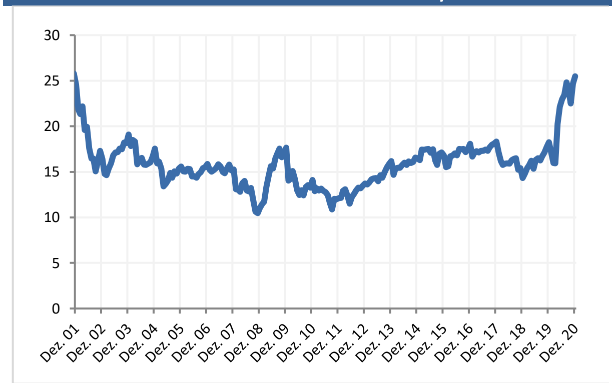
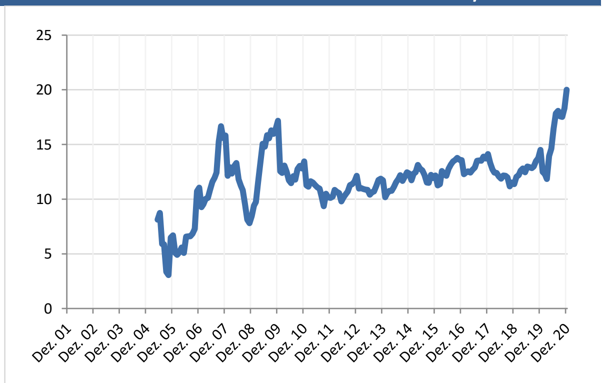
This time is different...

… is a regular quote during times of extreme market moves- independently if prices rise into stratospheres or decline to fractions of their former values. Developments during the COVID pandemic proved to be no exception as equity markets lost ~ 40% in one of the fastest declines ever only to come back and rising to valuation levels not seen since the dot.com- bubble 20 years ago.

MSCI World Forward P/E



MSCI Em. Markets Forward P/E



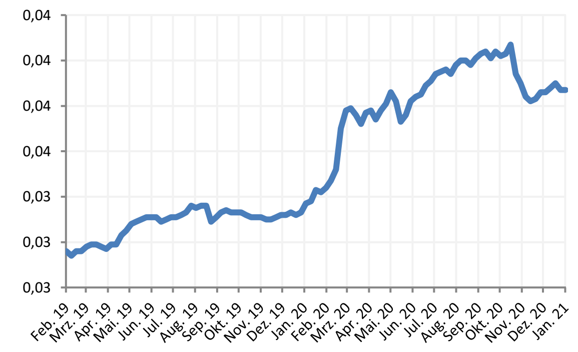
And as during former episodes, a lot of market participants expected "this time to be different" in the light of market behaviour and economic stimuli from central banks and policy makers. But as C. Reinhardt and K. Rogoff showed in their book **"This Time is Different: Eight Centuries of Financial Folly "**with respect to financial crisis over centuries, **history doesn´t repeat itself, but it rhymes.** From our point of view, the same is true with respect to financial markets and the performance of equity factors during the first 10 month of the COVID pandemic in 2020. Basically, markets and policy makers followed the same patterns as we have seen over the last 30 years.

Nevertheless, **some differences in European as well as in US equity factors** to former phases of contraction and recovery **are noteworthy** but from our point of view **can be explained either by the economic impact of the pandemic** – and thus should be expected to be transitory and not permanent- **or different market structures** on both sides of the Atlantic. In short, economic and market developments can be summarized in:

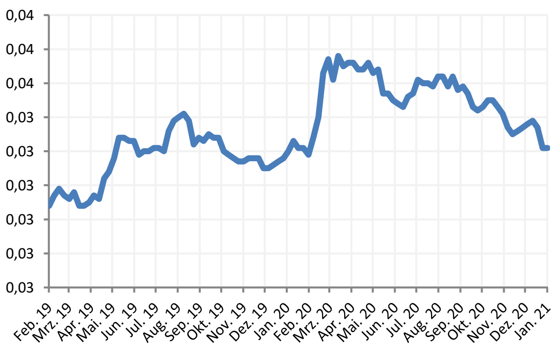
1. Economic collapse, yields and equities decline, credit spreads widen, dollar rises, cyclical sectors underperform defensives, value and size underperform growth, carry and low volatility/beta
2. Central bank and fiscal policy activity kicks in, equities rebound, bearish yield curve steepening, credit spreads tighten, dollar falls, cyclical sectors outperform defensives, value and size start to outperform growth and low volatility/beta.

