



Active Risk Allocation

September 2021

Independent | Transparent | Disciplined

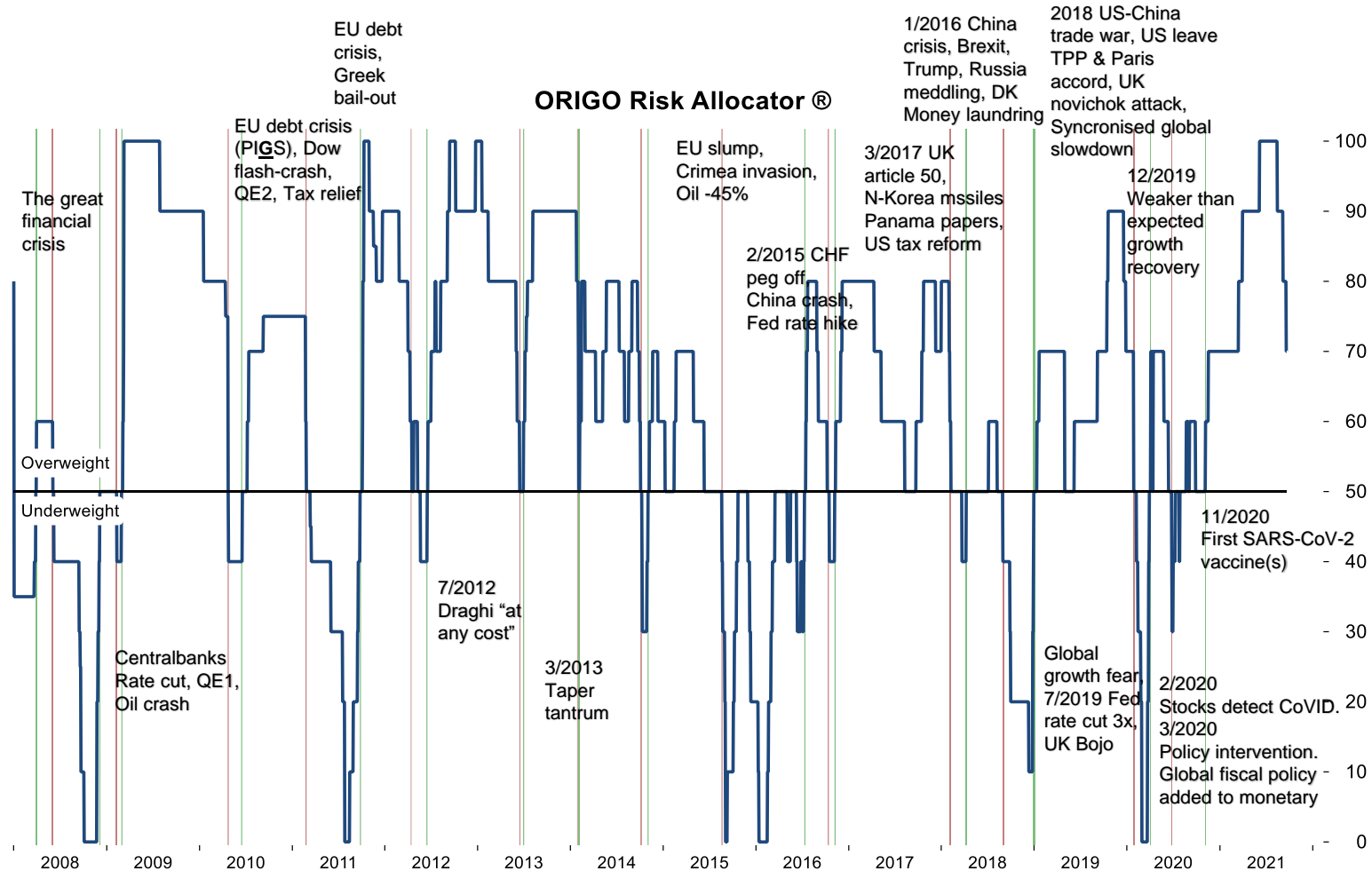
Asymmetric global recovery

The best is behind and risk allocation drop towards benchmark

- **Stocks (risk assets) – Overweight (since 3. Nov 2020, now reducing)**
 - Regional overweight US over GEM/Europe
 - Overweight of deep-cyclical sectors is closed (11Aug2020-Oct2021). Post-covid recovery is no longer news
- **Bonds – Underweight (if possible, zero)**
 - Regional overweight Europe vs US. Duration underweight. Poor credit overweight
- **Macroeconomics**
 - Central bank tapering & Inflation
 - US: Debt ceiling, Biden stimulus package(s)
 - Supply disruptions (energy, semi-fabricata, food)
- **Indicators**
 - OPRA: Positive / Fading (risk gauge for balance risk/risk free)
 - OMRI: Tense / Stable (model volatility gauge)
- **Portfolio**
 - 60 Stocks, 20% Bonds, 20% Cash (benchmark 50/50/0)

