Institutional Insights

Managed futures as a powerful portfolio diversifier

This alternative investment style, in use for decades, has become an increasingly important tool for investors seeking to enhance diversification and improve overall portfolio resilience.



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KEY TAKEAWAYS

- "Managed futures" is a liquid alternative investment strategy that can help investors diversify their portfolios, mitigate risk, and compound returns over time.
- The strategy systematically seeks to capture price trends, both upward and downward, across global equity, fixed income, currency, and commodity markets.
- Managed futures offers a differentiated return profile characterized by negative to low correlation to traditional asset classes and a historical record of generating its strongest alpha during periods of market stress and dislocation.
- Even a modest allocation to managed futures has historically improved risk-adjusted returns and reduced portfolio volatility and drawdowns within traditional 60/40 frameworks.

Introduction

Managed futures, also known as commodity trading advisor (CTA) or trend-following strategies, represents an alternative investment approach that has been in use for decades. This style seeks to systematically capitalize on the persistent tendency of market prices to trend over time. What makes managed futures particularly distinctive is not only its alpha potential and non-correlated profile, but also the strategy's historical tendency to deliver its strongest returns during periods of prolonged market stress and dislocation. As a result, managed futures has become an increasingly important tool for investors seeking to enhance diversification and improve overall portfolio resilience.

Fidelity INVESTMENTS

Understanding managed futures

Managed futures is a rules-based investment strategy that primarily involves trading futures contracts, both long and short, across a broad spectrum of global markets. Futures are derivative instruments that represent standardized agreements to buy or sell assets at a set price in the future. These contracts are traded on regulated exchanges, such as the Chicago Mercantile Exchange (CME), which provide centralized clearing, price transparency, and oversight. The exchange traded nature of futures provides an efficient way to implement investment strategies, without the additional counterparty risk of over-the-counter (OTC) instruments. Managed futures strategies exhibit a distinct set of features that collectively define their investment profile (Exhibit 1).

EXHIBIT 1: Key characteristics that differentiate managed futures from traditional investments and other alternative investment strategies.

- ☑ **Futures-based Implementation:** Managed futures strategies are primarily executed using futures contracts, though some approaches may also use forward contracts, total return swaps, and other liquid derivatives.
- ☑ **Multi-asset Orientation:** Managed futures strategies have a global macro-orientation and typically span equity, fixed income, currencies, and commodities. The breadth of market exposure can range from a targeted subset of key contracts (for trend beta replication) to several hundred instruments for highly diversified direct implementations.
- ☑ **Trend Following:** At the core of managed futures investing is the systematic harvesting of trend risk premia, which exist due to markets' tendency to persist in the direction of the prior price movement.
- ☑ **Bidirectional Exposure:** Unlike traditional long-only approaches, managed futures strategies take both long and short positions across global markets. This allows them to generate returns from up and down trends.
- ☑ **Systematic Implementation:** Managed futures strategies rely on rules-based systematic models to process market data constantly and generate signals. The systematic nature of managed futures investing helps to avoid discretionary biases in the implementation process.
- ☑ **Active Management:** Managed futures strategies are dynamic. Signals are updated regularly in response to changing market conditions and portfolio exposures are continuously rebalanced to reflect new information, volatility shifts, and correlations.
- ☑ **Cash Efficiency:** Futures are margin-based instruments with only a small portion of the capital required to establish exposure. This frees up cash balance that can be invested conservatively to provide an additional source of yield.
- ☑ **Liquidity:** Because most futures markets are highly liquid, managed futures strategies can be offered to investors in liquid formats, such as mutual funds or ETFs.

Source: Fidelity Investments. Managed futures strategies use investment techniques that are different from the risks ordinarily associated with traditional equity investments and are considered complex trading strategies. Such techniques and strategies include the use of derivatives, short sales, leverage, and investments in commodities and commodity-linked securities. These alternative investment strategies may not be suitable for all investors and are not intended to be a complete investment program for any investor. Short sales pose more risk than long positions. Because a short position loses value as the security's price increases, the loss on a short sale is theoretically unlimited. Regulatory bans on certain short selling activities may prevent a fund from fully implementing its strategy. Leverage can increase market exposure, magnify investment risks, and cause losses to be realized more quickly.

