

Global Hedge Fund Bulletin – New Year, Old Themes

5-Jan-2016

Overview: The dominant theme of dislocation in 2015 continues in the New Year as talk of mergers & the reality of market risk greeted traders on the first trading day of 2016. In this environment and in light of the varied positioning noted below, we expect return dispersion across and within hedge fund strategies to continue.

I. Performance - November's near-flat return for the Credit Suisse Hedge Fund Master Index hides a broader range across strategies. December and 2015 full year returns due out later this week.

Exhibit 1: CSAM Hedge Fund Returns by Strategy

Master Index	Equity L/S	Mkt Neutral	Multi- Strat	Event	FI Arb	CTA/ Futures	Global Macro	EM
Nov / YTD	Nov / YTD	Nov / YTD	Nov / YTD	Nov / YTD	Nov / YTD	Nov / YTD	Nov / YTD	Nov / YTD
0.2% / 0.1%	-0.2% / 3.5%	-0.9% / 0.3%	0.2% / 3.6%	-1.2% / -5.0%	0.0% / 0.4%	3.7% / 1.3%	1.4% / 2.3%	0.2% / -0.1%

Above data are return percentages for current month & YTD respectively, as measured by the Credit Suisse Hedge Fund Indices with 96% of funds reporting.

Source: Credit Suisse Asset Management/ CS Prime Services Portfolio & Risk Advisory

II. Polar Positioning

a. Macro managers reassert regional preferences by pressing the U.S. net equity short into year-end but... Fundamental L/S funds push the ELS ratio higher to 64%, an all-time

Exhibit 2: Developed Markets Macro U.S. Net Equity Exposure

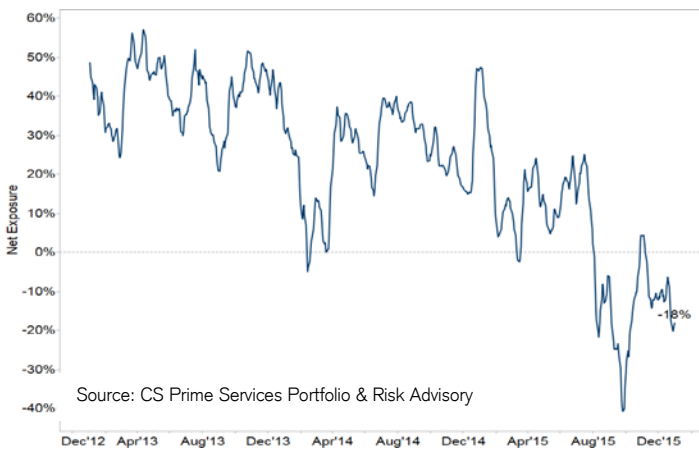
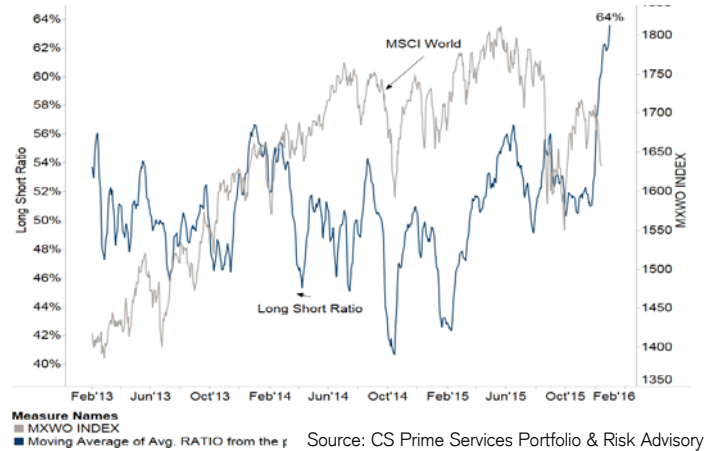


Exhibit 3: Equity L/S Ratio vs. MSCI World Index: Equity L/S Funds Globally



b. The outsized U.S. exposure to Internet-related names dominates global positioning (lower left) and may drive regional return differentiation in 2016 if this popular and overweight allocation reverses course.

