Crossbow Partners
Experience & Discipline

London Trip Report

Macro managers' views and 2018 results

Oct 17 - 18, 2018

Executive Summary

After a very difficult year for financial markets, during which a historical high percentage of assets delivered negative returns, the economic outlook of many Macro managers at the end of 2018 turned out to be conservatively optimistic.

We also take a first look at the 2018 performance of discretionary and systematic Macro managers, which shows that cross-manager performance dispersion remains an inherent characteristic of hedge funds. This illustrates again how important manager selection is when it comes to investing in hedge funds.

Macro managers views at the end of Q4-2018

The last quarter of 2018 was characterized by a sharp drop in equity markets, crude oil and US Treasury yields and an increase in volatility. While the US yield curve had flattened during much of the year, the 5y-2y yield differential turned temporarily negative in December by few basis points, while the 10y-2y differential remained only slightly positive, raising concerns about a possible future recession. Elsewhere, Chinese consumption and industrial production continued to decelerate and European economic activity remained at lower levels. Furthermore, the US-China trade war, growing incertitude about the Fed's future path (including some never seen before tweets from the White House on the subject), worries about the Italian budget and social unrest in France obviously created uncertainties and volatility, forcing the markets to find new equilibrium prices. In December, this triggered the largest outflow from equity funds since 2008 and the largest on record from US equities.

Although those sharp price actions and some deterioration in global economic data caused many market participants to believe that markets were getting at a bifurcated path, several Macro managers considered that the growth landscape has not eroded fundamentally and remained relatively constructive towards the end of Q4 on the path of the economy going into 2019. Although US growth is slower, they indeed consider that it will probably remain at or above trend in the coming quarters and most probably higher than other countries. Wages have also continued to rise and unemployment reached historical lows in the US. Generally, those Macro managers also viewed the worries on inflation, China or Italy as not systemic issues. Their base case is thus that there should be a resumption of the long equity, short rates and steeper yield curve trades at some point, although volatility should remain at higher level due to the historical move from peak QE to QT and as the interplay between the Fed and the market should become even more important in 2019.

A first glimpse at the 2018 performance of discretionary and systematic Macro funds

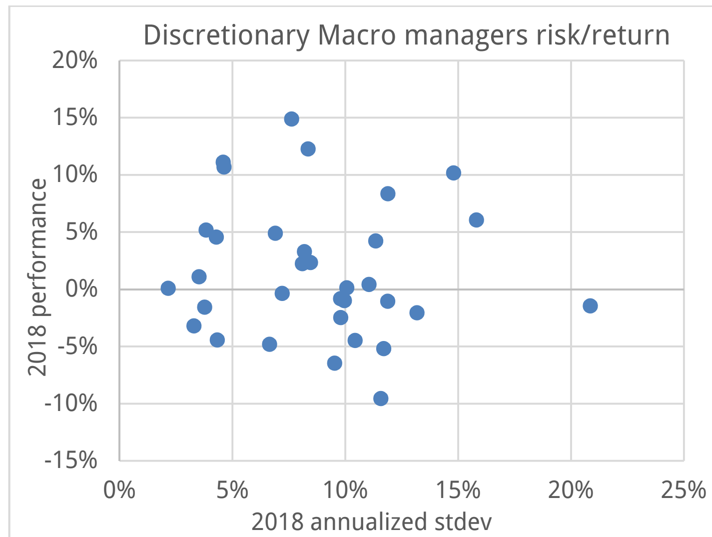
Overall hedge funds performance was disappointing in 2018 when considering the HFRI indices: HFRI Fund Weighted Composite Index -4.07%, HFRI Equity Hedge (Total) Index -6.90%, HFRI Event-Driven (Total) Index -1.73%, HFRI Macro (Total) Index -3.21%, HFRI Relative Value (Total) Index +0.66%.

