

Hedge Funds Resilient As Geopolitical Risk Intensifies

Stockholm (HedgeNordic) – Hedge funds are proving resilient in the face of an explosion of geopolitical risk, Lyxor writes in its latest weekly brief. With an increasingly speculative and uncertain first round of the French presidential election, the U.S. strike on Syria and tensions on the Korean peninsula, hedge funds strategies have for the most part remained positive, CTAs being the exception with slowed equity longs and energy shorts.

Lyxor's own funds did not noticeably change positions, with CTAs remaining long equities, Macro funds keeping limited and relative exposures, and L/S Equity U.S. funds remaining more exposed than European ones, the latter adding safeguards.

"We are comfortable with our positioning," wrote Jean-Baptiste Berthon, Senior Strategist and Cross Asset Researcher with Lyxor Asset Management. "We see lesser prospects for macro players until some uncertainties are lifted this summer. We see greater micro opportunities for L/S Equity and Special Situation funds, supported by a recovery in earnings (in for another test as the season starts) and intensifying corporate activity."

The first round of the French election, set for April 23, remains impossible to predict, having become a four-way race with each candidate polling in the 18-23% range. Worries are intensifying that the late surge by the communist candidate Jean-Luc Melenchon could result in a two-way race between him and the Front National's Marine Le Pen in the second round, which would considerably improve Le Pen's chances of winning the presidency. Ms Le Pen has campaigned on an anti-immigration platform and has promised to hold a referendum on withdrawing France from the European Union.

On the Korean peninsula, threats by the DPRK to conduct its sixth nuclear test alongside a failed missile launch last weekend in response to U.S. president Donald Trump's aggressive posture and an enhanced U.S. presence along Korean shores have put China under additional pressure to resolve the issue, upsetting China's traditional status quo on the issue.

In the U.S. itself, failed initiatives in Trump's political program have led investors to seriously question the degree of reflation that might be delivered, cooling some of the initial enthusiasm for his presidency.

In response to these uncertainties, the French OAT spread reverted to January highs, the implied Kospi volatility rose 5 points, safe havens outperformed cyclical assets and U.S. treasury yields receded alongside other reflation trades.

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