

2022 Factor Return Update

It has not been very long since our last update, but —given everything that happened last year— many of you were curious to know what factors won and lost in 2022. Without further ado, here is our 2022 calendar year factor performance summary.

All Factors

With the war in Ukraine and the resulting disruption to energy markets, it may not come as a surprise that our **Aerospace & Defense** and **Energy** factors were two of the three best performing factors on an absolute basis in 2022. Within Energy, our tier-2 **Oil Services** factor performed even better, +97.64%. **Brazil** rounded out the top three.

The worst performing factors were **Communications Services** and **Gun Manufacturers**. The later is a factor we introduced ahead of the 2020 presidential election. Our clients can read more about this factor in the stress test section of our online help.

Absolute Performance	
Return	Factor
-22.22%	Gun Manufacturers Excess
-22.10%	Communication Services Excess
-17.42%	Growth - Value
-16.44%	Consumer Discretionary Excess
-14.79%	United Kingdom Excess
⋮	⋮
12.78%	Industrials Excess
17.50%	Mexico Excess
29.38%	Aerospace & Defense Excess
30.26%	Brazil Excess
86.65%	Energy Excess

Risk-Adjusted Performance ¹	
R/Vol	Name
-3.70	US IG Bonds Excess
-2.23	Communication Services Excess
-1.61	Consumer Discretionary Excess
-1.28	Real Estate Excess
-1.26	Growth - Value
⋮	⋮
1.24	Health Care Excess
1.28	Dividend Excess
1.32	Industrials Excess
1.94	Aerospace & Defense Excess
3.31	Energy Excess

On a risk-adjusted basis, our **US Investment Grade Bond** factor had the worst performance. This reflects the “nowhere to hide” market for long-only investors in the US, with major indices for both bonds and equities down for the year. On the positive side, **Brazil**’s performance was less impressive on a risk-adjusted basis, but **Energy** and **Aerospace & Defense** were still in the top three.

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.

Sector Factors

The pandemic years have seen tremendous factor dispersion. 2022 was no exception. Our top and bottom three sector factors, on both an absolute and risk-adjusted basis, were all in the overall top/bottom five.

Return	Name
-22.22%	Gun Manufacturers Excess
-22.10%	Communication Services Excess
-16.44%	Consumer Discretionary Excess
⋮	⋮
12.78%	Industrials Excess
29.38%	Aerospace & Defense Excess
86.65%	Energy Excess

R/Vol	Name
-2.23	Communication Services Excess
-1.61	Consumer Discretionary Excess
-1.28	Real Estate Excess
⋮	⋮
1.32	Industrials Excess
1.94	Aerospace & Defense Excess
3.31	Energy Excess

Country/Region Factors

There was much less dispersion in our country and region factors. The UK had a tough year, with political turmoil and Brexit turning to “regrexit”. UK equity markets reflected this, with **United Kingdom** factor being the worst performing factor on both an absolute and risk-adjusted basis. Our **Emerging Markets** factor was a distant second.

Return	Name
-14.79%	United Kingdom Excess
-8.32%	Emerging Markets Excess
⋮	⋮
17.50%	Mexico Excess
30.26%	Brazil Excess

R/Vol	Name
-1.05	United Kingdom Excess
-0.59	Emerging Markets Excess
⋮	⋮
1.04	Brazil Excess
1.05	Mexico Excess

On the plus side, in addition to **Brazil**, **Mexico** also had a great year, with **Mexico** doing slightly better on a risk-adjusted basis.

Style Factors

As we noted in our last update, 2022 has been a good year to be boring. On both an absolute and relative basis, **Growth – Value** was the worst performing style factor (growth names have underperformed value), and **Dividends** was our best performing factor (high dividend stocks have outperformed low dividend stocks).

Return	Name
-17.42%	Growth – Value
⋮	⋮
12.54%	Dividend Excess

R/Vol	Name
-1.26	Growth - Value
⋮	⋮
1.28	Dividend Excess

Further Reading

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

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

You might also enjoy our review of [2019 Factor Returns](#), our [2020 Q3 Factor Update](#), and [The Six-Standard Deviation Move that Wasn't](#), about the extremely large moves in three factors on June 3rd 2019.