



The hedge of reason

Why traditional equity and bond diversifiers may not be enough to weather market volatility.

Update
24 April 2026

Ask the average investor about hedge funds and you'll probably be greeted with some teeth sucking and muttering about risk. Mention capital preservation funds, on the other hand, and you're far more likely to hear praise for the wisdom of diversifying beyond a traditional equity and bond portfolio, especially given the market turmoil in 2022.

Yet hedge funds can play a crucial role in reducing risk and strengthening the resilience of portfolios. Veteran fund manager Jim Simons summed it up as well as any when he said: "Hedge funds are often misunderstood. They're not the high-risk monsters many think they are."

In reality, hedge funds do exactly what it says on the tin: they hedge against downturns in equity and bond markets. In many ways, they can function as a type of insurance policy designed to limit the loss of capital if (or when) stock markets head into the red.

Despite their potential benefits, hedge funds have historically been the sole preserve of sophisticated and institutional investors and, as a result, out of reach for retail investors. However, investment trusts have opened up access for retail investors to professional hedge fund strategies.

Why hedge your bets?

It's certainly been a rollercoaster ride for equity and bond investors in the last year, with markets buffeted by rising inflation, tariff disputes, the AI arms race and geopolitical conflict.

We're currently in the middle of a bull market that has seen the S&P 500 return more than 15%-plus in US dollar terms for each of the past three calendar years, yet that masks some sharp swings during that time.

Indeed, the S&P 500 fell nearly 6% in a single day in the week following Liberation Day, and more recently the VIX (volatility index) climbing on the war in Iran. The gravy train of the Magnificent Seven also seems to be losing momentum, with concerns over AI spending and stretched valuations weighing on the likes of Microsoft and Meta.

Amid this uncertainty, hedge funds can potentially offer a compelling option for investors looking to shield their portfolios from volatility. By deploying strategies beyond traditional long-only investing, they can provide an added layer of protection in unpredictable markets.

Analysts:

Jo Groves
jo@keplerpartners.com



Kepler Partners is not authorised to make recommendations to Retail Clients. This report is based on factual information only.

The material contained on this site is factual and provided for general informational purposes only. It is not an invitation or inducement to buy, sell or subscribe to any product described, nor is it a statement as to the suitability or otherwise of any investments for any person. The material on this site does not constitute a financial promotion within the meaning of the FCA rules or the financial promotions order. Persons wishing to invest in any of the securities discussed in the website should take their own independent advice with regard to the suitability of such investments and the tax consequences of such investment.

1. Diversification beyond equities & bonds

Equities and bonds have historically maintained a largely negative correlation, providing investors with a natural hedge. However, this correlation has turned sharply positive on occasions, such as in 2022, which has reduced the effectiveness of a traditional equity and bond portfolio.

In contrast, hedge funds aim to deliver positive returns in both rising and falling markets by diversifying across a much broader range of asset classes.

One such example is **BH Macro (BHMG)**, which provides access to the Brevan Howard Master Fund, a leading global macro hedge fund. With exposure spanning fixed income, foreign exchange, commodities, credit, equities and digital assets, BH Macro's NAV offers a low-correlation diversifier for traditional equity and bond portfolios. While share price returns may often broadly move in a similar direction to the NAV, they can differ over the short to medium term, potentially reducing the diversification properties of the trust.



The fund has a strong track record of delivering positive NAV returns when equities decline. This was demonstrated most notably in 2022, when global equities and bonds suffered steep losses while BH Macro delivered an impressive NAV return of more than 20%, demonstrating its effectiveness as a portfolio diversifier.

And this wasn't an isolated occurrence: since inception, the trust has posted positive monthly NAV per share returns in 17 of the 20 worst-performing months for the S&P 500 Index (and positive share price returns in 14 of these). A prime example occurred during the global financial crisis in October 2008, when BH Macro's NAV per share rose by 3% compared to a 16% fall in the S&P 500.

It's worth noting that there have been periods of NAV losses, for example in March 2023 following the black swan event that was the collapse of Silicon Valley Bank. However, thanks to careful risk management and portfolio balancing processes, annual losses have historically been limited to single-digit percentage points.

2. Preserving capital

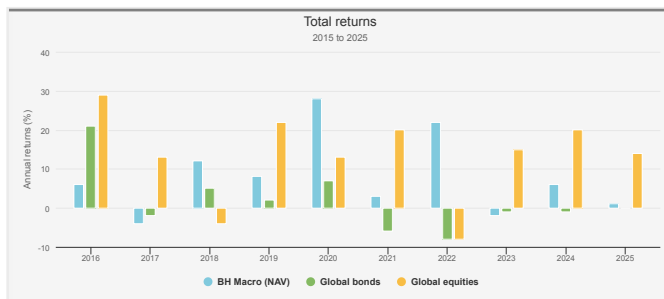
As Warren Buffett famously advised, "The first rule of investing is to never lose money." It may be stating the obvious but if an investment falls in value by 50%, it needs to double to return to break-even, with investing often being as much about minimising downside risk as maximising returns.

