BLOG POST
U.S. Factor Returns
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August 31st marked the first time broad U.S. equity indexes surpassed active managers in total assets. Morningstar reported that U.S. equity indexes totaled $4.27 trillion in assets, while active managers totaled $4.25 trillion. Over the past ten years, $1.36 trillion has come in to index based mutual funds and exchange traded funds, while $1.32 trillion has left actively managed funds. Concern among analysts and investors is that the flood of assets in to indexing exacerbates volatility. Three firms make up approximately 80% of the indexing market: Blackrock, Vanguard, and State Street Global Advisors (Wall Street Journal). The chart on the left shows that U.S. index funds' share of the U.S. stock market is approaching 14%. 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 outperformance of the low volatility factor might be due to investor demand for equities that exhibit less price variation, especially after the drawdown in the fourth quarter of 2018. Likewise, some investors are wagering that large-cap, higher-growth names will continue to run, which has pushed momentum towards to the top of the factor rankings.
- Value has underperformed the broader S&P 500 for several years, which might be due in part to historically low interest rates that have helped inflate asset prices.