**Invesco**

**Press Release**
For immediate release
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**Mega-cap tech stock dominance prompts big shifts in systematic investing**

- **Tech stock outperformance has led systematic investors to recalibrate their strategies.**
- **Half (52%) of investors have increased their allocation to Value in the past year.**
- **Investors are adapting faster to changing market conditions – four fifths (82%) cite this as the key driver for pro-active factor allocation.**
- **Investors' use of systematic strategies is increasingly sophisticated, with growing allocations to alternative asset classes such as real estate and commodities.**
- **Alternative data sources are also gaining momentum – now used by a quarter (24%) of investors.**

**London 28 October 2024:** The extraordinary performance of mega-cap tech stocks has significantly impacted factor returns, creating both opportunities and challenges for systematic investors, according to Invesco.

The findings come from Invesco's ninth annual **Invesco Global Systematic Investing Study (IGSIS)** based on the views of **131** institutional and wholesale investors that collectively manage **$22.3 trillion.** It reveals a growing sophistication in investors' use of systematic strategies as they adapt to complex and fast-changing market dynamics.

**Tech stock dominance requires systematic investing rethink**

Invesco found factors aligned with the success of large tech companies such as Momentum, Growth and Quality have performed exceptionally well over the past year, while Value underperformed. Now, concentration risk has driven a turnaround with more than half (**52%**) of investors increasing their allocations to Value in the past 12 months as they seek a potential hedge **(Figure 1)**.

*"The exceptional recent performance of mega-cap technology stocks has made investors rethink factor strategies as they observed challenges around concentration, factor rotation, risk management and balancing exposures,"* **said Georg Elsaesser, senior portfolio manager, Quantitative Strategies at Invesco.** *"These challenges have demonstrated the essential necessity of risk management. There is a huge difference between observing momentum in a few large stocks and the idea of harvesting a momentum factor premium."*

Adaptability has enabled systematic investors to perform well in this environment. Over the past 12 months, **46%** of systematic investors reported outperformance over both traditional active approaches and market-weighted strategies, contrasting with underperformance of just **8%** and **6%** respectively **(Figure 2)**.

**Need for adaptability drives increased sophistication**

The need to react quickly has led to increased uptake of techniques that enable portfolios to immediately adapt to sudden changes in the macro environment. Four-fifths (**80%**) of respondents cited factor tilting strategies as very valuable, while **67%** highlighted the importance of asset class and sector rotation models **(Figure 3)**.

The key driver for pro-active factor allocation, cited by four-fifths (**82%**) of investors, is the desire to adapt to economic cycles **(Figure 4)**. This is also reflected in the rebalancing of factors weights, with

nearly all (**91%**) investors now adjusting their factor weights over time, an increase from three quarters (**75%**) in 2023 **(Figure 5).**

*"We have seen a somewhat more aspirational approach to factors over the past years, reflecting growing sophistication amongst investors in translating cyclical factor characteristics into diversified factor portfolios," **added Elsaesser**. "We are observing greater agility in factor allocations over time with a long-term strategic view. Investors broadly stay away from short-term tactical factor allocations."*

As markets become more changeable, investors' time horizons are also decreasing. While **40%** of investors still assess performance on a standard 3–5-year time horizon **(Figure 6)**, a third (**32%**) now use a 2-to-3-year horizon, up from less than a quarter (**23%**) in 2023.

**The rise of alternative asset classes in systematic portfolios**

Invesco found a clear trend towards more diverse systematic investor portfolios, including a significant uptick in the use of alternative asset class strategies. The study reveals **40%** of investors now apply a systematic approach to real estate (vs. **31%** in 2023), **36%** to commodities (vs. **26%** in 2023) and **34%** to both private equity and infrastructure (vs. **32%** and **28%** in 2023 respectively) **(Figure 7).**

This diversification is enabling investors to build more holistic and integrated multi-asset allocation models. An institutional investor from Europe noted, *"Our systematic approach now spans both liquid and illiquid assets. This holistic view allows us to better manage overall portfolio risk and capture cross-asset opportunities that we might have missed before."*

However, the application of systematic strategies to less liquid assets can create challenges, particularly considering liquidity constraints rank as the first- and fourth- most important considerations for institutional and wholesale investors respectively when building multi-asset portfolios **(Figure 8).**

Systematic investors are addressing this by using tools such as liquid proxies or derivatives, which enable them to adjust overall exposure to less liquid asset classes such as real estate, whilst retaining the ability to quickly rebalance.

