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Global Markets Division

Value and Momentum Factor Strategy

**Dynamic Factor Model with Regime Awareness for
US IG Corporate Bonds**

Investment Horizon: 1 Year

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Guilherme Kessler, Rostyslav Mykhalchuk

Vienna, June 25

Team Overview

Global Markets Division



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- Trade Strategy & Implementation

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– 4th semester



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- US Debt & Policies



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– 6th Sem.



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– 4th semester

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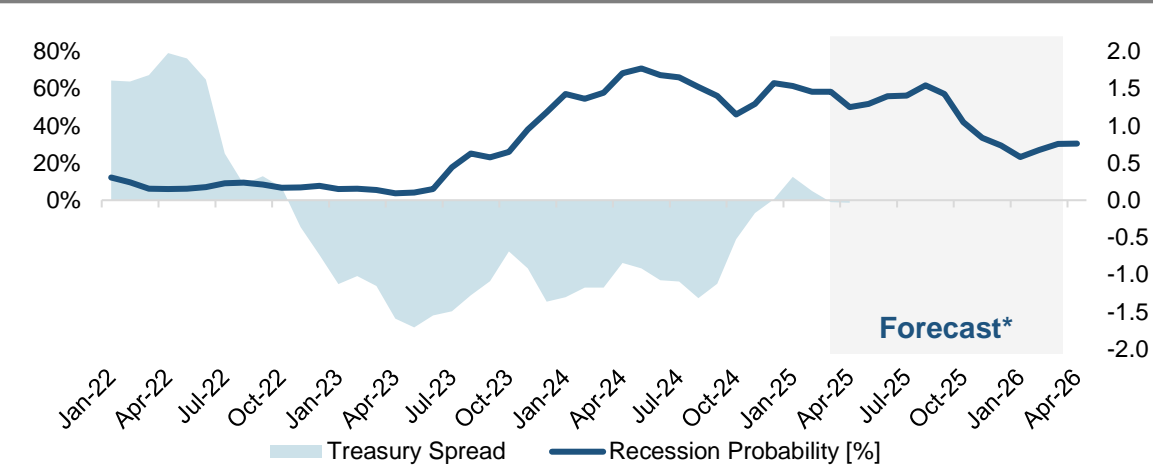


Macroeconomic Environment

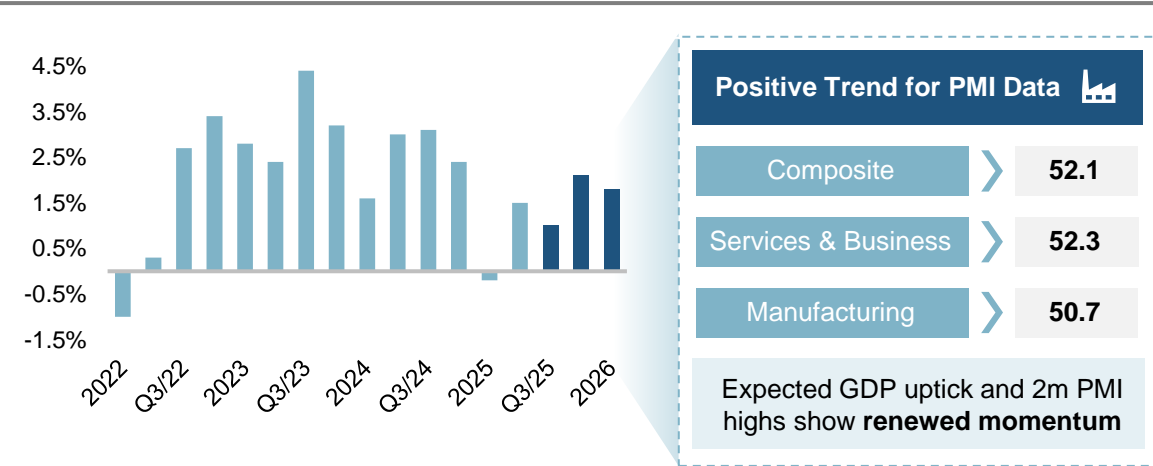
Macroeconomic Outlook for USA

Growth Trends & Fiscal Spending

Fading Recession Risks



Rebound in Forecasted GDP Growth & Recent PMI Data



The One Big Beautiful Bill

The All-in-One Agenda
This large-scale legislative draft addresses multiple priorities at once (tax cuts, energy/climate policy, immigration enforcement, deregulation)

Significant Business Impact
The act targets so-called “unfair foreign taxes”, penalizing the companies with a yearly-increasing 5% surtax, capped at 20% maximum

Uncertainty and US Backlash
Lack of clarity on the issue adds to the risk assumed by domestic and international investors, deterring them from US-based assets

Elevated Levels of Debt

National Debt
\$36.2 trillion

Federal Deficit
\$1.9 trillion

Debt/GDP
123%

Since 2000:
5x increase

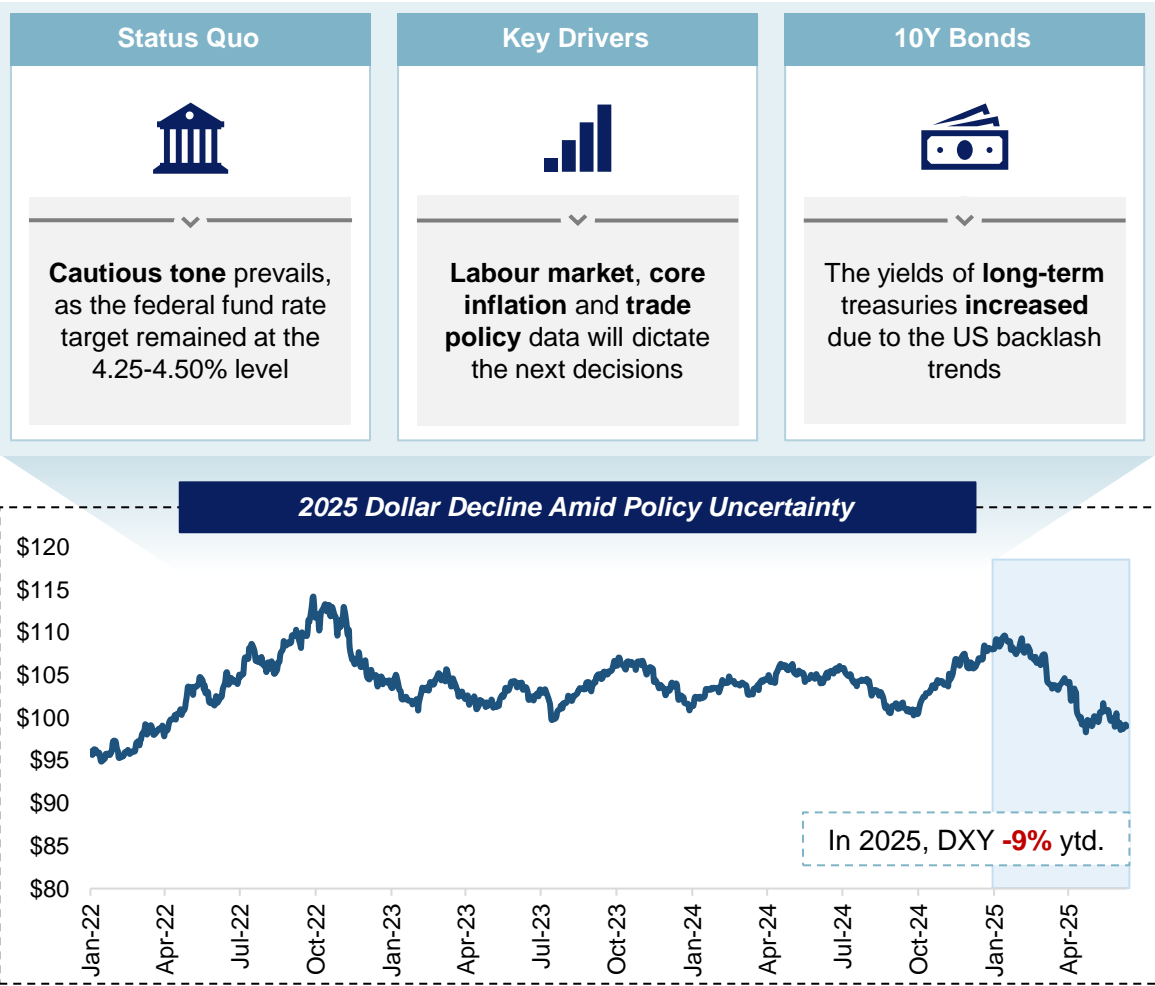
Debt Ceiling
Raised in Jan to prevent default & breached shortly afterwards

Credit Rating
Downgraded from AAA to AA+ over public debt concerns

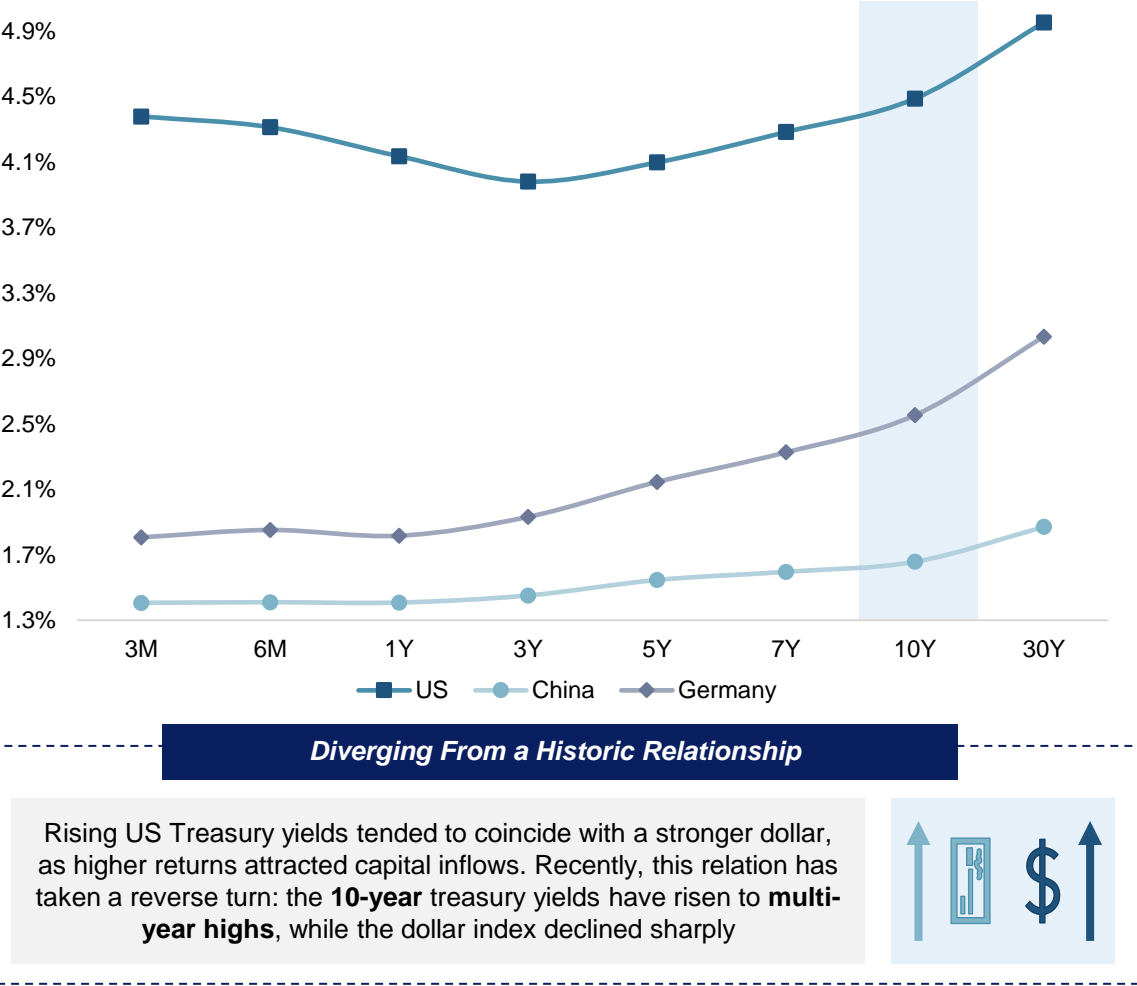
Foreign Holders
25% held by foreign entities like China / Japan, whose demand slows

