

Insight Paper

Living with Trend Following: History & 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:

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- ▶ **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
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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 16, 17, 19 and 20). 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:



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

The Macro Undercurrents Behind Four Pivotal Periods

Turn of the Millennium: Jan 1999 to Dec 2003

Around the turn of the millennium, markets witnessed a series of pivotal events: the bursting of a stock market bubble, a recession, the onset of war, and China's rapid rise as an economic powerhouse – to name just a few. Though each event impacted markets in its own unique way, they all shared one thing in common: a lasting and transformative effect on the global economy.

Throughout the late 1990s, markets were swept up by a wave of enthusiasm for anything related to the internet, driven by the belief that this new technology would revolutionise the world. The so-called New Economy – a shift from traditional industrial-based economies to ones driven by technology, innovation and the internet – was expected to change everything. By the early 2000s however, it became clear that many internet companies lacked viable business models. As earnings and growth targets repeatedly fell short of expectations, investor confidence first eroded and then collapsed entirely, triggering the bursting of the Dot Com bubble.

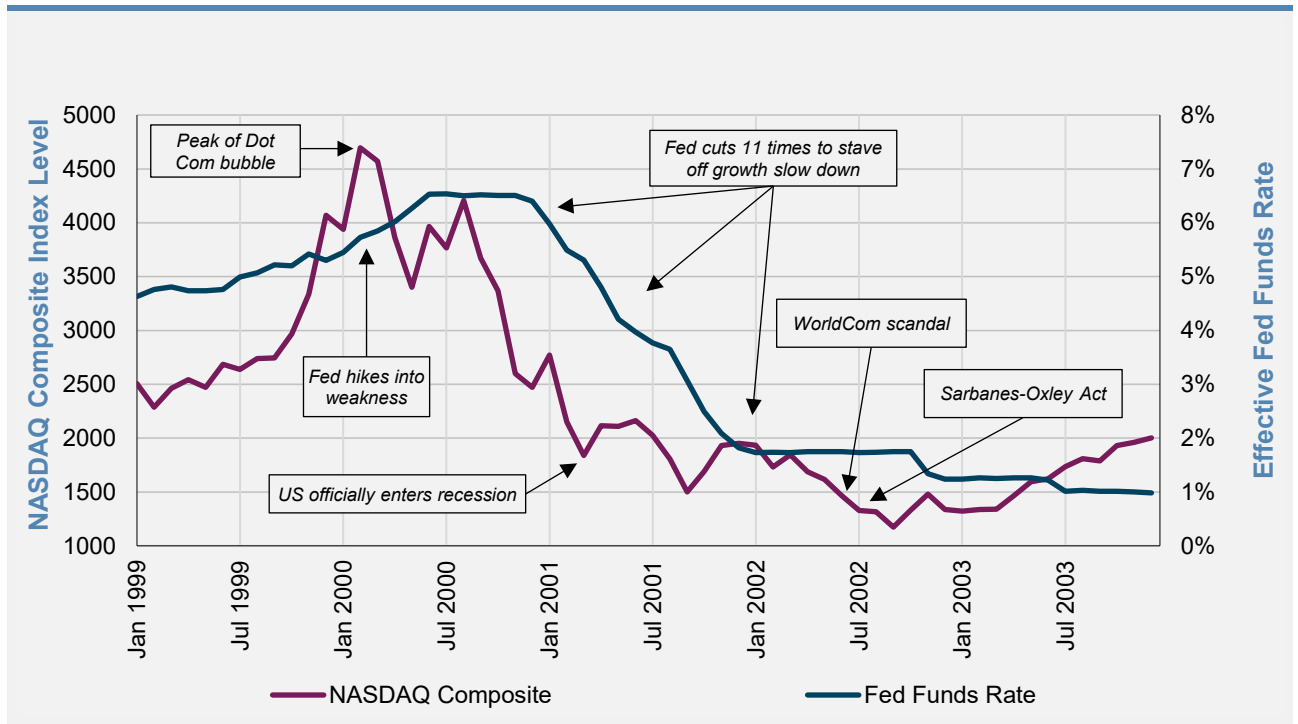


Figure 1: NASDAQ Composite & Fed Funds Rate: Jan 1999 to Dec 2003

Source: Bloomberg. See page 26 onwards for relevant risk disclaimers.

The Tech Wreck reshuffled the main tail risks and macro drivers at the turn of the millennium. Irrational exuberance in US tech stocks and volatile inflation expectations gave way to a recession, severely affecting stocks and bonds. Stock indices plummeted, while fixed income markets delivered much-needed offsetting positive returns as the Fed delivered a flurry of rate cuts in 2001 (Figure 1). Oil, which had performed strongly as Asian economies were recovering from their 1997 crisis, concurrently with OPEC curtailing production, rolled over nonetheless in the aftermath of the crash (Figure 2).

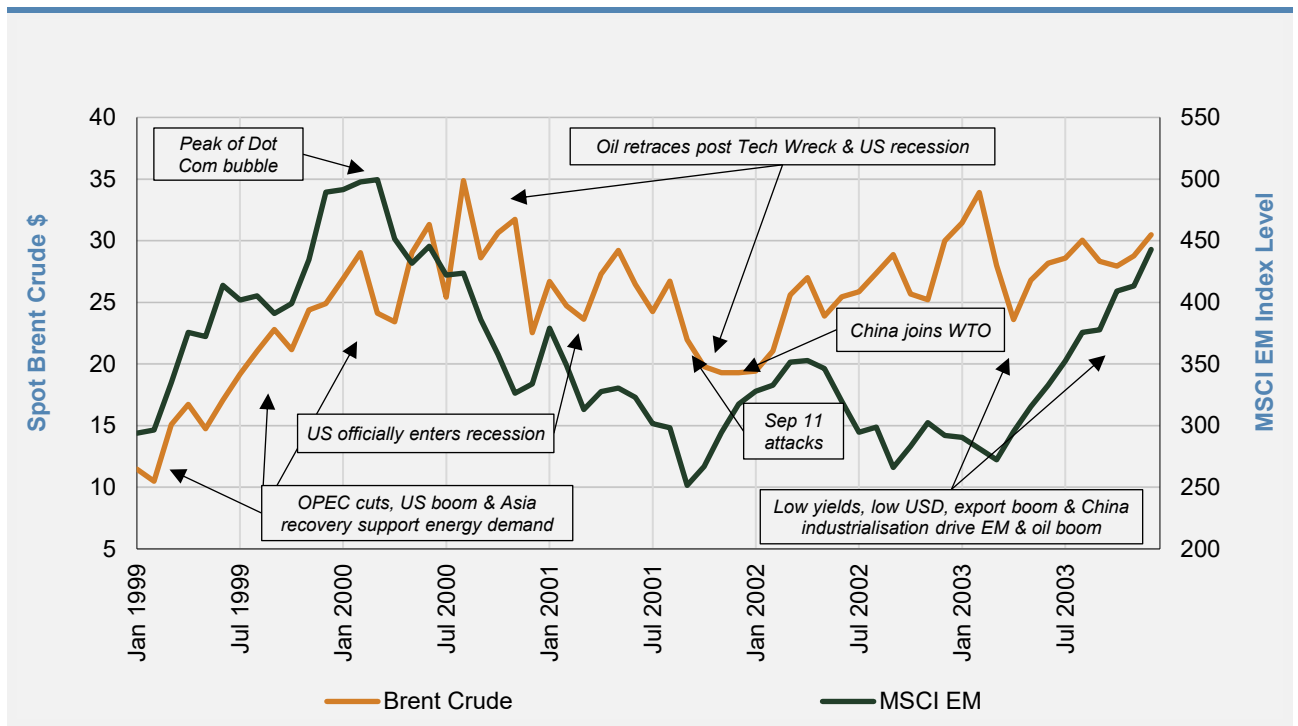


Figure 2: Oil and Emerging Markets: Jan 1999 to Dec 2003

Source: Bloomberg. See page 26 onwards for relevant risk disclaimers.

Yet the Tech Wreck wasn't the only major macro catalyst of the period. The 9/11 terrorist attacks – and the subsequent US-led wars – triggered a global risk-off sentiment, sparking a powerful bull run in gold (Figure 3). On the monetary front, the Federal Reserve launched a swift series of rate cuts from January 2001 onwards, loosening liquidity conditions. This led to a gradual decline in yields and, inadvertently, helped lay the groundwork for the next crisis. In the shorter term, easier monetary policy contributed towards a weakening of the US dollar (Figure 3). At the same time, accounting scandals and the lingering disillusionment with the 'New Economy', undermined confidence in US assets. Emerging markets, by contrast, began to shine as a compelling alternative source of returns. Lower yields, a weaker dollar, and, crucially, explosive growth in global trade following China's entry into the World Trade Organisation (WTO), made them increasingly attractive (Figure 2). As growth surged in these economies and thanks to China's rapid industrialisation, infrastructure build out, and urbanisation, commodities followed suit. Oil, in particular, embarked on a staggering bull run that lasted until the GFC (Figure 2).

