

MILDER FACTOR ROTATIONS ARE EASING PRESSURE ON L/S NEUTRAL



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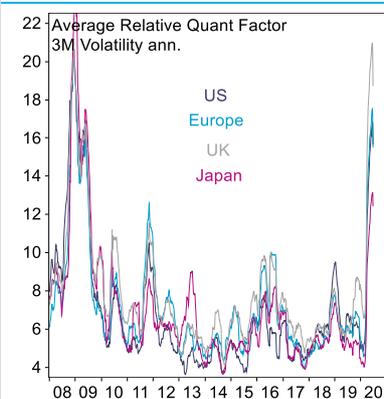
In a previous Lyxor Cross Asset Research piece, we had analyzed the underwhelming performance of neutral strategies until early Q2 2020. Extreme stock volatility, heavy systematic trading volumes, the dominance of speculative drivers (the pandemic, multiple stimulus, the oil price war) and their delayed showing in macro and corporate statistics all contributed to impair fundamental stock-picking approaches. A fast stock re-correlation, insufficient contribution from shorts, and major factor/sector rotations were additional challenges. We had also expected that, with normalizing trading conditions, the environment would eventually become more fundamentally driven which could be supportive for neutral strategies. We may have gotten there.

There have been four major factor rotations year-to-date. The first one started with the market crash, when momentum broke through. The second one took the relay by the end of March, as markets troughed, leading to a rally in cyclical stocks and small caps. The third one gained traction by mid-May, in market euphoria, with a surge in value vs. growth out of momentum. The last one to date occurred during the June market correction, largely reversing the third rotation.

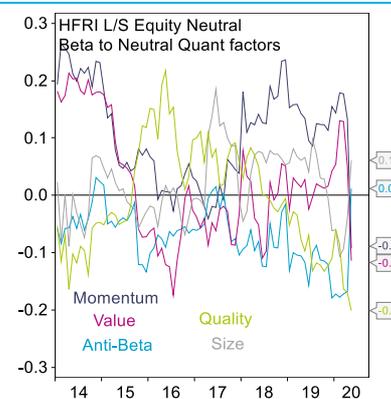
Factor volatility peaked in May, reflecting the declining amplitude of rotations. Meanwhile, L/S Equity Neutral strategies have deeply reshuffled their allocations away from value, quality, and defensive stocks. They have gone into smaller caps and growth factors. These changes, along with a broadening sector leadership, a deeper focus on stock fundamentals (especially in the small- and mid-cap segments), and improving shorting conditions, all helped generate positive alpha. A wider differentiation across neutral managers returns is also a good sign, consistent with the ongoing normalization of stock correlation and dispersion.

In our view, another major value vs. growth catch-up which could hurt neutral strategies, seems unlikely at this stage. Value stocks usually benefit from ample liquidity and an economic recovery. Their valuation discount to growth stocks also stands at record. Yet, the macro inflection is not decisive enough and significant wildcards are holding investors back. Moreover, the value/growth P/E discount is not at odds with their relative fundamentals. A more favorable backdrop for heavy weighted banks and oil prices stabilization would be a pre-requisite (see the deep changes in factor constituents since last year p2). All in all, conditions may not be gathered yet for a sustainable rotation towards value. The environment is improving for L/S Neutral strategies, but the fast-changing trading conditions keep us in wait-and-see mode for now.

