JANUARY 2026

HEDGEWEEK® GLOBAL OUTLOOK 2026

LEADING VIEWS ON THE YEAR'S KEY HEDGE FUND TRENDS

FOREWORD

SURF, BUT WITH CAUTION

Volatility is building. Hedge funds are paddling out.

Welcome to Hedgeweek's 2026 Global Outlook. Last year, we titled our report "Back to the Future" as past market themes made a comeback. Policy divergence returned as a primary driver. Active management resurged. Uncorrelated returns mattered more than ever. The hedge fund industry delivered, with year-to-date returns through November averaging approximately 15%.

This year, we're watching something bigger: a wave of volatility, policy uncertainty and structural market shifts that will test many assumptions about portfolio construction.

Yet our analysis of leading managers and allocators reveals something unexpected: constructive optimism. The sentiment score sits at 7.3 out of 10. Why? Because volatility is the raw material from which hedge funds extract alpha. Dispersion is opportunity. Dislocation is invitation.

WHEN GOLDILOCKS MEETS REALITY

Consider where we stand. Equity markets have delivered yet another strong year of returns, a feat that seemed implausible during April's Liberation Day-induced volatility. The S&P 500 returned just under 17% in 2025, within striking distance of a third consecutive annual return above 20%. Market resilience has been remarkable. But history whispers a warning: three consecutive years of close to 20% gains has happened only once before in the last 96 years, from 1995 to 1999. We all remember what came next.

Morgan Stanley captures the unease: "Signs of excess in the AI space are appearing, and the market may be ripe for creative destruction in 2026." This observation aligns perfectly with what our contributors identify as their top concern: valuation risk and stretched positioning. It's not pessimism; it's prudence born from experience.

THE WORRY LIST AND THE OPPORTUNITY SET

Our sentiment analysis distils manager concerns into five critical themes: valuation risk, private credit opacity, policy uncertainty, market concentration and geopolitical tensions. Yet managers aren't retreating. They're repositioning. The same analysis reveals five compelling opportunities: dispersion-driven stock selection, emerging markets, event-driven strategies, digital assets and the evolution of active management structures.

This duality defines 2026. Resilience meeting fragility. Opportunity shadowed by risk.

What's particularly revealing is where managers agree and where they don't. There's overwhelming consensus (above 80%) that policy divergence creates opportunities rather than obstacles, that market dispersion favours active approaches and that traditional 60/40 portfolio construction no longer suffices. But ask about inflation trajectories, US equity sustainability, or when private credit cracks will widen and you'll get sharply different views. That divergence itself tells you something: we're in a market where conviction matters and generic beta won't cut it.

WHY HEDGE FUNDS MATTER MORE, NOT LESS

Here's what the numbers tell us. Hedge funds aren't asking for the benefit of the doubt in 2026; they've already proven their worth. Whether markets push higher or finally correct, the case for hedge fund allocations strengthens. In a benign scenario, managers are finding alpha in the dispersion that's emerging across sectors, geographies and capital structures. Our contributors point to emerging markets, event-driven opportunities and credit dislocations as fertile hunting grounds.

But if we see creative destruction in artificial intelligence or if macroeconomic uncertainties begin to weigh more heavily, hedge funds offer something far more valuable: genuine diversification. The kind that's sorely lacking given the heightened correlation between equities and fixed income. When allocators tell us their top priority is uncorrelated returns and capital preservation, they're describing precisely what hedge funds were designed to deliver.

As Deutsche Bank Research's Helen Belopolsky observed, "2026 is poised to be just as geopolitically volatile as 2025. Investors should expect a continued unpredictable and fragmented global operating environment."

Hedge funds don't need to make a new case to allocators. They need to remind them of the original one. They're here to preserve capital and deliver uncorrelated returns precisely when markets test assumptions. In an environment where dispersion is rising and the appetite for indiscriminate risk-taking may finally be waning, that value proposition isn't dated. It's essential.

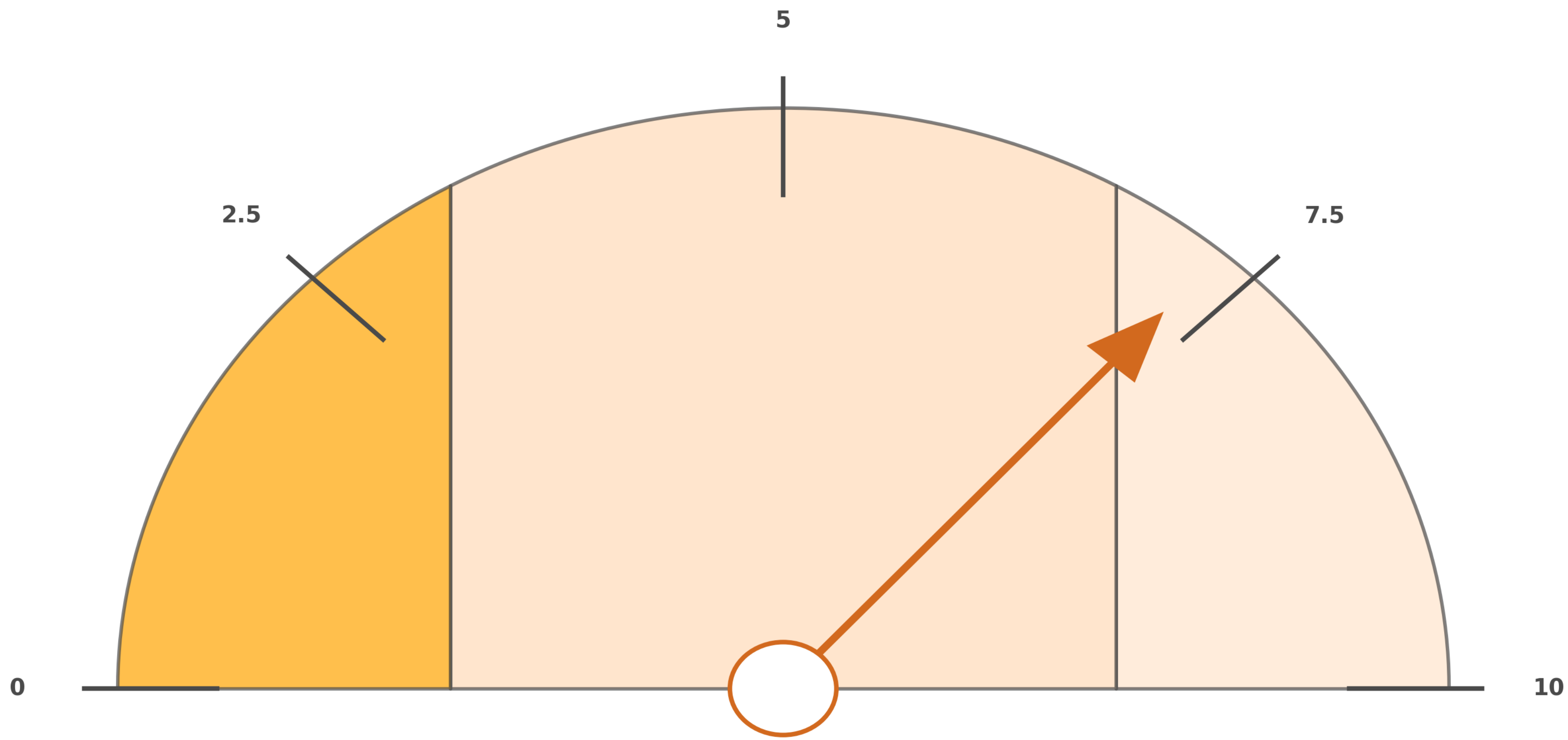
The managers featured in this report aren't making binary bets on bull or bear markets. They're navigating complexity with conviction, identifying pockets of opportunity while managing tail risks that others ignore.

The Big Wave is building. These managers are already paddling out.

MANAS PRATAP SINGH
HEAD OF HEDGE FUND RESEARCH

HEDGE FUND MANAGER SENTIMENT

2026 Outlook Optimism Meter



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Constructively Optimistic

THE BIG WAVE: MSCI'S PERSPECTIVE FOR 2026

NAVIGATING VOLATILITY, AI DISRUPTION AND THE END OF U.S. EXCEPTIONALISM

MARK
CARVER

MANAGING DIRECTOR AND GLOBAL HEAD OF EQUITY SOLUTIONS

MSCI

PETER
SHEPARD

MANAGING DIRECTOR AND HEAD OF ANALYTICS RESEARCH AND DEVELOPMENT

MSCI

MSCI

When asked whether he was optimistic or pessimistic about 2026, Peter Shepard had a different question altogether. "There's a big wave approaching the surfer," said the Managing Director and Head of Analytics Research and Development at MSCI. "Should the surfer be optimistic or pessimistic?"

His colleague Mark Carver, Managing Director and Global Head of Equity Solutions at MSCI, added: "If you adapt, you should be optimistic. If you put your feet in sand and say the world is going to go back to the way it's always been, that may be problematic."

LEARNINGS FROM 2025

Coming into 2025, most investors believed the year would be a continuation of the U.S. as the leading performer. The narrative built at the end of 2024, popularized as U.S. exceptionalism, suggested American innovation would mean U.S. growth stocks would largely be the best performers.

"What we learned this year is that markets broadened out to favor value in some markets, and that meant portfolio positioning changed significantly through the year," Carver said.

The other surprise was the speed of transition. "The length of a regime used to be pretty long term, with quick punctuations into another," Shepard said. "But the reversal between the bull and bear market between morning and afternoon is really unprecedented."

This velocity is where AI becomes crucial, not just as an investment theme but as a tool. "People are increasingly recognizing that they no longer have the time to process information themselves," Shepard added. "The speed of information is so fast that they're looking to AI to help them respond more effectively to whatever regime we find ourselves in tomorrow morning."

ON AI: BEYOND THE HYPE CYCLE

The AI trade was a dominant theme for much of 2025, but understanding its layers will matter more in 2026. Shepard described it in concentric circles: the center comprises pure AI producers in an extremely crowded trade, while the middle ring of suppliers presents more interesting opportunities, from Nvidia to utilities suddenly critical for powering data centers. Outer rings reflect winners and losers from disruptions in other industries.

History offers a cautionary tale. The internet boom (1995 – 2000) was right about its transformative power, yet few dot-com winners maintained market leadership, with Amazon and Microsoft as exceptions.

"The question is whether the current crop of AI companies have enough of an advantage to really pull ahead," Shepard said. "Will a company we've never heard of come up and really dominate?"

What sets the current AI cluster apart is supply-chain interconnection. "Their capex is spent with each other," Carver noted. "This could mean they trade much more as a cohort, which can impose an unintended level of risk."

This risk may be missed by traditional sector classifications. AI isn't an industry. It cuts through supply chains in multiple directions, breaking conventional sector analysis.

