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Active Risk Allocation

May 2022

Independent | Transparent | Disciplined



Status

**Increased uncertainty =
higher risk premia**

**Asset revaluation
spreading to equities**

-next, margin pressure

Risk overview;

Shortterm Positive'ish

Mediumterm Negative

- Stocks – underweight
 - Preference to low vol factor, defensive sectors
- Bonds – large underweight (if possible no exposure)
 - Regional overweight Europe vs US. duration underweight
- Alternatives – large overweight
 - Non-interest rate sensitive, non-directional, uncorrelated assets and strategies
- Macroeconomics
 - Central bank rate hikes & QT (Quantitative Tightening) & Inflation at 40y high
 - China CoVID-19 zero tolerance vs omicron B.A2 surge
 - Supply disruptions continue
- Indicators
 - OPRA: **Negative** / Declining (risk gauge for balance risk/risk free)
 - OMRI: High / **Peak'ish** (model volatility gauge)

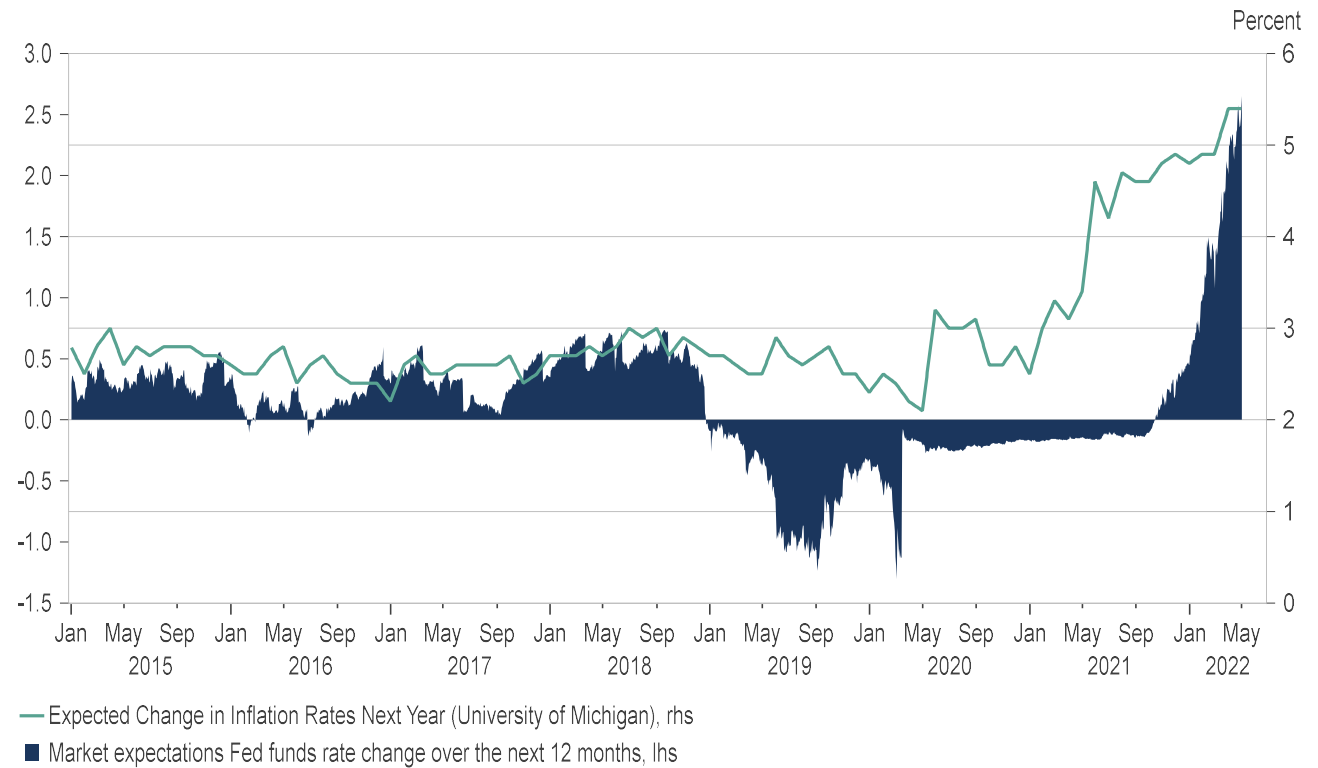
Inflation was soaring heading into 2022 ..

