PivotalPath

Pivotal Point of View

2025 | *July*

For allocators evaluating hedge fund performance, context and completeness matter.

Every month, on behalf of almost $500B in client hedge fund capital, **PivotalPath** tracks 3000+ institutionally-relevant hedge funds, spanning over $3T of assets.

Our monthly report analyses fund data points and identifies trends to help provide unique insight into the hedge fund industry.

For access to sub-indices, underlying funds and additional research, visit www.pivotalpath.com or email us at inquiry@pivotalpath.com

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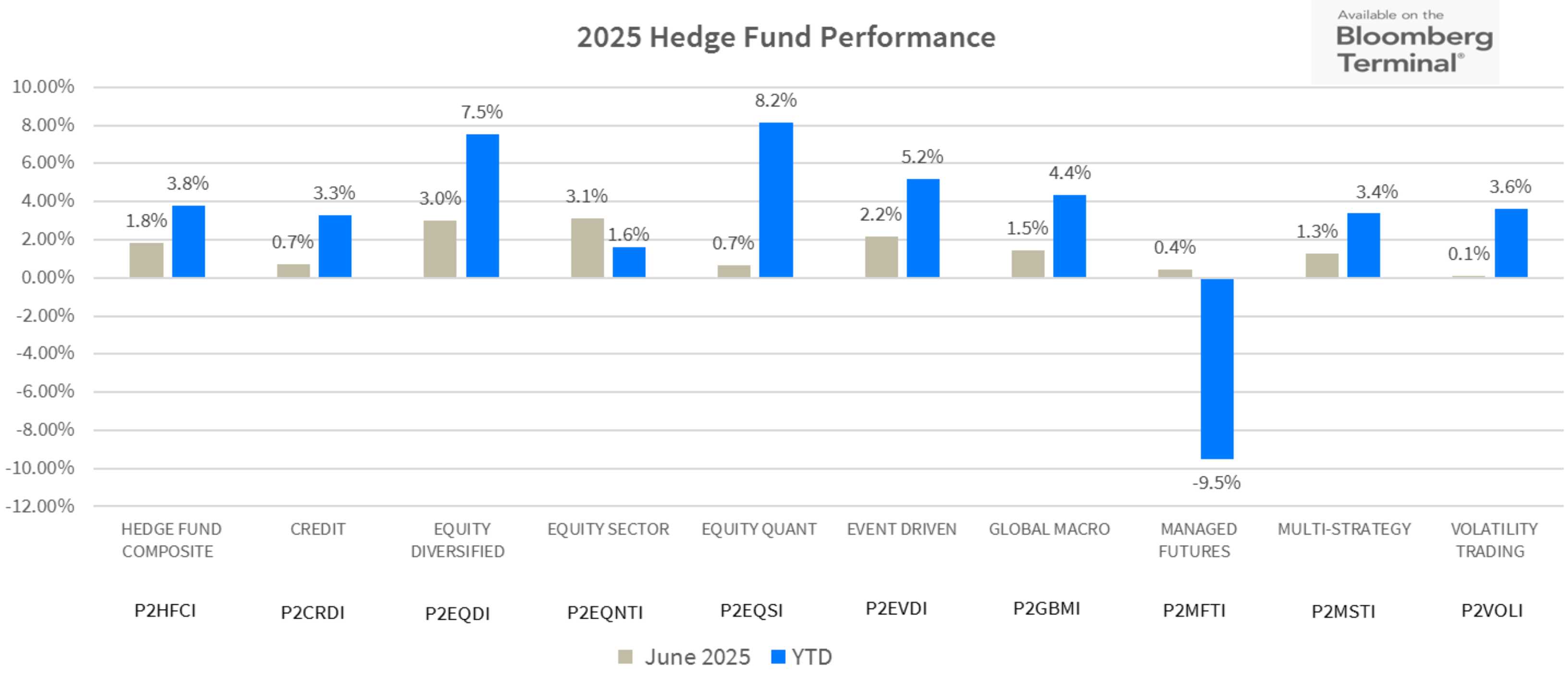
Key Takeaways

July 2025

Pivotal Point In Time: PivotalPath's main strategy indices experienced a clean sweep of positive performance in June, as equity markets impressed and ongoing macro dispersion provided opportunities in rates, FX and commodities

