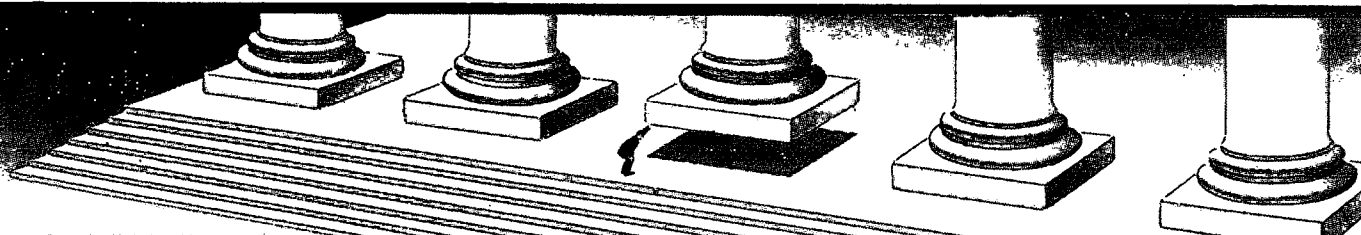


Funds



Global Macro's Moment May Have Arrived

By Eric Uhlfelder

WHILE STOCK AND BOND MARKET VOLATILITY HAS BUFFETED MOST INVESTORS IN 2018, some shrewd global macro managers are posting stellar numbers this year. For instance, Jeffrey Talpins' \$17.5 billion Element Capital fund has soared 25% through the first three quarters. Said Haidar's \$428 million Haidar Jupiter fund is up nearly 25% in that time. And Nigol Koulaian's \$1.5 billion AlphaQuest Original program has gained 17%. All of these managers already have strong long-term track records.

"This is a good time to begin allocating to global macro strategies," according to Cédric Vuignier, head of manager research and alternative investments at the Geneva-based SYZ Group, which manages \$38 billion. Macro funds typically make bets—both long and short—on stock and bond indexes, currencies, and commodities, based on their assessments of a country's macroeconomic conditions and policies. "Normalization of interest rates and unwinding of quantitative easing" are sustainable trends, explains Vuignier, "which should finally boost returns, helped further by higher cash yields."

Macro funds generally have not done well since the financial crisis. They declined only 0.65% in 2008's global market collapse. Since then, average annualized returns have been a paltry 3.68%, according to performance tracker BarclayHedge. And through September, they are down fractionally in 2018.

This doesn't surprise Jeffrey Willardson, head of portfolio solutions at Paamco-Prisma, a \$30 billion fund of hedge funds. "Global macro is like an insurance policy," he explains. His firm allocates up to 5% to this strategy. "Global macro is largely uncorrelated to stocks and bonds, trailing the markets when times are good, and earning its keep when things get dicey." Certainly, many investors think things are dicey right now.

Macro performance varies widely by manager and sometimes at the same fund. Friedberg Global Macro, for example, ranked No. 86 on *Barron's* most recent annual hedge fund survey, having soared 36.5% last year. But it's down 35% this year ("Top 100 Hedge Funds: Smaller Funds Hit the Mark," April 28.)

Haidar thinks one reason there's such dispersion in returns is that some funds stuck with concentrated bets in areas like emerging markets that thrived in 2017, only to reverse course in 2018.

Macro portfolios with concentrated exposure recall earlier days when hedge fund managers were less constrained by institutional clients, hired instead by wealthy investors in part for their willingness to swing for the fences.

The best example was George Soros when he shorted the British pound in 1992. Soros bet that the Bank of England's attempt to maintain the pound's strong exchange rate, as Europe tightened the alignment of the region's currencies prior to the euro, would fail as the bank simultaneously tried to stimulate a stagnant local economy. The bank eventually capitulated, lowering interest rates

and sending the pound plummeting. Soros made a billion dollars.

Today's global macro managers says consultant Matthew Ridley, have recast themselves "as more measured managers relying on less leverage and more care to limit losses." Some employ a systematic program, relying on models and algorithms; others a discretionary approach, informed by the release of key data and trends along with country and industry policy announcements to identify trading opportunities.

One discretionary player, Element Capital, is on pace to surpass its annualized rate of return of 21% since launching in 2005, having profited so far by betting that U.S. tax cuts would pass. Talpins positioned the fund to profit from both the resultant rise in equity markets and higher Treasury yields. He later warned of rising market risks.

Both Haidar Jupiter, a discretionary trader, and AlphaQuest, a systematic shop, benefited from being short troubled European economies' bonds following the results of this spring's Italian elections and long haven debt, including German Bunds. And during the first three quarters of the year, both funds also profited from being long U.S. equities.

Haidar is now short two- to three-year bonds in markets where interest rates are rising, including the U.S., Canada, and the United Kingdom. While remaining long U.S. stocks, he has turned bearish on Asian emerging markets and European equities.

He thinks that oil and base-metal prices will continue to rise. And he is long haven currencies, like the dollar, Swiss franc, and Japanese yen, along with favoring the Norwegian krone, Swedish krona, and Canadian loonie as interest rates rise.

AlphaQuest's Koulaian is less predictive. His systematic approach is guided by proprietary rules and algorithms. "While we will miss news-inspired events that could inform a good investment," explains Koulaian, "we have developed an approach that profits by identifying when we believe there will be a change in volatility, helping us to rotate into markets when risk is underestimated and selling when markets start to recognize risk."

Looking at the first half of 2019, Haidar believes that major central banks will continue to slow and reverse quantitative easing, which will squeeze liquidity. This will force rates higher, especially as government and corporate debt issuance increase.

"So will rising inflation," adds Haidar, "which is being fueled by reverse globalization that's disrupting supply chains and increasing trade pressures." He thinks all of this will make risk assets more dangerous.

Koulaian believes that complacency about risk assets will probably lead investors to substantially underestimate inflation and volatility. This could lead to massive shifts in asset allocation. "But it will increase our investment opportunities," he says. ■