CLUSTERS AND PEER SIMILARITY

MSCI is using AI to support identification of these emerging clusters in real time through what it calls "peer similarity,*" finding stocks with more in common than standard classifications suggest. Previously, only the largest institutions could do this work. Now smaller managers can access comparable analytical capabilities.

"We're using AI to understand this very dynamic, detailed landscape of stocks," Shepard said. Silicon Valley Bank was the textbook example: a factor that wasn't there suddenly appeared, then vanished.

For emerging managers, this helps, but only to a point. "Yes, they can get that information from us without necessarily having to hire a large staff," Carver said. "But for managers of all sizes, the key will be the ability to use the information to express an investment view and translate that to a return."

In short, access to the same advanced tools does not guarantee the same outcomes - how investors use those tools ultimately determines outcomes.

THE HUMAN ELEMENT

The most critical skill for 2026 isn't technological. "The biggest skill needed is adapting traditional human resource management to AI workforces," Shepard argued. "It's about how you govern a workforce that's fast, hardworking, and quite intelligent but also makes mistakes and is too eager to please."

Creating frameworks to harness AI while ensuring reliable output is what Shepard called "the HR challenge of prompt engineering."

Carver returned to adaptability. With regime changes happening within hours rather than quarters, conviction must be balanced with flexibility. Some hedge funds excel at this. It's becoming non-negotiable for everyone else.

THE RETAIL FACTOR

Institutions no longer set prices alone. The meme stock phenomenon proved that retail investors, trading collectively on sentiment rather than fundamentals, can move markets. Several hedge funds ceased to exist because they fought this force.

"We often say you can't fight the Fed," Carver said. "The question going forward might be: can you fight the retail market?"

This isn't just an investment consideration. Hedge funds are increasingly packaging strategies for retail markets through ETFs and retirement vehicles. The alternatives allocation in retail portfolios has expanded, and forecasts suggest more growth ahead.

VOLATILITY AND WHAT LIES AHEAD

Earlier in 2025, allocators surveyed by Hedgeweek cited geopolitical tensions as their primary concern. That's shifted to volatility and downside risk, understandable given market concentration and high valuations.

But there's a paradox to crowded trades. Investors want exposure to winning trades but also want to exit first. Recently, beta and momentum, both high-risk factors, have taken the lead. This will likely drive more aggressive hedging in 2026.

For hedge funds with robust risk management and skilled managers, however, volatility can create opportunities. "For managers with skill, more volatility may be turned into higher alpha," Shepard said. Carver added, "It's not for the faint of heart."

The investment landscape in 2026 may favor investors who have prepared for volatility. That means understanding clusters that traditional classifications miss, building frameworks to govern AI workforces, maintaining the discipline to adapt views quickly, and recognising that retail sentiment is now a market force that can't be ignored. The wave is building. Whether it represents an opportunity or a threat depends entirely on whether you've learnt to surf.

*MSCI Peer Similarity Scores measure how similar an asset is to another asset. They are designed to provide investors with insight into relationships between companies and the risks of peer selection. Five measures of similarity are used to score companies, which are then combined into one integrated similarity score. Disclaimer: "Past performance — whether actual or simulated — is no indication or guarantee of future performance."

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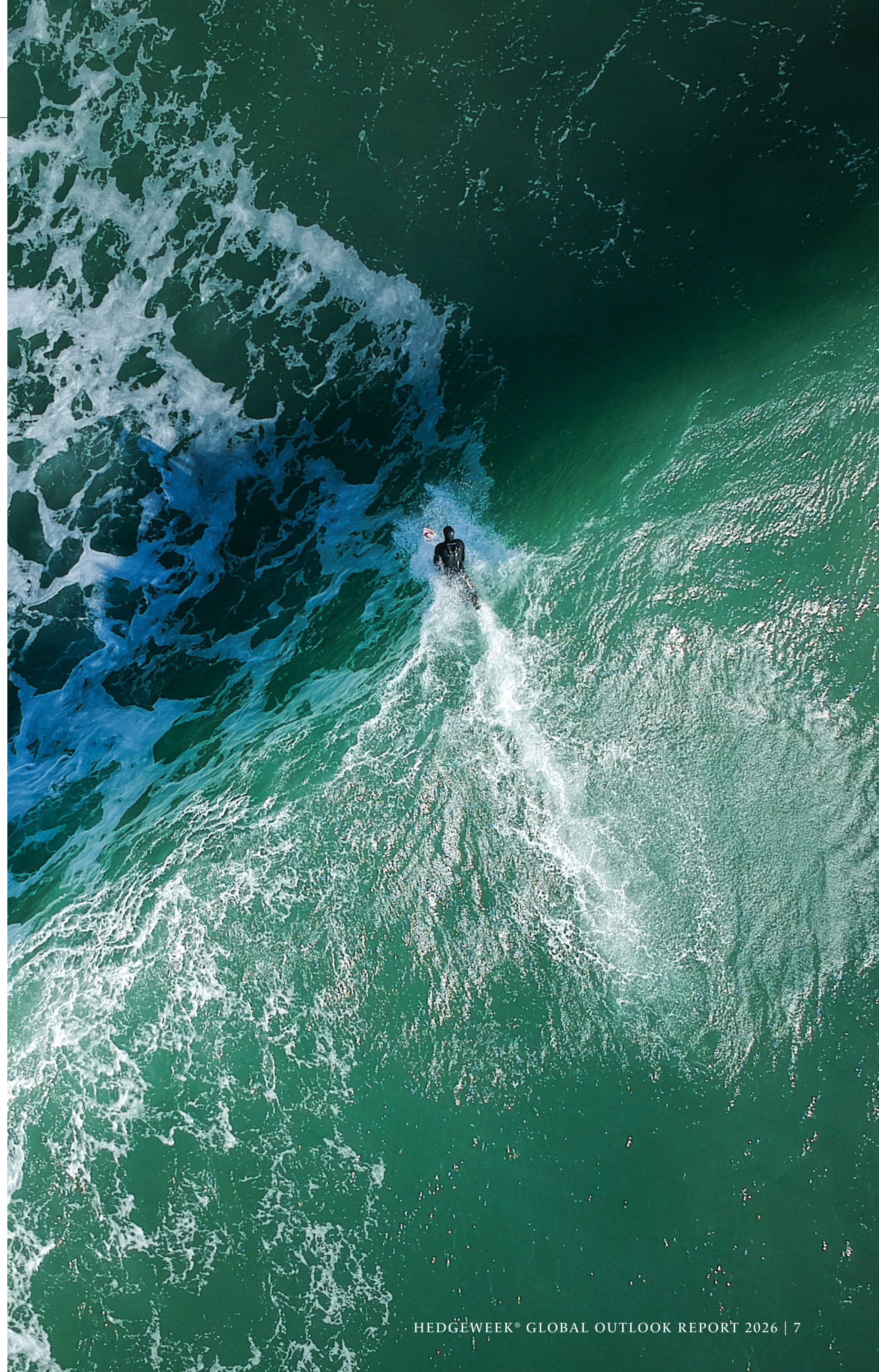
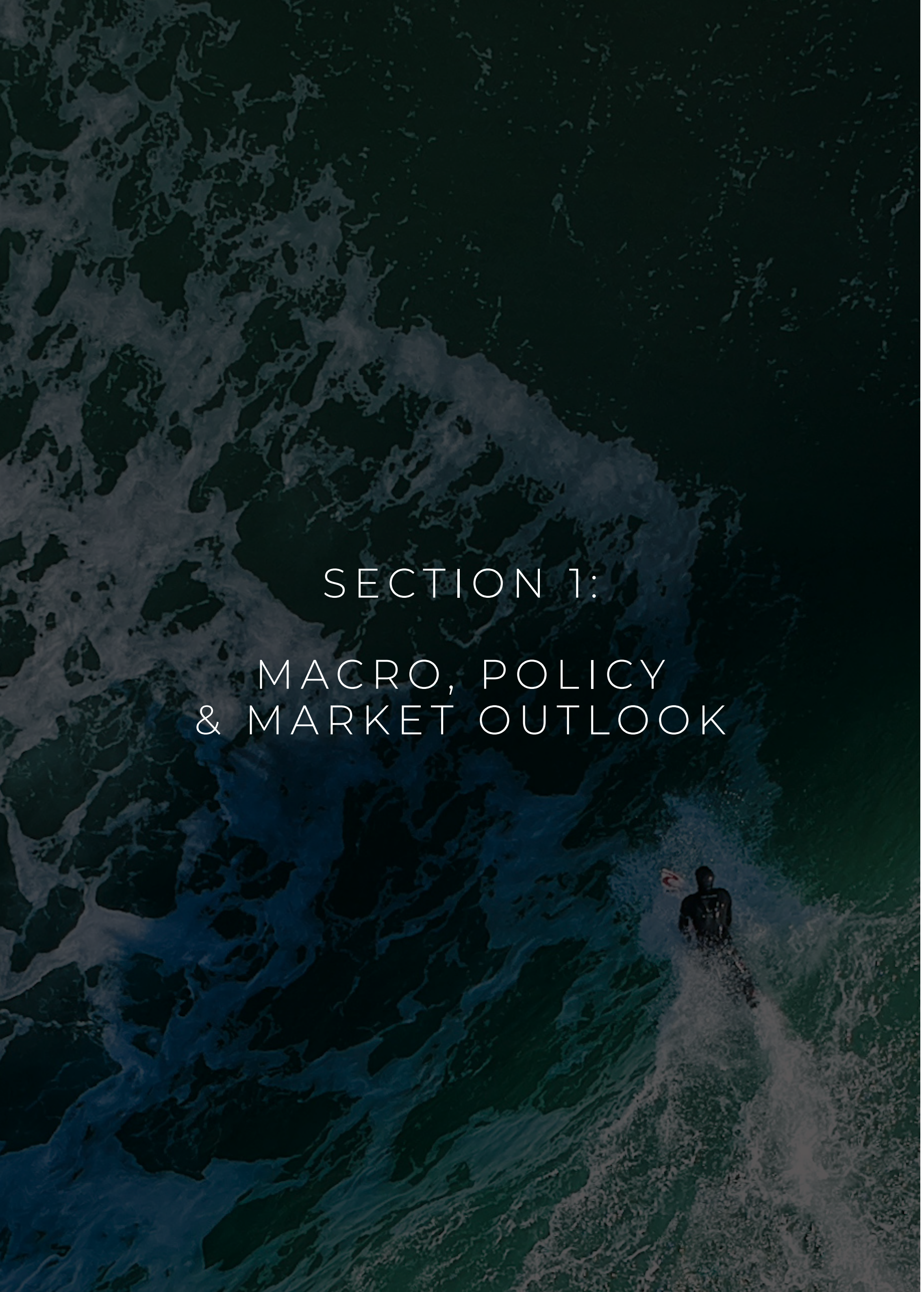




SECTION 1:

MACRO, POLICY & MARKET OUTLOOK

1A: INSIDE THE ALLOCATOR'S MIND

KIER
BOLEY

CO-HEAD AND CIO,
ALTERNATIVE
INVESTMENT
SOLUTIONS

UNION BANCAIRE
PRIVÉE

HIGHER SHARPE RATIOS AND LESS DIRECTIONAL EXPOSURE

At the industry level, 2025 has been a good year for hedge funds — measured by HFRI Fund Weighted Composite Index — as the risk on moves across asset classes in the second half of the year drove returns for higher equity beta strategies in equity long/short and event-driven. Going into 2026 our outlook remains constructive as market conditions remain benign while fixed income and FX volatility may recover as global real rates move back to zero along with higher levels of government bond issuance.

