



Active Risk Allocation

November 2021

Independent | Transparent | Disciplined

SCI world stocks vs US long bonds

Despite low yield, US long bond sometimes the only asset to hold

MSCI world stocks vs US long bonds



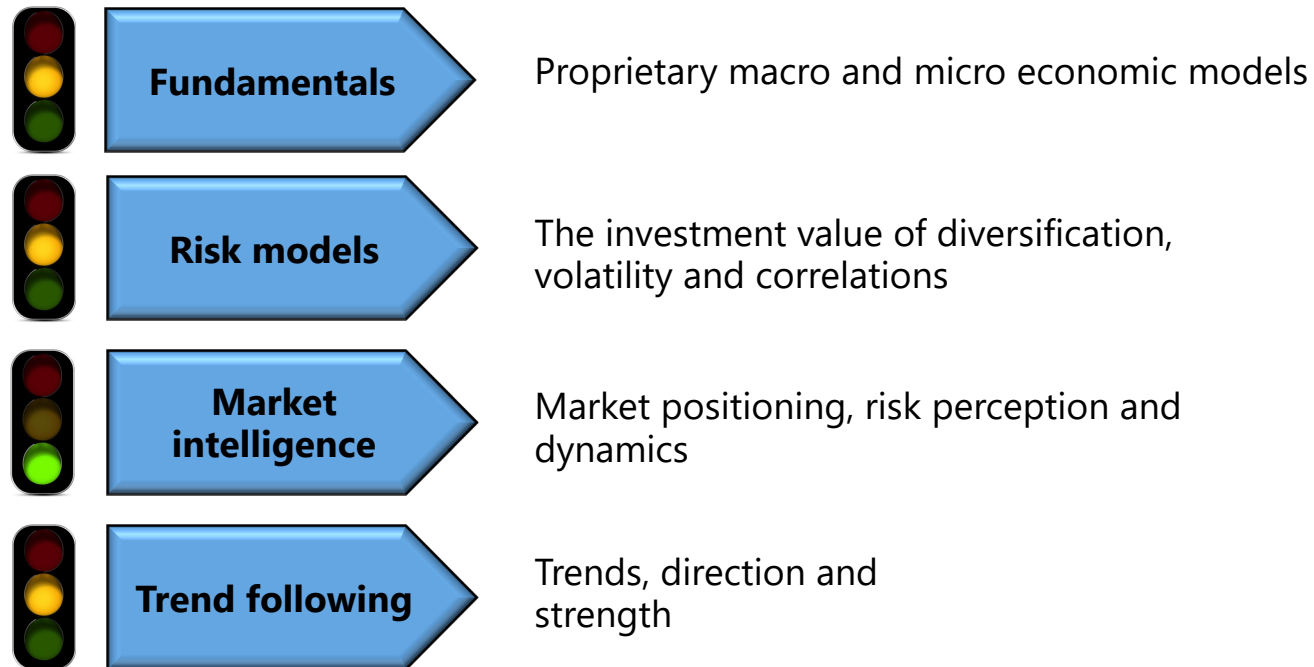
Asymmetric global recovery

All focus on rising short rates

- **Stocks – Neutral (risk assets)**
 - Regional overweight US over GEM/Europe
- **Bonds – Underweight**
 - Regional overweight Europe vs US. Duration underweight. Poor credit overweight
- **Macroeconomics**
 - Central bank tapering & Inflation. Lower than expected growth, higher than expected inflation
 - Supply disruptions (food, energy, semi-fabricata)
 - US: Debt ceiling, Biden stimulus package(s)
- **Indicators**
 - OPRA: Neutral / Stable (risk gauge for balance risk/risk free)
 - OMRI: Neutral / Stable (model volatility gauge)
- **Portfolio**
 - 50 Stocks, 40% Bonds, 10% Cash (benchmark 50/50/0)

