

HEDGE FUND MOVES FOLLOWING U.S. ELECTIONS AND VACCINE NEWS



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Markets saw two major movers in a row. Multiple moving pieces and cross winds are not making active managers' jobs any easier. U.S. elections uncertainty is nearly behind and Covid-19 vaccines suggest a light at the end of the tunnel. Yet, the surge in virus cases might require further restrictions before a vaccine is rolled out. By then, some stimulus might be curtailed, withdrawing some market support. Finally, the future of U.S. policies remains tied to the January 5, 2021 Senate runoffs in Georgia. Below we review how the U.S. elections and the news of the Pfizer/BioNTech vaccine impacted hedge funds and how they reacted so far.

U.S. elections keep some suspense. While legal challenges and recounts are unlikely to change the result, President Trump might strive to galvanize the Republican camp and anti-establishment sentiment ahead of the runoffs in Georgia. By further polarizing political forces before the next administration may even celebrate, he may also seek to maintain his legacy. While a "blue wave" can't be ruled out, a split Congress implies less stimulus than planned, but also less deficit and less policy uncertainties. A jammed legislative process would cripple the domestic agenda, favoring executive actions instead, with more room on foreign policies. Prospects of a substantial tax overhaul would fade, while climate and healthcare policies would be watered down.

A split Congress is becoming the consensus, with rates adjusting to a milder reflation, while the dollar and Asian markets are pricing reduced trade spats, with manageable rotations in healthcare, clean energy and tech (until the vaccine news). This scenario probably means a positive cyclical tilt for equities, but investors would quickly re-focus on fundamentals.

Vaccine - a light at the end of the pandemic tunnel. Announcement that the Pfizer/BioNTech vaccine had reached 90% efficacy rates in late-stage clinical trials gave markets an adrenaline shot. Uncertainty remains regarding the large-scale efficacy rate, the share of population that will be vaccinated, and the time to spread it out given the technical constraints. They would determine how fast world economies normalize (probably not before H2 2021 and at an uneven regional pace). In the meantime, the global economy still faces a challenging winter, with extra restrictions in store.

What is the impact on hedge funds? Returns were positive in both cases. Already positioned for the outcome, all strategies were up after the U.S. elections, led by L/S Equity, Special Situation, and Global Macro. In contrast, returns were milder and uneven after the vaccine announcement. It was most beneficial for Special Situation and L/S Credit strategies (boosted by their beta rather than by their alpha), but painful for CTAs and some Global Macro. L/S Equity returns were highly dispersed. Caught off guard, managers overweighting Growth and "work-from-home" stocks at the expense of Value and Covid-19's prime victims were severely hit, especially in Europe given the extreme [followed p2]

Market Returns post-U.S. Elections (11/4 - 11/8)

Cross-Assets	Equity	10Y	2Y	FX TWI	Bkvn	10Y	BBB	OAS
	%	bp	bp	%	bp	bp	bp	bp
US	4.2	-8	-1	-1.4	-8	-9		
JP	3.1	-2	-3	0.4	1	0		
EMU	3.1	0	1	0.6	-1	-3		
UK	2.1	0	1	-0.3	-4	-4		
EM	4.2	-20	-13	2.5		-7		
China	5.3	2	4	0.0		-8		
Asia	4.1	-13	0	0.9		-8		
Latam	4.6	-20	0	3.7		-7		
CEE	4.2	-21	0	0.5		-8		
Key Sectors	US %	JP %	EMU %	UK %	EM %	China %		
Telco Svces	6.3	1.1	1.5	0.6	4.1	3.5		
InfoTech	7.7	4.5	5.5	2.9	4.1	7.2		
Healthcare	4.8	7.5	3.5	4.8	4.4	2.8		
Cons Disc.	5.0	2.5	4.7	4.9	7.9	7.9		

Market Returns post-Vaccine news (Since 11/9)