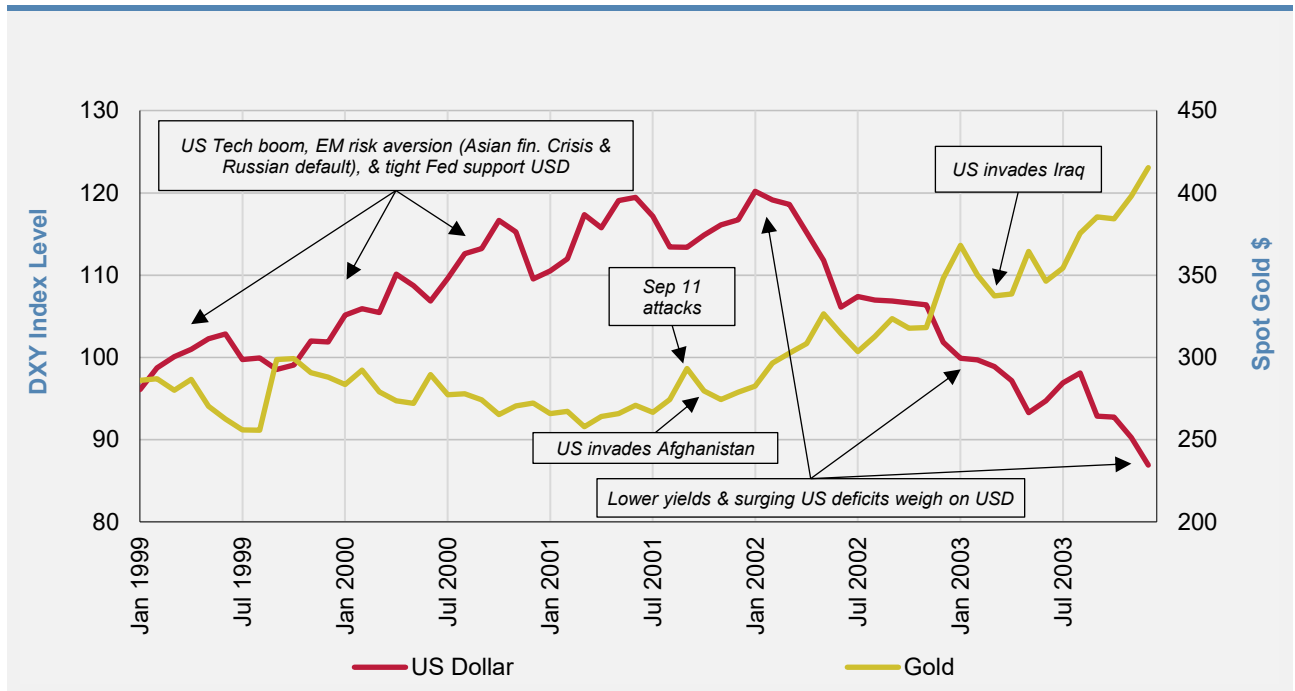


Figure 3: US Dollar and Gold: Jan 1999 to Dec 2003

Source: Bloomberg. See page 26 onwards for relevant risk disclaimers.

Global Financial Crisis: Jan 2005 to Feb 2009

During the mid-2000s, the world experienced relatively strong economic growth, low inflation, and a significant expansion of both trade and financial flows. At the same time, the developing world entered a phase of notable growth, largely insulated from major crises. Yet, beneath the surface of apparent stability, the global economic landscape was undergoing transformative shifts – developments that came into sharp focus in the aftermath of the global financial crisis (GFC).

As is often the case, the roots of these developments lay deep in the past, with their full impact becoming clear only in hindsight. A key example was the steady decline in US real interest rates, which played a central role in the GFC (Figure 4). This fall in real rates was driven, in part, by the Federal Reserve maintaining short-term nominal interest rates relatively low for an extended period, following the Tech-Wreck and the 9/11 attacks. This created an environment of accommodative monetary policy, conducive to asset bubbles (Figure 4).

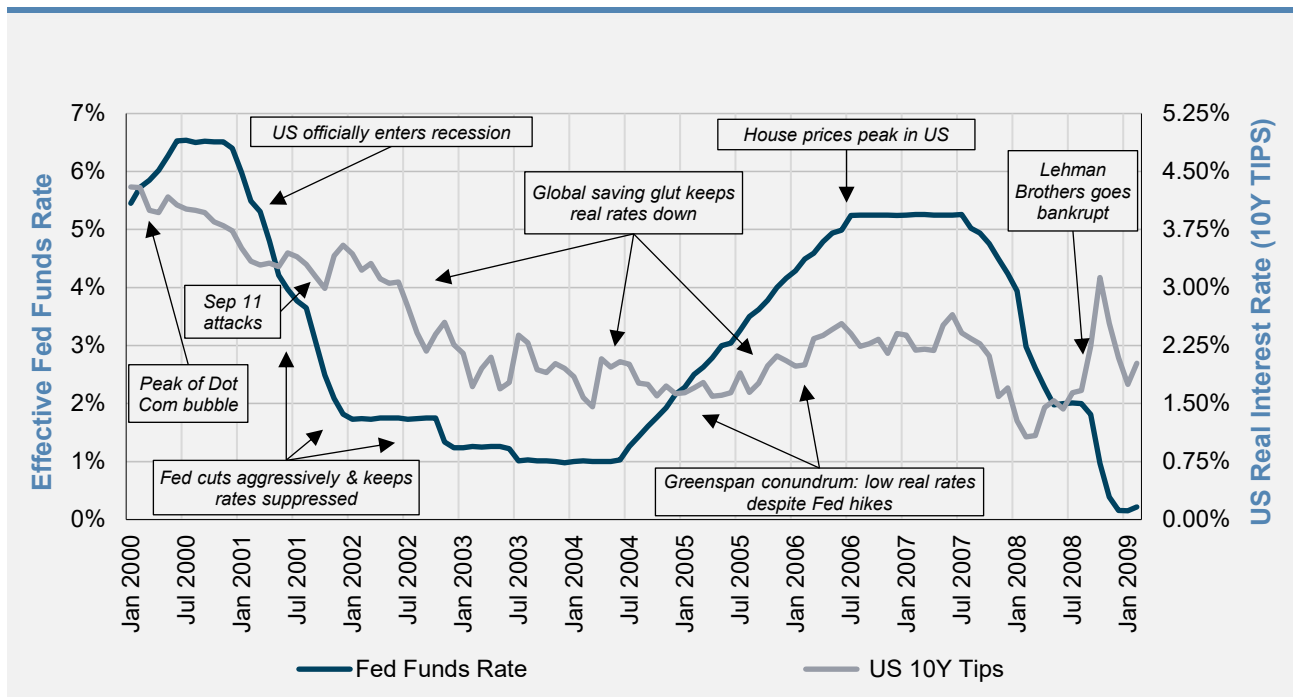


Figure 4: Fed Funds Rate and US Real Rates: Jan 2000 to Feb 2009

Source: Bloomberg.

The Dot Com bust also played a role by ending the late 1990s' tech-driven productivity boom, leading investors to lower their expectations for future productivity growth (Figure 5). As a result, demand for capital fell, adding further downward pressure on interest rates.

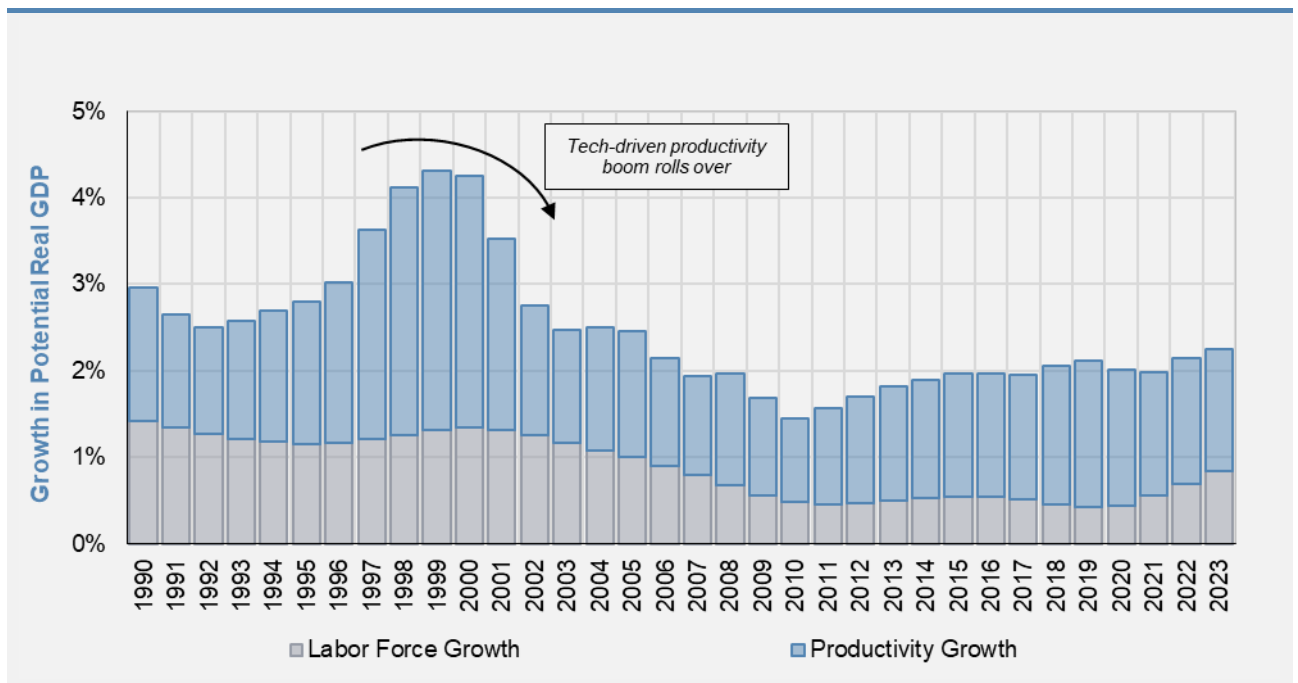


Figure 5: Contribution to Potential Economic Growth: 1990 to 2023

Source: Macrobond.

Later in the 2000s, rising global excess savings – dubbed the “global saving glut” by Fed Chair Ben Bernanke – amplified this trend. China’s rapid export-led growth generated large trade surpluses, with domestic savings eventually outpacing investment needs.



These surplus funds, along with those from commodity-exporting countries benefiting from high energy prices (Figure 6), were funnelled into US and other developed markets. Finally, a hangover from the Asian financial crisis of the 1990s, as well as the stringent conditions imposed by the IMF on those countries which received its aid, left a bitter taste for many emerging economies. In response, many began accumulating large foreign reserves as a safeguard against future crises. This reserve build-up also served to protect export competitiveness – a key engine of recovery – by preventing currency appreciation. Together, these deeply rooted dynamics helped suppress long-term interest rates, even as the Federal Reserve started raising short-term rates in the mid-2000s (Figure 4).