Exhibit 4: Net & Gross Exposure: Internet Systems & Sftwr Sub-industry for Global Equity L/S Funds



Exhibit 5: Net & Gross Exposure: Internet Systems&Sftwr sub-industry for European Equity L/S funds



III. Market Risk



Credit Suisse Prime Services
Market Risk Barometer

January 5th 2016 (Data from January 4th)

Risk Off to Continue

Our Market Risk *Barometer reading jumped from 34 to 63% over the past 5 days through today, on the back of a record increase in the 21D correlation between the S&P 500 and the UST10Y.

- The meaningful move in our bellwether cross-market correlation, [CSPRRVSL](#) from -15% to -79% owes to one of the largest 5d moves on record. The velocity of the change suggests a similarly violent reversal in market sentiment as market participants shed equities for the safe haven of bonds. See graph at bottom of page 3 for illustration. Click hyperlink above for primer on utility of bell-weather correlation or [here](#) for more in depth empirical analysis of metrics across each of US, German and Japanese markets.

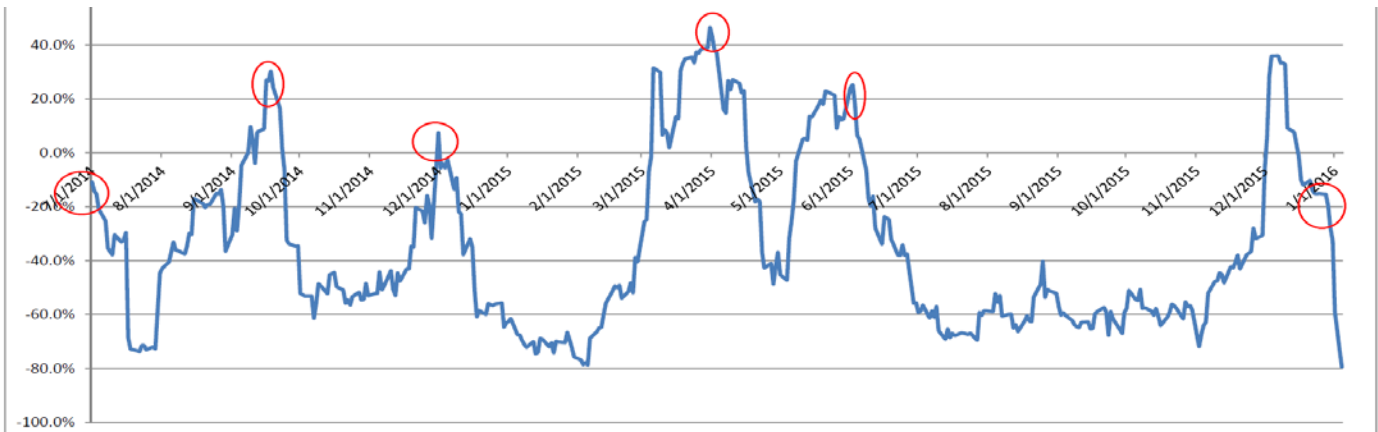
Signals	Today	5D				21D			63D			Heat Map Readings Prior to Major Market Shocks		
		4-Jan	28-Dec	7-Dec	8-Oct	4-Jan	28-Dec	7-Dec	8-Oct	Jul '11	Apr '10	Mar '07		
Short Term	Quantitative Signals	63%	34%	15%	35%	48%	66%	98%						

- Bullish Observation**
 - Gross exposure across all hedge fund strategies remains at a two-year low, limiting pressure to de-leverage.
- Bearish Observation**
 - Largest 5-day move in the U.S. cross-market correlation to a strongly negative level since July 2007. The rapid decline and level, -79%, is reminiscent of previous 'risk-off' periods including July 2014, October 2014, January 2015 and August 2015.
- Regional Market Risk Heat Map** (next page)
 - U.S. markets reflect greatest market risk reading, followed by the United Kingdom, Japan and Germany. The moderate heat map reading for bank CDS underscores the equity-focused nature of today's risk-off move as currencies, credit and commodities experienced below average volatility.

