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The Impact of Exogenous Macro Economic Events on Flyer Fund Stock and Sector Returns

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The Alpha* Impact of Rising Oil Prices, Interest Rates and Market Volatility on Flyer Fund Sector/Stock Returns

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Study Purpose:

- Determine impact of oil price, interest rate and market volatility increases on Flyer Fund sector/stock returns compared to market return

Research Approach:

- Develop response functions and betas for Flyer Fund sectors/stocks using Bloomberg market factor model

Model Specifications:

$$\text{Log}P_{it} = \text{Log}A + B(\text{LogOil}_t)$$

$$\text{Log}P_{it} = \text{Log}A + B(\text{LogInt}_t)$$

$$\text{Log}P_{it} = \text{Log}A + B(\text{LogVix}_t)$$

Where:

- P_{it} = Price of the sector/stock
- A = Intercept
- B = Beta
- Oil = Price of Oil
- Int= Interest Rate
- VIX = Market Volatility
- t = Rolling 60 month Period

Portfolio and Sector Alphas			
	Mix 1	Mix 2	Mix 3
Consumer Discretionary	0.01	-0.02	0.81
Consumer Staples	-0.02	-0.04	0.00
Energy	0.01	0.03	-0.34
Financials	0.01	0.00	0.40
Health Care	0.15	0.30	0.98
Industrials	0.00	-0.06	1.00
Information Technology	0.00	0.00	0.08
Materials	0.02	0.03	0.12
Portfolio	0.02	0.02	0.47

Conclusions from Mix 2:

Flyer Fund outperforms the benchmark with rising oil prices (6%), increased volatility (VIX +15%), and higher interest rates (10 yr Treasury +100bps).

Sector Alpha Analysis:

- Highest positive alpha – Health Care (0.30)
- Highest negative alpha – Industrials (-0.06)
- Three of eight sectors had positive alpha
- Three of eight sectors had negative alpha
- Two of eight sectors had zero alpha
- Overall portfolio alpha +0.24

Mix 2				
BEST Alpha Sector		Health Care		
	DCPM	Return	Benchmark	Return
1	Novartis	1.47	Edwards Lifesciences	1.49
2	Express Scripts	1.29	Intuitive Surgical	1.45
3	Baxter	1.29	Tenet	1.38

Mix 2				
WORST Alpha Sector		Industrials		
	DCPM	Return	Benchmark	Return
1	Hexcel	1.64	Joy Global	1.85
2	Old Dominion	1.51	ADT	1.77
3	Union Pacific	1.47	Fastenal	1.76

Stock Selection Analysis:

- Held one of the three top performers in Health Care. (Novartis)
- Held none of the three top performers in Industrials
- Stock selection needs to be improved

* alpha is the difference between portfolio return and benchmark return.