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Active Risk Allocation

September 2021

Independent | Transparent | Disciplined

Asymmetric global recovery

The best is behind and risk allocation drop towards benchmark

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- 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)

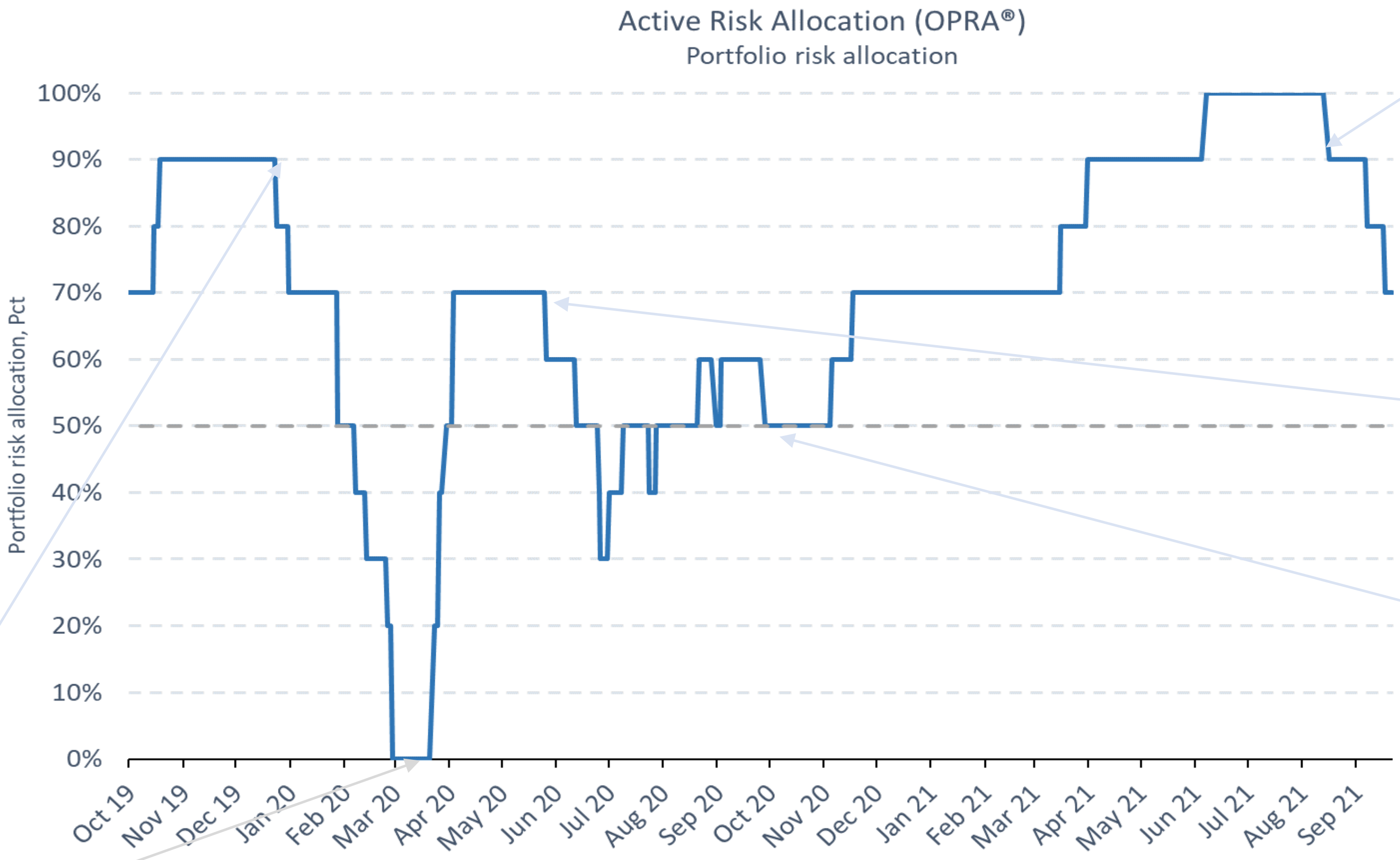
OPRA®, Timeline end-2019

Fundamental factors

Volatility & Correlation factors

Market Intelligence factors

Technical factors



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"

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"

Investment process indicators

Highly sophisticated models analysing about 150 indicators

Fundamentals — Proprietary macro and micro economic models

Risk models — The investment value of diversification, volatility and correlations

