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CAPITAL PARTNERS

July 2026 Hedge Fund Industry Report

The AI trade cracked. The index barely moved. Underneath, a nine-point gap between the best and worst strategies decided who kept their gains. This is a manager-selection business now, not an asset-allocation decision.

-1.10%	-6.5%	+2.08%	7.5 pts
HFRI Composite July 2026 - first loss since March[1]	**Nasdaq - 100 (QQQ)** July - the AI complex reversed3	**HFRI RV: Yield Alternatives** July - +18.4% YTD[1]	**Spread within Equity Edge** best vs worst sub-strategy, one month[1,2]

EXECUTIVE SUMMARY

The right question in a down month is not who lost, but who lost less of what actually broke, because an allocator's binding constraint is risk budget, not headline return. July answered it. The AI complex that led the market for two years reversed hard: the Nasdaq-100 fell -6.5% on a total-return basis and the HFRI Technology Index fell -7.0%, its worst month since 2008. The headline S&P 500 was essentially flat (+0.1%) only because breadth masked the damage underneath it. A diversified hedge fund book, by contrast, gave up -1.10%, a fraction of the drawdown in the theme that cracked, and parts of the book were outright positive.[1,3]

Honesty first: on the month the composite lagged both the flat S&P and a 60/40 (≈−0.7%). That is not the argument. Two things are. First, the bond hedge failed again, as our May report warned: the 60/40 fell because *both* sleeves were weak, with the U.S. Aggregate down -1.8% as yields backed up. Second, the uncorrelated sleeves did their job: Equity Market Neutral (+0.36%), Relative Value (+0.24%), Yield Alternatives (+2.08%) and Macro Commodity (+2.18%) all posted gains while equities and bonds fell together. That is the return stream the "40" was supposed to provide.[1,3]

One caveat governs everything that follows. The index averages in this report describe a universe in which the spread between top- and bottom-decile managers reached 58.6 percentage points in 2025 alone, and in which, this July, a single strategy label, Equity Hedge, spanned more than seven points between its best and worst sub-index. July made the stakes concrete. One of the most celebrated funds of the AI era reportedly lost the majority of its liquid book in a matter of weeks, when a concentrated, leveraged position reversed and forced selling into a falling market. The thesis may still prove right; the fund was reportedly still positive on the year. It was a failure of structure, not of view, and the sharpest reminder available that access is necessary but not sufficient. The manager you select, and the institutional infrastructure standing behind that manager, defines the result.[1,7,9]

We examined this unwind and the diligence lessons behind it in a recent note: how Crystal approaches institutional due diligence.

01 — PERFORMANCE

July Performance and the Risk-Adjusted Case

Hedge funds posted their first monthly loss since March. The HFRI Fund Weighted Composite fell -1.10%, trimming year-to-date performance to +6.25% and leaving the trailing twelve-month return at +13.87%. Declines were led by Equity Hedge (−1.85%) and Event-Driven (−1.77%); Macro was nearly flat (−0.34%) and Relative Value was quietly positive (+0.24%). HFR attributed the reversal to weakness in Technology and AI equities and to a renewed deterioration in the Iran conflict that pushed oil and energy prices sharply higher.[1]

INDEX	JULY 2026	YTD	1 YEAR
HFRI Fund Weighted Composite	-1.10%	+6.25%	+13.87%
HFRI Equity Hedge (Total)	-1.85%	+7.44%	+16.99%
HFRI Event-Driven (Total)	-1.77%	+5.20%	+10.26%
HFRI Macro (Total)	-0.34%	+5.88%	+14.73%
HFRI Relative Value (Total)	+0.24%	+3.99%	+7.39%

Sources: HFR, HFRI Monthly Indices Flash Update, July 2026. Past performance is not indicative of future results.