- + Russia-Ukraine war
- + China CoVID19 zero tolerance vs Omicron BA2
- + Globalisation make-over

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Markets anticipate higher inflation and interest rates



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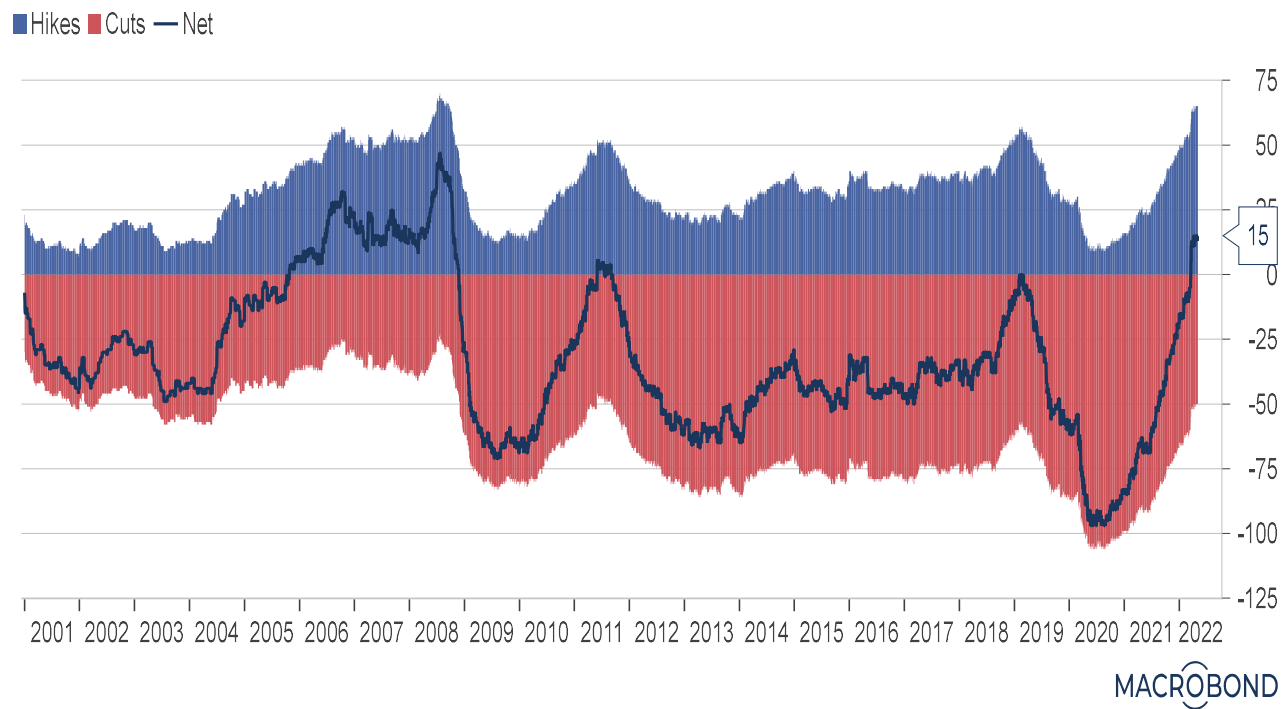
Centralbank watch

Turn of the tide

A massive tightening cycle
is unfolding, fast

Central banks tighten monetary policy

Hikes vs cuts as most recent move (115 Central Banks)

