J.P.Morgan

J.P. Morgan Prime Brokerage Global Hedge Fund Trends

April 14, 2015

Executive Summary

All of the major hedge fund strategy segments generated positive returns in March, with aggregate average performance of +0.53%. For the quarter, hedge funds have returned +2.42% in aggregate, well in excess of broader market indices. Global macro outperformed relative to the other key hedge fund strategies.

Leverage

Across the Prime Brokerage portfolio, gross leverage[1] was flat in March at 1.82 (+0.05%). Gross leverage of levered accounts also remained stable at 2.36 (+0.04%). Although net exposure[2] rose from 0.65 to 0.67 (+1.95%), hedge fund clients remain defensive, with increased hedging of broad based ETFs. The defensive-cyclical ratio remains close to a 52-week high.

Securities Lending

The U.S. Prime Brokerage short book experienced moderate covering for a second consecutive month as shorting in single name equities was offset by reductions in ETF and fixed income exposures. In Europe, directional short interest in UK supermarkets stabilized in March and hedge funds continue to trade the spread in Spirit Pub Co. PLC / Greene King PLC.

Institutional Investor Sentiment

During March, the Capital Introduction Group (CIG) met with several of the most active institutional investors in the Chicago region. Demand for Asia-focused strategies is particularly acute. Investors remain interested in discretionary global macro but have been frustrated by their inability to identify managers with consistent performance. In Europe, the CIG met with investors in Zurich, where activity appears to be on the increase, especially among family offices and banks. Equity long short remains popular among investors in Asia, particularly with respect to less directional managers and sector specialists.

Market Perspectives

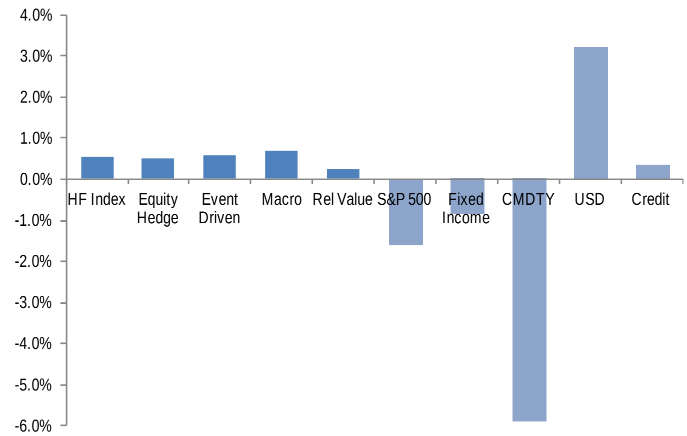
Recent signs indicate that Europe's economic trajectory may be at an inflection point and finally on the cusp of a nascent recovery. While Europe's economic affairs are trending positively, its political affairs are not. Across the continent, parties of the far left and right are gaining at the poles. Just as a recovery seems to be taking hold in Europe, the continent's politics are moving in a direction that will render growth increasingly difficult.

[1] Gross leverage is the total market value of long and short positions divided by clients' equity in J.P. Morgan's Prime Brokerage portfolio.

[2] Calculated for Equity Long Short and Market Neutral funds on J.P. Morgan's Prime Brokerage platform only. Net exposure is defined as the market value of long positions (LMV) minus the market value of short positions (SMV), divided by clients' equity (Eq).

Figure 1: March 2015 performance

HFRI and Market Indices. Monthly Returns



Source: Bloomberg, Hedge Fund Research

Table 1: Performance of hedge fund strategies and asset classes

HFRI and Market Indices[3]

	Mar-15	2015
HF Index	0.53%	2.42%
Equity Hedge	0.51%	2.34%
Event Driven	0.58%	2.01%
Macro	0.70%	3.39%
Relative Value	0.25%	1.68%
S&P 500	-1.58%	0.95%
Fixed Income	-0.81%	-1.79%
CMDTY	-5.84%	-5.14%
USD	3.22%	8.96%
Credit	0.35%	2.30%

Source: Bloomberg, Hedge Fund Research

Figure 2: Hedge fund beta to equities

Rolling 21-day beta of HFRX equal-weighted index returns to the S&P 500 Total Return Index

Source: Bloomberg, Hedge Fund Research

[3] Market indices from Bloomberg are as follows: S&P 500 (SPTR Index), Fixed Income (JPMGGLBL Index), CMDTY (SPGSCI Index), USD (DXY Index) and Credit (JULIR Index).

Prime Brokerage Global Hedge Fund Trends – Performance, Leverage, and Risk Exposures

This section presents a summary of the changes that we have observed in leverage and sector exposures across the range of hedge funds that we work with. The confidentiality of our clients' positions is important to us and as such this information has been aggregated and displayed in an anonymous manner in an effort to mitigate the risk of revealing or alluding to any one fund's exposures. Information may be excluded due to the perceived risk of revealing sensitive information. The information discussed is specific to activities on J.P. Morgan's books, and may not represent total client activity. These numbers should only be viewed as representative observations.