Shifting Yields and Dollar Divergence

Recent Weakening of the DXY



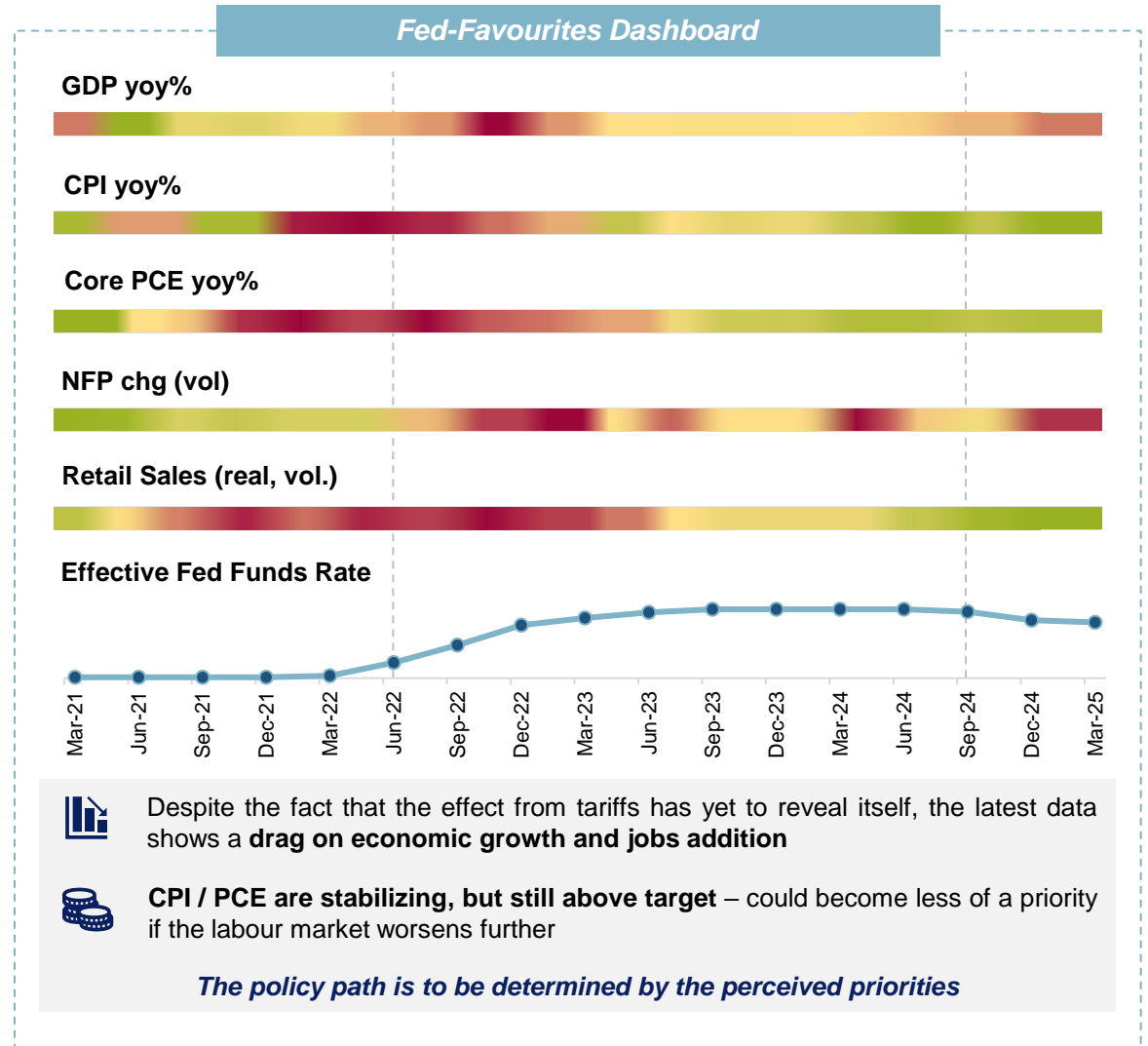
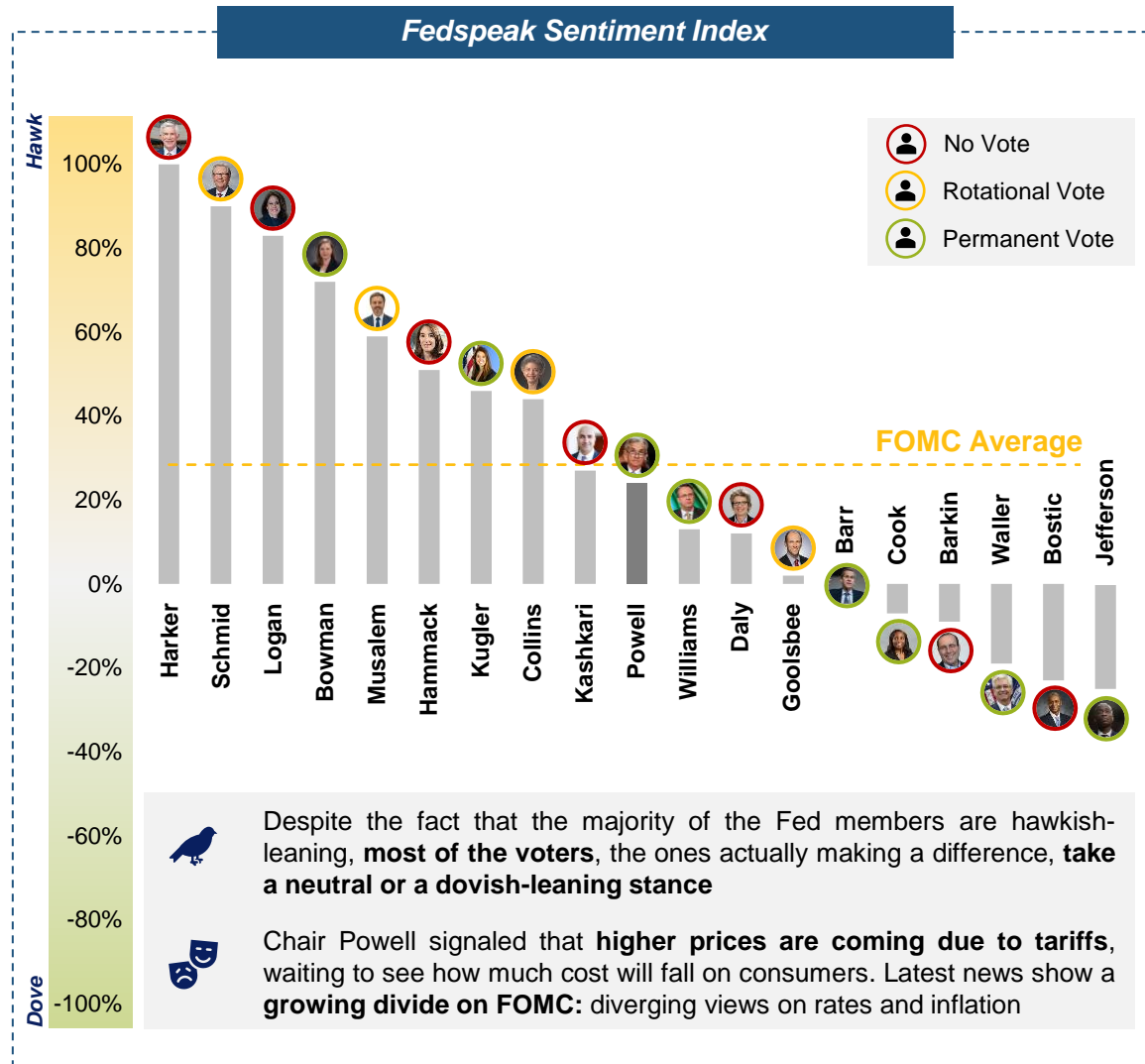
Yield Curve Comparison



Monetary Policy Status Quo

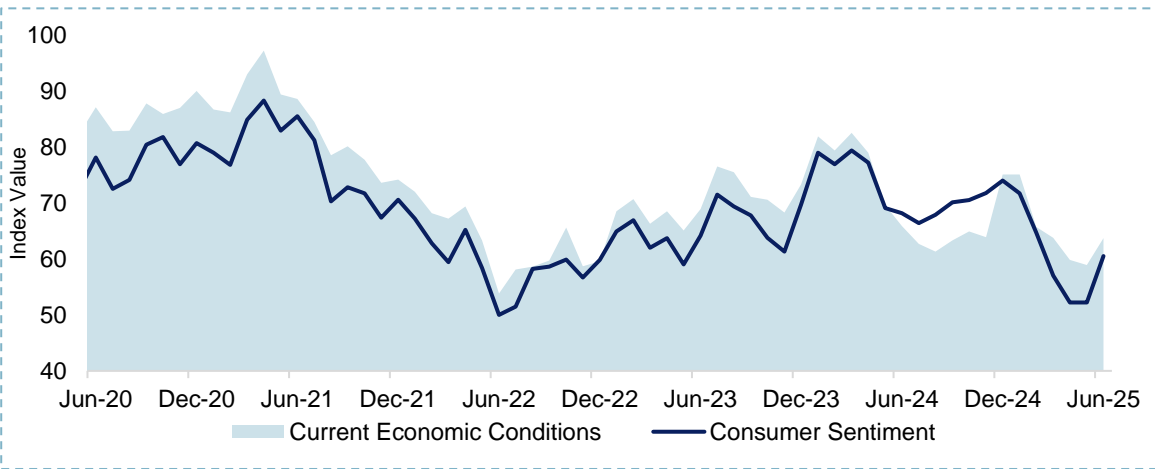
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Sentiment Softens Despite Hawkish Talk

