decile return spread factor performance, Nov 2018

Factor	Decile spread (%)	Factor group
60-Month Active Return with 12-Month Lag	-10.41	Price Momentum
Time Weighted Cash Yield	-7.10	Deep Value
1-yr Chg in Assets-adj TTM Oper Cash Flow	-6.83	Historical Growth
Quarterly Change in Gross Profit to Assets	-6.66	Management Quality
1 Year Change in Gross Profit to Assets	-6.48	Management Quality
Average Monthly Trading Volume-to-Market Cap	-6.37	Liquidity, Risk & Size
6-Month Nominal Change in 36-Month Alpha	-5.90	Price Momentum
Latin America Sales Exposure	-5.85	Macro
Oil Prices Sensitivity	-5.81	Macro
Net Current Assets-to-Price	-5.45	Deep Value

Source: IHS Markit

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Europe

Eurozone manufacturing growth continued to falter, with the PMI posting at 51.8 in November, the lowest reading since August 2016 and down from 52.0 in October, as business confidence remained near a six-year low. The Netherlands continued to register the highest expansion, though the pace of growth eased along with that for Italy, France and Germany. Manufacturers' outlook was weighed on by trade wars and tariffs along with political uncertainty, sentiments that also pushed European equities to a second month of negative returns.

The risk-off trade also remained dominant in European markets in November (Table 6). Stock Return Volatility (5.21%) is one such factor representing this trade, capturing an 11.7 percentage point spread over the past two months (Figure 3). At the opposite end of the spectrum, Price Momentum factors underperformed once again (Table 7), as represented by 30-75 Week Stock Price Ratio (-4.75%) and 24-Month Active Return with 1-Month Lag (-4.62%), marking their second consecutive month on the laggard board. Investors also demonstrated negative sentiment toward analyst outlook, as demonstrated by negative spreads associated with Averaged Last 6-M EPS Revisions for FY1 (-5.08%) and Time Weighted Sales Yield (-3.71%).

Table 6

Developed Europe top decile return spread factor performance, Nov 2018

Factor	Decile spread (%)	Factor group
20-Day Volume Volatility to Price Volatility	5.57	Liquidity, Risk & Size
1-Month Stock Return Interquartile Range	5.44	Liquidity, Risk & Size
FY2 EPS Forecast Dispersion	5.21	Earnings Momentum
Stock Return Volatility	5.21	Liquidity, Risk & Size
1-Month Realized Stock Return Volatility	4.97	Liquidity, Risk & Size
60-Month Beta	4.80	Liquidity, Risk & Size
Regression Error of 60-Month CAPM	4.57	Liquidity, Risk & Size
Product of Beta and Sigma	4.56	Liquidity, Risk & Size
24-Month Residual Return Variance	4.56	Price Momentum
Long-term Debt-to-Equity	4.48	Liquidity, Risk & Size
60-Month Trading Volume Trend	4.48	Liquidity, Risk & Size
TTM Gross Profit Margin	4.43	Management Quality
60-Day Residual Risk	4.41	Liquidity, Risk & Size
Inventory-to-Total Assets	4.28	Management Quality
5-yr Relative Book-to-Market	3.98	Relative Value

