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QUARTERLY INSIGHTS

CHASING TRENDS OR CHASING PERFORMANCE?

On the Challenge of Timing Trend Opportunities Across Asset Classes

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Executive summary

The current decade has seen a dramatic shift in the drivers of trend-following returns. While fixed income markets were among the largest contributors to CTA performance during the 2010s, commodities have emerged as the dominant source of returns since 2020. This raises a natural question: can trend-followers improve performance by allocating more capital to sectors where trend opportunities have recently been strongest?

Our analysis suggests that the answer is largely no. Using data from 2000 through May 2026, we find that the profitability of a representative medium-term trend-following signal exhibits a clear horizon dependence: sectors with stronger recent trend-following performance tend to retain a relative performance advantage over subsequent months, but this effect weakens and ultimately reverses over longer horizons. Despite this predictability, reallocating capital on the basis of past trend-following performance fails to deliver a consistent improvement over a diversified trend-following portfolio.

There are two reasons why this predictability fails to translate into a robust allocation framework.

First, short-horizon Trend-on-Trend allocations are not fully independent of the underlying medium-term trend signal. Recent trend-following profitability largely reflects the same trends already embedded in the portfolio, causing the overlay to act primarily as a nonlinear amplification of existing trend exposures rather than as a distinct source of information.

Second, the strongest recent trend-following sectors tend to exhibit higher average pairwise return correlations. Reallocating toward these sectors therefore increases concentration and reduces diversification.

The location of future trends remains inherently uncertain, reinforcing a core principle of trend-following: broad diversification across markets remains more robust than attempting to time the distribution of trend opportunities across sectors.

Commodities Have Emerged as the Primary Driver of Trend-Following Returns in the Current Decade

In the current decade between January 2020 through May 2026, trend-following strategies – as measured by the SG Trend Index[1], a widely followed benchmark of systematic CTA performance – generated annualized returns of approximately 8.1% while maintaining a slightly negative correlation to global equity markets[2]. In an environment characterized by higher inflation, rising interest rates, and elevated cross-asset volatility, trend-following once again proved its ability to generate liquid, diversifying returns largely independent of traditional risk premia. Yet beneath these headline results, the nature of the trends driving CTA performance has changed substantially.

Decomposing returns with our proprietary generic trend-following CTA model[3] reveals a striking shift in the opportunity set: commodities emerged as the primary driver of industry performance during the 2020–2026 period. As shown in Figure 1, trends across energy, metals, and agricultural markets may have accounted for the majority of the strategy's excess returns since 2020.

This marks a dramatic reversal from the prior decade. Between 2010 and 2019, commodities are estimated to have detracted from aggregate trend-following performance, in stark contrast to their outsized contribution since 2020. Fixed income shows the opposite pattern: a key driver of CTA returns during the 2010s, but a negligible contributor since 2020. Viewed in a longer historical context, today's environment increasingly resembles the commodity-driven regime of 2000-2009, when commodities were highly profitable for trend-followers while fixed income added little[4].

While these results mask dispersion across managers, models, and implementation approaches, they highlight a central feature of trend-following: opportunities evolve meaningfully across asset classes over time, with some markets sustaining persistent trends for

Figure 1: Trend-Following Returns Across Commodities and Fixed Income: A Multi-Decade Perspective

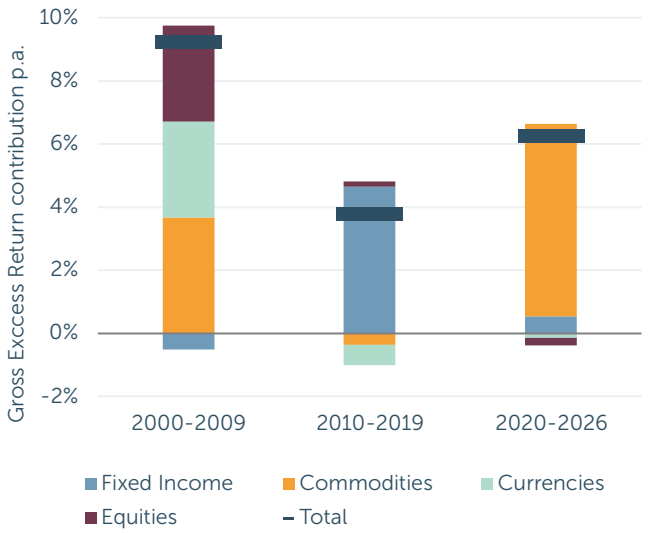

Figure 1: Annualized hypothetical gross excess return contributions of commodities and fixed income, together with the total excess return of a proprietary generic trend-following model, designed to replicate the return & risk characteristics of a trend-following benchmark such as the SG Trend Index, for the periods 2000–2009, 2010–2019, and 2020–2026 (through May). Returns are net of hypothetical implementation costs based on Quantica's internal cost models, gross of management and performance fees, and exclude interest earned on cash balances. The correlation between the generic trend-following model and the SG Trend Index based on daily returns over the full period is 0.82. For illustrative purpose only. The actual performance of any trend-following strategy may differ significantly from the estimates provided due to various market factors, model assumptions, and other variables. No assurance is given that any investment or trading program will achieve results similar to those of the SG Trend Index. HYPOTHETICAL RESULTS. PLEASE SEE IMPORTANT DISCLAIMERS ON PAGE 2. Source: Quantica Capital.