Market Overview

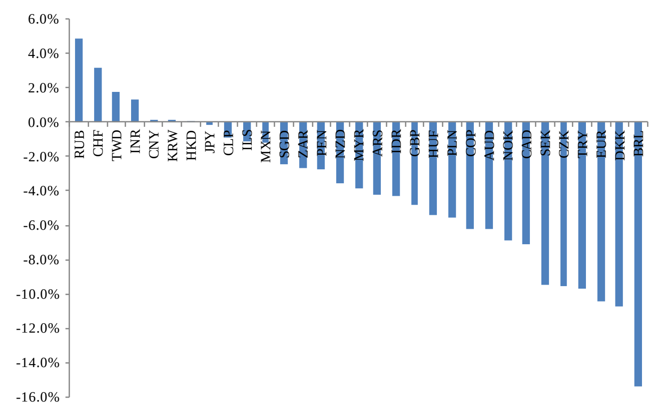
The combination in March of a strengthening U.S. Dollar and weak economic data – namely, shortfalls in consumer spending and durable goods orders – culminated in a Federal Open Markets Committee (FOMC) meeting that was surprisingly dovish. Not only did the Fed remove the "patient" language from its guidance – a development that had been widely expected – but it revised downward its interest rate projections to a greater extent than the market had anticipated. The recent weakness in economic data and the consequent variability now surrounding the timing of the Fed's prospective increase in forward rates has created an element of uncertainty for investors.

March was therefore a challenging month for most risk assets, with declining bond yields, a fall in commodities and lackluster equity markets. Falling bond yields were partly a function of Fed dovishness and the European Central Bank's (ECB) quantitative easing program, which commenced on March 9. Partly as a result of declining fixed income yields, credit spreads widened. Although spreads for U.S. high grade bonds increased only 8 basis points, U.S. and European high yields spreads widened 29 and 39 basis points, respectively. U.S. high yield securities fell -0.58% on the month while the 10-Year Treasury and high grade bonds gained +0.77% and +0.33%, respectively. At the same time, the yield for U.S. high yield bonds rose +0.25% month-over-month.

Equities suffered a pullback in March. The S&P 500 Index fell -1.58% on the month and the MSCI AC World Index declined nearly -2%. Emerging markets also were weak, with the MSCI EM Index off -1.59%. The retreat for the S&P 500 was a function largely of soft data, starting with a decrease in personal spending and weak auto sales at the outset of March and culminating with the downside surprise in durable goods. Equity markets were therefore choppy throughout the month. Yet, despite headwinds from the rising U.S. Dollar and the collapse in oil prices, equity markets fared reasonably well over the first quarter. The S&P 500 rose +0.95%, EM returned +1.91% and Europe demonstrated particular strength, with the MSCI EAFE up +4.88% for Q1 as a result of better-than-expected data across the Eurozone. Consequently, many equity hedge funds are bullish on the region and are increasing their exposure to Europe. Similarly, institutional investor interest in greater European exposure is on the rise.

The rapid year-to-date ascent of the U.S. Dollar (+8.96%) continued in March. Even after the Dollar retreated in the wake of the FOMC meeting, it was still up +3.22% on the month. For the quarter, the Dollar has gained against all but five currencies (see Figure 3), which highlights the strength of the U.S. economy relative to other regions. The recent pickup in Europe may slow the Dollar's rise, which in turn could create tailwinds for U.S. firms that are reliant on exports. A number of global macro funds with long USD exposure have outperformed on this trade.

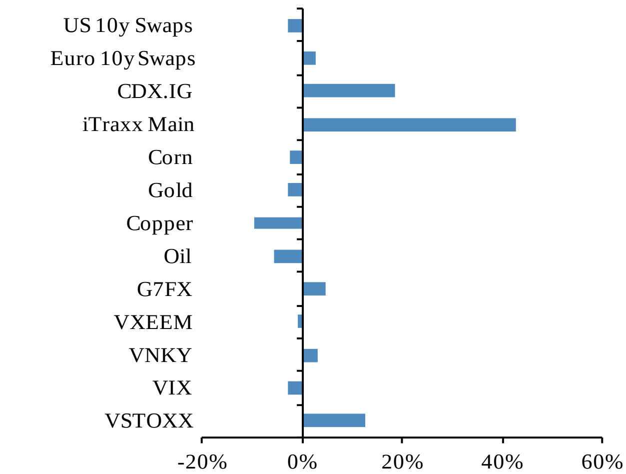
Figure 3: Global currencies' performance vs. USD year-to-date



Source: J.P. Morgan Global Asset Allocation, Bloomberg

Volatility rose in March, as the VIX Index increased +14.6% to close the month at 15.29, above the 52-week average of 14.59. As shown in Figure 4, with the exception of copper, implied volatilities increased month-over-month, particularly with respect to investment grade credit. A number of credit funds added hedges against cash bonds but reduced such positions heading into month-end.

Figure 4: Changes in implied volatility during March



Source: J.P. Morgan Global Asset Allocation

Composite Hedge Fund Performance

All of the major hedge fund strategy segments generated positive returns in March, with aggregate average performance of +0.53%. Year-to-date, hedge funds have returned +2.42% in aggregate, well in excess of broader market indices.

