

Does Your Risk Model Really Cover Macro?

Six questions to ask before you buy



Contents

1. Why Macro Coverage Is the Hardest Thing to Evaluate
2. Six Questions to Ask Before You Buy
3. What Most Risk Models Get Wrong About Macro
4. How to Structure a Vendor Evaluation
5. A Note on Macro-Based Valuations
6. Where Quant Insight Fits
7. Frequently Asked Questions



Evaluating Macro Coverage

Most risk model evaluations start in the wrong place. Teams spend weeks benchmarking factor libraries, reviewing interfaces and negotiating data-licensing terms — then discover, after go-live, that the model has almost nothing useful to say about the macro environment driving half their portfolio's volatility.

That gap matters more now than it did a decade ago. Rate regimes shift faster. Currency dislocations feed through to equity valuations within days. Geopolitical shocks reprice entire sectors before fundamental analysts can update their models. If your risk model treats macro as a residual or an afterthought, you are flying partially blind.

This guide is for institutional portfolio managers and risk teams evaluating risk models in 2026. It focuses specifically on how to assess macro coverage before you commit — what questions to ask, what to look for under the hood, and where most providers fall short.

1. Why Macro Coverage Is the Hardest Thing to Evaluate

Vendors rarely advertise weak macro coverage. Most risk models claim to include “macro factors” in some form. The problem is that the term covers an enormous range of sophistication — from a single interest-rate sensitivity beta to a fully decomposed, real-time framework spanning rates, credit, FX, commodities and growth expectations.

When evaluating a risk model, you need to get specific about what “macro coverage” actually means for your strategy. A long/short equity fund running sector rotation has very different macro exposure needs than a multi-asset fund managing cross-asset tail risk.

The questions below are designed to surface the difference between genuine macro depth and surface-level factor labelling.



2. Six Questions to Ask Before You Buy

1. How many macro factors are modelled, and are they economically grounded?

The number alone isn't the point. A model with 40 loosely defined factors is often less useful than one with 12 rigorously constructed, economically interpretable ones. What matters is whether each factor has a clear economic rationale and whether the definitions are stable enough to be actionable.

Ask the vendor: can you explain what each macro factor represents in plain economic terms? If the answer involves statistical constructs that can't be described intuitively, that is an indication the model may be difficult to use in practice.

2. How frequently are factor exposures updated?

A risk model that recalculates macro exposures quarterly is not a risk model for active management. In 2026, the standard for institutional-grade macro risk monitoring is daily updates. Macro regimes can shift within a week — monthly or quarterly cadence means you are always looking at stale data precisely when you need current information most.

Confirm whether the model updates factor exposures daily, and whether those updates reflect current market conditions or lagged estimates.

3. Can the model separate macro-driven returns from alpha?

This is one of the most important and most overlooked questions in any risk model evaluation. If a portfolio manager can't distinguish between returns driven by macro tailwinds and returns driven by genuine stock-specific insight, they can't accurately assess their own performance — and neither can their risk team.

Look for a model that explicitly decomposes return attribution into macro-driven and idiosyncratic components at the security level. This is not a standard feature. Many models provide factor attribution but do not cleanly separate macro beta from alpha.



4. What is the security coverage?

Macro factor models are only as useful as their coverage. If you run a global book, you need macro exposures across global equities, not just US large caps. Ask for the exact number of securities covered and the geographic and asset-class breakdown.

Broad coverage across equities, fixed income, FX and commodities matters for multi-asset strategies. For long/short equity funds, depth of coverage within equities across regions is the priority.

5. Does the model support regime detection?

Macro factor sensitivities are not static. A stock's sensitivity to real rates in a high-inflation regime differs from its sensitivity in a deflationary environment. A risk model using fixed factor loadings will systematically misprice risk during regime transitions — precisely when accurate risk measurement matters most.

Ask whether the model identifies and flags macro regime shifts in real time, and whether factor exposures are recalibrated as regimes change.

6. Who built it, and do they understand active management?

This question sounds soft, but it isn't. Risk models built primarily by quants with a purely statistical background often produce frameworks that are mathematically elegant but practically difficult to act on. Models built by people who have actually managed macro portfolios tend to produce outputs that translate more directly into investment decisions.

Ask about the team behind the model. Ask for examples of how practitioners have used it to make or adjust portfolio decisions — not just to generate risk reports.



3. What Most Risk Models Get Wrong About Macro

The dominant risk models in institutional finance were largely built around equity factor models — value, momentum, quality, size, low volatility. Macro was layered in later, often as an add-on.

That architecture creates a structural problem. When macro is an add-on rather than a core design principle, the model tends to treat macro factors as explanatory variables for residual variance rather than as primary drivers of portfolio risk. That is the wrong frame for any fund where macro exposure is intentional and central to the strategy.

A genuinely macro-first risk model starts from the premise that macro forces drive the majority of cross-sectional return variation in most market environments. It builds factor exposures from the ground up with that premise in mind, rather than retrofitting macro onto an existing equity factor framework.

4. How to Structure a Vendor Evaluation

Once you have the right questions, the evaluation process itself benefits from structure. A few practical suggestions.

Request a live demonstration on your own portfolio

Don't evaluate the model on a sample portfolio the vendor has pre-selected. Run it on a slice of your actual book and see whether the macro decomposition matches your intuition about where your exposures actually sit. If the model tells you something you know to be wrong, that is important information.

Test it during a period of macro stress

Ask the vendor for back-data covering a recent macro dislocation — a rate shock, a currency crisis, a commodity spike. How did the model behave? Did it flag the risk before the drawdown, or did it catch up after the fact?