OPRA[®], The Balance of Risk Assets

Risk balance



OPRA®, Timeline end-2019

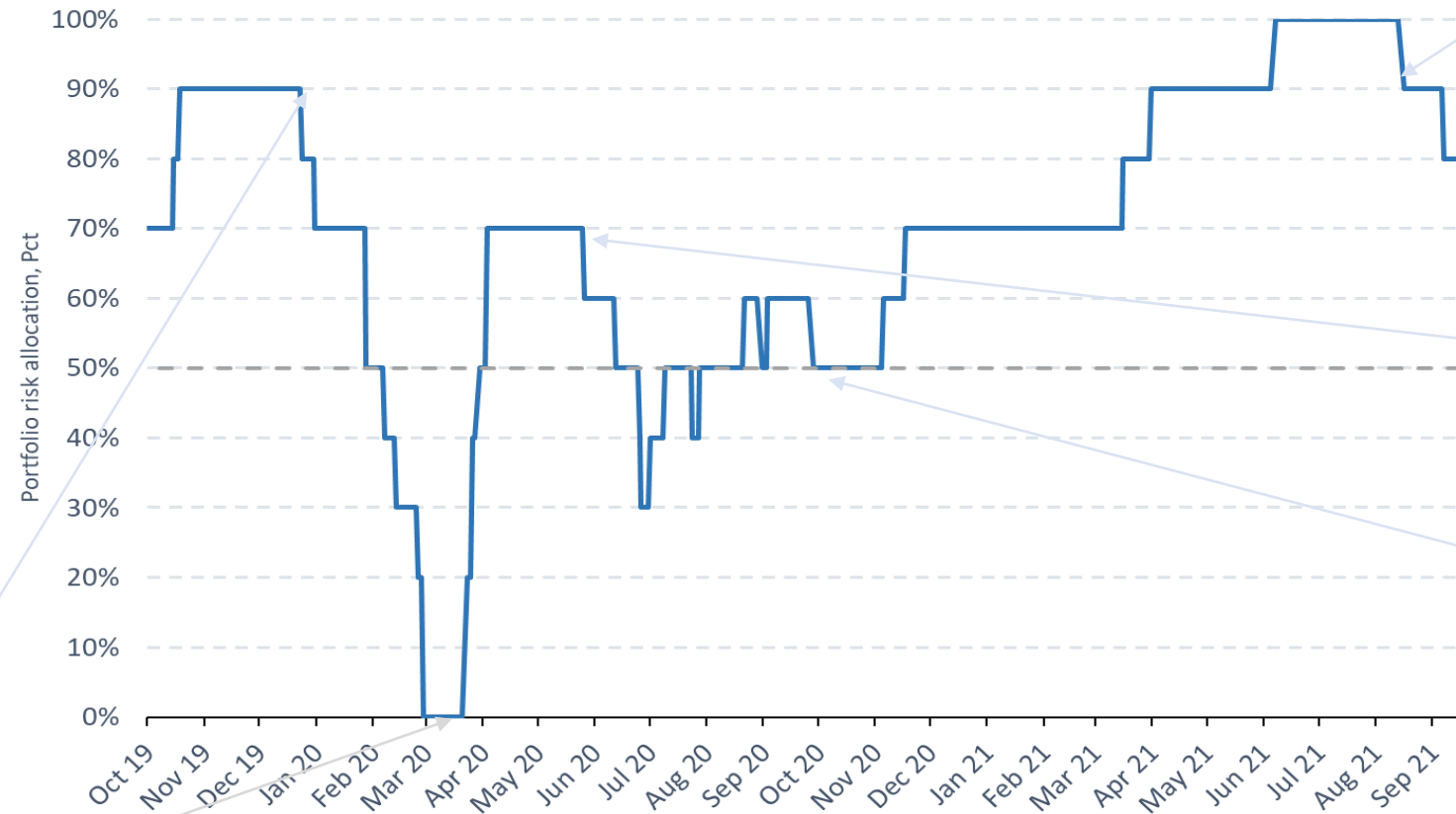
Fundamental factors

Volatility & Correlation factors

Market Intelligence factors

Technical factors

Active Risk Allocation (OPRA®)
Portfolio risk allocation



23.01.2020
Blog "US Treasury long bond break-up trigger asset rotation"

