BENTLEY REID
PERSONAL WEALTH. PERSONAL SERVICE.

Trend Following | Theme Update

Q3 2026

In a Nutshell

Benefiting from the bond bear market

Summary

Trend Followers profited from a sharp return of macro volatility in the third quarter, generating strong positive returns as bond yields broke out to multi-year highs and commodity markets caught a fresh bid. Following Q2's narrow, AI-led equity melt-up, the strategy benefited in Q3 from sustained directional trends across global rates and energy markets.

Summer's quiet market environment faded quickly as renewed conflict between the US and Iran pushed Brent crude back above $100 a barrel. That rekindled inflation worries and forced sovereign bond yields sharply higher. The US 10-year Treasury yield crossed 5.0% for the first time since 2023 and the Bank of Japan lifted its policy rate to a 31-year high. While bondholders took capital losses, Trend Followers were positioned short and profited accordingly, with long positions across the energy complex providing substantial further gains.

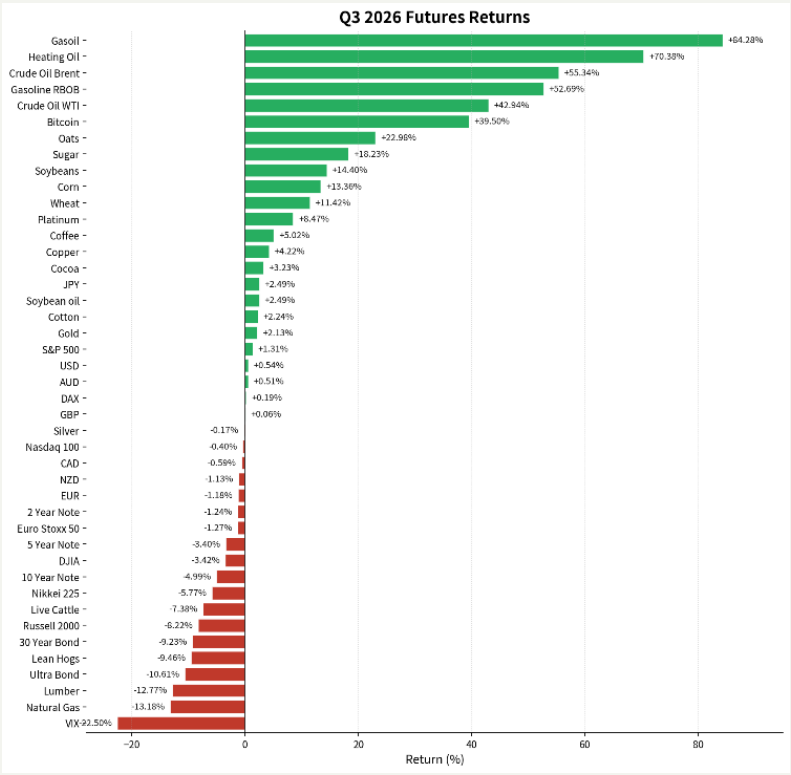
Our Trend allocation gained +6.8% in Q3 (US dollar terms), beating global equities (FTSE All World +1.7%), cash (+0.9%), and sovereign debt (Bloomberg US Treasury Index -3.0%). Both our Trend funds delivered positive returns: Winton rose +9.5% and DUNN returned +4.1%. The quarter was a textbook example of why we hold the theme: to provide uncorrelated returns when standard macro relationships break down and traditional assets fail to offer protection.

Markets in Q3

Global equities edged higher over Q3, with the FTSE All World index ending up +1.7%. Early gains in July and August gave way to a pullback in September as hawkish interest rate expectations and geopolitical headlines weighed on sentiment. Regional performance diverged: developed Asian markets rallied, while European markets fell amid higher energy prices and political frictions.

Fixed income markets sold off across the board as the bond bear market gathered pace. The Bloomberg US Treasury Index fell -3.0% over the quarter as persistent inflation data and heavy sovereign issuance pushed yields higher.