Global Macro

Global macro strategies posted gains of +0.70% in March and +3.39% on the quarter. As has predominantly been the case in most months preceding March, systematic strategies fueled gains, with an aggregate return of +1.06%. Over the first quarter, such strategies generated aggregate returns of +5.14%, largely as a result of short energy and long U.S. Dollar (especially versus the Euro) trades. Several managers also profited from long U.S. rates positions, particularly in response to the FOMC meeting. Global macro strategies have now posted five months of positive returns and have generated gains in ten of the preceding twelve months.

Event Driven

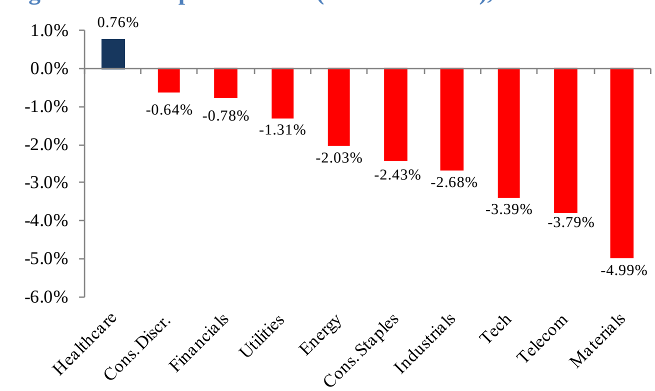
Event driven strategies posted aggregate gains of +0.58% in March and +2.01% for the first quarter. Special situations managers were chiefly responsible for those returns, rising +1.35% on the month. In contrast to February, activist managers had lackluster returns in March amidst soft equity markets. Robust deal activity again resulted in an auspicious landscape for merger arbitrage funds, which returned +0.52% for March and +2.36% for the first quarter. In particular, merger arbitrage clients benefitted from positioning around the OptumRX/Catamaran, Omega Healthcare/Aviv REIT and Renasant/Heritage Financial transactions.

Equity Hedge

Equity long short strategies returned +0.51% in March and +2.34% for the quarter. A number of managers benefitted from stabilizing oil prices. Consequently, funds with exposure to energy and basic materials posted aggregate returns of +2.54% on the month, and +3.50% over the first quarter. Multi-strategy equity platforms posted an aggregate +1.84% in March and had the strongest returns over the quarter (+5.70%) among any of the equity sub-strategies. Market neutral strategies also helped drive gains in March, rising +0.70%.

Moreover, as seen in Figure 2 (hedge fund beta to equities), hedge fund beta increased during March. That increase partially reflects changes in portfolio composition and sensitivity to high beta sectors.

Figure 5: Sector performance (S&P 500 Index), March 2015



Source: Bloomberg, Standard & Poor's

Relative Value

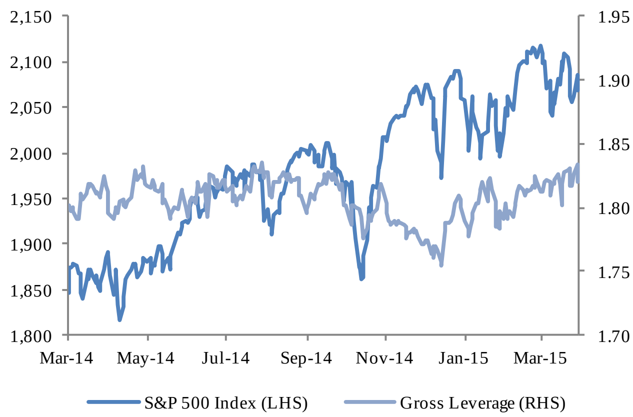
Fixed income relative value strategies returned +0.25% month-over-month, aided by falling fixed income yields. However, high yield markets posed a challenge for relative value managers as spreads widened 29 basis points but while generating a -0.58% return month-over-month. Portfolio hedges, particularly with respect to U.S. rates, were a net drag during March.

Leverage and Risk Exposures

Gross Leverage

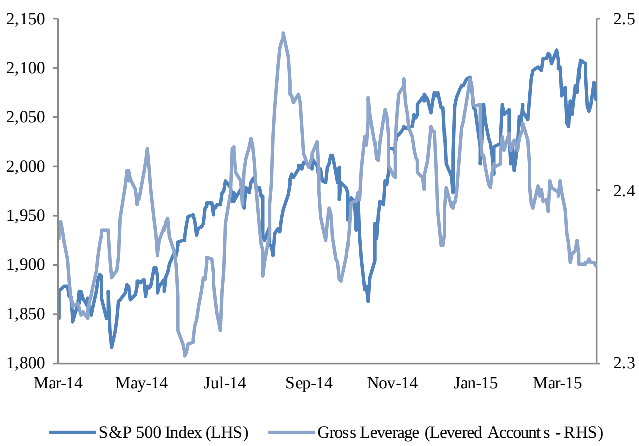
Across the Prime Brokerage portfolio, gross leverage was flat in March at 1.82 (+0.05%) (See Figure 6). Clients remained defensive amidst an uptick in volatility (+14.62%). Hedge fund clients remain overweight Consumer, Non-cyclicals and have added broad based ETF hedges, which are near 52-week highs. Defensive versus cyclical exposures within the Prime Brokerage portfolio also remain at a 52-week high. Gross leverage of levered accounts also was flat at 2.36 (+0.04%) (See Figure 7).

