

So, Factor Investors, Why So Defensive? Part 2: Oh, That's Why.

Featuring:

Hitendra Varsani, Executive Director, Global Solutions Research, MSCI

Adam Bass (00:03):

This is MSCI Perspectives, your source for insights for global investors and access to research and expertise from across the investment industry. I'm your host, Adam Bass and today is October 4, 2021. As we mentioned on week's episode, we had conducted our interviews and in fact, released the episode before the end of the quarter. We were only talking about a matter of three days, right? I mean, what could possibly happen? Well, as everyone listening probably knows, those three days, the 28th, 29th and 30th of September, you could say they kind of punched above their weight in terms of the impact they had on the quarter as a whole.

As planned, we asked Hitendra Varsani, who is of course, part of MSCI I's global research team to join us for a quick follow up so that he could walk us through the indicators from the team's multifactor model once all the numbers were in. Given what happened, however, we took the opportunity to ask Hitendra, what happened? Hitendra Varsani, thank you so much for coming back on the program for this follow up. Let's just jump right in here for this update. The last few days had a huge impact on overall quarterly performance. What did we see?

Hitendra Varsani (01:32):

Thanks, Adam. Generally, we saw weakness in equity markets over September. September typically has been a more volatile month, so this year was no different and that weakness was largely driven by concerns around rising rates, inflation fears, and concerns around the Chinese property market. That led to excess volatility. What did that mean in terms of factor performance? Low volatility continued to add returns over September, but quality gave back some gains and momentum added to gains. Overall, we've seen low volatility and momentum be the leading factor indexes over the four quarter.

Adam Bass (02:15):

Hitendra, those conditions that you mentioned, inflation worries and so on, those existed before last week. We spoke about them on the program that went live. What might be some other factors that contributed to what we saw the last few days of the quarter?

Hitendra Varsani (02:32):

Right, so these concerns that investors had around rising rates and inflation have been there, but in the last week of September, those concerns intensified. One of the catalysts that may have caused that effect is the Federal Reserve announcing that it could be tapering much faster than the market expected, and investors could see rate rises more quickly than they expected. That led to excess volatility in the market. Now, coupled with the events that we've seen in China around the real estate sector and the impact that's had on emerging markets in particular could have negatively impacted global equity markets.

Adam Bass (03:17):

Now, perhaps this final question becomes even more important based on what we saw, but now that the quarter has actually ended and you've been able to run the numbers, what have you seen from the allocation model?

Hitendra Varsani (03:32):

Our adaptive multifactor allocation model, which is based on a number of pillars ranging from macro valuations, technical indicators, pointed to an overweight in momentum and an underweight in yield and was in fact, neutral across the other factors that we look at relative to a equal weighted mix. That's based on data since the end of September 2021.

Adam Bass (04:00):

Well, thank you, Hitendra again. We promised we'd keep this short and sweet, so we will, but really appreciate you coming on to share your additional insights. Thanks again.

Hitendra Varsani (04:11):

Thank you.

Adam Bass (04:14):

That's all for this week. Our thanks to Hitendra and to all of you for listening. Just a reminder, you'll find more details in the latest installment of the Factors and Focus blog, and you can register for this quarter's Markets and Focus webinar all at [msci.com](https://www.msci.com). Until next time, I'm your host, Adam Bass, and this is MSCI Perspectives. Stay safe, everyone.

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