In the US, the 10-year Treasury yield climbed above 5.0%. Meanwhile, the Bank of Japan raised its benchmark rate to a 31-year high in September as it continued to unwind decades of near-zero interest rate policy.



Source: Finviz.com, 30/06/2026-30/09/2026 futures return (dollar terms)

Q3 2026 futures returns saw commodities rise, led by Energies, where Gasoil rallied +84% and Heating Oil +70%

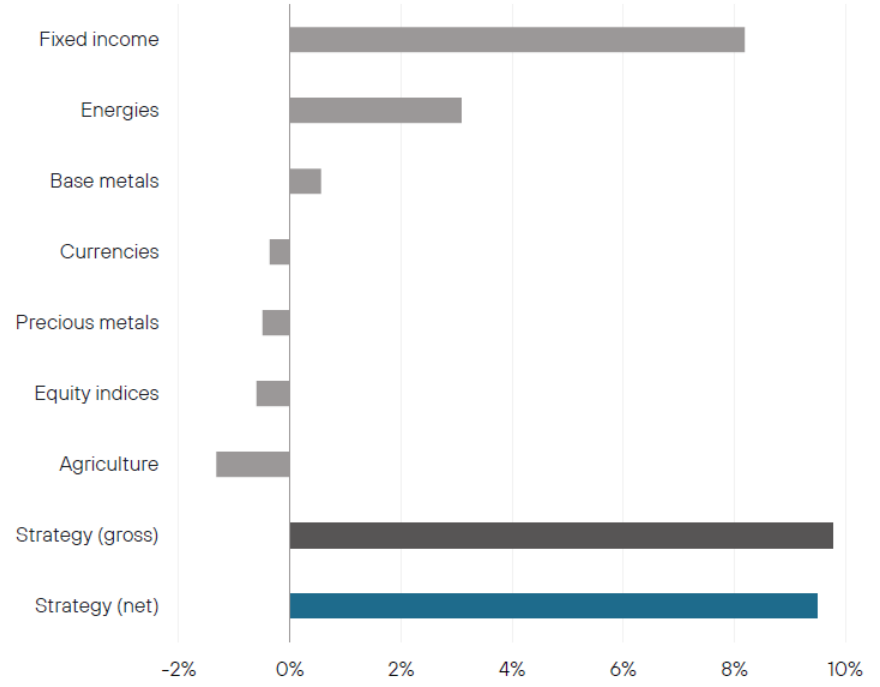
Conversely, laggards were led by bonds and volatility, which weighed on investors making overtly defensive 'crash protection' bets via the VIX index

Energy led gains across the commodity complex. Crude oil reversed its late-Q2 slide as fresh US-Iran hostilities disrupted shipping lanes, sending Brent back above $100 per barrel. European natural gas prices pushed higher on supply concerns, while US natural gas trended lower.

In currencies, the dollar gained against the euro and Swiss franc on widening rate differentials. The Japanese yen – a popular short for Trend funds, and a source of losses in Q3 – jumped in late July after the first coordinated US-Japan market intervention since 1998, triggered after the yen touched a 40-year low.

Performance

Our Trend allocation gained +6.8% in Q3, comfortably ahead of global equities (+1.7%), cash (+0.9%), and US Treasuries (-3.0%). Winton gained +9.5% net for the quarter, outpacing DUNN (+4.1%), courtesy of heavier sizing in winning positions. For both strategies, gains were concentrated in rates and energy, with losses led by agriculturals.