[1] The SG Trend Index is designed to track the 10 largest trend following CTAs (by AUM) which meet a list of criteria (as defined by SG) and to be representative of the trend-followers in the managed futures space. The SG Trend Index is equally weighted, and rebalanced and reconstituted annually. The Index is not investable and does not reflect the actual performance of any specific investment product or managed account. Source: Société Générale.

[2] As measured using monthly returns relative to a global equity market index benchmark.

[3] Quantica's generic trend-following model measures trends based on an exponentially weighted moving average with a half-life of one calendar quarter and was designed to approximate the returns and positioning of a representative trend-following benchmark (such as the SG Trend Index) when applied to traditional markets.

[4] Perhaps not coincidentally, commodities' renewed appeal since 2020 has been accompanied by the emergence of a new generation of "commodity-only" products, illustrating how product development often follows periods of strong asset class performance.

years while others experience prolonged periods of limited opportunity.

This naturally raises an important question: if trend opportunities vary across asset classes over time, does recent trend-following profitability contain information about future trend-following profitability? Put differently, can CTA portfolios benefit from systematically increasing exposure to sectors with stronger recent trend-following returns and reducing exposure to those with weaker returns?

To answer this question, the remainder of this paper studies the persistence of trend-following profitability across asset classes and tests whether reallocating risk based on recent trend-following performance can improve the risk-adjusted returns of diversified trend-following portfolios.

Testing the Persistence of Trend-Following Across Asset Classes: A "Trend-on-Trend" Framework

To assess whether trend-following opportunities persist across asset classes, we compare an equal-risk **Baseline Portfolio** spanning six asset groups – equities, fixed income, currencies, energy, metals, and agricultural commodities – with a **Trend-on-Trend Portfolio**, that systematically reallocates risk toward sectors with stronger recent trend-following performance and away from weaker ones. Importantly, the underlying medium-term trend-following signal is identical in both portfolios; only the allocation of risk across sectors differs based on the historical profitability of that signal. At the end of each business week, corresponding to trading day t, we measure the risk-adjusted performance of our generic trend-following model across the six asset groups over a rolling lookback window of N business days ($t-N$ to $t-1$). Asset groups are then ranked from strongest to weakest based on their trailing trend-following risk-adjusted performance, and the resulting rankings are translated into systematic overweights and underweights relative to the Baseline Portfolio. As illustrated in Table 1, higher-ranked sectors receive larger allocations, while lower-ranked sectors receive smaller allocations.

Table 1: Trend-on-Trend Allocation Framework

Asset Class Ranking	Allocation weights		
	Baseline	Trend-on-Trend	Contrarian
1st	16.7%	33.3%	0.0%
2nd	16.7%	26.7%	6.7%
3rd	16.7%	20.0%	13.3%
4th	16.7%	13.3%	20.0%
5th	16.7%	6.7%	26.7%
6th	16.7%	0.0%	33.3%

Table 1: Illustrative mapping from asset class rankings, based on trailing risk-adjusted trend following performance, to portfolio weights under the Trend-on-Trend and Contrarian Trend frameworks. The Baseline Portfolio constantly allocates one-sixth of total risk to each of the six asset classes. Higher ranked asset classes receive larger weights under the Trend-on-Trend framework and smaller weights under the Contrarian Trend framework. Asset classes comprise equities, fixed income, currencies, energy, metals, and agriculturals. Source: Quantica Capital.

The same ranking framework is also applied in reverse. We define a **Contrarian Trend Portfolio** that underweights the strongest recent trend-following performers and overweights the weakest, with allocations rebalanced weekly. Whereas the Trend-on-Trend Portfolio assumes that recent trend profitability is likely to persist, the Contrarian Trend Portfolio is based on the opposite premise – that trend opportunities are more likely to mean-revert. Comparing the two frameworks against the Baseline Portfolio allows us to assess whether trend-following opportunities tend to persist or reverse across asset classes.

Before examining portfolio performance, it is useful to understand how the Trend-on-Trend framework reallocates risk across asset classes over time. Figure 2 illustrates the time-varying asset-class weights implied by the Trend-on-Trend framework when rankings are based on trailing three-year risk-adjusted trend-following performance. The allocations exhibit substantial rotation over time, reflecting shifts in relative

trend-following profitability across asset classes. Persistent leadership is rare, with no asset group maintaining a dominant position across market regimes.

As of May 2026, the Trend-on-Trend Portfolio is heavily overweight metals and agricultural commodities, mechanically responding to the strong trend-following profits generated by precious metals and by agricultural markets such as cocoa over recent years. Fixed income and currencies, by contrast, are underweighted – a sharp reversal from much of the previous decade, when fixed income was among the strongest contributors to trend-following returns. Equities, meanwhile, have only been intermittently overweight despite the secular bull market, highlighting that allocations are driven by realized trend-following profitability rather than by absolute asset returns.

