The US and China reached a "phase one" trade deal during the second week of the month with the US refraining from applying tariffs on $160bn worth of Chinese goods. This pushed US equity indices up higher to extend their strong run during 2019. A resounding victory for the Conservative Party in the UK General Election extinguished much uncertainty surrounding Brexit; the UK will leave the EU at the end of January and enter into an eleven month transitional period. Markets in Europe reacted positively in the immediate aftermath of the election as some clarity was finally forthcoming, although gains were tempered during the final week of the month.

Equities had a strong month in December as the conclusion of a "phase one deal" boosted investor sentiment. In Asia, the Hang Seng Index surged +7.0%, while the S&P 500 Index was up +2.9% on the month, outperforming European markets with the EuroStoxx 50 Index up +1.1%.

The risk-on environment in to the end of the year saw abated demand for government bonds. In the US, 10 year yields closed out the month 14bps higher, whilst in 10 year yields in Germany and France both increased by 17bps.

In credit, high yield bonds out-performed investment grade bonds in December given the risk-on environment, with the iBoxx High Yield index and iBoxx Investment Grade indices returning 1.9% and +0.3% respectively on the month.

In FX, the risk on sentiment weighed on the dollar, with the DXY index returning -1.9%. Euro and sterling advanced by 1.2% and 2.6% as the prospect of an imminent Brexit cliff-edge was averted following the result of the UK General Election.

November was strong month for hedge funds with the HFRX Global Hedge Fund Index returning +1.2%. Gains were led by event driven and equity/long short strategies, while CTAs struggled.

Macro funds had a strong month with directional macro managers leading the way. Those with exposure to Argentina outperformed as markets responded positively to President Fernandez’s emergency economic package, despite delaying payment on approximately $9bn of dollar-denominated debt until 31 August. Fixed income RV managers also had a strong month coming into year-end.

Equity long/short had another positive month with the HFRX Equity Hedge Index returning +1.2%. Buoyant equity markets helped drive returns; Asian-focused managers outperformed after an easing of tensions in Hong Kong and the conclusion of a “phase one” US/China trade deal. European-focused managers slightly outperformed their US counterparts.

The HFRX Event Driven Index gained 2.0% in December to finish a very strong year in the strategy. Gains were again driven by soft catalyst and activist managers, which both benefitted from the broad uptick in equities. Merger arbitrage strategies also had a strong month as a mega deal in the pharmaceuticals industry progressed and merger spreads tightened as a number of other large deals neared completion.

Government Bonds had a strong month with directional macro managers leading the way. Those with exposure to Argentina outperformed as markets responded positively to President Fernandez’s emergency economic package, despite delaying payment on approximately $9bn of dollar-denominated debt until 31 August. Fixed income RV managers also had a strong month coming into year-end.

CTAs were largely negative in December; the SG CTA Index returned -0.6%. Long dollar positions vs euro detracted from performance as the dollar reversed due to the risk-on environment coming in to year-end, while long positions in oil pared losses.

Systematic funds were mixed in December. Quant equity market neutral strategies outperformed as traditional fundamental factors performed well. Statistical arbitrage strategies were largely negative, while managers using alternative data lagged.

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Monthly Hedge Fund Snapshot 31 December 2019

Hedge Fund Indices (Daily) MTD YTD 2018 2017 2016
HFRX Global Hedge 1.2% 8.6% -6.7% 6.0% 2.5%
HFRX Equity Hedge 1.2% 10.7% -9.4% 10.0% 0.1%
HFRX Equity Market Neutral -0.8% -1.9% -3.2% 1.7% -5.1%
HFRX Macro 0.3% 4.8% -3.2% 2.5% -2.9%
HFRX Event Driven 2.0% 10.0% -11.7% 6.5% 11.1%
HFRX Relative Value 0.7% 5.5% -1.1% 7.2% 5.8%
HFRX Fixed Income - Credit 1.4% 6.2% -2.5% 3.9% 5.0%
SG CTA Index -0.6% 6.3% -5.6% 2.5% -2.9%

These indices represent various categories of hedge funds and are calculated using various methodologies. The performance figures are as of the end of the reporting period and are expressed in local currency. The indices are not directly investable and are provided for informational purposes only. Past performance is not indicative of future performance. No guarantee of completeness or accuracy can be made, nor is any representation or warranty made in this regard by Aurum Funds Limited. Aurum Funds Limited will not be responsible for any liability resulting from loss pertaining to the use of the data. Aurum Funds Limited is authorised and regulated by the Financial Conduct Authority.