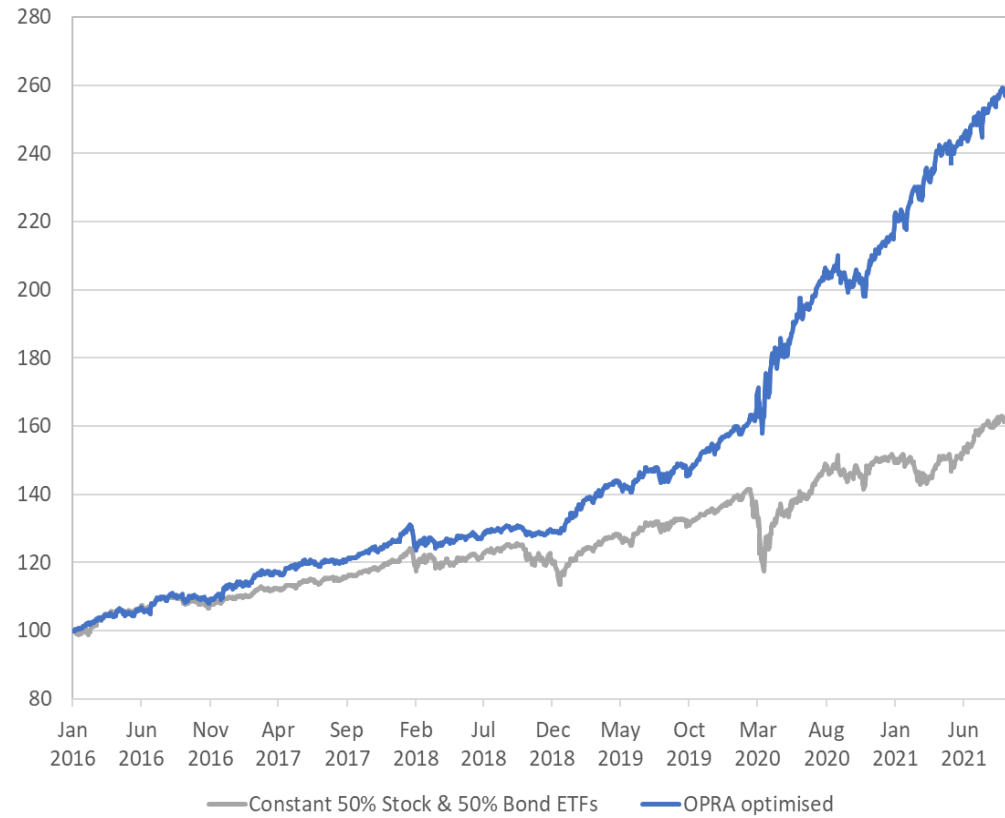
24.03.2020
Blog "The cost of bailout"
26.03.2020
Blog "The safety net is in place"

24.08.2021
Blog "Jackson hole summit" .. The setup for investors

26.05.2020
Blog "Margin of error is getting narrow"

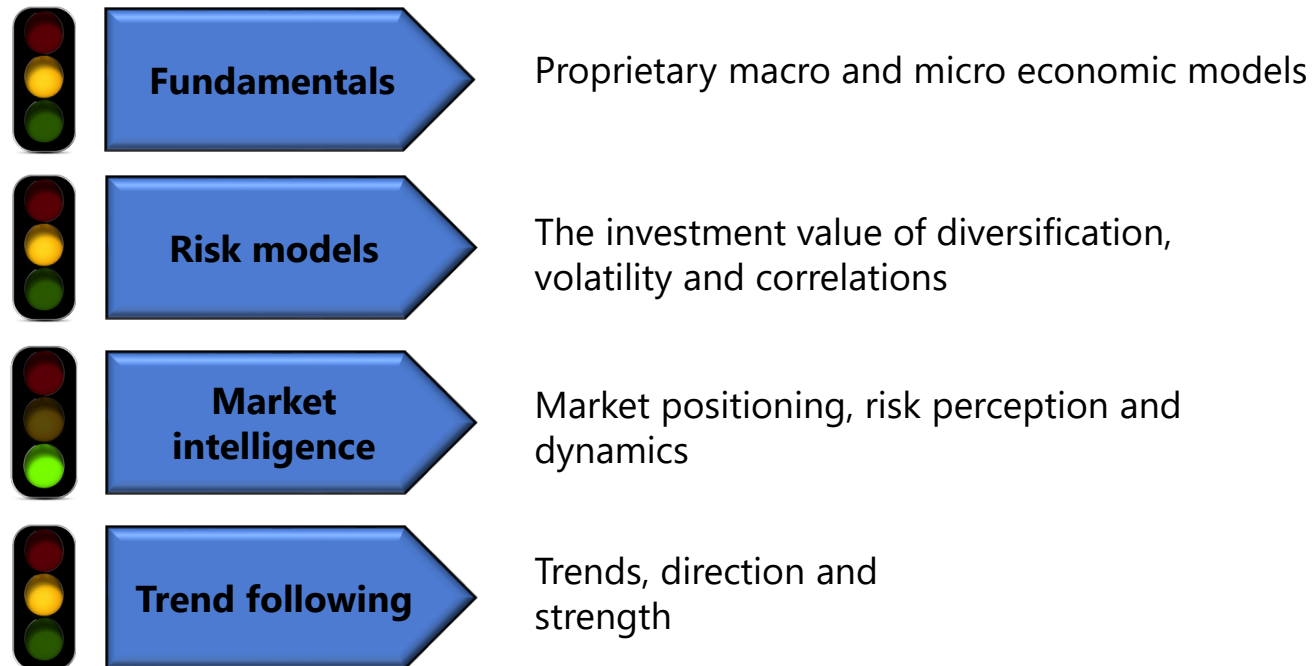
17.08.2020
Blog "A sector rotation is building"

