Trump, Turmoil, and Trend:

Managed Futures Through Two Terms

Summary

- Managed Futures strategies have historically performed well, even in periods of market stress, because they are designed to capitalize on sustained market movements in any direction. These strategies generated positive returns during each major recession this century, while the S&P 500 Index suffered severe losses in each period.
- Managed Futures Strategies failed to produce profits in April 2025 as equity markets sold off. The whipsaw nature of price action that month was driven by a misunderstanding of US President Donald Trump's approach to policymaking.
- Now that the first 100 days of Trump's second term are over, the significant market volatility he introduced, which challenged traditional momentum signals, appears to have subsided. While the outlook for specific initiatives is unclear, we believe investors are beginning to focus on overarching themes in Trump's agenda that could impact inflation and growth, leading to asset repricing in a way that, in our view, could benefit Managed Futures.
- A comparison of Trump's first and second terms shows some similarities, including: an initial rally on expectations of business-friendly policies, followed by a downturn on escalating US-China tariffs; confrontational trade tactics with allies; policy reversals; public criticism of the Federal Reserve; and contentious fiscal decisions, fueling concerns about record-high federal deficits.
- The terms also show differences, such as the speed with which he appointed staff and started making decisions; the method with which he implemented policies; and his tolerance for market pain.

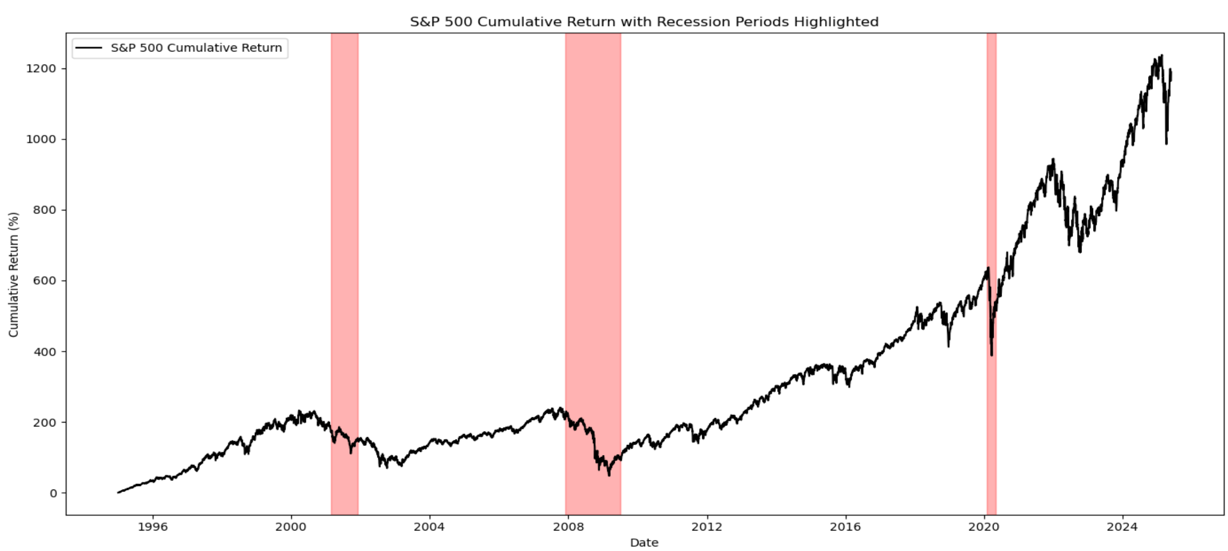
Historical Argument for Trend Strategies

The HedgeIndex Managed Futures Main Index (HEDGFUTR) has historically delivered positive returns during periods of dislocation, including sustained drawdowns in traditional risk assets. This reflects the ability of managed futures strategies to go long or short across a globally diversified set of futures contracts (fixed income, currencies, commodities, equities) and to respond nimbly to emerging trends without the constraints of traditional long-only exposures.

The resilience of Managed Futures during economic downturns is evident in an analysis of major recessions in the strategy's established history. The 14-year-old LAB Managed Futures Liquid Index (CSLABMF) generated positive returns in each period, while the S&P 500 Index suffered severe losses ranging from 34% to 57%. Performance includes back-tested data for earlier periods.

Recession Period	SPX Peak Date	SPX Trough Date	SPX Return (%)	CSLABMF Return (%)
Dot-Com Bust	03-24-2000	10-09-2002	-49.1%	35.0%
Global Financial Crisis	10-09-2007	03-09-2009	-56.8%	29.4%
COVID-19 Crash	02-19-2020	03-23-2020	-33.9%	7.6%

This historically low correlation to specific markets makes Managed Futures particularly effective as a portfolio diversifier during periods of market stress, especially when traditional equity and bond allocations face simultaneous pressure.

