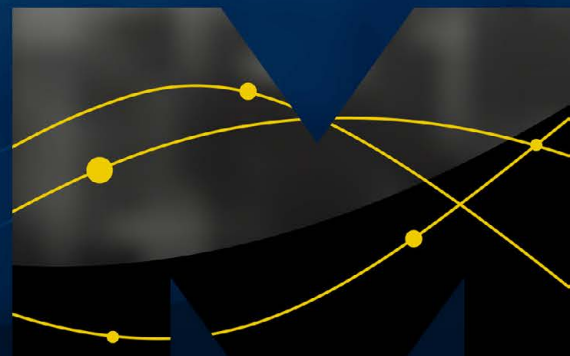




Views From the Floor

History Shows What to Expect from Trend-Following When Rates Are Being Cut



Please note that the opinions discussed below are those of the individual authors and do not reflect a Man Group house view.

17 January – 23 January, 2024

Time to read: 4 minutes

Towards the end of 2023, the ‘higher-for-longer’ narrative evaporated as inflation moderated. The Federal Reserve’s (Fed) dovish pivot in December signalled not only the end of one of the most aggressive rate hiking cycles in modern history, but also that rate cuts were firmly on the roster for 2024, with the Fed dot-plot pricing in 75bp of cuts over the course of the year.¹

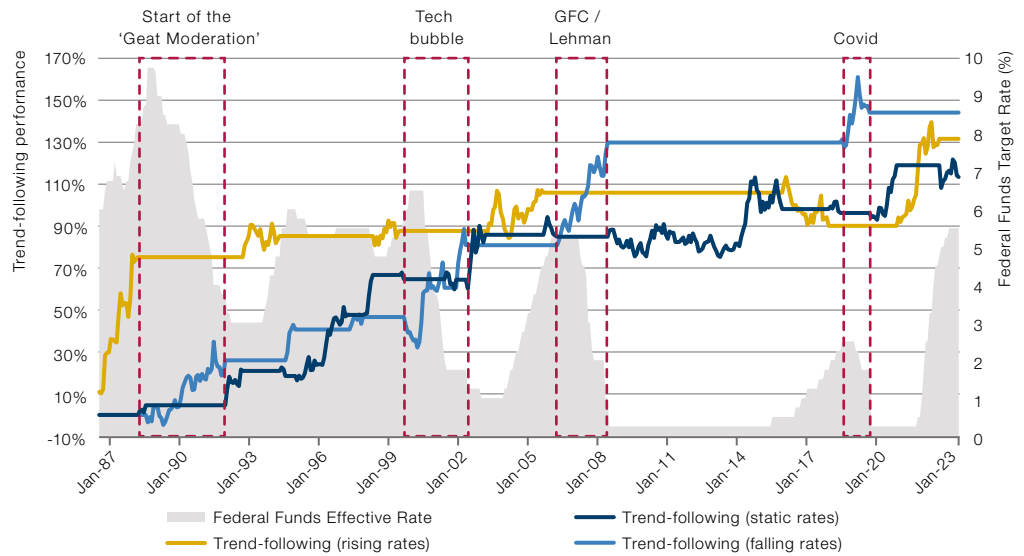
We do not have to go back far to see how trend-following performs during rate hiking cycles. 2022’s blockbuster performance² was a prominent example, with the Barclay BTOP50 Index (BTOP50)³ returning 15%. But as we now stand at an important inflection point, investors may be wondering how trend-following performs during rate cutting cycles.

To help answer this, we compare the performance of the BTOP50 since its inception in 1987 against the Federal Funds Target Rate (FFTR), denoted by the grey shaded area in Figure 1. The performance of the BTOP50 is then plotted relative to two distinct environments: firstly, when the FFTR is rising (yellow line in Figure 1) and secondly, when the FFTR is being cut (light blue line in Figure 1).

