HFR Newsletter

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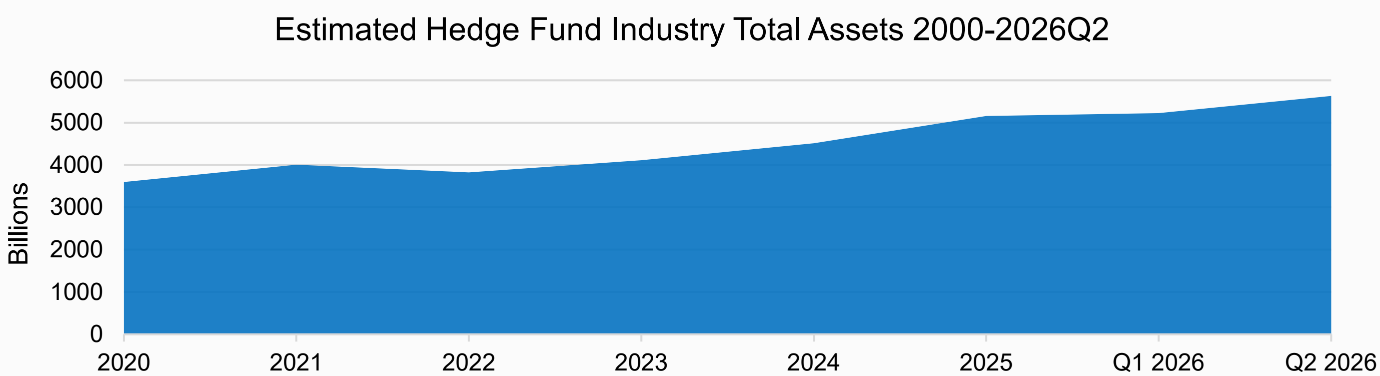
Hedge Funds Industry AUM at Record Levels in 2026



The hedge fund industry has surged ahead in 2026, maintaining growth momentum and setting new records even as private credit and private equity struggle to retain capital.

Q2 closed with a record gain of $409.3 billion in assets under management, the largest quarterly increase in history, alongside record-setting performance-based returns of $364 billion.

The HFRI Equity Hedge Technology Index surged +19% over the first half of 2026, yielding Equity Hedge as a front runner strategy area. Double digit gains are also tracked for HFRI Event Driven Distressed Index, at +12.4%, driven by exposure to historic IPOs and accelerating M&A activity.

HFR findings are echoed in statements from industry practitioners, who are reported to anticipate a “golden era” for the industry. (Financial Times, *Hedge funds grow at fastest rate in history as AI boom lifts markets,* July 23, 2026) This is driven by investor demand for redemptions from private alts towards greater liquidity and higher returns from hedge funds.

The HFR World podcast features a candid look at the data with President Ken Heinz, who reveals that he will be watching what he terms “anti-beta and anti-crowded trades.” These are expected to materialize gains in Event-Driven and Relative Value Arbitrage strategies, alongside Macro and Equity Hedge.

You can watch this episode of HFR World here. To obtain your own copy of the HFR Global Hedge Fund Industry Report 2026 Q2, visit our website at HFR Industry Reports | HFR

HFR Podcast: Most Popular Episodes

Investment Expertise from Top Allocators

In the HFR Podcast's latest episode, we welcome Stephan Kessler, Global Head of Quantitative Investment Strategy Research at Morgan Stanley. Stephan is a proponent for quants to form "a symbiotic relationship with AI". In our conversation, we discuss what this involves and how particularly AI is deployed in the race to find new signals and identify alpha, as well as investor attitudes towards AI-enhanced research. To understand how "AI becomes a conversation partner in research workflows", access the episode via the thumbnail.

This episode with Austin Guy, Senior VP and Senior PM of Institutional Asset Management at Northern Trust, explores how "index investing is active in every decision". Drilling into the interplay between active and passive investing, Austin speaks specifically about the role of indices in pricing, the impact of benchmarks and market dynamics, and how innovations in indexing continue to shape portfolio selection and investments. As a practitioner and speaker, Austin's expertise is accessible and informative in this episode.

Catch the Podcast playlist here

Expert Commentary and Industry Outlooks

In this conversation recorded at the start of the war in Iran, energy market expert Jeff Krimmel discusses the dynamics of Brent-WTI price differential and the fundamentals of energy markets. He explains the path that prices will take after the cessation of hostilities, given supply chain hurdles and requisites. We also discuss to what extent renewables are able to provide a viable solution to energy demand. Listen to the episode here

At the forefront of investing in future technologies is the opportunity to develop and sustain a lunar economy. HFR Podcast welcomed the Executive Director of the Texas Space Commission, Norman Garza Jr. to understand why Texas believes this to be mission critical for the state. Norman highlights provisions for public-private partnership that the TSC allows, outlines the ecosystem around this industry, and how innovation and location together make Texas a hub. Asked for advice to allocators considering investing in this area, he suggests a focus on companies with with multi-market potential. Watch this episode.

