Hedge fund managers bearish on U.S. equities and Treasuries

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Hedge fund managers remain bearish on U.S. equities, according to the *TrimTabs/BarclayHedge Survey of Hedge Fund Managers* for March.

About 36% of the 77 hedge fund managers the firms surveyed in the past week are bearish on the S&P 500, down from 40% in February, while 28% are bullish, up from 26%.

"While hedge fund managers remain bearish, hedge fund investors are showering them with fresh cash," said Sol Waksman, founder and President of BarclayHedge. "Hedge funds posted the heaviest inflow on record in February, which probably owes in part to superior performance. The Barclay Hedge Fund Index has posted a positive return for seven straight months."

About 33% of hedge fund managers are bearish on the 10-year Treasury note, while 16% are bullish. These figures have remained largely unchanged for three months. In contrast, hedge fund managers have turned extremely bearish on the U.S. Dollar Index. Bearish sentiment vaulted to 43% in March from 31% in February, while bullish sentiment sank to 22% from 31%.

"Poor Japan sports a disaster of biblical proportions, a gargantuan debt burden, and deflation—and yet managers would rather own yen than dollars," notes Vincent Deluard, Executive Vice President at TrimTabs. "Additionally, hedge fund managers strongly prefer the Canadian dollar to its American counterpart. In fact, the futures positions of speculative traders reveal that the loonie is much more of a safe haven than the greenback."

About 18% of hedge fund managers aim to lever up in the near term, while 14% plan to decrease leverage. Meanwhile, most managers cite Portugal as the next victim of the European debt crisis. About 78% expect the country to need a sovereign bailout in 2011, while 37% of respondents feel Spain will also earn the honor.

"Managers reported an interest in adding leverage in each of our past 10 surveys, and margin debt stands at the highest level since July 2008," notes Deluard. "Gambling with borrowed cash will prove popular until the Fed makes money more expensive. As to Portugal and Spain, hedge fund managers feel strongly that these are the next debt-crisis dominoes to fall. Seasoned investors might consider using the credit-default swaps market to bet against the Iberian Peninsula."

The TrimTabs/BarclayHedge database tracks hedge fund flows on a monthly basis. The *Survey of Hedge Fund Managers* appears monthly in the *TrimTabs/BarclayHedge Hedge Fund Flow Report*, which provides detailed analysis of hedge fund flows, assets, and returns alongside topical studies.