

---

# Hedge Fund Outlook

Spring 2026

**BlackRock**



# Key themes for hedge funds in 2026

A more differentiated market environment is expanding the opportunity set for hedge fund strategies.

---

## Systematic multi-strategy Capturing rising dispersion

Structural forces such as artificial intelligence, geopolitics and industrial policy are widening performance differences across companies and sectors. As dispersion rises, cross-sectional signals and disciplined portfolio construction are becoming potential drivers of alpha.

5

---

## Global macro Navigating inflation, terms-of-trade, and geopolitical shocks

Supply shocks, fiscal expansion and AI investment are reshaping the global inflation outlook and creating disconnects between economic fundamentals and market pricing. These dynamics are opening opportunities across interest rates, currencies and regional equity markets.

8

---

## Fundamental equity The AI debate

Artificial intelligence is accelerating technological disruption across industries, reshaping competitive dynamics and challenging traditional business models.<sup>1</sup> Diverging outcomes between beneficiaries and those at risk are creating a fertile environment for long/short stock selection.

11

---

## Fundamental multi-strategy Managing faster regime shifts

Market regimes are changing more frequently as macro volatility, policy shifts and technological disruption interact across asset classes. Navigating this environment requires robust portfolio construction and dynamic risk management as correlations and volatility evolve.

13

---

## Event driven Acceleration of corporate activity

Rapid technological change is expanding the scope of dealmaking and accelerating the need to acquire capabilities, scale, and integrate strategically. The confluence of regulatory tailwinds, corporate imperatives, competitive dynamics, and abundant capital deployment has created an opportunity-rich environment across the event-driven spectrum.

15

---

## Allocator perspective Building resilient portfolios

Traditional diversification is weakening as dominant themes such as artificial intelligence cut across asset classes and regions. Diversified hedge fund allocations are becoming increasingly important for accessing differentiated return streams and strengthening portfolio resilience.

18

<sup>1</sup> BCC Research, "AI Disruption: A Global Overview" (Report AIT003B), published October 2025; press release January 22, 2026.

For illustrative purposes only. While technology, including AI and machine learning tools, may help support investment or operational processes, they do not guarantee performance, improve outcomes, or eliminate the risk of loss.

# Foreword



**Michael Pyle, CFA**

Deputy Head of the Portfolio Management Group

“

**As differentiation across markets increases, the opportunity set for hedge funds expands with it.**

We're living in a world shaped by supply. My colleagues at the BlackRock Investment Institute (BII) introduced this framework four years ago to make sense of the post-COVID inflation surge, but it remains just as relevant today. Just so far in 2026, markets have had to confront two distinct supply shocks, ones that push in dramatically different directions. Early in the year, investors priced the potential for a positive technology supply shock from AI, with the potential to accelerate productivity growth, facilitate disinflation, and re-wire existing business models. More recently, the conflict in Iran has introduced a negative energy supply shock, disrupting physical energy supply, raising inflation risks, weighing on growth, and increasing cross-country dispersion. These shocks are behind many key market themes this year, such as the fall and subsequent retracement of U.S. government bond yields, the “old vs. new economy” rotations, and the shifting leadership between U.S. and international equities.

In this environment of uncertainty and supply-driven market dynamics, hedge funds can play a more central role in portfolios.

First, hedge funds can help replace traditional sources of portfolio ballast that are becoming less reliable. Amid the fallout from the Iran conflict, developed market government bonds sold off across the curve, reflecting both inflation

concerns and rising fiscal pressures tied to defense spending and supply chain realignment. Even as risk assets sold off, bonds failed to stabilize portfolios. In a world of negative supply shocks, investors may need to look beyond duration for ballast, toward strategies such as market neutral and alpha-oriented approaches. This shift is already visible in allocator behavior: Recent Preqin data shows investor appetite for hedge funds at its highest level in five years, with nearly one-third of investors planning to increase allocations.<sup>2</sup>

Second, hedge funds are well positioned to capture the dispersion created by supply shocks. AI-driven disruption has already triggered massive rotations beneath relatively stable index levels — for example, away from software and toward asset-heavy companies, as highlighted by Raffaele Savi from BlackRock's Systematic team (pg. 5). This widening gap between leaders and laggards creates a richer opportunity set for alpha generation through security selection. Hedge funds, with their ability to go long and short to use derivatives, give managers a broader toolkit to express these views and generate alpha. That flexibility is particularly valuable when macro outcomes are uncertain: It allows investors to harness volatility and relative value opportunities without relying on large directional bets, as explained by Tom Becker from our Global Tactical Asset Allocation team (pg. 8).

<sup>2</sup> Preqin. “Investor Outlook: H1 2026-27.” March 2026.

Source: BlackRock as of March 2026. The opinions expressed may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and non-proprietary sources deemed by BlackRock to be reliable. No representation is made that this information is accurate or complete. This information should not be relied upon by the reader as research, investment advice or a recommendation.

# Foreword

---

Finally, hedge funds can improve portfolio construction in a world driven by mega forces. The BII has described this as the “diversification mirage”: Even seemingly disconnected asset classes in a portfolio are likely driven by similar trends, notably AI. In this more thematic market environment, investors need to harness new tools and market drivers to achieve better portfolio construction and resilience to shocks. Later in this outlook, our Hedge Fund Solutions team outlines how approaches such as macro and event-driven funds can help investors identify opportunities beyond the core themes at the heart of their portfolios (pg. 18).

The shift to a more uncertain, supply-driven environment is already changing how investors allocate capital. Preqin data shows a return to net inflows into hedge funds and commitment intentions, with 29% of investors planning to increase allocations in the next 12 months and 32% expecting to increase long-term exposure.<sup>3</sup> Hedge fund industry AUM is projected to exceed USD 6 trillion by 2030, driven by accelerating growth in Europe and APAC.<sup>4</sup> While endowments and foundations allocate the largest share of total portfolios to hedge funds, pension funds are steadily increasing their exposure.

Hedge funds are often lumped into the same bucket as “alternatives” like private markets, but their role is distinct. They provide return drivers and exposures that enhance diversification in ways that are differentiated from private markets. As a result, recent BII research suggests that there is scope to increase hedge fund allocations by up to five percentage points in many portfolios, depending on liquidity and risk constraints, without increasing overall portfolio risk.<sup>5</sup> At the same time, today’s market environment is not only expanding the opportunity set for hedge funds, but it’s also increasing the premium on manager skill.

The sections that follow explore how different hedge fund strategies are responding to this environment — from systematic approaches capitalizing on rising dispersion, to macro managers navigating inflation shocks, to event-driven investors capitalizing on accelerating corporate activity.

<sup>3</sup> Preqin. “Investor Outlook: H1 2026-27.” March 2026.

<sup>4</sup> Preqin. “Preqin’s State of Hedge Funds 2025.” November 2025.

<sup>5</sup> BlackRock Investment Institute. “Rethinking Neutral.” January 2026. [Rethinking neutral | BlackRock Investment Institute | BlackRock](#).

