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HFRI PERFORMANCE SURGE ACCELERATES IN DECEMBER DRIVEN BY FALLING RATES, M&A STRENGTH

***Directional Event-Driven, Equity Hedge extend strategy leadership;
HFRI Event-Driven posts strongest gain since November 2020;
Cryptocurrency, Activist, Risk Parity again lead sub-strategies***

CHICAGO, (January 8, 2024) – Hedge fund performance surged through year-end, with December showing acceleration of the powerful leadership trends from the prior month, as gains were driven by a combination of the welcome decline in inflation, resulting in falling bond yields, structural developments in cryptocurrency, improving M&A, and general economic outlook for 2024. The HFRI Fund Weighted Composite Index® (FWC) jumped an estimated +2.6 percent, bringing the 2023 calendar year return to +7.5 percent.

The HFRI 500 also advanced +1.9 percent, while the HFR Cryptocurrency Index vaulted +11.7 percent, and the HFR Risk Parity Vol 15 Index advanced +7.0 percent. For the full year 2023, the HFR Cryptocurrency Index returned +65.8 percent.

Performance dispersion declined in December, as the top decile of the HFRI FWC constituents advanced by an average of +11.5 percent, while the bottom decile fell by an average of -3.6 percent, representing a top/bottom dispersion of 15.1 percent for the month. By comparison, the top/bottom performance dispersion in November was 18.8 percent. For the full year 2023 year, the top decile of FWC constituents gained +36.1 percent, while the bottom decile declined -15.1 percent, representing a top/bottom dispersion of 51.2 percent. Approximately eighty percent (80%) of hedge funds produced positive performance in December.

Event-Driven (ED) strategies, which often focus on out-of-favor, deep value equity exposures and speculation on M&A situations, surged in December as equities, credit and M&A all gained for the month, with the HFRI Event-Driven (Total) Index jumping +4.5 percent, the strongest monthly gain since November 2020. ED sub-strategy performance was driven by the HFRI ED: Activist Index, which surged +9.2 percent, and the HFRI ED: Special Situations Index, which jumped +5.2 percent. Also contributing to broad-based gains, the HFRI ED: Merger Arbitrage Index advanced +3.8 percent. For the full year 2023, the HFRI Event-Driven (Total) Index jumped +10.7 percent, led by the HFRI ED: Activist Index which led all sub-strategies, returning +20.2 percent.

Equity Hedge (EH) funds, which invest long and short across specialized sub-strategies, also surged in December, with Healthcare, Fundamental Value, and Quantitative Directional funds leading EH sub-strategy gains. The HFRI Equity Hedge (Total) Index jumped +3.6 percent (estimated) for the month, while the HFRI 500 Equity Hedge Index also surged +3.25 percent. All EH sub-strategies posted gains for the month, led by the HFRI EH: Sector-Healthcare Index, which vaulted +5.5 percent. Also producing strong performance, the HFRI EH: Fundamental Value Index jumped +4.4 percent, while the HFRI EH: Quantitative Directional Index added an estimated +3.7 percent in December. For the full year 2023, the HFRI Equity Hedge (Total) Index jumped +10.4 percent, led by the HFRI EH: Quantitative Directional Index and HFRI EH: Healthcare Index, each of which returned +13.8 percent.

Fixed income-based, interest rate-sensitive strategies also gained in December, as interest rates declined, and investors positioned for falling interest rates and an improving economic outlook. The HFRI Relative Value (Total) Index advanced +1.5 percent (estimated) for the month, led by the HFRI RV: FI-Sovereign Index, which gained +2.9 percent, and the HFRI RV: Multi-Strategy, which added an estimated +2.5 percent. For the full year 2023, the HFRI Relative Value (Total) Index returned +7.2 percent, led by the HFRI RV: FI-Sovereign Index which gained +10.8 percent.

Uncorrelated Macro strategies posted a narrow gain in December as interest rates and commodities fell while risk tolerance increased, with the HFRI Macro (Total) Index advancing +0.6 percent (estimated) for the month. Macro sub-strategy gains were led by the HFRI Macro: Active Trading Index, which advanced +2.1 percent in December, and the HFRI Macro: Multi-Strategy Index, which added +1.5 percent for the month.

Liquid Alternative UCITS strategies also produced gains in December, led by the HFRX Market Directional Index gaining +2.85 percent, while the HFRX Equal Weighted Strategies Index advanced +1.6 percent. Strategy gains were led by the HFRX Relative Value Index, which returned +2.1 percent in December, while the HFRX Equity Hedge Index advanced +1.6 percent.

The HFRI Diversity Index advanced an estimated +3.9 percent in December, while the HFRI Women Index added +2.7 percent.

“Positive performance trends in hedge funds continued into December and through year-end, led by the strongest month for Event-Driven strategies in over three years, with gains driven by falling inflation and rates, structural developments in cryptocurrencies, and developing strength in M&A and Special Situations, including Shareholder Activist strategies. With an acceleration of the strong year-end trends, the outlook for hedge fund performance into 2024 has improved with higher nominal levels of bond yields, continuation of powerful AI-driven technology trends, expanding cryptocurrency liquidity and access, with an improving outlook for the introduction of spot Bitcoin ETFs, and strength in M&A,” stated Kenneth J. Heinz, President of HFR. “Despite the year-end improvement, managers remain sensitive to heightened geopolitical risks associated with ongoing or potential military conflicts and the economic impacts of expansion of these, including increased potential for volatility and systemic dislocations, as well as supply chain disruptions. With all of these trends coming together 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: December 2023 index performance figures are estimated as of January 8, 2024

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