The Information Supply Chain Begins Recovering From COVID

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The COVID-19 shockwaves emanating through the global supply chain continue to reverberate. The information that decision makers have traditionally relied have also been disrupted, but is slowly showing signs of normalizing. S&P Global Market Intelligence processes 64,000 financial documents each day, placing it in a central position in the information supply chain with a unique view into the specific areas and magnitude of information disruption.

A significant source of information for both investors and decision-makers is found in company annual (10-K) filings. Many firms experienced delays in completing these filings in April, leading to earnings calls delays and reduced visibility.[1] The number of filings fell by over 300 in April but has since rebounded in May (Figure 1) largely driven by companies with smaller market capitalizations. This report examines delayed earnings and events, analyst forecast revision, and corporate key developments.

Figure 1 – All US Public Companies
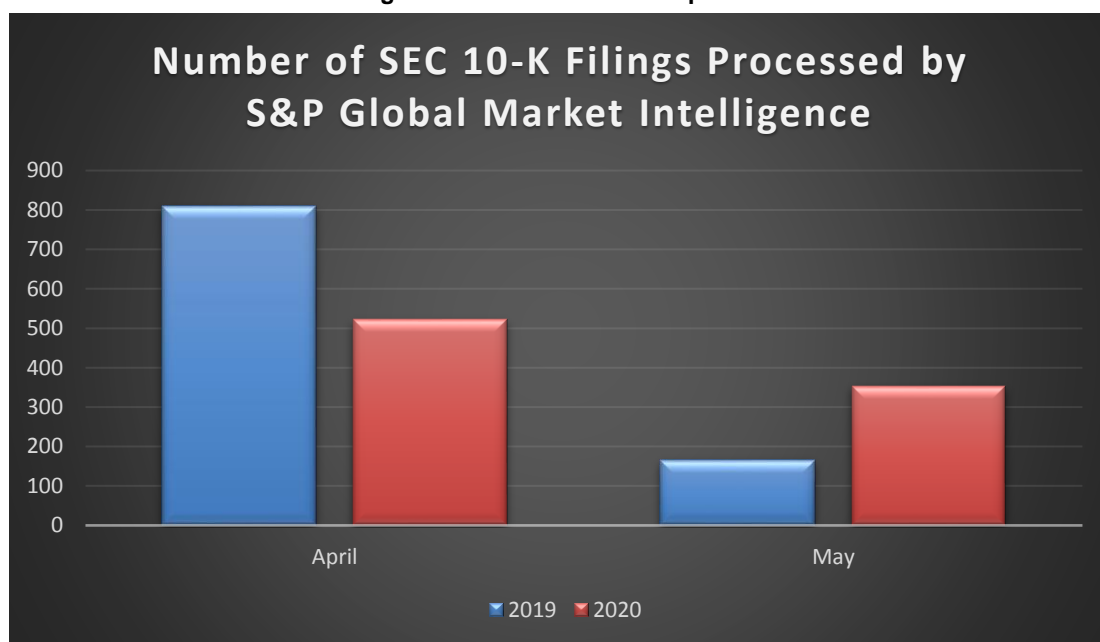
Source: S&P Global Market Intelligence Quantamental Research. Data as of May 31, 2020

