First Trust

ALTERNATIVES UPDATE

Commentary | 1Q2025

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In the first quarter of 2025, alternative investments ("alternatives"), on average, had positive returns and significantly outperformed the U.S. equity markets. Economic data continued to indicate positive growth, a softer job market, and intransigent inflation. The Federal Reserve (the "Fed") made no changes to the Fed Funds rate, but did indicate a shift to a more dovish tilt by reducing the drawdown rate of Treasuries from its balance sheet by 75% going forward and adding language to its official statement highlighting concern about economic uncertainty. That economic uncertainty can be summed up in one word, "tariffs." Long a policy centerpiece of the current administration's narrative, the breadth and magnitude of discussed tariffs along with its willingness to take a confrontational stance with long-standing allies, some of whom are the United States' largest trading partners, began to weigh on risk assets. March was a particularly challenging month, as tariffs went from a talking point to being implemented in some form. While the short-term is likely to be dominated by geopolitical trade dynamics and its impact on global growth, we believe longer-term issues of inflation, outsized deficits, skyrocketing government debt payments and still lofty financial asset valuations, though coming down from extreme levels, remain intact and will need to be addressed.

Alternatives delivered positive performance in 9 out of 10 categories in the first quarter, with solid performance across the entire spectrum of strategies. Commodities was the best performing category (+8.88%). Other notable gainers were Global Macro (+6.13%) and Multi-Strategy (+5.54%). Managed Futures was the worst performing category (-1.63%). All categories outperformed the S&P 500® Index. The average outperformance vs the S&P 500® Index was +743 basis points. Five out of 10 alternative categories outperformed the Bloomberg U.S. Aggregate Bond Index. The average outperformance was 38 basis points (Figure 1 and Figure 2).

Figure 1 **Alternatives Performance**	**2024**	**Q1 2025**
Commodities	5.38%	8.88%
Global Macro	12.63%	6.13%
Multi-Strategy	4.19%	5.54%
Equity Market Neutral	7.38%	3.63%
Real Estate	4.86%	3.49%
Fixed Income Arbitrage	10.00%	1.99%
Convertible Arbitrage	7.96%	1.61%
Event Driven	9.26%	1.09%
Equity Long/Short	9.56%	0.88%
Managed Futures	2.00%	-1.63%

Figure 2 **Alternatives Performance (Over/Under) Q1 2025**	**vs S&P 500**	**vs BB Agg**
Commodities	13.15%	6.10%
Global Macro	10.40%	3.35%
Multi-Strategy	9.81%	2.76%
Equity Market Neutral	7.90%	0.85%
Real Estate	7.76%	0.71%
Fixed Income Arbitrage	6.26%	-0.79%
Convertible Arbitrage	5.88%	-1.17%
Event Driven	5.36%	-1.69%
Equity Long/Short	5.15%	-1.90%
Managed Futures	2.65%	-4.41%
Average	7.43%	0.38%

Past performance is not indicative of future results. Source for all charts: Bloomberg. As of 3/31/2025.

Commentary Continued on Next Page

Traditionally, managed futures and macro strategies are viewed as having lower correlations to equities because they are diversified across a variety of markets and often employ shorting as part of their approach. Strategies that had lower 2-year correlations to U.S. equities (less than 0.60), on average, outperformed those strategies that had a higher correlation with U.S. equities. The spread was 167 basis points (Figure 3). Real assets were positive across the board and the biggest category winner, as inflation remained an issue, the U.S. dollar weakened and posturing around global trade impacted financial assets negatively (Figure 4).

Figure 3 Correlations (2yr) & Returns	Correlation to S&P 500® Index	Q1 Return
Equity Long/Short	0.80	0.88%
Real Estate	0.79	3.49%
Convertible Arbitrage	0.64	1.61%
Event Driven	0.34	1.09%
Fixed Income Arbitrage	0.28	1.99%
Global Macro	0.19	6.13%
Equity Market Neutral	0.14	3.63%
Multi-Strategy	-0.02	5.54%
Managed Futures	-0.02	-1.63%
Commodities	-0.05	8.88%
Lower Correlation Avg TR (≤0.60)		3.66%
Higher Correlation Avg TR (>0.60)		1.99%

Correlation of monthly returns over 24 months.

