CRYSTAL
CAPITAL PARTNERS

August 2026 Hedge Fund Industry Report

Three central banks turned hawkish over two weeks. The bond sleeve built to absorb that shock has returned nothing in five years. August was a month about who owned the risk they intended to own.

+1.69%

HFRI Composite

August · YTD +7.95%[1]

+4.11%

Best Strategy: Macro

August · YTD +10.30%[1]

+0.15%

Worst Strategy: Event-Driven

August · YTD +6.40%[1]

+10.05%

Best Sub-Strategy: Commodity

11.6-pt spread[1,2]

-1.56%

Worst Sub-Strategy: Special Situations

11.6-pt spread[1,2]

-0.28%

U.S. Aggregate, 5 Years

Duration 5.75 yrs, Sept 2026[3,4]

EXECUTIVE SUMMARY

Three central banks turned hawkish over two weeks. Chair Warsh reopened the case for a rate increase at Jackson Hole on August 28, markets moved to roughly 55% to 60% odds of a hike in September, the 30-year Treasury yield rose above 5.3% for the first time since 2007, and the 10-year Japanese government bond reached its highest level since 1996. Hedge funds were positioned for it. Macro was the strongest strategy of the month, and its Commodity sub-index gained more than ten percent in a month when Brent crude fell 4.3%. Falling oil did not hand anyone that return. Positioning did, on both sides of the book.[1,5,6,7,9]

The composite gained +1.69% against +1.77% for a 60/40 and +2.68% for the S&P 500, and it trails both year to date. The sleeve most portfolios hold against exactly this kind of shock could not help. The U.S. Aggregate has returned −0.28% a year over five years while carrying 5.75 years of duration, and over the three years to August most fixed income oriented HFRI strategies beat it by a wide margin, though one did not.[1,3,8]

That is the thread running through this report: risk that arrives by drift rather than by decision. A capitalization-weighted bond index lengthens mechanically as governments term out record borrowing, so nobody chose the duration it now carries. The same rule produced an S&P 500 whose ten largest constituents ended 2025 at 40.7% of index weight, a level the index has never previously reached. It reached the most sophisticated portfolios in the country too: The Wall Street Journal reported in June that several large university endowments had each accumulated a tenth or more of their assets in one private company, and that endowment chiefs doubted their peers had ever intended positions that large. Against all of it, the managers who did choose spent July cutting risk and entered September carrying less technology exposure than at any point this year.[9,10,11]

One caveat governs everything that follows. In August the best HFRI single sub-strategy index returned +10.05% and the worst −1.56%, an 11.6-point spread in four weeks, with 10.4 of those points sitting inside the Macro label alone. Over 2025 the gap between top-decile and bottom-decile managers reached 58.6 percentage points. Access is necessary but not sufficient. The manager you select defines the result.[1,2,12]

01 — PERFORMANCE

August Performance and What the Average Hid

The HFRI Fund Weighted Composite added +1.69%, lifting year-to-date performance to +7.95%. HFR reported roughly 70% of funds positive and dispersion narrowing, attributing the month to pressure in global bond markets, rising rates and an unresolved Iran conflict. Macro led, though not uniformly: Commodity gained +10.05% and Active Trading +4.47%, while Currency lost −0.33% in the same weeks under the same label. Event-Driven stalled at +0.15% despite an initial public offering calendar HFR itself had flagged as a second-half catalyst.[1,9]

INDEX	AUG 2026	YTD	1 YEAR
HFRI Fund Weighted Composite	+1.69%	+7.95%	+13.19%
HFRI Equity Hedge (Total)	+1.46%	+8.70%	+14.78%
HFRI Event-Driven (Total)	+0.15%	+6.40%	+9.59%
HFRI Macro (Total)	+4.11%	+10.30%	+17.62%
HFRI Relative Value (Total)	+0.28%	+4.14%	+6.70%

Source: HFR, HFRI Monthly Indices Flash Update, August 2026 (September 8, 2026). Flash Update estimates subject to revision. Past performance is not indicative of future results.