Source: BlackRock as of March 2026. The information and opinions contained in this material are derived from proprietary and non-proprietary sources deemed by BlackRock to be reliable. No representation is made that this information is accurate or complete. There is no guarantee that any forecasts made will come to pass.

# Systematic multi-strategy: Dispersion, disruption and discipline



**Raffaele Savi**  
Global Head of  
BlackRock Systematic

“

**The widening dispersion we observe is the market processing structural change in real time.**

As differentiation across companies accelerates, cross-sectional dispersion has risen meaningfully. Returns are becoming more company-specific rather than broad market beta, reinforcing the importance of selectivity for systematic investors.

Year-to-date, headline equity indices have held up better than underlying breadth would suggest. Cross-sectional dispersion has widened materially, with individual companies trading more distinctly on their own merits. Capital is no longer moving in broad synchronized waves; it is being allocated with greater discrimination.

This shift does not reflect a retreat of macro forces. Instead, it reflects a change in how those forces are transmitted into markets. Structural drivers such as artificial intelligence, geopolitics and industrial policy are no longer lifting or lowering markets uniformly. They are reshaping competitive dynamics at the company level, creating sharper distinctions across business models, balance sheets and execution capabilities.

As differentiation rises, so too does the opportunity set for active strategies. Periods of elevated dispersion reward disciplined security selection, cross-asset flexibility and the “safety engineering” embedded in systematic portfolio construction. When returns are increasingly driven by relative positioning rather than broad beta, skill and process matter more.

## **AI: From promise to structural integration**

At the center of this recalibration is artificial intelligence. AI is transitioning from experimentation to broad

structural adoption across industries. Model performance continues to improve, costs are declining and increasingly capable agentic systems are automating multi-step workflows. What was once conceptual is becoming operational. As adoption accelerates, markets are repricing accordingly, most visibly in software and other human-capital-intensive services.

The repricing is inherently cross-sectional. In our view, assessing AI requires more than considering exposure alone; it involves evaluating how companies rank along three dimensions:

- Their ability to harness AI-enabled growth
- Their exposure to disruption or redundancy
- Their capital discipline in executing large-scale infrastructure build-out

Some firms are positioned to benefit from productivity gains and rising demand for compute and automation. Others face long-term challenges around the durability of asset-light, human-capital-intensive models. Many occupy a middle ground, simultaneously exposed to both opportunity and risk.

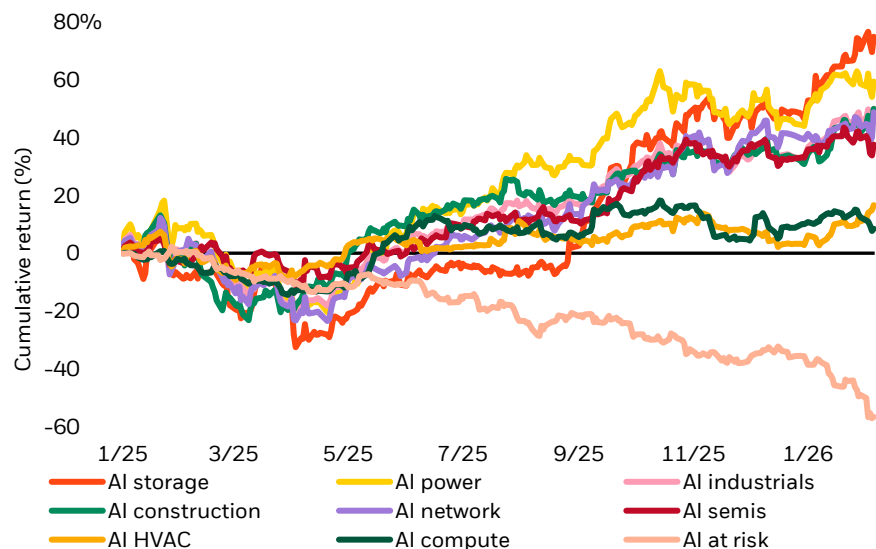
Systematic signals identifying firms at risk of AI-driven displacement have helped navigate this repricing. Complementary signals targeting AI and data-center infrastructure beneficiaries informed allocations as leadership rotated. The divergence between long/short AI baskets underscores how decisively markets are distinguishing between perceived winners and those facing structural headwinds.

Source: BlackRock as of March 2026. The opinions expressed may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and non-proprietary sources deemed by BlackRock to be reliable. No representation is made that this information is accurate or complete.

# Systematic multi-strategy: Dispersion, disruption and discipline

## Opportunities and risks are diverging across the value chain

Cumulative returns to long/short baskets within the AI theme

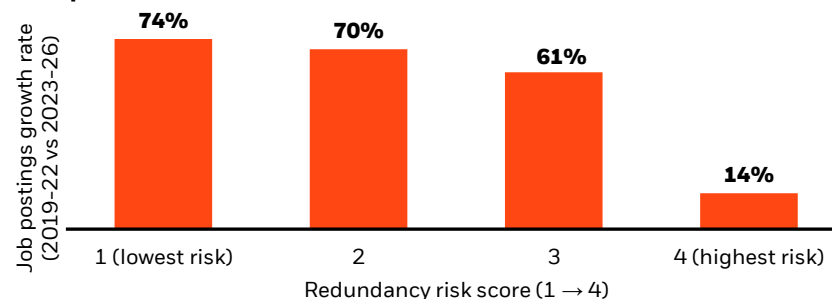


**Capital at risk. The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.**

Source: BlackRock Systematic as of February 2026.

Evidence of this transition is increasingly visible beyond financial markets. Job-posting data since the release of large language models provides a useful real-economy lens. Comparing occupational demand growth between the pre-generative pre-trained transformer (GPT) period (2019–2022) and the post-GPT period (2023–2026) reveals a clear pattern: roles with higher AI replacement risk are seeing materially weaker demand growth.

## AI exposure and labor demand since GPT



Source: BlackRock Systematic as of March 2026.

The implication is not that automation eliminates work, but that it reshapes where demand appears. Investment, infrastructure and technical implementation roles continue to expand, while tasks more easily replicated by generative systems are experiencing slower growth.

At the occupational level, the divergence is even clearer. Based on our data, job postings for telemarketers, a role heavily exposed to automation, have declined by more than 40%. By contrast, postings for computer and information research scientists, who design and build the systems powering AI itself, have increased more than five-fold.

Markets often price disruption faster than productivity gains. This dynamic has been especially evident in software, advisory, and payment-related business models. Even strong earnings have occasionally been met with muted reactions, reflecting recalibration rather than deterioration in fundamentals.

Importantly, AI's influence is broadening leadership across sectors and geographies. Infrastructure, industrial capacity, energy transmission, semiconductors, and advanced manufacturing are all increasingly central to the next phase of technological expansion. The widening dispersion we observe reflects markets processing this transformation in real time.

Source: BlackRock as of March 2026. The opinions expressed may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and non-proprietary sources deemed by BlackRock to be reliable. No representation is made that this information is accurate or complete.

