31 July 2026

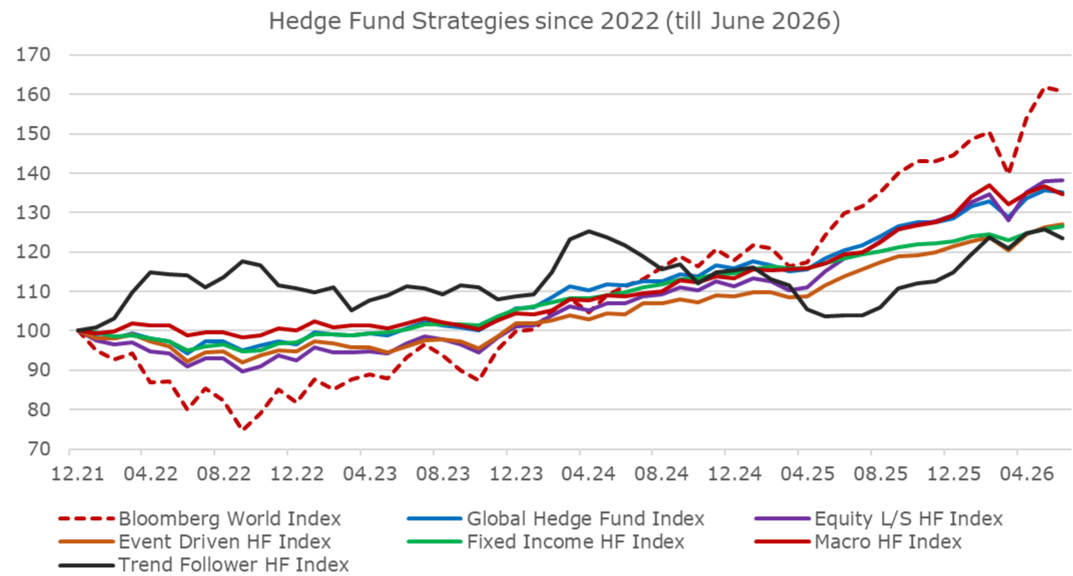
Hedge Fund Outlook H2 2026

1 Hedge Fund Review H1 2026

The broad hedge fund index gained +5.0% YTD 2026 (With Intelligence Hedge Fund Index as per 30 June, 2026), while traditional asset classes also ended the period in positive territory: equities advanced +9.6% (MSCI World), and investment-grade bonds returned +1.2% (Bloomberg Global Aggregate Total Return Index Hedged).

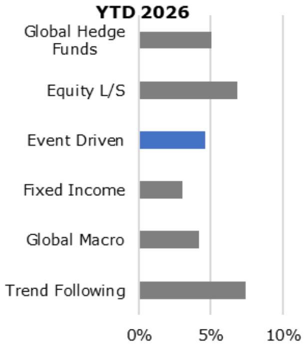
During the first months of the year, most hedge fund strategies generated solid gains, supported by rising global equity markets and a constructive investor environment. Equity Long/Short managers led performance rankings, delivering strong returns through successful stock selection, with Asia-focused funds among the strongest performers. CTAs (Trend Followers) and Macro funds benefited from pronounced trends across equities, currencies, precious metals, and commodities.

Chart I: Hedge Fund Strategies



(Source: AlpinumIM, With Intelligence)

Chart II: Performance of Main Strategies (YTD = June 2026)



	YTD	2025	2024	2023	2022
Global Hedge Funds	5.1%	11.1%	10.1%	9.3%	-3.3%
Equity L/S	6.9%	16.2%	10.4%	9.3%	-7.5%
Event Driven	4.7%	11.5%	6.8%	7.5%	-5.3%
Fixed Income	3.0%	7.1%	8.7%	8.5%	-2.8%
Global Macro	4.2%	14.3%	8.4%	4.5%	0.0%
Trend Following	7.4%	-0.2%	6.2%	-2.0%	10.9%

(Source: AlpinumIM, With Intelligence, data as per end of June 2026)

2 March Correction and Strong Rebound Thereafter

March saw a significant market sell-off. The escalation of tensions in the Middle East triggered a global risk-off environment and made the month the most challenging for hedge funds since the onset of the pandemic in 2020. While the MSCI World corrected by more than 9% between 25 February and 30 March, the volatility index (CBOE VIX) surged from 17.9 to 30.6 over the same period. This level had last been reached in April 2025 following President Trump's tariff announcements.

Hedge funds could not fully escape the broad market correction; however, they navigated this period with significantly lower volatility than traditional markets. Most strategies posted losses in March, with Equity Long/Short, Macro, and Multi-Strategy funds experiencing the largest declines. CTAs (Trend Followers), by contrast, proved comparatively resilient due to their positioning in energy markets and their disciplined risk management.

April brought a strong rebound. Easing geopolitical tensions and renewed enthusiasm for AI-related technology and semiconductor stocks led to a significant recovery in global equity markets. Long/Short managers were at the forefront of the rally, while Event Driven, Credit, Macro, and CTA strategies also returned to positive performance, benefiting from improved market sentiment and a revival in corporate activity.

