

Brexit illustrates diversification benefits of CTAs Lyxor claims

Stockholm (HedgeNordic) - The strong returns and decorrelated performance characteristics of CTAs post Brexit show the diversification benefits of trend following strategies, according to a recent expert opinion from Lyxor's Guillaume Jamet, principal portfolio manager of the Lyxor Epsilon Programme.

Jamet says that the environment for trend following strategies has been mixed in the second quarter which is illustrated by the SG Trend Index returning -1.2 % during the period. The reason for the non-performance is that only one of two conditions for strong trend following returns have been met, according to the manager.

In order for trend followers to thrive, the strategy, according to Jamet, needs market trendiness to be high and market correlations to stay low. Recently, the trendiness has been weak, while correlations have been low. However, correlations spiked following the Brexit turmoil.

Jamet says there is no evidence that we have entered a high correlation regime (which would be negative for trend following), instead he highlights the improved trendiness imposed by Brexit.

"The last few months featured several clear market trends, which all seemed to anticipate a Brexit, including; depreciation of the British pound, appreciation of the Japanese yen, (which typically serves as a safe haven for Asian investors) and a rally in both Gilts and Bunds, as a result of flight to quality and in anticipation of even more accommodative monetary policies", Jamet says continuing:

"In the months before the referendum, markets were pricing in a Brexit. In contrast with many discretionary managers, CTAs did not overreact to the reversal in market sentiment which occurred the week before the actual vote, and held on to their long Brexit positions. This illustrates the advantage of a strategy which analyses markets differently."

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