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## When the Small Ords Fall – Where does the Alpha Go?

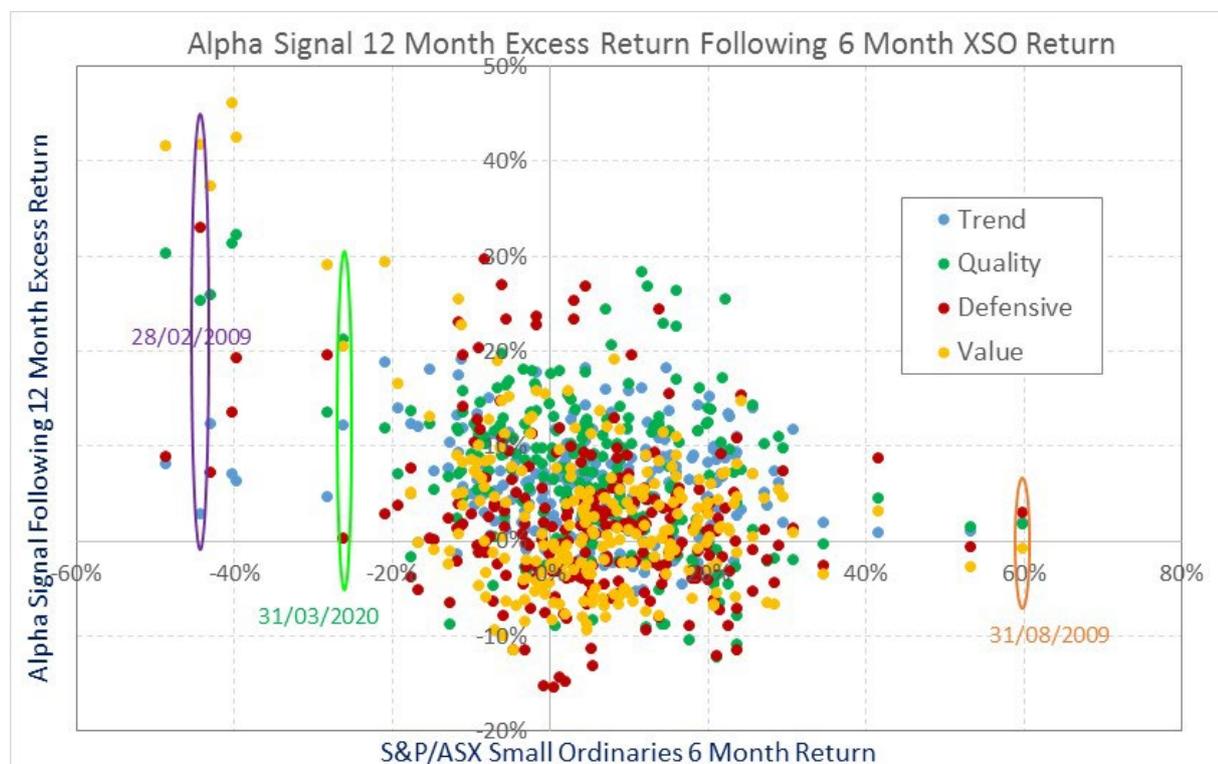
Given the large selloffs we have seen in global equity markets since the start of 2022, it is timely to focus on how the components of the Blue Orbit investment process have behaved historically following market drawdowns.

In this note we have focused on the performance of Blue Orbit's four component Alpha Signals, which are the individual building blocks of our Systematic Alpha strategy, and are each designed to outperform in different market environments.

We have charted the excess returns of the Alpha Signals below. Each point shows the excess return for each Signal for the 12 months following a given 6 month return period for the S&P/ASX Small Ordinaries Index ("Small Ords"). The chart covers Small Ords 6-month return periods from 28/02/2001-31/08/2001, until 31/08/2021. The following 12 month returns after this date are unfortunately not available yet, but for the 6 months to the end of September, the Small Ords is down 12.1%.

The key takeaways are:

- Whenever the Small Ords has fallen more than 20%, all Alpha Signals have subsequently outperformed the Small Ords over the following 12 months.
- Alpha Value has tended to have the strongest outperformance following a large market fall, with Quality not too far behind.



Three dates have been highlighted in the chart above:

1. The purple highlighted points are for 28/02/2009. For the 6 months up to that date, the Small Ords had dropped 44.2%. Over the next 12 months, Alpha Value outperformed the Small Ords by 42%. Even **though** naïve momentum underperformed as the market began its rally in March 2009, over 12 months Alpha Trend still managed a small outperformance.
2. The orange highlighted points show that by 31/08/2009 the Small Ords had rallied 60%. The Alpha Signals all performed similarly to the Benchmark from that point over the next 12 months.
3. The green highlighted date is for 31/03/2020, almost at the lowest market point during the initial COVID scare. When the market rallied from this point, Alpha Defensive was in line with the market, while Alpha Quality and Alpha Value each outperformed by 20%.

## Conclusion

Global indices are currently seeing large total return drawdowns, with the S&P 500 down 17% and NASDAQ down 24% to 31 August. In Australia, the Small Ords is down 16.3% for the calendar year to August. Given the market environment, it is timely to focus on how the Alpha Signals within the Blue Orbit process have performed for the periods following a market drawdown.

Pleasingly, we have seen that all of our Alpha Signals have historically outperformed for the 12 months following a significant drawdown in the Small Ords. Given our diversified positioning across multiple Alpha Signals, we are confident that the strategy is well-placed for the next 12 months as we eventually emerge from the current market sell down.

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