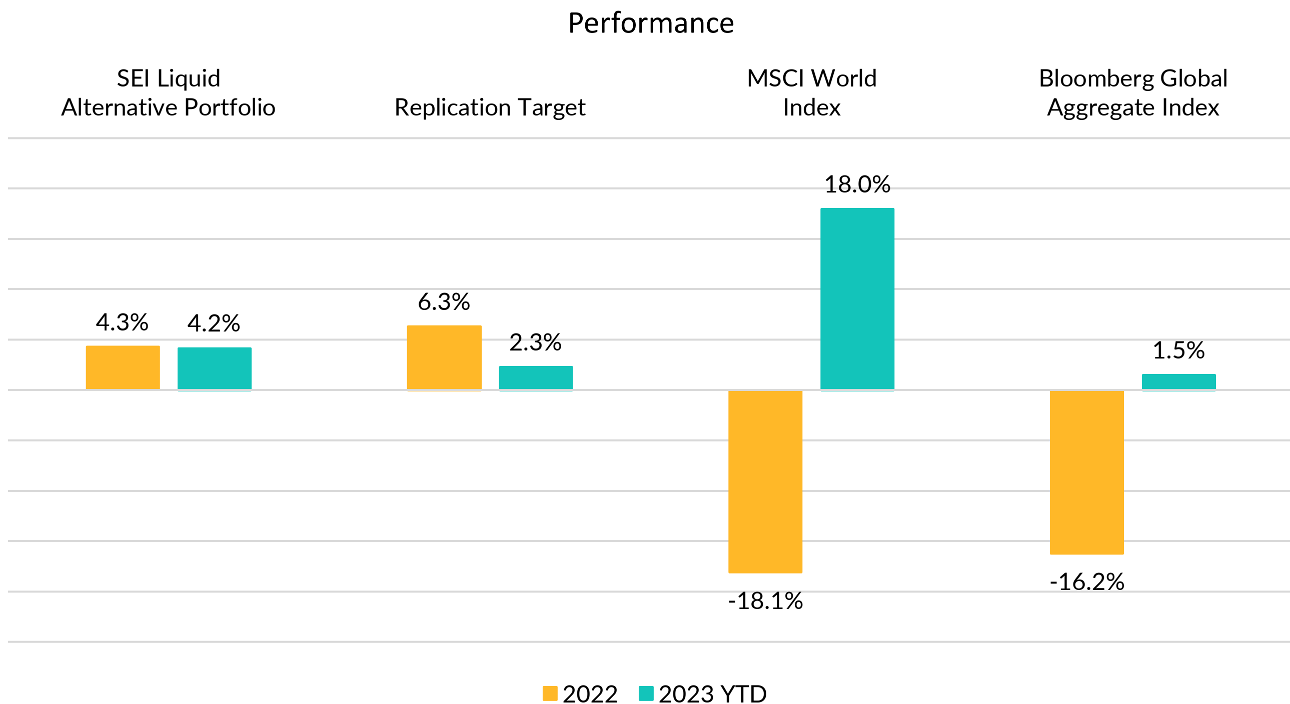
SEI LIQUID ALTERNATIVE FUND

NOVEMBER 2023 UPDATE

Dear Colleagues:

The Portfolio[1] returned **-0.6%** in November and is now up **4.2%** in 2023, approximately 200 bps ahead of the Target portfolio of seventy leading hedge funds. The MSCI World Index rose over 9% and the Bloomberg Global Aggregate Index gained 5% after economic data pointed to the end rate hikes. Since the start of the hiking cycle in March 2022, equities are slightly higher while bonds remain down -10%.