At the strategy level relative value managers are expected to perform in line with long term averages of around 7–9 per cent (net), mostly driven by strategy alpha as higher levels of borrower issuance in government and corporate bond markets creates more opportunities to trade.

For equity long/short, returns and alpha generation are strongly correlated with equity market dispersion. We believe that dispersion levels will recover from recent compression and continue at the stock level rather than just at the sector level event-driven strategies remain mixed, and several factors continue to weigh on corporate confidence, the main driver of deal flow. Finally, we remain constructive on both DM & EM-focused global macro managers and also on multi-strategy quantitative managers that can benefit from a wide range of underlying styles including longer-term trades that profit from sustained regime shifts, while also benefiting from shorter term volatility in markets.

When building a 2026 portfolio of hedge funds, our preference is for higher Sharpe ratio strategies within hedge fund strategies. This means core exposure to relative value strategies blended with less directional, low-net exposure equity managers with both fundamental and systematic approaches. Complementing the two strategy allocations should be a selection of global macro managers that can benefit from risk off market conditions.


SECTION 1B

1B: MACRO THEMES IN 2026

RUSSEL MATTHEWS

PARTNER/SENIOR PORTFOLIO MANAGER

BLUEBAY ASSET MANAGEMENT

HOW WILL 'TRUMP TRADES' SHAPE 2025?

The past year had lots of bark, but the bite was limited to a brief period of volatility from the middle of February through to the middle of April. Liberation day stirred things up quite dramatically, but the reality of Trump's trade policy since that moment has been relatively benign. In Q1 and Q2, investors dealt with the prospect of the average tariff rate for US imports shifting above 20%, which would have been destructive. However, despite all the bombast and drama out of the White House, the effective tariff rate is currently at around 12% and unlikely to rise much more. Impactful, but not enough to derail what has otherwise been a constructive macro environment that has been favourable for most financial assets.

The MSCI Global Stock index is finishing the year 20% up. The VIX index of equity market volatility has spent most of the year below 20, at the low end of the historical range. Fixed income has also enjoyed a strong year, with the Global Aggregate index rounding out the year up 7.5% and the MOVE index of US Treasury volatility subdued. Liquidity conditions have been relatively easy, growth has surprised to the upside and inflation almost everywhere has been more well behaved than anyone could have hoped at the start of 2025. It's been another goldilocks-type year.

Going into 2026, fundamentals remain relatively favourable and benign. But the investment landscape is not without material structural challenges (mainly valuation and positioning).

We have a more positive outlook for growth in the US for 2026, with the caveat that in the very near term, economic data will be noisy from the fallout of the government shutdown. We think inflation will rise above 3% and present a challenge to the Federal Reserve and further rate cuts. There will be change at the world's most important financial institution, but who will the next chairman be, and how compromised will he be by the will and whim of Trump? The tail winds for the US economy are significant, the impact of tax cuts in the Big Beautiful Bill, Fed rate cuts, deregulation and the AI/tech investment boom.

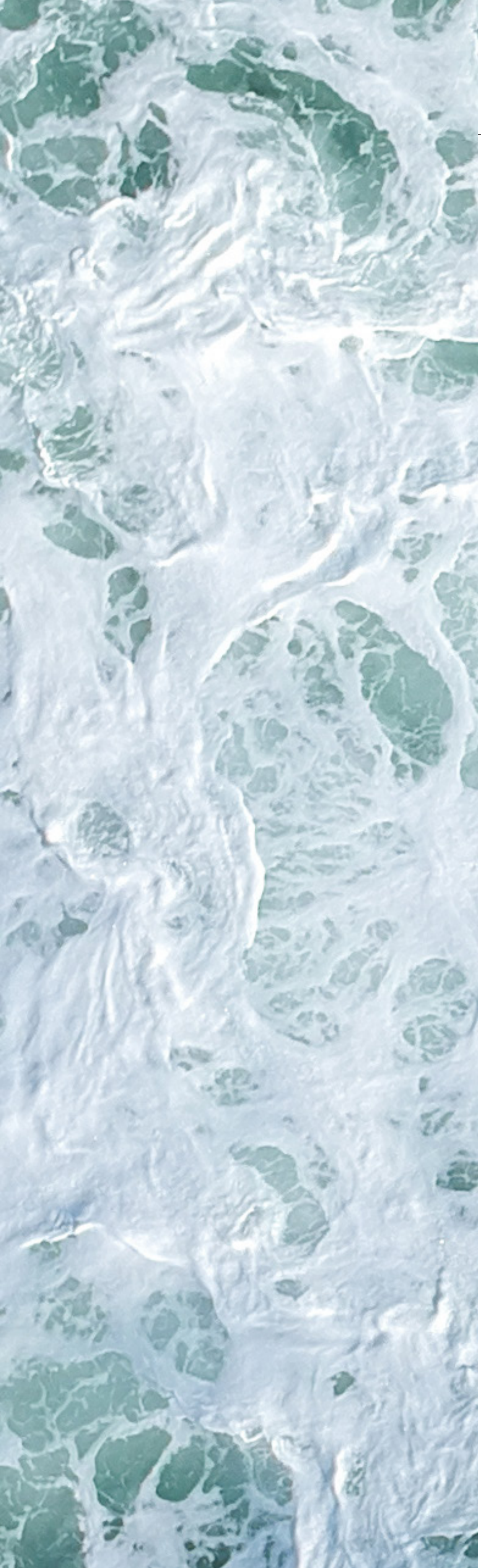
In the Eurozone, growth will probably disappoint, but there is a backstop coming from the defence and infrastructure-led fiscal loosening to ensure there is not much downside either. Rates on hold for the foreseeable. Japan is embarking on a more profligate fiscal path as the new prime minister fights yesterday's war and we also expect China to stimulate.

The prospect of recession or even a material slowdown in global growth is remote as there are so many countries spending like its 1999. Given our view of the fundamentals, we are negatively biased towards the rate outlook for the US, but not so much that we want to be aggressively short duration at these levels. However, away from the US, there are great opportunities to own bond markets that have fared poorly in recent months, and where there is that sought after combination of positive fundamentals and attractive valuations. This list includes the UK, Australia, Iceland and a select group of EM countries; Colombia, Brazil and South Africa. There are returns to be had from carry-related assets, particularly in the emerging market frontier space. In particular, Turkey, Egypt and Nigeria.

We like the trade but are wary of the build-up of excess positioning in this story. We expect more political volatility and drama in the UK around the local elections in May 2026. A particularly poor result for the Labour Government and a leadership challenge for Keir Starmer is around the corner. What comes next could very well be a big shift to the left. For now, being short the UK pound is our biggest FX position.

Moving on to credit, as mentioned earlier, valuations are, for the most part, unexciting. However there are still pockets of the market that offer great value. For us, Romania is still the stand out story in European sovereigns. With the spread close to 300bps and improving fundamentals this is our biggest long position in sovereign credit.

Finally, as we look to a new year, one thing we are confident in, is that volatility will pick up and there will be opportunities in macro land.



VINCENT BERARD

HEAD OF FUND SOLUTIONS FOR THEAM QUANT

BNP PARIBAS GLOBAL MARKETS' QUANTITATIVE INVESTMENT STRATEGIES

FAVOURING CARRY IN THE CENTRAL CASE

The outlook for 2026 is shaped by several inter-linked macro themes.

Global real GDP growth is projected to linger just above 2%, reflecting a gradual but steady recovery in Europe and a renewed expansion in the United States, while growth in emerging markets remains uneven, with China's fiscal stimulus lagging behind expectations.

Monetary conditions are diverging: the Federal Reserve continues to ease rates, the European Central Bank remains relatively tight, and Asian central banks occupy a neutral stance. This creates potential currency-carry opportunities and wider yield spreads in Europe.

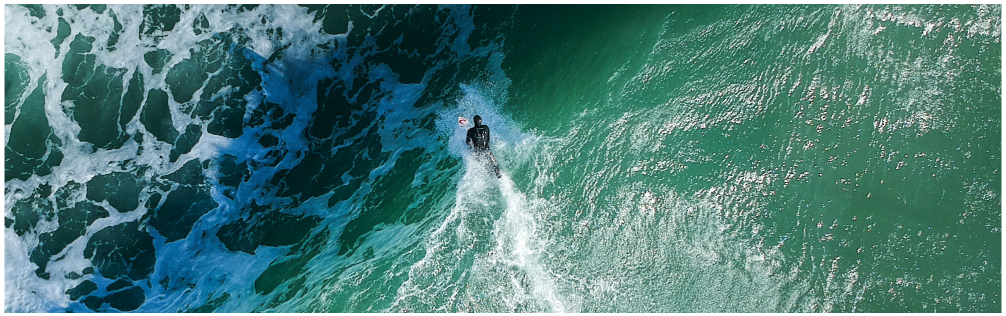
Inflation is now predominantly supply-driven; headline CPI is declining yet stays above target in many jurisdictions, and energy-price volatility endures as the transition to clean power accelerates. Maintaining exposure to inflation-linked instruments such as ILBs and TIPS, together with thematic stakes in grid infrastructure and storage, offers protection against persistent price pressures.

Europe's multi-year infrastructure and defence programmes, amounting to more than €500bn, will funnel capital into renewable energy, telecommunications and critical-mineral supply chains. This fiscal thrust supports thematic strategies focused on new-age electricity, critical minerals and nuclear assets.

These themes can continue to dominate without many surprises.

In this "central case" scenario, the quantitative landscape suggests favouring carry strategies to add risk and diversify traditional sources of income. Commodity curve carry or systematic sale of short-term options on equity indices have been particularly well behaved in 2025, and could benefit if the current momentum continues, or even fades slightly. However, should a material slowdown materialise, volatility-based plays, including dispersion trades in US equities and dynamic VIX positioning with low cost-of-carry, become attractive defensive tools.

Conversely, a right-tail environment of stronger growth and inflation favours fundamentally robust stocks with price momentum and positive earnings revisions, complemented by rates-volatility and inflation overlays. Such exposures are a convenient tool to diversify traditional fixed-income portfolios, especially when implemented to harvest the structural carry embedded in their time structure.



ALFONSO PECCATIELLO

FOUNDER & CIO

PALINURO CAPITAL

THE YEAR OF GLOBAL MONEY PRINTING

2026 will be the year of money printing (yes, again). The real news is that this time it will be a globally concerted money printing exercise. Germany, Japan, Sweden, the US, Canada, Australia, Korea. The list goes on and on. All these countries will be pursuing a loose fiscal policy with additional primary fiscal deficits. And against this backdrop, the central banks are not looking to hike — if anything, they are looking to cut rates.

