S&P Global
Market Intelligence

Warranted Optimism: Sentiment vs. Supply Chains

Management Sentiment and Shipping Activity Approach Pre-Pandemic Levels

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Executives have become increasingly positive in their statements in the most recent earnings conference call season. The improving sentiment can be confirmed by observing changes in supply chain activity. **The relationship between improved management sentiment and increased activity can be seen in the Industrials and Consumer Discretionary sectors.**

Exhibit 1: Improving Sentiment Backed by Accelerating Shipment Growth for Industrials, Consumer Discretionary and Materials, Reverse True in Energy
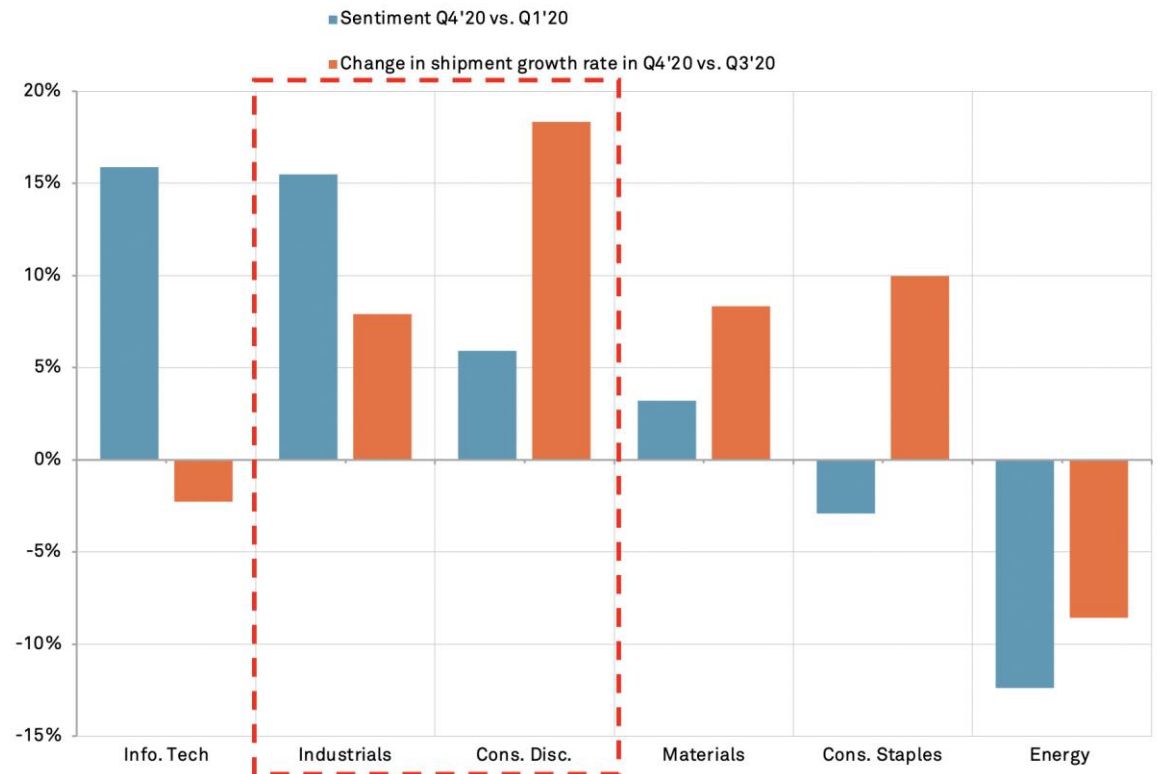

Chart compares change in net positivity score on earnings conference calls to change in rate of shipment growth in U.S. seaborne imports. Source: S&P Global Market Intelligence Quantamental Research. Data as of 11/15/2020