Investment process indicators

Highly sophisticated models analysing about 150 indicators

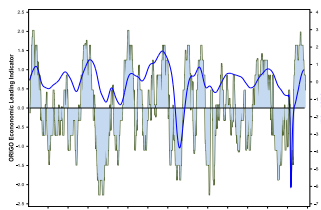
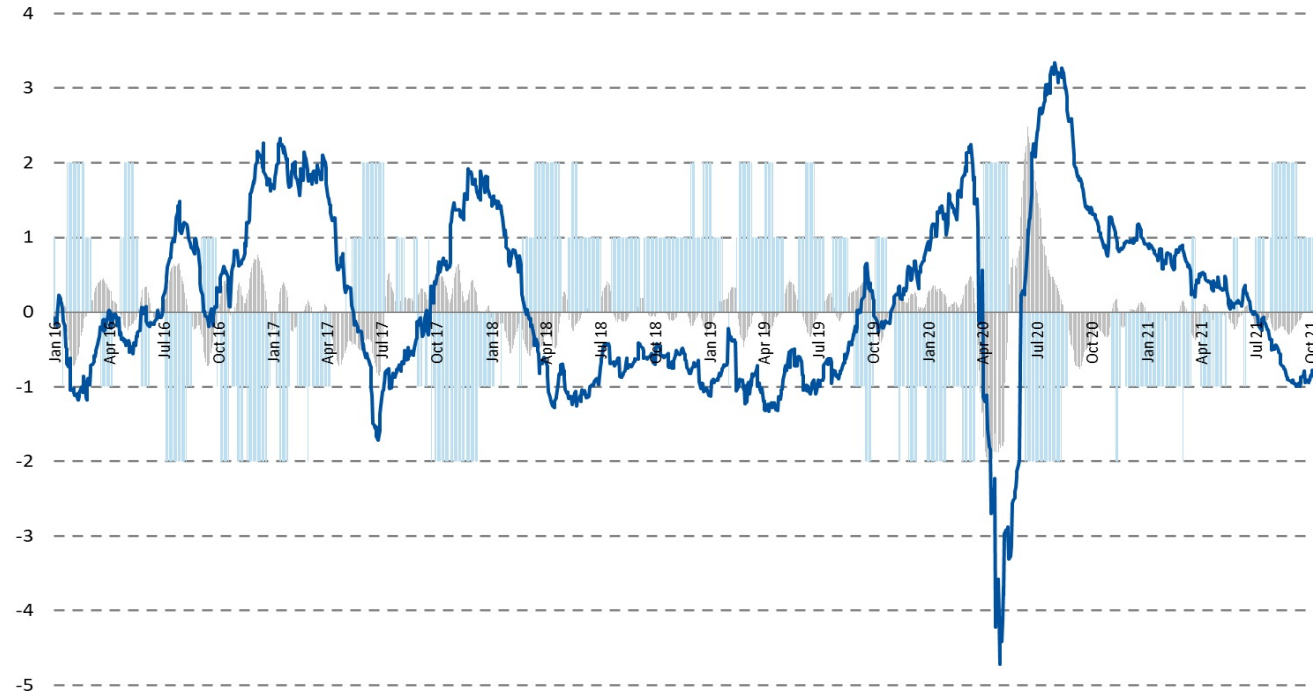


