Trend Following

Trend-Following: Why Now? A Macro Perspective

November 16, 2022

Trend-following managers are having a banner year so far in 2022 amidst a year of turmoil for traditional portfolios. Trend following has provided valuable diversification[1] to investors who stuck with the strategy against losses in traditional allocations; the SG Trend Index has returned 36% year-to-date through September 2022, while the Global 60/40[2] declined -20%.

Investors exploring an allocation to trend-following may be wondering if they are "late to the trade," while also anchoring their expectations to the lean 2010s. Both the macroeconomic picture and empirical evidence, however, suggest that strong performance for trend-following may persist, making it a potentially valuable source of diversifying returns during a challenging time for the rest of investors' portfolios.

In this article, we highlight trend-following's track record of delivering strong long-term returns and strong performance in downturns for traditional assets—even after factoring in the 2010s. We examine the macroeconomic drivers that stymied trend-following during the 2010s, finding them exceptional versus history. We then assess the current economic outlook and identify several reasons that macroeconomic volatility—and correspondingly large market moves—are unlikely to subside in the near term, providing a favorable backdrop for trend-following performance. Finally, we note several enhancements to a trend- following approach that potentially make it easier for investors to stay invested.

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[1] Diversification does not eliminate the risk of experiencing investment losses.

[2] Global 60/40 refers to a monthly-rebalanced portfolio that is 60% MSCI World and 40% Barclays Global Aggregate Hedged USD.