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# Trend Following | Theme Update

Q2 2026

## In a Nutshell

Commodity meltdown, equity melt-up


### Summary

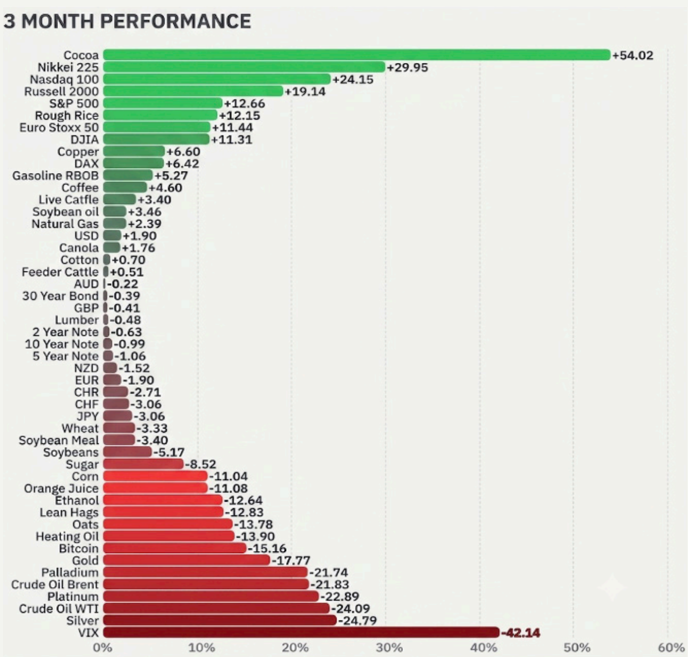
Trend Followers faced a punishing regime reversal as geopolitical risk abruptly deflated, but still managed to generate a positive return in the second quarter. The rapid de-escalation of Middle East tensions triggered a violent short-covering rally across risk assets and an aggressive liquidation of commodity longs. Equity markets experienced a powerful melt-up that saw Japan's Nikkei 225 surge +30%, while market volatility collapsed, punctuated by a -42% plunge in the VIX volatility index.

The sudden transition from stagflation fears to a low-volatility equity boom caught Trend Followers wrong-footed relative to equity markets, but not entirely offside. Trend gained +1.1% in Q2, besting both cash and global bond markets for a fourth consecutive quarter. The strategy's resilience came courtesy of gains from FX and equities offsetting losses in bonds and commodities, where oil prices fell precipitously from earlier highs to end Q2 down over 20%.

The first half of 2026 underscores the structural purpose of the Trend allocation: to serve as a non-directional insurance policy for when macro paradigms fracture and traditional hedges, such as bonds and gold, fail to perform when investors need them to.


### Markets in Q2

An AI-fuelled rally led global equities higher through the second quarter, with the FTSE All World index ending the period with a +14.8% gain. The Bloomberg Global Aggregate Bond index rose through April and May as immediate inflationary pressure eased, before falling through June as bets on rate hikes, notably in the US, built over the month. The index ended the quarter up 0.9%.




Source: Finviz.com, 31/03/2026-30/06/2026 futures return (dollar terms)

Q2 2026 futures returns saw a wholesale reversal of the first quarter's moves. Equities rallied, led by semiconductor-heavy indices such as the NASDAQ and Korea

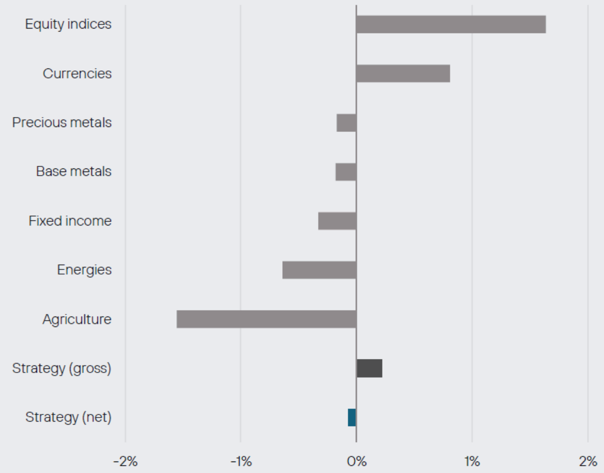
Conversely, laggards were led by commodities, particularly energies and precious metals

The Japanese yen hit a 40-year low versus the dollar in June, with the dollar strengthening against several major currencies to leave the dollar index 1.2% higher.