Source: IHS Markit

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Figure 3

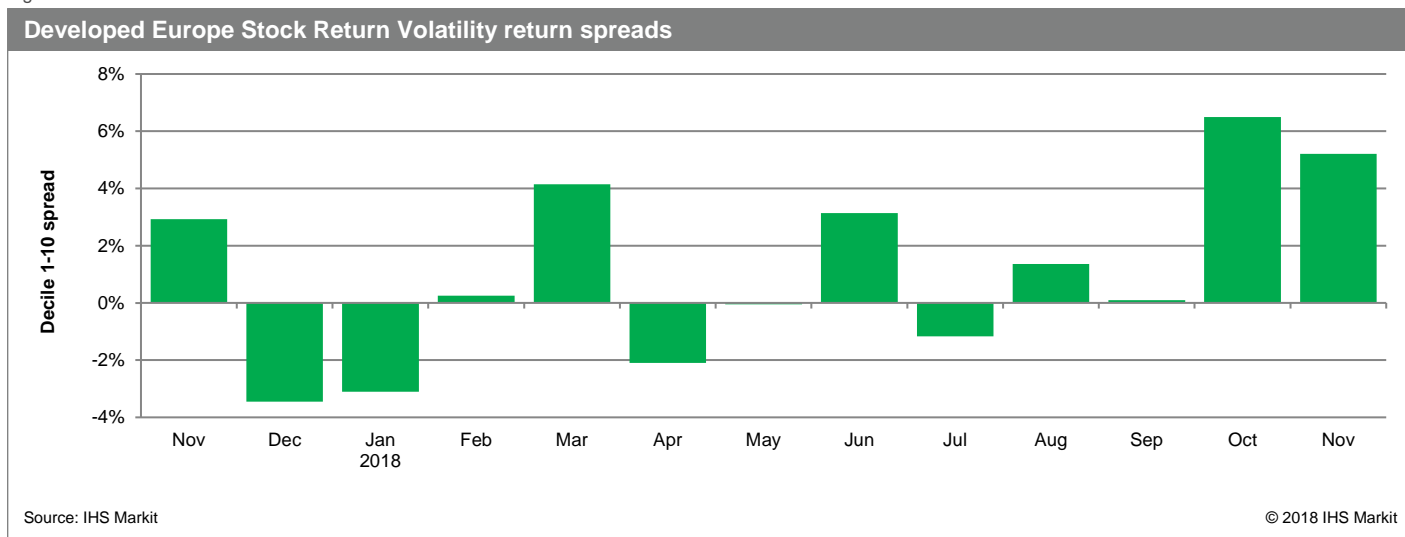


Table 7

Developed Europe bottom decile return spread factor performance, Nov 2018

Factor	Decile spread (%)	Factor group
Averaged Last 6-M EPS Revisions for FY1	-5.08	Earnings Momentum
30-75 Week Stock Price Ratio	-4.75	Price Momentum
24-Month Active Return with 1-Month Lag	-4.62	Price Momentum
Averaged Last 6-M EPS Revisions for FY2	-4.52	Earnings Momentum
Basic Defensive Interval	-4.36	Liquidity, Risk & Size
Oil Prices Sensitivity	-3.92	Macro
Time Weighted Sales Yield	-3.71	Deep Value
Time Weighted Earnings Revision	-3.68	Earnings Momentum
9-Month Active Return with 1-Month Lag	-3.67	Price Momentum
Time Weighted EBITDA/ EV	-3.66	Deep Value

Source: IHS Markit © 2018 IHS Markit

Asia-Pacific

Reduced amounts of export orders and subdued confidence encroached on manufacturing sector growth in the two largest Asian economies of Japan and China. In Japan, the PMI fell from 52.9 in October to 52.2 in November, the lowest reading since August 2017, on slower rises in production and new orders and softer demand from China and Europe. PMI data in China was little changed from October's reading of 50.1 at 50.2 in November, as goods producers saw a slightly stronger increase in total new work, despite reduced export orders. Asian equity markets have rebounded since the end of October with Japanese stocks rising, while Chinese shares, which bore the brunt of the trade war sell-off, were more subdued.

Short-term price reversal was a positive signal in developed Pacific markets in November. Outside of Japan, 1-Month Active Return (11.47%) was the top performing factor (Table 8), with a significant double-digit spread, a level not seen since October 2011, and driven by systematic trading across deciles (Figure 4). At the opposite extreme, results for the month (Table 9) indicate negative sentiment to names trading nearest to their 52-week highs (52-Week High: -8.77%) and small caps (Natural Logarithm of Market Capitalization: -7.52%).

In Japan, other top performing factors in November (Table 10) in addition to short-term price reversal measures include volatility-based metrics such as Std Dev of FY1 EPS Estimates-to-Price (5.11%), Market Volatility Sensitivity (4.15%) and 60-Month Beta (4.51%), which has posted positive spreads in each of the past three months (Figure 5). Investors also demonstrated some distrust in earnings estimates, as captured by measures such as 3-M Revision in FY2 EPS Forecasts: Dispersion Relative (-6.68%) and Time Weighted Earnings Yield (-5.69%), which resided among the bottom performing factors for the month (Table 11).

