Goldman Sachs Research

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HEDGE FUND TREND MONITOR

Down but not out

In this report we analyze the holdings of 991 hedge funds with $5.4 trillion of gross equity positions at the start of Q3 2026 ($3.4 trillion long and $2.0 trillion short).

Hedge fund performance, leverage, and the most popular long positions have swung sharply with the AI trade during the last few months. Hedge funds delivered strong Q2 gains as popular AI stocks led the market higher and hedge fund crowding climbed to a record. Funds then struggled as AI momentum unwound in July. Our Hedge Fund VIP list of the most popular long positions suffered its worst 1-month underperformance vs. the S&P 500 in more than 20 years of history, and July marked one of the sharpest hedge fund de-grossing episodes of the past decade. Despite the volatility, US equity long/short hedge funds have returned 10% through mid-August. Hedge fund gross leverage, net leverage, and AI exposure have each declined from their Q2 highs but still rank above longer-term averages.

Hedge funds entered last quarter "all in on AI" but began to diversify within and beyond the theme even during the Q2 rally. Portfolio turnover last quarter was the highest since 2021 and within Info Tech was the highest since 2011. Tech accounted for 14 of the 20 Rising Stars with the largest increases in hedge fund popularity last quarter. SNOW and STX joined the VIP list, as did SPCX. At the same time, funds trimmed positions in a number of AI stocks, including many semiconductors and most of the mega-caps. AMZN and MSFT were exceptions where funds added on net. Outside of AI, funds added to Health Care and lifted net tilts in Financials and Energy to the highest levels in over a decade.

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