

SEB's Asset Selection Hit Hardest

Stockholm (HedgeNordic) – Many trend-following players faced significant challenges during the sharp sell-off in early August, driven by the unwinding of Yen-funded carry trades and growing U.S. recession fears. SEB's trend-following vehicle, SEB Asset Selection, was among those hit hardest, suffering a 15.9 percent loss in just a few days by the end of August 5.

According to several Nordic trend-following managers, most CTAs were likely holding long positions in both bonds and equities leading up to the early August sell-off. While this positioning caused losses in equities, many funds managed to mitigate these losses through gains in their long bond positions amid decreasing interest rates. However, SEB Asset Selection appears to have been net short in fixed income, which prevented the fund from offsetting its equity losses. "On the fixed income side, we have reduced short positions slightly, but were still net short at the end of the month," the SEB Asset Selection team wrote in their July investor letter.

A Nordic trend-follower recently shared with HedgeNordic that the USD/JPY currency pair had been one of the best trades this year before undergoing a significant reversal in July, driven by Japanese interest rate hikes and reduced bond purchases. This shift led to the unwinding of previously popular carry trades, where investors borrowed in Yen at low rates to invest in higher-yielding assets. SEB Asset Selection incurred a loss of 3.4 percent in July, primarily due to this reversal, with the short Yen position being the largest negative contributor. Most trend-followers, including SEB's trend-following vehicle, were likely still long the U.S. dollar before the early August sell-off, which may have compounded SEB Asset Selection's losses in early August.

SEB Asset Selection was one of the top-performing managed futures funds in the Nordics in the first half of 2024 with a return of 15.5 percent, trailing only bitcoin-focused trend-follower Anna Fund and Lynx Asset Management's systematic global macro vehicle. However, the 3.4 percent loss in July and a further 12.4 percent decline month-to-date through August 9 brought the fund into negative territory for the year. The recent market turmoil in early August resulted in a wide range of returns for Nordic CTAs and managed futures funds, underscoring the highly heterogeneous nature of the trend-following CTA space, with managers employing different models, trade horizons, and other distinctive features.