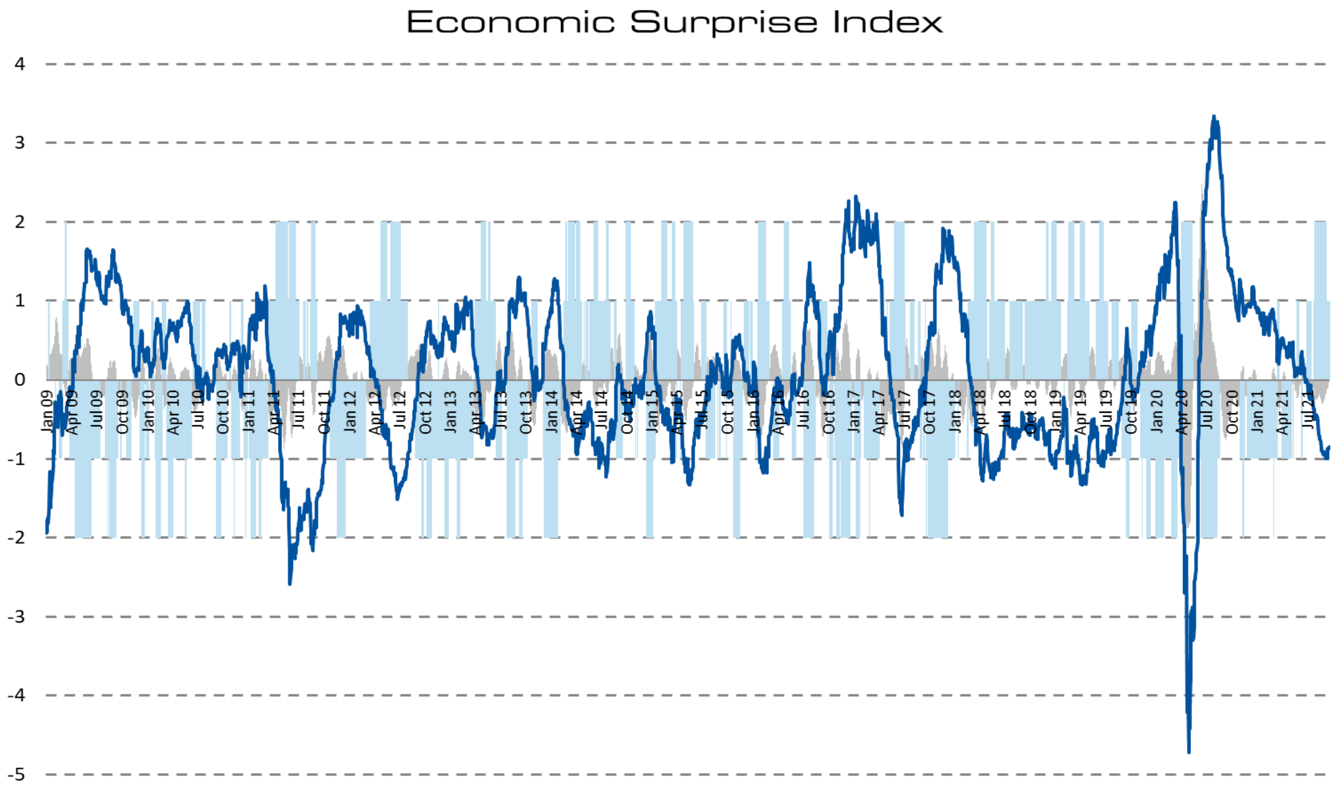
Market intelligence — Market positioning, risk perception and dynamics

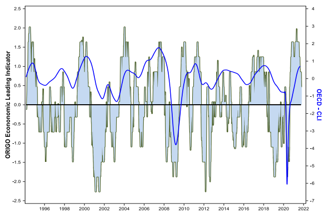
Trend following — Trends, direction and strength

Fundamentals

Economic surprises one of the few strong indicators

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





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.