Sentiment still improving but below pre-pandemic levels

Earnings conference calls relating to Q3'20 earnings that were held in Q4'20 have shown a marked increase in management optimism, with net positivity rising by 36.6% when compared with calls held in the previous quarter. That likely reflects improved activity after the pandemic's industrial lockdowns but was still 9.3% below the pre-pandemic calls of Q1'20. Only the Industrials and Consumer Discretionary sectors have improved quarter-on-quarter and versus pre-pandemic levels (exhibit 2 below).
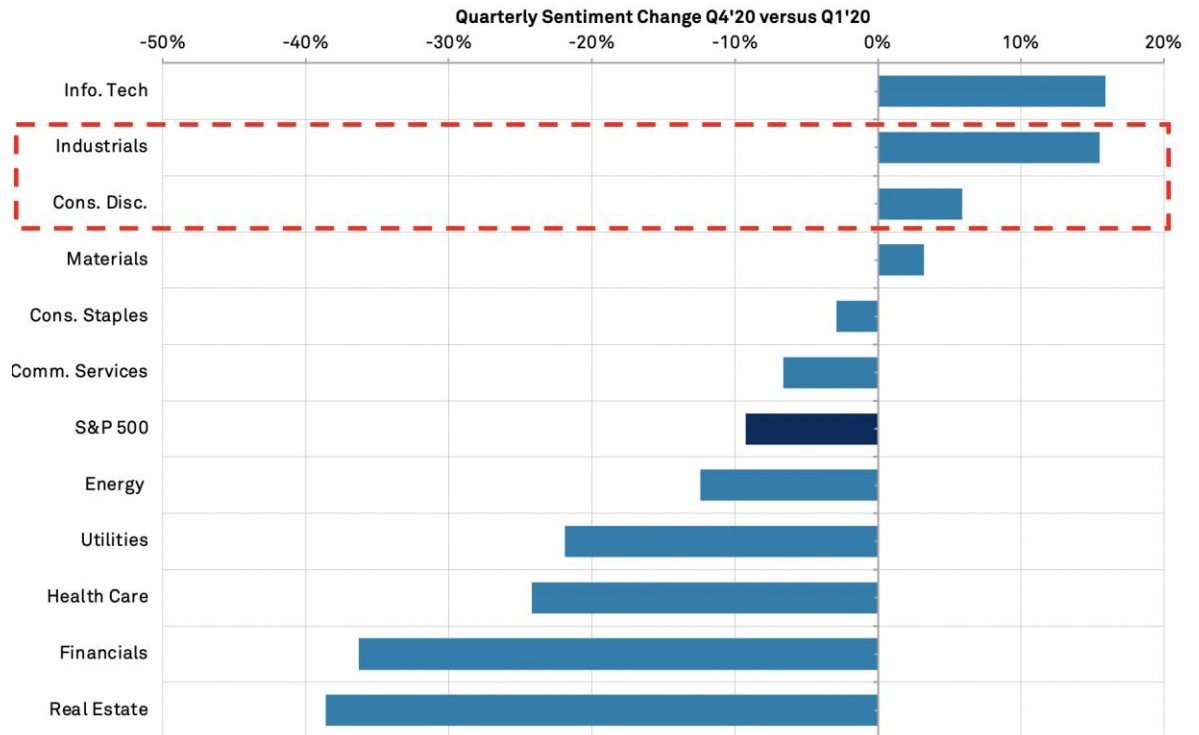
Exhibit 2: Sentiment Back to Pre-Pandemic Levels in Just 4 Out of the 11 GICS Sectors

Chart segments change in sentiment in earnings conference calls, measured by net positivity score under S&P Global Market Intelligence's TDA system, by GICS. Time period refers to when the call was held. Source: S&P Global Market Intelligence Quantamental Research. Data as of 11/15/2020

Words backed by action at the sector level

Panjiva's U.S. seaborne shipping data demonstrates whether management optimism is backed by an acceleration supply chain activity. An increased growth rate in shipments in Q4'20 compared to the growth rate in Q3'20, in a sense the supply chain momentum, indicates improving conditions (see orange bars in Exhibit 3). Such a situation occurred in four of the seven sectors tracked by Panjiva.

For example, **U.S. seaborne imports in the Consumer Discretionary and Industrials sectors experienced an acceleration in year over year growth to 30.4% and 14.1% respectively in the first half of Q4'20** (light blue in Exhibit 3) compared to 12.0% and 6.4% respectively in Q3'20 (dark blue in Exhibit 3). **Panjiva's fundamental research indicates this is due to expectations of increased consumer holiday spending and a recovery in industrial investment.** The improved growth rate in Consumer Staples in part reflects imports of basic supplies used in the battle against COVID-19, marking a contrast to the slowdown in growth seen in Healthcare.

