

# Hedge Fund Confidence Index

## Higher confidence levels from multi-strategy and global macro funds

AIMA, in partnership with Simmons & Simmons and Seward and Kissel, are proud to present the 15th quarterly [Hedge Fund Confidence Index \(HFCI\)](#), which provides a snapshot of hedge fund managers' confidence in their economic prospects for the coming 12 months.

Selecting the appropriate level of confidence, respondents are asked to choose from a range of -50 to +50, where +50 indicates the highest possible level of economic confidence for the firm over the next 12 months. When measuring their level of economic confidence, hedge fund managers respondents are asked to consider the following factors: their firm's ability to raise capital, their firm's ability to generate revenue and manage costs, and the overall performance of their fund(s).

## Q2 2024 results

The Q2 2024 edition of the HFCI surveyed approximately 250 hedge fund firms worldwide, collectively managing approximately \$2 trillion in assets. The results show an average confidence level of +16.5, down slightly from Q1 (+19) and below the rolling historic average of +17.7.

The downturn in the overall average score since the first quarter comes despite the respondent pool being dominated 80/20 in favour of larger hedge fund managers, (those with an AUM greater than \$1 billion), which are historically more confident than their smaller peers. That said, those smaller hedge fund managers who responded recorded a significant confidence downturn this quarter. Their average confidence dropped to +13, down from +18.9 in Q1. Overall, 92% of respondents reported a positive confidence score, but, broken down by AUM, 96% of larger hedge fund managers offered a positive sentiment score, compared to 77% of smaller firms.

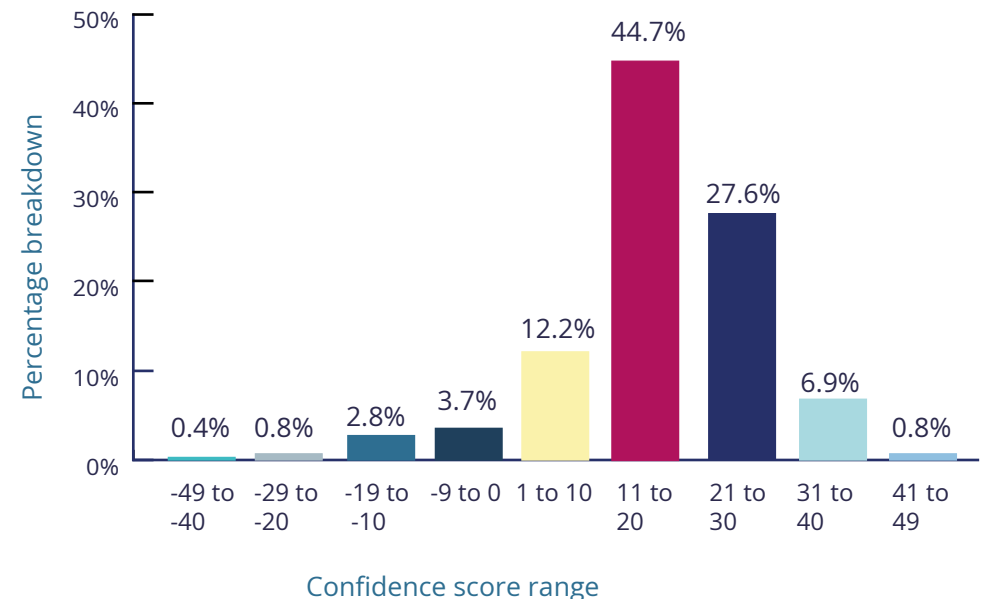
An additional factor causing a drag on the overall performance level is the large portion of long-short equity respondents, who are once again the least confident group surveyed by strategy. So far, these hedge fund managers have failed to regain confidence despite the positive performance of major equity markets and the prospect of interest rate cuts later this year.



## Q2 overall confidence score: +16.5

Figure 1, Q2 overall confidence score

Overall, how would you score your confidence in the economic prospects of your business over the next 12 months, compared to the previous 12 months, on a scale of +50 to -50? (Hedge fund managers).

