Equities

Global Equities

Facts & Figures Second Quarter 2026

Global equities returned 14.9% in 2Q and 23.7% for the trailing one year in USD terms. The quarter's gains were driven by strong 1Q earnings results, which led to upgrades to future earnings forecasts. Markets also increasingly looked past the Iran War, with declining oil prices among the factors helping to lift risk appetite. Expectations of robust demand for computing capacity saw semiconductor stocks lead the market higher.

— Global equities trade at 19.9x cyclically adjusted cash earnings, reaching a fresh all-time high on this valuation metric during the quarter based on data dating back to 1979. The high valuation level masks dispersion across major blocs, with the US trading at levels higher than others.

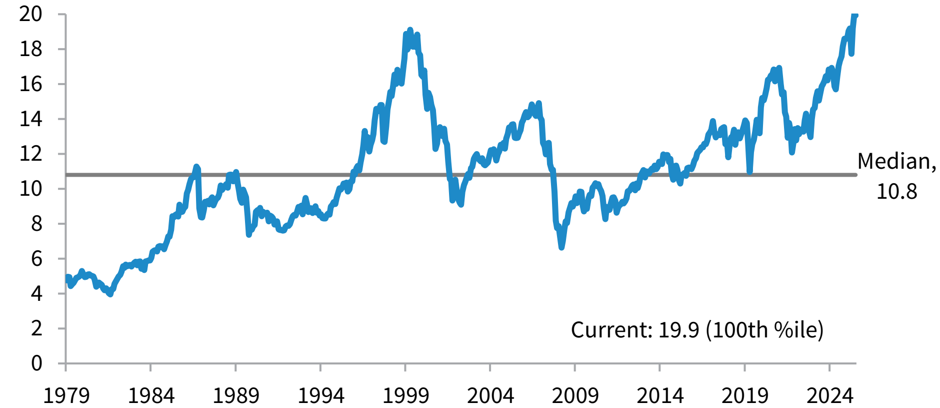
— The global economy is expected to grow by 2.9% in 2026, according to the median analyst estimate as surveyed by Bloomberg in June. Developed economies are expected to grow by 1.6% and EM by 4.1%. These figures represent downgrades of two- and three-tenths, respectively, over the last quarter, as the impact of the war on growth expectations is felt. Markets nonetheless began to look through these impacts as the quarter progressed, with the brent oil price declining from $118/barrel at the end of 1Q to $73 by the end of 2Q.

— Global corporate earnings are expected to grow by an extremely robust 27.6% in 2026, outpacing 2025's 10.3% growth. The stronger outlook is driven by higher expected earnings growth in all major regions, though the consensus expectation of 60.8% growth in EM stands out, driven by semiconductors, and up from an expectations of 37.1% at the end of 1Q. The US is also expected to generate strong earnings growth, with consensus currently standing at 24.4%.

— Expectations for policy interest rates are a key risk for equities. Major DM central banks had been expected to keep policy rates stable or ease them modestly. The Iran War has raised the possibility of higher inflation, leading market participants to believe that central banks may be reluctant to ease and could even need to raise rates modestly.

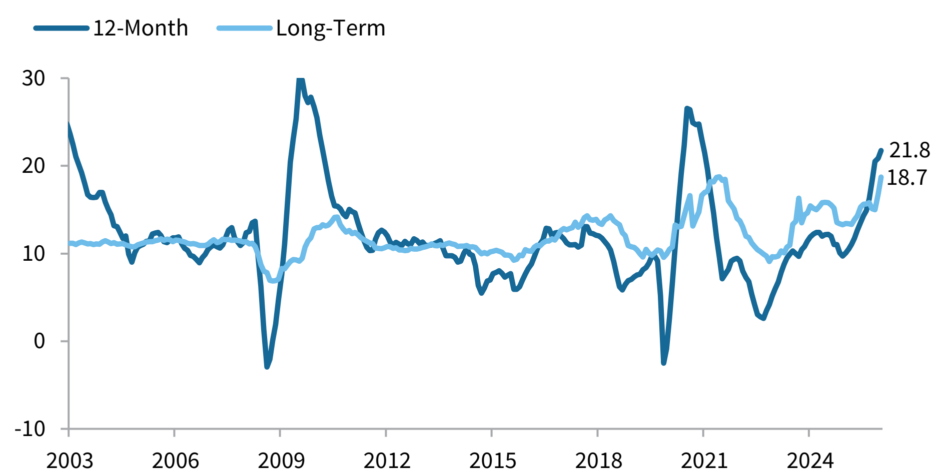
Cyclically adjusted price-to–cash earnings

Dec 31, 1979 – Jun 30, 2026



Corporate earnings growth expectations

Jun 30, 2003 – Jun 30, 2026 • Percent (%)



Sources: I/B/E/S, MSCI Inc., and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Note: CAPCE data is based on the MSCI World Index from Dec 31, 1979 - July 31, 2005 and on MSCI All Country World Index thereafter.

US Equities

Facts & Figures Second Quarter 2026

US equities gained 15.2% in 2Q 2026, the best quarter in more than six years, and topped DM ex US equities by 5 ppts. Resilient corporate earnings and the reassertion of AI-related leadership drove the rally, as did temporary de-escalation in the Iran War. On a TTM basis, US equities returned 21.5%, topping DM ex US equities, which returned 21.0%.

— US equities' cyclically adjusted price-to–cash earnings (CAPCE) multiple jumped in 2Q to 26.4x, a record high based on historical data from 1979. The relative valuation gap with DM ex US equities, which trade at 12.9x, is also near historic extremes, and this disparity remains pronounced even after adjusting for sector composition differences.

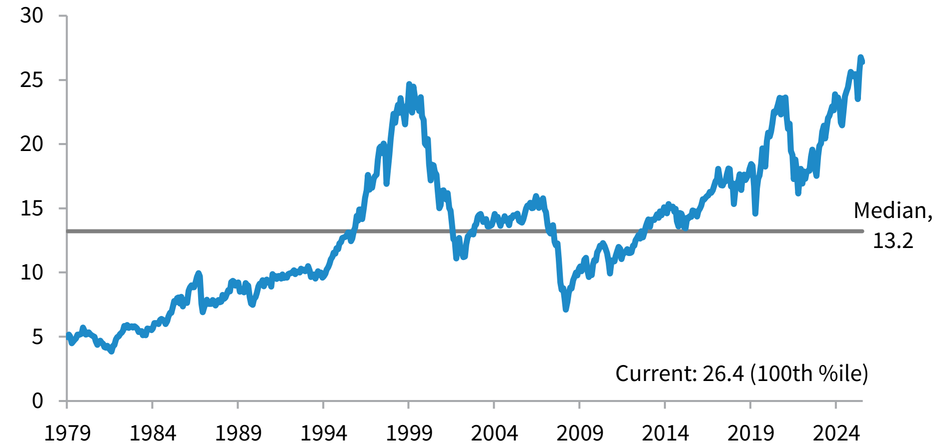
— Markets recovered swiftly from the March drawdown linked to the Iran War, as April's ceasefire and June's framework agreement both eased tensions. Still, a durable end to the conflict has not been established, and it continues to complicate the economic outlook. US real GDP growth for 2026 has been downgraded to 2.1%, while inflation expectations have climbed to 3.4%.

