

# Hedge Funds Surf Market Fluctuations

Stockholm (HedgeNordic) - Hedge funds were overall flat last week, surfing market fluctuations caused by political uncertainty in the eurozone and tariff announcements. According to a weekly report from Lyxor focused on the hedge fund industry, trend-following CTAs suffered the most from last week's market volatility, with the decorrelation between equities and bonds, and plunging oil prices serving as the main detractors from performance. In contrast to the February sell-off, long/short equity funds did not add risk on lows after last week's market correction, while the longest bias funds only shaved off their exposures. Relative-value arbitrage funds and event-driven funds ended the week in the green.

Global equity markets dropped on Tuesday, responding to political turmoil in Italy. The electoral success of two anti-establishment parties, which formed a new coalition government at the end of the week, serves as a reminder of the continued presence of powerful Eurosceptic forces. On Thursday, the Trump administration took the decision to implement previously announced tariffs on steel and aluminum imports from the European Union, Mexico, and Canada, rejuvenating concerns about a possible global trade war. Financial markets are currently embroiled in uncertainty, with trade fears, concerns related to the continued integration of the eurozone, concerns around the Iran nuclear agreement, monetary normalization, and other uncertainties, dominating investors' minds.

With the presence of these uncertainties, most hedge fund investment styles are anticipated to face challenging market conditions. According to Lyxor's latest weekly report, these mounting uncertainties hindered hedge funds from adding risk in their portfolios during May. However, this cautious stance appears to have helped hedge fund vehicles navigate quite well last week's market turmoil.

Macro managers have heterogeneous views on the global macroeconomic environment, with some managers anticipating the situation to normalize over time and others viewing political stress as a possible long-term systemic risk. The low return dispersion among macro funds year-to-date and their modest sensitivity to markets imply the majority of macro managers are refraining from taking aggressive risk. In addition, the alpha earned by each individual global macro manager has been increasingly volatile in 2018, suggesting that the waves of uncertainties are hurting returns. Macro funds as a group are flat year-to-date.

Click here to read Lyxor's weekly report "Macro Managers Are Scratching Their Heads Just Like You":



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