INSIGHTS

JANUARY 2025

GLOBAL OUTLOOK 2025

LEADING VIEWS ON THE YEAR'S KEY HEDGE FUND TRENDS

BACK TO THE FUTURE

As past market themes make a comeback, hedge funds need to find their sweet spot

Welcome to Hedgeweek's 2025 Global Outlook. Last year, we titled our outlook "Anything But Boring" – a prediction that proved almost understated. The return of Donald Trump, elections in more than 60 countries and persistent geopolitical flashpoints created a potent cocktail of volatility that hedge funds largely turned to their advantage.

The industry now stands at a fascinating crossroads. America's political realignment promises to reshape global trade and regulation while markets wrestle with an economy that has defied conventional wisdom about interest rates and inflation. In this environment of diverging fortunes, our report brings together 10 leading voices to map the opportunities and pitfalls that lie ahead.

The persistent strength of US markets, particularly in technology, masks growing dispersion beneath the surface. Brad Wickens of Broad Reach Investment Management argues that the new administration's policies will likely create stark winners and losers, especially in emerging markets (see page 6).

Britain's market finds itself at an equally decisive moment. Liad Meidar of Gatemore Capital Management presents a compelling case for an acceleration of the 'Great British Buyout', arguing that this transformation is not merely beneficial but essential for the City's revival (see page 15).

The digital asset space perhaps best exemplifies the year's embrace of risk. Anthony Scaramucci of SkyBridge Capital, emboldened by bitcoin's remarkable trajectory, projects the cryptocurrency reaching $200,000 – a forecast that speaks to broader themes of technological disruption and institutional evolution that run through many of our contributors' analyses (see page 9).

The strategy landscape reveals stark divergence in 2025. In its outlook, abrdn highlights a robust environment for equity long/short managers, with lower pairwise correlations and increased dispersion across developed markets supporting alpha generation. Event-driven strategies stand poised for opportunity as Donald Trump's pro-business administration, interest rate stabilisation, and cash-rich corporates set the stage for increased dealmaking.

Goldman Sachs sees specialist managers as particularly well-positioned in this environment of policy-driven winners and losers. Morgan Stanley emphasises the need for highly liquid, responsive macro strategies to capitalise on price volatility, should consensus views prove incorrect.

As Roger Hilty of LGT Capital Partners notes in his outlook, systematic strategies are evolving rapidly, with nearly half their external systematic hedge fund investments now focused on advanced AI and machine learning approaches (see page 10).

With interest rates at multi-decade highs across economies representing 60% of global GDP and geopolitical tensions creating novel market dynamics, the environment for hedge fund strategies appears increasingly fertile. As the late Jim Simons, the mathematical genius behind Renaissance Technologies who passed away in 2024, once observed: "Those kinds of times when everyone is running around like a chicken with its head cut off, that's pretty good for us." The confluence of policy shifts, market recalibration, and technological advancement suggests that 2025 could indeed usher in a new golden era for active management.

We thank our contributors for their insights and forecasts. To our readers, we wish you wisdom in navigating what promises to be a year of exceptional opportunity – and exceptional risk.

MANAS PRATAP SINGH
HEAD OF HEDGE FUND RESEARCH

CONTENTS

GEOPOLITICS & MACRO OUTLOOK

Leading voices from RBC BlueBay, Broad Reach and Balchug Capital map the investment landscape in a transformed political world

RUSSEL MATTHEWS
SENIOR PORTFOLIO MANAGER, GLOBAL MACRO

RBC BLUEBAY ASSET MANAGEMENT

HOW WILL 'TRUMP TRADES' SHAPE 2025?

Trump has already dramatically impacted financial markets. Despite the Fed cutting interest rates by 100bp in H2 2024, from 5.50% to 4.50%, bond and money markets have gone the other way. In early October, markets were pricing 125bp of rate cuts for 2025; now, they expect just one 25bp cut this year.