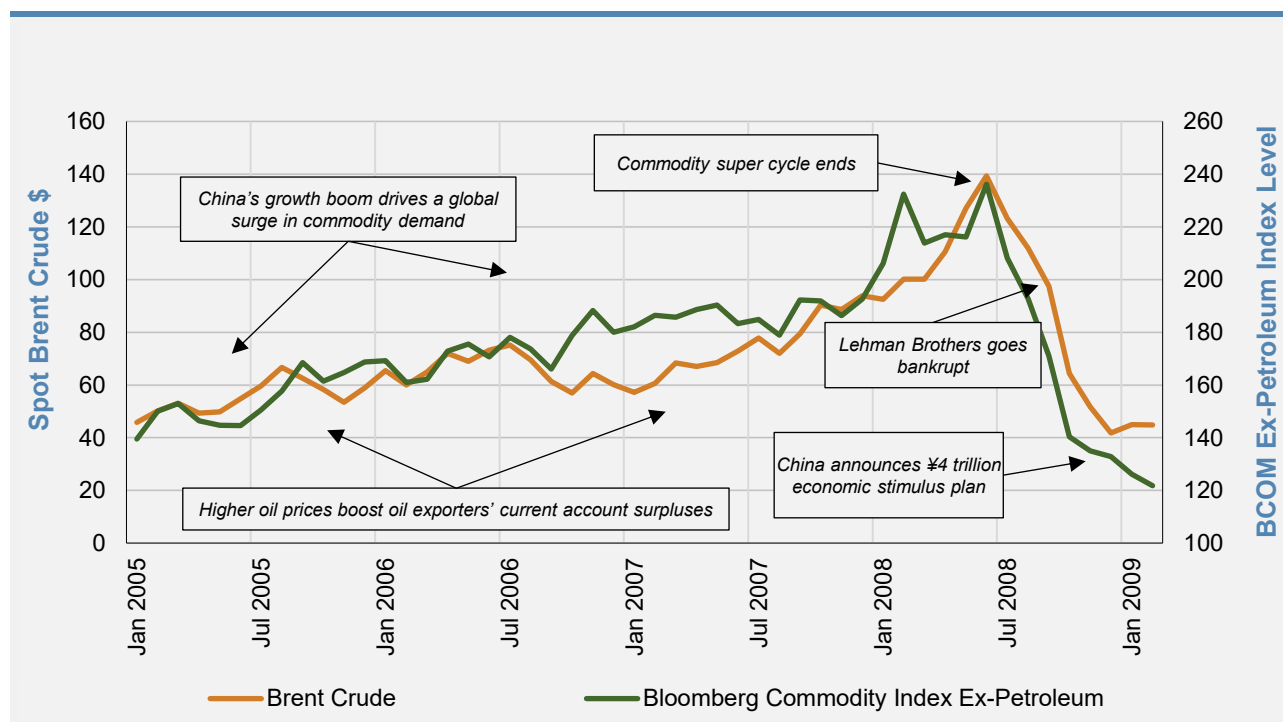


Figure 6: Oil and Other Commodities: Jan 2005 to Feb 2009

Source: Bloomberg. See page 26 onwards for relevant risk disclaimers.

The backdrop of persistently low long-term interest rates created ideal conditions for the US housing market. Declining mortgage rates fuelled accelerating home prices, which had already been rising since the mid-1990s. With homeownership relatively high and households able to borrow easily against home equity, leverage increased. At the same time, financial innovation expanded mortgage access to previously excluded borrowers. Confidence in ever-rising home values, combined with low rates and novel loan products, triggered a self-reinforcing cycle: rising prices encouraged more lending, which in turn pushed prices even higher. When US house prices peaked in summer 2006, mortgage delinquencies – especially among subprime borrowers – began to rise. This eroded the value of mortgage-backed securities (MBS) held by financial institutions worldwide, sparking losses and a sharp contraction in credit – the virtuous cycle reversed into a vicious one, setting the stage for the financial crisis that erupted in August 2008.

As the crisis spread around the globe through the highly interconnected global financial system, many of the key macro trends that had defined the pre-crisis period were overturned. Commodities, and crude oil in particular – previously buoyed by robust global growth, surging trade, and a weakening dollar – collapsed (Figure 6).

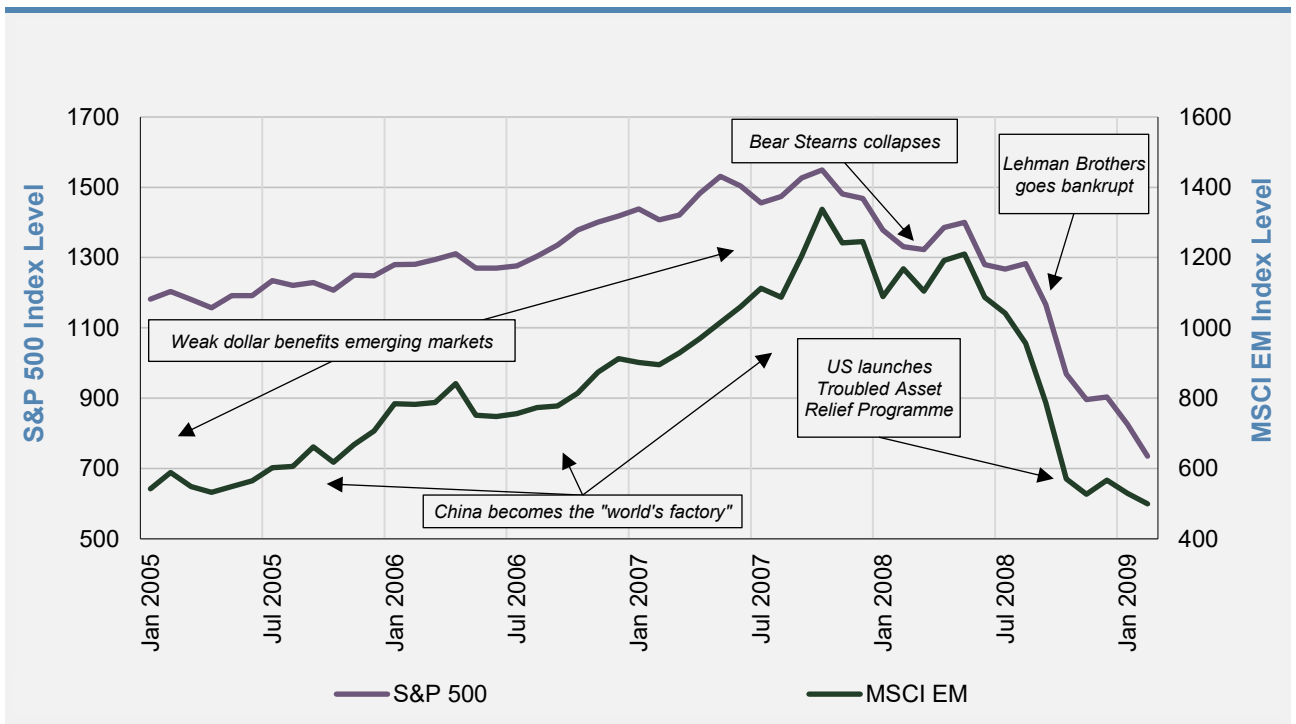


Figure 7: S&P 500 and Emerging Markets: Jan 2005 to Feb 2009

Source: Bloomberg. See page 26 onwards for relevant risk disclaimers.

Emerging markets, once believed to have decoupled from the business cycles of developed nations, proved to be deeply interconnected and fell in tandem with their advanced peers (Figure 7). Despite aggressive Fed rate cuts, the US dollar surged amid a global flight to safety – reversing years of weakness driven by rising US twin deficits and strong global growth (Figure 8).

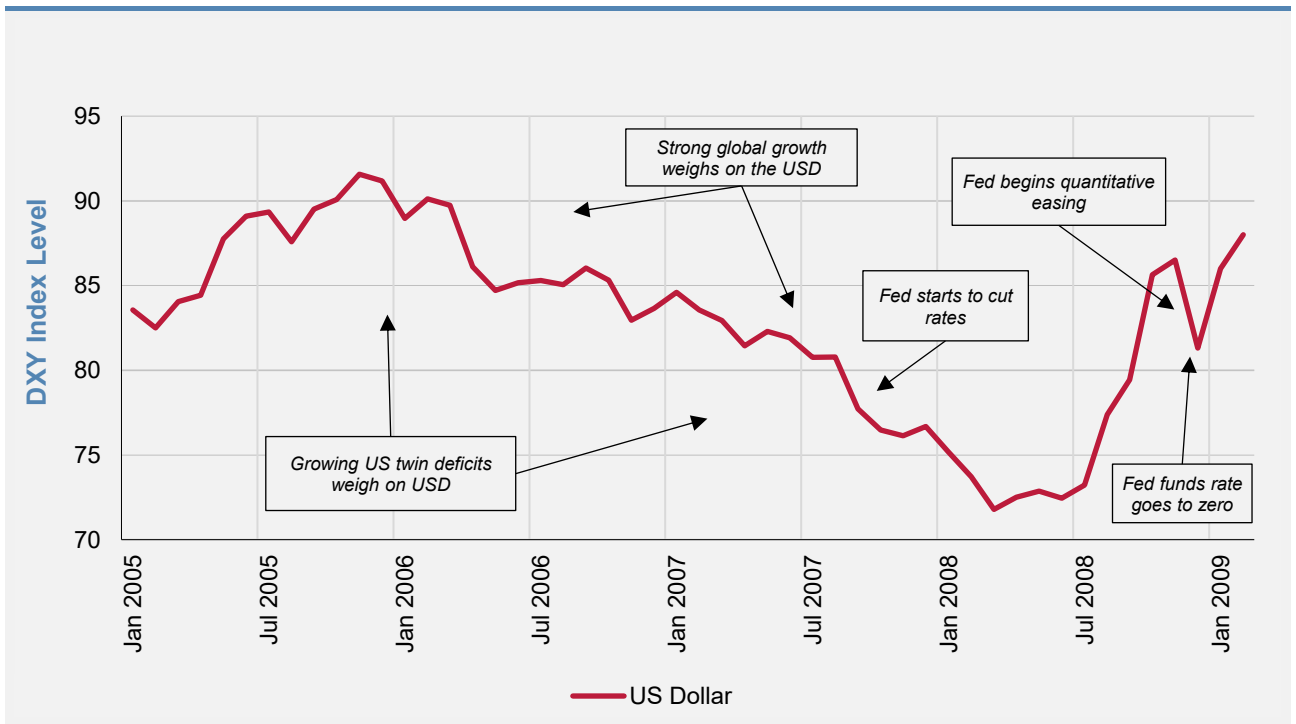


Figure 8: US Dollar: Jan 2005 to Feb 2009

Source: Bloomberg. See page 26 onwards for relevant risk disclaimers.