ARA optimisation - 50% world stocks / 50% bonds



Investment process indicators

Highly sophisticated models analysing about 150 indicators

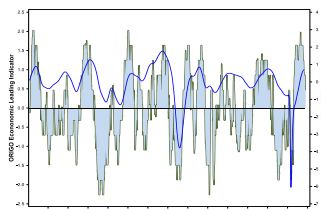
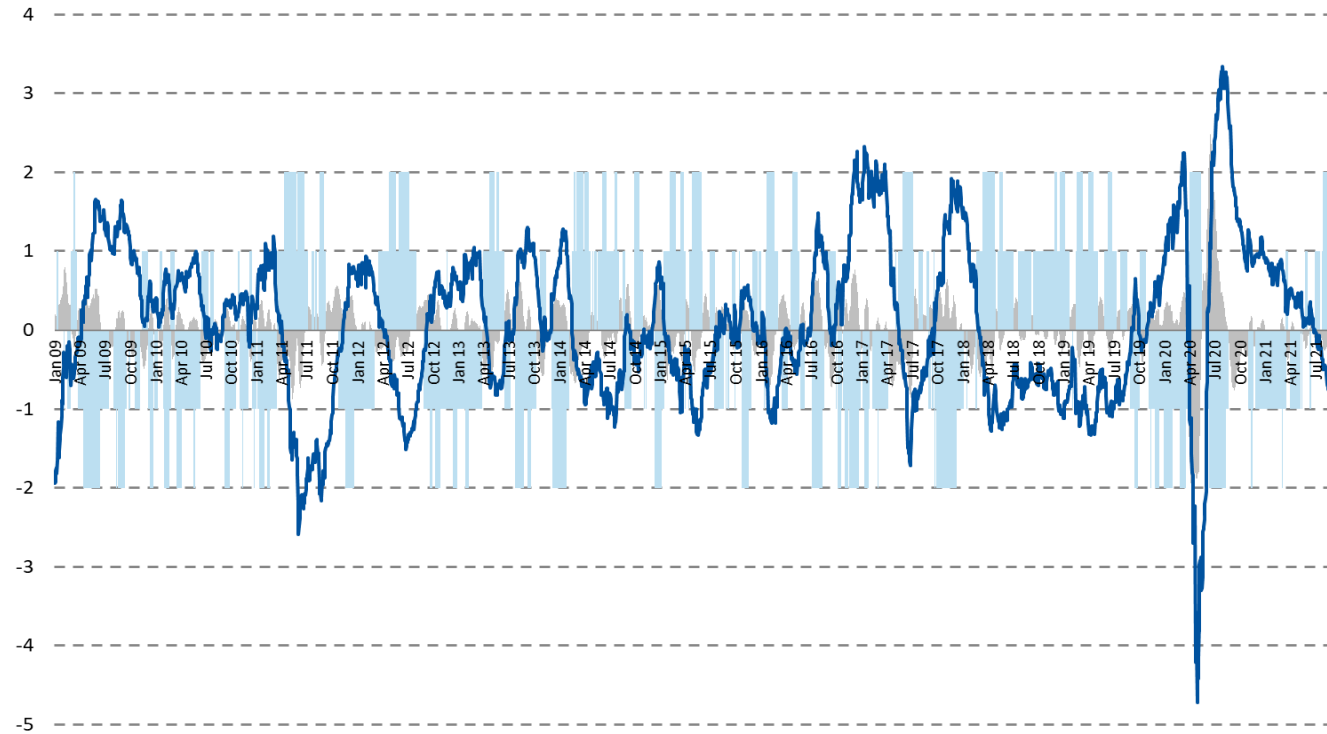


Fundamentals

Economic surprises one of the few strong indicators

- Macroeconomic models**
- Volatility and risk budgeting
- Market intelligence
- Technicals and trend following

