

*Commentary from the Investment Management Team at Boussard & Gavaudan*

## Geopolitical Shock and Market Repricing

Equity markets in Europe and the US moved lower in March, with the Euro Stoxx 50 Total Return Index declining 9.18% and the S&P 500 Total Return Index falling 4.98%. Market-implied volatility moved higher over the month, with the VStoxx closing at 30.7%, while credit risk premiums also widened, as reflected in the iTraxx Crossover S43 at 286 basis points. Against this backdrop, market conditions became more defensive, although the overall adjustment remained orderly. In this environment, our defensive positioning helped preserve capital and navigate the month's dislocation with resilience.

### Convertible Bond Arbitrage

US convertible arbitrage demonstrated resilience despite the challenging environment. The 5-year Treasury yield went up from 3.5% to 3.94%, and the HY CDX widened from 332bps to 385bps. Although rising rates and widening spreads typically create strong structural headwinds for convertible performance, the strategy proved resilient, validating our long-standing strategy of avoiding low-delta more credit sensitive situations.

Broader market sentiment was pressured by notable idiosyncratic events. Data-centre operator Nebius came to market with a large \$4.25bn two-tranche new issue which received a mixed initial reception. The shorter-maturity \$2.5bn convertible was up around 50c on day 1, but the longer-maturity \$1.75bn convertible was down more than 2 points on the same day. This was followed the next day by a large 7-8 point hit to the SMCI complex totalling \$4.7bn, after the company was caught making illegal GPU shipments to China. Despite the challenging backdrop, there was positive issuer-specific activity such as that on the exchange transaction on the Burlington Stores 2027 convertible. In early March, the company approached investors to privately exchange the convertible for cash and shares, enabling holders to crystallise gains.

Elsewhere, new issuance slowed materially following the escalation of conflict in the Middle East, despite ongoing refinancing needs among corporates. In this environment, credit sensitive convertible bonds came under pressure, although market conditions remained orderly with no panic selling. Portfolio rotations remained limited, resulting in very light activity in the secondary market. We are using this quieter period to identify new, attractively priced opportunities across Asia, particularly in Hong Kong and Japan, as well as in Europe and remain well positioned to selectively add exposure where valuations are compelling.

Our fully hedged position in Lufthansa was a standout contributor during the month, demonstrating the value of effective hedging and structural downside protection amidst broader travel and geopolitical uncertainties. More broadly, we maintain our European convertible arbitrage positions fully hedged through CDS or ASCOTs.

### Volatility Trading

March was characterised by a risk-off tone, triggered by the conflict in the Middle East, and marked by an underperformance of Europe relative to the US following a strong start to the year. Realised volatility remained broadly contained, particularly in the US where intraday mean

reversion dominated price action. By contrast, European markets experienced more sustained moves, partly driven by more negative gamma positioning across the street, which amplified volatility.

Despite the upward move in implied volatility indices over the month (VIX +3.9 points, VStoxx +7.7points), largely reflecting spot-driven effects, the overall environment did not resemble a state of panic. Notably, fixed-strike implied volatilities in the US declined slightly between the end of February and the end of March, while in Europe they remained stable or increased marginally.

The month's defining feature was a broader risk-off repricing, reflected in higher implied correlations and more cautious market positioning. This was accompanied by significant moves in rates and commodities, while equity, FX and credit markets remained relatively orderly in comparison. In this environment prudent and defensive positioning proved supportive.

## Equity Strategies

Following the escalation of the conflict in the Middle East, markets shifted into a risk off environment, leading to a sharp sell-off and a widening of risk arbitrage spreads. The portfolio was well hedged, and the protections we had in place more than offset the negative impact of this spread widening. These market dislocations also created several attractive entry points to select opportunities.

Despite geopolitical tensions and broader market stress, corporate activity in Europe remained robust. We saw five large deals announced or approaches confirmed during the month, each involving deal values of more than €10bn: Poste Italiane on Telecom Italia, Unicredit on Commerzbank, CVC on Recordati, with discussions between Pernod Ricard and Brown-Forman, and Estée Lauder and Puig. This continued strength in corporate activity reinforces our view that the opportunity set for risk-arbitrage strategies continues to improve.

## Trading Strategies

Macro trading strategies were impacted by the geopolitical shock from the conflict in Iran. The resulting environment from the escalation had a more stagflationary character, whereas our strategy had been positioned for more of a downside growth scenario causing our rates positioning to detract from performance over the period.

Gold also experienced a sharp correction during the month which we had anticipated by reducing our exposure and implementing downside protection. More broadly, in response to the elevated market volatility and the high degree of short-term geopolitical uncertainty we significantly reduced our overall exposure to macro trading, retaining a select number of longer-term positions with lower short-term sensitivity, allowing us to maintain exposure to our core themes while limiting near-term risk.

## Outlook

Looking ahead, we expect the market regime unleashed in March to persist, with geopolitical shocks, macro uncertainty and violent cross-asset rotations continuing to drive sharp price action. The scale and speed of the moves seen over the month materially reset valuations and created exactly the sort of dislocation in which flexible, market-neutral strategies can find attractive opportunities. For strategies such as ours, this is an increasingly fertile backdrop, where disciplined hedging and selective risk deployment can capture improved asymmetry across volatility, arbitrage and event-driven situations.

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