



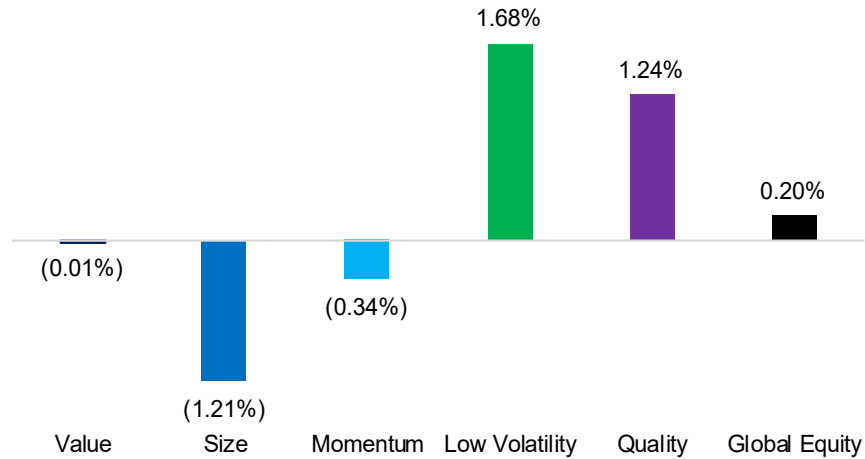
Factor Performance & Research Update

Factor Performance Update

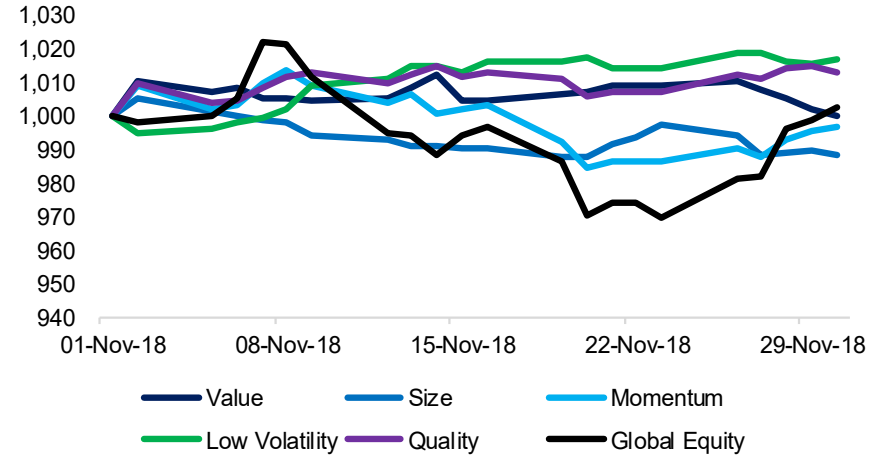
Factor Performance Update: November 2018

Low Volatility Has Extended the YTD Performance Lead

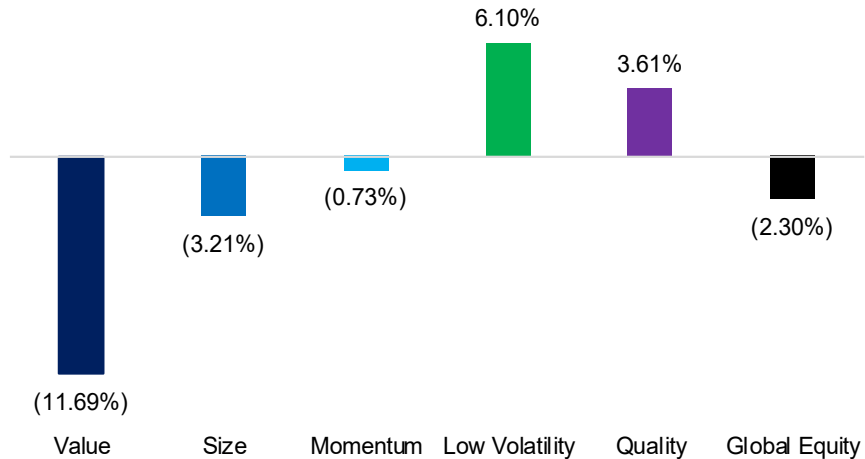
Global Equity Factors (Long-Short): Last Month



