Hedge Funds Anticipating French Elections Differently

Stockholm (HedgeNordic) – Hedge funds are displaying incongruent stances ahead of the first round of the French presidential elections in two weeks, according to Lyxor's latest weekly brief. Following the electoral surprises of 2016 and an unpredictable race that has just been shaken up by an insurgent challenge from the far left, strategies are having different reactions.

Global Macro funds are taking a cautious approach, according to Lyxor, de-risking portfolios and favouring relative value trades, their total net exposure (USD) to equities and FX lying below the 20% mark. Event-driven funds have marginally increased European exposures, albeit that portfolio additions have been company-specific, including merger, post-merger and recapitalisation scenarios.

As for equity funds, non-European L/S funds have been steadily increasing allocations to Europe over the past half-year, seemingly oblivious to poll trends and playing to the overall European recovery. European L/S funds are doing the same, but with the addition of protective layers. These have raised net exposure since the beginning of the year, favouring cyclical sectors such as industrials, tech and materials and small caps. They have, however, also reduced financials and EU-domestic stocks since the election season kicked in, and have reinforced defensive sectors and repositioned towards non-EU/EMU European markets. Amid slightly negative global equities last week, L/S Equity funds succeeded in extracting excess returns through relative trades in Europe.

CTAs appear to the most aggressively exposed to Europe, according to Lyxor, with long equities accounting for the bulk of current directional exposure, a third of which is in Europe and which is hedged in part with long Euro-bond, short EUR and short U.S. duration.

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