CTAs rally in January to score best month in three years

Stockholm (HedgeNordic) – As January comes to a close, estimates from the world's leading CTA benchmarks suggests an exceptionally strong month for systematic trend following managers.

The Barclay BTOP50, reflecting the largest managers by assets under management, recorded its best month in over three years with early data suggesting a gain of 4.8 percent for the month. The SG CTA Index (formerly known as the Newedge CTA Index), which is another widely used industry benchmark, gained even more, suggesting a positive 5.9 percent in January. As is typically the case in good CTA months, trend following managers took center stage with gains of 8.3 percent for the SG Trend Index, a sub index only including trend following strategies.

Among Nordic CTAs, estimates suggest above industry benchmark performance numbers. Industry giant Lynx reports gains of 12,1 percent for the month while SEB Asset Selection added 4.8 percent according to data from Avanza. The multi-manager CTA fund, RPM Evolving, has gained 16.4 percent as of January 26 according to the company´s website. The short-term trend follower, Alfa Axiom, added around 5 percent on the month, again according to data from Avanza.

Tomas Stridsman, portfolio manager of the Alfa Axiom Fund, says that the month's performance is reflective of a typical trend following friendly environment.

> *"This is the classic trend following scenario that we are all looking for in this industry, meaning a weak US dollar against all major currencies driving prices in commodity markets higher. Trends on the long side (long positions in major currencies against the dollar and long commodity exposure in this case) is by far the best environment for CTA-strategies overall and is when the industry should deliver outsized returns."*

Thomas Stridsman – Alfakraft

Apart from currencies and commodities, equities have continued to generate strong returns during the month. Repositoned exposures in FX and bonds, where models have been adding to short positions, have also started to pay off according to SEB's Hans-Olov Bornemann.

> *"In our funds SEB Asset Selection and SEB Asset Selection Opportunistic we have been very optimistic towards equities for a long time. The long positioning in equity markets remains and have generated good returns in January. In currencies and bonds we have done quite significant repositionings . By the beginning of this year we started to go from neutral positions in the US dollar and global bond markets to short positions. The short positions on the currency side has already added to returns."*

Hans-Olov Bornemann – SEB

With regards to risk utliization in the underlying models, the common notion among Nordic CTAs is that they have come up a bit from low levels trading in line with long-term averages, risks are also judged to be widely spread over sectors and markets.

> *"Risk levels are currently around long term averages. Positions are big in certain markets but spread over different sectors which provides for diversification. Generally speaking risks have come down during the last trading days", Anders Löwbeer of RPM says.*

Anders Löwbeer – RPM

Hans-Olov Bornemann says that even though the systems trigger on more clear trends in the current environment, risks in his funds are still below target levels.

> *"In our funds, volaility levels have come up a bit but we still remain below long-term target risk levels. Trends have become clearer and the short positions in the US dollar and bonds have become increasingly short, at the same time we see that diversification effects have increased somewhat."*

Stridsman of Alfa Axiom, who are running shorter-term trend models, says that positions and risks have been added to in the very recent past.

> *"With the exception of a few markets the fund has added to positions. Only in the last 24 hours (as of January 26) we have started to build long positions in corn and silver and short positons in the Euro Bund. We have reduced our longs somewhat in Euro Stoxx and Nikkei Index as well as in a short Japanes bond position", Stridsman says.*

Looking forward, Nordic managers prefer to hold a cautious stance with regards to the prospects for trend following strategies to continue the recent run.

> *"The trends we are now experiencing could mark the start of a series of more broad-based trends for the years to come – or not, only time will tell, Stridsman says continuing:*
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> *"Looking back 10-15 years we are not likely to see the returns generated back then to be repeated regularly in the years to come. The manager that holds risks on the high side aiming for these performance numbers is likely to misfire, despite a strong start to this year."*

Löwbeer of RPM says that the economic data that has come out of Europe and the US in the autumn supports market bullishness and is reinforcing current underlying market trends.

> *"Even though there are possible threats on the horizon, most agree that 2018 will mark a strong year for the global economy, this will support underlying market trends. How long this will last, you never know.*

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