CTA & MERGER HEGDE FUNDS INSULATED FROM ROTATIONS

The Lyxor Hedge Fund Index was down -0.9% in February. 3 out of 11 Lyxor Indices ended the month in positive territory. The Lyxor CTA Long Term Index (+2.2%), the Lyxor Merger Arbitrage Index (+0.5%), and the Lyxor LS Equity Long Bias Index (+0.4%) were the best performers.

The rally by mid-February triggered multiple macro and sector rotations. The selling pressure exhausted by mid-month. The rally in risky assets unfolded in poor trading volumes as most market players were initially reluctant to join in. An unstable market tectonic and multiple downside fundamental risks kept investors – hedge funds included – on the cautious side. In that context, CTAs outperformed, hoarding returns in the early part of the month, while remaining resilient thereafter thanks to stubbornly low yields. Besides, the longest bias strategies enjoyed a V-shape recovery. By contrast, those exposed to the rotations suffered the most.

L/S Equity: volatile and dispersed returns, skepticism prevails. Long bias funds enjoyed a V-shape recovery over the month and ended up slightly positive. They continued to generate strong alpha. Variable bias funds pared losses on the way down thanks to their cautious stance, but they underperformed on the way up. The rotation out of defensive back into value stocks proved costly. Market Neutral funds were the worst performers. They were hit by multiple sector and quant factor rotations, amid high equity correlation, while keeping their leverage steady. They endured a double whammy through untimely portfolio shifts. Overall Lyxor L/S Equity funds slightly raised their market beta mainly through short covering. But skepticism prevails as to the sustainability of the rally. Interestingly, a number of funds are increasingly tactical in their stock and sector positioning.

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