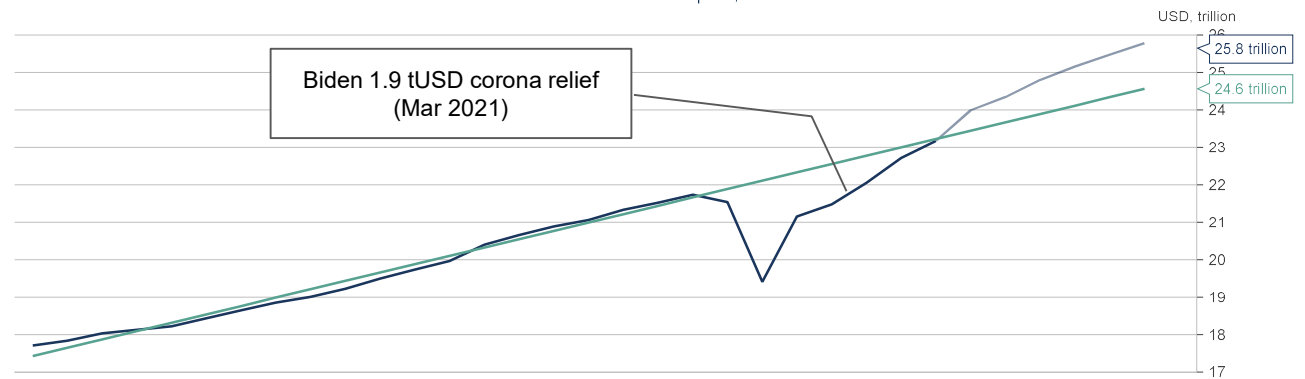


Macro risk - USA

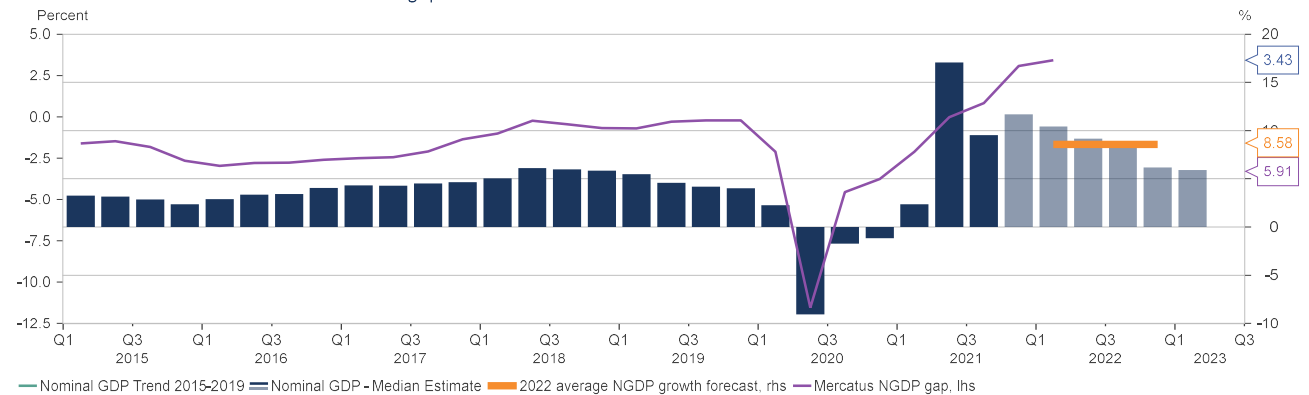
US moderating from overheating, boosted by the Biden stimulus

GDP vs pre-pandemic trend

Source: Federal Reserve Bank of Philadelphia, The Mercatus Center



The NGDP forecast and the Mercatus NGDP gap indicate excessive nominal demand for 2022



— Nominal GDP Trend 2015-2019 — Nominal GDP - Median Estimate — 2022 average NGDP growth forecast, rhs — Mercatus NGDP gap, lhs

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Macro risk - China - credit

- Demographics
 - The age pyramid
 - 1-child policy
- Capital market structure
 - Real estate alternatives
- Trade war
- Supply disruptions
- Commodities
- Policy errors
 - Covid-19 zero tolerance

