Dual Risk Premia

How Equity PMs Capture Both Macro and Idiosyncratic Alpha in 2026

Quant insight

2026

Dual Risk Premia

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Most equity risk models were built to answer one question: how much of your portfolio's variance comes from known factor exposures? Useful, but incomplete. When macro is driving 60, 70 or even 80 percent of S&P 500 risk on a given day and your model treats that component as noise, you are not measuring risk — you are missing it.

The result is alpha leakage. You may believe you are running a stock-picking book when you are in fact running a macro book with stock-picking characteristics layered on top. Returns you attribute to security selection are partly a reward for macro exposure you never consciously took.

Dual risk premia is the framework that addresses this. Not a new concept — but one that is now measurable at the individual-security level, daily, at scale.

1. What Dual Risk Premia Actually Means

Two distinct return sources are available to equity investors.

Macro premia come from deliberate exposure to macroeconomic factors — rates, inflation, credit spreads, growth expectations. When you hold a position that benefits from a rates regime shift, you are earning macro premia. The risk is systematic and top-down.

Idiosyncratic premia come from stock-specific characteristics that are genuinely independent of macro conditions: the earnings surprise, the management change, the competitive moat the market has mispriced. The risk is bottom-up.

Both are real. Both are earnable. The problem is that most equity portfolios blend them together without knowing the proportions. When macro regimes shift, the blended portfolio takes damage that looks like stock-picking failure but is actually macro exposure mismanagement.

Separating the two is not merely an analytical exercise. It is a prerequisite for deliberate portfolio construction.

2. Why Standard Risk Models Fall Short

Barra, Axioma and Northfield are sophisticated cross-sectional risk models. The issue is not that they are wrong — it is that direct macro-factor decomposition is not their primary output, and they were not built to answer the question equity PMs are asking in 2026: which of my positions are earning idiosyncratic alpha right now, and which are simply riding a macro tailwind?

The conventional approach embeds macro exposure implicitly inside style and sector factors. Rates sensitivity shows up in duration proxies; inflation shows up in commodity-linked sectors. But the decomposition is not direct, not daily, and not at the individual-security level in a way that cleanly separates macro beta from genuine alpha.

When the regime shifts — and it does — the model's residual absorbs the shock. You see it in your P&L before you see it in your risk report.

3. The MFERM Approach to Dual Premia

Quant Insight's Macro Factor Equity Risk Model (MFERM) was built specifically to solve this decomposition problem. It measures how macroeconomic forces drive returns at the individual-security level, validated on 11 years of daily data (January 2015 – December 2025) across the S&P 500 and Qi's regional universes (US, Europe, APAC and Global).

The output is a clean separation: for any security or portfolio, MFERM shows what proportion of forecast risk is attributable to macro factor exposure and what proportion is genuinely idiosyncratic. This is the **Macro Share of Risk (MSR)** — macro factor risk divided by total forecast risk — and it updates daily, not monthly or quarterly.

Once you can see the macro and idiosyncratic components separately, you can tilt toward whichever premium is more attractively priced at a given point in the regime cycle. Qi's Dual Risk Premia strategy formalises exactly this: over an 11-year backtest it delivered excess returns of +2.95% per annum versus the S&P 500, at a tracking error of 3.0% and an information ratio of 0.98.

Dual Risk Premia

Regime	Period	S&P 500	Dual Risk Premia	Outperformance
Rising Rates	2015–2018	+32.2%	+39.0%	**+6.7%**
Falling Rates	2019–2020	+55.7%	+62.8%	**+7.1%**
High Inflation	2021–2022	+5.4%	+8.3%	**+2.9%**
Disinflation	2023–2024	+57.9%	+85.6%	**+27.8%**
Mixed Volatility	2025	+17.8%	+21.8%	**+4.0%**

Dual Risk Premia strategy vs. S&P 500 across macro regimes. Source: Quant Insight. Past performance is not a reliable indicator of future results.

These figures are backtested, not theoretical. MFERM was built by former macro portfolio managers who ran the same books our clients run.

4. Regime Detection Changes the Timing Problem

Dual premia capture is not static. The relative value of macro versus idiosyncratic premia shifts with the regime. In a high macro-dominance environment, stock-specific signals are swamped by top-down forces, and running a high-conviction idiosyncratic book is expensive. When macro dominance is low, the reverse applies.

The Macro Share of Risk gives you a real-time reading of the proportion of S&P 500 risk currently explained by macro factors. When it is elevated, the market is being driven top-down; when it is low, bottom-up stock selection has more room to express itself cleanly.

This is regime-aware portfolio construction. You are not guessing at the macro backdrop — you are measuring it daily and adjusting the balance between macro and idiosyncratic premia accordingly.

5. What a High Macro Share of Risk Tells You

When the Macro Share of Risk is elevated, several things follow:

- Idiosyncratic signals carry more noise relative to macro-driven returns.
- Long/short pairs that look uncorrelated on fundamentals may be highly correlated on macro exposure.
- Drawdowns in your book are more likely macro-driven than stock-specific.
- Stress testing should focus on macro factor scenarios, not earnings revisions.

