Janus Henderson Multi Strategy – Overview

Q1 2024

Steve Cain, Co-Lead Portfolio Manager, Diversified Alternatives Team

A world in flux merits increased communication. This series outlines the way we see the world, provides our ongoing view on the shifting opportunity set for our seven overarching strategies, and addresses any issues where outcomes have disappointed. As with any multi strategy process, the positioning and return achieved by the team is a reflection of many inputs and approaches. Here, the views are my own, but I will attempt to provide a distillation of the expert and diverse views across the team.

Operating environment:

The price of everything

In the multi strategy world, we deal with the price of many securities and physical products (commodities). In most strategies, we try intentionally to isolate the beta (the volatility in the price of a broad passive holding in an asset class) and focus on the relative price of similar securities, the costs associated with holding that security, and the market price of the implied (expected) volatility of that security. We break those exposures into trades with associated hedges that try to isolate the factor we believe is mispriced and then group similar trades into sub-strategies. This allows specialization, intimate expert market knowledge, and the ability to get to grips with execution – and in some cases to develop relationships with other market participants that can bring opportunity and lower the costs of transactions. Finally, we choose whether a market segment has a systematic mispricing, to which a purely data-driven approach and systematic exploitation is best suited, or an idiosyncratic mispricing, to which a more judgmental approach is better suited.

Macro focuses on the 'big picture' forces affecting individual countries and the economy. One element of this is the price of the US dollar: It is ultimately the price of everything. Every asset has a price, usually based on its associated cash flow characteristics and expressed in a local currency. The price of the US dollar determines the value of that asset across borders and relative to other assets found around the world. When the price (and the volatility of the price) of the US dollar changes, it affects almost everything. In thinking about relative prices and volatility exposures in our portfolio, we must have a view on the big picture. It determines the way our portfolio components interact, and the expected risks associated with sharp changes in volatility regimes and the covariance of our individual exposures. This is why we care about macro.

Currency markets have been in the doldrums for a number of years. The Shanghai agreement in January 2020 brought calm, particularly to Asian currency markets. The commitment to refrain from competitive devaluations between members and against the US dollar has largely been successful. There has been one currency that has largely escaped: the Japanese yen (JPY). Since that time, the JPY has devalued more than 35% against the US dollar (see Exhibit 1), a number that is even higher if we go back to the post-Global Financial Crisis (GFC) period. Japan has been given a pass by the world as it has struggled to pull itself from a multi-decade era of deflation and demographic collapse.

Chart 1: Japan's currency has steadily devalued since 2020

Source: Bloomberg, 1 January 2019 to 30 April 2024. ***Past performance does not predict future returns.***

According to OECD calculations over this period, the Purchasing Power Parity (PPP) value of the JPY has moved from 100.74 in 2020 to 94.93 today (suggesting the JPY should have strengthened over this period), largely driven by the inflation differentials between Japan and other countries. That is quite the contrast to the actual exchange rate, perhaps teaching us a good lesson in the usefulness of economic models for trading in isolation. Japan, of course, has run a negative nominal interest rate policy for more than a decade. Over the same period the rest of the world has seen rates move meaningly positive, both in nominal and real terms. This has set up a truly epic carry trade – short JPY (borrowed free) and long anything with a yield (mainly US dollar assets). This flow has impacted almost all markets, in my view. The flow scale is, again, truly epic (measured in trillions) and has allowed the US to run a fiscal and monetary policy combination that has inflated asset prices, collapsed risk spreads, and hanged flow dynamics.

So what? Firstly, we need to recognise this driver and adapt our investment strategies to match. Secondly, we need to be on the lookout for a change in this relationship: What happens if it slows, stops, or goes into reverse? On Monday 29 April 2024, we saw the Bank of Japan finally step into the market to support its currency after the USD/JPY exchange rate hit 160. It is likely that this line will be challenged without something meaningful changing in the rates differential or a willingness to supply an infinite supply of US dollars from the BOJ. Of course, the depreciation of the JPY has not happened in isolation. Asian competitors must cope with an uncompetitive exchange rate and the US with an ever-widening trade deficit. As political alliances shift, and 'friend shoring' continues apace, some of this dynamic has been overlooked.