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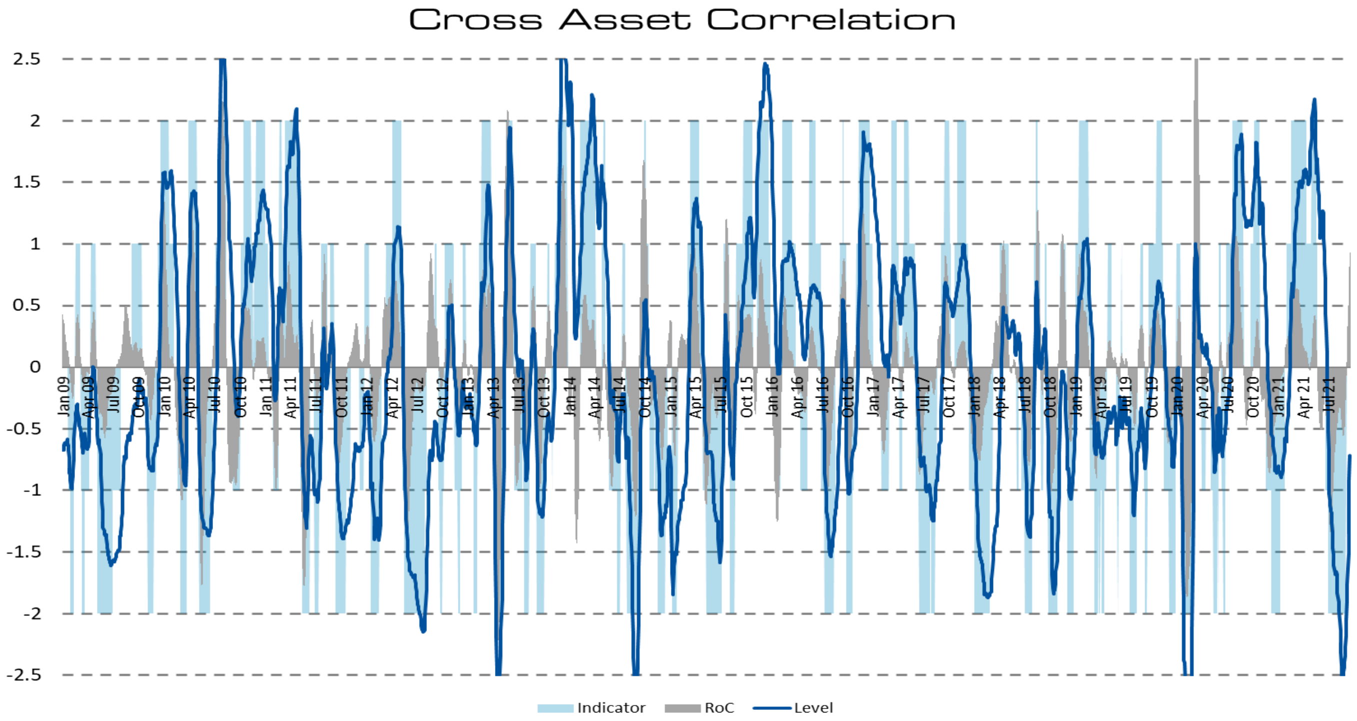
Risk models
Diversification gains

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



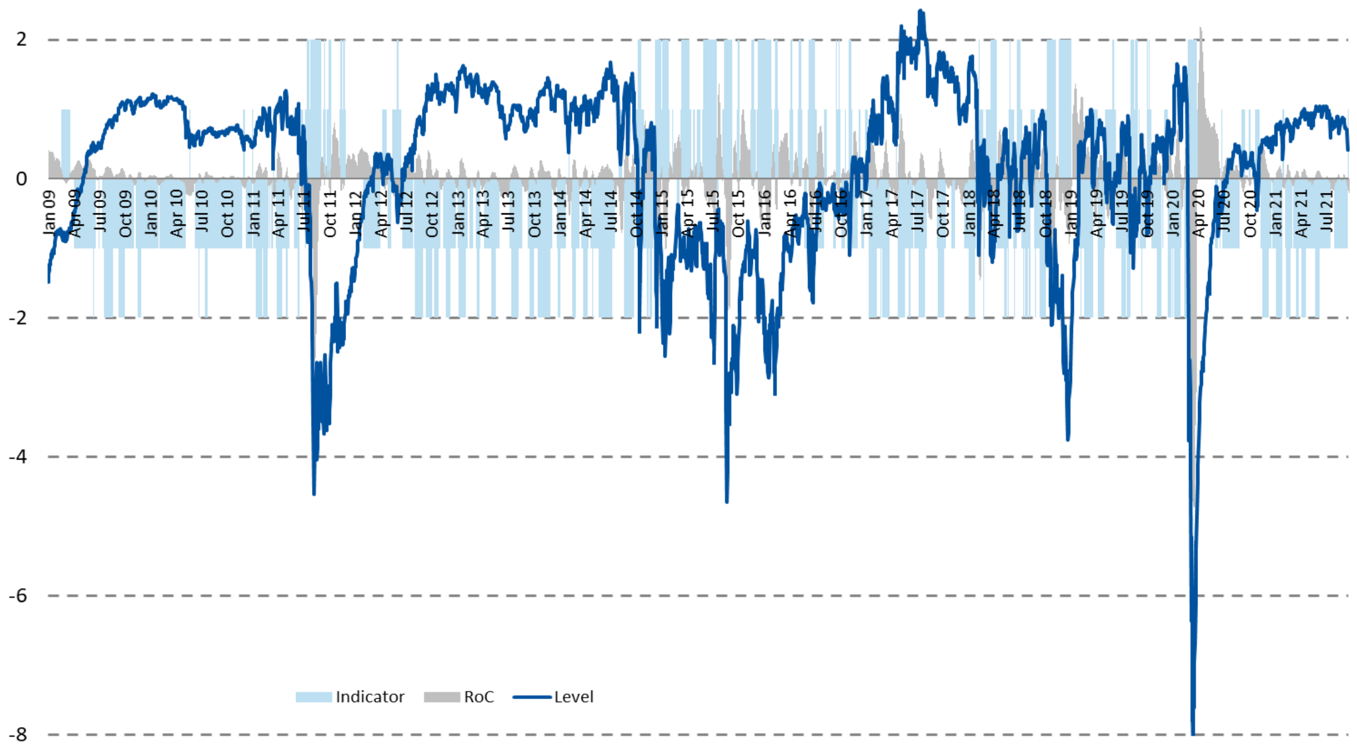
When the diversification risk is increasing, there is not much to be gained from diversifying. Cash should then be meaningfully increased.