Fundamentals

Economic surprises one of the few strong indicators

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

Economic Surprise Index



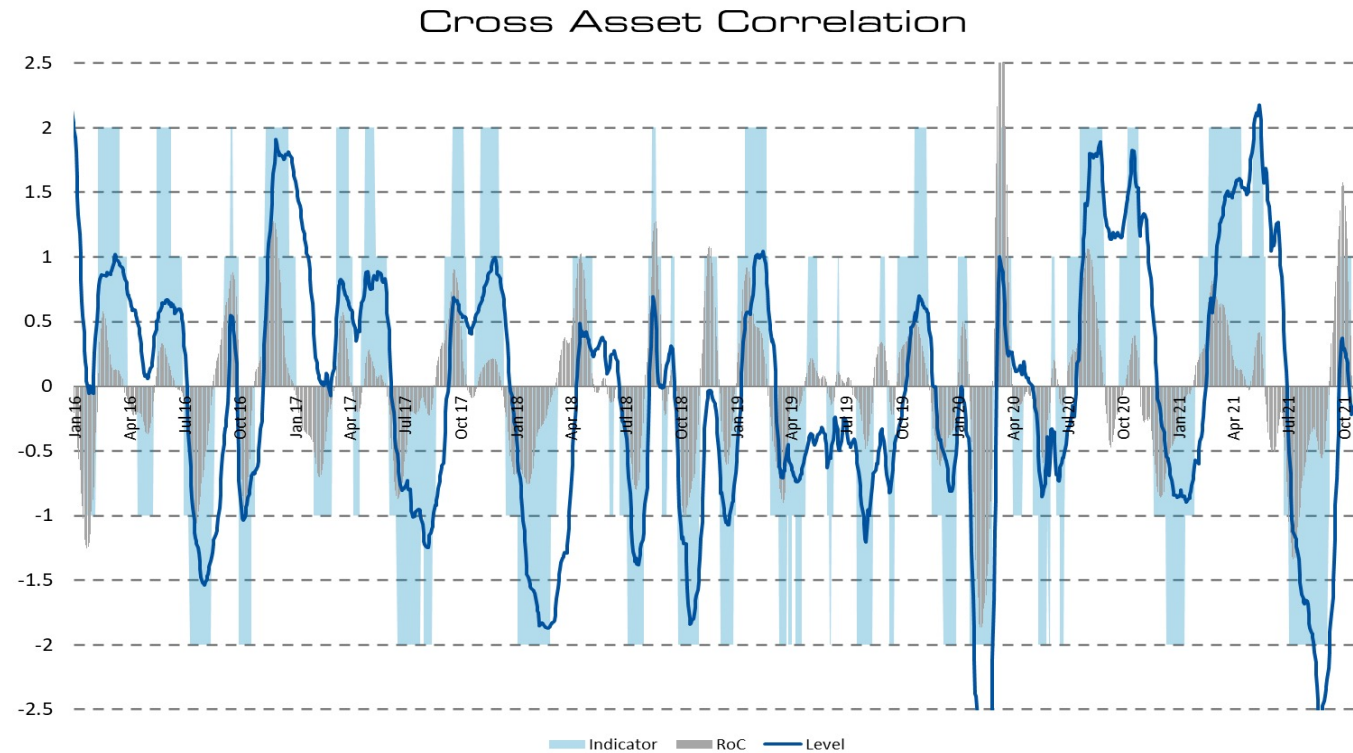
ARA indicator (bottom left) suggested real growth to moderate into Q3. Development has caught analysts off guard. The main support currently to the level of Fundamentals is still expansive monetary conditions.

The ESI (above centre) is a powerful indicator of coming stress. Economic analyst' has fully discounted economic recovery in developed countries by year-end 2021.

Risk models

Diversification gains

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



Currently little diversification benefit from asset diversification. Portfolio's composition consequently often quite polarised.

