

# ARE MANAGED FUTURES STARTING TO WORK AGAIN?

Jeremy Schwartz — Global Chief Investment Officer  
02/09/2018

[Managed futures](#) strategies have been among the most disappointing investment categories over the last four to five years. These strategies were designed to have negative [correlation](#) to both stocks and bonds—and in what has been a strong equity market, the negative correlation has come through, with flat to negative returns for many managed futures strategies.

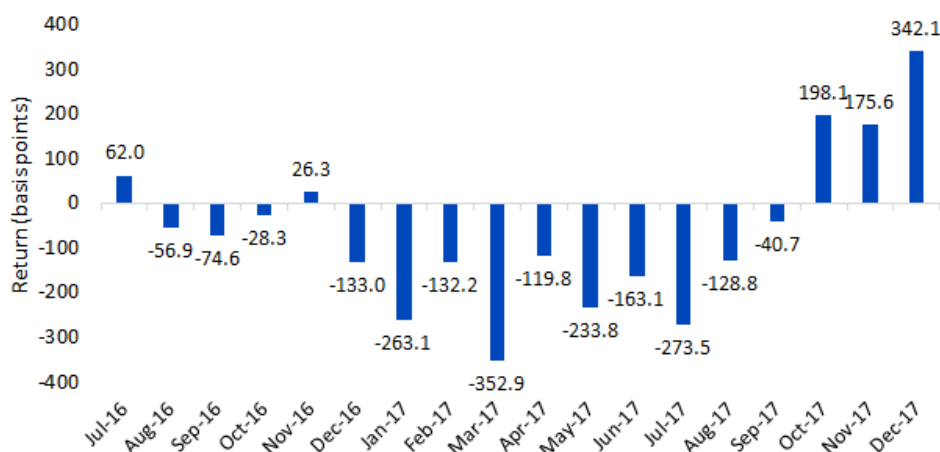
In recent years, commodities were continually being whipsawed, with few persistent trends these [long/short](#) futures strategies could capitalize on.

In mid-2016, WisdomTree developed a new [managed futures index](#) that looks to incorporate multiple momentum periods to determine and scale long or short positions. It furthermore includes a [volatility](#) signal that tries to identify commodities that are at higher risk of whipsaw movements and looks to avoid positions in those commodities.

## Re-establishing Trending Markets?

After a trendless market where this Index had low to negative returns, the fourth quarter of 2017 saw the strongest three-month return for this strategy in its short life span.

### Rolling Three-Month Performance



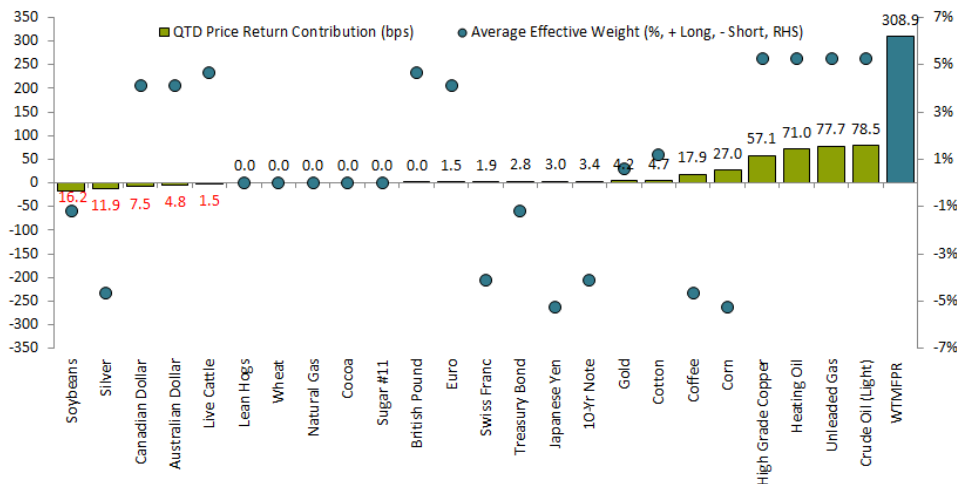
Sources: WisdomTree, Bloomberg. Returns from 4/29/16 to 12/29/17. Past performance is not indicative of future result. You cannot invest directly in an index.

Contributing the most to these gains was the rise in oil prices and energy-related commodities, which the Index established long positions in starting in August and September, depending on the specific commodity. It maintained

those positions throughout the fourth quarter, which was a significant positive contributor. The same goes for copper, which showed strong gains in the fourth quarter as well.

