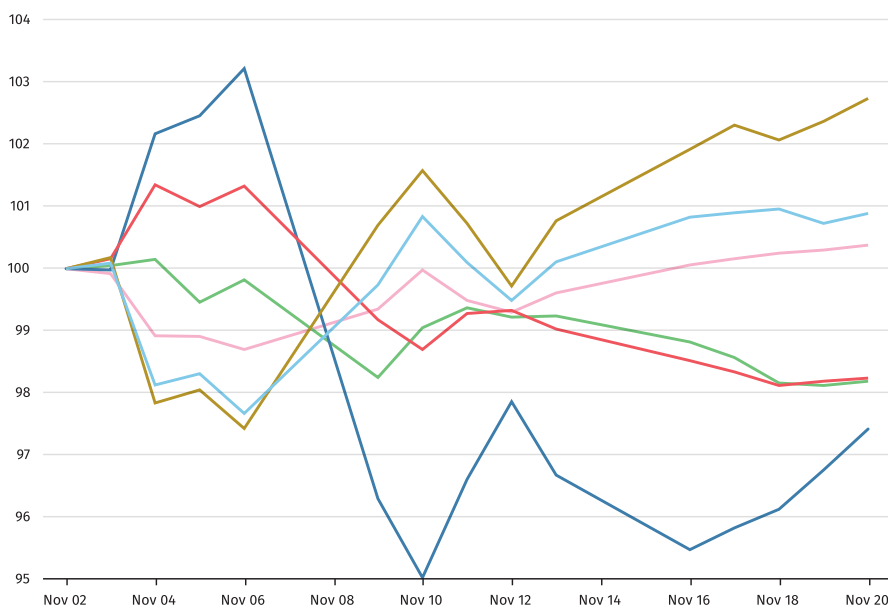## Nov 9th 2020 Momentum Event

Monday, November 9th witnessed a significant drop in the US Equity Momentum factor. The magnitude of this drop, a −5.9 sigma move for our US Equity Momentum factor[1], was larger than the then unprecedented −5.4 sigma move registered during the "Quant Quake" of August 2007. Similarly to the deleveraging in August 2007, the sharp drop was not isolated to Momentum, but spread across the Low Volatility and Quality factors (-4.5 and −5.0 sigma drops, respectively), due to similar and overlapping positions. See *Figure 1* below.
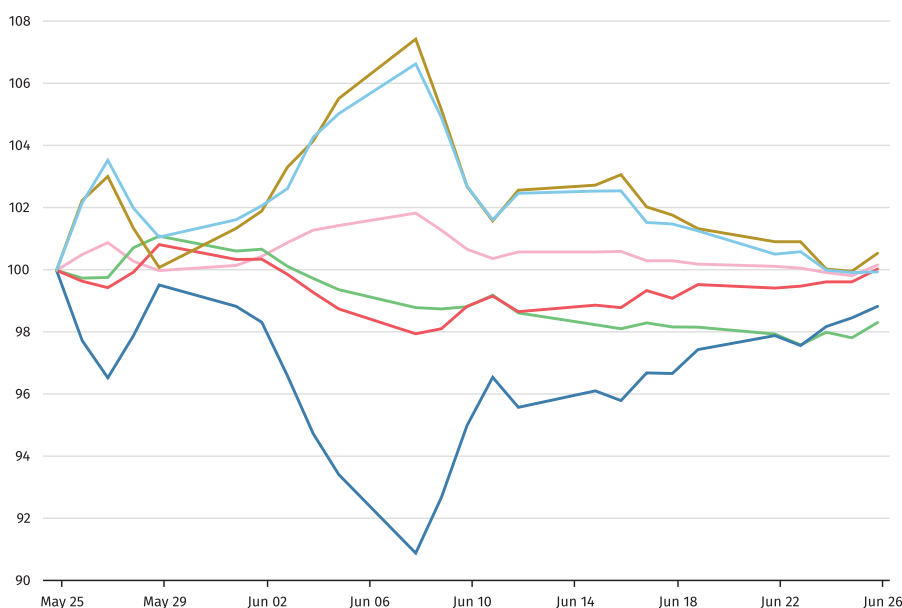
Figure 1: US Equity Factors Performance (Nov 2020)   *2020-11-02 to 2020-11-20*

US Equity Factors	Return
Size	+2.74%
Value	+0.89%
Carry	+0.38%
Quality	-1.76%
Low Vol	-1.81%
Momentum	-2.58%

*Figure 2: US Equity Factors Performance (June 2020)*   *2020-05-25 to 2020-06-26*

US Equity Factors	Return
Size	+0.55%
Value	+0.17%
Carry	+0.04%
Quality	-0.05%
Momentum	-1.16%
Low Vol	-1.68%

[1] risk-adjusted daily returns of PremiaLab US Equity Pure Factors normalized using a 60-day rolling realized standard deviation to estimate volatility. Indices begin in 2005.

