



Insights February 2026: *When the Music Stops*

Performance MTD: +0.19%

Performance 4th February: +0.03%

Our readers have no doubt been inundated in recent days with statistics detailing the recent extreme moves in Momentum factors, sharp de-grossing across hedge fund portfolios, and unusually elevated cross-factor volatility. Repeating those numbers here would add little value.

As with our prior Insights pieces, the objective is not to restate what has already been widely observed, but to **frame why these moves matter, who they impact, and what they reveal about the current state of the hedge fund ecosystem.**

There is little doubt that the recent factor moves have increased unease among investors. The speed and breadth of the reversals have been sufficient to stress portfolios that, on the surface, appeared diversified and well risk managed.

Unsurprisingly, inbound conversations with Sandbar over the past several days have centred on two questions:

- (1) Our performance through the volatility, and
- (2) Our sensitivity to the same Momentum and Crowding driven dynamics affecting peers.

As we have highlighted consistently, this setup did not emerge overnight. In our **December 2025 Newsletter** and **December Insights (“Welcome to the Party, Pal.” – Crowding & Being Late to the Party)**, we discussed the growing imbalance between perceived diversification and actual underlying factor concentration across the industry. In **January’s Insights (“Scratching Beneath the Surface”)**, we further argued that much of the strong headline performance being reported across long/short equity was increasingly reliant on a narrow set of rewarded factors, most notably Momentum, rather than genuinely orthogonal alpha.

From Sandbar’s perspective, these episodes are not anomalies; they are stress tests that reveal whether portfolio construction discipline has been applied ex-ante or merely inferred ex-post.

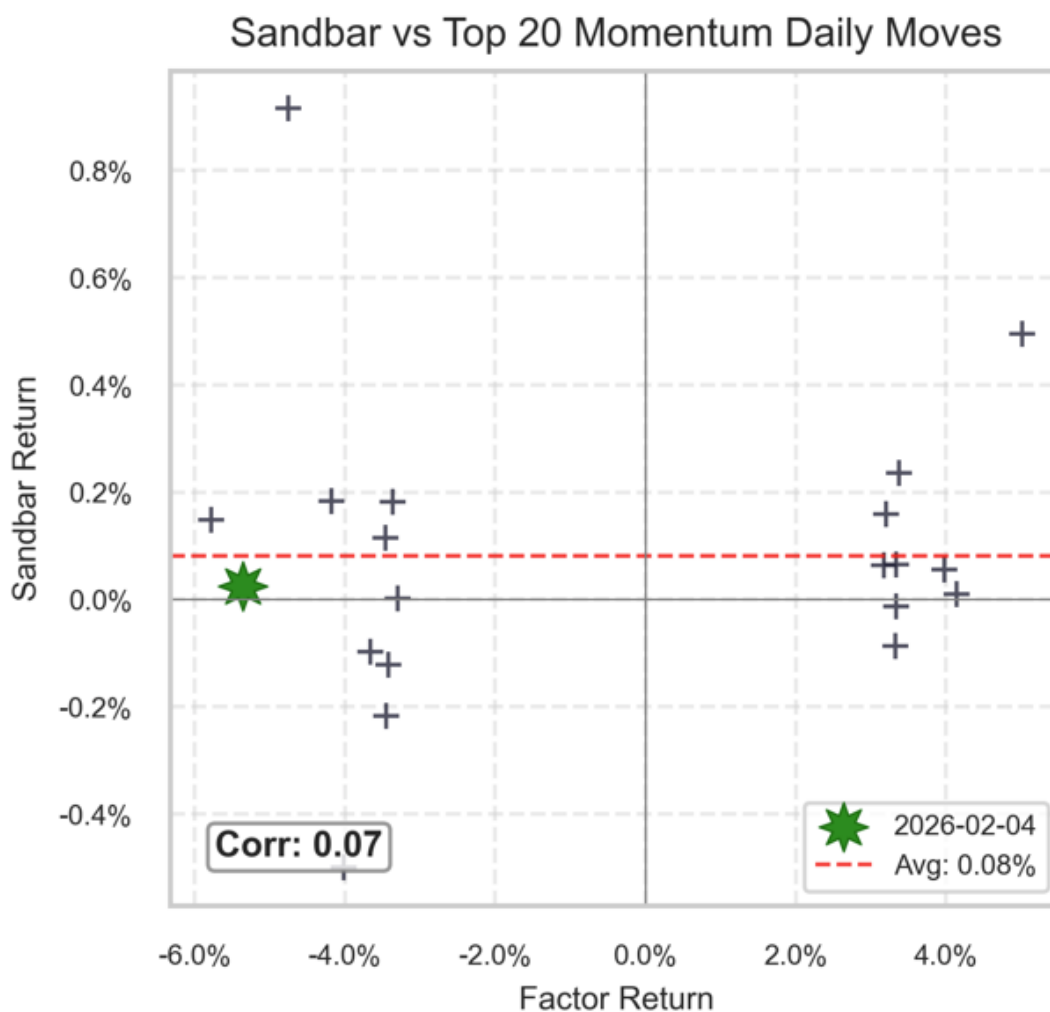
Our approach has remained deliberately conservative with respect to Momentum dependency and crowding risk, not because such factors cannot work, but because their failure modes are both abrupt and highly correlated across managers.

We would caution investors against interpreting recent moves as “factor noise” or transient volatility. They are better understood as the market repricing the cost of consensus positioning.

In environments like this, the distinction between idiosyncratic alpha and disguised factor exposure becomes very clear, very quickly.

As an update to our **December Insights**, it is worth reiterating that while our long-term daily correlation to the Momentum factor is close to zero, this result is not being driven by benign averaging across regimes.

When we restrict the analysis to only the **20 largest daily moves in the Momentum factor since 2024**, precisely the stress events that matter most from a capital-preservation and risk-control perspective, our correlation to Momentum remains near zero. In other words, our neutrality is preserved not only in normal market conditions, but also during the exact tail events that have driven recent de-grossing and correlated losses elsewhere.



Source: Sandbar Risk Team, Bloomberg

This distinction is critical. Many portfolios appear factor neutral in aggregate yet exhibit meaningful convexity to extreme factor moves due to embedded crowding, sizing asymmetries, or latent leverage.

If you would like to discuss any of the above, please contact the team.

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