



„Low Risk- no fun“ in Corporate Factors

The literature on Low Beta-/Low Risk factors – especially in equities – is vast and even more than 60 years after the first publications, researchers are still working on the different facets when for example looking at publications on SSRN. Alpha Centauri has published a couple of articles regarding Low Risk in equities over the last ten years, i.e. [“Factor investing– is there a rational explanation for Low Volatility”](#) during the introduction of the iSTOXX Europe factor futures on Eurex, [“Faktorinvesting als Baustein für das institutionelle Portfolio”](#), an article which was published in ABSOLUT REPORT or [“Low Beta – 10 years in retrospect”](#) to name a few. In all these articles – and many others – we proposed to look at factors through the lenses of the options- and financing theory of Black/ Scholes/ Merton, because factors are derived out of traditional asset universes and if the pay-off-profile of equities and corporates is option-like, **it is quite unlikely, that factors can be explained by assuming normal distribution and linear relationships.**

The empirical literature for factors in corporate bonds is tiny compared to equities and the findings in Low Risk are mixed at best, depending mainly on the universe and the methodology – especially with respect to the metrics used to rank bonds and the way portfolios are constructed. As part of a longer **project with a major index vendor**, we worked on factors in corporate bonds – or more concrete – in credit default swaps (CDS). Quite naturally, Low Risk was one of the factors in question. **In contrast to equities, we couldn't find evidence for the existence of a Low Risk factor in CDS, which sparks the question: Why not?**

We have to admit, that there are some differences between the cash bond market and CDS – like the number of issuers/ index constituents or single name bonds/ liquid CDS etc. Moreover, the timeframe of ten years might be too short for a final assessment. But beyond all the typical data analysis, a closer look at the economics might support the view, that there is no Low Risk effect in the classical sense like in equities. As always, we performed a “factor test” in a first step, ranking constituents along metrics deemed to be relevant economically and in empirical finance and sorted the results into decile portfolios, which brought the following results:

Corporate CDS			
Decile	Return p.a.	Volatility	Return/Risk
1	0,83%	0,99%	0,84
2	1,04%	1,11%	0,94
3	1,00%	1,41%	0,71
4	1,14%	1,58%	0,72
5	1,29%	1,64%	0,79
6	1,25%	1,69%	0,74
7	1,40%	2,27%	0,62
8	1,57%	2,81%	0,56
9	1,91%	3,41%	0,56
10	2,86%	5,01%	0,57

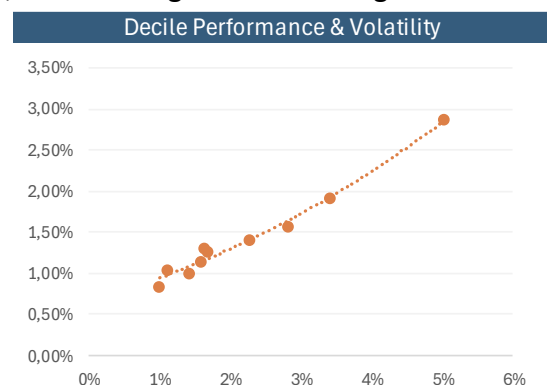


Exhibit 1: CDS deciles performance and volatility ranked by 12-mth. standard deviation, Source: S&P/Markit data, Alpha Centauri calculations

Table and graph show rising returns and volatility along the deciles sorted or 12-month standard deviation of returns. Moreover, the return-/risk ratio is falling more or less continuously from low to high volatility deciles. The picture is quite different compared to European equities, where returns are materially lower for high volatility deciles – which quite impressively shows the well-known Low Risk – effect.