Chinese high-yield bond yields surge

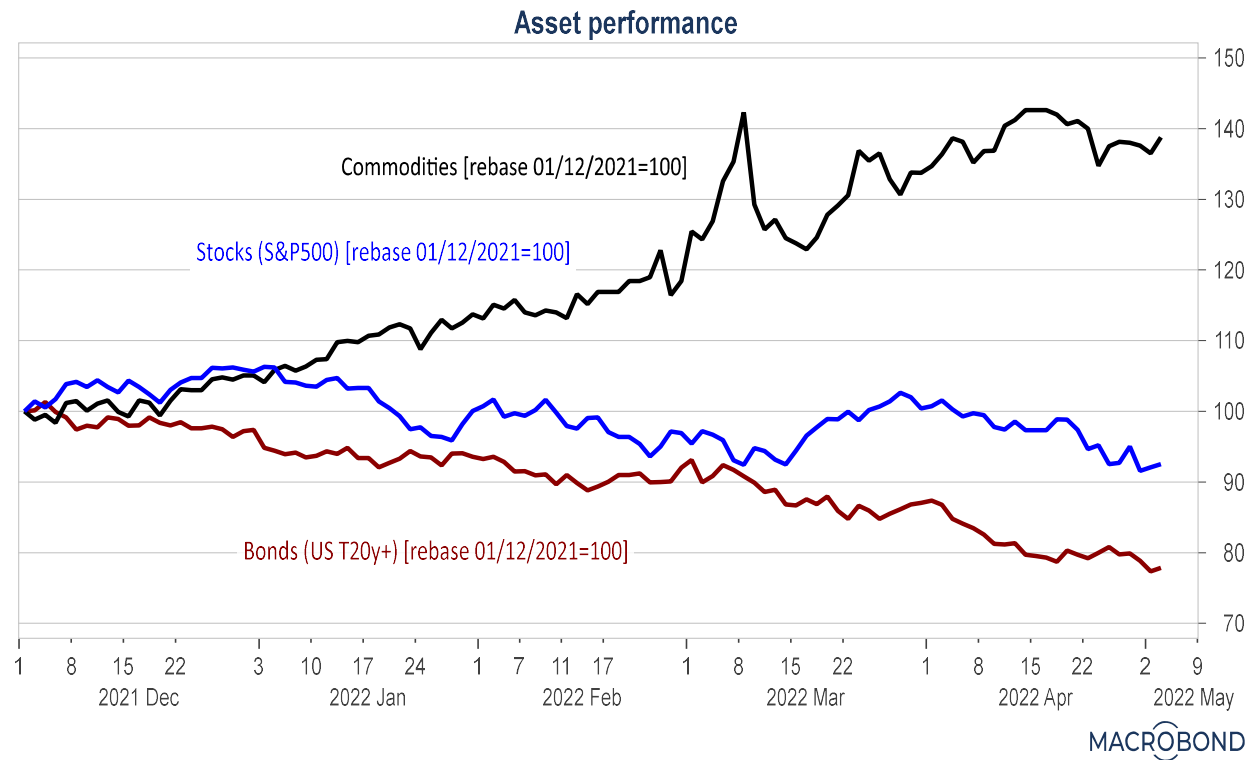
Source: BofAML High Yield Emerging Markets Corporate Plus Index
Yield %



Capital markets — Assets

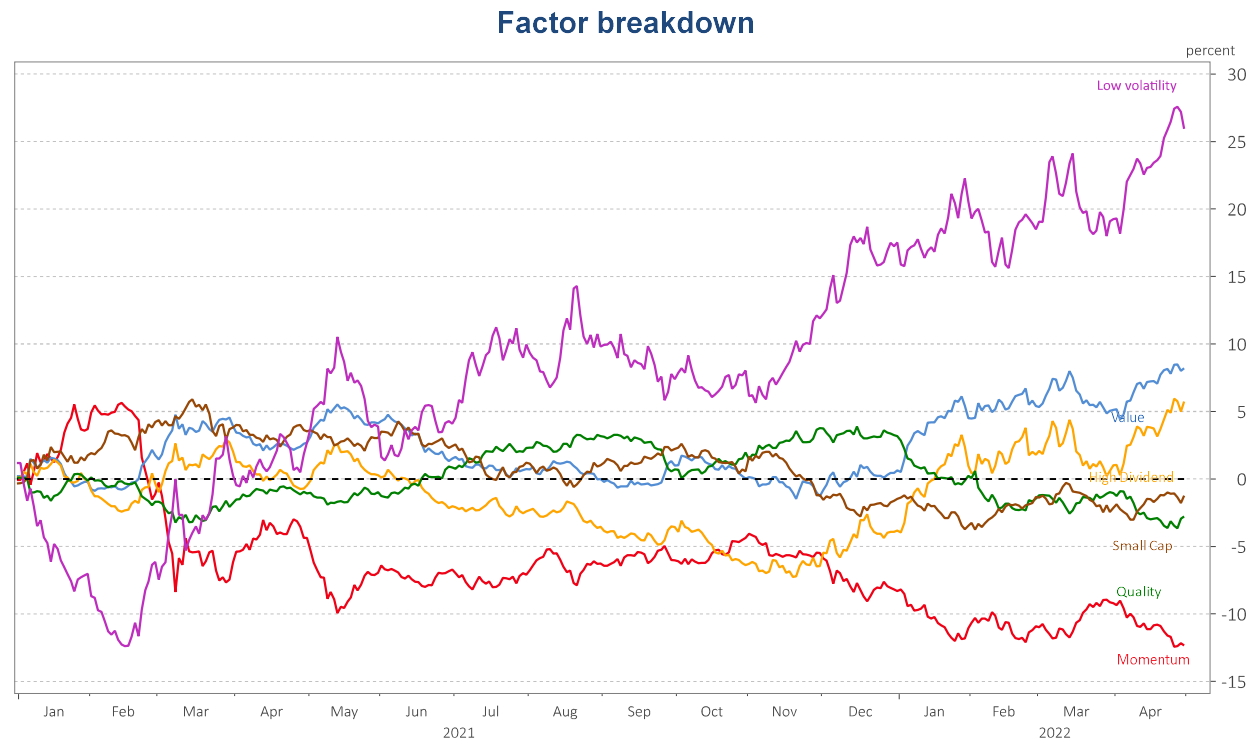
Deflation of asset prices is spreading
From bonds, credit to stocks ...

