

Trend's 'Silver' Lining

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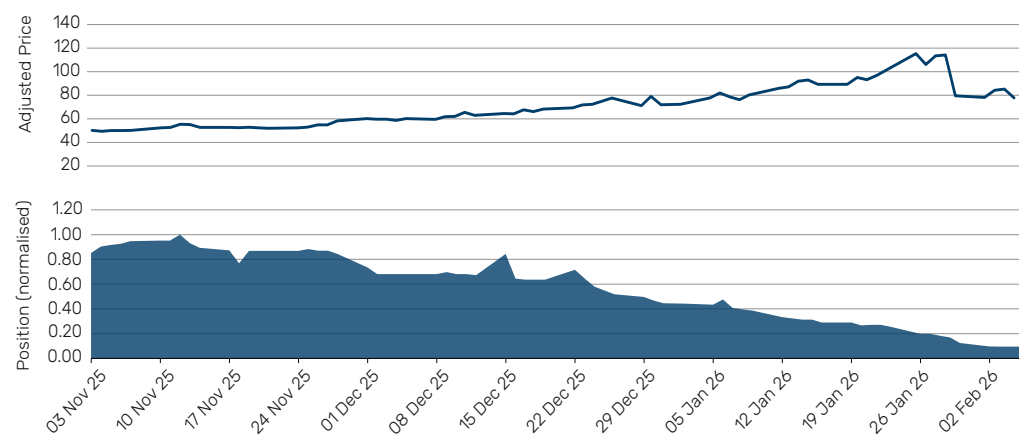
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Precious metals have experienced significant volatility in recent months. Both gold and silver prices rose sharply through late 2025 and early 2026, supported by a myriad of drivers, followed by punctuated reversals in late January and early February. Silver, for example, reversed by approximately 62% over just nine trading days. The initial trigger was the nomination of Kevin Warsh for the upcoming Federal Reserve chair, whose perceived relative hawkishness as compared to other prospective candidates led the non-yielding metals to weaken. However, a confluence of other factors, including CME margin increases and concerted deleveraging, further exacerbated the pace and size of the wipeout.

As we recently [explained](#), for a portfolio holding static exposures, this meant fully participating in both the rally and the subsequent drawdown. An alternative to holding the risk outright is trend following the price. A common misconception is that both approaches would have suffered the same fate. Some market commentators would even posit that the crowded, ‘dumb money’ positioning of trend followers was a major catalyst of both the upside and downside volatility that emerged. In reality, trend following’s active risk management mechanisms can materially alter this outcome. In what follows, we explore this dynamic using silver as a case study.

In Figure 1, we show silver prices alongside the normalised position of a trend-following system from November 2025 to February 2026.

Figure 1. Silver adjusted price (top panel) and trend-following position (bottom panel)



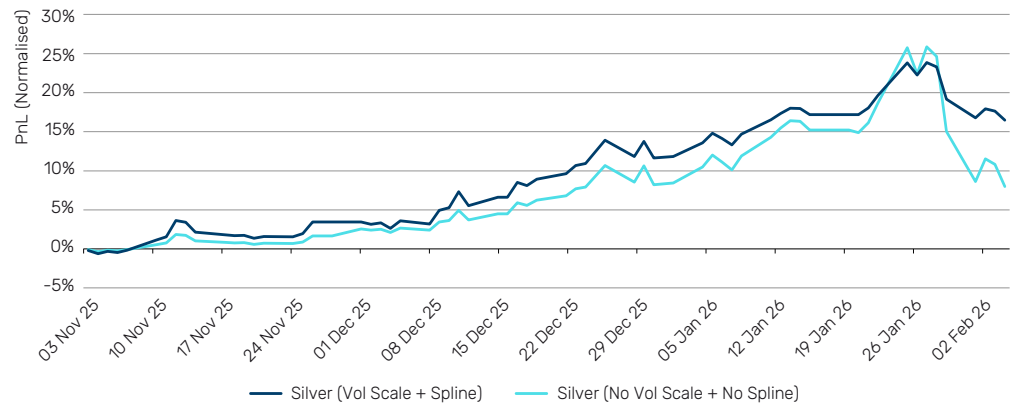
Source: Bloomberg, Man Group Database. Date range: 1 November 2025 to 5 February 2026.

Simple intuition may be at odds with the visual in the bottom panel. Why is a strategy designed to ‘buy assets that are going up’ reducing exposure?

There are two mechanisms at play here. The first, and the effect most materially impacting positions, is volatility scaling, which adjusts position sizes inversely to realised volatility. As prices aggressively rallied, volatility sharply increased, prompting a trend system to reduce exposures. The second is the signal spline, which pre-emptively reduced exposure as the signal strength extended into the tail of the distribution. Combined, this led to positions being cut by approximately 90%.

Figure 2 illustrates the effect of this position tapering, by comparing cumulative, normalised profit and loss (P&L) for a trend-following system, with volatility scaling and a spline (blue line) versus one without both (light blue line). The latter is ex-post volatility-scaled using a rolling one-year realised vol. This is a necessary step to make the comparison between the two meaningful, or to frame it in 'Sharpe' terms, as the system without any risk management features would differ substantially in magnitude of volatility.

Figure 2. P&L comparison of trend following on silver with and without risk management features (ex-post vol scaled)



Source: Man Group Database. Date range: 1 November 2025 to 5 February 2026.

Figure 2 demonstrates that as the rally intensified in late December and early January, the unmanaged trend system began to outperform, capturing more upside as the risk-managed system materially reduced positions. But when the market reversed, the unmanaged system gave back a substantially larger portion of its gains, while the vol-scaled system experienced a more muted downturn.

Tying this back to the misconception we highlighted at the start, as the silver (and gold) rally became increasingly driven by leveraged positions; systematic trend followers, rather than aggravating the crowding, were selling into that strength and crystallising profits before the market inevitably reversed. While this approach may forgo some upside in such cases of irrational overexuberance, by curtailing exposures when the balance of upside versus downside risk becomes increasingly asymmetric, drawdowns may be substantially mitigated. Over the full cycle, a risk-managed approach proved the better place to be.

This case study also speaks to diversification more broadly and the role active risk management plays in preserving it. Trend following is a multi-asset optimisation, and volatility scaling ensures that no single market dominates the portfolio's risk budget. Without it, silver's share of total portfolio volatility would have expanded significantly, concentrating risk rather than diversifying it. Higher volatility does not imply proportionally higher expected returns and therefore maintaining balanced risk contributions across markets is key to ensuring trend following achieves its positive skewness.

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