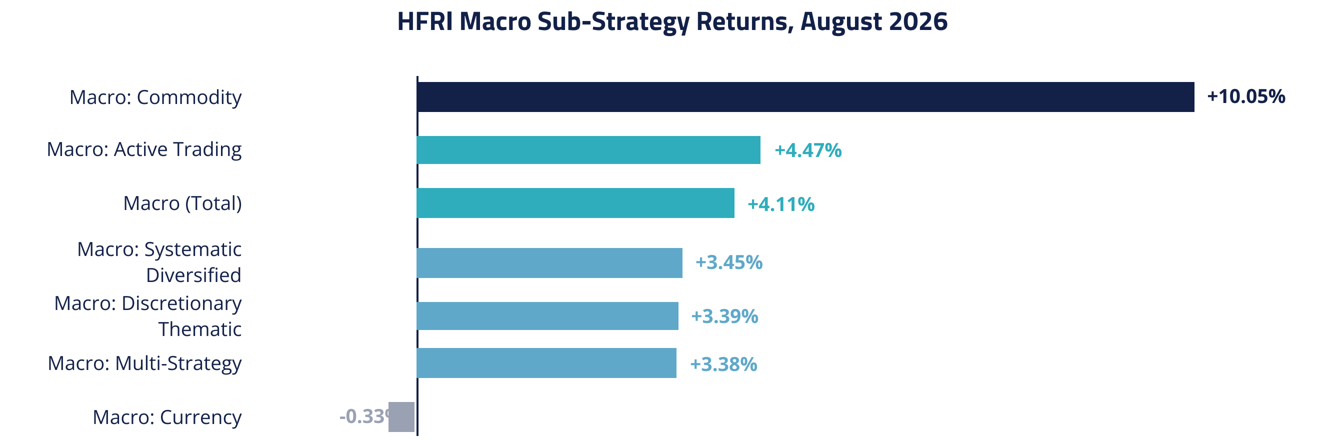
Benchmarked on the same total-return basis on which HFRI is calculated, the month and the year read as follows. We show it in full, including where hedge funds lagged.[1,3]

TOTAL RETURN	AUG 2026	YTD
HFRI Fund Weighted Composite	+1.69%	+7.95%
S&P 500 (SPY)	+2.68%	+13.08%
U.S. Aggregate Bonds (AGG)	+0.39%	-0.18%
60/40 (AOR)	+1.77%	+8.60%

Source: HFR, HFRI Monthly Indices Flash Update, August 2026; Morningstar total returns for SPY, AGG and AOR as of August 31, 2026. AOR is a global 60/40 vehicle. Index returns are not investable and exclude fees.

What the Average Hid

HFR is right that cross-sectional dispersion narrowed. That is what a factor month looks like: one macro shock drives returns, and the spread between managers inside a strategy compresses. The spread that mattered simply moved up a level. Macro returned +4.11% and Event-Driven +0.15%, a gap of 396 basis points between two strategy labels in four weeks. Inside Macro, Commodity returned +10.05% and Currency −0.33%. An allocator who chose "Macro" in August chose a label, not an outcome.[1,2]



HFRI Macro sub-strategy returns, August 2026. Source: HFR, single sub-strategy indices per methodology section 2.2.

Across the full sub-strategy universe, the top and bottom three read as follows.[1,2]

STRONGEST THREE	RETURN	WEAKEST THREE	RETURN
Macro: Commodity	+10.05%	Event-Driven: Special Sit.	-1.56%
Macro: Active Trading	+4.47%	RV: Yield Alternatives	-0.76%
EH: Energy/Basic Materials	+4.11%	RV: Volatility	-0.69%

Source: HFR, HFRI Monthly Indices Flash Update, August 2026. Single sub-strategy indices per methodology section 2.2. Past performance is not indicative of future results.

ADVISOR TAKEAWAY

- Hedge funds gained on the month but trail both the S&P 500 and a 60/40 year to date.
- Commodity strategies gained more than ten percent while crude fell; passive commodity exposure would not have delivered that.
- Two strategy labels were 396 basis points apart in four weeks, and one label contained a 10.4-point range on its own.
- Event-Driven stalled despite the IPO calendar the industry had flagged as its second-half catalyst.

