Insight Paper

Living with Trend Following:

Lessons From the Past 25 Years

July 2025

The path ahead is unclear – shaped by fiscal, monetary, political, and geopolitical challenges. But the future is always unpredictable. When change is the only constant, history shows that adaptability, agility, and resiliency are the qualities that help strategies navigate uncertainty best. Trend following is one such strategy, deeply rooted in history and distinguished by these very attributes.

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Introduction

Trend following, as a strategy, has a very long history, stretching back to the late 1940s when Richard Donchian established Futures, Inc., which employed a trend following strategy based on channel breakouts. Today, several trend managers that started their track records back in the 1970s still operate, highlighting the longevity of the CTA industry. At Aspect, our trend following pedigree can be traced back to the early 1980s. To this day, we remain committed to the strategy, its research and development as well as to the broader investor education necessary to continue to grow and broaden the appeal and utility of this strategy.

Consequently, much has been written, by us and others, about the benefits of Managed Futures, their diversification properties and their risk mitigation potential opposite traditional assets. This is not one of those pieces. Instead, we wanted to provide a more granular insight into what it is like to 'live with a CTA allocation'. Given CTAs' challenging performance in H1 2025, it's easy to question whether the current Trump 2.0 tariff shock is simply too complex to navigate. But instead of jumping to conclusions, we wanted to offer some reassuring context – born out of our experience and reliant on some enduring fundamental features of trend following strategies.

We look back over the last 25 years and identify four major periods of interest, each marked by pivotal and complex developments:

- **Turn of the Millennium** (Jan 1999 – Dec 2003): DotCom Bubble – Tech Wreck – Accounting Scandals – 9/11 – China joins WTO

- **Global Financial Crisis** (Jan 2005 – Feb 2009): Peak Interest Rate Cycle – Housing Bubble – Financial Crisis – Lehman's Collapse – QE + Zero Interest Rates

- **European Debt Crisis and Shale Revolution** (Jan 2010 – Feb 2016): Eurozone Crisis – Grexit – ECB 'Whatever-it-Takes' – Taper Tantrums – Shale Revolution – Oil Collapse – China Devaluation

- **Inflation Surge and Pandemic Shock** (Jan 2017 – Mar 2024): Trump 1.0 – Peak Globalisation – Geopolitical Fragmentation – Pandemic Shock – Inflation 'Transitory' – Russia invades Ukraine – Inflation Surge

While CTAs have historically delivered strong overall performance during these distinct periods, the path to those returns has rarely been smooth and was often marked by drawdowns – many sharp, some lengthy or deep or both (Figures 1,2,4 and 5). Nevertheless, the reactive, adaptive, and self-correcting nature of trend strategies has allowed them not only to respond to these evolving market conditions and shifting macro regimes but to thrive. The characteristics enabling trend following strategies, and ours in particular, to ably navigate a multitude of complex and dynamic macro regimes are summarised below:

- **Adaptive**: can handle a wide range of economic scenarios; unfitted and unbiased.
- **Agile:** reactive, not predictive, as markets change; positions are dynamic and directionally agnostic.
- **Resilient:** displays self-healing behaviour, is risk-controlled, and liquidity-focused.
- **Diversified:** Broad set of markets in multiple asset classes using multi-period signals from days to weeks to months.

The paper analyses the macro backdrop in each of these four periods of interest: we show how CTAs have navigated those periods by looking through both risk and return lenses and finally demonstrate how each distinct period presented its own challenges and opportunities across the broad range of asset classes, with the trend strategy adapting and reacting in a risk-controlled manner.

We do not yet know how today's uncertainties will be resolved, what structural shifts may arise, or where current events will ultimately lead. Yet, we remain confident that the disciplined, systematic application of trend following – anchored in the principles that have consistently guided us – will continue to navigate whatever lies ahead.

Living With Trend Through Major Macro Transitions

This analysis examines how Trend has performed during these periods of significant macro shifts, showcasing the long track record of Aspect Diversified, our flagship strategy launched back in December 1998.

Each section will highlight the path of the strategy's performance and the inevitable drawdowns it traversed and is annotated with some of the major events that defined each era – showing how the strategy navigated these tumultuous times.

