Investments

Hedge funds reap windfalls from market rout

Crispin Odey's bets on falling stocks helped his fund gain 7% last month

'There's a lot [for investors] to get worried about,' says Crispin Odey, whose hedge fund has gained more than 50 per cent this year

Laurence Fletcher in London and Lindsay Fortado in New York 3 HOURS AGO

The stock market correction of the past two months has been painful for many investors, but a small group of bearish hedge fund managers believe their time has arrived.

These traders, who have been positioned for a slump and suffered as markets rose, are making hay and see further trouble ahead.

"There's a lot [for investors] to get worried about," Crispin Odey, founding partner at Odey Asset Management, told the Financial Times.

His fund, which is betting on falling stocks, has gained more than 50 per cent this year, including gains of around 7 per cent last month. That makes it one of the world's top-performing hedge funds this year, but comes after overly bearish positions pushed him to a near-50 per cent loss in 2016.

He said that downwards market momentum is "very difficult to halt" when it is coupled with expensive equity valuations. He added: "The only way it's been halted has been lower interest rates, and that's not an option."

Mr Odey said "many of the other features of a bear market are present". Those include China's cooling economy and companies' decision to spend gains from US tax cuts on share buybacks rather than capital investment. He added that "Joe Public has got in" to the market, which signals it's "the beginning of bad times".

Other managers also see reason for gloom.

"I think the cliff is near," said Francesco Filia, founder of London-based Fasanara Capital, who has been predicting a market crash. He believes markets have been driven by crowded trades, such as buying exchange traded funds and selling volatility, during the bull market. That, he believes, has made the structure of the market fragile and is pushing it closer to a major correction.

His funds delivered gains of as much as 10 per cent for October and are up as much as 30 per cent so far this year.

The S&P 500 is down around a tenth from its all-time high hit in September, on the back of a rise in US interest rates and concerns about the technology sector.

The FTSE 100, meanwhile, wrestling with its own Brexit-related issues, hit its high back in May and has fallen 12 per cent since then, including a large drop early last month.

The sell-off has hit many hedge funds hard. They suffered their worst month of performance in seven years in October, according to data group HFR. Many are now in the red for the year, with funds on average down 1.7 per cent to the end of October.

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Lansdowne Partners, for instance, which runs around $20bn, lost 5.4 per cent in its flagship Developed Markets fund last month, according to numbers sent to investors and seen by the FT. That fund is now down 5.6 per cent for the year.

Man GLG's European Long Short fund, meanwhile, lost 2.7 per cent last month and is down 4.2 per cent for the year. A spokeswoman for Man declined to comment.

Other funds, however, are profiting. North Asset Management's North Emerging Markets fund was up 8 per cent in October, driven by gains in some of its short positions. That brings its year-to-date returns to 10.4 per cent.

However Mr Filia, whose fund uses artificial intelligence and bets against ETFs in a bid to profit from large market falls, believes there is much further for the market to drop.

He says there is a one in four chance that the S&P will fall 40 per cent from its peak in the coming months, and a one in two chance that a decline of that scale will happen in the next two years.

"Nothing has happened yet," he said.

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Crispin Odey

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