



CRYSTAL
CAPITAL PARTNERS

HEDGE FUND INDUSTRY REVIEW · JUNE 2026

Inside the June 2026 Hedge Fund Industry Report

A mid-year review of what actually happened at the half — leadership rotated, dispersion returned, and the concentration regime finally broke. Here's a preview of what's inside.

+7.57%

HFRI FWC, 1H26
Composite, first half¹

+10.21%

S&P 500, 1H26
Total return³

+0.44% / -1%

in combined annual revenue generated
by the U.S. middle market — roughly
one-third of private-sector GDP.

10.5pts

Sub-Strategy Spread
Best vs worst, June¹

EXECUTIVE SUMMARY

The right question at the midpoint of the year is not which asset class posted the largest number, but which delivered the most **return per unit of risk** — because an allocator's binding constraint is risk budget, not headline performance. June answered it in miniature. The HFRI Fund Weighted Composite gained **+0.44%**, its third consecutive monthly advance, in a month the S&P 500 actually fell and its mega-cap leaders cracked. A diversified hedge fund book was positive precisely when the index was not — and that asymmetry, not the size of the number, is what the allocation exists to produce.^{1,3}

At the half the same pattern holds at larger scale. Hedge funds captured the bulk of a strong first half while sidestepping much of what broke in June, and Equity Hedge did so while carrying the short books a long-only fund cannot. The figures are in Section 01; the shape of those returns, not any single month's headline, is the argument.^{1,3,4}

Two structural shifts explain why the environment now rewards skill. First, the regime turned from concentration to breadth. The narrow, mega-cap leadership that made active management look slow in 2023–2024 has broken, and participation has widened — and dispersion is the raw material active returns are made from. Second, the AI trade is fracturing along the cash-flow line. As the semiconductors that supply the buildout swing to record free cash flow and the hyperscalers that fund it burn theirs on capital spending, one crowded theme is separating into distinct winners and losers — a split a passive index dilutes to nothing and a long/short manager can isolate.^{5,6,10}

One caveat governs everything that follows. The index averages in this report describe a universe in which the spread between top-decile and bottom-decile managers reached 58.6 percentage points in 2025 alone, and in which one HFRI strategy label spanned more than ten points between its best and worst sub-index in June. In this category, access is necessary but not sufficient. The manager you select defines the result.^{1,12}

PERFORMANCE

June Performance and the Mid-Year Risk-Adjusted Case

Hedge funds extended their advance in June, a third consecutive monthly gain. The HFRI Fund Weighted Composite added **+0.44%**, lifting first-half performance to **+7.57%** and the trailing twelve-month return to **+16.40%**. The advance was led by **Equity Hedge (+1.26%)** and **Event-Driven (+1.23%)**; Relative Value was quietly positive at +0.25%, while Macro fell -1.49%. HFR credited record equity levels, falling energy prices on a favorable resolution of the Iran conflict, and hedge fund exposure to the record SpaceX initial public offering, which priced on June 12. The second quarter's +6.55% was the best quarter for hedge funds since the fourth quarter of 2020.^{1,13}

Index	June 2026	1H / YTD	1 Year
HFRI Fund Weighted Composite	+0.44%	+7.57%	+16.40%
HFRI Equity Hedge (Total)	+1.26%	+10.06%	+21.43%
HFRI Event-Driven (Total)	+1.23%	+6.80%	+13.64%
HFRI Macro (Total)	-1.49%	+6.12%	+15.06%
HFRI Relative Value (Total)	+0.25%	+3.77%	+7.95%

The Month Stocks Fell and Hedge Funds Did Not

The composite's modest print understates what happened beneath it. June was not a rising tide; it was a rotation. The S&P 500 snapped a two-month winning streak to fall roughly 1% and the Nasdaq dropped about 2.8%, as the largest AI-linked names — the engines of the prior rally — reversed hard: **Microsoft fell 17%, its worst month since 2000, and Oracle fell 35%, its worst since 1990.** Against that backdrop a diversified hedge fund book was positive, and Equity Hedge — which can hold shorts against precisely those names — gained +1.26%. This is the downside-mitigation property allocators pay for, observed live in a single month rather than argued in the abstract.^{1,3}