Turn of the Millennium: Jan 1999 to Dec 2003

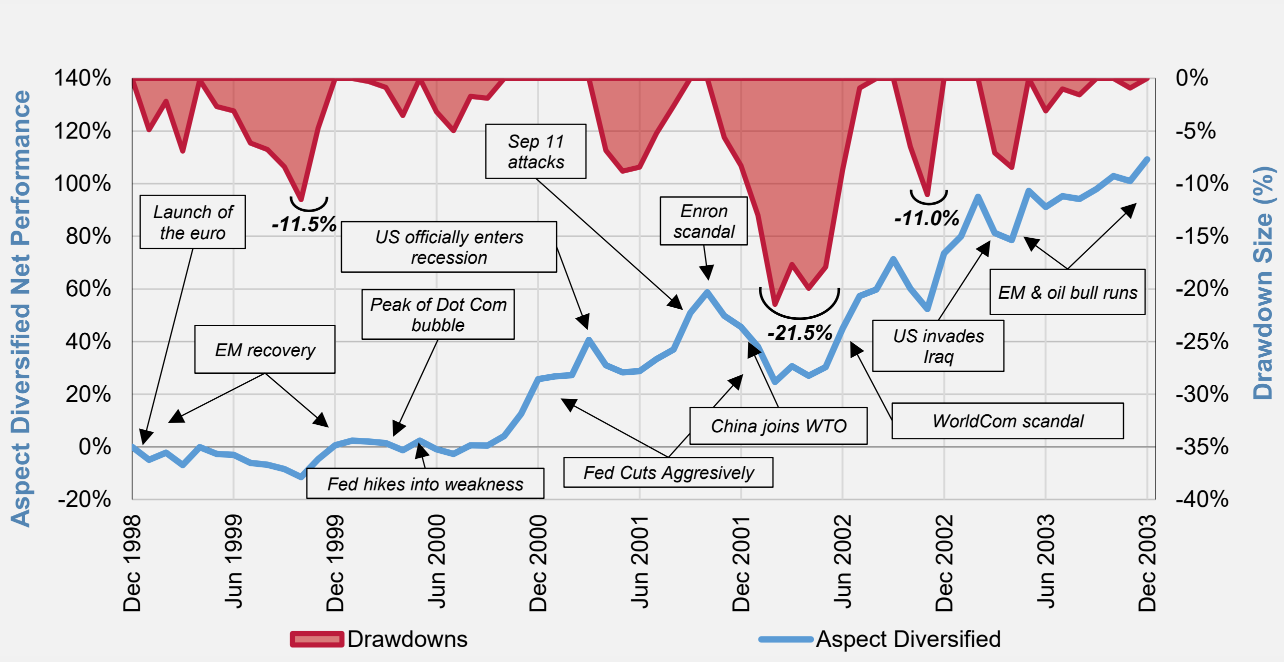

Figure 1: Aspect Diversified Net Performance and Drawdowns: Jan 1999 to Dec 2003

Source: Aspect Capital. See page 12 onwards for relevant risk disclaimers.

The early 2000s were marked by several seismic macroeconomic shifts. Among them, the burst of the US Dot Com bubble signalled the end of US tech-driven productivity boom, triggered a slowdown in developed markets, and pushed the Federal Reserve into an easing cycle. During the crisis, equity markets plunged, short-term interest rates dropped, and bond yields fell. The Programme adapted swiftly – despite entering the peak of the Dot Com bubble net long stocks, it reversed to net short by late the Autumn 2000. From mid-2000 through 2002, financials were a key return driver for the Programme, which captured the fall in equities, the Fed's easing cycle and the decline in yields.

While the Dot Com crash triggered a swift repricing of equities, rates, and bonds, its effects on other asset classes emerged more gradually, shaped by broader market forces. The end of the tech boom dampened the investment outlook, which, coupled with the fall in nominal short-term rates, kept a lid on real rates – placing downward pressure on the US dollar. Simultaneously, China's entry into the World Trade Organisation catalysed a boom in global trade, sparking a powerful bull run in commodities. Meanwhile, a wave of corporate accounting scandals eroded confidence in US assets. Together, these forces laid the foundation for a new market regime: one characterised by booming commodity markets, international equities outperforming US stocks, and a weakening dollar. Thanks to the Programme's broad capture capabilities, many of these developments were effectively exploited. Short US dollar positions, alongside long positions in crude and gold, all generated strong profits in 2003.

This period underscores how macroeconomic shocks propagate across asset classes with varying timing and intensity. Furthermore, these 'macro ripples' are often amplified – or redirected – by subsequent events. For instance, the 9/11 attacks, the dollar weakness and the onset of the Iraq war all accelerated gold's rally, which began with the fall in US real yields.

In this context, diversified trend following systems – trading a broad set of markets in multiple asset classes using multi-period signals – are particularly suited to capturing the evolving impacts of major macro shocks.

