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HFRI 500 MACRO GAINS IN DECEMBER, LEADS INDUSTRY TO RECORD OUTPERFORMANCE IN 2022

Fundamental Commodity, Quant/Trend CTA Macro dominate volatility; HFRI Asset Weighted Composite Index posts gain for FY 2022

CHICAGO, (January 9, 2023) – Hedge funds posted mixed performance in December to conclude the volatile 2022, though still outperformed accelerating declines in equity and fixed income markets as investors positioned for continued macroeconomic uncertainty in 2023 driven by generational inflation, rising interest rates and possible economic slowdown. Cryptocurrencies also remained highly uncertain following the 4Q collapse of the FTX exchange platform.

The investable HFRI 500 Fund Weighted Composite Index posted a narrow decline of -0.38 percent for the month, despite gains across uncorrelated Macro and interest rate-sensitive Relative Value Arbitrage strategies, according to data released today by HFR®, the established global leader in the indexation, analysis and research of the global hedge fund industry. For the full year 2022, the HFRI 500 FWC Index outperformed the decline of technology equities by nearly 3000 basis points, the largest annual outperformance by the Index since inception in 2005. Larger funds generated positive performance for FY 2022 and continued to outperform small and mid-sized funds, as the HFRI Asset Weighted Composite Index® advanced +0.44 percent in December, increasing the Index YTD advance to +0.97 percent. The HFRI Fund Weighted Composite Index® declined -0.4 percent in December.

The dispersion of hedge fund performance narrowed considerably in December, as the top decile of the HFRI constituents advanced by an average of +6.1 percent, while the bottom decile fell by an average of -7.8 percent, representing a top/bottom dispersion of only 13.9 percent. By comparison, the top/bottom dispersion was 24.8 percent in November. For the year, the top decile of the HFRI has surged an average of +39.1 percent, while the bottom decile has declined by an average of -33.0 percent, representing a top/bottom dispersion of 72.1 percent. Approximately half of hedge funds posted positive performance in December.

Macro strategies posted an impressive, uncorrelated gain in December, outperforming steep equity market declines; the investable HFRI 500 Macro Index advanced +0.42 for the month and surged +14.8 percent for 2022. This annual gain tops the decline of technology equities by over 4700 basis points, representing the largest outperformance by the Index since inception in 2005. Driven by Fundamental Commodity and quantitative, trend-following CTA strategies, the HFRI Macro (Total) Index gained +9.3 percent for 2022. The HFR FOF (S) Risk Mitigation Index gained +0.67 percent in December, bringing the FY 2022 return to +6.42 percent. With financial market volatility driven by generational inflation, sharply rising interest rates, the possibility of an economic recession and falling equity markets, Macro sub-strategy performance for 2022 was led by the HFRI 500 Macro: Commodity Index, which surged +38.7 percent, and the HFRI 500 Macro: Systematic Directional Index, which jumped +16.5 percent for the year.

Fixed income-based, interest rate-sensitive strategies also advanced in December, as interest rates continued to rise, while investors positioned for further economic weakness; the investable HFRI 500 Relative Value Index advanced +0.53 percent for the month, while the HFRI Relative Value (Total) Index posted a narrow decline of -0.05 percent. Leading sub-strategy performance, the HFRI 500 RV: FI-Sovereign Index jumped +3.15 percent in December, while the HFRI 500 RV: Multi-Strategy Index added +0.75 percent. For the FY 2022, the HFRI 500 Relative Value gained +0.97 percent, significantly topping the declines of global fixed income and equity markets.

Equity Hedge funds, which invest long and short across specialized sub-strategies, partially reversed November gains in December, with the investable HFRI 500 Equity Hedge Index declining -1.2 percent for the month, while the HFRI Equity Hedge (Total) Index fell -0.9 percent. For the month, as well as for the FY 2022, EH sub-strategy performance was led by the HFRI 500 EH: Energy/Basic Materials Index, which gained +0.29 percent in December to bring FY 2022 performance to +10.7 percent.

Event-Driven strategies, which often focus on out-of-favor, deep value equity exposures and speculation on M&A situations, also declined in December with the investable HFRI 500 Event-Driven Index declining -0.79 percent, while the HFRI Event-Driven (Total) Index fell -0.54 percent. For the month and FY 2022, ED sub-strategy performance was led by the HFRI 500 ED: Distressed/Restructuring Index, which surged +2.0 percent for the month, bringing the FY 2022 return to +2.8 percent.

The HFR Cryptocurrency Index fell –5.7 percent in December, as cryptocurrency volatility remained extreme following the 4Q collapse of the FTX exchange platform, as well as other cryptocurrency platforms. For the year, the Index declined -55.1 percent, this after gaining +240 percent in 2021.

Liquid Alternative UCITS strategies advanced in December, with the HFRX Absolute Return Index gaining +0.48 percent, bringing the FY 2022 return to +0.85 percent. HFRX sub-strategy performance was led by the HFRX Macro Index, which gained +0.05 percent for the month, raising the FY 2022 performance to +3.75 percent. Bank Systematic Risk Premia strategies posted mixed performance for the month led by the HFR BSRP Commodity Index, which jumped +1.61 percent, bringing the FY 2022 performance to +16.71 percent. The HFRI Diversity Index declined +0.3 percent in December, while the HFRI Women Index fell +0.2 percent.

"Extending the powerful trends which have dominated 2022, hedge funds again navigated intense financial market volatility and topped equity market declines in December, once again led by inversely correlated Macro strategies; fixed income-based Relative Value also gained for the month and full year. Also extending a dominant trend for 2022, larger funds exhibited strong, impressive, defensive outperformance, with much of this concentrated in Macro and large credit multi-strategy exposures," stated Kenneth J. Heinz, President of HFR. "Looking into 2023, macroeconomic and geopolitical risks remain at extreme levels, including dislocation risks associated with increasing interest rates to slow generational inflation while, at the same time, risks associated with broad-based economic slowing and the ongoing Russian war in Ukraine. Against this backdrop, leading institutional investors are likely to increase exposure to funds which have successfully navigated this extreme volatility in 2022, targeting the twin portfolio objectives of continued capital preservation, as well as participation in opportunities created by this volatility and dislocations across asset classes."

HFR Indices are ESMA registered.

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