— S&P 500 earnings growth was exceptional in 1Q, rising an estimated 28.6%—the strongest quarter since 2021. About 85% of companies beat estimates, with growth concentrated in mega-cap technology. Analysts also raised estimates through the quarter, breaking from the usual pattern of downward revisions. With expectations now materially higher and valuations above historical averages, there is less cushion if results disappoint.

— AI-linked equities dominated sector performance in 2Q, with the IT sector alone accounting for 69% of the index gains, despite only being composed of one-third of the index market capitalization. Within IT, the semiconductor industry surged 48%. The energy sector—which jumped substantially in 1Q due to oil supply disruption from the Iran War—declined 14% as tensions cooled and shipping through the Strait of Hormuz began to improve.

Cyclically adjusted price-to–cash earnings

Dec 31, 1979 – Jun 30, 2026



Corporate earnings growth expectations

Jun 30, 2003 – Jun 30, 2026 • Percent (%)

Sources: I/B/E/S, MSCI Inc., and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Note: Data are based on the MSCI US Index.

Developed Markets ex US Equities

Facts & Figures Second Quarter 2026

DM ex US equities returned 10.2% in USD terms in 2Q 2026, lagging the 13.8% return of broader DM. Over the trailing one year, the bloc has returned 21.0%, comparable to broader DM's return of 21.3%. One notable contributor to the lag in recent performance is the lower exposure this index has to the AI winners, particularly semiconductors, compared to the US and EM. While EPS growth is forecast to lag broader DM, a large valuation discount persists.

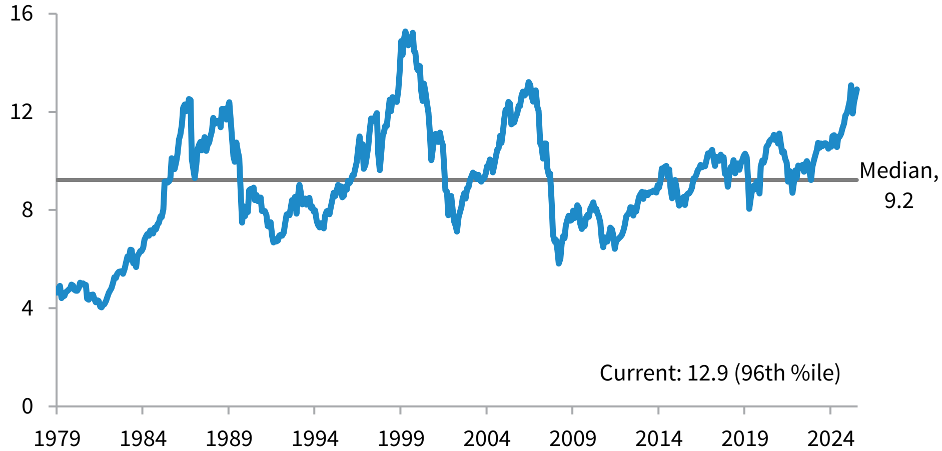
— Valuations for DM ex US equities increased last quarter, with the bloc now trading at 12.9x cyclically adjusted cash earnings (96th percentile since 1979), 40% above the long-term median of 9.2x. Still, relative valuations remain attractive given that broader DM trades at a 21.9x CAPCE (due to a CAPCE of 26.4x for US equities). This relative valuation is in the 1st percentile of the historic data and represents a discount of nearly 30% to the median relative valuation of 0.84.

— The DM economy is forecast to grow by 1.6% in 2026, representing a downward revision of 0.2 ppts over the past quarter, as the effects of the Iran War have weighed on growth expectations, primarily via higher energy prices. Notable also is the fact that these downgrades have occurred across the board, in all major regions. Nonetheless, the energy impact is greatest on net importers such as the UK, euro area, and Japan.

— Earnings growth has been weaker in DM ex US, with trailing 12-M EPS growing by 6.8% over that period compared to 15.4% for broad DM. Lower weights in the IT and comms sectors, particularly in the semiconductor industry more recently, in addition to lower profitability within those sectors in the region, accounts for much of this lag. Analyst consensus forecasts expect earnings to grow by 13.5% in the coming 12 months, compared to expected growth of 18.6% in broad DM. Growth is expected to be driven more by profit margin expansion (from 10.9% to 11.8%) than by sales growth (4.7%).

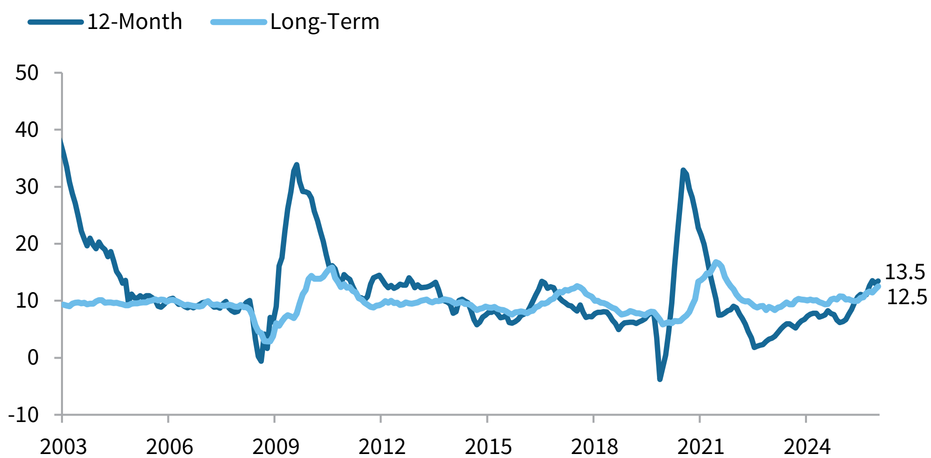
Cyclically adjusted price-to–cash earnings: MSCI World ex US

Dec 31, 1979 – Jun 30, 2026



Corporate earnings growth expectations

Jun 30, 2003 – Jun 30, 2026 • Percent (%)



Sources: I/B/E/S, MSCI Inc., and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Note: Data are based on the MSCI World ex US Index.

UK Equities

Facts & Figures Second Quarter 2026

UK equities returned 4.1% in USD terms in 2Q 2026, significantly underperforming the 13.8% return of broader DM. Over the trailing one-year, performance is much more comparable, with the UK returning 20.3% versus DM's 21.3%. Underperformance in 2Q was primarily due to the UK's de-minimis exposure to IT, the sector which contributed most of the DM's return.