Source: Winton

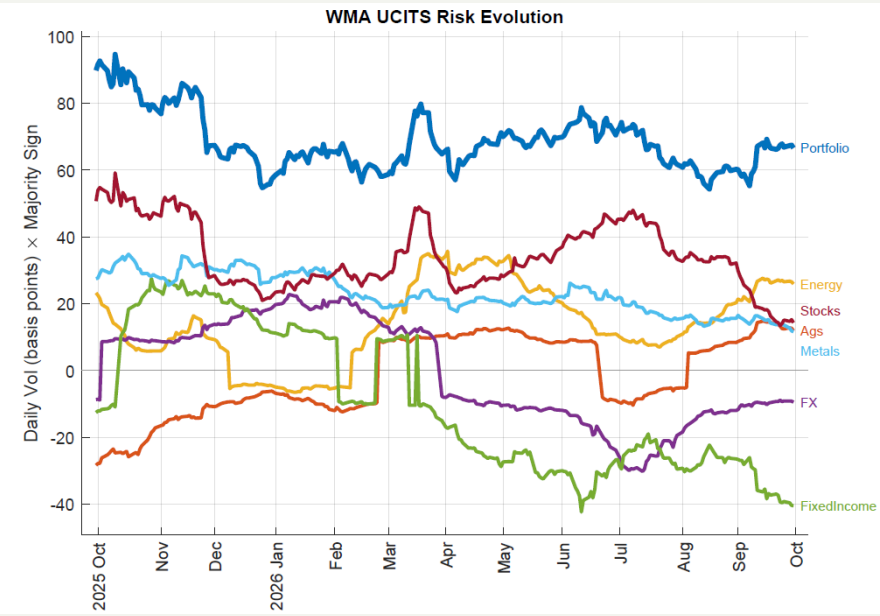
Winton profited from short bond and long energy positioning

Agricultural commodities detracted as weather disruptions and Black Sea supply shocks created sharp price volatility

Short positions along the US yield curve were the top driver as the 10-year yield pushed past 5.0%. Long exposure to Japanese bonds also profited as the market adjusted to the Bank of Japan's rate hike. Short holdings in UK Gilts, German Bunds, and Australian bonds contributed further gains.

Energies provided the other strong source of returns. Long positions across crude oil and oil products produced solid gains as Brent rallied by over 50%. Longs in UK and Dutch natural gas and a short in US natural gas were also profitable.

Agriculturals were the main detractor, as supply disruptions in the Black Sea and adverse weather led to strong price volatility.



Source: DUNN

DUNN's Q3 asset class changes saw short bets against bonds increased to become the largest asset class bet in the portfolio

Elsewhere, long equity risk was systematically decreased, while commodity longs, particularly to energies, were dialled up

Since introducing Trend Following to our Balanced portfolios in December 2023, the allocation has delivered +27.4% (+9.1% annualised) to the end of September 2026. That compares with +4.6% annualised for cash and +1.5% for the Bloomberg Global Aggregate Bond index.

Trend's low correlation to equities continues to validate its defensive role in portfolios. Indeed, the Trend allocation enters Q4-26 with a much reduced, single-digit long exposure to equities – its lowest since H1-23.

Structural Case & Valuation

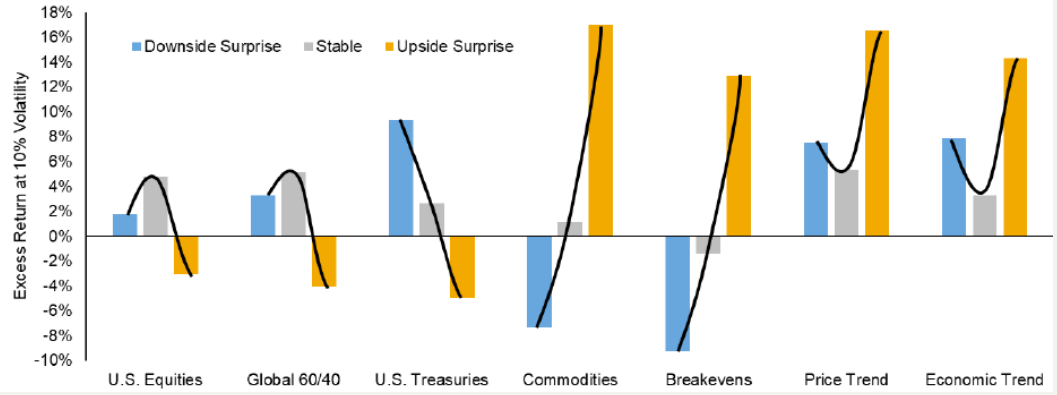
Traditional multi-asset portfolios are built on the assumption that sovereign bonds will cushion equity drawdowns. However, as recent research from AQR shows, when inflation surprises to the upside, that relationship breaks down.

