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CONSULTING

Active Risk Allocation

February 2022



Central bank watch

What else to watch?

Combined balance sheet FED + ECB vs S&P500



MACROBOND



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Active Risk Allocation

Status



Status

Reversal of 13 years global monetary policy

Investors to balance TAA
and SAA horizon

Stocks short-term oversold
– but fundamentals are
changing

□ Stocks – neutral

- Rotation; Regional/sectorial/capital size - pro-cyclical “laggard rotation”
- Preference to low vol factor

□ Bonds – underweight (if possible no exposure)

- Regional overweight Europe vs US. Duration underweight

□ Macroeconomics

- Central bank tapering & inflation 37y high and *still* surprising expectations
- Supply disruptions (food, energy, transport, semi-conductors)
- Biden stimulus package(s) .. IMF cut global growth
- Geopolitical risk on Russia
- CoVID-19 end game and effect

□ Indicators

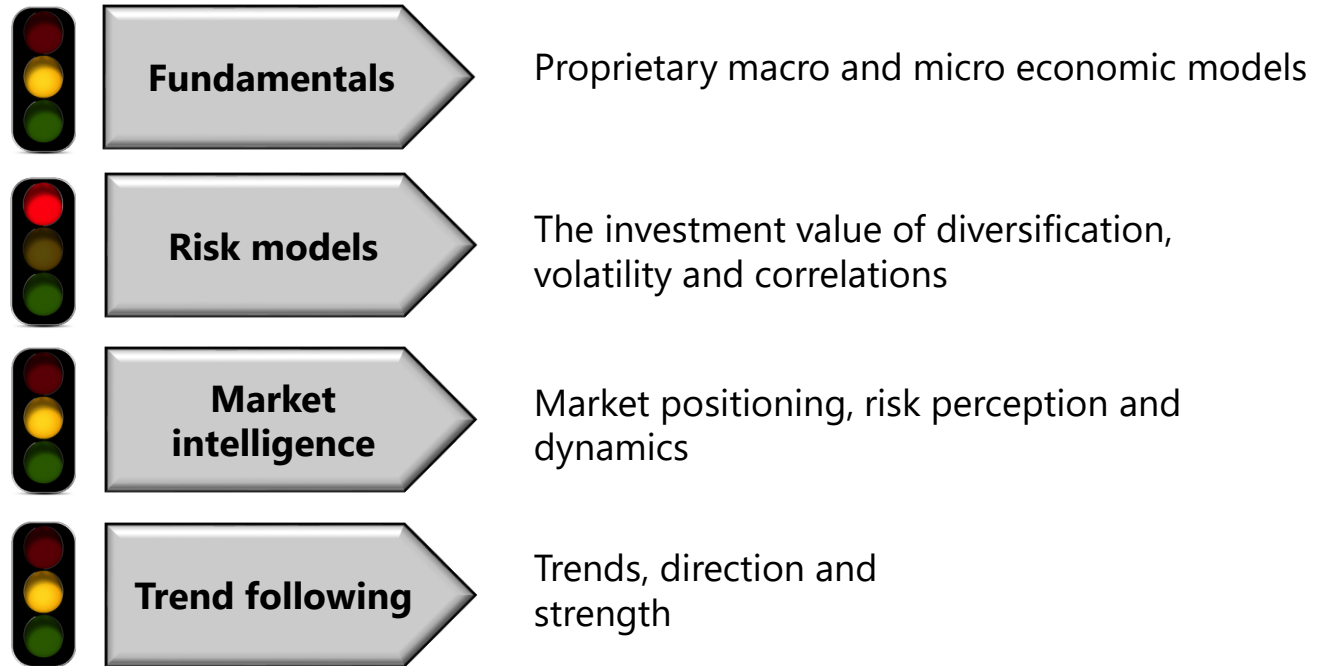
- OPRA: Neutral / Weakening (risk gauge for balance risk/risk free)
- OMRI: Negative / Peak'ish (model volatility gauge)