Catch the Podcast playlist here

Read last month's newsletter

Hedge Fund Launches and Liquidations Spike Up in 2026

The HFR Market Microstructure Report 2026Q1 finds that an estimated166 new funds launched this quarter, an increase of 30 over the prior quarter and 45 over the same quarter last year. This increase follows the FY 2025 launch total of 561, the highest annual total since 2021.

Alongside this visible resurgence comes an uptick in hedge fund liquidations, which jumped from historically low levels in 2025 to a total of 129 liquidations in Q1.
Equity Hedge and Macro funds are the foremost areas of reshuffling industry-wide, while performance gains as measured by HFRI Indices are at double digits.

HFR Market Microstructure Hedge Fund Industry Reports provide extensive cross-sectional analysis and permit an examination of structural and performance dynamics industry-wide. The HFR Market Microstructure Report is released quarterly and can be obtained at our website here.

Learn more about HFR Index Constituents

HFR IndexScope Features

- HFRI Index family interactive reports
- Performance insights
- Time-series & cross-sectional data: 2008-present
- Continuous performance estimation
- Data on fund assets, regions, performance dispersion
- Export-ready data, images, and dashboards

HFR IndexScope℠ offers advanced filtering of HFRI index constituents by key indicators, including strategy, region, and asset size. Live dashboards follow over 1000 current constituents of the HFRI index family, with over 30 strategy and sub-strategy area data updated continuously. Request a demo at database@hfr.com

Market Outlook: Towle & Co.

Hear from Brett Meyer, Head of Investment Solutions at Towle and Co. and a participating manager in the HFR Co-Investment Index on small and medium cap value opportunities. This video is available for viewing only to accredited investors with a web registration at hfr.com. To enquire, contact hfrmedia@hfr.com

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HFR Co-Investment Index: Constituent Manager Insights

The Compute Arms Race: Hyperscalers, Agentic AI, and the Rise of CPU-GPU Infrastructure

By Adam Veres

The next phase of artificial intelligence may be shaped not only by model innovation, but also by the infrastructure required to develop, deploy, and operate those models at scale. Hyperscalers, which are technology companies that operate cloud infrastructure at global scale, appear to be increasing capital expenditures in response to growing demand for artificial intelligence-related compute resources.

> *TLDR: Minimum efficient scale for AI cloud providers expected to be on par with utilities*
>
> *Financial Times reports rising credit risk for AI hyperscalers here*

Leading cloud providers are expected to spend more than $700 billion on infrastructure in 2026, with a substantial portion reportedly directed toward AI-related assets. One factor that may be contributing to this growth is the emergence of so-called agentic AI applications, which are software systems designed to perform multi-step processes with a degree of autonomy. These workloads may require greater compute intensity than traditional inference use cases because they can involve iterative reasoning, persistent context, repeated model calls, and ongoing interaction loops.

This trend may also be reflected in broader market data. The global server market grew over 80% in 2025 to more than $440 billion, with AI-related demand cited as a major contributor, and that GPU-equipped systems represented more than half of total server market revenue. While GPUs remain important for model training and highly parallel workloads, the compute stack is expected to broaden. In our view, the adoption of agentic AI could increase demand for general-purpose CPU compute to orchestrate agentic workflows, manage sequential logic, support memory-intensive tasks, facilitate data movement and reprocessing, and coordinate interactions across models and tools.

Looking ahead, industry forecasts suggest that data center investment could approach $6.7 trillion by 2030, with roughly 70% of demand tied to AI workloads. In our opinion, one implication for investors is that AI may increasingly resemble an infrastructure- and utility-like economic model in which access to scalable, efficient, and cost-optimized compute resources becomes an important competitive factor, in addition to model innovation.

Adam Veres leads Godafoss Capital Management, LLC's ("Godafoss") investment strategy, portfolio construction, and risk management initiatives. He founded Godafoss in 2019, following a lengthy career in software engineering. Adam holds a B.S. in Computer Science from Budapest University of Technology and Economics, and he brings more than six years of hands-on experience in portfolio management.

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HFR Co-Investment Index: Constituent Manager Insights

Stalled on the Runway: Why Cheap Stocks No Longer Take Off on Valuation Alone

By Brett Meyer, CFA, FRM

Few experiences are more frustrating for a value investor than being right on valuation and wrong on realized return.

A stock can be cheap, balance-sheet sound, and materially discounted to intrinsic value, and still fail to generate acceptable returns if the market has no reason to care. For decades, value investors operated under a reasonable assumption: mispricing would eventually close with time. In today's market, that assumption looks less dependable.