The Month Stocks Stood Still and Tech Broke

The composite's modest loss understates what happened beneath the surface. This was not a broad sell-off; it was the unwind of a single crowded theme. The S&P 500 finished July essentially flat, its first negative July since 2014 on a price basis, while the equal-weighted index rose roughly +1.1%, meaning the average stock held up even as the cap-weighted benchmark did not. The damage was concentrated in the mega-cap AI leaders: the Nasdaq-100 fell -6.5% and the HFRI Technology Index dropped -7.0%, its steepest decline since 2008, as investors began to question the return on relentless AI capital spending.[1,3,4]

Measured against the theme that actually broke, a diversified hedge fund book absorbed a small fraction of the drawdown. That is the downside-mitigation property an allocation to hedge funds exists to produce, observed live rather than argued in the abstract.

The Real Scoreboard: Total Return, Same Basis

Benchmarked on an apples-to-apples total-return basis, the same basis on which HFRI is calculated, the month reads as follows. We show the comparison in full, including where hedge funds lagged, because the shape of the returns, not a single line, is the argument.

TOTAL RETURN	JULY 2026	YTD
HFRI Fund Weighted Composite	-1.10%	+6.25%
S&P 500 (SPY)	+0.1%	+10.1%
Nasdaq-100 (QQQ)	-6.5%	+12.3%
U.S. Aggregate Bonds (AGG)	-1.8%	-0.8%
60/40 (60% SPY / 40% AGG)	-0.7%	+5.6%

Total return, July 2026. Sources: HFR; SPY, QQQ, AGG per fund-provider and Morningstar data. Past performance is not indicative of future results.

The composite trailed the flat S&P and the 60/40 on absolute return this month; we will not pretend otherwise. But the table tells a sharper story than a horse race. The 60/40 lost money with its supposed diversifier adding to the damage: the U.S. Aggregate fell -1.8% as the ten-year yield backed up on firm inflation and Fed uncertainty, and HFRI RV: Fixed Income–Sovereign fell −1.60% in sympathy. Against that, the direction-indifferent and real-asset sleeves of the hedge fund universe were positive, the uncorrelated return the bond sleeve was built to deliver and increasingly does not. In a month when the "60" and the "40" fell together, that distinction is the entire case.[1,3]

July is another reminder that alternatives have become a manager-selection business, not an asset-allocation decision. The same month handed one strategy a gain and another, under the same category heading, a deep loss.

ADVISOR TAKEAWAY

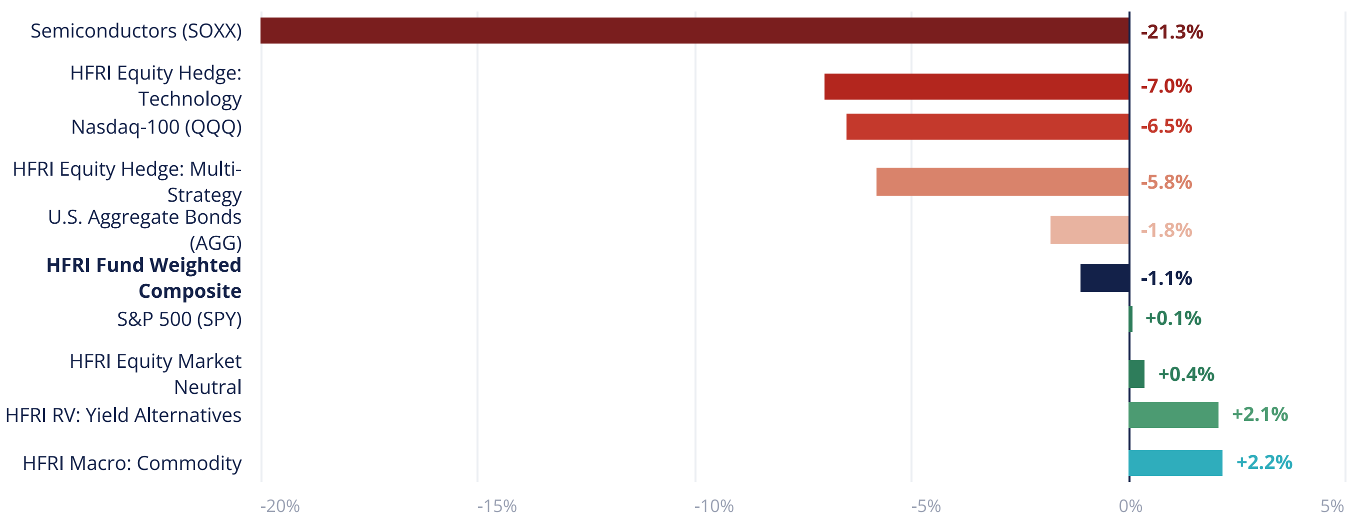
- The headline S&P was flat, but that masked a sharp, AI-led drawdown beneath the surface.
- A diversified hedge fund book fell about 1%, a fraction of the loss in the theme that actually broke.
- Bonds did not diversify: the U.S. Aggregate fell 1.8% alongside equities.
- The composite average hid a nine-point gap between the best and worst strategies in a single month.