- June largely continued May's renewed optimism. **PivotalPath** saw equity specialists rotate from fear-driven trades to more fundamentals-focused positioning, bolstered by *mostly* stable economic data and a range of strong corporate earnings.
  - This approach drove **PivotalPath Equity Sector Index** returns of **3.1%** in June, making for a YTD of **1.6%**. After a volatile start to the year, hedge fund equity strategies returned **7%** in Q2.
  - The **PivotalPath Composite Index** was up **1.8%** across the month, making for a YTD of **3.8%**.
- This sector-wide upswing in performance saw hedge funds ratcheting up risk appetites, with net exposures ticking higher.
- The 'shape' of the risk taking also evolved, with funds leaning harder into growth and momentum (until a momentum unwind on the 1 July!), selectively rotating into quality cyclicals, and trimming short books in sectors previously deemed vulnerable.
  - 'Trimming' is the operative word, as managers spoken to by **PivotalPath** showed little appetite to cover shorts in a significant way, despite a market rebound from early April lows. Confidence has returned, but funds remain cautious about the "volatility to come".
- Leverage remained near year-to-date highs, and gross exposures also climbed, though most managers have stayed disciplined, deploying more capital into idiosyncratic trades rather than chasing beta.
  - This has helped dispersion pick up, particularly in tech and biotech, where single-name opportunities have begun to outperform broad index bets.
  - **The PivotalPath Equity Sector: Technology/Media/Telecom Index** surged **5.5%** in June, making for a YTD of **6.9%**. Over Q2 it has produced returns of **13.0%**, sweeping away early year losses as tech earnings more than impressed and the AI thesis regained momentum.
- While equity strategies impressed in Q2, discretionary macro players remain the only strategy group to have produced double digit returns as we hit the year's mid-point. Opportunities across commodities, widening dispersion across asset classes, and renewed opportunities in FX and sovereign debt have helped the **PivotalPath Global Macro: Discretionary Index** produce a YTD of **11.1%**.

2025 Hedge Fund Performance



Strategy Highlights: Managed futures managers down, but not out, as space shows small recovery in June

- Managed futures funds posted their first positive returns since January, with the **PivotalPath Managed Futures Index** eking out a **0.4%** gain across June. A crumb of comfort against the background of YTD losses of **9.5%** for the space.
- The cohort has faltered badly in 2025, largely because markets have lacked sustained and clear trends, often driven by erratic macro/political moves which disrupted models and caused sharp drawdowns.
- June was different, with some commodities, particularly metals and energy, beginning to trend, and providing the space with the directional signals to claw back some small gains.
- This year still holds the potential for enough macro shocks to disrupt any real recovery for the managed futures space. However, allocators currently contemplating redeeming should perhaps pay heed to a fragment from some recent **PivotalPath** client analysis:
    - During the **S&P 500**'s worst 5 months of the last 10 years, the managed futures space returned a cumulative **10.4%** versus the **S&P's** drawdown of **44.4%**.

Pivotal Point

> The PivotalPath Equity Diversified: Asia Long/Short Index was up 2.7% in June

Japan back on the manager agenda in H2

One of June's standout features was the re-emergence of Japan, and other parts of Asia, as serious alpha contributors, particularly for some multi-strategy managers who had positioned early for Bank of Japan policy stasis and improving capital efficiency trends in the wider region.

A weak US dollar and growing bets on US rate cuts also started to lift some manager sentiment toward high-beta assets, including Japan's exporters and tech names.

Like many developed economies, Japan's equity markets have endured a topsy turvy start to the year, harried by tariffs internationally and domestic concerns over inflation.

This started to ebb in May, and June consolidated an early return to form, supported by easing global tensions and a slowing of core inflation that reduced pressure on the Bank of Japan.

This slight cooling in inflation helped reduce fears of aggressive rate hikes, reinforcing Japan's equity narrative and contributing to a **Nikkei 225** print of **6.82%** and the **Topix** up **1.96%** in June. Both are up **2.58%** and **3.83%** respectively YTD.

Japanese companies, already improved by corporate governance reforms, also reported robust earnings, with many revising their forecasts upward, indicating a healthy economic environment and contributing to market gains and manager inflows.