Evaluating the Persistence of Trend-Following Opportunities Across Time Horizons

Having established the allocation framework, we now assess whether recent trend-following profitability can be predictive of future opportunities. We do so by evaluating the realized performance of the Trend-on-Trend and Contrarian Trend Portfolios across ranking lookback horizons ranging from one month to ten years.

The underlying Baseline Portfolio is derived from our generic medium-term trend-following model, whose signals are based on an exponentially weighted moving average of past risk-adjusted returns with one-quarter half-life. The ranking horizon is distinct from the trend signal horizon and refers only to the period used to measure past asset-class-level trend-following performance for allocation purposes.

A natural question is whether the relationship between past and future trend-following

Figure 2: Time-Varying Asset Class Risk Allocations Implied by the Trend-on-Trend Framework (Jan. 2000 – May 2026)

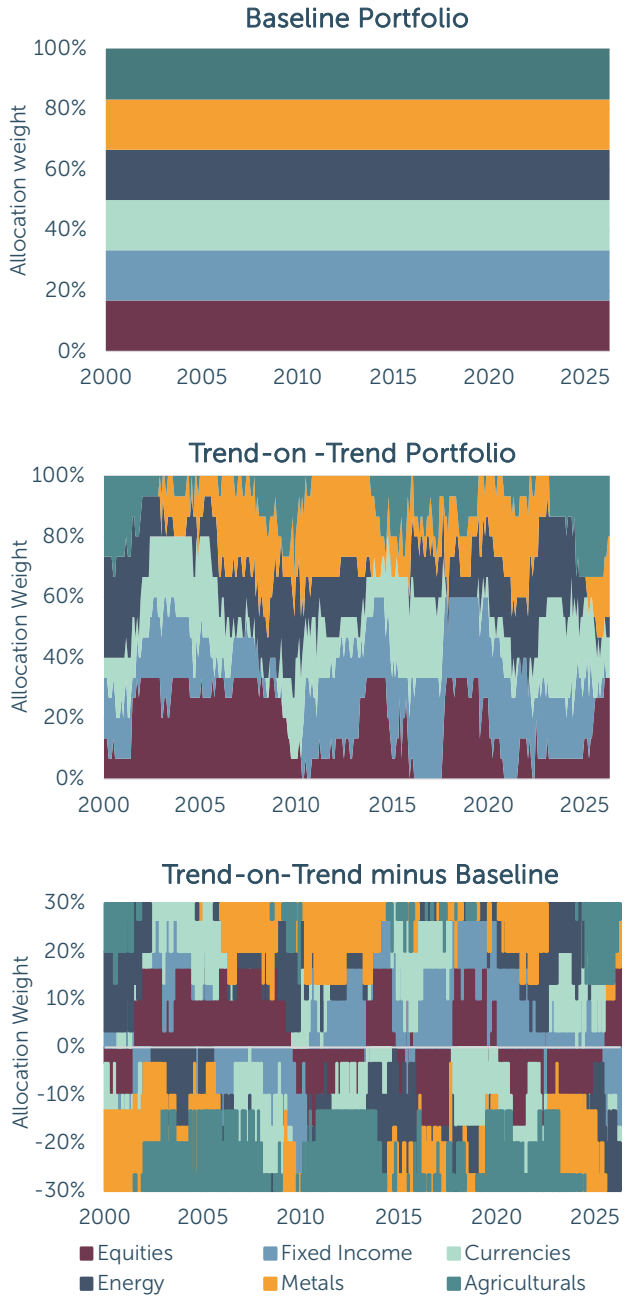

Figure 2: Example of dynamic asset class allocations under the Trend-on-Trend framework from January 2000 to May 2026, based on rolling three-year rankings of risk-adjusted trend-following performance. The top panel shows the equal-risk Baseline Portfolio, the middle panel the corresponding Trend-on-Trend Portfolio weights, and the bottom panel the resulting allocation tilts relative to the Baseline Portfolio. Positive values indicate overweights and negative values indicate underweights. Asset classes comprise equities, fixed income, currencies, energy, metals, and agriculturals. For illustrative purposes only. Source: Quantica Capital.

Figure 3: Cross-Sectional Persistence of Trend-Following Profitability Across Asset Classes and Performance Lookbacks