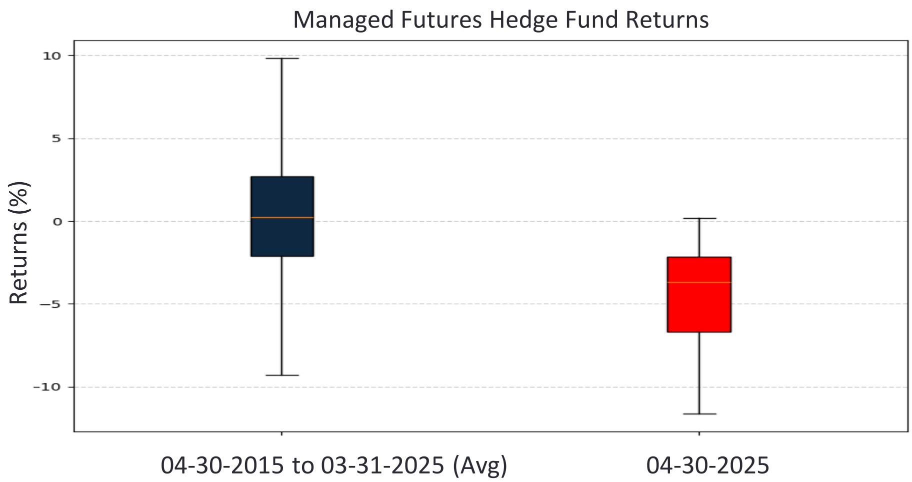


Because timing exposure to these strategies is difficult, our view is that a strategic rather than tactical allocation is typically more effective. Portfolio construction should ensure robustness across a range of future scenarios rather than try to predict the best-performing asset in any given regime. In that context, we believe that Managed Futures offers a unique means of managing against uncertainty, not merely amid current political volatility, but as a foundational element of a diversified investment framework.

April as Outlier: Market Misinterpretation of Trump's Political Agenda

April 2025 was an outlier, with the HedgeIndex Managed Futures Main Index delivering poor performance by historical averages. With significant market volatility, constituents of the index saw their trend signals whipsawed as markets swung back and forth in dramatic fashion.

The following boxplot analysis of average monthly returns over the past decade shows that April 2025 fell well below the typical performance range.



The histogram further illustrates this deviation, with April 2025 sitting in the bottom decile of monthly performance—a stark contrast to the typically robust crisis-period positive returns.

HedgeIndex Managed Futures Main Index Returns
(12-31-1993 to 04-30-2025)

The whipsaw nature of price action in April was driven by a misunderstanding of US President Donald Trump's approach to policymaking. While Trump's "America First" agenda has remained consistent since his first term, investors appeared unprepared for the aggressive implementation of tariffs, trade negotiations, and regulatory changes that defined his early months back in office.

Trend Reasserting: From Reaction to Recalibration

Now that the first 100 days of Trump's second term are over and he has demonstrated willingness to back down from some of his most extreme positions, market whipsaws have subsided and conditions for systematic trend strategies to generate profitable signals are reemerging.

Trade negotiations remain ongoing; much of the administration's policy direction, particularly regarding tariffs, is not codified; and the outlook for specific initiatives is unclear. But investors have begun to discount the more extreme scenarios proposed on "Liberation Day" and to focus on overarching themes in his agenda that could impact inflation and growth. The effects of industrial reshoring, assertive tariffs, and recalibrated taxation could create long-term shifts in domestic supply chains and global capital flows, along with potential for systemic repricing through rising input costs, shifts in monetary policy, and investor reallocation across geographies.

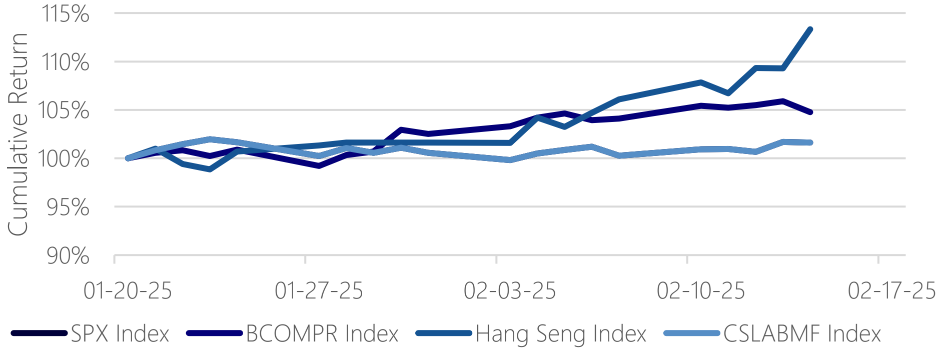
Asset repricing, through sustained momentum and directional moves, has historically been positive for performance, and we believe Managed Futures strategies remain structurally well positioned to capitalize on these inflection points. As shorter-term price noise abates and asset classes begin to exhibit more coherent trajectories, disciplined, systematic allocation should become increasingly preferable to tactical, discretionary positioning, especially as the outlines of a fundamentally different market paradigm begin to emerge.