This macro cocktail could become dangerous for long-end bonds, but most importantly it is supportive for the least-owned asset classes in the world: Emerging markets currencies, value-oriented stocks, and commodities.

STEEVE BRUMENT

GLOBAL HEAD OF ALTERNATIVE INVESTMENTS

CANDRIAM

MACROECONOMIC LANDSCAPE & KEY INVESTMENT THEMES FOR 2026

Looking ahead to 2026, what stands out is the coexistence of resilience and fragility. The world is becoming more multipolar, global alliances are reorganising around economic and technological priorities, and supply chains are being strategically redesigned. Yet the global economy remains firm. Growth is holding up, sentiment is improving and selective monetary easing is turning into a meaningful tailwind. The Fed is set to cut early, while others move more cautiously, creating policy divergence that becomes an allocation guide rather than a source of uncertainty.

At the same time, the AI supercycle is shifting from a sector theme to a global economic engine. Record investment in compute, data and energy infrastructure is reshaping productivity and earnings leadership. AI's momentum is spreading across utilities, banks, healthcare and logistics, and broadening geographically. Combined with a softer dollar and improving EM dynamics, this creates meaningful diversification opportunities across the Euro area, China and emerging markets.

Three themes stand out for 2026:

1.The AI Supercycle as the defining growth engine — Investment in the data-compute-energy ecosystem is generating durable earnings power across sectors.

2. Reflation and selective resilience supporting global equities — Lower rates, stabilising earnings and supportive fiscal policy create a constructive backdrop. In Europe, potential German fiscal expansion could act as a multiplier and broaden the investment opportunity set.

3. Policy divergence as an investment compass — Different easing paths will shape currencies, dispersion and regional rotations.
A final macro consideration is the transition at the Federal Reserve. Any perception of weakened independence or overly aggressive policy steering could lift term premia and inject additional two-way volatility into US rates and the dollar.

In this environment of shifting alliances and accelerating technological disruption, hedge funds are particularly well positioned. Their flexibility, low beta sensitivity and ability to monetise dispersion across rates, FX and volatility make them essential tools for navigating fragmentation and capturing new sources of return.

SYSTEMATIC RESILIENCE IN A WORLD OF TARIFFS, IMMIGRATION AND GEOPOLITICAL RISK

SHIRIN DEHGHAN

FOUNDER AND CEO

OXFORD ALGORITHMS

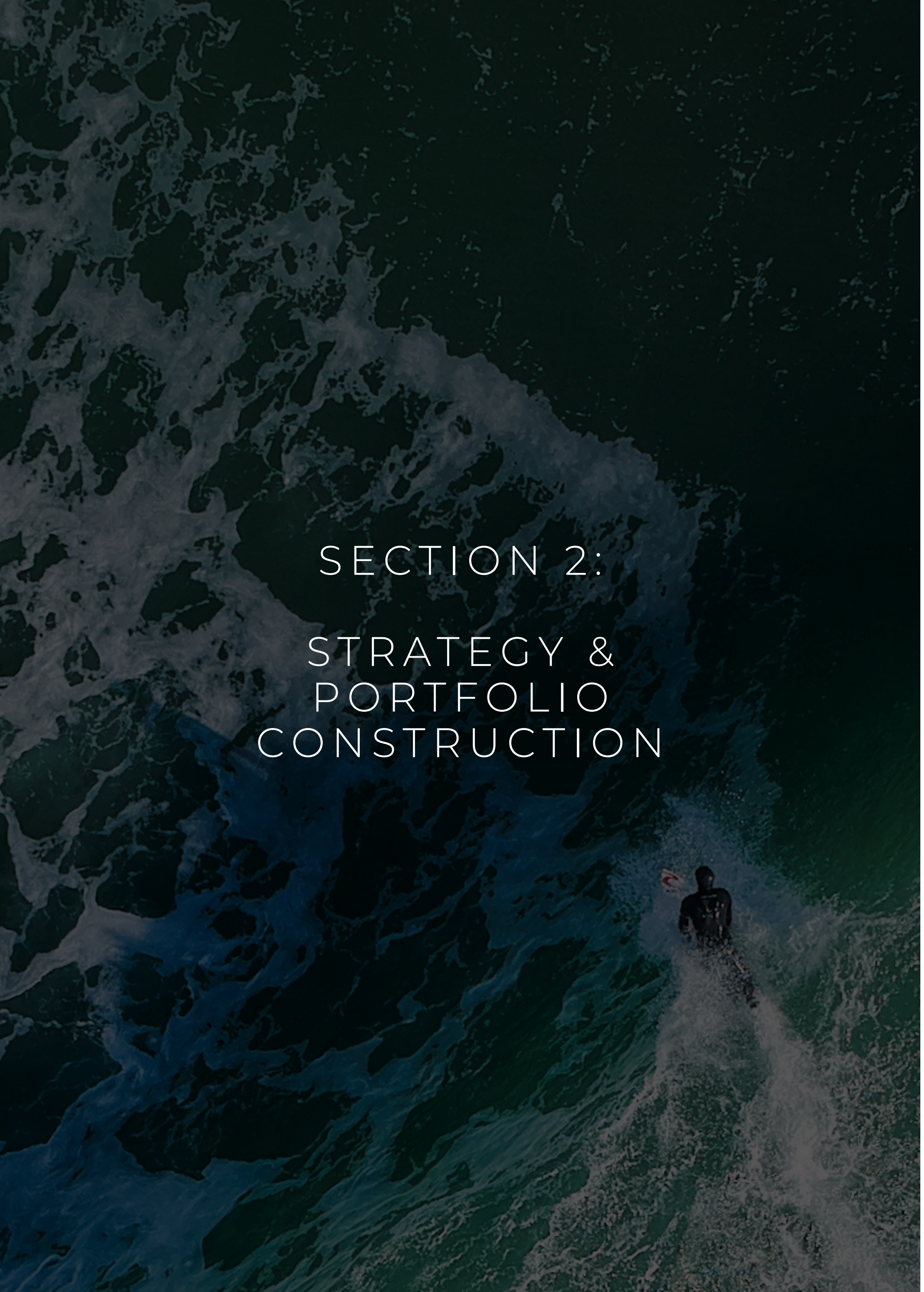
As 2026 approaches, the US macroeconomic landscape anticipates moderate expansion, supported by AI infrastructure capital expenditures and fiscal stimuli like tax cuts.

On the other hand, trade barriers in the shape of increased tariffs are likely to cause inflation to stay above the Fed's target. As such, the Federal Reserve's interest rate path will be pivotal. The market expectation is that we would see a 3-3.25% federal funds rate by the end of 2026. This cautious rate reduction balances cooling inflation against tariff-induced pressures, resulting in lower borrowing costs for housing and investment but risking delayed cuts should wage growth persist.

The job market also faces headwinds with uncertain dynamics as reduction in manufacturing headcount may not be fully countered by the anticipated increase in jobs in the technology sector due to the immigration policies announced by the Trump administration that place barriers on the hiring of foreign talent. The technology sector's growth could further be hampered by concerns about inflated valuations, downward-revision of ROI gains from AI adoption and spending deferred to 2027 or later.

Geopolitical instability compounds risks. Prolonged Israel-Iran tensions and the Russia-Ukraine standoff, with risk of spread to the rest of Europe, would be expected to add volatility to the capital markets.

In such an environment, that is expected net growth in a resilient economy but with continued policy uncertainty and several identifiable risks, AI-driven systematic investing offers resilience and opportunity for tactical portfolio re-balancing as risks form and transform over what is expected to be another turbulent year ahead.



SECTION 2:

STRATEGY & PORTFOLIO CONSTRUCTION

2A: HEDGE FUNDS VS PRIVATE MARKETS

YUNG-SHIN KUNG

HEAD AND CIO

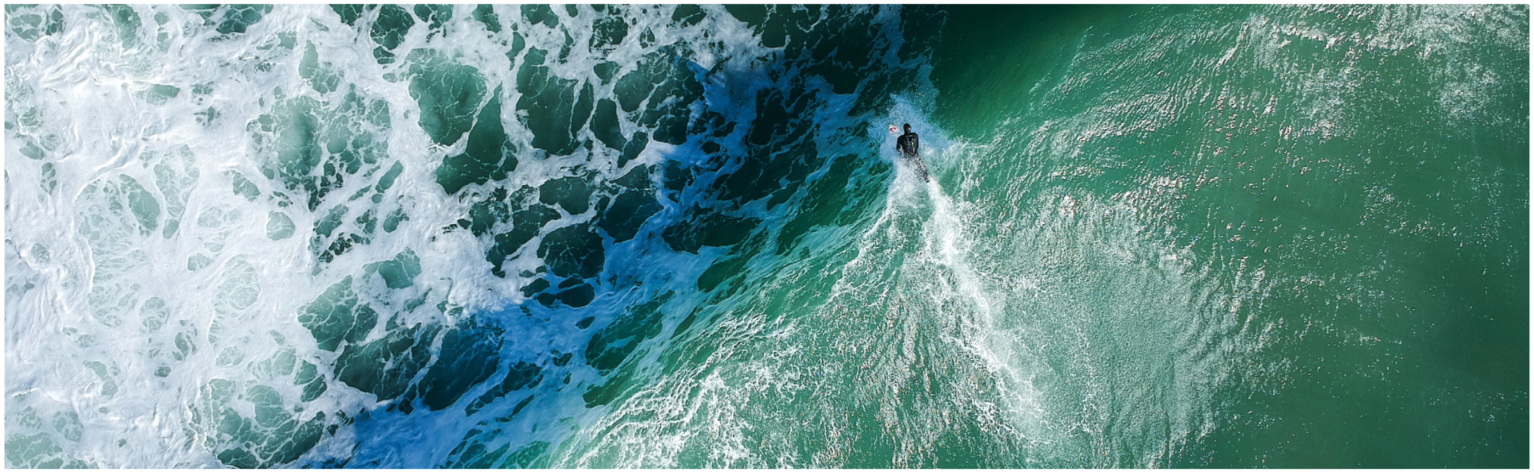
MAST INVESTMENTS

PRIVATE MARKET OPACITY DRIVES INSTITUTIONAL PIVOT TO LIQUIDITY AND ACTIVE STRATEGIES

As institutional investors plan for 2026, they are increasing portfolio liquidity and, by extension, flexibility. Two key forces are driving this change. First, there's growing frustration with a dearth of information detailing the health of private markets or clarifying how conflicts of interest in these markets are being resolved, especially as credit issues mount. Second, whilst the themes dominating investor mindshare — currency debasement, the AI boom, evolving US trade policy, and a softening labour market — have not changed, the risk of a hiccup, or worse, has grown with increasingly stretched positioning.

