# Market Insights

**August 2026**

BOUSSARD & GAVAUDAN

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

## Constructive Markets, Lower Volatility

The month was marked by a constructive market backdrop, with both European and US equities advancing amid continued investor confidence and a moderation in market volatility. Credit markets also remained supportive, reflecting resilient risk appetite and a generally favourable environment for corporate activity. This backdrop supported trading and equity strategies while volatility-oriented strategies produced more varied outcomes as both realised and implied volatility continued to decline.

Looking ahead, we remain encouraged by the breadth of opportunities across our investment universe. An active corporate environment, selective opportunities in convertible securities and a disciplined approach to risk management continue to underpin our investment process and position the portfolio to capture attractive risk-adjusted returns.

### Convertible Bond Arbitrage

August was challenging for US convertible bond arbitrage, primarily due to heavy new issuance and lower realised volatility. Although August is traditionally a quiet month for US issuance, the market saw 19 new transactions raising $22.8bn, twice the volume recorded in August 2025 and the highest monthly total in an already record-breaking year. This substantial supply weighed heavily on secondary-market valuations.

Sentiment weakened further when Nebius, an AI neocloud company, launched a $5.5bn two tranches transaction only five months after a previous $4.4bn two-tranche issuance. The outstanding Nebius convertibles fell sharply as the new convertibles were priced at significantly cheaper levels, while the new transaction itself also performed poorly on its first trading day. As mark-to-market losses increased, hedge funds with significant exposure to AI-related convertibles began reducing sizeable positions, causing the weakness to spread to the broader market, albeit less severely.

A decline in realised volatility among software and semiconductor companies added further pressure. We have remained cautious on AI-related convertibles and have no direct exposure to datacentre or neocloud issuers. We do, however, remain constructive on semiconductor and software convertibles despite August's difficult performance.

A more positive development came at month-end, when Moderna launched a $3bn convertible deal. Despite the increased transaction size and richer final pricing than initially indicated, the convertibles rose by three points on the break and maintained that level over the following three trading days.

As is often the case during the summer, European primary issuance was limited. Following the earnings season and the holiday period, realised volatility declined overall, except in sectors affected by the conflict in the Middle East, notably airlines.

Central-bank interest-rate policy is expected to remain a key market driver in the coming months and is already affecting real-estate valuations. Nevertheless, real-estate equities exhibited limited volatility, while their convertibles were affected by the negative correlation between lower equity valuations and higher interest rates. We expect the coming months to remain active and believe that remaining selective will be increasingly important.

During the second half of August, profit-taking emerged, particularly in Asia, creating opportunities where both interest-rate and credit risks can be hedged, like in the case of Nippon Steel. At an implied volatility of 18.5%, the convertible appeared attractive, as the underlying equity's historical volatility was already around 28%, while options were trading in a range of 26% to 28%.

## Volatility Trading

Volatility Trading was difficult, following a strong July characterised by a busy earnings season, elevated AI-related activity, leveraged ETF flows in Asia and the disorderly unwinding of concentrated hedge fund positions, all of which generated significant volatility. Volatility repriced sharply lower as much of this leverage had already been reduced. AI and technology earnings were sufficiently reassuring to ease concerns about a broader market correction, helping to suppress volatility across asset classes.

The month also lacked meaningful catalysts. Comments concerning the long end of the US yield curve and the policy outlook generated temporary market moves, particularly in FX, but these remained contained and helped suppress volatility across asset classes.

## Equity Strategies

Equity strategies were primarily driven by risk arbitrage and special situations investments across Europe and the United States. Prologis's approach for Segro and Apollo's approach for easyJet were confirmed and converted into firm takeover offers. Several other transactions also continued to progress towards completion:

- Tata Motors received the necessary regulatory approvals for its offer for Iveco, which is expected to close at the end of October.

- Permira completed its acquisition of JTC.

- Poste Italiane's offer for Telecom Italia is approaching its final stage and, if successful, is expected to close in September. The market is anticipating a modest last-minute improvement in the offer terms, which could help the acquirer secure greater shareholder participation.

- The Warner Bros. special situation also continued to progress favourably, amid growing speculation that Paramount, Skydance and the California Attorney General may engage in discussions regarding potential remedies that could allow the transaction to proceed.

- The terms of the proposed minority squeeze-out of ReNew Energy Global were improved by 4% and subsequently received a favourable recommendation from the special committee reviewing the transaction.

## Trading Strategies

Equity market neutral strategies enjoyed a strong start to the month followed by renewed tensions in the Middle East, which pushed interest rates higher and equity indices lower. This triggered another wave of de-risking in a low-volume market environment. Performance weakened during the second half of the month, mainly as short covering intensified.

Macro Trading strategies benefited from the renewed momentum in the debasement trade following comments from US Treasury Secretary Bessent, with gold and Bitcoin the biggest beneficiaries. Meanwhile, Trend Following strategies performance were driven almost entirely by a rebound in energy contracts, including heating oil, gasoline and European gas, with higher cotton prices making a smaller contribution. Beyond commodities, the strategy also generated gains in equities and through short positions in interest-rate contracts, despite an uncertain market environment.

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