Exhibit 3: Supply Chain Growth Accelerated in Most Sectors in Q4'20 vs. Q3'20
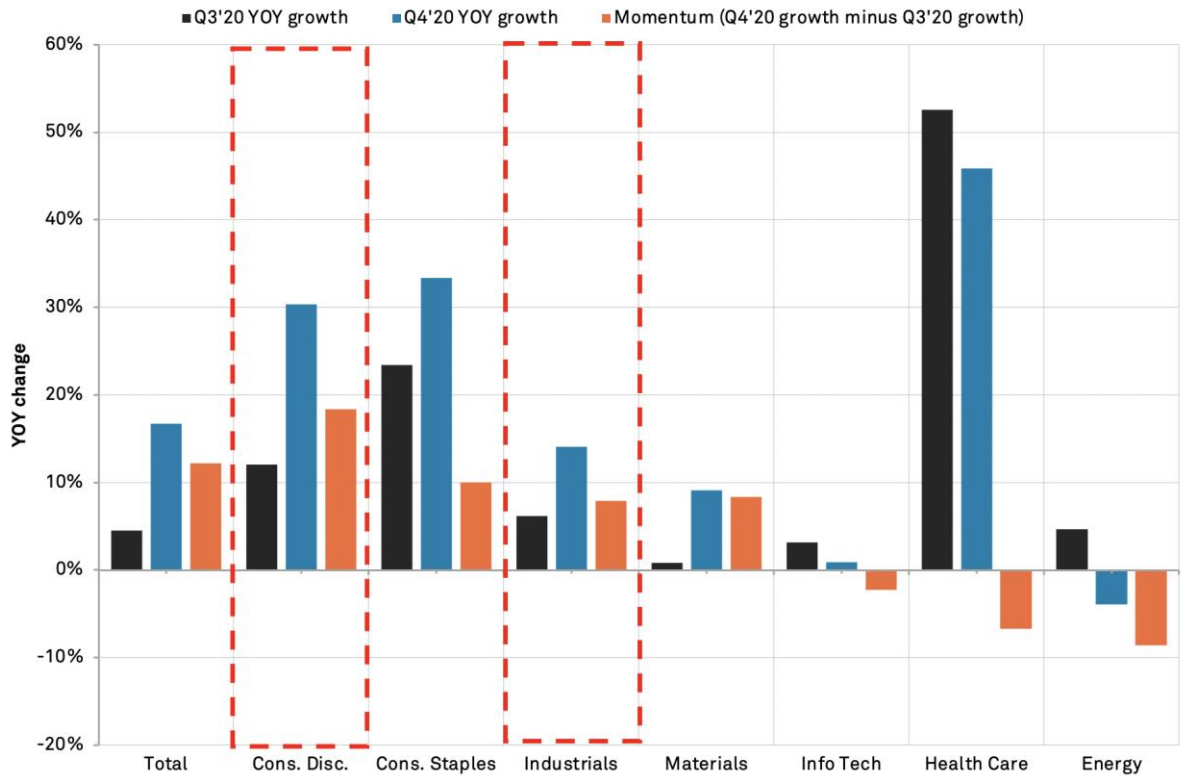

Chart segments change in U.S. seaborne imports by GICS. Orange bar indicates change in growth rate in Q4'20 versus the growth in Q3'20. Source: S&P Global Market Intelligence Quantamental Research. Data as of 11/15/2020

Deeper dive, interesting gaps

A corporate level comparison of sentiment and shipping activity in the Consumer Discretionary sector indicates companies including **Hasbro** and **Newell Brands** are seeing a concurrent positive development in the two measures of improving sentiment and accelerating shipment growth. Others do not for a variety of reasons. An in-depth review of all the data in this report has been published on the Panjiva platform (subscription required).