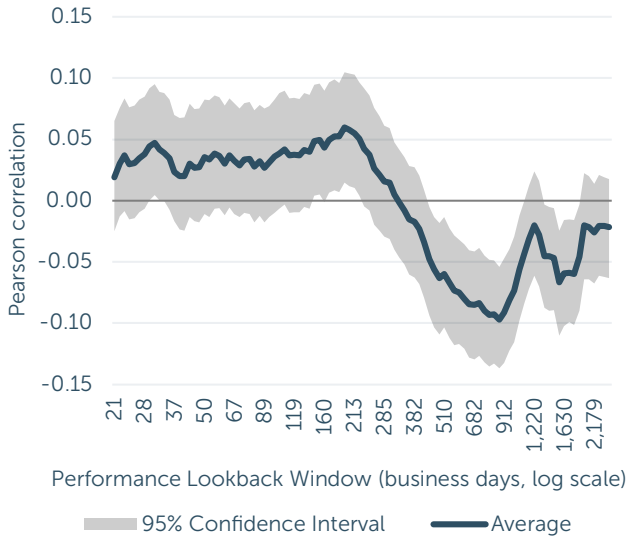

Figure 3: Relationship between relative trend-following profitability over different historical lookback horizons and subsequent three-month relative trend-following profitability across six asset classes from January 2000 to May 2026. Positive correlations indicate that asset classes with stronger recent trend-following performance tended to continue outperforming, while negative correlations indicate mean reversion. Correlations are computed using sector-level trend-following returns measured relative to the cross-sectional average. The solid line shows the average Pearson correlation across all sector-month observations; shaded bands show 95% confidence intervals based on 1,000 bootstrap resamples. HYPOTHETICAL RESULTS. PLEASE SEE IMPORTANT

profitability depends on the measurement horizon.

To investigate this hypothesis directly, we first conduct a sector-level persistence analysis. For each lookback horizon L, we compute cumulative trend-following return of each sector over the preceding L trading days and compare it with the sector's cumulative trend-following return over the subsequent three months. All returns are measured relative to the contemporaneous cross-sectional average across sectors, so the analysis focuses on whether sectors with stronger-than-average recent trend-following profitability subsequently continue to outperform their peers.

Figure 3 plots the resulting correlations as a function of the profitability lookback horizon. For lookback horizons of up to approximately one year, the relationship is positive and statistically significant: sectors with stronger recent trend-following profitability tend to generate stronger subsequent trend-following returns. Correlations are positive and broadly stable at approximately 0.05 across short lookback horizons, indicating modest persistence in the cross-sectional profitability of trend-following.

Beyond a lookback horizon of roughly one year, the predictive content of historical trend-following profitability gradually weakens and eventually reverses. Sectors that have generated unusually strong trend-following profitability over multiple years subsequently tend to underperform, while historically weaker sectors tend to outperform. The evidence therefore points to a transition from short-horizon persistence to long-horizon reversal in the cross-sectional profitability of trend-following.

Statistical Predictability versus Economic Reliability

While Figure 3 establishes that trend-following profitability exhibits short-horizon persistence and long-horizon mean reversion, the practical relevance of these effects remains unclear. The key question is whether they are sufficiently strong and stable to improve portfolio performance. To answer this question, we compare the risk-adjusted performance of the Trend-on-Trend and Contrarian Trend Portfolios with that of the Baseline Portfolio across all overlapping full three-year periods from January 2000 through May 2026. For each portfolio and ranking horizon, we estimate the annualized Sharpe ratio difference relative to the Baseline Portfolio and report the median rolling three-year Sharpe ratio difference together with the 2.5th and 97.5th percentiles of its realized distribution. These bands illustrate the range of realized performance outcomes across performance lookback periods. Figure 4 reports the resulting Sharpe ratio differences across performance lookback horizons.

Figure 4: Distribution of Performance-Based Allocation Outcomes relative to Baseline Allocation Across Lookback Horizons

