FTSE Russell has launched its Market Impact Hub to help provide market navigation insights and analysis across asset classes on the impact of COVID-19.

The hub features data, analysis and commentary from FTSE Russell's award-winning research team to support institutional investors by offering timely insights into market movements across asset classes, regions, sectors, and currencies.

FTSE Russell

A recent post provides a deeper dive into factor investing in Asia:

How have factors in Asia reacted to COVID-19?

April 23, 2020

By Marlies van Boven, PhD, Managing Director, Research & Analytics.

When examining factor rotation and volatility in Asian stocks in response to COVID-19, it's immediately striking how late all markets reacted to the coronavirus threat.

Using factor volatilities as defined by the Axioma Asia risk model, there was no reaction from the markets to the outbreak of the Coronavirus in China in January. Even WHO 's declaration of an international emergency didn't increase volatility.

As the first chart below shows, when the first deaths were announced in Italy, in late February, markets started to react. On March 9, in reaction to a dramatic drop in the price of oil, global markets plunged and had the worst day since the global financial crisis (GFC). In response, factor volatilities went up rapidly, doubling by the end of March.

Dr Marlies van Boven

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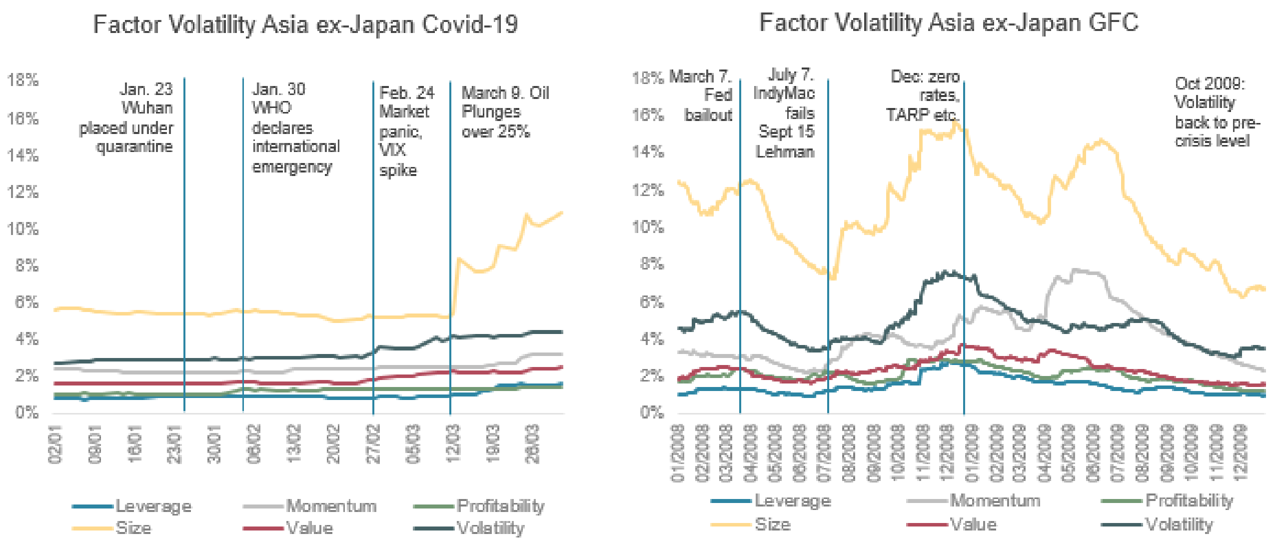
Marlies holds a Masters degree with honours from Institute Coremans, Brussels and a PhD in Finance from Warwick Business School.

Factor Volatility Covid-19 vs GFC: Asia ex-Japan



Markets react to bad news

- Covid-19: Feb 24 first deaths in Italy, followed by oil price plunge early March, markets panic and factor volatility rises sharply.
- GFC: After Lehman went bust, markets panicked; factor volatility increased.

Source: *Axioma Risk Models, Qontigo. Past performance is no guarantee to future results. Please see the end for important disclosures.*

Once markets reacted, it's striking how much faster volatility increased compared to the GFC from January 2008 to December 2009. The second graph on the previous page demonstrates that volatility doubled between July and early December of the GFC. QE calmed markets but risk took over a year to fall back to pre-crisis levels.

It took only a couple of weeks for COVID-19 volatility to double versus months for the GFC. The real question now is whether factor volatilities will continue to rise or revert back to pre-crisis levels. The next quarter will provide some answers.