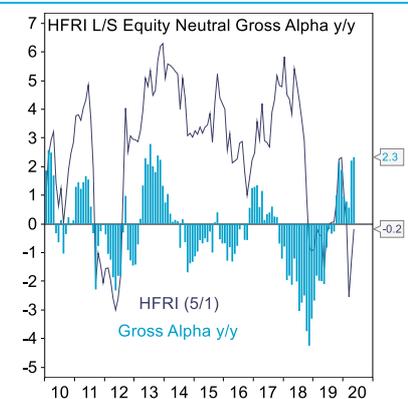
Moderating factor rotations



Big Neutral allocation reshuffling



L/S Neutral's alpha on the mend



Sources: Bloomberg, Macrobond, HFR, Lyxor AM

Hedge Fund Performance: L/S Credit and Special Situations Strategies Outperform

Lyxor UCITS Peer Group Performance

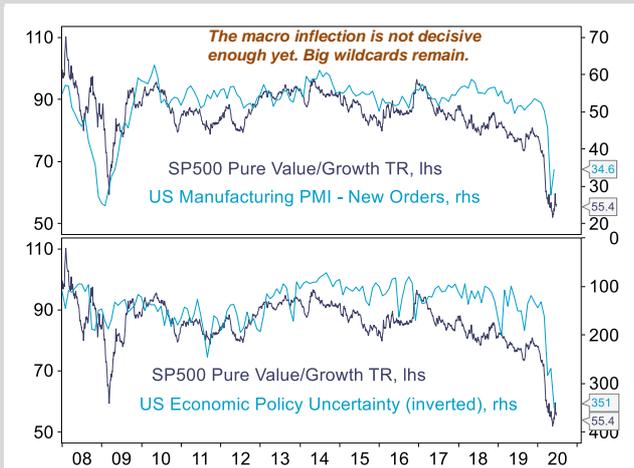
	WTD	MTD	YTD
MSCI World	-2.2%	3.0%	-4.7%
Global Macro	-0.5%	1.4%	-4.1%
Event-Driven: Special Situations	-1.2%	2.7%	-6.8%
L/S Credit	0.2%	2.2%	-1.2%
L/S Equity Directional	-0.4%	1.4%	-4.2%
Event-Driven: Merger Arbitrage	-0.4%	0.4%	-3.4%
Risk Premia	-0.2%	-0.7%	-9.9%
Global Lyxor UCITS Peer Group	-0.2%	0.8%	-4.0%
L/S Equity Market Neutral	0.2%	0.5%	-1.6%
50/50 Equity / Bond Index	-0.8%	1.7%	0.3%
Bloomberg Barclays Global Aggregate Bond Index	0.4%	0.2%	3.6%
CTAs	0.7%	-1.6%	-4.2%

Week-to-Date (WTD): June 9th to June 16th. Source: Bloomberg, Lyxor AM

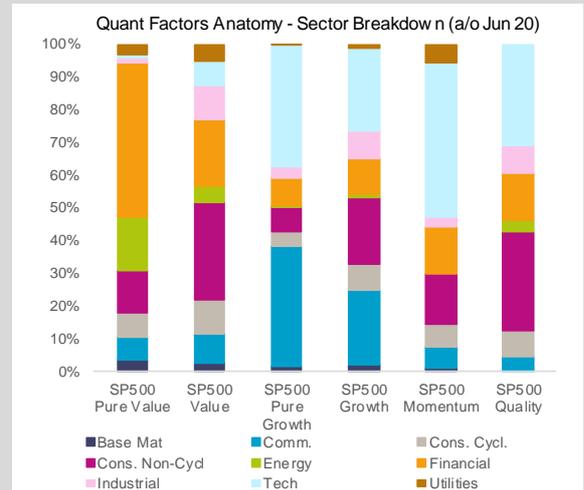
Lyxor Peer Groups suggest hedge fund performance was flat mid-June. Equity-related strategies underperformed and CTA/ Market Neutral L/S outperformed due to the brief risk off episode on June 11 when the S&P 500 fell -5.9% in a day.

On a month-to-date basis, L/S Credit strategies were up by +2.2%. This is a strategy that we upgraded to Overweight on the back of its attractive risk/ return profile at this stage of the business cycle. Asset purchase programs by central banks will likely compress risk premia across asset classes. The search for yield turns High Yield attractive as an asset class but credit risks remain significant in some sectors such as transportation. L/S Credit strategies have more alpha potential in conditions where dispersion between individual sectors and issuers is elevated.

