Trump victory to support long/short equity and event driven – K2 Advisors

Stockholm (HedgeNordic) – K2 Advisors, the hedge fund advisory arm of Franklin Templeton Investments, see the victory of Donald Trump in the US presidential election to have an impact on which hedge fund strategies to focus on going into 2017. In their recently published Q1 Hedge Fund Strategy Outlook, K2 founder David Saunders *(pictured)* and his team make the case for **long short equity** and **event driven** as being main beneficiaries of the "Trumpflation" rally.

In the case of **long/short equity**, K2 believes the case for the strategy has improved following the Trump win and adjoint changes to the market environment, the reason being that the expected normalisation of interest rates will put pressure on fundamentally weak companies, offering good opportunities for managers in the long short space to pick winners and losers.

"We expect that long-short equity managers will be able to capitalize on idiosyncratic opportunities that may develop as a result of these changes. For example, fundamentally weak companies may face increased pressures on their financials in a rising rate environment, allowing managers to profit if they can correctly pick winners and losers."

K2 also see cyclically sensitive companies and sectors to do relatively well compared to defensive sectors on the back of increased infrastructure spending following Trump. As investors are shifting out of yield plays in defensives, this will create opportunities for equity long short, they argue.

With regards to **event driven**, K2 have been bullish on the strategy for a long time on the back of a positive environment for deal levels given the low interest rate environment and the accommodative stance of central banks. The Trump win, again, is being viewed as another catalyst for the strategy.

"Following the surprise Trump victory, a new narrative has emerged regarding the possibility of repatriating trillions of dollars in cash held by US corporations overseas", K2 writes, continuing;

"Naturally, this would serve as a significant catalyst to the event-driven strategy, as we could see this cash being used for a variety of corporate transactions including special stock dividends, increased dividends, potential share buybacks, mergers and acquisitions, corporate restructurings and potential increased research and development expenditures. The bottom line is chief financial officers would be flush with cash, and this would likely create a very compelling opportunity set for corporate activity and growth."