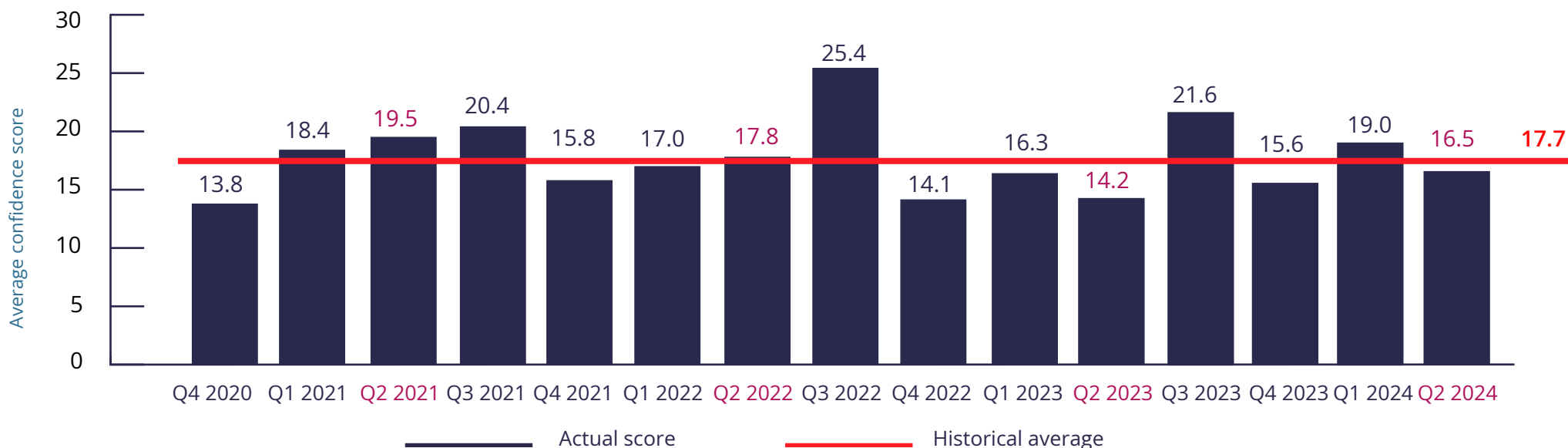


## HFCI Scores over time

For the second year running, initial new year optimism among hedge fund managers gave way to a more cautious sentiment. For two years' worth of HFCI reports, the primary consistent trend has been the lack of consistency. The overall average confidence score has alternated between higher and lower scores for eight consecutive quarters, underscoring the disruptive and unpredictable market environment that's persisted since the COVID-19 pandemic receded.

An additional factor causing a drag on the overall performance level is the large portion of long-short equity respondents, who are once again the least confident group surveyed by strategy. These hedge fund managers have failed to recapture the confidence levels reported in 2023, despite hedge funds producing their strongest start to the year since 2021. As of the end of the first quarter, the [Preqin All Strategies Hedge Fund Benchmark](#) has recorded a 15.96% and 6.09% trailing return over a 12-month and 3-Year annualized periods, respectively.

Figure 2, HFCI scores over time



## Insights: What's driving confidence among hedge fund managers?

This quarter, confidence in the ability to raise capital increased by six percentage points compared to Q1. However, optimism about revenue generation, cost management, and overall fund performance slightly declined among respondents.

Middle Eastern hedge fund managers were the most optimistic about all three factors. In contrast, UK hedge fund managers were less positive about capital raising and overall performance, though the majority still saw these factors as confidence boosters.

Both large and small firms had similar views on the overall performance of their investment strategies. However, smaller hedge fund managers were more concerned about costs affecting their revenues. Additionally, capital raising posed a greater challenge for smaller firms, with a third citing it as a confidence drain, compared to only 20% of larger firms.