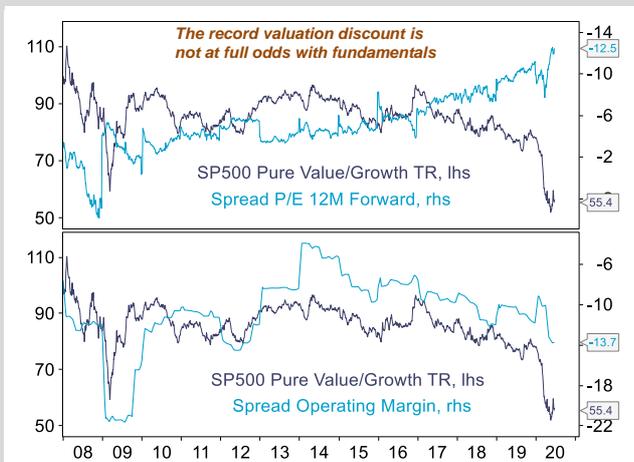
Milder Factor Rotations are Easing Pressure on L/S Equity Neutral [continued from p1]



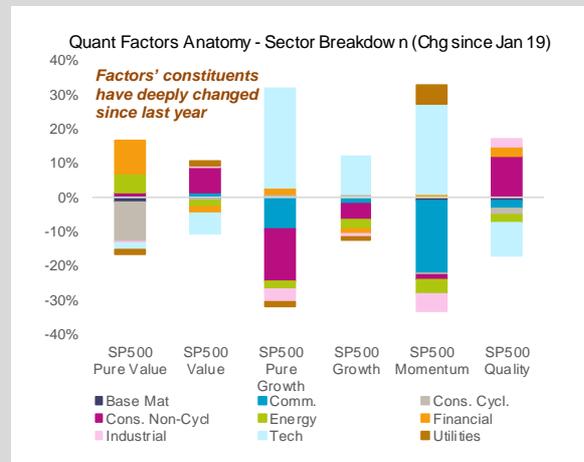
Source: Bloomberg, Lyxor AM



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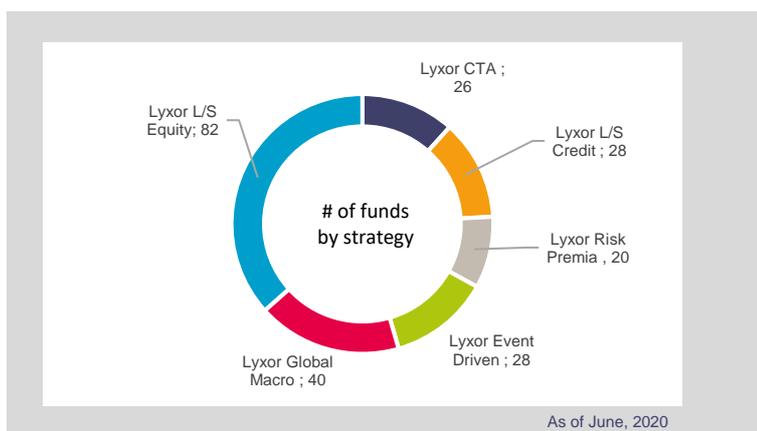
METHODOLOGICAL APPENDIX

The information contained in this report on the performance of hedge funds is based on publicly available information. The universe of underlying funds is relatively stable but varies depending on the criteria of inclusion presented below. It is based on an unbiased selection from our hedge fund analyst team.

Performance is calculated on a weekly basis, as of end-Tuesday, using an arithmetic average (equally weighted average).

Regarding share classes used in these peer groups, we selected the primary share class as referenced in Bloomberg. Non-USD share classes are hedged in USD based on hedging costs available on Bloomberg.

Lyxor Hedge Fund Peer Groups: number of funds by strategy



- 224 strategies across the main categories in the industry
- USD 167 billion of assets under management

Criteria of inclusion

The criteria of inclusion are fourfold:

- We only include UCITS strategies;
- Assessment by Lyxor's Hedge Fund selection team based on funds' materials or manager interaction;
- We only include strategies with assets under management of at least USD 50 million; and
- We only include strategies with at least a one-year track record.

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