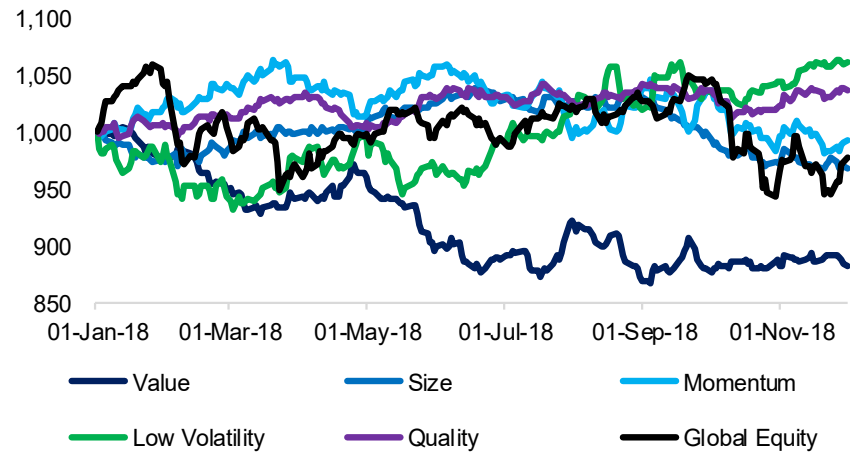
Global Equity Factors (Long-Short): Last Month



Global Equity Factors (Long-Short): Year to Date



Global Equity Factors (Long-Short): Year to Date



Research Topic 1:
The Rise of Zombie Stocks

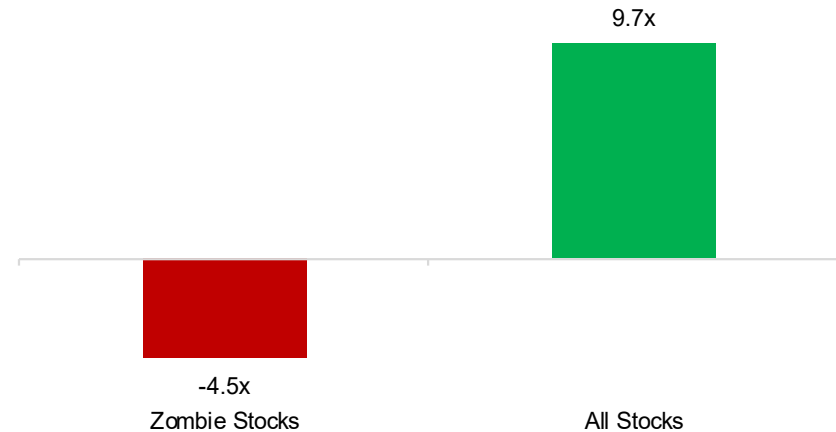
The Rise of Zombie Stocks (I / II)

The Dead versus the Living

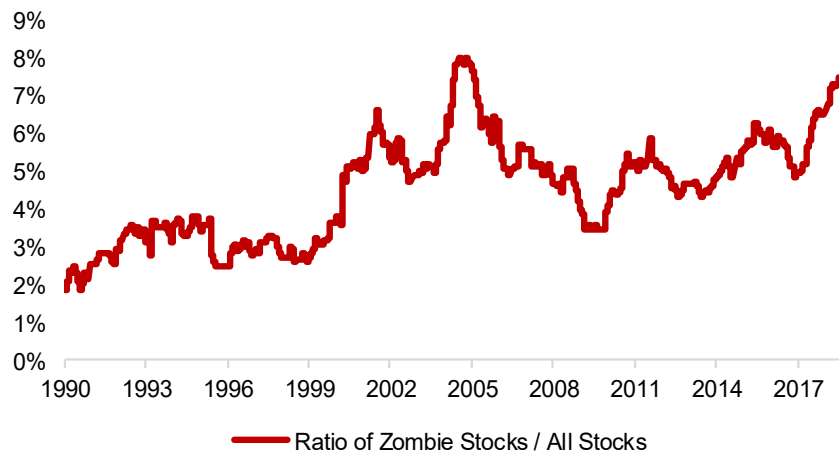
Comment

- We define zombie stocks as companies where interest payments exceed operating profits over a 3-year period
- The number of zombie stocks in the US stock market has been increasing
 - Can likely be explained by the interest rate cycle
 - QE provides superb conditions for zombies
- Zombie stocks perform surprisingly well