Figure 3, Ability to raise capital

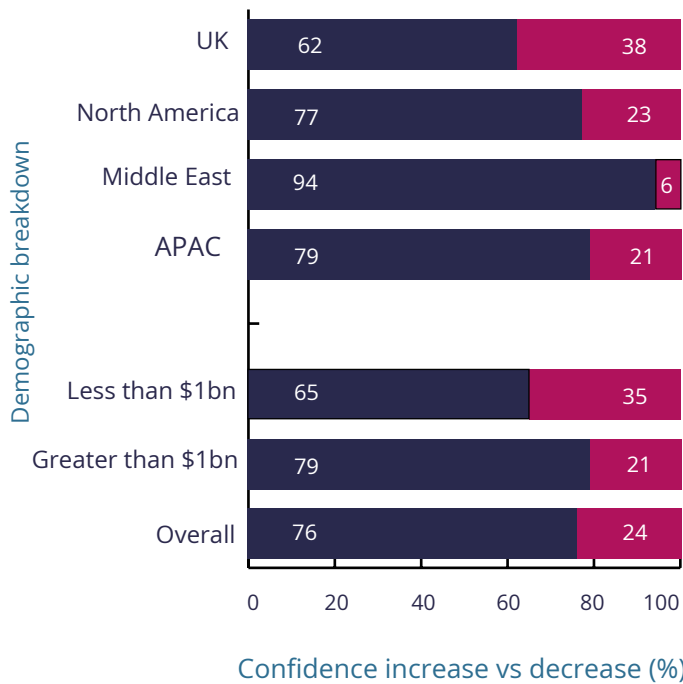


Figure 4, Ability to generate revenue and manage costs

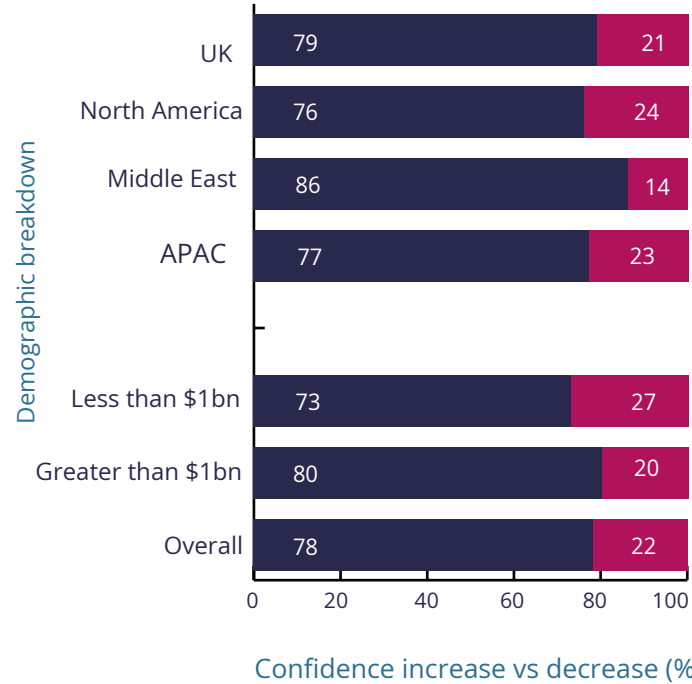
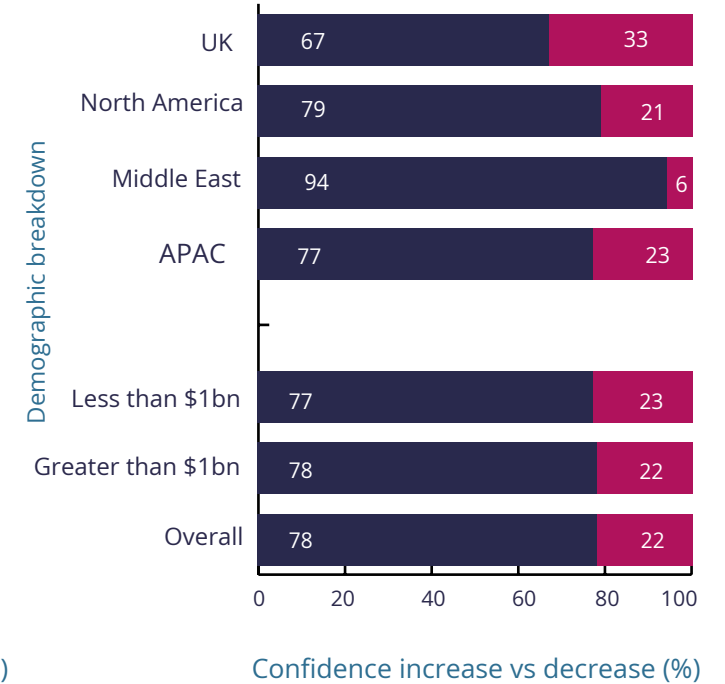


