First Trust

Alternatives Update

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Commentary | 6/30/2026

In the second quarter of 2026, alternative investments ("alternatives") on average had positive, but muted returns, especially when compared to the double digit returns of equities in both domestic and global markets. As the U.S. sought to de-escalate the Iranian conflict and open the Strait of Hormuz, oil prices retreated while investor focus shifted back to the developments in artificial intelligence (AI). The Federal Reserve entered a new leadership era as Kevin Warsh succeeded Jerome Powell as Chair. There were some who expected the new Chair to acquiesce to calls from the White House and aggressively lower rates. Very quickly, that notion was dispelled. The Federal Reserve (the "Fed") did not change interest rates at their June meeting, but they did signal inflation was a concern and this flipped market expectations from rate cuts to rate hikes. In response, short rates moved appreciably higher.

Equities advanced as strong earnings announcements and upbeat forecasts supported valuations (see Figure 1). Forward valuations are not so lofty due to increasing estimates of earnings. Despite a robust stock market, the U.S. Economy remained mired in a state of lower growth, job uncertainty and rising inflation. While 2% growth cannot be considered bad, put in the context of 3.5% - 4% inflation, it does not feel good. Combined with weak wage growth, declining labor-force participation, a wavering job market fraught due to geopolitical tensions and anxiety surrounding AI, this uncertain landscape may help explain why overall sentiment remains subdued. Meanwhile, U.S. Treasury debt continued its relentless march higher to over $39 trillion adding $400 billion in the quarter and $1 trillion year-to-date (YTD) along with the skyrocketing interest costs associated with that debt.

In our view, the similarities between today and the late 1970s have increased. In the late 1970s, the Federal Reserve was hesitant to continue to raise rates as growth slowed and employment waned. Meanwhile there was a second energy shock with the collapse of Iran, the U.S. dollar began a steep four-year decline, and consumer inflation expectations became unmoored. All these factors contributed to a second surge in inflation. Recently, the Federal Reserve Bank of New York's U.S. Business Leaders Survey of Future Prices reported that over 60% of the service sector expect price increases over the next six months which may indicate continued inflationary pressures. While the U.S. dollar has recently strengthened, there is a continuing effort by some nations to reduce dollar exposure and denominate trade in alternative currencies. With the sizeable U.S. debtor position, we believe this could introduce substantially more volatility into an already volatile global trade environment. The Iranian conflict remains unresolved and the ultimate impact on world energy markets remains uncertain and could be adverse. The impact of the massive AI/data center build out is straining both energy markets and energy infrastructure, which in the short-term could contribute to inflationary pressure, in our view.

Alternatives delivered positive performance in eight out of ten categories during the second quarter, although no one could keep up with the double-digit returns on equities. Equity Long/Short led all categories with a gain of 10.46% while Real Estate and Global Macro also performed well. Commodities was the worst performer as the Iran war premium reversed and hit energy and precious metals especially hard. Ten of ten categories underperformed the S&P 500® Index, with the average underperformance being quite large (1,265 basis points). Seven of ten alternatives' categories outperformed the Bloomberg U.S. Aggregate Bond Index ("BB Agg"), with an average outperformance of 188 basis points (see Figures 2 and 3).

Figure 1: U.S. Equity Valuation Ratio Percentile

	S&P 500® Index		Russell 2000® Index		Nasdaq-100® Index	
	6/30/26	12/31/25	6/30/26	12/31/25	6/30/26	12/31/25
Price-to-Sales	99.70%	98.50%	99.90%	94.00%	98.30%	98.10%
Price-to-Earnings	93.30%	92.30%	96.70%	94.50%	91.30%	84.50%
Price-to-EBITDA	98.80%	97.40%	97.70%	92.40%	99.70%	92.00%
Price-to-Book Value	99.70%	98.60%	97.90%	60.40%	99.20%	93.80%
Price-to-Cash Flow	96.10%	96.60%	99.90%	85.80%	97.20%	93.50%
Price-to-Free-Cash Flow	82.50%	81.50%	85.80%	54.80%	98.00%	94.50%