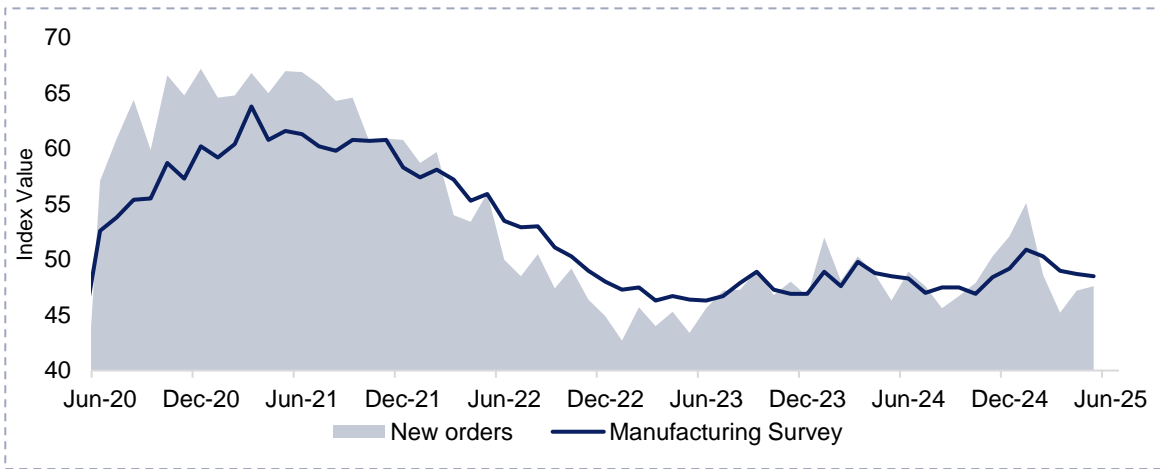


Uncertainty as the New Normal

Consumer Confidence



Business Confidence



Overall Sentiment

Consumers are cautiously optimistic, but sentiment remains very fragile with tariffs and inflation dominating household economic perceptions



Consumer Confidence

Rebounded in May largely due to improvements on US-China trade, the Conference Board recorded the strongest monthly gain since 2009



Other Reports

However, McKinsey, the University of Michigan survey and other reports reveal widespread concerns over tariffs and inflation



Overall Sentiment

Amidst lack of clarity, business leaders are increasingly pessimistic, fearing a cooling economy and heightened trade-related uncertainty



CEO Confidence

Despite potentially favorable corporate policies, Conference Board survey shows CEO confidence plunged to a multi-year low in Q2 2025



ISM Manufacturing PMI

Dropped to 48.5 in May, from April's 48.7, marking the third monthly contraction in a row (and the worst one since November)

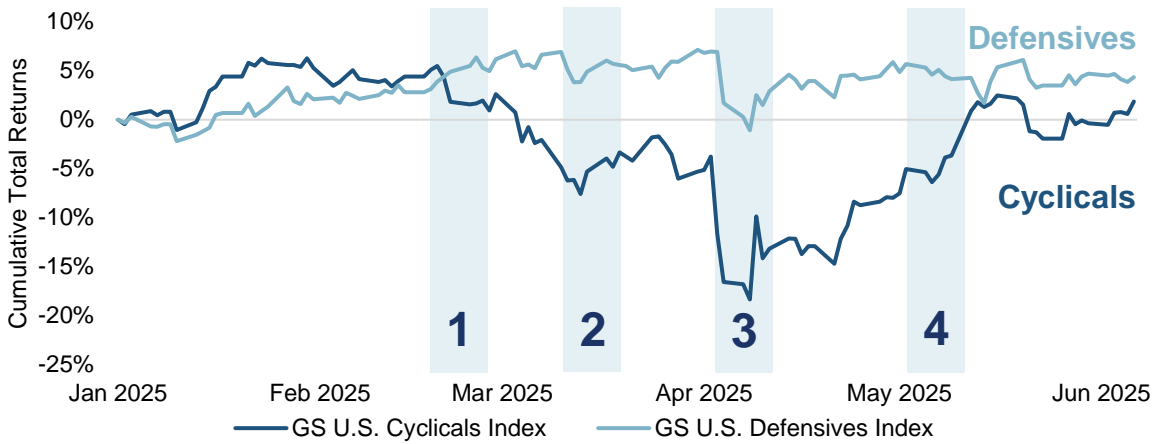


Industry Analysis

Overview of US Cyclical vs. Defensive

Historical Development

Performance Rotation



Key Events

1
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Market rotation as a result of fears after **first Trump's orders** and **increasing recession risks**

2
🏭

Steel & aluminium tariffs, **weakening PMI** and Consumer Confidence

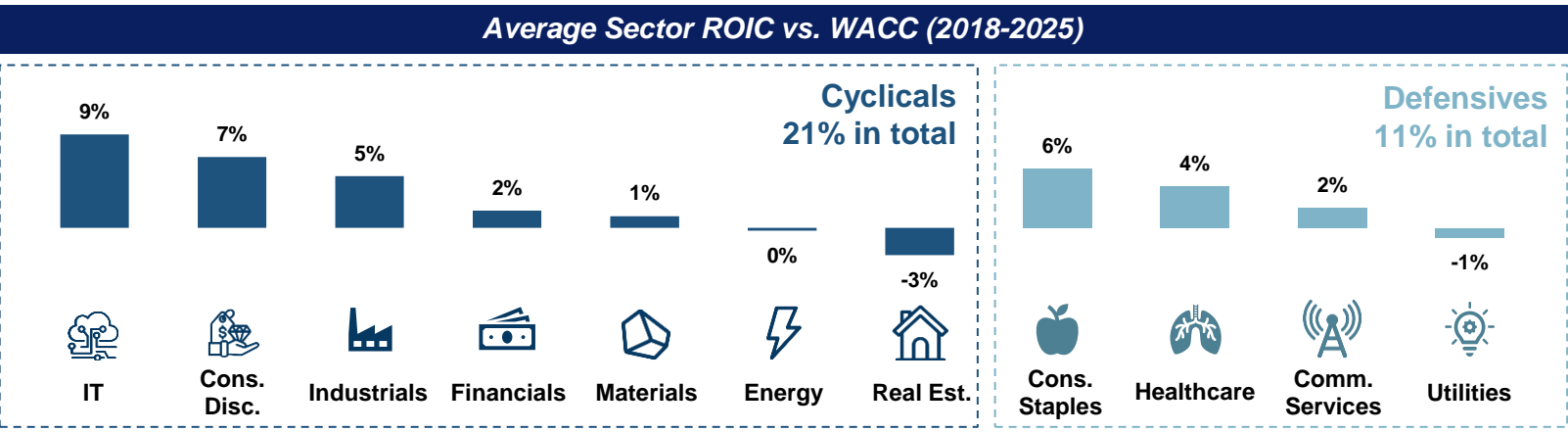
3
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Liberation Day and its cancellation, tariffs on cars, breakthrough with China