Risk management sits at the heart of BH Macro's investment process: traders in the master fund operate under bespoke risk mandates and are overseen by designated risk managers to optimise returns while prioritising capital preservation.

Since inception, BH Macro has delivered positive returns in all but three of the past 18 calendar years in NAV per share terms, with negative returns limited to modest losses of 1-4% after fees.

Overall, the trust has achieved an annualised NAV per share return of 8.5% (to 27/02/2026) and, as the graph below illustrates, has made positive returns in eight of the last ten years, including during the market downturns in 2018 and 2022.

Fig.1: BH Macro Has Hedged Against Market Downturns



Source: FE Analytics & BH Macro factsheet (as at 27/02/2026). Total returns calculated as follows (in GBP): BH Macro, NAV per share, net of fees and expenses, global bonds based on FTSE World Government Bond Index and global equities on MSCI ACWI Index.

3. Uncertainty creates opportunity

If one thing is certain about 2026, it's that uncertainty remains a defining theme, from the unpredictable policy landscape of Trump 2.0 to geopolitical conflict, trade disruptions and fluctuating interest rate expectations.

This heightened uncertainty plays to BH Macro's strengths by creating opportunities around macroeconomic factors such as interest rates, currency movements and inflation. Rate trading forms the foundation of BH Macro's strategy, but the fund also takes positions across multiple asset classes to generate asymmetric returns where potential gains outweigh potential losses.

This multi-asset, multi-strategy approach creates the potential for BH Macro to remain independent of broad market conditions, reducing the risk of major drawdowns that can affect traditional equity and bond investments.

Hedging against the unknown

Looking ahead, uncertainty remains firmly on the menu for investors as they navigate through a volatile geopolitical and macroeconomic backdrop. Diversification is often called the only free lunch in investing and, in this regard, hedge funds can provide an alternative diversifier to traditional equity and bond portfolios.

By combining diversification, risk management and the potential to profit from uncertainty, BH Macro offers investors a hedge against the unexpected, which could prove useful if 2026 continues to serve up more of the same.



Disclosure – Non-Independent Marketing Communication. This is a non-independent marketing communication commissioned by BH Macro (BHMG). The report has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on the dealing ahead of the dissemination of investment research.

All returns are shown in NAV per share in GBP (other than US indices which are shown in US dollars). Data is sourced from FE Analytics unless stated otherwise, as at 08/04/2026. Fund data for BH Macro as at 27/02/2026.

[View the latest research note here](#)

[Click here to add BHMG to your watchlist](#)

[Click here to read related research](#)



Disclaimer

This report has been issued by Kepler Partners LLP. **The analyst who has prepared this report is aware that Kepler Partners LLP has a relationship with the company covered in this report and/or a conflict of interest which may impair the objectivity of the research.**

Past performance is not a reliable indicator of future results. The value of investments can fall as well as rise and you may get back less than you invested when you decide to sell your investments. It is strongly recommended that if you are a private investor independent financial advice should be taken before making any investment or financial decision.

Kepler Partners is not authorised to make recommendations to retail clients. This report has been issued by Kepler Partners LLP, is based on factual information only, is solely for information purposes only and any views contained in it must not be construed as investment or tax advice or a recommendation to buy, sell or take any action in relation to any investment.

The information provided on this website is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Kepler Partners LLP to any registration requirement within such jurisdiction or country. In particular, this website is exclusively for non-US Persons. Persons who access this information are required to inform themselves and to comply with any such restrictions.

The information contained in this website is not intended to constitute, and should not be construed as, investment advice. No representation or warranty, express or implied, is given by any person as to the accuracy or completeness of the information and no responsibility or liability is accepted for the accuracy or sufficiency of any of the information, for any errors, omissions or misstatements, negligent or otherwise. Any views and opinions, whilst given in good faith, are subject to change without notice.

This is not an official confirmation of terms and is not a recommendation, offer or solicitation to buy or sell or take any action in relation to any investment mentioned herein. Any prices or quotations contained herein are indicative only.

Kepler Partners LLP (including its partners, employees and representatives) or a connected person may have positions in or options on the securities detailed in this report, and may buy, sell or offer to purchase or sell such securities from time to time, but will at all times be subject to restrictions imposed by the firm's internal rules. A copy of the firm's Conflict of Interest policy is available on request.

PLEASE SEE ALSO OUR TERMS AND CONDITIONS

Kepler Partners LLP is authorised and regulated by the Financial Conduct Authority (FRN 480590), registered in England and Wales at 70 Conduit Street, London W1S 2GF with registered number OC334771.