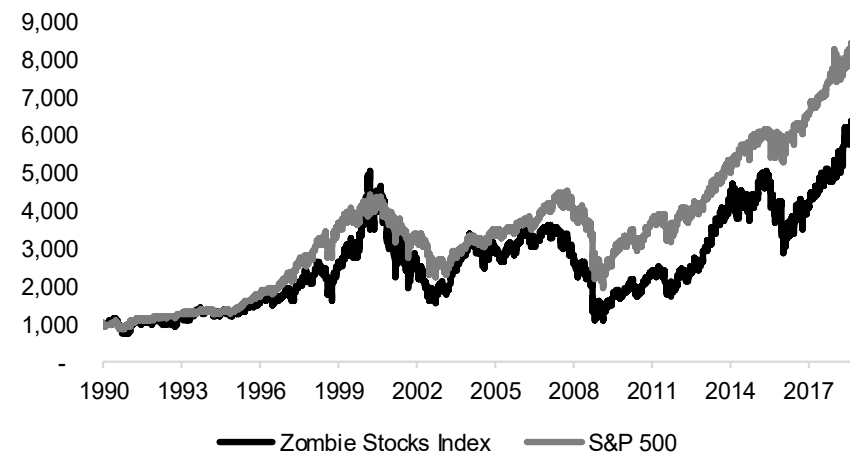
EBITDA-Interest Coverage of Zombie Stocks (1990 - 2018)



The Rise of Zombie Stocks in the US Stock Market



Zombie Stocks versus the S&P 500



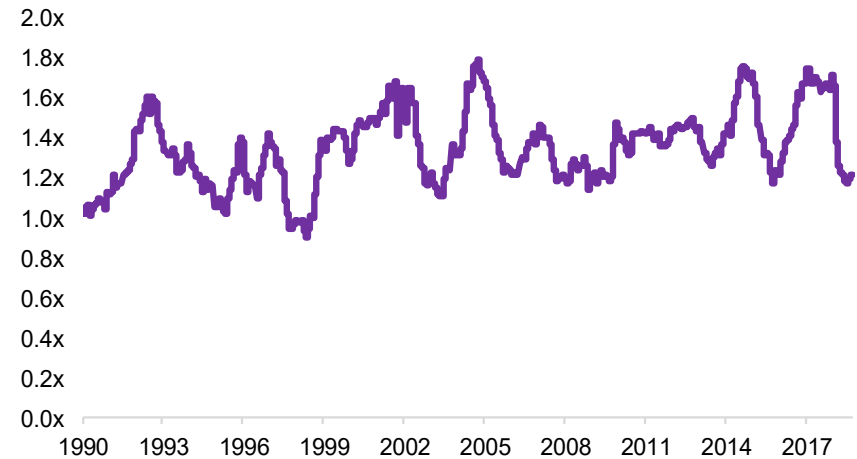
The Rise of Zombie Stocks (II / II)

Zombie Stocks are Volatile, Expensive, and from Diverse Sectors

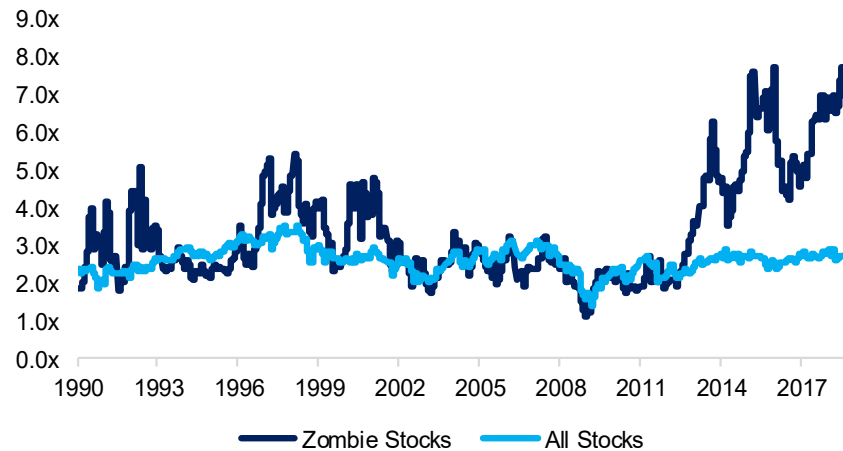
Comment

- Zombie stocks are volatile
- Interestingly, they tend to trade in line with market multiples, except for last few years where they have become expensive
- Zombie stocks origin from different sectors
 - Technology and healthcare have been largest contributors

