PivotalPath

Trusted Hedge Fund Industry Expert

Managed Futures Exposure to Treasuries Historically Negative:

In March of this year, the team at PivotalPath published a note surrounding the historic rally in Treasuries and its effect on Managed Futures. As a reminder, in the span of eight trading days between March 8th and March 17th, 2023, there were massive moves across the US Treasury yield curve. The 2 Year rate fell from 5% to 3.8% (while the futures prices, moving inversely to yields, rose an unprecedented 2.4%) – the largest move within a single calendar month going back to 1998, when our Managed Futures data began.

The swift rally across the curve had a large negative impact on funds that were short Treasuries, including managed futures funds/CTAs. Of note is that February 2021 represents a turning point for the Managed Futures sector, which has been historically mostly long bonds, until then.

The PivotalPath Managed Futures Index (PPMFI) finished the month of March down 4.7%. However, our model estimates the intra-month drawdown reached 10% peak to trough. This is consistent with the SG CTA Index, which lost ~9% between March 8th and March 17th. For perspective, the loss over a handful of trading days represents more than 50% of PPMFI's gain for all of 2022 and would represent the largest calendar month loss in our data going back to January of 1998.

Our team revisited our analysis of managed futures funds and their exposure to Treasuries to see what if anything has changed since March.

To gauge sector exposure to Treasuries, we ran our correlation screener across our Managed Futures universe with the Bloomberg US Treasury Index (ticker: LUATTRUU, abbrev.: **BUST**) as independent variable and the last 18 Months (through Sep 2023) as estimation window, and this is what we found*:

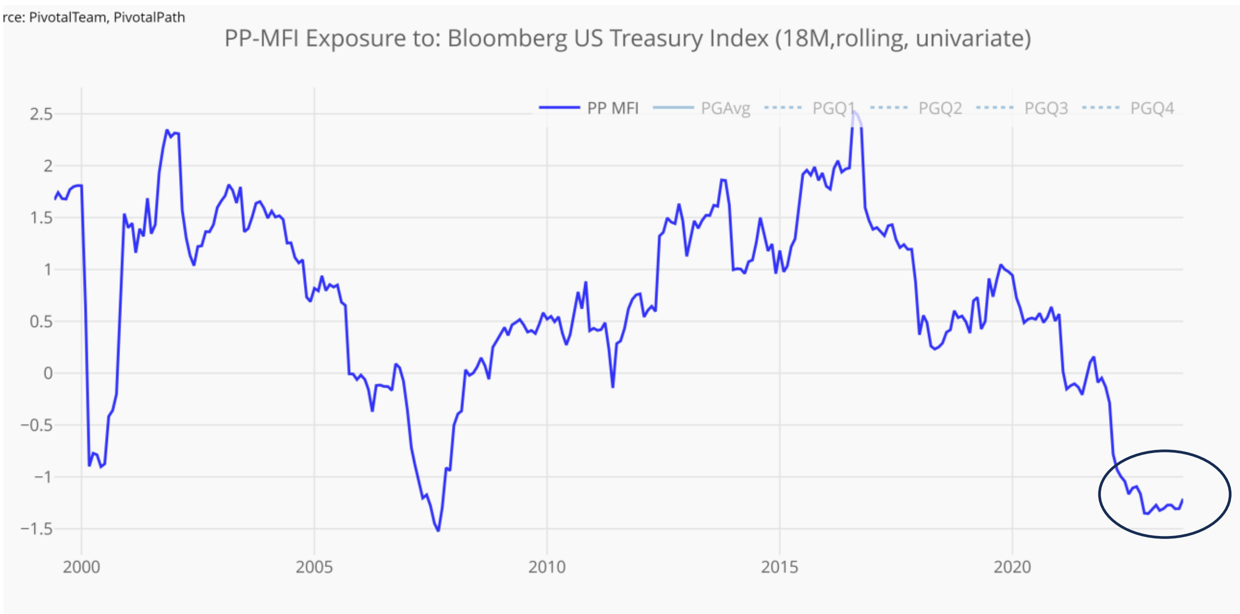
Indices	Beta to BUST	Correlation (to BUST)
PivotalPath Managed Futures Index (PPMFI)	-1.21	-0.90

Funds Sorted By Beta (descending)	Beta to BUST	Correlation (to BUST)
Managed Futures Fund #1	-3.99	-0.69
Managed Futures Fund #2	-3.28	-0.84
Managed Futures Fund #3	-2.51	-0.85
Managed Futures Fund #4	-2.09	-0.90
Managed Futures Fund #5	-2.08	-0.76