Global Financial Crisis: Jan 2005 to Feb 2009

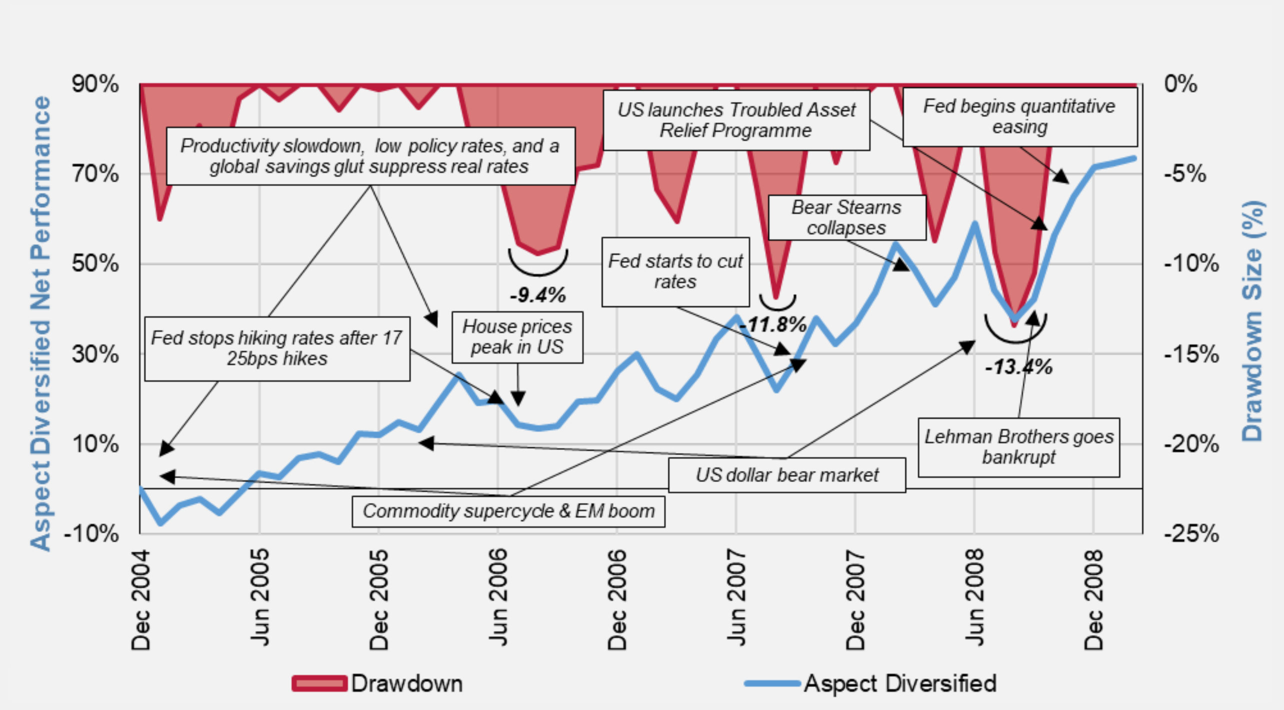

Figure 2: Aspect Diversified Net Performance and Drawdowns: Jan 2005 to Feb 2009

Source: Aspect Capital. See page 12 onwards for relevant risk disclaimers.

The lead-up to the Global Financial Crisis (GFC) and its aftermath offer compelling examples of the agile and adaptive nature of trend following strategies.

In the years leading up to the GFC, strong global growth, low interest rates and emerging markets booms, fuelled risk appetite and sustained equity bull markets globally. Commodities – particularly base metals – also surged, driven by China's rapid industrialisation and infrastructure build-out. The Programme captured these trends effectively, holding net long positions in stocks and base metals through most of 2005 and 2006. These trades were largely driven by slower-moving trend models designed to respond to sustained market moves driven by structural macro shifts.

As the crisis began, market conditions deteriorated rapidly. Volatility spiked, and market dynamics became increasingly erratic – reflecting a sense of a looming crisis without a clear path forward. This period tested the Programme's trend capture capability, particularly in stocks and bonds. Yet in hindsight, it marked a pivotal period of recalibration. While the Programme could not foresee the systemic crisis ahead, the market agitation was flowing through to prices – prompting the portfolio to react. By early 2008, the portfolio had moved to a more defensive stance, long fixed income and short equities. This positioning delivered strong performance in Q1 2008, reinforcing the portfolio's defensive tilt, despite episodic rebounds in market sentiment in the second and third quarter of the year. As a result, the Programme was appropriately positioned at the peak of the crisis, when Lehman Brothers finally collapsed.