Equities			
Decile	Return p.a.	Volatility	Return/Risk
1	7,28%	11,41%	0,64
2	7,38%	13,49%	0,55
3	7,17%	14,61%	0,49
4	8,09%	15,70%	0,52
5	6,32%	13,97%	0,45
6	7,42%	17,72%	0,42
7	6,91%	18,33%	0,38
8	5,18%	19,86%	0,26
9	4,87%	21,04%	0,23
10	0,94%	24,79%	0,04

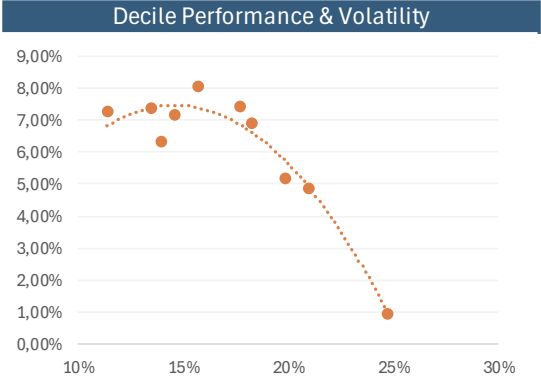


Exhibit 2: Europ. equities decile performance and volatility; stocks ranked by 12-mth. standard deviation, Source: S&P Capital IQ data, Alpha Centauri calculations

In a second step, we built investable portfolios with a couple of constraints (UCITS weights, turnover etc.) – Long Only vs. iTRAXX Europe and Long/Short – and the results confirmed the factor tests, which is not always the case, because there can be material differences between the “academic way” in empirical finance and investment management practice to build portfolios.

In one of several steps to evaluate the results from the factor tests, we compared the daily returns of Low- and High Risk decile portfolios with deciles 5/6, which can be regarded as representatives of the market portfolio as their return- and risk results closely match the results if the benchmark.

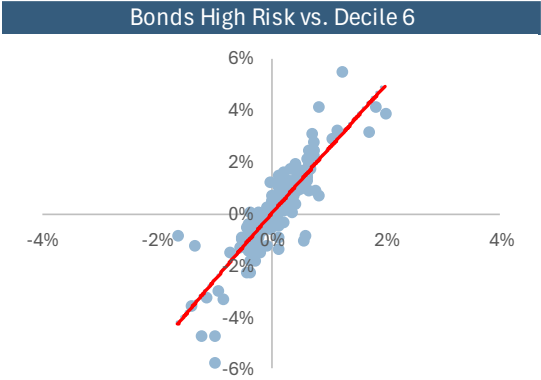
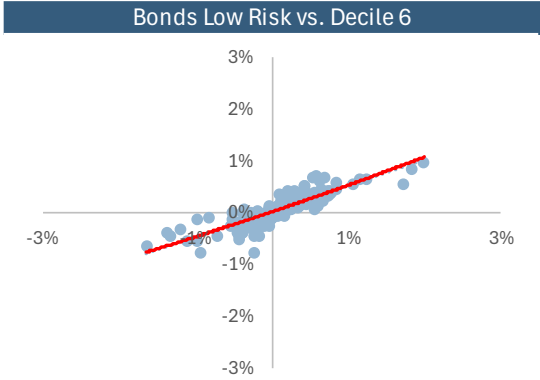


Exhibit 3: Comparison of daily returns between risk deciles 1/10 vs. 6; Source: S&P/Markit data, Alpha Centauri calculations

The graphs show the differences in beta and – somewhat surprising to us – a strong linear relationship, quite different compared to equities. As the following graphs show, the lowest risk decile in equities exhibits a more concave relationship and the highest risk decile shows a more convex picture compared to a simple linear line of best fit. From our point of view, the

Long Call- like payoff seems to confirm the preference of investors for lottery tickets – or out of the money- calls.