Analysts Are Sorting it Out

The delay of filings and other timely information presented a challenge for sell side analysts who develop forecast for company earnings. Three hundred US companies withdrew guidance in April, further reducing [or limiting] analyst insights. April saw analysts dramatically revising most of their earnings forecast downward with fewer analysts making positive revisions to their FY1 (next fiscal year) earnings forecasts (Figure 2).
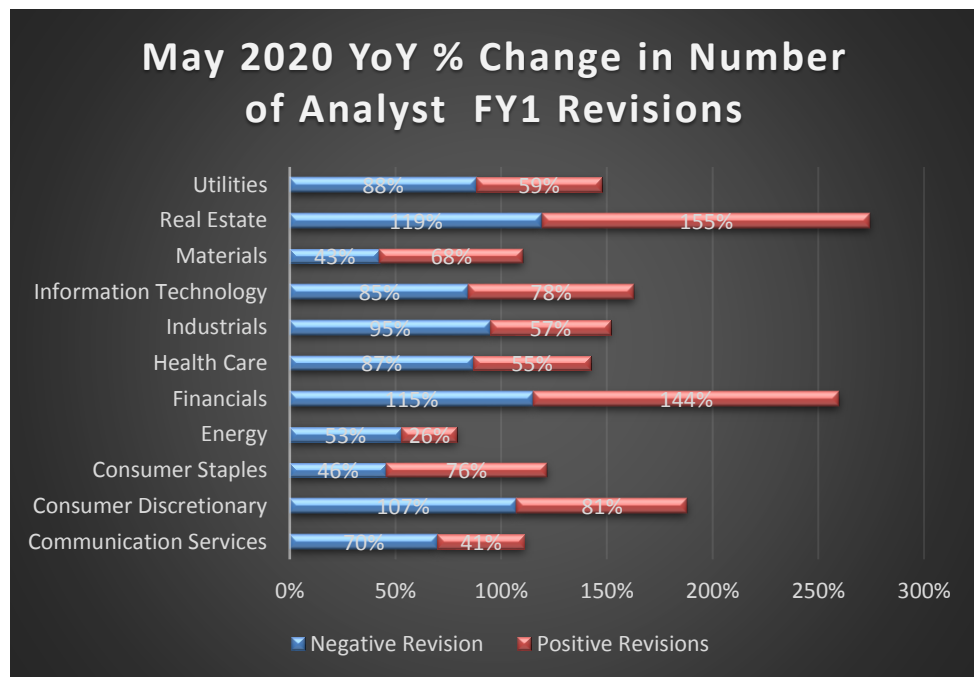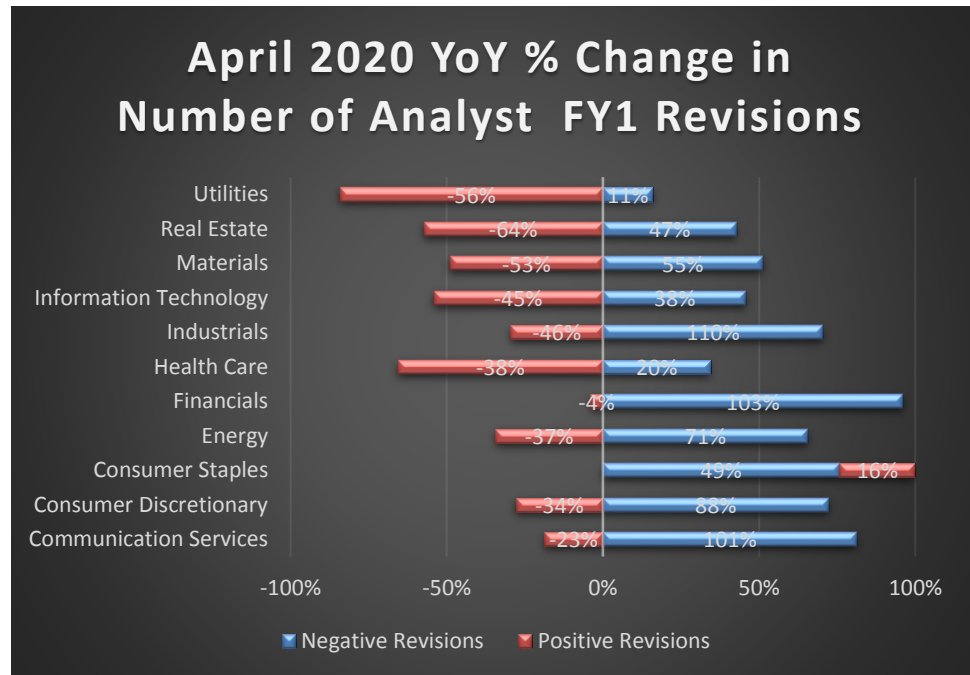
In May analysts began to differentiate between companies, sorting them into winners and losers. Analysts increased the number of both positive and negative forecast revisions. For most sectors analysts were more actively downgrading forecasts compared with the same period in 2019. Downgrades exceeded upgrades in all but three sectors: Consumer Staples, Real Estate and Financials

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[1] S&P Global Data document processes are operating normally and without delays

(Figure 3). Within those sectors the frequency of positive forecast revisions outnumbered negative revisions when compared with May 2019.

