AXIOMA
Analytics by Qontigo

Axioma US Equity Factor Risk Model: Trading Horizon

Stay ahead of volatile market environments with more accurate insight into your portfolio risk

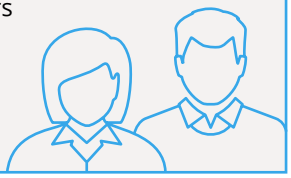
The Axioma US Equity Factor Risk Model – Trading Horizon ("Trading Model") provides accurate portfolio risk exposures and forecasts for risk horizons up to a month, better capturing the short-term impact of rapidly changing market conditions. The Trading Model is an addition to the existing suite of Axioma US Equity Factor Risk Models which includes short-horizon, medium-horizon, statistical and fundamental variants.

Key benefits

GET DAILY INSIGHTS	> Capture the day-to-day changes in risk of the trading book and other portfolios with short investment horizons.
MANAGE RISK	> Manage the risk of high turnover strategies that are rebalanced daily or weekly.
TEST STRATEGIES	> Implement smarter, more efficient, short-term hedging strategies.
REBALANCE WITH CONFIDENCE	> Understand the trade-off between risk (tracking error to benchmark) and market impact (slippage).
UNDERSTAND RISK DRIVERS	> Capture the event-driven risk stemming from earnings announcements, short-squeezes and other infrequent events.

Who is the Trading Model for?

1. Equity hedge fund managers
2. Quantitative asset managers
3. Algorithmic traders
4. Sell-side traders
5. Risk managers



In comparison to the short-horizon model, which employs a decay factor with a half-life of 60 days in the estimation of volatility, the Trading Model uses a half-life of 20 days, leading to a substantially more dynamic measure of covariance.

The fundamental model also incorporates an implied volatility adjustment that more accurately captures market uncertainty around events such as earnings announcements.

Model factors

In addition to the existing coverage of 14 style and 15 statistical factors available in all Axioma US factor models, the Trading Model includes five new factors as well as some updated factor definitions to reflect the shorter horizon:

❶ Hedge Fund Crowding

Captures the risk and return differences of stocks based on how widely they are held by hedge funds (a measure of concentration risk). Securities with high crowding scores are expected to outperform the market until a liquidity event occurs.

❷ One Day Reversal

Captures the risk and return of stocks based on the previous day's return. This factor is particularly relevant to capture risk in short-horizon strategies that re-balance daily.

❸ Earnings Variability

Captures the risk and return differences due to uncertainty around the company's earnings and sales numbers. Companies that have high earnings variability scores tend to underperform relative to the market.

❹ Downside Risk (volatility)

Explains the risk and return differences for the worst performing stocks, those that have negative excess returns relative to the worst market return of the last year. Stocks with high downside risk scores tend to underperform relative to the market.

❺ Short Interest

Explains the risk and return of stocks based on the degree to which a stock is being shorted (ratio of shares sold short and shares available for shorting). Securities that have high short interest scores tend to underperform relative to the market.

Model delivery and access

> Daily updates are available as a flat file and application file format.

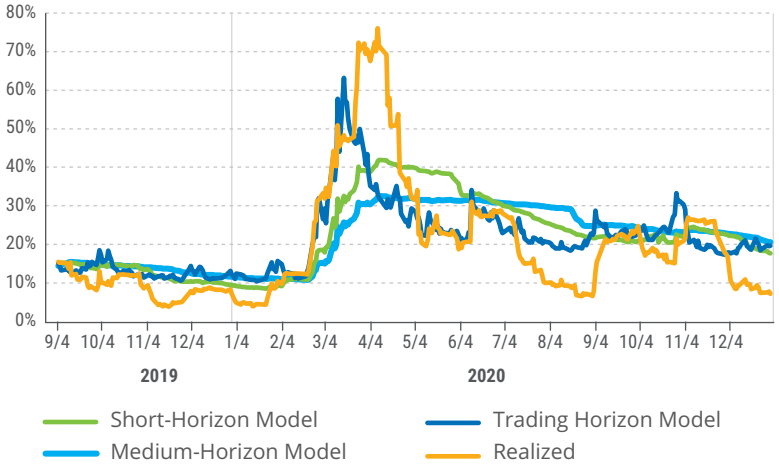
> The Trading Model can be integrated with Axioma Portfolio Optimizer™, Axioma Portfolio Analytics™, and Axioma Risk™.

> Flat files can be used with third-party portfolio construction, performance analytics, and risk management and trading solutions.

Examples

The trading model offers faster reaction to and faster retreat from market disruptions:

Initial Coronavirus: Total Predicted Risk



Source: Qontigo

Global Finacial Crisis: Total Predicted Risk

Source: Qontigo