

News Release

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Most Innovative Companies May Benefit from Fiscal Stimulus

Market Valuation of Most Innovative Companies Declined Sharply in First Quarter, Reports The Conference Board

- **The most innovative companies in the Innovation α Index saw a large decline in financial market performance as the COVID-19 pandemic spread.**
- **Electronic Technology, Technology Services and Consumer Nondurables are gaining dominance among US sectors, especially those that can provide innovative solutions to fight the COVID-19 pandemic.**
- **In the US, the performance of Distribution Services, Technology Services, Retail Trade, and Consumer Non-Durables sectors was the least negative; however, the Distribution Services and Retail Trade sectors will see a reduced weight in the index going forward.**
- **Despite global volatility in stock markets, globally the performance of the Retail Trade sector essentially held steady in Q1.**

NEW YORK, April 1, 2020...In Q1 2020, *The Conference Board Innovation α Index powered by M•CAM* for the United States declined by 23 percent and was down nearly 14 percent from a year ago. At the same time, the parallel global *Innovation α Index*, which tracks innovative companies worldwide, declined by 24 percent, and was down by 14 percent over a year ago. However, the reweighting of sectors in the index is pointing at potential benefits for innovative companies that can help tackle or offset the negative effects from COVID-19.

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.

“In this type of supply-side crisis, obviously no sector goes unscathed and this includes the most innovative companies in the United States and around the world,” said Bart van Ark, Executive Vice President and Chief Economist at The Conference Board. “However, the companies in electronics and technology services sectors are gaining importance in the index as they may be the biggest beneficiaries of economic stimulus policies, especially if they can help relieve supply constraints caused by the pandemic. We may also see a greater impact from domestic innovation in sectors that historically were net importers of innovation.”

Technology companies’ stock prices rose sharply over the last week of March when the Phase III stimulus in the U.S. was passed. For both indexes, the Technology Services sector is outperforming Health Technology services. Partly as a

result of that, the Technology Services sector is gaining weight in both indexes. The weight of the Consumer Non-Durables sector also increased substantially in both indexes for Q2, possibly due to the boosted sales in grocery stores during the pandemic outbreak and their relatively stable financial market performance during the crisis. Although the major financial markets have also recovered temporarily during the last week of March as a response to these “crisis relief” actions, the global economic recovery outlook remains uncertain.

“Several companies have prioritized innovation investment focused on agility in manufacturing and distribution – in response to concerns highlighted by the recent global supply chain uncertainty,” said David Martin, CEO of M•CAM International. “Companies that have received government patronage or make collaborations with other entities to relieve the COVID-19 crisis will also benefit. For example, General Electric has partnered with other companies, like 3M and Ford, to manufacture respirators and ventilators to combat the coronavirus since late March. Its index weight for Q2 has been set to 3.81% and 1.12% for the United State and Global Index, respectively, compared to their 1% and 0.83% company weight average.”

While demand for medical services may increase during the COVID-19 pandemic, only a portion of the healthcare companies that specialize in COVID-19 related supplies, or the ones that directly receive government stimulus, might achieve stable financial performance. At the same time, most of the other healthcare companies will suffer from supply chain vulnerabilities.

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.

For the 2020 Q2 index reset, the indexes were reweighted on April 1, 2020 depending on the expected performance of their constituents.

Based on this quarterly reset, the share of US index components in the Electronic Technology, Technology Services, and Consumer Non-Durables each increased 3 percent or more, while the share of companies in Retail Trade and Health Technology each decreased 2 percent or more.

For the global index, this quarterly reset resulted in smaller changes in the share of industries. The share of companies in Consumer Non-Durables, Technology Services and Finance in the global index each increased more than 0.3

percent. The share of companies in Communications, Retail Trade, Non-Energy Minerals, and Electronic Technology each decreased 0.3 percent or more, with the largest decrease in electronic technology at -1.3 percent.

“Both indexes suffered from large declines in the performance of the Energy Minerals sector as oil prices collapsed, but the largest contraction in the equity valuations were primarily in the industrial services sector in both indexes,” said Ataman Ozyildirim, Senior Director, Economic Research at The Conference Board. “In the US index, the Consumer Services, Energy Minerals, and Industrial Services sectors were the three worst quarterly performers. Globally, Commercial Services, Energy Minerals, and Industrial Services were the three worst quarterly performers among the index constituents.”

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 Q2 of 2020) are IBM, Microsoft Corporation, General Electric Company, Advanced Micro Devices, Inc., and HP Inc. In the global index, the top five ranked companies (based on their index weights for Q2 of 2020) are adidas AG, Bayer AG, BMW, Daimler AG, and Thales SA.