Figures 2 and 3 – All US Companies

Source: S&P Global Market Intelligence Quantamental Research. Data as of May 31, 2020

Corporate Key Development Changes by Category

S&P Global Market Intelligence tracks 161 specific Key Developments daily which fall into twelve general categories (Table 1). Bankruptcy related events registered a 135% rise in March, 204% in April and 214% in May compared to a year earlier. The breadth of deterioration is noteworthy and are driven by asset disposition and bankruptcy filings. Falling within the Potential Red Flag category, there were 197 auditor going concerns events in March. S&P Credit Ratings downgraded 538 firms and placed 439 firms on watch in March and April combined. S&P Global Ratings is analytically and editorially independent from any other analytical group at S&P Global. Also of note were that Dividend reductions were 216% higher in the March-May time period compared with the same period in 2019.

Table 1 – Year-Over-Year % Changes in Number of U.S. Key Developments for All US Public Companies

Key Development Category Name	YoY March 2020	YoY April 2020	YoY May 2020
Announced/Completed Transactions	38%	38%	16%
Bankruptcy Updates	135%	204%	214%
Company Forecasts and Ratings	97%	33%	-39%
Corporate Structure Related	3%	-12%	-13%
Customer/Product Related	4%	-13%	-12%
Dividends/Splits	-1%	-4%	-11%
Investor Activism	140%	102%	2%
Liquid Corporate Debt News	-27%	48%	45%
Listing/Trading Related	-33%	0%	-14%
Potential Red Flags/Distress Indicators	102%	26%	23%
Potential Transactions	-29%	-41%	-39%
Results Announcements/Corporate Communications	1%	-11%	2%
Transaction Updates	5%	-17%	-32%

Source: S&P Global Market Intelligence Quantamental Research. Data as of May 31, 2020

Data

The data within this report are sourced from a variety of S&P Global Market Intelligence's databases, which includes, but is not limited to Fundamentals, Estimates, and Key Developments.

Revisions data is sourced from S&P Global Estimates content set, a comprehensive, standardized database of global, real-time financial forecasting measures on upgrades/downgrades, target price revisions, market-moving news or significant developments for public companies worldwide, and estimates based on the projections, models, analysis, and research of analysts, brokers, and the companies themselves.

Conclusion

The flow of information to decision makers has been disrupted. Company quarterly and annual filings were delayed significantly in April inhibiting analyst visibility. April saw most analyst making negative revisions to their forecasts, while May saw evidence of analysts beginning to differentiate between

companies. The number of company key development documents spiked, most notably for credit related events. Decision makers are changing their focus to more timely data sources. Modelers may want to consider data expiration rules in the face of delays in data availability.

Our Recent Research

May 2020 Research Brief: <u>Never Waste a Crisis - Following the Smart Money through Beneficial Ownership Filings</u>

May 2020 Research Brief: <u>Risky Business - Foot Traffic, Vacancy Rates, and Credit Risks</u>

May 2020 Research Brief: <u>Finding the Healthy Stocks in Health Care During Lockdown</u>

May 2020 Research Brief: <u>No More Walks in the (Office) Park: Tying Foot Traffic Data to REITs</u>

May 2020 Research Brief: <u>Do Markets Yearn for the Dog Days of Summer? COVID, Climate, and Consternation</u>

April 2020 Research Brief: <u>Cold Turkey - Navigating Guidance Withdrawal Using Supply Chain Data</u>

April 2020 Research Brief: <u>Data North Star - Navigating Through Information Darkness</u>

March 2020: <u>Long Road to Recovery: Coronavirus Lessons from Supply Chain and Financial Data</u>
COVID-19 continues to disrupt global supply chains in unprecedented ways. Leveraging maritime shipping data from Panjiva, this report includes a review of trade and financial data to analyze the impact of the SARS-CoV-2 / COVID-19 coronavirus outbreak. Findings include:

- Second-order supply chain effects are also emerging with the apparel industry now seeing a shortage of materials globally due to earlier outages in China.
- Retailers including Costco and Target are gaining from increased sales of health- and personal care products. Yet, supply shortages are rapidly emerging in part due to medical supply export restrictions in several countries.
- There is a notable, but not statistically significant, relationship with firms with higher exposure to Asia having seen a weaker sector neutral stock price performance.

