2022 November Factor Return Update

As we head into the end of another interesting year, we thought this would be a good time to look at the impact of global trends on factor returns. As in the previous two years, there have been noticeable winners and losers. All statistics in this report are YTD, as of November 15th.

All Factors

With governments around the world talking about windfall taxes on energy companies, it is not surprising that **Oil Services** and **Energy** were our two best performing factors on both an absolute and relative basis. This is a major turnaround. In our 2020 Q3 report, these same two factors were the worst performing factors.

Absolute Performance	
Return	**Factor**
−21.58%	Communication Services Excess
−16.91%	United Kingdom Excess
−14.26%	Growth - Value
−13.83%	US IG Bonds Excess
−13.58%	Real Estate Excess
⋮	⋮
22.86%	Aerospace & Defense Excess
31.32%	Brazil Excess
43.95%	Metals and Mining Excess
92.59%	Energy Excess
97.03%	Oil Service Excess

Risk-Adjusted Performance[1]	
R/Vol	**Name**
−4.25	US IG Bonds Excess
−2.33	Communication Services Excess
−1.31	Real Estate Excess
−1.29	United Kingdom Excess
−1.11	Consumer Discretionary Excess
⋮	⋮
1.41	Mexico Excess
1.51	Metals and Mining Excess
1.61	Aerospace & Defense Excess
2.57	Oil Service Excess
3.79	Energy Excess

Other than sector and country factors (commentary below), our **US Investment Grade Bonds** factor was the worst performing factor. With major US equity and bond indexes down significantly, this has been a difficult year for long-only investors. Hopefully this has highlighted the diversification benefits of hedge funds for institutional investors.

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[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

Communications Services and **Real Estate** have been the worst performing sector factors YTD. What might be surprising, given the recent headlines for some of the largest technology companies, is that our **Information Technology** factor was not among the worst three. Information technology stocks are down YTD, but close to in line with expectations, given the performance of the broader market.

Return	Name
−21.58%	Communication Services Excess
−13.58%	Real Estate Excess
−10.57%	Consumer Discretionary Excess
⋮	⋮
43.95%	Metals and Mining Excess
92.59%	Energy Excess
97.03%	Oil Service Excess

R/Vol	Name
−2.33	Communication Services Excess
−1.31	Real Estate Excess
−1.11	Consumer Discretionary Excess
⋮	⋮
1.61	Aerospace & Defense Excess
2.57	Oil Service Excess
3.79	Energy Excess

Country/Region Factors

Given the political turmoil in the UK, it is not surprising that our **United Kingdom**, factor is the worst performing country/region factor on both an absolute and relative basis. Two factors in Latin America, **Brazil** and **Mexico** are the best performing, YTD.

Return	Name
−16.91%	United Kingdom Excess
−10.58%	Asia Excess
⋮	⋮
21.85%	Mexico Excess
31.32%	Brazil Excess

R/Vol	Name
−1.29	United Kingdom Excess
−0.76	Asia Excess
⋮	⋮
1.15	Brazil Excess
1.41	Mexico Excess

Style Factors

2022 has been a good year to be boring. On both an absolute and relative basis, **Growth – Value** was the best 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
−14.26%	Growth – Value
⋮ ⋮	
11.59%	Dividend Excess

R/Vol	Name
−1.11	Growth - Value
⋮ ⋮	
1.26	Dividend Excess

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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.

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