Economic Surprise Index



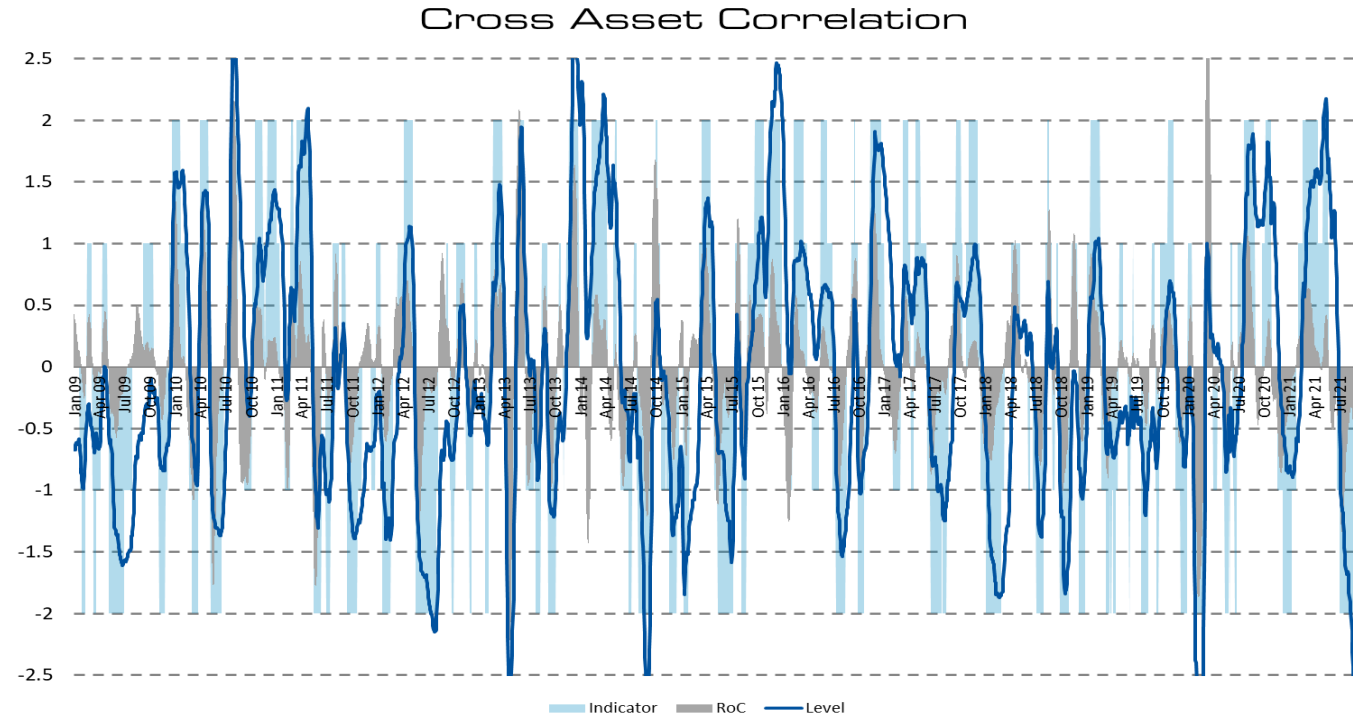
ARA leading indicator for OECDs LEI (bottom left) indicate growth moderation ahead after a period of far above normal growth.

The ESI (above centre) is a powerful indicator of coming stress. Economic analyst' have fully discounted economic recovery in developed countries by year-end 2021. They are currently a bit ahead of reality.

Risk models

Diversification gains

- Macroeconomic models
- Volatility and risk budgeting**
- Market intelligence
- Technicals and trend following

