Lyxor: Slight March Setbacks, But Reduced Geopolitical Risk

Stockholm (HedgeNordic) After predictions of a strong March for Hedge Funds following a 0.8% increase in its first week, the Lyxor Hedge Fund index is signalling a marginal setback due to macro, merger and credit funds lagging.

Macro funds’ USD exposure fell by a third due to long Emerging Markets FX positions prior to the FOMC. Merger funds fell behind due to non-Merger & Acquisitions energy positions, with credit funds hemorrhaging returns on broader energy spreads.

Conversely, strategies most exposed to risk assets benefitted from encouragement stemming from global growth and Trumpian reflation, with limited U.S. rates and dollar headwinds for the time being. The majority of Long/Short equity funds were on the rise, particularly those focused on Emerging Markets, while CTAs were also up due to marked equity exposure.

In a comment to the geopolitical risks ahead, Lyxor’s cross asset research team assessed that, “the success of the moderates in Netherlands only had a marginal impact on the Eurozone risk premium. Spreads in French, Italian and periphery govies barely changed, just like banks’ credit spreads. Hedge fund managers are not expecting a disruptive change in the French political chessboard (and hence in Europe). They are keeping most of their long exposures. Meanwhile, they maintain hedges through lower exposure to financials, indices shorts, Euro shorts, and/or a relative preference for Northern European assets. In other words, while keeping a tail-risk protection, most managers remain positioned for a valuation catch-up once the French (and Italian) political uncertainty faded.”

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