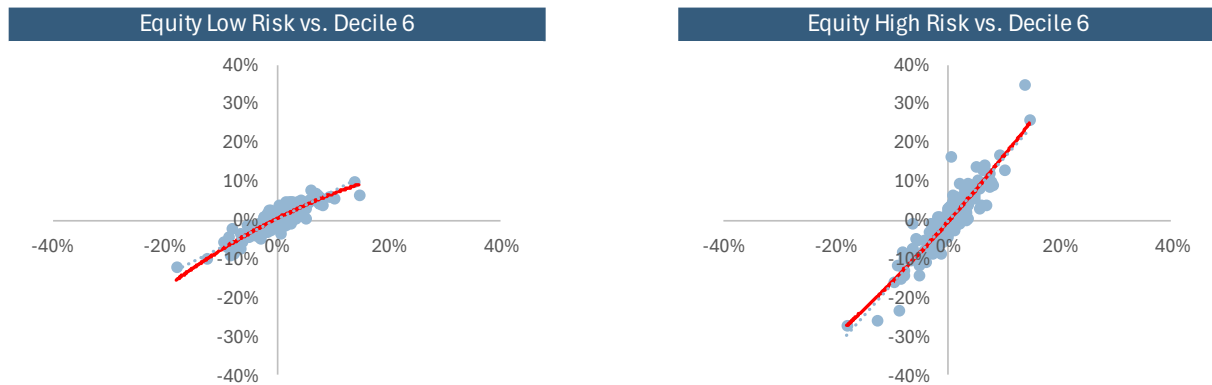


Exhibit 4: Comparison of daily returns between risk deciles 1/10 and 6; Source: S&P Capital IQ data, Alpha Centauri calculations

Finally, we compared the returns of High Risk CDS- deciles and Low Risk equity- deciles to equity market returns. The picture looks quite similar – a concave payoff profile. Higher losses for Low Risk during equity market drawdowns might come as a surprise, but they occur during the first phase of the recovery, in a state where the market is still negative but less than a couple of sessions before.

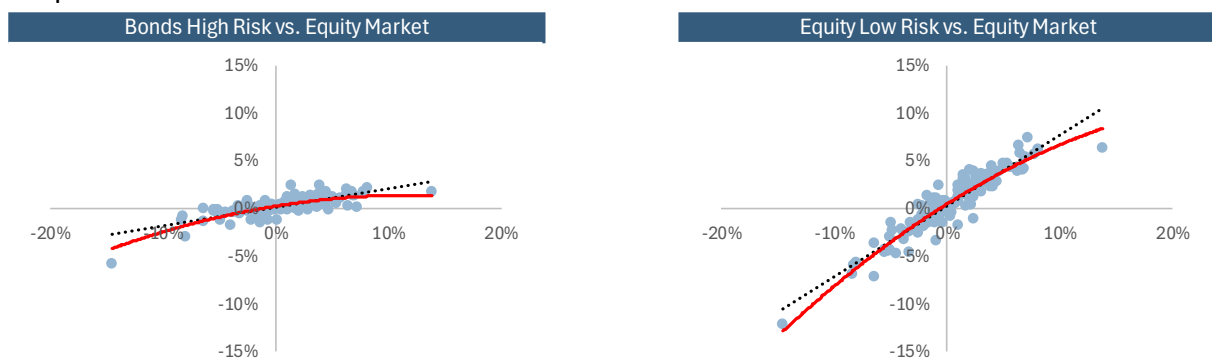


Exhibit 5: Comparison of daily returns between High Risk decile in CDS, Low Risk decile in equities and equity market; Source: S&P/Markit-, S&P Capital IQ data, Alpha Centauri calculations