Figure 4 Real Assets Returns	2024	Q1 2025
Real Estate	4.86%	3.49%
Commodities	5.38%	8.88%
Gold	27.22%	19.02%
Average	12.49%	10.46%

Cryptocurrencies fell sharply in the first quarter and behaved more like risk-on assets than flight to quality assets or hedges to devaluing currencies. Bloomberg Galaxy Crypto Index fell -31.66%. Bitcoin was down -12.05%, Ethereum and Litecoin also fell double digits (-45.63% and -19.60%, respectively). Ripple was a standout in the space as it was nearly unchanged (-0.42%) (Figure 5) as the SEC dropped the appeal of a suit against Ripple Labs, an outcome that may improve the prospects for a Ripple stablecoin or the eventual approval of a Ripple ETF. Concerns regarding security issues in the sector, as articulated in the fourth quarter 2024 commentary, "security remains a significant problem for the sector with malevolent actors (some speculated to be state sponsored) continuing to become more sophisticated and brazen in their attacks" unfortunately was validated in February 2025. Dubai-based cryptocurrency exchange Bybit had $1.5 billion worth of digital tokens stolen. The FBI attributed the theft to North Korean hackers. This was the largest theft of digital assets ever and underscores the need for enhanced security measures and oversight at several levels.

Figure 5 Cryptocurrency Returns	2024	Q1 2025
XRP (Ripple Digital Assets)	238.39%	-0.42%
Bitcoin	120.46%	-12.05%
Litecoin	40.56%	-19.60%
BB Galaxy Crypto Index	65.95%	-31.66%
Ethereum	46.63%	-45.63%

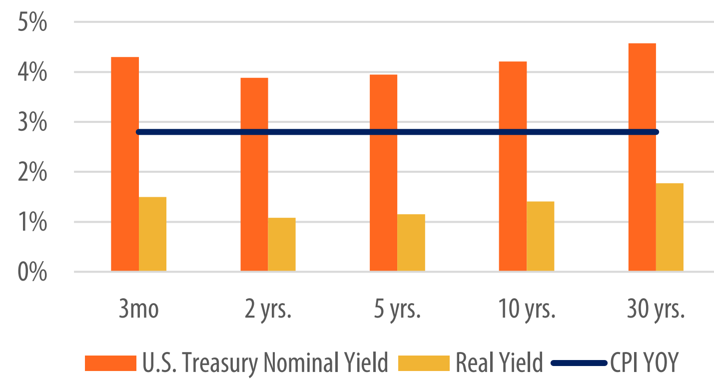
Past performance is not indicative of future results. Source for all charts: Bloomberg. As of 3/31/2025.

Commentary Continued on Next Page

Returns for major asset classes were mixed with U.S. centric assets the standout poor performers. U.S. equities were down (-4.27%) and the U.S. Dollar slipped (-3.94%), international developed markets and emerging markets rose (+6.86% and +2.93%, respectively) despite rumblings of potential trade conflicts. U.S. Treasuries demonstrated their potential as a a safe haven, as their prices rose by 4.76% over the quarter.The broader bond market, as measured by the Bloomberg U.S. Aggregate Bond Index, as well as High Yield Bonds ended the quarter in positive territory (+2.78% and +0.86%, respectively). Commodities continued their months-long surge posting impressive gains of +8.88% (Figure 6). Real Treasury rates fell significantly over the quarter due to inflation edging up, while nominal Treasury rates were also down compared to the fourth quarter. Declining real rates and low or negative real rates are typically associated with easing financial conditions (Figure 7).

Figure 6 Asset Class Returns	2024	Q1 2025
Commodities	5.38%	8.88%
International Developed	3.82%	6.86%
U.S. Treasury	-7.71%	4.76%
Real Estate	4.86%	3.49%
Emerging Markets	7.50%	2.93%
U.S Aggregate Bonds	1.25%	2.78%
High Yield Bonds	7.65%	0.86%
U.S. Dollar	7.06%	-3.94%
U.S. Equities	25.02%	-4.27%
Bitcoin	120.46%	-12.05%

Figure 7 U.S. Treasury Yields and CPI



Source for all charts: Bloomberg. As of 3/31/2025.

Alternatives have historically provided significant diversification benefits when paired with a portfolio of traditional assets, in addition to both competitive absolute returns and attractive risk-adjusted returns. Please Note: Alternative investments may employ complex strategies, have unique investment and risk characteristics, and may not be suitable for all investors.