Beneath the strategy composites the dispersion was extraordinary — often wider within a single label than across labels altogether. The table below isolates three examples from June, spanning strategy, sector, and geography. The strategy label on the door tells an allocator very little; the fund behind the door tells them everything.^{1,2}

At the Half	June 2026	1H 2026
HFRI Fund Weighted Composite	+0.44%	+7.57%
HFRI Equity Hedge (Total)	+1.26%	+10.06%
S&P 500 (price)	≈ -1.0%	+9.55%
Nasdaq Composite (price)	≈ -2.8%	+12.79%

The Real Scoreboard: Most of the Upside, a Fraction of the Drawdown

A strong first half for equities is not the argument; the shape of the returns is. Over the first six months of 2026 — a stretch that included an Iran war scare that briefly threatened a correction and a violent air-pocket in the mega-cap leaders — hedge funds captured the bulk of the market's return with materially less exposure to its drawdowns. The Composite's **+7.57%** retained roughly three-quarters of the S&P 500's +9.55% price return; HFRI Equity Hedge's +10.06% edged the price index outright and roughly matched its **~10.2%** total return — while running short exposure a long-only fund cannot. Keeping pace with a record market without owning all of its risk is the entire point.^{1,3,4}

Where It Showed Up	Best, June	Worst, June	Spread
By strategy (Macro sub-indices)	Currency +7.11%	Commodity -3.36%	10.5 pts
By sector (Equity Hedge)	Healthcare +6.13%	Energy/Materials -3.20%	9.3 pts
By geography (Equity Hedge)	North America +1.88%	Japan -2.80%	4.7 pts

Equity Hedge Technology also gained +4.40% but by a narrower margin than Healthcare; the Macro aggregate printed -1.49% even with Currency and Commodity moving in opposite directions by double digits.²

THE REGIME

The Regime Has Turned: From Concentration to Dispersion

THE CONCENTRATION REGIME IS TURNING

1

THE OLD REGIME

From 2023 through 2025 the Magnificent Seven drove roughly half of the S&P 500's cumulative gain; the equal-weight index trailed the cap-weighted index by more than ten points in 2023 alone. Concentrating in a handful of mega-caps was the winning trade, and dispersion-based strategies looked slow.^{5,6,8}

2

THE STRUCTURAL RISK

The top ten stocks still command roughly 40% of index weight and the index behaves like only about 54 independent positions despite holding more than 500. An S&P 500 fund is, in practice, a concentrated mega-cap technology bet with an index label on it.^{7,9}

3

THE TURN

History says these regimes mean-revert — S&P Dow Jones Indices' own research notes that equal weight has tended to outperform after peaks in concentration — and June 2026 delivered the clearest sign yet. Leadership rotated hard out of the mega-cap AI names and into financials, healthcare, and industrials, and the average stock held up while the cap-weighted index fell. Broadening markets are where dispersion, and active skill, get paid.^{3,5}

For most of the last cycle, the market rewarded owning less, not choosing well. Zero rates, synchronized growth, and a handful of mega-caps capturing every marginal dollar compressed the dispersion that active and hedge fund strategies exist to harvest. That has inverted. Concentration is not only a risk to bear; it is an inefficiency to exploit — and that is where a hedge fund allocation earns its place. The same concentration that degrades the index as a passive holding also mechanically handicaps long-only managers: under a long-only constraint, the largest underweight a manager can express in any stock is that stock's index weight, so as the top names swell, the ability to bet against them collapses. Concentration therefore transfers alpha potential away from long-only mandates and toward managers who can short. A long/short allocation is not merely a diversifier in a concentrated market; it is structurally better positioned to express its dynamics.

