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HFRI 500 GAINS HEADING INTO ELECTIONS, POLITICAL TRANSITIONS

Directional Event Driven, Equity Hedge lead as equities recover in October; Inflation, rates drive elections and volatility as Uncorrelated Macro, trend following CTAs extend historic performance

CHICAGO, (November 7, 2022) – Hedge funds advanced in October, as equity markets posted a strong recovery, with the DJIA surging to the largest monthly gain in over 40 years, while generational inflation continued, and the US Federal Reserve prepared to raise interest rates. The investable HFRI 500 Fund Weighted Composite Index advanced +2.1 percent for the month, with directional Event Driven and Equity Hedge leading strategy performance, while Macro hedge funds extended strong, uncorrelated YTD gains, according to data released today by HFR®, the established global leader in the indexation, analysis and research of the global hedge fund industry. The HFRI Fund Weighted Composite Index® advanced +2.0 percent in October, while the HFRI Asset Weighted Index fell -0.95 percent, as smaller funds outperformed larger funds for the month.

The dispersion of hedge fund performance narrowed in October, as the top decile of HFRI constituents advanced by an average of +12.2 percent, while the bottom decile fell by an average of -6.1 percent, representing a top/bottom dispersion of 18.4 percent. By comparison, the top/bottom dispersion in September was 25.1 percent. Through the first ten months of the year, the top decile of the HFRI has surged an average of +41.5 percent, while the bottom decile has declined by an average of -32.8 percent, representing a top/bottom dispersion of 74.3 percent. Approximately two-thirds of all hedge funds posted positive performance in October.

Led by Distressed, Activist, and Special Situations exposures, Event-Driven strategies, which often focus on out-of-favor, deep value equity exposures and speculation on M&A situations, surged in October with the investable HFRI 500 Event-Driven Index jumping +4.1 percent, while the HFRI Event-Driven (Total) Index gained +3.7 percent. ED performance was driven by the HFRI 500 ED: Distressed/Restructuring Index, which surged +9.6 percent for the month, the HFRI 500 ED: Activist Index, which jumped +5.3 percent, and the HFRI 500 ED: Special Situations Index, which added +4.6 percent.

Equity Hedge funds, which invest long and short across specialized sub-strategies, also advanced in October as the DJIA sharply reversed intra-month declines to post the strongest monthly gains in over 40 years. The investable HFRI 500 Equity Hedge Index returned +2.87 percent, while the HFRI Equity Hedge (Total) Index posted a near identical +2.93 percent gain. EH sub-strategy performance was led by the HFRI 500 EH: Fundamental Value Index, which surged +4.6 percent, and the HFRI 500 EH: Healthcare Index, which jumped +4.5 percent for the month.

Macro strategies extended strong YTD performance as equities reversed intra-month declines, while the US Federal Reserve prepared to raise interest rates to slow generational inflation, with performance led by Multi-Strategy and Commodity-focused exposures. The investable HFRI 500 Macro Index gained +1.4 percent for the month, extending YTD performance to +18.4 percent; the HFRI Macro (Total) Index also added +0.95 percent in October. Macro sub-strategy gains were led by the HFRI 500 Macro: Multi-Strategy Index, which surged +2.7 percent for the month, and the HFRI 500 Macro: Commodity Index, which added +1.8 percent in October to extend its YTD return to +43.7 percent, leading all sub-strategies through the first 10 months of 2022.

Fixed income-based, interest rate-sensitive strategies posted mixed performance for October as the US Federal Reserve prepared to raise interest rates, with gains in Sovereign fixed income and Convertible Arbitrage exposures more than offset by declines in Volatility, and fixed income Corporate and Asset Backed sub-strategies. Both the investable HFRI 500 Relative Value Index and the HFRI Relative Value (Total) Index declined by -0.3 percent in October. The HFRI 500 RV: Sovereign Index gained +4.8 percent for the month, while the HFRI 500 RV: Convertible Arbitrage Index advanced +1.7 percent.

Liquid Alternative UCITS strategies also gained in October, with the HFRI-I Liquid Alternatives Index gaining +0.82 percent, led by the HFRI-I Relative Value Index which advanced +1.07 percent; the HFRX Market Directional Index added +0.93 percent for the month. Bank Systematic Risk Premia strategies also advanced in October, led by the HFR BSRP Multi-Asset Index which surged +5.0 percent. The HFRI Diversity Index vaulted +3.3 percent for the month, while the HFRI Women Index added +0.6 percent.

"Hedge funds advanced to begin 4Q, as funds opportunistically navigated both political uncertainties, as well as inflation and interest rate driven volatility, with gains distributed across the universe of both directional and uncorrelated strategies, with leadership from Fundamental Value, Shareholder Activist, Distressed and Special Situations exposures. October marks an important reversal for Directional strategies, while representing an impressive and significant continuation of strong performance in both Fundamental and Quantitative, trend following Macro sub-strategies, which continue to lead industry performance through a year of historic breakdowns in asset correlations," stated Kenneth J. Heinz, President of HFR. "Macroeconomic and, more recently, geopolitical uncertainty continues to drive volatility across all asset classes, with the volatility also driving political transition in Europe and likely to impact US elections in the near term. Forward looking institutions are likely to expand allocations to alternatives and specifically hedge funds which have demonstrated their robustness and integral portfolio protection qualities, driving industry growth into 2023."

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