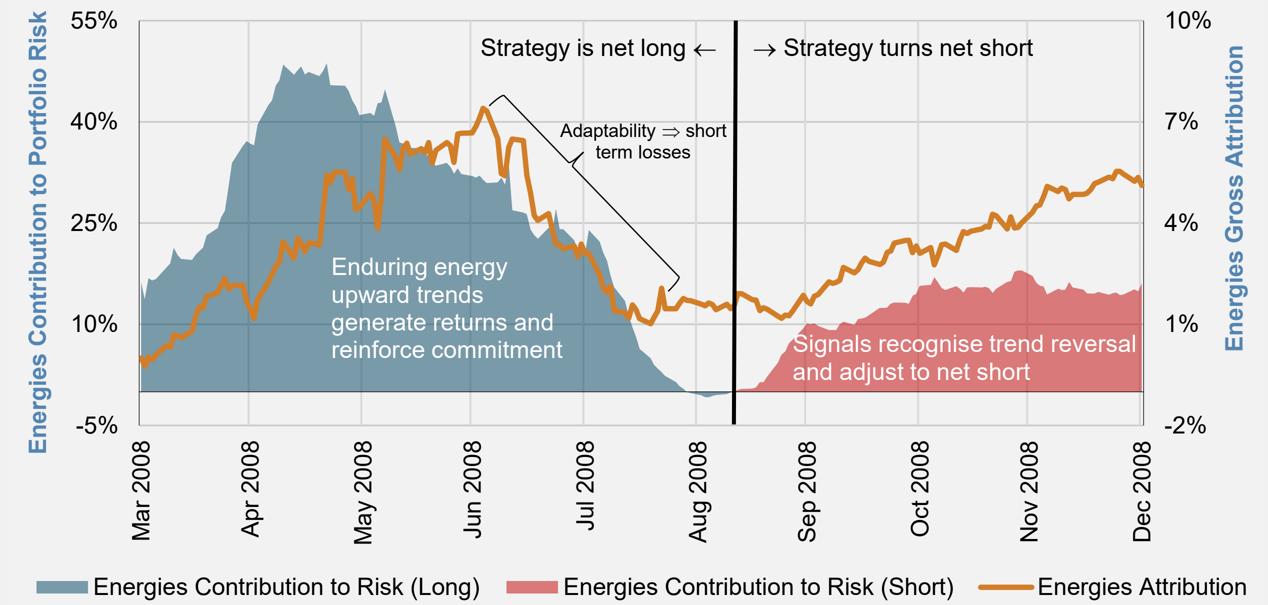

Figure 3: Aspect Diversified Attribution to Energies Sector Amid Oil Collapse: Mar 2008 to Dec 2008

Source: Aspect Capital. See page 12 onwards for relevant risk disclaimers.

The Programme's response to the sharp energy sell-off in summer 2008 followed a different path. Since February 2008, long energy positions had delivered consistent gains (Figure 3). The portfolio was therefore positioned long energies going into the oil collapse. Understandably, this turned out to be a painful, albeit brief, experience. As oil prices kept falling, the Programme's self-correcting nature took over. Rather than doubling down, it reduced exposure and eventually turned net short by September (Figure 3). A month later, short crude oil was the top-performing trade.

These examples offer two key insights:

1. **Trend following is inherently adaptive.** It does not predict; it reacts. As market conditions evolve, the Programme adjusts its positions dynamically, without relying on macro-economic forecasts.
2. **No single trend speed consistently delivers the best signals.** In the months leading up to Lehman's bankruptcy – and the subsequent collapse in equity markets – sentiment oscillated, at times even turning upbeat, seemingly unaware of the crisis looming ahead. In hindsight, during such conditions, remaining resilient to short-term sentiment shifts and maintaining short positions would likely have been the most effective strategy, as the crux of the crisis followed shortly after.
   Conversely, in navigating the sharp reversal in oil prices, a more reactive stance – acknowledging the impending global growth slowdown – would have been more appropriate.
   These examples illustrate that at times, staying the course is optimal; at other times, swift responsiveness yields better results. Effective strategies must integrate information across multiple timeframes to capture evolving market dynamics – a core tenet of the Aspect Diversified Programme's design.