To stabilise the collapsing financial system, central banks and governments launched a series of unprecedented interventions, flooding the system with liquidity. On the monetary front, policy rates were pushed to zero (Figure 4). This wave of liquidity not only stabilised markets but also laid the groundwork for a decade-long bull run in risk assets, the suppression of yields across developed markets, and the emergence of a new, highly financialised macro regime.

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

The economic imbalances that accumulated in the lead-up to the Global Financial Crisis continued to weigh heavily on the global economy in the 2010s, playing a significant role in the European Sovereign Debt Crisis. Once again, deep structural shifts that had been developing in the background for years were only brought to light in the midst of a crisis.

One of these shifts was the complete transformation of the German economy into an export powerhouse, a shift made possible through: a series of German reforms aimed at curtailing wage growth in the early 2000s, the strong global growth at the turn of the millennium, the adoption of the euro, and the EU's free movement of goods and capital. These factors triggered a major internal transfer of wealth, with household income falling sharply while business profits rose rapidly, as a share of GDP. Since businesses save most of their profits while most households spend most of their income, this wealth shift drove Germany's saving rate sharply higher, eventually exceeding domestic investment capacity. The consequence was an exodus of German excess savings into neighbouring European nations. This external flow of capital – a corollary to Germany's export boom – boosted local investment and consumption in other European nations, particularly in Southern Europe.

In Spain, for example, investment and consumption surged so far beyond domestic output, that by 2007, the country was importing more capital than every other country in the world except for the United States. For any country, absorbing such a rapid surge in external savings through productive investment is extremely difficult. Inevitably, vast amounts of these foreign savings were eventually funnelled into non-productive investments as well as into asset bubbles, which in Europe's case, turned out to be predominantly real estate.

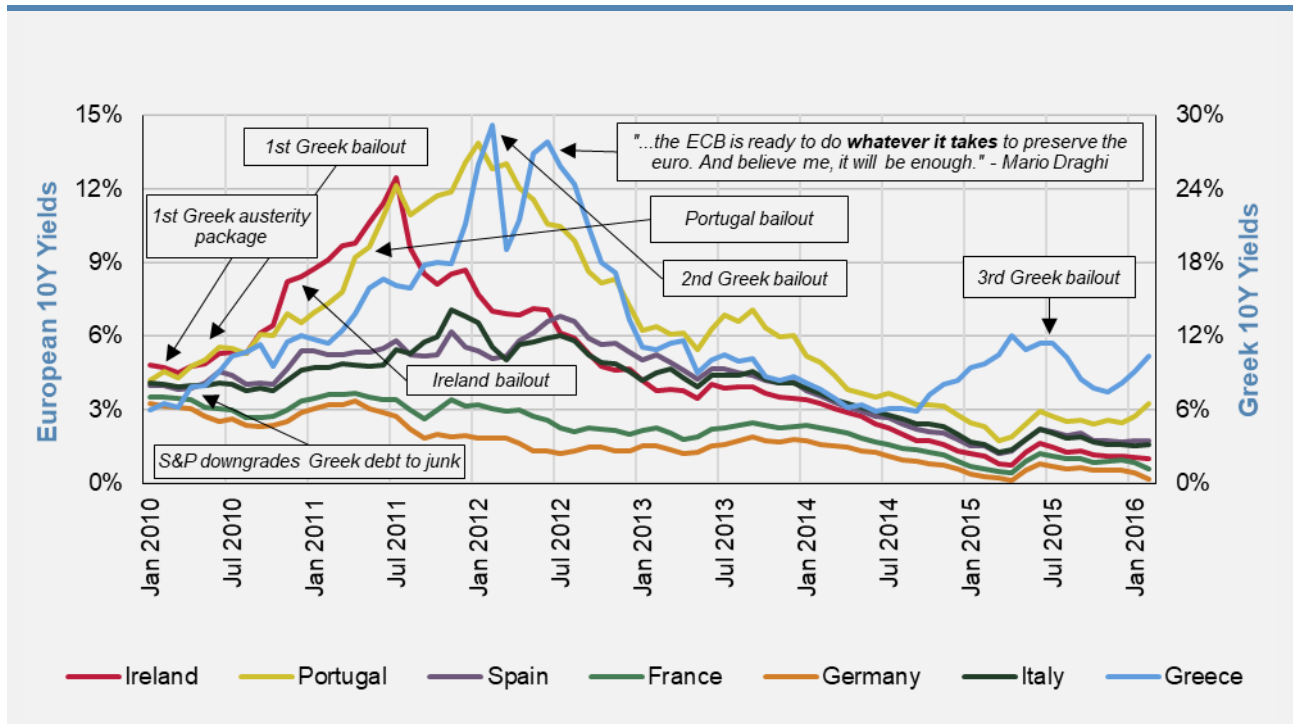


Figure 9: European 10Y Yields: Jan 2010 to Feb 2016

Source: Bloomberg.

When the GFC hit in 2008, peripheral countries that had built their growth models around cheap debt, fuelled by surplus-countries' savings, suddenly lost their main source of funding. Investors panicked and European yields soared (Figure 9), amid the real possibility that European nations may default on their financial obligations. After Draghi's famous "whatever it takes" pledge, crisis-hit countries adopted harsh austerity measures to repay creditors, causing domestic consumption and investment to collapse.

Further east, China responded very differently to the denouement of the GFC. As global growth slowed sharply, its export-led model became far less profitable, pushing Chinese officials to turn inward. Instead of curbing demand through austerity, as in Europe, they boosted domestic investment through large-scale manufacturing, infrastructure, and real estate programs. China thus pivoted toward domestic growth, reflected in Chinese officials letting the Yuan cautiously appreciate in hopes of gradually rebalancing the economy towards domestic consumption (Figure 10).

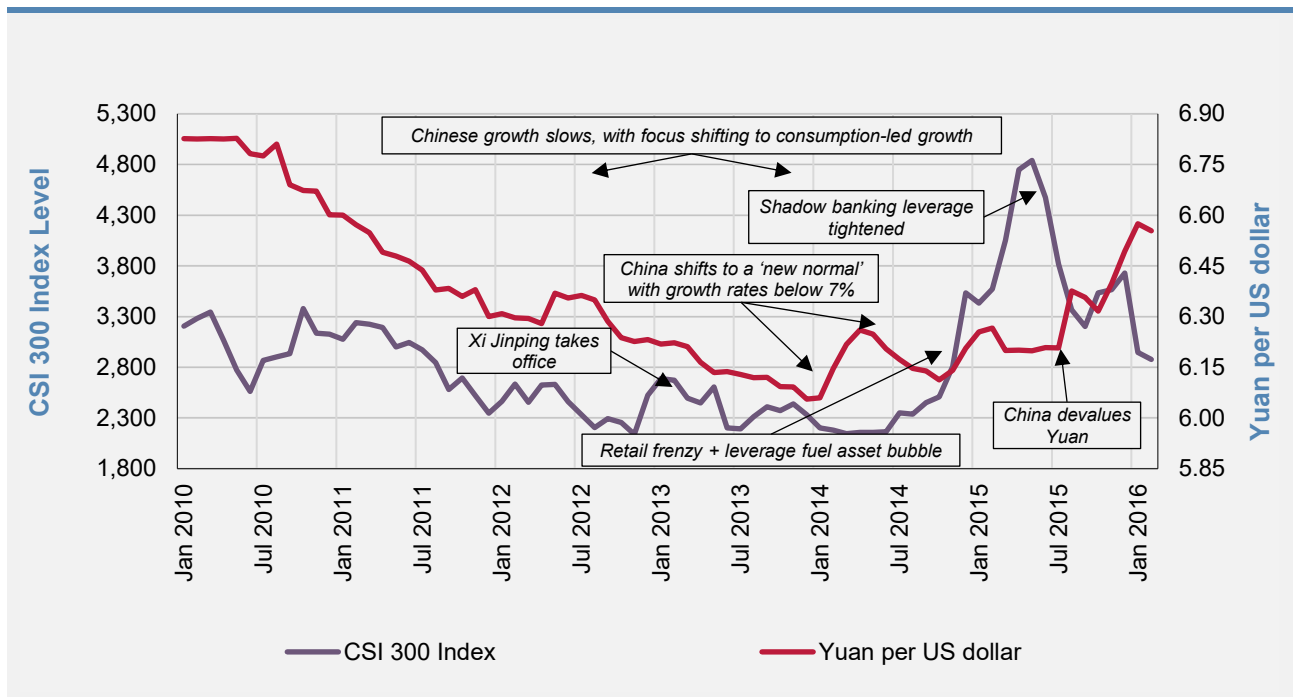


Figure 10: Chinese Equities and Yuan: Jan 2010 to Feb 2016

Source: Bloomberg. See page 26 onwards for relevant risk disclaimers.

Another significant development unfolding in the background was the rapid progress in energy technologies, which ultimately led to the shale oil and gas revolution – an extraordinary development both in its timing and scale. In the early 2000s, the prevailing assumption was that the US would become a major importer of liquefied natural gas (LNG), prompting large investments into LNG import facilities. Yet, revolutionary advances in horizontal drilling and hydraulic fracturing unleashed a production surge so large that many of the LNG import terminals were physically retrofitted into export terminals, reversing their original purpose entirely. By February 2016, the US shipped its first LNG cargo, and by 2022 it had become the world's largest LNG exporter. A similar surge occurred in oil: by 2019, the US had added the equivalent of a Canada to global oil production.