4
🏋️

Trump delays tariffs on both China and EU, signs of **risk-on market**

Some Sectors Create Value, Others Destroy



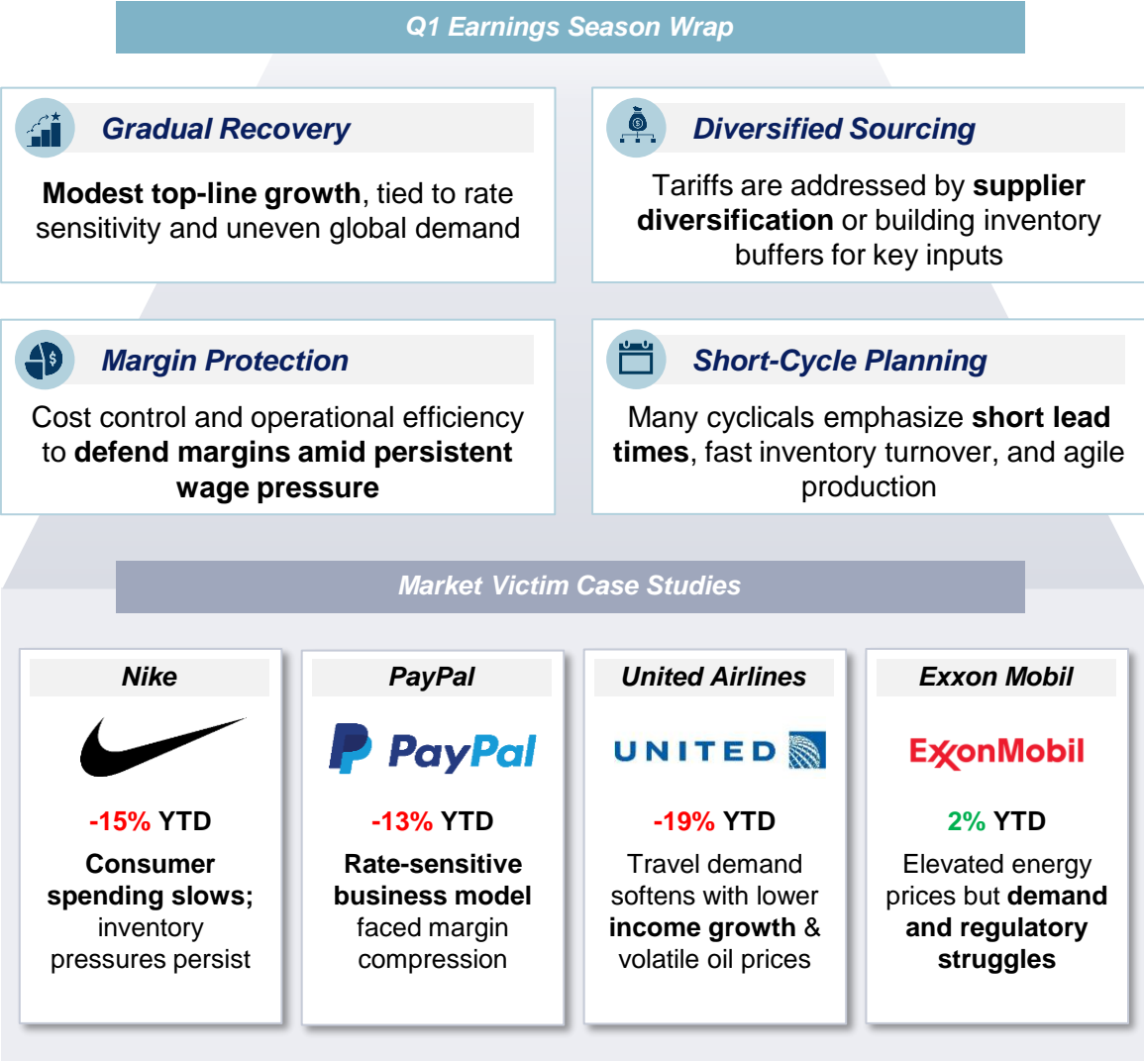
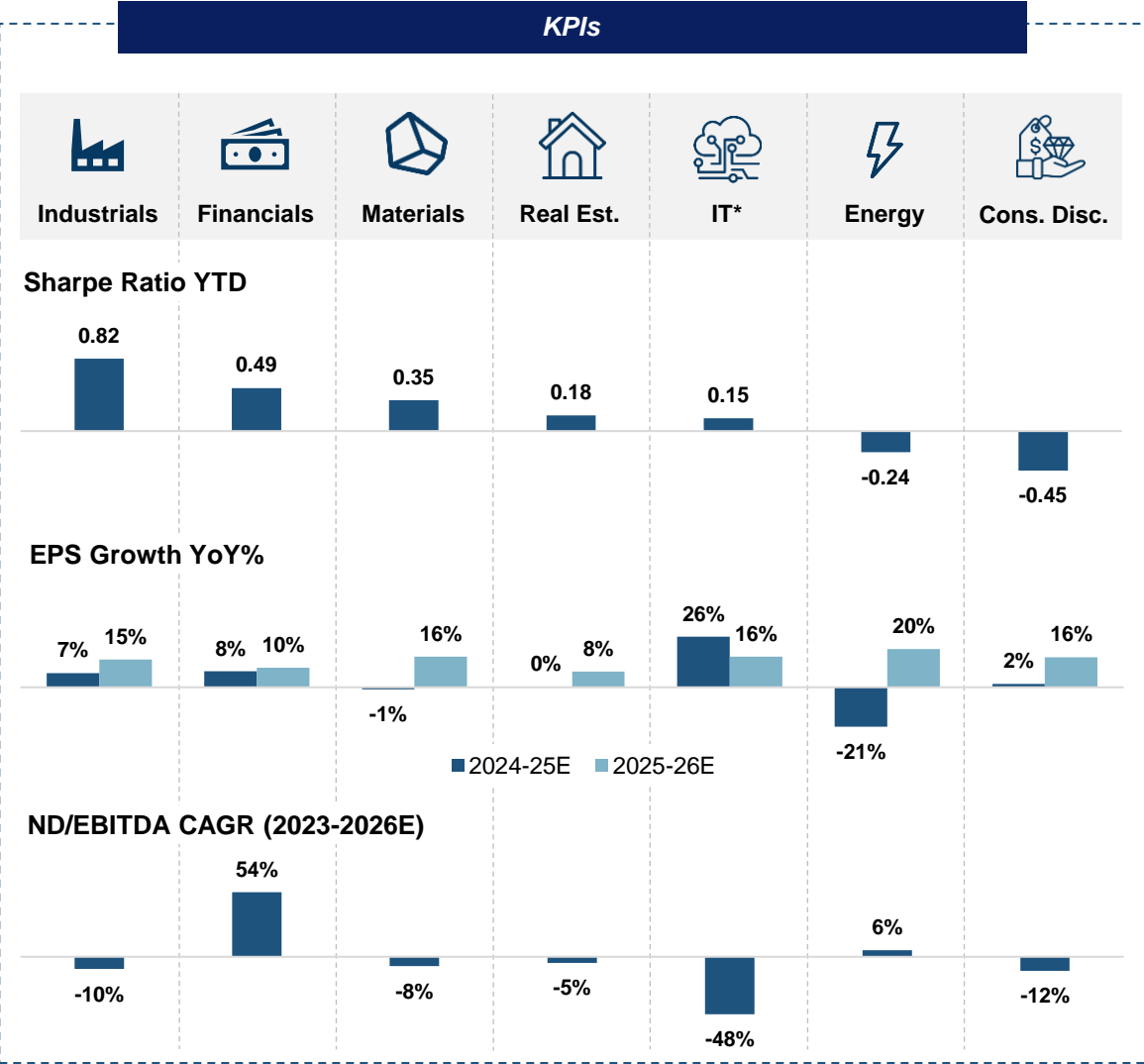
Implications

Cyclicals' Secular Trends
Historically, **cyclicals created relatively more value** despite several crises and recent underperformance

Discounts as Opportunity
Recent market rotation led to **undervaluation of cyclicals** with relatively better earnings expectations

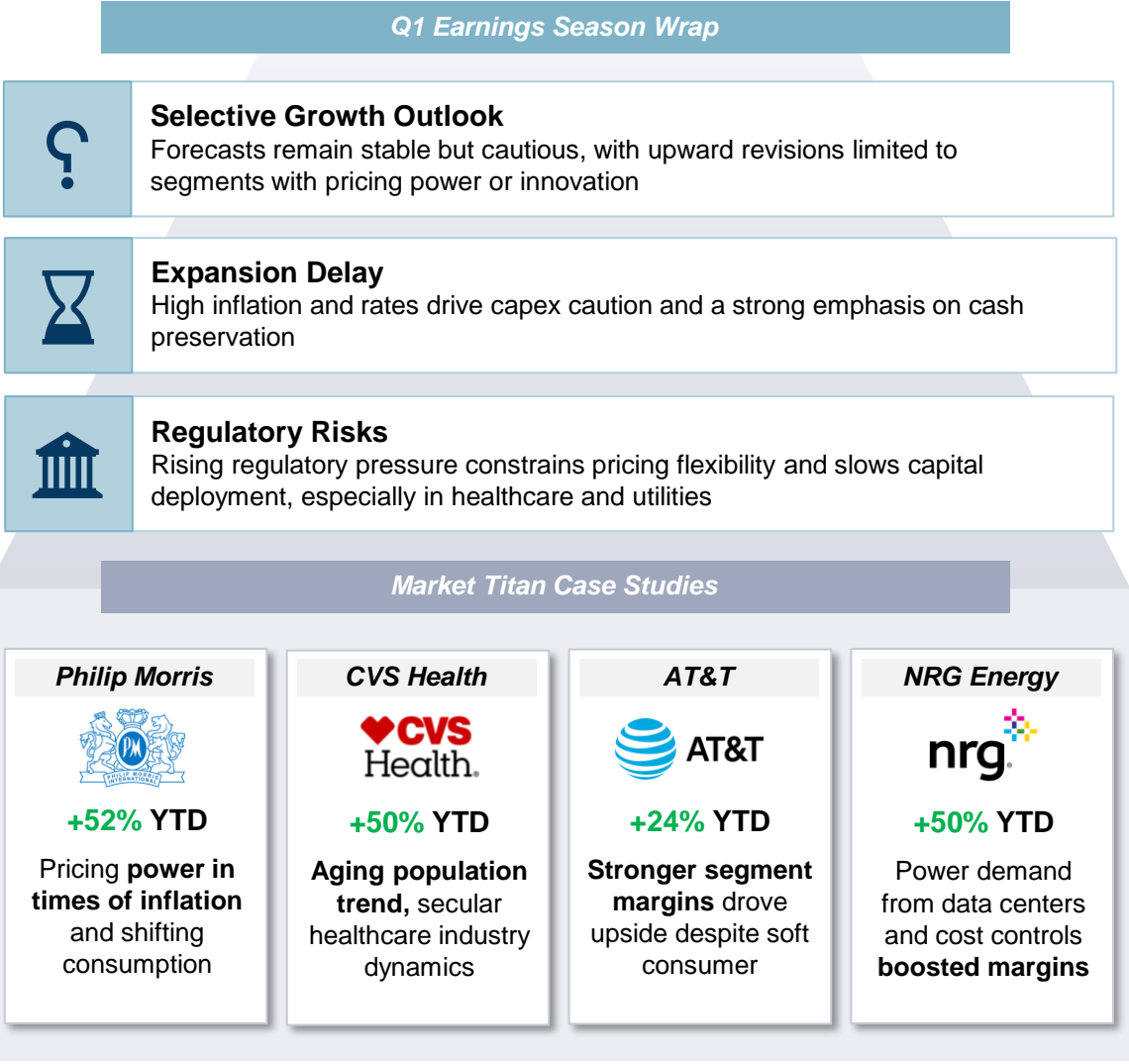
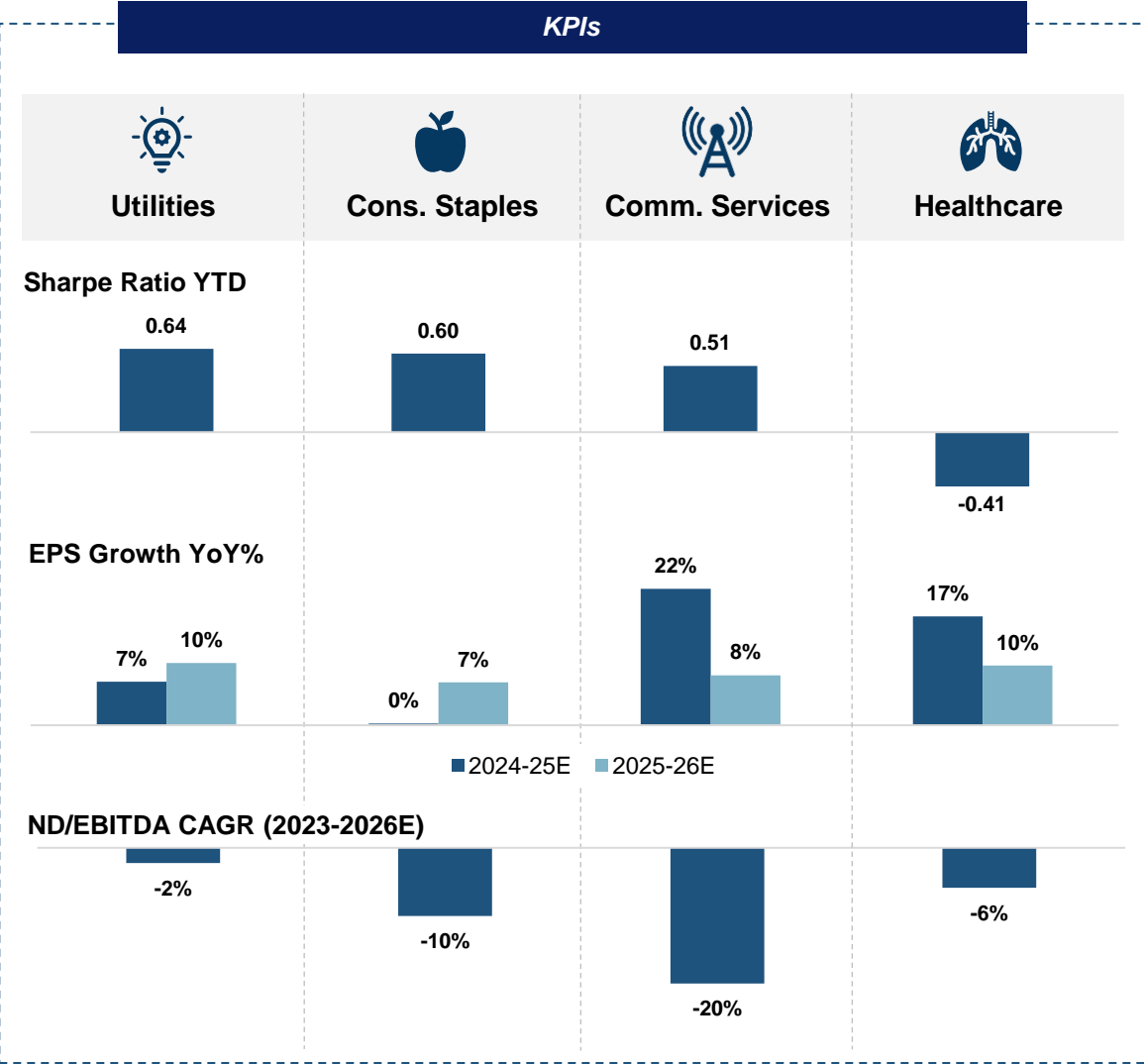
Overview of Cyclical