Figure 2: Alternatives Performance

	Q2 2026	YTD
Equity Long/Short	10.46%	8.11%
Real Estate	8.55%	10.17%
Global Macro	8.05%	13.45%
Equity Market Neutral	3.81%	4.70%
Convertible Arbitrage	3.66%	4.53%
Event Driven	1.70%	2.48%
Fixed Income Arbitrage	0.75%	0.69%
Managed Futures	0.36%	7.00%
Multi-Strategy	-0.44%	0.89%
Commodities	-8.08%	14.36%

Figure 3: Alternatives Performance (Over/Under) Q2 2026

	vs S&P 500® Index	vs BB Agg
Equity Long/Short	-4.74%	9.79%
Real Estate	-6.65%	7.88%
Global Macro	-7.15%	7.39%
Equity Market Neutral	-11.39%	3.14%
Convertible Arbitrage	-11.54%	2.99%
Event Driven	-13.50%	1.04%
Fixed Income Arbitrage	-14.46%	0.08%
Managed Futures	-14.84%	-0.30%
Multi-Strategy	-15.64%	-1.10%
Commodities	-23.28%	-8.75%
Average	**-12.65%**	**1.88%**

Past performance is not a guarantee of future results. Source for all charts: Bloomberg. As of 6/30/2026.

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Traditionally, managed futures and macro strategies are viewed as having lower correlations to equities because they are diversified across a variety of markets and often employ short selling as part of their approach. Strategies that had lower two-year correlations to U.S. equities (less than 0.60), on average, underperformed those that had a higher correlation with U.S. equities. The performance spread was 160 basis points (Figure 4). Two of three real asset categories were negative with gold declining by double digits followed by broad-based commodities. Real Estate had a very solid quarter despite concerns over rates remaining elevated. Real Assets as a category was down sharply (-4.56%) in stark contrast to the strong returns of financial assets.

Cryptocurrencies did not rally along with traditional risk assets during the quarter and continued a downward trend as the sector experienced another quarter of steep double-digit declines. Bloomberg Galaxy Crypto Index was down -19.48%. Bitcoin fell -14.01%, while Ethereum dropped -25.27% and Ripple and Litecoin also lost substantial ground (-22.56%, -23.01% respectively) (Figure 6). Thefts/hacks of cryptocurrencies totaled an estimated $775 million in the second quarter, a significant increase from the estimated $160 million in the first quarter. Two attacks (Drift Protocol and KelpDAO) accounted for an estimated $590 million of that total. There were over 120 separate attacks in the quarter, which was the highest number ever.

Returns for major asset classes were mostly positive in the second quarter of 2026. The U.S. dollar remained stable and posted a small gain (+0.56%). U.S. equities posted a very strong quarter (+15.20%) although Emerging Markets posted stronger returns (+24.05%). Long-duration U.S. Treasuries (20+ years) returns were marginally positive (+0.85%), despite quoted yields rising slightly and a tentative geopolitical environment (Figure 7). Real interest rates fell sharply across the entire curve, going negative at the front-end, as CPI increased and breached the 4% level for the first time in over three years (Figure 8). Lower real rates have historically been associated with easier financial conditions, while higher real rates are indicative of tightening financial conditions.

Figure 4: Correlations (2yr) and Returns	**Correlation to S&P 500® Index**	**Q2 Returns**
Equity Long/Short	0.88	10.46%
Convertible Arbitrage	0.71	3.66%
Event Driven	0.57	1.70%
Global Macro	0.54	8.05%
Real Estate	0.54	8.55%
Managed Futures	0.35	0.36%
Fixed Income Arbitrage	0.23	0.75%
Equity Market Neutral	0.12	3.81%
Commodities	-0.08	-8.08%
Multi-Strategy	-0.35	-0.44%
Lower Correlation Avg TR (≤0.60)		**5.46%**
Higher Correlation Avg TR (>0.60)		**7.06%**