Across macroeconomic regimes, Global 60/40 portfolios exhibit an asymmetric 'frown' – peaking in stable environments (+5.2%) before suffering meaningful losses (-4.0% annualised excess return) during upside inflation shocks, driven by sharp drawdowns in US Treasuries (-4.9%).

Trend Following exhibits the opposite dynamic: a non-linear 'smile'. It delivers positive excess returns across benign environments (+5.2%) and downside disinflationary shocks (+7.5%). Trend delivers its strongest returns (+16.5%) when inflation spikes.

Exhibit 7: Frowns, Smirks and Smiles – Measuring Non-Linear Inflation Exposures

A. 3-Way Sort of Returns Relative to Inflation Environment Jan 1972 – Jun 2026

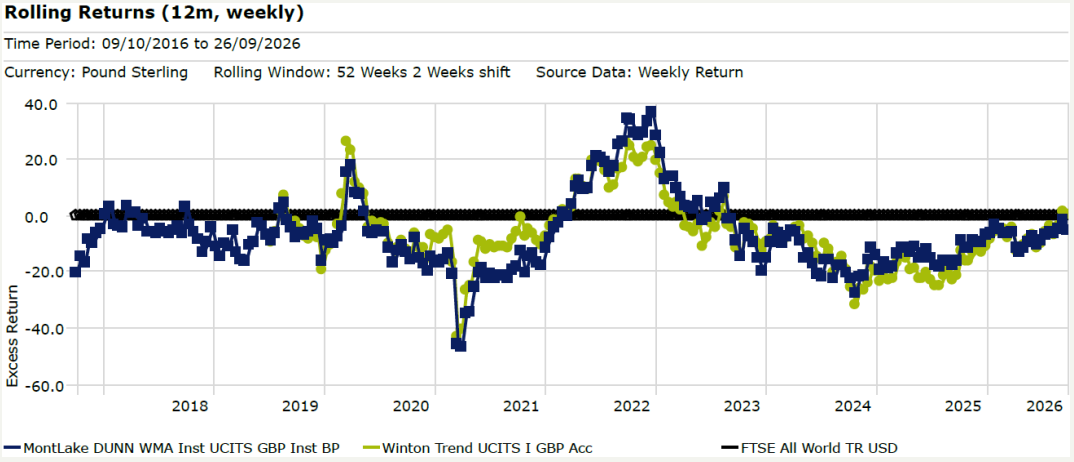


Source: AQR

Traditional 60/40 portfolios falter during inflation shocks (-4.0%), while Trend displays a resilient 'smile', delivering its strongest gains (+16.5%) when inflation spikes

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 is far from extended (as it became in 2022, following exceptional relative and absolute performance):

Rolling Returns (12m, weekly)



Source: Bentley Reid, Morningstar

The forward-looking outlook for Trend remains attractive despite besting equities in Q3-26 and its strong recovery from a cyclical low in Q2-25

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). $1.7bn firm AUM, trading 67 markets (equities, bonds, FX, commodities). It is a slow timeframe model.
- Winton was founded by David Harding in 1997. $19bn 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.

DISCLAIMER

Bentley Reid & Co (UK) Limited (FRN 572096) is authorised and regulated by the Financial Conduct Authority.

This communication is provided for information purposes only. Bentley Reid believes that, at the time of publication, the views expressed herein represent fair opinion; however, no assurance can be given that any illustrated or referenced performance will be achieved or repeated. All data and graphical information are believed to be accurate at the time of capture but may be subject to change and may not reflect current conditions. Fluctuations in exchange rates may cause the value of investments to rise or fall.

Recipients considering any action based on the content of this communication should seek independent advice from a professional adviser appropriate to their individual financial circumstances. Capital is at risk, and investors may receive back less than the amount originally invested. Neither the publisher nor any of its subsidiaries or connected parties accepts any liability for direct or indirect loss arising from reliance on, or use of, the information contained in this communication.