

## October Factor Returns

Based on all the questions we got in response to [The Year So Far in Factor Returns](#), we decided to start reporting our factor returns each month. This is the first of what will be a recurring feature.

### All Factors

The worst performing factors on both an absolute and relative basis were sector factors. **Energy**, a normally volatile sector, was down 2.09% in a month when the broader market was up 2.21%, leading to a factor return of -4.33%. Our **Consumer Discretionary** factor had a return of -2.09% on an absolute basis, but Consumer Discretionary tends to be one of the lowest volatility sector factors. On a risk-adjusted basis, this was a -1.06 standard deviation move, making it the worst performing factor in relative terms.

| Absolute Performance |                               |
|----------------------|-------------------------------|
| Return               | Factor                        |
| -4.33%               | Energy Excess                 |
| -2.09%               | Consumer Discretionary Excess |
| -2.07%               | Materials Excess              |
| -1.80%               | Consumer Staples Excess       |
| -1.50%               | Momentum Excess               |
| ⋮                    | ⋮                             |
| 2.82%                | VIX Excess                    |
| 3.19%                | Health Care Excess            |
| 3.71%                | Brazil Excess                 |
| 4.65%                | United Kingdom Excess         |
| 5.72%                | Japan Excess                  |

| Risk-Adjusted Performance <sup>1</sup> |                               |
|--|-------------------------------|
| R/Vol                                  | Name                          |
| -1.06                                  | Consumer Discretionary Excess |
| -1.04                                  | Energy Excess                 |
| -0.84                                  | High Yield Excess Two         |
| -0.80                                  | Momentum Excess               |
| -0.66                                  | Materials Excess              |
| ⋮                                      | ⋮                             |
| 1.04                                   | Hedge Fund Excess             |
| 1.12                                   | Japan Excess                  |
| 1.15                                   | United Kingdom Excess         |
| 1.25                                   | Health Care Excess            |
| 1.37                                   | Euro                          |

On the plus side, **Japan** and the **UK** were the best performing factors (see our earlier piece [UK Dead Cat Bounce](#)). On a relative basis, our **Euro** currency factor was in the lead, undergoing a +1.37 standard deviation move (the relatively stable EUR/USD exchange rate was up 2.31% in October).

<sup>1</sup> Risk-adjusted performance, R/Vol, was calculated by dividing the factor return by the realized standard deviation of returns over the prior 12 months.

## Style Factors

Overall, style factors had a quiet month. **Momentum** is continuing to have a bad year. In our September year-to-date report, it was already one of the worst performing style factors (worst relative, second-worst absolute). In October, it had both the worst relative and absolute performance.

While **Momentum** and **Value** are normally negatively correlated, they both underperformed in October.

| Return | Name                  |
|--------|-----------------------|
| -1.50% | Momentum Excess       |
| -0.67% | Value – Growth        |
| -0.27% | Dividend Excess       |
| 0.36%  | Small Cap – Large Cap |
| 0.74%  | Hedge Fund Excess     |

| R/Vol | Name                  |
|-------|-----------------------|
| -0.80 | Momentum Excess       |
| -0.36 | Value – Growth        |
| -0.16 | Dividend Excess       |
| 0.15  | Small Cap – Large Cap |
| 1.04  | Hedge Fund Excess     |

These factor returns did not seem to hurt hedge funds, though. Our **Hedge Fund** factor was the best performing style factor, consistent with the modest positive returns we've seen reported for hedge funds.

## Country Factors

All of our major country factors had positive returns last month. This is unusual. Our factors measure relative performance, not absolute, so this was more than global equity market being up for the month.

| Return | Name                  |
|--------|-----------------------|
| 3.71%  | Brazil Excess         |
| 4.65%  | United Kingdom Excess |
| 5.72%  | Japan Excess          |

| R/Vol | Name                  |
|-------|-----------------------|
| 0.73  | Asia Excess           |
| 1.12  | Japan Excess          |
| 1.15  | United Kingdom Excess |

**Japan** had the best absolute factor return, consistent with the Nikkei's +5.38% return in October.

## Sector Factors

As mentioned at the start, **Energy** and **Consumer Discretionary** were the worst performing factors on an absolute and relative basis, respectively.

| Return | Name                          |
|--------|-------------------------------|
| -4.33% | Energy Excess                 |
| -2.09% | Consumer Discretionary Excess |
| -2.07% | Materials Excess              |
| ⋮      | ⋮                             |
| 1.01%  | Information Technology Excess |
| 1.37%  | Homebuilders Excess           |
| 3.19%  | Health Care Excess            |

| R/Vol | Name                          |
|-------|-------------------------------|
| -1.06 | Consumer Discretionary Excess |
| -1.04 | Energy Excess                 |
| -0.66 | Materials Excess              |
| ⋮     | ⋮                             |
| 0.34  | Homebuilders Excess           |
| 0.43  | Information Technology Excess |
| 1.25  | Health Care Excess            |

On the plus side, **Health Care** was the best performing sector on both an absolute and 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 article from June, [\*The Six-Standard Deviation Move that Wasn't\*](#), about the extremely large moves in three factors on June 3<sup>rd</sup>.