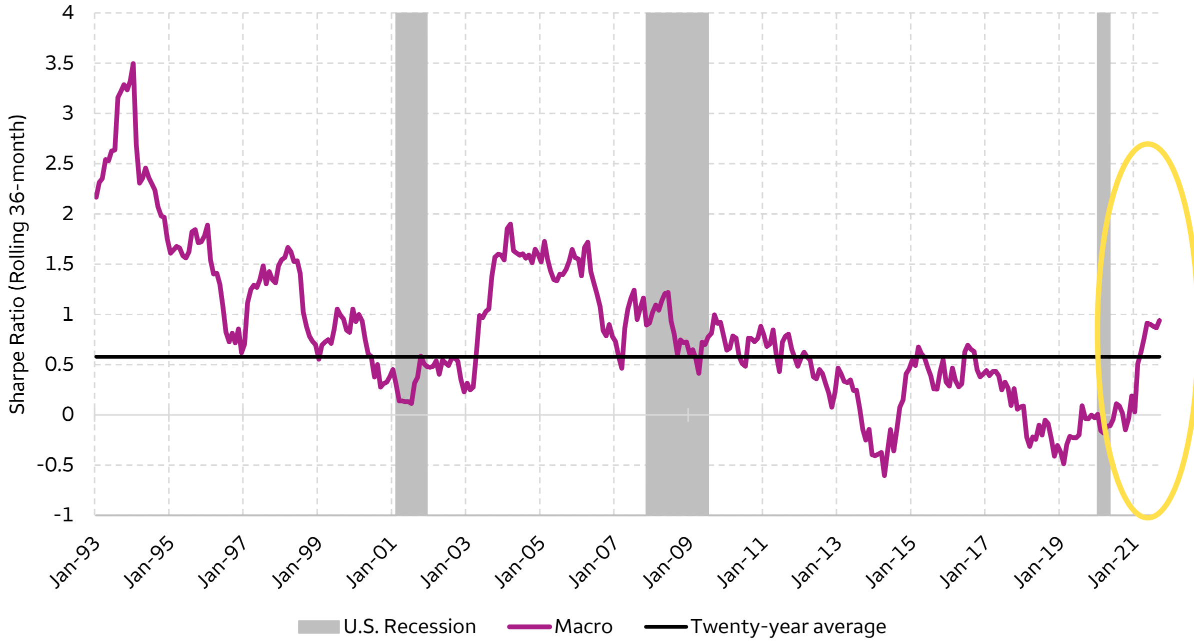
WELLS FARGO
Investment Institute

# Chart of the Week

Weekly market analysis on key market indexes — November 16, 2021

## Inflation is invigorating this long-time laggard




Sources: MPI Stylus, Wells Fargo Investment Institute. Data as of September 30, 2021. **Past performance is no guarantee of future results.** An index is unmanaged and not available for direct investment.

### Macro strategy Sharpe ratio — a measure of risk-adjusted return — hits multi-year high

The Macro hedge fund strategy has been a perennial underperformer for the past decade, but we are seeing light at the end of the tunnel. As the chart shows, we have seen an improvement in the rolling 3-year Sharpe ratio for Macro — as represented by the HFRI Macro (Total) Index — which not only exceeded its 20-year average this past spring, but is approaching levels not seen since the 2008 Global Financial Crisis.

Potentially higher interest rates and inflation, coupled with divergent global economic growth, could benefit Macro, a strategy designed to trade in markets most susceptible to such influences.

**What it may mean for investors**

Looking ahead to 2022, we find ourselves leaning into hedge fund strategies that may not have generated the highest return in recent years but that can potentially benefit from the trend in risk-adjusted returns. The Macro strategy not only provides the most diversification among all four hedge fund strategies, but we believe it could potentially offer better risk-adjusted returns in 2022 as well.

**Justin Lenarcic, CAIA,** *Senior Global Alternative Investment Strategist*

This chart was excerpted from the Investment Strategy report dated November 8, 2021.

**Risks Considerations**

Each asset class has its own risk and return characteristics. The level of risk associated with a particular investment or asset class generally correlates with the level of return the investment or asset class might achieve.

Alternative investments, such as hedge funds, private equity/private debt and private real estate funds, are speculative and involve a high degree of risk that is suitable only for those investors who have the financial sophistication and expertise to evaluate the merits and risks of an investment in a fund and for which the fund does not represent a complete investment program. They entail significant risks that can include losses due to leveraging or other speculative investment practices, lack of liquidity, volatility of returns, restrictions on transferring interests in a fund, potential lack of diversification, absence and/or delay of information regarding valuations and pricing, complex tax structures and delays in tax reporting, less regulation and higher fees than mutual funds. Hedge fund, private equity, private debt and private real estate fund investing involves other material risks including capital loss and the loss of the entire amount invested. A fund's offering documents should be carefully reviewed prior to investing.

Hedge fund strategies, such as Equity Hedge, Event Driven, Macro and Relative Value, may expose investors to the risks associated with the use of short selling, leverage, derivatives and arbitrage methodologies. Short sales involve leverage and theoretically unlimited loss potential since the market price of securities sold short may continuously increase. The use of leverage in a portfolio varies by strategy. Leverage can significantly increase return potential but create greater risk of loss. Derivatives generally have implied leverage which can magnify volatility and may entail other risks such as market, interest rate, credit, counterparty and management risks. Arbitrage strategies expose a fund to the risk that the anticipated arbitrage opportunities will not develop as anticipated, resulting in potentially reduced returns or losses to the fund.

**Definitions**

HFRI Macro (Total) Index consists of investment managers who trade a broad range of strategies in which the investment process is predicated on movements in underlying economic variables and the impact these have on equity, fixed-income, hard currency, and commodity markets.

An index is unmanaged and not available for direct investment.

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