

News Release

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Technology Manufacturing and Service Sectors Outperformed Other Innovative Companies in Q4

Annual Benchmarking of Innovation α Index Suggests Larger Role for Health Technology and Technology Services

- The most innovative companies in the US and globally improved their stock market performance in Q4, ending the year on a strong note
- Technology manufacturing and service sectors are regaining dominance, the result of increased consumer spending power and confidence
- An easing of trade tensions may help bolster global innovators, especially in technology and producer manufacturing
- Q1 will see increased shares of telecommunications equipment and motor vehicles in the global index, and health technology and aerospace & defense in the US index

NEW YORK, January 6, 2020...Technology manufacturing and service sectors are regaining dominance among the most innovative companies in the US and globally, according to an annual re-benchmarking of *The Conference Board Innovation α Index powered by M•CAM* for the United States and for the global economy.

In the fourth quarter of 2019, *The Conference Board Innovation α Index powered by M•CAM* for the United States saw an improvement in its market returns performance – to 7%, up from 1.6% in the third quarter. The prospect of a “phase one trade deal” between the US and China has helped the financial performance of the most exposed companies, especially in technology and manufacturing. In addition, a relatively well-performing US economy, fueled by consumer spending, a strong housing market, and significant investment in intellectual property, has supported the stock performance of innovative companies.

The parallel global *Innovation α Index*, which tracks innovative companies worldwide, demonstrated even more robust stock market performance, improving from a return of less than 1% in the third quarter to 8.6% in the final quarter of 2019. On an annual basis, the financial returns on both innovation indexes improved 27.3% over the year.

The *Innovation α* indexes measure a fundamental source of growth, namely innovation capabilities of companies. The indexes are expected to yield long-term results that are better than market averages. Because the market performance of companies is driven by many factors in the short term, the index returns can fluctuate compared to benchmarks. Measurement of innovation outcomes requires a long-term focus.

“It is encouraging to see that companies that invest in innovation are continuing to deliver results, despite the slowdown in growth they faced in 2019,” said Bart van Ark, Executive Vice President and Chief Economist at The Conference Board. “In the United States, intellectual property products (IPP) have been the only component of real capital spending that has been growing during the second half of 2019. For 2020, we forecast investment in IPP in the US to grow at almost 6%, whereas aggregate capital spending will only increase at 1%.”

Moving into 2020, technology manufacturing and service sectors are regaining dominance. The weights of the producer manufacturing sector also increased for both of the indexes. However, the weight of the consumer non-durable sector dropped for both of the indexes, indicating the sector’s slower pace in turning innovation advances into market performance. In the global market, it is particularly noteworthy to see that non-energy minerals suppliers are expected to continue to place more innovation value add in their operations, suggesting that the market is beginning to realize that how natural resources are supplied and prepared is becoming increasingly dependent on both materials and process innovation.

“In Q1, market resilience, fueled by innovation, is generally seen in companies with diversified business sectors and supply chains, feasible and flexible management of intellectual property, and a demonstrated capability in global integration,” said David Martin, CEO of M•CAM International.

Latest insights from the Innovation α Index

The Conference Board Innovation α Index Powered by M•CAM was developed by M•CAM, an investment firm that analyzes intellectual property and intangible assets to support credit and equity products. It consists of two indexes which rank and identify the 100 most innovative US companies in the Russell 1000 universe of companies and the 120 most innovative global companies in the MSCI World Index universe of companies, respectively. The selection is determined by the potential of those companies to generate substantial revenue growth through the use of proprietary technologies and innovations. The rankings result from a series of algorithms that gauge a company’s innovation standing by analyzing their patents, trademarks and copyrights and the value generated from them.

The latest results are based on a re-benchmarking of the indexes on the first trading day of the year. For the 2020 Q1 index reset, 10 companies were replaced in the Innovation α [®] United States Index, and 12 companies were replaced in the Innovation α [®] Global Index. In subsequent quarters, the indexes will be reweighted on the first trading day of the quarter depending on their expected performance.

Based on this year’s re-benchmarking, the share of companies in the health technology sector increased from 14.8% in Q4-19 to 19.4% in Q1-20 in the US index. Other US sectors that increased in importance include technology services, in particular aerospace and defense, retail trade, and distribution services.

For the global index, this year’s re-benchmarking resulted in an increase in the share of companies in the electronic technology sector from 22.8% in Q4-19 to 24.7% in Q1-20, with the largest increase in telecommunications

equipment. Other global sectors that increased in importance include non-energy minerals, consumer durables, and producer manufacturing. The increased industry share in motor vehicles, from 3.6% in Q4-19 to 4.5% in Q1-20 is particularly noteworthy.

“Looking ahead, the indexes suggest that innovative companies with global exposure will benefit the most from an easing in trade tensions, especially technology and producer manufacturing companies,” said Ataman Ozyildirim, Senior Director, Economic Research at The Conference Board. “Domestic sectors, such as retail trade and services, will especially benefit from continued strength in the consumer sector of the economy. However, a rapid response to disruptive technologies will be critical for those domestically focused industries.”

About the Innovation α Index

The Conference Board Innovation α Index powered by M•CAM features 120 global and 100 US rankings of large public companies in two separate indexes. The constituent companies in the indexes are expected to generate higher stock market performance than those that are not in the index because they invest in intangible assets and effectively deploy their innovations. The US and global indexes enable a direct look at the financial outcomes of the companies’ innovation activity that arises out of their intangible investments such as patents, trademarks and copyrights.