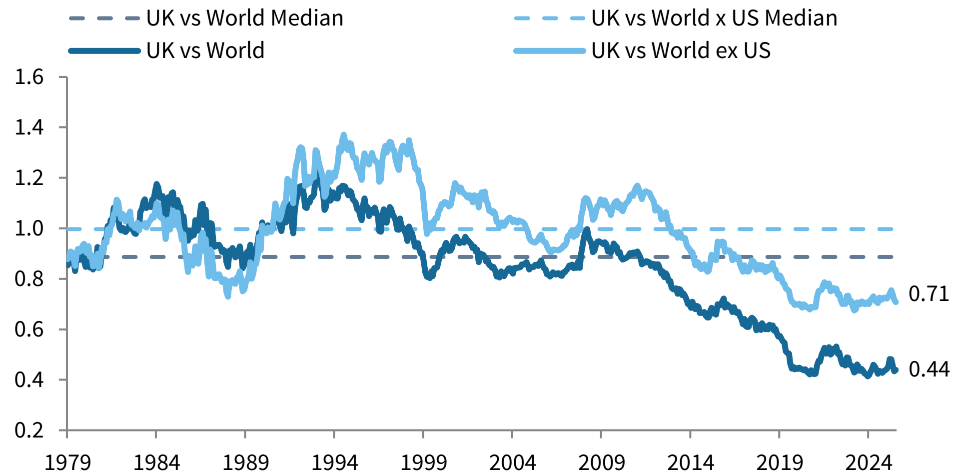
— UK valuations remain deeply discounted versus peers. The UK's CAPCE ratio stands at 9.1, placing it in the 64th percentile of historical observations. However, the ratio of the UK's CAPCE to broad DM is just 0.44 (4th percentile). Adjusting for substantial sectoral differences between the indexes, the relative CAPCE rises to 0.59. However, when weaker earnings growth is also considered—by looking at forward P/Es—the ratio of sector-neutral forward P/Es is 0.78. These figures collectively underscore the persistent valuation gap between UK equities and broader DM.

— The UK's consensus GDP growth forecast has held up for 2026 (at 1.0%) despite the rise in energy prices, due to an unexpectedly strong 1Q, though it remains below broader DM expectations of 1.6%. The composite PMI has also dipped modestly into contractionary territory. The BOE is reluctant to hike rates in response to the recent rise in energy prices and weaker economic activity should, in time, allow them to cut rates further.

— Corporate fundamentals in the UK lag their peers. Trailing 12-month EPS contracted by 3.3% over the past 12 months compared to growth of 13.4% for broad DM. While due largely to the UK's sectoral tilts, all sectors saw EPS growth lower than their DM equivalents. UK EPS growth is forecast to underperform DM by 6 ppts over the next 12 months (12.6% vs 18.6%), with growth primarily driven by margin expansion (11.7% to 12.6%) and a more modest contribution from sales growth (4.5%). If fundamentals improved, depressed sentiment could prove supportive for UK risk assets.

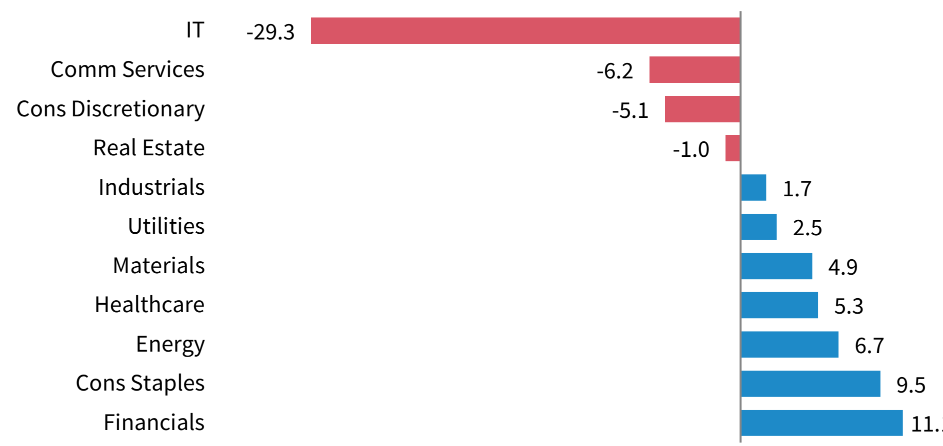
Relative CAPCE: MSCI UK vs World

Dec 31, 1979 – Jun 30, 2026



Relative sector weights: UK minus World

As of Jun 30, 2026 • Percentage Points



Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Europe ex UK Equities

Facts & Figures Second Quarter 2026

Europe ex UK equities returned 13.0% in USD terms in 2Q 2026, modestly underperforming broader DM which returned 13.8%. Over the trailing one-year, the bloc has returned 18.1% versus DM's return of 21.3%. While a lower exposure to semiconductors and AI more broadly has been a headwind, strong relative performance across most sectors has helped the region to broadly keep pace more recently.

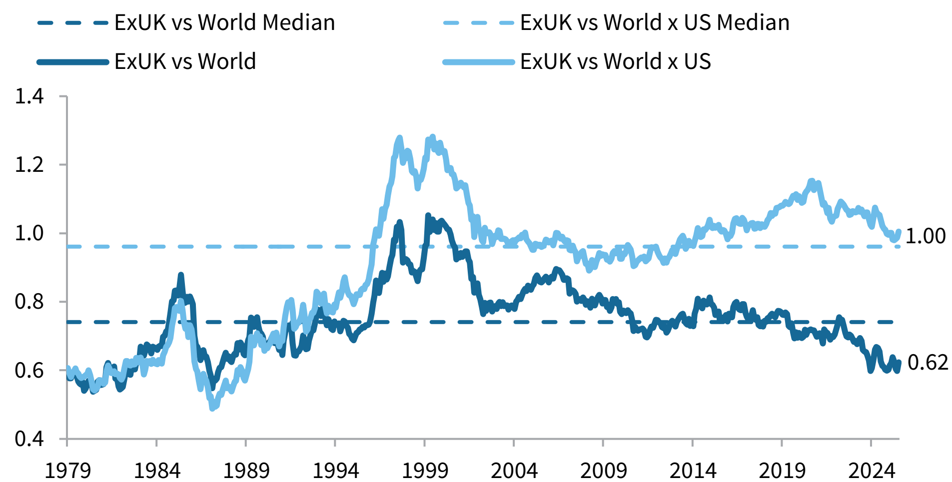
— In absolute terms, index valuation increased last quarter, with the CAPCE rising from 11.7 at end of 1Q to 13.0 at the end of 2Q, which represents the 92nd percentile of data going back to 1979. Relative valuation remained little changed, with the CAPCE of the region relative to broad DM staying at 0.62, still well below the long-term median of 0.74, with much of this apparent cheapness due to the comparative richness of the US market. CAPCE relative to DM ex US rose to parity (i.e., 1.00), now at the 66th percentile of historical observations and close to 5 ppts above its long-term median of 0.96.