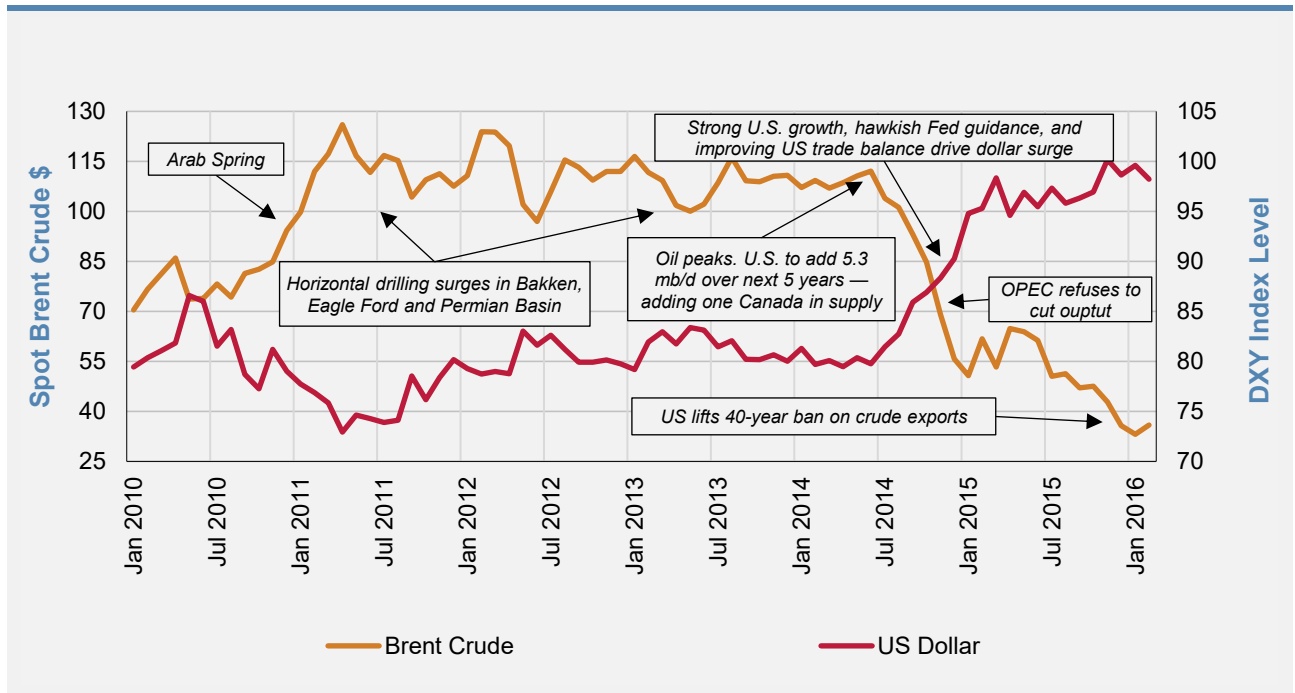


Figure 11: Oil and US Dollar: Jan 2010 to Feb 2016

Source: Bloomberg. See page 26 onwards for relevant risk disclaimers.

This surge in energy production had profound consequences. In the short-term, it triggered a sharp oil price collapse in 2014, especially after OPEC’s decision not to cut production (Figure 11). In the more medium-term, lower oil prices helped keep inflation in check, enabling central banks to maintain accommodative monetary policies for years, greatly suppressing yields (Figure 12). Finally, as the US moved from energy dependence to dominance, its geopolitical position was significantly strengthened.

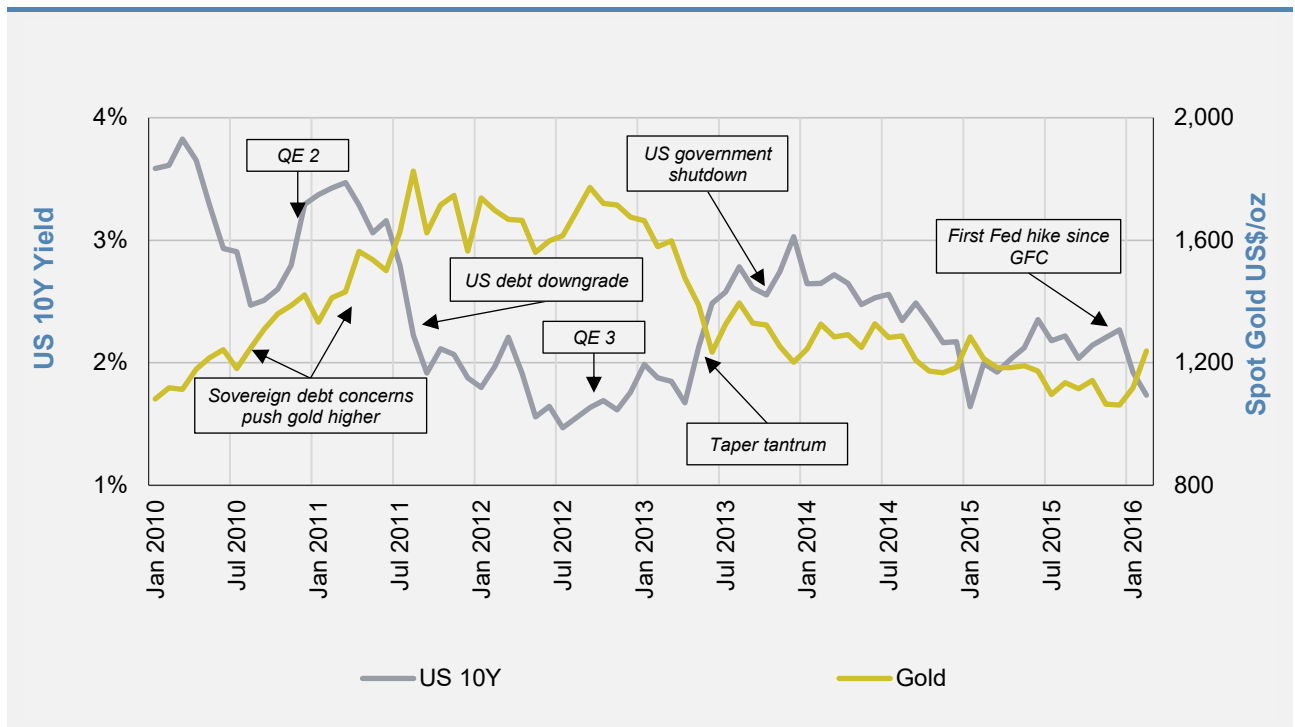


Figure 12: US 10Y and Gold: Jan 2010 to Feb 2016

Source: Bloomberg.



The period following the GFC was thus a transformative epoch for the global economy. The European Debt Crisis exposed deep flaws in the Eurozone, triggering austerity and political unrest. Likewise, the US shale oil and gas boom redefined global energy markets, boosting supply and shifting geopolitical dynamics. Meanwhile, an extended period of ultra-low interest rates fuelled asset price inflation and risk-taking globally while suppressing macro volatility. Together, these developments reshaped economic fundamentals and set the stage for further significant macro events in the years that followed.

Pandemic Shock and Inflation Surge: Jan 2017 to Mar 2024

The early 2020s marked a pivotal turning point for global markets. This tumultuous period not only overturned many of the defining economic dynamics of the 2010s – such as fiscal restraint, subdued inflation, and ultra-loose monetary policy – but also accelerated deeper structural shifts already underway. The result has been a complex and rapidly evolving macroeconomic landscape, reshaping how investors, policymakers and businesses engage with the global economy.

One of the defining features of the post-GFC, pre-pandemic era was the near-universal adoption of ultra-accommodative monetary policy. Nominal short-term interest rates hovered near zero for the best part of a decade leading up to the first Trump presidency, while markets were flooded with liquidity through successive rounds of quantitative easing (QE) (Figure 14). While the exact relationship between QE and rising asset prices remains debated, the decade saw an extraordinary bull run in equities – particularly in long-duration growth stocks (Figure 13). Yet despite this abundance of ‘free money,’ inflation remained persistently below 2%, another hallmark of the era.

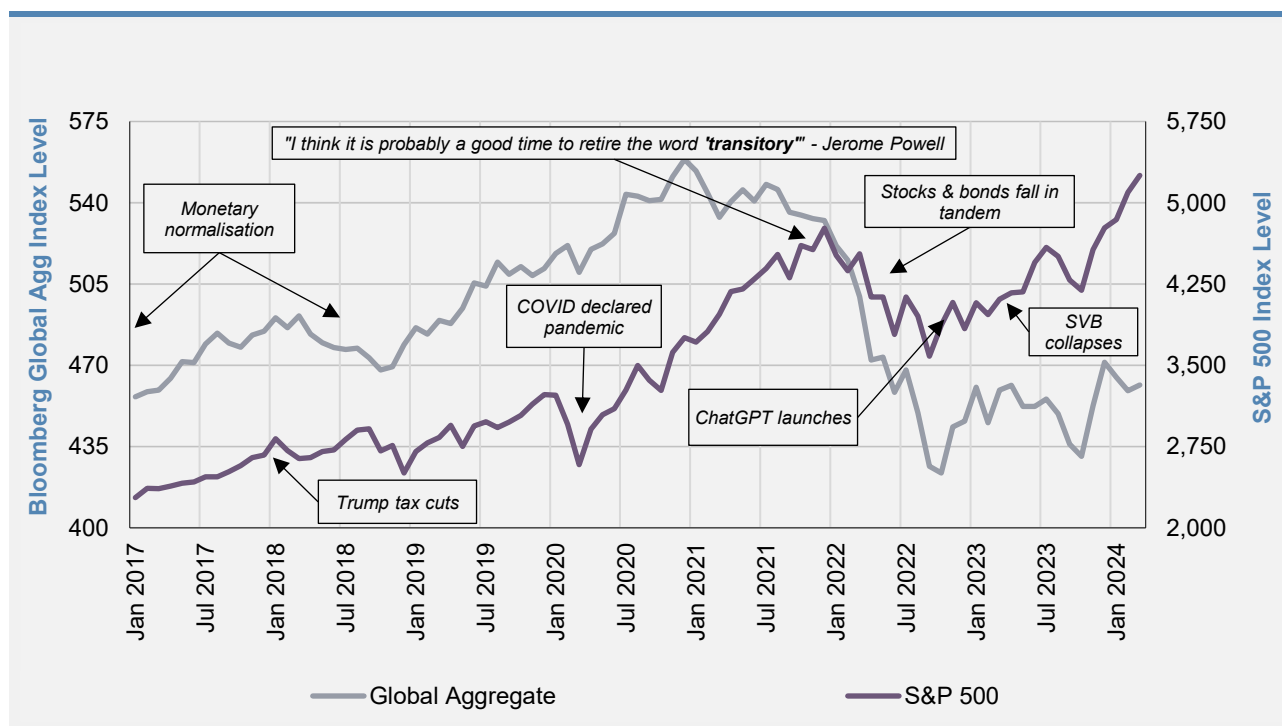


Figure 13: Global Bonds and S&P 500: Jan 2017 to Mar 2024

Source: Bloomberg. See page 26 onwards for relevant risk disclaimers.

