

Fall Seven Times, Stand Up Eight

Featuring: **Raina Oberoi**, Head of Index Solutions Research for the Americas

Adam: This is MSCI Perspectives, your source for weekly research insights as investors respond to the COVID-19 pandemic. I'm your host Adam Bass, and today is April 9th, 2020. This week, we spoke with Raina Oberoi, MSCI's head of index solutions research for the Americas from her home in New York City. Raina, thank you so much for joining us. So as we travel along the pandemic curve here in the US and nobody knows exactly how far we have to go, what's been getting you through?

Raina: Yeah, Adam. I mean, I do you know live and work in New York city which, you know, has become the so called epicenter of this crisis in the US. Really the first time I connected with New York City was during 9/11 and I wasn't even in NYC then, I was actually an undergrad student in New Orleans and I saw on TV that New York was under a terrorist attack. I heard so many stories about New Yorkers who wrote stuff, worked hard together and there was a resilience in every story that I heard and you know, fast-forward, I moved to New York City in 2006 and I've really seen a lot here including the financial crisis, Hurricane Sandy, et cetera. It's really today that I've got to witness the resilience of New Yorkers. I mean, it's dire times here, but you know, I have to say I'm proud to live in a tough city like this, adversity really does bring out the resilience in individuals.

Adam: As a fellow New Yorker who lived through all those events here, I couldn't agree more. But why don't we turn to the markets?

Raina: Sure, I mean, I've been taking the same team of resilience, an angle that is interesting to me as an investor is the teams that have shown resilience with this crisis. You know, we know that global markets have fallen about 21% in Q1 and you know, a lot of those losses have actually occurred in a matter of days. But if you look, there are certain strategies that have held up better than the markets, or rather showing the resilience that I was talking about earlier. You can see this in Defensive Factor Strategies, Defensive Sector Strategies and even ESG or, you know, which some call sustainability investing.

Adam: Let's break those down.

Raina: So let's talk factors first. We have seen Defensive Factors in particular, you know, MinVol or Minimum Volatility and Quality have held up quite well. Let's take the example of our Minimum Volatility Indexes and these indexes, just to provide some context, are really designed to provide investors exposure to a portfolio with lowest risk. Now, a portfolio like that has historically outperformed in times of heightened volatility, and giving the investors that downside protection, then investors are feeling the safety. And what you see today is that's exactly what's happened. It has sown resilience and been one of our best performing factor indexes this quarter.

Adam: Minimum volatility has performed as you might expect in a downturn, but have there been any factors with unexpected performance?

Raina: A factor that may have been surprising to some in terms of outperformance is momentum, which is not really considered a Defensive Factor. But momentum really represents those stocks that

have been doing well and are expected to do well. One of the reasons momentum has done well is because it does have this low beta bias now, and that's kind of been driving the market. So momentum was overrating some of the top performing sectors such as utility, information technology and underrate in some sectors such as energy and financials. So that, you know, along with the low beta bias has really driven the performance of momentum. Looking into sectors for a little bit, you know, as you would expect, Defensive Sectors such as healthcare, consumer staples and utilities have shown resilience as investors have looked for safer havens.

Adam: Energy is usually thought of as a Defensive Sector, but it's been underperforming.

Raina: The underperformance of that sector has been quite a surprise and that's obviously been due to the oil shock. But it's been quite a big surprise for a lot of investors whom we have considered this some sort of a Defensive Sector as well.

Adam: In addition to factors and sectors, you also mentioned ESGs surprising performance, which has come up from other guests. What's changed?

Raina: Generally many investors have looked at ESG based investing in the past from more of a risk mitigation angle. Now, given the outperformance of these strategies now and even in the last few years, seems like investors maybe beginning to attribute some sort of a premium to such companies. And, you know, what's really, really interesting is that it's not a localized phenomenon, so it's not that this is happening in one region versus the other. If you look across the globe in the US, in Europe, in China, the ESG strategies are outperforming the underlying market. As an industry we've not had any way to really quantify the value add of ESG, but today we actually have risk models with ESG in them and as a result, it's really easy for investors to understand, how much is ESG contributing to my portfolio risk and return. The contribution is becoming more profound and more significant, ESG now is another significant glance to understand how these returns can be actually broken down.

Adam: What else are investors thinking about?

Raina: Positioning for the long term is also crucial and, you know, this can potentially be done by allocating you know, to a group of diversified factors that have historically provided a smoother stream of returns because we know that, you know, factors have behaved differently in different business cycles. Again, investors could consider allocating to a group of Defensive Sectors. Then again, historically have provided again, a smoother return stream, and have provided that resilience to portfolios as opposed to allocating to one particular sector. If you had invested in energy today, just based on the fact that it behaved like a Defensive Sector in the global financial crisis which it actually did, you would be down over 20% again in Q1. So look, I think, you know, if there is one key take away from here is that resilience whether personal or professional is really key in times like this.

Adam: Okay. Just one last question. When all this is behind us and the city is open for business again, what is the first place you'll go?

Raina: That's a tough one, but, you know, Adam I have to admit it has to be my local hair salon on 72nd Street.

Adam: That's all for this week. Thanks to Raina and to all of you for joining us. Be sure to follow us on the MSCI LinkedIn page and to bookmark www.msci.com/coronavirus for all our crisis related content. We'll be back with our usual Friday Release next week. Until then, from all of us at MSCI Perspectives, we wish restful holidays to those who celebrate. Stay safe everyone.

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