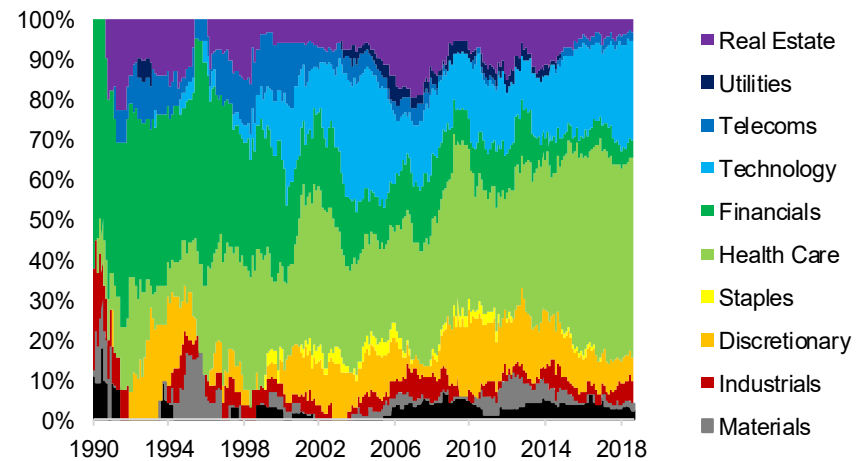
Betas of Zombie Stocks



Valuation of Zombie Stocks: Price-to-Book Multiples



Zombie Stocks: Breakdown by Sectors



Research Topic 2:
Statistical Arbitrage in the US

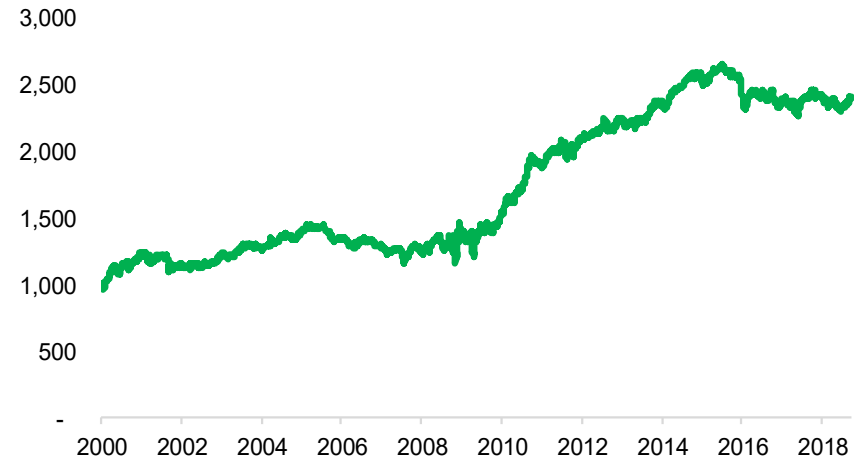
Statistical Arbitrage in the US (I / II)

Arbitraged Away?

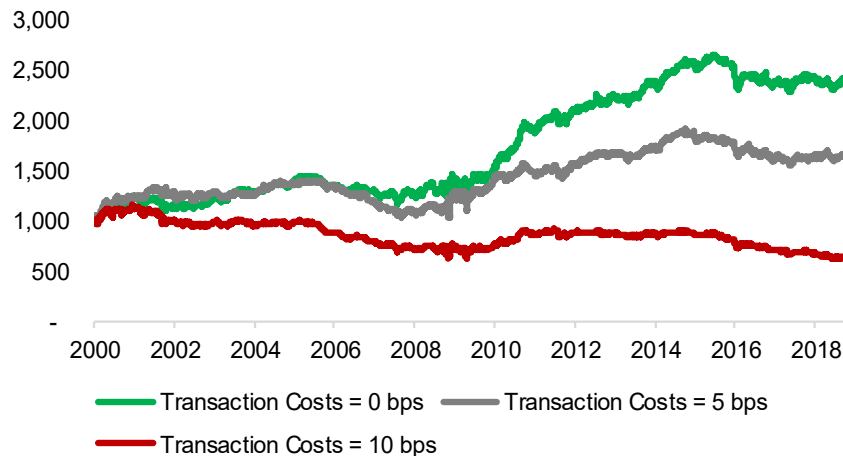
Comment

- Statistical arbitrage had attractive strategy characteristics
 - Hardly any drawdowns
- However, the returns are highly dependent on transaction costs
- Market volatility drives performance
 - Best used as a tactical strategy when volatility is high

