



Alternative Investing

Trend Following and Rising Rates

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AQR White Paper

Given the current low yields in global bond markets and the possibility of a rising rate environment going forward, two questions regarding trend-following strategies are often asked. First, can trend followers benefit from the uncertain impacts of rising yields on asset class returns? Second, if trend followers get short fixed income, will the strategy maintain its diversification properties?

This paper addresses those questions by examining the performance of a simple trend-following strategy during a historical period of secularly rising rates. The data demonstrates that trend followers would not have required declining rates to generate meaningful returns, and trend following's attractive portfolio diversification properties would not be diminished during rising rate regimes.

The authors conclude that the data indicate that while trend followers may have generated a significant portion of their returns from bullish trends in fixed income markets during the past few decades, that doesn't mean expected returns or diversification properties will necessarily worsen when rates begin to rise.

Generally, they add, an analysis of historical returns of trend following suggests that the strategy is designed to benefit when markets experience gradual and persistent changes in either direction.

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