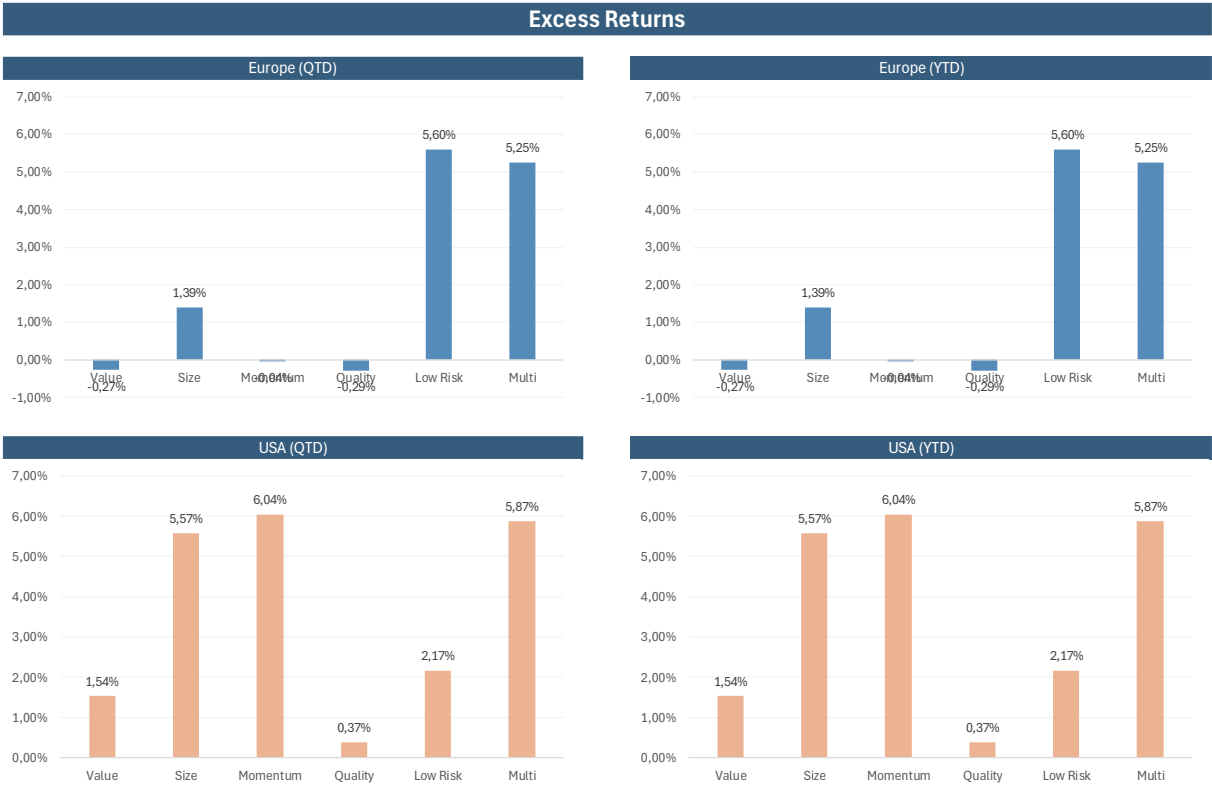
So where does that leave us? From our point of view, there are differences and commonalities between the price behaviour of Low-/High Risk deciles in corporate CDS and equities.

But there is one material difference: **after a drawdown**, which is typically associated with higher volatility, **bonds – and so their associated Credit Default Swaps – always recover as long as the issuer doesn't default to par**, while equities can stay on depressed levels for longer. And as default rates in investmentgrade corporates are quite low – only 0,08% according to regular reports from S&P over the last 20 years – **High Risk corporate bonds exhibit a better performance compared to Low Risk, because these bonds (or CDS) show up in higher risk deciles after they collapsed**, leading to material higher returns (and falling volatility along the way) than Low Risk during the recovery period.

This might explain, why the Low Risk effect in corporates and Credit Default Swaps doesn't exist – so **“Low Risk- no fun”**.

Factor performance:

Because of the Iran war, international stock markets suffered losses during March, although the decline has so far been limited given the potential impact on the global economy. As expected in such situations, more defensive factors were among the winners recently, while the trend reversal in momentum led to negative relative results in some markets. Low Risk clearly dominated alongside Multifactor in Europe during Q1/2026 while Momentum, Size and Multifactor led the table in the US. On a global scale, factor strategies outperformed their benchmarks during Q1/2026 except Value and Quality in Europe, which recorded minor underperformance.



Source: STOXX; Alpha Centauri calculations

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