Pivotal Context

US Equity Factors	June %	2025 YTD %
Quality	-1.97	3.26
Size	0.77	-9.15
Value	-0.08	-6.66
Growth	0.08	6.66
Momentum	1.96	10.37
Low Beta	-8.19	-6.09

** We use the Dow Jones U.S. Thematic Market Neutral factors as a timely proxy.*

The Backdrop: Momentum stayed strong in June, equities surged, but managers are still struggling to define the exact tenor of the year

- **Momentum's** strong May, where it posted **3.26%**, continued into June with the factor's **1.96%** taking it to a YTD of **10.37%**.
  - **Momentum** stands as the top-performing equity factor so far this year, with hedge funds returning as buyers in both the US and Europe.
  - A trend that was only bolstered in June by robust earnings reports from companies in sectors like technology, especially AI and chip stocks.
  - With inflation moderating (at least in June!) and rate cuts now anticipated later in 2025, markets priced in a soft landing, boosting risk-on sentiment and favoring high beta and momentum over defensive and value strategies, which typically outperform in uncertain environments.
  - However, on the 1 July **Momentum** weakened with a significant sell-off.
- While **Momentum** surged, **Value** remained subdued. In the US, **Value** lagged modestly year-to-date, underperforming its benchmarks. However, it did show stronger relative gains in Europe and Emerging Markets.
  - The **Value** factor tracked by **PivotalPath,** which fell by **6.10%** in April, and continued the slide into May, dropping by **2.31%**, sunk further in June with its **0.08%** for the month leaving it with a YTD of **6.66%**.
  - **Value** stocks struggled relative to tech and industrials. Small-cap and **Size** factors were also muted due to relatively weaker earnings and fewer AI-driven tailwinds compared to large-cap peers.

Pivotal Context (cont'd)

- As June closed the narrative remains split. Funds are bullish on earnings resilience and innovation-driven growth, but wary of policy whiplash, stubborn inflation, and the shadow of The 'One Big Beautiful Bill's' (OBBB) long-term implications.
  - This tug-of-war was most evident in the bond and FX markets, where volatility crept higher late in the month. Yet equities shrugged off these tensions, emboldened by strong corporate guidance and better-than-expected economic outcomes across a number of regions, including China.
- With markets grinding higher and hedge funds more constructively positioned than at any point this year, June offered something rare in 2025, a month where risk felt (almost) rational.
  - Notably, allocators are responding. Continuing their slow but deliberate pivot back toward hedge funds, attracted by a mix of uncorrelated alpha, improving performance dispersion, and lingering caution around private market valuations.
- In markets, global equities continued to gain, with the **MSCI World** up **4.32%** and the **S&P 500** rising by **5.09%**, fueled by momentum in AI-linked tech, a rebound in semis, and the likely future trimming of US rates.
  - The **MSCI** rose steadily over the month, reaching record highs late in June as growth stocks outperformed globally and finally falling US bond yields and a weaker USD boosted global equities and supported flows into developed markets.
    - The broad risk-on sentiments were also boosted by fading US/China tensions and signs of global economic stabilization, especially in Japan.
    - Managers rotating back into equities after April's tariff-driven sell-off also returned favoring a more diversified global exposure, igniting the **MSCI World**'s better returns as we reached 2025's mid-point.
- The **S&P 500** hit record territory, surging past 6,000 points early in June, driven by a combination of strong earnings, easing trade tensions, and positive policy signals.
  - Tech led the surge, but managers have commented on a broader base to the confidence as mid-caps and cyclicals, like industrials and financials, also gained strength, pointing to a more diversified market advance.
  - Managers made hay by leaning into both industrials and financials buys over the course of the month.
- In fixed income markets both the **US 10 Year** and **US 2 Year** experienced a period of stability with yields falling across the curve.
  - The decline was mainly driven by dovish Fed signals and easing geopolitical/inflation pressures, though offset by persistent fiscal supply and market volatility concerns.

Alpha Leaderboard

The chart below depicts alpha generation for each PivotalPath Index, sorted from high to low. Each strategy is color-coded for easy tracking.