On the fiscal side, governments – especially in Europe – embraced austerity, creating a stark contrast with expansive monetary policy. Globally, monetary largesse was thus broadly paired with fiscal restraint. This conservative fiscal stance, alongside widespread post-GFC deleveraging, appeared to restrain some of the transmission mechanisms of



QE, muting the impact of central banks' liquidity injections on the real economy and importantly, on inflation. That dynamic was abruptly shattered in the early 2020s. In response to the COVID-19 pandemic, governments unleashed unprecedented fiscal stimulus at the same time as central banks injected massive liquidity into financial markets. The result was sharply different: inflation surged to levels not seen in decades, alongside global bond yields (Figure 14). Initially dismissed as transitory, this inflationary spike eventually forced central banks to respond – raising rates and beginning quantitative tightening (QT) (Figure 14). On the fiscal front however, government support persisted, through major legislation such as the Inflation Reduction Act and the CHIPS Act in the US, or Germany's recent defence and infrastructure investment plan, more recently.

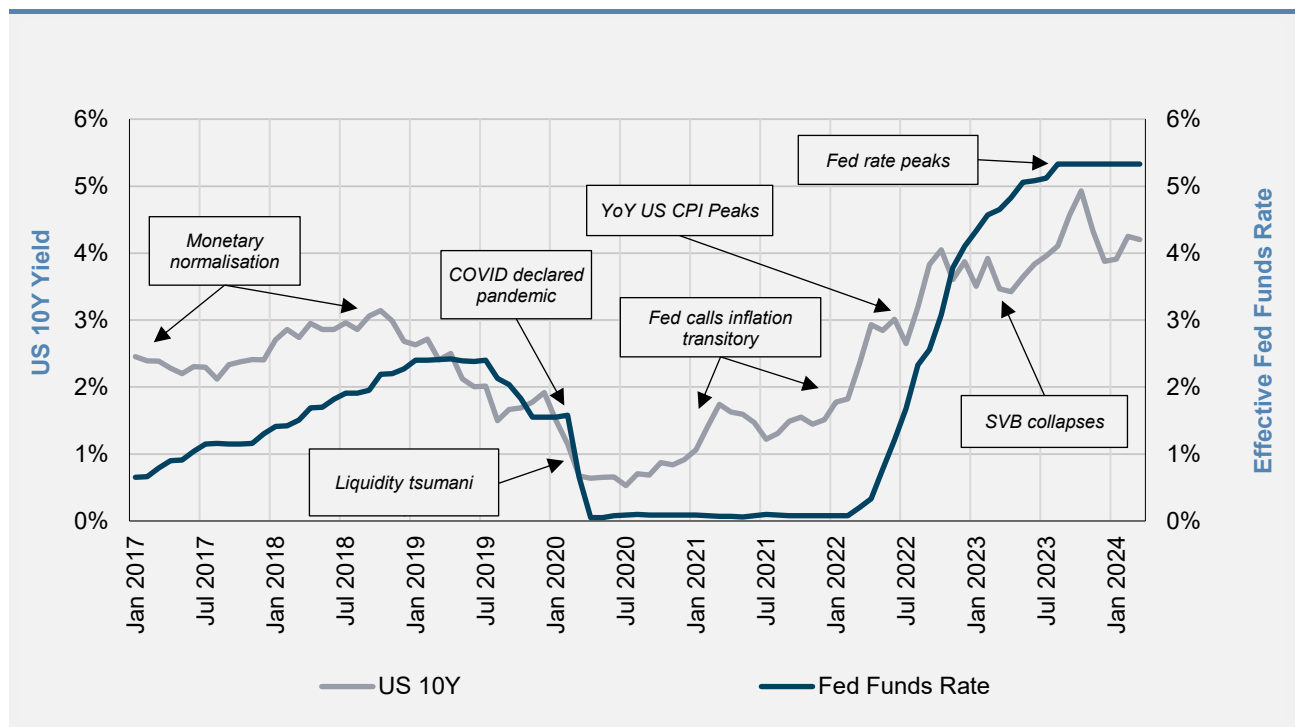


Figure 14: US 10Y and Fed Funds Rate: Jan 2017 to Mar 2024

Source: Bloomberg.

In addition to reversing many of the dominant dynamics of the previous decade, the early 2020s also accelerated several simmering structural trends. Most notably, the gradual erosion of globalisation. While globalisation arguably peaked in the aftermath of the Global Financial Crisis, sentiment began to sour more rapidly during Donald Trump's first term, as concerns over trade deficits, manufacturing job losses, and intellectual property theft became central political issues – culminating in the onset of the US-China trade war. The COVID-19 pandemic then dramatically hastened this shift by exposing the fragility of global supply chains, which for the past decade, had been optimised for efficiency rather than resilience. Similarly, Russia's invasion of Ukraine underscored the risks of energy dependence, most visibly through Europe's energy crisis following the loss of Russian natural gas, which saw energy prices skyrocket (Figure 15).

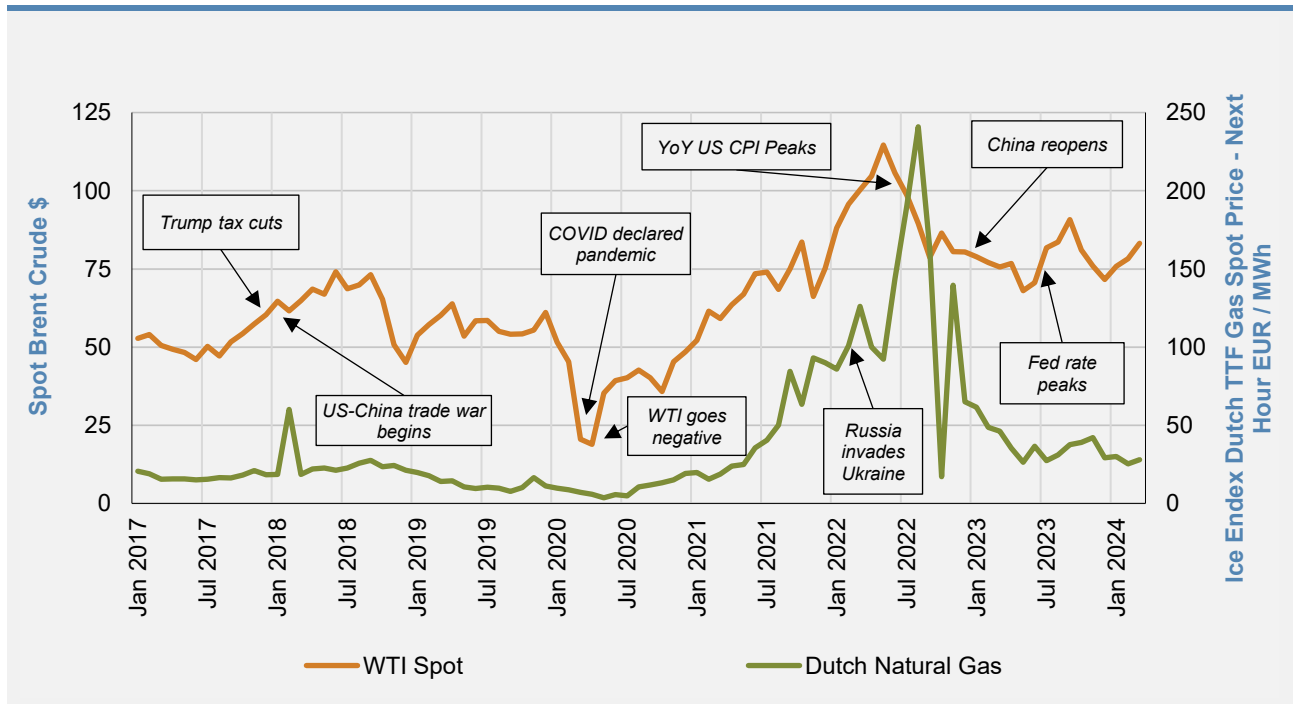


Figure 15: Oil and European Natural Gas: Jan 2017 to Mar 2024

Source: Bloomberg.

The post-pandemic world is therefore fundamentally different: fiscal policy is now assertive and interventionist, monetary policy is tight, and inflation remains elevated – with 2% increasingly looking more like a floor than a target. Geopolitically, shifting alliances are fracturing the world into regional trading blocs, reshaping global trade, commodity flows, manufacturing, and capital markets. In response, global manufacturers are shortening supply chains, regionalising production, and "friendshoring." Governments, too, are reassessing interdependence, increasingly prioritising strategic autonomy. Together, these shifts represent a structural break from the previous decade – one poised to fundamentally reshape the global investment landscape.

Living With Trend Through Major Macro Transitions

Having examined in detail the macroeconomic undercurrents of these four periods of interest, this section will now examine how Trend has performed during these periods of significant macro shifts. To conduct this analysis, we showcase 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

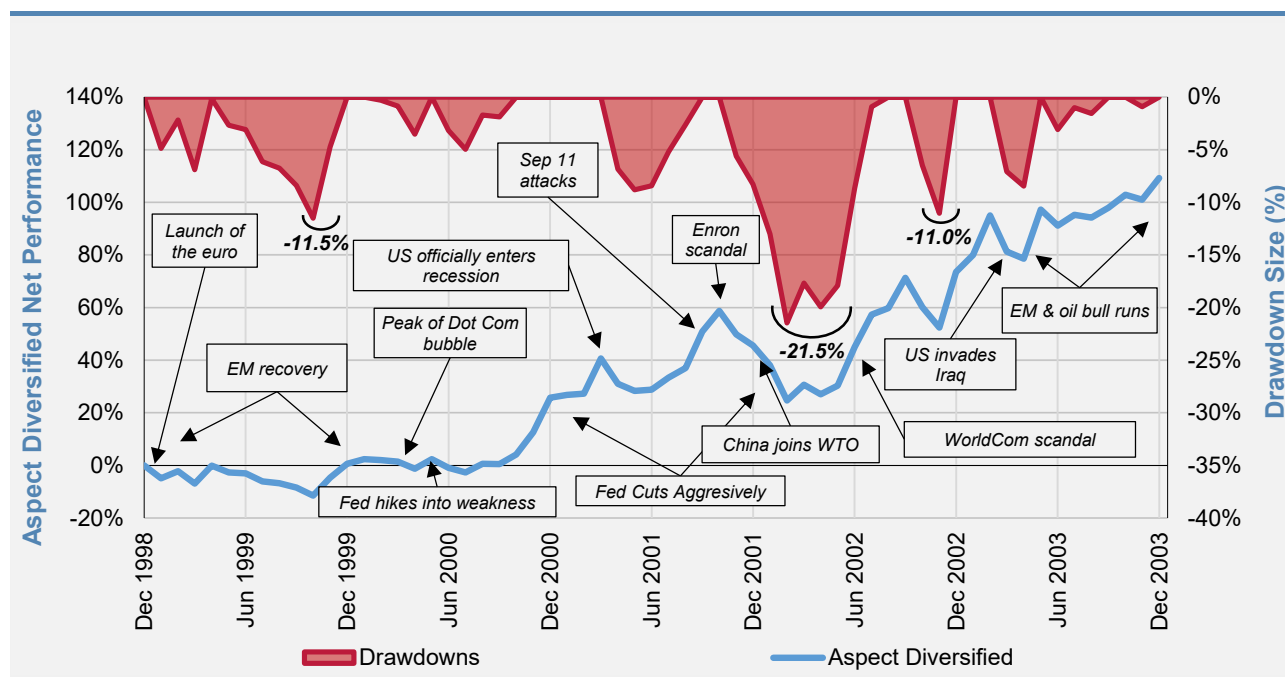


Figure 16: Aspect Diversified Net Performance and Drawdowns: Jan 1999 to Dec 2003

Source: Aspect Capital. See page 26 onwards for relevant risk disclaimers.

