



IHS Markit™

# “All-aboard!” Inflation station

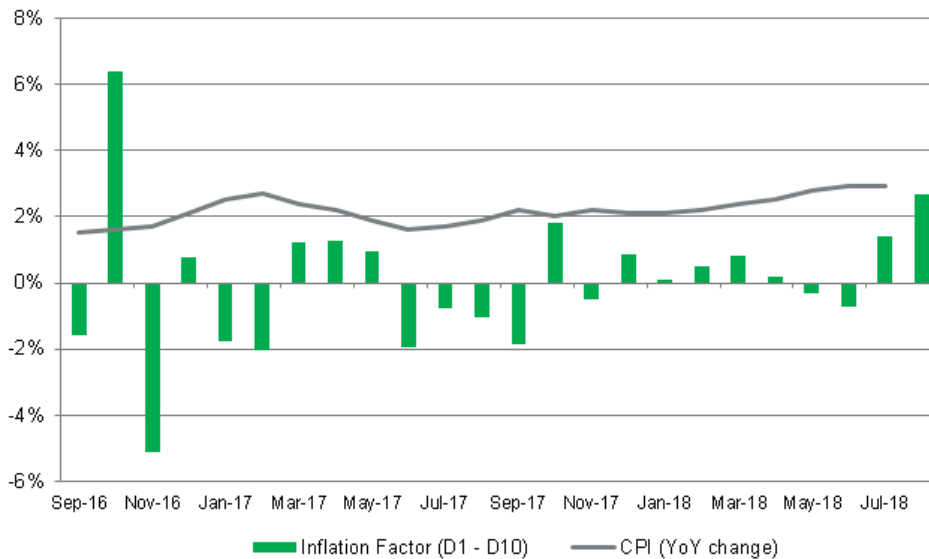
Thursday, August 23<sup>rd</sup>, 2018

## Strong correlation between inflation sensitivity and US equity returns in August

- Inflation Sensitivity key factor for US equity returns in August
- Best monthly performance for Inflation factor since October 2016
- Highly shorted stocks with positive Inflation Sensitivity outperform

On August 10<sup>th</sup> the BLS reported a 0.2% increase in consumer prices for July, putting the YoY CPI increase at 2.9%. That announcement sent the message to investors that the trend of rising prices remains in-tact, suggesting that the Federal Reserve’s course of hiking interest rates is also likely to continue. Unsurprisingly, US equities with a positive correlation to inflation have performed well in August. IHS Markit’s Research Signals quantitative research product produces an Inflation Sensitivity factor as a component of their Macroeconomic model. The Inflation Sensitivity factor tracks the performance of a given equity relative to historical changes in CPI.

Consumer Price Index (YoY delta) & Inflation factor returns



Source: BLS & IHS Markit

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Through the first three weeks of August, US equities with most positive correlation to increasing inflation returned 4.2%, while the stocks with the lowest correlation returned 1.9%. The last time inflation sensitivity had such a strong correlation to share prices was in October 2016, when YoY CPI change hit a multi-year high, having fallen with energy prices earlier in that year. In that month the stocks with a positive correlation to inflation returned -3.2%, while those with the most negative sensitivity to rising prices returned -10.2%. Through the third week of August, 2018 is on pace to be the first year of positive returns for the inflation factor since 2011, when YoY CPI increase hit the highest level post-crisis, 3.9% in September, before tumbling through July 2012.

While the group of US equities with positive correlation to rising prices has outperformed the broader US equity market, a subset of that group has shown further outperformance: The most shorted stocks. The average price return of the most shorted stocks with positive inflation correlation was 4.6% in the first three weeks of August, compared to 3.6% for the rest of the positive correlation group. The most shorted stocks with positive inflation correlation also outperformed the rest of the most shorted stocks, which only returned 2.5%.

#### Most shorted stocks with positive inflation correlation

Ticker	Name	SI % Float	SI Value (\$mm)	SI Shares (mm)	SI Shares	
					MTD % chg	MTD Price Chg
MTCH	Match Group Inc	50%	\$1,213	25.1	-3%	34%
OSTK	Overstock.Com Inc	50%	\$316	10.3	13%	-14%
CRR	Carbo Ceramics Inc	44%	\$84	10.0	2%	-10%
RH	Rh	33%	\$971	6.3	-16%	14%
HIQ	Health Insurance Innovations Inc	33%	\$216	3.8	-3%	71%
VTL	Vital Therapies Inc	33%	\$78	9.1	9%	7%
ASPS	Altisource Portfolio Solutions Sa	32%	\$122	3.3	-4%	12%
TDOC	Teladoc Inc	31%	\$1,632	21.6	11%	26%
ICHR	Ichor Holdings Ltd	29%	\$158	7.1	-19%	6%
SHAK	Shake Shack Inc	28%	\$384	6.7	-6%	-8%

Source: IHS Markit Securities Finance

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#### Wrap up:

As inflation concerns continue to increase, along with the Fed path of further rate hikes, stocks which have a positive correlation with CPI increases have performed well, as reflected by factor returns to IHS Markit's Inflation Sensitivity factor. Receiving a tailwind from rising prices, the most shorted stocks in that group have performed particularly well in August.

## Sam Pierson

Director | Securities Finance

450 West 33rd Street | 5th Floor | New York, NY 10001

[samuel.pierson@ihsmarkit.com](mailto:samuel.pierson@ihsmarkit.com)

<https://ihsmarkit.com/experts/pierson-sam.html>

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