Looking at relative iSTOXX Europe and iSTOXX US equity factor performance with a view on typical more cyclical vs. defensive factors, **developments have been broadly in line with what investors should expect during economic downturns** and recoveries.

iSTOXX Europe Defensive vs. Cyclical

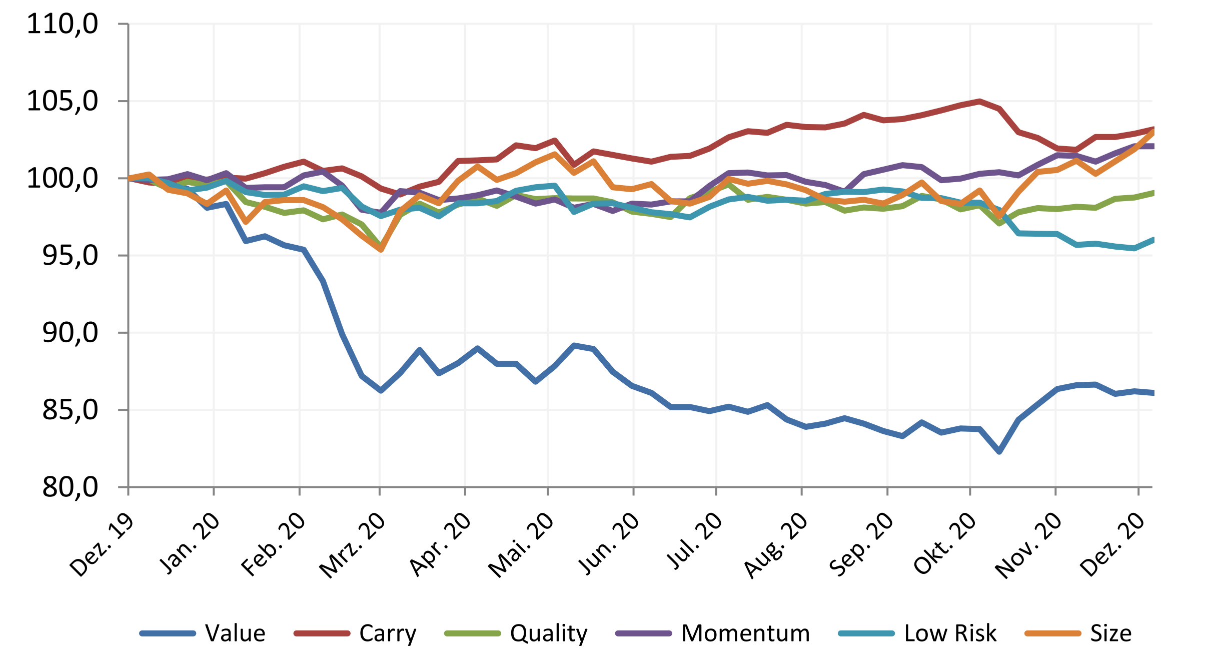


iSTOXX USA Defensive vs. Cyclical



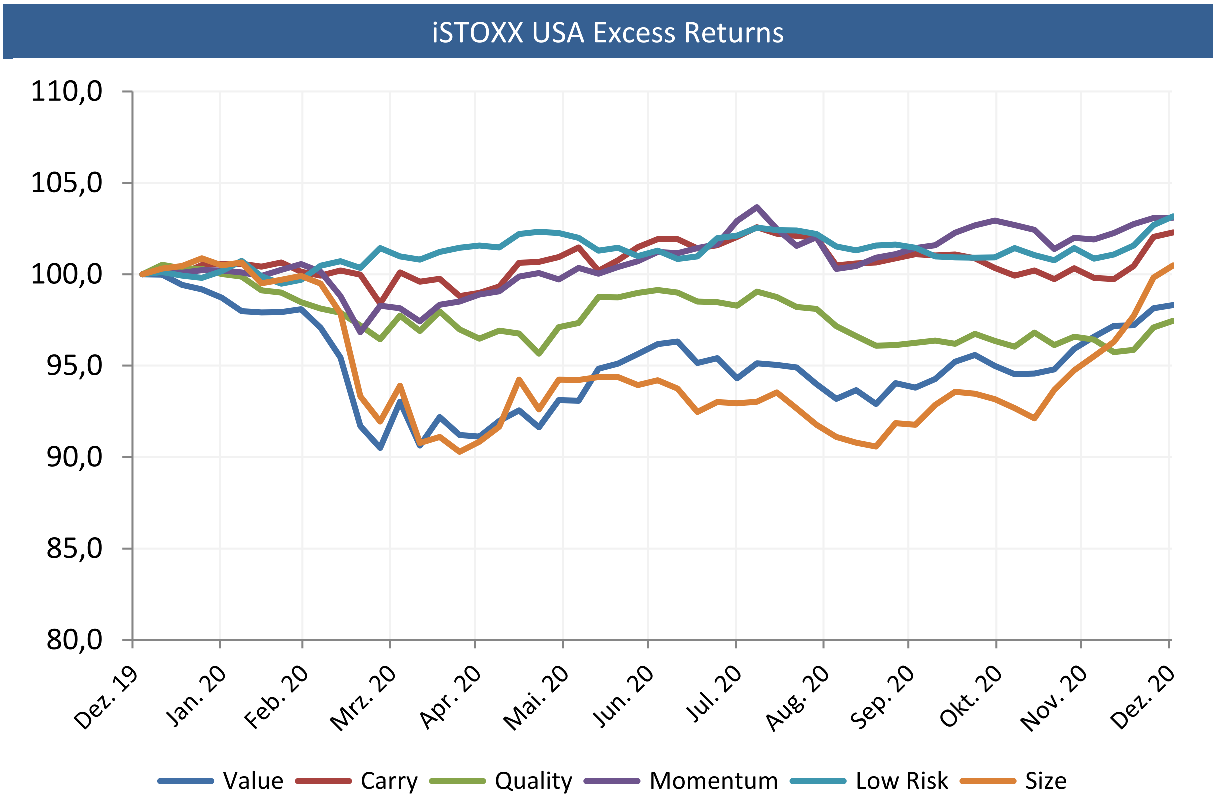
But below the surface, factor performance looks more interesting. During the decline from second half of February to mid-March, all European factors underperformed STOXX 600 – or more concrete **the "market factor", which is basically "large cap momentum"**. **Outperformance of defensive vs. more cyclical factors was mainly driven by relative performance of Carry vs. Value.** Carry in the definition of iSTOXX Europe and iSTOXX US factors is "Sustainable Shareholder Yield" which is economically different from "Dividend Yield". **Low Volatility and Quality,** which typically outperform during economic downturns underperformed the overall market this time and delivered only small contributions to defensive outperformance vs. more cyclical factors. **Momentum,** typically an underperformer during phases of high volatility and sudden changes in market direction due to a lack of adaptability, was largely unaffected this time.

iSTOXX Europe Excess Returns



Looking at the performance of iSTOXX US factors, Value and Size underperformed as well, but in contrast to Europe, Low Volatility and Carry performed much better vs. the overall market.

Moreover, the **relative decline in Value was lower in US than in Europe**, while the underperformance in Size was much deeper. And as with Europe, Quality as a typically more defensive factor, underperformed.



From our point of view, the reasons for some of these developments can be mainly attributed to economic factors as some sectors faced a supply and demand shock at the same time - and market structure as mentioned before.

Value underperformed as expected and the difference between Europe and US can be explained by the fact, that value is a leveraged exposure on the earnings cycle. Looking at trailing YoY earnings, STOXX 600 earnings declined by ~ 60% while S&P earnings declined by 20%, so European value should have been weaker than US value.

Quality unexpectedly underperformed on both sides of the Atlantic but a lot of high-quality companies came under pressure during the COVID pandemic. ADIDAS is one of those examples as the company reported record earnings for 2019 only to apply for bailout financing of 2,4 bln Euros from state owned KfW bank six weeks later. The same is true for many stable growth companies from food & beverage and many other sectors.