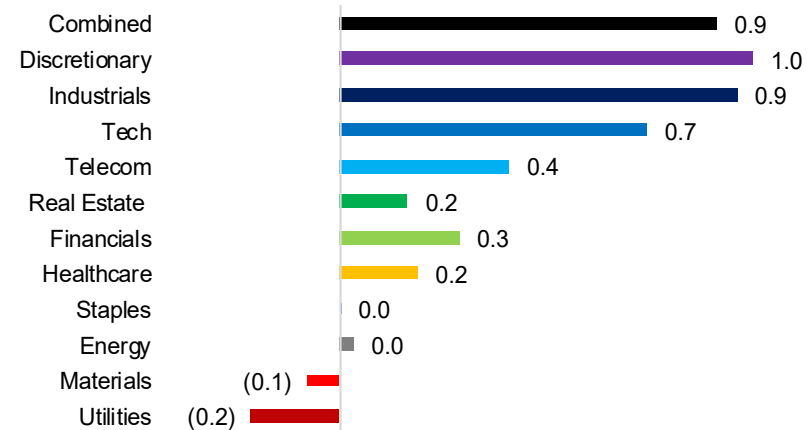
Statistical Arbitrage in the US Real Estate Sector



StatArb in the US Real Estate Sector: Impact of Costs



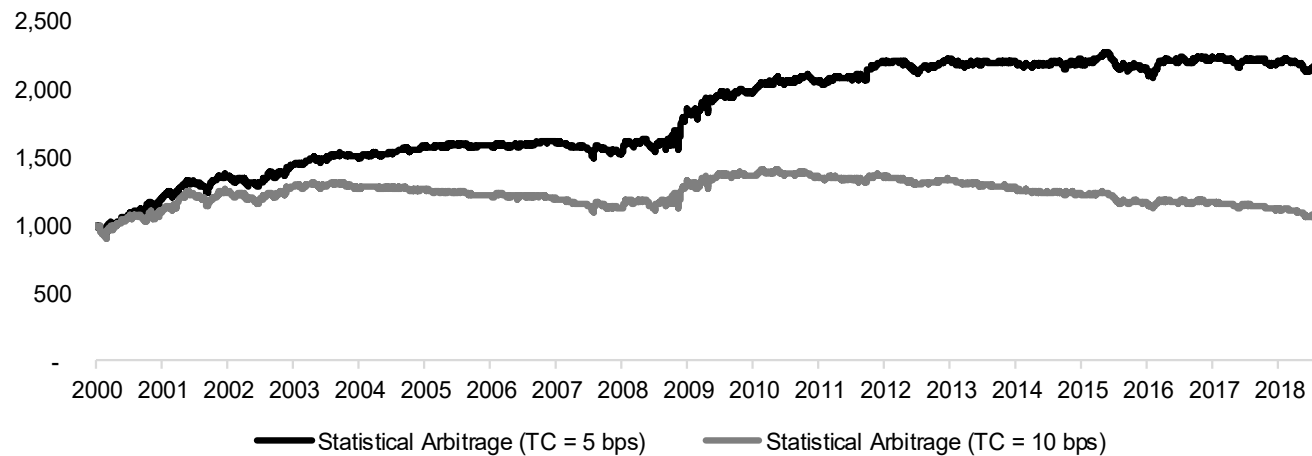
Risk-Return Ratios Across Sectors: (2000 - 2018)



