2023 Factor Performance

2023 was another interesting year for financial markets, with factor returns being driven by global conflict, trade tensions, and the rise of artificial intelligence.

All Factors

2023 was a difficult year for equity managers with a tilt towards China or Value names. Our equity **Growth – Value** factor was the top performing factor in 2023 on both an absolute and relative basis. The positive attribution indicates that growth names outperformed value names on average.

Our worst performing factors on an absolute basis was **China**. What is notable is that many other Asian country factors were up for the year, and our broader **Asia** factor was only down slightly. As others have noted, China and Asia Ex-China have diverged significantly.

Absolute Performance	
Return	**Factor**
−22.03%	China Excess
−20.36%	Utilities Excess
−17.73%	Energy Excess
−14.97%	Dividend Excess
−12.44%	Health Care Excess
⋮	⋮
17.70%	Mexico Excess
20.27%	Homebuilders Excess
25.48%	Semiconductors Excess
26.19%	Market
30.29%	Growth – Value

Risk-Adjusted Performance[1]	
R/Vol	**Name**
−1.90	Dividend Excess
−1.27	Utilities Excess
−1.17	Small Cap – Large Cap
−1.16	Health Care Excess
−1.09	Financials Excess
⋮	⋮
1.09	Market
1.09	Mexico Excess
1.12	Communication Services Excess
2.04	Information Technology Excess
2.13	Growth –Value

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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

During and immediately after the pandemic, sector factors were often the best and worst performing factors overall. What might be notable, then, is that the best and worst performing factors in 2023 were *not* sector factors. This is not to say that sectors were boring in 2023.

Return	Name
−20.36%	Utilities Excess
−17.73%	Energy Excess
−12.44%	Health Care Excess
⋮	⋮
17.69%	Gun Manufacturers Excess
20.27%	Homebuilders Excess
25.48%	Semiconductors Excess

R/Vol	Name
−1.27	Utilities Excess
−1.16	Health Care Excess
−1.09	Financials Excess
⋮	⋮
1.05	Homebuilders Excess
1.12	Communication Services Excess
2.04	Information Technology Excess

2023 was a breakout year for artificial intelligence, and the outperformance of our **Semiconductors** and **Information Technology** factors no doubt reflects this. At the same time, conflicts in the Middle East and Ukraine were almost certainly contributing to the underperformance of **Utilities** and **Energy**.

Country/Region Factors

China was our worst performing country factor, followed by the **United Kingdom**. The **United Kingdom** was also the worst performing country factor in 2022. Brexit still seems to be weighing on the UK.

Return	Name
−22.03%	China Excess
−9.80%	United Kingdom Excess
⋮	⋮
14.58%	Brazil Excess
17.70%	Mexico Excess

R/Vol	Name
−0.64	China Excess
−0.53	Asia Excess
⋮	⋮
0.45	Brazil Excess
1.09	Mexico Excess

On the plus side, we also had some repeats: **Brazil** and **Mexico** were our best performing countries last year and this year, both on an absolute and relative basis.

Style Factors

While the country factors repeated in 2023, the style factors reversed. In 2022, **Growth – Value** was the worst performing style factor, and **Dividends** was the best. This year the opposite was true, with **Growth – Value** on top (growth names outperformed value names), and **Dividends** in last place (high dividend stocks underperformed).

Return	Name
−14.97%	Dividend Excess
⋮	⋮
30.29%	Growth - Value

R/Vol	Name
−1.90	Dividend Excess
⋮	⋮
2.13	Growth - Value

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 *2022 Factor Returns*, 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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