In commodities, oil and oil products weakened amid positive discussions between the US and Iran on the re-opening of the Strait of Hormuz, with prices nearing their pre-war levels by the end of June. Gold, which had rallied strongly in Q1, fell as expectations of interest rate hikes and an unwind of large investor positions weighed on prices.

## Performance

Our Trend allocation posted a +1.1% gain in Q2, underperforming the roaring FTSE All World (by -13.7%) but leading both the Bloomberg Global Aggregate Bond Index (by +0.2%) and the Bloomberg USD Cash index (by +0.2%).




Source: Winton

Winton saw profits from long positions in equities and a short in the yen partially offset losses elsewhere in Q2

Expectations of a strong El Niño drove cocoa aggressively higher (+54%), hurting a short, leaving Agriculturals as the largest detractor and Winton (in contrast to DUNN) posting a negative return for Q2

Long positions in equity indices were the top contributor across the board in Q2 as the AI rally sustained momentum. Currencies provided another reliable source of gains. A structural short positioning in the yen versus the dollar was the top currency contributor to performance as the yen hit its 40-year low.

Profits also accrued from a short Canadian dollar and long Australian dollar position, successfully offsetting losses from long pound and short euro exposures.

Agricultural commodities heavily weighed on returns, most notably cocoa. Coffee and cotton were other detractors of note, while livestock provided a bright spot as short lean hog exposure posted profits. Having been a primary contributor to performance through Q1, energies dragged significantly in Q2 amid the cautious reopening of the Strait of Hormuz.

In fixed income, isolated profits across the US yield curve were insufficient to offset losses elsewhere in the sector. Short German and Australian bond positions were among the top detractors as global yields fell on easing near-term inflationary pressures.

Oil shocks have historically produced sustained market dislocations across commodities, rates, equities, and currencies. Trend Followers are designed precisely to adapt to such trends and may offer a differentiated source of diversification against a challenging macroeconomic backdrop.

| Trough month | Peak month | Oil price change | Hypothetical trend-following performance and attribution | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Portfolio (net) | Portfolio (gross) | Commodities (gross) | Currencies (gross) | Equity indices (gross) | Fixed income (gross) |
| Jul 1973 | Apr 1980 | 11.1x | **128.5%** | 144.2% | 21.1% | 12.8% | 7.8% | 10.0% |
| Dec 2001 | Jun 2008 | 6.9x | **53.8%** | 64.0% | 17.1% | 9.2% | 8.8% | 2.8% |
| Apr 2020 | Jun 2022 | 5.2x | **34.0%** | 36.9% | 18.8% | 2.6% | 6.9% | 8.0% |
| Jul 1986 | Oct 1990 | 3.1x | **59.0%** | 65.8% | 12.5% | 8.7% | 3.4% | -1.1% |
| Dec 1998 | Nov 2000 | 3.0x | **14.9%** | 17.1% | 2.9% | 2.7% | 0.9% | -0.7% |
| Feb 2009 | Apr 2011 | 2.8x | **11.4%** | 13.8% | 7.7% | 4.4% | -0.5% | 1.9% |

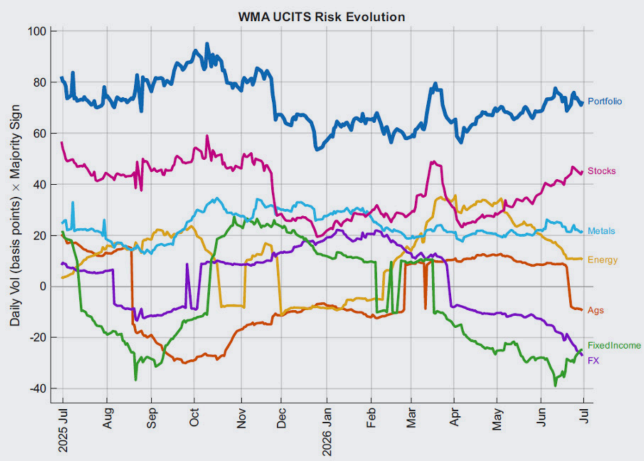
Source: Winton

The hypothetical Trend Following performance during the five largest oil rallies since 1972 highlights the diversification potential of prices over macro forecasts