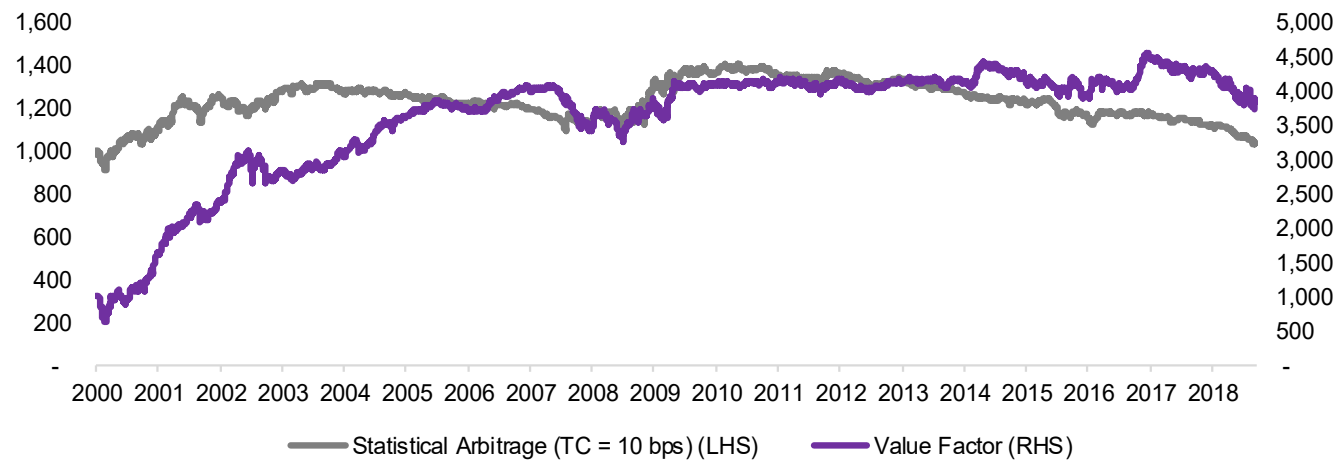
Statistical Arbitrage in the US (II / II)

Likely Less Attractive Going Forward

Statistical Arbitrage in the US



Statistical Arbitrage versus Value Factor in the US



Research Topic 3:
The Dark Side of Low-Volatility Stocks

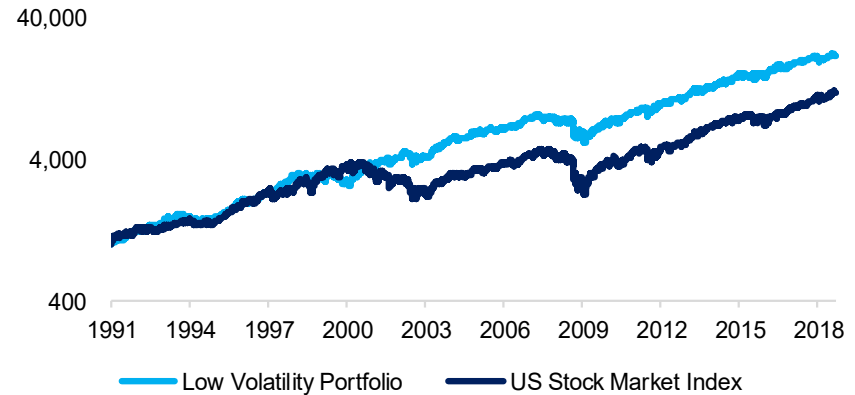
The Dark Side of Low-Volatility Stocks (I / II)

Equity Returns with Lower Volatility – What’s Not to Like?

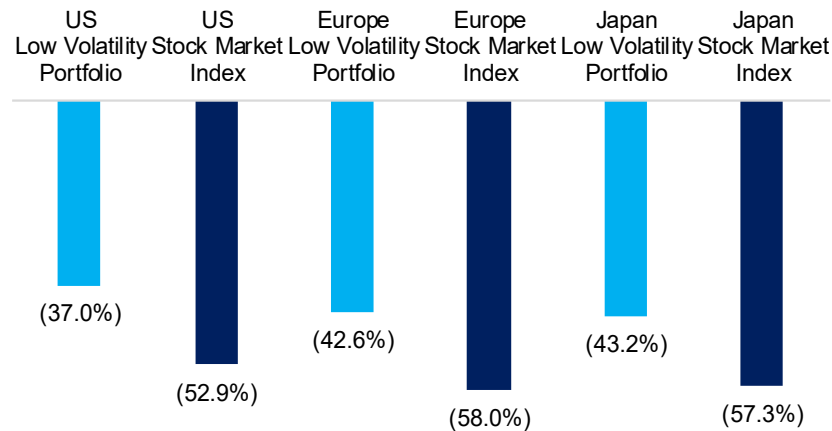
Comment

- Low-volatility stocks have outperformed the market over the last 25 years
- The strategy has reduced equity drawdowns in the US, Europe, and Japan significantly
- Breakdown by sectors reveals that Real Estate and Utilities contributed 50% of the stocks over time
 - These sectors are interest-rate sensitive
 - Creates risk in rising rate environment

