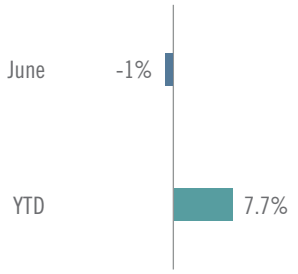
PICTET
1805

# Hedge Fund Flash Report

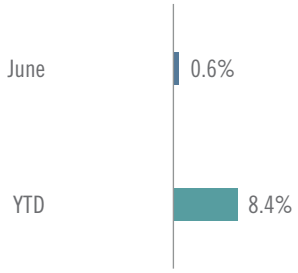
## July 2021

*For professional investors only*

*Pictet Alternative Advisors*




HFRI Macro: Discretionary



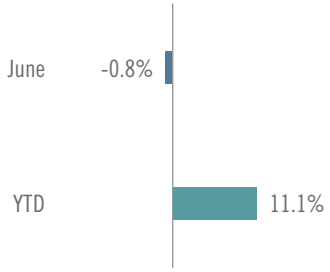

HFRI Macro: Systematic

MACRO

# Macro managers maintain a reflationary view

Discretionary global macros continued to suffer in July, with DM fixed income accounting for the majority of the losses. Following a significant repricing of inflation expectations and a decline in US Treasury yields, managers printed negative returns and reduced risk but generally did not change their macro outlook. Viewing June's drop in long-dated US Treasury yields as caused by an unwinding of leveraged speculative positions rather than resulting from a change in fundamental conditions, most retained a reflationary stance in their portfolios.

Entering July, macros thus remained short US fixed income and long commodity, while short US dollar trades were largely removed. As such, macro funds posted further losses when US Treasury yields tumbled over the first weeks of July. July was also difficult for EM-focused managers, generating losses from selected long EM currency positions and most notably from short US Treasury positions intended to hedge their local currency and EM credit exposures.




HFRI Equity Hedge

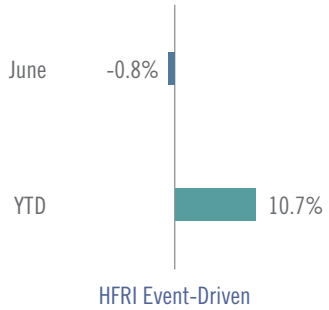
EQUITY HEDGE

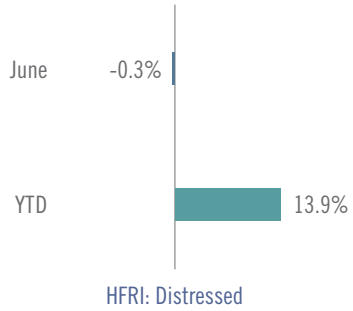
# Equity Hedge managers held up well thanks to a low directional exposure

China made the headlines this month with its government technology crackdown, which spooked global investors. In this context, Chinese H-shares and ADRs fell quite substantially. On average, positioning in US-listed China internet names was particularly low going into the month, which explains why the industry has not seen an active de-grossing on the back of the brutal price actions. As a result, China-focused equity hedge funds held up reasonably well during the month.

EVENT DRIVEN

# July was a challenging month for event driven strategies

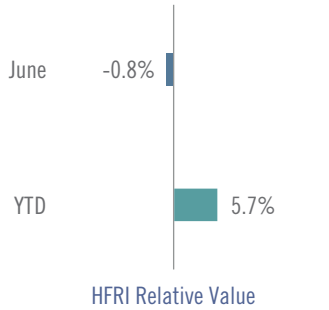



July was a difficult month for event-driven strategies.
Event-driven credit managers had a slightly negative month in July as high-yield spreads widened, with lower quality CCC bonds underperforming.
Merger arbitrage spreads widened steadily over the last few months, driven mainly by expected increases in regulation following changes at the US FTC and DOJ, which may indicate that the Biden administration will take a more aggressive stance towards competition enforcement.
However, for the time being M&A activity continues to be robust. The early days of August have witnessed a wave of activity, especially focused on targets outside the US.
Liquidity across asset classes, confidence in corporate boards, valuations and activism, are all supporting these very high levels of activity.
The wider spread environment offers an attractive opportunity set for the strategy.

RELATIVE VALUE

# Exposure to chinese names negatively impacted the convertible bond strategies




The relative value strategy ended the month flattish but slightly more in negative territory. Convertible-bond strategies were either slightly positive for managers with portfolios skewed to high delta in developed markets, or more negative when they had exposure to some of the most popular Chinese technology or education names that suffered from the negative news flow on government interference policies. SPACs were generally small detractors despite new issuance increasing in July.
Structured credit and fixed-income strategies were small contributors, with both a combination of spread tightening and interest income. Multi-portfolio managers and equity-market-neutral managers had mixed results but within a tight range. The most negative ones held the general belief that Covid-19 will be shifting into the rear-view mirror while the market's headlines were focused on the new strain.

*Pictet Alternative Advisors (PAA) is a leading European alternative investment specialist with expertise in manager selection and portfolio management in liquid alternatives, private equity and real estate. PAA is an independent unit of the Pictet Group. Founded in 1991, we currently manage over USD 30 billion and our team is composed of 100 people.*

Pictet Alternative Advisors
Route des Acacias 60
1211 Genève 73
+41 58 323 23 23

*www.alternatives.pictet*