Longer-dated US Treasury yields have seen similar moves, with the 10-year yield up 100bp and approaching 5%. Currency markets have also shifted materially, with the US dollar index rising nearly 10% since October's end. Some of these moves can be put down to increased evidence of US growth exceptionalism. Nevertheless, we can say with some conviction that "Trump Trades" have played out in spectacular fashion.

The questions, however, that everyone wants the answer to are the following: What have we learned since November to give us a steer on how the policy framework will pan out? And what impact will this have on macro markets going forward?

At this stage, before Trump has even had a chance to get his feet under the Resolute desk in the Oval Office, it is somewhat of a fool's errand to try and be too specific on how things are going to pan out over the next 6 months. Indeed, there is too much uncertainty and Trump is too erratic.

That said, we are simply guided by an old maxim, “”Take Trump seriously, but not literally””. Taking Trump seriously means factoring reasons for his resounding win in November, including the extent to which how seriously disillusioned and disgruntled middle America is with the political and social status quo in the US.

What is clear is that Trump's base wants red meat. They want to see serious disruption, particularly with regard to economic policy, border security and immigration policy. We think he will be inclined to give it to them.

While Trump will continue to come up with outrageous and contradictory rhetoric (calling out Canada as the 51st US state and threatening to take over the Panama Canal), this is noise and smoke designed to excite the base and annoy his opponents. Not much of this has substance. The bigger deal is how explosive the contours of his actual tariff and tax policies will be.

So, what does this mean for our macro strategy? Q4 2024 and the beginning of January have played out much as we expected. The 'Trump Trade' has been relatively simple: get short of US rates and long of the US dollar. Both these strategies have paid off handsomely.

However, as we approach the inauguration and more concrete policy details, the valuation proposition in both macro trades is less compelling than last year.

We have dialled back the risk materially, taking profits on the short US duration trade and scaling back the extent of the long position in the US dollar. This does not mean that Trump will now fade as a driver of markets. We expect Trump to continue as a disruptive and distortionary force in macro markets. However, the near-term strategy is to keep the powder dry and ready to react. The opportunities will come thick and fast.

POST US ELECTION: THE RICH OPPORTUNITY SET

BRADLEY WICKENS
PARTNER, CIO AND CEO

BROAD REACH INVESTMENT MANAGEMENT

Donald Trump's presidency and a Republican sweep represent a paradigm shift for global markets that will drive medium-term portfolio reallocations. The resulting flows are likely to create clear winners and losers across emerging markets, offering opportunities for sophisticated, flexible investors.

Trump's victory marks the first time a previously defeated president has won back the White House since Grover Cleveland in 1892. While the event is near-unprecedented, the reality of a Trump government is not – we already have a good sense of its initial policy priorities.

When it comes to opportunities in the coming months, we are focusing on three themes.

First is high-carry frontier foreign exchange in markets such as Egypt, Turkey and Pakistan. For as long as idiosyncratic forex flows remain positive, we expect they will continue to accrue carry with little correlation to mainstream global markets. The average yield on this basket exceeds 20%.

Second is a series of shorts in liquid emerging markets where we expect global capital allocations will shift over coming months, and where our size and flexibility allow us to move ahead of slower-moving but larger pools of capital.

These shorts fall into four clusters. Mexico, where beyond the negative domestic story, Trump has been explicit about substantial tariffs linked to immigration flows. All parties expect fraught renegotiation of USMCA. The sensitivity is significant, given 83% of Mexican exports flow to the US, mainly vehicles and parts.

In the Middle East, we anticipate the president-elect, visibly angered by reports of Iranian assassination attempts, will remove the effective veto that the current US administration has imposed on Israeli strikes against Iranian nuclear facilities.

In eastern Europe, we expect the equivocation on NATO and abandonment of Ukraine central to "America first" will increase geopolitical risk premiums across the board.

North Asia, which we expect to be the epicentre of rising trade tensions and US tariffs, is a reality to which global asset allocations have not yet adjusted. We expect Trump to move quickly on Chinese tariffs, with the execution plan already prepared, according to intelligence from recent IMF meetings in Washington. Robert Lighthizer is likely to again be central to policymaking.