*"We have systematic tools for various asset classes, but the challenge is actionability when risks are identified,"* explained a North American institutional investor. *"We're developing processes for illiquid exposures to have similar performance thresholds and exit strategies as liquid assets."*

**The data revolution continues**

Underpinning the rise of increasingly diversified and sophisticated systematic portfolios is a data revolution transforming the way investors make allocation decisions. The availability of increasingly diverse data sources to inform portfolio allocations has made this possible.

While macroeconomic data **(97%),** fundamental company financials **(81%),** and technical analysis indicators **(76%)** are most often used **(Figure 9),** the integration of alternative data sources is also gaining momentum, with a quarter **(23%)** of respondents including alternative data such as satellite imagery, shipping data and weather information in their models.
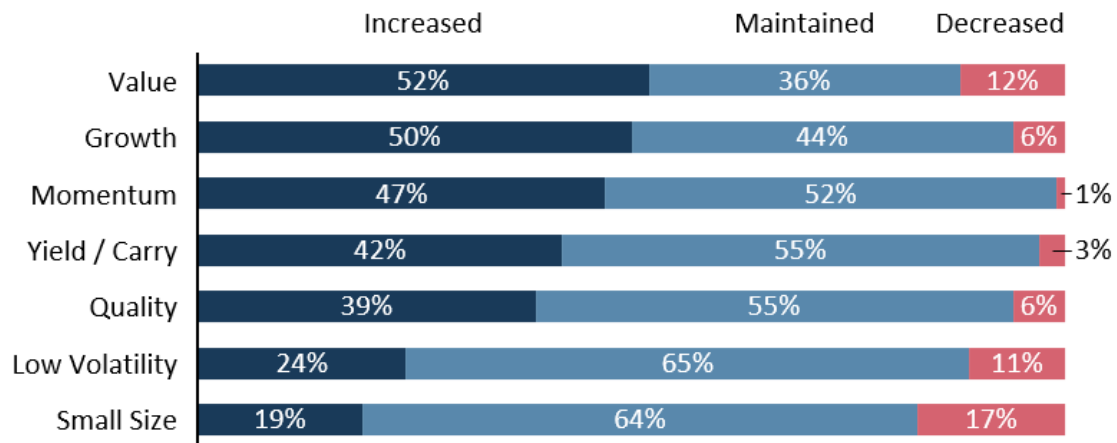
AI also continues to be deployed in more parts of the investment process. Relative to other investment styles, systematic/factor strategies are viewed as those most likely to benefit from AI **(Figure 10)**.

