

# Lyxor sees Strong March for Hedge Funds

Stockholm (HedgeNordic) – The Lyxor Hedge Fund Index was up 0.8% last week, having delivered 1% in February. Combined with the Lyxor Global Macro Index being up 1.3% for the first week of March, this indicates a strong start to the month of March for hedge funds, with all strategies ending last week in positive territory, save for a slight lag for Event-Driven strategies (which nonetheless remains the best performing category YTD).

Developments are largely in line with expectations of Macro managers, who have broadly maintained long positions on the U.S. Dollar, with an overall positioning on fixed income being close to zero in net terms and therefore hedged against a rise in Treasury yields due to expectations of rate hikes. Instead, preference for European and Japanese equities has paid off.

CTAs have benefitted most from their long exposure to equities, Lyxor's report finds, despite their long stance on commodities and short-term models' long positions on bonds being detrimental.

In addition, considerable revisions are being made of the market outlook about the stance of the U.S. Federal Reserve due to the continuous outperformance of U.S. data releases, with the "implied probability" of a rate hike at the next Fed meeting on Wednesday (March 15) up to 100% from just 25% a month ago. The expectation of wholly three rate hikes in 2017 has led to the rise in short-dated Treasury yields and boosted the U.S. Dollar against other major currencies.

The Lyxor Brief also raises the question as to the possibility of a return of alpha, due to rich valuations across asset classes and exogenous factors such as monetary tightening and tax reform. With hedge fund returns outpacing both equity and bond returns over the past week, Lyxor forecasts the possibility of a higher contribution from alpha to hedge fund returns.

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