Alpha Leaderboard
12M Rolling Over S&P 500

Q1 2025	April 2025	May 2025	June 2025		2020	2021	2022	2023	2024
10.2% Equity Quant	10.1% Equity Quant	10.8% Equity Quant	9.4% Equity Quant		14.3% Equity Sector	10.7% Credit	10.0% Managed Futures	6.1% Credit	9.5% Multi-Strategy
8.6% Credit	7.2% Credit	7.1% Credit	7.2% Credit		7.2% Multi-Strategy	9.5% Multi-Strategy	9.3% Global Macro	5.9% Equity Quant	9.1% Equity Quant
6.3% Multi-Strategy	5.7% Multi-Strategy	5.6% Multi-Strategy	6.2% Global Macro		5.6% Event Driven	6.2% Event Driven	7.8% Equity Quant	4.4% Managed Futures	8.9% Credit
5.1% Global Macro	3.5% Global Macro	5.1% Global Macro	6.0% Multi-Strategy		3.7% Composite	6.2% Equity Quant	1.9% Credit	3.9% Multi-Strategy	7.0% Global Macro
3.7% Composite	3.4% Event Driven	4.4% Event Driven	5.3% Equity Diversified		3.2% Equity Diversified	3.2% Global Macro	1.2% Multi-Strategy	3.7% Global Macro	6.0% Composite
3.0% Equity Diversified	3.1% Equity Diversified	3.9% Equity Diversified	5.2% Event Driven		1.8% Credit	3.0% Composite	0.8% Composite	3.0% Composite	4.2% Equity Diversified
2.2% Event Driven	2.9% Composite	3.3% Composite	4.2% Composite		0.7% Global Macro	0.6% Managed Futures	-1.6% Equity Diversified	2.4% Equity Sector	3.5% Equity Sector
-3.0% Equity Sector	-1.3% Equity Sector	-1.1% Equity Sector	-0.1% Equity Sector		0.0% Managed Futures	-0.7% Equity Diversified	-2.4% Event Driven	1.3% Equity Diversified	2.6% Event Driven
-8.7% Managed Futures	-16.7% Managed Futures	-17.3% Managed Futures	-15.6% Managed Futures		-7.9% Equity Quant	-8.4% Equity Sector	-10.3% Equity Sector	-1.1% Event Driven	0.4% Managed Futures

- The top four spots of **PivotalPath**'s **Alpha Leaderboard** remain occupied by the same strategies - **Equity Quant**, **Credit**, **Global Macro** and **Multi-Strategy** - that have driven the lion's share of alpha over the course of 2025.
- However, underneath the dominance of this 'alpha (s)quad', June saw some perceptible shifts in alpha generation across this group, as well as **PivotalPath**'s wider strategy subset.
- In the leader's group, **Equity Quant** failed to register a double-digit alpha print for the first time in 2025, as the turnaround in markets eroded the sector's short books. Regardless, 9.4% of alpha in June remains highly impressive.
- More interestingly, the **Multi-Strategy** (6.0%) space ceded its top three position to **Global Macro**, as tactical energy shorts and longs in G10 bonds clicked into gear.
- Finally, the **Composite**'s positive bump in alpha (4.2%), relative to its performance across the rest of 2025, was down to equity managers seeking more idiosyncratic and global exposure.

Pivotal Point

"The PivotalPath Global Macro: Discretionary Index was up 3.4% YTD in June"

Not what it USD to be?

Discretionary global macro managers have faced a surfeit of opportunities this year, with one of the most sustained being short USD trades, often complimented with long positions on the Euro.

The dollar's decline in June was particularly precipitous, leading to its weakest point since March 2022 and its worst six months since the 1970s!

