Abnormal Style Performance

- Global and Australian Equity Themes – Spot the Outlier
- Low Volatility – the Longer Term Benefits
- Why Maintain Low Volatility?

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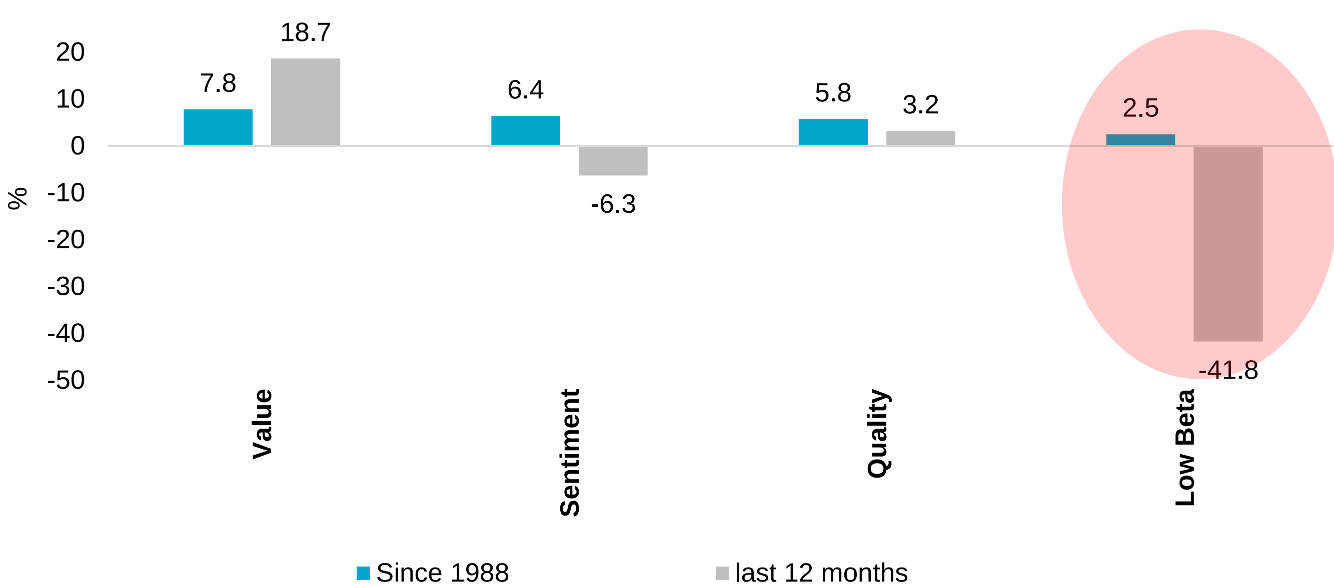
Global Equity Themes – Spot the Outlier

The last 12 months have been remarkable in so many ways and Financial markets have certainly had their share of extraordinary. There have been negative and positive extremes in everything from employment, growth, inflation earnings, price and valuation just to name a few. When we look within markets we see just as many extremes. The investment themes of Quality, Value, Sentiment and Low Beta have been volatile since the pandemic. Figure 1 below highlights the average return to these major investment themes in the last 12 months (grey) compared to the last 32 years (blue). Can you spot the outlier?

Figure 1: Global Developed Markets

Last 12 Months Compared to the Last 32 Years



Source: State Street Global Advisors as of 31 October 2021. Quintile spread returns to AQE Value, AQE sentiment, AQE Quality and Low beta. Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses.