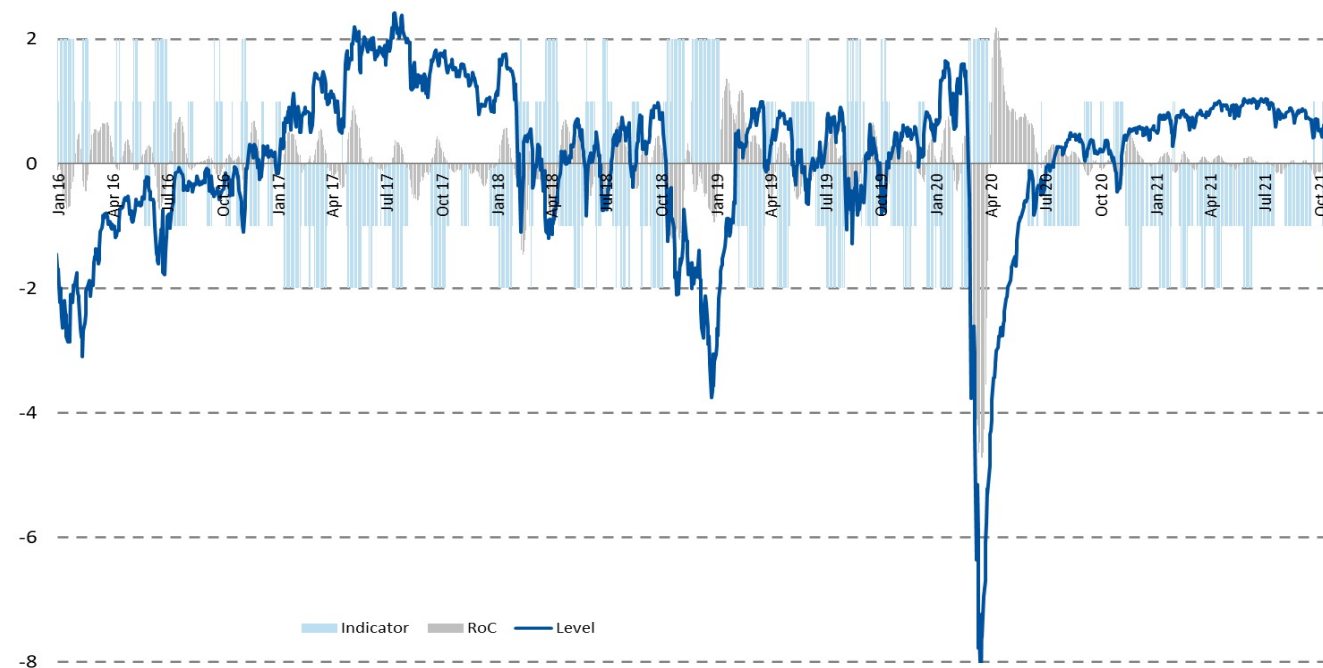
When the diversification risk is increasing, there is not much to be gained from diversifying. Cash should then be meaningfully increased.

Market intelligence