First and Second Term Similarities

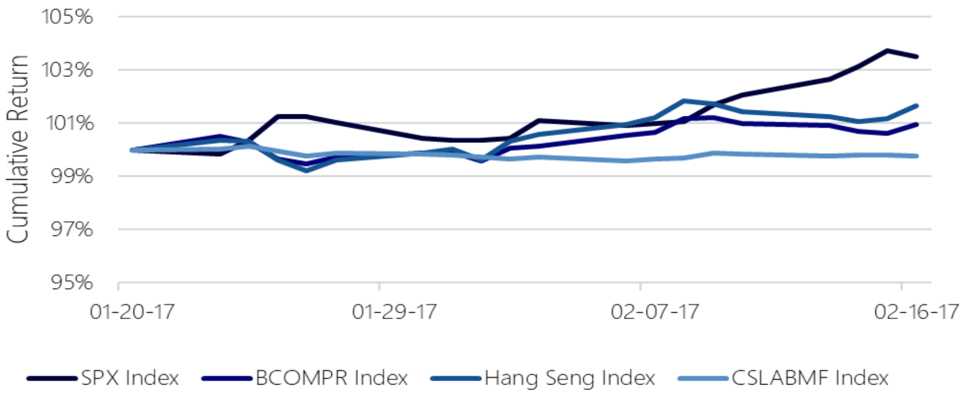
A comparison of political and market developments in Trump's first and second terms through the lens of the tradable LAB Managed Futures Liquid Index helps provide granular context for the industry's performance. Similarities include: an initial rally, known as the "Trump Bump," on expectations of business-friendly policies; followed by a downturn on escalating US-China tariffs; confrontational trade tactics with allies; policy reversals; public criticism of the Federal Reserve; and contentious fiscal decisions, fueling concerns about record high federal deficits.

Trump Bump

Between the November 2024 US presidential election and the first month of Trump's second term, the stock market soared as investors anticipated tax cuts and deregulation, shrugging off some of his stated policy objectives as negotiating tactics. In the first month after his inauguration, the S&P 500 Index rose about +2% and Managed Futures rose +3%.



This recalls the positive market sentiment and behavior of Managed Futures in Trump's first term. Within the same period in 2017, the S&P 500 rose +4%, while Managed Futures gained +1%. The moves were especially pronounced in the Hang Seng Index, which rose +14% in the first four weeks of Trump's second term, echoing a +5% gain during the same period in his first term.



Market Disruptions and Policy Reversals

Trump's apparent commitment to aggressive trade policy this term, culminating in his "Liberation Day" tariff announcement on April 2, triggered a sharp selloff that was also reminiscent of his first term, albeit more dramatic. Subsequent policy reversals resulted in similar market swings.

The S&P 500 declined approximately -11% in the two days after Liberation Day, only to surge nearly +10% in one day on Trump's announcement of a 90-day tariff pause the following week. The Bloomberg Industrials subindex dropped roughly -16% in the two weeks after Trump announced tariffs on imported steel and aluminum but pared losses to -7% in April after he introduced exemptions for imported car parts and softened his rhetoric against China and the Federal Reserve chair, whom he attacked for not cutting interest rates. The rebound has extended since May on optimism about US-China trade talks.

This pattern resembles the market's response to Trump's use of tariffs during his first term, when steep levies, followed by delays or exemptions, caused significant market swings. The Bloomberg Industrials subindex fell -3% in the weeks after Trump's January 2018 announcement of tariffs as high as 50% on imported solar panels and washing machines. While tariffs on imported steel and aluminum in March 2018 led to a roughly -5% drop in the S&P 500, exemptions for China and Mexico created uncertainty over their impact. An ongoing trade war with China in his first term was also characterized by threats, delays, on-off negotiations, and a ratcheting up of tariffs.

The speed with which policy and market developments played out this term means that any similarities were more compressed, and that proved more challenging for Managed Futures to adapt. Traditional trend signals were repeatedly disrupted by unexpected reversals, leaving the strategies unable to rely on identifiable or consistent market patterns.

Systematic Trend in an Evolving Landscape: Structural Repricing and Strategic Opportunity

While equities have largely recovered, underlying volatility persists, reinforcing the view that markets remain vulnerable to sudden policy shifts. Businesses, wary of future disruptions, continue to operate with caution, to reduce or delay orders and cut back on inventory buildup, depressing economic output regardless of the market rally.

If Trump resumes course when current delays expire, volatility is likely to surge again and could challenge trend-following strategies, which depend on sustained directional momentum. However, larger dislocations, such as capital investment drawdowns abroad or domestic manufacturing booms, could form the basis of multi-month, cross-asset trends that Managed Futures can capitalize on.

Looking ahead, the key question is not how markets will react to specific Trump policies, but how resilient Managed Futures will be. For systematic trend strategies that thrive on structural inflection points, we maintain that the potential for sustained, directional moves represents an opportunity. Behavioral shifts that lead to persistent asset-price dislocations can create a richer trading environment where structural divergence replaces short-term noise. Trend-following models are best positioned to capture longer-duration moves once initial volatility settles.

While market corrections in tariff-sensitive sectors and broader volatility shocks were less severe in previous episodes, they offer valuable lessons for what may lie ahead in 2025 and beyond.

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