



Trend Following

Economic Trend

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In this paper we present a novel approach to investing across equity, bond, currency and commodity markets. “Economic trend” capitalizes on the tendency for new information to have a persistent impact on asset prices by positioning in each market on the basis of trends in macroeconomic fundamentals. This hypothetical strategy has realized consistently attractive risk-adjusted returns over a 50+ year sample, and performance is pervasive across both markets and measures. It exhibits low correlation to traditional risk premia on average and tends to perform exceptionally well during drawdown periods for traditional asset classes. While economic trend is a close relative of price trend-following—both approaches aim to capitalize on the tendency of markets to systematically under-react to news—the two strategies are highly complementary. Combining the two leads to improved risk-adjusted performance and more robust drawdown protection than price trend-following alone.

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