The early 2000s were marked by several of these 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

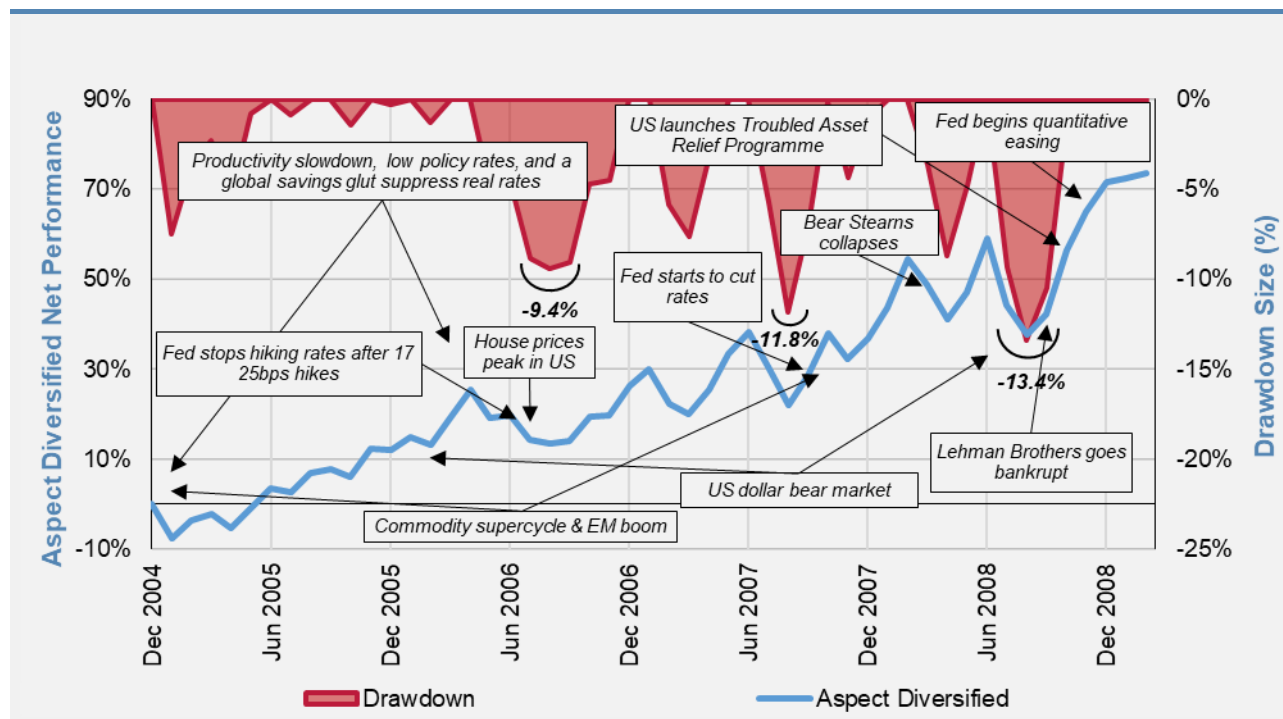


Figure 17: Aspect Diversified Net Performance and Drawdowns: Jan 2005 to Feb 2009

Source: Aspect Capital. See page 26 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.

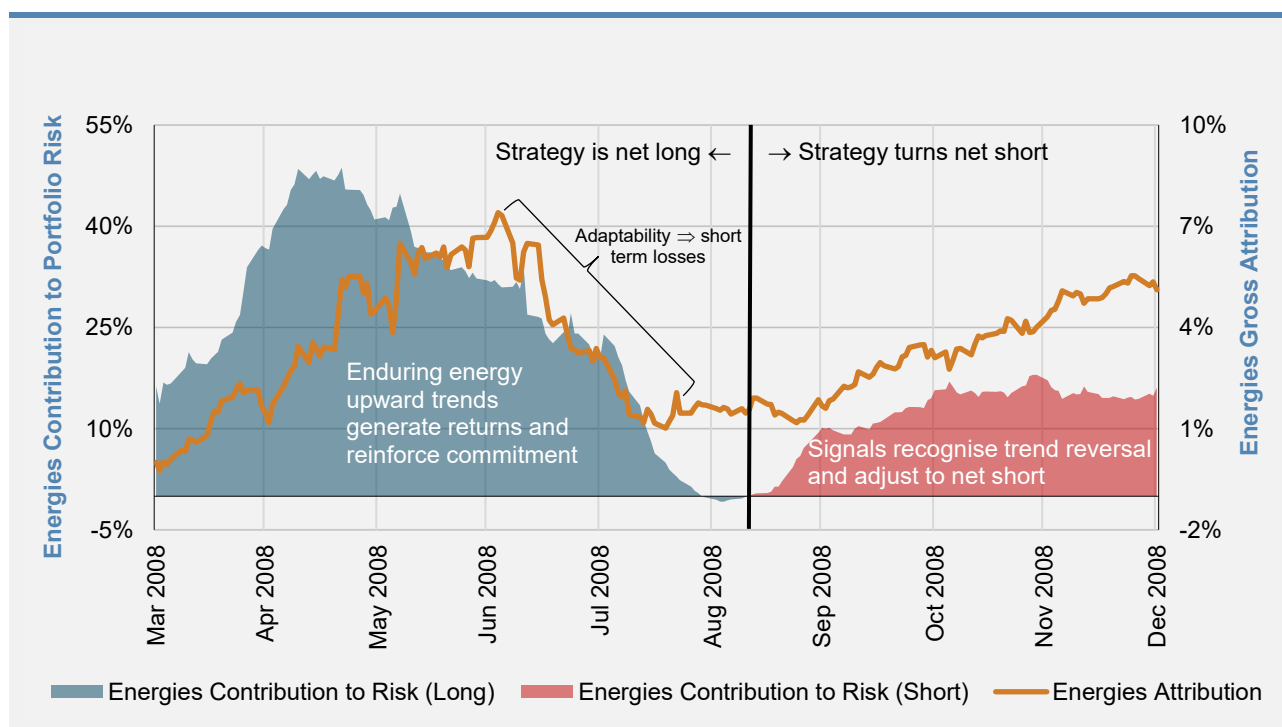


Figure 18: Aspect Diversified Attribution to Energies Sector Amid Oil Collapse: Mar 2008 to Dec 2008

Source: Aspect Capital. See page 26 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 18). 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 18). 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

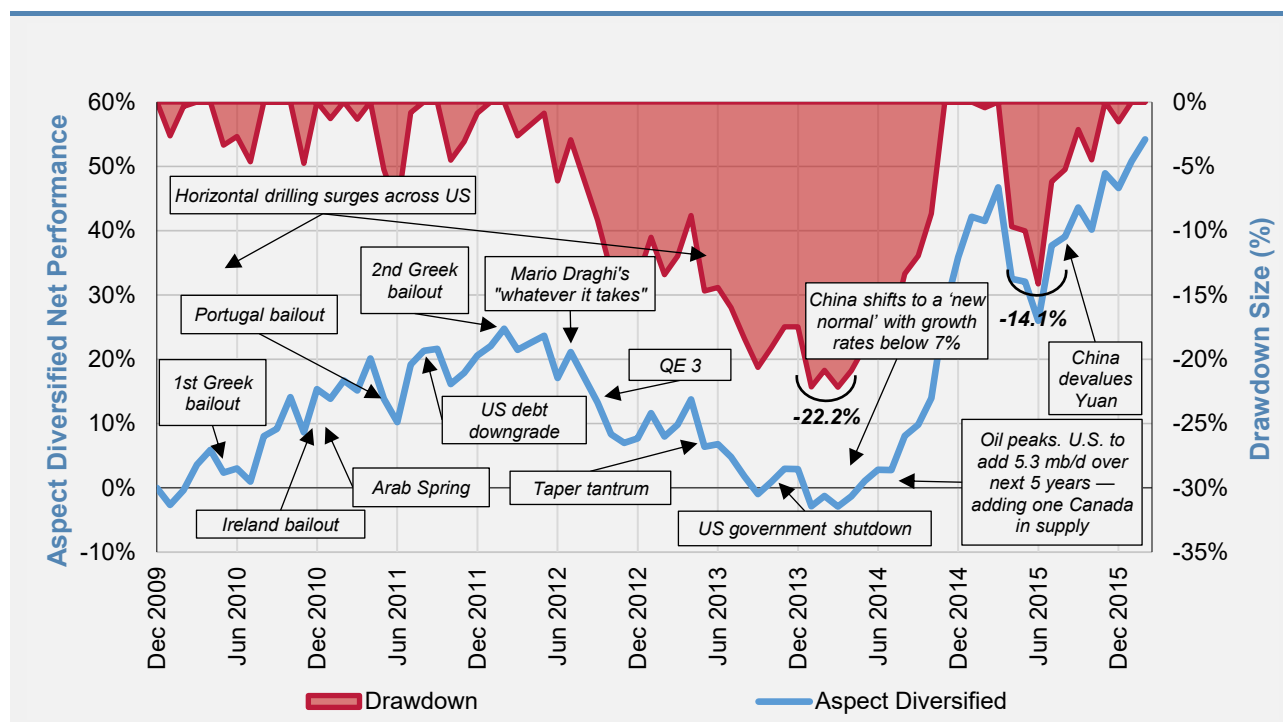


Figure 19: Aspect Diversified Net Performance and Drawdowns: Jan 2010 to Feb 2016