Sovereign Debt Crisis and Shale Revolution: Jan 2010 to Feb 2016

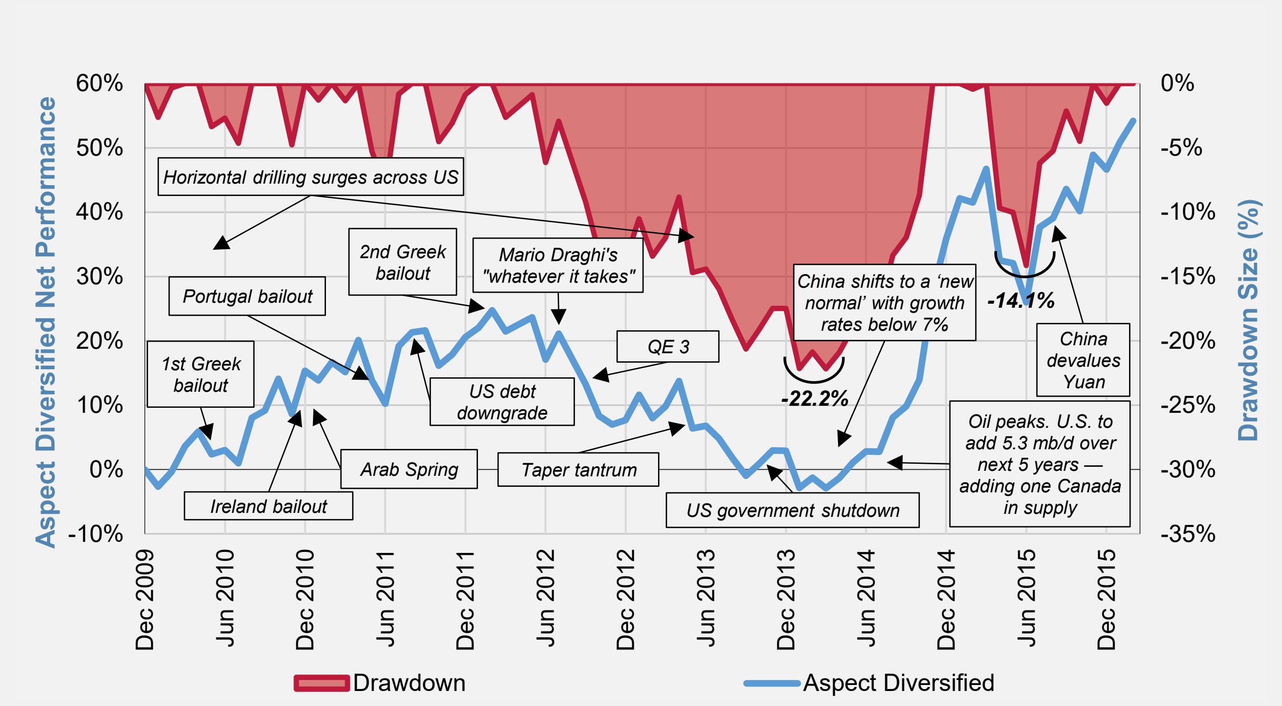

Figure 4: Aspect Diversified Net Performance and Drawdowns: Jan 2010 to Feb 2016

Source: Aspect Capital. See page 12 onwards for relevant risk disclaimers.

The 2010s were a particularly intriguing decade, defined by unprecedented central bank intervention. In response to sovereign debt crises and persistent deflation pressures, policy makers deployed unconventional monetary tools at massive scale. As a consequence, expectations of indefinite central bank support became entrenched, and asset volatility remained subdued. In this environment, trend following faced structural headwinds, with the exception of 2014, which stood out as one of the rare macroeconomic inflection points of the decade.

At the start of the 2010s, Europe was grappling with a sovereign debt crisis decades in the making. During this period, fears of sovereign defaults and persistent signs of stagnant global growth frequently pushed investors towards safe haven assets. The Programme navigated this environment well, primarily through well-managed long fixed income positions, alongside longs in precious metals, in 2010 and 2011.

The crisis drew to its close following Mario Draghi's landmark pledge that the ECB would do "whatever it takes" to preserve the euro. This marked the moment when Europe – like Japan, the US, and the UK before it – embarked on a path of unprecedented monetary intervention. By the mid-2010s, the world's major central banks were therefore operating in loose alignment, each pursuing highly accommodative policies. This implicit coordination had the cumulative effect of suppressing risk across global asset markets and dampened the amplitude of traditional boom-bust cycles. With fewer pronounced and sustained macroeconomic dislocations, trend following strategies struggled to find sufficient favourable opportunities, particularly in 2012 and 2013.

The exception that proved the rule was the advent of the shale revolution. As discussed, for much of the 2010s, major economic variables remained in a state of relative equilibrium – persistently low and stable inflation, interest rates anchored close to zero, and steady yet sluggish growth. Energy prices, too, remained range-bound for a time, further dampening macro volatility. That changed dramatically in the summer of 2014.

Revolutionary innovations in oil extraction unlocked vast new supplies. The impact was seismic: oil prices collapsed, US energy independence became a reality, and the geopolitical landscape shifted. The Programme navigated this inflection point particularly well, generating strong returns from well-managed short energies positions.

This period thus underscores a key dynamic: during periods of supressed macroeconomic volatility and rangebound markets, trend following systems may struggle. However, when macro variables begin to shift meaningfully, the systems will adapt – whether to the upside or downside – and effectively capture transitions from one economic equilibrium to the next.