02 — STRATEGY

The AI Trade Reversed: From Thematic Beta to Fundamental Alpha

The proxy for what broke is the semiconductor complex. The iShares Semiconductor ETF (SOXX) fell about -21% in July, its worst month since 2002, yet it remains up roughly +67% year-to-date, after a +112.8% first half. This was a violent repricing of an extended trade, not its collapse: a record $6.9 billion flowed into the fund during the sell-off, its largest monthly inflow ever: conviction and capitulation firing at once. That is the signature of a crowded, two-way trade, and precisely the kind of dislocation a disciplined manager can trade rather than merely suffer.[5]

July 2026 Total Return by Strategy and Benchmark



Total return, July 2026. Sources: HFR (HFRI sub-strategy indices); SPY, QQQ, AGG and SOXX total returns via fund-provider and Morningstar data. Past performance is not indicative of future results.

The chart is the argument. The same theme that punished undisciplined length, Technology (−6.98%), the equity-tilted Multi-Strategy books (−5.75%), sits in the same frame as the sleeves that were positive while equities and bonds fell together: Equity Market Neutral (+0.36%), Yield Alternatives (+2.08%), Macro Commodity (+2.18%). A passive holder took the tech reversal in full; a manager positioned across the broadening market, or hedged against the crowded longs, did not.[1,2]

The Multi-Strategy Paradox

July also punctured a comfortable assumption: that a "multi-strategy" or "diversified" label is itself protection. It is not. Within the multi-strategy category alone, returns ranged from Relative Value Multi-Strategy at +0.72% to Equity Hedge Multi-Strategy at −5.75%, a 6.5-point spread inside one label, while the HFRI Multi-Manager/Pod Shop Index held up at −0.44%. "Multi" described the marketing, not the risk. What determined the outcome was what the manager actually held and how it was hedged. This is where institutional risk management earns its fee: managers operating within genuine risk frameworks trimmed crowded AI exposure before the reversal and, in several cases, supplied liquidity into the forced selling rather than adding to it, a distinction invisible at the composite level and decisive at the fund level.[1]

The opportunity in alternatives is no longer finding hedge funds. It is identifying the minority of managers who can convert dispersion like this into alpha, and avoiding the majority who cannot.

CRYSTAL INSIGHT

The dispersion in this report is why our due diligence centers on portfolio construction, risk management, and operational infrastructure, not historical returns alone. In July, structure is what separated the funds that absorbed the AI reversal from the ones that did not.

ADVISOR TAKEAWAY

- Concentrated AI and thematic exposure drove the losses: Technology −7.0%, the semiconductor complex about −21%.
- Fundamental and market-neutral discipline was rewarded: Fundamental Value (+0.48%) and Equity Market Neutral (+0.36%) were positive.
- A "multi-strategy" label offered no protection on its own; holdings and hedging did.
- The strategy name on the door told an allocator almost nothing. Selection did.

