Investments - Flash

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HEDGE FUNDS MISSED THE JULY RALLY

« Short covering » above the 100-day average ?

July proved to be an excellent month for most financial assets, but clearly not for hedge funds (+0.5%), which largely underperformed during this period of recovery in international equities (+7.9%), real estate (+6.9%), private equity (+17.9%) and bonds (+2.1%). Overall, hedge funds do not seem to have anticipated the stock market recovery that began in July and instead maintained a "bearish" strategy during the month. In fact, it even seems that they wanted to reinforce their bearish "bets" during the equity rebound.

According to the latest CFTC CME releases, hedge funds probably became net sellers in mid-June and have remained so for the past six weeks. Indeed, the total net short position is now similar to that of June 2020. The S&P500's +9.1% rise in July, which is the best monthly performance for 20 months, has not really been captured by the large hedge funds. Overall, there were inflows into equity funds in July, but they were less than the outflows at the end of June and seem to have come in only at the very end of the month.

Therefore, the fact that the earnings season has so far gone better than many had feared could reinforce the flow of funds into risky assets. The S&P500's month-end rise to just above its 100-day average may be difficult for short holders to hold, especially considering that the recession scenario is now widely shared since the release of the second quarter of GDP (-0.9%) on 27 July, which was followed by a +5.7% rise in the S&P500 in three days.

A continuation of the recent progress could therefore attract further portfolio adjustments and sustain the current "rally" for longer.