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BLOG POST

YTD Equity Factor Returns

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Despite recent market volatility, U.S. equities have delivered attractive returns so far this year. If we look under the hood and segment the broad market by factors, we can determine what has been driving the markets higher. So far this year (as of August 23rd), the low volatility and momentum factors are higher by roughly 20% and 18%, respectively. While still higher, the size and high-quality factors have lagged on a relative basis, delivering returns of just 6% and 7%, respectively. Meanwhile, value is in the middle of the pack, gaining roughly 12%. By comparison, the broader S&P 500 Index is higher by approximately 15%. A successful Brexit deal likely hinges on Boris Johnson and Donald Trump's ability to negotiate a trade deal between the U.S. and the U.K.

- The relative underperformance of small capitalization stocks (i.e. the size factor) could be due to a heightened liquidity premium as we approach the end of a market cycle. As investors perceive greater risks to the overall market, they prefer the liquidity of larger capitalization stocks and begin to shun less liquid, smaller capitalization names.

- The low volatility factor separated from the other factors during May and August, as market risk was elevated. Typically, the holdings in the low volatility index exhibit a lower beta to the broader market, and can provide a cushion to the downside.