Given potential global and European tariffs, we have increased our short position in German equities but hedged with a long US equity position. We remain paid in US rates and received in European rates. Trump's accession should further boost the dispersion between US and European fortunes – a trend developing through 2024 but only recently reflected in relative pricing.

Our final significant risk allocation remains long Argentina, expected to be the first but not last "Trump winner". We have recently shifted some credit investment into local securities. Argentina's domestic story continues to defy bearish forecasts, as inflation falls, the budget moves into surplus and President Milei's approval rating stays positive. We see further positive catalysts in removing forex controls and a new IMF package, likely supported by the Trump administration given Milei's effective relationship with Trump, his economic team and Elon Musk. Milei's US visits to meet both men were unsurprising. We also see Turkey as a geopolitical winner and believe Venezuelan debt's option value has increased. Both countries likely benefit from a transactional approach to foreign affairs.

Trump brings both dispersion and volatility to asset prices while igniting animal spirits. He will almost certainly reshape the global political and economic landscape. These macro transformations should lead to new asset price trends, with portfolio flows following. The combination of increased dispersion and new trends should benefit hedge funds.

Contrary to common perception, emerging market returns during much of the last Trump term were strong, with both equity and credit delivering robust returns in 2017, 2019 and 2020. Global growth remains supportive of emerging market assets, most allocators' exposure is minimal and risk premiums are high relative to US markets. From an allocator's perspective, emerging markets offer an increasingly attractive hedge to US-focused portfolios and a rich universe for macro strategies targeting dislocations.

DAVID AMARYAN
CEO AND FOUNDER

BALCHUG CAPITAL

RUSSIA-UKRAINE PEACE DEAL COULD TRIGGER 'EXTRAORDINARY' INVESTMENT SURGE

As a global investment firm, we will be focusing particularly on the Gulf, specifically the UAE and Saudi Arabia, in 2025. However, I also want to highlight opportunities in a region I know intimately – the CIS countries. As a firm headquartered in Armenia, we have deep expertise in investing across the region.

For investors familiar with this region, the Russia-Ukraine conflict has been deeply saddening personally and challenging professionally. Many of us have friends and family impacted by the terrible human consequences, while the investment universe we knew was thrown into turmoil by these tragic events.

Nevertheless, we had a duty to our families, staff and partners to continue operating despite these challenges. This has become more difficult due to Western sanctions on Russia, and I should stress that we treat the international sanctions regime with utmost seriousness, maintain the best legal guidance on these complex matters, and scrupulously observe all local and international laws.

Looking to 2025, what's new is that for the first time since the conflict began, there is a serious chance it could end. This stems from President Trump's election and his pledge to stop the fighting, potentially brokering a deal between the parties.

While we don't make predictions, and this remains a highly volatile, complex situation with multiple potential outcomes, it's realistic to say the chances of peace are improved under the new US administration.

This could transform investment opportunities in the region. The conflict has frozen many capital markets and closed international investment channels. If sanctions on financial institutions begin lifting, even gradually, there could be extraordinary growth potential as capital flows resume.

This is particularly significant given the enormous infrastructure damage, which will require substantial international investment and aid for reconstruction. The conflict has diverted focus toward hostilities; redirecting this energy to civilian purposes would bring considerable peace dividends.

We would expect local capital markets, including equity and debt, to attract significant investment and M&A activity to flourish. We also anticipate increased private equity investments, particularly in real estate, infrastructure and consumer businesses.

However, international investors supporting regional reconstruction and growth would be well advised to partner with local investment managers. This has always been a complex region for investment, and this will persist even with peace.

TECHNOLOGY & INNOVATION LANDSCAPE

SkyBridge, LGT Capital Partners and other pioneers explore opportunities in digital assets, AI and systematic trading

DIGITAL ASSETS MOVE BEYOND THE BITCOIN ERA

Bitcoin's price trajectory in late 2024 has set the stage for potential transformation in digital assets. At SkyBridge Capital, we expect shifting monetary policy, clearer regulation and growing market enthusiasm to create unprecedented opportunities and structural evolution in the sector.

