

AlphaScreens: the might of momentum

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Could momentum trends outlast the latest tech wreck?

Silicon Valley Bank collapsing is a timely reminder of the stress a changing monetary policy regime can place on investors' past assumptions. Running our earnings upgrade and share price momentum screen amid a vibrant news flow and volatile markets means even more care than usual is required when surveying the results.

- Last time we ran the screen, banks scored very well. The global trend to higher interest rates that caused a mark-to-market loss on US Treasuries for SVB (as rates go up, bond prices fall), giving them a liability matching crisis, is generally viewed positively for large, solvent banks that can widen their net interest margin (the difference between what they charge lenders compared to what they pay depositors). As a result, the earnings prospects of many big banks had been looked on positively by analysts. At the time of writing, UK banks are seeing their share prices pummelled, although based on the close of market data from last week, big losers in the sell-off like **NatWest (NWG)** and **Standard Chartered (STAN)**, had again ranked well.
- Interestingly, **HSBC (HSBA)** which missed out this month because it already failed the one month share price momentum and next full year EPS growth rate tests, ranked highest overall on the combination of three month momentum and overall rate of EPS upgrades. Its purchase of SVB's UK business for just £1 could be a strategic masterstroke and the maelstrom in markets could be a great opportunity to reassess the buy case on a pull-back. Of course, this is still a story in motion, which means trading carefully, but if the contagion fears prove unfounded then big banks could benefit from this set-back for the fintech upstarts.
- On the flipside, the worry is there could be more surprises lurking in the financial system that are yet to be exposed by tighter monetary policy. Already, the [Financial Times reports](#) leading investment houses are reassessing their predictions for interest rate rises in the belief central banks may ease up in response to these concerns. This forces a rethink on the profit path for banks which, balanced with a heightened risk aversion following the SVB episode, means the momentum the sector has enjoyed over the past six months may not resume quickly.
- The tough opening to the week's trading has impacted companies in a number of sectors. Corporate energy and utilities technology and solutions provider **Yu**

Group (Yu), has seen its shares fall, although it leads our Aim screen based on the previous week's close. Results due on the 14th of March will be worth watching: if business momentum is on track, then the recent pull-back will have served to present a better entry point into a growth story.

- Alas, some high-ranking companies will not long be for the UK market: building materials business **CRH (CRH)** is soon off to list in New York.

Building on great expectations

Momentum shares, those that have seen the biggest share price gains in a recent period, have frequently been observed to outperform in the subsequent period.

Yet there are drawbacks, when momentum fails, it has done horribly. Few investors have nerves stern enough to keep faith in these down spells, especially given the intensive trading to maintain such a strategy is very expensive.

Shifting the focus to earnings

Being selective about individual momentum stocks is difficult and it reintroduces the element of decision making (with all the mental short-cuts and cognitive biases that entails) which a mechanical strategy like momentum should eliminate. Moving the emphasis from pure share price momentum to optimism about profitability and analysts' upgrade cycles is by no means a flawless approach to momentum, but it certainly provides a more useful starting point in terms of idea generation for individual shares.

Over time, the Investors' Chronicle methodology of looking not only at earnings forecast momentum, but crucially, also at the momentum in the pattern of analysts' upgrades, has proved hugely successful. Fewer companies meet the criteria of forecast and forecast momentum upgrades which are compulsory tests in our screen, so it's a system that can be followed more easily. Although, as some pretty horrendous losses at times demonstrate, the screens are best employed as a source of potential ideas, rather than a strategy to be followed exactly.

Performance statistics for the "Great Expectations" screen Investors' Chronicle has run for years against the FTSE All Share index, demonstrate the potential of

the system, but note the shocking falls in early 2020 when the coronavirus pandemic hit.

Methodology and some tweaks to allow for the pandemic

- **Earnings upgrade momentum:** EPS upgrades over the past 12 months of at least 10 per cent for the next financial year (in normal years, this test must be passed for the current financial year, too).
- **Earnings momentum:** Forecast EPS growth of at least 10 per cent in the current financial year and next financial year.
- **Price momentum:** Studies have found that the longer price momentum has persisted the more likely it is to be 'stale' and set to reverse. The Alpha momentum screen tests for strong share price performance over four different periods, which helps check price momentum remains fresh. Companies are tested whether they are in the top quartile of shares based on trailing 12 month share price momentum and whether they are above the index median for trailing six-month, three-month and one-month share price momentum.

