# Statistical arbitrage proves resilient amid volatile markets



In the context of increasingly volatile financial markets, statistical arbitrage has emerged as a particularly effective hedge fund trading strategy, demonstrating resilience where other approaches have struggled. This strategy, which relies on mean reversion analyses and typically holds assets for short durations—often no more than six weeks and sometimes just a week—capitalises on the small inefficiencies created by heightened market volatility.

Paul Zummo, CEO and CIO of J.P. Morgan Alternative Asset Management Hedge Fund Solutions, highlighted the robustness of statistical arbitrage in an interview with Institutional Investor. He stated, “Hedge funds — especially uncorrelated strategies such as relative value and discretionary macro — have proven quite resilient during the recent market turmoil. Especially noteworthy are statistical arbitrage managers that have continued a multi-year run of strong performance. Such strategies are not only neutral to market direction, but often to industry and style risks as well.” Zummo added that these portfolios tend to thrive in a heightened volatility regime, provided the volatility does not reach extreme levels.

The current market dynamics have prompted investors, who had pared back their hedge fund exposure during rising markets, to reconsider alternatives for portfolio diversification. Larry Fink, CEO of BlackRock, underscored this shift in his most recent investor letter, suggesting that the traditional 60-40 stock and bond portfolio is no longer adequate. Instead, Fink recommended incorporating approximately 20 percent into hedge funds, real estate, and other private market assets.

J.P. Morgan’s statistical arbitrage strategies are closely tied to readings of the CBOE Volatility Index (VIX), a key barometer of anticipated market turbulence. Zummo explained that when the VIX is low, the effectiveness of stat arb diminishes, whereas extremely high levels—such as a VIX near 100—raise the risk of forced deleveraging. Typically, a VIX above 30 signifies a volatile market, with the range between 15 and 40 being optimal for statistical arbitrage performance. As of Tuesday, the VIX stood at around 33, indicating a conducive environment for stat arb without triggering systemic risk.

Beyond statistical arbitrage, other hedge fund approaches such as discretionary macro and multistrategy models also saw positive performances in the first quarter of the year. Multistrategy funds, in particular, ended April’s market sell-off slightly higher on the month. This outcome was attributed to cautious de-risking, strong risk management protocols, and the absence of forced structural deleveraging.

Nonetheless, Zummo noted that some strategies traditionally successful during stressed markets, such as managed futures and bond basis trades, have experienced difficulties under current conditions. He described these setbacks as manageable, stating, “Most of these losses still could be described as ‘nicks, scratches, and bruises,’ and no one is losing a limb.” This indicates a relatively stable outlook for hedge funds despite recent market challenges.

Source: [Noah Wire Services](https://www.noahwire.com)

## References

* <https://www.institutionalinvestor.com/article/2epc3u36gnc3u2ln2bif4/portfolio/stat-arb-and-other-uncorrelated-hedge-funds-stay-resilient-during-market-turmoil> - This article corroborates Paul Zummo’s insights on the resilience of statistical arbitrage and other uncorrelated hedge fund strategies during recent market turmoil, including their typical holding periods and performance characteristics under varying levels of volatility as indicated by the VIX.
* <https://www.investopedia.com/articles/trading/07/statistical-arbitrage.asp> - Provides a detailed explanation of statistical arbitrage, including its reliance on mean reversion and short holding periods, confirming the fundamental principles behind the strategy described in the article.
* <https://thehedgefundjournal.com/the-case-for-re-evaluating-quant/> - Supports the claim that statistical arbitrage tends to perform better in higher volatility environments and is a significant contributor to hedge fund returns in such regimes.
* <https://extractalpha.com/2023/04/18/statistical-arbitrage/> - Explains the quantitative basis of statistical arbitrage, including the identification of pricing inefficiencies and the market-neutral positioning that aligns with the article’s description of the strategy.
* <https://www.quantlink.co.uk/the-evolution-of-statistical-arbitrage-rise-of-alternative-data-and-shorter-holding-periods> - Details the evolution of statistical arbitrage strategies focusing on short to medium holding periods, mean reversion, and the increasing role of alternative data, supporting the article’s claim on typical durations and the technical basis of the strategy.