Exhibit 4: Improving Sentiment Generally Backed by Accelerating Shipment Growth
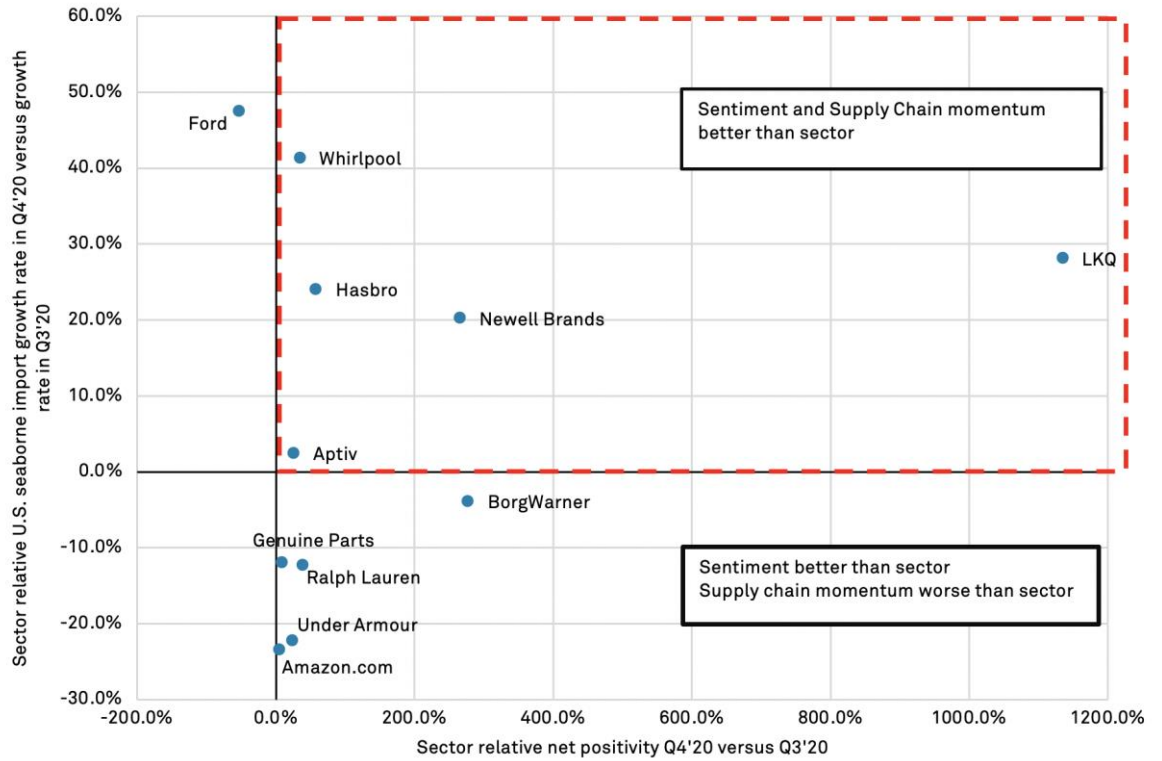

Chart compares change in net positivity score on earnings conference calls to change in rate of shipment growth in U.S. seaborne imports. Source: S&P Global Market Intelligence Quantamental Research. Data as of 11/15/2020

Data
Textual Data Analytics (TDA)
TDA was launched in September 2019 and is productized from the NLP II publication. It is an off-the-shelf NLP solution that generates 40+ earnings call related predictive and descriptive analytics that may be consumed via Xpressfeed™ or Snowflake.

Panjiva Supply Chain Intelligence
Panjiva's global supply chain graph draws on shipping data from 19 countries with import and export data with units and timeframes varying by dataset. This report utilizes the U.S. seaborne import data-set with sector analyses created by mapping tariff product codes under the Harmonized System to GICS sectors. Data has been retrieved via the Panjiva platform and is also available via Xpressfeed.

Our Recent Research

December 2020: <u>A Dark Winter for REITS: Trouble Brewing</u>

Add another item to the list of 'firsts' for 2020 - markets saw two REITs declare bankruptcy on the same day for the first time. CBL Properties (CBL) and Pennsylvania Real Estate Investment Trust (PEI) filed for bankruptcy protection on Monday, November 2, 2020. An examination of those factors common to CBL and PEI reveals similar operational and fundamental characteristics. Our analysis reveals seven REITs that share these common characteristics: 1) a high percentage of anchor tenants that have declared bankruptcy; 2) a decline in building permit activity, 3) a decline in foot traffic, 4) a high degree of leverage, 5) declining cash flow, and 6) a high proportion of tenants that have filed for bankruptcy.

October 2020: <u>Sweet Spots in the C-Suite: Executive Best Practices for Shareholder Friendly Firms</u>

The Business Roundtable, an association of CEOs of America's leading companies, published a new statement on corporate responsibility in August 2019. The statement identifies five important corporate stakeholders: customers, employees, suppliers, communities and shareholders.1 This report highlights four key types of executive policy that drive value creation for stakeholders: profitability vs. growth decisions, mergers & acquisitions policy, return of cash to shareholders, and insider stock ownership. In it, we demonstrate empirically those practices that increase corporate value over time, thereby rewarding shareholders, employees, and other stakeholders. These practices also form a scorecard by which stakeholders can evaluate whether or not management is undertaking actions likely to increase corporate prosperity.

October 2020: <u>Just the (Build)Fax: Property Intelligence from Building Permit Data</u>

Investors have struggled to price the uncertainties facing commercial Real Estate owners as tenants' businesses continue to be impacted by the economic lockdown following the COVID19 global pandemic. Building permit1 data has provided valuable transparency for investors of Real Estate Investment Trusts (REITs) during this time. Publicly-traded REITs that have continued permit-requiring activities have outperformed their peers during and following the economic lockdown. A one standard deviation increase in a derived permit ratio, compared to the industry2 average, is associated with 427 bps of excess return over the same period.

