Trends Everywhere 2020

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2020 was a long year. So many things happened in global markets and across the world. Trend-following strategies like change, and 2020 sure brought that to the financial markets. Given all the change in 2020, we thought it appropriate to review what happened, what trends emerged in global markets, and what trends worked well in 2020.

What Happened in 2020?

Given the onset of a global pandemic in 2020, the year was one with many different themes as the world sought to solve a global health crisis. The first quarter started off cautiously optimistic in equity markets. Equity markets surged to new highs while oil prices began to see the first signs of caution. Bond yields also began to fall as markets started to wonder how serious the COVID-19 crisis might be. In late February, volatility exploded across global markets in response to the growing crisis. Equity markets spent over three weeks in crisis, while yields plummeted and commodity prices crashed in tandem.

Towards the end of the first quarter, supported by fiscal and monetary support from central banks and policymakers around the world, the freefall halted and began to reverse. Investors began buying into a greatly depressed equity market. Over the rest of the year, equity markets rallied strongly, led by technology stocks and those businesses less fazed by a global health crisis. As risk-on sentiments entered the markets and fiscal policy and stimulus seemed all but certain, the U.S. dollar began to weaken against other global currencies. Commodities began to reflate.

The second quarter brought a continuation of the "V-shaped" recovery, especially in domestic equities. A rise in longer yields and the Fed's announcement of keeping short-term rates near zero until 2022 led to a steepening of the yield curve. The dollar continued to fall, with some dispersion in both developed and emerging markets. In commodities, oil prices hit a historical low in April, with some futures prices even going to negative territory, and then began a slow recovery. Volatility remained high throughout the quarter. In the second and third quarter, technology stocks continued to thrive in a global pandemic.

Following the equity recovery in the second quarter and impending fiscal stimulus, the third quarter brought forth a strong reflationary theme. All global assets rose in response as the U.S. dollar continued to weaken. Precious and base metals were in high demand, in particular gold, silver, and copper. Agricultural commodities strengthened significantly, and energies showed downward price pressure. Equity markets saw strong returns especially among the largest developed markets, with the NASDAQ strongly outpacing its peers due to technology stocks that continued to thrive during the pandemic. Volatility slowed slightly in comparison to the first and second quarter.

The reflationary theme remained strong in the fourth quarter and into year-end. However, unrest around the U.S. presidential election, rising COVID-19 cases, and ongoing Brexit negotiations led to somewhat increased volatility in September and October. Markets weighed the balance between hope for a vaccine and fear of further lockdowns and restrictions. Finally, on November 9th, hope entered the market. The U.S. election seemed somewhat resolved and optimism around the development and testing of vaccines pushed the reflationary theme across all assets. Equity and commodity markets surged and the U.S. dollar continued to weaken as risk-on themes dominated and investors considered the potential impact of future impending stimulus.

Quarter	Themes	Market Moves
Q1	COVID-19 Crisis	Equities plummet; bond yields fall; energies and other commodities sink
Q2	Unexpected Recovery	Equities begin to recover; oil hits negative prices and recovers; other commodities start to recover; the U.S. dollar starts to weaken
Q3	Reflation	Equities, commodities, and even bonds up; U.S. dollar weakens
Q4	Uncertainty and Hope	Equities, commodities up as U.S. dollar weakens; election uncertainty and COVID-19 wave uncertainty weigh on markets

Table 1: Themes of 2020

Changing Asset Class Trends in 2020

Given the amount of change in 2020, there were certainly plenty of trends. To demonstrate this, we consider the performance of a simple representative trend-following model by quarter and by asset class in 2020. In Figure 1, green (red) represents positive (negative) trend performance in the quarter. Figure 2 compares a faster trend system with a slower trend system. Blocks in green represent periods where faster models outperformed and blocks in red represent when slow models outperformed. From these figures, we can see that there were positive trends in asset classes outside of equities in Q1. At the same time, it was useful to be faster in equities to get out of the way and slower in other asset classes to capture the strong defensive theme in bonds, currencies, and commodities (particularly short energy). In Q2, trends began to shift and trend-following strategies saw losses at the turning point as the reflationary theme (including long equities, short U.S. dollar, and long commodities) began to gain momentum. Regardless of speed or asset class, there were no big trend opportunities in Q2. During the second half of the year, the reflationary theme stayed strong, with positive trends in equities, currencies, and commodities. For most asset classes, being faster to move with trends seemed to be helpful in the second part of the year, particularly in currencies and commodities.

	Q1	Q2	Q3	Q4
Equities	Negative	Negative	Positive	Positive
Bonds	Positive	Slightly Positive	Slightly Positive	Slightly Negative
Currencies	Slightly Positive	Negative	Slightly Positive	Positive
Commodities	Positive	Negative	Slightly Negative	Positive

Figure 1: Positive and negative trend performance by asset class for 2020. Note dark red and green are returns with magnitude greater than 1% positive or negative. Past performance is not necessarily indicative of future results.

	Q1	Q2	Q3	Q4
Equities	Fast>Slow	Slow>Fast	Fast>Slow	Fast>Slow
Bonds	Slow>Fast	Slow>Fast	Slow>Fast	Fast>Slow
Currencies	Slow>Fast	Fast>Slow	Fast>Slow	Fast>Slow
Commodities	Slow>Fast	Slow>Fast	Fast>Slow	Fast>Slow

Figure 2: The difference in performance by asset class between a fast and slow trend following system by quarter in 2020. Past performance is not necessarily indicative of future results.

Figures 1 and 2 demonstrate that 2020 was a year with many different trends across asset classes. Some of these trends were slow and steady and some happened more quickly. In simple terms, this highlights the fact that markets are always changing and adapting, creating new and different types of asset class trends.

Moving into 2021

Although 2020 ended on a positive note, there is still substantial uncertainty for 2021. The tug-of-war continues with increased COVID-19 cases and the associated restrictions weighing on economies set against the hope for vaccines and fiscal stimulus to abate economic woes. The run-up in risk assets in 2020 has been greater than we could have imagined. Will we continue to see strong risk appetite? As bond markets have waned in their impact on markets, we may continue to see a shift in focus from monetary to fiscal policy. Either way, things are going to change; new trends will emerge, and trend-following strategies are going to be aimed to follow the new trends of 2021.

About the Author

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