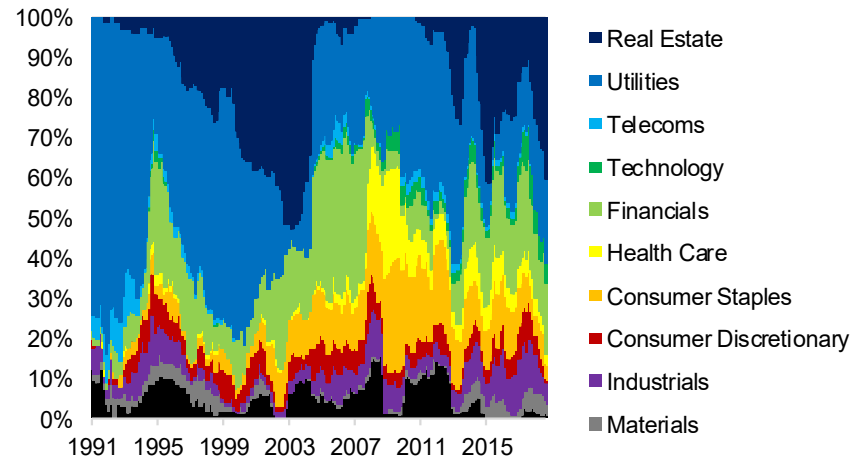
Low Volatility Strategy in the US Stock Market



Maximum Drawdowns (1991 - 2018)



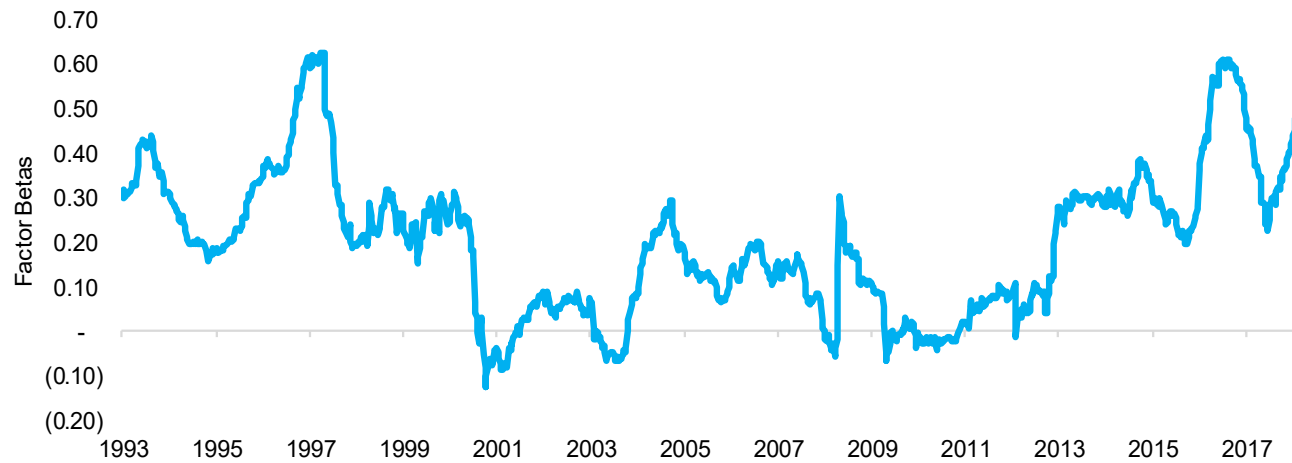
Low Volatility Strategy in the US: Breakdown by Sectors



The Dark Side of Low-Volatility Stocks (II / II)

Long Bonds?

Low Volatility Portfolio in the US: Sensitivity to the U.S. 10-Year



US 10-Year Government Bond Yield




Q&A

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Tel: +44 20 7193 4044

FactorResearch
1-6 Yarmouth Place
W1J 7BU, London
United Kingdom

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