Table 8

Developed Pacific exJapan top decile return spread factor performance, Nov 2018

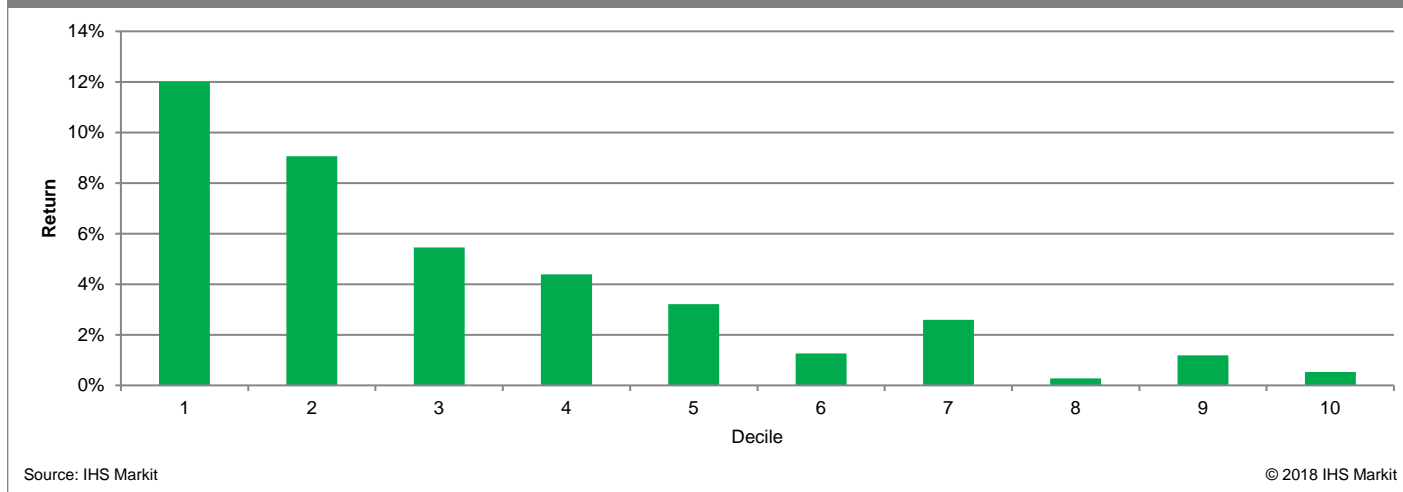
Factor	Decile spread (%)	Factor group
1-Month Active Return	11.47	Price Momentum
2-Month Active Return	9.84	Price Momentum
4-week Industry Relative Return	9.49	Price Momentum
Profit and Loss Impact	8.27	Short Sentiment
5-day Industry Relative Return	7.59	Price Momentum
Cash to Enterprise Value	7.59	Deep Value
Supply Volatility	7.51	Short Sentiment
Cash-to-Price	7.41	Deep Value
Market Cap per Analyst	6.98	Liquidity, Risk & Size
3-Month Active Return	6.26	Price Momentum
Inverse of PEG Ratio	5.30	Earnings Momentum
14 Day Relative Strength Index	5.20	Price Momentum
Industry Relative TTM EBITDA-to-Price	5.18	Relative Value
Demand Value Concentration	4.96	Short Sentiment
Street Consensus Rating	4.93	Earnings Momentum

Source: IHS Markit

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Figure 4

Developed Pacific exJapan 1-Month Active Return decile returns, Nov 2018



Source: IHS Markit

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Table 9

Developed Pacific exJapan bottom decile return spread factor performance, Nov 2018

Factor	Decile spread (%)	Factor group
Latin America Sales Exposure	-11.58	Macro
20-Day Volume Volatility to Price Volatility	-9.85	Liquidity, Risk & Size
52-Week High	-8.77	Price Momentum
Natural Logarithm of Market Capitalization	-7.52	Liquidity, Risk & Size
Natural Logarithm of Closing Price	-7.28	Liquidity, Risk & Size
Average Trading Volume in Preceding 6-month	-7.10	Price Momentum
CV of Prior 90-Day Closing Prices	-7.05	Price Momentum
FY1 EPS Estimates Dispersion	-6.83	Earnings Momentum
1-Month Stock Return Interquartile Range	-6.82	Liquidity, Risk & Size
Trading Turnover Ratio	-6.81	Liquidity, Risk & Size