Figure 5, Overall performance of the fund(s)



● Increases my confidence    ● Decreases my confidence

## Breakdown by hedge fund location

Upon closer examination of the hedge funds that reported to the index, confidence levels have declined across the board, except for UK-based respondents, with the Q2 average score falling below +17. North American and APAC hedge fund managers showed the lowest confidence levels. In North America, confidence is at its lowest since Q4 2022. Although some leading US stock markets hit record highs this quarter, most of these gains were driven primarily by a small but significant group of semi-conductor stocks and tech mega-caps.

Recently, concerns about the sustainability of this AI rally have grown. Towards the end of the quarter, some market commentators noted that hedge funds and other investors were selling their technology holdings and shifting to financials and energy stocks to reduce their exposures. The overall confidence score among North American funds (+15) was dragged lower by a larger than normal percentage of Long-Short Equity and hedged equity strategies, which scored the lowest in confidence this quarter.

Elsewhere, APAC-based respondents reported mixed confidence levels. Hong Kong-based firms continued to show the lowest confidence (+13), affected by the high percentage of hedged equity funds. In contrast, Singapore-based funds reported among the highest confidence levels in APAC (+16,) driven by greater confidence in macro, multi-strategy, and digital asset funds, which scored +18 this quarter.

Figure 6, North America

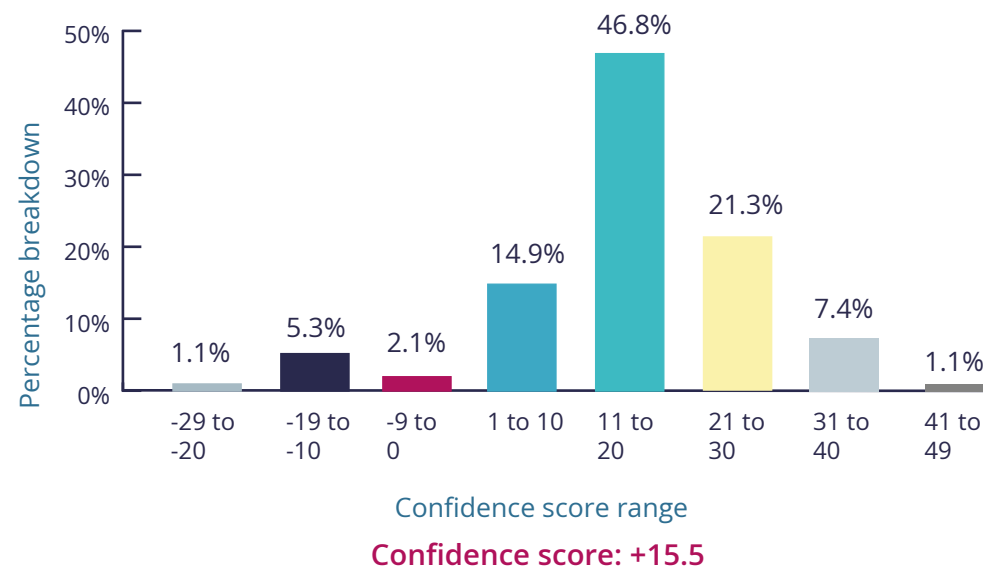
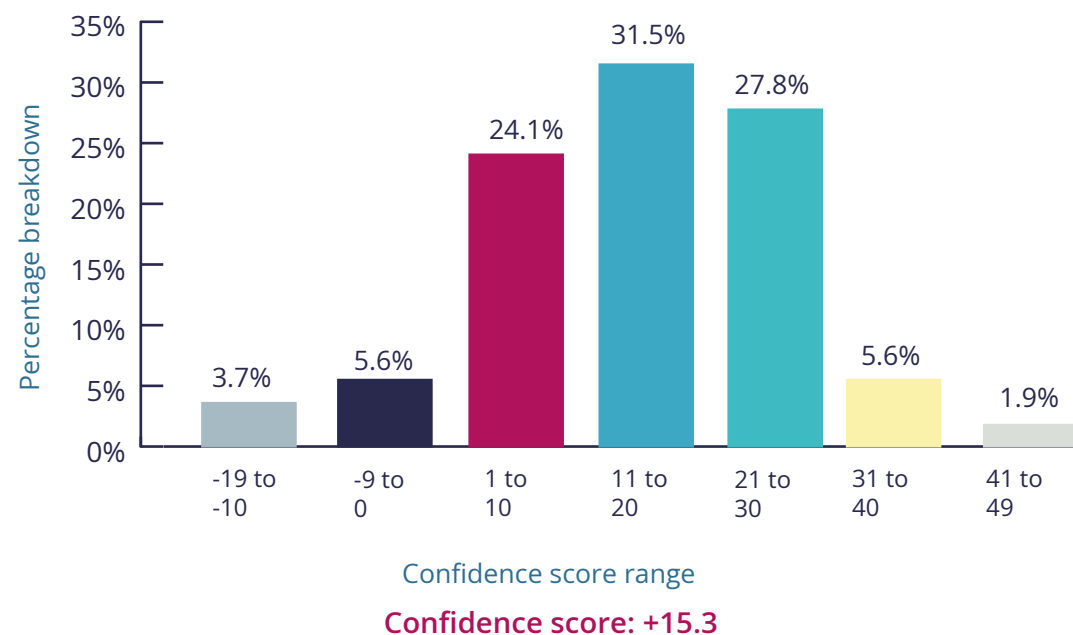


Figure 7, APAC



UK-based funds continue to score high levels of confidence (+18) In contrast to events taking place in the US where the election outcome remains on a knife edge, the polls leading up to the UK election suggest the outcome to be far more certain. Other headwinds in the shape of higher interest rates for longer appear to be subsiding with firms expressing greater levels of confidence for the second half of the year.

Rounding off our regional insights, Middle East-based funds continue to be the most bullish globally, with an average score of +19. The quarter witnessed further news of big-name hedge funds and alternative asset managers move to the UAE as the region underlines its position as one of the fastest growing jurisdictions for the fintech industry globally.