February 2020: <u>Ship to Shore: Mapping the Global Supply Chain with Panjiva Shipping Data in Xpressfeed™</u>
World merchandise trade accounted for an estimated $19.7 trillion in 2018, about 90% of which is by sea. While financial data tells us "how a company has done in the past," shipping data provides a closer-to-real time indicator of "what a company is doing now." Panjiva's shipping data allows investors to track trends, identify anomalies, and assess risks for companies engaged in international trade. This paper illustrates how to find investment insights in Panjiva's US seaborne and Mexican datasets using the US auto parts industry as a case study.
Findings include:

- Shipment trends often lead fundamentals: Rising shipments amid flat or declining fundamentals may signal future financial trend reversal

- Growth in the number of a company's suppliers and in the types of products it imports may signal strengthening demand and/or product line diversification.
- Tracking industry-level product-line trends can help identify companies with significant exposure to rising or declining product lines.

January 2020: <u>Natural Language Processing – Part III: Feature Engineering Applying NLP Using Domain Knowledge to Capture Alpha from Transcripts</u>

Unstructured data is largely underexplored in equity investing due to its higher costs. One particularly valuable unstructured data set is S&P Global Market Intelligence's machine readable earnings call transcripts.

- Topic Identification – Firms that referenced the most positive descriptors around their financials outperformed historically.
- Transparency – Firms that provided greater call transparency exhibited by executives' behaviors and decisions outperformed historically.
- Weighted Average Sentiment – Quantifying call sentiment using a weighted average construct led to better returns and less volatility historically.
- Additive Forecasting Power – The newly introduced signals demonstrated additive forecasting power above commonly used alpha and risk signals historically.

December 2019: <u>The "Trucost" of Climate Investing: Managing Climate Risks in Equity Portfolios</u>

Does sustainable investing come at a "cost", and is the fear of investors around the performance concessions of "green" portfolios warranted? Our latest research suggests investors' fears are misplaced – carbon-sensitive portfolios have similar returns and significantly better climate characteristics than portfolios constructed without carbon emission considerations. Other findings include:

- Highly profitable firms are likely to be leaders in reducing their carbon emission levels.
- There is no degradation in fundamental characteristics for the carbon-sensitive portfolios compared to the baseline portfolio, even though the difference in constituents can be as high as 20%.
- Carbon-sensitive portfolios were observed as having significant reductions in water use, air pollutants released and waste generated.

October 2019: <u>#ChangePays: There Were More Male CEOs Named John than Female CEOs</u>

This report examines the performance of firms that have made female appointments to their CEO and CFO positions. Our research finds that firms with female CEOs and/or CFOs:.

- Are more profitable and generated excess profits of $1.8 trillion over the study horizon.
- Have produced superior stock price performance, compared to the market average.
- Have a demonstrated culture of Diversity and Inclusion, evinced by more females on the company's board of directors.

June 2019: <u>Looking Beyond Dividend Yield: Finding Value in Cash Distribution Strategies</u>

Examines the relationship between yield-oriented strategies (dividend yield, buyback yield, and combined shareholder yield) and future stock return, across multiple countries/regions. Also provides insights into two additional topics:

- Which company fundamental characteristics support and enhance future shareholder payouts?

- Under which interest rate environment should investors favor yield-oriented strategies?