Reverse dynamic of 40 years of falling interest rates inflated assets



Capital markets - Assets

Low volatility continue to outperform



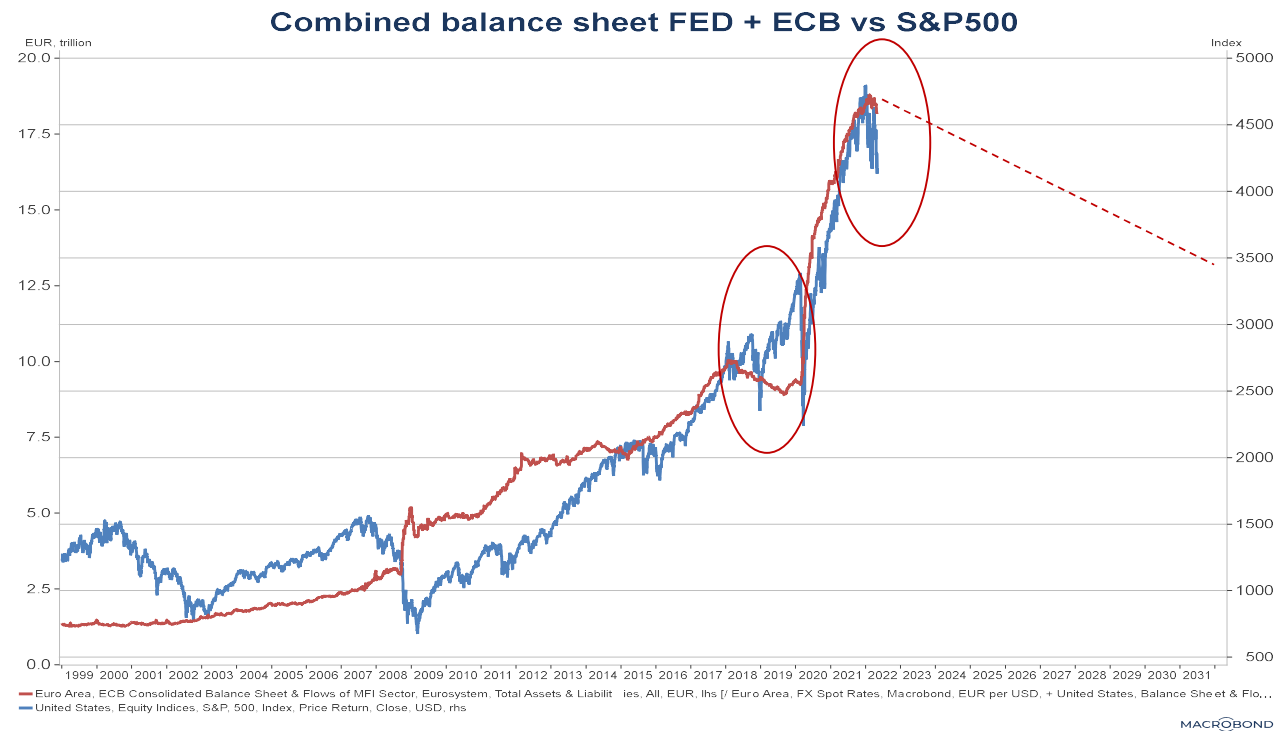


Capital markets - Stocks

Just getting started

Fed Minutes April; Combined rate hikes + QE reduction of 60-100bn/m – excess of 1 tn USD per year – every year in the next 10 years