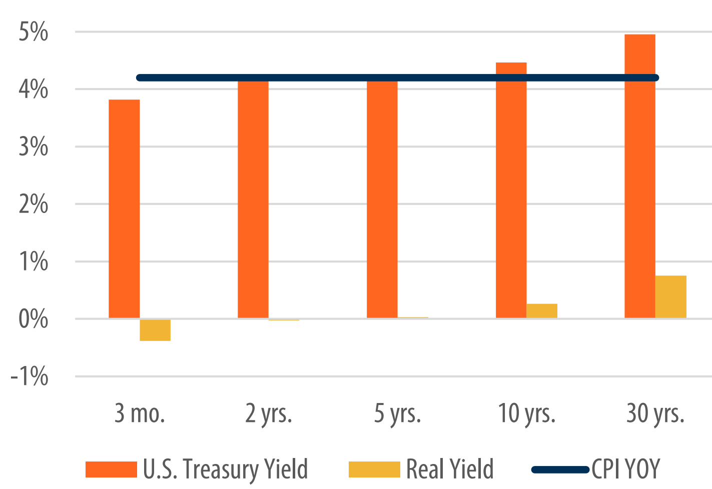
Correlation of monthly returns over 24 months.

Figure 5: Real Assets Returns	**Q2 2026**	**YTD 2026**
Real Estate	8.55%	10.17%
Commodities	-8.08%	14.36%
Gold	-14.14%	-7.21%
Average	**-4.56%**	**5.77%**

Figure 6: Cryptocurrency Returns	**Q2 2026**	**YTD 2026**
Bitcoin	-14.01%	-33.09%
BB Galaxy Crypto Index	-19.48%	-40.86%
XRP (Ripple Digital Assets)	-22.56%	-43.43%
Litecoin	-23.01%	-45.72%
Ethereum	-25.27%	-47.15%

Figure 7: Asset Class Returns	**Q2 2026**	**YTD 2026**
Emerging Markets	24.05%	23.85%
U.S. Equities	15.20%	10.21%
International Developed	10.82%	9.44%
Real Estate	8.55%	10.17%
High Yield Bonds	2.52%	2.04%
U.S. Treasury	0.85%	1.00%
U.S. Aggregate Bonds	0.67%	0.62%
U.S. Dollar	0.56%	1.55%
Commodities	-8.08%	14.36%
Bitcoin	-14.01%	-33.09%

Figure 8: U.S. Treasury Yields and CPI



Source for all charts: Bloomberg. As of 6/30/2026.

Alternatives have historically provided significant diversification benefits when paired with a portfolio of traditional assets, in addition to both competitive absolute returns and attractive risk-adjusted returns. Please Note: Alternative investments may employ complex strategies, have unique investment, and risk characteristics that may not be suitable for all investors.

All charts shown herein are for illustrative purposes only and not indicative of any investment. The performance illustrations exclude the effects of taxes and brokerage commissions or other expenses incurred when investing. ***Past performance is not indicative of future results*** *and there can be no assurance past trends will continue in the future. An investor cannot invest directly in an index. See last page for definitions of asset class indexes and other terms discussed herein.*

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Definitions

Bitcoin: A digital currency using encryption techniques created for use in peer-to-peer online transactions Introduced in 2008 by a person or group using the name Satoshi Nakamoto.

Bloomberg Galaxy Crypto Index (BB Galaxy Crypto): The BGCI is designed to measure the performance of the largest cryptocurrencies traded in USD.

Commodities: The Bloomberg Commodity Index is made up of exchange-traded futures on physical commodities and represents 20 commodities, which are weighted to account for economic significance and market liquidity.

Consumer Price Index (CPI): A measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food, and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them. Changes in the CPI are used to assess price changes associated with the cost of living.