Existence and persistence of market trends

The objective of managed futures strategies is to systematically capture extended directional moves in asset prices, both up and down. The persistence of trends in markets is one of the most researched and well-documented phenomena in investment management, and it is mainly attributed to enduring behavioral biases among market participants. Some of the key behavioral drivers that can help explain why trends continue to exist include:

Anchoring—Investors tend to anchor to prior beliefs and adjust slowly to new information. This gradual dissemination of information creates momentum as prices drift in the direction of the news as time passes.

Herding—Market participants often follow the actions of others, which as known as "herding." This reinforces price trends.

Confirmation bias—Investors seek information that supports their existing views while discounting contradictory evidence. This tends to create persistence and reinforcement of existing narratives and delays mean reversion.

Because the behavioral dynamics of market participants are deeply ingrained, price trends have continued to exist across asset classes for decades, and we believe they are likely to continue. Importantly, the factors that tend to drive returns of traditional equity or fixed income investing, such as earnings growth or interest rate changes, are very different from those that enable trend followers to profit. Trend strategies focus solely on price patterns, not fundamentals, with the objective of harvesting trend premia regardless of the underlying cause. This makes managed futures structurally uncorrelated to traditional investments and a potentially valuable addition to portfolios with traditional exposures.

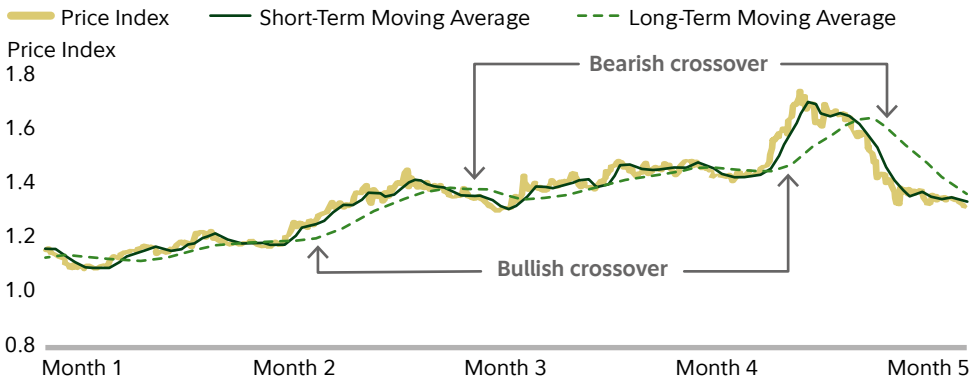
Systematic implementation

The managed futures investment style is broad and diverse, encompassing a range of strategy types, but most strategies rely on systematic, price-based signals to detect price trends. Common signal generation techniques include moving average crossovers, time-series momentum, or breakout models, often across multiple lookback horizons. Models might be designed to extract absolute (directional) or relative value trends depending on a manager's philosophy or mandate. It is important to highlight that trend-following models are responsive in nature. They enter positions once a trend is established and adjust positions after the trend shows signs of weakening or reversal—hence the term "following."

Exhibit 2 demonstrates a hypothetical use of the moving average crossover technique for trend detection. This trend detection signal is typically employed on individual markets with the goal of capturing idiosyncratic trends. A bullish signal is generated when the short-term moving average crosses above the long-term average, indicating an uptrend. Conversely, a bearish signal is generated when the short-term average crosses below the long-term average, suggesting a potential downward trend. The strength of the trend signal is typically commensurate with the magnitude of the difference between the two moving averages.

EXHIBIT 2: A moving average crossover technique illustrates how managed futures systems can detect a trend's bullish or bearish path.

Illustration: Hypothetical Price Trend



For illustrative purposes only. Source: Fidelity Investments.

In some cases, managers may choose to enhance these systematic trend detection models with fundamental signals such as cross asset carry, with a goal of constructing a more balanced portfolio that can perform across a wider range of market environments, including rising equity markets. We believe that this approach can improve the overall efficacy of a managed futures strategy without altering its defensive properties.

Portfolio construction and risk management

Trend following is typically implemented across many futures markets. As models generate signals, these signals are combined and synthesized into a cohesive portfolio. One of the key advantages of trend strategies is the diversification benefit that comes from applying them across a large number of largely uncorrelated markets. To construct a portfolio, position sizing is typically scaled based on volatility, correlation, and other risk-based factors. In this design, diversification across sectors, models, and asset classes is a key goal.