So far, stocks sideways under high volatility since 8 months





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Active Risk Allocation

The state of indicators

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Investment
process

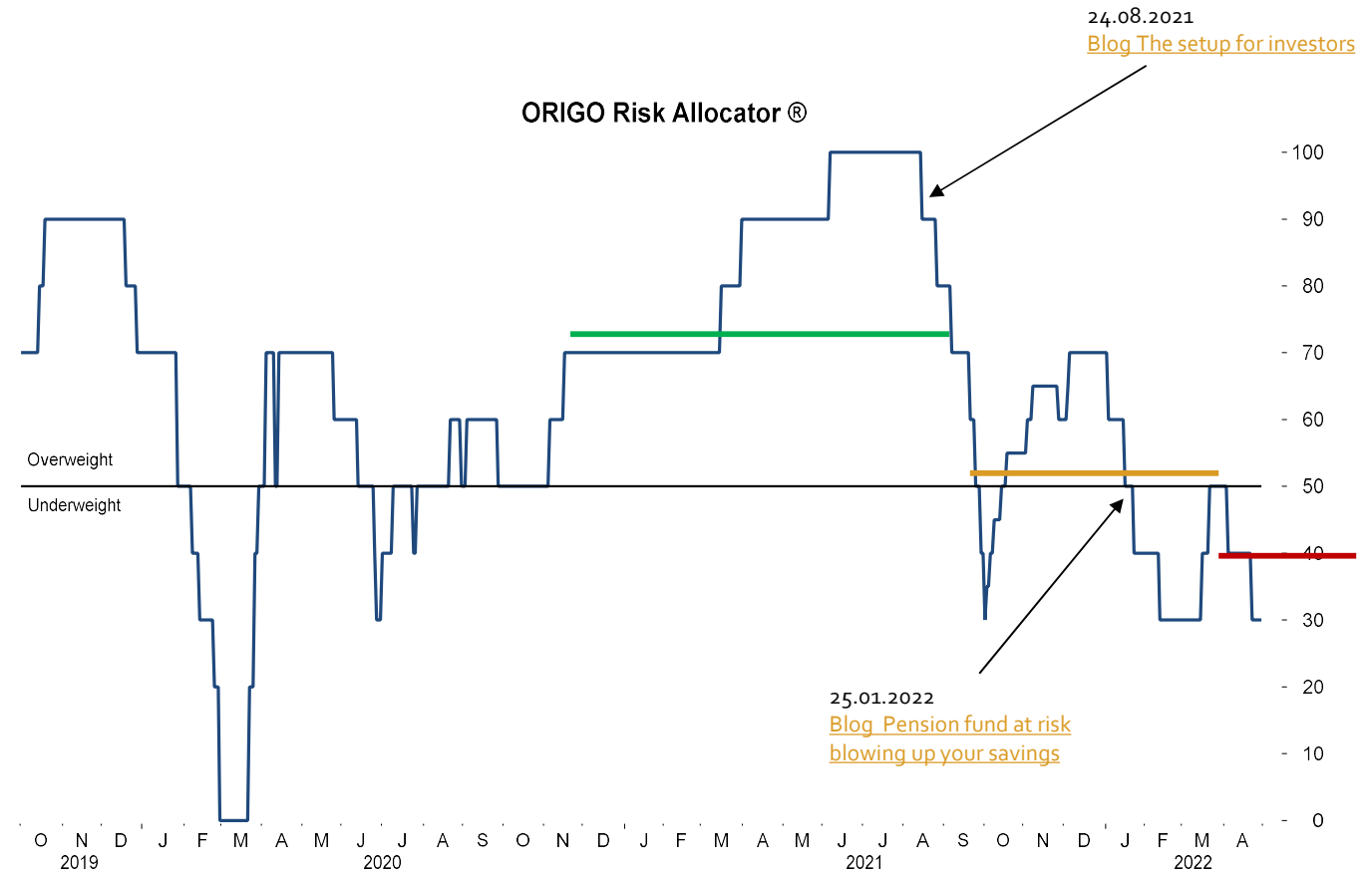
Indicators

Highly sophisticated models
analysing about 150 indicators



OPRA® Origo Portfolio Risk Allocator

Timeline, 2019 -



