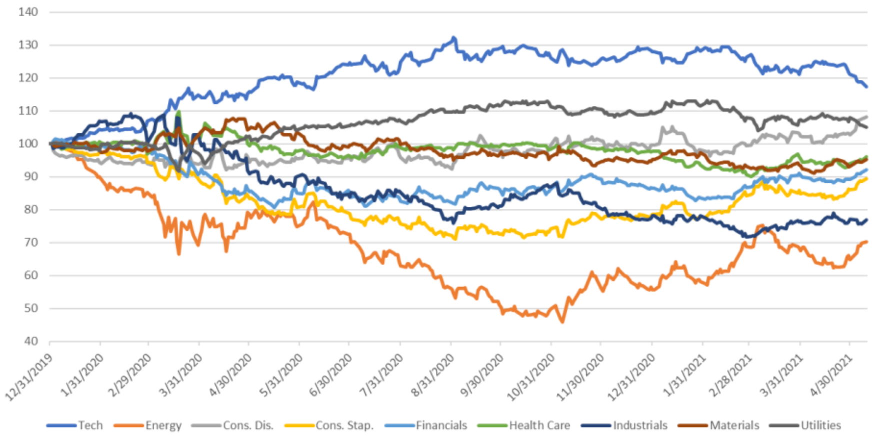
Full Circle?

The COVID Pandemic has wrought unprecedented change, throughout the world. While the humanitarian toll has been unequivocally negative, in the economic sphere there have been both winners and losers.

Early in the pandemic, **technology** companies benefited as more of us shifted to working remotely, shopping online, and consuming online entertainment. Arguably, this was just an acceleration of trends that had long been underway. At the same time, **energy** companies, already reeling from a price war between Russia and Saudi Arabia, were devastated as both domestic and international travel ground to a halt.

More recently these trends have reversed. **Technology** companies have significantly underperformed, while **energy** companies have strongly rebounded. Is this merely a minor correction, or are we headed full circle? When the pandemic is over, will there be permanent changes to the economy and the way that we live, or will things simply go back to the way that they were before? We cannot answer that question definitively, but we can quantify where we've been and where we are now.



Factor Returns

A Northstar sector factor is based on the risk-adjusted spread between a sector and the market. It is arguably the most meaningful measure of a sector's outperformance or underperformance.

It is impossible to say precisely when the pandemic began and when it peaked. For the purposes of this analysis, we have chosen December 31st, 2019 as our starting point, and September 30th, 2020 as our peak (this is roughly half-way between the peak outperformance of technology, 8/31/2020, and the low point in energy's underperformance, 11/6/2020).

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As the previous graph and the following table make clear, before the peak **Technology** was the clear winner, outperforming by 29%, and **Energy** was the clear loser, underperforming by 50%. The runners up —Utilities +12%, and Consumer Staples −29%— were not even close.

	pre-peak	**post-peak**	**total**
Technology	29%	-9%	17%
Energy	-50%	40%	-30%
Cons. Discretionary	-2%	10%	8%
Cons. Staples	-27%	23%	-11%
Financials	-15%	8%	-8%
Health Care	0%	-4%	-4%
Industrials	-19%	-5%	-23%
Materials	-2%	-2%	-5%
Utilities	12%	-6%	5%
Emerging Markets	-4%	3%	-2%
Momentum	9%	-12%	-4%
Value-Growth	-32%	17%	-20%
Small-Large	-14%	15%	-1%

*pre-peak = 12/31/2019 - 9/30/2020; post-peak = 9/30/2020 - 5/10/2021.
All returns are factor returns. These are risk-adjusted excess returns.

Since the peak, the **Technology** and **Energy** factors have reverted sharply, −9% and +40% respectively. While significant, these recent moves still leave these factors closer to their peak than where they started. As of May 10th, the world still looks very different than it did before the pandemic.

In addition to our primary sector factors, we also looked at our **Emerging Markets** factor, and three of our style factors, **Momentum**, **Value−Growth**, and **Small−Large**. Surprisingly, given the disruption to global trade, and disparities in COVID vaccine access, **Emerging Markets** as a whole have not significantly outperformed or underperformed (though not shown here, there has been tremendous dispersion *within* emerging markets, with some countries and sectors being much harder hit). Small cap names significantly underperformed large cap names prior to the peak, but have almost entirely recovered. Value names significantly underperformed growth prior to the peak, and while they have recovered somewhat, they are still down significantly on a relative 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 factor performance update from last year: *2020 Q3 Factor Return Update: Smart or Lucky?*.

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info@northstarrisk.com