When it comes to portfolio construction, we believe in dynamic portfolio sizing, which allows for market conditions to influence portfolio risk. This allows for increasing market risk to drive higher portfolio risk at times when equities are likely to experience downside.

Risk management parameters are typically systematically embedded into the design of managed futures strategies. The aim is to maintain disciplined risk exposures and prevent any single position or sector from dominating the portfolio. Because managed futures strategies can be vulnerable to sudden trend reversal, false breakouts, and "V" shaped market configurations, robust risk controls and drawdown control tools are essential to help protect the portfolio.

The potential value of managed futures in investor portfolios

Managed futures brings a compelling set of characteristics that can enhance investor portfolios, as illustrated in Exhibit 3. The core benefits include diversification potential, ability to deliver positive absolute returns in rising and falling markets, with the potential for significant outperformance in periods of market stress, and potential to hedge inflation. This combination of potential benefits is rarely found in a single strategy, making managed futures especially powerful in enhancing investor portfolios and providing valuable crisis risk mitigation.

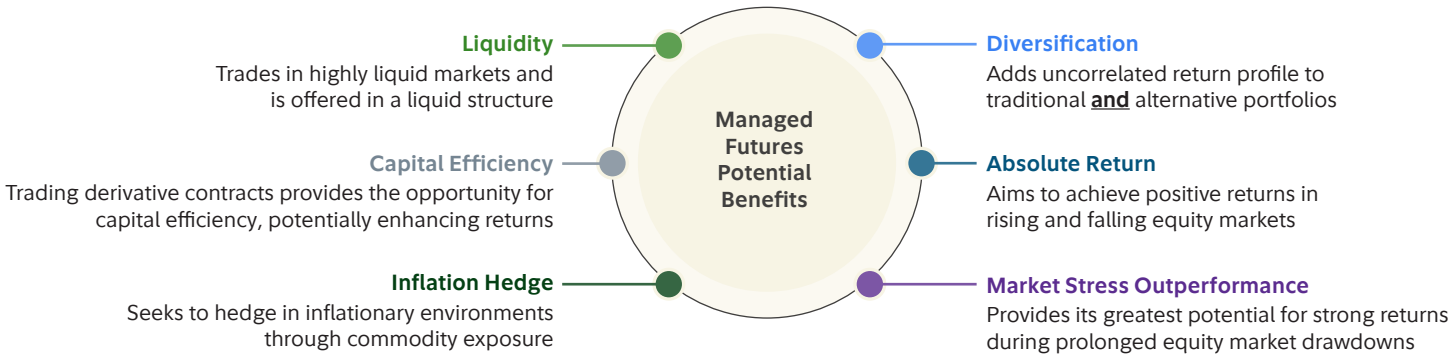
Importantly, managed futures strategies are both capital efficient and liquid. Since the approach is implemented through derivatives, it typically requires only a portion of the capital to gain market exposure. This allows portfolio cash to be invested separately and earn a yield. Managed futures strategies are often available in daily liquid vehicles, such as mutual funds and ETFs, providing investors with flexibility and ease of access for their liquidity needs.

Key attributes of robust portfolio construction in managed futures investing

We believe the following attributes are essential for delivering strong and consistent results in a managed futures strategy:

- Broad exposure across asset classes and global markets
- Diverse trend detection methodologies
- Model variation across styles and time horizons
- Enhancement of trend by integration of market-neutral alpha signals
- Dynamic, volatility-aware position sizing and risk allocation

EXHIBIT 3: Managed futures offer multifaceted potential benefits in a portfolio context.



Source: Fidelity Investments. For illustrative purposes only. There can be no assurance that an investment strategy will yield positive results.
Commodity interest trading involves substantial risk of loss. Past performance is not indicative of future results.

Non-correlated return profile

The value of managed futures as a portfolio diversifier can be quantified by measuring the historical correlation of the SG Trend Index to other asset classes. The SG Trend Index, a widely used benchmark for the managed futures industry, represents some of the largest CTA programs in the space. As shown in Exhibit 4, over the past 25 years, managed futures has exhibited a negative correlation to equities and the traditional 60/40 portfolio and no correlation to bonds. This low-to-negative correlation underscores that the return profile of managed futures is largely independent, making it in our view a premier diversifier for traditional portfolios.