Investment
process

Indicators

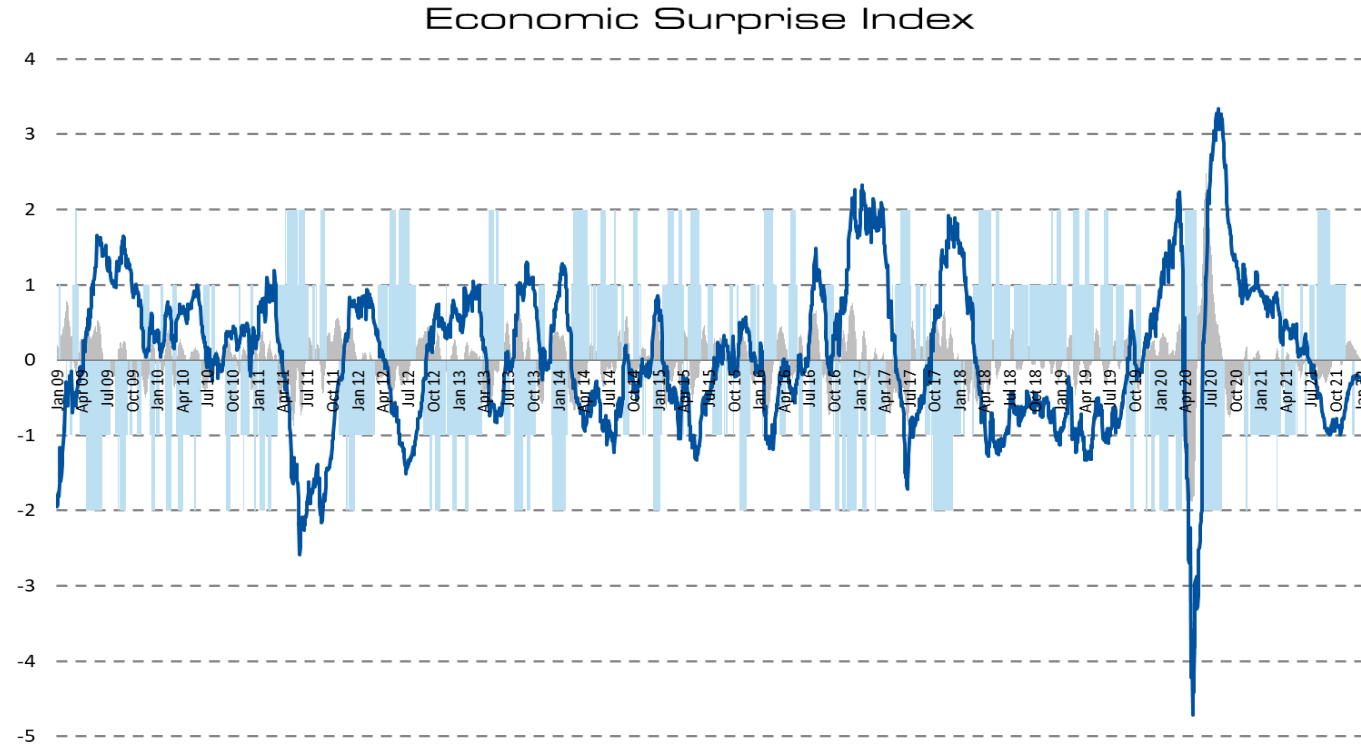
Highly sophisticated models
analysing about 150 indicators