Figure 6: Daily gross leverage and the S&P 500 Index



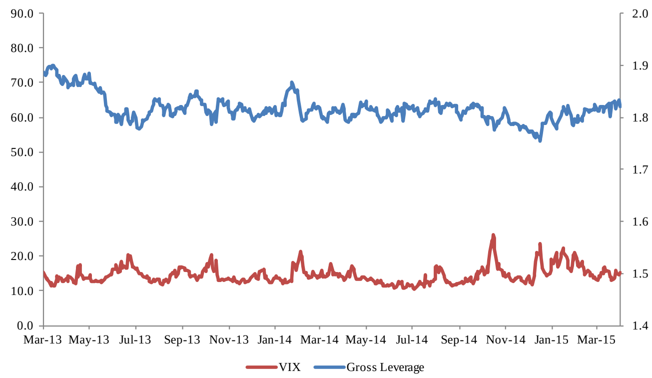
Source: Bloomberg, J.P. Morgan Prime Brokerage

Figure 7: Gross leverage (levered accounts) 5-day moving average and the S&P 500 Index



Source: Bloomberg, J.P. Morgan Prime Brokerage

Figure 8: Daily Gross Leverage vs. CBOE VIX Index

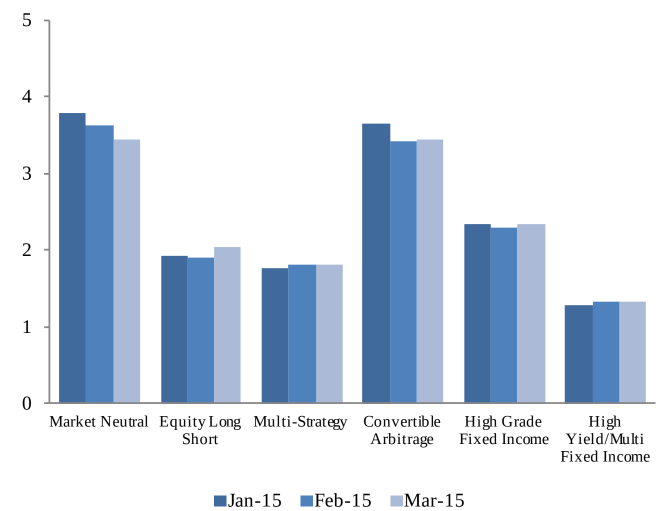


Source: Bloomberg, J.P. Morgan Prime Brokerage

Gross Leverage by Strategy

Convertible Arbitrage, Equity Long-Short and High Grade Fixed Income experienced increases in gross leverage month-over-month. Market Neutral, Multi-Strategy and High Yield/Multi Fixed Income saw declines. Equity Long-Short, Multi-Strategy and High Grade Fixed Income are running gross leverage above their two-year average levels while all other strategies are running below their two-year average levels.

Figure 9: Gross leverage by strategy



Source: J.P. Morgan Prime Brokerage

Table 2: Gross leverage by strategy

Average and first quartile calculated for the period March 2013 to March 2015

	Jan-15	Feb-15	Mar-15	Average	First Quartile	% Change
Market Neutral	3.79	3.63	3.43	3.98	3.79	-5.4%
Equity Long Short	1.91	1.90	2.04	2.02	1.96	7.3%
Multi-Strategy	1.76	1.80	1.80	1.75	1.72	-0.1%
Convertible Arbitrage	3.64	3.41	3.44	3.73	3.56	0.8%
High Grade Fixed Income	2.34	2.29	2.33	2.23	2.11	1.8%
High Yield/Multi Fixed Income	1.27	1.33	1.32	1.40	1.36	-0.7%
PB Portfolio (Levered Accounts)	2.41	2.36	2.37	2.42	2.37	0.2%

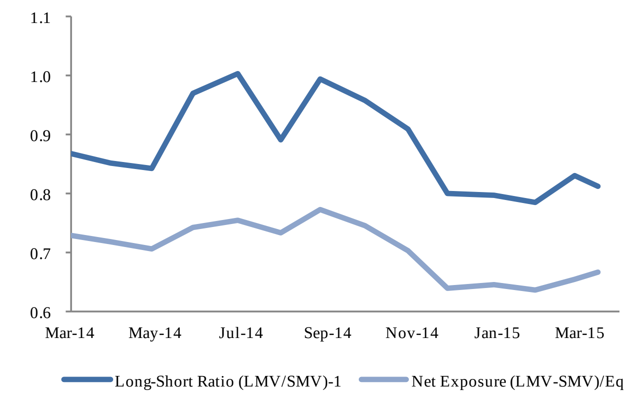
Source: J.P. Morgan Prime Brokerage

Net Exposure and Net Leverage

Among equity-biased funds, the long-short ratio fell from 0.83 to 0.81 (-2.33%). Net exposure rose from 0.65 to 0.67 (+1.95%).

