THE WEEKLY BRIEF

By LYXOR CROSS ASSET RESEARCH

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HOW HAVE TECH STOCK-PICKERS NAVIGATED THE SELLOFF?

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Once again tech stocks took center stage, however, this time it was negative. A sudden equity correction started last Thursday in the U.S., led by tech stocks. The selloff remained orderly so far. Trading volumes were only modestly higher than average. Intraday trends also suggested investors kept looking for a floor to buy on dips. Importantly, activity from algorithms (which can set off vicious selling circles) has not been particularly heated so far. Early indications suggest mutual funds have been the dominant sellers in this correction (they were the main buyers in the late stage of the rally). A large bearish option repositioning was also a key contributor to the drop. Meanwhile, the rotation out of risky assets into defensives was moderate, witnessed by a marginal rise in safe-haven currencies and limited moves in bond and gold markets. The contagion to the rest of the world (where tech stocks are lighter weights) was also limited. Finally, the correction across tech sub-sectors was differentiated, with smartphones and internet and cloud related stocks underperforming the most.

The tactical patterns of tech stocks remain vulnerable even after their plunge (investors' positioning is healthier, but valuations are still stretched). Yet, so far, the selloff seemed to be mainly driven by profit-taking after a relentless rally.

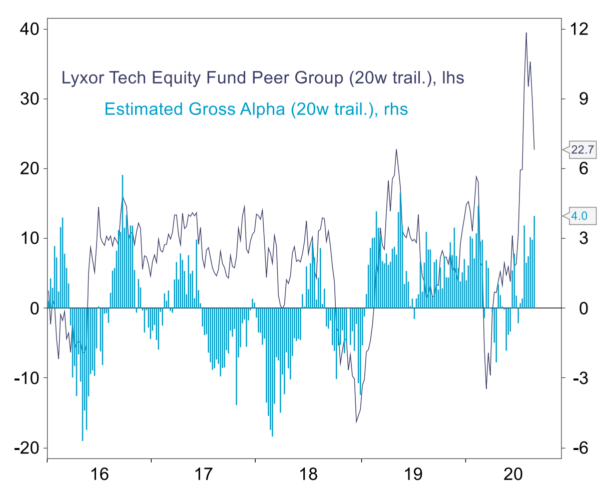
Since Thursday, the Lyxor technology equity fund peer group was down -5.8%, slightly outperforming tech headline indices, down about -7%. The resilience of the peer group came from the managers' overall cautious exposure to tech stocks, with an average beta to tech indices around 0.6, substantially below their long-term average. Managers also favored relative value positions: their underweight on tech hardware and peripherals stocks, which were sold out the most, were opportune. Meanwhile, their overweight on communication services stocks paid off. Their main losses came from their positions on software and internet stocks.

In perspective, the alpha environment for tech equity strategies has improved over recent months. With normalizing market trading conditions, correlations across tech stocks receded while prices dispersion remained elevated. This emphasizes the increasing differentiation within the tech equity world and the widening variety of drivers. Best performing tech stocks were the ones focusing on the cloud, services linked to remote working, home entertainment, cybersecurity, big data, and other secular tech trends (including 5G and the Internet-of-Things). Other areas did take a toll from COVID-19 and from declining corporate and household spending.

This supportive backdrop for stock-picking also translates into higher differentiation across returns of our peer group of tech managers. The low correlation of their returns also suggests divergent positioning and opportunity set.

Some time may be needed for tech stocks to mend from this correction. Moreover, their momentum ahead of U.S. elections (with risks from higher taxes and anti-monopoly rules) may become less favorable. Less directional tech markets could set favorable alpha conditions for tech stock-pickers.

Rising alpha as tech stocks differentiation soars



Source: Macrobond, Lyxor AM

PERFORMANCE: All Hedge Fund Strategies Up This Week

Lyxor UCITS Peer Group Performance

	Last Week*	MTD	YTD
Bloomberg Barclays Global Aggregate Bond Index	**-0.2%**	**-0.7%**	**4.3%**
MSCI World	**1.0%**	**6.3%**	**4.0%**
L/S Credit	0.1%	0.7%	0.5%
L/S Equity Directional	0.1%	0.0%	-1.1%
L/S Equity Market Neutral	1.5%	0.3%	-1.3%
Global Macro	0.1%	0.7%	-1.9%
Event-Driven: Merger Arbitrage	0.1%	0.1%	-2.1%
Global Lyxor UCITS Peer Group	**0.2%**	**0.4%**	**-2.6%**
CTAs	0.1%	-0.9%	-2.9%
Event-Driven: Special Situations	0.6%	2.2%	-6.4%
Risk Premia	-0.3%	0.2%	-9.0%

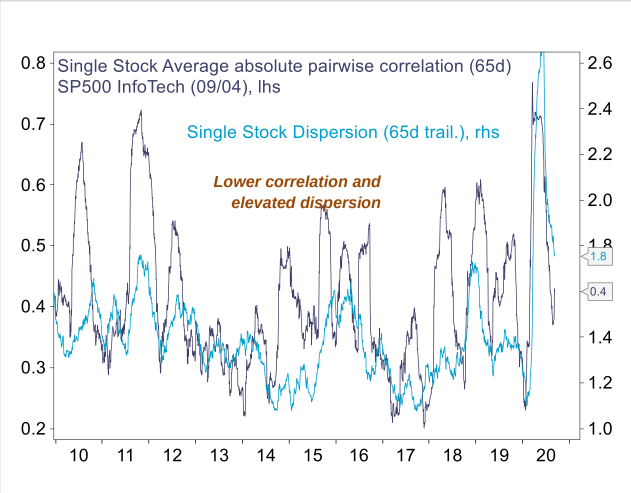
*Last Week: Aug 25th to Aug 31st. Source: Lyxor AM

Markets continued to rally until the end of August, supported by the Fed at Jackson Hole, which prepared for higher inflation target, and by a weaker dollar. Govies yields increased and boosted both cyclical and growth stocks. The outcome from fiscal stimulus negotiation remained closely monitored.