*"AI is rapidly evolving from a peripheral tool to a cornerstone of modern investment strategies, and its capacity to analyse huge volumes of data to spot patterns, identify trends and provide rapid insights makes it well-suited to systematic investing," **said Elsaesser**. "Challenges including data quality, security, and transparency remain, though, as well as the search for true sustainable alpha potential within AI-based process enhancements."*
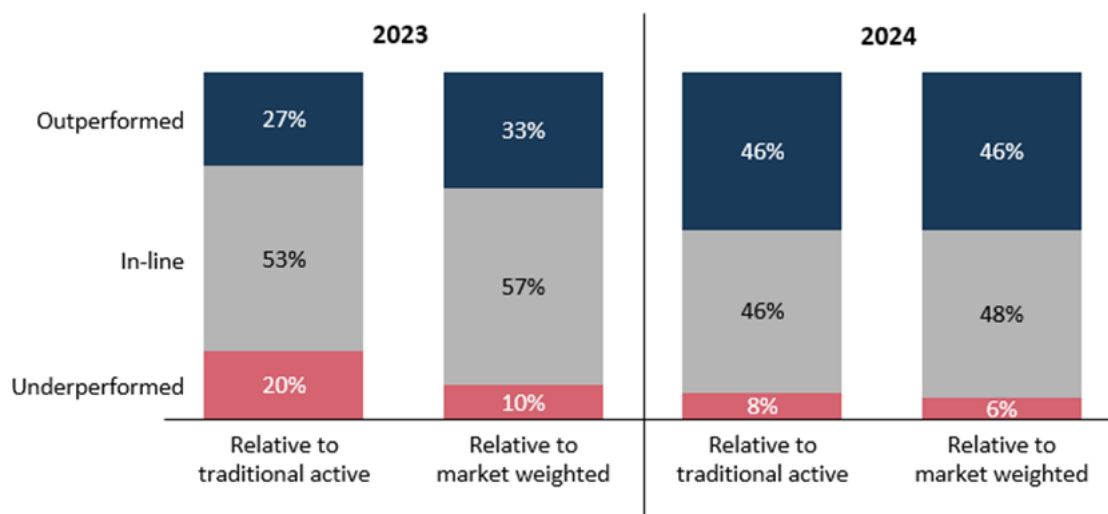
**ENDS**

**Notes to editors**

**Figure 1. Changes to factor allocations over last 12 months, % citations**

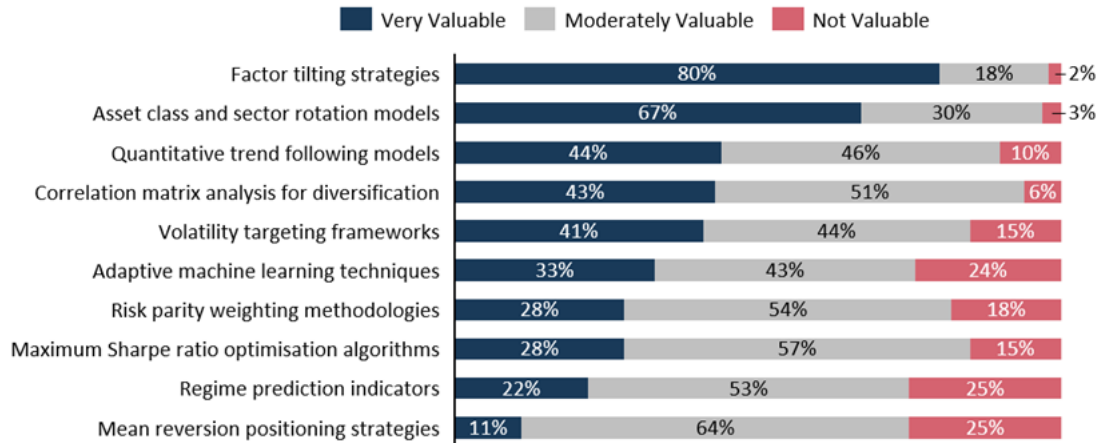| | Increased | Maintained | Decreased |
|---|---|---|---|
| Value | 52% | 36% | 12% |
| Growth | 50% | 44% | 6% |
| Momentum | 47% | 52% | 1% |
| Yield / Carry | 42% | 55% | 3% |
| Quality | 39% | 55% | 6% |
| Low Volatility | 24% | 65% | 11% |
| Small Size | 19% | 64% | 17% |

Over the last 12 months, have you increased, decreased, or maintained your allocations to these factors (ignoring market impacts)?