Currently little diversification benefit from asset diversification.

Market intelligence
Investor stress

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

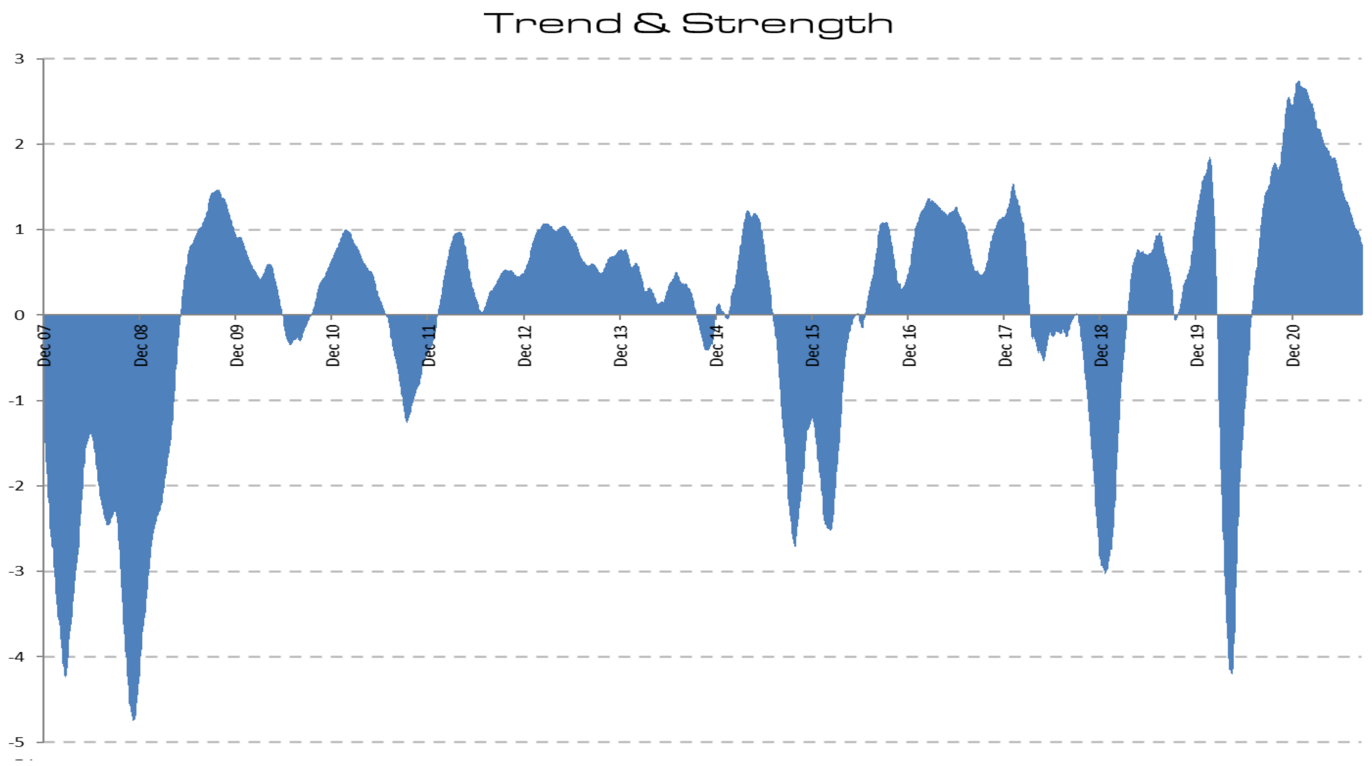
Financial Conditions



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

Technicals
Trend strength in risk assets

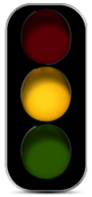
- Macroeconomic models
- Volatility and risk budgeting
- Market intelligence
- **Technicals and trend following**



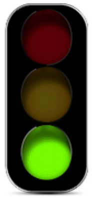
Trend strength in the various market is an expression of the tenacity of the currently existing trend.

Still positive positive since June 2020, but the strength is fading

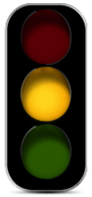
Current situation



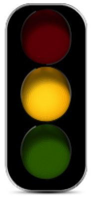
Macroeconomics
Global economic growth remain positive but speed is moderating. Trajectory is inline with now consensus expectation for developed markets recovery by year-end 2021.



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.

