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HFRI FALLS IN OCTOBER AS EQUITIES SUFFER STEEP LOSSES

Hedge funds post worst monthly decline since 2011;
Twenty-five percent of funds gained in October as dispersion widens;
Defensive HFRI Macro: Currency, Risk Premia: Currency strategies advance

CHICAGO, (November 7, 2018) – Hedge funds posted declines in October as global equity markets experienced steep losses led by technology exposures. The HFRI Fund Weighted Composite Index® (FWC) fell -2.98 percent in October, the worst monthly decline since September 2011, as reported today by HFR®, the established global leader in the indexation, analysis and research of the global hedge fund industry.

The October decline brings down the YTD return of the HFRI FWC Index to -1.66 percent. Indicative of larger fund outperformance for 2018, the HFRI Asset Weighted Composite Index fell -2.71 percent in October, lowering the YTD return to -0.98 percent. Approximately one-quarter of hedge funds posted positive performance for the month, with the top decile gaining +6.6 percent while the bottom decile fell -13.7 percent. Global equity markets declined between -5.0 to -11.0 percent for the month.

October declines were spread across all main hedge fund strategies, with the largest decline in equity market-sensitive strategies, as the HFRI Equity Hedge (Total) Index fell -4.25 percent, the worst monthly decline since January 2016. EH sub-strategies declines were driven by the HFRI EH: Energy/Basic Materials Index, which fell -8.0 percent, and the HFRI EH: Technology Index, which lost -4.7 percent. The HFRI EH: Equity Market Neutral Index returned the smallest decline for month at -0.6 percent, while the HFRI EH: Healthcare Index remained the leading area of EH sub-strategy performance thus far in 2018, with a YTD return of +10.55 percent.

Macro strategies also declined in October, as the HFRI Macro (Total) Index fell -1.8 percent, though losses were partially offset by gains in fundamental, discretionary strategies. The HFRI Macro: Active Trading and HFRI Macro: Systematic Diversified indices led Macro sub-strategy declines with losses of -6.5 percent and -3.2 percent, respectively. Partially offsetting these, the HFRI Macro: Currency Index posted a powerful, negatively-correlated gain of +1.5 percent for the month, while the HFRI Macro: Discretionary Thematic Index posted a narrow decline of -0.03 percent. Latin American-focused hedge funds also posted a negatively-correlated return for the month, as the HFRI Emerging Markets: Latin America Index advanced +5.2 percent.

Bank Systematic Risk Premia strategies also experienced wide performance dispersion in October, as steep declines in Multi-Asset strategies were only partially offset by gains in Currency strategies. The HFR BSRP Multi-Asset Index fell -12.5 percent, while the HFR BSRP Currency Index gained +5.1 percent for the month.

Also posting declines for the month were the HFRI Event-Driven (Total) Index, which fell -2.0 percent, and the HFRI Relative Value (Total) Index, which lost -1.2 percent. ED sub-strategy losses were led by a -5.4 percent drop in the HFRI ED: Activist Index, which was only partially offset by a gain of +0.4 percent in the HFRI ED: Multi-Strategy Index. Similarly, RVA sub-strategy declines were driven by the HFRI RV: Yield Alternative Index, which fell -2.5 percent, as this was only partially offset by the HFRI RV: Fixed Income-Asset Backed Index, which returned +0.6 percent, and the HFRI RV: Fixed Income-Sovereign Index, which added +0.3 percent in October.

"Financial market volatility spiked in October as global equity markets experienced a violent reversal, with many entering correction territory in only several weeks, contributing to the worst month of performance for the hedge fund industry in seven years. While aggregate declines ranged between one-half to one-quarter of most regional equity market declines, approximately twenty-five percent of all funds posted negatively-correlated gains for the month," stated Kenneth J. Heinz, President of HFR. "Defensively-positioned Macro and Risk Premia Currency strategies advanced, while fixed income-based Relative Value Arbitrage strategies posted more moderate declines than equity-sensitive strategies. Anticipating the market volatility which began in September and accelerated in October will continue into 2019, strategies positioned for this transitional market environment are likely to lead performance through year end."

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