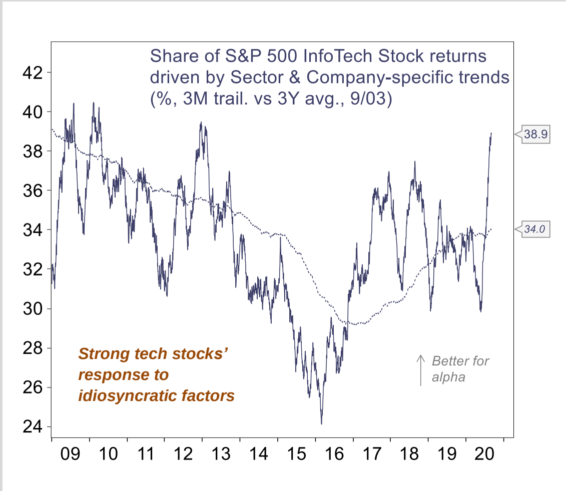
Hedge Fund strategies continued to rally too, led by Special Situations and Market Neutral. The former group progressed in line with its natural exposure to equities and thanks to the revival of corporate operations.

Market Neutral strategies benefitted from continued flows into cyclical and growth stocks.

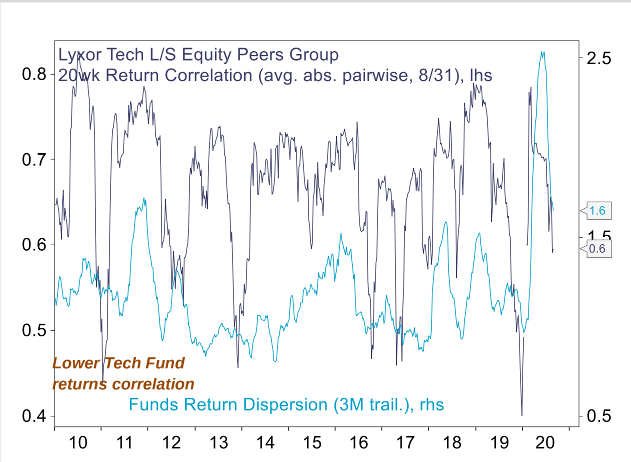
How Have Tech Equity Strategies Navigated the Selloff So Far? [continued from p1]



Source: Macrobond, Lyxor AM



Source: Macrobond, Lyxor AM



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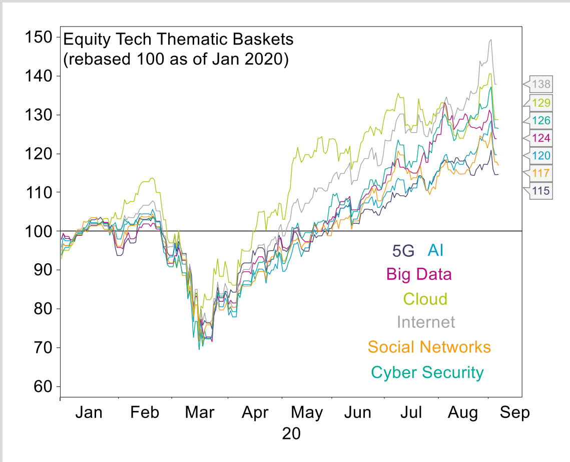


Source: Macrobond, Lyxor AM

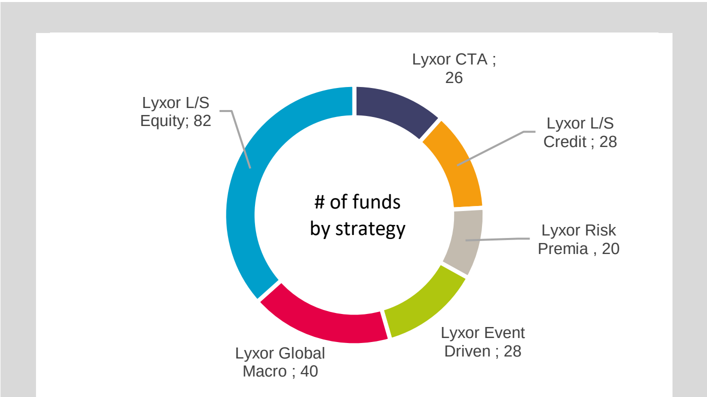
METHODOLOGICAL APPENDIX

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



As of August, 2020

- 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:

i) We only include UCITS strategies;

ii) Assessment by Lyxor’s Hedge Fund selection team based on funds’ materials or manager interaction;

iii) We only include strategies with assets under management of at least USD 50 million; and

iv) We only include strategies with at least a one-year track record.

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