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## JAPANESE HEDGE FUNDS GAIN AS BANK RISK SPIKES, YEN FALLS TO HISTORIC LOW AS NIKKEI ADVANCES

*Asian hedge fund capital steady through 1Q23;*

*HFRI 500 Emerging Markets extends strong performance as US inflation peaks;  
Volatile crypto funds in Japan, Korea, China surge through early '23*

CHICAGO, (June 23, 2023) – Japanese and Emerging Markets hedge funds extended gains to begin 2023, driven by optimism toward peaking U.S. and global inflation, and the near end of the US-led interest rate increasing cycle. Asian currencies, including the Japanese Yen and Chinese Yuan, fell to historic lows against the US Dollar, driving strong gains in the Nikkei; the HFRI Japan Index advanced +1.8 percent YTD through May. Similarly, the HFRI 500 Emerging Markets Index added +1.3 percent YTD through May, with gains across Equity Hedge and Cryptocurrency exposures, 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.

With the military conflict following the Russian invasion of Ukraine entering its second year, hedge funds investing in Eastern Europe and Russia continued to navigate unprecedented uncertainty, with the HFRI EM: Russia/Eastern Europe Index falling -15.6 percent YTD through May; this following a steep decline of -40.3 percent in 2022.

The investable HFRI 500 Fund Weighted Composite Index, which includes funds across all regions in both Emerging and Developed markets, gained +0.2 percent YTD through May, led by the HFRI 500 Equity Hedge Index, which jumped +1.8 percent YTD.

Total Emerging Markets and Asian hedge fund assets were steady to begin 2023, with Emerging Markets little changed at an estimated \$244.0 billion, while total capital invested in Asian hedge funds increased narrowly to \$125.9 billion in 1Q23.

Regional Emerging Markets indices also posted gains to begin 2023, as the HFRI EM: India Index surged +6.1 percent YTD through May, while the HFRI EM: Latin America Index jumped +5.9 percent. The HFRI EM: MENA Index added +2.4 percent YTD through May, while the volatile HFRI EM: China Index fell -1.9 percent over the first five months of the year; this after falling -19.3 percent in 2022.

Hedge funds with high exposure to cryptocurrency across EM regions including Japan, Korea, Russia, China, and the Middle East have surged thus far in 2023, with the volatile HFR Cryptocurrency Index vaulting +21.3 percent YTD through May; this after plunging -54.0 percent in 2022.

“Asian and emerging market volatility continued through early 2023, with a combination of factors including surging bank risk in US and Europe, optimism regarding a near-term inflation peak, and the highest differential in borrowing costs leading to steep declines in Japanese and Emerging Asian currencies, driving strong gains in Japanese equities. Hedge funds focused on Emerging Markets and Asia have continued to navigate these fluid trends, with effective strategic positioning across equity, fixed income, currency, and commodity exposures,” stated Kenneth J. Heinz, President of HFR. “While funds have managed exposure to falling Asian currencies and are positioned for a near term peak in US inflation and interest rate cycle driving a partial reduction in the borrowing cost differential, the risk of currency dislocation associated with additional US rate increases or upticks in inflation remain elevated. Managers are likely to maintain fluid, opportunistic, long-biased volatility exposures across currency, cryptocurrency, and relative value equity through this transitional market cycle. Leading global institutions and investors seeking opportunistic access to these trends are likely to increase allocations to specialized Japanese, EM, and Cryptocurrency hedge funds through mid-2023 which have demonstrated their strategy’s success and robustness throughout 2022 and early 2023.”

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