Many investors are turning to active strategies in pursuing both offensive and defensive objectives. The synchronous growth of active ETFs and thematic investing logically aligns with narrowing market breadth in a period of rapid technological advancement and sociopolitical reaction. Concurrently, rising concentrations within equity benchmarks are compelling investors to consider active investing as a means of diversifying and reducing risk. Apropos, small caps remain under-researched and offer an interesting mode of diversification for patient investors deploying smaller amounts of capital, though the staggering growth of private equity has meaningfully altered the composition of the public small cap market. Perhaps more appealing today are non-US equities. In addition to enjoying the tailwind of expanding US risk premiums and de-dollarisation, foreign assets look poised to benefit from global reindustrialisation and the broader fallout of US-China bipolarity.

Fears of crowded trades unwinding have spurred renewed interest in risk-mitigating approaches. Experienced investors recall the efficacy of these strategies in 2022, when both stocks and bonds declined, and in a hiccup scenario, many expect these strategies to smooth returns and dampen losses. The growth of diversifying strategies, such as liquid alternatives, in active ETFs is particularly notable, as these innovations should enable institutional investors to efficiently navigate the inevitable bumps in the road.



DAVID PEACOCK

CEO AND CO-FOUNDER

TABCAP INVESTMENT MANAGEMENT

PRIVATE CREDIT UNRAVELING: WHY LIQUID CREDIT AND TAIL HEDGING WIN IN 2026

Will 2026 be the year that the private credit boom begins to unravel? The warning signs are beginning to emerge in this opaque market. The natural order suggests that when seemingly unlimited capital chases a limited opportunity set, risk standards are compromised, and a reckoning will come. We have seen signs of this already with a small number of high profile bankruptcies such as First Brands, causing some eye-watering mark-downs at certain funds. But will these remain relatively isolated cases?

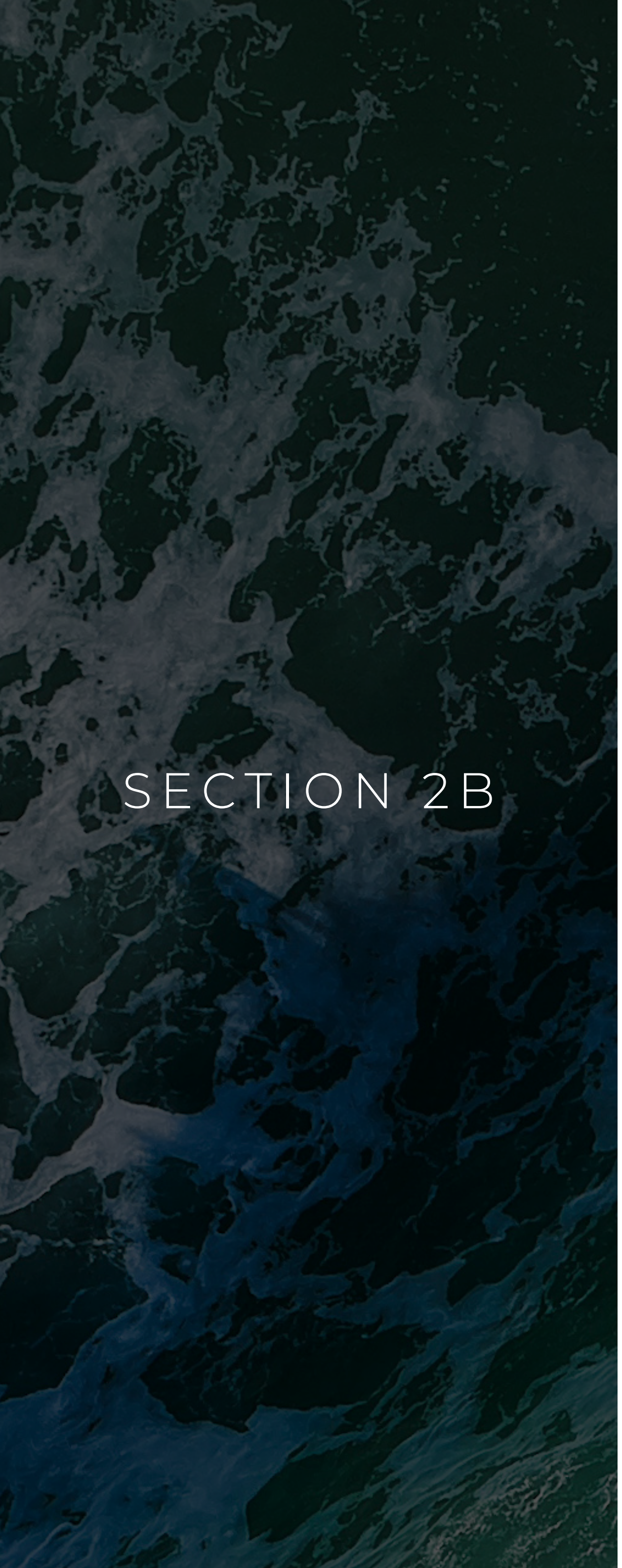
Anecdotally we are hearing annual default rates have crept up from 2% to around 4%; which could be double that if they included PIKs, storing up trouble to essentially insolvent borrowers. Maturities will be accelerating in 2026, and will the lenders be there to meet them? Are these risks being reflected in the perma-par marks on these funds? Not really. But investors will begin to make those judgements themselves — more transparency will be required.

A few write downs at private credit funds held directly by investors is probably healthy. What could start a feedback loop however is where there is further leverage involved; in particular at the Cerberian insurance complexes we used to call private equity firms, where perma-par loans are being used to back insurance liabilities. Lawmakers and supervisors have started to latch on to this, although they have seemed more interested in the lending that banks themselves have made to the private credit operators to start with.
This will take some time to unfold and will hit the lower-grade end of the credit markets where refinancings cannot be made.

Private credit may continue to offer appealing headline returns but greater discrimination will need to be exercised by lenders and if not, those who choose to invest with them.

In the meantime, we anticipate capital flows back to liquid credit. However, corporate spreads over Treasuries remain swingingly tight at single-digit historical percentiles; thanks largely to increased risk premium being built into government risk. Hence, we prefer CDS spread instruments; feel far better rewarded for risk at the higher grade end; and look to use appropriate leverage on investment grade, provided this is in a non-recourse securitised form, or systematically tail-hedged.

While high yield spreads are likely to suffer some contagion from private credit fallout; risk discrimination will drive dispersion and therefore opportunities as well as risk for single stock pickers. Preferring the liquidity and diversification of a macro approach, we will look to upweight to high yield and crossover in second-loss format, as the carry and roll opportunity presents itself. Above all we will focus on staying liquid, nimble and rigorously tail-hedged, in a less certain world.



SECTION 2B

MULTI-STRATEGY & TALENT WARS

THE WAR FOR TALENT: MULTI-MANAGER PLATFORMS, SMAS AND UNCORRELATED ALPHA

SHENAN DHANANI

CO-CEO

TRIUM CAPITAL

The outlook for hedge funds in 2026 is strong, and at Trium, we see this as a year of opportunity for uncorrelated, high-conviction portfolio managers. The structural shift towards transparency and alignment continues to accelerate, with the rise of separately managed accounts at the forefront. Investors increasingly want flexibility, control, and direct ownership of assets and Trium is well placed to accommodate this trend. Our multi-manager structure allows clients to access specialist, institutional-grade investment talent through tailored vehicles that meet their specific needs.

The "war for talent" remains one of the defining themes of this decade. At Trium, we believe the winners will be those who successfully include a diverse range of skillsets, fostering collaboration between portfolio managers, data scientists, and technologists. Our culture is deliberately designed to attract and empower that next generation of talent — entrepreneurial, intellectually curious, and focused on delivering enduring alpha.

Amid a backdrop of macro uncertainty, policy divergence, and market dispersion, 2026 should reward agility and conviction. With capital increasingly seeking uncorrelated, outcome-driven hedge funds, flexible multi-manager boutiques like Trium are poised to perform well. The year ahead is set to favour those who can adapt, innovate, and stay true to their investment edge.

EQUITY STRATEGIES & SYSTEMATIC APPROACHES

DAVID STEMERMAN

CEO & CIO

CENTERBOOK PARTNERS

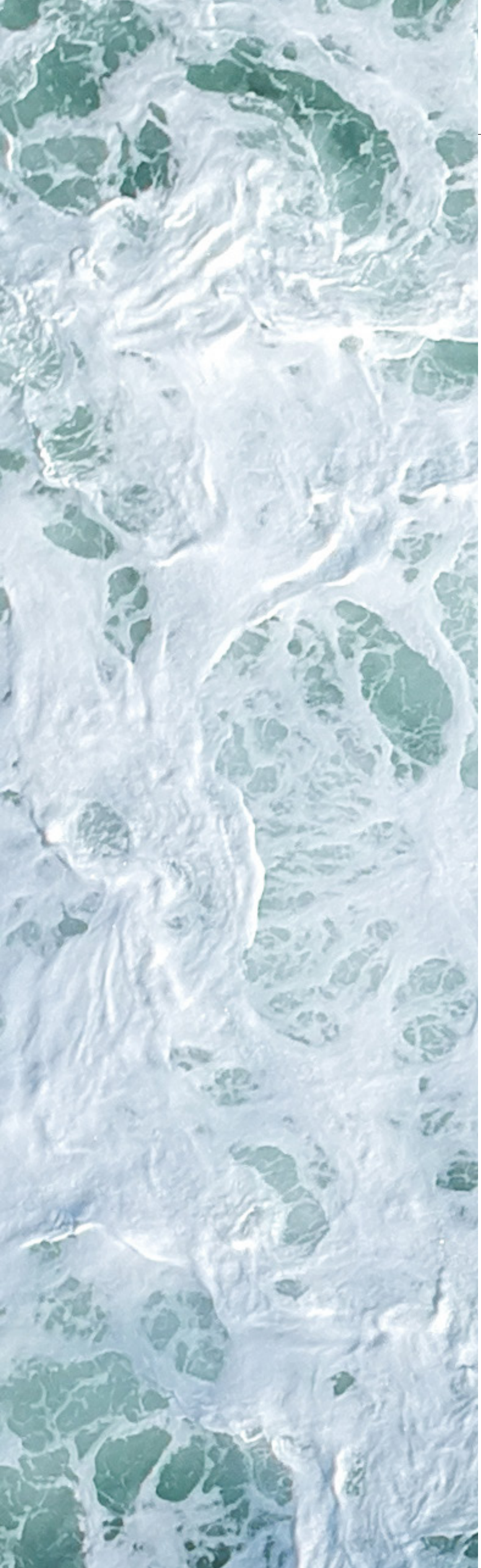
REVISITING EQUITY LONG/SHORT TO UNLOCK FUNDAMENTAL ALPHA IN 2026

Institutional investors face a critical challenge right now: how can they position their portfolios to consistently access differentiated, idiosyncratic equity alpha? Fundamental equity long/short strategies with a mid–long term investment time horizon (ELS) have long been a pillar of institutional portfolios. ELS' struggles in recent years to navigate macro factors like geopolitical upheaval, central bank uncertainty and oscillating tariffs have led investors to hollow out their allocations to the strategy. Public equity exposure is increasingly concentrated on multi-manager and/or quantitative strategies with short investment horizons and higher cross-correlation.