Source: IHS Markit

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Table 10

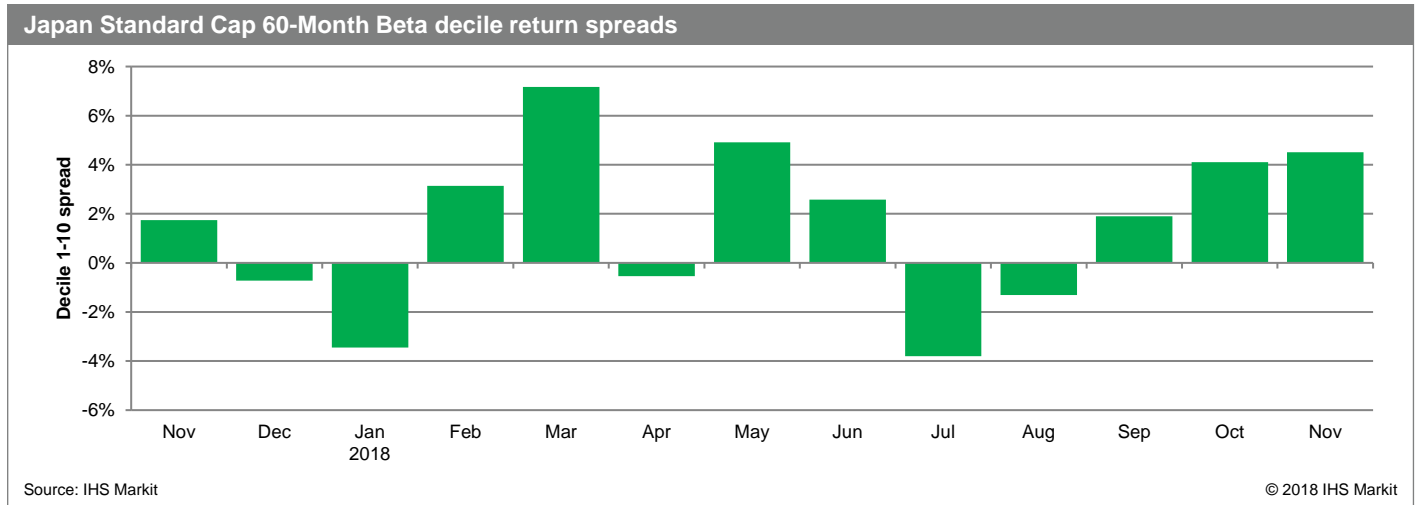
Japan Standard Cap top decile return spread factor performance, Nov 2018

Factor	Decile spread (%)	Factor group
Profit and Loss Impact	6.74	Short Sentiment
3-Month Active Return	5.83	Price Momentum
Std Dev of FY1 EPS Estimates-to-Price	5.11	Earnings Momentum
Skewness of 90-Day Stock Daily Returns	5.04	Price Momentum
Skewness of 90-Day Stock Daily Excess Returns	4.98	Price Momentum
60-Month Beta	4.51	Liquidity, Risk & Size
Market Volatility Sensitivity	4.15	Macro
2-Month Active Return	4.04	Price Momentum
Stability of 5-yr TTM Earnings per Share	3.93	Historical Growth
3-yr Compound Annual Gross Margin Growth	3.83	Historical Growth
R Sqr of 5-yr TTM EPS Trend Line	3.73	Historical Growth
Asia-Pacific Sales Exposure	3.24	Macro
4-week Industry Relative Return	3.11	Price Momentum
Demand Value Concentration	3.08	Short Sentiment
1-yr Chg in Acct Receivable as % of Sales	3.05	Historical Growth

Source: IHS Markit

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Figure 5



Source: IHS Markit

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Table 11

Japan Standard Cap bottom decile return spread factor performance, Nov 2018		
Factor	Decile spread (%)	Factor group
3-M Revision in FY2 EPS Forecasts: Dispersion Relative	-6.68	Earnings Momentum
6-Month Nominal Change in 36-Month Alpha	-6.63	Price Momentum
3-M Revision in FY2 EPS Forecasts	-6.39	Earnings Momentum
Unexpected Profitability	-6.29	Management Quality
Street Revision Magnitude	-6.16	Earnings Momentum
Time Weighted Earnings Yield	-5.99	Deep Value
Yield Curve Slope Sensitivity	-5.69	Macro
Price-to-Total Assets	-5.68	Deep Value
Tobin q	-5.38	Liquidity, Risk & Size
15/36 Week Stock Price Ratio	-5.34	Price Momentum

Source: IHS Markit

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Emerging Markets

Lastly, we review top (Table 12) and bottom (Table 13) performing factors in emerging markets in November. Short-term price reversal metrics occupied four of the top six spots on the leaderboard. 3-Month Active Return (7.89%) led the way with an 8.0 percentage point improvement in spread over the prior 12-month average (Figure 6). Deep Value measures were also highly rewarded, represented by Cash-to-Price (5.23%) and Time Weighted EBITDA/EV (3.26%), among others. On the other hand, the weakest performers were dominated by technical measures such as 20-Day Volume Volatility to Price Volatility (-8.38%), CV of Prior 90-Day Closing Prices (-7.81%) and Trading Turnover Ratio (-7.36%).

