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FIXED INCOME HEDGE FUNDS LEAD GAINS IN SEPTEMBER AS INTEREST RATES RISE

HFRI Relative Value Arbitrage leads performance in volatile month; Energy, Commodity funds surge as bonds, equities fall

CHICAGO, (October 7, 2021) – Hedge funds gained in September, navigating a volatile month paced by sharp declines in global equities and fixed income, as inflationary pressures continued to mount. The HFRI Fund Weighted Composite Index® (FWC) advanced +0.13 percent in September, topping declines in equities by over 500 basis points, while the investable HFRI 500 Fund Weighted Composite Index gained +0.24 percent, according to data released today by HFR®, the established global leader in the indexation, analysis and research of the global hedge fund industry.

The performance dispersion of the underlying index constituents widened in September, as the top decile of the HFRI gained an average of +9.10 percent, while the bottom decile declined by an average of -6.15 percent for the month, representing a top-bottom dispersion of 15.25 percent in September compared to a top-bottom dispersion of 11.45 percent in August. In the trailing 12 months, the top decile of the HFRI jumped an average of +81.4 percent, while the bottom decile declined by an average of -7.0 percent.

Leading all main strategies for the month, the fixed income-based, interest rate-sensitive HFRI Relative Value (Total) Index gained +1.0 percent in September as interest rates spiked on expectations for increased stimulus spending and decreased bond purchases by the US Federal Reserve, as well as rising inflationary pressures; the investable HFRI 500 Relative Value Index advanced +0.9 percent for the month. Sub-strategy performance was led by the HFRI RV: Yield Alternative Index, which returned +5.5 percent for the month, while the investable HFRI 500 RV: Volatility Index added +0.8 percent.

Uncorrelated Macro strategies also posted gains in September as rates increased, energy prices climbed, and equities fell. The HFRI Macro (Total) Index gained +0.5 percent while the investable HFRI 500 Macro (Total) Index advanced +1.2 percent. Macro sub-strategy performance was led by the HFRI Macro: Commodity Index, which surged +5.2 percent in September, while the HFRI Macro: Currency Index gained +1.0 percent.

Event-Driven strategies, which often focus on out-of-favor, deep value equity exposures and speculation on M&A situations, posted narrow gains in September as the investable HFRI 500 Event-Driven Index advanced +0.09 percent, while the HFRI Event-Driven (Total) Index added +0.04 percent. ED sub-strategy declines were led by the HFRI ED: Activist Index which fell -2.8 percent, while the HFRI ED: Merger Arbitrage Index advanced +1.2 percent.

Equity Hedge strategies, which invest long and short across specialized sub-strategies, posted a decline in September, as many equity markets pulled back from record highs on higher interest rates. The HFRI Equity Hedge (Total) Index fell -0.35 percent for the month, as strong contributions from Energy were offset by declines in Quantitative and Multi-Strategy exposures. The investable HFRI 500 Equity Hedge Index dropped -0.67 percent in September, paring its YTD gain to +10.0 percent. The HFRI EH: Energy/Basic Materials Index surged +4.1 percent, the strongest month since February 2021, as commodity prices spiked. The HFRI EH: Quantitative Directional Index led declines across EH sub-strategies, falling -3.6 percent in September.

Risk Premia strategies posted mixed performance in September, as gains in Commodity exposures were offset by declines in Rates. The HFR BSRP Commodity Index advanced +2.94 percent for the month, while the HFR BSRP Rates Index fell -3.4 percent. The HFRX Global Hedge Fund Index fell -0.38 percent in September, led by a decline of -1.2 percent in the HFRX Macro Index.

The HFRI Women Index posted a narrow loss of -0.11 percent in September, while the HFRI Diversity Index fell -0.25 percent.

"Hedge funds posted broad-based gains in September across fixed income, commodity and event-driven strategies, which were inversely-correlated to steep declines across global equity and fixed income markets which were driven by concerns regarding rising inflation, excessive government spending and debt burden associated with the spending. Given the magnitude of equity & bond declines, the positive outperformance represents one of the most impressive performances of the HFRI in recent history", stated Kenneth J. Heinz, President of HFR. "In contrast to prior periods in which hedge fund performance was driven by a high beta, risk-on market environment, the current fluid macroeconomic environment requires greater specialization, tactical flexibility and strategic portfolio execution, all of which were exhibited in September. Institutions interested in both efficient capital preservation and opportunistic exposures to these dynamic factors are likely to increase their exposure to the broad range of funds which have demonstrated the robustness and resiliency of their strategies, navigating challenging periods of volatility like we observed in September."

HFR Indices are ESMA registered.

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