See tables on pages 4-6 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 Latest Performance

	2019Q1 Return (1/2/2019 - 3/29/2019)	2019Q2 Return (3/29/2019 - 6/27/2019)	2019Q3 Return (6/27/2019 - 9/26/2019)	2019Q4 Return (9/26/2019 - 12/27/2019)	2020Q1 Return (12/27/2019 - 3/27/2020)	Last Year Return (3/27/2019 - 3/27/2020)	Year-to- Date Return (1/2/2020 - 3/27/2020)
Innovation α[®] US Index	14.61%	2.21%	1.59%	6.98%	-23.06%	-13.73%	-23.90%
Russell 1000 Index	13.36%	3.11%	1.62%	8.75%	-22.05%	-10.23%	-22.46%
Innovation α[®] Global Index	13.44%	2.34%	0.92%	8.64%	-24.35%	-14.20%	-24.96%
MGIE Trade War Index	11.88%	2.30%	1.66%	8.21%	-23.70%	-13.52%	-24.38%
MSCI ACWI Index	11.89%	2.43%	0.18%	8.62%	-22.97%	-13.52%	-23.37%

Sources: The Conference Board and 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

The Conference Board is the member-driven think tank that delivers trusted insights for what's ahead. Founded in 1916, we are a non-partisan, not-for-profit entity holding 501 (c) (3) tax-exempt status in the United States. www.conference-board.org.

TABLE 2: The Conference Board Innovation α United States Index powered by M•CAM (INAU)¹

Change in Weights and Performance by Industry Sector – Updated March 27, 2020

Sector	2020Q2 Weight	2020Q1 Weight	Change in weight	2020Q1 Performance (1/2/2019 - 3/27/2019)
Distribution Services	0.44%	1.50%	-1.06%	-11.40%
Technology Services	15.69%	12.30%	3.40%	-11.97%
Retail Trade	0.88%	3.00%	-2.13%	-12.10%
Consumer Non-Durables	10.99%	8.09%	2.90%	-12.58%
Health Services	1.47%	2.00%	-0.53%	-17.11%
Health Technology	15.11%	19.44%	-4.33%	-18.75%
Communications	2.37%	2.15%	0.22%	-22.55%
Electronic Technology	28.32%	23.17%	5.15%	-26.58%
Finance	8.78%	10.19%	-1.41%	-27.28%
Producer Manufacturing	7.93%	9.39%	-1.46%	-30.23%
Process Industries	2.63%	4.09%	-1.47%	-34.23%
Consumer Durables	1.31%	0.44%	0.87%	-35.15%
Consumer Services	0.44%	0.15%	0.29%	-39.50%
Energy Minerals	0.88%	0.30%	0.58%	-45.63%
Industrial Services	2.78%	3.80%	-1.02%	-69.86%
All Sectors	100.00%	100.00%	n.a	-23.90%

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

Sources: The Conference Board and M•CAM

¹ The index constituents' weights are changing on every trading day due to stock price fluctuations. The weights shown are determined on 3/27/2020 for INAU index as indicative values of the weights on 4/1/2020.

TABLE 3: The Conference Board Innovation α Global Index powered by M•CAM (INAG)²

Change in Weights and Performance by Industry Sector – Updated March 27, 2020

Sector	2020Q2 Weight	2020Q1 Weight	Change in Weight	2020Q1_Performance (1/2/2019 - 3/27/2019)
Retail Trade	0.66%	0.84%	-0.18%	0.11%
Technology Services	7.77%	7.32%	0.45%	-15.13%
Consumer Services	0.66%	0.64%	0.02%	-16.86%
Health Technology	20.54%	20.39%	0.15%	-17.51%
Communications	1.31%	1.48%	-0.16%	-19.05%
Consumer Non-Durables	8.38%	7.77%	0.60%	-19.66%
Finance	5.88%	5.50%	0.38%	-22.47%
Electronic Technology	21.10%	22.43%	-1.33%	-22.75%
All Sector	100.00%	100.00%	n.a.	-24.96%
Producer Manufacturing	7.43%	7.37%	0.06%	-30.68%
Process Industries	3.46%	3.39%	0.07%	-32.68%
Non-Energy Minerals	3.88%	4.17%	-0.28%	-32.86%
Consumer Durables	10.75%	10.61%	0.15%	-33.96%
Commercial Services	2.69%	2.66%	0.03%	-41.71%
Energy Minerals	3.07%	2.88%	0.19%	-51.84%
Industrial Services	2.41%	2.55%	-0.14%	-53.61%

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

Sources: The Conference Board and M•CAM

² The index constituents' weights are changing on every trading day due to stock price fluctuations. The weights shown are determined on 3/27/2020 4:30 pm ET for INAG index as indicative values of the weights on 4/1/2020.