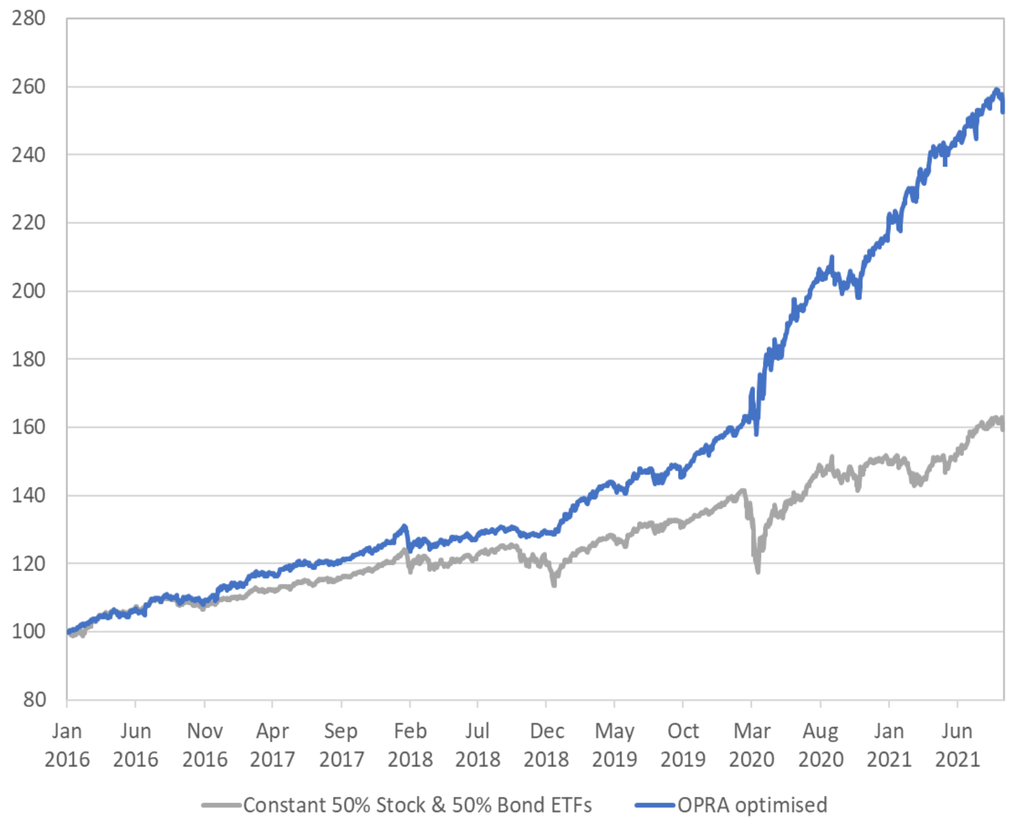


Technicals
Trend strength in risk assets going neutral



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

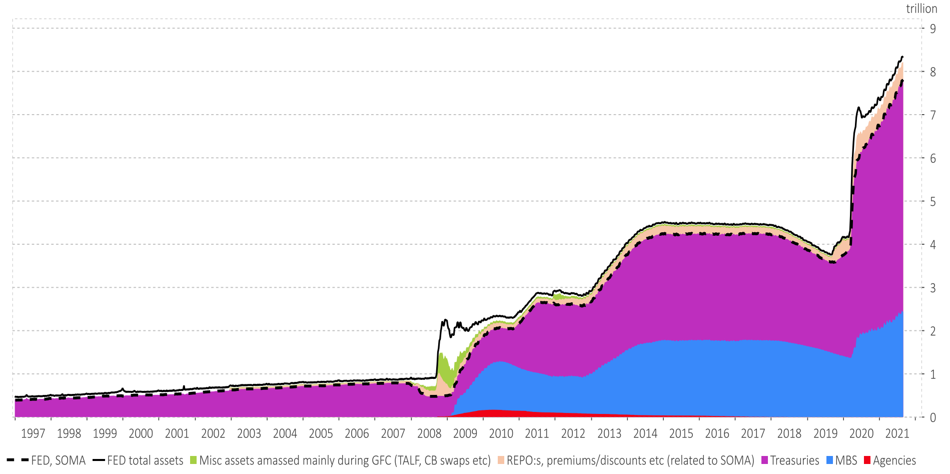
ARA optimisation - 50% world stocks / 50% bonds



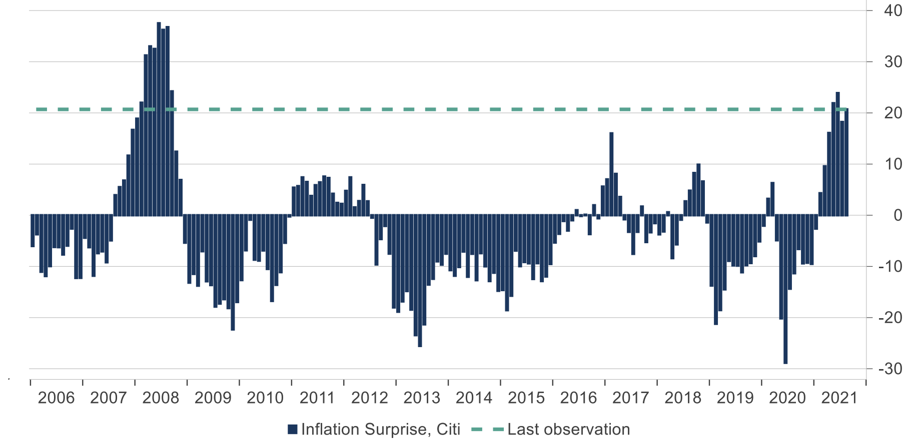
Excess performance

APPENDIX 1: Fed balance & Inflation