— Economic uncertainty has increased with the onset of attacks on Iran. This has contributed to a five-tenth decline in the consensus Eurozone GDP growth forecast for 2026 to 0.6%, via higher energy prices. This lags the 1.6% growth expected in DM more broadly. German growth weakness remains a regional headwind, albeit has been partially offset by stronger peripheral performance recently. Still, a significant fiscal easing will be forthcoming in Germany in the coming quarters. Despite the recent ECB hike, lower interest rates than in recent years should also help support growth in Europe in the coming quarters.

— Longer-term underperformance versus DM is driven by lower underlying profitability, with the relative ROE at 0.81x, reflecting both lower tech exposure and sectoral ROEs that lag in eight of 11 GICS sectors. Still, ROE exceeds that of DM ex US. Earnings growth is expected to be 14.0% over the next 12 months, behind DM's 18.6%. Sales growth is forecast at 5.0%, with margins rising 88 bps to 11.1%.

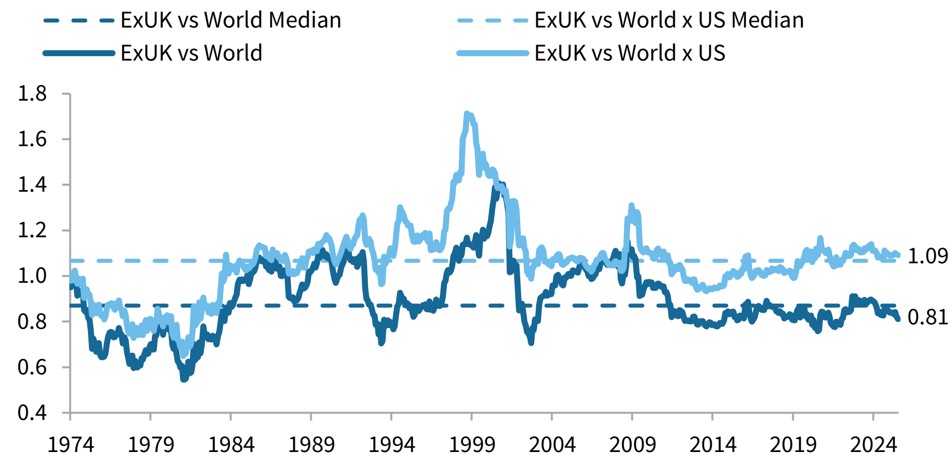
Relative CAPCE: MSCI Europe ex UK vs World and World ex US

Dec 31, 1979 – Jun 30, 2026



ROE: MSCI Europe ex UK vs World and World ex US

Dec 31, 1974 – Jun 30, 2026 • Percent (%)



Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Japanese Equities
Facts & Figures Second Quarter 2026

Japanese equities returned 14.2% in 2Q 2026 in USD terms, slightly above the 13.8% return for DM equities. Yen-based investors, insulated from currency depreciation, earned even higher returns. Over the last 12 months, Japanese equities delivered a 29.1% return in USD, surpassing developed peers.

— Strong returns have led Japanese equity valuations to steadily rise over the past 12 months. At the end of 2Q, the cyclically adjusted cash earnings ratio stood at 16.0x, ranking in the 91st percentile of historical observations. Relative to other developed markets, Japanese equities trade at a lower valuation, in the 44th percentile historically.

— The macro backdrop is supportive. Real GDP growth has been modest, but deflation is firmly in the rearview mirror, and CPI is expected to average around 2% in 2026. Inflationary pressures have been welcomed by companies seeking to raise prices and earnings.

— The Bank of Japan hiked rates by another 25 bps in June, yet the low absolute level of rates raises few concerns around corporate debt affordability.

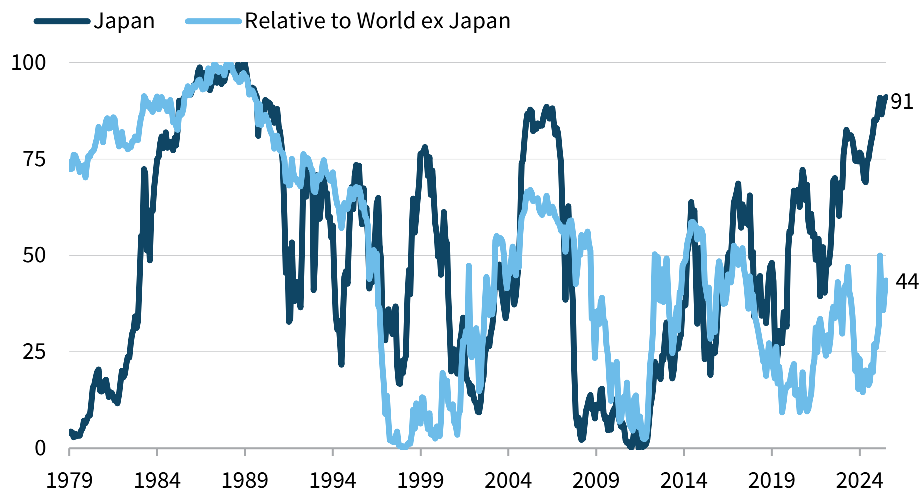
— Earnings estimates have risen sharply in recent months and now stand at 15% for 2026. Uncertainty around the impact of US tariffs has faded and a drop in energy prices as the Iran War de-escalates is a tailwind.

— Significant yen depreciation has served to boost the value of overseas earnings for Japanese companies but is a two-edged sword for offshore investors. Five-year returns in USD for Japanese stocks have been roughly half the level as in yen.

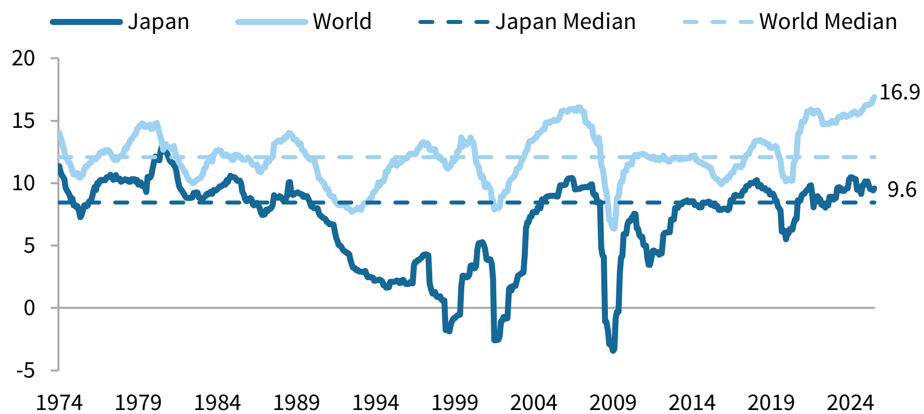
— The ROE on Japanese equities currently stands at 9.6%, above the historical median. Japan's ROE has been improving relative to its own history amid an increased focus on corporate governance and shareholder returns, though it remains below that of DM peers.