# Systematic multi-strategy: Dispersion, disruption and discipline

---

## A market that is broadening

One of the more constructive developments in 2026 has been the broadening of participation. International markets have strengthened relative to the U.S., and small- and mid-cap stocks have participated more meaningfully. While value has shown intermittent improvement relative to growth, leadership remains uneven.

In our view, these dynamics reflect more than technical rotation. They signal capital reallocation toward tangible investment, fiscal expansion and industrial policy themes.

Momentum has been strong, with price-based signals leading revisions and slower moving quality measures. This pattern is not unusual during structural transitions. Markets often anticipate before earnings data confirm.

What matters is not whether price leads fundamentals temporarily. The key question is durability. Across AI adoption, industrial policy and in energy infrastructure, the forces appear structural rather than cyclical.

Cross-asset positioning has reflected this environment. Exposure to metals, commodities and Asian equities has aligned with industrial and infrastructure themes. Within equities, positioning favors quality and valuation discipline within technology rather than long-duration speculation. International industrials, particularly European aerospace and Japanese construction, reflect both bottom-up fundamentals and top-down fiscal support.

## Discipline in a period of change

History shows that once markets internalize a structural shift, valuation frameworks adjust accordingly. We have seen this dynamic play out in media and retail. AI is increasingly prompting similar reassessments across software and services.

Structural change, however, rarely produces clean binaries. Many companies most exposed to redundancy risk are also leaders in AI adoption. Productivity gains and displacement can coexist. This nuance complicates simplistic long/short narratives but enhances the value of systematic signal extraction.

Against a backdrop of elevated stock-specific volatility, risk-taking has become more measured. We continue to favor value over growth, supported by yield curve dynamics and earnings trends. Within IT, the focus remains on quality and valuation discipline over speculative, rate-sensitive growth segments. On the short side, caution persists in areas facing margin pressure and slower sales momentum.

## The opportunity in 2026

This year's opportunity set is defined less by forecasting macro direction and more by navigating differentiation:

- Dispersion remains elevated and persistent
- AI is reshaping competitive landscapes
- Leadership is broadening across regions and styles
- Capital is rotating toward tangible investment and execution strength

Markets are repricing structural change in real time. That path may be uneven, but it reflects adaptation.

For hedge funds, this environment favors systematic discipline, cross-asset flexibility and selective risk-taking. When markets discriminate more sharply, the opportunity set expands with them.

Innovation expands possibility. Differentiation expands opportunity. 2026 continues to offer both.

Source: BlackRock as of March 2026. The opinions expressed may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and non-proprietary sources deemed by BlackRock to be reliable. No representation is made that this information is accurate or complete. There is no guarantee that any forecasts made will come to pass.

# Global macro: Navigating inflation, terms-of-trade, and geopolitical shocks



**Tom Becker, PhD**

Managing Director, Global Tactical Asset Allocation Team



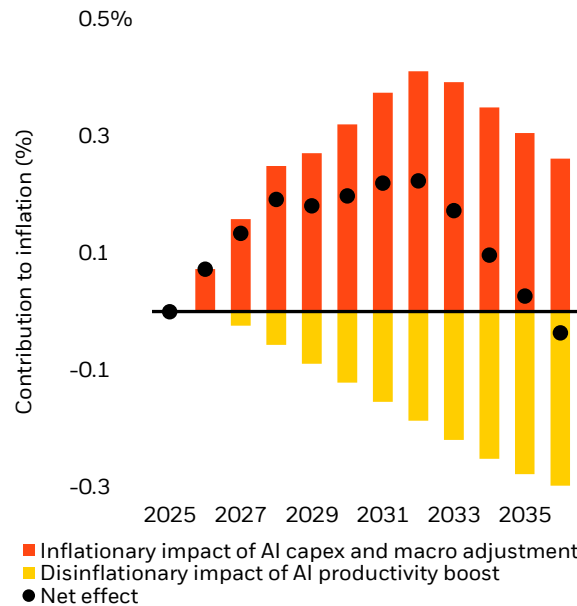
**AI may be disinflationary over time – but its near-term impact is inflationary.**

As differentiation spreads across markets, macro investors are seeing a widening gap between economic fundamentals and market pricing. At the start of 2026, easy monetary policy and loose financial conditions left markets complacent about the synchronous acceleration of both growth and inflation. Rising energy prices have begun to push global bond yields higher and tighten financial conditions, but the path from here remains highly uncertain and we maintain low directional equity positioning. With inflation now set to overshoot central bank targets for a fifth consecutive year, conditions point to continued pressure in fixed income, particularly across European bond markets. AI capex and defense spending are also shaping regional dynamics in bond markets and influencing relative competitiveness trends, including developed market Asian equities.

## AI – inflationary today, and (maybe) disinflationary later

One of the most policy-relevant questions for markets in the coming years is the extent to which AI will boost productivity growth. Shifts in productivity matter for asset prices insofar as greater efficiency gains allow economies to grow faster without generating additional inflation pressures. While many investors have embraced a disinflationary framework for AI, we believe this overlooks the front-loaded inflation being generated by the energy- and capital-intensive build-out and also ignores that fast productivity growth is associated with higher real interest rates.

## Forecast inflationary forces from the AI capex build-out are frontloaded relative to the disinflationary effects of AI productivity gains



Source: BlackRock Investment Institute, January 31, 2026. Orange bars show hypothetical projections of the effects of AI capex spending on U.S. inflation under the assumption that global capex is in line with consensus capex projections totaling USD 5T through 2025-2030 inclusive, and assuming that AI capex crowds out some other activity in the economy. The yellow bars show hypothetical impact of AI-driven efficiency improvements on U.S. inflation under assumptions about the speed and extent of AI-driven productivity growth and resulting impact on inflation.

Source: BlackRock as of March 2026. The opinions expressed may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and non-proprietary sources deemed by BlackRock to be reliable. No representation is made that this information is accurate or complete. There is no guarantee that any forecasts made will come to pass.

# Global macro: Navigating inflation, terms-of-trade, and geopolitical shocks

Price pressures are already visible throughout the global supply chain – acutely so in electricity, industrial metals and Dynamic Random Access Memory (DRAM) chip prices. These upstream commodity price rises look set to flow into consumer prices in the coming quarters. A recent analysis from the BII traces out the time path of offsetting inflationary and disinflationary forces from AI deployment and corroborates our expectation of an upfront boost to inflation. Given the tactical link between inflation and bond yields, this dynamic points to upward pressure on yields across major developed markets.