Cross-Assets	Equity	10Y	2Y	FX TWI	Bkvn	10Y	BBB	OAS
	%	bp	bp	%	bp	bp	bp	bp
US	1.2	8	2	0.8	8	-8		
JP	4.1	1	1	-1.5	2	-1		
EMU	6.1	9	6	0.0	-4	2		
UK	7.3	7	0	0.3	-4	-5		
EM	0.2	-7	-8	0.6		-12		
China	-2.6	6	4	0.1		1		
Asia	0.5	-2	3	0.1		-8		
Latam	4.1	1	0	-0.3		-18		
CEE	5.1	-13	0	1.2		-10		
Key Sectors	US %	JP %	EMU %	UK %	EM %	China %		
Telco Svces	-0.7	-0.3	5.7	13.5	-3.0	-4.5		
InfoTech	-1.5	4.4	3.7	0.9	0.6	-3.3		
Financial	6.2	6.4	13.8	11.3	6.1	3.7		
Energy	11.9	4.3	15.4	17.2	6.9	13.0		

Sources: Bloomberg, Lyxor AM

PERFORMANCE

L/S Equity, Special Situation, and Global Macro Strategies Soared after U.S. Elections

	Last Week*	October	YTD	# of funds
Event-Driven: Merger Arbitrage	0.5%	0.6%	-0.8%	
L/S Credit	1.1%	0.0%	1.5%	7
Bloomberg Barclays Global Aggregate Bond Index	0.3%	0.0%	5.0%	49
Global Macro	1.6%	0.0%	-1.1%	25
Global Lyxor UCITS Peer Group	1.5%	-0.5%	-1.8%	212
L/S Equity Directional	2.4%	-0.6%	0.0%	22
Event-Driven: Special Situations	2.1%	-0.7%	-4.4%	27
L/S Equity Market Neutral	0.4%	-0.8%	-1.3%	39
CTAs	1.2%	-1.2%	-4.4%	25
Risk Premia	0.8%	-1.8%	-10.1%	18
MSCI World	7.1%	-3.0%	5.3%	

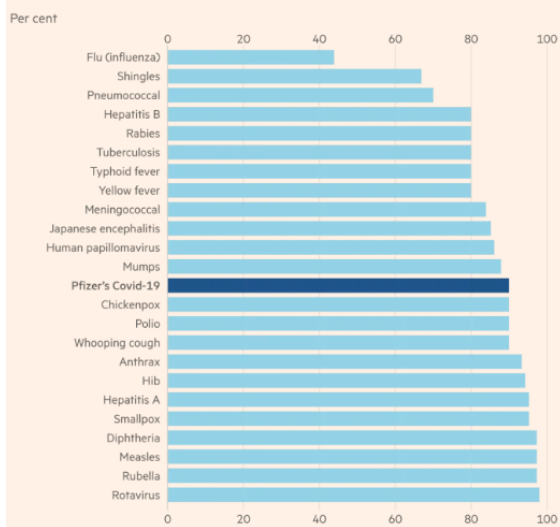
*Last Week: Oct 30 to Nov 6. MTD and YTD as of Nov 6. Source: Lyxor AM

A Biden victory remained the dominant market bet after U.S. elections, but assets sensitive to his key policies lost traction. Assets sensitive to a bold reflation program, conditioned by a Democratic “blue wave”, reversed: rates bull flattened, inflation products, dollar, and bond proxies retraced earlier gains. The risk premium on energy and pharma sectors eased up, as well as for low-tax and labor-intensive companies. The main market surprise was the volatility plunge despite the remaining Senate race uncertainty, probably reflecting little doubts about chance of success from legal challenges as well as heavy volatility positioning ahead of the elections.

All hedge fund strategies were up after U.S. elections, led by L/S Equity, Special Situation, and Global Macro. The impact on Merger Arbitrage and L/S Neutral strategies was unsurprisingly milder.