Whether a period is classified as a hiking cycle or a cutting cycle is determined by the 12-month forward level of the FFTR. If this is greater or equal to 75bp, it is classified as the former and if it is less than or equal to -75bp, it is classified as the latter. The rationale for choosing this classification is twofold; firstly, it aligns with the Fed’s latest dot-plot, which forecasts 75bp worth of cuts over 2024, and secondly, it accounts for the fact that interest rates lag inflation, so goes some way towards capturing the forward-looking nature of monetary policy, as well as the movements in asset prices that are driven by a change in expectations. For completeness, we also plot the returns corresponding to the periods where the FFTR is largely static (dark blue line in Figure 1). Performance is then held constant when the environment switches.

1. Source: [Federal Reserve triggers market rally as it signals interest rate cuts in 2024 \(ft.com\)](#). **2.** Source: [2022: The Year of Traditional Trend-Followers – HedgeNordic](#). **3.** The BTOP50 Index seeks to replicate the overall composition of the managed futures industry with regard to trading style and overall market exposure. The BTOP50 employs a top-down approach in selecting its constituents. The largest investable trading advisor programs, as measured by assets under management, are selected for inclusion in the BTOP50. In each calendar year the selected trading advisors represent, in aggregate, no less than 50% of the investable assets of the Barclay CTA Universe.

Figure 1. Performance of BTOP50 in rising (yellow), falling (light blue) and static (dark blue) rate environments



Source: Man Group database, Bloomberg, BTOP50 Index © 2024 by Backstop Solutions Group, LLC - BarclayHedge ("BarclayHedge"). Data as at 31 December 2023.

The first observation we can make from Figure 1 is that trend-following performance is positive during the majority of hiking cycles classified over the period, with an annualised return for the BTOP50 of 8%. 2022 helps validate this observation as trend-following profited from sizeable trends in fixed income markets and the US dollar, which were precipitated by the Fed’s unprecedented hiking cycle, to the tune of 425bp.

The second, and more pertinent observation given the current environment, is that trend-following performance has been positive during each cutting cycle since the 1980s, with the BTOP50 annualising 9%. Indeed, it can be observed that the relationship is more pronounced during cutting cycles than over hiking cycles.

Finally, over periods where rates are relatively static, we find that the annualised performance of the BTOP50 is 5%, underperforming the BTOP50 during both cutting and hiking cycles.

Conclusion

The above analysis provides a historical view of trend-following performance, which could apply to future rate cutting cycles. It is analogous to the analysis undertaken by Neville⁴ which examines around a century of data to show that trend-following is not only a robust performer during inflationary periods in general, but also in the six- and 12-month timeframes following inflation’s peak.

With contributions from Rupert Goodall, Client Portfolio Management Analyst, at Man AHL.

4. Neville, H., "The Road Ahead: Inflation Can Go Down as Well as Up", May 2022. <https://www.man.com/maninstitute/road-ahead-inflation-up-down>

Important Information

This information is communicated and/or distributed by the relevant Man entity identified below (collectively the 'Company') subject to the following conditions and restriction in their respective jurisdictions.

Opinions expressed are those of the author and may not be shared by all personnel of Man Group plc ('Man'). These opinions are subject to change without notice, are for information purposes only and do not constitute an offer or invitation to make an investment in any financial instrument or in any product to which the Company and/or its affiliates provides investment advisory or any other financial services. Any organisations, financial instrument or products described in this material are mentioned for reference purposes only which should not be considered a recommendation for their purchase or sale. Neither the Company nor the authors shall be liable to any person for any action taken on the basis of the information provided. Some statements contained in this material concerning goals, strategies, outlook or other non-historical matters may be forward-looking statements and are based on current indicators and expectations. These forward-looking statements speak only as of the date on which they are made, and the Company undertakes no obligation to update or revise any forward-looking statements. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those contained in the statements. The Company and/or its affiliates may or may not have a position in any financial instrument mentioned and may or may not be actively trading in any such securities. Past performance is not indicative of future results.

Unless stated otherwise this information is communicated by the relevant entity listed below.