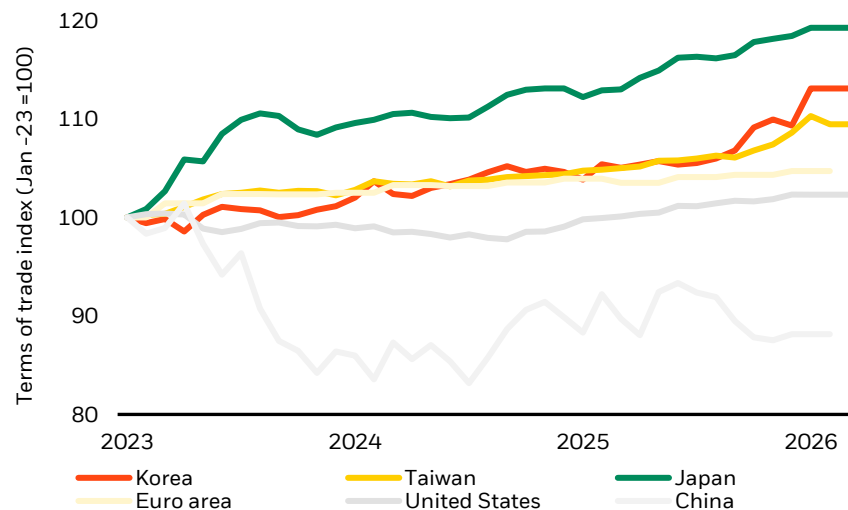
## Developed Asia is having a competitiveness moment

Developed Asian equity markets have outperformed global equities over the last few years with notable alpha opportunities emerging across Japan, Taiwan and South Korea. The high-tech exports of all three of these countries have translated into sustained earnings outperformance, and this accrual of international competitiveness can be traced back to an economic concept known as terms-of-trade (ToT).

Terms-of-trade is the ratio of a country's export prices to its import prices. An improving ToT corresponds to a gain in international competitiveness relative to its trading partners and is supportive of corporate earnings and debt sustainability. Typically, ToT improvements correlate with exchange rate moves, but the recent demand-driven jumps in integrated circuits prices have been large enough to impact overall tradable goods prices.

As shown to the right, rising microelectronics prices have created a sustained improvement in developed market Asia's ToT relative to other major economies. Despite having relatively weak currencies, Japan, South Korea and Taiwan have been exporting tradable goods – like semiconductors, industrial machinery and automobiles – that have been steadily appreciating in value relative to their import prices. The global AI capital expenditures and defense spending booms are boosting the margins of companies in the region and raising their national incomes.

Changes in terms of trade in the last few years have benefitted Asian economies



Source: BlackRock with data from Bloomberg, March 10, 2026.

Source: BlackRock as of March 2026. The opinions expressed may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and non-proprietary sources deemed by BlackRock to be reliable. No representation is made that this information is accurate or complete. There is no guarantee that any forecasts made will come to pass.

# Global macro: Navigating inflation, terms-of-trade, and geopolitical shocks

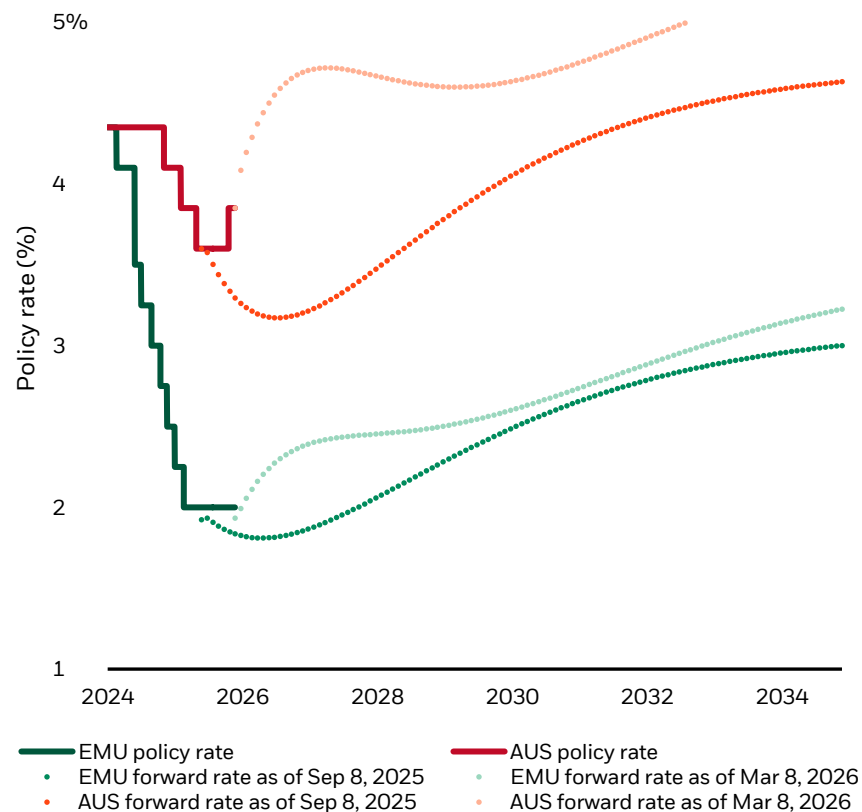
## Mispriced dovish policy paths

Our macro approach focuses on identifying the disconnects between our interpretation of the macro fundamentals (growth, inflation and policy) and the prevailing market pricing.

As one example, last fall our systematic signals and discretionary insights identified catalysts for a sustained improvement of growth and inflation in Australia. As can be seen in the visual to the right, market pricing for the policy path of the Reserve Bank of Australia (RBA) was dovish on the back of a tough couple of years for the down under economy so we positioned portfolios short Australian government bonds and long the Australian dollar. The economy gained strength in the fourth quarter, the RBA hiked at the start of 2026 and bond markets moved to price two additional hikes as of February 2026. This evolution highlights how quickly policy expectations can adjust as macro data strengthens.

More recently we've seen underappreciated signs of a fiscal emergence in Europe as the Draghi Report recommendations and German investment packages begin to flow through to the economy. Improvements in the medium-term growth and inflation outlook for Europe have been met with stubbornly dovish pricing of the European Central Bank (ECB) policy path. This dynamic suggests the potential for further repricing in Eurozone interest rates, particularly given previously one-sided market expectations ahead of the recent geopolitical escalation.

## Market expectations for policy rates in Europe and Australia have shifted higher in the last 6 months



Source: BlackRock with data from Bloomberg, March 10, 2026. Forward rate expectations based on Overnight Index Swap (OIS) rate, a market-based measure derived from expected overnight interest rates over the stated term.

Source: BlackRock as of March 2026. The opinions expressed may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and non-proprietary sources deemed by BlackRock to be reliable. No representation is made that this information is accurate or complete. There is no guarantee that any forecasts made will come to pass.

