

AlphaScreens: the might of momentum

1 April 2025

Mixed signals

Momentum is still evident at aerospace giant Rolls-Royce, but there were signs of concern for airline operators and hotels while continued geopolitical volatility is boosting prospects for gold miners.

- **Rolls-Royce (RR)** shares have risen by more than 80 per cent over the last year as investors continue to respond positively to chief executive Tufan Erginbilgic's turnaround efforts. In its annual results in February, the company added a £1bn share buyback to the return of the dividend, said it would hit capital markets day targets two years early and upgraded mid-term targets despite ongoing supply chain challenges. While valuation risk has reduced, there are still important questions to ask about the rating. Alpha editor James Norrington took a detailed look at the company's prospects in his recent [Deep Dive](#).
- Despite booming civil aviation profits at Rolls-Royce, there were some negative signals for travel-related stocks as [concerns about weakening consumer confidence](#) bled through. British Airways owner **International Consolidated Airlines Group (IAG)** and **InterContinental Hotels Group (IHG)** slipped off our UK large-cap screen, while momentum slowed at UK mid-cap online holiday retailer **On the Beach (OTB)**. Barclays downgraded their view on IAG last month, citing the prospect of softer transatlantic demand which is BA's most profitable market.
- As the Trump administration implements tariffs and geopolitical uncertainty increases further, the gold price has soared to new heights [as investors seek a safe haven](#). Producer momentum was apparent across our domestic screens. UK large cap **Fresnillo (FRES)**, UK mid cap **Hochschild Mining (HOC)** and Aim stocks **Pan African Resource (PAF)**, **Serabi Gold (SRB)** and **Griffin Mining (GFM)** represented the sector, but there is a wide range of valuations and risks to consider within this group.
- In the healthcare space, real-estate investment trust **Welltower (US:WELL)** reappeared at the top of our US screen, but growth expectations must be seen in the context of its eye-watering forward price/earnings ratio. [The trust takes](#) around 11 per cent of its operating income. **Boston Scientific (US:BSX)** also passed all of our tests and its forward valuation is less than half of Welltower's while still enjoying double-digit earnings upgrades. Elsewhere, **Care Reit (CRT)** made its way onto our UK mid cap screen.

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

Name	Ticker	Share price (p, 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
Rolls-Royce	RR	771.2	65477	31.8	0.8%	32%	14.5%	18.4%	33%	-10979.0	7	na
Fresnillo	FRES	947.5	6982	15.0	2.7%	228%	122.9%	-5.4%	50%	742.0	6	/>10% EPSgrth FY+2/
Barclays	BARC	293.5	42077	6.6	2.9%	14%	17.9%	21.2%	11%	-	6	/1mthMom/

Source: FactSet, Investors' Chronicle

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

Name	Ticker	Share price (p, 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
Hochschild Mining	HOC	271.5	1397	8.6	0.6%	91%	71.8%	16.2%	27%	-278.4	7	na
Gulf Keystone Petroleum	GKP	201.6	437	10.7	0.0%	-17%	429.1%	197.8%	43%	-25.8	7	na
Care	CRT	108.6	450	11.4	6.4%	23%	25.3%	8.6%	34%	-	6	/>10% EPSgrth FY+2/
Bakkavor Group	BAKK	185.5	1075	14.9	4.3%	20%	-1.7%	13.1%	28%	-504.5	6	/>10% EPSgrth FY+1/
XPS Pensions	XPS	380.0	792	18.6	2.8%	18%	27.2%	6.5%	10%	-	6	/>10% EPSgrth FY+2/
Quilter	QLT	155.8	2188	13.7	5.9%	18%	4.6%	10.5%	2%	-	6	/>10% EPSgrth FY+1/
Metro Bank	MTRO	91.3	614	9.8	0.0%	38%	-	114.6%	-3%	-	6	/>10% EPSgrth FY+1/
Moonpig	MOON	206.5	694	13.6	0.5%	14%	11.1%	12.2%	-2%	-100.7	6	/1mthMom/
On The Beach	OTB	228.0	357	11.0	1.3%	17%	35.5%	21.4%	-7%	-75.6	6	/3mthMom/

Source: FactSet, Investors' Chronicle

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

Name	Ticker	Share price (p, 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
ASA Int'l	ASAI	84.3	84	2.9	2.8%	17%	110.5%	46.2%	5%	-	7	

Source: FactSet, Investors' Chronicle

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

Name	Ticker	Share price (p, 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
Hercules Site Services	HERC	51.0	41	13.3	3.4%	132%	148.9%	11.7%	26%	-16.7	7	na
Pan African Resources	PAF	43.3	879	5.5	2.2%	73%	48.4%	71.8%	27%	-46.3	7	na
Serabi Gold	SRB	146.0	111	3.2	0.0%	385%	64.3%	6.0%	29%	-3.2	6	/>10% EPSgrth FY+2/
Griffin Mining	GFM	166.0	306	9.6	0.0%	115%	59.2%	92.3%	13%	12.7	6	/1mthMom/
Cohort	CHRT	1210.0	564	22.0	1.3%	19%	9.0%	20.0%	10%	-54.5	6	/>10% EPSgrth FY+1/
Alumasc	ALU	340.0	123	11.1	3.2%	12%	10.5%	6.1%	12%	-18.4	6	/>10% EPSgrth FY+2/

Source: FactSet, Investors' Chronicle

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

Name	Ticker (all US)	Share price (\$, last close)	Mkt cap (\$mn)	NTM PE	LTM DY (%)	NTM 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
Welltower	WELL	153.42	98389	77.8	1.7%	16%	17.6%	28.7%	23%	-	7	
Targa Resources	TRGP	197.82	43146	23.4	1.4%	24%	39.2%	19.7%	12%	-2953.5	7	
Palantir Technologies	PLTR	85.85	193072	149.6	0.0%	36%	32.0%	25.4%	9%	4241.7	7	
Boston Scientific	BSX	99.36	146960	33.6	0.0%	12%	13.9%	14.1%	10%	-5874.0	7	

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

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

- **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.

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