— Rising exposure to IT stocks—whose index weight has doubled over the last decade—has supported performance but also increases Japanese markets to a reversal in sentiment around AI investment.

Cyclically adjusted price-to–cash earnings
Dec 31, 1979 – Jun 30, 2026 • Percentile (%)



ROE: MSCI Japan vs World
Dec 31, 1974 – Jun 30, 2026 • Percent (%)



Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Emerging Markets Equities

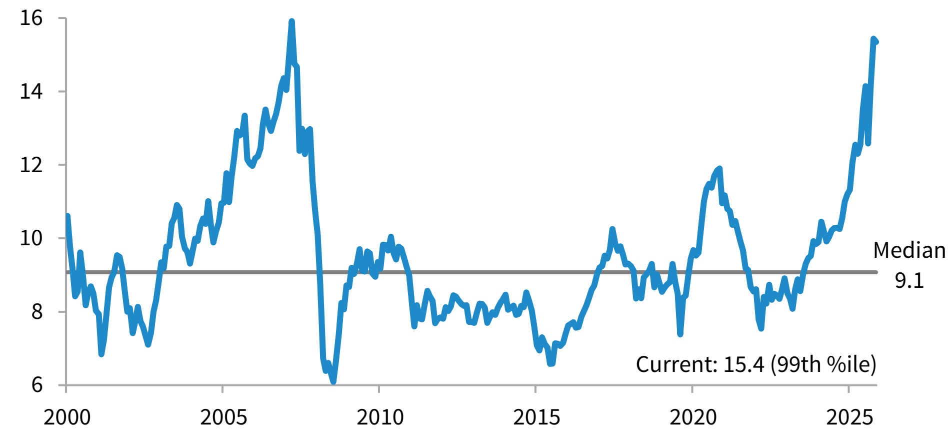
Facts & Figures Second Quarter 2026

EM equities returned 24.1% in USD terms in 2Q, rebounding after negative returns in 1Q. Returns over the past TTM remain strong at 43.5%, with EM outperforming DM equities by 22 ppts.

- EM valuations have run up sharply over the past year, driven by strong performance by all regions, but most notably by the AI-related markets of Taiwan and Korea in particular. Absolute valuations have reached the 99th percentile, nearing the 2007 peak. Nevertheless, EM trades at a 20% discount to DM equities, which is only slightly less than normal.
- There remains regional and country level valuation dispersion. Valuations are elevated in Asia, driven by countries such as Taiwan and Korea. Valuations for Latin America appear relatively cheap, particularly Brazil and Mexico.
- Consensus expectations call for stable EM GDP growth of 4.1% in 2026. Yet, the impact of higher energy prices may disproportionately fall on emerging markets economies, increasing the risk of growth disappointment.
- Indeed, analysts expect outsized EPS growth of 61% in 2026 driven by the IT sector on the back of global AI-buildout demand. Yet, such numbers are vulnerable to disappointment, especially if energy prices soar again due to renewed conflict in the Strait of Hormuz.
- Despite recent outperformance, EM still lags DM over the decade. Longer-term underperformance since 2010 was driven by USD appreciation, subpar earnings growth, and a narrowing economic growth differential. Several of these factors have shifted in favor of EM in 2025 and 2026, namely a sharp weakening of the US dollar and mounting headwinds to DM growth.

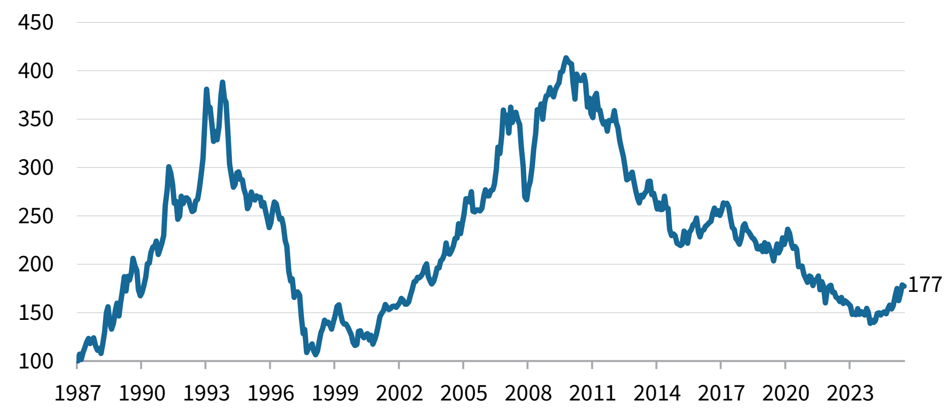
Cyclically adjusted price-to–cash earnings: MSCI EM

Aug 31, 2000 – Jun 30, 2026



EM/DM equity relative cumulative wealth

Dec 31, 1987 – Jun 30, 2026 • US Dollars



Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: EM CAPCE based on five-year average real cash earnings. Total returns are gross of dividend taxes prior to January 2001 and net thereafter. EM and DM equities based on the MSCI Emerging Markets Index and MSCI World Index, respectively.

Asia ex Japan Equities

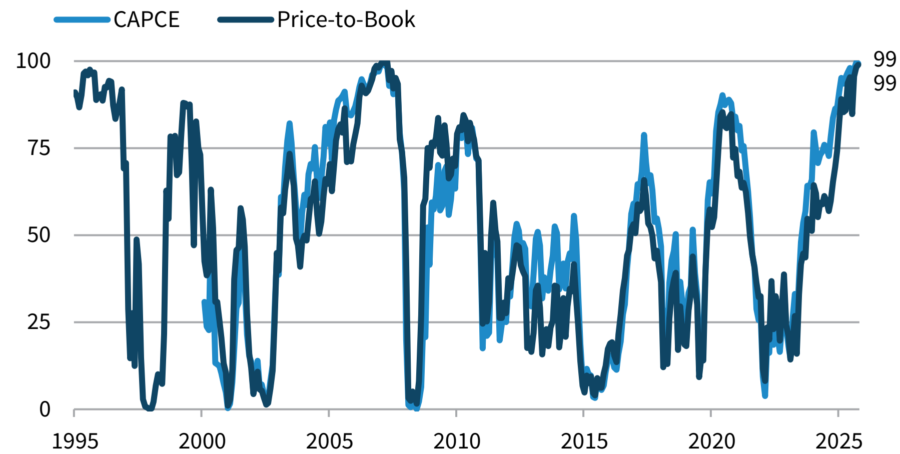
Facts & Figures Second Quarter 2026

Asia ex Japan equities returned 27.8% in 2Q 2026 in USD terms, outperforming global equities by 12 ppts, driven by surging demand for semiconductor stocks. On a TTM basis, Asia ex Japan equities have returned a stunning 46.4%, outperforming global equities, which returned 24.2%.