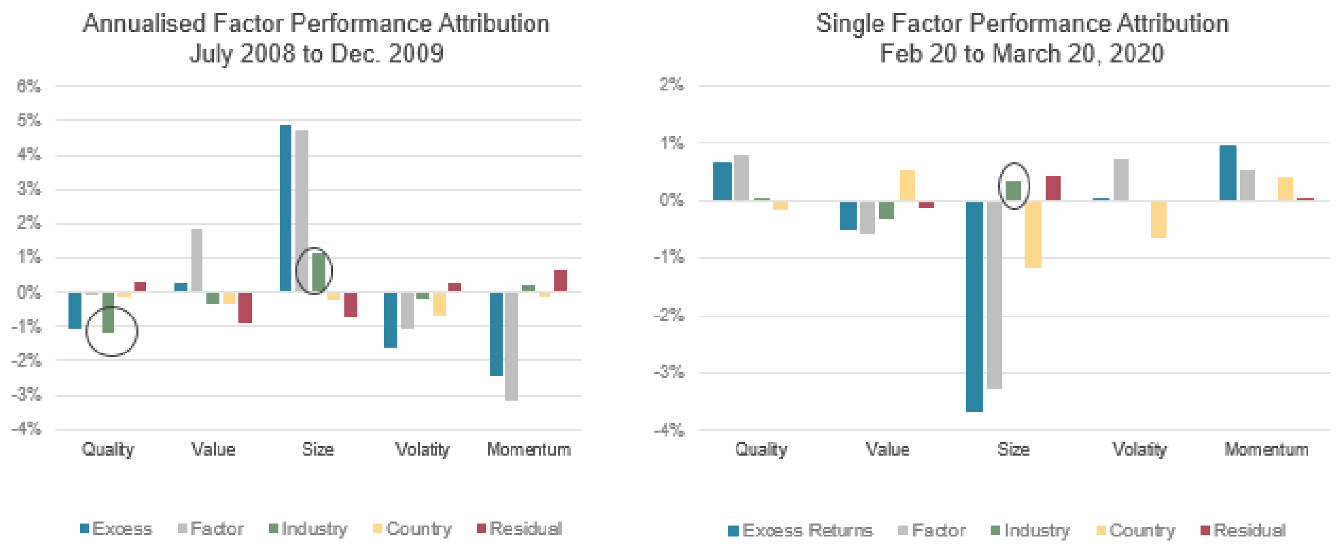
What happened to individual factors in Asian stocks?

Comparing the market reaction of individual factors to the COVID-19 outbreak versus the aftermath of the GFC is instructive.

There was a flight to Quality away from Value and Size in Q4 2008. However, in 2009, we had a particularly strong rebound in small cap stocks whilst defensive stocks drifted down. By the end of 2009 we observed a positive excess return to Size and Value away from defensive Quality, Low Volatility stocks.

While COVID-19 started in January, the impact on factors was really felt in March, in particular small cap stocks took a big hit. Curiously Momentum held up well. This may be because the rotation into large cap defensive stocks started in early 2020 and continued to outperform during Q1.

FTSE Asia ex-Japan - Factor returns: Covid-19 versus GFC



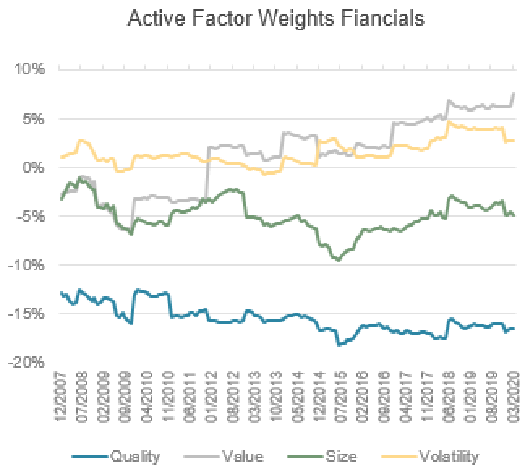
- Covid-19: March sell-off in Value stocks and rotation into Quality. Momentum, Size and Value performance is flat
- GFC: Between March and Nov. 2008: Sell-off in Size and Momentum and rotation into Quality and Low Vol.
- March 2009 rebound in Small Cap Value stocks, while more defensive stocks drifted down

Source: Analytics+, FTSE Russell. Past performance is no guarantee of future results. Please see the end for important legal disclosures.

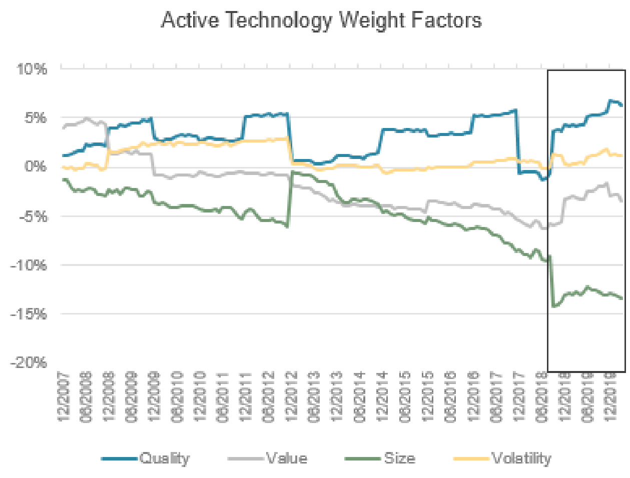
Finally, as illustrated in the charts on the following page, we see a negative (GFC) to neutral (COVID-19) excess Industry return for the Quality factor but an overall positive impact for Size. We focus on the sectors that had the largest sell-off during COVID-19: Financials and Technology.

Quality is consistently underweight in Financials by about 15%, but its small overweight in Technology has increased since the second half of 2018 to around 6%. The importance of the Tech sector in FTSE Asia, may help explain the negative to flat Industry effect. Size is underweight in both sectors, leading to a small positive Industry effect. Of course, the excess returns from Industries is small relative to the excess factor returns and the macro-economic outlook will continue to drive factor performance.

FTSE Asia ex-Japan: Active Industry Weight Factors



- Quality has consistently the largest UW in Financials
- Size smaller degree but also UW
- Value OW



- Quality is OW tech
- Size and Value are UW
- Large Cap, Expensive, Quality stock bias has increased since 2nd half 2018

Source: Analytics+, FTSE Russell. Past performance is no guarantee to future results. Please see the end for important disclosures.

For more insight

Recently Marlies co-hosted a webinar for investors in the APAC region providing a review of, and insight into, Q1 2020 Factor Performance, with Philip Lawlor, MD, Global Markets Research, FTSE Russell. Within this webinar Marlies and Philip examined in detail the Covid-19 correction impact on factor performance across the globe and how this compares with the 2008 Global Financial Crisis correction.

Access the Webinar playback recording