# Fundamental equity: Fundamentals to the fore in AI debate



**Dan Whitestone**

Head of the Emerging Companies,  
Fundamental Equities

“

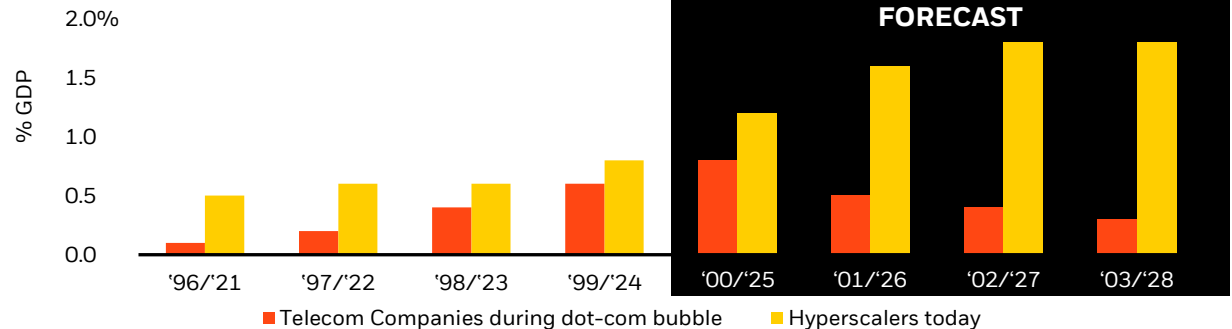
**The central determinant of returns in the AI complex will be fundamentals – not the popping of a bubble.**

## An AI bubble?

As differentiation across companies accelerates, fundamental investors are confronting a central question: Are we in an AI bubble? The bear case is a seductive one. The last time the technology sector in the U.S. invested this heavily in a new, unproven technology was the internet boom of 1999 to 2000. Euphoric public markets and bad corporate behavior caused misallocation of capital on an unprecedented scale. After the crash, it took the Nasdaq 100 index 15 years to hit a new all-time high. On some measures, the current boom is of an even greater magnitude. Spending on AI is already larger when measured as capital expenditure as a percentage of GDP, and it's forecast to grow from here (see chart).

## A familiar spending boom?

Capital expenditure



Source: 'Extreme Concentration in the S&P 500' chartbook from Apollo Academy Chief Economist, Torsten Slok, as of September 2025. Note: Hyperscaler companies include Oracle, Microsoft, Meta, Amazon, Google, and Telecom companies include Level 3 Communications, WorldCom, Global Crossing, Nortel Networks, Verizon, AT&T, Nokia, Cisco Systems, Williams Companies and XO Communications.

Yet there are important differences between today and 2000. In 2000, much of the investment went on laying dark fiber in the hope that internet traffic would grow fast enough to fill it quickly. Much of that network still lies dormant today.

By comparison, the current capex boom is largely spent on data centers and servers, most of which are fully utilized as soon as they are switched on. The main determinant of recent revenue growth at the three largest hyperscalers has been their ability to add capacity, rather than demand for their services.

Source: BlackRock as of March 2026. The opinions expressed may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and non-proprietary sources deemed by BlackRock to be reliable. No representation is made that this information is accurate or complete. There is no guarantee that any forecasts made will come to pass. Reference to individual companies mentioned in this communication is for illustrative purposes only and should not be construed as investment advice or investment recommendation.

# Fundamental equity: Fundamentals to the fore in AI debate

While there are pockets of irrational valuation and extremes, our assessment is that the valuation of the AI complex as a whole is relatively rational today. This leads us back to thinking the central determinant on returns for this broad group of companies is going to be the fundamentals rather than any wild swings in the valuation multiples or the popping of a stock market bubble.

## When disruption brings opportunities

Analysis is centered on industry change and the impact of technology on the competitive landscape. This perspective highlights several potential short opportunities, as AI begins to disrupt many established business models.

- We believe that any business model **reliant on a billable hour structure** for repeatable white-collar tasks is at risk, from consulting to market research and analysis. The potential of price deflation from replacing multiple billable hours of human labor with AI prompts and a human editor, which can be updated in real time (versus a team of analysts taking months to assemble and analyze the data and write a report) is significant.
- For industries such as **advertising or marketing**, we'd argue a strong case has been made that the marginal cost of creating the next great advertising campaign has collapsed from two weeks of copywriter time to the rental price of a GPU in several minutes. During the 2025 NBA finals, a prediction marketing platform aired an advertisement made by one person using AI tools costing USD 2,000 to produce, roughly 95% less than most other similar length ads directed by traditional agencies.

- **Information Service** companies that monetize data in lucrative and entrenched subscription models often see annual price increases comfortably more than inflation. The worry is that AI-generated content and agents will quickly replace the content and workflows that these companies monetize, and so the debut of several products such as Harvey in the legal profession to Claude for financial services has led to a rapid re-evaluation of what is possible from these tools.

Any AI model is only as good as the data fed into it, so genuinely proprietary data sets could become even more useful as they are needed to feed and train new models and products. Meanwhile re-badging and re-selling public data as a different product, such as analysis of fund returns, details of transactions and "strategic analysis," is more likely to be disrupted by AI tools that can scour the internet for all the current data and compile it into a research summary by the time a human analyst has sat at their desk. In our view, the most likely companies to be disrupted are those with a high proportion of revenues from research services, with an advisory customer base and fewer proprietary data sets.

The impact of AI disruption will ultimately show up in the financial results of those affected. In several cases, it's already possible to see AI competitors taking revenue share, massive price deflation and incumbents having to spend heavily need to keep up with new players.

AI remains an exciting but concentrated and volatile theme. We see genuine long-term leaders on sensible valuations, and also many shorting opportunities as disruption accelerates.

Source: BlackRock as of March 2026. The opinions expressed may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and non-proprietary sources deemed by BlackRock to be reliable. No representation is made that this information is accurate or complete. There is no guarantee that any forecasts made will come to pass.

# Fundamental multi-strategy: Managing faster regime shifts



**Rick Rieder**

Chief Investment Officer of Global Fixed Income and Head of the Global Allocation Investment Team



**Diversification can disappear quickly as correlations shift in stressed regimes.**

The themes discussed so far, AI disruption, inflation shocks, and widening dispersion, highlight a deeper challenge for relative value investors: How market regimes evolve over time. The increasing speed and extremity of these shifts underscore the importance of a robust investment regime framework. A key challenge is understanding how relationships between different risk factors can change over time and how those relationships evolve across investment regimes. As an example, a fund might hypothetically have multiple bets across equity style factors, have various spread bets across relative value factors, and may be involved in bespoke lending, just to list a few potential positions.

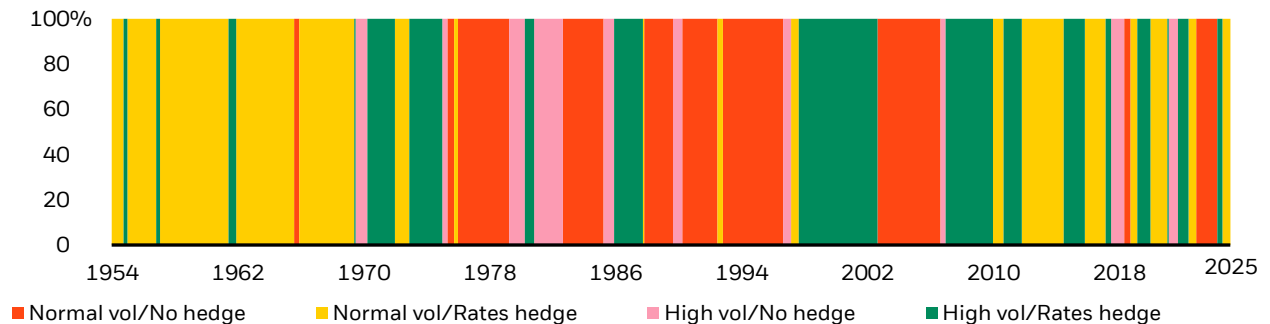
The crucial question for a manager with these positions would be: How do these various factors relate to one another, both at this point in time and across shifting investment regimes? Therefore, managing risk and positioning in a fund like this

requires not only understanding both the volatility and scaling of each bet, but also understanding the correlations and relationships between our positions as regimes change.