Fundamentals

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



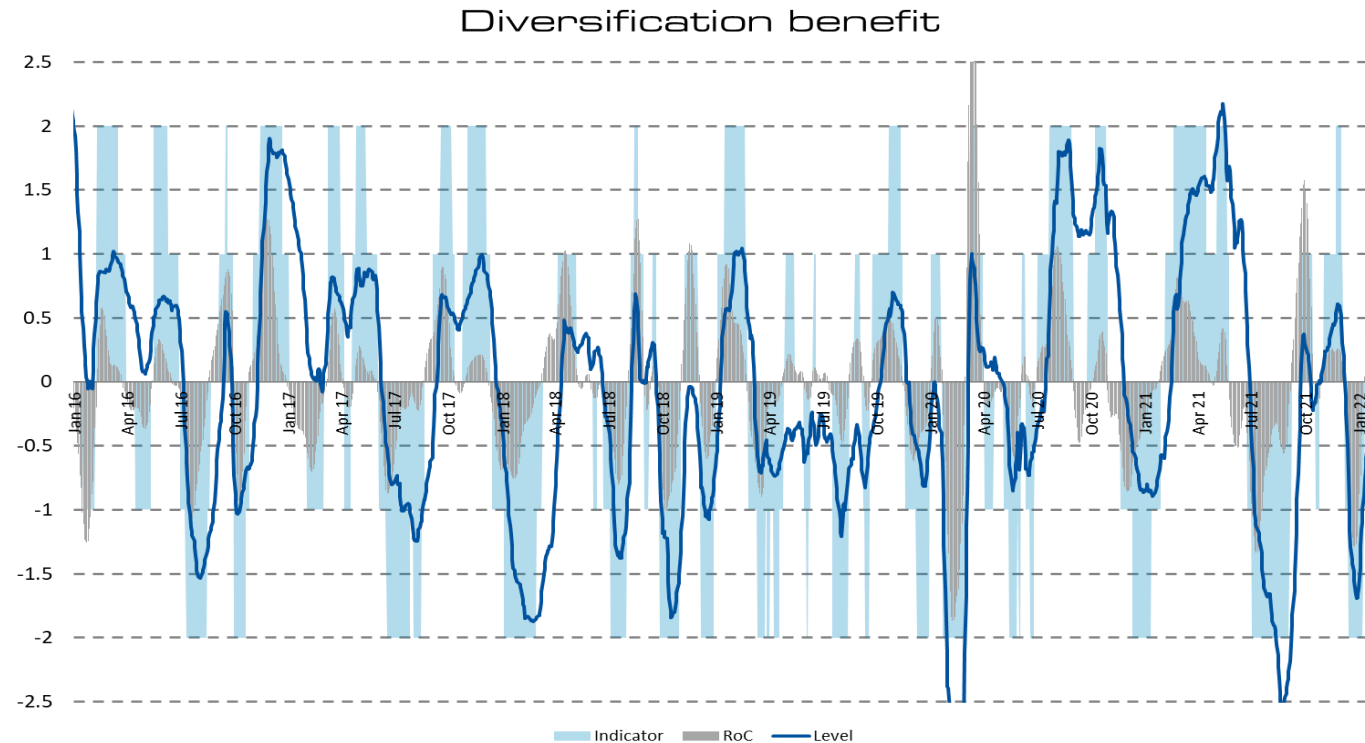
Real activity level is high but moderating from an above trend level.
Analysts' being overly too optimistic, are behind the curve on reducing expectations.

The ESI (above centre) is a powerful indicator of coming stress.