Companies must pass the earnings upgrade momentum test(s). Those that do, are listed by the total number of tests they pass - out of seven (eight in normal years) - and within that a combined ranking score of earnings upgrade and three-month share price momentum.

The core test for our Great Expectations screen is for analysts to have upgraded their view of a company's earnings outlook in the last year. Before the pandemic, this test had to be passed for the current and next financial years. Thanks to the exceptional rebounds expected for the current year (with businesses reopening after lockdowns), momentum in upgrades is a given. Therefore, for the next twelve months, we are dropping one of the tests - we're only interested if analysts are getting more excited about the prospects for profits growing in the following year, a measure of sentiment less likely to appear distorted by the restart.

New indices, a tighter set of ideas

The Alpha earnings momentum screens have run the Great Expectations tests against the FTSE All Share index (for 'large cap' companies); the FTSE All Small Companies index (for main market 'small cap' companies); and the FTSE Aim All Share index for the junior market. Where this has fallen down in the past is that a lot of the companies in the FTSE All Share index are mid-to-small caps, so few

genuine large caps were appearing on the momentum ranking tests (especially price tests) that were comparing them medians and percentiles for an index containing many small companies.

Going forward we're switching to screening in an equities universe inspired by the Numis family of UK indices (although we do not copy their methodology exactly). The aim is to give investors a true overview of the genuine large-cap; mid-cap and small-cap companies that are exciting analysts and the markets.

We will also screen against the S&P 500 for large and mega-cap US companies.

Investors' Chronicle UK screening cut-offs:

Large Cap: The top 80 per cent of the UK main market's market capitalisation.

Mid cap: The next 15 per cent of UK main market capitalisation (80th to 95th percentile)

Small Cap: The bottom five per cent of the main market by capitalisation with a £35mn lower cut-off.

Aim: We cut off the Alternative market by excluding all companies below £35mn market cap.

Momentum screen results are below

UK large-cap momentum selection (passing at least 6 out of 7 tests)

Name	Ticker	Share price (last close)	Mkt cap (£mn)	Fwd 12-mth PE	Trailing 12-mth DY	Next yr 12-mth EPS upgrade	Fwd EPS grwth cur. FY	Fwd EPS grwth next FY	3-mth share price mom.	Net cash (£mn)	Tests passed (out of 7)	Tests failed
Standard Chartered	STAN	739.8	21189	7.1	2.1%	25%	21.1%	24.2%	24%	-	7	na
CRH	CRH	4235	31548	13.6	2.5%	10%	4.7%	10.7%	31%	-2454.9	6	/>10% EPSgrth FY+1/
Burberry	BRBY	2435	9210	19.2	2.1%	15%	24.4%	8.9%	14%	418.0	6	/>10% EPSgrth FY+2/
NatWest	NWG	286	27667	6.2	11.1%	56%	34.1%	13.1%	8%	-	6	/1mthMom/
Ashtead	AHT	5532	24268	15.9	1.3%	14%	23.1%	12.5%	13%	-1162.4	6	/1yrMom/
InterContinental Hotels	IHG	5510	9652	19.2	2.1%	15%	20.1%	14.5%	11%	-472.2	6	/1yrMom/

Source: FactSet, Investors' Chronicle

UK mid-cap momentum selection (passing at least 6 out of 7 tests)

Name	Ticker	Share price (last close)	Mkt cap (£mn)	Fwd 12-mth PE	Trailing 12-mth DY	Next yr 12-mth EPS upgrade	Fwd EPS grwth cur. FY	Fwd EPS grwth next FY	3-mth share price mom.	Net cash (£mn)	Tests passed (out of 7)	Tests failed
Inchcape	INCH	886.5	3661	10.4	2.7%	28%	26.7%	18.8%	8%	-1145.6	7	na
Hiscox	HSX	1126.5	3904	9.2	0.0%	46%	1061.8%	19.7%	7%	-	7	na
TBC Bank	TBCG	2370	1293	3.9	0.0%	56%	1.1%	12.6%	8%	-	6	/>10% EPSgrth FY+1/
4imprint	FOUR	4480	1258	18.8	1.3%	145%	263.0%	5.0%	5%	-23.2	6	/>10% EPSgrth FY+2/
Wise	WISE	581	5953	39.4	0.0%	48%	275.8%	24.7%	-8%	-	6	/3mthMom/
Telecom Plus	TEP	1914	1521	17.9	3.3%	44%	52.9%	11.7%	-14%	-129.5	6	/3mthMom/