EXHIBIT 4: Managed futures provides valuable correlation benefits compared to traditional and alternative investments.

CORRELATIONS SINCE 2000					
Correlations	**SG Trend Index**	**Equities**	**Bonds**	**Commodities**	**60/40 Portfolio**
SG Trend Index	1.00	-0.12	0.01	0.15	-0.12
Equities		1.00	0.13	0.37	0.98
Bonds			1.00	0.01	0.30
Commodities				1.00	0.36
60/40 Portfolio					1.00

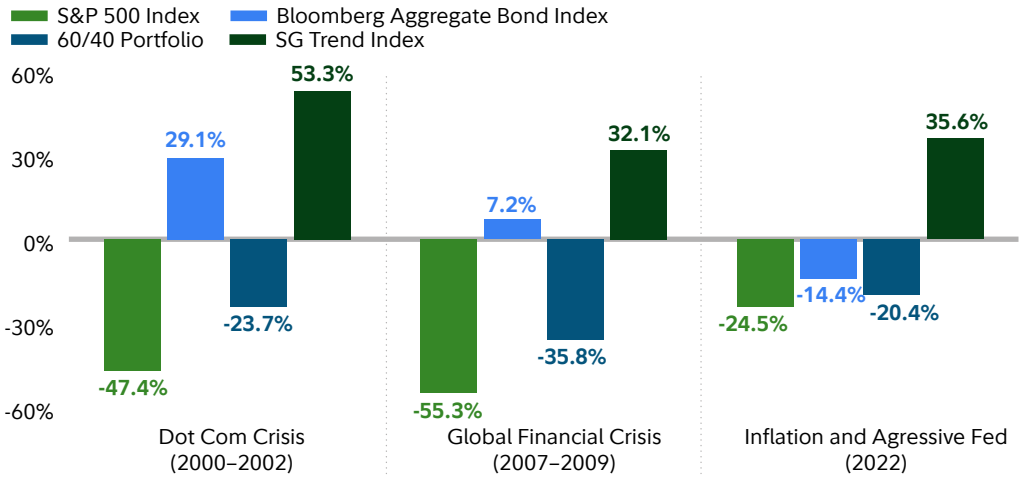
Source: Fidelity Investments, data from Bloomberg Finance LP. Data from Jan. 1, 2000–March 30, 2025. **Past performance is no guarantee of future results.** Equities represented by the S&P 500 Index; bonds represented by the Bloomberg US Aggregate Bond Index Total Return; commodities represent the Bloomberg Commodity Index Total Return; 60/40 portfolio is 60% S&P 500 and 40% Bloomberg US Aggregate Bond Index. See endnotes for index definitions.

Outperformance in stress periods

Managed futures has historically demonstrated positive convexity in risk-off environments delivering strong returns when traditional asset classes were under pressure. Exhibit 5 illustrates the performance of the SG Trend Index during three major crisis periods: the dot com bust, the global financial crisis, and the inflation-driven bear market of 2022. During these episodes, the U.S. equity market declined by 47%, 55%, and 25%, respectively. In each case, managed futures meaningfully outperformed a traditional 60/40 portfolio.

The year 2022 was a particularly challenging period in which both stocks and bonds declined at the same time, resulting in losses of more than 20% for a traditional 60/40 allocation. Managed futures strategies, however, delivered one of their strongest calendar-year returns, highlighting their ability to deliver crisis alpha and inflation protection. This dynamic is highly relevant in today's market environment where correlation between stocks and bonds has been rising, making the 60/40 portfolio riskier than before. As a result, many investors are increasingly seeking strategies that can enhance portfolio resiliency and add a layer of defensiveness.

EXHIBIT 5: Managed futures has historically demonstrated positive performance during market stress periods.



Source: Fidelity Investments, Data source: Bloomberg Finance LP. The following dates are used: Dot Com Crisis, 3/24/00–10/9/2002; Global Financial Crisis,10/9/2007–3/9/2009, Inflation and Aggressive Fed Crisis, 1/3/2022–10/12/2022. The 60/40 portfolio represented by 60% S&P 500 Index and 40% Bloomberg US Aggregate Bond Index Total Return. See end notes for index definitions.