The industry enters 2025 poised for change. Despite regulatory challenges, damaged public trust and economic uncertainty, bitcoin and blockchain have shown resilience. This recovery is drawing institutional investors, particularly hedge funds, back to the sector as they recognise its potential for growth and portfolio diversification.

Digital assets have historically flourished in low-interest environments. While 2024's higher rates created headwinds, signs of monetary easing in 2025 suggest significant institutional capital inflows ahead. As central banks adjust policy, government spending remains substantial globally. Bitcoin has demonstrated its value as protection against inflation and market volatility.

The SEC's approval of spot bitcoin exchange traded funds in 2024 marked a fundamental shift in legitimacy, rebuilding trust and attracting traditional financial institutions. We expect continued regulatory clarity alongside a more supportive political environment, driving market stability and institutional acceptance. The sector is completing its evolution from speculation to mainstream investment.

In 2025, we anticipate institutions will increase bitcoin holdings, potentially pushing its price to $200,000. This momentum should extend to institutional-focused blockchain networks like Avalanche, supporting broader adoption of tokenised assets and custom protocols. Blockchain technology offers enhanced liquidity, transparency and settlement efficiency, challenging traditional asset management. Stablecoins merit particular attention this year.

As traditional investments face global pressures, digital assets present alternatives. Their decentralised nature hedges against inflation and volatility – cementing bitcoin's "digital gold" status. The sector increasingly offers both protection and growth potential as investors navigate uncertain markets.

The year ahead marks institutional validation for digital assets. Macroeconomic shifts, regulatory clarity and technological progress suggest bull market conditions. Markets will reward agility and innovation. At SkyBridge, we believe finance's future is blockchain-based, and we're positioned for this transformation through our 2025 investments and beyond.

ANTHONY SCARAMUCCI
FOUNDER AND
MANAGING PARTNER

SKYBRIDGE CAPITAL

ROGER HILTY
PARTNER

LGT CAPITAL PARTNERS

HEDGE FUNDS GREAT RISK MITIGATORS FOR INVESTORS IN 2025

For 2025 and beyond, the outlook for hedge funds remains positive, with higher interest rates and divergent central bank policies, increased macroeconomic volatility and dispersion in global equity and credit markets creating opportunities to generate alpha.

Discretionary long/short hedge funds are benefiting from elevated dispersion and single-name volatility in both equity and credit markets, providing attractive investment opportunities. The increased focus on sector-specific stock-pickers targeting universes traditionally characterised by these dynamics is expected to drive opportunities, regardless of market direction.

For credit-oriented and convertible arbitrage managers, liability management exercises are expanding the opportunity set. With interest rates still elevated, both high and low-grade firms are working to manage borrowing costs by refinancing bonds set to mature over the next few years. As the US Federal Reserve and European Central Bank enter easing cycles, management teams see scope to refinance existing debt at lower rates and raise new capital, opening up investment opportunities.

Following the US presidential election, greater clarity around the political and regulatory landscape could spur M&A activity, resulting in attractive opportunities for merger arbitrage strategies.

In an environment of heightened market uncertainty, actively traded systematic strategies thrive. Their diversified and adaptive allocations allow them to seize opportunities simultaneously across various asset classes and thousands of markets. Moreover, these systematic hedge funds are both dynamic and innovative and they use sophisticated artificial intelligence and machine learning (AI/ML) strategies, thus leading the way in developing new investment techniques.

Nearly half of LGT Capital Partners's external systematic hedge fund investments are in advanced quantitative strategies, including AI/ML hedge funds. These funds employ innovative quantitative investment strategies, leveraging the increasing availability of data as well as technological advancements in computing. They trade large volumes of traditional data, such as price and macroeconomic data, as well as alternative data sources, including social media, real-time news analytics, sentiment and event data, consumer insights, online search and web traffic data and a range of transportation data.

