

We write extensively about factor investing as it is a cornerstone of many of our investment portfolios. Analyzing return patterns across factors can help reveal a market that is highly concentrated or a market that is diversified. The chart to the left plots the rolling 12-month returns for five U.S. equity factors going back two years. It's interesting to observe the relative returns (i.e., periods of over and underperformance) across various segments of the market, particularly given the highly unusual performance patters from 2020, which saw a rapid -30% pullback followed by quick rally to new highs.

- After leading the way for much of 2020, momentum stocks have cooled off somewhat, while small-cap stocks, after shooting up 140%, have rolled back down in line with the other factors. Quality stocks have been more-or-less in the middle of the pack, while low volatility remains towards the bottom post pandemic.
- It appears that factor returns are beginning to converge into a narrower range today, which suggests some rotation is occurring in the broader market. For example, rolling returns for low volatility stocks have been fairly stable this year, while small caps and momentum stocks have trended lower.

