Crossbow Partners
Experience & Discipline

Newsletter April 2022

Equity Outflows

In 2021, we saw record high inflows into global equity markets after the US Federal Reserve was the last to cut interest rates to zero in March 2020 in response to the Corona crisis. After that, the economy recovered and equities were the only remaining option to generate attractive returns.

In the meantime the situation has changed fundamentally. The war in Ukraine is fueling inflation, central banks have started raising interest rates and economic growth is slowing noticeably, which could even lead to a recession in 2023. Two-year US Treasury yields have risen from a May 2021 low of 0.1% to 2.6% and ten-year US interest rates even rose to 2.9%. These secure returns in an uncertain environment are creating a reflow from equities to fixed income that will continue for a while. The private investors are the last to switch when the equity market losses start to hurt.

The repatriation of international investments in US Treasuries will further strengthen the USD, which has already appreciated by +10% since mid-2021 as measured by the USD Index. Also against the CHF the USD appreciated to 0.97 from 0.88 in early 2021.


Stefan Steiner

How should one invest in this environment? Bonds are not attractive in most regions and the consolidation in equities will continue. We have recommended investing in commodities in recent newsletters after the cycle turned positive in 2021. Our commodity certificates, which invest in commodity hedge funds, are both double digits up in 2022. We now also recommend a gradual investment in long/short equity certificates in regions and sectors that have suffered disproportionately. These include investments in Greater China managers and in sector specialists focusing on global growth stocks. Both areas are down 30-50% since their 2021 peaks. Here, too, the correction could continue, but with their long/short approach, our managers are betting on both falling and rising stocks and are benefiting from the increased volatility.

With the CB Greater China Portfolio (USD) and the CB Global Growth Portfolio (USD), we are currently launching two new products that offer good entry points (see table below).

For more information please contact Stefan Steiner at ss@cb-partners.com.

Crossbow Solutions

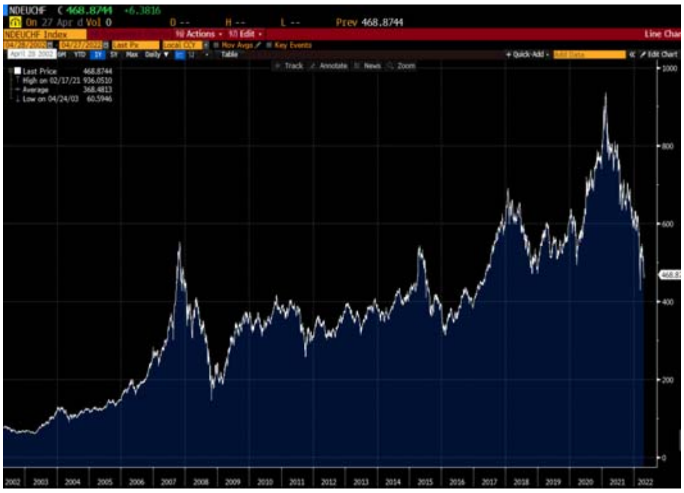
Strategy	Solution	Currency	NAV	Mid Apr	YTD	2021	2020	Factsheet March
Alpha Strategies - Fixed Income Complement	Liquid Alpha	CHF	1027.74	0.45%	0.22%	2.12%	9.26%	
	Liquid Alpha	EUR	999.76	0.57%	0.34%	1.88%	9.56%	
	Global Trading	USD	1043.50	1.93%	3.38%	0.75%	3.62%	
	Equity Arbitrage	EUR	982.03	0.32%	-1.46%	4.45%	7.49%	
Portfolio Diversifiers	Global Commodity 0.5/5	USD	1126.74	2.58%	13.77%	26.36%	27.57%	
	Global Commodity 1.5/0	USD	1131.56	2.47%	12.05%	28.24%	28.13%	
	Digital Asset	USD	1075.75	-1.95%	-17.51%	234.07%	166.91%	
	Digital Alpha	USD	1000.00	0.40%	-0.25%	46.40%	45.46%	
Equity Themes - Equity Complement	Global Growth	USD	1000.00	0.08%	-4.05%	3.19%	20.49%	
	Energy Transition	USD	1000.00	-0.61%	-3.81%	6.91%	29.10%	
	Greater China	USD	1000.00	-0.30%	-7.33%	14.43%	19.18%	

For more information please contact Armin Vogel at av@cb-partners.com.