02 — RATES

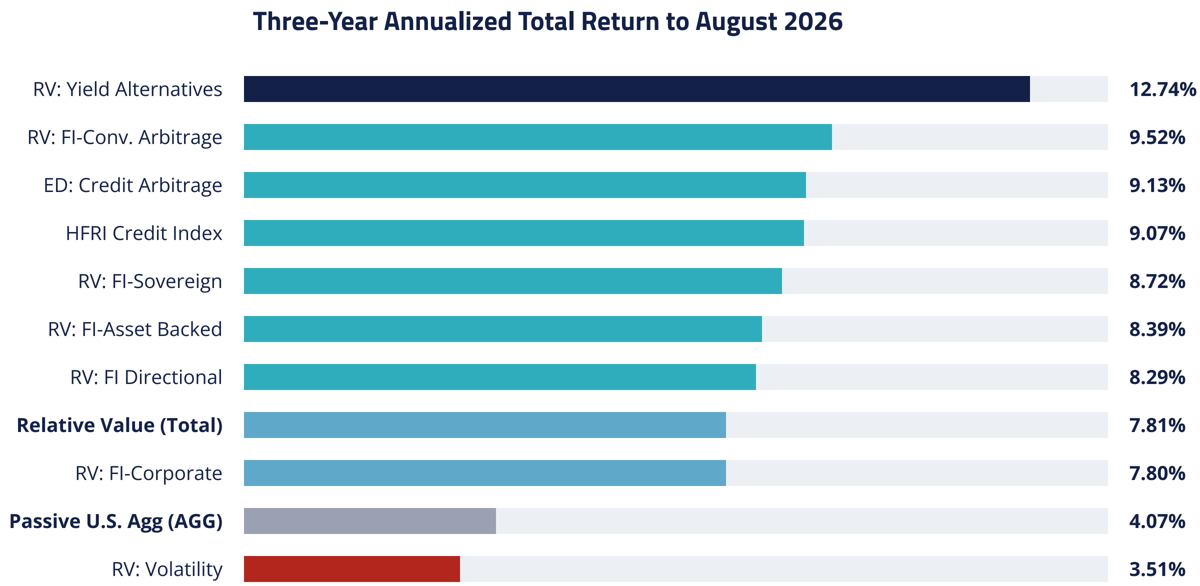
The Rates Regime and the Duration Nobody Chose

WHAT CHANGED IN AUGUST

- **The Fed reopened the hike.** Warsh told Jackson Hole that responsibility for 65 months of elevated inflation sits with the central bank. Markets moved to price 55%–60% odds of an increase at the September 15–16 meeting.
- **The U.S. long end repriced.** The 30-year Treasury yield moved above 5.3%, its highest since 2007; the 10-year reached its highest since January 2025. Treasury responded by at least doubling long-end buybacks.
- **Japan joined.** The 10-year Japanese government bond yield hit 2.93% on August 17, the highest since 1996. A September Bank of Japan increase is widely expected.