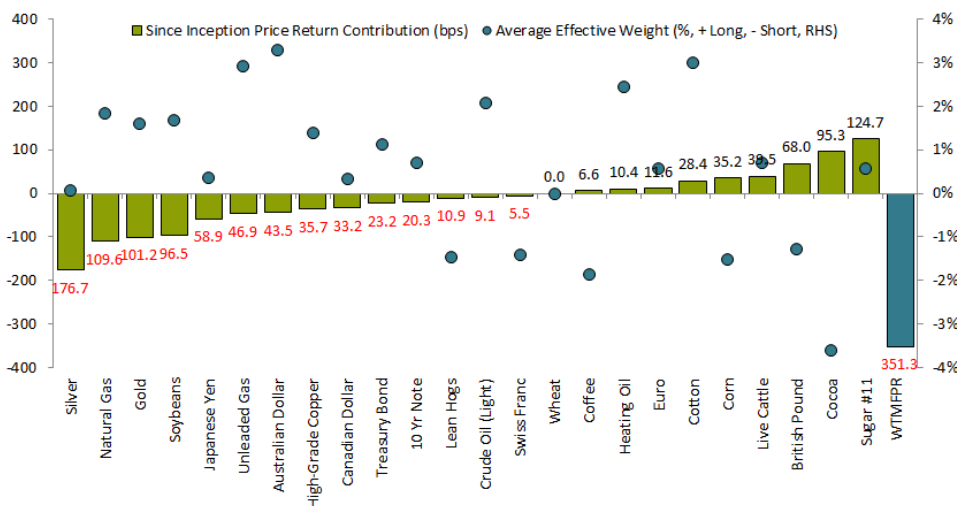
There were only modest losses on commodities such as silver and soybeans, which resulted from short positions in those commodities.

### WisdomTree Managed Futures (WTMF): Price Return Contribution of Assets (2017 Q4, bps) and Positioning Weight-Adjusted, Quarter To Date, as of 12/29/2017



Sources: WisdomTree, FactSet. Data from 9/30/17 to 12/29/17. Past performance is not indicative of future result. You cannot invest directly in an index.

### WisdomTree Managed Futures (WTMF): Price Return Contribution of Assets (bps) and Positioning Weight-Adjusted, since 04/30/2016, as of 12/29/2017



Sources: WisdomTree, FactSet. Data from 4/30/16 to 12/29/17. Past performance is not indicative of future result. You cannot invest directly in an index.

When we go back to the inception of the [WisdomTree Managed Futures Index](#), we see that gold and silver were two of the weakest performers, constantly getting whipsawed after the Index established either long or short positions over the last 18 months.

## Factors Supporting Managed Futures

One of the factors that impinged on managed futures strategy returns was low returns on the collateral that was backing futures positions, given the zero-bound on interest rates. Now that [interest rates](#) are starting to rise with the Federal Reserve (Fed) hiking rates, the collateral underpinning futures positions is earning more interest income with short-term interest rates rising.

With a re-establishment of trending commodities, concerns over the overall levels of the market and the search for alternative strategies to help reduce portfolio volatility, it is a good time to consider one of the few out-of-favor asset classes, managed futures, that are starting to see a stronger investment case shine through.

	Included	Weight if Fully Invested	Scaled/Effective Weight	Composite
Crude Oil	Yes	5.26%	5.26%	3
Natural Gas	No	0.00%	0.00%	-3
Heating Oil	Yes	5.26%	5.26%	3
Gasoline	Yes	5.26%	5.26%	3
Copper	Yes	5.26%	5.26%	3
Gold	Yes	5.26%	3.51%	2
Silver	Yes	5.26%	-3.51%	-2
Soybeans	Yes	5.26%	-3.51%	-2
Corn	Yes	5.26%	-5.26%	-3
Wheat	No	0.00%	0.00%	-3
Coffee	Yes	5.26%	-5.26%	-3
Sugar	No	0.00%	0.00%	2
Cotton	Yes	5.26%	5.26%	3
Cocoa	No	0.00%	0.00%	-2
Live Cattle	Yes	5.26%	5.26%	3
Lean Hogs	No	0.00%	0.00%	3
EURUSD	Yes	5.26%	5.26%	3
JPYUSD	Yes	5.26%	-3.51%	-2
GBPUSD	Yes	5.26%	3.51%	2
CHFUSD	Yes	5.26%	-3.51%	-2
AUDUSD	Yes	5.26%	3.51%	2
CADUSD	Yes	5.26%	3.51%	2
30Y Bond	Yes	5.26%	5.26%	3
10Y Note	Yes	5.26%	-3.51%	-2
		100.0%	84.2%	

Latest Rebalance:

19 Futures contracts selected due to:

- ♦ 24 contracts starting universe
- ♦ Remove 4 most volatile futures
- ♦ Crude oil, heating oil and gasoline were included due to their long signals
- ♦ Weight if Fully Invested = 100%/19 (5.26%)
- ♦ Scaled/Effective Weight = Weight if Fully Invested \* 2/3

Sources: WisdomTree, FactSet, as of 12/31/17. A negative scaled/effective weight indicates a short position. The total scaled/effective weight is the sum of the absolute value of all weights. You cannot invest directly in an index. Index performance does not represent actual fund or portfolio performance. A fund or portfolio may differ significantly from the securities included in the index. Index performance assumes reinvestment of dividends but does not reflect any management fees, transaction costs or other expenses that would be incurred by a portfolio or fund, or brokerage commissions on transactions in fund shares. Such fees, expenses and commissions could reduce returns. Subject to change.

For the top 10 holdings of WTMF please visit the Fund's fund detail page at <https://www.wisdomtree.com/investments/etfs/alternative/wtmf>

For standardized performance and the most recent month-end performance click [here](#) NOTE, this material is intended for electronic use only. Individuals who intend to print and physically deliver to an investor must print the monthly performance report to accompany this blog.

For more investing insights, check out our [Economic & Market Outlook](#)

View the online version of this article [here](#).

## **IMPORTANT INFORMATION**

**U.S. investors only: Click [here](#) to obtain a WisdomTree ETF prospectus which contains investment objectives, risks, charges, expenses, and other information; read and consider carefully before investing.**

There are risks involved with investing, including possible loss of principal. Foreign investing involves currency, political and economic risk. Funds focusing on a single country, sector and/or funds that emphasize investments in smaller companies may experience greater price volatility. Investments in emerging markets, currency, fixed income and alternative investments include additional risks. Please see prospectus for discussion of risks.

Past performance is not indicative of future results. This material contains the opinions of the author, which are subject to change, and should not to be considered or interpreted as a recommendation to participate in any particular trading strategy, or deemed to be an offer or sale of any investment product and it should not be relied on as such. There is no guarantee that any strategies discussed will work under all market conditions. This material represents an assessment of the market environment at a specific time and is not intended to be a forecast of future events or a guarantee of future results. This material should not be relied upon as research or investment advice regarding any security in particular. The user of this information assumes the entire risk of any use made of the information provided herein. Neither WisdomTree nor its affiliates, nor Foreside Fund Services, LLC, or its affiliates provide tax or legal advice. Investors seeking tax or legal advice should consult their tax or legal advisor. Unless expressly stated otherwise the opinions, interpretations or findings expressed herein do not necessarily represent the views of WisdomTree or any of its affiliates.

The MSCI information may only be used for your internal use, may not be reproduced or re-disseminated in any form and may not be used as a basis for or component of any financial instruments or products or indexes. None of the MSCI information is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such. Historical data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. The MSCI information is provided on an "as is" basis and the user of this information assumes the entire risk of any use made of this information. MSCI, each of its affiliates and each entity involved in compiling, computing or creating any MSCI information (collectively, the "MSCI Parties") expressly disclaims all warranties. With respect to this information, in no event shall any MSCI Party have any liability for any direct, indirect, special, incidental, punitive, consequential (including loss profits) or any other damages ([www.msci.com](http://www.msci.com))

Jonathan Steinberg, Jeremy Schwartz, Rick Harper, Christopher Gannatti, Bradley Krom, Tripp Zimmerman, Michael Barrer, Anita Rausch, Kevin Flanagan, Brendan Loftus, Joseph Tenaglia, Jeff Weniger, Matt Wagner, Alejandro Saltiel, Ryan Krystopowicz, Jianing Wu, and Brian Manby are registered representatives of Foreside Fund Services, LLC.

WisdomTree Funds are distributed by Foreside Fund Services, LLC, in the U.S. only.

You cannot invest directly in an index.

## DEFINITIONS

**Managed futures** : An alternative investment strategy in which futures contracts are used as part of the investment strategy.

**Correlation** : Statistical measure of how two sets of returns move in relation to each other. Correlation coefficients range from -1 to 1. A correlation of 1 means the two subjects of analysis move in lockstep with each other. A correlation of -1 means the two subjects of analysis have moved in exactly the opposite direction.

**Long (or Long Position)** : The buying of a security such as a stock, commodity or currency, with the expectation that the asset will rise in value, the opposite of Short (or Short Position).

**Short (or Short Position)** : The sale of a borrowed security, commodity or currency with the expectation that the asset will fall in value, the opposite of Long (or Long Position).

**Volatility** : A measure of the dispersion of actual returns around a particular average level.&nbsp;nbsp;.

**Interest rates** : The rate at which interest is paid by a borrower for the use of money.