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Macro Calls and Timing Drive Excalibur's 2025 Result

Low double-digit returns may not typically command the spotlight. For a low-risk fixed-income macro hedge fund, however, such an outcome can represent an achievement. Excalibur Fixed Income returned 11.1 percent in 2025, nearly double its long-term return target and marking the fund's fourth double-digit year since its launch in 2001. The result comes on the back of five consecutive years of strong performance.

Consistent with its low-risk mandate, Excalibur Fixed Income has historically targeted annual returns of 5 to 6 percent. With an annualized standard deviation in returns of just 1.44 percent, the fund's 2025 performance represented roughly 3.5 standard deviations above its long-term average return of 5.2 percent. According to Thomas Pohjanen, CEO of Excalibur Asset Management, such outcomes are driven by two core factors. "When we exceed our target by a wide margin, it comes down to getting the major macroeconomic calls right and timing our entries and exits reasonably well," he explains.

The difference between an average year and an exceptional one, such as 2025, often comes down to timing. "In years when we deliver 6 or 7 percent, we typically have one or two months where performance is given back because we miss the exit or the trend breaks down," Pohjanen explains. Avoiding those periods of drawdown is what separates a good year from a truly strong one.

Successful Macro Calls

One of the Excalibur team's more successful macro calls in 2025 was its expectation that inflation in Sweden would remain higher than expected. The core bet was that Swedish interest rates would underperform those in the euro area and the United States. Based on that assessment, the team positioned the portfolio with short duration in Swedish rates relative to other major markets, allowing the fund to benefit as that rate differential tightened. "That proved to be the right call, particularly earlier in the year," Pohjanen says. "Inflation outcomes surprised on the upside, which led Swedish interest rates to underperform relative to the euro area and the United States."

Another key theme was the inflationary impact of U.S. tariffs. "Our core view was that tariffs represent a one-time adjustment to the price level, not an ongoing inflationary process," says Pohjanen. With U.S. interest rates already in restrictive territory, the team judged it unlikely that such price adjustments would trigger a sustained inflation cycle. "When rates moved higher in the U.S., we added exposure, and that turned out to be a correct decision."

Volatility Returns to Fixed Income Markets

While the 11 percent return in 2025 may represent a high point in Excalibur's return profile, the broader track record since 2020 has also been strong. Over the past six years, the fund has delivered an annualized return of around 7 percent, compared with just under 1 percent annually in the preceding six-year period. The key difference, according to Pohjanen, has been the return of volatility to fixed-income markets.

"Volatility is back," he says. "Around 2017 and 2018, interest rates were at or below zero, and central banks were actively suppressing volatility by purchasing government bonds and compressing the entire yield curve." In that environment, opportunities in high-grade fixed income were scarce. "Rates were extremely low, volatility was nonexistent, and there simply wasn't much to trade."

Importantly, Excalibur did not seek to compensate by taking on credit risk. "We're not generating alpha by disguising beta through credit exposure, and we weren't doing that then either," Pohjanen emphasizes. "That's why returns were closer to 1 or 2 percent in those years, there just wasn't much to work with."

Opportunity Set Remains Intact

As volatility has returned, so have opportunities. "Global fixed-income markets now offer a steady flow of tradable events," Pohjanen says. "If you time four or five of them correctly, you can deliver strong performance." Looking ahead to 2026, he believes the environment remains supportive.

Potential equity market volatility amid elevated valuations, shifts in inflation and labor market dynamics in the U.S., Sweden, and the euro area, or institutional uncertainty surrounding the Federal Reserve could all create further opportunities in rates markets. "The opportunity set is there," Pohjanen concludes. "It's not a question of if, but when. The challenge is in capturing these developments as they unfold."