

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

### AI, Rates, and Resilience: November in Focus

Equity markets in Europe and the US went in different directions in November with the EuroStoxx 50® Total Return down 0.37% and the S&P500® Total Return up +5.87%.

The market implied volatility measure VStoxx® decreased, finishing the month at 17.0% and the iTraxx Crossover® (S39) moved slightly from 314 to 298bps.

### Convertible Bond Arbitrage: Déjà vu

The US convertible bond market experienced a sector-specific dislocation reminiscent of last year's turmoil in crypto-linked names. This time round, the weakness focussed on AI and data-centre convertibles following renewed scrutiny of Oracle's financial exposures, which prompted a broad reassessment of risk across the segment. Many securities declined by 4–8 points on a delta-neutral basis. The correction deepened as several issuers brought sizeable new issues to market at discounts to existing levels, amplifying downward momentum and further pressuring valuations. Outside this pocket of stress, the broader market remained resilient, with valuations steady to slightly firmer. New issuance was active and well-received in non-technology sectors, suggesting that overall market sentiment remains constructive. The December new issue pipeline appears healthy ahead of the usual year-end slowdown.

In Europe and Asia, convertible valuations edged 0.5–1% lower amid profit-taking and position reductions by long-only investors into year-end. Realised volatility remained subdued, while primary issuance in Europe was limited to a single non-dilutive issue priced expensively.

### Volatility Trading

Markets opened the month on a cautious footing as concerns over extended valuations and crowded AI exposure drove a temporary rise in realised volatility. The move proved fleeting as by late November, sentiment had improved markedly, equities recovered lost ground, and volatility normalised, finishing the month below earlier levels.

As year-end approaches, positioning remains cautious with a disciplined hedging bias amid persistent macro uncertainty and seasonally reduced liquidity. The upcoming December Federal Reserve meeting is expected to provide clearer guidance on the policy trajectory heading into 2026.

### Equity Strategies: Corporate Activity Gains Momentum in Europe

Corporate activity in Europe gained momentum in November, creating a broad set of event-driven opportunities.

Vivendi retreated after the Cour de Cassation overturned a prior ruling recognising the Bolloré Group's de facto control, reducing expectations of a near-term tender offer and widening the NAV discount to historical levels. The matter now returns to the Paris Court of Appeal for review.

Within financials, BBVA appreciated following the formal conclusion of its pursuit of Sabadell, as investors refocused on its balance sheet strength and growth prospects. Meanwhile, Covestro's long-running takeover by ADNOC received final approval and is expected to complete imminently.

Elsewhere, Akzo Nobel announced its merger with Axalta Coating Systems which is widely interpreted as a takeover and Deutsche Börse's exploration of a potential bid for Allfunds Group underscored the constructive backdrop for corporate activity.

## Macro and Systematic Trends

Gold extended its gains through November, supported by sustained emerging market central-bank purchases, persistent geopolitical risk, and ongoing concerns around monetary debasement.

In the UK, front-end rate positions were influenced by fiscal announcements and shifting domestic fundamentals, which added volatility across gilts and swaps.

Globally, equity markets experienced weakness for much of the month before staging a modest recovery late in the period, insufficient to recoup earlier losses. The sharp move in Japanese government bonds marked a notable shift, potentially signalling an end to the sector rotation trends that have dominated since summer. Commodities produced mixed returns but delivered a small net positive contribution to overall performance.

## Outlook

Investors have begun to price a lower-rate environment, with further stimulus measures anticipated, despite persistent inflation and concerns over elevated valuations in AI-related assets which continue to linger. This view is fuelling a bullish consensus on equity which could lead to complacency in the market.

Against this backdrop, effective hedges remain an important tool to guard against unexpected shocks.

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