Investor stress

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

Financial Conditions



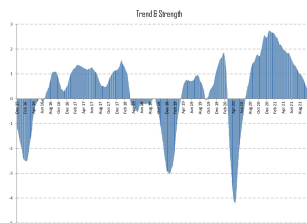
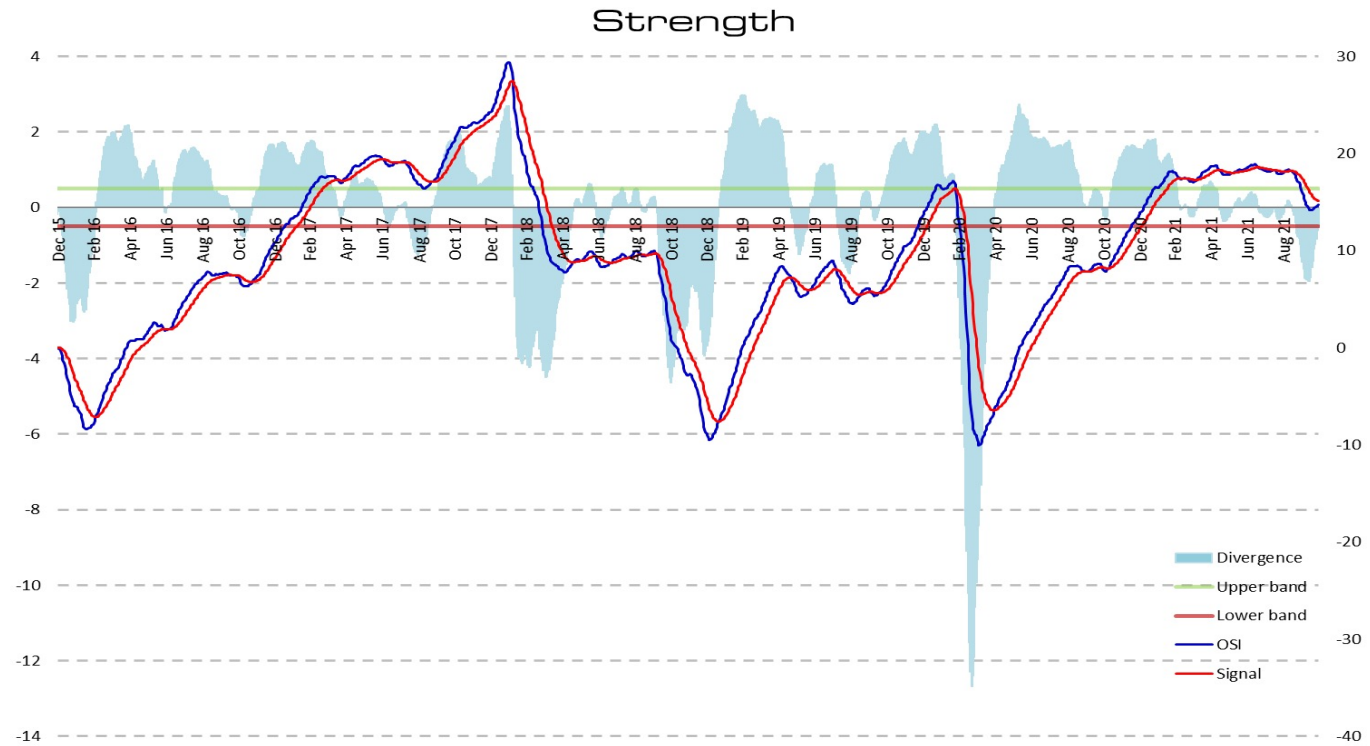
Investors risk willingness improved.