Figure 8, UK

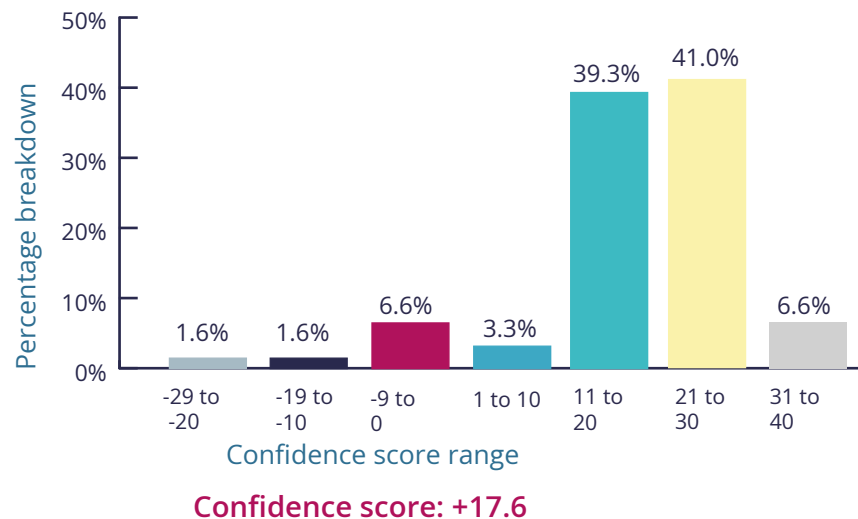
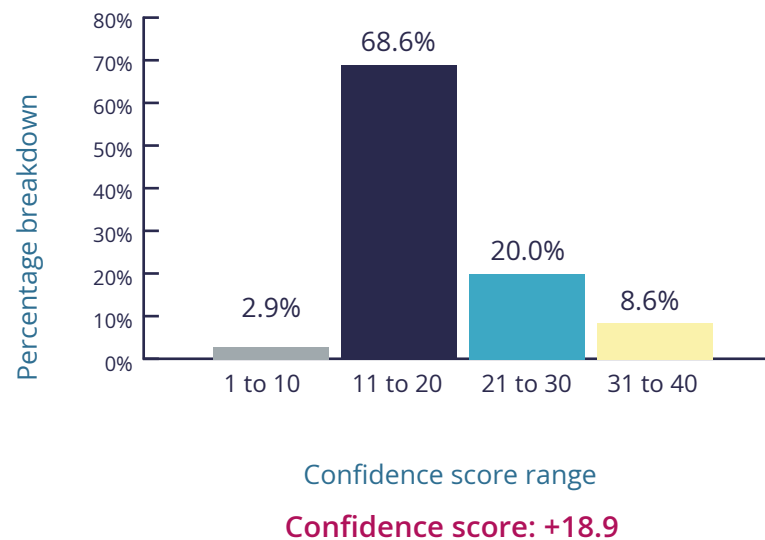