03 — DIVERSIFICATION

Real Assets Led, and the Bond Hedge Failed Again

The best-performing corner of the hedge fund universe in July was the one most directly tied to the month's macro shock. HFRI RV: Yield Alternatives, energy-infrastructure, MLP and real-asset income strategies, gained +2.08%, extending a remarkable run to +18.37% year-to-date and +22.35% over the trailing year, the strongest single sub-strategy in the index. Macro Commodity added +2.18% as the renewed Iran conflict pushed oil and energy prices higher. Real-asset income and commodity exposure did precisely what a diversifier is supposed to do: rise when the crowded equity trade fell.[1,6]

The mirror image played out in the traditional hedge. The U.S. Aggregate Bond Index fell -1.8% as yields backed up on firm inflation data and an uncertain Fed path, and HFRI RV: Fixed Income–Sovereign fell −1.60%. This is the correlation-and-duration problem our May report laid out, observed in a single month: when inflation and rate risk are the dominant factor, stocks and bonds fall together and the "40" stops hedging the "60." A 60/40 investor absorbed both, for a combined ≈−0.7% with no offsetting source of return inside the wrapper.[1,3]

The allocator's conclusion writes itself. The uncorrelated, real-asset and market-neutral return streams that were positive in July sit outside the traditional portfolio, not inside it. Capital has been migrating toward these strategies, liquid, lower-correlation income at a time when the bond sleeve no longer reliably diversifies, and July is a clean, one-month demonstration of why.

ADVISOR TAKEAWAY

- Real-asset income (Yield Alternatives, +2.08%) and commodities (+2.18%) delivered positive, uncorrelated return.
- The bond sleeve failed to hedge, reinforcing the correlation and duration risks flagged in the May report.
- The diversification a 60/40 was built to provide increasingly sits outside the wrapper, in strategies most portfolios do not hold.

04 — OUTLOOK

The Setup for the Rest of 2026

The conditions that produced July's dispersion are structural, not episodic: positive real rates, wide and widening dispersion within and across markets, repeated 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 dynamics stand out.

Event-driven optionality is building. Event-Driven fell as a group (−1.77%), but Activist strategies were the exception at +1.05%, and the record IPO and M&A calendar that began with the SpaceX listing in June, with further large offerings widely expected, is a direct catalyst for event-driven and activist mandates into year-end. This is optionality the passive index cannot hold.[1,8]

Geopolitics remains a live factor. The Iran flare-up that drove July's oil move is a reminder that the macro backdrop is prone to abrupt regime shifts, the environment in which macro, commodity and real-asset strategies earn their diversification. And with inflation still firm and the rate path uncertain, the duration risk running through both sleeves of the traditional portfolio has not gone away.

But differentiation cuts both ways. The same forces that reward skilled managers widen the gap between the best and worst of them. July's single-strategy dispersion, more than seven points inside Equity Hedge, and positive-to-deeply-negative across the multi-strategy label, makes the point that capturing this environment is less a question of access to hedge funds than of choosing the right ones. Manager talent and capacity at institutional-quality funds are scarce and increasingly contested; selection, not access, determines the outcome, and that is precisely the discipline a curated platform exists to support.

SOURCES & REFERENCES

Index and category limitations

Performance data reflects index-level results and does not represent any fund or portfolio managed by or available through Crystal Capital Partners. HFRI July 2026 figures are Flash Update estimates subject to revision in subsequent HFR updates. HFRI indices are subject to survivorship and backfill biases inherent in hedge fund databases and may overstate the investable universe. Reported hedge fund volatility reflects NAV-based reporting, which can understate economic risk due to smoothing, illiquidity, and stale pricing.

Sub-strategy references

Sub-strategy figures reference HFRI single sub-strategy indices, the equal-weighted composites defined in HFR methodology section 2.2; regional, directional-aggregate and fund-of-funds indices are excluded from sub-strategy comparisons. The "within Equity Hedge" spread cited is the gap between the best and worst Equity Hedge single sub-strategy indices in July (Fundamental Value +0.48% versus Technology −6.98% = 7.46 points).