Yet fundamental stock selection remains widely — and correctly — viewed as one of the most compelling, and increasingly scarce, sources of alpha. As institutions look to maintain balance in their equity exposure, they face the challenge of how to evaluate existing and prospective managers whose returns blend alpha, beta, and factor exposure. In addition, they have less choice as intensifying competition for talent, rising operating costs and fee compression have reduced the number of new launches and independent managers with institutional scale.

The rise of buy-side alpha capture can be a solution to this problem. Buy-side alpha capture creates real value for investors by providing access to alpha from mid–long term public equity investing that complements other portfolio exposures, while managing risk, position sizing and execution. Furthermore, it offers idiosyncratic returns at institutional scale by aggregating positions across multiple contributors.

More broadly, buy-side alpha capture offers a path to reinvigorate an increasingly stressed ELS ecosystem. By marrying human judgement with systematic implementation, it bridges the gap between fundamental idea generation and institutional portfolio construction. In the year ahead, this convergence of expertise and process discipline suggests a constructive evolution which can provide a renewed, scalable avenue for supporting independent ELS managers and their investors, and providing allocators with different risk preferences an avenue to capture mid–long term idiosyncratic returns in formats that fit their objectives at a time when it's needed most.



OLIVER SCHARPING

SENIOR PORTFOLIO MANAGER

BERENBERG

2026: THE AUGMENTED PM – BRIDGING AI AND HUMAN JUDGMENT IN HEDGE FUND INVESTING

2025 was the year allocators stopped asking whether AI would matter and started asking whether human PMs would. In 2026 and beyond, the answer hinges on judgement under uncertainty. Systematic models can already process filings, map networks and monitor spreads at scale, but still struggle with regime breaks, nuance, political discontinuities and the soft information that drives real world outcomes. The edge belongs to managers who treat AI as leverage, not replacement: using LLMs to mine disclosure, pattern match regulatory precedents and stress test scenarios, while retaining the authority to override when conditions shift.

Merger arbitrage is one of the clearest canvases for this approach. A deregulatory tilt and strategic realignments are rebuilding a durable M&A pipeline, yet deals are fraught with activists, regulators, national security reviews and cross-border friction. That complexity is a feature, not a bug, rewarding specialists who underwrite each transaction as a bespoke credit with embedded legal and political optionality, rather than betting on historical closure rates. Merger arbitrage's steady, orthogonal returns become a rare carry generator in a world where passive diversification has struggled.

This philosophy spills over into portfolio construction. The 60/40 era is long dead; allocators seek uncorrelated alpha through liquid alternatives that can navigate regime shifts. Sophisticated investors increasingly favour SMAs and pod-style structures over pooled vehicles to capture concentrated alpha without liquidity dilution.

Looking ahead, the industry's centre of gravity is quietly shifting. While traditional financial hubs still command prestige, capital and talent are flowing towards more agile jurisdictions that offer speed, certainty and structural flexibility. Whether 2026 marks a continuation of this trend remains to be seen. But the future belongs not to institutions that rest on legacy, but to those blending domain expertise, AI leverage and adaptable structures wherever the world's risk capital chooses to land.

RICH VALUATIONS, RISING DISPERSION, AND REOPENED DEALS: OPPORTUNITIES IN EVENT-DRIVEN AND CROSS-SECTIONAL STRATEGIES

DEEPAK GURNANI

FOUNDER AND MANAGING PARTNER

VERSOR INVESTMENTS

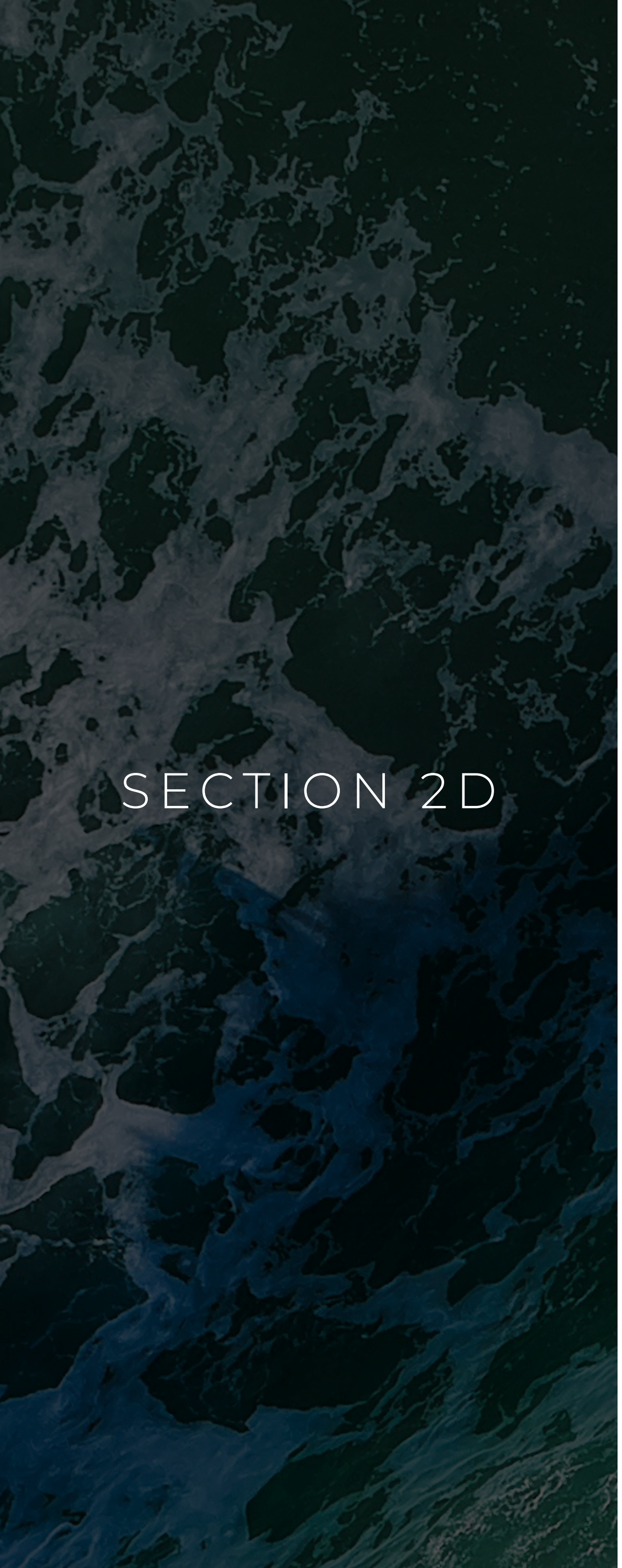
Financial markets enter 2026 at remarkable valuations. Despite geopolitical tensions, uncertainty around US tariffs and AI adoption, and mixed central-bank signals, global asset markets extended their multi-year rally in 2025. Through November, the S&P 500 gained roughly 18%, bonds also advanced, while commodities displayed pronounced divergence: precious metals rose sharply even as grains and energy declined. This backdrop establishes the first major theme for 2026: with valuations elevated and risks increasingly asymmetric, portfolios should seek diversification away from traditional beta.

The second theme is equally important: the opportunity set within market-neutral strategies is unusually strong, supported by two reinforcing forces. First, rising dispersion across asset classes provides fertile ground for cross-sectional strategies that profit from relative-value dislocations rather than directional moves. Second, a materially improved deal environment, driven by regulatory normalisation in the US and renewed private-equity activity, has reopened the pipeline for merger arbitrage and broader event-driven investing.

US merger enforcement has shifted towards targeted interventions and pragmatic remedies, rather than broad opposition. Deal termination rates illustrate this change, falling from 7.8% at the start of 2025 to 3.4% by November. Meanwhile, private-equity dry powder, after peaking at USD $2.7tn in 2023, began to be deployed, signalling a healthier backdrop for LBOs and corporate transactions. These dynamics underpin a sustained flow of announced deals — critical for merger-arbitrage predictability. Event-driven strategies also fit naturally into multi-manager portfolios, providing differentiated, uncorrelated alpha with historically steadier performance than multi-strats during volatile periods.

In environments like today's, investors naturally revisit trend-following, and CTA returns have shown renewed life. But the central question is whether traditional trend still delivers the convexity allocators expect. Evidence suggests it does not: the convexity of the SG Trend Index has fallen from its peak and has been statistically indistinguishable from zero for several years. In contrast, cross-sectional equity-index futures strategies have become a more reliable source of convexity. Much of the convexity that trend-following once offered has migrated to approaches that exploit relative mispricings, with signals that adjust quickly when volatility rises and provide protection when it is needed most.

In short, 2026 is a year when both event-driven and cross-sectional strategies stand out as high-conviction opportunities, offering diversification and convexity that traditional sources may no longer reliably deliver.



CREDIT OPPORTUNITIES & DISLOCATIONS

STEFAN TSONEV

FOUNDER AND CIO

STERNLIGHT CAPITAL PARTNERS

RICH PICKINGS IN A TIGHT SPREAD WORLD

Broad credit spread measures are at multi-year tights though dispersion has picked up substantially, driving an increasingly bifurcated market and presenting a rich opportunity set for active credit managers. Notably, lower quality credit (<B-rated bonds and loans) has underperformed substantially and we expect a continued strong pipeline of stressed/distressed situations in Europe in particular. At the same time, we see a number of asymmetric short credit opportunities on the performing end of the spectrum due to tight valuations and lack of differentiation in pricing driven by demand from passive and rule-based investors. More specifically, we have four main themes on the radar looking into 2026.

