Long equity exposure no reason to doubt CTA crisis protection – RPM

Stockholm (HedgeNordic) – In its most recent research piece, Swedish CTA-specialist RPM argue that the current long equity exposure of systematic trend following strategies is by no means a reason to doubt the efficiency of these strategies to capture so-called crisis alpha.

“When an equity crisis sets in, CTAs are typically long equities and, thus, will suffer losses from this sector. These losses have historically been offset by profits in other sectors and after a week into a crisis period, CTAs have on average started to deliver net returns. This “Crisis Alpha”- characteristic is more pronounced the longer and deeper the equity downturn continues”, RPM concludes.

By digging into historical performance data, RPM reviews 12 periods that are referred to as “equity crisis” and look at the sector contribution of CTA returns during these periods. Conclusions are:

- The crisis alpha characteristic of CTA returns is not just coming from (being short) equities. Sector contributions look quite different between the different crisis periods. RPM also see that for all shorter crisis periods, the equity sector contributed negatively. In some of these periods this negative contribution was quite substantial.
- In the initial phases of these crisis periods positive returns from non-equity sectors are offset by negative equity returns. As equity returns flatten out, and eventually turn positive, the crisis alpha-type returns from CTAs pick up.
- For all but 2 of the crisis period studied, CTAs were initially long of equities going into the crisis. 20 days later, managers had (on average) turned equity exposure around, allowing them to profit from the bearish market sentiment in equities during these periods.

The full report can be accessed through the below link:

RPM Educational – Long Equities! Crisis Alpha?

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