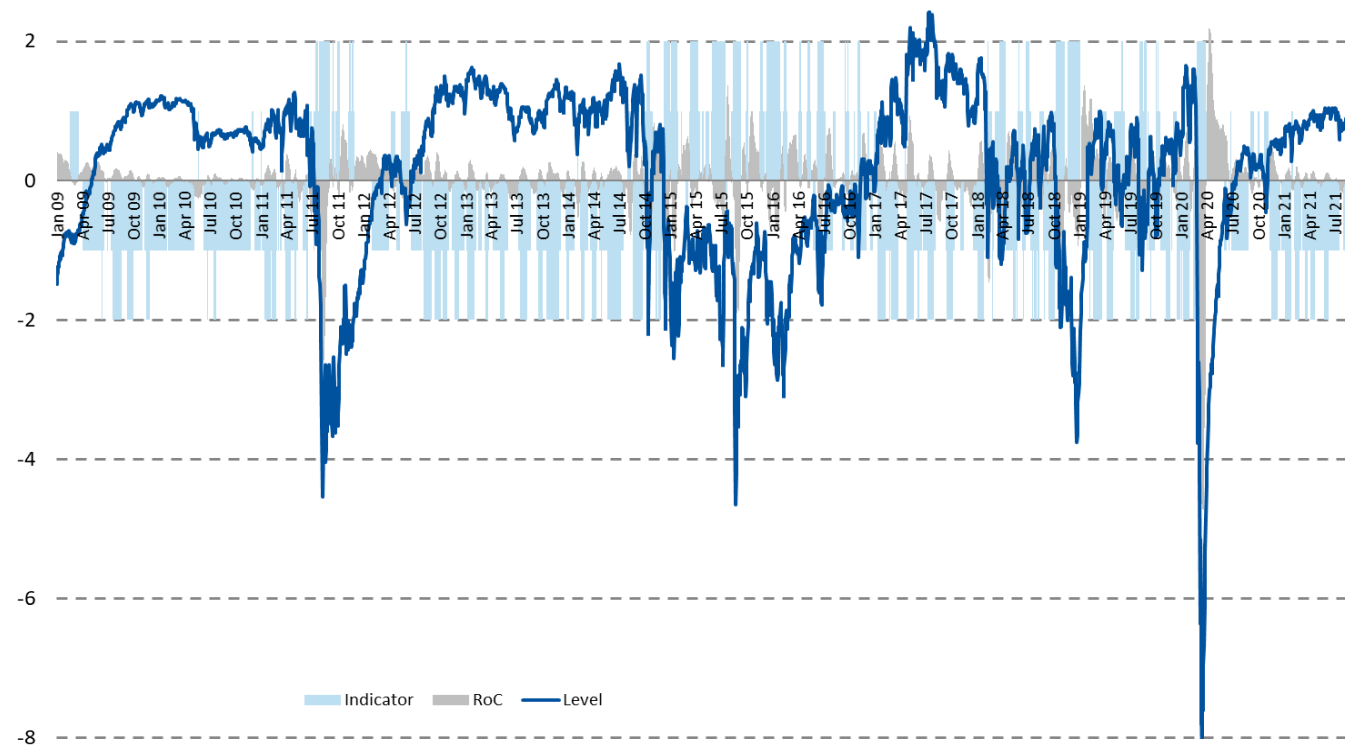


When the diversification risk is increasing, there is not much to be gained from diversifying. Cash should then be meaningfully increased.

Currently little diversification benefit from asset diversification.

- Macroeconomic models
- Volatility and risk budgeting
- Market intelligence**
- Technicals and trend following

