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CREDIT HEDGE FUNDS LEAD HFRI GAIN TO BEGIN 2024 AS GEOPOLITICAL RISK ESCALATES

Fixed income-based Relative Value Arbitrage leads strategy gains; Technology, Credit Arb, Healthcare lead HFRI sub-strategies

CHICAGO, (February 7, 2024) – Hedge funds extended recent performance gains to begin 2024, with strong contributions from fixed income-based strategies as geopolitical risks continued to escalate, adding active conflicts in Yemen and the Red Sea to the ongoing conflicts in Ukraine and Israel. Gains were seen across a wide range of strategies and sub-strategies as investors and managers positioned for interest rates to remain elevated through early 2024, as US economic data continued to show strength and resilience. The HFRI Fund Weighted Composite Index® (FWC) advanced an estimated +0.28 percent for the month, while the HFRI 500 FWC Index added +0.24 percent.

Performance dispersion declined in January, as the top decile of the HFRI FWC constituents advanced by an average of +6.06 percent, while the bottom decile fell by an average of -6.75 percent, representing a top/bottom dispersion of 12.81 percent for the month. By comparison, the top/bottom performance dispersion in December was 16.73 percent. In the trailing 12 months ending January 2024, the top decile of FWC constituents gained +31.9 percent, while the bottom decile declined -19.0 percent, representing a top/bottom dispersion of 50.9 percent. Approximately sixty percent (60%) of hedge funds produced positive performance in January.

Fixed income-based, interest rate-sensitive strategies led HFRI performance in January, as interest rates increased, and investors positioned for elevated interest rates through early 2024 as the US economic outlook continued to improve. The HFRI Relative Value (Total) Index advanced an estimated

+0.62 percent for the month, led by the HFRI RV: FI-Corporate Index, which gained +1.14 percent, while the HFRI RV: FI-Convertible Arbitrage Index added an estimated +1.06 percent in January.

Equity Hedge (EH) funds, which invest long and short across specialized sub-strategies, also gained in January, led by Technology, Healthcare, and Market Neutral exposures, as the HFRI Equity Hedge (Total) Index advanced +0.21 percent (estimated) for the month. EH sub-strategy performance was led by the HFRI EH: Sector-Technology Index, which surged +3.16 percent, and the HFRI EH: Healthcare Index, which advanced +2.0 percent in January. Also producing strong performance, the categorically low volatility HFRI EH: Equity Market Neutral Index jumped +1.95 percent for the month.

Uncorrelated Macro strategies also posted gains in January as interest rates rose on strong US economic data, with the HFRI Macro (Total) Index advancing +0.43 percent (estimated) for the month. Macro sub-strategy gains were led by the HFRI Macro: Commodity Index, which advanced +1.36 percent in January, while the HFRI Macro: Multi-Strategy Index also added +1.25 percent for the month.

Event-Driven (ED) strategies, which often focus on out-of-favor, deep value equity exposures and speculation on M&A situations, posted mixed performance in January with gains in Credit Arbitrage and Special Situations offset by declines in Activist strategies; the HFRI Event-Driven (Total) Index declined -0.30 percent for the month. ED sub-strategy performance was led by the HFRI ED: Credit Arbitrage Index, which jumped +2.37 percent, while the HFRI ED: Special Situations Index added an estimated +0.52 percent. Offsetting these, the HFRI ED: Activist Index declined -2.24 percent, this after leading ED sub-strategy gains in 2023 with a gain of +18.1 percent.

Liquid Alternative UCITS strategies also produced gains in January, led by the HFRX Absolute Return Index gaining +0.42 percent, while the HFRX Global Index advanced +0.32 percent. Strategy gains were led by the HFRX Macro Index, which returned +1.2 percent in January, while the HFRX Equity Hedge Index advanced +0.66 percent.

The HFRI Diversity Index advanced an estimated +1.41 percent in January, while the HFRI Women Index added +1.33 percent.

"Hedge funds extended recent gains to begin 2024 as geopolitical risk escalated, complementing ongoing interest rate and inflation risk, with geopolitical risk spanning a wide range of issues including uncertainty regarding ongoing conflicts in Ukraine and Israel, as well as recent conflicts in Yeman and the Red Sea, uncertainty with regard to Taiwan and the upcoming US election. Fixed income-based Relative Value Arbitrage led gains through corporate exposures, with additional positive contributions from Technology, Credit Arbitrage, and Market Neutral sub-strategies", stated Kenneth J. Heinz, President of HFR. "Given the evolving and fluid geopolitical and macroeconomic environment, managers are actively and dynamically managing portfolio exposures and risk with a more intense focus on positive optionality, convexity and the increased potential for destabilizing dislocations. With an increased sensitivity toward these risks, it is likely that institutions will be increasing commitments to funds opportunistically positioned to preserve capital while also monetizing exposures created by instability and volatility."

NOTE: January 2024 index performance figures are estimated as of February 7, 2024

HFR Indices are ESMA registered

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