Source: FactSet, Investors' Chronicle

UK small-cap momentum selection (passing at least 6 out of 7 tests)

Name	Ticker	Share price (last close)	Mkt cap (£mn)	Fwd 12-mth PE	Trailing 12-mth DY	Next yr 12-mth EPS upgrade	Fwd EPS grwth cur. FY	Fwd EPS grwth next FY	3-mth share price mom.	Net cash (£mn)	Tests passed (out of 7)	Tests failed
Baltic Classifieds	BCG	146.6	730	21.0	1.3%	21%	1318.6%	21.6%	9%	9.3	7	na
Bank of Cyprus	BOCH	231.0	1031	4.4	0.0%	171%	38.4%	-1.3%	51%	-	6	/>10% EPSgrth FY+2/
Kenmare Resources	KMR	486.5	462	3.8	6.2%	50%	81.8%	-15.9%	14%	-34.2	6	/>10% EPSgrth FY+2/
Sthree	STEM	469.0	631	11.7	3.4%	11%	-5.6%	14.1%	18%	-177.8	6	/>10% EPSgrth FY+1/
MITIE Group	MTO	78.9	1077	9.6	2.7%	14%	-13.7%	13.4%	10%	-809.4	6	/>10% EPSgrth FY+1/

Source: FactSet, Investors' Chronicle

UK Aim momentum selection (passing at least 6 out of 7 tests)

Name	Ticker	Share price (last close)	Mkt cap (£mn)	Fwd 12-mth PE	Trailing 12-mth DY	Next yr 12-mth EPS upgrade	Fwd EPS grwth cur. FY	Fwd EPS grwth next FY	3-mth share price mom.	Net cash (£mn)	Tests passed (out of 7)	Tests failed
Yu Group	YU	760	127	14.7	0.0%	191%	87.7%	70.5%	85%	-42.7	7	na
ZOO Digital	ZOO	196.5	175	24.1	0.0%	175%	128.4%	56.2%	8%	-18.0	7	na
Kitwave	KITW	280	196	10.7	3.3%	49%	29.6%	3.3%	64%	-78.3	6	/>10% EPSgrth FY+2/
Best of the Best	BOTB	575	48	9.8	1.0%	22%	21.5%	10.4%	37%	6.7	6	/1mthMom/
M&C Saatchi	SAA	188	230	10.2	0.0%	27%	38.3%	28.3%	27%	-130.1	6	/1yrMom/
Netcall	NET	99	158	28.7	0.5%	56%	46.8%	21.9%	15%	-7.7	6	/1mthMom/
Judges Scientific	JDG	9200	586	25.7	0.8%	42%	47.4%	1.6%	12%	-8.2	6	/>10% EPSgrth FY+2/
Renold	RNO	26.6	60	5.6	0.0%	18%	21.3%	-3.1%	18%	-45.3	6	/>10% EPSgrth FY+2/
Spectra Systems	SPSY	173	78	15.9	5.1%	14%	11.1%	6.7%	8%	9.6	6	/>10% EPSgrth FY+2/
Keywords Studios	KWS	2956	2311	27.6	0.1%	20%	28.2%	8.2%	6%	-31.7	6	/>10% EPSgrth FY+2/
GlobalData	DATA	1245	1473	23.7	2.1%	12%	21.4%	17.0%	5%	-111.8	6	/1yrMom/
Ashtead Technology	AT	310	247	12.9	0.0%	31%	39.6%	28.3%	-5%	-6.2	6	/3mthMom/
Eagle Eye Solutions	EYE	557.5	163	45.0	0.0%	33%	461.8%	26.8%	-6%	-8.6	6	/3mthMom/

Source: FactSet, Investors' Chronicle

US screen continued below

US S&P 500 momentum selection (passing 6 out of 7 tests)