Who's Leading the Next Leg Up?

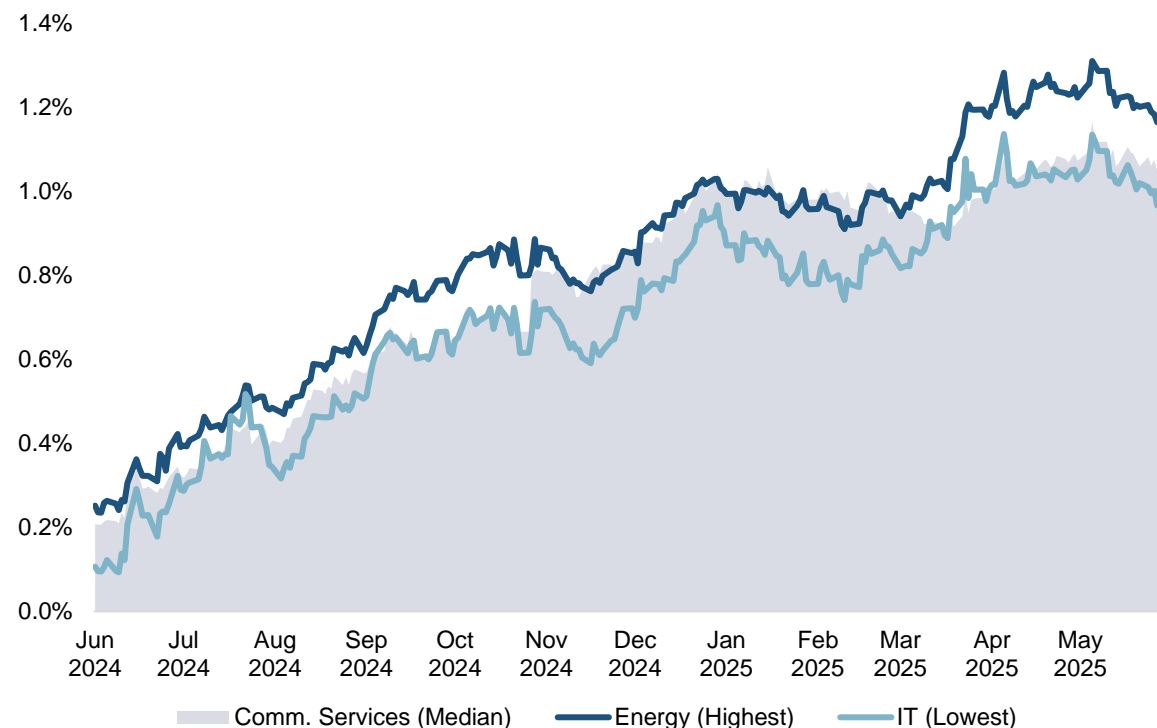


Overview of Defensives

Playing Defense Pays Until the Cycle Turns



2s10s BBB Corporate Yield Spreads



U.S. Corporates Environment



Corporate yield curves never inverted amid recent political noise and volatility – **fundamentally confident markets**



Trump's economic agenda led to **higher compensation for duration**, pushing spreads **away from historical average**

Potential Risks And Implications

OBBBA



Consumer tax credits & production incentives support **discretionary spending** and **industrial activity**

Iran-Israel War



Energy shock & global trade disruption heightens **the input and logistics costs**

Q2 & Q3 Fears



Strong start in 2025, though **tariffs** may **dampen future earnings seasons**



FED's Signal

Powell signals openness to easing even with tariff risks, prioritizing growth and job market resilience



Cooling Inflation

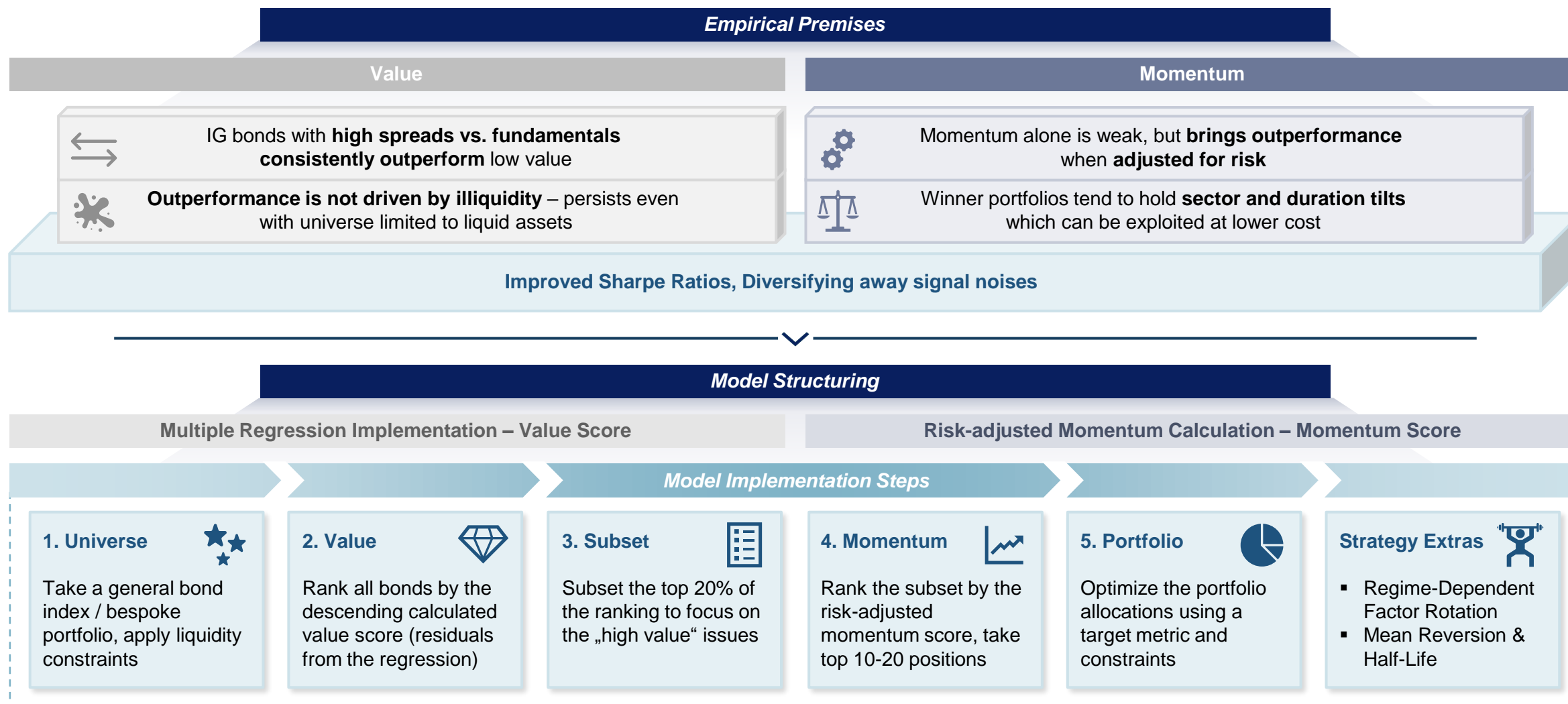
Core PCE and CPI have eased closer to target, giving the Fed room to introduce more easing



Thus, to systematically extract value from these dislocations, IG corporates should be analyzed by its **relative value and risk-adjusted momentum**