Pandemic Shock and Inflation Surge: Jan 2017 to Mar 2024

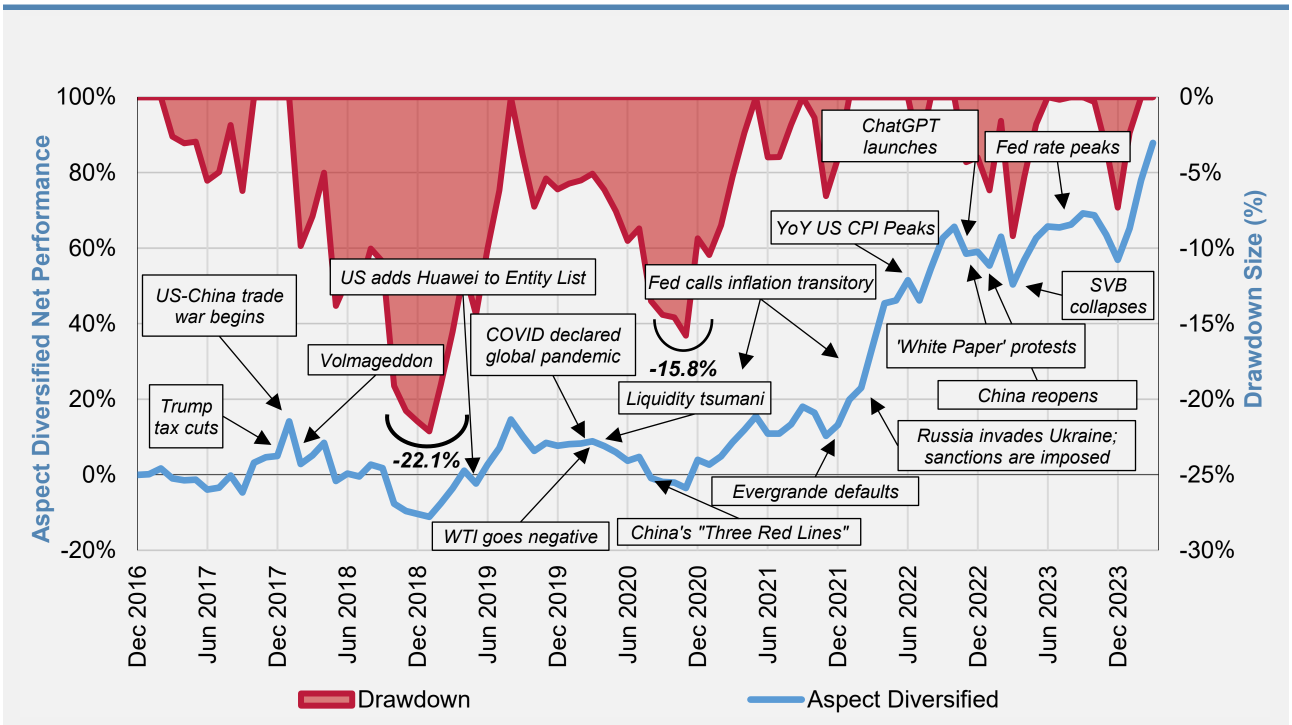

Figure 5: Aspect Diversified Net Performance and Drawdowns: Jan 2017 to Mar 2024

Source: Aspect Capital. See page 12 onwards for relevant risk disclaimers.

For much of the 2010s, economic placidity, energy security, and globalisation stifled trend opportunities. But this regime of secular stagnation ended abruptly in the early 2020s, as a series of pivotal events unleashed powerful waves of macro volatility, revitalising trend following strategies.

The Programme entered this pivotal period on a more modest footing. In 2017, gains were primarily driven by long positions in stock indices, which benefited from fiscal stimulus under the first Trump administration. However, 2018 proved more challenging. A series of growth scares reduced risk appetite, triggering sharp corrections and intermittent volatility spikes (Figure 6). This choppy environment made it difficult for trend models to size positions effectively. Toward the end of 2018, long bond positions were established, which proved highly beneficial in 2019 as recession fears resurfaced, and bond markets rallied. In 2020, long positions in risk assets detracted during the February-March crash and struggled to capture the rapid recovery. By 2021, as markets began digesting the pandemic shock, dynamics started to shift. Commodities rallied, inflation reawakened, and some central banks – particularly in emerging markets – began to tighten. These brewing seismic shifts accelerated through 2021 and, by 2022, broke loose, sending shockwaves across asset classes.