Low Risk performed like Quality with the same background for a lot of companies in Europe but a different development in the US, which can be explained by different market structures; a lot of today´s US Low-Risk companies are basically technology companies, which are distributed across many sectors. Their business model are more like those of consumer staples stocks, because only mildly affected by the business cycle and these stocks led the market higher even before the COVID crisis kicked in.

Momentum lacked the typical relative declines (momentum crashes) during high volatility environments and like Low Risk, might have benefited from the fact, that relative performance leaders maintained their status during the COVID decline and even into the first phase of the recovery. The change in leadership has been a slow process over several month on both sides of the Atlantic, so Momentum was able to adapt during this transition phase.

Size and Carry performed as expected.

Conclusion: On an aggregate level, **"this time is different" might be an exaggerated expectation**, as cyclical vs. defensive factors behaved in line with former business cycle- and market downturns. Nevertheless, as within sectors or on company levels, performance patterns on a single factor basis diverged from former cycles during the first ten month of the COVID pandemic. But as long as the basic split between out- and underperformers is intact, we think factor spreads to be a much better diversifier in many portfolios than low or even negative yielding government bonds. **Diversification still pays off.**

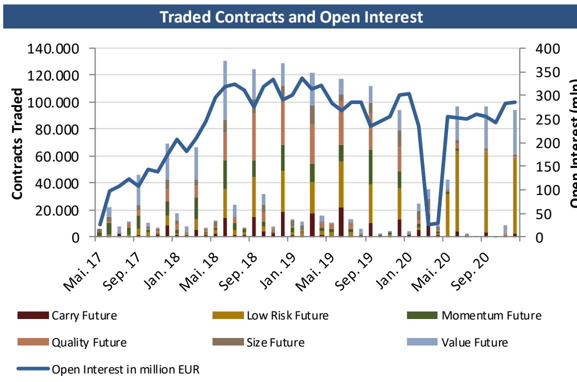
Factor Performance (Europe)

Size (+4,17%) and Value (+3,18) outperformed during Q4/2020 while more defensive factors like Carry (-0,45%) and Low Risk (-3,53%) underperformed.

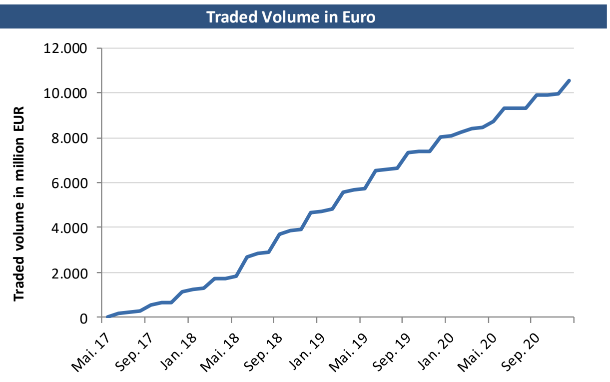
EUREX Futures

The fourth quarter had increased open interest at more than 280mln. The graphs show development in traded contracts, open interest, and overall traded volumes since introduction in May 2017. Traded volume exceeded 10 bln Euros.

Traded Contracts and Open Interest



Traded Volume in Euro



Alpha Centauri Indexing - Data as of 31.12.2020

<u>Description:</u>

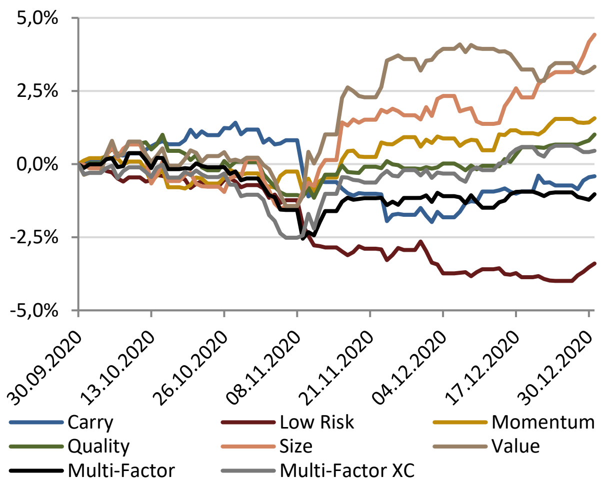
The iSTOXX Europe Single Factor index family developed by STOXX in collaboration with Alpha Centauri offers investors a unique and very innovative way to target and capture premia.
It consists of six single factors that aim to capture well-known risk premia and one multi-factor that aims at simultaneously capturing premia from the aggregate of all single factors rather than from just one source of risk alone.
All indices are constructed to maximize the exposure to their particular factor and minimize unwanted risks. While constructing the final indices the FIS APT risk model is used to measure and restrict risk.