References to specific companies or securities should not be construed as a recommendation to buy or sell any such security, nor should they be assumed profitable.

All charts shown herein are for illustrative purposes only and not indicative of any investment. The performance illustrations exclude the effects of taxes and brokerage commissions or other expenses incurred when investing. ***Past performance is not indicative of future results*** *and there can be no assurance past trends will continue in the future. An investor cannot invest directly in an index. See last page for definitions of asset class indexes and other terms discussed herein.*

Definitions

Bitcoin: A digital currency using encryption techniques created for use in peer-to-peer online transactions Introduced in 2008 by a person or group using the name Satoshi Nakamoto.

Bloomberg Galaxy Crypto Index (BB Galaxy Crypto): The BGCI is designed to measure the performance of the largest cryptocurrencies traded in USD.

Commodities: The Bloomberg Commodity Index is made up of exchange-traded futures on physical commodities and represents 20 commodities, which are weighted to account for economic significance and market liquidity.

Consumer Price Index (CPI): A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them. Changes in the CPI are used to assess price changes associated with the cost of living.

Convertible Arbitrage: The Credit Suisse AllHedge Convertible Arbitrage Index is a subset of the Credit Suisse AllHedge Index that measures the aggregate performance of convertible arbitrage funds. Convertible Arbitrage is a strategy that involves taking simultaneous long and short positions in a convertible bond and its underlying stock.

Correlation: A statistical measure that quantifies the extent to which two or more data series fluctuate together. Values run from -1.0 to +1.0.

Cryptocurrency: A digital or virtual currency that is secured by cryptography, which makes it nearly impossible to counterfeit or double-spend.

Emerging Markets: The MSCI Emerging Markets Index captures large and mid cap representation across Emerging Markets (EM) countries. The index covers 85% of the free float-adjusted market capitalization in each country.

Equity Long/Short: The Credit Suisse AllHedge Long/Short Equity Index is a subset of the Credit Suisse AllHedge Index that measures the aggregate performance of long/short equity funds. Long/short equity funds typically invest in both long and short sides of equity markets, generally focusing on diversifying or hedging across particular sectors, regions or market capitalizations. Managers typically have the flexibility to shift from value to growth; small to medium to large capitalization stocks; and net long to net short. Managers can also trade equity futures and options as well as equity related securities and debt or build portfolios that are more concentrated than traditional long-only equity funds.

Equity Market Neutral: The Credit Suisse AllHedge Equity Market Neutral Index is a subset of the Credit Suisse AllHedge Index that measures the aggregate performance of equity market neutral funds. Equity market neutral funds typically take both long and short positions in stocks while seeking to reduce exposure to the systematic risk of the market (i.e., a beta of zero is desired). Equity Market Neutral funds typically seek to exploit investment opportunities unique to a specific group of stocks, while maintaining a neutral exposure to broad groups of stocks defined for example by sector, industry, market capitalization, country, or region. The index has a number of subsectors including statistical arbitrage, quantitative long/short, fundamental long/short and index arbitrage. Managers often apply leverage to enhance returns.

Ethereum: Ethereum is a platform that offers programming code of any decentralized application. It has been linked to payment style transactions. Ether is the cryptocurrency issued through open-source code executed on thousands of nodes.

Event Driven: The Credit Suisse AllHedge Event Driven Index is a subset of the Credit Suisse AllHedge Index that measures the aggregate performance of event driven funds. Event driven funds typically invest in various asset classes and seek to profit from potential mispricing of securities related to a specific corporate or market event. Such events can include: mergers, bankruptcies, financial or operational stress, restructurings, asset sales, recapitalizations, spin-offs, litigation, regulatory and legislative changes as well as other types of corporate events. Event driven funds can invest in equities, fixed income instruments (investment grade, high yield, bank debt, convertible debt and distressed), options and various other derivatives. Many managers may use a combination of strategies and adjust exposures based on the opportunity sets in each subsector.

Fixed Income Arbitrage: The Credit Suisse AllHedge Fixed Income Arbitrage Index is a subset of the Credit Suisse AllHedge Index that measures the aggregate performance of fixed income arbitrage funds. Fixed income arbitrage funds typically attempt to generate profits by exploiting inefficiencies and price anomalies between related fixed income securities. Fixed income arbitrage funds seek to limit volatility by hedging out exposure to the market and interest rate risk. Strategies may include leveraging long and short positions in similar fixed income securities that are related either mathematically or economically. The sector includes credit yield curve relative value trading involving interest rate swaps, government securities and futures; volatility trading involving options; and mortgage-backed securities arbitrage (the mortgage-backed market is primarily U.S.-based and over-the-counter).