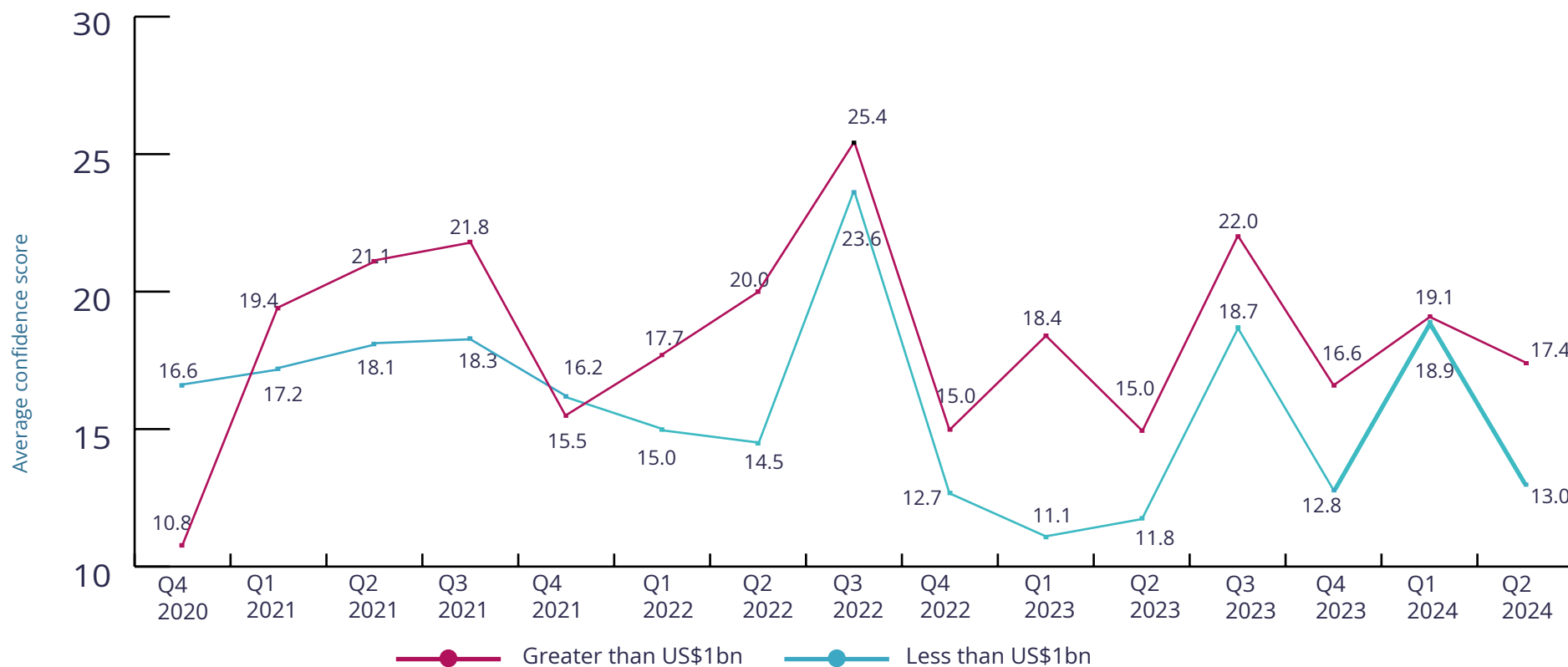
Figure 9, Middle East



## Breakdown by hedge fund AUM

After coming close to parity in Q1, smaller hedge fund managers' average confidence score fell away from their larger peers. Although larger respondents also recorded a drop in confidence this quarter the decline was much milder than their smaller peers. Notably, both demographics remain more confident than they were in Q2 2023.

Figure 10, AUM comparison over time



## Commentary: Hedge funds cautiously optimistic amid industry headwinds and emerging opportunities

This quarter, the HFCI experienced déjà vu. For the second year running, initial new year optimism among hedge fund managers gave way to a more cautious sentiment. This shift was driven by ongoing industry headwinds, concerns around a correction in equity markets following an extended AI-driven rally, and political uncertainty as governments across the Western world are potentially facing significant changes in the coming months.

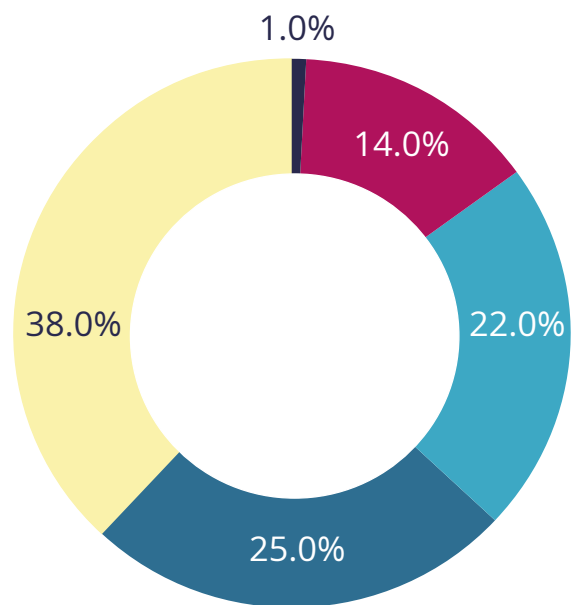
Putting this into perspective, while hedge funds are more cautious than earlier in the year, they have a higher degree of confidence than the same time last year for several reasons. The direction of interest rates points to a fork in the road, with many commentators expecting the US Federal Reserve and the Bank of England to follow the European Central Bank and cut rates over the coming months, lowering the cost of capital.

Despite these headwinds, hedge fund performance has held firm and should there be any market correction, well-diversified investors should be well-placed to navigate it. Meanwhile, the industry has seen several banner fund launches over the first half of this year, including notable names from some of the large multi-manager platforms. Indications of an improving launch environment for hedge funds are evident, with the quality and quantity of new launches anticipated to be among the best in several years.