June 2019: The Dating Game: Decrypting the Signals in Earnings Report Dates

May 2019: Bridges for Sale: Finding Value in Sell-Side Estimates, Recommendations, and Target Prices

February 2019: U.S Stock Selection Model Performance Review

February 2019: International Small Cap Investing: Unlocking Alpha Opportunities in an Underutilized Asset Class

January 2019: Value and Momentum: Everywhere, But Not All the Time

November 2018: Forging Stronger Links: Using Supply Chain Data in the Investing Process

September 2018: Their Sentiment Exactly: Sentiment Signal Diversity Creates Alpha Opportunity

September 2018: Natural Language Processing – Part II: Stock Selection: Alpha Unscripted: The Message within the Message in Earnings Calls

July 2018: A Case of 'Wag the Dog'? - ETFs and Stock-Level Liquidity

June 2018: The (Gross Profitability) Trend is Your Friend

May 2018: Buying the Dip: Did Your Portfolio Holding Go on Sale?

March 2018: In the Money: What Really Motivates Executive Performance?

February 2018: The Art of the (no) Deal: Identifying the Drivers of Canceled M&A Deals

January 2018: U.S Stock Selection Model Performance Review

September 2017: Natural Language Processing - Part I: Primer

July 2017: Natural Language Processing Literature Survey

June 2017: Research Brief: Four Important Things to Know About Banks in a Rising Rate Environment

April 2017: Banking on Alpha: Uncovering Investing Signals Using SNL Bank Data

March 2017: Capital Market Implications of Spinoffs

January 2017: U.S. Stock Selection Model Performance Review 2016

November 2016: Electrify Stock Returns in U.S. Utilities

October 2016: A League of their Own: Batting for Returns in the REIT Industry - Part 2

September 2016: A League of their Own: Batting for Returns in the REIT Industry - Part 1

August 2016: Mergers & Acquisitions: The Good, the Bad and the Ugly (and how to tell them apart)

July 2016: Preparing for a Slide in Oil Prices -- History May Be Your Guide

June 2016: Social Media and Stock Returns: Is There Value in Cyberspace?

April 2016: <u>An IQ Test for the "Smart Money" – Is the Reputation of Institutional Investors Warranted?</u>

March 2016: <u>Stock-Level Liquidity – Alpha or Risk? - Stocks with Rising Liquidity Outperform Globally</u>

February 2016: <u>U.S. Stock Selection Model Performance Review - The most effective investment strategies in 2015</u>

January 2016: <u>What Does Earnings Guidance Tell Us? – Listen When Management Announces Good News</u>

November 2015: <u>Late to File - The Costs of Delayed 10-Q and 10-K Company Filings</u>

October 2015: <u>Global Country Allocation Strategies</u>

September 2015: <u>Research Brief: Building Smart Beta Portfolios</u>

September 2015: <u>Research Brief – Airline Industry Factors</u>

August 2015: <u>Point-In-Time vs. Lagged Fundamentals – This time i(t')s different?</u>

August 2015: <u>Introducing S&P Capital IQ Stock Selection Model for the Japanese Market</u>

July 2015: <u>Research Brief – Liquidity Fragility</u>

May 2015: <u>Investing in a World with Increasing Investor Activism</u>

April 2015: <u>Drilling for Alpha in the Oil and Gas Industry – Insights from Industry Specific Data & Company Financials</u>

February 2015: <u>U.S. Stock Selection Model Performance Review - The most effective investment strategies in 2014</u>

January 2015: <u>Research Brief: Global Pension Plans - Are Fully Funded Plans a Relic of the Past?</u>

January 2015: <u>Profitability: Growth-Like Strategy, Value-Like Returns - Profiting from Companies with Large Economic Moats</u>

October 2014: <u>Lenders Lead, Owners Follow - The Relationship between Credit Indicators and Equity Returns</u>

July 2014: <u>Factor Insight: Reducing the Downside of a Trend Following Strategy</u>

May 2014: <u>Introducing S&P Capital IQ's Fundamental China A-Share Equity Risk Model</u>

April 2014: <u>Riding the Coattails of Activist Investors Yields Short and Long Term Outperformance</u>

March 2014: <u>Insights from Academic Literature: Corporate Character, Trading Insights, & New Data Sources</u>

