

2019 Factor Returns

Factor dispersion in 2019 was relatively modest, but there were a few surprises among the winners and losers.

All Factors

Commodity prices rose in 2019, with gold +18% and oil +35%. This was bad news for many companies in the space. **Energy** and **Metals & Mining** were our two worst performing factors in 2019 on an absolute basis, and **Energy** was also the worst on a risk-adjusted basis. That said, **Energy** is one of our more volatile factors, and a -1.21 standard deviation is not that exceptional historically.

Absolute Performance	
Return	Factor
-17.78%	Energy Excess
-12.62%	Metals & Mining Excess
-10.14%	Transportation Excess
-5.83%	Mexico Excess
-5.70%	Health Care Excess
⋮	⋮
10.72%	US IG Bonds Excess
11.64%	Real Estate Excess
11.66%	Homebuilders Excess
12.83%	United Kingdom Excess
16.11%	Utilities Excess

Risk-Adjusted Performance ¹	
R/Vol	Name
-1.21	Energy Excess
-0.83	Momentum Excess
-0.79	Health Care Excess
-0.67	Small Cap - Large Cap
-0.58	Consumer Discretionary Excess
⋮	⋮
0.89	Real Estate Excess
0.93	United Kingdom Excess
1.12	Utilities Excess
1.57	High Yield Excess
3.43	US IG Bonds Excess

On the plus side, our **Utilities** sector factor and **United Kingdom** country factor had the best absolute performance in 2019. However, the surprise change in US interest rate policy in 2019 resulted in our **US Investment Grade Bonds** factor and **High Yield** factor having the best risk-adjusted performance.

¹ Risk-adjusted performance, R/Vol, was calculated by dividing the factor return by the realized standard deviation of returns over the prior 12 months.

Style Factors

Our **Market Cap** and **Momentum** factors were the worst performing style factors on both an absolute and risk-adjusted basis (small cap stocks underperformed large cap, and long momentum underperformed the broader equity market).

Return	Name
-5.14%	Small Cap – Large Cap
-4.82%	Momentum Excess
-1.00%	Dividend Excess
1.68%	Value – Growth
1.82%	Hedge Fund Excess

R/Vol	Name
-0.83	Momentum Excess
-0.67	Small Cap – Large Cap
-0.18	Dividend Excess
0.25	Value – Growth
0.68	Hedge Fund Excess

Even though major hedge funds indices underperformed long-only benchmarks (approximately +10% versus +31% for the S&P 500), hedge funds as a group are low beta (typically 20-30%). As a result, in 2019, our **Hedge Fund** factor, which is based on excess returns, was our best performing factor on both an absolute and risk-adjusted basis. ...Put another way, hedge funds benefitted from an up market in 2019, but they added alpha as well.

Value investing has had a hard time over the past 10 years, but our **Value – Growth** factor recorded positive performance in 2019.

Country Factors

2019 was not a good year to be a major trading partner of the US. **Mexico**, **China** and **Asia** were our worst performing country/region factors in 2019 on both an absolute and relative basis.

Return	Name
-5.83%	Mexico Excess
-2.90%	China Excess
-2.84%	Asia Excess
⋮	⋮
6.70%	Europe Excess
8.52%	Brazil Excess
12.83%	United Kingdom Excess

R/Vol	Name
-0.26	Mexico Excess
-0.22	Asia Excess
-0.15	China Excess
⋮	⋮
0.28	Brazil Excess
0.45	Europe Excess
0.93	United Kingdom Excess

Not all emerging markets suffered in 2019. **Brazil** was among our top three performers. **Europe** and **United Kingdom** were the other two factors in our top three. European and UK markets underperformed the S&P 500 on an absolute basis in 2019, but their correlation with US and global markets was relatively low for most of 2019, leading to outperformance on a beta-adjusted basis.

Sector Factors

As mentioned earlier, **Energy** and **Metals & Mining** were among the worst performing sectors in 2019. **Transportation**, **Health Care**, and **Consumer Discretionary** also underperformed.

Return	Name
-17.78%	Energy Excess
-12.62%	Metals & Mining Excess
-10.14%	Transportation Excess
⋮	⋮
11.64%	Real Estate Excess
11.66%	Homebuilders Excess
16.11%	Utilities Excess

R/Vol	Name
-1.21	Energy Excess
-0.79	Health Care Excess
-0.58	Consumer Discretionary Excess
⋮	⋮
0.86	Consumer Staples Excess
0.89	Real Estate Excess
1.12	Utilities Excess

The New York City skyline continued its push ever upward at a furious pace in 2019, and, according to the Case-Shiller index, US home prices are up 44% over the past 10 years. Maybe not surprisingly then, **Real Estate** and **Homebuilders** were among our best performing sector factors. Despite problems at PG&E, higher commodity prices, and worries about global warming, our **Utilities** factor was the best performing sector factor on both an absolute and risk-adjusted basis.

Further Reading

For an overview of Northstar's approach to factor analysis, see our white paper [Next Generation Factor Models](#).

For an introduction on how Northstar uses factors in profit attribution, see [Risk-Based Performance Attribution](#).

You might also enjoy our article from June, [The Six-Standard Deviation Move that Wasn't](#), about the extremely large moves in three factors on June 3rd.