Fortunately for multi-factor strategies, the Size and Value factors provided offsetting exposures (+4.1 and +3.2 sigma gains, respectively). From *Figure 3* below, we can see that Value and Size continue to be negatively correlated with Low Vol, Momentum and Quality, while negative correlations across the factors have increased over the past 6 months.

Figure 3: US Equity Factors Correlation

*Upper Triangle: 3Yr Lookback (Daily Return)*
Lower Triangle: 6M Lookback (Daily Return)
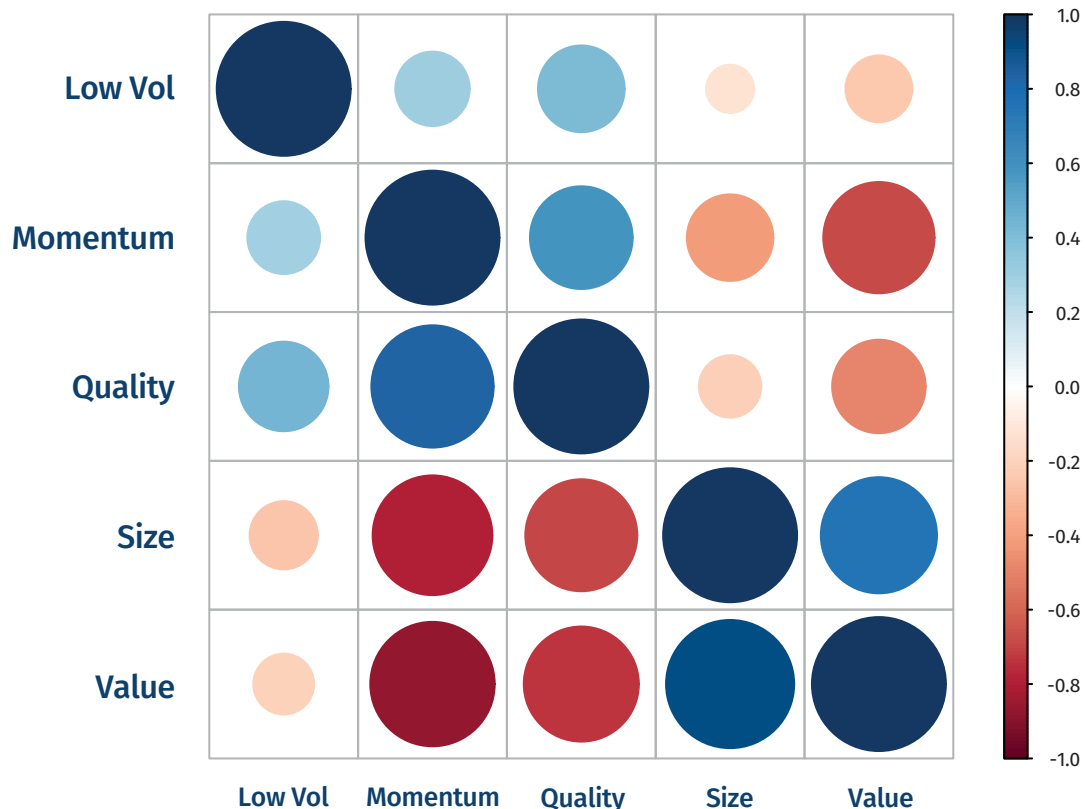
Comparisons of November factor performance with the previous Momentum drawdown (in June 2020, see *Figure 2*), highlight how sudden the reversal in Momentum performance was on November 9th, and its visual confirmation of the muted counterbalancing effect of Size and Value, which were near mirror images of Momentum during the June drawdown. Unlike the June 2020 period, or the August 2007 unwind, the catalyst behind the Momentum unwind may be much more concrete and related to the significant news flow over the prior weekend. Headlines of a Joe Biden US Election result and an encouraging vaccine study from Pfizer appear to have persuaded investors out of the defensive, "stay at home" and secular growth "FAANG" stocks and into more cyclical and distressed segments of the market that would benefit from an end to the COVID-19 pandemic. This move out of defensive positions and into cyclicals may have been accompanied by an increase in net and a decrease in gross equity exposures, and partially explains the muted Value response.

By looking across the global implementations of the Cross-Sectional Momentum factor, there appears to be less performance dispersion over the November 9th period than during the unwind in June 2020, as shown in *Figure* 4 and *5*. This could be explained by the timing of the June Momentum unwind with the rebalancing schedules of the Momentum baskets, which generally begin at the beginning of the month. The overlap of the Momentum drawdown with this rebalancing period resulted in an increase in variations of the monthly Momentum basket and drove the increase in subsequent return dispersion. It also suggests the June unwind may have been partially caused by monthly rebalancing flows.