6. What a Low Macro Share of Risk Tells You

When the Macro Share of Risk is low, the environment favours bottom-up selection:

- Macro beta contributes less to return variance.
- Stock-specific catalysts have more independent price impact.
- Idiosyncratic positions can be isolated and measured more cleanly.
- Macro valuation divergences may be more persistent than immediately mean-reverting.

7. Macro Valuation as a Third Lens

The Macro Valuation engine adds a third dimension to dual premia capture. It measures divergences between current price and macro-implied fair value across Qi's coverage universe, updated daily.

A security trading well above its macro-implied fair value is either earning idiosyncratic premia that justify the premium, or it is overextended and vulnerable when the regime normalises. A security trading below fair value may represent an attractive macro premia opportunity — or reflect a genuine fundamental problem the macro model does not capture.

The engine does not make that call for you. It surfaces the divergence so you can apply your own fundamental view on top of a precise macro baseline. That is the right division of labour between a macro factor model and a portfolio manager.

8. How This Complements Your Existing Risk Stack

MFERM completes, rather than competes with, Barra, Axioma and Northfield. If you run those models, keep running them — they handle factor risk attribution, portfolio construction constraints and enterprise workflow in ways that are deeply embedded in institutional processes.

What MFERM adds is the daily macro-versus-idiosyncratic decomposition at the single-stock level that those models do not provide as their primary output. It answers the question your existing stack leaves open: of the return I generated today, how much was macro beta and how much was genuine alpha?

That question matters for performance attribution, for risk management, and for the credibility of your alpha claims to allocators.

Quant Insight's solution is built around exactly this problem — designed to sit alongside your existing risk infrastructure and provide the macro decomposition layer that closes the gap. MFERM is distributed through Goldman Sachs Marquee and FactSet to institutional clients managing a combined $5 trillion or more in assets.

9. Practical Implementation for Long/Short Equity PMs

For a long/short equity PM, dual premia capture through MFERM works across three practical workflows.

Portfolio construction

Before adding a position, check its macro factor loadings in MFERM. Understand whether the expected return is macro-driven or idiosyncratic, and size accordingly based on which premium you are deliberately targeting.

Risk monitoring

Use the Macro Share of Risk to track whether the macro regime is shifting. If it is rising sharply, revisit positions you classified as idiosyncratic — some may carry hidden macro exposure that is now becoming the dominant return driver.

Performance attribution

After the fact, use MFERM's decomposition to separate what your book actually earned from macro beta versus genuine stock selection. This is the honest version of alpha attribution — the version that holds up under scrutiny.

10. Frequently Asked Questions

What are dual risk premia in equity investing?

Dual risk premia refers to the two distinct return sources available in equity portfolios: macro premia, earned through exposure to macroeconomic factors such as rates, inflation and credit spreads; and idiosyncratic premia, earned through genuine stock-specific characteristics independent of macro conditions. Capturing both deliberately requires separating them at the security level.

How does MFERM separate macro from idiosyncratic returns?

MFERM, Quant Insight's Macro Factor Equity Risk Model, measures the contribution of macroeconomic factors to individual security returns daily. Validated on 11 years of daily data (January 2015 – December 2025), it produces a decomposition showing what proportion of a security's or portfolio's forecast risk is attributable to macro factor exposure versus genuinely idiosyncratic drivers — the Macro Share of Risk (MSR).

What is the Macro Share of Risk and why does it matter for dual premia?

The Macro Share of Risk (MSR) measures the proportion of risk currently explained by macro factors — macro factor risk divided by total forecast risk. Read at the market level, it tells you whether the environment is macro-dominant or idiosyncratic, a distinction that directly affects how much weight to give macro versus stock-specific considerations in portfolio construction.

Can I use MFERM alongside Barra or Axioma?

Yes. MFERM is designed to complete, not compete with, existing institutional risk models. Barra, Axioma and Northfield handle factor risk attribution and enterprise workflow; MFERM adds the daily macro-versus-idiosyncratic decomposition at the single-stock level that those models do not provide as their primary output.

What is the measured benefit from dual premia tilting?

Qi's Dual Risk Premia strategy, which allocates between macro and idiosyncratic premia based on the prevailing regime, delivered a backtested excess return of +2.95% per annum versus the S&P 500 over the 11-year sample, at a tracking error of 3.0% and an information ratio of 0.98. Past performance is not a reliable indicator of future results.

How does the Macro Valuation engine support dual premia capture?

The Macro Valuation engine measures divergences between current price and macro-implied fair value across Qi's coverage universe, updated daily. It provides a precise macro baseline against which you can assess whether a security's premium or discount reflects idiosyncratic premia or macro mispricing — a distinction central to deliberate dual premia allocation.

Who is dual risk premia analysis most relevant for?

Primarily equity portfolio managers running long/short strategies where alpha attribution matters, and CROs or risk-team leads at multi-asset funds who need daily macro exposure monitoring. Any fund where the line between macro beta and genuine alpha affects performance reporting, risk management or allocator credibility will benefit from this framework.

Conclusion

The separation between macro and idiosyncratic premia is not a theoretical refinement. It is the difference between knowing what your portfolio is actually doing and what your attribution report says it is doing. In 2026, with macro regimes shifting faster than most risk models were calibrated to handle, that distinction is where alpha leakage is either stopped or quietly compounds.

Learn more at **quant-insight.com**.

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