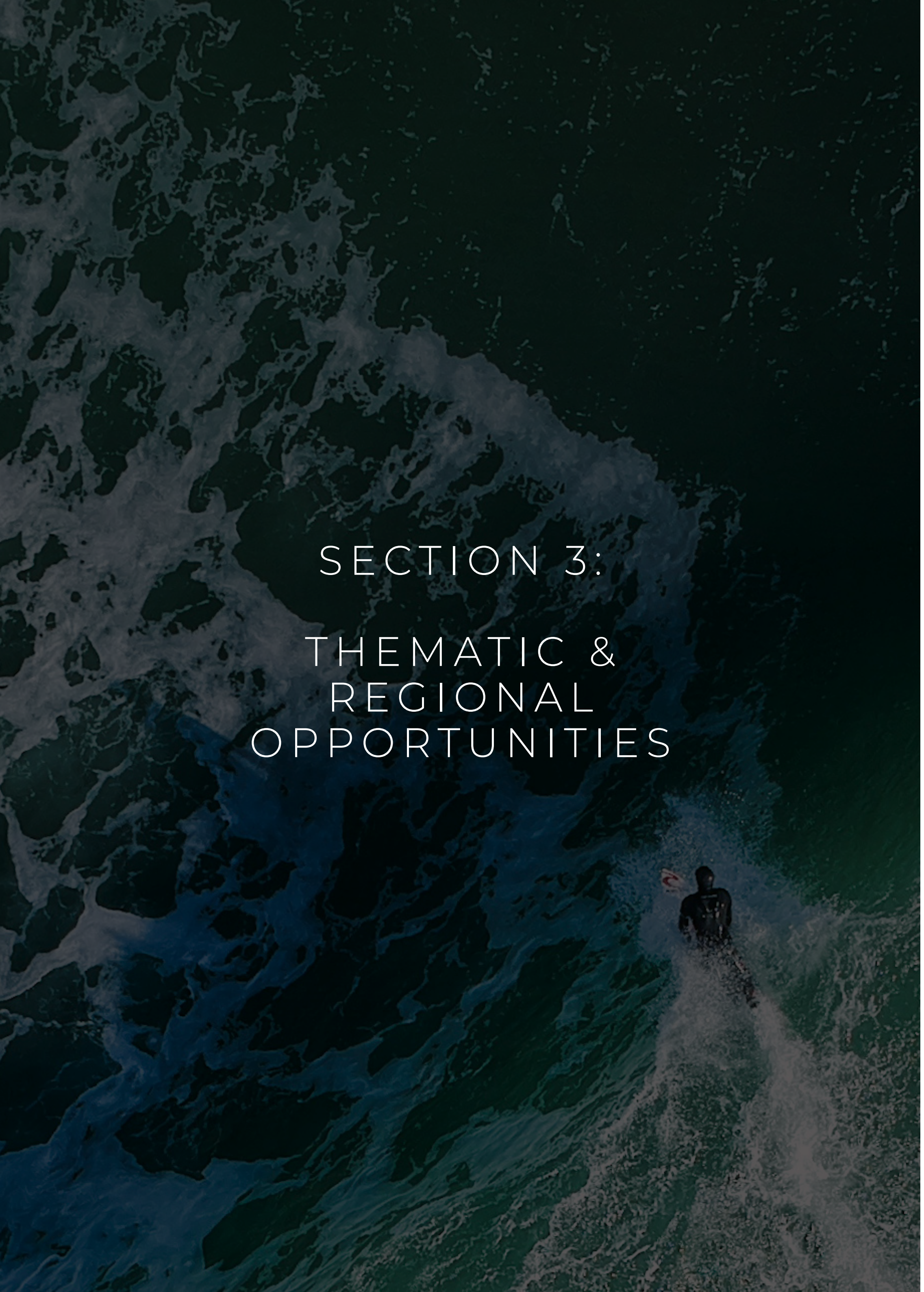
First, liability management exercises (LME) will continue to be a reliable source of alpha that require both deep-dive fundamental credit underwriting and understanding how value can shift across the capital structure depending on game theory, credit documentation and jurisdiction nuances. Staying nimble is key as we believe that the best risk-adjusted opportunities arise at the start of the process, when price discovery creates significant dislocations and towards the end, when an outline of a deal transpires, reducing the risk of non-pro rata treatment while still offering an attractive risk premium. Instrument selection is also key — while it is difficult to generalise, a barbell approach (front end of the senior curve and bottom of the cap stack, to align with the sponsor), has often been a winning strategy given recent experience.

Likewise, traditional refinancing opportunities will remain attractive especially in the context of the buoyant capital markets backdrop. Early debt takeouts or amend and extend transactions offer compelling expected returns over a short to medium-term horizon.

We also expect a pick-up in M&A and asset disposals, which will throw a spotlight on discounted instruments with change-of-control provisions. These situations present attractive asymmetry with low downside as the majority of such issuers are performing credits with strong fundamentals.

Finally, we see a number of alpha short opportunities with convexity to the downside given tight absolute spread levels and relative value dislocations. Special focus should be given to post-LME situations where ‘the can was kicked down the road’ (without significant debt reduction) setting up the junior tranches for significant underperformance post initial cap stack reset especially if non-pro rata treatment is introduced.

Despite elevated default rates over the past couple of years, credit losses have been contained as out-of-court processes have simply pushed out the problem. However, in a post-LME world, sponsors are increasingly forced to create equity value in structures that are deeply out of the money. We are therefore starting to see cracks form especially in the loan and private credit market, as sleepy holders wake up to a new era of sponsor aggression. Hence, carefully curated portfolios are key to navigate this evolving credit environment and deliver attractive risk-adjusted returns.



SECTION 3:

THEMATIC & REGIONAL OPPORTUNITIES

3A: DIGITAL ASSETS COME OF AGE

JOHN
DARSIE

PARTNER

SKYBRIDGE CAPITAL
AND CEO OF SALT

REGULATORY CLARITY TRANSFORMS DIGITAL ASSETS FROM SPECULATION TO SANCTIONED ALLOCATION

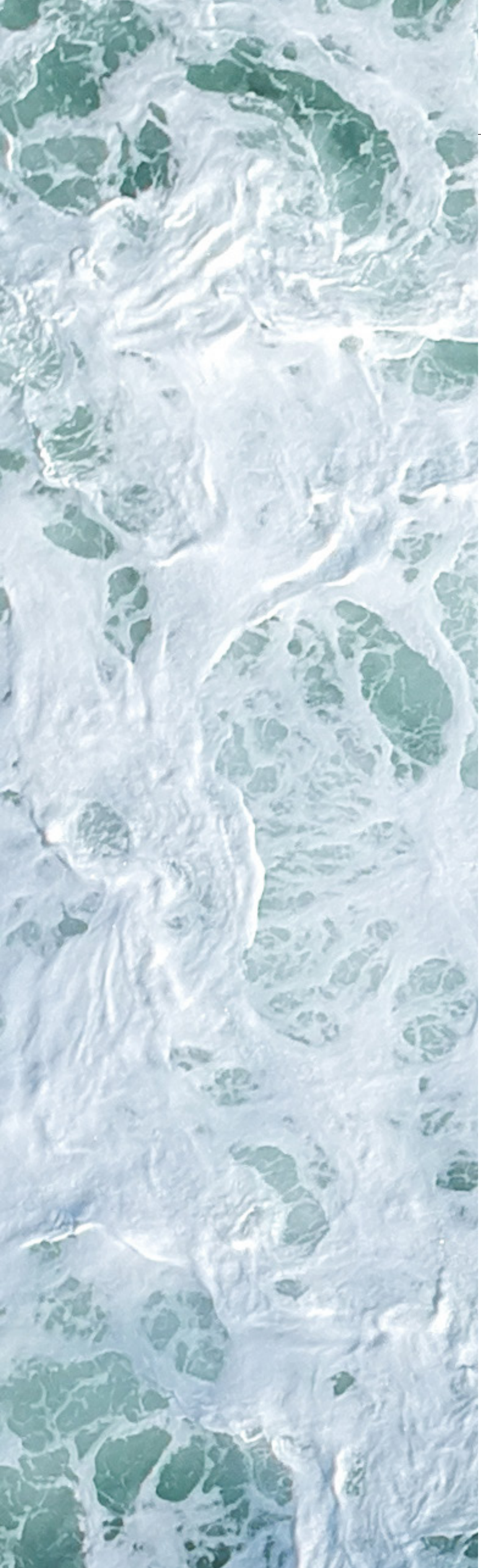
Heading into 2026, asset managers and allocators are preparing for one of the most consequential shifts in US economic policy in more than a decade. With President Trump's expected appointment of a new Federal Reserve Chair, we can anticipate a more dovish regime that is willing to accept moderately higher inflation and larger fiscal deficits in exchange for stronger real growth. That policy mix is constructive for risk assets broadly.

Crucially, this easing cycle begins with unprecedented regulatory clarity for digital assets. In 2025, Congress passed the GENIUS Act, establishing the first comprehensive federal framework for US stablecoin issuance and oversight. At the same time, market structure legislation aimed at defining the respective roles of the SEC and CFTC, as well as formally classifying key digital assets, has advanced meaningfully in Congress. Together, these developments are eliminating primary barriers to entry and transforming digital assets from an exploratory allocation into a sanctioned component of mature and diversified portfolios.

Institutional adoption has accelerated accordingly. States, sovereign wealth funds, pensions and endowments now have clear pathways to own digital assets directly or through ETF wrappers. Retail adoption has also expanded, with access now embedded into mainstream brokerage ecosystems like Vanguard. With this new regulatory foundation and a pro-risk macro environment, digital assets are positioned to be among the strongest performers in 2026.

However, the winners in this cycle will look different from the last. Digital asset treasuries built solely around token accumulation are unlikely to keep pace. Investors are increasingly favouring platforms that operate or acquire cash-flowing businesses such as staking infrastructure, tokenisation providers, blockchain-based financial services, and firms with defensible, recurring revenue. These companies compound value through business fundamentals.

In the coming months, markets will reward digital asset firms that combine regulatory legitimacy, macro tailwinds, and real operational utility. For allocators, the opportunity lies in identifying the businesses building the underlying infrastructure of the digital economy.



ADAM
GUREN

CIO

HUNTING HILL
GLOBAL CAPITAL

THE NEXT ARBITRAGE FRONTIER FOR HEDGE FUNDS

As we move into 2026, two themes stand out for hedge funds focused on market structure and capital-structure inefficiencies: the emergence of digital asset treasury (DAT) structures as a new opportunity set for event-driven and arbitrage strategies, and the rapid institutionalisation of stablecoin-based settlement and credit.

