

Amundi shows that factor investing can also apply to Investment Grade credit

Through extensive research, Amundi demonstrates that factor investing can also apply to investment-grade bond issues. Amundi's Fixed Income Platform and quantitative research teams have shown that, since the 2008 financial crisis and in the case of euro issues, the behaviour of the Investment Grade (IG) Corporate bond market can be explained by various risk factors that are sustainable over time: traditional factors (duration, duration-times-spread and liquidity risk) and alternative risk factors such as Value and Momentum.

While factor investing is now a common approach in the equity universe, it is still in its infancy in the bond universe. In a study conducted over the period 2003 to 2018, Amundi demonstrates that the behaviour of the IG Corporate bond market is better explained by risk factors than by the traditional Capital Asset Pricing Model (CAPM). More precisely, according to this study, the traditional factors (duration, duration-times-spread and liquidity risk) best explain the market for IG Corporate euro-denominated bonds between 2003 and 2008. And since 2009, i.e. after the financial crisis of 2008, adding to these traditional factors the so-called alternative factors, such as Value and Momentum, leads to an even more relevant interpretation grid. The first - Value - is a factor that enables the identification of the relative value of bonds in relation to each other, considering other explanatory factors such as sector, geographical risk or duration being equal. The second - Momentum - consists of monitoring stocks that have tended to outperform in the near previous period, adjusted for duration.

The authors of the study conclude that by failing to consider these alternative factors, an investor does not capture certain components of potential return in the IG Corporate bond market. They therefore recommend building a multifactor portfolio integrating both traditional factors and Value and Momentum factors - both of which will be actively managed. Such an approach should result in a portfolio whose performance could be more moderate in periods of strong market growth, but would be more resilient in periods of sharp market decline than a portfolio managed in a more traditional way.

Jean-Marie Dumas, Head of Fixed Income Solutions, explains: *"We have been able to both quantify the behavior of our alternative factors in credit management as well as position them into a multi-factor framework integrating traditional factors."*

Pascal Blanqué, Group CIO, adds: *"Our research confirms that alternative risk factors constitute a significant component of bond investing that needs to be further explored."*

To read [the full study on the Research center of Amundi](#)

Amundi is Europe's largest asset manager by assets under management and ranks in the top 10¹ globally. It manages 1.425 trillion² euros of assets across six main investment hubs³. Amundi offers its clients in Europe, Asia-Pacific, the Middle East and the Americas a wealth of market expertise and a full range of capabilities across the active, passive and real assets investment universes. Clients also have access to a complete set of services and tools. Headquartered in Paris, Amundi was listed in November 2015.

Thanks to its unique research capabilities and the skills of close to 4,500 team members and market experts based in 37 countries, Amundi provides retail, institutional and corporate clients with innovative investment strategies and solutions tailored to their needs, targeted outcomes and risk profiles.

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¹ Source IPE "Top 400 asset managers" published in June 2018 and based on AUM as of end December 2017

² Amundi figures as of December 31, 2018

³ Investment hubs: Boston, Dublin, London, Milan, Paris and Tokyo