Figure 10: Net exposure and net leverage

Equity Long Short and Market Neutral funds on the Prime Brokerage platform only. LMV: Market value of long positions. SMV: Market value of short positions. Eq: Equity in clients' accounts



Source: J.P. Morgan Prime Brokerage

Sector Exposures

The largest month-over-month increases in the long Prime Brokerage portfolio were Energy (+0.6%) and Consumer, Non-Cyclical (+0.5%). The largest month-over-month decline occurred in the Industrial sector (-0.3%).

The largest increase in short exposure in March occurred in the Financial sector (+0.9%). The largest decline in month-over-month short exposure was in Energy (-0.8%) and Basic Materials (-0.4%).

On a month-over-month basis, the Prime Brokerage portfolio increased exposure to Energy and Basic Materials, both of which saw an increase in longs and a decline in shorts. However, the exposure lean is still well off of 2014 highs. The Prime Brokerage Portfolio also reduced exposure to the Industrial and Technology sectors, which experienced decreases in longs and similar levels of shorts to last month.

Table 3: Long and short exposures by sector

Long (Short) exposure by sector as a percentage of total client long (short) exposure in Prime Brokerage portfolio

	Long exposure			Short exposure		
	Mar-14	Feb-15	Mar-15	Mar-14	Feb-15	Mar-15
Basic Materials	3.9%	3.7%	3.8%	4.3%	4.8%	4.0%
Communications	16.4%	14.2%	14.0%	6.6%	8.2%	8.1%
Consumer, Cyclical	11.4%	11.1%	10.4%	7.9%	8.8%	8.8%
Consumer, Non-cyclical	14.6%	20.5%	21.5%	11.1%	11.3%	11.6%
Diversified	0.4%	0.5%	0.4%	0.0%	0.1%	0.1%
Energy	9.2%	7.9%	9.0%	6.6%	8.8%	8.0%
Non sector-specific ETF	3.3%	5.0%	5.8%	16.1%	16.9%	16.9%
Financial	17.7%	15.3%	14.0%	8.2%	7.9%	8.8%
Industrial	6.1%	5.9%	5.7%	7.2%	7.3%	7.7%
Technology	4.8%	5.5%	5.2%	6.2%	6.1%	6.1%
Utilities	1.5%	1.6%	1.6%	2.2%	1.4%	1.5%
Government	7.2%	6.6%	6.1%	9.3%	7.2%	6.9%
Other	3.6%	2.2%	2.5%	14.3%	11.2%	11.1%

Source: J.P. Morgan Prime Brokerage

North America

Equities

The U.S. Prime Brokerage short book experienced moderate covering for a second consecutive month as shorting in single name equities was offset by reductions in ETF and fixed income exposures. Gross volume increased +12% versus February and intra-month volatility was high. From a sector perspective, the largest reductions occurred in Consumer, Non-cyclicals and Communications while Financials and Energy led short increases.

ETFs

The U.S. Prime Brokerage ETF book was moderately net covered in March. Broad based ETFs such as SPY (SPDR S&P 500 ETF), IWM (iShares Russell 200 ETF) and MDY (SPDR S&P MidCap 400 ETF Trust) drove cover activity. Internationally-focused ETFs bucked the trend, with short increases in EFA (iShares MSCI EAFE ETF), EWZ iShares MSCI Brazil Capped ETF) and EEM (iShares MSCI Emerging Markets ETF). The largest inflows (increase in shares outstanding) occurred in HEDJ (WisdomTree Europe Hedged Equity ETF), EFA and IWM.

Event Driven

- On March 31, Endurance Specialty Holdings Ltd. (ENH) announced the acquisition of Montpelier Re Holdings Ltd. (MRH) in a $1.74 billion cash and stock transaction. MRH shareholders will receive $9.89 in cash and 0.472 shares of ENH for each share held. ENH overnight rates are currently trading at -0.75% with approximately 9.9 million shares currently in lending programs.

- On March 9, Alcoa Inc. (AA) announced its acquisition of RTI International Metals Inc. (RTI) in an all stock transaction valued at $1.47 billion. The RTI deal is Alcoa's second largest acquisition since 2010. Deal terms state that RTI shareholders will receive 2.8315 shares of AA for each share held. AA overnight rates have remained GC, with over 100 million shares spread among lenders.

- On March 2, NXP Semiconductors NV (NXPI) announced the acquisition of Freescale Semiconductors Ltd. (FSL) in a cash and stock transaction valued over $15.7 billion, making it the largest semiconductor deal of all time. FSL shareholders are set to receive $6.25 in cash and 0.3521 shares of NXPI. Currently there are just over 25 million shares in lending programs with overnight rates unchanged at GC.