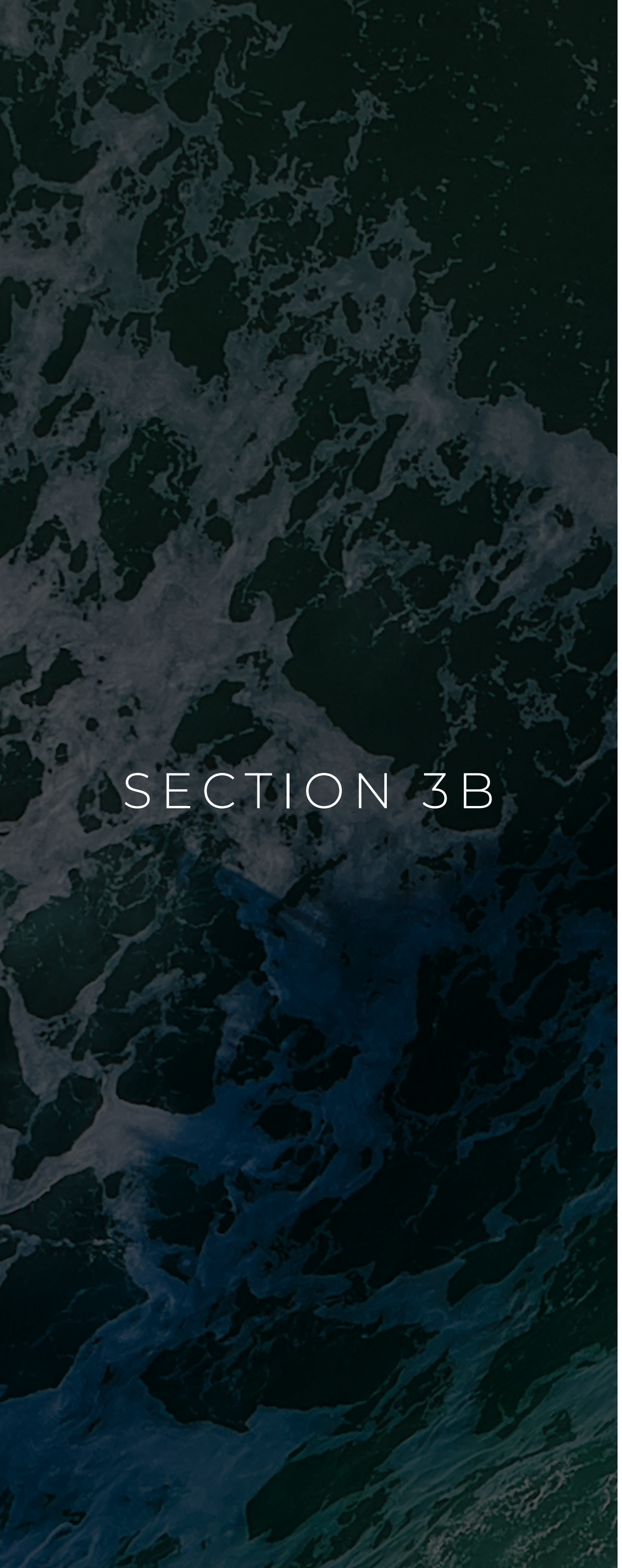
A wave of newly listed DATs, often brought to market via SPAC business combinations and related financings such as PIPEs and converts, has created a deep universe of capital-structure and governance-driven trades. These vehicles span a wide range of sizes, corporate structures and buyback or treasury policies, and now exhibit meaningful price dispersion. Some trade at persistent premiums to their underlying coin holdings, while others sit at sizeable discounts or await shareholder votes to convert.

That dispersion creates opportunities across the DAT trade lifecycle: from participating in early capital-markets trades, to arbitraging pre- and post-vote pricing, to engaging in more sophisticated activist dynamics once vehicles are live. Because DATs are public companies rather than trust structures, activists often have greater leverage than in prior cycles, adding optionality.

Alongside this, stablecoin infrastructure is becoming a material part of the institutional trading and risk management stack. With regulated, GENIUS-Act-eligible stablecoins gaining traction among custodians and prime brokers, we are beginning to see a credible 24/7 settlement and credit layer emerge. This is being reinforced by recent CFTC signals, as Chair Caroline Pham indicates CFTC-regulated venues could begin offering spot crypto trading alongside derivatives, further tightening the link between crypto and traditional market operations.

By reducing the settlement mismatches between 24/7 crypto markets and slower TradFi collateral and margin cycles that can amplify weekend volatility, this infrastructure enables more continuous, real-time risk management.

Looking ahead, these foundations may ultimately support tokenised equities and other securities trading around the clock. For managers equipped to navigate capital structure, governance and liquidity dynamics, this convergence of market microstructure and maturing credit infrastructure will be a defining source of opportunity in 2026.



SECTION 3B

EMERGING MARKETS REMAIN IN FOCUS

BRADLEY WICKENS

FOUNDING PARTNER

BROAD REACH INVESTMENT MANAGEMENT

EM'S BANNER YEAR CONTINUES

Emerging markets (EM) have had a banner year across all asset classes, and the outlook remains bright for 2026 — even if somewhat more selectively.

Sentiment towards the space is better than it has been in years, flows remain very positive, and valuations have grown — but remain undemanding versus developed market (DM) peers. Most importantly, global allocators hold more EM assets now than they did a year ago, but enormously less than a decade ago — suggesting significant room for re-allocation.

Local markets have provided some of the year's highest quality gains, in both mainstream and frontier markets, and we expect that to continue into 2026. A number of EM local markets continue to offer exceptional real and nominal rates, cheaper-than-average currencies, and central banks with the FX reserves to manage and cushion any outflows.

Our portfolio has been exposed to mainstream high yielders such as Brazil this year, but also to currencies like the Turkish lira, Egyptian pound and Nigerian naira, which have delivered low single-digit volatility alongside a blended yield near 20% in low duration bills and with minimal correlation to other global markets. This stability is the consequence of all three central banks holding FX reserves sufficient to manage orderly markets even through periods of global stress– as we saw over "Liberation Day" in April. They have been a core component of our portfolio for the last year and we continue to think they offer the most concrete risk/reward in the space over coming quarters.

EM equity on the other hand will likely continue to deliver higher volatility, but also offers the prospect of more spectacular upside. Broad Reach has focused particularly on Chinese stock indices this year. China has achieved incredible foundational technological supremacy in a number of key 21st century industries, whether self-driving cars, electric batteries, robotics or solar cells — now the extraordinary resources of the Chinese state are focused on AI, engaged in a race with the US in which Jensen Huang characterises Beijing as only "nanoseconds behind" US research efforts. In other words, this is a credible two-horse race and global allocators currently have 90% of their chips (in every sense) on one horse. We expect this to change.

Credit is the space that demands the greatest discernment in our opinion, given a starting point of fifteen-year tight spreads at the index level. Even with this backdrop however, exceptional opportunities remain. Broad Reach re-established positions in Argentina during the autumn's acute political and market panic, buying back the position we had sold near the highs in Q1. With political risk now largely off the table post-midterms, sovereign USD bonds now offer double-digit yields against a positive reform trajectory, a primary fiscal surplus and little visible near-term risk. And while prices have returned to prior levels, the rest of EM high yield credit has tightened over 100bps since then. It remains a core position. Looking ahead, we also see the possibility of highly idiosyncratic gains in the likes of Ukraine and Senegal.

Oil remains the principal risk to parts of the EM complex. We remain bearish, as China and India look set to join the West in a process of falling structural demand — even as OPEC and others pump ever more barrels in an effort to retain market share and revenue with falling prices. When the global liquidity cycle eventually turns, we expect the risk to oil-producing EMs to become more apparent.

That is not a story for the first half of 2026 however. For now, the setup remains excellent: high carry in stable local markets, compelling upside in mispriced Chinese equity, and selective credit opportunities trading at material discounts — all delivering above-average returns with minimal correlation to developed market portfolios.

ALAIN NKONTCHOU

CO-FOUNDER AND MANAGING PARTNER

ENKO CAPITAL

OPPORTUNITIES AND INEFFICIENCIES IN AFRICAN DEBT MARKETS IN 2026

Emerging market debt is a developing asset class, and Africa is a frequently overlooked region for international investors. Where both meet in the form of debt markets in Africa, there are attractive opportunities and inefficiencies for investors who understand the dynamics of these local markets.

We look at Africa ex-South Africa debt markets and specifically sovereign/corporate debt and hard/local currency. There are several factors to note about these markets.

Firstly, the cost of liquidity in frontier African capital markets is very high. Structurally positioning oneself as the supplier of liquidity or mitigating the need for market liquidity is a durable advantage.

Secondly, relatively small markets, insufficient liquidity, and limited offerings result in comparatively low levels of capital formation in Africa which mean structural and idiosyncratic inefficiencies.

Thirdly, as capital importers, most African economies chronically face balance of payment pressures which tend to depress currency valuation over the long term.

In terms of outlook for 2026, it is worth noting that changes in local or global conditions that alter global investors' risk appetite have a pronounced effect on African debt markets. Over the past two decades these have been subject to frequent dislocations induced by local and global economic shocks, as well as local political instability, resulting in 11 of the 15 largest African economies (including South Africa) registering depreciation versus the US dollar of at least 40%.

In the last year we have seen renewed interest in African frontier markets. Undervalued currencies, historically high carry, and the early stages of monetary policy normalisation have driven substantial inflows across a range of countries. While Egypt and Nigeria continue to see the highest concentration of foreign holdings, some flows have also trickled into Uganda, Zambia, and Ghana, despite much lower liquidity in those markets.

The launch of a new local frontier index in January 2026 should continue to put a spotlight on these markets, opening the door to additional structural portfolio inflows over the longer term. At present, appetite for frontier markets remains highly sensitive to the global macro backdrop, which was broadly constructive in 2025.

Global commodity markets will have a major impact on Africa in 2026. The majority of African economies are dependent on the export of commodities to fuel their economic growth. Over 73% of African economies rely on the export of commodities for 80% of their exports, and over 95% of economies rely on commodities for more than 50% of their exports.

But the reliance on dollarised commodity exports to drive economic growth and foreign currency earnings leaves many countries vulnerable to changes in their respective commodity price cycles. Declines in commodity prices place pressure on both economic growth and the country's external balances. As a result, international investors will need to use experience and expertise to navigate complex and challenging conditions in African debt markets.

SECTION 3C

SECTOR FOCUS

LILLY NORDHAL

CO-PORTFOLIO MANAGER

GREAT POINT PARTNERS

BIOTECH RECOVERY: FUNDAMENTALS MEET OPPORTUNITY

Small- and mid-cap biotechnology have rebounded sharply after three years of sustained contraction. Following the COVID-era bubble, biotech stocks experienced a peak-to-trough drawdown of roughly 60%. In 2025, after an initial decline of over 20 per cent, the sector is now up over 35% year to date, supported by a confluence of improving fundamentals and a more constructive macro and policy backdrop.

Positive clinical data, successful commercial launches, and increased M&A activity have reinforced company-specific value creation, while lower interest rates, easing FDA-related regulatory concerns, and diminished perception of threat from China-based competition have improved risk appetite and valuation support. Unsurprisingly, this has contributed to the re-emergence of generalist investor interest and capital inflows, which should further support recovery. We are encouraged by this recent momentum and expect these tailwinds to endure.

While valuations have partially recalibrated, many companies in our view remain materially discounted relative to their long-term potential and should be sensitive to catalyst-driven re-rating.

We focus on the 12-to-24-month catalyst window, where valuations tend to inflect around clinical, regulatory and commercial milestones.

We also highlight pharma's looming patent cliff, which will drive over $180bn in exclusivity losses through 2029 and should continue to fuel M&A activity. In 2025 alone, over 30 biopharma transactions have taken place. Acquirers remain focused on late-stage therapies with multi-billion-dollar peak sales potential. High-growth therapeutic areas such as metabolic disease, neurology, immunology and oncology should continue to remain key priorities.

A fundamental, value-oriented strategy like ours has historically preserved capital during downturns, through disciplined stock selection in an idiosyncratic sector with tremendous dispersion. This same process should position the strategy to benefit during the current period of recovery. Ultimately, biotech remains a stock picker's market, where deep scientific insight is the ultimate driver of success.

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