## Defining regime analysis

To quantify these forces, let's look at investment regimes across markets over time, and see how they could impact a multi-strategy portfolio. First, we define these regimes by dividing time along two overlapping axes: Markets stress (as measured by asset class volatility levels) and the correlation between interest rate risk (duration) and risk assets. In the chart below, we utilize a Hidden Markov Model (HMM) to identify these four regime types across the past 75 years.

## Identifying regime types



Source: BlackRock. Data from Bloomberg and FRED. Calc by BLK. As of December 2025.

Source: BlackRock as of March 2026. The information and opinions contained in this material are derived from proprietary and non-proprietary sources deemed by BlackRock to be reliable. No representation is made that this information is accurate or complete.

# Fundamental multi-strategy: Managing faster regime shifts

---

Several key points immediately stand out: For instance, we see high levels of market stress around periods like the 2008 Global Financial Crisis, the early 2000s Tech Bubble bursting and the peak of the Covid pandemic. Likewise, we notice periods when rates and risk assets are positively correlated, such as in the 1980s and in the most recent bout of inflation. And crucially, we see that these regimes have been changing faster and more frequently in recent years. Thus, the concept of building resilient portfolios that are robust enough to withstand the rapid gyrations we've seen across regimes is only becoming more important.

## Investment regimes and their impact on portfolio construction

Now that we've identified regimes across time, we can look at their impact on portfolio construction. In this analysis, we're going to look across a long history — going back to the 1950s. When looking at the average volatility of rates, credit and equities across the more than 70 years covered by our dataset, we see — as we expected — dramatic differences in volatility across the different regimes we've identified. For example, times of high market stress led to volatility that can be nearly double that of calmer times. The difference between volatility in calm times and that of stressed times varies, of course, by asset class. Interestingly, in credit spreads we see a larger proportional increase in volatility than we do in equities under stressed conditions. Portfolio managers managing funds with multiple risk factors need not only consider how volatility changes, but also the varying magnitudes of volatility changes across differing asset classes.

Further, it's vital to look at correlations. Unsurprisingly, the swing in correlations between equities and bonds across regimes leads to dramatically different portfolio construction. Different correlations across asset classes matter, but we can also look at how correlations shift within asset classes. For instance, we look at correlations among equity sectors in the regimes with high stress compared to the regimes with "normal" stress and understandably correlation within equities rises when there's stress. This demonstrates how seemingly diversified "bets" can quickly become less diversified in a stressed environment, as we've witnessed many times in the past.

## Concluding considerations

For hedge fund managers, identifying and adapting to market regimes remains fundamental. Volatility can shift and spike unevenly across portfolios, while correlations can change materially both across and within asset classes. As regime transitions appear to be occurring more quickly and more frequently, the ability to understand, model and manage these dynamics will remain central to effective portfolio construction and risk management in the periods ahead.

Source: BlackRock as of March 2026. The opinions expressed may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and non-proprietary sources deemed by BlackRock to be reliable. No representation is made that this information is accurate or complete. There is no guarantee that any forecasts made will come to pass.

# Event driven: A decisive acceleration of corporate activity



**Mark McKenna**

Global Head of Event Driven

“

**From the CEO's perspective, there is a clear mandate that now is the time for M&A.**

## **A decisive acceleration of corporate activity**

Against a backdrop of supply-driven uncertainty, companies are accelerating strategic transformation, creating a favorable environment for event-driven opportunities. Over the past year, we have seen a clear inflection in corporate activity. Global M&A reached more than USD 4.8 trillion in announced volume in 2025, with momentum increasing decisively in the second half of the year. Strategic buyers and private equity sponsors moved with renewed urgency, culminating in a record fourth quarter for North American M&A. Deal activity also broadened across industries, expanding both the depth and diversity of opportunities available to event-driven investors.

Entering 2026, that momentum has continued to build, with North American M&A volume up 54% year over year, despite macroeconomic and geopolitical headwinds. Deal supply remains robust, supported by pent-up strategic demand, a more constructive policy backdrop, and an increasing need for corporate transformation. Against still-elevated equity valuations and tight credit conditions, event-driven investing stands out as a differentiated opportunity set, with returns driven by defined, company-specific catalysts rather than broad market directionality.

## **CEO M&A mandate: The time is now**

From the CEO's perspective, there is a clear mandate to act. Rapid technological change is expanding the scope of strategic dealmaking and increasing the need to acquire capabilities, scale, and integrate strategically. Boards and management teams are aligned around acting decisively, particularly where

technology consolidation, supply-chain resiliency, and operating leverage can create durable competitive advantages.

We see this urgency driven by three primary factors:

### **1. Leaning into strength, exiting weakness:**

Companies are focusing capital on their strongest business lines while exiting underperforming segments.

As technology reshapes competitive dynamics, management teams are becoming more deliberate about resource allocation. Strategic M&A and divestitures are increasingly used to concentrate investment around core franchises and capabilities.

### **2. Diversification through scale:**

While AI is a powerful disruptor, uncertainty remains around which business models will ultimately prevail. Companies are acquiring adjacent capabilities to broaden revenue streams and increase strategic flexibility. Larger, more diversified platforms are better positioned to absorb change and remain adapt as these themes evolve.