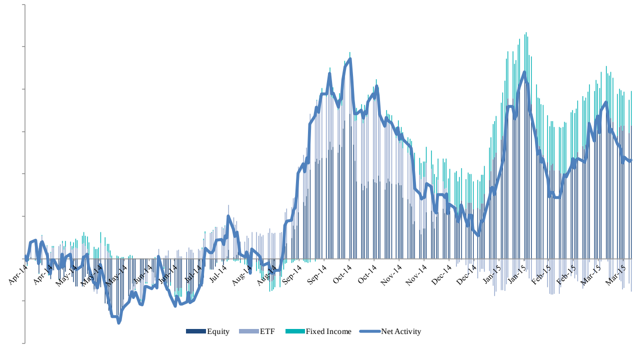
Fixed Income

For the first time in 2015, the Prime Brokerage fixed income book experienced a net decrease in the market value of corporate bonds. Investment grade, high yield and convertible bonds all experienced net covering, while there was a slight increase in market value of shorts in U.S. treasuries. Within corporate credit, significant covering was driven by large net covers Basic Materials, Energy, and Financials. Throughout the month, the following capital structures experienced a high volume of inquiries and/or short volumes: Peabody Energy Corp. (BTU), Fortescue – FMG Resources Pt. Ltd. (FMGAU), Transocean Ltd. (RIG), and Vale Overseas Ltd. (VALE).

Prime Brokerage Global Hedge Fund Trends – Securities Lending

Figure 11: Cumulative net activity

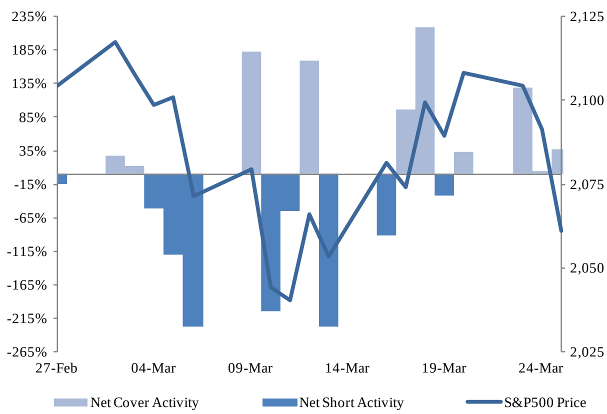
Market value change of activity across equities, ETFs, and fixed income



Source: J.P. Morgan Securities Lending

Figure 12: Rolling 1-month daily short flow

Daily Activity Relative to 30-Day Average (LHS) and S&P 500 Index (RHS)



Source: Bloomberg, J.P. Morgan Securities Lending

Table 4: U.S. securities lending trends by sector

For the month of March 2015

	5 Day		30 Day		90 Day	
	Price Change	Position Change (shares)	Price Change	Position Change (shares)	Price Change	Position Change (shares)
Consumer, Non-cyclical	(2.3%)	(0.3%)	0.7%	(1.2%)	10.7%	5.1%
Financial	(1.2%)	2.5%	(1.6%)	9.8%	(0.3%)	19.6%
Technology	(2.8%)	1.8%	(4.3%)	2.7%	0.1%	2.5%
Energy	0.6%	(0.9%)	(5.1%)	2.8%	(0.6%)	22.1%
Communications	(2.3%)	0.7%	(2.5%)	(1.1%)	3.3%	(0.3%)
Industrial	(1.8%)	(2.0%)	(1.2%)	5.1%	2.5%	7.3%
Consumer, Cyclical	(0.8%)	0.1%	(1.0%)	3.9%	4.7%	8.9%
Basic Materials	0.6%	(2.8%)	(7.1%)	(0.6%)	(1.7%)	10.2%
Utilities	(2.0%)	18.2%	(3.7%)	19.6%	(3.6%)	15.7%

Source: J.P. Morgan Securities Lending

Table 5: U.S. securities lending trends by ETFs

For the month of March 2015

	5 Day		30 Day		90 Day	
	Price Change	Position Change (shares)	Price Change	Position Change (shares)	Price Change	Position Change (shares)
SPDR S&P 500 ETF TRUST	(2.2%)	(1.1%)	(2.5%)	(10.1%)	2.0%	(15.8%)
ISHARES RUSSELL 2000 ETF	(1.7%)	(3.1%)	0.1%	(15.0%)	4.8%	(7.6%)
ISHARES NASDAQ BIOTECHNOLOGY ETF	(4.8%)	44.2%	1.1%	54.4%	13.0%	103.7%
HEALTHCARE SELECT SECTOR ETF	(2.0%)	1.2%	0.3%	4.6%	5.8%	2.6%
SPDR S&P BIOTECH ETF	(7.1%)	8.2%	0.2%	0.3%	18.4%	0.8%
ISHARES US REAL ESTATE ETF	(1.3%)	(9.3%)	(2.0%)	1.9%	2.5%	(36.5%)
ISHARES IBOXX HIGH YIELD CORPORATE BOND ETF	(0.2%)	(0.8%)	(1.1%)	(4.5%)	2.2%	(3.8%)
ISHARES MSCI BRAZIL CAPPED ETF	1.2%	(8.5%)	(8.4%)	72.7%	(9.1%)	44.9%
ISHARES NASDAQ CONSUMER DISCRETIONARY ETF	(1.7%)	(1.0%)	(0.5%)	13.9%	7.6%	15.7%
FINANCIAL SELECTSECTOR SPDR ETF	(2.9%)	12.2%	(1.5%)	15.7%	(0.5%)	134.2%