Typically, these strategies trade faster than most other hedge funds and include complex trade signal expressions. These hedge funds focus on pure alpha strategies, often minimising or residualising market factor exposure, resulting in higher risk-adjusted returns compared with other hedge fund strategies. Several AI/ML hedge funds aim for maximum diversification, typically trading a vast universe of more than 10,000 instruments in global equities, liquid credit positions and futures markets across all asset classes, including global commodities and currency markets.

Overall, hedge funds offer attractive returns and new sources of performance, whilst enhancing overall portfolio resilience through their diversifying nature. In the current environment of market volatility and economic uncertainty, these strategies can navigate challenges and seize opportunities that traditional investments might miss. Their ability to adapt quickly to changing market dynamics makes them a valuable investment, helping investors to mitigate risks whilst pursuing performance growth in a complex financial landscape.

NEVER BEEN BRIGHTER OUTLOOK FOR INNOVATION STOCK PICKING

RISHI SADARANGANI
FOUNDER & CIO

R/EVOLUTION GATE

The outlook for innovation-based stock picking and alpha generation has never been more promising.

Business disruption and financial market volatility create alpha. The post-Covid era has seen innovation accelerate, led by an AI revolution reshaping industries and economies. Disruptive innovation, political realignments and geopolitical shifts are creating entirely new industries and markets whilst challenging traditional incumbents.

At the macroeconomic level, heightened interest rate volatility stems from uncertainty around the US economic agenda, high debt levels, diminishing fiscal policy space, unstable inflation, a volatile geopolitical landscape and shifting attitudes towards global trade. This translates to higher factor volatility influencing equity prices with greater frequency and intensity.

The accelerating pace of innovation and global realignments, combined with our expectation of higher financial market volatility, presents a unique opportunity for investors with the right risk-controlled approach to capture innovation's outsized returns.

We see the greatest opportunities in what we describe as the "THC" (technology, healthcare, consumer) industries. These sectors are breeding grounds for innovation, poised to disrupt traditional industries and markets and deliver supercharged returns.

In technology, the transformative power of innovation is clear. The race to dominate generative AI is accelerating, with industry giants Amazon, Microsoft, Alphabet, Meta and Apple projected to invest over $200bn in capital expenditure in 2025. Groundbreaking interfaces blending physical and digital realities are emerging through metaverse, VR and AR technologies. Meanwhile, decentralised and secure Web 3.0, powered by blockchain, is unlocking new possibilities.

In healthcare, cutting-edge developments are reshaping treatment possibilities. Cell, gene and novel therapies show immense potential, particularly in oncology and rare diseases. Research into GLP-1 drugs offers potential treatments for addiction, Alzheimer's and Parkinson's, with central nervous system conditions representing an exciting research frontier. AI-first companies and AI-driven drug discovery continue to transform the industry.

In the consumer sector, experiences are being fundamentally reimagined. The booming non-alcoholic beverage category caters to changing preferences and growing evidence linking alcohol to various diseases, including several cancers. We expect increased integration of robotics into everyday life. Remote work, hybrid models and resurgent travel fuel demand for collaboration, creativity and virtualisation tools. This trend, coupled with the metaverse's potential, creates substantial long-term monetisation opportunities.

This exciting investment backdrop brings challenges. Traditional market signals are becoming noisier. The rise of passive investing, ETFs and automated trading means many market participants follow the herd rather than underlying fundamentals. This can lead to markets becoming significantly overheated or undervalued for extended periods.

In summary, an investment strategy of "staying ahead of the curve" by balancing innovation and risk control with disciplined and dynamic investment execution is poised to deliver exceptional alpha in 2025.

FRANCESCO FILIA
CEO & FOUNDER

FASANARA CAPITAL

WHY ALTERNATIVE FINANCE MUST EMBRACE TECHNOLOGY

Elections across the US, India, Japan, France and the UK in 2024 resulted in defeats or rebukes for incumbent governments. In 2025, governments must address unsustainable fiscal positions, widening income inequality and growing social polarisation. These factors will shape fintech lending and alternative credit development.