- Given the strong rally over the past year, Asia ex Japan valuations have become extreme relative to history. Both the index's P/B ratio and cyclically adjusted price-to–cash earnings (CAPCE) ratio, which excludes banks and insurance companies, are at the 99th percentile. Relative to DM equities, however, the MSCI AC Asia ex Japan Index trades at a 12% discount and a more reasonable 61st percentile of historical observations.
- Absolute valuations are mixed across countries and are elevated in Taiwan, Korea, and Singapore but low to fairly valued elsewhere. Semiconductor and AI-related stocks in Taiwan and Korea are having a large impact on valuations at the overall index level.
- Real GDP growth in Asia ex Japan is forecast at 5.0% in 2026, but the outlook is subject to downside risks from higher energy prices resulting from the Iran war, given the region's reliance on oil and gas imports from the Gulf.
- Analysts' expectations of forward 12-month EPS growth for Asia ex Japan were revised higher to an eye-popping 41% as of June 30, compared to estimates for global peers at 22% driven by increases in Taiwan and Korea on the back of continued demand for AI-related hardware. However, given the export-oriented and cyclically sensitive nature of most Asia ex Japan markets, a key risk is slowing global growth and demand for AI hardware.

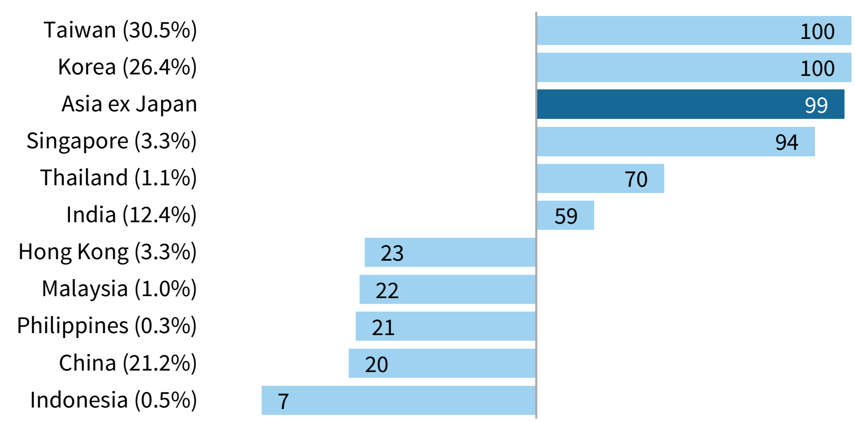
MSCI All Country Asia ex Japan Valuations

Sep 30, 1995 – Jun 30, 2026 • Percentile (%)



Country P/B Percentile: MSCI AC Asia ex Japan

As of Jun 30, 2026 • Index Weight in Parentheses



Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: CAPCE based on five-year average real cash earnings. Totals may not sum to 100% due to rounding.

Chinese Equities

Facts & Figures Second Quarter 2026

Chinese equities returned 1.6% in 2Q as weakness in offshore listed equities (-6.6%) offset strong returns for onshore A-shares (18.0%). Over the past 12 months, A-shares have returned 45.5% vs -4.8% for the offshore MSCI China Index, which has lagged both EM and Global equities.

— Chinese equities consist of mainland China-listed A-shares, Hong Kong-listed Chinese companies, and US-listed Chinese companies. The MSCI China All Shares Index combines both onshore and offshore markets and is composed of 43% Hong Kong-listed equities, 2% US-listed equities, and 55% A-Shares.

— Historically, the offshore market was home to China's tech giants, while the A-share market was overweight legacy "old economy" stocks. However, this has rapidly shifted, with the A-share market now home to China's leading "hard tech" and AI companies, including semiconductors. As a result, IT now makes up 38% of the A-share index.

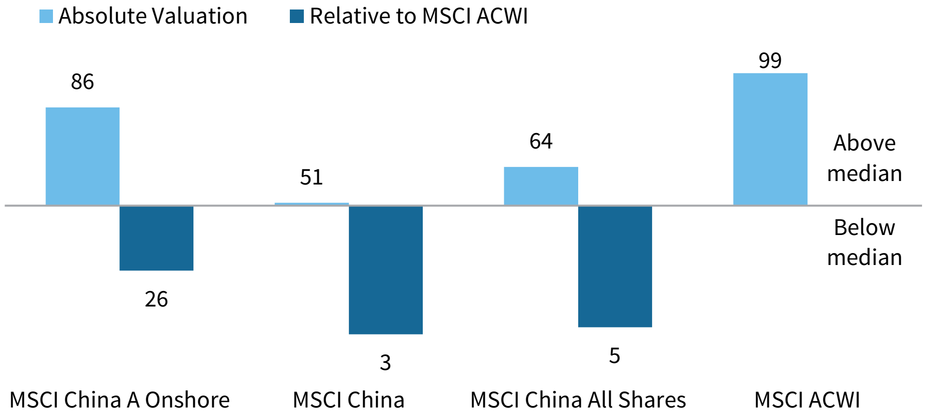
— As of June 30, the composite P/E ratio for the MSCI China All Shares Index was at the 64th percentile, up from the 12th percentile in August 2024. Yet, this masks the divergence between offshore equities (MSCI China) which are fairly valued given poor performance, while A-share valuations have climbed to the 86th percentile. However, valuations for both segments remain low relative to global equities.

— Consensus forecasts expect China real GDP growth of 4.6% in 2026, which is at the lower end of the government's official target of 4.5%–5.0%. So far policymakers have refrained from additional stimulus, highlighting that officials are comfortable with the current state of the economy, even in the face of higher energy costs due to the Iran War, given China's build out of renewable energy sources.

— Active China-dedicated managers have historically demonstrated an ability to add value over the A-share index, given the retail-driven nature of that market. Meanwhile, managers with flexible "All China" mandates can offer exposure across the China equity universe.