Chinese Market Environment

The Chinese equity market has suffered disproportionately over the past 12 months. This is related to various factors that have unfortunately added up and led to a sell-off in Chinese securities. The main reasons are the problems in the Chinese real estate sector, the political market interventions in strategic areas (technology and education), the lack of detachment from the Russian war in Ukraine and especially the ongoing zero tolerance in the fight against COVID. Analysts fear an economic slowdown in GDP from +5% to just +2% for 2022 as a result of the accumulation of events. This would be the weakest growth in China in the last 30 years and would be tantamount to a recession.

The Hong Kong stock market (Hang Seng Index), the Shanghai Shenzhen CSI 300 Index (A-Shares) and the Chinese high yield bond market (Markit iBoxx Index) have lost around a third since February 2021. The MSCI China Index lost -50% in USD over this period and the MSCI China Tech Top 100 Index even lost -62%. Below as an example the development of the MSCI China TR Index in USD over the last 20 years.

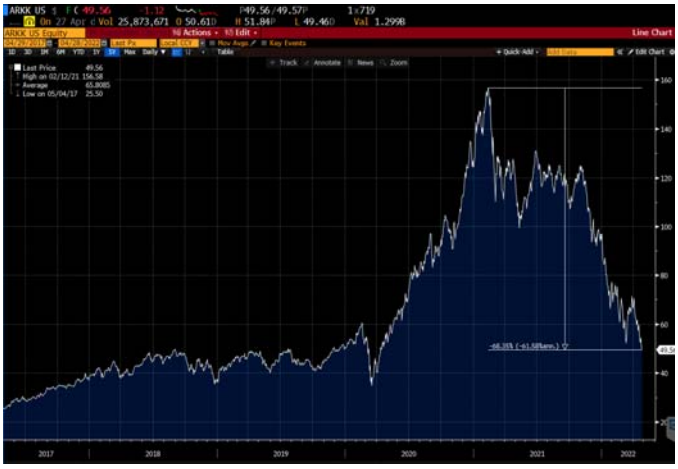


We see this correction as a good starting point to increase exposure to China and Asia. On the one hand, the Chinese government can take some pressure off at any time and the central bank's policy is quite investor-friendly. On the other hand, we invest via hedge funds, which have built in an insurance through the short portfolio and thus are still positive over the past 12 months. Only in the sell-off of 2022 we have seen some losses year-to-date because the very attractive prices led to a (premature) build-up of long positions. As an example, the yield to maturity in one manager's high yield book is +38%. Our CB Greater China Portfolio (USD), which we launched at the end of April 2022, will benefit from these opportunities. We are invested in managers who have a deep knowledge of their markets in China, Asia and Japan and will take advantage of the increased volatility.

Peter Rice

Global Growth Stocks

A similar picture, but for different reasons, emerges among growth stocks. Rising interest rates, and with them rising capital costs and a higher discount rate, are poisoning the valuations of these companies that were previously investor darlings. The trend reversal pulls everyone down, but especially companies that are still making little or no profits. While the broad MSCI World Growth Index and the Nasdaq 100 Index are down -20% since their November 2021 highs, the Nasdaq Biotech Index is almost -30%. Things are worse for individual stocks, such as Netflix at -70% or Zoom at -82%, but also Moderna and Biontech lost -70% from their highs. In Asia, former stock market favorites such as Tencent and Alibaba lost -55% respectively -70%. Cathie Wood's famous ARK Innovation ETF is back to pre-corona crisis levels. Selling pressure remains high, as evidenced by trading volumes in excess of USD 20 million per day, and the ETF's assets have declined from USD 28bn to USD 9.25bn. The performance is -68% from the peak.