History shows unchecked government spending carries risks. Balancing free markets with social responsibility while monitoring credit manipulation in centrally planned economies is crucial. The alternative to fiscal imprudence lies in a more decentralised, responsive financial system that harnesses technology and data to serve all economic actors and the real economy.

Platform lending grows

Lending via automated global platforms powered by financial technology will continue taking market share from banks in 2025. Evergreen allocators – pension funds, insurers and sovereign wealth funds – provide lending from longer-term capital. This model enables institutional capital to create impact while receiving diversified income by lending directly to small and medium-sized enterprises and consumers at scale.

Fintech penetration in emerging markets exceeds developed markets for two reasons. Many developing economies lack traditional banking services, and unbanked people represent a higher population share. Fintech lenders are meeting these credit needs, with their role set to expand.

Uncorrelated returns

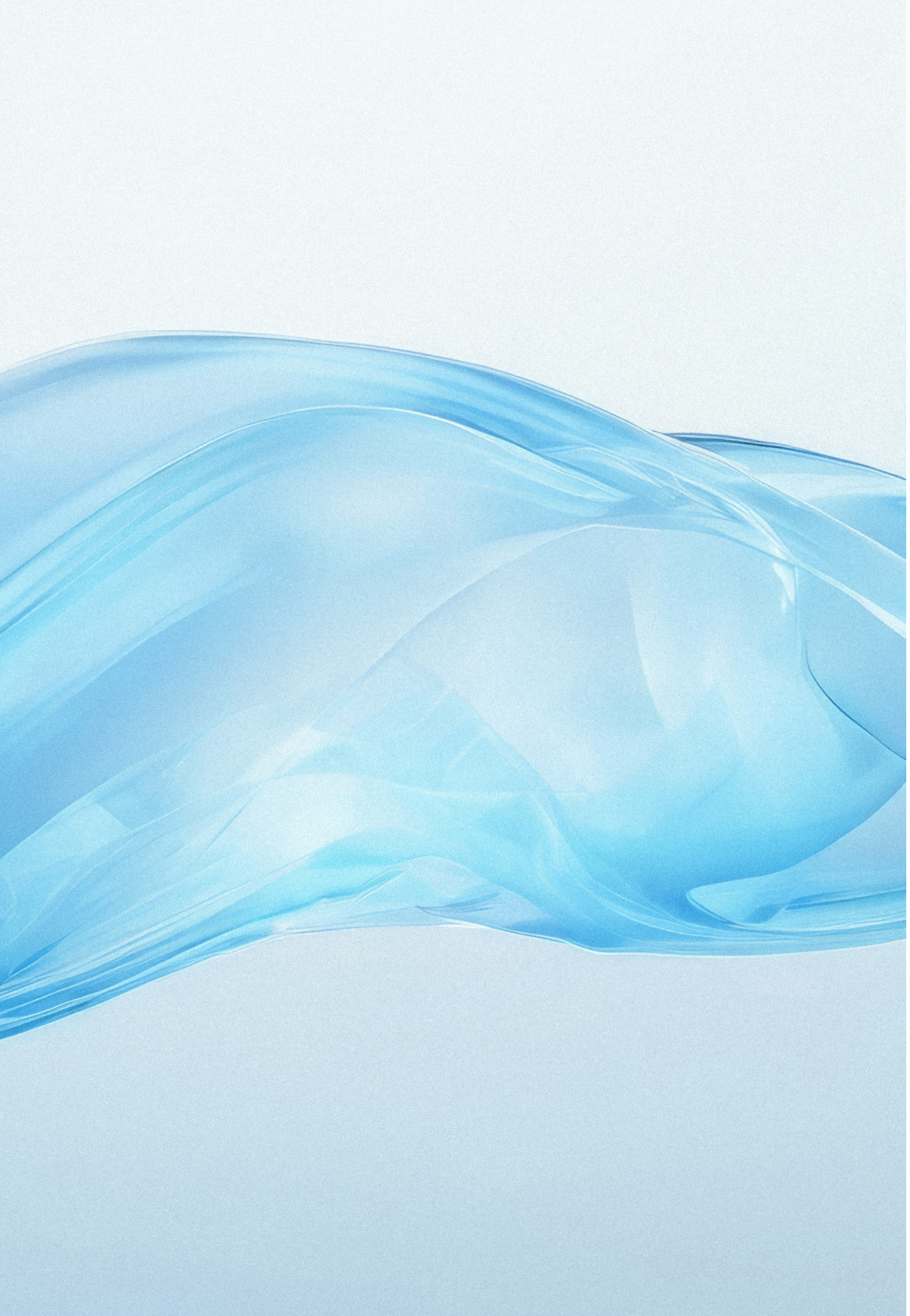
As interest rates decline across economies, demand grows for diversified alternative income sources uncorrelated to financial markets. Fintech lending has provided steady income for over a decade, a trend likely to continue.