Volatility and Risk budgeting

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



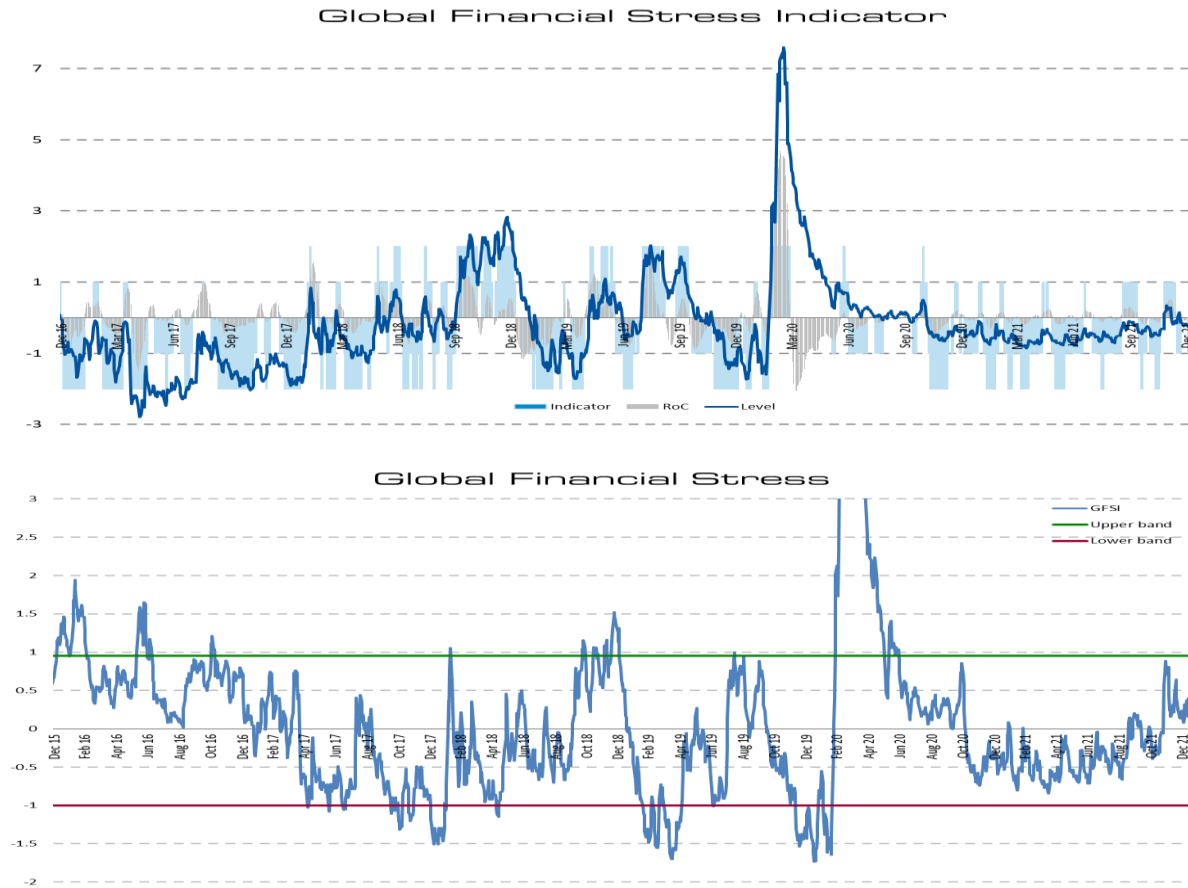
Diversification benefits are not existing and has become extremely volatile. In our experience an indication of a possible regime change.