A measure of global cross market measure of risk, hedging demand(volume, skew) and investor flows in the financial system.

Technicals

Trend strength in risk assets

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



Positive trend in stocks and strength in same is now neutral.

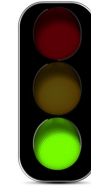
Trend strength in the various market is an expression of the tenacity of the currently existing trend.

Current situation



Macroeconomics

Global economic growth continue to moderate. Overall trajectory inline with consensus expectation for developed markets recovery by year-end 2021. Prices, also pushed by labour, continue to surprise to the upside. Expect verbal and actual centralbank intervention soon!



Market Risk and market intelligence

Risk appetite remain improved. Only fixed income reflects risk awareness. Stock investor behaviour reflects belief that centralbanks to remain extremely accommodative for long.



Technicals

Trend and strength in risk assets has gone all neutral



Volatility and risk budgeting

Portfolio risk is neutral and stable. Correlations are neutral reflecting no diversification benefits.

OPRA[®], Timeline end-2019

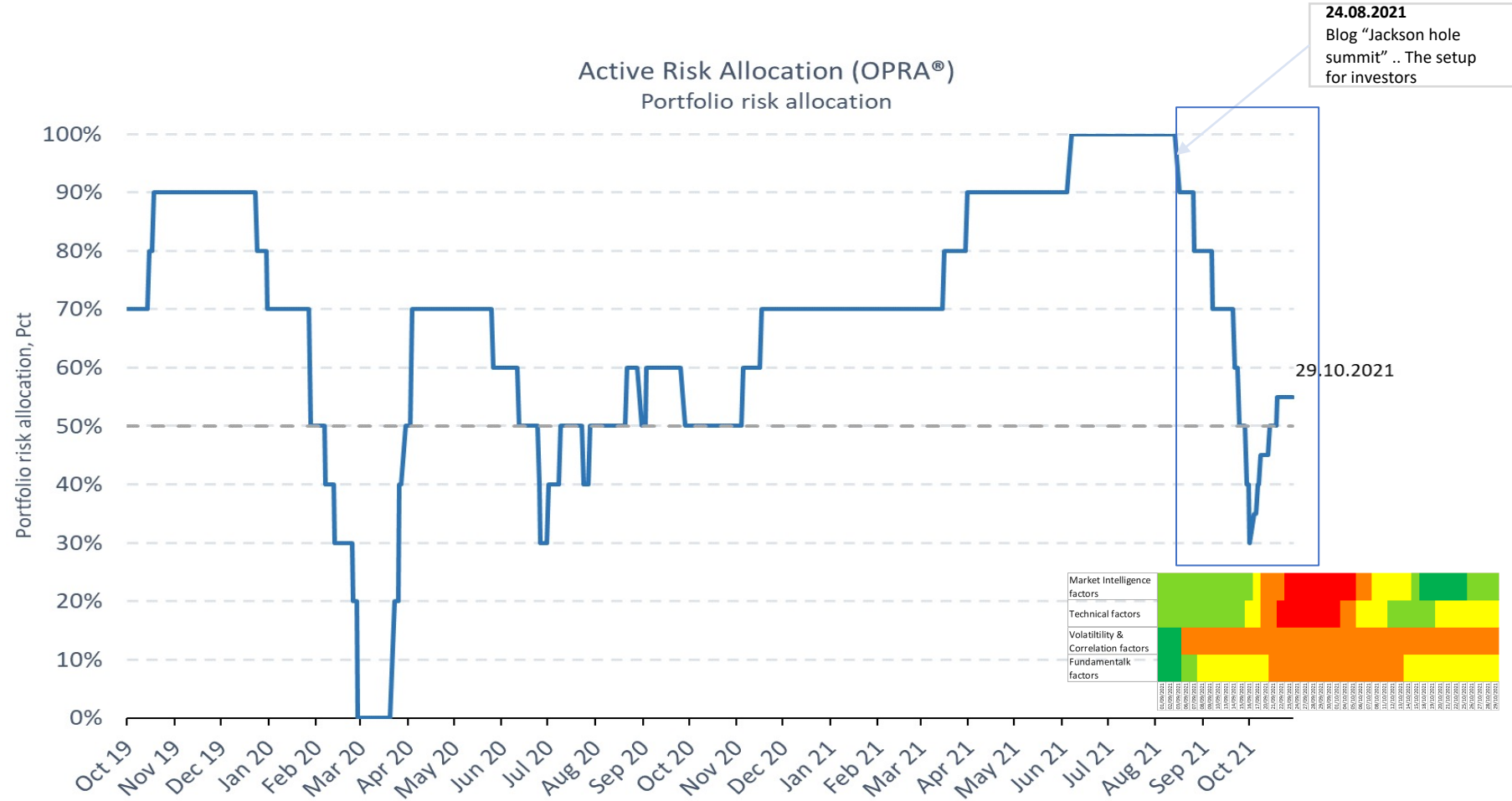
Detailed factor contribution September forward