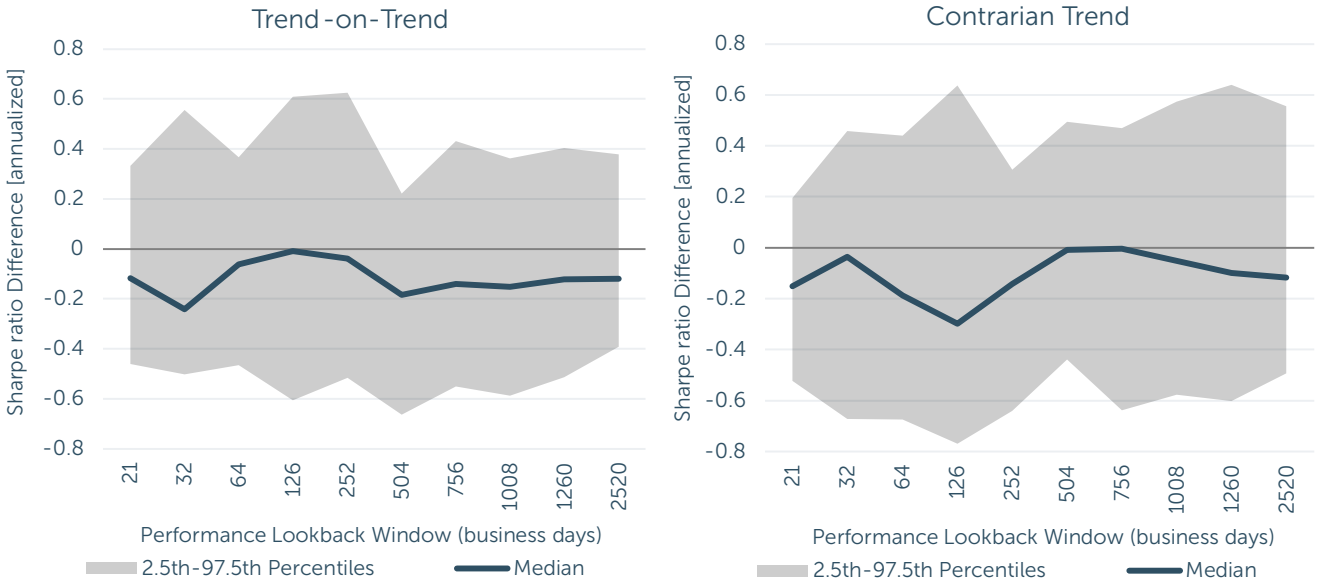

Figure 4: Annualized Sharpe ratio differences of the Trend-on-Trend Portfolio (left) and Contrarian Trend Portfolio (right) relative to the Baseline Portfolio over the period Jan. 2000 – May 2026. For each lookback horizon, the figure reports the median rolling three-year Sharpe ratio difference. Shaded areas show the 2.5th to 97.5th percentiles of the distribution of rolling three-year Sharpe ratio differences and illustrate the range and dispersion of realized outcomes across lookback horizons. HYPOTHETICAL RESULTS. PLEASE SEE IMPORTANT DISCLAIMERS ON PAGE 2. Source: Quantica Capital.

The results provide little evidence that the documented statistical predictability can be translated into superior portfolio performance. Within the Trend-on-Trend framework, the median rolling three-year Sharpe ratio difference remains near zero across all specifications, while the distribution of realized outcomes spans both positive and negative values. Despite the persistence documented in Figure 3, the Trend-on-Trend framework fails to generate a consistent improvement in risk-adjusted performance at any lookback horizon.

The Contrarian Trend framework exhibits a broadly complementary pattern. Consistent with the short-term horizon persistence documented in Figure 3, contrarian allocations based on recent trend-following performance consistently detract from risk-adjusted returns. Although performance differentials become less negative at longer horizons, the 95% range of realized outcomes continues to include zero, providing little evidence that long-horizon reversals in trend-following profitability can be exploited in a reliable and economically meaningful manner.

Taken together, Figures 3 and 4 suggest that statistical predictability alone is insufficient to create an investable allocation signal. Although trend-following profitability exhibits statistically detectable persistence and mean reversion across sectors, the magnitude of these effects is small relative to the variability of realized portfolio outcomes. As a result, reallocating capital on the basis of past trend-following performance fails to deliver robust or economically meaningful improvements in risk-adjusted returns.

Why Short-Horizon Trend-on-Trend Behaves Like a Nonlinear Amplifier of the Baseline Trend Signal

The previous sections established two seemingly contradictory findings. While trend-following profitability exhibits measurable persistence over shorter horizons, reallocating capital toward recently successful sectors fails to generate a consistent improvement in portfolio performance. This apparent paradox suggests

Figure 5: Relationship Between Trend Signal Strength and Future Risk-Adjusted Market Returns

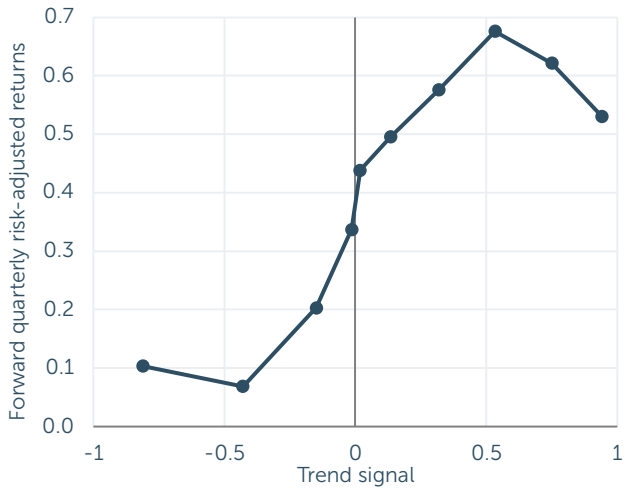

Figure 5: Median forward three-month risk-adjusted market returns grouped by contemporaneous signal strength bucket. Markets are sorted into deciles based on their Baseline trend signal. For each decile, the figure reports the median realized market risk-adjusted returns over the subsequent three months. The broadly upward-sloping relationship indicates that stronger trends tend to be followed by higher subsequent risk-adjusted market returns. HYPOTHETICAL RESULTS. PLEASE SEE IMPORTANT DISCLAIMERS ON PAGE 2. Source: Quantica Capital.

that recent trend-following profitability may not represent an independent source of information. Instead, as we show below, short-horizon Trend-on-Trend allocations largely act as a nonlinear amplification of exposures already embedded in the Baseline Portfolio because recent profitability is closely linked to the underlying trend signal itself.

Figure 5 provides a simple empirical observation that motivates this result. Expected future risk-adjusted market returns tend to increase with the strength of the underlying trend signal. While the relationship is not perfectly linear, stronger trend signals are generally associated with higher subsequent returns in the direction of the trend.

As a result, trend-following profitability is itself increasing in trend strength.