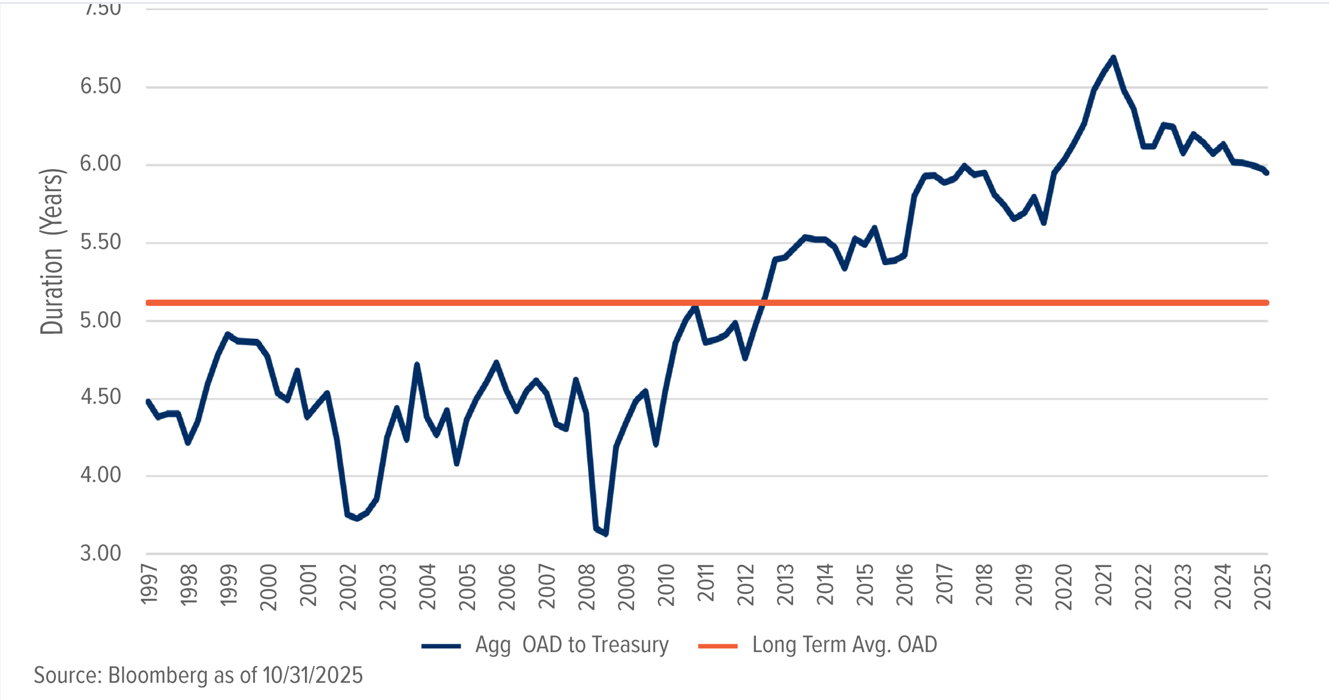
The common thread is not growth. It is fiscal supply meeting inflation persistence in three of the world's largest bond markets at once. That is a repricing of term premium, and it is the specific environment in which both sleeves of a balanced portfolio can fall together rather than offset.[5,6,7,9]

This is where the passive bond sleeve stops being the hedge and becomes the exposure. The Bloomberg U.S. Aggregate carried 5.75 years of duration in September 2026 against a long-run average nearer 5.10, and it has returned less than nothing over five years. The chart below shows every HFRI Relative Value single sub-strategy index alongside the two credit composites, in full: ten of the eleven comparisons beat the Aggregate's +4.07% annualized over the same three years, and one, RV: Volatility at +3.51%, did not.[1,2,3,8]



Three-year annualized total return to August 2026, all comparisons shown. Sources: HFR, HFRI three-year annualized column; Morningstar, AGG as of August 31, 2026.

The gap is structural rather than tactical. A capitalization-weighted bond index holds the most of whatever the most indebted issuers issue the most of. Duration climbed through the decade of near-zero policy rates and peaked above 6.5 years in 2021. It has been drifting lower since, and still sits meaningfully above its own long-run average.[8]



Option-adjusted duration of the Bloomberg U.S. Aggregate Bond Index, years. Duration was 5.75 years in September 2026, against a long-run average of approximately 5.10 years. Chart reproduced as published.[8]

Facing a term premium it does not want to pay, the U.S. Treasury has leaned on shorter issuance and at least doubled its long-end buyback program: the borrower is actively managing the duration of what it sells. The passive index holder is not. Nobody chose 5.75 years; it accumulated, and it remains the largest single interest-rate exposure in most balanced portfolios at the exact moment three central banks are leaning hawkish.[6,8]

Two caveats. HFRI returns reflect NAV-based reporting, which can understate economic risk. And these strategies carry credit, leverage and liquidity risks a passive index does not. The argument is not that the bond sleeve should be replaced; it is that the risk inside it should be chosen rather than inherited.

ADVISOR TAKEAWAY

- The Federal Reserve decision on September 15–16 is priced close to a coin flip, a scenario for which almost no balanced portfolio is positioned.
- Long-end yields in the U.S. and Japan are at levels last seen in 2007 and 1996 respectively — a global repricing, not a U.S. one.
- Most relative value and credit strategies beat the passive index by a wide margin over three years while carrying a fraction of the duration risk.
- The question to put to a client is not whether they own bonds. It is whether they chose the interest-rate risk they are carrying.