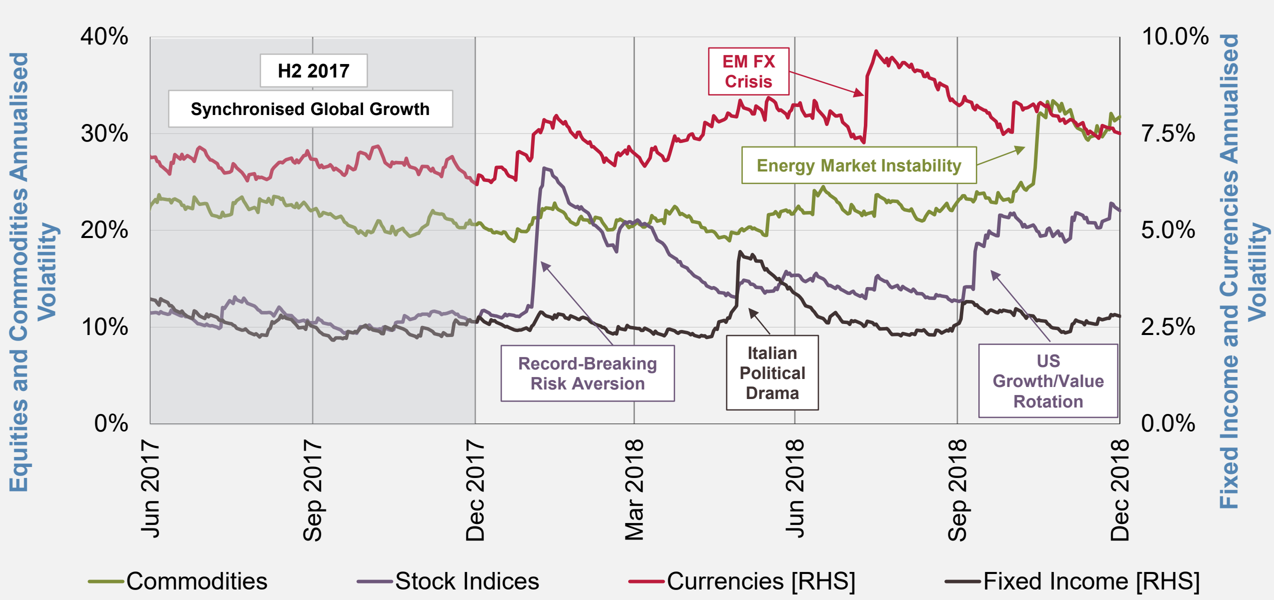

Figure 6: Measures of Average Realised Short-term Market Volatility by Sector: Jun 17 to Dec 18

Source: Aspect Capital. See page 12 onwards for relevant risk disclaimers.

While several major macro catalysts defined the early 2020s, two stand out: the global pandemic response and the war in Ukraine. In sharp contrast to the 2010s, the 2020s have thus far been defined by much more active fiscal policy. Although President Trump's 2017 tax cuts represented a loosening of the US budget, it paled in comparison to the sweeping fiscal support delivered at the height of the COVID crisis. After years of fiscal restraint – and outright austerity in Europe – the combination of expansive fiscal and monetary policy reignited an old enemy: inflation, long thought as vanquished. The war in Ukraine intensified the problem, triggering severe supply shocks, driving commodity prices higher, and fuelling a cost-of-living crisis across Europe. Meanwhile, pandemic-era lockdowns brought global supply chains to a halt, compounding the economic disruption. In response to surging inflation, central banks were forced to reverse course – scaling back asset purchases and raising interest rates.

This backdrop provided fertile ground for sustained trends. Unlike the shocks of 2020 – defined by their speed, scale, and surprise – the events of 2022 unfolded in a more persistent, pervasive manner. This drawn-out shift fuelled significant trends across asset classes, with the most profitable ones for the Programme being: the rise and fall of natural gas, the yen's depreciation, the plunge in global bond markets, the surge in cocoa prices, and rallies in select emerging market currencies.

A few key insights on trend following emerge from this historic period:

1. **Agility amid uncertainty**: Macro shocks can have unexpected, prolonged economic consequences – like the persistent positive inflation surprises of the early 2020s. Trend following dynamically adapts to the way markets react, with no presupposition of where they should go. This agility is especially powerful when traditional frameworks break down – as observed when stock-bond correlation turned positive in 2022.
2. **Cross-asset breadth matters**: During major macro shifts, diverse and divergent trends often emerge. A diversified portfolio ensures systems can capture as many of these opportunities as possible.

3. **A haven when others falter**: In 2022's inflationary environment, bonds offered little diversification as equities plunged. Through its agnostic trend signals – including in fixed income – the Programme displayed its ability to provide diversifying sources of returns in a rising interest rate environment, delivering strong returns when traditional diversifiers failed to do so.

Conclusion

Significant macroeconomic events tend to disrupt the equilibrium of multiple economic variables simultaneously. However, the shocks they generate can propagate across asset classes at varying speeds and through different channels, depending on the structural dynamics and prevailing conditions of the period in which they occur.

Trend following strategies, by virtue of their core qualities – adaptive, agile, resilient, and diversified – are particularly well-positioned to capture these staggered ripple effects.

While it is impossible to predict with precision where financial markets will head next, it is reasonable to say that major developments are currently unfolding – each with the potential to catalyse profound macro shifts:

- **Protectionism Rising:** Global trade is fragmenting, supply chains are rerouting, and diplomatic ties are fraying. Companies are friendshoring, while governments are turning inward – economically, socially, and in their energy strategies. The age of global openness is being re-evaluated.

- **Tensions Escalating:** Geopolitical stress is intensifying – from US-China rivalry to the continuing war in Ukraine and widening conflict in the Middle East. Defence budgets are swelling, alliances are shifting, and security risks are multiplying.

- **Havens Reshuffling:** Nations are increasingly diversifying their reserves away from US assets and into alternative stores of value. At the same time, mounting debt burdens are raising concerns about sovereign creditworthiness. The notion of 'risk-free' is being questioned.

- **Policy Rewriting**: Inflation has not seen a sustained dip below central banks' targets for years. Meanwhile, fiscal spending is soaring, with governments taking increasingly active roles in their economies. The 2010s playbook is dead – fiscal largesse is now paired with monetary restraint. The consequences are uncertain.

- **Shocks Amplifying:** COVID exposed the fragility of hyper-optimised global supply chains, prompting companies to prioritise resilience over efficiency. Meanwhile, the weaponisation of energy has made energy independence a strategic imperative. Finally, as technology reshapes power dynamics, critical components – like advanced chips and rare earths – have become national priorities. Recurring supply shocks are looking increasingly likely.