When trend regimes are sufficiently persistent and the horizon used to estimate trend-following profitability is comparable to the horizon embedded in the underlying trend signal, recent profitability becomes closely linked to current trend strength. Under these conditions, Trend-on-Trend can be approximated as a nonlinear transformation of the original trend signal, as outlined more rigorously in **Box 1**:

$$S_t^{ToT} = \alpha S_t^2 + \beta S_t^3.$$

As a result, the Trend-on-Trend overlay, rather than introducing an independent source of information, largely reinforces exposures already embedded in the underlying trend signal and reduces exposure to weaker ones.

Figure 6 provides empirical support for this interpretation by comparing Trend-on-Trend allocations with the corresponding Baseline trend signals. The relationship is nonlinear and approximately symmetric around zero. Strong positive and negative trend signals receive systematically larger allocations, while weak signals remain largely unchanged. The effect is strongest when the horizon used to evaluate trend-following profitability is shortest and weakens progressively as the lookback horizon lengthens.

Figure 6: Trend-on-Trend as a Non-Linear Transformation of the Baseline Trend Signal

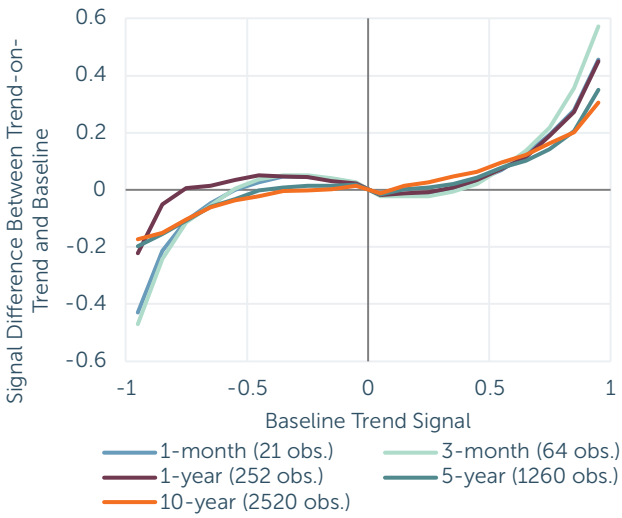

Figure 6: Average difference between the Trend-on-Trend signal and the baseline trend-following signal as a function of the baseline signal level, divided into bins of width 0.1. Short-horizon performance lookbacks produce the strongest nonlinear amplification, disproportionately increasing exposure to large positive and negative trend signals while leaving weak signals largely unchanged. As the performance lookback horizon lengthens, the relationship flattens, reflecting the weakening connection between historical trend-following profitability and the current trend regime. Source: Quantica Capital.

The key requirement is horizon alignment. Trend-following profitability is most informative when measured over horizons comparable to those embedded in the underlying trend signal. In this regime, recent trend profits primarily reflect the strength of the current trend environment, causing Trend-on-Trend to behave primarily as a nonlinear amplification of existing trend exposures rather than as an independent forecasting signal. As the profitability estimation horizon lengthens, however, historical profitability increasingly reflects trend regimes that may no longer be relevant. Its connection to the current trend strength weakens, helping to explain the deterioration in performance observed in Figures 3 and 4.

The Trade-Off Between Trend Strength and Diversification Benefits

To better understand the concentration effects embedded in performance-based allocation overlays, we examine the internal diversification characteristics of the resulting portfolios. Figure 7 reports the cross-sectional risk-weighted average of pairwise correlations in trend-following returns for both the Trend-on-Trend and Contrarian Trend portfolios across different performance lookback horizons.

Several patterns emerge clearly from the results. First, average cross-correlation is systematically higher for the Trend-on-Trend Portfolio than for the Contrarian Trend Portfolio. Second, allocating more weight toward the strongest-performing sectors increases portfolio-wide return correlation relative to the Baseline Portfolio, whereas tilting toward the weakest-performing sectors does not.

This finding suggests a structural relationship between trend-following profitability and diversification: sectors that have recently delivered stronger trend-following performance tend to exhibit more synchronized return streams across their constituent markets, whereas weaker-performing sectors tend to be more internally diversified, with lower pairwise correlations.

To explore this relationship more directly, Figure 8 plots the trailing one-year Sharpe ratio of each asset group against the average pairwise trend-following return correlation among its constituent markets over the same period. The analysis is performed monthly across the six asset groups considered in this study: equities, fixed income, currencies, energy, metals, and agriculturals

The relationship appears consistent across groups. Across the full 26-year sample, sectors with higher average within-sector pairwise correlations of trend-following returns also tend to exhibit higher trend-following Sharpe ratios. In other words, the most profitable trend-following environments are often those in which trends become broadly aligned across markets within a sector.