When it comes to the defensive characteristics of managed futures, it is important to recognize that while these strategies are inherently long structural or persistent volatility, they are not designed to provide guaranteed protection in every equity drawdown. At the onset of a crisis, managed futures portfolios may initially be positioned in the wrong direction and may not act as an immediate line of defense. Depending on the speed of the trend models, the portfolio will typically require some time to reposition and begin capitalizing on emerging trends as the new environment takes shape.

The market volatility sparked by the tariff uncertainty in April 2025 is a good example of a period when trend following did not offer protection due to a series of sharp and successive market reversals across asset classes. Leading into this period, most trend following models were positioned "risk-on," reflecting trends that had been prevalent prior to the announcement of the tariff program. As investor sentiment shifted dramatically, CTAs were caught wrong-footed and in April alone, the SG Trend Index fell 4.9%. However, it's important to keep in mind that while trend following may take time to adjust at an onset of a crisis, it has historically proven its value during prolonged periods of market stress, rewarding long term investors.

Inflation hedging potential

Managed futures can serve as an effective inflation hedge due to the strategy's ability to take dynamic exposure to commodity markets, such as energy, precious and industrial metals, and agriculture. Commodities have performed well during inflationary periods and managed futures has historically been able to capitalize on inflation-driven market trends.

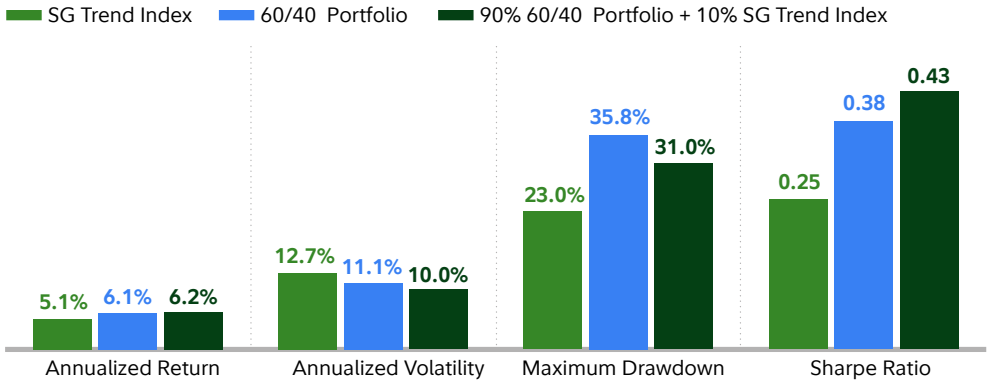
Fidelity research has shown the potential benefit of managed futures to increase portfolio resilience in high-inflation environments. The research showed how diversifying with additional asset classes, including managed futures and commodities, improved risk/return and made portfolios more resilient to inflation shocks. (For more, please see, "A Call to Action for Building Resilient Portfolios.")

Allocating to managed futures

Exhibit 6 illustrates how incorporating managed futures into a traditional 60/40 portfolio can improve risk-adjusted returns. The analysis shows that adding a 10% allocation to managed futures in the period from 2000 to 2025 has resulted in an improvement of returns and a reduction of volatility and drawdowns.

Deciding how much to allocate to managed futures and where to allocate from is a key decision for investors. While larger allocations to managed futures may yield greater benefits, they can be more difficult for some investors to hold during prolonged equity rallies as this is a type of environment when it is difficult for managed futures to keep up with equities. In the examples in Exhibit 6, we show a 10% allocation added to a 60/40 portfolio, with the pro rata reduction from stocks and bonds. However, even a smaller allocation of 3%–4% still yielded meaningful portfolio benefits.

EXHIBIT 6: A 10% allocation of managed futures to a 60/40 portfolio has historically had a positive impact to risk-adjusted returns.



