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MACRO HEDGE FUNDS GAIN IN VOLATILE JANUARY

Commodity, Discretionary, and Quant Macro navigate steep equity, bond declines; HFRI 500 tops Nasdaq by over 700 bps

CHICAGO, (February 7, 2022) – Macro hedge funds posted strong, negatively-correlated gains in January as equity and fixed income markets suffered steep losses, while investors positioned for sharp interest rate increases and generational inflationary pressures to begin 2022, with investable HFRI 500 Macro Index advancing +1.35 percent for the month. The gains in Macro combined with narrow gains across fixed income Relative Value Arbitrage strategies partially offset weakness in higher-beta, directional strategies, as the HFRI Fund Weighted Composite Index® (FWC) declined -1.7 percent for the month, topping the sharp decline of the Nasdaq by over 700 basis points. The investable HFRI 500 Fund Weighted Composite Index also declined -1.7 percent for the month, following a gain of +9.93 percent for 2021, 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 HFRI index constituents expanded in January, with the top decile of the HFRI gaining an average of +7.2 percent, while the bottom decile declined by an average of -12.6 percent for the month, representing a top-bottom dispersion of 19.8 percent. In comparison, the top-bottom dispersion in December 2021 was 18.0 percent. For the full year 2021, the top decile of the HFRI soared by an average of +44.9 percent, while the bottom decile declined by an average of -15.4 percent. Approximately 40 percent of funds in the HFRI FWC generated positive performance in January.

Macro strategies led industry performance in January with strong gains across Commodity, Discretionary, and Quantitative strategies. The investable HFRI 500 Macro Index advanced +1.35 percent for the month, while the HFRI Macro (Total) Index advanced +0.85 percent. Macro sub-strategy gains were led by the HFRI Macro: Commodity Index, which surged +5.5 percent on record U.S. inflation, while the HFRI Macro: Discretionary Thematic Index advanced +0.6 percent and the HFRI Macro: Systematic Diversified Index added +0.2 percent in January.

Fixed income-based, interest rate-sensitive strategies generated a narrow gain for the month as bond yields surged, with gains in yield alternative funds offsetting narrow declines across other sub-strategies. The HFRI Relative Value (Total) Index posted a narrow gain of +0.1 percent in January, while the investable HFRI 500 Relative Value Index posted a narrow decline of -0.2 percent. Sub-strategy performance was led by the HFRI RV: Yield Alternatives Index, which gained +1.3 percent, and the HFRI RV: Fixed Income Corporate Index, which added +0.6 percent.

Equity Hedge funds, which invest long and short across specialized sub-strategies, posted a decline to begin 2022 after leading strategy performance in 2021, with the HFRI Equity Hedge (Total) Index declining -3.4 percent, while the investable HFRI 500 Equity Hedge Index fell -4.2 percent for the month, with the former topping the decline of the Nasdaq Composite Index by over 550 bps. EH sub-strategy declines were driven by the HFRI EH: Technology Index, which fell -7.9 percent in January, and the HFRI EH: Healthcare Index, which declined -6.9 percent.

Event-Driven strategies, which often focus on out-of-favor, deep value equity exposures and speculation on M&A situations, also declined in January led by higher-beta Activist and Special Situations strategies. The investable HFRI 500 Event-Driven Index fell -2.7 percent for the month, while the HFRI Event-Driven (Total) Index lost -2.3 percent, which followed a calendar year 2021 return of +12.4 percent, the highest annual performance since 2013. ED sub-strategy declines were led by the HFRI ED: Activist Index, which fell -8.3 percent in January, and the HFRI ED: Special Situations Index, which lost -2.5 percent. For the full year 2021, ED performance was led by the HFRI ED: Activist Index, which jumped +16.1 percent.

Risk Premia strategies declined in January as risk-off sentiment drove losses, with the HFR BSRP Multi-Asset Index falling -7.55 percent for the month, while the HFRI BSRP Currency Index posted only a narrow decline of -0.03 percent. The HFRI-I UCITS Liquid Alternative Index declined -0.97 percent in January.

The HFRI Diversity Index fell -1.0 percent in January, while the HFRI Women Index lost -2.0 percent.

"Macro hedge funds surged to impressive, negatively-correlated gains in January as financial market volatility spiked, and as equity and fixed income markets posted steep losses, demonstrating both capital preservation and portfolio volatility protection as US inflation reached levels not seen since the early 1980's," stated Kenneth J. Heinz, President of HFR. "Macro gains were distributed across diverse

Macro sub-strategies, including Commodity, Fundamental Discretionary, and quantitative, trend-following while fixed income-based Relative Value Arbitrage, the most interest rate-sensitive strategy, posted a narrow gain as rates rose sharply. Looking into 2022, hedge funds have adjusted positioning to trends and drivers of performance which are not a continuation of the last two years, with primary focus on inflation and interest rate sensitivity, commodities, M&A and selective, hedged equity exposures. Funds tactically positioned for these dynamic macroeconomic and geopolitical risks and opportunities are likely to lead industry performance through a volatile 1H22."

HFR Indices are ESMA registered.

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