Institutional investors increasingly recognise fintech lending's risk advantages. Loan duration averages three months versus several years in many private credit strategies, reducing volatility when credit reprices due to interest rate and spread changes. These portfolios, dispersed across thousands of positions in multiple geographies, face lower default risk than direct lending portfolios concentrated in dozens of loans often within one region.

Innovation imperative

The hedge fund industry faces criticism for adding little value – either for the real economy or investors – given mediocre Sharpe ratios, high fees and modest risk-adjusted returns. Technology investment has lagged.

To thrive, managers must embrace financial services digitalisation, from fintech lending to blockchain trading and tokenisation. Early movers face an investment-heavy challenge, but potential rewards are significant in a market that has long resisted change.



CREDIT & RESTRUCTURING OPPORTUNITIES

Specialists from Arini, Gatemore and Trium Capital analyse the evolving credit markets and corporate transformation

ALTERNATIVE FUNDING COULD FILL EUROPEAN LENDING GAP

HAMZA LEMSSOUGUER
FOUNDER AND CIO

ARINI CAPITAL MANAGEMENT

In 2024, the dynamics of Europe's high-yield and leveraged loan market shifted, bringing new challenges for borrowers. As we enter 2025, expect continued orphaning of certain sectors and growing dispersion between high-yield names that can refinance successfully and those that cannot.

A looming wall of debt maturities means substantial amounts will come due in Europe between 2025 and 2028. Many companies must refinance high-yield debt raised when interest rates were low. While they might have raised debt easily before, some now face significant hurdles in securing funds.

European issuers with smaller capital structures and more complex business models will bear a disproportionate impact, as investors turn towards investment-grade markets offering higher yields with less maintenance.

The heterogeneous nature of European credit markets means investors must thoroughly understand various jurisdictions, legal codes and political landscapes to identify opportunities and assess risk effectively. Given shifting risk-reward dynamics, many lenders will be less inclined to support the more complex segments of the high-yield and leveraged loan markets in the coming year.

Key investors' retreat from these markets is creating a funding gap, leaving many European borrowers at risk of being orphaned from the credit landscape, unable to access traditional funding sources they once relied on. These borrowers, many with sound fundamentals and strong financials, must look elsewhere to refinance.

While some borrowers face refinancing challenges in 2025, this shift creates significant opportunities for alternative funding providers, such as the collateralised loan obligation (CLO) market and private credit.

High-quality borrowers with robust cash flows in the high-yield and leveraged loan market are likely to increasingly rely on European CLOs for funding. This will strengthen the fast-developing European CLO market, building on 2024's momentum. Private credit players, well-capitalised with record amounts of dry powder, will play a significant role in supporting large private companies' growth and facilitating sponsor-led buyout transactions.

A compelling opportunity exists for investors with expertise to navigate Europe's complex, heterogeneous and fragmented credit markets. With appropriate risk appetite, these players can understand borrower nuances in this shifting environment to identify value and target attractive returns.

LIAD MEIDAR
MANAGING PARTNER

GATEMORE CAPITAL MANAGEMENT

BUYOUTS WILL BEAT BUYBACKS IN THE UK

The “great British buyout” – a multi-year wave of UK companies going private at healthy premiums – gained momentum in 2024. By 1 December, 38 companies were taken private, representing $59bn in market capitalisation at offer prices, with an average premium of 36%. This marked a third consecutive year of rising deal volumes.