Evaluating Macro Coverage

Evaluate the output, not just the methodology

A technically sophisticated model that produces outputs your PMs can't interpret or act on isn't useful. Usability and interpretability are legitimate evaluation criteria.

Involve both the risk team and the investment team

A risk model that only the risk team understands won't change investment behaviour. The best macro risk models produce outputs that portfolio managers find genuinely useful in their day-to-day decision-making.

5. A Note on Macro-Based Valuations

One capability worth asking about specifically is macro-based valuation. Some providers can produce a model-implied fair value for a security based on current macro conditions — essentially asking: given where rates, credit spreads, FX and growth expectations sit today, what should this stock be worth?

This is distinct from traditional fundamental valuation. It is useful for identifying securities where price has diverged from what macro conditions imply — an indication either of a genuine alpha opportunity or of a market that hasn't yet priced in a macro shift.

Not all providers offer this. It requires a macro factor model calibrated at the security level with sufficient depth to produce a stable implied valuation — a meaningful technical bar.

6. Where Quant Insight Fits

Quant Insight was built specifically to address the gap between standard equity risk models and the macro-first framework that active managers actually need. Quant Insight's Macro Factor Equity Risk Model (MFERM) was designed by former macro portfolio managers, which shapes both the factor architecture and the way outputs are presented.



Qi's solution covers the S&P 500 and Qi's regional universes (US, Europe, APAC and Global) with daily updates, decomposes returns into macro-driven and idiosyncratic components at the security level, and provides macro-based valuations alongside real-time regime monitoring. It is built for funds running long/short equity or multi-asset strategies where macro exposure isn't incidental — it is the point. MFERM completes, rather than competes with, the factor risk models already embedded in your process.

If the questions in this guide surface gaps in your current or prospective risk model, it is worth seeing how a macro-first architecture addresses them.

7. Frequently Asked Questions

What is a risk model used for in institutional investing?

A risk model helps portfolio managers and risk teams quantify the sources of risk in a portfolio, decompose returns by factor, and monitor exposures in real time. Institutional risk models typically cover equity, macro and idiosyncratic risk components.

How is a macro factor model different from a standard equity factor model?

A standard equity factor model focuses on style factors such as value, momentum and quality. A macro factor model centres on economic variables — interest rates, credit spreads, FX, inflation expectations and growth indicators — as the primary drivers of security and portfolio returns. The two approaches can be complementary, but they answer different questions.

How often should macro factor exposures be updated?

For active management, daily updates are the appropriate standard. Macro conditions can shift materially within a week, and monthly or quarterly recalculation cycles leave risk teams working with stale data during the periods when accurate measurement matters most.



What does return decomposition into macro and alpha mean in practice?

It means the model can tell you, for any given return period, how much of your portfolio's performance was driven by macro tailwinds or headwinds versus genuine security-selection skill. This matters for performance attribution, risk budgeting, and assessing whether apparent alpha is durable or macro-dependent.

What is macro-based valuation and why does it matter?

Macro-based valuation uses a calibrated macro factor model to estimate what a security should be worth given current macro conditions. It differs from fundamental valuation and is useful for identifying mispricings relative to the macro environment — either as indications of potential opportunity or as a sign the market hasn't yet priced in a macro shift.

What questions should I ask a risk model provider about macro coverage?

Key questions include: how many macro factors are modelled and what is their economic rationale; how frequently are exposures updated; can the model separate macro returns from alpha; what is the security coverage; does the model support regime detection; and who built the model and what is their background in active management.

Is macro risk modelling relevant for equity-only funds, or only multi-asset strategies?

Both. Long/short equity funds are often significantly exposed to macro factors — rate sensitivity, credit conditions, FX — even when they don't trade macro instruments directly. Understanding and managing that exposure matters for accurate risk measurement and for isolating genuine stock-selection alpha.



Conclusion

Evaluating a risk model on macro coverage takes more preparation than a standard feature comparison. But for funds where macro forces drive a meaningful share of returns, getting this right is worth the effort. The questions in this guide give you a framework to assess depth, not just breadth, before you commit.

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



Disclaimer

This document is being sent only to investment professionals (as that term is defined in article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 ("FPO")) or to persons to whom it would otherwise be lawful to distribute it. Accordingly, persons who do not have professional experience in matters relating to investments should not rely on this document. The information contained herein is for general guidance and information only and is subject to amendment or correction.

This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. This document is provided for information purposes only, is intended for your use only, and does not constitute an invitation or offer to subscribe for or purchase any securities, any product or any service and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever.

This document does not constitute any recommendation regarding any securities, futures, derivatives or other investment products. The information contained herein is provided for informational and discussion purposes only and is not and may not be relied on in any manner as accounting, legal, tax, investment, regulatory or other advice. Information and opinions presented in this document have been obtained or derived from sources believed to be reliable, but Quant Insight Limited (QI) makes no representation as to their accuracy or completeness or reliability and expressly disclaims any liability, including incidental or consequential damages arising from errors in this publication.

No reliance may be placed for any purpose on the information and opinions contained in this document. No representation, warranty or undertaking, express or implied, is given as to the accuracy or completeness of the information or opinions contained in this document by any of QI, its employees or affiliates and no liability is accepted by such persons for the accuracy or completeness of any such information or opinions.

Any data provided in this document indicating past performance is not a reliable indicator of future returns/performance. Nothing contained herein shall be relied upon as a promise or representation whether as to past or future performance. This presentation is strictly confidential and may not be reproduced or redistributed in whole or in part nor may its contents be disclosed to any other person under any circumstances without the express permission of Quant Insight Limited.