03 — CONCENTRATION

Concentration Arrives by Drift

A POSITION NOBODY SIZED

The Wall Street Journal reported in June that a handful of large university endowments had accumulated outsize single-name positions in one private company. One held roughly a tenth of its assets in it. Another held at least a mid-teens percentage.[11] Several endowment chiefs told the Journal it was unlikely their peers ever intended positions that large. One sold into a secondary before the listing; another has trimmed and plans to sell more.

The parallel to the public equity sleeve is exact. The ten largest S&P 500 constituents ended 2025 at 40.7% of index weight. For the twenty-five years to 2015 that figure sat between 17% and 23%. No investor chose it. A capitalization-weighted rule accumulated it.[9,13]

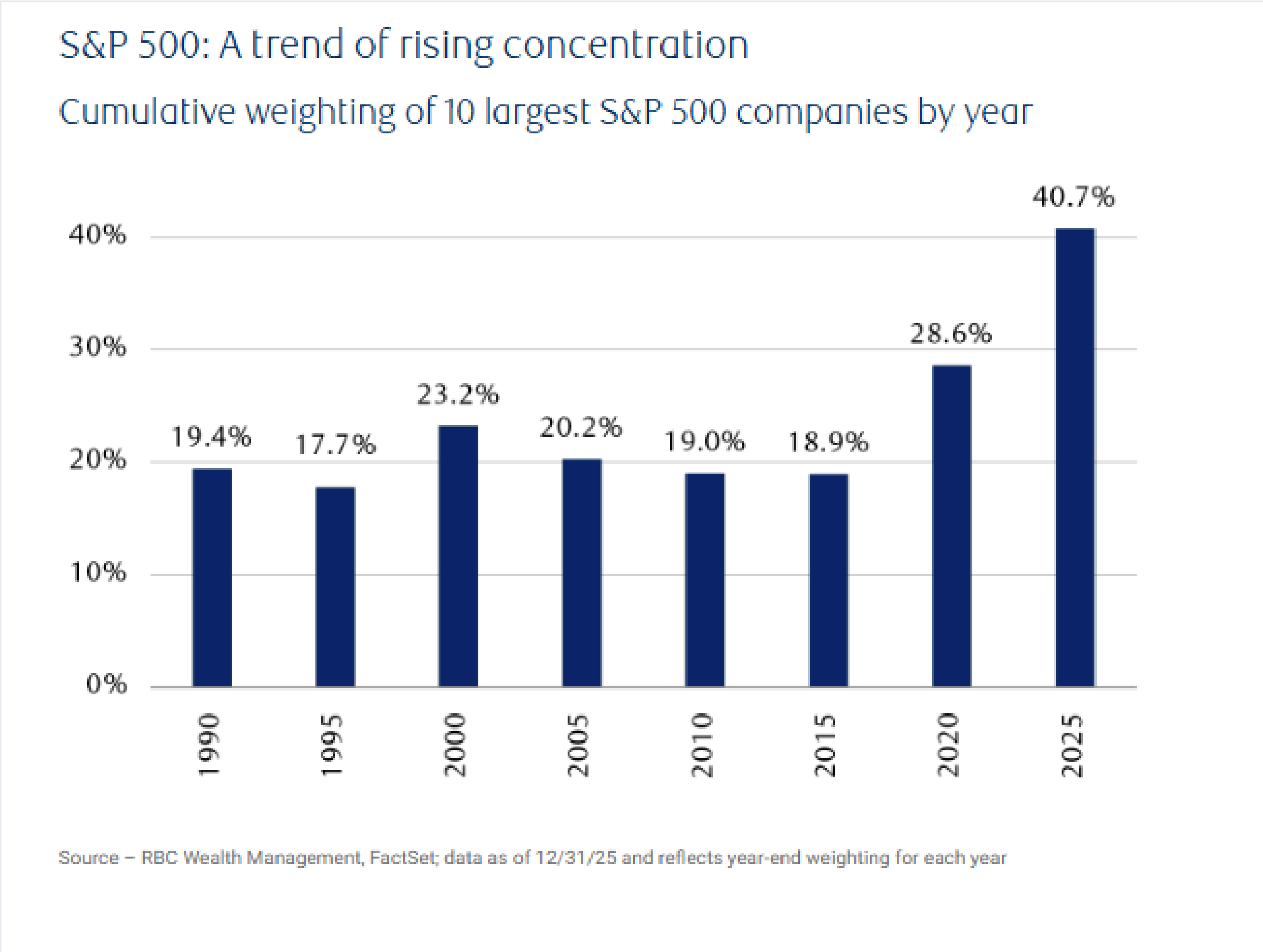


Chart shown as published. Cumulative weighting of the ten largest S&P 500 companies by year-end.[13]

That drift has begun to reverse this year. Through August the equal-weighted S&P 500 returned 15.36% against 13.08% for the capitalization-weighted index, on pace for its first calendar-year win since 2022.[3]

Where Hedge Fund Managers Are Actually Positioned

Through late June and July, prime brokerage data showed hedge funds selling technology at a record pace, cutting gross and net exposure to the largest technology names to their lowest levels of the year. Goldman Sachs told clients in August that its crowded-position basket had suffered its worst month against the S&P 500 in more than twenty years of the bank's data. Gross leverage across prime brokerage books reached roughly 294% by June, the fastest first-five-month increase since 2016.[10]