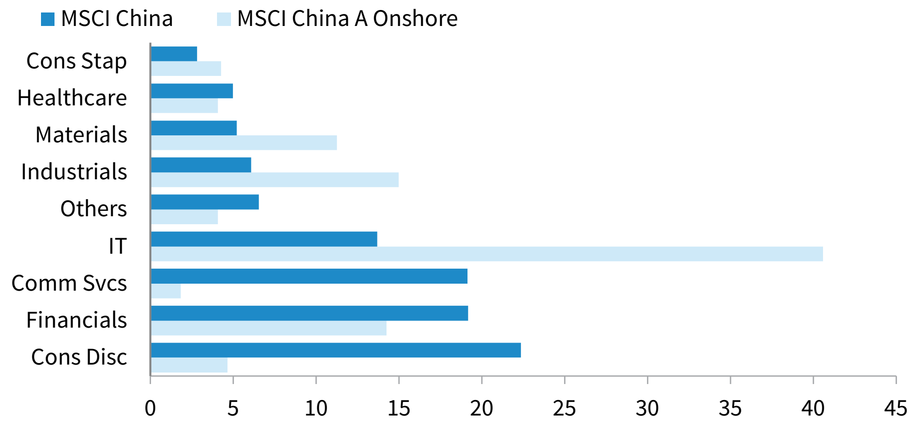
Composite P/E: Percentile

Feb 28, 2010 – Jun 30, 2026



Sector weights

As of Jun 30, 2026 • Percent (%)



Sources: FactSet Research Systems, MSCI Inc., and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Notes: Composite P/E reflects the harmonic average of the 5-year cyclically adjusted P/CE, forward P/E, and ROE-adjusted P/E ratios. Sector weight for "Others" consists of Real Estate, Utilities, and Energy. Totals may not sum to 100% due to rounding.

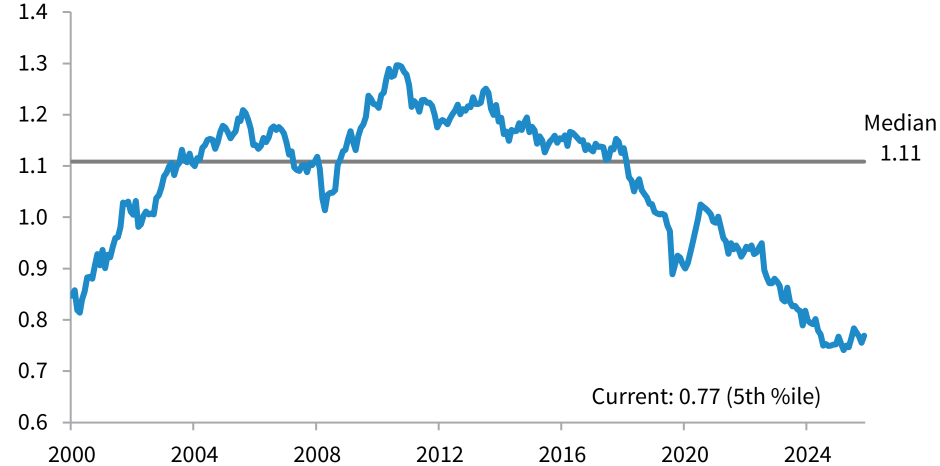
Global Small-Cap Equities
Facts & Figures Second Quarter 2026

Global small-cap equities returned 14.9% in 2Q, matching their mid- to large-cap peers, but have outperformed by 5.1 ppts over the past 12 months. In recent quarters, regional divergences have emerged, with US small caps enjoying strong performance relative to their larger counterparts, while non-US small caps have lagged.

- US small caps gained 19.5%, besting their larger counterparts by 4.3 ppts in 2Q. For the first half of 2026, US small caps have returned 22.6%, the strongest 1H performance since 1991, and outperformed larger companies by 12.7 ppts. The 2Q gains were driven by resilient investor sentiment as US-Iran tensions cooled and corporate fundamentals continued to improve.
- Developed ex US small-cap equities rose 7.9% in 2Q and lagged mid/large caps by 2.3 ppts. They have also underperformed on a TTM basis, by 1.6 ppts. The stronger performance of the IT and the financials sectors in the larger cap index drove this differential.
- Emerging markets small caps gained 13.7% in 2Q, lagging larger caps by 10.3 ppts and extending their relative underperformance for the TTM period to 22.6 ppts. This gap was driven largely by the remarkable run in South Korean and Taiwanese mid- to large-cap stocks, which rose 214% and 105%, respectively, over the period, led by semiconductor names such as TSMC, Samsung, and SK Hynix—key suppliers of advanced chips and memory for the AI buildout.
- Small-caps are regarded as less efficient than the larger-cap space due to lower analyst coverage, limited institutional ownership, and greater return dispersion, particularly outside the US. These inefficiencies create opportunities for skilled active managers to generate alpha, but success requires expertise to navigate higher volatility, liquidity constraints, and elevated transaction costs.

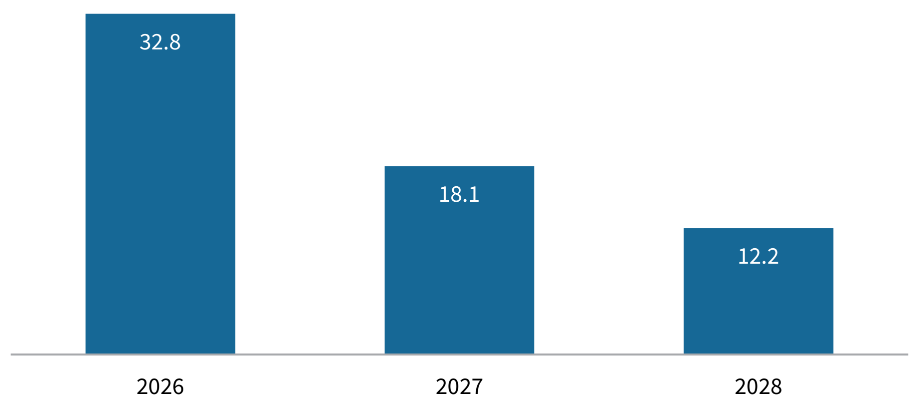
5-yr CAPCE: MSCI ACWI SC vs MSCI ACWI LC/MC

Aug 31, 2000 – Jun 30, 2026



Consensus earnings growth estimates

As of Jun 30, 2026 • Percentage points



Sources: MSCI Inc., Bloomberg L.P., and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Note: CAPCE ratios based on five-year average inflation-adjusted earnings. Consensus earnings growth estimates are based on the MSCI ACWI Small Cap Index.

Global Growth and Value Equities

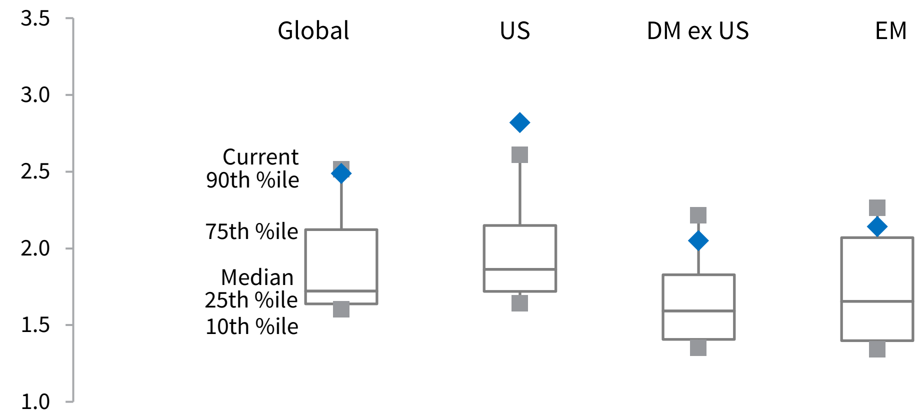
Facts & Figures Second Quarter 2026

Global growth stocks gained 19.8% in 2Q (USD terms), outpacing value stocks' 10.6% return. Despite this strong quarterly rebound, growth continued to trail value YTD, returning 10.6% versus 11.9%. In 2Q, easing geopolitical tensions and a strong earnings season—particularly in IT—renewed investor interest in AI-related stocks and fueled growth's outperformance. YTD, however, value remained ahead as enthusiasm for growth stocks cooled after strong prior gains, while higher rate expectations and firmer commodity prices continued to support value-oriented sectors.

