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EMERGING MARKETS HEDGE FUNDS SURGE AS INFLATION FALLS

***HFRI EM Latin America, India lead EM gains;
HFR Cryptocurrency Index also surges, up +49% for 2023***

CHICAGO, (December 26, 2023) – Emerging Markets hedge funds surged into late 2023 on falling inflation, interest rates, and weakening US Dollar, with EM hedge funds having successfully navigated both macroeconomic and geopolitical challenges over the past 18 months. The HFRI EM: Latin America Index surged +8.0 percent in November, raising the YTD return to +18.3 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.

The HFRI EM: India Index also surged +7.0 percent in November, bringing the YTD gain to +27.3 percent. Hedge funds with high exposure to cryptocurrency across EM regions including Korea, Russia, China, the Middle East, as well as Japan have surged thus far in 2023, with the volatile HFR Cryptocurrency Index vaulting +9.9 percent in November to bring its YTD return +49 percent; this after plunging -54.0 percent in 2022.

The HFRI Emerging Markets (Total) Index, which covers all EM regions, advanced +4.0 percent in November to increase its YTD return to +6.0 percent. The HFRI Fund Weighted Composite Index®, which consists of funds investing in both Emerging and Developed markets, gained +4.9 percent YTD through November, led by the HFRI Equity Hedge (Total) Index, which jumped +6.7 percent through the first eleven months of the year.

Despite the military conflict following the Russian invasion of Ukraine continuing through its second year, hedge funds investing in Eastern Europe and Russia surged in recent months through unprecedented uncertainty and volatility, with the HFRI EM: Russia/Eastern Europe Index vaulting over +24 percent from June through November. After declining -15.6 percent in the first five months of the year, the Index is now back into positive territory, up an estimated +4.8 percent YTD through November; this following a steep performance decline of -40.3 percent in 2022.

Total Emerging Markets and Asian hedge fund assets were both steady through the beginning of 4Q23, with Emerging Markets AUM estimated at \$245.8 billion, while total capital invested in Asian hedge funds was also steady at \$126.6 billion to start the fourth quarter.

In addition to India and Latin America, other Regional Emerging Markets indices have produced mixed performance approaching year-end, with the HFRI EM: MENA Index gaining +3.9 percent YTD through November, while the volatile HFRI EM: China Index declined -3.9 percent YTD, this after falling -19.3 percent in 2022. The HFRI Japan Index posted a strong gain of +8.2 percent YTD through November as the Japanese Yen declined sharply against the US Dollar.

“Emerging markets hedge funds, especially funds focused on Latin America and India have surged since mid-4Q, a sharp reversal of the volatile risk-off trends which dominated the majority of the year, to a powerful risk-on sentiment driven by surprise declines in inflation and interest rates,” stated Kenneth J. Heinz, President of HFR. “Despite recent declines in macroeconomic risks, geopolitical risks remain historically elevated, including potential for dislocations or disruptions in energy, commodity, and supply chain markets. Leading global institutions and investors seeking opportunistic access to these trends are likely to increase allocations to specialized EM and Cryptocurrency hedge funds into 2024 which have demonstrated their strategy’s success and robustness through recent and ongoing volatility.”

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