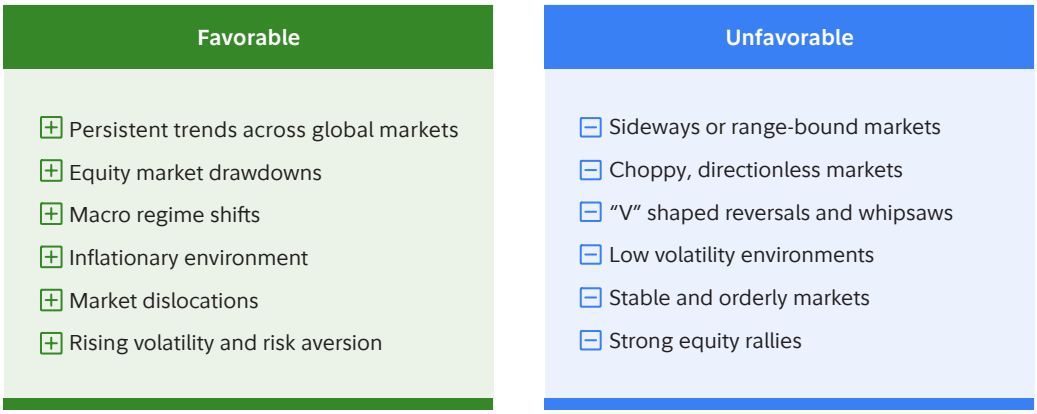
Past performance is no guarantee of future results. Source: Fidelity Investments, Bloomberg Finance LP, as of March 2025. Data represents January 2000–March 2025. Provided for illustrative purposes only. Not intended to represent the past or future performance of any investment. The 90% 60/40 Portfolio + 10% SG Trend Index is 55% equities (S&P 500® index), 35% fixed income (Bloomberg U.S. Aggregate Total Return Index), and 10% SG Trend Index. Indices are unmanaged; their performance includes reinvestment of dividends and interest income, but does not reflect deductions of fees and expenses. Sharpe risk-free rate used is equal to 3-month Treasury rate. The 60/40 portfolio represented by 60% S&P 500® index and 40% Bloomberg U.S. Aggregate Total Return Index. See endnotes for index definitions.

Ultimately, the allocation to managed futures should reflect each investor's objectives, risk tolerance, and time horizon—and should be treated as a long-term strategic allocation.

Like all asset classes, managed futures strategies can experience periods of both strong performance and relative underperformance (Exhibit 7). When evaluating how to incorporate trend following into a portfolio and how to size the allocation, it is important to understand the types of environments in which these strategies have tended to thrive or struggle. Managed futures is a divergent strategy, which means that it has tended to profit when markets move away from equilibrium. In contrast, many fundamentally driven strategies are convergent, performing best in stable range-bound markets.

EXHIBIT 7: Managed futures strategies can experience periods of both strong performance and relative underperformance, and it's important for investors to understand how market conditions can impact performance.

Historical Conditions



Source: Fidelity Investments.

Conclusion

Managed futures strategies represent one of the most time-tested, research-backed, and structurally unique investment approaches available today. Their ability to dynamically respond to trends, maintain low correlation to traditional asset classes, and protect capital during crises makes them a valuable complement to both traditional and alternative investments. While they may not always outperform in every environment, we believe their consistent contribution to portfolio resilience over time justifies serious consideration by any investor seeking long-term, risk-aware diversification.

Endnotes

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Risks

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Roberto Croce is a portfolio manager in the Quantitative Research and Investments (QRI) division at Fidelity Investments. In this role, Dr. Croce leads the development, management, and ongoing evolution of trend-following managed futures strategies.

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Sladja Carton partners with the investment teams, product teams, and distribution channels to support, enhance, and expand Fidelity's growing suite of liquid alternatives products and solutions. The strategies cross asset classes and investment styles for varied portfolio uses and investor types.

Investment Thought Leadership Vice President Martine Costello Duffy provided editorial direction for this article.

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All indices are unmanaged. You cannot invest directly in an index.

Index definitions: S&P 500® index is a market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance. It is not possible to invest directly in an index. All market indices are unmanaged. **Bloomberg U.S. Aggregate Total Return Index** measures the performance of investment-grade, US dollar-denominated, fixed rate taxable bonds. It includes a broad range of bonds, including government, corporate, mortgage-backed and asset backed securities. It reflects total return, including the reinvestments of all income payments, such as coupon payments and capital gains or losses, back into the index. **The SG Trend Index** is designed to track the 10 largest trend following CTAs and be representative of the trend followers in the managed futures space. The SG Trend Index is equally weighted, and rebalanced and reconstituted annually. **Bloomberg Commodity Index Total Return** is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. This combines the returns of the BCOM with the returns on cash collateral invested in 13-week (3 Month) U.S. Treasury Bills.

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