Looking to 2025, deal volumes and premiums are climbing as market sentiment provides additional support. Post-elections in the US and UK, pro-business optimism prevails. The US result has created momentum likely to reach the UK and beyond, while the UK election has brought stability. This environment of investor confidence suggests the buyout trend will accelerate.

A strong wave of buyouts is precisely what the UK market needs. A significant recalibration is essential, not merely beneficial. Without it, the high cost of capital – the root cause of UK market weakness – remains untreated. The London market will continue housing undervalued companies trapped by illiquidity, while the UK loses ground to more attractive markets, particularly the US, which continues attracting global capital.

Share buybacks and listing relocations alone cannot solve the problem. While buybacks may temporarily lift individual share prices, they fail to address deeper illiquidity issues and sometimes worsen them. Similarly, moving listings might suit certain companies but is no panacea. These stopgap measures leave structural problems in the broader UK market untreated.

The only real solution is accelerating the buyout trend, and macro conditions favour this transformation.

This wave promises to reshape the UK market constructively. Fewer listed companies will allow capital concentration across a smaller universe. As investors pursue undervalued UK assets, they signal that Britain welcomes business and transformation, potentially triggering a virtuous cycle of liquidity, improved valuations and market vitality. This shift could create conditions for a more attractive, efficient and dynamic UK market positioned to compete globally.

The buyout trend represents the nearest-term solution to the UK’s persistent market challenges and its restoration as an attractive investment destination.

Many unaligned participants – notably advisers and non-executive directors – will resist. But for shareholders, the path forward is clear. Public company boards must act decisively now.

LIQUID ALTERNATIVES COULD REPLACE BONDS AS SAFE HAVEN

For over a decade, while quantitative easing drove interest rates to near-zero and negative levels, investors concluded "there is no alternative" (Tina) to investing in equities. The strategy worked well.

But all good things end. The year 2022 brought a sobering reminder that equities are not a one-way bet. The S&P 500 fell 18.1% while the "safe haven" of bonds suffered as central banks raised short-term rates and began ending QE. Liquid alternatives preserved capital well.

In 2023, investors saw yields on short-term government bonds rise above 5% in the UK and US and to 4% in Europe. Many seized the chance to lock in those rates for part of their portfolio, continuing through 2024.

Looking to 2025, what might investors consider? They have done well in equity allocations and, to borrow Chuck Prince's 2017 comment, many will decide to "keep dancing while the music is playing".

But should investors consider taking profits on some holdings? It may be prudent. The S&P 500 has risen 56% from 1 January 2023 to 22 November 2024. An investor could take profits on 20% of their US equity allocation and still maintain 125% of their January 2023 exposure.

Those left on the dance floor in 2007 wished they had banked some profits. By many metrics, equity valuations look stretched. There is no guarantee 2022's performance cannot recur. In 2008, the MSCI Europe fell 43.3%. That required a 76.3% rise just to recover capital. Bonds may not provide safety. Credit spreads are trading at tight levels last seen in 2007.

Goldman Sachs recently forecast a 3% annualised S&P 500 return over the next decade. If accurate, investors might seek higher returns with lower expected volatility. Meanwhile, one-year government bonds in the UK and US yield about 4.5%. Investors might ask: "Is that the best return available in this part of my portfolio?"

Enter liquid alternatives – Ucits funds that target cash-plus returns, offering a compelling option for cautious optimists. These funds aim to be uncorrelated with traditional assets, protecting portfolios from market turmoil while targeting returns above the "risk-free" rate from short-term government bonds.

A return of cash plus 3% (about 7.5%), if achieved, would provide roughly a 66% uplift versus accepting lower yields from short-term UK gilts or US Treasury bonds. Alternative Ucits funds achieving cash plus 4.5% (about 9%) would approximately double an investor's return compared with such government bonds.

The music plays on, but consider banking some recent strong gains. If so, there is a liquid alternative to short-term bonds. Hello Tiala!

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