**Figure 2. Performance of systematic/factor strategies, % citations**

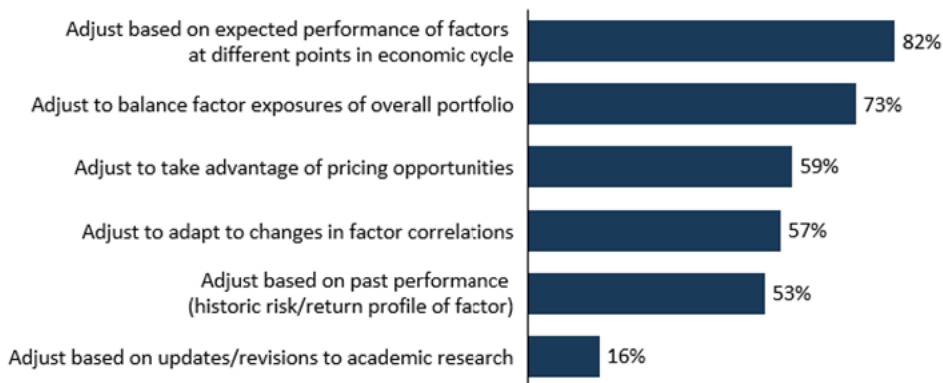| | 2023 | | 2024 | |
|---|---|---|---|---|
| | Relative to traditional active | Relative to market weighted | Relative to traditional active | Relative to market weighted |
| Outperformed | 27% | 33% | 46% | 46% |
| In-line | 53% | 57% | 46% | 48% |
| Underperformed | 20% | 10% | 8% | 6% |

How have your systematic/factor strategies performed in terms of return relative to traditional active / market weighted strategies over the past 12 months (to the end of March 2024)

**Figure 3. Value of systematic techniques for portfolio construction, % citations**

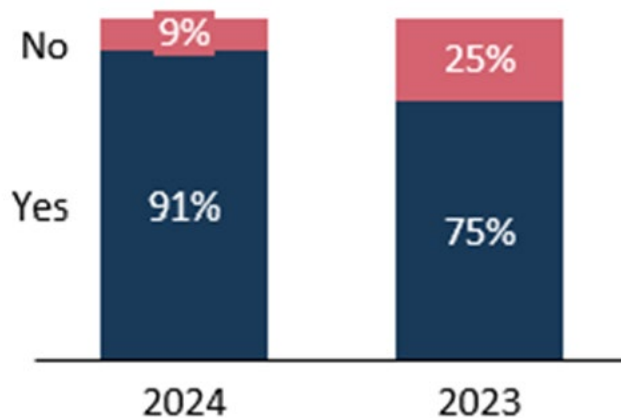| | Very Valuable | Moderately Valuable | Not Valuable |
|---|---|---|---|
| Factor tilting strategies | 80% | 18% | 2% |
| Asset class and sector rotation models | 67% | 30% | 3% |
| Quantitative trend following models | 44% | 46% | 10% |
| Correlation matrix analysis for diversification | 43% | 51% | 6% |
| Volatility targeting frameworks | 41% | 44% | 15% |
| Adaptive machine learning techniques | 33% | 43% | 24% |
| Risk parity weighting methodologies | 28% | 54% | 18% |
| Maximum Sharpe ratio optimisation algorithms | 28% | 57% | 15% |
| Regime prediction indicators | 22% | 53% | 25% |
| Mean reversion positioning strategies | 11% | 64% | 25% |

What systematic techniques do you think are effective for adding value during portfolio construction?

**Figure 4. Reasons for adjustments, % citations**



| | |
|---|---|
| Adjust based on expected performance of factors at different points in economic cycle | 82% |
| Adjust to balance factor exposures of overall portfolio | 73% |
| Adjust to take advantage of pricing opportunities | 59% |
| Adjust to adapt to changes in factor correlations | 57% |
| Adjust based on past performance (historic risk/return profile of factor) | 53% |
| Adjust based on updates/revisions to academic research | 16% |

[If yes] why do you adjust your factor weights through time?