Source: J.P. Morgan Securities Lending

Europe

Directional short interest in UK supermarkets stabilized in March. There was covering in Tesco PLC (TSCO LN) and J. Sainsbury PLC (SBRY LN), with Morrison Supermarkets PLC (MRW LN) fairly flat on the month. Only Ocado Group PLC (OCDO LN) saw continued shorting. In mainland Europe, Sapiem SpA's (SPM IM) short base increased by a third last month and is now ranked as the top short in the STOXX 600 Index as a percent of float. TalkTalk Telecom Group PLC (TALK LN) has remained the most crowded short in the Stoxx600 as measured by average daily trading volume to cover throughout March. TalkTalk has consistently ranked as the first or second most crowded short alongside Zoopla Property Group PLC in the FTSE 350.

In the capital raising space, borrow in Banca Monte Dei Paschi di Siena S.p.A (BMPS IM) was in high demand and became even less liquid in March.

In M&A, hedge funds continue to trade the spread in Spirit Pub Co. PLC (SPRT LN) / Greene King PLC (GNK LN), with the borrow cost in Greene King doubling and lending pools nearing 90% utilization.

In convertible bond arbitrage, key launches in March included Telecom Italia's (TIT IM) new €2 billion convertible, Market Tech's (MKT LN) new £112.5 million issue, Heidelberger Druckmaschinen's (HDD GR) new €56 million issue, and Aabar Investment's exchangeable into UniCredit (UCG IM). Away from the primary issues, there has been renewed stock borrow demand Grand City Properties (GYC GR), with shares on loan hitting annual highs.

Asia Ex-Japan

Taiwan

March saw considerable bias to new shorts in names such as Taiwan Semiconductor Manufacturing Company Limited (2330 TW) and Largan Precision Co Ltd (3008 TW). Short activity also was driven by a worsening outlook for AU Optronics (2409 TW) and MediaTek (2454 TW).

Hong Kong

The trend in Hong Kong in March was towards covering as Chinese banks and insurance companies began reporting. While there was limited opportunistic shorting, the majority of activity was in covers for China trackers and financials. For example, activity was heavy with respect to HSBC (0005 HK).

Korea

There was heavy activity around banking names in March with considerable two-way flow. Chemicals and refiner names also saw significant activity as a result of stabilizing oil price, which gave rise to heavy covering. Clients generally shied away from industrials such as ship builders and auto names.

Japan

Prime Brokerage short balances rose in March while swap balances also increased. There was movement in client balances during the month as funds sought counter-parties offering the best dividend yields. March witnessed continued locate interest and borrow activity in names such as Mixi, Inc. (2121 JP), Cookpad Inc. (2193 JP), Cyberdyne, Inc. (7779 JP), Sharp Corporation (6753 JP), Yamada Denki Co. Ltd. (9831 JP) and Emori Group Holdings Co. Ltd. (9963 JP).

Australia

Activity picked up in March with several funds shorting Telecom providers TPG Telecom Limited (TPM.AX) and iiNet Limited (IIN.AX) based on possible risks to the proposed merger. Iron ore shorts persisted on the back of weakening iron ore spot prices and falling demand in China. Funds continued to target large cap miner Fortescue Metals Group Limited (FMG.AX) after the company cancelled a bond issue at the final hour. However, borrow supply is tight and funds were therefore capped in the volume of shorts they could add.

Institutional Investor Sentiment

North America

During March, the CIG met with several of the most active institutional investors in the Chicago region to gauge allocation trends and strategy appetite for 2015. Most allocators with which the CIG met expressed interest in non-U.S. focused managers. Demand for Asia-focused strategies is particularly acute and was a common theme in these meetings. Other strategies of interest among investors in the Chicago area are emerging markets and reinsurance. Such demand seems to be a function of investors' desire to diversify return streams and access uncorrelated opportunities. Energy was another frequently-mentioned strategy of interest. In addition to the distressed energy trade, a number of investors are seeking exposure to the sector via different strategies, including equity long short. Finally, investors remain interested in discretionary global macro but have been frustrated by their inability to identify managers with consistent performance. Demand for co-investment opportunities remains a persistent theme.

EMEA

The CIG met with investors in Zurich, where activity appears to be on the increase, especially among family offices and banks, many of which are adjusting their asset allocations in favor of hedge funds. The overall trend among family offices is an increase in exposure to less correlated strategies such as discretionary global macro and equity managers with tight net exposures. Banks and asset managers are developing UCITS offerings in response to client demand, and family offices are increasingly looking at UCITS as an alternative cash management tool. Another trend among family offices includes growing interest in Asia-focused strategies.

Asia Pacific

Equity long short remains popular among investors in Asia, particularly with respect to less directional managers and sector specialists. Other strategies that have captured pockets of interest include multi-strategy, CTAs and fixed income relative value. Among investors in Japan, European strategies have started to garner attention, particularly in light of the ECB's easing program.

