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# HFRI 500 MIXED IN MAY AS FINANCIALS, ENERGY FALL; TECHNOLOGY SURGES

## *Interest rate sensitive Relative Value Arbitrage leads May strategy performance; Technology, Shareholder Activist lead sub-strategy gains*

CHICAGO, (June 7, 2023) – Hedge funds posted mixed performance in May as banking volatility evolved throughout the month following the closure and acquisition of First Republic Bank by J.P. Morgan. Financials and Energy declined for the month though Technology and AI surged through May-end and into June. The HFRI 500 Fund Weighted Composite Index declined -0.2 percent (estimated) in May as managers navigated banking, energy and (primarily positive) technology volatility with performance led by Relative Value Arbitrage and Macro strategies.

The HFRI Fund Weighted Composite Index® (FWC) posted mixed performance in May, also declining -0.2 percent, as modest gains in Relative Value strategies were offset by declines in Event-Driven strategies, according to data released today by HFR®, the established global leader in the indexation, analysis and research of the global hedge fund industry.

Performance dispersion widened in May, as the top decile of the HFRI FWC constituents advanced by an average of +6.7 percent, while the bottom decile fell by an average of -7.1 percent, representing a top/bottom dispersion of 13.8 percent for the month. By comparison, the dispersion in April performance was 10.9 percent. Approximately 40 percent of hedge funds posted positive performance in May.

Fixed income-based, interest rate-sensitive strategies led performance in May, as regional banking volatility subsided following the closure and acquisition of First Republic Bank, while uncertainty about the near-term path of US interest rates remained uncertain. The HFRI 500 Relative

Value Index gained an estimated +0.4 percent for the month, while the HFRI Relative Value (Total) Index advanced +0.05 percent (estimated). Leading sub-strategy performance, the HFRI 500 RV: Volatility Index advanced +0.7 percent in May, while the HFRI RV: Fixed Income-Convertible Arbitrage Index added +0.6 percent.

Uncorrelated Macro strategies posted mixed performance for the month led by quantitative, trend-following CTA strategies, as volatility evolved and uncertainty remained regarding the near-term path of interest rates. The investible HFRI 500 Macro Index gained +0.3 percent for the month, while the HFRI Macro (Total) Index fell -0.16 percent. The HFRI 500 Macro: Systematic Diversified Index advanced +0.9 percent in May, while the HFRI 500 Trend Following Index added +0.5 percent.

Equity Hedge funds, which invest long and short across specialized sub-strategies, posted narrow declines in May, as gains in Technology concentrated in Semiconductors and AI were offset by losses in Energy and Financials sub-strategies. The HFRI Equity Hedge (Total) Index was nearly flat for the month, falling only -0.03 percent, while the investable HFRI 500 Equity Hedge (Total) Index lost an estimated -0.3 percent. EH sub-strategy gains were led by the HFRI 500 EH: Technology Index, which surged +4.5 percent in May, while the HFRI 500 EH: Fundamental Growth Index added +0.7 percent. Offsetting these gains, the HFRI 500 Energy/Basic Materials Index declined -2.0 percent for the month, while the HFRI 500 EH: Multi-Strategy Index fell -1.9 percent.

Event-Driven strategies, which often focus on out-of-favor, deep value equity exposures and speculation on M&A situations, also declined in May despite a gain in Shareholder Activist strategies, as financial risk shifted from regional banks to broader economic uncertainty. The investable HFRI 500 Event-Driven Index declined -1.8 percent (estimated), while the HFRI 400 Event-Driven (Total) Index declined an estimated -2.0 percent for the month. ED sub-strategy performance was led by the HFRI ED: Activist Index, which surged an estimated +1.5 percent in May. This was offset by losses in the HFRI 500 ED: Special Situations Index, which fell an estimated -3.1 percent, and the HFRI ED: Merger Arbitrage Index, which declined -2.3 percent for the month.

Liquid Alternative UCITS strategies also posted mixed performance in May, with the HFRX Global Index declining -0.5 percent; strategy performance was led by the HFRX Macro Index, which gained +0.9 percent, and the HFRX Equity Hedge Index, which added +0.3 percent for the month. The HFRI Diversity Index declined an estimated -0.5 percent in May, while the HFRI Women Index fell -0.25 percent.

"Hedge funds posted mixed performance in May as financial market volatility shifted from regional banks early in the month towards energy and commodity weakness, and positive contributions from Technology exposures in late May and continuing into June. Managers also navigated volatility associated with negotiations on debt ceiling increases and spending legislation, with increased uncertainty regarding the near term path of interest rates and possibility of US recession in 2023, with leading strategy performance from interest rate sensitive Relative Value Arbitrage, Shareholder Activist and Technology exposures," stated Kenneth J. Heinz, President of HFR. "Looking into 2H23, managers are positioning for a complex bifurcation of macroeconomic and geopolitical risks, including scenarios which are accreditive to current financial market volatility or constructive to overall directional market trends, including the powerful and explosive trends in AI-exposures. Uncertainty and tensions between these risks and outcomes is likely to dominate financial market and hedge fund performance in the coming months, with increased potential for destabilizing dislocations. Institutional investors interested in specialized exposures to these trends, while also providing capital protection, are likely to increase commitments to managers which have demonstrated their strategy's robustness and veracity in 1H23."

*NOTE: May 2023 index performance figures are estimated as of June 7, 2023*

## HFR Indices are ESMA registered

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