Financial Conditions

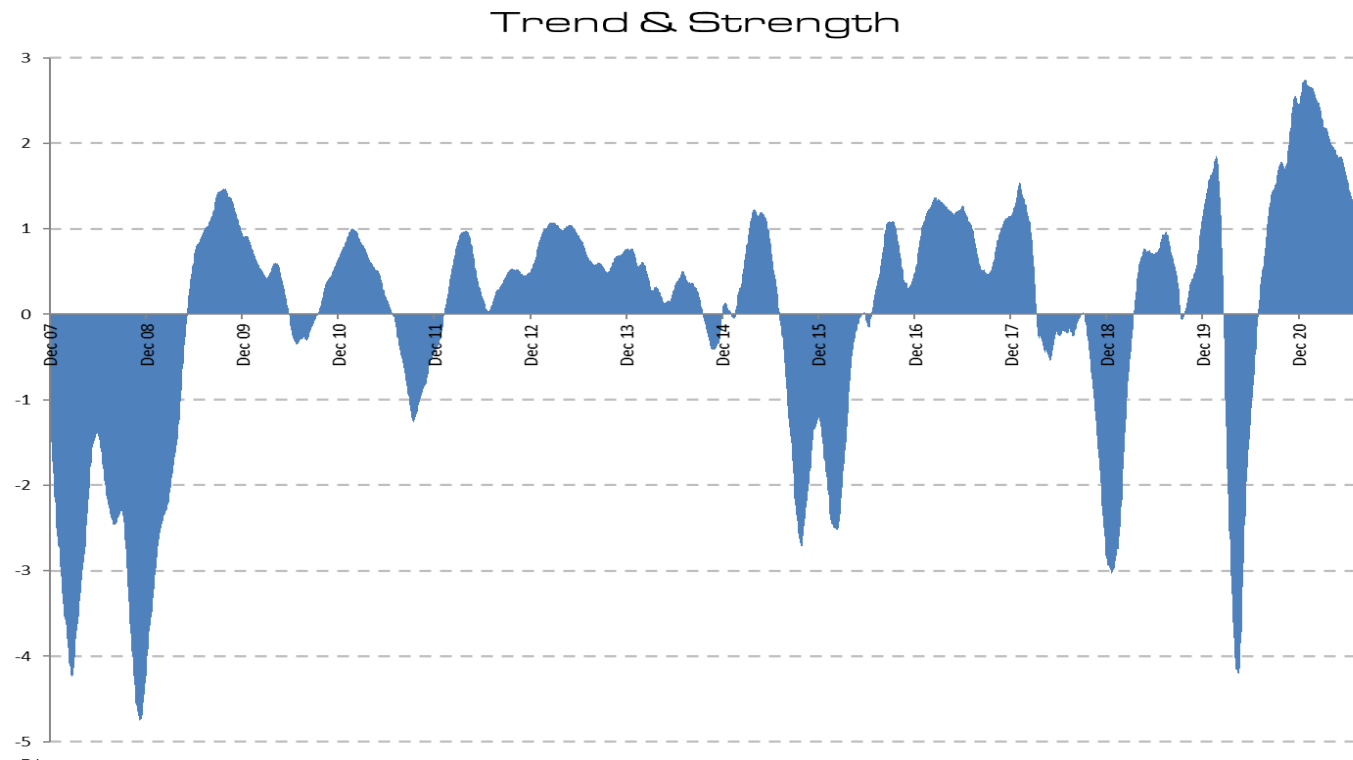


Investors remain optimistic and rather complacent after surviving the economic equivalent of a near-death experience.

Technicals

Trend strength in risk assets

- Macroeconomic models
- Volatility and risk budgeting
- Market intelligence
- Technicals and trend following**



Trend strength in the various market is an expression of the tenacity of the currently existing trend.

Still positive since June 2020, but the strength is fading

Current situation



Macroeconomics

Global economic growth remain positive but speed is moderating. Trajectory is inline with now consensus expectation for developed markets recovery by year-end 2021.



Market Risk and market intelligence

Investors are complacent and risk appetite remain elevated with only pockets of risk awareness. Broad perception is now that central banks will stay accommodative in a foreseeable period and save poor investments if not.



Technicals

Trend strength in risk assets going neutral



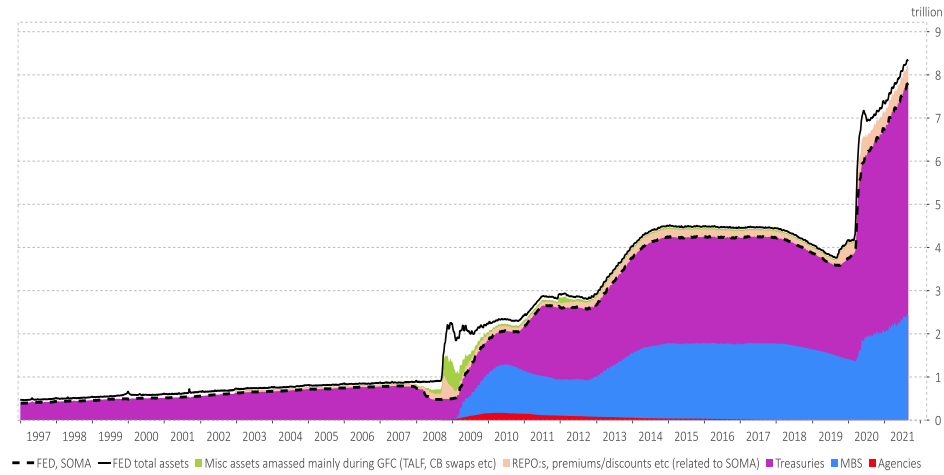
Volatility and risk budgeting

Portfolio risk is low and stable. Alert to tendency to rising asset correlations.

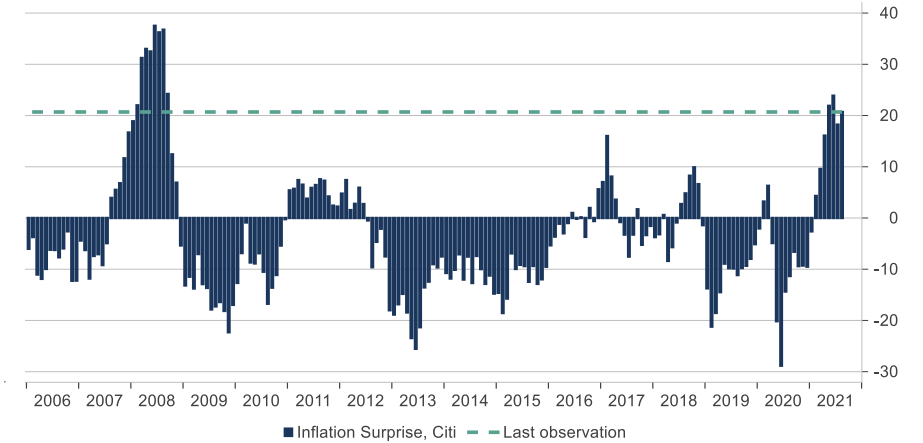
APPENDIX 1: Fed balance & Inflation

QEnormous. Watch long bond yields!