## Breakdown of respondents

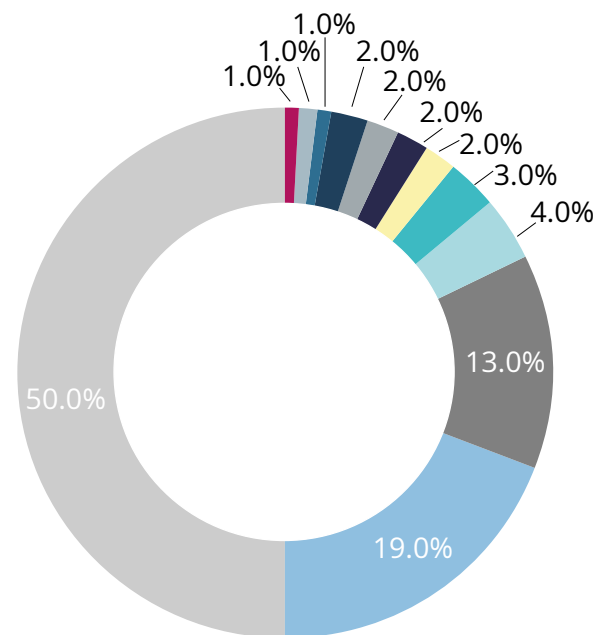
Estimated aggregate assets under management for hedge fund respondents: US\$2 trillion

Figure 11, Regional breakdown



- Europe
- Middle East
- APAC
- UK
- North America

Figure 12, Strategy breakdown



- Long-short equity
- Global macro
- Long-short credit
- Funds of funds
- Other
- Private credit
- Multi-strategy
- Relative value arbitrage
- Event driven
- CTA/Managed futures
- Equity market neutral quant
- Digital assets



## HFCI over time

Figure 13

Category	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023	Q3 2023	Q4 2023	Q1 2024	Q2 2024	Average
Overall	13.8	18.4	19.5	20.4	15.8	17.0	17.8	25.4	14.1	16.3	14.2	21.6	15.6	19.0	16.5	17.7
Greater than US\$1bn	10.8	19.4	21.1	21.8	15.5	17.7	20.0	25.4	15.0	18.4	15.0	22.0	16.6	19.1	17.4	18.3
Less than US\$1bn	16.6	17.2	18.1	18.3	16.2	15.0	14.5	23.6	12.7	11.1	11.8	18.7	12.8	18.9	13.0	15.8
APAC	11.1	17.2	18.2	19.5	16.0	14.8	15.6	23.3	13.8	10.6	9.4	19.3	15.7	17.7	15.3	15.7
North America	19.7	19.6	22.5	20.4	13.9	13.0	16.4	23.2	13.5	16.4	16.7	19.5	16.7	20.1	15.5	17.8
UK	9.7	16.4	17.0	21.3	18.2	20.7	21.0	25.6	15.1	18.0	14.5	21.3	12.6	17.5	17.6	17.8
EMEA (excl. UK)	-	-	-	-	-	-	-	30.6	14.9	22.2	15.2	27.0	18.5	23.1	18.9	19.3
Middle East	-	-	-	-	-	-	-	-	16.1	22.6	16.5	27.2	12.2	21.7	19.9	19.3



**Tom Kehoe, Global Head of Research and Communications at AIMA,** said: *"This quarter, hedge funds are trading more cautiously amid ongoing industry headwinds and geopolitical uncertainties. However, compared to last year, there is a higher degree of confidence fuelled by expected interest rate cuts and robust performance. The hedge fund industry is also witnessing a promising environment for new fund launches, indicating resilience and potential growth."*

**Muneer Khan, Partner and Middle East Regional Head at Simmons & Simmons,** said: *"This quarter's HFCl report reveals a nuanced hedge fund landscape. It's clear that market unpredictability since COVID-19 continues to challenge the industry, with concerns over costs and capital raising emerging, especially for smaller firms, which further underscores the complex dynamics influencing hedge fund confidence. However, we're pleased to see Middle Eastern managers emerging as the most optimistic, reflecting a sector that, while facing challenges, continues to navigate the regional market with more confidence."*

**Steve Nadel, Partner at Seward & Kissel,** said: *"It's interesting that the HFCl data indicates an increase in confidence regarding capital raising for North American fund managers, yet overall confidence levels are down and specifically, significantly down for emerging managers. This aligns with what we've seen in the market – that fundraising continues to be challenging but less so for established managers"*

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