*Source: DBi and Bloomberg. Data as of November 30th, 2023

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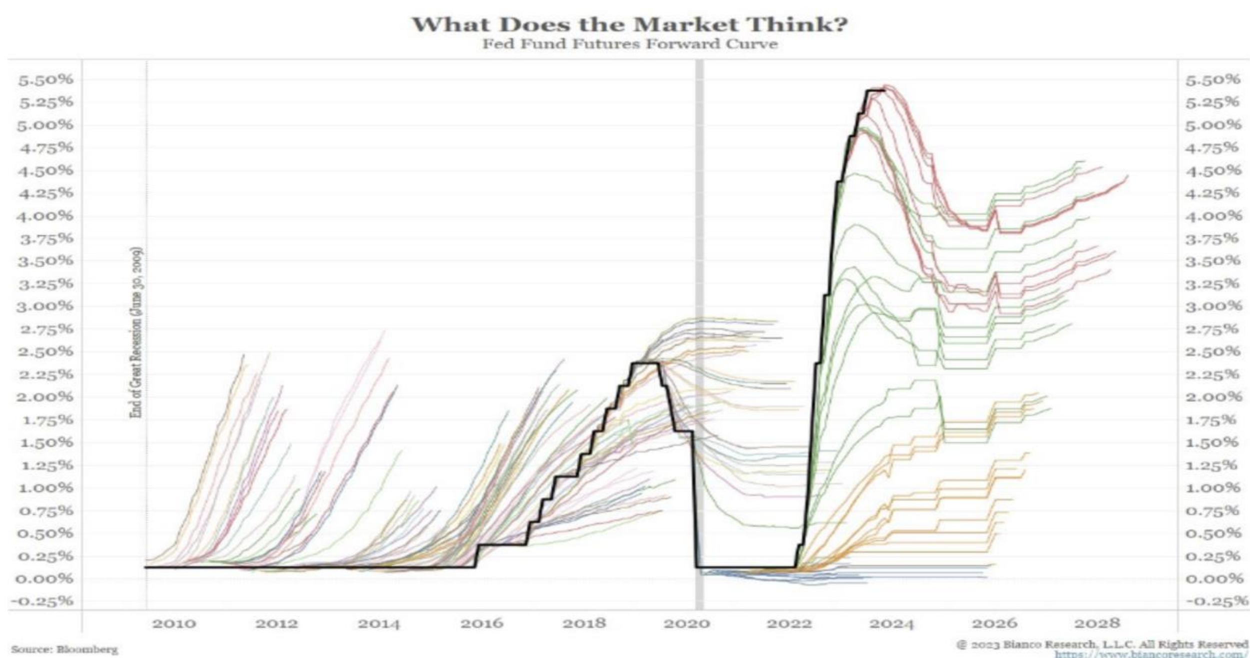
In a matter of days, the market consensus flipped from "Higher Forever" to "Taper Tomorrow". US CPI came in softer than expected and, around the beginning of the month, Powell gave a relatively dovish talk. The debate quickly shifted to not whether Central Banks would cut rates, but how soon and how often. The Immaculate Landing scenario drowned out concerns that, after a decade of free money and then 500 bps of catch-up rate hikes, the economic "fly" might be hitting windshield. "Risk on" took over, and both equities and bonds soared. We have a few observations.

First, Powell's dovishness in early November was inextricably linked to the rapid and recent rise in longer term Treasury yields. "The market is doing the Fed's job for it," was the refrain. Now, between the drop in yields and the broad easing of financial conditions, the market has priced nearly 100 bps of rate hikes. So, either rates will go down more from here – but then likely because of a worse than expected economic slowdown – or we can expect jawboning from the Fed to remind the market that the battle is unfinished.

Second, as you know from our commentary, there is no empirical basis to believe the market is getting this right. This astonishing chart from Bianco Research shows just how wrong the market has been since 2010. The black line is short term rates, and the filaments are the market's expectation of where rates would go at each point in time. Simplistically, the market was wrong for a dozen years that rates would stay so low, then wrong for the past years that rates would go this high.



Lastly, the fact that stocks and bonds are moving in tandem is a huge problem for allocators. Most diversification simply is not working. The correlation between stocks and bonds this year has been over 80%, which means that any diversifier correlated to either has also bouncing up and down in tandem. Multi-asset portfolios careened from a sea of red in October to a sea of

green in November. The standard deviation of a 60/40 portfolio is more than double what it was just a few years ago. From a portfolio optimization perch, we think this argues strongly for a higher strategic allocation to strategies that have low correlation to both stocks and bonds.

The **Strategic Alpha** (Multi-Strategy) replication portfolio gained **2.0%** in November and is up **7.9%** year to date. The Target portfolio of Equity Long/Short, Relative Value and Event-Driven hedge funds rose 2.4% last month and are up an estimated 5.8% year to date. Since inception, we believe the replication portfolio has delivered approximately 90% of pre-fee returns, with a correlation of around 0.80, and approximately 115 bps per annum of alpha. Losses on a short hedge in long-dated Treasury futures were offset by broad based gains in equities and the fall in the trade-weighted U.S. dollar.

The **Tactical Alpha** (Managed Futures) replication portfolio declined **-4.3%** in November and is down **-1.3%** year-to-date; the Target portfolio of hedge funds declined -3.5% last month and is down -2.7% this year. Since inception, the replication portfolio has generated a cumulative return of 53%, nearly double that of the Target hedge funds, with a correlation of approximately 0.80, and approximately 257 bps per annum of alpha. Quick and strong reversals across asset classes contributed to losses, however inter-month rebalancing aided in containing some of the detraction from short interest rate positions.

Please do not hesitate to reach out with any questions or comments.

All the best,

The DBi Team

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[1] Performance of the portfolios managed by DBi, net of estimated fees and expenses. Please consult SEI directly for performance of individual share classes.