Market benchmarks

S&P 500 (SPY), Nasdaq-100 (QQQ) and Bloomberg U.S. Aggregate Bond Index (AGG) figures are total returns with dividends reinvested, computed on a clean calendar-month basis from split- and dividend-adjusted month-end closes, per fund-provider and Morningstar data, the same total-return basis on which HFRI is calculated. Nasdaq-100 (QQQ) total return is used because a readily citable calendar-month total-return series for the broader Nasdaq Composite is not available; the S&P 500 finished July roughly flat on price (its first negative July since 2014). The 60/40 figure is a transparent 60% SPY / 40% AGG total-return construction, rebalanced monthly, shown as a proxy for a balanced allocation (the iShares Core 60/40 Balanced Allocation ETF, AOR, is the standard vehicle equivalent); its global-equity tilt would modestly raise its year-to-date figure relative to the U.S. construction shown. Index returns are not investable, exclude fees, and do not adjust for differences in liquidity, leverage, or the range of individual fund outcomes.

Manager dispersion

The 58.6-percentage-point figure is the 2025 full-year spread between top- and bottom-decile hedge fund managers (HFR / Hedgeweek). Dispersion figures are period- and window-dependent and are used for illustration.

Statements of positioning

References to managers trimming exposure or providing liquidity reflect the report's interpretation of aggregate strategy behavior and do not represent the observed positioning of any specific fund. No individual manager or firm is identified.

Hedge fund risks

Hedge fund investments involve significant risks, including illiquidity and lock-ups, leverage (which amplifies gains and losses), short-selling risk, concentration risk, manager-specific risk, and the potential loss of the entire investment. A bond or long-only allocation may serve functions (liability matching, current income, regulatory requirements) that a hedge fund allocation does not replicate. Past performance is not indicative of future results.

Sources

Superscript numbers in the text refer to the numbered sources below.

1. HFR, HFRI Monthly Indices Flash Update, July 2026 (August 7, 2026): HFRI Fund Weighted Composite, strategy, and single sub-strategy index returns (July, year-to-date, and trailing one-year); press release, "Technology Hedge Funds Suffer Worst Decline Since 2008," HFRI Technology Index −7.0%, Composite −1.1%, first monthly loss since March, Technology/AI and Iran-conflict/oil drivers. Figures are Flash Update estimates subject to revision.
2. HFR, HFRI Defined Formulaic Methodology, 2026 (v.2026.01.15): index construction and strategy / sub-strategy classification (methodology section 2.2).
3. S&P 500 (SPY), Nasdaq-100 (QQQ) and Bloomberg U.S. Aggregate Bond Index (AGG): calendar-month total returns, dividends reinvested, from split- and dividend-adjusted month-end closes; fund-provider (SPDR, Invesco, iShares) and Morningstar data. 60/40 shown as a 60% SPY / 40% AGG total-return construction (iShares Core 60/40 Balanced Allocation ETF, AOR, standard vehicle equivalent).
4. S&P Dow Jones Indices: S&P 500 July 2026 price performance (first negative July since 2014) and S&P 500 Equal Weight versus cap-weighted differential.
5. iShares Semiconductor ETF (SOXX): July 2026 total return of approximately −21% (worst month since December 2002) and year-to-date return of approximately +67% after a +112.8% first half; record July net inflows of approximately $6.9 billion; per Morningstar, S&P Global Market Intelligence and TradingView fund-flow data.
6. Public reporting, July 2026: re-escalation of the Iran conflict and the associated rise in oil and energy prices; Treasury-yield backup on inflation and Federal Reserve policy uncertainty.
7. HFR / Hedgeweek, 2025 full-year manager decile dispersion (58.6 percentage points).
8. Public reporting on the SpaceX initial public offering (priced June 12, 2026) and the second-half IPO and M&A calendar: event-driven and activist catalysts.
9. Crystal Capital Partners, "A right idea held the wrong way, still loses" (Situational Awareness: A Due Diligence Framework), August 4, 2026; and public reporting on the July 2026 AI-infrastructure fund unwind. The fund is not named; figures are described as reported and not independently verified by Crystal Capital Partners.

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