ALPHA CENTAURI

Riskpremia – Made in Germany

Momentum – back in focus

The change in stock-/bond correlation, the meteoric rise in the "Magnificent 7" – stocks in US which lead to a rarely occurring concentration in US- and Global stock indices and the ongoing discussion about "iceberg risk" in private debt led man investors to rethink their approaches to portfolio diversification and – resilience.

Liquid Alternatives in form of risk premia-, equity factor- and QIS-strategies seem to be en vogue again. Especially momentum in its various applications – i.e. trend following or cross-sectional – seems to be of interest for investors and researcher. One of the reasons might be, that **equity momentum factor strategies recorded double digit outperformance against major benchmarks in 2024 and high single digit excess returns in 2025** in European equities. Apart from the numbers, academic- and investment bank- research supported rising interest with several new publications. Momentum paper releases have been modest since 2020 – at least when looking at SSRN or investment bank research reports.

One of the most extensive publications entitled ***"Momentum Fusion: The Alchemy of Trend Following"*** came from JP Morgan´s quantitative strategy team recently (ask your JPM representative for a copy). Despite the title, it deals with the various aspects of cross-sectional momentum in single stocks and sheds light on technical- and fundamental applications of momentum investing, signal blending, portfolio construction and (crash-) risk controlling.

In a first step, the researchers took a closer look at various signals (or metrics) divided into six major blocs:

- Price Momentum (1-M, 3-M, … 12-1 M. return etc.)
- Fundamental Momentum (shifts in analyst earnings-, dividend- expectations etc.)
- Sentiment (analyst price target-, etc. recommendations)
- Natural Language Processing (text analytics from earnings call transcripts etc.)
- Technical (risk-/ volatility adjustments etc.)
- Linear Trend (trend persistence in form of t-stats etc.)

From all of the metrics tested – Long Only vs. benchmark and Long/Short –, 12-1 M. momentum, 12-1 M. momentum volatility adjusted, net earnings revisions, 6-M. earnings momentum, 6- M. target price revisions as well as 48-/ 52-Wk. t-stat emerged as the signals with the best return potential and/or Sharpe ratio in the past.

Moreover, JP´s research team used a scorecard to work out the relative attractiveness of every metric within the six groups using 2/3 Sharpe Ratio and 1/3 max. drawdown as a reference.

Group	Metric	Rank
Price Momentum	12M - 1M Price Momentum	1
	11M Price Momentum lagged 1M	2
		... 12
Fundamental	Net Cashflow Revisions 3M	1
	Earnings Momentum 6M	2
		... 7
Sentiment	Recommendation Changes 1M	1
	Target Price Change 6M	2
		... 5
NLP	Transcript	1
	News	2
Technical	12M - 1M Price Momentum Vol adj. 3M	1
	Standardized Unexpected Earnings	2
		... 6
Linear Trend	48 week t-stat Momentum	1
	52 week t-stat Momentum	2
		... 5

Exhibit 2: Scoreboard of tested momentum metric; sSource: JP Morgan Global Quantitative Strategy; Momentum Fusion: The Alchemy of Trend-Following, June 2026

Signal blending showed improved results when blending within the individual buckets and even more when blending procedures across buckets were applied. **Volatility scaling** led to higher returns and lower max. drawdowns. Regarding various techniques of risk mitigation, the message is: **"no single tool is universally optimal".**

The **outcomes differ materially across various markets** (World, US, Europe, Japan, APAC, GEM). Moreover, the results show quite striking, **that equity factors – like all systematic risk premia – can exhibit severe and long phases of drawdowns**. This reflects the risk for which investors are compensated; in the case of momentum that´s the risk of reversal. For us it was interesting to see, that t-stat – the persistence of price momentum – is still superior compared to so many specifications of momentum. **We use t-stat as a preferred metric of momentum since more than 13 years.**

Nevertheless, in a working paper entitled "Momentum Factor Construction and Signal Orthogonality: A Mathematical Framework for Systematic Equity Strategies" the author argues, *"that the practical edge in systematic equity is not the discovery of high-IC signals but the disciplined application of thin, persistent edges across breadth and time, and that the architecture of orthogonal signal stacks is the mechanism by which institutional implementations achieve scale".* Reliable signals are only one building block in a successful factor strategy framework.

One aspect in discussions around momentum is the question, **if momentum effects are the results of a stock specific** (idiosyncratic) **momentum component or overwhelmingly a by-product of systematic factor momentum** of all sorts. X. Gerard and L. Jehl (The many facets of stock momentum: distinguishing factor and stock components; FAj Vol. 82, No.1) tried to answer the question by taking a look at returns "around the release of firm-specific information"– essentially an earnings announcement effect.

One of their arguments why idiosyncratic momentum effects are different from systematic ones is, that the former is prone to reversal effects – that´s why the return of the last month is typically skipped in cross-sectional momentum strategies – while the latter shows positive autocorrelation month on month. In their conclusion the authors state, "that the performance of the longer-term earnings announcement strategy is largely unaffected by factor momentum" and that "the evidence of our study is consistent with theories of underreaction to firm-specific news".

