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HFRI FALLS ON OMICRON FEARS

Equity Hedge, Macro lead late-month decline to largest since March 2020; Fixed income-based RVA mixed as funds position for higher rates

CHICAGO, (December 7, 2021) – Hedge funds declined in November, posting the largest single-month decline since March 2020, as equities fell sharply late in the month driven by fears of new restrictions related to the Omicron coronavirus variant. The investable HFRI 500 Fund Weighted Composite Index fell -1.6 percent in November, reversing the prior month's advance, while the HFRI Fund Weighted Composite Index® (FWC) fell -2.2 percent, according to data released today by HFR®, the established global leader in the indexation, analysis and research of the global hedge fund industry.

The performance dispersion of the underlying index constituents remained relatively unchanged in November, with the top decile of the HFRI gaining an average of +3.9 percent, while the bottom decile declined by an average of -10.0 percent for the month, representing a top-bottom dispersion of 13.9 percent for the month, compared to a top-bottom dispersion of 13.6 percent in October. In the trailing 12 months ending November 2021, the top decile of the HFRI soared by an average of +62.7 percent, while the bottom decile declined by an average of -13.1 percent.

Equity Hedge funds, which invest long and short across specialized sub-strategies, led declines in November, partially reversing the prior month's advance, as global equities experienced a sharp late-month decline driven by fears of restrictions related to the Omicron coronavirus variant. The investable HFRI 500 Equity Hedge Index fell -1.9 percent for the month, paring its YTD return to +9.6 percent, while the HFRI Equity Hedge (Total) Index lost -2.7 percent, led by declines in Healthcare and Fundamental Value sub-strategy. The HFRI EH: Fundamental Value Index fell -3.6 percent while the

HFRI EH: Healthcare Index fell -6.6 percent for the month. The declines were only partially offset by the HFRI EH: Quantitative Directional Index, which gained +2.2 percent.

Macro strategies also posted declines for the month, as risk-off sentiment drove late month declines in equities and commodities while rates fell on investor flight to quality. The HFRI Macro (Total) Index declined -2.4 percent, while the investable HFRI 500 Macro Index fell -2.5 percent for the month. Macro sub-strategy declines were led by quantitative, trend-following CTA strategies with the HFRI Macro: Systematic Diversified Index falling -3.5 percent, and the HFRI Macro: Multi-Strategy Index, which declined by -1.9 percent.

Fixed income-based, interest rate-sensitive strategies posted mixed performance for the month, as the yield curve flattened on falling rates, and as investors continued to position for the near-term tapering on bond purchases by the US Federal Reserve. The investable HFRI 500 Relative Value Index fell -0.2 percent for the month, while the HFRI Relative Value (Total) Index decreased by -0.7 percent. Sub-strategy declines were led by the HFRI RV: Yield Alternative Index, which fell -4.9 percent, reversing the prior month gain. RVA sub-strategy declines were partially offset by gains in the HFRI 500 RV: Fixed Income-Sovereign Index, which advanced +0.8 percent, and the HFRI 500 RV: Convertible Arbitrage Index, which added +0.4 percent.

Event-Driven strategies, which often focus on out-of-favor, deep value equity exposures and speculation on M&A situations, also posted mixed performance in November, with declines in Special Situations offsetting minor gains in Merger Arbitrage and Distressed strategies. The investable HFRI 500 Event-Driven Index fell -0.7 percent, while the HFRI Event-Driven (Total) Index also -1.5 percent for the month. ED sub-strategy declines were led by the HFRI ED: Activist Index, which lost -2.8 percent, and the HFRI ED: Special Situations Index, which fell -2.4 percent, reversing the prior month advance. The HFRI ED: Merger Arbitrage Index advanced +0.1 percent, and the HFRI ED: Distressed Index added +0.02 percent for the month.

Risk Premia strategies again posted negative performance in November on risk-off sentiment, with declines led by the HFR BSRP Currency Index which fell -11.7 percent for the month. The HFRX Global Hedge Fund Index lost -1.3 percent in November, led by the HFRX Macro Index, which declined by -2.7 percent. In contrast to these declines, the HFR Cryptocurrency Index gained +2.6 percent for the month.

The HFRI Diversity Index fell -0.2 percent in November, while the HFRI Women Index declined -1.6 percent.

"Hedge funds posted declines in November led by Equity Hedge and Macro strategies, the largest decline in 18 months since the massive market dislocation to begin the global coronavirus pandemic, with losses primarily attributable to a steep, late-month global equity market selloff driven by investor panic related to the spread of the Omicron coronavirus variant. In addition to this, hedge fund performance was also impacted by evolving expectations for higher inflation and interest rates in the US sooner than had been expected by many investors", stated Kenneth J. Heinz, President of HFR. "While the recent volatility and speed of the equity market correction may have been alarming to many retail investors, the decline only pared the strong 2021 intra-year gain, with many strategies only partially reversing the prior month gains. The fundamentals which have driven strong hedge fund performance, not only in 2021 but since the beginning of the pandemic, including re-opening trade positions, technology leadership, improving economic fundamentals, and dynamic IPO and M&A activity, have not only continued but accelerated in recent months and these powerful, positive intermediate-term trends are likely to persist into 2022. Institutions looking for specialized access to these trends while also managing overall portfolio volatility, are likely to increase allocations to alternatives, driving industry growth into the new year."

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