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HEDGE FUNDS SURGE IN FEBRUARY AS INTEREST RATES RISE

HFRI Equity Hedge leads broad-based gains as retail trading trend expands; Macro, CTA strategies advance on rates, commodities; Crypto, Activist, Technology, Energy sub-strategies also lead

CHICAGO, (March 5, 2021) – Hedge funds surged in February to extend January gains as interest rates, commodity prices, and expectations for the reemergence of inflation all increased. The HFRI Fund Weighted Composite Index® (FWC) gained +4.1 percent in February, while the investable HFRI 500 Fund Weighted Composite Index advanced +3.2 percent, according to data released today by HFR®, the established global leader in the indexation, analysis and research of the global hedge fund industry.

Consistent with the previous month, the HFRI FWC experienced a wide dispersion in constituent performance, as the top decile of the HFRI gained +16.3 percent, while the bottom decile declined -3.1 percent for the month. As reported previously by HFR, total hedge fund capital jumped to $3.6 trillion to begin 2021, a 4Q20 increase of $290 billion, representing the largest quarterly asset growth in industry history. Estimated 4Q20 net asset inflows totaled $3.0 billion, bringing total inflows for the second half of 2020 to an estimated $16.0 billion.

Equity Hedge strategies, which invest long and short across specialized sub-strategies, led February performance as the influence of retail investors increased trading volumes and investors expanded their focus to a wider range of individual equities. The HFRI Equity Hedge (Total) Index surged +4.8 percent for the month, with strong contributions from a wide dispersion of sub-strategy performance led by the high-beta, long-biased Energy, Fundamental Value, and Technology exposures. Following strong January gains, the HFRI EH: Energy/Basic Materials Index surged +9.7 percent in

February, while the HFRI EH: Fundamental Value Index spiked +6.4 percent and the HFRI EH: Sector-Technology Index added +4.4 percent.

Event-Driven strategies, which often focus on out of favor, deep value equity strategies and situations, accelerated January gains into February, with the investable HFRI 500 Event-Driven Index surging +2.8 percent for the month, while the HFRI Event-Driven (Total) Index gained +3.6 percent. ED sub-strategy gains were led by Activist, Special Situations, and Credit Arbitrage exposures, strategies which categorically trade in deep value equity situations, including companies which are possible targets for restructuring, acquisitions or investor-driven strategy shifts. The HFRI ED: Activist Index surged +8.3 percent in February, while the HFRI ED: Special Situations Index advanced +4.1 percent, and the HFRI ED: Credit Arbitrage Index added +2.7 percent.

Uncorrelated Macro strategies also posted a strong gain in February, driven by trend-following CTAs and fundamental Commodity-focused strategies. The HFRI Macro (Total) Index jumped +3.6 percent, while the investable HFRI 500 Macro Index spiked +3.7 percent. Driven by strong trends in interest rates, Macro sub-strategy performance was led by the HFRI Macro: Systematic Diversified/CTA Index, which gained +4.4 percent for the month, and the HFRI Macro: Commodity Index, which added +4.1 percent.

The fixed income-based, interest rate-sensitive HFRI Relative Value (Total) Index gained +2.3 percent in February, while the HFRI 500 Relative Value Index advanced +1.5 percent for the month, led by the investable HFRI 500 RV: Volatility Index, which jumped +3.0 percent, and the HFRI 500 RV: Fixed Income-Convertible Arbitrage Index, which advanced +2.4 percent.

Extending the January surge, Blockchain and Cryptocurrency exposures continued to deliver strong performance as cryptocurrencies reached record highs and as hedge funds increasingly incorporated related exposures into new and existing fund strategies. The HFR Blockchain Composite Index and HFR Cryptocurrency Index each surged nearly +30.0 percent in February.

Risk Premia and Liquid Alternatives also gained in February, led by multi-asset and commodity exposures. The HFR Bank Systematic Risk Premia Multi-Asset Index advanced +7.9 percent for the month, while the HFR BSRP Commodity Index gained +3.3 percent. The HFRI-I Liquid Alternative UCITS Index advanced +1.05 percent in February, driven by a +1.8 percent gain in the HFRI-I UCITS Event Driven Index.

"Recent hedge fund gains accelerated through February, marking the strongest 4-month period in over 20 years as the drivers of performance widened to include not only Event Driven and Equity Hedge, but also captured strong positive contributions from trend-following Macro and interest rate-sensitive Relative Value Arbitrage strategies", stated Kenneth J. Heinz, President of HFR. "New stimulus measures, increasing vaccinations, and uncertainty with regards to immigration and energy policy have shifted macroeconomic and geopolitical volatility to include not only the single stock or asset trends from concentrated, increased retail trading but also cryptocurrency trading, energy exposure and interest rate/inflation sensitivity. Institutional investors are likely to continue expanding allocations to leading hedge fund managers as a mechanism to gain specialized exposure to these and other powerful trends through mid-2021".

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