Table 6: Investor strategies of interest by region[4]

	North America		EMEA		Asia Pacific	
	Direction of Interest	Level of Interest	Direction of Interest	Level of Interest	Direction of Interest	Level of Interest
Convertible Arbitrage	Neutral		Neutral		Neutral	
Credit: Distressed	Neutral		Neutral		Neutral	
Credit: Long/Short	Neutral		Neutral		Increasing	
Equity Long Short	Neutral		Neutral		Neutral	
Event Driven	Neutral		Neutral		Decreasing	
Macro	Neutral		Neutral		Neutral	
Emerging Markets	Neutral		Increasing		Neutral	
CTA	Neutral		Neutral		Neutral	
Market Neutral-Quant	Neutral		Neutral		Neutral	
Structured Credit	Neutral		Neutral		Neutral	

Legend	
Low Interest	
Medium Interest	
High Interest	

Source: J.P. Morgan Capital Introduction Group

[4] This information comes from CIG conference calls and meetings with global hedge fund managers and institutional investors. This table represents views of the CIG team and may not be exhaustive.

March Commentary

Recent signs indicate that Europe's economic trajectory may be at an inflection point and finally on the cusp of a nascent recovery. Although growth in the Euro zone during the first quarter of 2015 came in below expectations (0.2 versus projections of 0.4), March saw added momentum. Both the Euro zone's composite PMI and economic sentiment indicator were robust in March and private sector activity in Germany increased at the briskest pace since May 2011. The ECB is now projecting growth of +1.5% for 2015, aided by the tailwinds of falling energy prices, a weakening Euro and higher confidence induced partly as a result of the ECB's easing program, pursuant to which the central bank will purchase in excess of €1 trillion in covered and government bonds by September 2016. The ECB projects that, although inflation will remain in neutral during 2015, it will achieve the 2% target rate by 2017.

While Europe's economic affairs are trending positively, its political affairs are not. Across the continent, parties of the far left and right are gaining at the poles – see, e.g., Syriza in Greece, UK's Independence Party and the National Front in France – as a result of increasing hostility to the European project at local levels. Such sentiment poses a threat to many of the structural reforms that were implemented across the continent in recent years. Just as a recovery seems to be taking hold in Europe, the continent's politics are moving in a direction that will render growth increasingly difficult.

The following sections are excerpts from J.P. Morgan Research publications. The full publications can be accessed via the sources provided in the footnotes below.

US: is the dollar starting to drag? [5]

Although some market commentators have argued that the dollar's recent move was driven by positive news about the US outlook and thus that its potential negative implications for US GDP have been overstated, we disagree. Since June 2014, the FOMC has downgraded its outlook for GDP growth over 2014-2015, and derivatives markets have lowered their forecasts for the pace of Fed hiking. We thus see little reason to believe that the dollar's move since then can be explained by improvements in the US outlook. Further, we do not view the distinction between dollar moves driven by the US growth outlook and moves driven by other factors as crucial for predicting implications for the net export contribution to GDP. In both cases, we expect the partial equilibrium effect of dollar strength to be a drag on net exports that should be reflected in our forecasts . . . .

We do note, as some market commentators have pointed out, that the level of foreign GDP itself can play an independent role in determining export growth, as it does in these regression models. The J.P. Morgan Forecast Revision Indexes show that we have downgraded near-term GDP growth forecasts outside the United States by 1.2%-pts on net since the middle of last year. If this downgrade represented a permanent shock to the level of foreign GDP, our estimates suggest an additional drag of about 2.2%-pts on real exports, or 0.3%-pt on US GDP. This direct effect is modest relative to the dollar's, and if the downgrade is eventually paid back in the form of higher future foreign growth, the net long-run effect should revert to zero.

Oil Market Monthly [6]

We revise up our 2015 and 2016 Brent forecasts by$10/bbl and $5/bbl to $59/bbl and $62/bbl, respectively, as market rebalancing has outpaced our expectations. Cuts to capex plans by E&P companies, most notably in the US, but also elsewhere, have been more aggressive year-to-date than assumed in our previous balance. Separately, we see initials signs of demand improvement in some EM economies, although it is still premature to extrapolate the nascent recovery into full-blown upgrades to demand estimates, particularly against the backdrop of deteriorating GDP growth expectations. Excluding the US we find little data to substantiate our expectation of rapid 1Q2015 crude builds, in part explaining the underperformance of WTI so far this year.

Our revised view regarding US production growth and potential declines elsewhere may seem relatively innocuous in near-term barrels per day terms, but it is the chipping away at the volumetric Atlantic Basin oversupply that has most impacted price formation at the margin. The quicker-than-expected pace of signs of demand-side green shoots and upstream adjustments prevented the expected depth of the price collapse from being achieved, and our bottom-up assessment of US supply developments underpins the magnitude of our upward forecasted price revisions.

[5] J.P. Morgan Economic Research, *Economic Research Note*, March 26, 2015: https://jpmm.com/research/content/GPS-1665695-0.

[6] J.P. Morgan Global Commodities Research, *Oil Market Monthly*, March 31, 2015, https://jpmm.com/research/content/GPS-1669516-0.

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