*Market Risk Barometer is a measure comprised of six signals scaled between 0 and 100 based on degree of 'riskiness'. Equity volatility, swap spreads, currency volatility and cross-market correlations (CSPRRVSL) are the major contributors. The final value, 63, is an arithmetic average of the inputs.

The sharp decreases towards a -100% reading in the U.S. bellwether X-Market correlation illustrated below, often occur prior to material risk-off moves in equities as occurred in July 2014, September 2014, January 2015, August 2015.

Exhibit 6: S&P 500 vs. 10year U.S. Treasury 21 day correlation (CSPRRVSL on Bloomberg); Calculation based on daily returns



Source: CS Prime Services Portfolio & Risk Advisory & Bloomberg LP

Market Risk (continued)

Regional View of Current Risk Premia & Potential Risk Reversal

0% = low risk 100% = max risk

1/4/2016

			US	Euro-Zone (17)	Peripheral Europe	EU (27)	Asia (Dev'Ipd)
Summary	Markets	Bank CDS/ Equity Index Px	89%	77%	84%	81%	63%
	Risk Reversal	Correl level & 2D Chg	100%	54%	69%	76%	73%

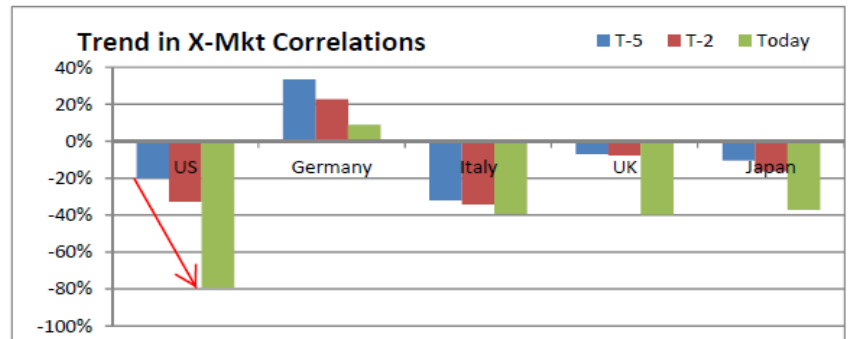
			US	Euro-Zone (17)	Peripheral Europe	EU (27)	Asia (Dev'Ipd)
Markets	Bank CDS	Risk (1Y Spread Dist)	78%	68%	86%	69%	36%
		2D Chg (1Y Dist)	94%	80%	91%	77%	52%
	Equity Mkts	Risk (1Y Px Dist)	86%	71%	68%	85%	77%
		2D Chg (1Y Dist)	98%	91%	93%	94%	86%

2D change is calculated as any 2D change over the previous 5 days.

Sovereigns Representative of Region

			US	Germany	Italy	UK	Japan
Risk Reversal	Cross Mkt Correlations	Nominal Level (1Y Dist)	100%	21%	52%	61%	86%
		Nominal level (5Y Distr)	100%	10%	63%	47%	58%
		2D Chg (1Y Dist)	100%	92%	81%	98%	92%
		2D Chg (5Y Dist)	100%	94%	82%	100%	91%

2D change is calculated as any 2D change over the previous 5 days.



A record change (5D) in correlation between the UST 10Y and the S&P 500 from -15% to Today's -79% is meaningful and very often associated with a sell-off in risk assets in excess of today's losses

21D Correl	US	Germany	Italy	UK	Japan
Today	-79%	9%	-39%	-40%	-37%
T-2	-33%	23%	-34%	-8%	-16%
T-5	-20%	33%	-32%	-7%	-10%

Current 5Day Change	-64%	-25%	-8%	-33%	-27%
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Reversal KEY

Usual Direction of Risk-Reversal Signal	-tve	-tve	-tve	-tve	-tve
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