Table 12

Emerging Markets top quintile return spread factor performance, Nov 2018		
Factor	Decile spread (%)	Factor group
3-Month Active Return	7.89	Price Momentum
2-Month Active Return	6.71	Price Momentum
1-Month Active Return	6.13	Price Momentum
Cash-to-Price	5.23	Deep Value
Cash to Enterprise Value	4.89	Deep Value
4-week Industry Relative Return	4.54	Price Momentum
Attention Span Ratio	4.14	Management Quality
Natural Logarithm of Market Capitalization (USD)	3.68	Liquidity, Risk & Size
Time Weighted EBITDA/ EV	3.26	Deep Value
Skewness of 90-Day Stock Daily Excess Returns	3.26	Price Momentum
TTM Growth Flow-to-Price	3.14	Deep Value
Skewness of 90-Day Stock Daily Returns	3.01	Price Momentum
Leading 12 Month EBITDA/ EV	2.73	Deep Value
Operating Liability Leverage	2.73	Management Quality
Net Debt to EBITDA	2.70	Management Quality

Source: IHS Markit

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Table 13

Emerging Markets bottom quintile return spread factor performance, Nov 2018

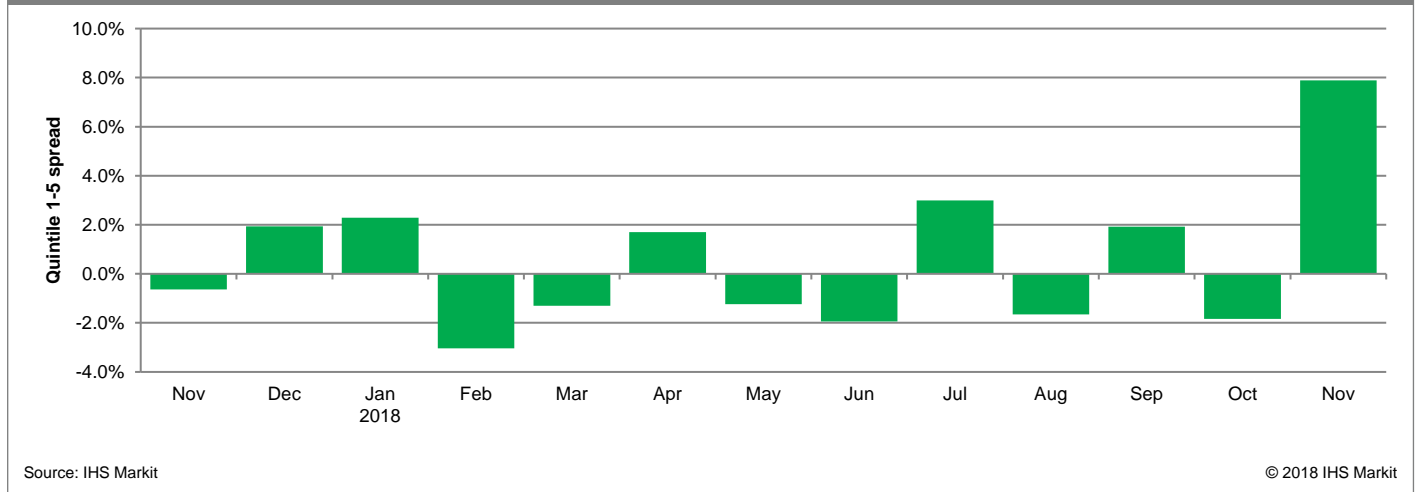
Factor	Decile spread (%)	Factor group
20-Day Volume Volatility to Price Volatility	-8.38	Liquidity, Risk & Size
CV of Prior 90-Day Closing Prices	-7.81	Price Momentum
Average Trading Volume in Preceding 6-month	-7.40	Price Momentum
Trading Turnover Ratio	-7.36	Liquidity, Risk & Size
1-Month Realized Stock Return Volatility	-7.13	Liquidity, Risk & Size
52-Week High	-6.62	Price Momentum
26-Week Relative Price Strength	-5.92	Price Momentum
1-Month Stock Return Interquartile Range	-5.85	Liquidity, Risk & Size
60-Day Residual Risk	-5.54	Liquidity, Risk & Size
50-200 Day Stock Price Ratio	-5.52	Price Momentum

Source: IHS Markit

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Figure 6

Emerging Markets 3-M Active Return quintile return spreads



Source: IHS Markit

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