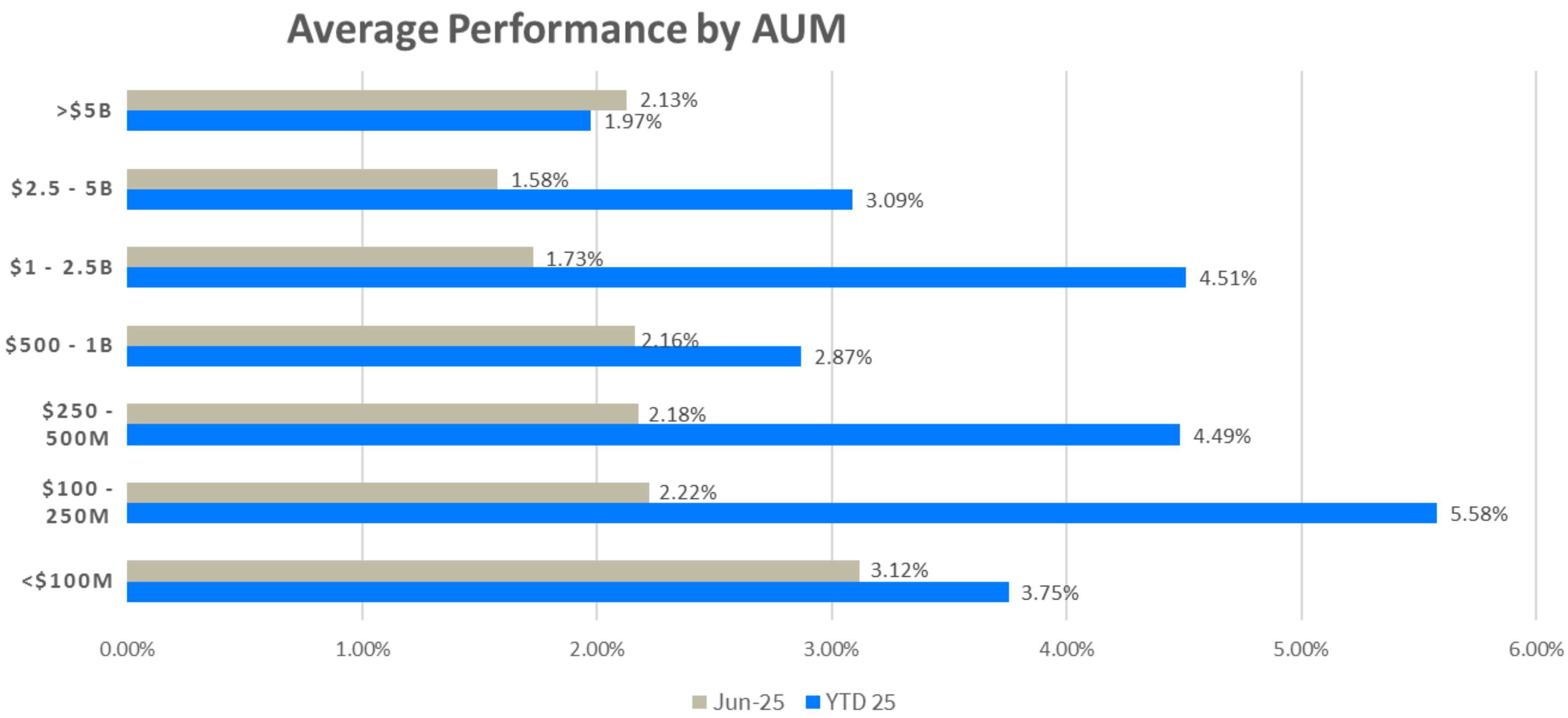
A convergence of Fed uncertainty, aggressive rate-cut pricing, political volatility, and structural shifts in global asset flows worked in tandem to drag down the greenback.

The **USD** fell by **2.47%** in June, ending the month down **10.70%** YTD against a basket of currencies, as it continued to depreciate against the **Euro**, **Yen,** and **CAD** over the month.

While a slender number of managers predict a rebound, most view the USD as still overvalued and vulnerable to further downside, with many positioning accordingly. A Bank of America survey found "short U.S. dollar" to be the most crowded trade among global fund managers, with euro exposure at a 20-year high.

Meanwhile, funds and allocators are increasing hedge ratios on dollar exposure, citing the dollar's correlation with US stocks and potential further weakness – a weakness likely to be exacerbated by any swift change of leadership at the Fed.

Hedge Fund Performance by AUM



- Approximately **83%** of all funds were positive in June. The average return of those positive was **3.08%**, while the average loss of declining funds was **1.83%**.

- So far in 2025, **73%** of all funds are positive, with an average return of **8.27%**, while the average of declining funds is **7.49%**. In 2024, **88%** of all funds were positive with an average return of **14.67%**, while the average return of declining funds was **7.48%**.

- As we hit the mid-year point all AUM brackets are now positive for the year, with the **>$5B** group returning to positive territory in June, as the cohort's high preponderance of Managed Futures funds shook off some of their early year torpor.

- The **$100-$250** AUM group enjoyed the best returns YTD, hitting **5.58%** for the year, largely driven by the surge in equity markets over May and June.

PivotalPath Index App

- **PivotalPath**’s free Index App creates an accurate and common ‘performance language’ for managers and allocators to better communicate with each other.

- Click **https://index.pivotalpath.com/** to access the app and use best-in-class data today.