Market Insights

October 2026

BOUSSARD & GAVAUDAN

Commentary from the Investment Management Team at Boussard & Gavaudan

Broad risk-off move but no panic

October was characterized less by a broad risk-off move than by a significant repricing across markets. Technology and AI-related equities suffered meaningful declines, government bonds rallied as risk appetite weakened, and geopolitical uncertainty continued to support energy prices. Beneath the headline moves, dispersion increased materially across asset classes and factors, with notable weakness in CCC-rated credit, sharp reversals in momentum-driven equity positions and significant volatility across convertible bonds. Meanwhile, Risk arbitrage and special situations contributed positively. We observed massive stress in various arbitrage and trading hedge fund strategies and tactically reduced a lot of our equity-based trading strategy and increased arbitrage strategies as they became extremely attractive investments and come with hard catalysts. Overall, the balance between alpha from arbitrage strategies and active trading allowed our portfolio to remain broadly flat in October, while the HFRI Fund Weighted Composite declined around -1.4%, highlighting the benefits of our focus on portfolio construction and risk management.

Convertible Bond Arbitrage

Convertible bond arbitrage contributed negatively in the U.S. and Asia, while Europe was positive. October saw the third consecutive month of drawdown in U.S. convertible arbitrage. Five-year rates declined from 5.09% to 4.72%, while HY CDX spreads widened from 341bps to 356bps. The significant move in rates should have provided a positive backdrop, but this was not the case. While HY CDX spreads widened by only 4.4%, credit spreads on lower-rated issuers widened much more significantly. As an example, CCC spreads increased from 10.07% to 11.16%, an 11% increase. As usual in market conditions like these, our conservative positioning helped us contain losses relative to the broader market.

The market weakness presented a number of attractive entry points, which we used selectively to add to positions at compelling valuations. In Europe, some selling pressure continued, especially during the first two weeks of October, creating significant buying opportunities in some cases. Nevertheless, the European market remained relatively resilient overall. Most of the pressure in convertibles was concentrated in Japan, where we also found a number of very attractive opportunities. We believe that the severity of the move in Japan can partly be explained by its greater liquidity, making it one of the easiest markets in which to reduce exposure when investors are forced to sell. By contrast, more illiquid convertible bonds in the rest of Asia and Europe (which we do not hold in our portfolio) remained stable in valuation as they had little or no executable bid and therefore simply did not trade. This makes it particularly important to remain selective and focus on opportunities with genuine liquidity. During October, we significantly increased positions in Japan and, to a lesser extent, in Europe, as Japan continues to offer really attractive volatility-driven opportunities, while Europe offers a broader opportunity set, ranging from volatility trades to takeover-related situations.

Volatility Trading

As year-end approached, we continued to observe volatility supply alongside a reduction in gross exposures among major market participants. Investors remained cautious ahead of several catalysts, including corporate earnings, central bank meetings and the US midterm elections, generally favouring a reduction in exposure rather than the addition of outright volatility or downside protection. Realised volatility remained subdued throughout the month, while some disappointing guidance in the technology and AI sectors towards the end of the month supported index implied volatility and correlation. This environment was slightly unfavourable for our dispersion positions, though the overall impact was limited. Active trading and successful single-stock gamma opportunities, notably around Carrefour's profit warning, helped offset the softer volatility environment, allowing us to finish the month flat while maintaining a well-hedged portfolio.

Equity Strategies

Equity strategies contributed positively thanks to risk arbitrage and special situations strategies. The portfolio remained resilient amid the sharp risk-off move in markets, benefiting from effective hedging and limited exposure to AI-related stocks. We can highlight the Intesa Sanpaolo offer for Banca Monte dei Paschi di Siena. As mentioned in the last newsletter, the bidder improved the terms of its offer by 2.5% in early October to secure sufficient shareholder support ahead of the extraordinary General Meeting held at the end of the month. The transaction is progressing as expected, with most regulatory authorisations now secured, and is scheduled to close in January. The takeover of Allfunds by Deutsche Börse is also progressing. While the antitrust review initially appeared potentially complex given the parties' market shares, the transaction now seems to be heading towards a smoother approval process with the European Commission than initially anticipated. In the meantime, the takeover of Iveco by Tata Motors was completed early in the month following a 2.1% improvement in the terms, to secure a higher tender rate. More broadly, several risk arbitrage spreads tightened during October as the underlying transactions continued to progress. Overall corporate activity remains strong, with, among other developments, the announcement of a takeover offer for Qiagen by EQT, continued negotiations between Evonik and BASF, and approaches for Corbion from several potential acquirers.

Trading Strategies

Trading strategies suffered throughout the month, with losses spread across the different strategies. In equity long/short, crowded positions suffered a significant pullback, driven by growing concerns around AI financing and continued strength in oil prices amid the prolonged war in Iran. For the Systematic Trend Following strategy, October saw the convergence of two trends that had not coincided for a long time: a decline in equities and a rise in government bonds. The two moves were linked as capital was reallocated from the best-performing stocks year-to-date into bonds, which now offer more attractive yields. This month rotation proved particularly difficult to trade, with only commodities, driven by a surge in oil prices, and currencies providing profitable trading opportunities.

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