

Commentary from the Investment Management Team at Boussard & Gavaudan

Steady Finish to 2025

Global equity markets ended 2025 on a positive note. The EuroStoxx 50® Total Return gained +2.23%, while the S&P 500® Total Return finished +0.06% higher. Market-implied volatility declined over the month, with the VStoxx® closing at 14.7%, and credit markets remained firm as the iTraxx Crossover® (S43) tightened to 216bps.

Convertible Bond Arbitrage

December marked a positive close to the year for our US convertible arbitrage strategy. Five-year rates rose modestly from 3.60% to 3.73%, but this was offset by HY CDX tightening from 322bps to 317bps. Our decision to exit direct exposure to convertible bonds in the AI infrastructure space proved timely, protecting our portfolio from the drawdowns experienced by many of our peers in the convertible arbitrage space.

Notably during December, Axon repurchased its bonds at a premium of two points over the market price. Although the convertible bond was deep-in-the-money, the underlying equity had fallen by almost 30% from its October high, prompting the company to quickly buy back the convertible bonds. We foresee similar corporate actions in the second half of 2026 where balance-sheet dynamics can offer opportunities to unlock value.

Valuations across Europe remained relatively stable with limited flows outside of convertible bonds linked to special situations.

December saw Qualcomm conclude its acquisition of Alphawave. Alphawave's convertible bonds presented a compelling arbitrage opportunity with a highly attractive risk-reward profile and pronounced asymmetry where the convertible bond offered a significantly more favourable opportunity than the equity. Trades could be structured to be long convertible and short equity in such a way that in the event of deal completion the position offered a positive return, while a deal break would provide an even higher return.

Overall primary issuance in Europe for 2025 was reasonable totalling €11bn across 25 new issues. However, this was not enough to offset natural redemptions, conversions or tender offers which amounted to around €20bn. In this context, the outlook for the European convertible market in 2026 will largely hinge on the level of primary issuance.

Volatility Trading

December saw a particularly constructive market environment. The FOMC meeting delivered a clear and well-anticipated outcome, investor positioning remained firm; and risk assets finished the year strongly in a bullish tone, with no market stress.

In this context, realised volatility collapsed sharply to single-digit levels, which were well below the implied volatility priced at the end of November. Implied volatility also declined materially over the month. This broad-based compression of both realised and implied volatility across asset classes negatively impacted the performance of defensive volatility strategies in a very stable year-end environment.

As we enter 2026, lower volatility levels and compressed risk premia are creating more attractive entry points. We remain focused on selectively rebuilding exposure where the benefits of asymmetry and diversification are strongest. Regarding dispersion, current entry levels remain unattractive. However, we are closely monitoring the situation and would consider making tactical investments should market conditions change, particularly if correlations spike or volatility increases at the single-name level.

Equity Strategies

High profile corporate activity remained lively through December, with prominent deals such as the Warner Bros acquisition making headlines as Netflix and Paramount compete to acquire the company.

Trading around secondary activity and softer catalysts performed well, with opportunities arising from corporate actions such as spin-offs, market placements, and rights issues. These events continued to provide fertile ground for active, event-driven strategies focused on exploiting dislocations and relative value opportunities.

Overall, 2025 was a strong year for corporate activity in the US, with several significant deals announced. In Europe, deal flow remained focused on smaller transactions, but we expect to see an increase in M&A activity, consistent with Europe's typical lag behind US cycles.

Throughout the year, heightened market volatility created attractive opportunities to trade around short-term catalysts and capture value. We expect this trend to persist in the coming months.

Trading Strategies

Gold, and precious metals more broadly, continued their stellar run in December. As we enter the early part of 2026, given the prevailing geopolitical risks, long gold remains one of our preferred positions. Looking ahead, we expect 2026 to be a more challenging year for equity performance, while potentially offering a more attractive opportunity set across foreign exchange and interest rate markets.

Outlook

Entering 2026, markets appear balanced after a steady end to the year. With geopolitics once again making headlines at the start of the year, the outlook for the near-term continues to be mixed. While concerns around AI related valuations appear to have receded somewhat they have certainly not disappeared.

Despite the turbulence, the backdrop continues to be constructive for corporate activity, with special situations expected to offer supportive opportunities as investors navigate an increasingly selective environment.

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