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



Market intelligence

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



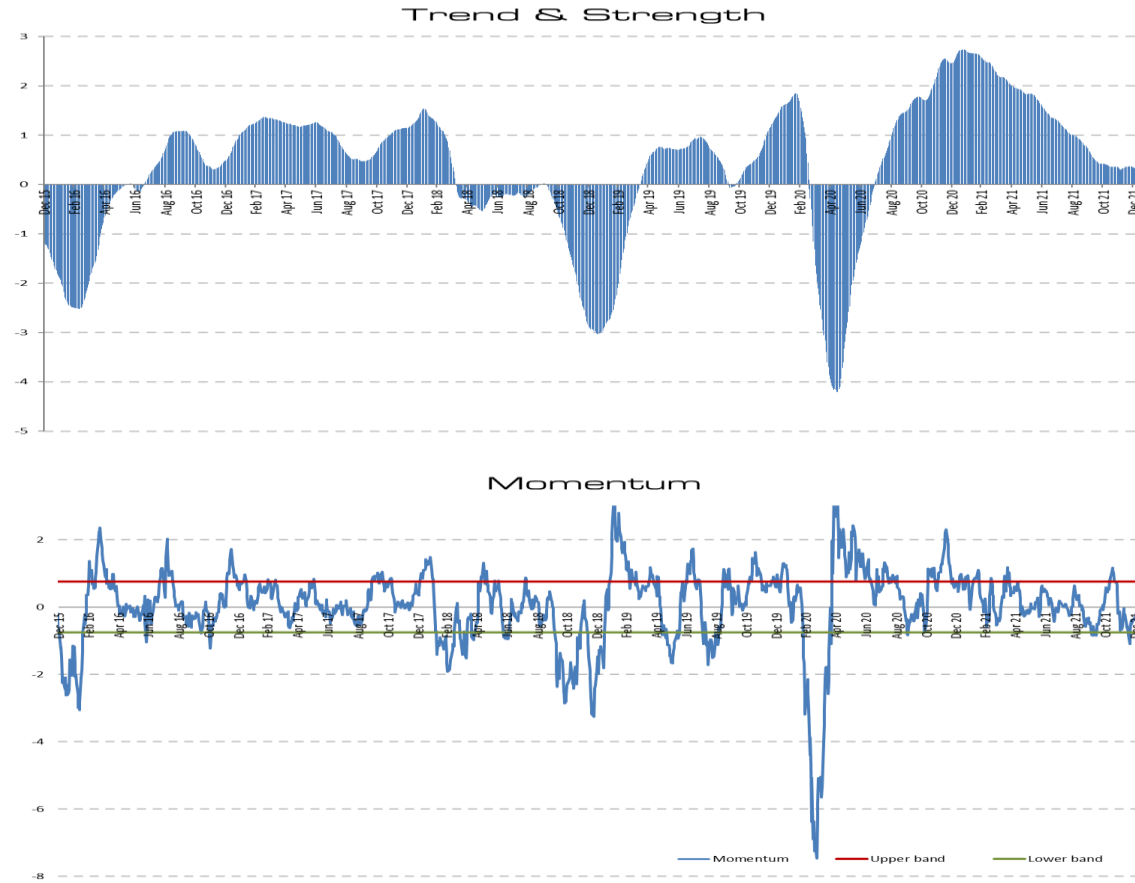
Financial markets condition has only slight deteriorated for neutral'ish. Yet, investor stress is at the highest level since Sep2021. For short-term horizons, this factor is now prone for rapid improvement.

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



Technicals

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



Stocks medium term Neutral

Stocks short-term oversold

The medium-term trend is now negative for the first time since Mar 2020. "Oversold" measures is a setup for a short-term technical rebound.

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



Current status



Macroeconomics

Global economic growth moderating. CoVID19 end game potentially a boost to developed economies.

Price pressure, remain very high and continue to surprise analysts to the upside.

Risk is for central banks to accelerate tightening of extreme monetary stimulus.



Technicals

Medium-term trend strength in risk assets is now negative.

Short-term a setup for a rebound on too-much-too-fast dynamics.



Market Risk and market intelligence

Risk appetite show investor stress. Stock investor dynamic now reflect the beginning of understanding that Central banks will reduce extreme accommodation.

The rapidness of deterioration is a setup for a short-term improvement.



Volatility and risk budgeting

Portfolio risk is negative as correlations are negative.