This opens up interesting opportunities because technology will continue to define the world in the future. We saw a similar euphoria with a subsequent collapse in the dot.com crisis of 2000 - 2003. Our CB Global Growth Portfolio (USD), which we will launch at the end of May 2022, is intended to take advantage of opportunities in technology and healthcare. Our managers are proven sector specialists and well positioned to generate positive returns from their long and short investments over time.

For more information please contact Peter Rice at par@cb-partners.com.

Macro Sentiment Risk and Hedge Fund Returns

Using a novel dataset of media sentiment concerning macroeconomic developments, Caglayan and Zhao (Florida International University) together with Canayaz and Simin (Pennsylvania State University) show that sentiment for economic growth, inflation, unemployment, and bond prices predict hedge fund returns.

They blend these proxies with social disorder and political sentiment to create a broad macro sentiment index (MSI). Funds with high MSI betas generate 5.6% higher alphas than funds with low MSI betas. This result is robust to controlling other risk and uncertainty measures, and to orthogonalizing MSI against sentiment indices previously used in literature. They demonstrate the viability of MSI as a state variable and therefore a valid risk factor in the ICAPM.

The authors interpret MSI as a proxy for the market sentiment towards the broad economy, and postulate that the hedge fund exposure towards this sentiment should have strong predictive power over future fund performance. Their findings contribute to other works in the field of finance that study hedge funds' exposures to various risk factors in a significant way as they add an important macro sentiment risk factor to the cross-sectional determinants of hedge fund performance. From a practical standpoint, the findings suggest that it is possible to detect cross-sectional return differences among individual hedge funds in a persistent way by carefully analyzing their exposures to a broad macroeconomic sentiment risk on a monthly basis.

The All-Weather Portfolio Approach

This research article from Louraoui (ESSEC Business School) aims to analyze the All-Weather strategy advocated by the very famous hedge fund manager Ray Dalio. Through an analysis of nearly 10-year of market data, he has selected ETF funds to replicate the investment principle by using a classic approach. He presents the different results that suggest an overall performance that converge with the original analysis proposed in the Bridgewater Associates (2009) research paper that shows the benefits of the All-Weather approach on the overall portfolio risk/return trade-off.

Armin Vogel

The All-Weather Portfolio approach aims at incorporating different asset classes in its allocation while scrupulously respecting the increase and decrease matrix in inflation and growth conditions to naturally neutralize the losses of one asset with the gains of another asset class and all this without forgetting the geographical diversification factor which is integrated into the portfolio construction .

	Growth	Inflation
Rising	**25% of Risk**	**25% of Risk**
	- Equities	- Inflation-Linked Bonds
	- Corporate Spreads	- Commodities
	- Commodities	- EM Debt Spreads
	- EM Debt Spreads	
Falling	**25% of Risk**	**25% of Risk**
	- Nominal Bonds	- Equities
	- Inflation-Linked Bonds	- Nominal Bonds

Macro environment matrix of different asset class (Bridgwater Associates)

The calculated All-Weather Portfolio beats the two benchmark portfolios since it had a higher positive Sharpe ratio. The result demonstrates that the proposed portfolio outperforms both the portfolio compared using the optimization tool and the equal weight portfolio by a significant margin. The proposed portfolio generated an average extra return of 9.37 percent, 66.73 percent, and 53.06 percent over the minimum variance and equal weight portfolios, respectively, while having the lowest drawdown of the three portfolios analyzed.

Next Crossbow Event - Save the Date

On Tuesday, June 14, 2022 from 4:00 p.m. we are holding an event in the Zunfthaus zur Waag in Zurich, to which we cordially invite you.

A separate invitation will follow in due course.

If you wish the above mentioned paper or attend our event, please contact Armin Vogel at av@cb-partners.com.