The indexes demonstrate that companies that focus on innovations – those protected with proprietary rights – will perform better in financial markets in the long-term. The companies in the indexes are weighted according to each firm’s ability to invest in, develop, control and deploy intellectual property to achieve strategic advantage over competitors. The index is rules-based and is reweighted quarterly on the first trading day of January, April, July and October. The index is also reconstituted annually on the first trading day of January. During the reconstitution, up to ten percent of the index components may be replaced. Stock prices and market capitalization are not factors in determining index weighting.

In the US index, the top five ranked companies (based on their index weights for Q1 of 2020) are General Electric Company, Microsoft Corporation, 3M Company, Apple Inc., and Abbott Laboratories. In the global index, the top five ranked companies (based on their index weights for Q1 of 2020) are adidas AG, Bayer AG, Bayerische Motoren Werke AG, General Electric Company, and AstraZeneca PLC.

See tables on page 4-5 for more information on sectors and changes in weights. More information on the innovation index is available in a white paper ([available here](#)), which details the methodology and results. A complete ranking of the most innovative companies (US and global), their weights in the indexes, and their changes in weights is also [available here](#).

Table 1: Innovation α US and Global Indexes Outperform their Market Benchmarks in the Long Run

	2019Q3 Return (6/27/2019 - 9/26/2019)	2019Q4 Return (9/26/2019 - 12/27/2019)	Year-To-Date Return (1/2/2019 - 12/27/2019)
Innovation α US Index	1.59%	6.98%	27.30%
Russell 1000 Index	1.62%	8.75%	29.16%
Innovation α Global Index	0.92%	8.64%	27.28%
MSCI ACWI Index	0.18%	8.62%	24.71%
* Innovation α Global Index launched on 1/2/2019. The last year return for this index includes the former publication of the data as the CNBC IQ100 powered by M•CAM. Source: The Conference Board Innovation α Index Powered by M-CAM			

About The Conference Board Innovation α United States Index powered by M•CAM

The US index uses a quantitative, rule-based methodology to measure the performance of top 100 US companies in innovation ability. The universe of the index are equities of companies similar to those in the Russell 1000, including the 1000 US companies with the largest market capitalization.

About The Conference Board Innovation α Global Index powered by M•CAM

The global Index uses a quantitative, rule-based methodology to measure the performance of the top 120 global companies in innovation ability. The universe of the index is similar to the MSCI World Index, including companies from the U.S., Europe, Japan, etc.

M•CAM, the index owner, measures the innovation ability of companies by analyzing their powers in the control and deployment of intellectual property (IP), including patents, trademarks, and copyrights, etc. Since 1998, M•CAM has aggregated and maintained the world's largest organized repository of state-granted IP from over 160 countries. This analysis provides an absolute qualitative and quantitative measure of each individual company's innovation and management thereof. It also provides a relative score of how one company's performance is likely to compare with others with whom it cooperates or competes. M•CAM is the Advisor for the Innovation α ® Series of ETFs (INAU, INAG, and TWAR) listed on the New York Stock Exchange.

About The Conference Board

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TABLE 2: The Conference Board Innovation α United States Index powered by M•CAM (INAU)

Change in Weights by Industry Sector – Updated January 2, 2020

Sector	2020Q1 Weight	2019Q4 Weight	Change
Health Technology	19.44%	14.87%	4.57%
Technology Services	10.80%	8.29%	2.51%
Retail Trade	3.00%	1.30%	1.70%
Distribution Services	1.50%	0.00%	1.50%
Health Services	2.00%	0.65%	1.35%
Producer Manufacturing	9.54%	8.30%	1.23%
Industrial Services	3.65%	2.67%	0.98%
Process Industries	4.09%	3.89%	0.20%
Finance	10.19%	11.36%	-1.18%
Communications	2.15%	3.88%	-1.73%
Consumer Services	0.15%	2.02%	-1.87%
Consumer Non-Durables	8.09%	10.07%	-1.98%
Energy Minerals	0.30%	2.39%	-2.10%
Electronic Technology	24.67%	26.99%	-2.32%
Consumer Durables	0.44%	3.32%	-2.87%

*The classification system is FactSet Revere Business Industry Classification System (RBICS).

Sources: The Conference Board and M•CAM

TABLE 3: The Conference Board Innovation α Global Index powered by M•CAM (INAG)

Change in Weights by Industry Sector – Updated January 2, 2020

Sector	2020Q1 Weight	2019Q4 Weight	Change
Electronic Technology	24.69%	22.82%	1.87%
Non-Energy Minerals	4.80%	3.35%	1.45%
Consumer Durables	9.97%	8.91%	1.06%
Producer Manufacturing	9.29%	8.77%	0.51%
Commercial Services	2.66%	2.40%	0.26%
Finance	5.50%	5.28%	0.22%
Consumer Services	0.64%	0.72%	-0.08%
Industrial Services	0.64%	0.72%	-0.08%
Communications	1.48%	1.95%	-0.48%
Retail Trade	0.84%	1.44%	-0.60%
Consumer Non-Durables	7.77%	8.38%	-0.61%
Health Technology	19.54%	20.24%	-0.70%
Energy Minerals	2.88%	3.58%	-0.70%
Process Industries	3.39%	4.40%	-1.02%
Technology Services	5.91%	7.04%	-1.12%

*The classification system is FactSet Revere Business Industry Classification System (RBICS).

Sources: The Conference Board and M•CAM