Convertible Arbitrage: The Credit Suisse AllHedge Convertible Arbitrage Index is a subset of the Credit Suisse AllHedge Index that measures the aggregate performance of convertible arbitrage funds. Convertible Arbitrage is a strategy that involves taking simultaneous long and short positions in a convertible bond and its underlying stock.

Correlation: A statistical measure that quantifies the extent to which two or more data series fluctuate together. Values run from -1.0 to +1.0.

Cryptocurrency: A digital or virtual currency that is secured by cryptography, which makes it nearly impossible to counterfeit or double-spend.

Emerging Markets: The MSCI Emerging Markets Index captures large and mid cap representation across Emerging Markets (EM) countries. The index covers 85% of the free float-adjusted market capitalization in each country.

Equity Long/Short: The Credit Suisse AllHedge Long/Short Equity Index is a subset of the Credit Suisse AllHedge Index that measures the aggregate performance of long/short equity funds. Long/short equity funds typically invest in both long and short sides of equity markets, generally focusing on diversifying or hedging across particular sectors, regions or market capitalizations. Managers typically have the flexibility to shift from value to growth; small to medium to large capitalization stocks; and net long to net short. Managers can also trade equity futures and options as well as equity related securities and debt or build portfolios that are more concentrated than traditional long-only equity funds.

Equity Market Neutral: The Credit Suisse AllHedge Equity Market Neutral Index is a subset of the Credit Suisse AllHedge Index that measures the aggregate performance of equity market neutral funds. Equity market neutral funds typically take both long and short positions in stocks while seeking to reduce exposure to the systematic risk of the market (i.e., a beta of zero is desired). Equity Market Neutral funds typically seek to exploit investment opportunities unique to a specific group of stocks, while maintaining a neutral exposure to broad groups of stocks defined for example by sector, industry, market capitalization, country, or region. The index has a number of subsectors including statistical arbitrage, quantitative long/short, fundamental long/ short and index arbitrage. Managers often apply leverage to enhance returns.

Ethereum: Ethereum is a platform that offers programming code of any decentralized application. It has been linked to payment style transactions. Ether is the cryptocurrency issued through open-source code executed on thousands of nodes.

Event Driven: The Credit Suisse AllHedge Event Driven Index is a subset of the Credit Suisse AllHedge Index that measures the aggregate performance of event driven funds. Event driven funds typically invest in various asset classes and seek to profit from potential mispricing of securities related to a specific corporate or market event. Such events can include: mergers, bankruptcies, financial or operational stress, restructurings, asset sales, recapitalizations, spin-offs, litigation, regulatory and legislative changes as well as other types of corporate events. Event driven funds can invest in equities, fixed income instruments (investment grade, high yield, bank debt, convertible debt and distressed), options and various other derivatives. Many managers may use a combination of strategies and adjust exposures based on the opportunity sets in each subsector.

Fixed Income Arbitrage: The Credit Suisse AllHedge Fixed Income Arbitrage Index is a subset of the Credit Suisse AllHedge Index that measures the aggregate performance of fixed income arbitrage funds. Fixed income arbitrage funds typically attempt to generate profits by exploiting inefficiencies and price anomalies between related fixed income securities. Fixed income arbitrage funds seek to limit volatility by hedging out exposure to the market and interest rate risk. Strategies may include leveraging long and short positions in similar fixed income securities that are related either mathematically or economically. The sector includes credit yield curve relative value trading involving interest rate swaps, government securities and futures; volatility trading involving options; and mortgage-backed securities arbitrage (the mortgage-backed market is primarily U.S.-based and over-the-counter).

Global Macro: The Credit Suisse AllHedge Global Macro Index is a subset of the Credit Suisse AllHedge Index that measures the aggregate performance of global macro funds. Global macro funds typically focus on identifying extreme price valuations and leverage is often applied on the anticipated price movements in equity, currency, interest rate and commodity markets. Managers typically employ a top-down global approach to concentrate on forecasting how political trends and global macroeconomic events affect the valuation of financial instruments. Profits can be made by correctly anticipating price movements in global markets and having the flexibility to use a broad investment mandate, with the ability to hold positions in practically any market with any instrument. These approaches may be systematic trend following models, or discretionary.