Figure 7: Average Pairwise Trend-Following Return Correlations Across Trend-on-Trend and Contrarian Allocations

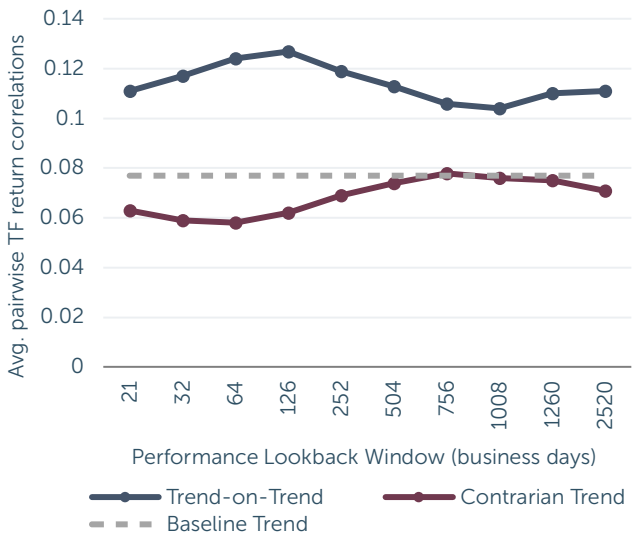

Figure 7: Average risk-weighted pairwise trend-following returns correlations across portfolio constituents for the Trend-on-Trend and Contrarian Trend portfolios across different performance lookback horizons, based on simulations from 2000 through May 2026. The Trend-on-Trend portfolio exhibits systematically higher trend-following return cross-correlation than the Contrarian Trend portfolio, although the correlation differential narrows as the performance lookback horizon increases. HYPOTHETICAL RESULTS. PLEASE SEE IMPORTANT DISCLAIMERS ON PAGE 2. Source: Quantica Capital.

Box 1: Why Trend-on-Trend Behaves Like a Nonlinear Trend Signal

To develop intuition for the behavior of Trend-on-Trend allocations, we consider a simplified framework in which the underlying trend signal is scaled continuously according to exponentially smoothed past trend-following performance. Although the implementation studied in this paper relies on cross-sectional rankings and discrete portfolio weights, the simplified model captures the key mechanism underlying the strategy. Let S_t denote a trend signal and let R_{t+1} represent the forward risk-adjusted return. The corresponding risk-adjusted trend-following payoff is

$$p_{t+1} = S_t R_{t+1}.$$

Trend-on-Trend measures recent trend profitability using an exponentially weighted average of past trend profits,

$$P_t = EWMA(p_t),$$

which serves as a simple estimate of expected future trend-following profitability. Suppose the Trend-on-Trend signal scales the base trend signal linearly by this profitability score:

$$S_t^{ToT} = S_t P_t.$$

Figure 5 further shows that expected forward risk-adjusted returns increase with trend strength. While the relationship is not globally linear, it can be approximated locally by

$$E[R_{t+1} \mid S_t] \approx \alpha + \beta S_t,$$

where $\beta > 0$ measures the sensitivity of future risk-adjusted returns to trend strength.

Under this approximation:

$$E[\,p_{t+1} \mid S_t\,] = S_t E[\,R_{t+1} \mid S_t\,] \approx \alpha S_t + \beta S_t^2.$$

The conditional expectation $E[\,p_{t+1} \mid S_t\,]$ represents the expected profitability of the trend-following strategy given current trend signal. Because this quantity is not directly observable, Trend-on-Trend estimates it using an exponentially weighted average P_t of realized trend-following profits. The intuition is that if trend profitability varies slowly over time, recent realized profits provide information about the current profitability regime. Under this interpretation, the exponentially weighted average of past profits provides an estimate of expected future trend profitability:

$$P_t = EWMA(p_t) \approx EWMA(E[\,p_{t+1} \mid S_t\,]) \approx \alpha EWMA(S_t) + \beta EWMA(S_t^2).$$

When (1) **S_t evolves slowly relative to the decay horizon of the profitability estimator** and (2) **the profitability-estimation horizon is comparable to the horizon embedded in the trend signal**, these averages can be locally approximated by their current values,

$$EWMA(S_t) \approx S_t, \quad EWMA(S_t^2) \approx S_t^2,$$

so that

$$S_t^{ToT} = S_t P_t \approx \alpha S_t^2 + \beta S_t^3.$$

Under these assumptions, the Trend-on-Trend signal behaves as a non-linear transformation of the original trend signal, containing both quadratic and cubic components. As trend strength increases, the cubic term becomes increasingly important, making the overlay more responsive to strong trends than a conventional linear signal.

This approximation should be viewed as a local characterization rather than an exact identity. Its accuracy depends on the empirical relationship between trend strength and future asset returns and diminishes as the performance lookback horizon extends beyond the period over which trend persistence is observed.

Figure 8: Stronger Trend-Following Performance Is Associated with Higher Internal Trend-Following Return Correlation