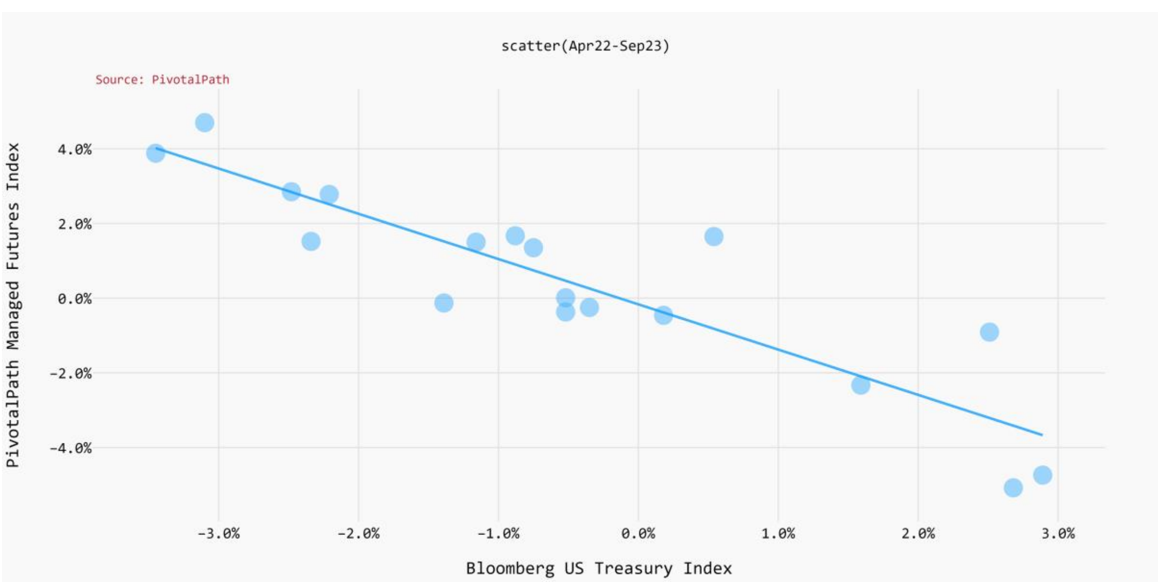
*Beta and Correlation are estimated over the 18-month window ending in September 2023

It has been widely reported that managed futures funds, among other hedge funds, have been positioned short Treasury futures in size, as denoted by the CFTC and referenced in a recent notes by the Federal Reserve here. This is also evidenced by the following chart which shows how this exposure evolved in time. We find that current exposure is in deep negative territory (since Feb 2021) to a level unseen since 2007, albeit with apparently more persistence this time – things barely changed since

March 2023. This is a relatively untested territory for this sector and something that we will continue to monitor.



Our second chart digs deeper into the current exposure. An OLS regression estimate through the last 18 data points yields PPMFI= - 1.214xBUST – 0.0016 (beta=-1.214, annualized alpha=-2.0%, R2=80%). The high R2 indicates a strong linear fit, as evidenced by the scatter plot of monthly returns.



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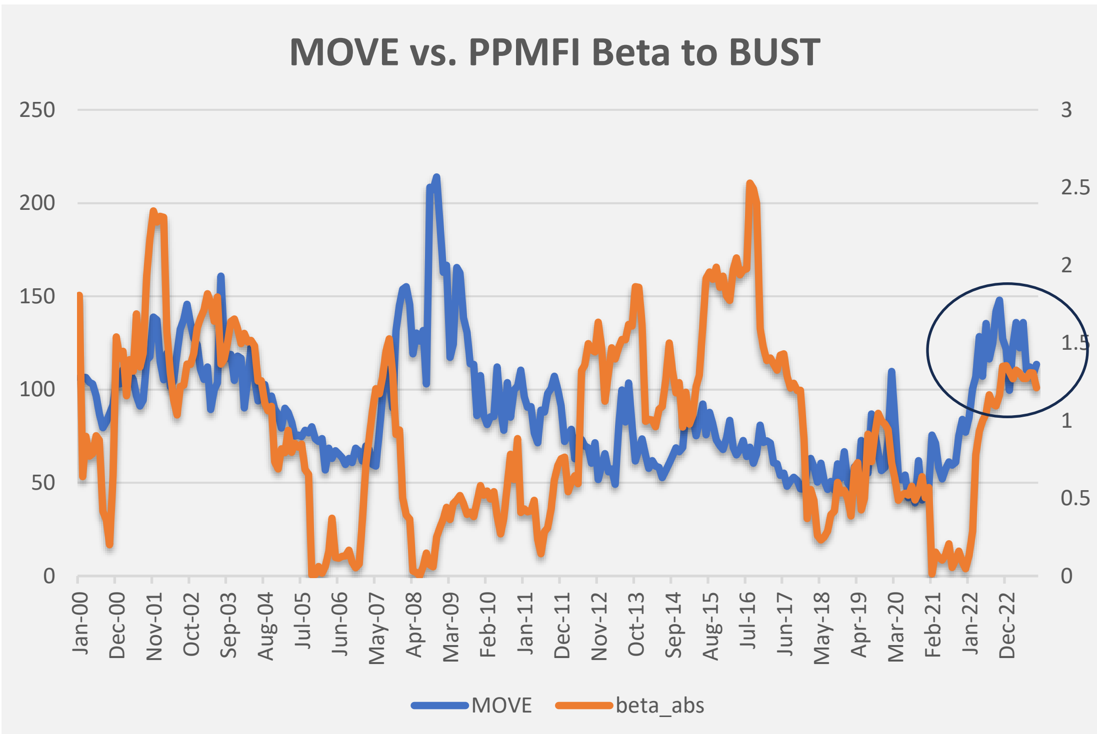
Our final chart illustrates the sharp increase in PPMFI's exposure to Treasuries accompanied by a spike in the underlying volatility, using MOVE as a proxy. This is somewhat counterintuitive (and unusual from a historical perspective) as we would expect risk targeting strategies to reduce exposure on the backdrop of heightened volatility.



In this environment of increased volatility, investors in Managed Futures should note that, on average, funds remain negatively exposed to a sudden drop in rates, or a flight to quality event, like we saw in March of this year around regional banking turmoil.

Please let us know if you would like to learn more about our tools by emailing inquiry@pivotalpath.com.

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About PivotalPath

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Through our dedicated research team, we have built significant trust and lasting partnerships with both allocators and hedge funds through transparency and by ensuring that allocators evaluate each manager in the right context. PivotalPath protects confidential manager information and only shares insights with its institutional investor clients.

PivotalPath enables clients with the full cycle of investment due diligence: intelligence reports, analytics, and performance analysis tools.

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