Gold: The return of the gold spot price as quoted as U.S. dollars per Troy Ounce.

Inflation: Is the decline of purchasing power of a given currency over time.

High-Yield Bonds: The Bloomberg US High Yield Very Liquid Index (VLI) is a component of the US Corporate High Yield Index that is designed to track a more liquid component of the USD-denominated, high yield, fixed-rate corporate bond market. The US High Yield VLI uses the same eligibility criteria as the US Corporate High Yield Index, but includes only the three largest bonds from each issuer that have a min amount outstanding of USD500mn and less than five years from issue date.

International Developed: The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. The index is a free-float weighted equity index.

Litecoin: A peer-to-peer cryptocurrency and open source software project similar to Bitcoin, Litecoin uses blockchain technology to process transactions. Litecoin, referred to as an alt-coin can process blocks faster than Bitcoin, uses a different mining algorithm and has larger supply.

Managed Futures: BarclayHedge US Managed Futures Industry Top 50 (BTop 50) Index. The Index seeks to replicate the overall composition of the managed futures industry with regard to trading style and overall market exposure.

Multi-Strategy: The Credit Suisse AllHedge Multi-Strategy Index is a subset of the Credit Suisse AllHedge Index that measures the aggregate performance of multi-strategy funds. Multi-strategy funds typically are characterized by their ability to allocate capital based on perceived opportunities among several hedge fund strategies. Through the diversification of capital, managers seek to deliver consistently positive returns regardless of the directional movement in equity, interest rate or currency markets. The added diversification benefits may reduce the risk profile and help to smooth returns, reduce volatility and decrease asset-class and single-strategy risks. Strategies adopted in a multi-strategy fund may include, but are not limited to, convertible bond arbitrage, equity long/short, statistical arbitrage and merger arbitrage.

Nasdaq-100 Index® includes 100 of the largest domestic and international non-financial companies listed on The Nasdaq Stock Market based on market capitalization.

Real Assets are physical and/or tangible investments such as real estate, commodities (including gold, oil, and natural resources) and infrastructure whose intrinsic value is derived from their use.

Real Estate: The Dow Jones US Real Estate Index is designed to track the performance of real estate investment trusts (REITs) & other companies that invest directly or indirectly in real estate through development, management or ownership, including property agencies.

Real Yield: or Real Interest Rate has been adjusted to remove the effects of inflation to reflect the real cost of funds to the borrower and the real yield to the lender or to an investor.

Ripple Digital Assets: Known as XRP, Ripple is a cryptocurrency that can be used on open source distributed ledger created by the company Ripple. It is built upon the principles of blockchain as an on-demand option for faster cross border payments.

Russell 2000® Index is comprised of the smallest 2000 companies in the Russell 3000® Index.

Short Selling is an advanced trading strategy that involves selling a borrowed security. Short sellers make a profit if the price of the security goes down and they are able to buy the security at a lower amount than the price at which they sold the security short.

U.S. Aggregate Bonds: The Bloomberg US Aggregate Bond Index is a broad-based benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.

U.S. Equities: The S&P 500® Index. An unmanaged index of 500 companies used to measure large-cap U.S. stock market performance.

U.S. Dollar: The U.S. Dollar Index (USDX) indicates the general international value of the U.S. dollar. The USDX does this by averaging the exchange rates between the USD and major world currencies. The ICE US computes this by using the rates supplied by some 500 banks.

U.S. Treasury: ICE US Treasury 20+ Years Bond Index consists of publicly-issued U.S. Treasury securities that have a remaining maturity greater than 20 years and have $300 million USD or more of outstanding face value, excluding amounts held by the Federal Reserve System.

U.S. Treasury Yield: Yield of U.S. Treasury securities maturing in approximately 3 months, 2 years, 5 years, 10 years, or 30 years.

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