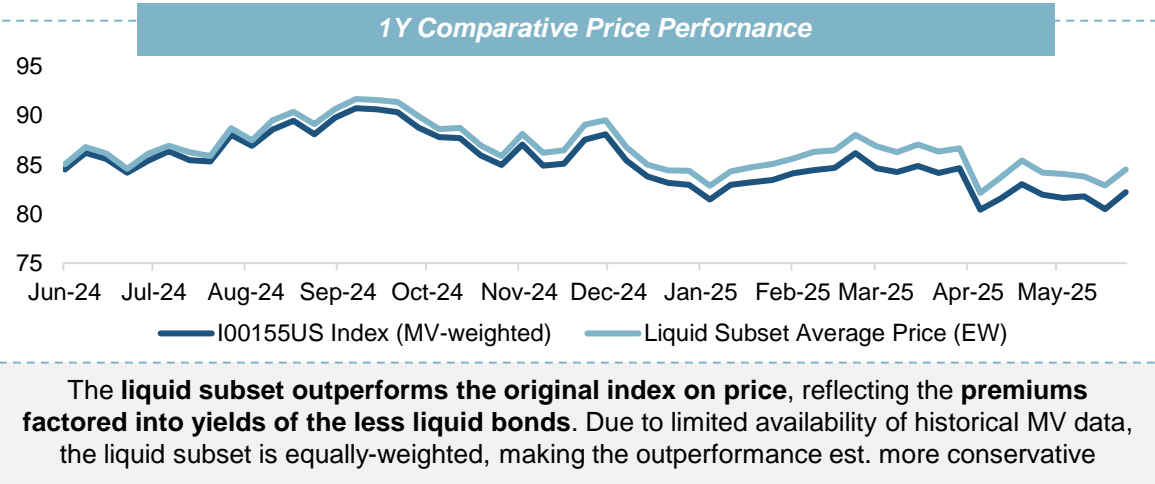
Strategy and Trade



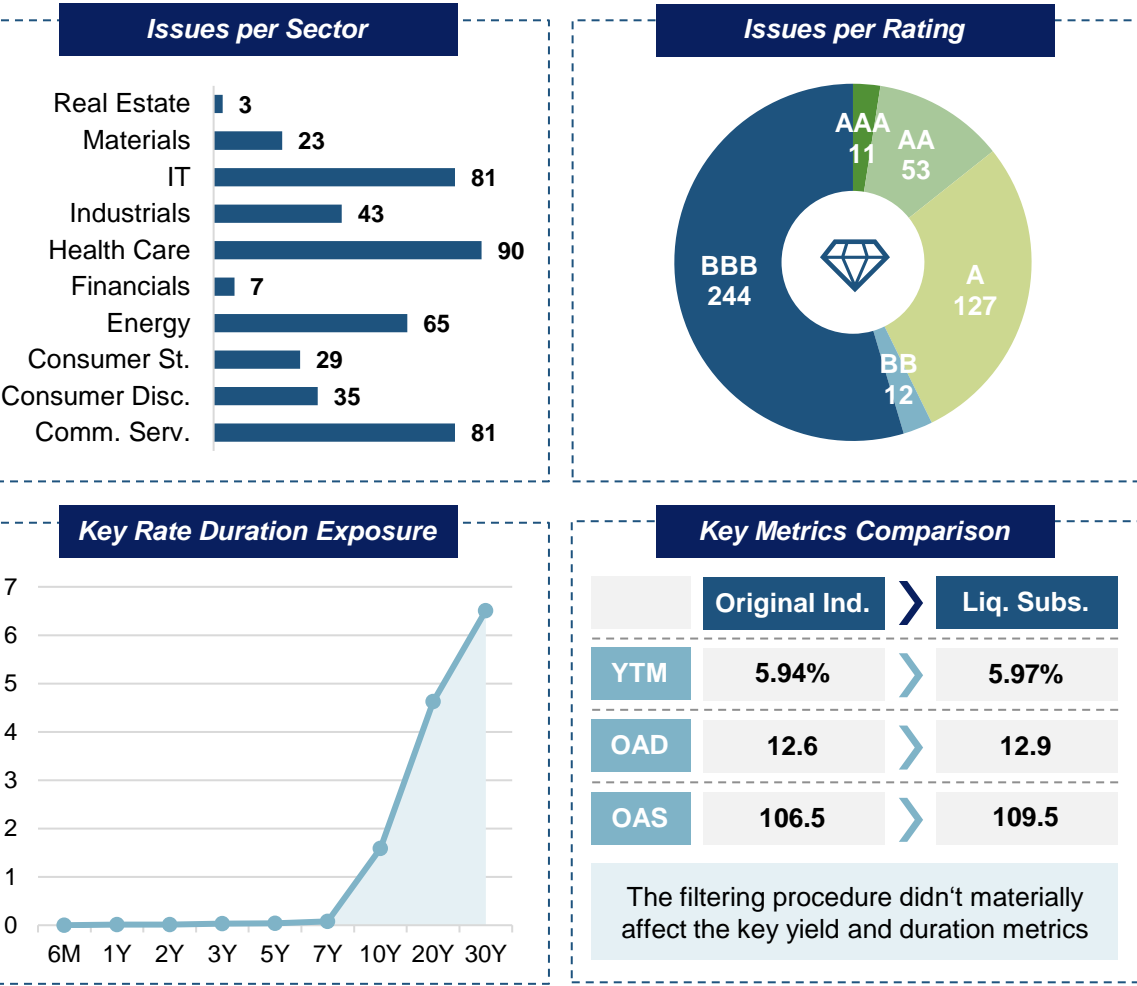
Selected Investment Universe

Defining Our Investment Universe

Filtering an Index



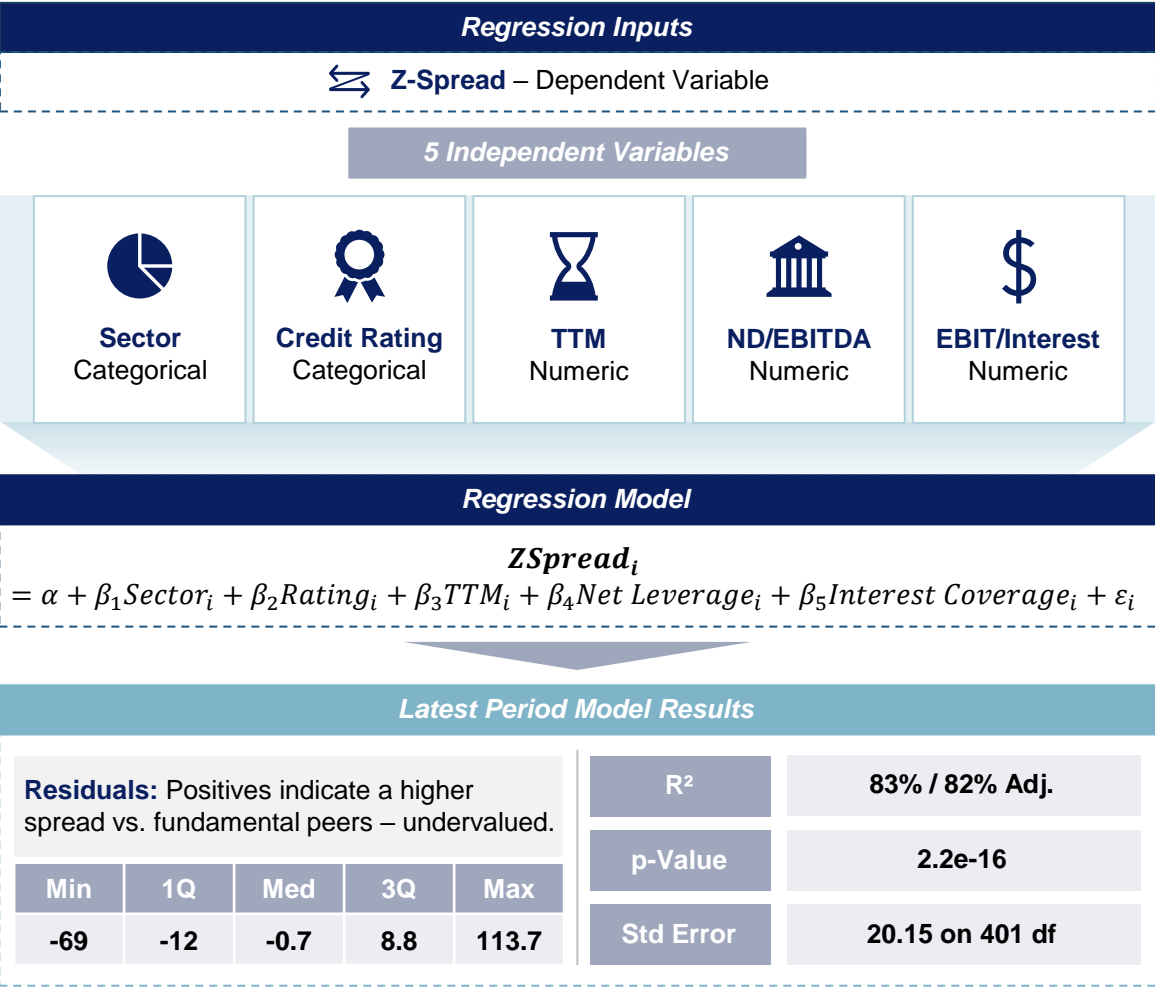
Descriptive Statistics of the Liquid Subset



