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Annual Invesco Global Factor Investing Study Finds Investors Are Continuing to Adopt Factors to Navigate the Inflationary Environment; Increased Demand for Fixed Income Factors

- Over 50% of respondents believe the current market environment makes factor investing in fixed income more attractive
- 41% of respondents have increased allocations to factor strategies over past 12 months
- Most respondents (55%) are using factor allocations for risk and performance management
- 80% of institutional and retail respondents adjust their factor weights through time based on expected performance of factors at different points of the economic cycle

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ATLANTA – September 26, 2022 – Invesco Ltd., a leading global asset management firm, today released the findings of its seventh annual Invesco Global Factor Investing Study. The Study is based on interviews with 151 institutional and retail factor practitioners managing over $25.4 trillion in assets combined.

This year's study found respondents expect factor-based strategies to outperform in an inflationary environment with slow economic growth. Respondents also believe the current market environment makes factor investing in fixed income more attractive as a better way to manage volatility and diversify portfolios.

"Investors are increasing their use of factor-based strategies to navigate market volatility and hedge against inflation, and we believe their commitment to factors will remain strong," said Mo Haghbin, Chief Commercial Officer and COO, Invesco Investment Solutions. "Investors are shifting their philosophy from static allocations to more dynamic approaches to capture upside and position their portfolio across the economic cycle."

The study also noted factor allocations are continuing to rise, with 41% of respondents increasing allocations over the past year and 39% planning an increase in the next year. In 2022, only 3% of respondents indicated they planned to decrease factor allocations in the next 12 months, down from 8% in 2021.

Adoption of a long-term, diversified multi-factor approach has increased in the past 12 months as global market volatility has increased. 80% of respondents now adjust factor weights over time, driven by the varying performance of different factors over the economic cycle and a desire to balance out exposures across the portfolio.

Research also indicates an increased demand for fixed income factors as the 40-year bull run came to a halt. Over 50% of institutional and retail respondents believe the current market environment makes factor investing in fixed income more attractive.

Faith in equity factors rewarded: market turmoil highlights value of factors in managing risk

Over the past 12 months, spiking inflation and rising interest rates have reshaped the investment environment, causing respondents to rethink their factor exposures. 55% of respondents indicated they were using factors for risk and performance management, up from 28% four years ago. A majority of respondents (over 80%) believe their factor allocations have met or exceeded the performance of their fundamental active strategies, while 64% indicated their factor allocations met or exceeded performance verses market-weighted strategies.

As established in last year's study, a multi-factor approach is now the norm for factor implementation; in the next 12 months, nearly 40% of respondents expect to increase their factor allocations in their portfolios.

Respondents looking to fixed income factors for new sources of return potential

Fixed income factors continued their steady increase in acceptance this year. This year, 92% of respondents believe factor-investing can be successfully applied in fixed income, a significant increase from 61% in 2016.

Fixed income returns are closely tied to fundamental macroeconomic variables. Respondents applying a systematic approach to their fixed income portfolios often initially prioritize traditional macro drivers of return, such as inflation and interest rates, before later incorporating investment factors such as value. This year the study found 54% of respondents are using both macro and investment factors, and only a few (14%) are targeting investment factors in isolation.

Within fixed income asset classes, respondents are using factor investing the most in government bonds (76%) and corporate bonds (75%), reflecting both the depth and liquidity of these markets as well as the number of products available. Over the next five years there is anticipation that factor investing will spread to other parts of the fixed income asset class. A majority of respondents (71%) believe they will use high yield bonds as part of their fixed income factor exposure in the next five years.

"Adoption of factor investing in fixed income continues to grow as we shift to a rising interest rate environment, which presents challenges to the long-held orthodoxy of balanced, diversified portfolios," continued Mr. Haghbin. "As we enter a period of tightening monetary policy, higher inflation, and slower potential economic growth, clients are looking to expand the toolkit and find opportunities to generate income while managing interest rate risk with better precision."

Adoption of a long-term diversified multi-factor approach is on the rise

83% of respondents said they adjusted their factor weights based on expected performance of factors at different points of the economic cycle, while nearly 70% did so to balance factor exposures to their overall portfolio.

The frequency of respondents reviewing and changing their factor definitions is changing, as 41% stated they rarely (every 3-5 years) change their factor definitions, which is down from 66% in 2021. Currently, 43% of respondents are changing their factor definitions frequently (every 1-3 years), which is up from 16% in 2021.

Over 75% of respondents cited the need to incorporate the latest data as the most important reason they change their factor definitions, while 61% change their factor definitions to better capture factors, and 36% do so to avoid identified market pitfalls.

50% of respondents are making use of factor ETFs to implement their factor strategies, rising to 66% amongst retail respondents. Most respondents (55%) make use of factor ETFs both strategically and tactically with respondents noting selection decisions for factor products are driven by their use-case.

Factor concentration/purity was ranked the most important criteria at 72% of investor's assessment of selecting a factor product, followed by management team/experience (66%) and outlined methodology and documentation and performance relative to market-cap benchmarks (64%).

"Our clients are increasingly using factor strategies to control exposure to different sources of risk in a challenging and volatile market. It's not a surprise that demand has increased, and we believe investors are going to remain committed to factors in the long term," concluded Mr. Haghbin.

To view Invesco's full seventh annual, 2022 Invesco Global Factor Investing Study please click here.

Sample and Methodology

The fieldwork for this study was conducted by NMG Consulting, a leader in research, analytics and insights for the investment, asset management, wealth management, insurance and reinsurance markets. Invesco chose to engage an independent firm to ensure impartial survey results. Key components of the methodology include:

- A focus on the key decision makers conducting interviews using experienced consultants and offering market insights

- In-depth (typically one hour) face-to-face interviews using a structured questionnaire to ensure quantitative as well as qualitative analytics were collected
- Results interpreted by NMG's strategy team with relevant consulting experience in the global asset management sector

In 2022, the seventh year of the study, we conducted interviews with 151 different pension funds, insurers, sovereign investors, asset consultants, wealth managers and private banks globally. Together these investors are responsible for managing $25.4 trillion in assets (as of March 31, 2022).

In this year's study, all respondents were 'factor users', defined as any respondent investing in a factor product across their entire portfolio and/or using factors to monitor exposures. We deliberately targeted a mix of investor profiles across multiple markets, with a preference for larger and more experienced factor users. The breakdown of the 2022 interview sample by investor segment and geographic region is displayed in the full study.

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

Retail 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.
Invesco is not affiliated with NMG Consulting.

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