

Commentary from the Investment Management Team at Boussard & Gavaudan

Technological Tailwinds and Tactical Adjustments

Equity markets in both Europe and the United States moved higher in October, supported by a resilient earnings backdrop and continued investor interest in technology-linked sectors. The EuroStoxx 50® Total Return index rose +2.50%, while the S&P 500® Total Return gained +2.34%. Despite these gains, measures of market uncertainty picked up modestly, with the VStoxx® ending the month at 17.8% and the iTraxx Crossover® (S43) widening to 246 bps.

Convertible Bond Arbitrage: AI Momentum Drives Activity

October was a buoyant month for U.S. convertible bonds, benefiting both hedge and long-only investors. Movements in underlying rates and credit spreads were limited, with five-year yields drifting slightly lower from 3.74% to 3.68%, and HY CDX spreads widening marginally from 321 to 328 bps.

Investor enthusiasm was again dominated by the AI and AI-adjacent sectors. Long-only investors increased allocations to high-performing names, while hedge funds focused on companies indirectly exposed to the AI ecosystem. Firms like Seagate, Western Digital, and Snowflake, provide interesting options in the AI-adjacent space, as these names capture upside driven by demand for data infrastructure and cloud services.

Looking ahead, November's pipeline of new issues appears substantial, particularly in the U.S. neocloud universe. While some hedge fund investors have tempered enthusiasm, appetite for quality AI-adjacent paper remains strong.

In Asia, and notably Hong Kong, trading conditions were both active and volatile. We continued to explore select opportunities, mindful of the increased legal and tax complexity inherent to the region.

The European primary convertible bond market remained notably subdued in October, seeing only a single transaction: a €0.5 billion exchange by Salzgitter into Aurubis. The deal generated interest among investors seeking exposure to the commodities and industrial metals sector and the transaction aligns with broader market themes around energy transition, electrification, and infrastructure spending.

Salzgitter, a cyclical producer with one of the weakest credit metrics in the European steel sector, faces persistent margin pressure from high input costs and high capital expenditure requirements. Its balance sheet remains stretched, and profitability continues to trail that of its peers, which has translated into a relatively low credit rating. On the other side of the exchange, Aurubis, Europe's largest copper recycler and a key supplier to renewable energy and electric vehicle value chains, offers

more strategic exposure to long-term decarbonisation trends but suffers from severely constrained liquidity, limiting its suitability for larger institutional allocations.

Overall, the muted activity underscores ongoing caution toward lower-rated cyclical issuers, even as select investors remain willing to engage with commodity-linked opportunities that provide embedded optionality and thematic relevance.

Volatility Trading: Navigating Short-Lived Shocks

Geopolitical noise resurfaced mid-month following renewed US-China trade tension headlines and President Trump's tariff comments, resulting in the sharpest single-day equity drop since April. The move quickly reversed, leaving opportunities for agile volatility strategies.

The AI sector was again the heart of market action. AMD's announcement of a collaboration with Microsoft to integrate new GPUs into Azure's AI infrastructure triggered a dramatic intraday price surge, benefiting long gamma positions through tactical trading. The contagion of optimism across the semiconductor space boosted both carry returns and mark-to-market gains.

Dispersion strategies also performed strongly, capitalising on significant compression in implied correlations.

Equity Strategies: Corporate Activity and Sector Events

European banking headlines were dominated by BBVA's failed takeover bid for Banco Sabadell, which saw only 25.5% shareholder acceptance after an extended 18-month process. Following the deal's collapse, BBVA shares rebounded following a period of underperformance. Elsewhere, Covestro recovered from September lows amid optimism regarding European Commission approval of its pending deal ahead of the December deadline.

In the US, corporate dealflow remained robust, with several high-profile cross-border transactions including Novartis's acquisition of Avidity Biosciences, Novo Nordisk's counterbid for Metsera Inc., and renewed strategic interest in Warner Bros. Discovery.

Trading and Systematic Trends

Relative value positions, particularly long UK bonds vs. short euro-area bonds, performed well, reflecting our view that the UK economy remains more vulnerable than the eurozone, where signs of renewed fiscal stimulus in Germany are emerging.

Systematic Trend Following strategies faced volatility but navigated well through persistent macro trends. Shorts in U.S. and European Treasuries continued to pay off amid rising yields, while long equity index exposure in Asia added positively. On the FX side, strength in the U.S. dollar benefited positions shorting other currencies.

Outlook

As we move into November, investor sentiment remains closely tied to AI momentum, macro policy signals, and geopolitical positioning. While the global equity backdrop looks constructive, cross-asset volatility and dispersion should continue to provide attractive opportunities for selective active managers.

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