June was that mechanism in action. When leadership rotated, the cap-weighted index fell while the average stock held up — the Dow, tilted toward financials, healthcare, and industrials, rose about 2.5% on the month. A passive holder took the mega-cap reversal in full; a manager positioned across the broadening market, or hedged against the crowded longs, did not. That gap between owning the index and choosing within it is exactly the return active management is paid to capture, and this month it was visible on a single calendar page.³

THE AI SPLIT

The AI Trade Is Splitting Along the Cash-Flow Line

The most crowded theme in markets is quietly separating into winners and losers, and the fault line is free cash flow. Bank of America's Research Investment Committee frames it as a generational transfer: the twelve-month forward free cash flow of the semiconductor companies that supply the AI buildout is spiking toward roughly \$430 billion, while the free cash flow of the hyperscalers that fund it — Amazon, Alphabet, Meta, Microsoft, Oracle — is collapsing toward and below zero as capital spending consumes it. The companies selling the shovels are generating the cash; the companies digging are burning it.¹⁰

12-MONTH FORWARD FREE CASH FLOW — HYPERSCALERS VS. SEMICONDUCTORS

\$ billions, 2023–2026E

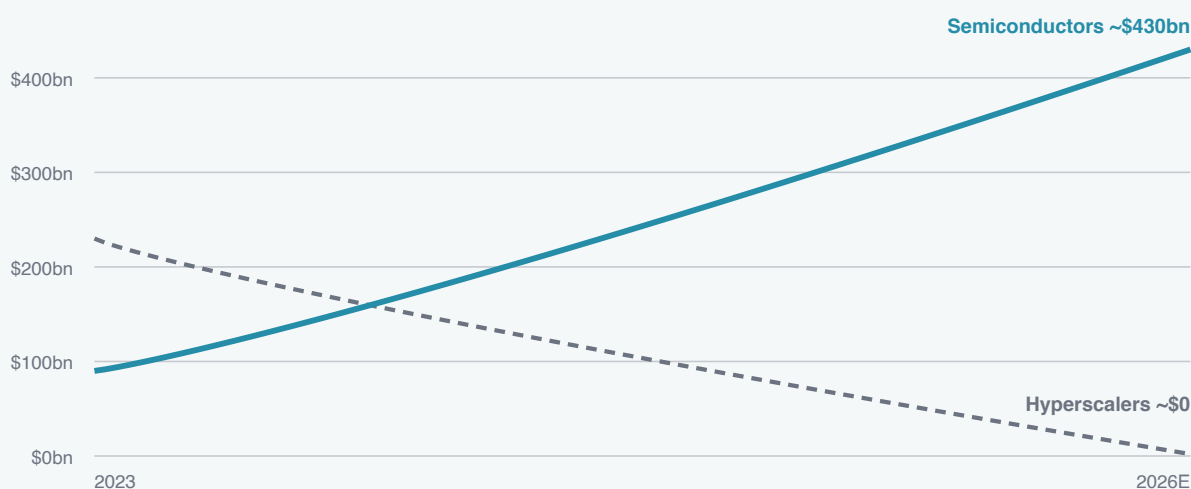


Exhibit: 12-month forward free cash flow — hyperscalers vs semiconductor companies (\$bn). Hyperscalers = AMZN, GOOGL, META, MSFT, ORCL; semiconductors = NVDA, MU, AVGO, AMAT. Source: Bank of America Research Investment Committee.¹

June's price action confirmed the split in real time. A benchmark semiconductor index surged nearly 88% from its March low for its best quarter on record as memory became the binding constraint in AI infrastructure, while the two largest capital spenders, Microsoft and Oracle, were the month's worst large-cap performers as investors began to question the return on relentless AI capital expenditure. Same theme, opposite outcomes.³

Positioning, meanwhile, is anything but settled. Flows into the semiconductor ETF complex have turned violently two-way: a record single-day inflow of roughly \$5.4 billion sits alongside a record outflow near \$1.95 billion in the same recent window. That is the signature of a crowded, unstable trade — conviction and capitulation firing in quick succession — not of a durable one-way consensus.¹¹

SOXX (ISHARES SEMICONDUCTOR ETF) — DAILY FUND FLOWS

\$ millions, daily creations/redemptions (illustrative reconstruction — see note)