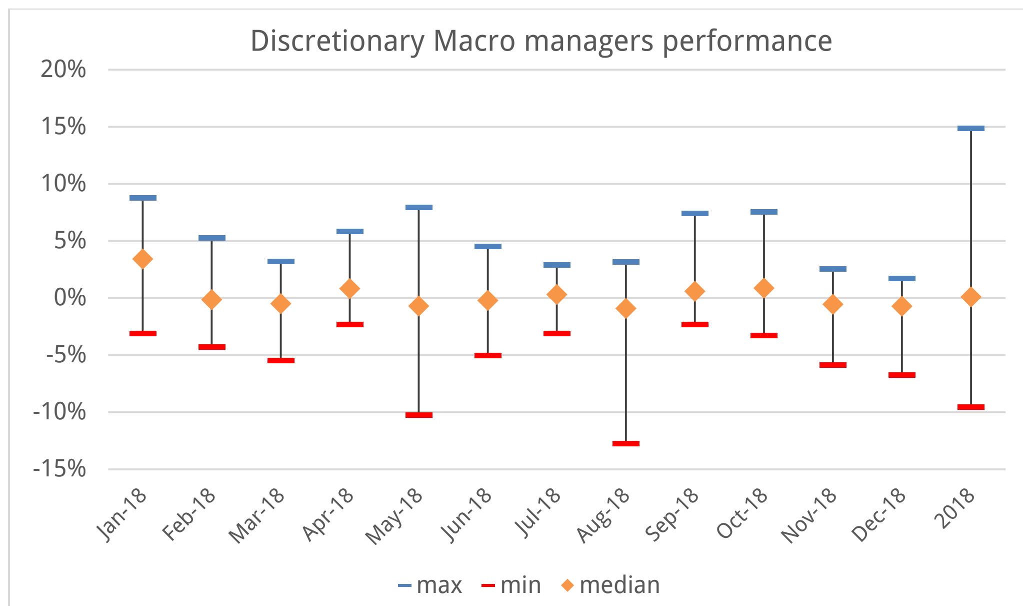
Due to their construction methodologies, hedge fund indices often misrepresent the results a hedge fund investor will achieve. Here we want to illustrate how large the performance dispersion within a same strategy can be – and thus how important the manager selection is – by looking at the 2018 estimated results we received from a group of discretionary and systematic Macro managers. Those samples are relatively small (33 discretionary Macro managers, 9 systematic Macro managers), as we conducted the analysis very early in 2019. The vast majority of those managers are established managers with AUM sizes suitable for institutional investors (which is not the case for many index constituents). It is worth mentioning that the universe of systematic Macro funds (i.e. using macroeconomic data inputs) is relatively small when compared to other strategies and does not include trend following CTAs.

Discretionary Macro

- The average performance of our sample was +1.6% in 2018, but the performance dispersion was significant (24.4% performance difference between the best and worst funds).
- As shown in the graph, the largest monthly performrmance dispersion across managers took place in May (18.2% difference) and August (15.9%). The smallest monthly performance dispersion was 6.0% in July.
- Although the picture is limited to 2018, the risk/reward dispersion has been very large as well, with 2018 annualized volatility dispersion ranging from 2.2% (for a performance of 0.1%) to 20.9% (for a performance of -1.5%).

Discretionary Macro sample - 2018	
average performance	1.6%
best performance	14.9%
worst performance	-9.6%
delta best vs. worst perf.	24.4%
average ann. stdev	8.8%
highest ann. stdev	20.9%
lowest ann. stdev	2.2%
sample size	33





Systematic Macro

- The 2018 average performance was +4.9% and despite a smaller universe, the performance dispersion (24.0%) was similar to discretionary managers due to one particular negative outlier.
- The monthly performance dispersion was the largest in February (16.1%) and was as low as 3.2% in July.
- The risk/return scatter plot shows a more concentrated picture than for discretionary managers, which is rather typical as systematic strategies tend to maintain a volatility level target.

Systematic Macro sample - 2018	
average performance	4.9%
best performance	15.1%
worst performance	-8.9%
delta best vs. worst perf.	24.0%
average ann. stdev	9.6%
highest ann. stdev	15.5%
lowest ann. stdev	6.3%
sample size	9