Figure 4: Performance of Global Equity Momentum Strategies (Nov 2020)   *2020-11-02 to 2020-11-20*
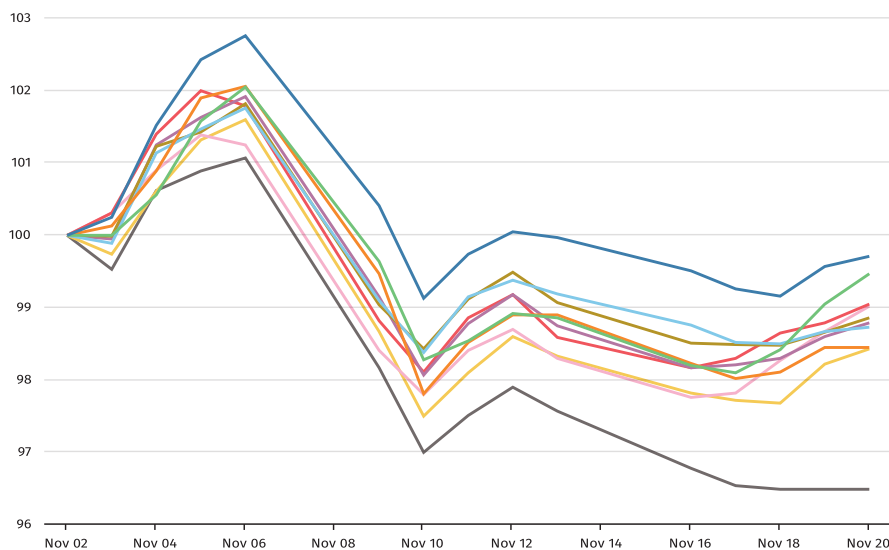
Statistics	Return
Max	-0.29%
Median	-1.18%
Avg	-1.30%
Min	-3.51%

Figure 5: Performance of Global Equity Momentum Strategies (June 2020)   *2020-05-25 to 2020-06-26*
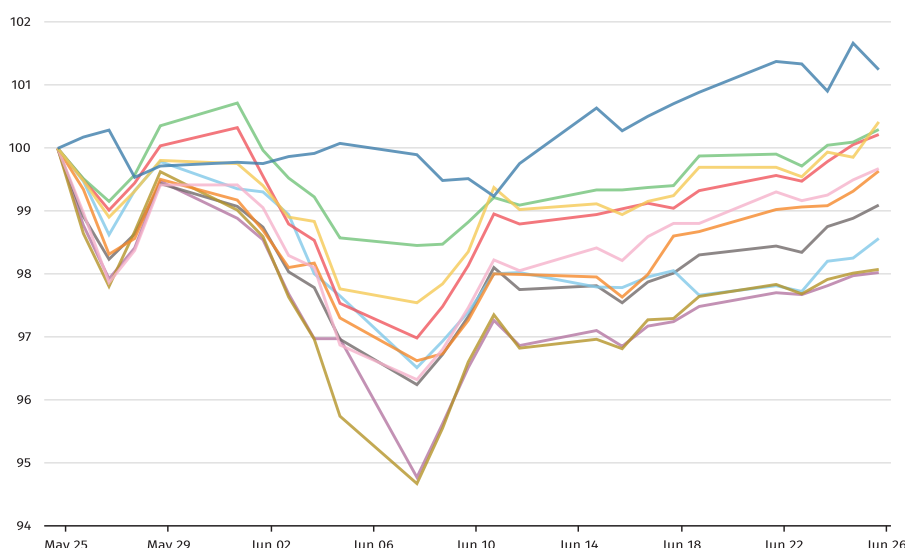
Statistics	Return
Max	+1.25%
Median	-0.34%
Avg	-0.47%
Min	-1.97%

In review of the Momentum factor unwinds of 2020, the Size factor appears to have provided an effective factor hedge against Momentum and provided valuable diversification for a multifactor equity portfolio. Additionally, Momentum implementations bns which adjust or correct for the overlap of momentum with the Low Volatility factor appear to have outperformed more traditional constructions, by reducing unwanted factor risk concentrations in the Low Volatility factor and increasing diversification.

What are Pure Factors®?

Pure Factors are PremiaLab's propietary benchmarks on risk premia and factor performances. PremiaLab Pure Factors® are constructed by harvesting strategy data from leading index providers to capture the general market consensus. PremiaLab's methodology to construct an unbiased factor model consists of extracting the maximum amount of market information while eliminating model-specific interference. After an explicit categorization, a diligent top-down approach is applied for the clustering of the strategies and then modeling of Pure Risk Factors. Pure Factor framework includes Carry, Low Volatility, Momentum, Quality, Size, Value, and Volatility across five asset classes. Their performances are excess to their related market benchmark.

Disclaimer

For more information, please visit www.premialab.com or contact:

Hong Kong (HQ)	**Paris**	**Stockholm**	**New York**
sales-asia@premialab.com	sales-emea@premialab.com	sales-emea@premialab.com	sales-usa@premialab.com