Macro strategists have had a torrid time trying to predict oil prices this year. Encapsulating this consistent forecasting error, The Economist used its front page in May to declare the oil price was 'still in la la land' (far too low) ahead of its steep decline into quarter-end. This forced a follow-up "We woz wrong about oil" piece published early in the third quarter, just as oil regained its mojo.

At the end of Q2, our overall Trend allocation is long equities and commodities, though exposure to the latter has decreased as positions in agriculturals, precious metals, and energies were methodically trimmed in recent weeks. Shorts remain heavily concentrated in bonds and foreign currencies paired against a structural long position in the US dollar.

If tensions in the Middle East flare up again and trigger renewed inflationary shocks, the Trend allocation remains positioned to benefit.




Source: DUNN

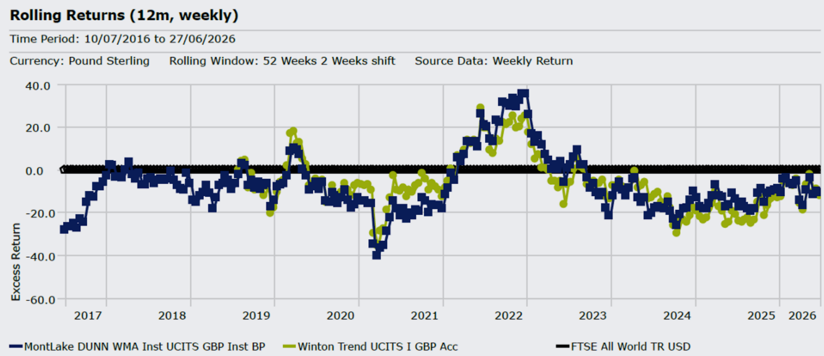
DUNN's Q2 asset class changes saw long equity risk systematically increased. Long commodity exposure endures, but at a significantly lower level as agricultural positioning flipped short

Concurrently, macro bets against FX (dollar longs) and bonds were increased

Since adding Trend to our Balanced portfolios in December 2023, the allocation has returned +22.4% (+8.3% annualised) to the end of Q2-26, well ahead of cash (+4.6% ann.) and government bonds (+2.6% ann.). While it has understandably lagged equities during this equity melt-up environment, Trend's low correlation to equities (+0.32) underscores the robust diversification benefits the strategy offers the wider portfolio.

## Valuation

We measure the structural attraction of Trend via 'rolling alpha' analysis of performance relative to equities, bonds, and cash. Trend's 12-month rolling return versus the FTSE All World index remains far from extended (as it famously became in 2022, following exceptional relative and absolute performance):




Source: Bentley Reid, Morningstar

The forward-looking outlook for Trend investors remains highly attractive despite its strong recovery from a cyclical low in Q2-25

Trend Followers prove most valuable during real equity market dislocations, when drawdowns occur over a period of months or more. When the next equity crisis occurs, the correlation of Trend to equities is structurally designed to shift negative and generate strong defensive relative returns, just as it delivered in 2008 and 2022.

## Positioning

We access the Trend theme via two best-in-class Trend Following managers, DUNN and Winton.

- **Expertise & Diversification:**
  - DUNN is the world's oldest Trend Follower (founded 1974). $1.6bn firm AUM, trading 67 markets (equities, bonds, FX, commodities). It is a slow timeframe model.
  - Winton was founded by David Harding in 1997. $18bn firm AUM, trading 154 markets (equities, bonds, FX, commodities). It is a medium timeframe model.

- **Fees:**
  - DUNN: 0% and 20% performance fee (charged above a high-water mark).
  - Winton: 0.8% and 0% performance fee.

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