The denouement of these macro dynamics is uncertain and may take years to unfold. Furthermore, their resolution could prove completely unexpected. Nonetheless, as these forces unfold and feed into asset prices, trend following strategies are well equipped to respond and adapt to the ripple effects these macro forces create.

As we've shown throughout this paper, trend following strategies possess the unique ability to adapt to the vagaries of financial markets. Where markets go, the systems follow. At times, the path is treacherous – jagged with reversals or broken by sudden gaps. At others, it leads nowhere – stalling in range-bound indecision. In such conditions, trend performance inevitably struggles.

But when meaningful macro shifts take hold, adjustments follow. And when markets finally diverge – towards a new equilibrium – that's when trend following excels. The route there can be surprising, delivering returns from unexpected corners of the portfolio. Other times, the journey spans great distances, fuelled by persistent, directional moves – highlighting the importance of diversification across both speeds and markets when capturing trends.

Living with trend following can be challenging emotionally – marked by setbacks, uncertainty, and unexpected denouements. Yet across each of the four periods examined, spanning the full arc of Aspect's history, the strategy has always found its way (Figure 7).

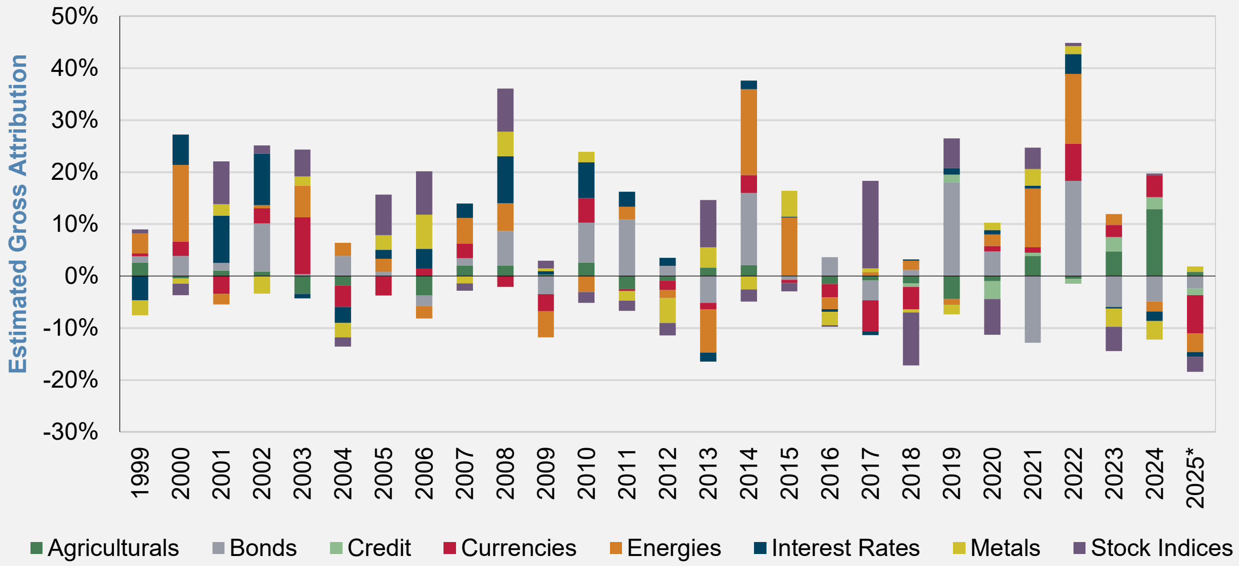

Figure 7: Aspect Diversified Gross Performance by Sector: 1999 to 2025

Source: Aspect Capital. *As at end of May 2025. See page 12 onwards for relevant risk disclaimers.

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Sources available upon request.

Figures 1, 2, 3, 4, 5 and 7: Aspect Diversified started trading on 15 December 1998. The returns are net of the fees (and relevant crystallisation periods) applicable to the commingled vehicle Class A (USD) trading the programme over time, currently a 2% management fee (accrued weekly and paid monthly in arrears) and 20% performance fee (determined and debited (if applicable) annually), subject to a cash hurdle (determined and debited (if applicable) annually). The returns are compounded and include the reinvestment of all sources of earnings, including interest income from cash holdings. The performance data shown from January 2025 onwards has not been audited.

Figures 3 and 7: Attributions are estimated and gross; as such, they do not reflect the deduction of fees and expenses, which would have lowered the overall performance. The returns are uncompounded and do not include the reinvestment of any sources of earnings, such as interest income from cash holdings.

Figures 7: Until July 2011 the Programme had an allocation to the Stock Sectors sector which is not included here.

See the table below for the historical net performance of the programmes. Information refers to Aspect programme track records which are available in full on request. Please note that the performance of customised or modified implementations of the programmes may differ to the performance shown in this letter.

	Annualised net returns as at end of May 2025		
	1 Year	5 Years	10 Years
Aspect Diversified	-21.64%	6.28%	3.78%

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