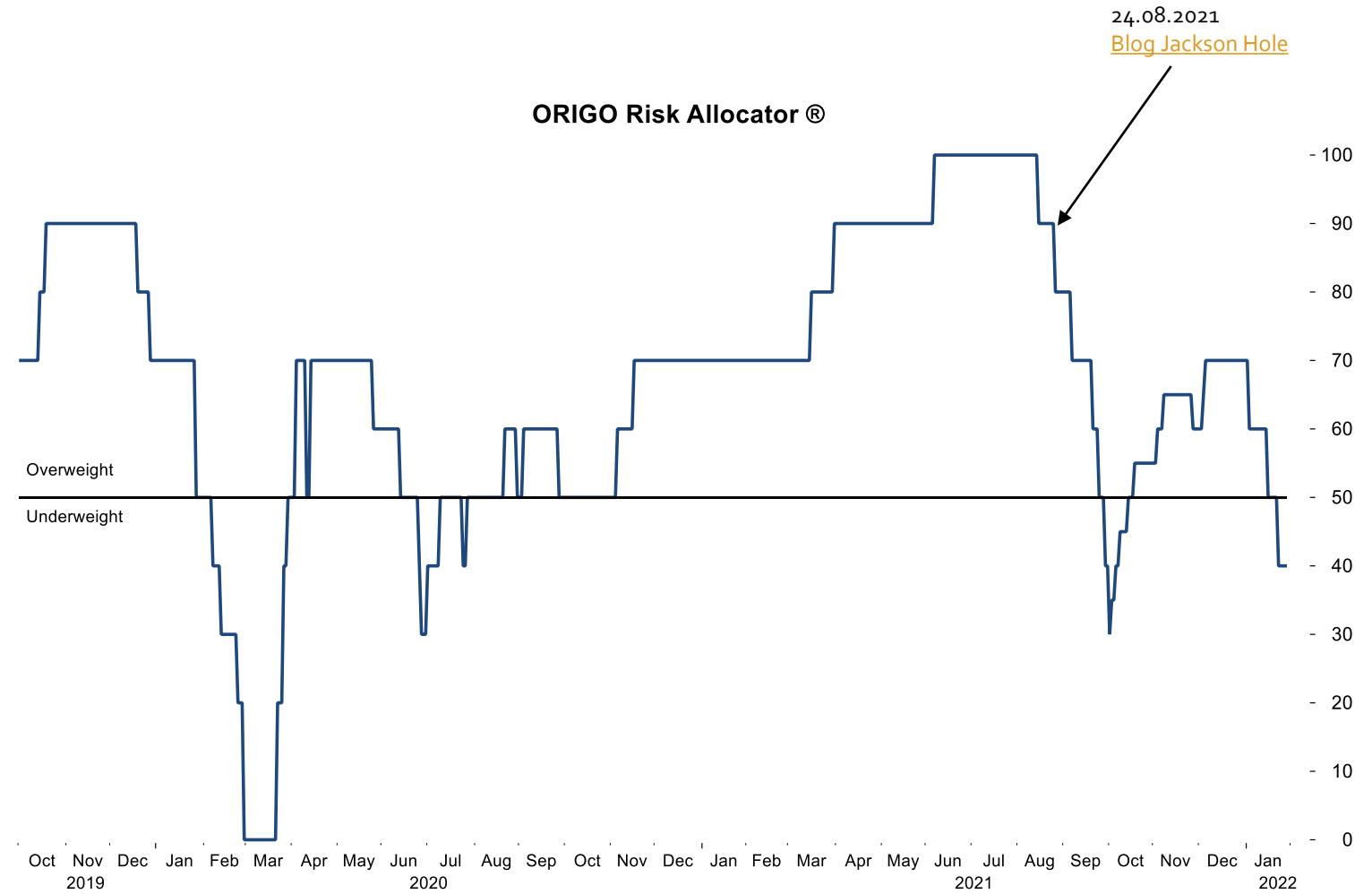
Volatility levels show some stress, but only on a medium level.

This means that a traditional portfolio of 60 stocks/40 bonds, should balance if stocks drop bonds should generally rise and so offer protection to capital.



OPRA[®] Origo Portfolio Risk Allocator

Timeline, 2019 -



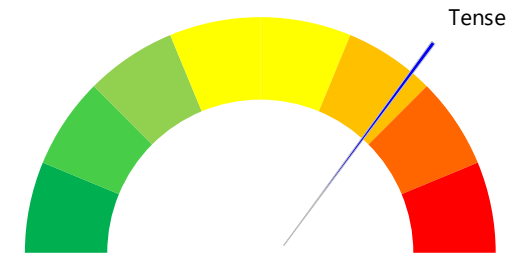


OMRI[®] Origo Market Risk Indicator

The balance of risk assets

31 January 2022

Indicator	Sentiment	Last update
X-Asset correlation	Tense	28 Jan 2022
Economic Surprises	Tense	28 Jan 2022
Financial Conditions	Tense	31 Jan 2022
Global Financial Stress	Tense	28 Jan 2022



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