Fundamental factors

Volatility & Correlation factors

Market Intelligence factors

Technical factors





Active Risk Allocation

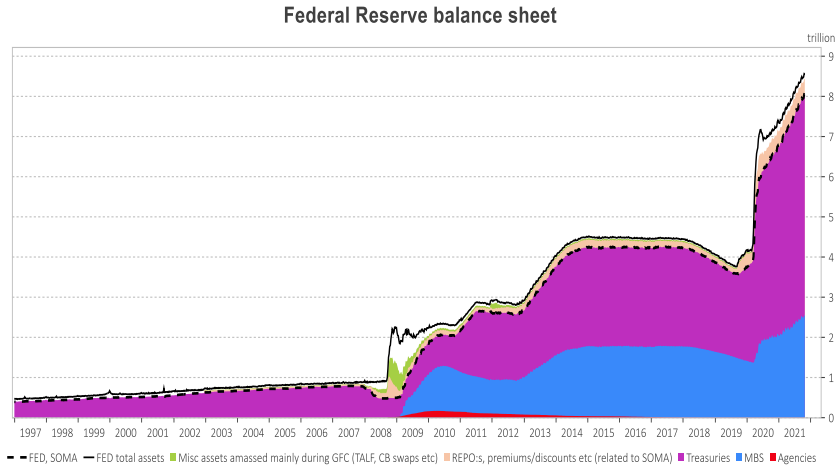
Annexe

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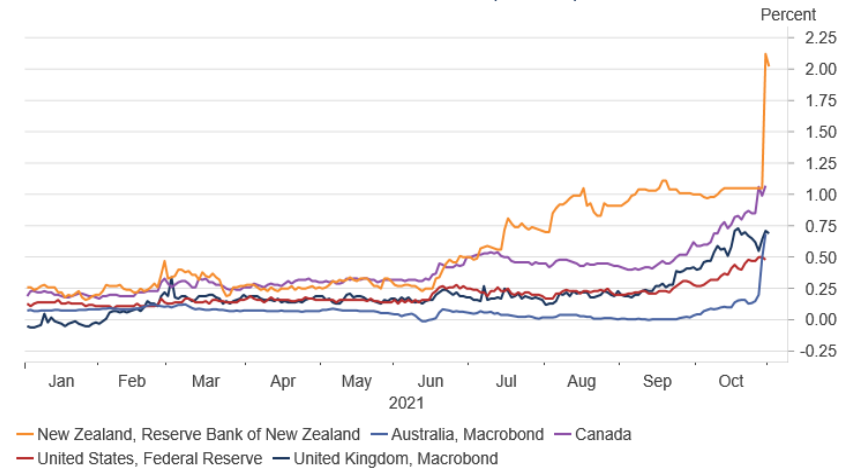
APPENDIX 1: Central bank & Inflation

Centralbanks: "It's temporary"

Fed balance swell to new high. Momentum expected to fade

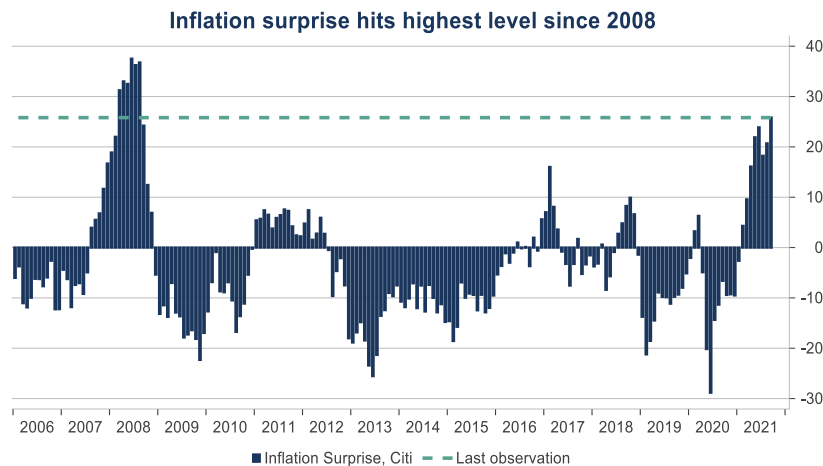


Government Benchmarks, 2 Year, Yield

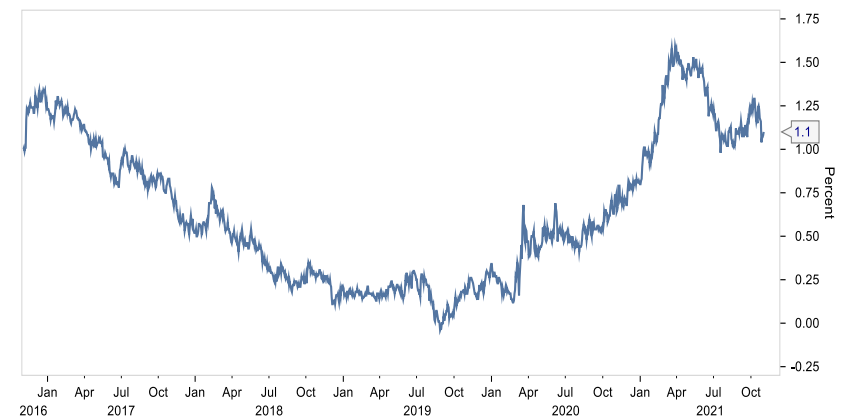


Short yields rise. In Europe, UK to follow

Inflation surprises in new high



Curvation, US 10-2Y



Yield curve bull flatten

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