Hedge Fund Moves Following U.S. Elections and Vaccine News [Continued from p1]

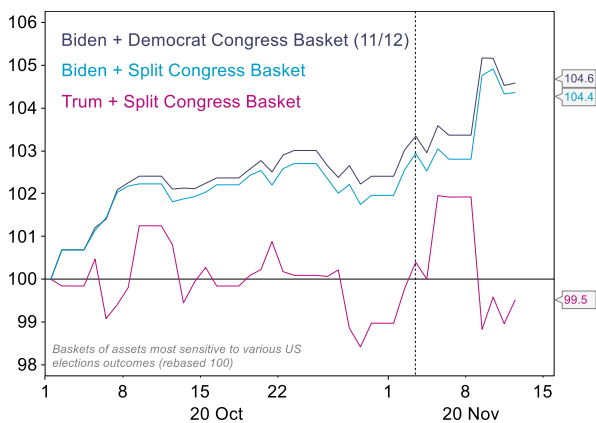
The effectiveness of vaccines



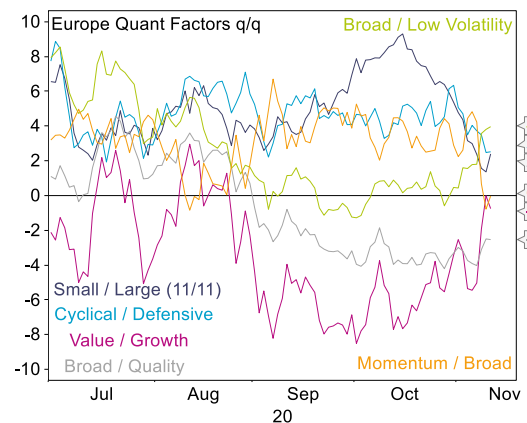
Sources: CDC, NCBI, WHO, NHS, DB, FT

rally in financial and airlines stocks. Long positions contributed positively but shorts faced a major squeeze, hitting Quant and L/S Neutral strategies with a double whammy.

Have they altered their portfolios? **CTAs** have not substantially modified their exposures, still modestly short DM equities but adding to EM equities. They also kept their long dollar and bonds. **Global Macro** had raised equity exposures in October and only marginally added to them since last week. They continue to shave off their bond holdings, while remaining tactically neutral+ on USD. **EM and China** hedge funds were cautious ahead of U.S. elections but are now adding risk. **L/S Equity** portfolios were already positioned for U.S. elections and were little changed thereafter, all the more so fiscal and tax policies remain uncertain. The knee-jerk reaction after the vaccine news was to cover shorts while reducing their long positions (resulting in lower gross exposures). Managers expect further portfolio tweaks until they settle towards an earlier end of the pandemic than expected.



Sources: Bloomberg, Lyxor AM



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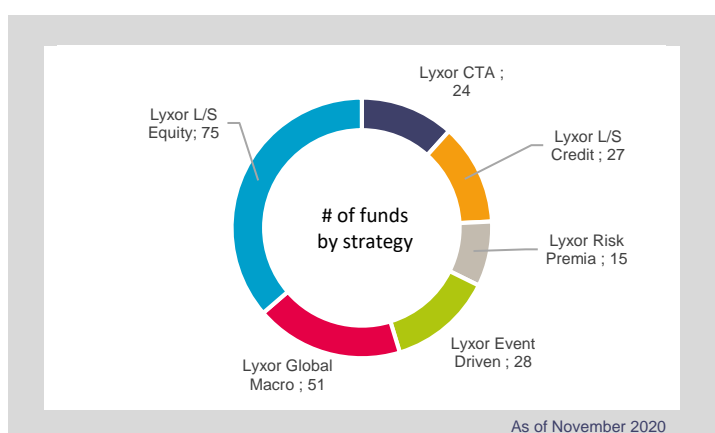
METHODOLOGICAL APPENDIX

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



- 220 strategies across the main categories in the industry
- USD 174 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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