

Two Weeks Feel Like a Year or Two

Stockholm (HedgeNordic) – “It has been just over two weeks since we wrote our comments on February, but it feels more like two years,” says Mattias Nilsson (*pictured*), a portfolio manager of **Catella Hedgefond**. The flagship hedge fund of Stockholm-based asset manager Catella Fonder was down 14.2 percent this month through March 18, extending the year-to-date losses to 16.1 percent. Global stock markets incurred much worse declines.

“Concerns about the spread and impact of the coronavirus have accelerated day by day,” writes Nilsson in an update to investors. Despite announcements of both monetary and fiscal stimulus measures, “the world’s stock markets have stuck to their trajectory – downward.” Investor sentiment in the stock market “is now lower than it was at the nadir of 2009,” says Nilsson, citing a recent survey of global fund managers conducted by the Bank of America. Catella Hedgefond fell by about 14 percent month-to-date, with both equity and fixed-income positions detracting from performance.

“Our long positions have lost significantly more than our short positions,” says Nilsson, as relatively cheaper stocks fell more than richly-valued stocks. Catella Hedgefond employs a value-oriented approach to stock selection, which involves going long under-priced stocks and going short overvalued ones.

Correlations between stocks and asset classes also increased in the recent market environment. According to Nilsson, “cheap companies that previously had a low market beta” suddenly exhibited significantly higher beta or correlation with the market during the downturn. The same phenomenon has affected Catella Hedgefond’s investments in preference shares, “which previously moved marginally while in practice are now acting like ordinary shares.”

The high volatility across financial markets has forced Catella Hedgefond and other players to reduce their gross market exposure, “which has led to positions being divested at non-optimal price levels,” according to Nilsson. “We are naturally disappointed with the development thus far,” acknowledges the fund manager, “but in recent weeks we have tried to create the best possible platform to exploit the opportunities that will undoubtedly arise.” The big question, however, is when? Nilsson reckons that “a turnaround in financial markets should come before it becomes apparent in the real economy or in the number of virus cases.”