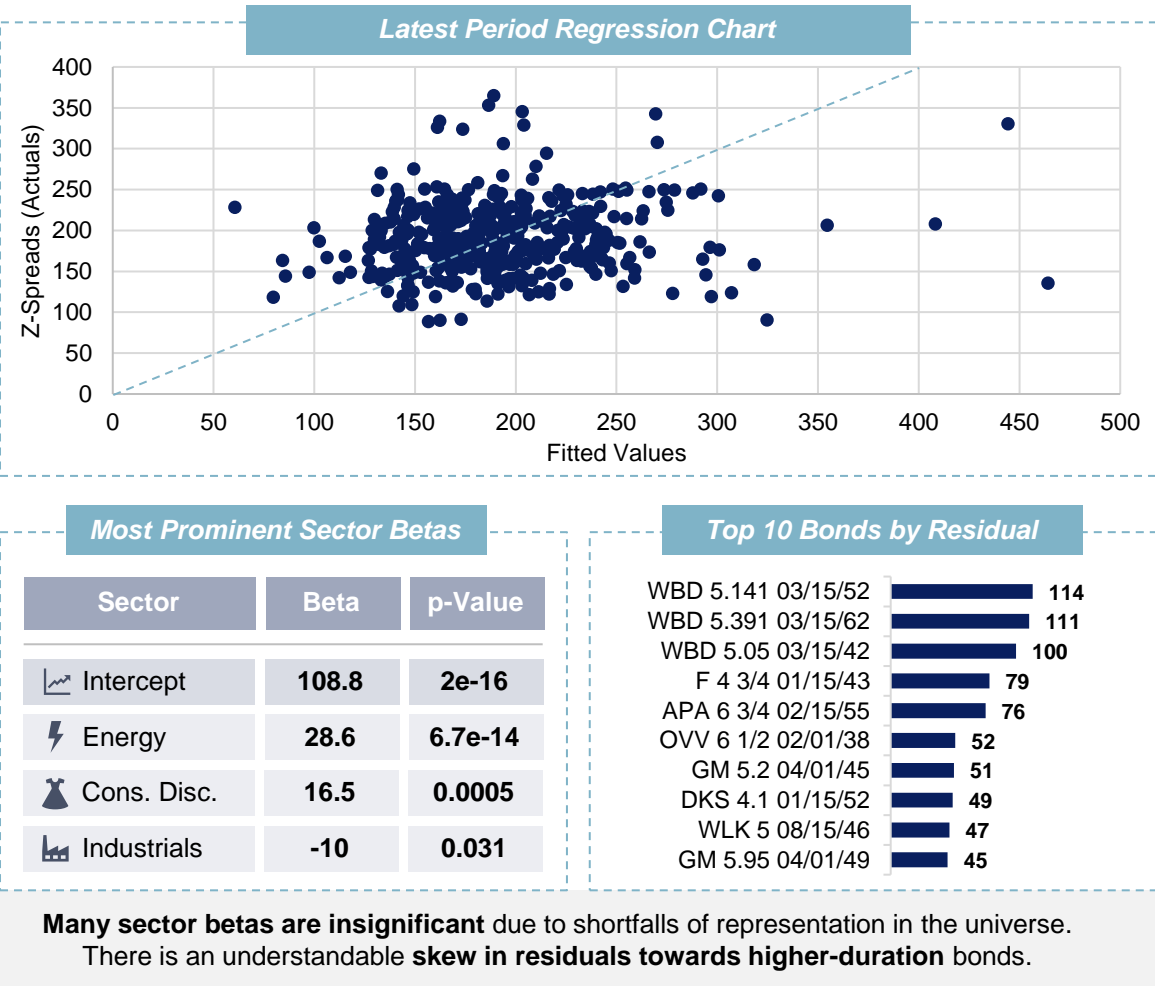
Multiple Regression Analysis

Assigning Value Scores

Modelling Process



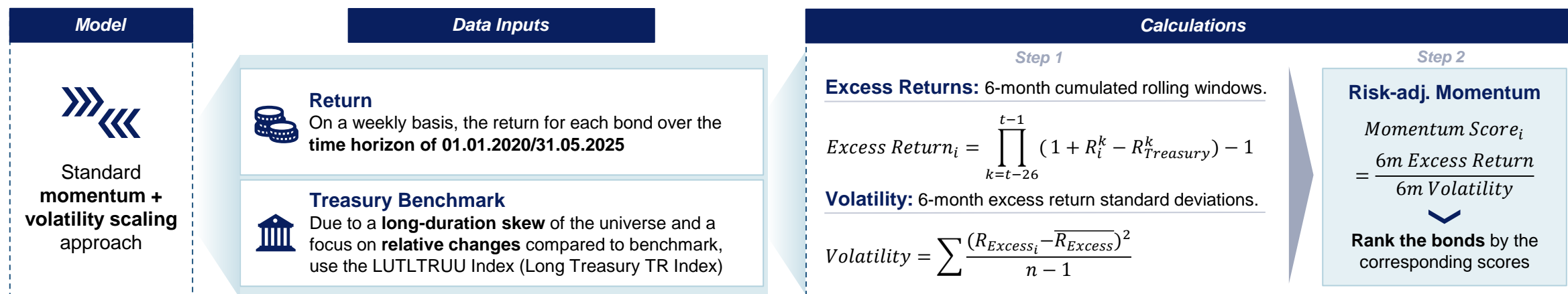
Summary of Results



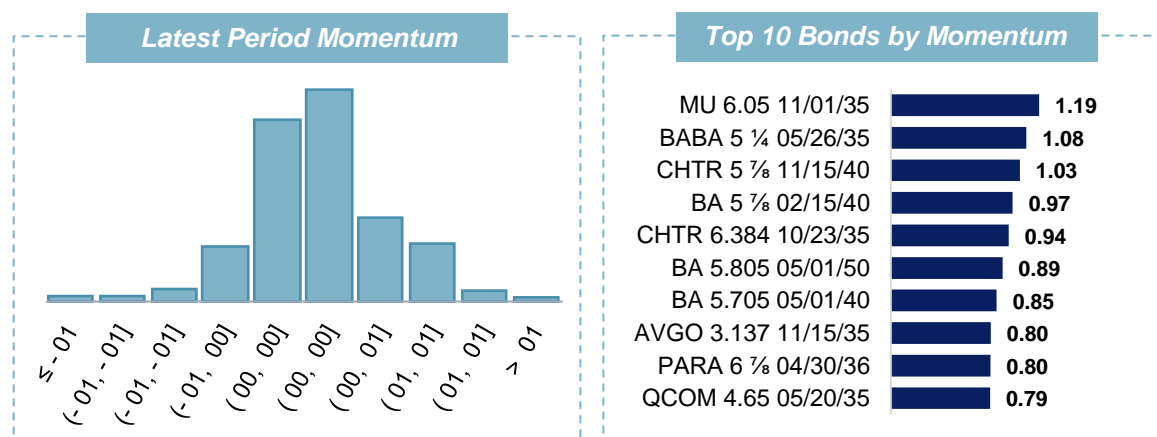
Momentum Metrics

Momentum as a Complementary Signal

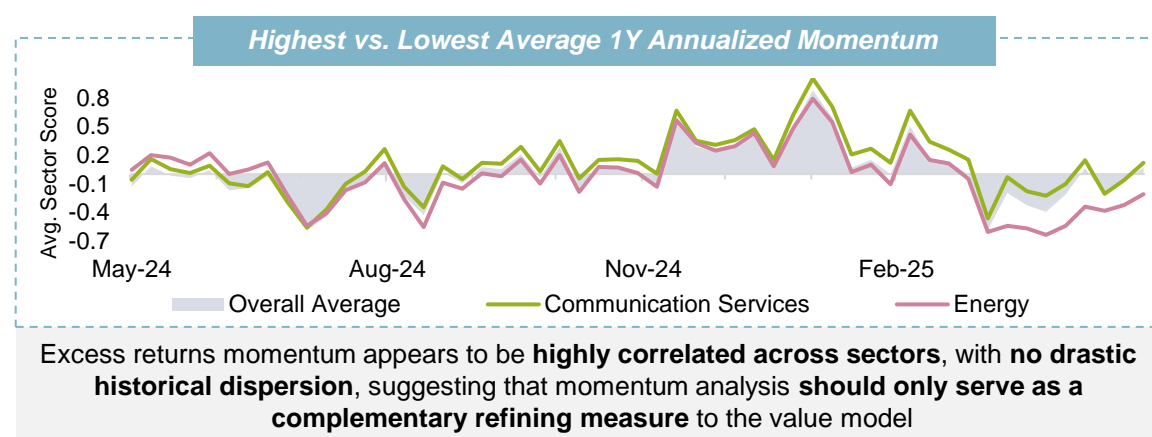
Description of the Process



Latest Period Analysis Results

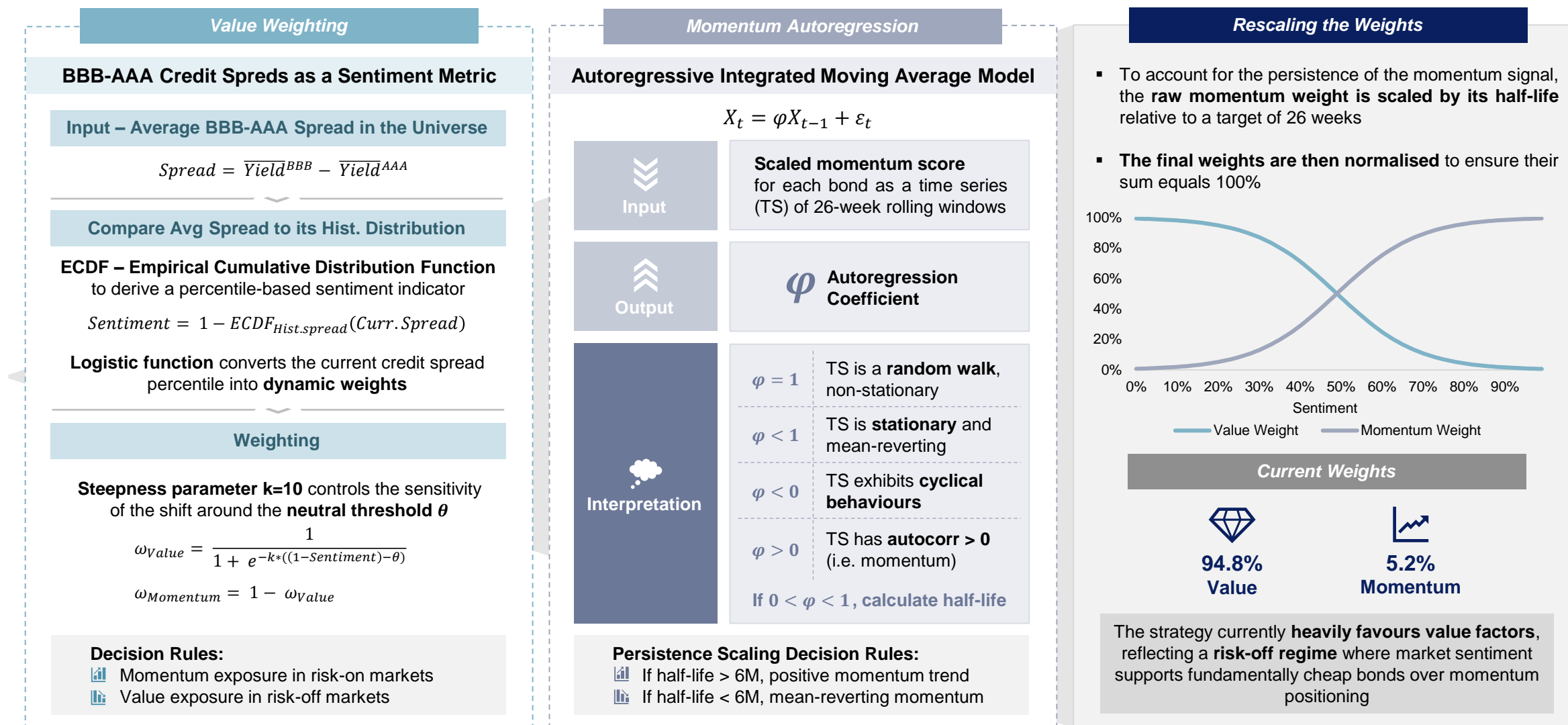


Historical Dynamics




Factor Score Weighting

Dynamic Tilt Towards Value Amid Risk-Off Conditions




Investment Thesis and Portfolio Composition


Investment Thesis




US Macro Sentiment
Resilient growth and fading recession risks support a stable macro backdrop, despite policy uncertainty and high debt levels




Monetary Policy Sentiment
Despite hawkish rhetoric, voting speakers show a more dovish tilt as softening inflation and labour data support a cautious stance




Market Sentiment Pulse
Consumer and corporates sentiments remain fragile, while the biggest tariffs concerns have been disguised



Cyclicals vs. Defensives
Due to recent volatility and underperformance, cyclicals continue to offer stronger value creation while trading at discount













Value
In IG value factor consistently outperforms, especially post-crisis, without relying on low-quality or long-duration bonds



Model Output
Factor Scores are supporting the risk-off regime in which sentiment favours fundamentally undervalued bonds

In light of prevailing macro, sentiment, and factor signals, the strategy tilts toward value-driven IG Bonds positioned to benefit from risk-off resilience and relative mispricing

Current Portfolio				
Company	ISIN	YTM	Coupon	Score*
 WBD US	US55903VBE20	8.40%	5.14%	107.7
 WBD US	US55903VBF94	8.54%	5.39%	105.0
 WBD US	US55903VBD47	8.06%	5.05%	95.1
 F US	US345370CQ17	7.30%	4.75%	75.0
 APA US	US03743QAS75	7.45%	6.75%	71.9
 OVV US	US292505AG96	6.81%	6.50%	48.9
 GM US	US37045VAJ98	6.75%	5.20%	48.0
 OVV US	US69047QAD43	7.11%	7.10%	46.9
 WLK US	US960413AS12	6.41%	5.00%	44.5
 GM US	US37045VAT70	6.76%	5.95%	43.1

A low-angle, upward-looking photograph of several modern skyscrapers. The buildings are dark, with many windows illuminated from within, creating a grid of light points against the twilight sky. The perspective creates a sense of height and scale, with the buildings converging towards the top of the frame. The overall color palette is dominated by deep blues and purples, with the warm light from the building windows providing a contrast.

