

News Release

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Innovation α Index: Global COVID-19 pandemic disruptions take a toll on the power of new innovations to drive market value

Strongest-performing sectors in Q3 benefited from spending on existing products and services, rather than new and innovative market offerings, reports The Conference Board

- In both the U.S. and Global Innovation α Indexes, **Technology Services** sees the largest increase in its index weight for Q4 2020 among all sectors
- Heading into Q4, the **Technology Services, Health Technology, and Electronic Technology** sectors together account for nearly 50% of the Innovation α Global Index, and more than 50% of the U.S. index
- In the U.S., innovative companies in **Retail Trade, Producer Manufacturing, Process Industries, Health Technology, Electronic Technology, and Consumer Non-Durables** produced the largest Q3 market returns
- In Q3, the market performance of **Energy Minerals, Distribution Services, and Communications** lagged other sectors in the U.S.
- In the global index, **Health Technology and Technology Services** underperformed in Q3—in contrast to the U.S.

NEW YORK, October 1, 2020...The Conference Board *Innovation α Index powered by M•CAM* for the United States increased 8.8% in Q3 2020 and, at quarter's end, is up nearly 1.7% from a year ago. The parallel *Innovation α Global Index*, which tracks innovative companies worldwide, increased 6.9% in Q3, and is up 3% from a year ago.

By comparison, the U.S. Russell 1000 rose 10.2% in Q3, while the global MSCI ACWI grew 7.6%. Normally in the long run, both the U.S. and Global *Innovation α Indexes* outperform broad indexes like the Russell 1000 and MSCI ACWI, but this was not the case in Q3 2020—and has not been year-to-date. In the United States, the Q3 data show that innovative companies in Retail Trade, Producer Manufacturing, and Process Industries performed well, while Energy Minerals, Distribution Services, and Communications lagged other sectors. Globally, Q3's top-performing sectors were Consumer Non-Durables, Commercial Services, Process Industries, Retail Trade, and Consumer Durables. Energy Minerals posted the worst quarterly performance in the global index.

"Some of the sectors relying heavily on incremental innovations, such as Retail Trade, Consumer Non-Durables, and Producer Manufacturing have performed quite well in Q3," said Dana M. Peterson, Executive Vice President and Chief Economist at The Conference Board. "But their weights in the Innovation α Index aren't as high as those for the technology-related sectors, which have shown a more mixed picture. Entering Q4, Electronic Technology, Health

Technology, and Technology Services—which together make up about half of the index—are the sectors to watch. They will be key players in providing new innovations and providing a more structural response to the long-lasting effects of COVID-19—the pandemic itself, plus the disruptions set in motion through social-distancing and work-from-home policies.”

The ***Innovation α*** indexes reflect stock-market performance from one of the most fundamental sources of business growth—namely, the innovation capabilities of companies. The indexes are expected to yield long-term results that exceed 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. For example, the cumulative growth of \$1000 invested in the ***Innovation α U.S. Index*** in January 2013 exceeds the cumulative growth of the same amount invested in the Russell 1000 index by about 10 percent.

In the U.S. index, the weights for Q4 increased the most for Technology Services, Energy Minerals, Consumer Durables, Health Services, and Producer Manufacturing. Retail Trade, Producer Manufacturing, and Process Industries showed the highest quarterly performance in the third quarter.

In the global index, Technology Services, Consumer Non-Durables, and Health Technology saw their weights for Q4 increase the most. Commercial Services, Consumer Non-Durables, Process Industries, Retail Trade, and Consumer Durables showed the highest quarterly performance in the third quarter.

“After two full quarters of global business realignment triggered by the global COVID-19 pandemic disruptions, there is compelling evidence that the power of innovation to drive market value and returns can be significantly impacted by market exogenous forces,” said David Martin, CEO of M•CAM International. “Upon closer inspection, the sectors which perform better benefited from spending on existing products and services with little innovation associated rather than new and innovative market offerings.”

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 that rank and identify the 100 most innovative U.S. companies in the Russell 1000 universe of companies and the 120 most innovative global companies in the MSCI World Index universe of companies.¹ 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.

¹ United Technologies Corp and Raytheon Company completed an all-stock merger and formed Raytheon Technologies Corporation effective on April 4th, 2020. Consequently, United Technologies Corp and Raytheon Company have been deleted from the INAU index and Raytheon Technologies Corporation has been added, leading to a total of 99 companies in INAU index for 2020Q3.

For the 2020 Q4 index reset, the indexes were reweighted on October 1, 2020 depending on the expected performance of their constituents.

In the U.S. index, the top five ranked companies (based on their index weights for Q4 of 2020, with their sectors shown in parentheses) are Microsoft Corporation (Technology Services), Procter & Gamble Company (Consumer Non-Durables), Halliburton Company (Industrial Services), Genworth Financial, Inc. Class A (Finance), and International Business Machines Corporation (Technology Services).

