Hedge Funds Recover As France Prospects Improve

Stockholm (HedgeNordic) – All hedge fund strategies were up the past week, according to Lyxor Asset Management's research team, due to the upside captured as a function of protective layers implemented by European funds in anticipation of a potentially disastrous presidential election in France, a concern that has partially abated following its first round.

Special situations (perhaps expectedly) outperformed, with CTAs also experiencing a turnaround by offsetting losses in short and long Euro bonds through strong long equity exposure. Capping the upside, relative positioning in Global Marco and L/S equity funds and other hedges were able to deliver stability, while hedge funds and markets were broadly also supported by a positive earnings season, writes senior strategist of Cross-Asset research Jean-Baptiste Berthon. Global risk assets surged with the confirmation that Emmanuel Macron had progressed to the second round of the French election (as opposed to someone less capable of beating Marine Le Pen), with the Euro settling at +1.5%, Euro-banks surging +8%, and the French OAT vs. Bund 10Y spread shrunk by 15 bps.

Mr Macron leads Ms Le Pen for the presidency by somewhere between 59 and 64%, depending on polls, though it is not clear how either would assemble a governing majority, raising further doubts about reforms in France. The country holds a general election in June.

The easing of the political risk factor has nevertheless benefitted most companies, irrespective of fundamentals, with stocks rising across the board. Lyxor expects the environment to improve further as the overall sense of a European recovery takes hold. The final round of the French presidential election takes place on Sunday.

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