Key Observations Within Global Developed Markets

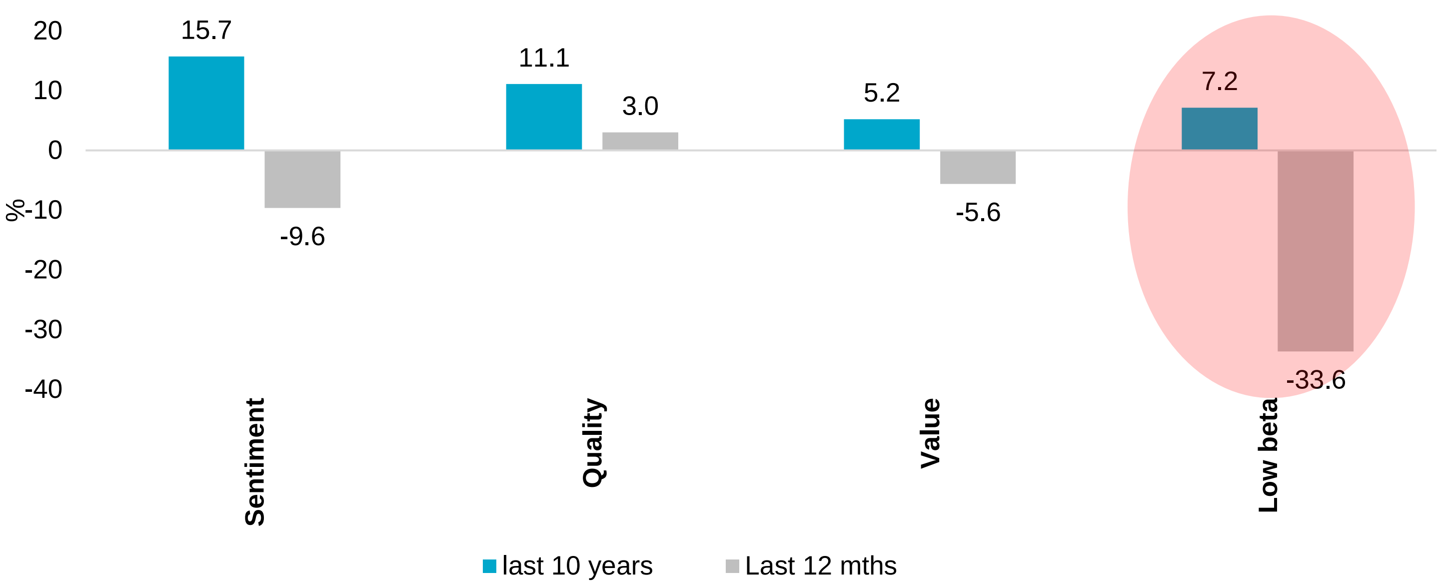
1. In the last 12 months **Low Beta** securities have been the outlier (circled in red in Figure 1) down -41.8% compared to the long run average of +2.5%
2. In the longer term **Value** has been the best performing style and it has generated above average returns in the last 12 months.
3. The return to **Sentiment** has been the second best investment style over the longer term. In the last 12 months the returns to sentiment has been negative.
4. **Quality** has been positive in the last 12 months slightly below the longer run average return.

Australian Equity Themes – Spot the Outlier

Within the Australian S&P/ASX 300 Index we see many similarities and some differences. See Figure 2 below.

Figure 2: S&P/ASX 300 Index

Last 12 Months Compared to the Last 10 Years



Source: State Street Global Advisors as of 31 October 2021. Quintile spread returns to AQE Value, AQE sentiment, AQE Quality and Low beta. Past performance is not a reliable indicator of future performance. Index returns are unmanaged and do not reflect the deduction of any fees or expenses.

Key Observations Within the S&P/ASX 300 Universe

1. Over the longer term all themes have had a positive contribution but in the last 12 months we have seen **underperformance from all factors except quality**.
2. The biggest outlier is again the large negative return to **Low beta** securities down -33.6% in the last 12 months compared to the 10 year average of +7.2%

3. **Sentiment** has historically generated the greatest investment returns in the last 10 years but has been negative in the last 12 months.
4. **Value** has been negative in stark contrast to Global developed markets.

Low Volatility – The Medium to Longer Term Benefits

After the most recent period of poor performance to low beta stocks it is good to remember some of the reasons they make sense in an equity portfolio.

1. Investing in lower volatility securities has historically provided a cushioning to equity drawdowns relevant to many investors, especially those with lower risk preferences or shorter investment time horizons.
2. It has been well documented in academic literature since the 1970's as an anomaly that can both reduce the total equity risk and at the same time provide for some outperformance.
3. Historically periods of extreme low beta performance have been short term in nature and these periods offer the best entry points for exposure to this theme.
4. As part of a balanced portfolio it can help to manage volatility and equity drawdowns alongside cash, bonds and alternatives. With the current inflationary environment and heightened interest rate risk this is more relevant today, than previous decades.

Why Maintain Low Volatility?

The Bottom Line – The Pandemic is the Real Outlier

The effects of the pandemic have been extreme and this has manifested in volatile market performance and investor behaviour. Human behaviour has a tendency to over extrapolate these trends (anchoring bias), but it is more likely that investors will see a reversion to more normal company earnings and economic activity. In a less extreme environment, we are also more likely to see a reversion in improved returns from low beta securities.

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