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# EMERGING MARKETS HEDGE FUNDS NAVIGATE HISTORIC VOLATILITY ACROSS CURRENCY, CRYPTO

## *HFRI 500 Emerging Markets surges in Nov on inflation, rates, US Dollar fall; Crypto exposures navigate extreme dislocation of FTX collapse*

CHICAGO, (December 9, 2022) – Financial markets volatility accelerated for Emerging Markets hedge funds, with these navigating historic dislocations driven by surging global inflation, geopolitical uncertainty, currencies, fixed income, commodity and equity markets, as well as exposure to Russian assets and the collapse of FTX cryptocurrency platform. The HFRI 500 Emerging Markets Index gained +3.94 percent in November, only the 2$^{nd}$ monthly gain for 2022, paring the 2022 YTD decline to -14.9 percent, as reported today with the releases of the *HFR Asian Hedge Fund Industry Report* and the *HFR Emerging Markets Hedge Fund Industry Report* from HFR®, the established global leader in the indexation, analysis and research of the global hedge fund industry.

Also continuing to navigate unprecedented uncertainty associated with the ongoing military conflict in Ukraine, the HFRI EM: Russia/Eastern Europe Index surged +8.0 percent in October, paring the YTD decline to -34.2 percent through the first ten months of the year.

The investable HFRI 500 Fund Weighted Composite Index, which includes funds across all regions in both Emerging and Developed markets, has declined -3.0 percent YTD through November. The HFRI 500 Equity Hedge Index led all strategy performance for the month, surging +3.8 percent in November, the strongest monthly gain since February 2021. Despite declining in November, the HFRI 500 Macro Index surged +13.1 percent YTD through November. Total Emerging Markets hedge fund assets declined to $242.6 billion in 3Q22, down nearly $34 billion from the year end 2021 AUM record of $276.4 billion.

Regional Emerging Markets regions also posted gains in November, as investors positioned for a moderation of rate increases and generational inflation, which have driven performance in 2022, while also positioning for increased risk of a global economic recession. The HFRI EM: Latin America Index has posted a narrow YTD gain of +0.9 percent through November, while the HFRI EM: MENA Index surged +3.7 percent in November to pare its YTD decline to -3.4 percent. The volatile HFRI EM: China Index jumped +4.7 percent in November, which slightly pared its steep YTD decline to -25.6 percent. Total capital invested in Asian hedge funds fell to $124.2 billion in 3Q22, down from $138.8 billion to end 2021.

Hedge funds with high exposure to cryptocurrency across EM regions including Korea, Russia, China, and the Middle East (as well as Japan) were forced to navigate extreme volatility and historic dislocation as a result of the FTX exchange collapse, with the HFR Cryptocurrency Index plunging -13.5 percent in November, bringing the YTD decline to -52.5 percent; this after the index vaulted +240.6 percent in 2021.

"Extreme emerging market volatility accelerated in recent months, with positive impacts of early signs of moderating generation inflation, pace of rate increases and falling US Dollar, partially offset by falling commodities and the dislocation in cryptocurrencies associated with the collapse of FTX. Hedge funds focused on Emerging Markets and Asia have navigated these dynamic and fluid financial market cycles, defined by sharp reversals and unprecedent uncertainty," stated Kenneth J. Heinz, President of HFR. "Fully expecting these powerful trends of macroeconomic and geopolitical uncertainty to persist into 2023, EM managers continue to position for the increased risk associated of a global recession, as well as the unpredictable impacts of additional cryptocurrency dislocations. Leading global institutions and investors seeking both capital preservation and opportunistic exposures to these trends are likely to increase exposures to specialized EM and Cryptocurrency hedge funds into 2023 as mechanisms to access these powerful market dynamics."

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