That is why Equity Hedge lagged a technology sector that rose 6.25% on the month. It is not a failed call; it is an unrepaired book. Managers de-grossed under margin pressure and declined to re-risk into a live Federal Reserve decision and a live Bank of Japan decision.[9]

ADVISOR TAKEAWAY

- Concentration in the bond index, the equity index and several endowments all arrived the same way: by accumulation, not decision.
- The institutions holding the most celebrated private position of the cycle are trimming and discussing hedges.
- Breadth is returning: the equal-weighted S&P 500 leads the capitalization-weighted index by more than two points year to date.
- The investors closest to the AI trade are carrying less exposure to it than at any point this year — read that as risk management, not a forecast.

CRYSTAL INSIGHT

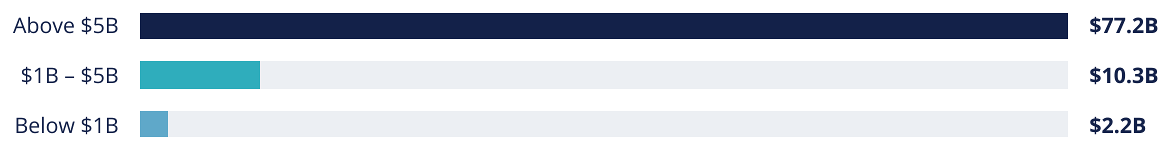
Our due diligence centers on portfolio construction, risk management, and operational infrastructure rather than historical returns alone. In August, the distinction that mattered was between the risk a manager chose and the risk a portfolio inherited.

04 — OUTLOOK

The Setup for the Fourth Quarter

Global hedge fund capital reached a record $5.6 trillion at the end of the second quarter on an increase of $409.3 billion, the largest quarterly gain in industry history. Of first-half net inflows, $77.2 billion went to managers above $5 billion in assets, against $10.3 billion to managers between $1 billion and $5 billion and $2.2 billion to those below $1 billion.[4]

Hedge Fund Net Inflows by Manager Size, 1H 2026 ($bn)



Sources: HFR, Global Hedge Fund Industry Report, 2Q 2026; Hedgeweek, July 24, 2026.

