Singapore Trip Report

The Resurgence of Macro Funds

November, 2019

Executive Summary

The focus of our trip was on a number of new Asian macro funds that are currently in the limelight

Asian macro has had a lacklustre history, but interestingly, suddenly some new funds have been seeded by the industry's heavyweights, such as Millennium International, Bluecrest Capital, and Brevan Howard

After years of underperformance, macro could resurge in a more challenging environment ahead and demand seems to rise on the back of booming equity market that has to come to an end one day

Asian macro is very much biased to rates and currencies across a large region with different factors driving policies and central bank actions

China's capital markets continue to open to foreign investors which will create meaningful dislocations and opportunities

The Struggle of Hedge Funds

Hedge funds have been struggling as the stock market continues higher. More and more closings have been seen over the last several years, and this trend is likely to continue.

As the market approaches the end of this bull market, we will likely see many more funds go out of business just at the time investors will need them most.

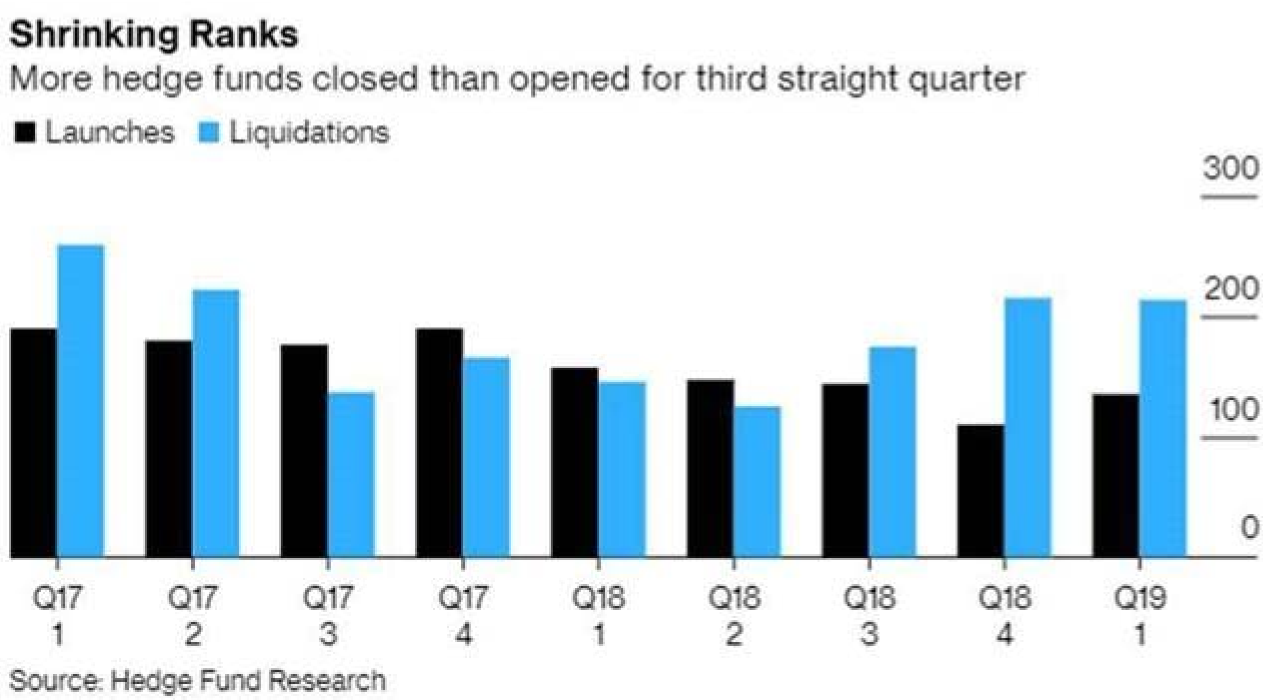
With the latest news of Louis Bacon Moore and Stone Milliner closing down their hedge funds, we are seeing further evidence of the difficulties hedge funds have been having during recent years. But, if you think about the counter-intuitive nature of this trend, it is actually quite interesting.

As prices go up, more and more people want to buy into the market. In other words, higher prices beget higher prices, and this is how the herding principle drives stock markets to their all-time highs. However, there comes a point when the money runs out. When all buyers have bought into the market, there is no more money left to push it higher. So, it is not “selling” which ends a bull market, but simply the lack of buying. When we reach a bullish extreme when all buyers have bought all they have wanted, stock markets end their bull phase, and begin to transition into a bear phase. This is simply the nature of the stock market.

When we look to hedge funds, we expect they will outperform the market, which is why we would consider paying them their high fees. Of course, this makes sense during a bear market, which is the ideal environment during which an investor turns to hedge funds.

However, when the market is in a strong bull phase, most investors believe all they have to do is put their money into an index fund or an ETF, which means the demand for hedge funds dry up as the bull market matures. When investors do not perceive any risk in the market, then the demand for hedge funds must decline.

In fact, we have been seeing this happen in real time of late. In the last three quarters, more hedge funds have closed than have opened.



In the following chart, you will see that hedge funds have experienced their 6th consecutive quarter of net outflows.

Hedge funds see 6th consecutive quarter of outflows

Industry flows

In billions

	SEPT.	Q3 '19	YTD '19	2018	EST. AUM
All hedge funds	–$12	–$29	–$77	–$37	$3.3k
Equity	–6	–11	–22	2	1.1k
Fixed income	0	2	–11	0	990
Commodities	–1	–3	–2	2	79
Multi-asset	–5	–17	–41	–41	1.1k

Adapted from eVestment; Chart: Axios Visuals

In fact, it would seem that viewed risks in the market began to subside in 2011 as we see the demand for hedge funds have been on a decline since that year.

When we get to the end of this long-term bull market which began in 2009, the expectation is that we will have the lowest number of active hedge funds over the prior decade. Yet, will that not be the exact point in time where demand for hedge funds should increase rather than decrease?

This demand for hedge funds works no differently than the stock market itself. It is all driven by investor sentiment. Just as investor sentiment for stocks reaches a bullish extreme, which will eventually cause the end to this bull market, so too will the demand for hedge funds likely decrease to the lowest levels seen since the start of the bull market. But, good contrarian investors should be looking at this in the exact opposite way in which the great majority of the market often does.

Now is the time to begin doing your homework on hedge funds. Those that were able to outperform the market during the 2007 - 2009 financial debacle, and then also do well during the last 10 years of the bull market should be moving to the top of your list as we head towards the end of this long-term bull market cycle.