Appendix

Appendix: Screening Process I/II

Selecting an index

<INS> GO – select IG U.S. FI indices, by BCLASS 2,3,4 categories.

- Look for **abnormal yield levels**.
- Use **recent returns as proxies** for overcorrections stemming from exogenous market interventions and turmoils.

=@BDP(C3; „index_name")

=@BDP(C3; „index_member_count")

=@BDP(C3; „index_pricing_date")

=@BDP(C3; „current_trr_1wk")

=@BDP(C3; „index_total_return_1D")

=@BDP(C3; „index_total_return_mtd")

=@BDP(C3; „index_total_return_ytd")

=@BDP(C3; „current_trr_3mo")

=@BDP(C3; „current_trr_1yr")

Index Name	Security	Sector	Members	Last Update	1D Rtn	1W Rtn	MTD Rtn	3M Rtn	YTD Rtn	1Y Rtn
Invest. Grade: Communications	I00711US Index	Communication Services	456	26.05.2025	0,00%	-0,61%	-1,49%	-1,92%	0,65%	3,85%
Invest. Grade: Media Entertainment	I00374US Index	Communication Services	114	26.05.2025	0,00%	-0,70%	-1,93%	-3,38%	-0,67%	2,27%
Invest. Grade: Cable Satellite	I00373US Index	Communication Services	92	26.05.2025	0,00%	-0,71%	-0,88%	-1,23%	1,54%	5,10%
Investment Grade Wireless	I02843US Index	Communication Services	131	26.05.2025	0,00%	-0,44%	-1,20%	-1,08%	1,13%	4,53%
Investment Grade Wirelines	I02846US Index	Communication Services	119	26.05.2025	0,00%	-0,61%	-1,80%	-1,97%	0,65%	3,57%
Invest. Grade: Retailers	I00375US Index	Consumer Discretionary	229	26.05.2025	0,00%	-0,42%	-1,37%	-1,35%	1,01%	3,94%
Invest. Grade: Home Construction	I00371US Index	Consumer Discretionary	22	26.05.2025	0,00%	-0,21%	-0,74%	-0,68%	0,88%	4,44%
Invest. Grade: Consumer Cyclical	I00367US Index	Consumer Discretionary	593	26.05.2025	0,00%	-0,36%	-0,84%	-0,83%	1,11%	4,56%
Invest. Grade: Gaming	I00370US Index	Consumer Discretionary	29	26.05.2025	0,00%	-0,22%	-0,03%	-0,45%	1,58%	6,18%
Invest. Grade: Restaurants	I05177US Index	Consumer Discretionary	51	26.05.2025	0,00%	-0,43%	-1,52%	-1,79%	0,64%	3,85%
Invest. Grade: Lodging	I00372US Index	Consumer Discretionary	28	26.05.2025	0,00%	-0,20%	-0,25%	0,06%	1,69%	6,34%
Invest. Grade: Consumer Noncyclical	I00379US Index	Consumer Staples	1251	26.05.2025	0,00%	-0,47%	-1,55%	-1,62%	1,04%	3,84%
Invest. Grade: Food and Beverage	I05169US Index	Consumer Staples	311	26.05.2025	0,00%	-0,50%	-1,51%	-1,28%	1,14%	4,36%
Invest. Grade: Consumer Products	I00381US Index	Consumer Staples	105	26.05.2025	0,00%	-0,36%	-1,01%	-0,64%	1,43%	4,56%
Invest. Grade: Tobacco	I00386US Index	Consumer Staples	82	26.05.2025	0,00%	-0,34%	-0,92%	-0,77%	1,67%	5,94%

Appendix: Screening Process II/II

Exploring the index

Pull the members of the selected index and filter for only publicly traded US-listed companies. **I00155US Index (BIILTRUU).**

<div><div><div>=B5&" ISIN"</div><div>=@BQL(\$C5; "ticker")</div><div>=D5&" US Equity"</div><div>=@BDP(\$C5; „security_name")</div><div>=BDP(C5; "px_last")</div><div>=@BQL(\$C5; "rating")</div><div>=@BDP(\$C5; „maturity")</div><div>=@BQL(\$C5; "maturity_years")</div><div>=@BDP(\$C5; „cpn")</div><div>=@BQL(\$C5; "cpn_typ")</div><div>=WENN(N5>\$O\$2; "T"; "F")*</div></div></div>														
ISIN	ISIN Ticker	Ticker	Equity Ticker	Sector	Bond Description	Price (USD)	YTM (%)	Rating	Maturity	Time to Maturity (Yrs)	Coupon (%)	ADTV30 (k)	Form. Rule	Coupon Type
US00206RKJ04	US00206RKJ04 ISIN	T	T US Equity	Communication Services	T 3 1/2 09/15/53	64,6	6,2%	BBB	15.09.2053	28,3	3,50	16 852	T	FIXED
US00206RLJ94	US00206RLJ94 ISIN	T	T US Equity	Communication Services	T 3.55 09/15/55	64,3	6,2%	BBB	15.09.2055	30,3	3,55	17 553	T	FIXED
US55903VBE20	US55903VBE20 ISIN	WBD	WBD US Equity	Communication Services	WBD 5.141 03/15/52	62,8	8,8%	BB+	15.03.2052	26,8	5,14	47 722	T	FIXED
US00206RLV23	US00206RLV23 ISIN	T	T US Equity	Communication Services	T 3.65 09/15/59	64,0	6,2%	BBB	15.09.2059	34,3	3,65	15 746	T	FIXED
US00206RMN97	US00206RMN97 ISIN	T	T US Equity	Communication Services	T 3.8 12/01/57	66,4	6,2%	BBB	01.12.2057	32,5	3,80	9 084	T	FIXED
US20030NDU28	US20030NDU28 ISIN	CMCSA	CMCSA US Equity	Communication Services	CMCSA 2.937 11/01/56	55,7	6,1%	A-	01.11.2056	31,4	2,94	12 394	T	FIXED
US161175BA14	US161175BA14 ISIN	CHTR	CHTR US Equity	Communication Services	CHTR 6.484 10/23/45	94,1	7,0%	BBB-	23.10.2045	20,4	6,48	4 741	T	FIXED
US55903VBD47	US55903VBD47 ISIN	WBD	WBD US Equity	Communication Services	WBD 5.05 03/15/42	69,8	8,4%	BB+	15.03.2042	16,8	5,05	21 788	T	FIXED
US92343VGB45	US92343VGB45 ISIN	VZ	VZ US Equity	Communication Services	VZ 3.55 03/22/51	68,3	6,0%	BBB+	22.03.2051	25,8	3,55	4 183	T	FIXED
US30303M8V78	US30303M8V78 ISIN	META	META US Equity	Communication Services	META 5.4 08/15/54	93,1	5,9%	AA-	15.08.2054	29,2	5,40	21 143	T	FIXED
US20030NDS71	US20030NDS71 ISIN	CMCSA	CMCSA US Equity	Communication Services	CMCSA 2.887 11/01/51	57,9	6,1%	A-	01.11.2051	26,4	2,89	7 605	T	FIXED
US92343VGK44	US92343VGK44 ISIN	VZ	VZ US Equity	Communication Services	VZ 3.4 03/22/41	74,4	5,9%	BBB+	22.03.2041	15,8	3,40	7 553	T	FIXED
US30303M8W51	US30303M8W51 ISIN	META	META US Equity	Communication Services	META 5.55 08/15/64	93,1	6,0%	AA-	15.08.2064	39,2	5,55	9 980	T	FIXED
US30303M8Q83	US30303M8Q83 ISIN	META	META US Equity	Communication Services	META 5.6 05/15/53	95,7	5,9%	AA-	15.05.2053	28,0	5,60	7 521	T	FIXED
<div><div><div>=@BQL(\$E5; "gics_sector_name")</div><div>=@BDP(\$C5; „yas_bond_yld")</div><div>=BQL("US00206RKJ04@TRAC ISIN";"avg(px_volume(dates=range(-30d;0d)))")</div></div></div>														

- Apply an additional liquidity filter: 30D ADTV of >\$3,000k as of the TRACE bond price dissemination service.
 - * - \$O\$2 contains the assumed minimum liquidity level.

Source Name	Link	Date of Retrieval	Used for
The Wall Street Journal	Link	10/06/2025	Dollar Index (DXY)
Bloomberg News	Link	28/05/2025	One Big Beautiful Bill
Bloomberg News	Link	28/05/2025	Economic Growth Outlook
Federal Bank of New York	Link	05/06/2025	Spread Data & Recession Probability
Trading Economics	Link	10/06/2025	GDP Data and Forecast
S&P Global	Link	05/06/2025	PMI Data
US Department of Treasury	Link	10/06/2025	Yield Curve, Monetary Policy
CNN	Link	11/06/2025	Key Events Affecting Sectors
Bloomberg Finance L. P.	Software	14/06/2025	Research and Data
Reuters	Link	22/06/2025	Iran Israel War
Factor investing in credit (part 1): Momentum in bond returns – friend or foe?	Goldman Sachs Research	16/03/2025	Strategy
Factor investing in credit (Part 2): Value, risk, and size	Goldman Sachs Research	16/03/2025	Strategy

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