Federal Reserve balance sheet



Inflation surprise hits highest level since 2008

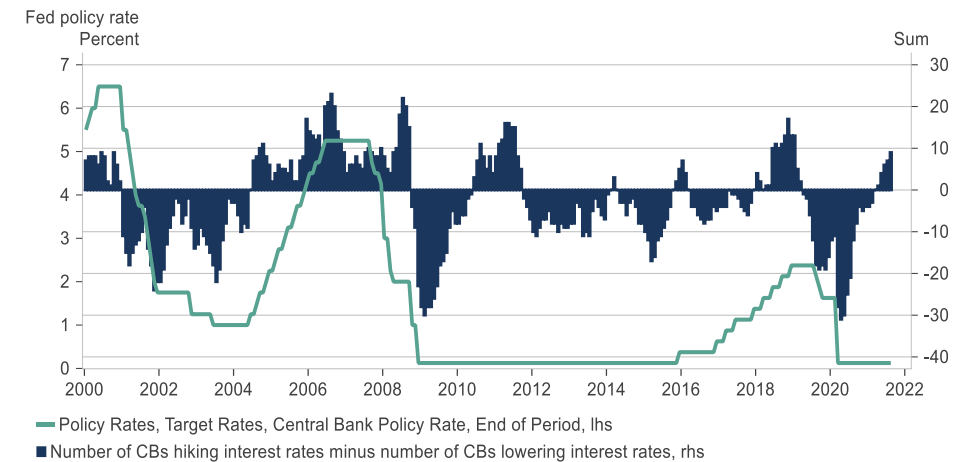


Monetary Conditions Index (US)



Global monetary policy cycles vs Fed policy rate

Central banks raising interest rates vs lowering interest rates

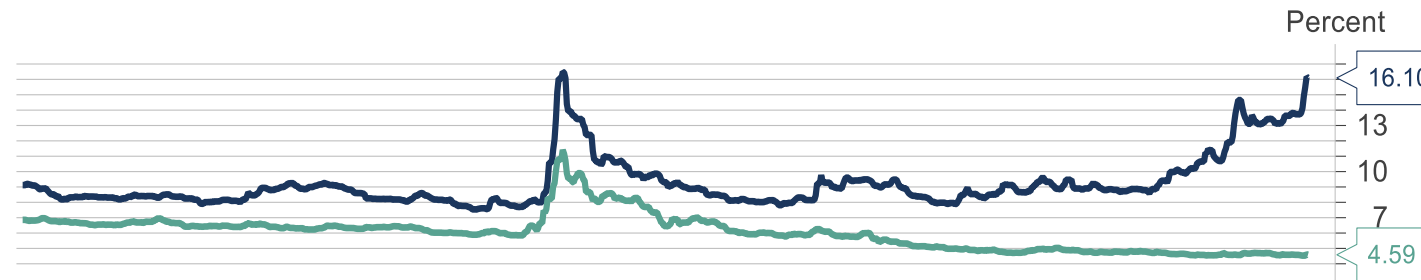


APPENDIX 2: Market talk

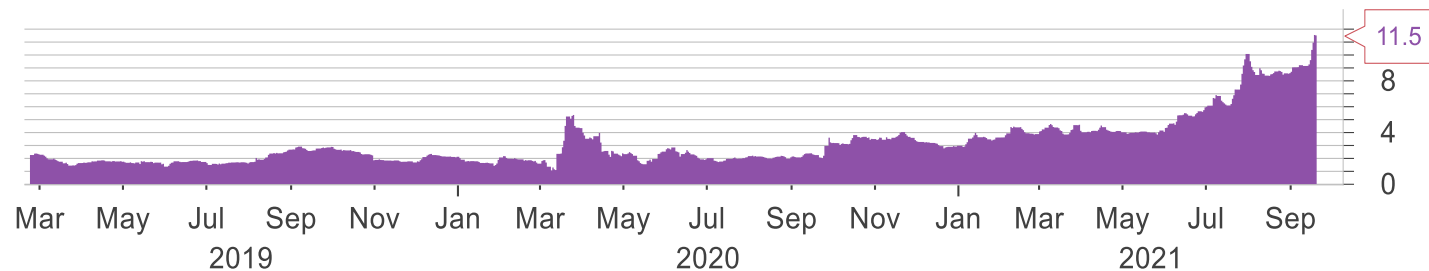
Evergrande a Lehman moment? Nae

US vs China high-yield spread

Yields



Spread



- United States, US High Yield Index, All Ratings
- China, High Yield Emerging Markets Corporate Plus China Issuers Index
- "China, High Yield Emerging Markets Corporate Plus China Issuers Index" - "United States, US High Yield Ind...

- Investors (stocks & bondholders) will be hit – as they failed to do their homework.
- Selected Chinese Evergrande clients likely to be bailed out – as a political signal (voters)

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