Source: Aspect Capital. See page 26 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 (Figure 11). 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 suppressed 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

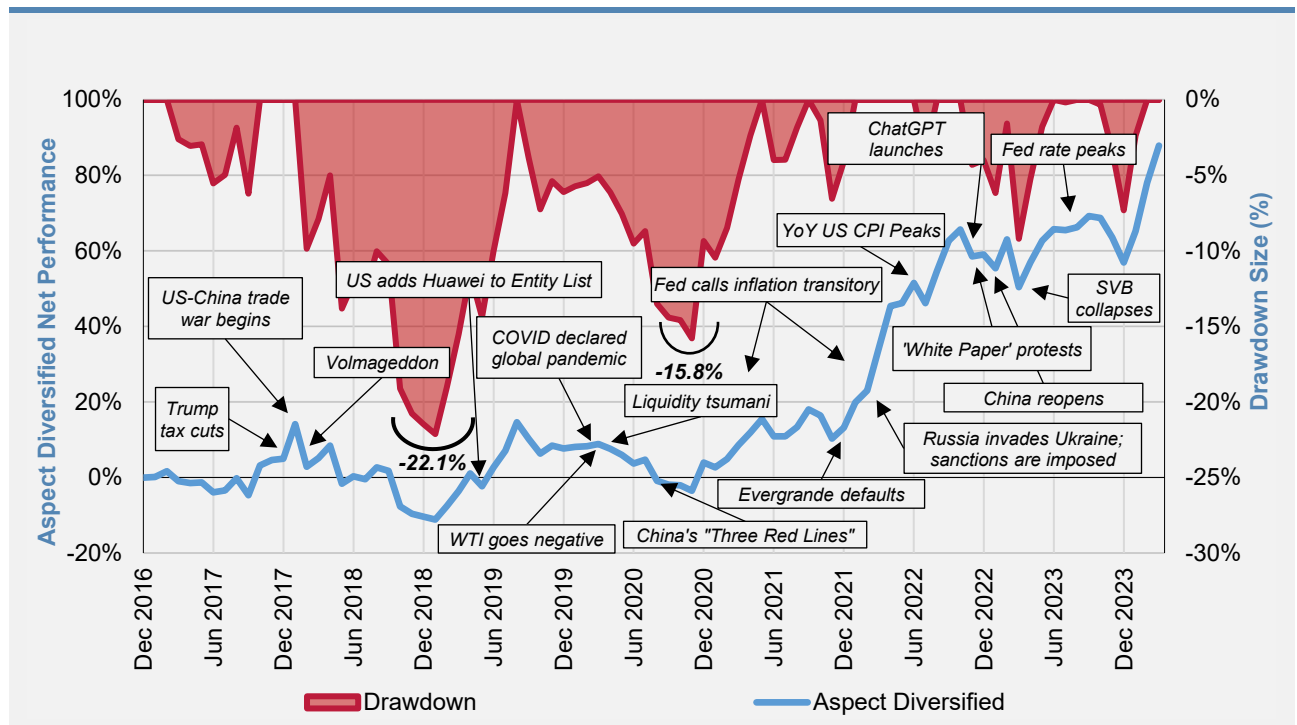


Figure 20: Aspect Diversified Net Performance and Drawdowns: Jan 2017 to Mar 2024

Source: Aspect Capital. See page 26 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 21). 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.

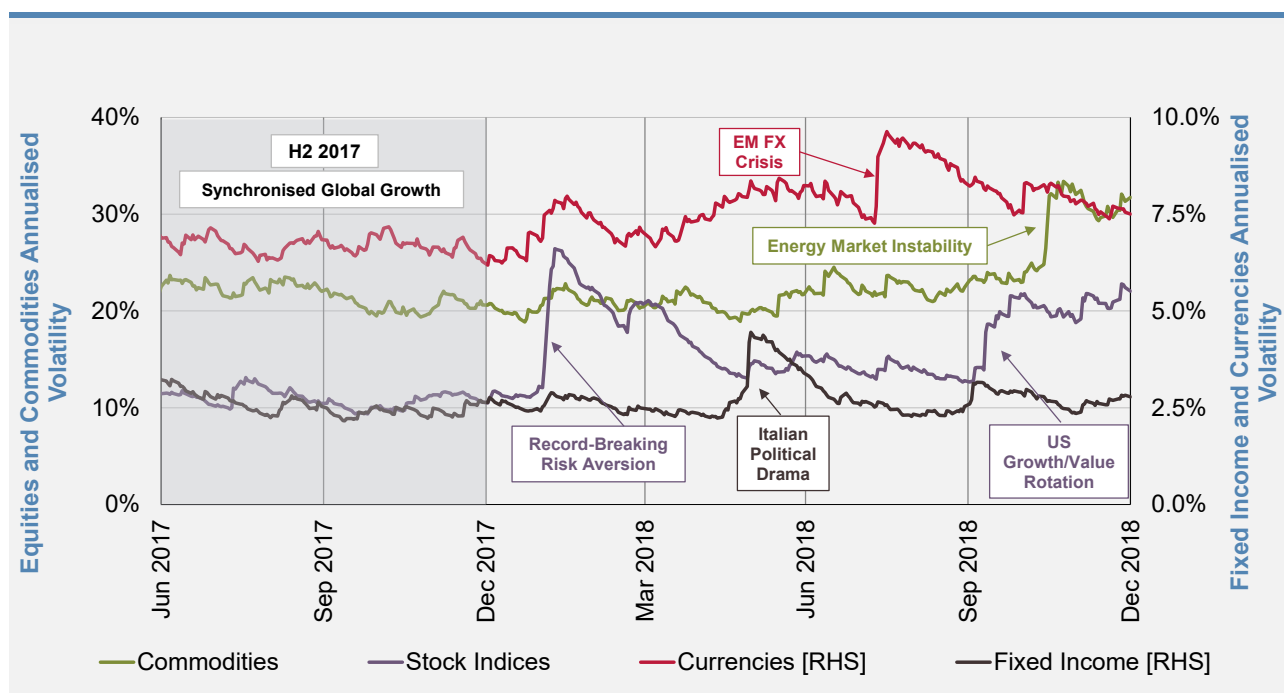


Figure 21: Measures of Average Realised Short-term Market Volatility by Sector: Jun 17 to Dec 18

Source: Aspect Capital. See page 26 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.



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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:

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- ▶ **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 22).

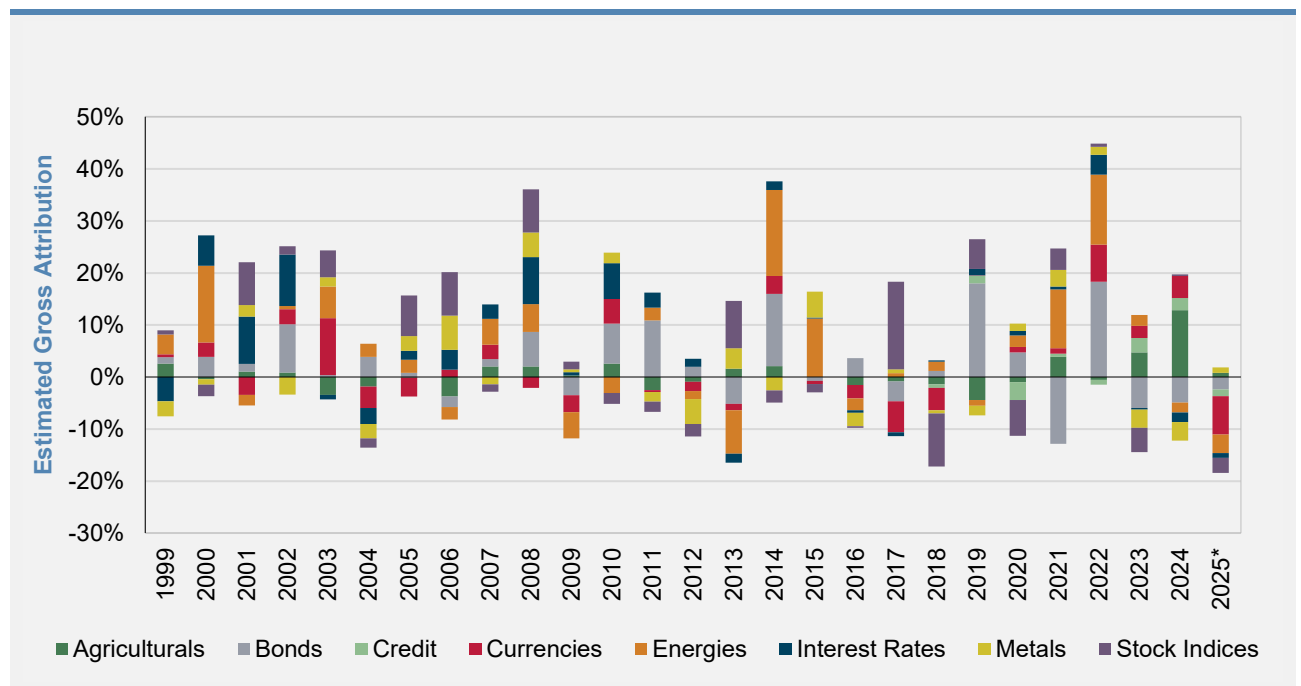


Figure 22: Aspect Diversified Gross Performance by Sector: 1999 to 2025

Source: Aspect Capital. *As at end of May 2025. See page 26 onwards for relevant risk disclaimers.



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Sources available upon request.

Figures 1, 2, 3, 5, 6, 7, 8, 10, 11, & 13: The data with respect to various indices is shown for illustrative purposes only. Detailed descriptions of the indices used are available from Aspect upon request.

Figures 16, 17, 18, 19, 20 and 22: 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 18 and 22: 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 un-compounded and do not include the reinvestment of any sources of earnings, such as interest income from cash holdings.

Figures 22: 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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