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Hedge funds deliver strong returns in 2023, boosted by a very positive month of December

After struggling in 2022, hedge funds took advantage of the worldwide equity rally in 2023 and obtained positive returns across nearly the entire asset class.

Fabio Dias, managing director of Stalwart Holdings

LONDON, UNITED KINGDOM, January 22, 2024 /EINPresswire.com/ -- According to data compiled by the hedge fund research company Eurekahedge, nearly all hedge fund strategies delivered strong returns in 2023. As at 22 January 2023, 1780 funds reported to Eurekahedge their returns for the entire year of 2023, and such data provided insightful remarks on the industry's performance for the year.

All strategies with a focus on equity market had positive returns for 2023, a remarkable change of fortunes compared to 2023 when nearly all strategies had negative returns. Consistent with a worldwide rally in equity markets, long-only strategies had the best performance with a total average return of nearly 9% for the year, with almost half of that return coming from the performance in December, where the average return was more than 4%. The average hedge fund returned 8.5% in the year and 2.4% in December, as measured by the Eurekahedge Hedge Fund Index.

The year of 2023 was marked by wide usage and divulgation of Artificial Intelligence, and this wasn't different in the world of hedge funds. Stalwart Holdings, an equity long-short hedge fund based in the United Kingdom, runs an entirely automated decision-making process for its own portfolio, using mathematical methods to choose which markets to invest and has daily portfolio rebalancing based completely on an artificial intelligence trader that reads all market movements, compares them in real time with previous market patterns and decides without any human intervention which positions to take.

Such a process paid good rewards, with Stalwart returning 5.2% in December and 12% for the year, ahead of the best performing equity strategy. “We can’t complain about our performance, especially if we note that had a flat year in 2022 when all other hedge funds were having negative returns and when the S&P500 lost almost 20% of its value. Our fund NAV was making all-time highs in early September, when global equities still had a long way to go to recover lost ground in 2022,” said Dr Fabio Dias, the chief investment officer (CIO) and CEO of Stalwart Holdings.

“Our multi-strategy approach allows us to get much smaller drawdowns than direct investments in equities while getting comparable returns. Since our inception back in the second half of 2020, we had a cumulative return in the same order of magnitude of the MSCI All Country World Index (ACWI) with less than half of the risk. Our maximum drawdown was less than 10% - compared to the MSCI ACWI maximum drawdown of almost 30% in the period. So we recovered from our drawdown in months, while the MSCI ACWI needed two years to recover,” added Dr Dias.

Stalwart has also fared well compared to other AI-based strategies. According to the Eurekahedge AI Hedge Fund Index (which is designed to provide a broad measure of the performance of underlying hedge fund managers who utilize artificial intelligence and machine learning theory in their trading processes), the average AI-based hedge fund returned 2.8% in December and 6.4% in 2023. “Internally, we jokingly call our AI model the ‘Terminator’ [in a reference to Arnold Schwarzenegger’s fictional character in the 1980s] as it poses a threat to the competitor hedge funds,” says Dr Dias with a slight smile.

Not all strategies yielded positive returns in 2023: according to Eurekahedge, strategies based on trend-following returned -0.1% in December and -1.9% in 2023, while strategies based on commodities returned -0.6% in December and -3.8% in 2023. According to Dr Dias, this is nothing alarming: “trend-following is a strategy that thrives in equity bear markets and 2023 certainly wasn’t an equity bear market; but if you see that trend-following was the best strategy in 2022 with double digit returns while everyone else was losing money you’ll understand why we can’t ever ignore the existence of this particular trading style. Ditto for commodities, as most commodity trades are actually trying to find market trends given that commodities don’t generate earnings or dividends like in the case of equities.”

Dr Dias sees 2024 as a year of opportunity with some cautious optimism: “global equities are still rising and the S&P500 has hit record highs already in January – even own hedge fund has already hit a record high – but we should expect some volatility. I think it will be very hard for equities to have the same performance in 2024 as they had in 2023 given that in 2023 the equity markets were starting from a low base after the bear market of 2022. But we believe we are prepared for that here at Stalwart and while we obviously can never make promises about future returns, we can promise to use our best models, our best knowledge and our best efforts.”

About Stalwart Holdings

Stalwart Holdings UK LLP is an Alternative Investment Fund and an Alternative Investment Manager registered with the UK Financial Conduct Authority as a small/sub-threshold self managed alternative investment fund: the company has only one fund and the management company is the same as the managed fund, providing some economies of scale and leaner regulation. The fund has been trading since August 2020 and is run by Dr Fabio Dias, a PhD in Econometrics by the University College London, consistently ranked as one of the top 10 universities according to the QS University Rankings. Dr Dias also teaches Financial Modelling at the University of Surrey, consistently ranked as one of the top 10 universities in the United Kingdom for Business and Economics according to the Times Higher Education Rankings.

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