Roughly 86% of the year's new capital has gone to the largest institutional franchises. For most private clients the barrier to joining it is the ticket rather than the thesis: single-manager minimums routinely run into the millions. A single-manager position is not a hedge fund allocation; it is a bet on one manager, in the asset class with the widest gap between the best and the worst of them.[4,12]

Two catalysts frame the fourth quarter, and both are policy. The Federal Reserve meets on September 15 and 16 with an increase priced at roughly a coin flip. The Bank of Japan is expected to move in the same window. Neither depends on equities rising, only on markets continuing to differentiate.[5,7]

It is worth recording what has not worked. HFR's own second-quarter commentary flagged Event-Driven and Relative Value as the strategies expected to lead the second half; in August they were the two weakest. The Macro Currency sub-index lost money in the largest global rate repricing in years, and the HFRI Long Volatility Index returned two basis points through a bond rout and a war escalation.[1,4]

The same forces that reward skilled managers widen the gap between the best and worst of them, making it less a question of access than of holding enough of the right ones. Selection and breadth, not access alone, determine the outcome.

WHAT INSTITUTIONAL ALLOCATORS ARE WATCHING

- **Policy convergence.** Three central banks leaning hawkish at once makes rates the dominant cross-asset factor.
- **Inherited concentration.** Duration in the bond index, weight in the equity index and single-name drift in private books are the same problem in three wrappers.
- **Capacity and access.** New capital is concentrating in the largest institutional franchises, increasingly gated.
- **Operational infrastructure.** After the summer's forced de-grossing, risk oversight and financing terms matter as much as the thesis.

SOURCES & REFERENCES

Market benchmarks

All public-index comparisons are total return with dividends reinvested, on a calendar-month basis, to match HFRI. August and year-to-date figures for the S&P 500 (SPY), U.S. Aggregate (AGG) and 60/40 (AOR), and AGG trailing three-, five- and ten-year returns, are Morningstar total returns as of August 31, 2026. AOR is a global 60/40 vehicle, so its equity mix is not identical to a U.S. 60/40.

Duration and the fixed income comparison

Option-adjusted duration of the Bloomberg U.S. Aggregate Bond Index was 5.75 years in September 2026 against a long-run average of approximately 5.10 years, per Bloomberg. Hartford Funds, using Barclays Live and Bloomberg data, reported 5.79 years as of March 31, 2026. Index duration peaked in 2021 and has eased since while remaining above its long-run average.

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 August 2026 figures are Flash Update estimates subject to revision. HFRI indices are subject to survivorship and backfill biases and may overstate the investable universe.

Flows, positioning and third-party reporting

The 86% figure is first-half net inflows to managers above $5 billion ($77.2 billion) as a share of the $89.7 billion total across the three disclosed size cohorts, computed by Crystal Capital Partners. Endowment position sizes are as reported by The Wall Street Journal in June 2026. Manager dispersion of 58.6 percentage points is the 2025 full-year top-to-bottom decile spread.

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 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, August 2026 (September 8, 2026): composite, strategy, single sub-strategy, thematic and three-year annualized index returns. Flash Update estimates subject to revision.
2. HFR, HFRI Defined Formulaic Methodology, 2026 (v.2026.01.15): index construction and sub-strategy classification (section 2.2).
3. Morningstar: total returns for SPY, RSP, AGG and AOR, August and year to date as of August 31, 2026; AGG trailing three-year (+4.07%), five-year (−0.28%) and ten-year (+1.37%) annualized total returns.
4. HFR, Global Hedge Fund Industry Report, 2Q 2026 (July 23, 2026); Hedgeweek, July 24, 2026: industry capital, quarterly asset growth, net inflows by manager size and second-half strategy commentary.
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6. CNN Business, September 1, 2026; Reuters, August 31, 2026: U.S. Treasury yields, Treasury buyback program, oil and Iran conflict context.
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8. Bloomberg: option-adjusted duration of the Bloomberg U.S. Aggregate Bond Index. Hartford Funds using Barclays Live and Bloomberg data.
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10. Goldman Sachs Prime Brokerage commentary, July 2026, as publicly reported; CNBC, August 21, 2026; Bank of England, Financial Stability Report, July 2026; Hedgeweek, July 30, 2026.
11. Juliet Chung, The Wall Street Journal, June 8, 2026: reporting on single-name concentration in university endowment portfolios. Company, manager, fund and institution names are deliberately omitted.
12. HFR / Hedgeweek: 2025 full-year manager decile dispersion (58.6 percentage points).
13. RBC Wealth Management and FactSet: cumulative weighting of the ten largest S&P 500 companies by year, data as of December 31, 2025.

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