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HFRI SURGES IN NOVEMBER AS INFLATION, INTEREST RATES FALL

***Directional Equity Hedge, Event-Driven surge to lead strategy gains;
Cryptocurrency, Activist, Risk Parity lead sub-strategies;
HFR launches HFRI Insurance-Linked Index***

CHICAGO, (December 7, 2023) – Hedge fund performance jumped in November as economic data showed a welcome decline in inflation, resulting in falling bond yields, and surging equity and cryptocurrency markets, as investors positioned for the conclusion of the Federal Reserve interest rate increasing cycle. The HFRI Fund Weighted Composite Index® finished the month up an estimated +2.2 percent, the strongest monthly gain since January 2023 and the fifth strongest return in the trailing three-year period. The HFRI 500 also advanced +1.8 percent, while the HFR Cryptocurrency Index jumped +8.2 percent, and the HFR Risk Parity Vol 15 Index surged +7.8 percent. Hedge funds focused on emerging markets also produced strong November performance, with the HFRI Emerging Markets (Total) Index gaining +3.6 percent, driven by the HFRI EM: Latin America Index, which surged +9.85 percent for the month.

Performance dispersion rose sharply in November, as the top decile of the HFRI FWC constituents advanced by an average of +12.9 percent, while the bottom decile fell by an average of -6.5 percent, representing a top/bottom dispersion of 19.4 percent for the month. By comparison, the top/bottom performance dispersion in October was 12.9 percent. Through the first eleven months of the year, the top decile of FWC constituents gained +30.9 percent, while the bottom decile declined -16.5 percent, representing a top/bottom dispersion of 47.4 percent. Nearly seventy percent of hedge funds produced positive performance in November.

Equity Hedge funds, which invest long and short across specialized sub-strategies, led November strategy performance, with Quantitative Directional, Technology, Fundamental Value, and Healthcare leading EH sub-strategy gains. The HFRI 500 Equity Hedge Index jumped +4.3 percent (estimated) for the month, the strongest gain since February 2021, while the HFRI Equity Hedge (Total) Index also surged +4.1 percent. All EH sub-strategies posted gains for the month, led by the HFRI EH: Quantitative Directional Index, which vaulted +7.2 percent. Also producing strong performance, the HFRI EH: Fundamental Value Index jumped +4.8 percent, while the HFRI EH: Healthcare Index and HFRI EH: Technology Index each gained an estimated +4.6 percent in November.

Event-Driven strategies, which often focus on out-of-favor, deep value equity exposures and speculation on M&A situations, also surged in November as equities, credit and M&A all gained for the month, with the HFRI Event-Driven (Total) Index jumping +3.6 percent, the strongest monthly gain since February 2021. ED sub-strategy performance was driven by the HFRI ED: Activist Index, which surged +7.7 percent, and the HFRI ED: Special Situations Index, which jumped +4.45 percent. Also contributing to broad-based gains, the HFRI ED: Multi-Strategy Index advanced +3.1 percent.

Fixed income-based, interest rate-sensitive strategies also gained in November, as interest rates declined, and investors positioned as if the interest rate increasing cycle has concluded. The HFRI Relative Value (Total) Index advanced +1.5 percent (estimated) for the month, led by sovereign bond and multi-strategy exposures, with the HFRI RV: FI-Sovereign Index surging +4.1 percent, and the HFRI RV: Multi-Strategy jumping +2.9 percent. Also contributing to RVA sub-strategy gains, the HFRI RV: FI-Asset Backed Index added +1.8 percent for the month.

After gaining through the volatile September/October equity market declines, Macro strategies declined in November as interest rates and commodities fell while risk tolerance increased, with the HFRI Macro (Total) Index falling -1.6 percent (estimated) 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 in November. Partially offsetting these declines, HFRI Macro: Discretionary Thematic Index gained +1.5 percent, and the HFRI Macro: Active Trading Index advanced +1.2 percent for the month.

Liquid Alternative UCITS strategies produced gains in November, led by the HFRX Market Directional Index gaining +3.1 percent, while the HFRX Global Hedge Fund Index advanced +1.1 percent. Strategy gains were led by the HFRX Equity Hedge Index, which surged +2.93 percent, while the HFRX Event Driven Index advanced +1.39 percent.

The HFRI Diversity Index surged an estimated +5.4 percent in November, while the HFRI Women Index advanced +2.0 percent.

HFR Launches the HFRI Insurance-Linked Index

HFR is pleased to announce the launch of the HFRI Insurance-Linked Index, a composite of various hedge fund strategy types that invest a portion or all of its assets in securities that are linked to insurance products (ILS). Specialized holding and exposures include life insurance policies, catastrophic insurance, and other insurance-linked products. The HFRI Insurance-Linked Index gained +0.9 percent in November, increasing its YTD 2023 return to +9.3 percent through November.

“Hedge funds surged in November, led by directional Equity Hedge and Event-Driven strategies, as powerful risk-on sentiment dominated financial markets driven by an unexpected decline in inflation, falling bond yields, an uptick in M&A, and broad-based equity market gains. Strong performance was most pronounced in high equity and credit beta sub-strategies, including Shareholder Activist, Special Situations, Technology, and Quantitative Directional exposures,” stated Kenneth J. Heinz, President of HFR. “The outlook for hedge fund performance into 2024 continues to improve with higher nominal levels of bond yields, acceleration of powerful AI-driven technology trends, expanding cryptocurrency applications, improving economic outlook and the potential for interest rate declines. With all of these trends coming together heading into 2024, institutions are likely to increase allocations to leading managers which provide opportunistic access to these trends, while also providing defensive capital preservation against expected portfolio volatility, with these driving industry growth through the new year.”

NOTE: November 2023 index performance figures are estimated as of December 7, 2023

HFR Indices are ESMA registered

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