| | 2024 | 2023 |
|---|---|---|
| No | 9% | 25% |
| Yes | 91% | 75% |

**Figure 5. Adjust factor weights through time, % citations**
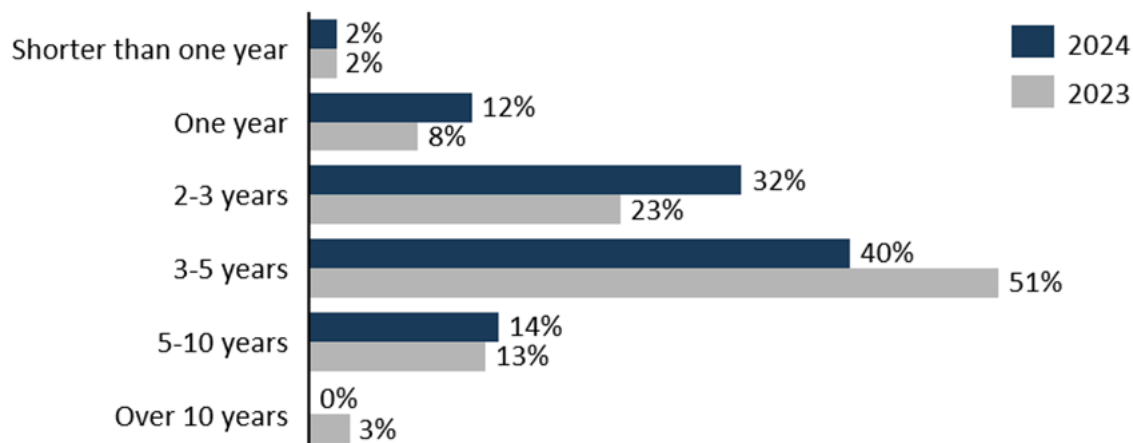
Do you adjust your factor weights through time?

**Figure 6. Time frame to assess factor performance, % citations**

What time frame do you use to analyse / assess the performance of systematic/factor strategies?
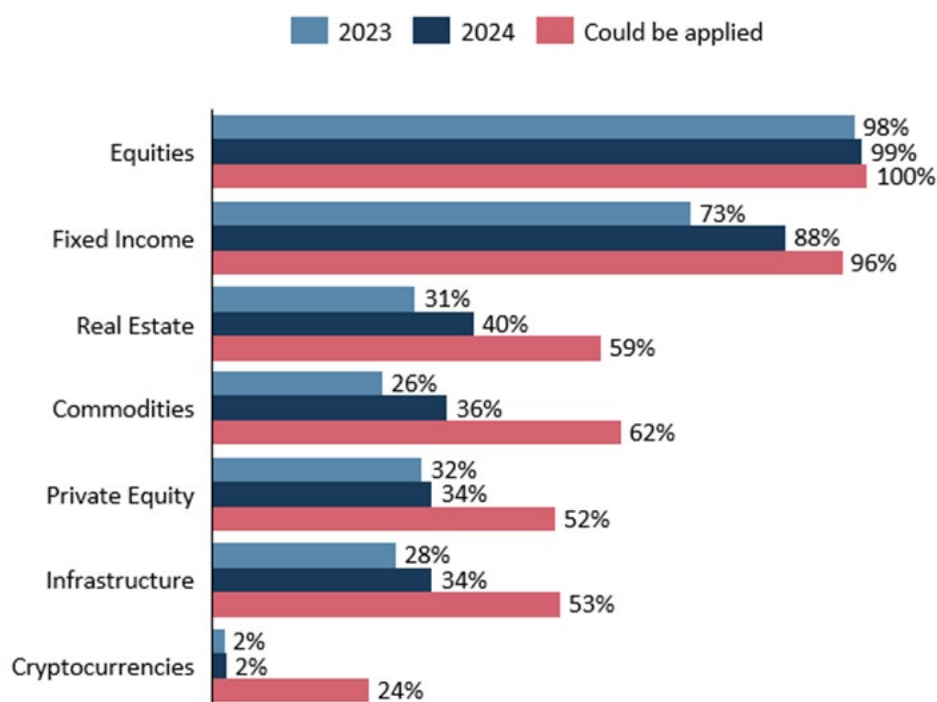