Australia: To the extent this material is distributed in Australia it is communicated by Man Investments Australia Limited ABN 47 002 747 480 AFSL 240581, which is regulated by the Australian Securities & Investments Commission (ASIC). This information has been prepared without taking into account anyone's objectives, financial situation or needs.

Austria/Germany/Liechtenstein: To the extent this material is distributed in Austria, Germany and/or Liechtenstein it is communicated by Man (Europe) AG, which is authorised and regulated by the Liechtenstein Financial Market Authority (FMA). Man (Europe) AG is registered in the Principality of Liechtenstein no. FL-0002.420.371-2. Man (Europe) AG is an associated participant in the investor compensation scheme, which is operated by the Deposit Guarantee and Investor Compensation Foundation PCC (FL-0002.039.614-1) and corresponds with EU law. Further information is available on the Foundation's website under www.eas-liechtenstein.li. This material is of a promotional nature.

European Economic Area: Unless indicated otherwise this material is communicated in the European Economic Area by Man Asset Management (Ireland) Limited ('MAMIL') which is registered in Ireland under company number 250493 and has its registered office at 70 Sir John Rogerson's Quay, Grand Canal Dock, Dublin 2, Ireland. MAMIL is authorised and regulated by the Central Bank of Ireland under number C22513.

Hong Kong SAR: To the extent this material is distributed in Hong Kong SAR, this material is communicated by Man Investments (Hong Kong) Limited and has not been reviewed by the Securities and Futures Commission in Hong Kong. This material can only be communicated to intermediaries, and professional clients who are within one of the professional investors exemptions contained in the Securities and Futures Ordinance and must not be relied upon by any other person(s).

Japan: To the extent this material is distributed in Japan it is communicated by Man Group Japan Limited, Financial Instruments Business Operator, Director of Kanto Local Finance Bureau (Financial instruments firms) No. 624 for the purpose of providing information on investment strategies, investment services, etc. provided by Man Group, and is not a disclosure document based on laws and regulations. This material can only be communicated only to professional investors (i.e. specific investors or institutional investors as defined under Financial Instruments Exchange Law) who may have sufficient knowledge and experience of related risks.

Switzerland: To the extent the material is made available in Switzerland the communicating entity is:

- For Clients (as such term is defined in the Swiss Financial Services Act): Man Investments (CH) AG, Huobstrasse 3, 8808 Pfäffikon SZ, Switzerland. Man Investment (CH) AG is regulated by the Swiss Financial Market Supervisory Authority ('FINMA'); and
- For Financial Service Providers (as defined in Art. 3 d. of FINSA, which are not Clients): Man Investments AG, Huobstrasse 3, 8808 Pfäffikon SZ, Switzerland, which is regulated by FINMA.

United Kingdom: Unless indicated otherwise this material is communicated in the United Kingdom by Man Solutions Limited ('MSL') which is a private limited company registered in England and Wales under number 3385362. MSL is authorised and regulated by the UK Financial Conduct Authority (the 'FCA') under number 185637 and has its registered office at Riverbank House, 2 Swan Lane, London, EC4R 3AD, United Kingdom.

United States: To the extent this material is distributed in the United States, it is communicated and distributed by Man Investments, Inc. ('Man Investments'). Man Investments is registered as a broker-dealer with the SEC and is a member of the Financial Industry Regulatory Authority ('FINRA'). Man Investments is also a member of the Securities Investor Protection Corporation ('SIPC'). Man Investments is a wholly owned subsidiary of Man Group plc. The registration and memberships described above in no way imply a certain level of skill or expertise or that the SEC, FINRA or the SIPC have endorsed Man Investments. Man Investments, 1345 Avenue of the Americas, 21st floor, New York, NY 10105.

This material is proprietary information and may not be reproduced or otherwise disseminated in whole or in part without prior written consent.

Any data services and information available from public sources used in the creation of this material are believed to be reliable. However accuracy is not warranted or guaranteed. ©Man 2024.

MKT010422/NS/GL/W