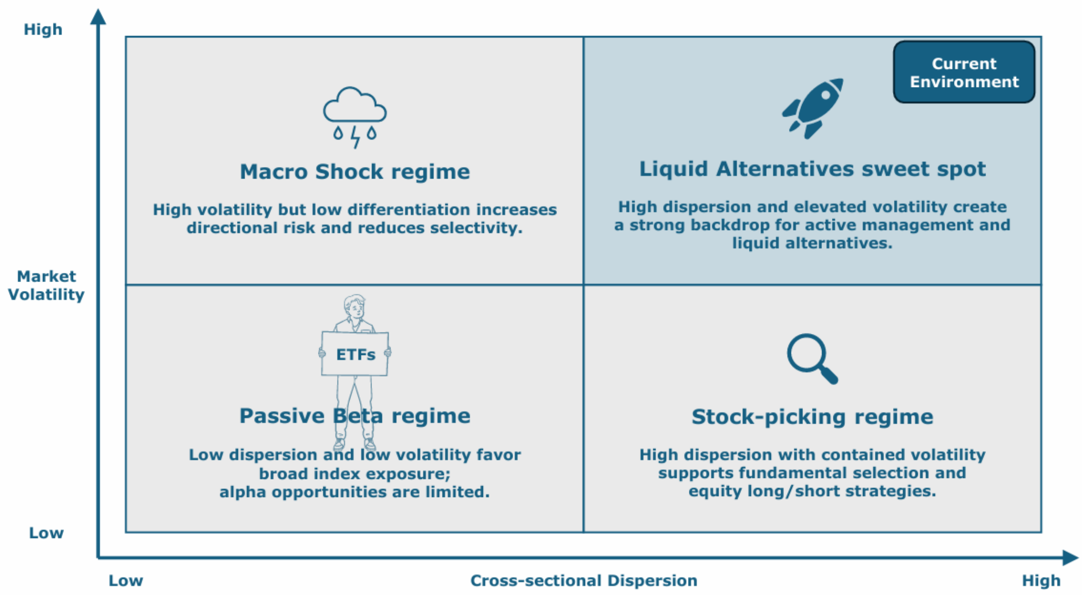
3 Outlook: Hedge Fund Strategies

The global economy remains on track despite the turmoil in the Middle East and higher energy costs. Inflation expectations continue to be closely linked to the evolution of oil prices and the status of U.S. negotiations with Iran. However, markets have looked through the conflict for some time and are increasingly recognizing the risk that part of the current inflation may become entrenched, driven not only by temporary supply constraints but also by the structural consequences of geopolitical realignment.

At the same time, we continue to expect a relatively resilient economy that could even gain momentum over the course of the year. This creates additional demand-side inflationary pressure and is likely to keep interest rates sustainably above pre-Iran-conflict levels. Meanwhile, the AI boom remains the dominant theme in equity markets. Technology, infrastructure, and semiconductor companies continue to lead broader market performance. Rising AI-related investments and productivity gains position artificial intelligence as both a catalyst for growth and a disruptor of existing business models and profit pools.

The global market environment is increasingly characterized by structural inflationary pressures, robust nominal growth, and a "higher-for-longer" interest-rate regime. At the same time, AI-driven investments, fiscal stimulus, and geopolitical shifts continue to widen the gap between winners and losers.

Chart III: Dispersion and Volatility as Drivers of Alpha Opportunities



The current environment of elevated dispersion combined with higher volatility creates an attractive backdrop for active investment strategies and liquid alternatives, as illustrated in Chart III. In contrast to passive beta strategies, the significant return differentials between sectors, companies, and asset classes create a broad range of alpha opportunities.

Against this backdrop, Long/Short and Relative Value strategies are particularly well positioned to benefit from market inefficiencies and elevated dispersion while enhancing portfolio resilience in an environment shaped by inflation, higher interest rates, and geopolitical risks.

Another notable feature is the growing disconnect between moderate real economic growth and strong capital market performance, supported by fiscal spending, AI investment, and structural liquidity. The current environment increasingly resembles an “inflation boom”: nominal growth remains robust while real economic growth is only moderate. At the same time, inflation pressure remains persistently elevated, reinforcing a “higher rates for longer” environment.

This represents a fundamental departure from the low-interest-rate regime that characterized the previous decade. Consequently, the primary downside macroeconomic scenario is not a severe recession, but rather stagflation resulting from geopolitical escalation or persistently elevated energy prices.

Chart IV: Strategy Weightings

	Underweight		Neutral	Overweight	
	heavily	slightly		slightly	heavily
Global Hedge Funds					
Equity Long Short					
Event Driven					
Credit Fixed Income					
Global Macro					
Trend Following					

We have upgraded our allocation to the Equity Long/Short hedge fund strategy. An environment characterized by high dispersion offers attractive alpha opportunities, particularly for Long/Short and market-neutral strategies that benefit from valuation differences among individual securities.

Equity Long/Short managers have delivered a strong year despite the March correction, supported by successful stock selection and positive developments in Asia, Europe, and emerging markets. The recovery since April has not been limited to AI and semiconductor stocks. Other sector specialists, for example in energy transition and banking, have also generated above-average results.

While we do not expect a straight-line trend, we currently see no signs of declining dispersion. In a reflationary environment, equity-focused strategies should continue to offer attractive opportunities.

Credit and Fixed Income hedge funds generated solid, albeit moderate, returns and proved more resilient than many other strategies during the March correction. Many managers used market volatility to reposition portfolios and are increasingly benefiting from the opportunities that emerged. Particularly in structured credit, highly attractive dislocations remain available in both the U.S. and European markets.

Event Driven strategies performed well but lagged stronger-trending hedge fund strategies. Lower M&A activity and risk aversion during March weighed on performance. For the second half of the year, we expect improving conditions driven by increasing mergers and acquisitions, restructurings, and activist campaigns.

Macro strategies remain well positioned to benefit from uncertainty surrounding inflation, interest rates, and geopolitical developments. Diverging monetary policy paths and elevated volatility should continue to create compelling trading opportunities.

CTAs should continue to benefit from trends across commodities, currencies, and interest rates throughout the remainder of the year, particularly if geopolitical risks and diverging central bank policies keep volatility elevated. However, in an environment of declining volatility and directionless markets, the return potential of trend-following strategies is likely to diminish

Disclaimer

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