

IPM Systematic Approach Pays Off Amid Trump Deflation

Stockholm (HedgeNordic) – Deflating hopes about U.S. President Donald Trump’s reflation effect have proved highly beneficial to Swedish investment manager Informed Portfolio Management (IPM), with its Systematic Macro Fund outperforming benchmarks such as the HFRX Macro Systematic Diversified CTA Index and the NHX Nordic Hedge Fund Index amid growing doubts about U.S. President Donald Trump’s ability to achieve key aspects of his legislative agenda.

The Systematic Macro fund has returned roughly 9% so far for 2017 (+8.01% YTD and +3.81% for the month of April, according to the NHX), vastly outperforming the NHX CTA Index itself (-2.28% YTD, -0.25% in April). The imposing results have been driven mostly by developed currencies and relative equities, with all of IPM’s portfolios positive on the year and a strong recovery of the themes that had played against the fund towards the end of last year and into January 2017, IPM Managing Director and Head of Investment Strategy Serge Houles (*pictured*) told HedgeNordic.

Markets reacted with unbridled optimism at Mr Trump’s election in 2016, expecting an unprecedented boost to the U.S. economy amid promises of vast deregulation, tax cuts and infrastructure spending, all of which have thus far failed to materialize as the Trump administration finds itself embroiled in scandal and thus far unable to effect any meaningful legislation. Markets have since moved into reverse with investors being forced to revise expectations.

“Market participants are gradually pricing in a more difficult path to Trumponomics than expected, given the difficulties faced by Trump to pass measures so far,” as Mr Houles had told Bloomberg’s Love Liman earlier in the week. IPM, with \$6.7 billion in AUM, benefited by positioning itself for gains in European equity markets relative to the U.S., Australia and Hong Kong, with huge gains coming from placing itself on the right side of currency markets and betting on gains in the euro and the yen. “Unsurprisingly, the stronger U.S. dollar and the risk rally from the end of last year were both detrimental, until the Trump-trade repricing caused a reversal in recent moves back in our favour on both the long and the short sides,” Mr Houles explained.

For example, the Systematic Macro fund has been short the Swedish krona, the New Zealand and Canadian collars. On emerging-market currencies, the fund’s positioning is of relative value, Mr Houles told HedgeNordic, so it is simultaneously long on e.g. the Turkish lira, which has been rocked by political uncertainties, and short on the Brazilian real on the basis of the deteriorating macro outlook, which has worked in the fund’s favour recently due to the bribery scandal involving Brazilian president Michel Temer.

Meanwhile, as the U.S. economy suffers the effects of the political uncertainty wrought by Mr Trump, “the risk of euro-sceptic politicians taking over in Europe is ebbing,” Mr Houles said, with Europe appearing to overcome its worst fears earlier in the year concerning populist repeats of the Trump and Brexit phenomena last year, following election victories for pro-European politicians in France and the Netherlands.

IPM Systematic Macro, however, is a systematic fund that takes a longer-term view (positions are held on average for one year), and therefore reduces its reliance on political risk analysis. It is currently long U.S. treasury notes but is shorting U.K. government bonds based on the outperformance of the U.K. economy and the fact that Gilt are too expensive with strong negative real rates. “Brexit uncertainties and the impact thereof just induce more volatility for our

positioning, at times playing in our favour when a soft Brexit prevails, and against us in the other scenario as investors expect the Bank of England to be dovish to offset the negative growth impact of a hard exit,” Mr Houles clarified for HedgeNordic.

Meanwhile, IPM’s performance has eclipsed the performances of most of its Nordic peers for the same time period, and indeed those of many CTAs globally. As in other areas of life, a nuanced, systematic long-term view can turn out to be the best one.