



## Is quant investing the key to finding alpha in these volatile times?

Don't panic: How quant investing can be a **winning strategy** in volatile times

*Quant funds are attracting more attention from the broader investing community amid an uncertain landscape. Learn why in this second of a three-part series.*

Once viewed as unconventional, quantitative investing has entered the mainstream in recent years – with investors tapping the systematic model of using mathematics, data and logic to hunt for growth in increasingly volatile markets.

Over US\$1 trillion in assets are managed by hedge funds deploying such strategies. Retail investors are also starting to get a piece of the action, attracted by the advantages that quant funds like the Maybank All-Weather Quantitative Fund provide to eke out resilient or even superior performance in spite of market turbulence.

### Nimble investing

Global equities have been on a roller-coaster ride over the past year amid pressures from geopolitical tensions to rising inflation and supply chain disruptions.

Given the clouded outlook, many investors may balk at taking a strong position.

This is where quant funds can come to help position investors for changes in an environment marked by uncertainty – by using strong diversification and hedging mechanisms to allocate capital in more forward-looking way.

**Quant funds use massive computing power and advanced models to gain broad exposure across multiple dimensions like a company's size, momentum, growth and value attributes.**

Compared to conventional funds, they can evaluate a vast universe of companies every day to sieve out more investments that best meet the desired investment criteria. That makes them relatively nimbler when it comes to hedging against risks. They can also react faster to market changes by systematically rebalancing their portfolio holdings without behavioural biases such as emotional attachment to losing stocks.

## Welcome Dispersion

Quant funds are also built to shine in the current market environment, where the gap between the performances of fundamentally strong and weak businesses is widening.

The era of easy money looks to have ended, as governments hike rates to fight record inflation and end quantitative easing policies that were introduced to fight the pandemic.



**As rising interest rate further widen dispersion, quant funds' algorithms and mechanisms are well-placed to exploit opportunities and inefficiencies.**

By leveraging technology, quant funds are able to specialise in picking winners and avoiding losers, closely tracking every company's earnings trajectory and stock market performance, and rebalancing their investments accordingly.



In the past, the tide of cheap money had lifted all boats, allowing even low-quality equities to rise. This limited equity market dispersion, or the measure of how much an average stock's return deviates from the returns of the overall market.

This gives them an edge not only over passive funds, but also actively managed, high-conviction funds run by human fund managers.



## Resilient performance

**Such advantages can translate into more resilient or even superior performance. Take Maybank's All-Weather Quantitative Fund, which employs a proprietary market hedging mechanism that has worked well to reduce volatility for investors even in stormy markets.**

The fund moved relatively early to reduce exposure to risk assets in October 2021. This allowed it to avoid the market decline in the first half of the 2022 when the US Federal Reserve hiked rates and the Ukraine-Russia conflict roiled markets. As a result, it was ranked 3rd out of 370 funds as at 30th September 2022 in Asia-Pacific excluding Japan over 12 months.

Interestingly, the fund's cash allocation was relatively high at 73% as at 30th September 2022, reflecting its model's assessment that global economic conditions are heading deeper into the "slowdown" phase even as markets have fully priced in a recession. An overall defensive positioning with minimal equities exposure enables the fund to be relatively resilient amid further deterioration in the market outlook.

While quant funds have much to offer in today's climate, investors still need to carefully consider how such strategies fit into their individual portfolios. In the last part of this series, we outline some of the factors to think through when investing in quant funds.

**For more information about Maybank Asset Management's Quant funds, please contact your Personal Financial Advisor or Relationship Manager. For more info, visit [www.maybank-am.com.my](http://www.maybank-am.com.my)**

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