

Positioning Intelligence | Weekly Wrap

In Search of Stability...Gross Lev Starts to Fall as Perf Improves

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Summary below – Distribution of the full report is restricted. To request access pls contact Position_Intel@jpmorgan.com

Summary: After a few challenging days at the end of last week and start of this week, HF fortunes improved a bit and gross flows reverted from large de-grossing to some gross additions in the past 3 days.

HF performance is -2.3% MTD (globally). More dramatically, we estimate that **N. Am. returns for market neutral Multi-Strats improved from -3.2% MTD as of Mon to -0.7% MTD as of Thurs.** N. Am. L/S funds are down ~3.5% MTD & -2.8% YTD, which is about half the decline in the SPX. EMEA and APAC returns are close to flat, as are Quant Equity returns globally MTD.

While it's hard to argue that much gross has been actively cut cumulatively in the past few weeks (despite sharp de-grossing for a few days), it's notable that **HF gross leverage is starting to fall.** All Strategies gross lev fell 7.4% WoW (91st %-tile on 12m basis and 98th %-tile on 5yr), while net leverage fell another 3.4% WoW (55th %-tile on 12m basis and 46th on 5yr). Among Equity L/S funds globally, gross lev fell 5.5% WoW to 72nd %-tile over last 12m and last 5yr), while net was about flat WoW.

The fact that gross leverage has been able to decline in the past few days is a sign that HF performance is healing. However, the lack of more significant de-grossing flows does suggest it's not clear whether the coast is clear.

One thing to note is that the **recent divergence between Equity L/S gross leverage at highs, while nets more moderate does not appear to be a great set-up for future market returns** over the next few months (though sample size is very small). I.e., the 3 times we've seen similar divergences were in mid-2018, early 2020, and early 2022.

That being said, there are **some reasons we could bounce in the near term due to depressed positioning:**

- **The aggregate level of US positioning is somewhat low:** Our US Tactical Positioning Monitor shows the 12m z-score at about -2z and the longer term metric is down to -0.6z or the 20th %-tile since 2015 (the longer-term level is similar to lows seen in the early part of the drawdown in 1Q22 as well as Oct '23, but well above very low levels in 1Q16, 4Q18, 1Q20, 2/3Q22).
- **HF net leverage has fallen by 2z over both the last 4wks and last 8wks** when looking across All Strategies. This has often been followed by a near-term bounce, but the medium term outlook is still mixed.
- **CTA positioning in US equities appears to be net short (in line with late Oct '23 lows)** and just the 15th %-tile since 2002

Outside the US, the HF de-grossing in **Europe** has eased in recent days, though still a -1.8z event over the past 5d. In addition, HF net flows are starting to turn more negative in Europe. However, the **most negative net flows in the past week were in HK stocks (-3z net selling)** as performance came off recent highs.

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