For more information go to **www.alpha-centauri.com** or **www.stoxx.com**

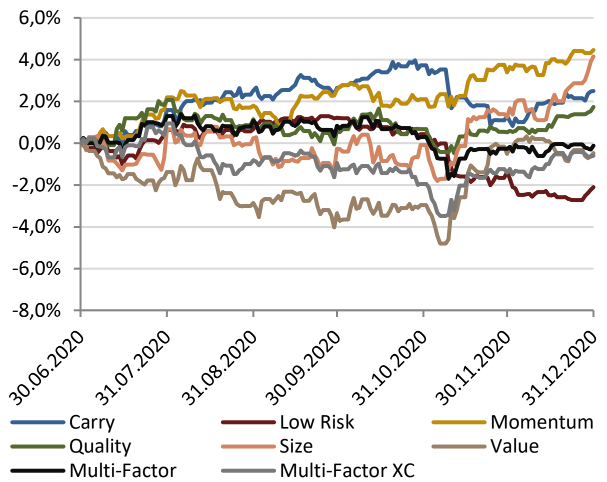
Performance and Volatility Breakdown

Name	Ticker	Return 3 Months	Return 6 Months	Return 12 Months	Return Live (1.4.)	Vola pa	Vola pa Live (1.4.)
Carry	ISECFER Index	10,4%	14,0%	1,5%	48,5%	14,6%	14,1%
Low Risk	ISERRER Index	7,4%	9,4%	-5,5%	38,2%	13,8%	13,4%
Momentum	ISEMFER Index	12,4%	16,0%	0,0%	37,6%	14,4%	14,0%
Quality	ISEQFER Index	11,8%	13,3%	-2,9%	33,8%	14,4%	13,9%
Size	ISEZFER Index	15,2%	15,7%	0,5%	34,6%	14,2%	13,8%
Value	ISEVFER Index	14,1%	11,0%	-16,6%	6,8%	15,7%	15,3%
Multi-Factor	ISEXFER Index	9,8%	11,4%	-4,9%	24,0%	13,8%	13,4%
Multi-Factor XC	ISEXFCR Index	11,3%	10,9%	-4,5%	28,1%	14,1%	13,6%
Benchmark	SXXR Index	10,8%	11,5%	-2,0%	36,1%	14,8%	14,3%

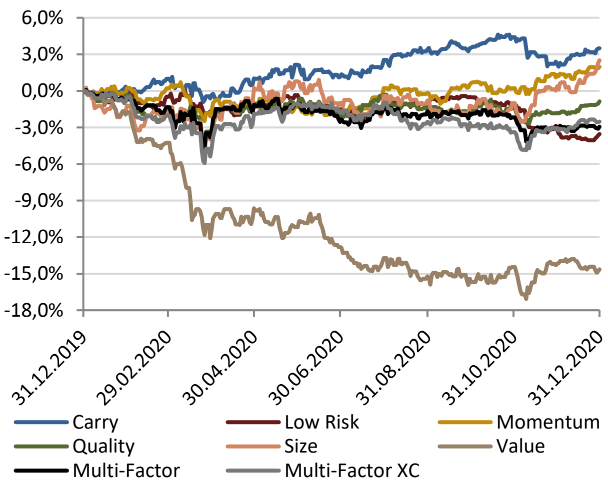
Excess Return 3 Months



Excess Return 6 Months



Excess Return 12 Months



Excess Return since going Live (1.4.2016)