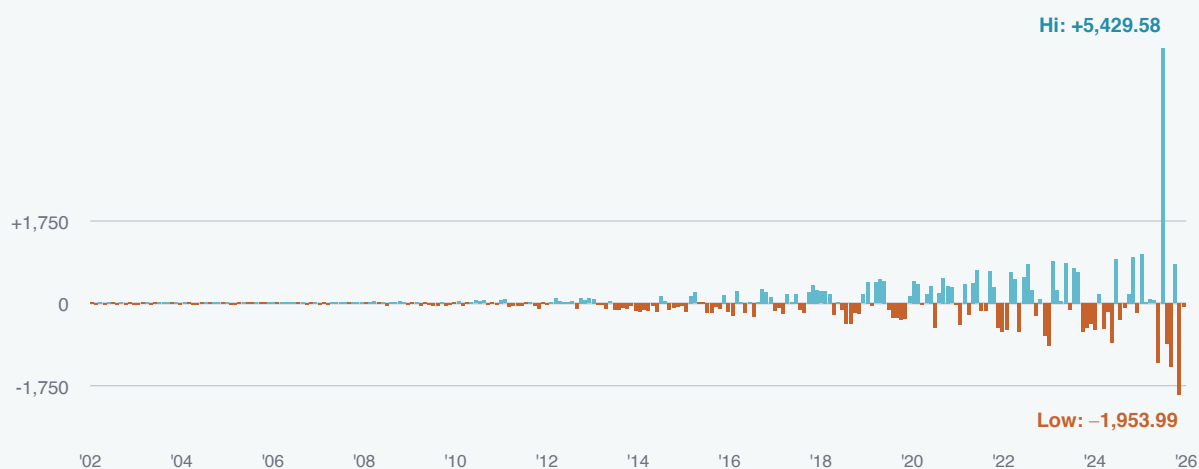


Exhibit: SOXX US Equity — Fund Flow of Funds in Millions. Source: Eric Balchunas, Bloomberg.¹¹ High/low values shown are as reported; the daily flow series between them is an illustrative reconstruction, not raw trade data.

Here is the allocator's point. A cap-weighted index owns the cash generators and the cash burners in the same wrapper and nets their divergence to roughly zero — the passive holder captures the theme's volatility without its dispersion. A long/short manager can be long the free-cash-flow winners and short or underweight the capex losers, monetizing a split the index structurally cannot express. The single most important trade in markets is precisely the kind a passive vehicle is built to neutralize and a skilled manager is built to harvest. **This is the clearest present-day case for why active, and why now.**

OUTLOOK

The Setup for the Second Half of 2026

The first half delivered close to a full year's typical equity return in six months, and it did so through an Iran war scare, resurgent inflation, and a mid-quarter reversal in the market's largest names. The conditions that produced hedge funds' results are structural, not episodic: positive real rates, wide and widening dispersion within and across markets, repeated policy and geopolitical regime-changes, and an AI complex now generating genuine winner-and-loser dynamics that skilled managers can trade on both sides of the book. Three second-half catalysts stand out. The record IPO calendar has already begun — SpaceX priced on June 12, with OpenAI and Anthropic widely expected to follow later in the year — directly supporting event-driven and activist strategies. The Warsh Fed has removed a layer of policy uncertainty. And the unwinding of the spring's oil distortion leaves a cleaner macro backdrop. None of these depends on equities rising further — only on markets continuing to differentiate.^{3,13}

But differentiation cuts both ways. The very forces that reward skilled managers also widen the gap between the best and worst of them, so capturing this environment is less a question of access to hedge funds than of choosing the right ones. **Selection, not access, determines the outcome — and that is the discipline a curated platform exists to support.**

SEE HOW CRYSTAL'S PLATFORM IS BUILT FOR THIS ENVIRONMENT

When one strategy label can span ten points in a month and the AI trade is splitting into winners and losers, selection is the whole game. Contact Crystal Capital Partners to learn how the platform serves qualified advisors seeking institutional alternatives access.

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