August was a quiet month for most markets. Equities ended the month positive (S&P 500 +0.14%, MSCI ACWI 0.34%) while bonds ended the month in slightly negative territory (Barclays Aggregate -0.11%). Energies were a notable exception with oil rebounding from its July lows.

Markets continue to guess the timing for the next rate hike. With the Fed hinting that at least one hike is likely in 2016, there is anticipation for increased volatility around Fed meeting dates as investors eagerly wait for clarity and direction. The Fed’s task has become significantly more challenging with corporate earnings continuing to disappoint, global growth remaining sluggish and markets near all-time highs. Brexit and how it impacts the UK adds to the overall longer-term uncertainty as well.

Hedge fund performance in August was mixed. While the overall CISDM Equal Weighted Index had a good month (1.19%), it masked uneven returns across strategies. The lower volatility environment continued to help Merger Arbitrage (+1.09%) and Distressed Strategies (+1.45%), which resulted in a strong month for Event Driven strategies (1.32%) overall. Activity in the healthcare/pharmaceuticals space was particularly strong and was a key contributor to returns.

However, Global Macro (-0.62%) had a disappointing month in what has continued to be a challenging environment for this strategy. In the latest sign that macro managers are feeling the pressure to do something different following years of mixed performance, several marquee shops have started building out quant desks that focus on machine learning to generate alpha in the markets.
CTAs ended the month slightly negative (-0.12%) as they were caught on the wrong side of the move in energy and increased volatility in the USD, having profited from those trades in July. Overall, it’s been a good year (+7.28%) for them and strengthens their case of diversifying an investor’s portfolio.

Equity strategies were mixed with the Long/Short index having a good month (+0.82%) helped by the move in energies while Market Neutral strategies ended the month flat (-0.08%). Value-biased names did well as momentum-focused names suffered during the month.

Fixed income strategies had a good month with the Fixed Income Arbitrage index returning 0.71% for the month and 3.51% for the year as the hunt for yield continues to favor flows. Increasing confidence in China’s economy and stability in oil prices are also helping returns in the fixed income and credit space.

Convertible Arbitrage index returned 0.49% in August and 2.06% YTD while the Fund of Funds index had a good month (0.51%) as well, although performance remains challenged for the year (-0.39%). It is likely that Fund of Funds will continue to face difficult questions about performance and fees as low cost risk premia funds continue to gain in popularity.