- Since the COVID-19 pandemic, growth equities have traded at a wider valuation gap than value equities. Currently, global growth equities command a 2.5x premium to value, a level that exceeds 87% of historical observations. This elevated valuation gap is primarily concentrated in the US, while relative valuations outside the US appear less pronounced.
- Global growth outperformed value in 2Q as a very strong earnings season for IT companies reignited investor appetite for AI-related stocks. Easing geopolitical tensions and falling oil prices further supported growth's relative outperformance.
- Corporate fundamentals remain strong for growth, which has traditionally generated higher ROE than value. The current wide ROE difference is driven by sector exposures, especially tech and financials, and helps explain the valuation gap between growth and value indexes.
- Global growth equities exhibit greater sector concentration than value equities, with roughly two-thirds of the growth index allocated to tech (IT and communication services) and consumer discretionary. In contrast, the value index is more evenly distributed. This concentration has benefited growth equities in recent years, as large-cap tech stocks have driven equity markets higher. However, such concentration could become a headwind if momentum in the tech sector wanes.

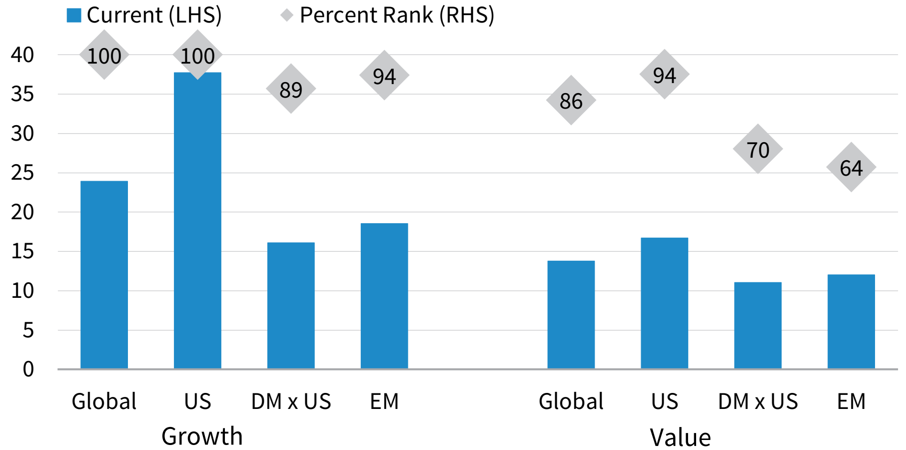
Relative CAPCE for select regions: Growth vs Value

As of Jun 30, 2026



ROE and percentiles for select regions: Growth & Value

As of Jun 30, 2026



Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

Note: CAPCE ratios are based on five-year average inflation-adjusted earnings; growth and value are represented by the MSCI ACWI Growth and MSCI ACWI Value indexes, respectively.

Hedge Funds

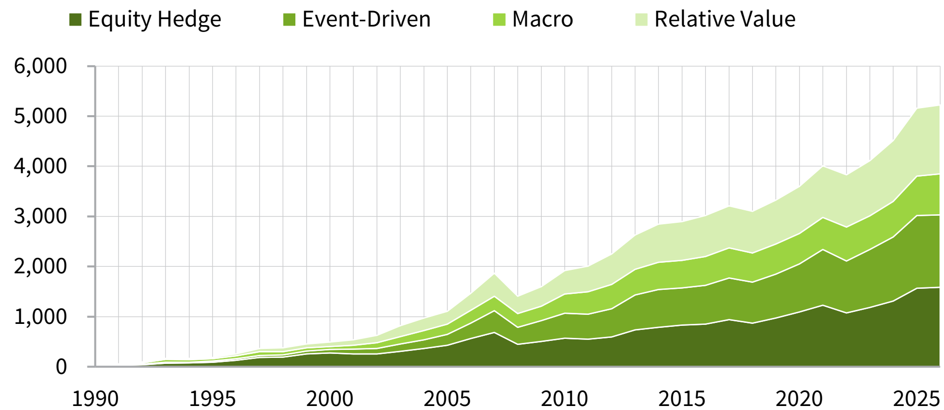
Facts & Figures Second Quarter 2026

Hedge funds posted strong performance in 2Q, with the HFRI Fund of Funds Composite Index returning 7.6%, its best quarter in nearly six years. Many managers benefited as volatility surrounding the Iran War and continued leadership from AI-related stocks drove greater dispersion across equity markets.

- Relative value hedge funds, as measured by the HFRI Relative Value (Total) Index, gained 2.0% in 2Q. Global macro funds saw more muted returns in the quarter, with the HFRI Macro (Total) rising just 1.3%, as the June oil price unwind reversed established energy trends, driving losses in commodity and systematic trend-following sub-strategies that offset gains earlier in the quarter. Fixed income-sensitive relative value strategies benefited from rate repositioning following the June FOMC meeting, where the removal of easing guidance and an upward shift in the dot plot were read as hawkish.
- Long/short equity strategies gained 10.2% in 2Q, based on the HFRI Equity Hedge (Total) Index, benefiting from an unusually strong alpha environment and from positioning tilted toward AI-linked technology names, where popular longs meaningfully outperformed shorts. Gains came against a backdrop of elevated geopolitical volatility, with the mid-June US-Iran de-escalation supporting risk assets into quarter end. The HFRI Equity Market Neutral Index, as expected given the market dynamics, posted a more muted 2.4% gain.
- The HFRI Event-Driven (Total) Index rose 7.8% in 2Q. Managers remained constructive as recovering M&A activity, especially in larger and more complex deals, improved the opportunity set for merger arbitrage and related strategies. While overall activity remains below longer-term norms, mega-deals account for a larger share of volume, and regulatory complexity is driving wider spreads and greater dispersion. This has created a better backdrop for differentiated, idiosyncratic returns, though elevated equity valuations and tight credit spreads still limit the broader opportunity set.

HFRI historical asset growth breakout

1990–2026 (Mar) • US$B



Equity dispersion: Total returns for the S&P 500 constituents

As of June 30, 2026

Sources: Hedge Fund Research, Inc., FactSet Research Systems, and Standard & Poor's.