One economy is not best served by this behaviour: China. With domestic consumption curtailed by the collapse in the domestic real estate market and existing deflationary forces, China is likely not best pleased by the importation of Japanese deflation via the exchange rate channel.

Chart 2: Will China intervene to stop the Yen devalue further against the Yuan?

Source: Bloomberg, 1 January 2019 to 30 April 2024. Past performance does not predict future returns.

The relative devaluation here is close to 50% in nominal terms (much larger relative to PPP terms). This looks like an elastic band that has reached very close to its maximum stretch. In a world in which China needs inflation, the US need deflation, and the Japanese have finally reached positive inflation, the probability of a change in these relationships look very real. Could a meaningful devaluation of the Renminbi be close? Alternatively, could the JPY change course and the flows and carry trades from the last decade or more go into reverse?

What would a Renminbi devaluation mean for markets? In our view, higher volatility and perhaps a repricing of assets. Would the devaluation of CNH/CNY allow a repegging of the HKD from a distant USD and its economy to a closer and more relevant economy – China? Would a step-shift in the price of the USD to its competitor allow or even force the US to cut interest rates? When the price of the USD changes materially, then the price of everything may be subject to material change too. Would this set up a long-term US dollar peak from which a longer-term decline begins (this would be my view)?

Strategy implications:

Macro influences continued to have an impact on our investment strategies during the first quarter, despite their broadly market-neutral construct. Within Equity Market Neutral, our Value-Range strategy suffered in Q1's momentum-driven markets, propelled by expectations of falling interest rates and soft- or no-landing economic scenarios. This proved a headwind to our overall defensive position in Europe. In Risk Transfer, European equity repo widened and detracted from performance, driven by higher financing costs in short-dated futures, in response to rampant demand for synthetic long equity exposure. With asset allocation funds close to maximum long positions, we believe repo is at attractive levels and have added to exposure.

Equity Price Pressure saw an increase in activity, especially in block trades, along with several IPOs as market confidence improved. Performance, however, was mixed, impacted by negative skew. Meanwhile, the allocation towards Fixed Income Price Pressure remains low as investors seek to lock in high yields ahead of hoped-for rate cuts. Convertible positions were generally positive, although credit hedges detracted as spreads remain stubbornly tight. Within Event Driven, both M&A and capital structure positions added value.

Our decision to bias towards Systematic Long Volatility in the Protection strategy due to low implied volatilities meant carry was broadly favourable. The strongest strategy during the quarter was FICC RV, where increased volatility in commodities meant Commodity Alpha continued its strong run, thanks to overweight positions in energy and softs, as well as energy and grains curve positions.

Important information

The opinions and views expressed are as of the date published and are subject to change. They are for information purposes only and should not be used or construed as an offer to sell, a solicitation of an offer to buy, or a recommendation to buy, sell or hold any security, investment strategy or market sector. No forecasts can be guaranteed. Opinions and examples are meant as an illustration of broader themes, are not an indication of trading intent and may not reflect the views of others in the organization. It is not intended to indicate or imply that any illustration/example mentioned is now or was ever held in any portfolio. Janus Henderson Group plc through its subsidiaries may manage investment products with a financial interest in securities mentioned herein and any comments should not be construed as a reflection on the past or future profitability. There is no guarantee that the information supplied is accurate, complete, or timely, nor are there any warranties with regards to the results obtained from its use.

Janus Henderson provides investment advisory services in the US through Janus Henderson Investors US LLC, together with its participating affiliates.

Past performance is no guarantee of future results. Investing involves risk, including the possible loss of principal and fluctuation of value.

No investment strategy can ensure a profit or eliminate the risk of loss. Nothing in this document is intended to or should be construed as advice.

W-0524-602402-05-30-2025