Valuation still anchors long-term return potential. What has changed is the market's mechanism for recognizing it.

Valuation alone has become a less complete signal in a market increasingly shaped by capital flows, benchmark concentration, liquidity preferences, and investor positioning.

The scale of the shift is significant. Passive U.S. mutual fund and ETF assets surpassed active assets in 2024 and continued widening the gap through 2025. ETF adoption has also accelerated rapidly, with ETF assets reaching record levels and ETF trading now representing a meaningful share of daily U.S. equity volume. At the same time, market leadership has narrowed dramatically. By mid-2025, the ten largest companies in the S&P 500 represented nearly 40% of the index, a concentration level not seen in decades. Much of the market's return has come from a relatively small group of mega-cap technology stocks.

This does not mean passive investing is inherently flawed, nor does every ETF trade directly move underlying securities. But the rise of index-based ownership and flow-driven trading has changed the conditions required for takeoff. Size, liquidity, benchmark inclusion, and narrative sponsorship increasingly influence where capital flows and how long it stays.

That creates a harder reality for traditional value investors: a security can remain cheap for a very long time, not because the thesis is wrong, but because capital never meaningfully engages with the thesis. In many cases, the distinction between "early" and "wrong" becomes less clear when capital remains grounded in stagnant positions while other parts of the market continue compounding.
This is the opportunity cost of dead money. A statistically cheap stock that never attracts sponsorship can become an expensive use of capital.

> *" Valuation still anchors long-term return potential. What has changed is the market's mechanism for recognizing it. "*

The implication is that value investing now requires a more demanding standard. The question is no longer simply whether a business is undervalued, but whether there is a credible path toward recognition within a reasonable horizon.

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Why Cheap Stocks No Longer Take Off on Valuation Alone

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That recognition can come from many sources: improving fundamentals, earnings revisions, balance-sheet repair, capital returns, industry consolidation, improving liquidity, or renewed investor participation. The thesis needs evidence that conditions are improving and the runway is beginning to clear.

This is why investors have begun supplementing traditional valuation frameworks with signals tied to market participation. Measures such as momentum, volatility, and relative strength are not designed to replace fundamental analysis; they help evaluate whether capital is beginning to engage with the thesis.

Importantly, there is empirical support for combining valuation and momentum-oriented signals. In *Value and Momentum Everywhere (Journal of Finance, 2013),* Asness, Moskowitz, and Pedersen found consistent value and momentum premia across eight markets and asset classes, with value and momentum negatively correlated with one another, suggesting that studying them together can be more powerful than studying either in isolation.

This is not about abandoning valuation discipline or chasing momentum. It is about recognizing that market structure has evolved. In an environment increasingly shaped by flows, concentration, and investor positioning, the path from mispricing to realization has become less certain.

In prior cycles, valuation alone was often sufficient to carry an investment from dislocation to recognition. Today, that path is less reliable. The question is no longer simply what is cheap. It is what is cheap, improving, and finally showing conditions for takeoff.

Brett Meyer is Head of Investment Solutions at Towle & Co. Brett graduated from Principia College with BA degrees in Business Administration and Sports Management and a minor in Economics. He was an Academic All-American in Tennis. Brett holds the distinction of Chartered Financial Analyst (CFA®) and Financial Risk Manager (FRM®).

Co-Investment at HFR

The HFR Co-Investment Index launched April 2026 posting a 3.61% return in June 2026, and year to date gain of 10.1%

The HFR Co-Investment Indices are designed to represent the aggregated performance of a curated set of hedge fund managers that have historically offered Best Ideas and/or Co-Investment opportunities to investors, and that have agreed to provide position-level data and pricing for future Best Ideas/Co-Investments.

Learn more about the Index here. ⟶

Accredited investors can also discover unique co-investment opportunities with confidence through **HFRConnect**, an AI-powered platform managed by HFR Asset Management. Designed to broaden access to exclusive co-investment opportunities, **HFRConnect** highlights investment managers to qualified allocators in a secure and confidential environment. **Access HFRConnect here.** ⟶

HFR in the News

Keep up with HFR market intelligence in the financial press by regularly checking our Insights and Commentary page.

Recently in the press:

Financial Times, *Hedge funds grow at fastest rate in history as AI boom lifts markets*, July 23rd, 2026

Wall Street Journal, *They Call Her 'the Assassin' on Wall Street—and She Has a New Target*, July 17th, 2026

Les Echos, *Comment les hedge funds ont réussi à boucler un trimestre record*, July 27th , 2026

NextFin Asia, *Hedge Funds Shake Off March Selloff Driven by Tech Rebound in Asia*, July 5th, 2026

Bloomberg, *March Selloff Weighed on Asia Hedge Funds; China-Focused Managers Showed Downside Resilience*, April 2nd, 2026

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