Fordham University
Alternative Investments Club

February 2017 AIC Research Update

Hedge Funds

Hedge Funds rose 1.05% in February and are up 2.5% YTD. Equity strategies performed the best in February, rising 1.31%. Event driven strategies followed, rising 1.22%. Credit strategies rose 0.61% and relative value was the worst performer in the group rising only 0.15%. Hedge Funds have continued to struggle because of a lack of volatility in the market over the past year. However, as the markets have rallied so far this year, volatility has increased and returns for companies have become more dispersed. This will allow hedge funds to pick top performers within sectors, contrary to previous years when companies within a sector have moved together. Lower correlations between companies will allow equity strategies to perform better in the coming year.

For more hedge funds data: Preqin

Private Equity

The Red Rocks Global Listed Private Equity Index had a MTD return of 1.15% in February. This is down from the previous month, which had a return of 3.66%. One of the reasons why this occurred is because the Fed has increased interest rates by 0.25%, therefore putting pressure on lenders and the bond market. This hurts the leveraged buyout strategy in particular, as well as the distressed debt strategy, which are sensitive to interest rate risk. Overall the PE industry is cyclical with the credit markets and is heavily impacted by interest rates.

For more private equity data: Alps Red Rocks PE

Real Estate

The FTSE NAREIT Composite Index had a YTD Return of 4.40%, and a MTD return of 4.11% as of February. The Composite Index is a more comprehensive Index to track the returns from the industry because it includes diverse assets from both the commercial and residential markets. As part of our research we've decided to select certain regions of the country of personal interest, or economic importance, and track the developments going on in that area. In residential co-op, condos, and townhomes, eastern-Manhattan neighborhoods such as the East Village, Midtown East, Yorkville, and East Harlem have shown significant appreciation in home prices over the last year. The office sector of the real estate market was in the red this past month with a return of -4.35%. The industrial sector also saw negative returns, down 0.25% in February. Home sales skidded **3.7%** in February. The U.S residential market slid this past month due to rising home prices discouraging homebuyers.

For more real estate data: FTSE EPRA/NAREIT

Commodities (Agriculture, Metals, Oil)

Overall, Commodities were flat in the month of February, based on the DBIQ Diversified Commodity index. WTI and Brent crude traded low as a result of a tug of war between OPEC production cuts and US companies by increasing production. Natural gas tanked as a result of record high temperatures in much of the country. Gold rose as the U.S. dollar bounced back from its poor performance in January 2017. Silver typically trades within a specific ratio to Gold; however, when both metals rally, silver outperforms gold by a bigger marginal. Copper rallied as workers at some of the largest mines in the world went a strike. Soybean had little to none percent change for the month to date in February. Coffee took a hit in February because of possible policy changes under the current presidential administration to the 23-year- old North American Free Trade Agreement. Cobalt had a huge rally as testing has begun for the latest Tesla models; electric cars are a huge driver in the cobalt market. Aluminum companies in china are charging a premium as provinces are being shut down for aluminum capacity. A substantial increase in cancelled warrants has driven the price of lead up.

For more commodities data: DBIQ Optimum Yield Diversified Commodity Index

Equities

Equity markets surged in February primarily due to political catalysts. However, the Trump Rally was replaced by the Trump "Hope" Rally, as hopes for accommodative legislature from the Republicans, including increased government spending and a lower tax rate propelled investor sentiment. Utilities surged 5.28% in February, with their dividends spurring attraction. Healthcare equities also surged 6.43% amid negotiations for Affordable Care Act adjustments. Despite a seemingly calm month and strong returns on major indices, the VIX returned 9.4% in February.

For more equities data: S&P 500

Fixed Income

The BAML Corporate Bond Index is up 1.28% for February and the YTD returns are 1.03%. There has been a drop in the issuance of new corporate debt for february after the record issuance of January, which has caused the BAML corporate bond index to have a strong monthly return relative to January. Fed Chairman Janet Yellen's testimony in front of U.S. congress provided strong signals that The Federal Reserve will raise interest rates in the near future, which could slow fixed income demand going into March and cause the issuance of new debt to fall even further.

For more fixed income data: BofA Merrill Lynch Corporate Bond Index