August 2020: <u>The Analyst Matrix: Profiting from Sell-Side Analysts' Coverage Networks</u>

Sell-side analyst coverage data provides a new and rich source of establishing connections between firms, as analysts (given their industry expertise) are likely to cover fundamentally related firms. This report uses sell-side analysts' coverage data to build a connected-firm network (CFN) - a portfolio of companies that are covered by analyst(s) that follow a focal firm. This network has three broad applications: measuring the "strength" of economic relationships between companies; forecasting fundamentals of companies in the network; and as a stock selection signal.

June 2020: <u>The Information Supply Chain Begins Recovering From COVID</u>

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.

May 2020: Never Waste a Crisis: Following the Smart Money Through Beneficial Ownership Filings

Investors looking for ideas amid the recent market downturn may profit from reviewing beneficial ownership filings: SEC schedules 13D and 13G. These purchases often represent high conviction buys by activists, industry insiders, hedge funds, etc. Our previous investor activism research shows that investors can benefit by following activists' lead: a portfolio of stocks that activists had targeted outperformed the market by over 8% annually.

This report examines recent 13D and 13G filings, and spotlights four purchases of target companies with high historical operating cash flows and below average dividend payments, characteristics of companies typically targeted by activists.

May 2020: Risky Business: Foot Traffic, Vacancy Rates and Credit Risks

The COVID-19 pandemic has led to widespread closures of retail stores, offices and hotels. Foot traffic data can be combined with traditional financial ratios to provide a more holistic view of business health for both credit and equity investors. This report extends our prior analysis of foot-traffic data by setting foot traffic figures in the context of a screen for identifying where risks may be highest.

The analysis in this report can help: i) Creditors identify customers that require additional credit facilities to support growth, or companies where existing credit lines need to be reassessed given bleak prospects; and ii) Equity investors identify companies where revenues may be accelerating or firms that may have difficulty meeting financial obligations.

May 2020: Finding the Healthy Stocks in Health Care During Lockdown

Elective and non-essential medical procedures are on an indefinite hold in many places. Simultaneously, essential medical services are in high demand, and likely to remain in demand for the near future. This dynamic creates winners and losers among Health Care device manufacturers and distributors. Investors can identify potential opportunities in the Health Care Equipment and Services subsector by analyzing 510(k) premarket notifications, which are filings required by the U.S. Food and Drug Administration (FDA) for any company seeking to market a medical device in the United States.

May 2020: No More Walks in the (Office) Park: Tying Foot Traffic Data to REITs

Foot traffic data provides investors and corporate managers with key insights on the level of activity at properties and the demographic profile of visitors to these locations. Corporate managers can use this information to pinpoint properties at greater risk of tenant defaults, while investors can use foot traffic data to identify REITs managing properties where activity remains robust. More importantly, once the

nationwide lockdown eases, foot traffic can serve as a leading indicator of a return of economic activity across industries.

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

Stakeholders are turning to untraditional data sources to quantify the impact of the COVID-19 shutdown. While no single variable can forecast which locations will be most susceptible to the virus, mounting scientific literature suggests that there is a correlation between temperature and viral propagation. If correct, regions in the temperature 'target zone' may need to implement more stringent lockdown policies for a longer period to achieve comparable mitigation.

Investors can combine weather data with property data, to expose one dimension of risk for Real Estate Investment Trusts (REITs) of prolonged closures, as well as areas that may see a resurgence of the virus later this year.

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

A recent surge in corporate earnings guidance withdrawals has left decision-makers missing a wrench in their toolbox. Corporate guidance was already declining, in 2018, when the number of companies in the Russell 3000 providing guidance peaked at 1,721, dropping 6.9% year over year in 2019 to 1,632 companies. Guidance has been further impacted by the Coronavirus pandemic – 173 companies withdrew their previous guidance in the first quarter. This leaves decision-makers looking for alternative forward-looking information on a company's prospects.

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

Crisis creates uncertainty. Familiar landmarks lose their value and decision makers are left to navigate on partial information. Following the outbreak of the COVID-19 pandemic, this is the environment in which investors and corporate decision-makers now suddenly find themselves. The S&P Global Quantamental Research team has launched a series of research briefs that will aid decision-makers in navigating this uncertain environment. Utilizing non-traditional datasets across the entire S&P Global Market Intelligence product suite, these briefs will provide market participants with analysis on COVID-19's impact to the financial markets geared to fill the current information gap.

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: #ChangePays: There Were More Male CEOs Named John than Female CEOs
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: Looking Beyond Dividend Yield: Finding Value in Cash Distribution 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

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

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

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