**Figure 7.**

**Application of systematic approach across asset classes, % citations**

In which asset classes of your portfolio are you using a systematic approach? In which parts of your portfolio do you think a systematic approach could be applied?

| Rank | Institutional | Wholesale |
|:---:|:---:|:---:|
| 1 | Liquidity constraints (8.0) | Minimising drawdowns (8.0) |
| 2 | Minimising volatility (7.8) | Low correlation of assets (7.8) |
| 3 | Low correlation of assets (7.6) | Minimising volatility (7.6) |
| 4 | Minimising drawdowns (7.4) | Liquidity constraints (7.4) |
| 5 | Maximising Sharpe Ratio (7.2) | Maximising Sharpe Ratio (7.2) |

**Figure 8. Considerations in multi-asset portfolio construction, Score /10**

Rate the following factors in order of importance for multi-asset portfolio construction: (Score 1-10 where 10 is very important)

**Figure 9. Data that feeds into portfolio allocations, % citations**



| Data | % |
|:---|:---:|
| Macroeconomic data (GDP, inflation, employment etc.) | 97% |
| Fundamental company financials (earnings, ratios, etc.) | 81% |
| Technical analysis indicators (price trends, volatility, momentum) | 76% |
| Market framing data (positioning, flows, sentiment) | 41% |
| Alternative data (satellite imagery, shipping data, weather etc.) | 23% |
| Crowdsourced data tools (surveys, prediction markets) | 16% |

What data feeds your signals for portfolio reallocations?

**Figure 10. Top - Importance of AI for different investment styles, score /10; Bottom - Most important uses of AI for different investment styles, % citations**



Systematic/factor — 7.9; Fundamental active — 7.4; Market weighted (passive) — 6.7

| Systematic/factor | | Fundamental active | | Market weighted (passive) | |
|:---|:---:|:---|:---:|:---|:---:|
| Managing factor exposures | 74% | Risk management | 86% | Automated rebalancing | 76% |
| Analysing factor interactions | 72% | Constructing portfolios | 69% | Constructing portfolios | 70% |
| Identifying new factors | 66% | Choosing securities/stock picking | 65% | Minimising tracking error | 66% |
| Constructing portfolios | 63% | Investor sentiment analysis | 52% | Minimising transaction costs | 41% |
| Forecasting factor returns | 61% | Incorporation of ESG | 35% | Incorporation of ESG | 40% |
| Incorporation of ESG | 34% | Trade execution | 20% | Tax-efficient trading | 18% |
| Minimising transaction costs | 32% | | | | |

How important do you think AI will become for different investment styles? For market weighted/passive strategies in which areas do you think AI will be most important? For fundamental active strategies in which areas do you think AI will be most important? For factor strategies in which areas do you think AI will be most important?

**About Invesco**

Invesco is an independent investment management firm dedicated to delivering an investment experience that helps people get more out of life. NYSE: IVZ; www.invesco.com.

**Important Information**

In this study, all respondents were 'systematic investors', defined as investors that employ structured, rules-based quantitative models and algorithms to make investment decisions and build portfolios. We deliberately targeted a mix of investor profiles across multiple markets, with a preference for those that were larger and/or more experienced.

In 2024 we conducted interviews with 131 different pension funds, insurers, sovereign investors, asset consultants, wealth managers and private banks globally. Together these investors are responsible for managing $22.3 trillion in assets (as of 31 March 2024). This core study was supplemented with 20 additional in-depth interviews with highly experienced systematic investors.

Institutional investors are defined as pension funds (both defined benefit and defined contribution), sovereign wealth funds, insurers, endowments and foundations.

Wholesale investors are defined as discretionary managers or model portfolio constructors for pools of aggregated retail investor assets, including discretionary investment teams and fund selectors at private banks and financial advice providers, as well as discretionary fund managers serving those intermediaries.
The fieldwork for this study was conducted by NMG's strategy consulting practice. Invesco is not affiliated with NMG Consulting.