### **3. Integrating the 'picks and shovels':**

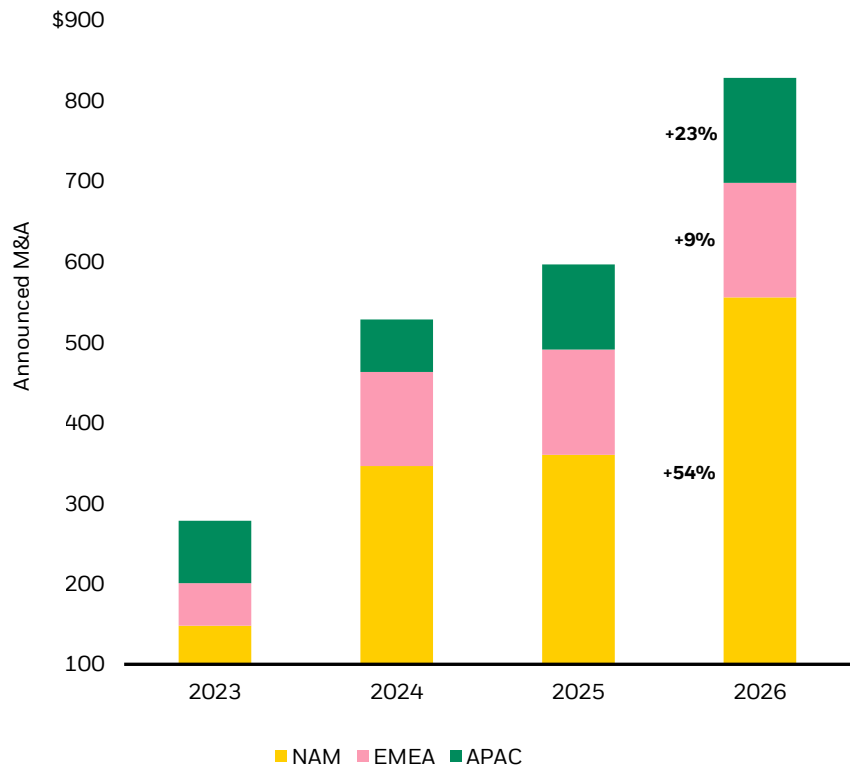
Companies are investing in the infrastructure that supports future growth, particularly around AI. While activity is broad-based, we are seeing increased demand in the infrastructure that underpins this transformation; utility mergers across power generation, data centers, and related assets that will power AI needs. As companies look to position themselves for this next phase of growth and as AI adoption expands, demand for energy reliability, data storage, and compute capacity is rising sharply and driving strong M&A volume.

Source: BlackRock, with data from Bloomberg and Citi as of February 2026.. The information and opinions contained in this material are derived from proprietary and non-proprietary sources deemed by BlackRock to be reliable. No representation is made that this information is accurate or complete.

# Event driven: A decisive acceleration of corporate activity

## Announced M&A YTD

Volume (USD B)



Source: Bloomberg, February 28, 2026.

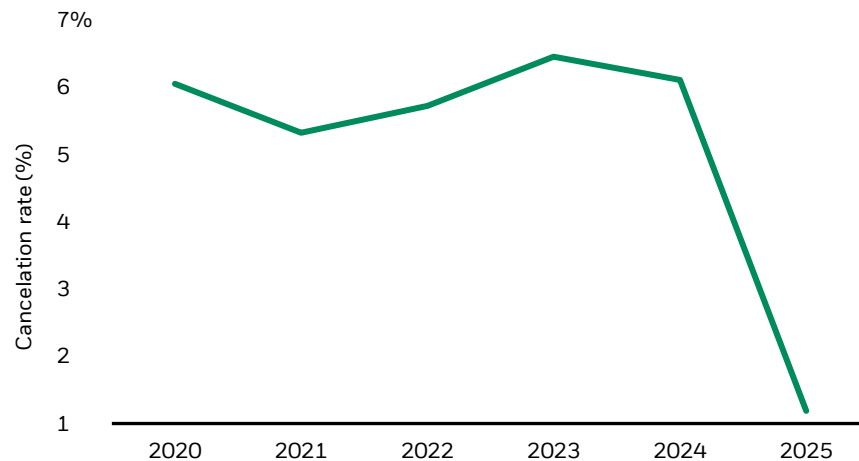
## Supportive dynamics and attractive risk premia

This increase in corporate activity is supported by improving structural conditions. Greater regulatory clarity and available capital are reinforcing the pace of corporate change. A more pragmatic antitrust framework, with increased predictability, faster clearance for transactions, and greater openness to negotiated remedies, has reduced execution uncertainty and supported the acceleration in deal flow.

Historically, mergers have taken three to six months on average to complete. In the current environment, timelines are often compressing, with many transactions progressing even more quickly.

## Reduced execution uncertainty

Canceled deals as a percent of total announced



Source: Bloomberg, December 31, 2025.

Source: BlackRock as of March 2026. The information and opinions contained in this material are derived from proprietary and non-proprietary sources deemed by BlackRock to be reliable. No representation is made that this information is accurate or complete.

# Event driven: A decisive acceleration of corporate activity

---

At the same time, capital availability remains strong. Corporate cash balances have reached approximately USD 2.1 trillion, the highest level on record. Private equity sponsors also continue to hold substantial dry powder, with reserves expected to grow over the coming years.

From an implied rate of return (IRR) perspective, merger arbitrage is offering standout yields today relative to long-run expectations, as the surge in deal supply requires more capital at a time when the number of dedicated arbitrageurs has shrunk, expanding risk premia and, accordingly, IRRs.

## **Attractive opportunities across the capital structure**

Beyond merger arbitrage, we see a broad set of opportunities across capital markets. Capital structure optimization and large-scale capital returns are reshaping balance sheets across sectors. At the same time, improving equity capital markets are supporting a growing IPO pipeline of high-quality companies, further buttressed by financial sponsors seeking much-needed liquidity.

This environment is fostering more active and collaborative engagement with company management teams, particularly where an integrated equity and credit perspective can inform strategic decisions, capital structure design, and transaction execution.

## **Strategic outlook**

Deal activity has remained robust, despite elevated market volatility, with new transactions continuing to be announced and existing transactions processing, often on faster timelines than anticipated. While we expect these constructive trends to persist, the focus remains on deal quality, careful evaluation, and prudent risk calibration.

## **Executing on these opportunities**

The combination of regulatory tailwinds, corporate urgency, competitive dynamics, and abundant capital has created an opportunity-rich environment across the event-driven spectrum.

Against this backdrop, activity has increasingly centered on situations with hard catalysts — those offering clear deal timelines, defined outcomes, and structurally elevated risk premia.

With a deep pipeline of investable events and a disciplined, fundamentally grounded approach, we believe the current environment offers attractive opportunities to generate potentially differentiated returns through event-driven investing.

Source: BlackRock as of March 2026. The opinions expressed may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and non-proprietary sources deemed by BlackRock to be reliable. No representation is made that this information is accurate or complete.

# Preparing for a wider range of possibilities



**Albert Matriotti**  
Co-CIO for Hedge  
Fund Solutions



**Diana Myint**  
Co-CIO for Hedge  
Fund Solutions

“

**Edge doesn't come from predicting markets – it comes from building portfolios that can withstand a wide range of outcomes.**

Across systematic, macro, fundamental and event-driven strategies, a common message emerges: Hedge funds are increasingly central to modern portfolio architecture. However, their value is not inherent. It is realized through disciplined manager selection, thoughtful portfolio construction and rigorous risk management. That includes stress-testing exposures, trimming allocations where risk has risen alongside strong performance and maintaining the flexibility to deploy capital to the most interesting opportunities as the investment landscape evolves. For hedge fund investors, edge doesn't come from predicting exactly what markets will do next, but in building robust portfolios designed to withstand a wide range of possible outcomes. This investment approach is increasingly vital amidst today's market dynamics, characterized by rising correlations, elevated asset prices and intensifying geopolitical risks.

