ITERAM

HEDGE FUND OUTLOOK 2026

YOUR TRUSTED PARTNER FOR ALTERNATIVE INVESTMENTS

The investment environment heading into 2026 is shaped by a distinctive mix of opportunity and unease. The transformative impact of AI continues to bolster U.S. equity earnings and support strong growth—particularly in the year's first half, driven in part by infrastructure-related capex. Yet this momentum unfolds against an increasingly complex and fragile macro backdrop. Structural forces such as persistently volatile inflation, ongoing fiscal activism, and accelerating global fragmentation are reshaping the landscape. These dynamics are driving policy divergence among central banks and amplifying volatility across traditional asset classes. Critically, these conditions mark the end of the seamless globalization era, leading to wider market dispersion and exposing vulnerabilities in highly concentrated portfolios.

For hedge funds, this presents a target-rich environment. The return to structurally higher yields and the rising correlation between equities and bonds underscore the importance of diversified, uncorrelated alternative strategies. Passive investment approaches, which have benefited from a narrow AI-driven rally, are now facing significant challenges. Our 2026 Hedge Fund Outlook emphasizes strategies specifically designed to capitalize on this dispersion, ensuring resilience against potential growth or inflation shocks.

STRATEGY	OUTLOOK	COMMENTS
RV Arbitrage/Multi-Strategy		- Persistent dispersion across sectors and companies, driven in part by displayed resilience amid slower economic growth, continues to create a highly constructive environment for equity and credit relative value strategies. - The forecast for yield curve steepening in the U.S. in a rate-cutting cycle creates tactical trading opportunities in sovereign bond markets, which fixed-income relative value funds can exploit.
Commodities		- The global commodity price outlook for 2026 is tempered by expectations of muted global economic growth, an increasing oil surplus, and ongoing policy uncertainty. These factors suggest a fourth consecutive year of overall price declines across many commodities. - Demand for base metals and natural gas, particularly for power generation, is anticipated to experience a structural boost due to the rapid expansion of artificial intelligence (AI) and the corresponding need to power data centers. This development may help mitigate some of the cyclical weaknesses affecting these sectors. - Strong investment demand driven by geopolitical tensions and prevailing policy uncertainties is projected to sustain the upward momentum in precious metals. Gold and silver prices are expected to continue their ascent throughout 2026, reflecting both safe havens buying and increased industrial demand.

Global Macro		- The landscape of uneven global economic growth, coupled with a transition to more subdued conditions in the second half of 2026, favors flexible macro strategies adept at navigating significant market shifts - Divergent monetary policies and escalating geopolitical tensions are intensifying uncertainty and volatility across financial markets. This environment is creating high-conviction directional trade opportunities in rates, currencies, and sovereign bonds. - Macro managers are strategically positioned to capitalize on pivotal macro themes, including the decline of globalization, persistent inflation, and the fiscal responses to economic nationalism.
Fixed Income/Credit Arbitrage		- The anticipated rate-cutting cycle by the Federal Reserve and other central banks is set to make duration more attractive, facilitating income harvesting and enabling managers to lock in high initial yields. - Strong corporate fundamentals, coupled with solid income returns in the fixed income market, are expected to persist, providing compelling value despite tight credit spreads. - Increased credit dispersion, particularly in sectors tied to significant capital investment cycles, such as AI financing, presents opportunities for robust alpha generation through active security selection in credit markets.
CTA/Managed Futures		- The forecast for a tumultuous year, characterized by an economic landscape defined by a surge followed by a decline, suggests a lack of sustained, clear trends. This environment poses challenges for trend-following CTA models. - The overall subdued global growth outlook and expectations for declining prices in key sectors, such as energy, diminish the likelihood of robust, positive commodity trends, historically a significant source of alpha for CTAs.
Event Driven		- A strong rebound in M&A activity, marked by robust volume growth, renewed strategic acquisitions, and the return of mega-deals is creating highly supportive environment for Merger Arbitrage strategies. - The resurgence of corporate activism is broadening the opportunity set for special situations and other corporate-action-driven strategies. - Despite tight credit markets, the substantial financial needs tied to large-scale AI infrastructure and data-center investment are expected to fuel continued dealmaking and restructurings, further benefiting event-driven funds.

Equity Long/Short		- Elevated U.S. equity valuations and a highly concentrated market leadership – particularly around AI - raise the risk of a meaningful correction or rotation, leaving directional long-biased strategies especially vulnerable. - A higher cost of capital and a more challenging economic environment are likely to widen performance dispersion across companies, improving the opportunity set for market-neutral or low-net managers relative to more directional approaches. - Directional strategies remain particularly exposed to a potential deceleration in economic activity and earnings slowdown, a risk that could become more pronounced in the half of the year. - A notable exception within Equity Long/Short is Healthcare Biotech, where renewed M&A momentum - driven by a massive patent cliff, robust innovation pipelines, and an increasingly supportive policy backdrop - creates a highly constructive environment for specialists capable of capturing idiosyncratic alpha.