

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

## Volatility-Driven Opportunities Amid Resilient Equity Markets

Equity markets in Europe and the US were up significantly in May with the EuroStoxx 50<sup>®</sup> Total Return and the S&P500<sup>®</sup> Total Return gaining 3.65% and 5.26% respectively.

The market implied volatility measure VStoxx<sup>®</sup> decreased, finishing the month at 19.3% and the iTraxx Crossover<sup>®</sup> (S45) finished at 259bps.

BG continued to generate strong alpha from upside volatility during the month, while maintaining disciplined hedging strategies that position the funds to capitalise on downside dislocations.

As such, the fund continues to benefit from volatility driven by ongoing geopolitical tensions and the evolving AI investment narrative. Investor sentiment continues to swing between exuberance and anxiety which is creating recurring opportunities on both the long and short sides of the market.

### Convertible Bond Arbitrage

Five-year yields were essentially unchanged, rising from 4.01% to 4.14%, while HY CDX spreads narrowed sharply from 330bps to 300bps. There were no new issues in the first half of the month due to the blackout period imposed on companies prior to earnings releases. The market was relatively calm otherwise until the earnings releases started in the third week of the month which produced big moves in a number of names. As we enter June, there is a lot of chatter about an extensive calendar of new issues which would normally dampen valuations. However, there has also been a significant change in equity market leadership, with software stocks erasing all of the “AI will eat software stocks” losses of March. The semiconductor space has also been performing better recently than the direct AI / data-centre stocks. All things considered, the market seems to be taking everything in its stride.

In Europe, primary issuance consisted of two deals this month. Rexel, a retailer focusing on wires, cables and related electrical components, revisited the CB market with a €400m deal while Evotec made its CB market debut with a €125m issue. The Rexel deal was a huge success: most participants were frenetic buyers of companies linked to data centre and AI growth. Evotec was more challenging as it was constrained by repo availability. In a context of high realised volatility in some sectors, attractive gamma trading opportunities are emerging and the appetite for CBs linked to data centre growth and oil price volatility continues to remain strong.

### Volatility Trading

The markets in May remained risk-on, supported by hopes of a Middle East de-escalation and continued strength in AI-related stocks. Large-cap technology remained the primary market driver.

As expected, realised volatility remained below implied levels, particularly in the US, resulting in a significant decline in front-end volatility

Index gamma positions were impacted by the lack of realised volatility, while selective exposure to technology and AI names generated opportunities. Defensive FX volatility positions had a modest negative impact as currency markets remained exceptionally quiet.

We continue to actively manage exposures and remain focused on identifying opportunities where market expectations diverge from realised outcomes.

## Equity Strategies

Within risk arbitrage, the environment was shaped by ongoing corporate activity and structural developments, including the simplification of Telecom Italia's share structure through the conversion of saver shares into ordinary shares. More broadly, deal spreads tightened over the month, supported by improved regulatory visibility and constructive market conditions. The Subsea and Saipem transaction, for example, benefited from reassuring signals from the Brazilian regulator, alongside improved technical factors following Saipem's dividend payment.

Corporate activity remains robust, as illustrated by the takeover approach for Global Business Travel Group by Long Lake Management. This reflects a broader trend of sustained interest from both private equity firms and strategic buyers. The UK continues to stand out as a particularly attractive market, with several companies, including Intertek Group, Tate and Lyle, Gamma Communications, Spire Healthcare and DCC, reportedly receiving expressions of interest or entering strategic review processes.

Short term trading opportunities continue to be supported by rapid sector rotations. Activity around spin offs, capital increases and broader capital markets transactions remains active, contributing to a dynamic environment for event driven and tactical strategies.

## Trading Strategies

Equity long/short dynamics during the month were influenced by a pronounced short squeeze, driven by the continued surge in AI and data centre-related names. This reinforced the strong momentum in certain segments of the market, while creating challenging conditions for more balanced positioning.

In macro markets, precious metals saw a period of consolidation following a strong rally, as real rates remained firm and elements of geopolitical risk premia moderated. At the same time, US equities continued to demonstrate resilience, supported by ongoing strength in technology and AI-related sectors. In foreign exchange, relative value opportunities remained present, with commodity-linked and energy-sensitive currencies influenced by shifts in oil prices, trade policy developments and divergent central bank stances.

Trend-following conditions were mixed over the period. A rebound in bonds during the latter part of the month, alongside softer energy and metals markets, created headwinds, while equity indices, particularly in the US and Taiwan, continued to exhibit steady trends. Overall, sector rotation remained relatively contained, contributing to a broadly stable backdrop for systematic strategies.

## Outlook

Looking ahead, the backdrop for volatility-focused strategies remains as compelling as it has been in years. Uncertainty persists into June, underpinned by a confluence of continued geopolitical tensions, the ongoing structural disruption and capital expenditure cycle around AI, and a strong pipeline of blockbuster IPOs that is expected to inject further dispersion into markets. For strategies designed to capitalise on volatility rather than simply endure it, this environment represents a genuinely rare and broad-based opportunity set.

Corporate activity adds another layer of opportunity, with European deal flow building steadily and the UK in particular seeing encouraging breadth across sectors. Taken together, the ongoing macro uncertainty, active capital markets and robust corporate activity creates a multi-dimensional opportunity set well suited to a market neutral, long convexity approach across a range of market scenarios.

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