The (negative) **influence of unpriced risk** is a major topic in "The unpriced risk in momentum strategies", a working paper by Gao and Yuan released in March 2026. They provide evidence, that **"unpriced risk is the source of momentum crashes** and that volatility – managed momentum achieves a substantial improvement in the Sharpe ratio".

Alpha Centauri always held the view, that **factor returns should be extracted as "pure as possible"** which means, that **all other systematic sources of return** like equity market beta or sensitivities on rates, credit, currencies, commodities etc. beyond the factor exposure in question should be **neutralized ex ante**. Risk models help us to achieve this goal. The reason for purification is, that these are either reflect asset class risk (and paid premia), which are allocated and risk managed on a different level or belong to the category of "unpaid" risk factors – like sector risks.

"Unpriced risk" is still a feature of most of all factor indices and related products available in the market today. A simple look at MSCI indices underlying iShares factor ETF´s is an example, as the sector deviations compared to benchmark are quite large.

Industry	MSCI Low Vol/Europe *	MSCI Europe **	Difference
Energy	11,0%	4,3%	6,7%
Utilities	11,2%	4,9%	6,3%
Health Care	16,5%	13,3%	3,2%
Technology	12,0%	9,5%	2,4%
Basic Materials	7,1%	5,3%	1,8%
Telecommunications	2,7%	3,1%	-0,4%
Real Estate	0,0%	0,6%	-0,6%
Consumer Discretionary		1,7%	-1,7%
Financials	22,8%	24,6%	-1,7%
Industrials	13,5%	19,2%	-5,7%
Consumer Staples	2,6%	8,6%	-6,0%
* weights of iShares MSCI Europe Low Volatility ETF as of 06.07.2026			
** weights of iShares MSCI Europe ETF as of 06.07.2027			

Exhibit 2: Comparisons of industry weights iShares Low Volatility Europe vs. iShares MSCI Europe ETF

Quite interesting, MSCI published a paper entitled "The common language of portfolio construction" recently, in which they exactly propose to use risk models to deal with all the challenges of portfolio construction and -design to avoid "unintended bets" or constraint violations, which have to be solved simultaneously. Moreover, the researchers propose, **that**

"signal design and portfolio construction are not separable: they should align". Unfortunately, that´s a major hurdle to overcome for investors even if they use risk models, as the risk factors in risk models usually differ from the alpha signals generated by researchers in investment companies. Either the risk factors in risk models have to be aligned with the alpha models or vice versa. MSCI doesn´t use risk models for their flagship factor indices.

Last but not least, **factor excess returns are still treated like "alpha" by most investors** and products are selected with a strong focus on the typical "3-year track record" requirement. Unfortunately, **factor premia strategies exhibit similar momentum characteristics like standard asset classes** with positive autocorrelation in the short- and medium term and reversal in the long term. So, for us it seems quite unlikely to harvest the full potential of factors or alternative risk premia with an analytical approach, that buys these strategies near the potential reversal point.

MAN Group published a paper a couple of weeks ago entitled "A Trend Following Deep Dive: Cash (Equities) Is King", in which they recommend to extend standard trend following strategies on style- or factor exposures – exactly for the same reason as mentioned before. Moreover, they discussed the difference between trend following in sectors and factors and came to the same conclusion as we did in our publication "Factors vs. Sectors in Asset Allocation Decisions" at the end of last year. **Positive trend behaviour across various time frames in combination with an uncorrelated risk profile compared to standard** asset classes sounds appealing for investors looking for additions to their trend following strategy arsenal.

Conclusions:

Momentum strategies can be an interesting supplement to investors' portfolios. "Purified" and tracking error-controlled strategies offer better return-/risk characteristics as these strategies don´t exhibit the massive drawdowns during market reversals.

As an addition or replacement for active Long Only strategies, investors should have a look at Portable Alpha- or Return Stacked portfolio solutions. Their potential for active returns is massively higher compared to standard active strategies as these strategies are independent from index concentration effects with respect to their active exposures. Investors looking to add long/short- momentum strategies to their (liquid alternatives) portfolios should take a closer look at the strategy design.

Finally, investors engaged in factor timing or fund-/ manager selection might be better off taking MAN´s research results to heart with short to medium term trend following in factors instead of relying on 3-yr- track record – predominantly to avoid the long- term reversal effects.

Factor performance

Momentum led the table during the quarter in Europe as well as in US, where excess returns have been quite high with +9,01%. Size capitalized on the weakness of super large cap stocks in the US. Low Risk was weak in the light of rising markets on both sides of the Atlantic. Multifactor in Europe suffered from the fact, that all factors beyond momentum recorded relative underperformance while in the US the Technology sector-driven performance claimed victims here too; Technology was the only sector, that outperformed S&P 500 during the quarter.

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