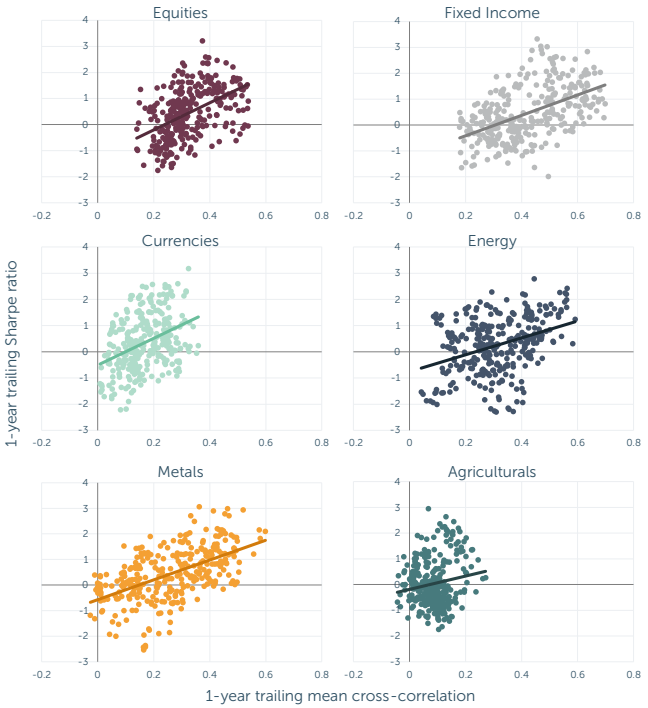

Figure 8: Relationship between trailing one-year trend-following Sharpe ratios and the trailing one-year average pairwise correlation of trend-following returns within six asset classes: equities, fixed income, currencies, energy, metals, and agriculturals. Each point represents a monthly observation based on rolling one-year windows from Jan. 2000 through May 2026, with fitted regression lines shown for each asset class. Asset classes exhibiting higher cross-market trend-following return correlation tend to generate stronger trend-following performance. HYPOTHETICAL RESULTS. PLEASE SEE IMPORTANT DISCLAIMERS ON PAGE 2. Source: Quantica Capital.

This result provides an important insight into the economics of trend-following. Strong trend-following performance does not typically emerge from a large number of independent opportunities. Rather, it tends to arise when many related markets move in the same direction simultaneously, creating a concentrated source of trend-following returns[5]. Such environments can be highly profitable while trends persist, but they also reduce diversification and increase vulnerability to synchronized reversals should those trends abruptly unwind. This may partly explain the compensation investors receive for bearing trend-following risk.

The relationship between performance lookback horizon and trend-following return correlation further reinforces the interpretation developed in the previous section. Average return correlation within the Trend-on-Trend portfolios declines steadily as the performance lookback horizon lengthens. When the profitability estimation horizon is short, allocation weights remain closely linked to the current trend signal, causing the overlay to concentrate exposure in sectors experiencing strong and broadly synchronized trends. As the lookback horizon increases, however, the allocation increasingly reflects historical trend profitability rather than current trend strength. The connection between the allocation tilt and the prevailing opportunity set therefore weakens, reducing the degree of signal synchronization across the portfolio.

Taken together, Figures 7 and 8 reveal the fundamental trade-off embedded in the Trend-on-Trend framework. The sectors identified as attractive by recent trend-following performance are often the same sectors exhibiting the strongest internal trend alignment. As a result, the strongest trend-following environments are frequently also the least diversified. Consequently, short-horizon Trend-on-Trend overlays gain exposure to potentially more profitable trend regimes, but only by accepting greater concentration and reduced diversification. Contrarian Trend portfolios sit at the opposite end of this spectrum. By tilting toward sectors with weaker recent trend profitability, they generally retain lower internal trend-following return correlations but sacrifice exposure to stronger prevailing trends. The empirical results suggest that this trade-off is difficult to monetize systematically. In most cases, the additional trend strength obtained by concentrating in highly synchronized sectors is not sufficient to compensate for the diversification lost in the process.

[5] We have highlighted this effect in a previous research note: *Trend-Following and Risk Factor Diversification in 2022 and 2023: a Tale of Two Extremes*, Quantica Quarterly Insights, March 2024.

Conclusion

While prolonged periods of outperformance and underperformance across asset classes may tempt investors to overweight recent trend winners or rotate toward long-term laggards, we find little evidence that such reallocations systematically improve the performance of a diversified trend-following portfolio.

Trend opportunities rotate meaningfully across asset classes over time. While fixed income markets were among the largest contributors to trend-following returns during the 2010s, commodities have dominated performance since 2020. These shifts naturally raise the possibility that investors can improve performance by dynamically allocating capital toward sectors where trend-following has recently been most profitable.

Our results suggest that this is more difficult than it appears. While trend-following profitability seems to exhibit statistically significant persistence over shorter horizons, this predictability fails to translate into a robust improvement in portfolio performance. Across a wide range of specifications, performance-based reallocations remain statistically indistinguishable from a diversified trend-following portfolio.

The primary reason is that recent trend-following profitability is not independent of the underlying trend signal. At shorter horizons, sectors that have recently generated strong trend-following profits are often the same sectors already exhibiting the strongest trend signals. Trend-on-Trend therefore behaves largely as a nonlinear reweighting scheme, increasing exposure to trends already embedded in the portfolio rather than identifying new sources of return.

A second challenge arises from diversification. The strongest trend-following environments tend to be characterized by a greater alignment of trend opportunities across markets, causing the sectors with the highest recent trend-following profitability to also exhibit higher internal trend-following return correlations. Reallocating capital toward these sectors therefore increases concentration and reduces diversification, offsetting much of the benefit from stronger trend regimes.

Taken together, the results suggest that while trend opportunities rotate across asset classes, their future distribution remains difficult to forecast beyond the information already contained in the trend signal itself. For systematic trend-followers, broad diversification across markets remains more robust than attempting to time the distribution of trend opportunities across sectors.

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