EMERGING MARKET HEDGE FUNDS NAVIGATE TRADE, TARIFFS VOLATILITY

HFRI Russia, MENA Indices lead EM regions through Feb; EM hedge fund assets rise begin 2018 at record as inflation builds

CHICAGO, (March 9, 2018) – Emerging Markets (EM) hedge funds navigated a sharp spike in volatility in February, driven by a combination of U.S. policy proposals on trade agreements and import tariffs combined with rising interest rates and growing concerns over inflation. The HFRI Emerging Markets (Total) Index declined -1.4 percent in the month, following the strong January gain of +4.1 percent, paring YTD performance to +2.6 percent, as reported today by HFR®, the established global leader in the indexation, analysis and research of the global hedge fund industry.

Total EM hedge fund capital increased to $230 billion (RMB: 1.456 trillion, Brazilian Real: 748 billion, Indian Rupee: 14.932 trillion, Russian Rouble: 13.067 trillion, Saudi Riyal: 863 billion), to start 2018, the sixth consecutive quarterly record level. Global hedge fund capital also began the year at a record $3.21 trillion. The HFRI Fund Weighted Composite Index®, including all fund strategies and regions globally, gained +0.5 percent YTD through February.

EM hedge fund performance for 2018 has been led by funds investing in Russia/Eastern Europe and the Middle East/MENA regions. The HFRI EM: Russia/Eastern Europe Index is up +5.5 percent YTD, posting a +6.2 percent gain in January followed by a minor decline of -0.7 percent in February. Total capital of funds investing in Russia/ Eastern Europe increased to $32
billion across more than 170 funds in 4Q17. Similarly, the HFRI EM: MENA Index led EM hedge fund performance in February with a gain of +2.4 percent, bringing the YTD return to +5.7 percent, leading all EM regional indices. MENA-focused hedge funds manage approximately $5.6 billion across nearly 50 funds.

The HFRI EM: China Index fell -2.7 percent in February, lowering the YTD gain to +3.2 percent; both figures top the performance of the Shanghai Composite Index, which fell -6.4 percent in February and has declined -1.4 percent YTD. The volatile HFRI EM: India Index declined -3.7 percent in February, exceeding the -4.95 drop of the Sensex 30. Total capital of hedge funds focused on Emerging Asia finished the year at $55.1 billion across approximately 520 funds.

The HFRI EM: Latin America Index was off -1.5 percent in February, decreasing the YTD gain to +3.4 percent. Total capital invested in Latin America focused hedge funds increased to $7.6 billion managed by more than 100 funds.

“Emerging Markets hedge funds were tactically positioned for the recent increase in realized volatility pursuant to new proposals and negotiations regarding trade agreements, tariffs and expectations for accelerating US inflation,” stated Kenneth J. Heinz, President of HFR. “While certain high performance beta strategies from 2017 experienced losses as these trends developed, EM hedge funds were able to tactically adjust positioning to take advantage of specialized, EM-specific opportunities across equity, currency and fixed income/inflation markets. As US inflation pressures continue to build in 2018, it is likely that EM hedge funds will lead hedge fund industry growth for investors looking for higher absolute performance with increased volatility protection.”

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