In the global index, the top five ranked companies (based on their index weights for Q4 of 2020, with their sectors shown in parentheses) are Daimler AG (Consumer Durables), Apple Inc. (Electronic Technology), Microsoft Corporation (Technology Services), adidas AG (Consumer Non-Durables), and Bayer AG (Health Technology).

“While the indexes reflect the disruptions brought on by social distancing and working from home, they also raise the potential that continuing recession and disruptions may take a toll on the development of fundamentally novel innovations in 2020,” said Ataman Ozyildirim, Senior Director of Economic Research at The Conference Board. “For example, in the diagnostics and testing arena, most of the technologies deployed in response to the challenges posed by COVID-19 are derived from relatively dated patent portfolios. According to our research partner M•CAM’s work, the coronavirus patent landscape—which includes over 5,100 patents on the virus, its detection, treatments, and vaccines—features an average patent age of over ten years.”

About the *Innovation α Index*

The Conference Board *Innovation α Index powered by M•CAM* features 120 global and 100 U.S. 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 U.S. 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.

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 (U.S. and global), their weights in the indexes, and their changes in weights is also [available here](#).

Table 1: Innovation α U.S. and Global Indexes Latest Performance

	2019Q4 Return (9/26/2019 - 12/27/2019)	2020Q1 Return (12/27/2019 - 3/27/2020)	2020Q2 Return (3/27/2020 - 6/26/2020)	2020Q3 Return (6/26/2020 - 9/25/2020)	Last Year Return (9/25/2019 - 9/25/2020)	Year – to – Date Return (1/2/2020 - 9/25/2020)
Innovation α[®] U.S. Index	6.98%	-23.06%	13.52%	8.84%	1.67%	-5.97%
Russell 1000 Index	8.75%	-22.05%	19.55%	10.15%	11.32%	2.10%
Innovation α[®] Global Index	8.64%	-24.35%	17.14%	6.94%	3.00%	-5.99%
MSCI ACWI Index	8.62%	-22.97%	18.14%	7.64%	6.39%	-2.55%

Sources: The Conference Board and M•CAM

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

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

About The Conference Board

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

Weights and Performance by Industry Sector ranked by Change in Weights – Updated September 29, 2020

Sector	2020Q4_Weight	2020Q3_Weight	Change	2020Q3_Performance (6/26/2020 - 9/25/2020)
Health Technology	11.84%	14.77%	-2.93%	11.02%
Electronic Technology	27.20%	29.06%	-1.86%	11.22%
Consumer Non-Durables	7.51%	8.82%	-1.31%	11.06%
Finance	10.35%	11.65%	-1.30%	7.59%
Process Industries	3.39%	3.72%	-0.32%	12.25%
Communications	2.35%	2.48%	-0.13%	-0.87%
Retail Trade	1.87%	1.96%	-0.09%	18.73%
Consumer Services	0.38%	0.44%	-0.06%	7.56%
Distribution Services	0.38%	0.44%	-0.06%	-6.17%
Industrial Services	4.65%	4.46%	0.19%	2.49%
Producer Manufacturing	8.58%	8.10%	0.47%	12.49%
Health Services	1.49%	0.44%	1.05%	5.44%
Consumer Durables	3.84%	2.40%	1.44%	6.89%
Energy Minerals	3.46%	1.96%	1.50%	-17.74%
Technology Services	12.71%	9.30%	3.41%	5.68%
All Sectors	100.00%	100.00%	na	8.84%

*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 9/29/2020 4:30 pm ET for INAU index as indicative values of the weights on 10/1/2020.

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

Weights and Performance by Industry Sector ranked by Change in Weights – Updated September 29, 2020

Sector	2020Q4_Weight	2020Q3_Weight	Change	2020Q3_Performance (6/26/2020 - 9/25/2020)
Electronic Technology	20.96%	21.41%	-0.45%	3.86%
Energy Minerals	3.07%	3.30%	-0.23%	-20.46%
Consumer Durables	10.16%	10.38%	-0.22%	14.72%
Producer Manufacturing	8.09%	8.32%	-0.22%	11.72%
Communications	1.34%	1.51%	-0.17%	3.33%
Non-Energy Minerals	2.69%	2.77%	-0.09%	1.07%
Retail Trade	0.92%	1.00%	-0.08%	14.94%
Commercial Services	2.95%	3.01%	-0.06%	17.83%
Consumer Services	0.67%	0.68%	-0.01%	3.12%
Process Industries	5.37%	5.30%	0.08%	15.01%
Finance	5.68%	5.59%	0.09%	8.72%
Industrial Services	1.90%	1.79%	0.11%	8.37%
Health Technology	20.02%	19.76%	0.27%	2.80%
Consumer Non- Durables	8.17%	7.72%	0.45%	17.73%
Technology Services	8.01%	7.48%	0.53%	4.22%
All Sectors	100.00%	100.00%	na	6.94%

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

Sources: The Conference Board and M•CAM

³ The index constituents' weights are changing on every trading day due to stock price fluctuations. The weights shown are determined on 9/29/2020 4:30 pm ET for INAG index as indicative values of the weights on 10/1/2020.