2020 Q1 Factor Returns

COVID-19 and the Saudi-Russian oil price war dramatically increased volatility in financial markets. They also caused a huge amount of factor dispersion, some expected, but some that might come as a surprise.

All Factors

On an absolute basis, it is not surprising the **Oil** was our worst performing factor. As dramatic as the move in oil was, on a relative basis, the increase in volatility in oil was not nearly as significant as in other markets. On a risk adjusted basis, our **Value – Growth** factor was the worst performing (**Oil** only made the top 10 on a risk-adjusted basis). Countries with large commodity sectors, the energy sector, and emerging markets were also among the hardest hit.

Absolute Performance	
Return	**Factor**
−60.2%	Oil
−41.4%	Commodities Basket
−38.5%	Brazil Excess
−28.0%	Energy Excess
−25.6%	India Excess
⋮	⋮
2.5%	Momentum Excess
3.2%	US IG Bonds Excess
3.4%	Healthcare Excess
3.5%	Gold
14.3%	Information Technology Excess

Risk-Adjusted Performance[1]	
R/Vol	**Name**
−5.44	Value – Growth
−4.43	Commodities Basket
−4.34	High Yield Excess
−4.22	EM Small Cap - Large Cap
−4.12	Energy Excess
⋮	⋮
0.62	Gold
0.84	Healthcare Excess
0.85	Momentum Excess
2.14	US IG Bonds Excess
4.29	Information Technology Excess

Despite disruptions to their supply chains, **Information Technology** companies have emerged as the biggest winners in the first quarter, presumably benefiting from our increased use of technology to mitigate the impact of social distancing. Not surprisingly, **Gold** and **Investment Grade Bonds** were also big winners, as investors sought safe havens.

[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.

Country Factors

The worst performing countries in Q1 were those hardest hit by COVID-19 and the fall in commodity prices: **United Kingdom**, **India**, **Brazil**.

Return	Name
−38.5%	Brazil Excess
−25.6%	India Excess
−25.0%	United Kingdom Excess
⋮	⋮
−8.1%	Emerging Markets Excess
−6.1%	China Excess
−5.2%	Asia Excess

R/Vol	Name
−3.72	United Kingdom Excess
−3.23	India Excess
−3.11	Brazil Excess
⋮	⋮
−1.39	Japan Excess
−1.03	Asia Excess
−0.77	China Excess

On both an absolute and risk-adjusted basis, markets in the **United States** have held up better than almost anywhere else in the world. As a result, even our best performing factors had negative *excess* performance relative to the US.

Given where the initial COVID-19 outbreak occurred, and the disruption to global trade, we might expect Asian countries to have been hard hit, but, outside of the US, they actually had the least worst excess performance, with **China** leading the way on a risk-adjusted basis.

Sector Factors

Given the fall in oil and other commodity prices and the halt to construction in many parts of the world, it is not surprising that **Energy**, **Metals & Mining**, and **Homebuilders** were the worst performing sectors in Q1.

Return	Name
−28.0%	Energy Excess
−25.5%	Metals and Mining Excess
−21.7%	Homebuilders Excess
⋮	⋮
2.0%	Communication Services Excess
3.4%	Healthcare Excess
14.3%	Information Technology Excess

R/Vol	Name
−4.12	Energy Excess
−3.97	Homebuilders Excess
−2.90	Metals and Mining Excess
⋮	⋮
0.43	Communication Services Excess
0.84	Healthcare Excess
4.29	Information Technology Excess

As with **Information Technology** sector, **Communications Services** has benefitted from social distancing. The enormous expenditures related to COVID-19 also buoyed the **Health Care** sector.

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Style Factors

Value investing has had a difficult 10 years, and the past three months have only made things worse. **Value – Growth** was the worst performing style factor for Q1.

Return	Name
−14.6%	Value - Growth
−10.4%	Small Cap - Large Cap
−8.5%	Dividend Excess
−2.2%	Hedge Fund Excess
2.5%	Momentum Excess

R/Vol	Name
−5.44	Value - Growth
−3.54	Dividend Excess
−2.79	Small Cap - Large Cap
−2.52	Hedge Fund Excess
0.85	Momentum Excess

Despite the seemingly unprecedented nature of the recent shocks to the economy, there does appear to be some continuity in performance for individual stocks, making **Momentum** our best performing style factor.

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 review of *2019 Factor Returns*, and our article from June, *The Six-Standard Deviation Move that Wasn't*, about the extremely large moves in three factors on June 3rd 2019.