Name	Ticker (All US)	Share price \$ (last close)	Mkt cap (\$mn)	Fwd 12-mth PE	Trailing 12-mth DY	Next yr 12-mth EPS upgrade	Fwd EPS grwth cur.FY	Fwd EPS grwth next FY	3-mth share price mom.	Net cash (\$mn)	Tests passed (out of 7)	Test failed	GICS sector
Arista Networks	ANET	146.46	44875	24.7	0.0%	40%	26.7%	11.0%	15%	1730.2	7	na	IT
United Airlines	UAL	50.97	16672	5.8	0.0%	25%	236.3%	19.3%	18%	-3533.0	7	na	Industrials
Lamb Weston	LW	97.63	14046	22.2	1.0%	36%	90.3%	14.0%	14%	-174.1	7	na	Consumer Staples
Cadence Des.Sys.	CDNS	195.67	53406	38.3	0.0%	16%	16.9%	12.7%	20%	-465.4	7	na	IT
Arch Capital	ACGL	66.61	24725	11.0	0.0%	22%	22.1%	13.2%	11%	-	7	na	Financials
Booking	BKNG	2480.49	93386	18.5	0.0%	8%	29.9%	19.0%	23%	3952.0	7	na	Consumer Discr.
Targa Resources	TRGP	73.55	16669	12.5	1.9%	39%	46.8%	10.2%	7%	-2667.8	7	na	Energy
Synopsys	SNPS	355.23	54102	31.9	0.0%	15%	18.9%	14.7%	9%	-1207.4	7	na	IT
Everest Re	RE	356.9	13975	7.4	1.8%	17%	73.9%	13.9%	7%	-	7	na	Financials
First Solar	FSLR	207.73	22146	27.1	0.0%	199%	-	93.9%	38%	1543.1	6	/>10%EPSgrth FY+1/	IT
Salesforce	CRM	173.18	173180	23.7	0.0%	26%	35.7%	24.5%	32%	-13383.0	6	/1yrMom/	IT
United Rentals	URI	429.28	29775	10.3	0.0%	29%	26.2%	7.2%	22%	-2339.0	6	/>10%EPSgrth FY+2/	Industrials
Monolithic Pwr Sys.	MPWR	478.95	22657	35.2	0.6%	17%	6.2%	17.6%	24%	474.5	6	/>10%EPSgrth FY+1/	IT
WW.Grainger	GWWW	677.88	34029	20.0	1.0%	20%	12.3%	9.5%	15%	-1685.0	6	/>10%EPSgrth FY+2/	Industrials
Fortinet	FTNT	58.76	46072	40.2	0.0%	15%	18.5%	18.6%	13%	-867.4	6	/1yrMom/	IT
Schlumberger NV.	SLB	51	72430	16.1	1.3%	17%	38.6%	23.6%	9%	-9124.0	6	/1mthMom/	Energy
Analog Devices	ADI	181.76	91944	16.8	1.7%	16%	12.3%	2.7%	8%	-972.1	6	/>10%EPSgrth FY+2/	IT
PACCAR	PCAR	72.32	37788	11.4	1.3%	21%	13.0%	-12.7%	7%	-5542.6	6	/>10%EPSgrth FY+2/	Industrials
Microchip Tech.	MCHP	81.57	44684	13.0	1.4%	14%	30.2%	4.5%	7%	-1079.6	6	/>10%EPSgrth FY+2/	IT
Hershey Company	HSY	237.74	34929	24.9	1.6%	12%	10.4%	7.5%	0%	-2793.3	6	/>10%EPSgrth FY+2/	Consumer Staples
Globe Life	GL	113.97	10998	10.8	0.7%	14%	27.1%	8.4%	-2%	-	6	/>10%EPSgrth FY+2/	Financials
SolarEdge Tech.	SEDG	304.32	17087	31.9	0.0%	23%	52.1%	28.3%	-3%	134.5	6	/1yrMom/	IT
Arthur J.Gallagher	AJG	182.76	38762	20.2	1.1%	27%	14.2%	13.1%	-5%	-	6	/3mthMom/	Financials

Source: FactSet, S&P 500, Investors' Chronicle

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