February 2014: <u>Obtaining an Edge in Emerging Markets</u>

February 2014: <u>U.S Stock Selection Model Performance Review</u>

January 2014: <u>Buying Outperformance: Do share repurchase announcements lead to higher returns?</u>

October 2013: <u>Informative Insider Trading - The Hidden Profits in Corporate Insider Filings</u>

September 2013: <u>Beggar Thy Neighbor – Research Brief: Exploring Pension Plans</u>

August 2013: Introducing S&P Capital IQ Global Stock Selection Models for Developed Markets: The Foundations of Outperformance

July 2013: Inspirational Papers on Innovative Topics: Asset Allocation, Insider Trading & Event Studies

June 2013: Supply Chain Interactions Part 2: Companies – Connected Company Returns Examined as Event Signals

June 2013: Behind the Asset Growth Anomaly – Over-promising but Under-delivering

April 2013: Complicated Firms Made Easy - Using Industry Pure-Plays to Forecast Conglomerate Returns.

March 2013: Risk Models That Work When You Need Them - Short Term Risk Model Enhancements

March 2013: Follow the Smart Money - Riding the Coattails of Activist Investors

February 2013: Stock Selection Model Performance Review: Assessing the Drivers of Performance in 2012

January 2013: Research Brief: Exploiting the January Effect Examining Variations in Trend Following Strategies

December 2012: Do CEO and CFO Departures Matter? - The Signal Content of CEO and CFO Turnover

November 2012: 11 Industries, 70 Alpha Signals -The Value of Industry-Specific Metrics

October 2012: Introducing S&P Capital IQ's Fundamental Canada Equity Risk Models

September 2012: Factor Insight: Earnings Announcement Return – Is A Return Based Surprise Superior to an Earnings Based Surprise?

August 2012: Supply Chain Interactions Part 1: Industries Profiting from Lead-Lag Industry Relationships

July 2012: Releasing S&P Capital IQ's Regional and Updated Global & US Equity Risk Models

June 2012: Riding Industry Momentum – Enhancing the Residual Reversal Factor

May 2012: The Oil & Gas Industry - Drilling for Alpha Using Global Point-in-Time Industry Data

May 2012: Case Study: S&P Capital IQ – The Platform for Investment Decisions

March 2012: Exploring Alpha from the Securities Lending Market – New Alpha Stemming from Improved Data

January 2012: S&P Capital IQ Stock Selection Model Review – Understanding the Drivers of Performance in 2011

January 2012: Intelligent Estimates – A Superior Model of Earnings Surprise

December 2011: Factor Insight – Residual Reversal

November 2011: Research Brief: Return Correlation and Dispersion – All or Nothing

October 2011: The Banking Industry

September 2011: Methods in Dynamic Weighting

September 2011: <u>Research Brief: Return Correlation and Dispersion</u>

July 2011: <u>Research Brief - A Topical Digest of Investment Strategy Insights</u>

June 2011: <u>A Retail Industry Strategy: Does Industry Specific Data tell a different story?</u>

May 2011: <u>Introducing S&P Capital IQ's Global Fundamental Equity Risk Models</u>

May 2011: <u>Topical Papers That Caught Our Interest</u>

April 2011: <u>Can Dividend Policy Changes Yield Alpha?</u>

April 2011: <u>CQA Spring 2011 Conference Notes</u>

March 2011: <u>How Much Alpha is in Preliminary Data?</u>

February 2011: <u>Industry Insights – Biotechnology: FDA Approval Catalyst Strategy</u>

January 2011: <u>US Stock Selection Models Introduction</u>

January 2011: <u>Variations on Minimum Variance</u>

January 2011: <u>Interesting and Influential Papers We Read in 2010</u>

November 2010: <u>Is your Bank Under Stress? Introducing our Dynamic Bank Model</u>

October 2010: <u>Getting the Most from Point-in-Time Data</u>

October 2010: <u>Another Brick in the Wall: The Historic Failure of Price Momentum</u>

July 2010: <u>Introducing S&P Capital IQ's Fundamental US Equity Risk Model</u>