Reduced diversification among traditional assets has weakened the effectiveness of static, top-down asset allocation frameworks. Long-duration bonds, for example, have not consistently provided the protection investors expect during periods of uncertainty, while gold has behaved more like a momentum trade than a steady safe haven. At the same time, prominent themes like the “AI Revolution” have cut across equities, credit and private markets, creating hidden concentrations in similar sources of return. In this setting, hedge funds capable of generating idiosyncratic returns, and less dependent on beta-driven moves, have become essential complements to traditional exposures.

The combination of lofty asset prices and underlying fragility in markets creates both opportunity and risk for hedge fund strategies. Market gains driven by a small group of stocks, stretched valuations, and diverging monetary policies have widened dispersion across regions and sectors. For fundamental long/short, event-driven and relative value managers, this backdrop of increasing dispersion can serve as a meaningful source of alpha. At the same time, crowding and valuations propelled higher by dominant themes like AI are leading to sharper reactions when companies miss earnings, reinforcing the importance of prudent risk management and dynamic positioning. In this environment, the demand for tactical, diversifying sources of return has rarely been higher, and we believe outcomes will be driven less by broad market exposure and more by heightened selectivity, adaptability and discipline.

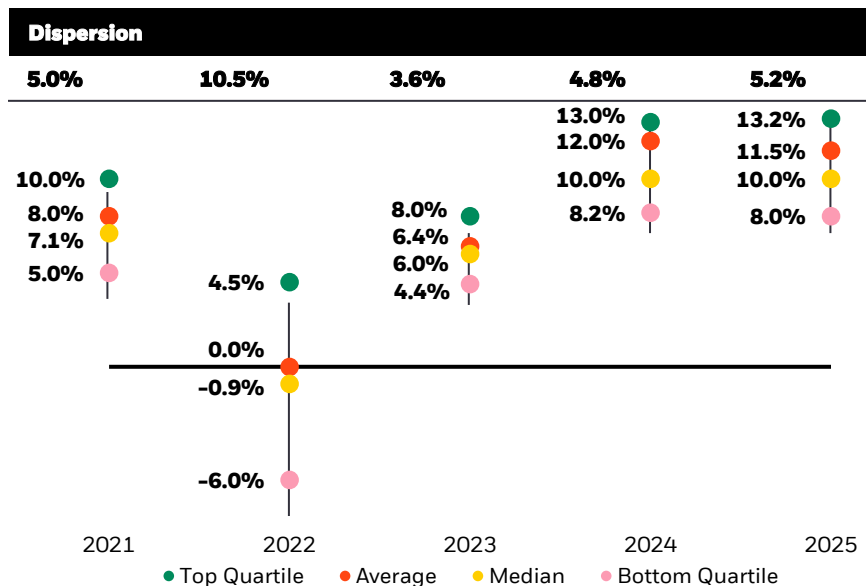
Geopolitics remains a key source of uncertainty, as large-scale conflicts, episodic trade tensions and the ongoing rewiring of globalization carry the potential for lasting market impacts. In 2026, tensions remain high, with forced leadership changes from Iran to Venezuela, the ongoing war in Ukraine and sustained strategic competition between the U.S. and China. Importantly, high quality hedge funds generally do not speculate on geopolitical outcomes. Rather than forecasting the direction of markets, these managers seek to profit from market volatility and price dislocations that such shocks create.

Source: BlackRock as of March 2026. The opinions expressed may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and non-proprietary sources deemed by BlackRock to be reliable. No representation is made that this information is accurate or complete.

# Preparing for a wider range of possibilities

Current market dynamics reinforce both the opportunity set for hedge funds and the importance of proper portfolio construction. Success depends not only on selecting and accessing skilled managers, but on how strategies are integrated, risks are calibrated and exposures are managed across market conditions. The breadth of available strategies enables investors to define a clear role for hedge funds within their portfolios and implement exposures with precision.

## Distribution of realized returns of allocators' HF portfolios



**Capital at risk. The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results.**

Source: BlackRock with data from Goldman Sachs Capital Introduction Allocator Surveys. Hedge fund portfolio returns achieved by allocators, 2021-2025 (each year through November).

Source: BlackRock as of March 2026. The information and opinions contained in this material are derived from proprietary and non-proprietary sources deemed by BlackRock to be reliable. No representation is made that this information is accurate or complete.

Diversification across the hedge fund universe is proving its worth as certain strategies are outperforming at different times. Approaches that depend on persistent trends have recently encountered headwinds, while those positioned to capitalize on company-specific events, rate dislocations, or regional differentiation have been rewarded. This isn't a weakness of hedge funds, but a reflection of diverse alpha engines operating across shifting conditions. Capturing the benefits requires balance, patience and disciplined underwriting.

Access to and selection of the best hedge funds remains critical to achieving this balance. The continued growth of multi-strategy platforms and renewed industry inflows have intensified competition for talent and capital, magnifying the importance of careful underwriting. Overlapping exposures and the use of leverage across platforms warrant close monitoring, particularly in segments where crowding can amplify both volatility and unwind risk.

An allocator's role is to understand how exposures combine across the portfolio and where correlated risks may be building. It demands clarity around what's truly driving returns, whether rooted in picking strong companies, trading around company-specific events or taking advantage of short-term price moves, and assessing how those drivers behave across different market regimes. Diversifying across these alpha streams can strengthen portfolio resilience across a range of market environments — whether correlations rise, gains concentrate in a narrow set of stocks or global risks increase.

In a market defined less by broad beta and more by rising differentiation, the opportunity set for hedge funds continues to expand.

**Important information**

This material is prepared by BlackRock and is not intended to be relied upon as a forecast, research or investment advice, and is not a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The opinions expressed are as of the date shown above and may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and non-proprietary sources deemed by BlackRock to be reliable, are not necessarily all-inclusive and are not guaranteed as to accuracy. As such, no warranty of accuracy or reliability is given and no responsibility arising in any other way for errors and omissions (including responsibility to any person by reason of negligence) is accepted by BlackRock, its officers, employees or agents. This material may contain 'forward looking' information that is not purely historical in nature. Such information may include, among other things, projections and forecasts. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader. This material is intended for information purposes only and does not constitute investment advice or an offer or solicitation to purchase or sell in any securities, BlackRock funds or any investment strategy nor shall any securities be offered or sold to any person in any jurisdiction in which an offer, solicitation, purchase or sale would be unlawful under the securities laws of such jurisdiction. Investment involves risks. Past performance is not an indication for the future performance.

**In Hong Kong**, this material is issued by BlackRock Asset Management North Asia Limited and has not been reviewed by the Securities and Futures Commission of Hong Kong.

No part of this material may be reproduced, stored in retrieval system or transmitted in any form or by any means, electronic, mechanical, recording or distributed without the prior written consent of BlackRock.

©2026 BlackRock, Inc. or its affiliates. All Rights Reserved. BLACKROCK is a registered trademark of BlackRock, Inc. or its affiliates. All other trademarks are those of their respective owners.