Global Macro: The Credit Suisse AllHedge Global Macro Index is a subset of the Credit Suisse AllHedge Index that measures the aggregate performance of global macro funds. Global macro funds typically focus on identifying extreme price valuations and leverage is often applied on the anticipated price movements in equity, currency, interest rate and commodity markets. Managers typically employ a top-down global approach to concentrate on forecasting how political trends and global macroeconomic events affect the valuation of financial instruments. Profits can be made by correctly anticipating price movements in global markets and having the flexibility to use a broad investment mandate, with the ability to hold positions in practically any market with any instrument. These approaches may be systematic trend following models, or discretionary.

Gold: The return of the gold spot price as quoted as U.S. dollars per Troy Ounce.

Inflation: Is the decline of purchasing power of a given currency over time.

High-Yield Bonds: The Bloomberg US High Yield Very Liquid Index (VLI) is a component of the US Corporate High Yield Index that is designed to track a more liquid component of the USD-denominated, high yield, fixed-rate corporate bond market. The US High Yield VLI uses the same eligibility criteria as the US Corporate High Yield Index, but includes only the three largest bonds from each issuer that have a min amount outstanding of USD500mn and less than five years from issue date.

International Developed: The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The index is a free-float weighted equity index.

Litecoin: A peer-to-peer cryptocurrency and open source software project similar to Bitcoin, Litecoin uses blockchain technology to process transactions. Litecoin, referred to as an alt-coin can process blocks faster than Bitcoin, uses a different mining algorithm and has larger supply.

Managed Futures: BarclayHedge US Managed Futures Industry Top 50 (BTop 50) Index. The Index seeks to replicate the overall composition of the managed futures industry with regard to trading style and overall market exposure.

Multi-Strategy: The Credit Suisse AllHedge Multi-Strategy Index is a subset of the Credit Suisse AllHedge Index that measures the aggregate performance of multi-strategy funds. Multi-strategy funds typically are characterized by their ability to allocate capital based on perceived opportunities among several hedge fund strategies. Through the diversification of capital, managers seek to deliver consistently positive returns regardless of the directional movement in equity, interest rate or currency markets. The added diversification benefits may reduce the risk profile and help to smooth returns, reduce volatility and decrease asset-class and single-strategy risks. Strategies adopted in a multi-strategy fund may include, but are not limited to, convertible bond arbitrage, equity long/short, statistical arbitrage and merger arbitrage.

Nominal Yield: Is the annualized rate of return on a bond without accounting for inflation or expenses.

Real Estate: The Dow Jones US Real Estate Index is designed to track the performance of real estate investment trusts (REITs) & other companies that invest directly or indirectly in real estate through development, management or ownership, including property agencies.

Real Yield: or Real Interest Rate has been adjusted to remove the effects of inflation to reflect the real cost of funds to the borrower and the real yield to the lender or to an investor.

Recession: Is a significant decline in economic activity that lasts longer than a few months.

Ripple Digital Assets: Known as XRP, Ripple is a cryptocurrency that can be used on open source distributed ledger created by the company Ripple. It is built upon the principles of blockchain as an on-demand option for faster cross border payments.

U.S. Aggregate Bonds: The Bloomberg US Aggregate Bond Index is a broad-based benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

U.S. Equities: The S&P 500® Index. An unmanaged index of 500 companies used to measure large-cap U.S. stock market performance.

U.S. Dollar: The U.S. Dollar Index (USDX) indicates the general international value of the U.S. dollar. The USDX does this by averaging the exchange rates between the USD and major world currencies. The ICE US computes this by using the rates supplied by some 500 banks.

U.S. Treasury Bonds: ICE US Treasury 20+ Years Bond Index consists of publicly-issued U.S. Treasury securities that have a remaining maturity greater than 20 years and have $300 million USD or more of outstanding face value, excluding amounts held by the Federal Reserve System.

U.S. Treasury Yield: Yield of U.S. Treasury securities maturing in approximately 3 months, 2 years, 5 years, 10 years, or 30 years.

Year-over-Year (YoY): is a calculation that helps compare growth over the previous 12 months and automatically negates the effect of seasonality.