QEnormous. Watch long bond yields!

Federal Reserve balance sheet



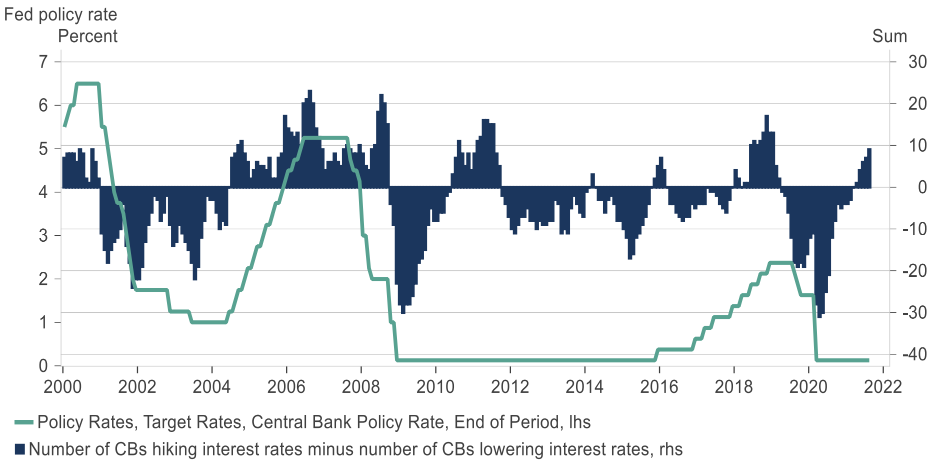
Inflation surprise hits highest level since 2008



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

- Investors (stocks & bond-holders) 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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