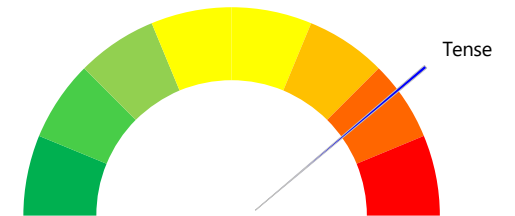
OMRI® Origo Market Risk Indicator

The balance of risk assets



29 April 2022

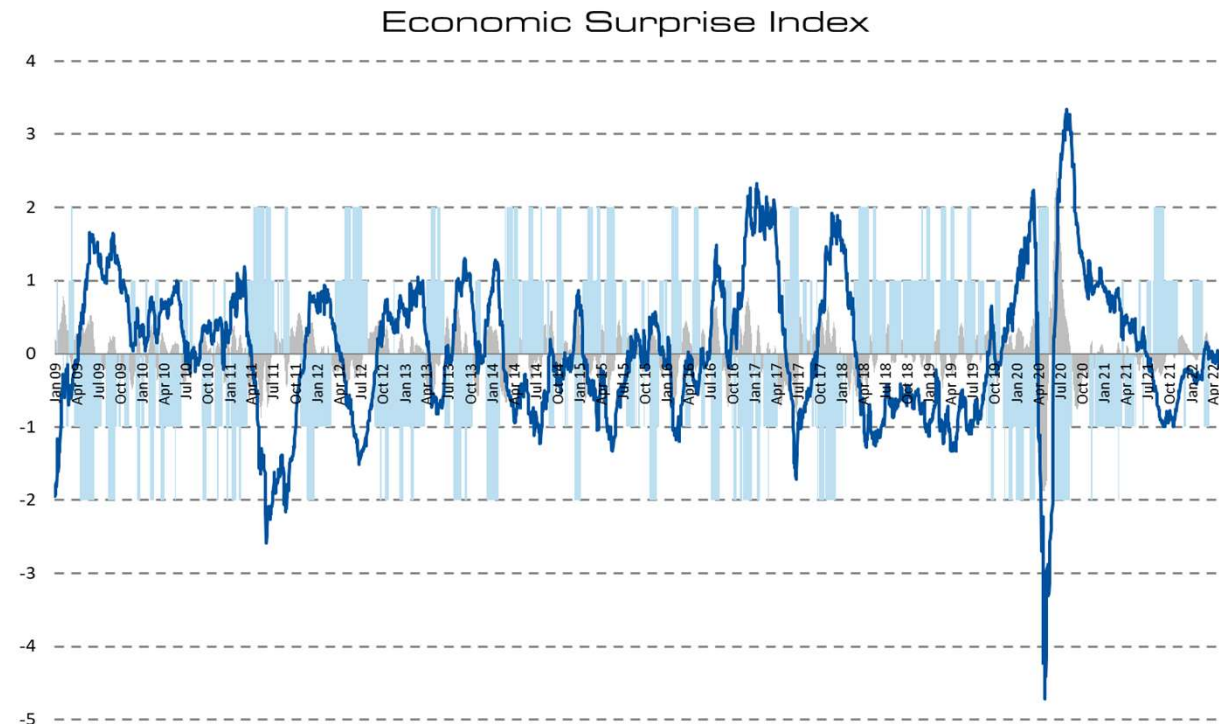
Indicator	Sentiment	Last update
X-Asset correlation	High risk	28 Apr 2022
Economic Surprises	Neutral	29 Apr 2022
Financial Conditions	High risk	29 Apr 2022
Global Financial Stress	High risk	29 Apr 2022





Fundamentals

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



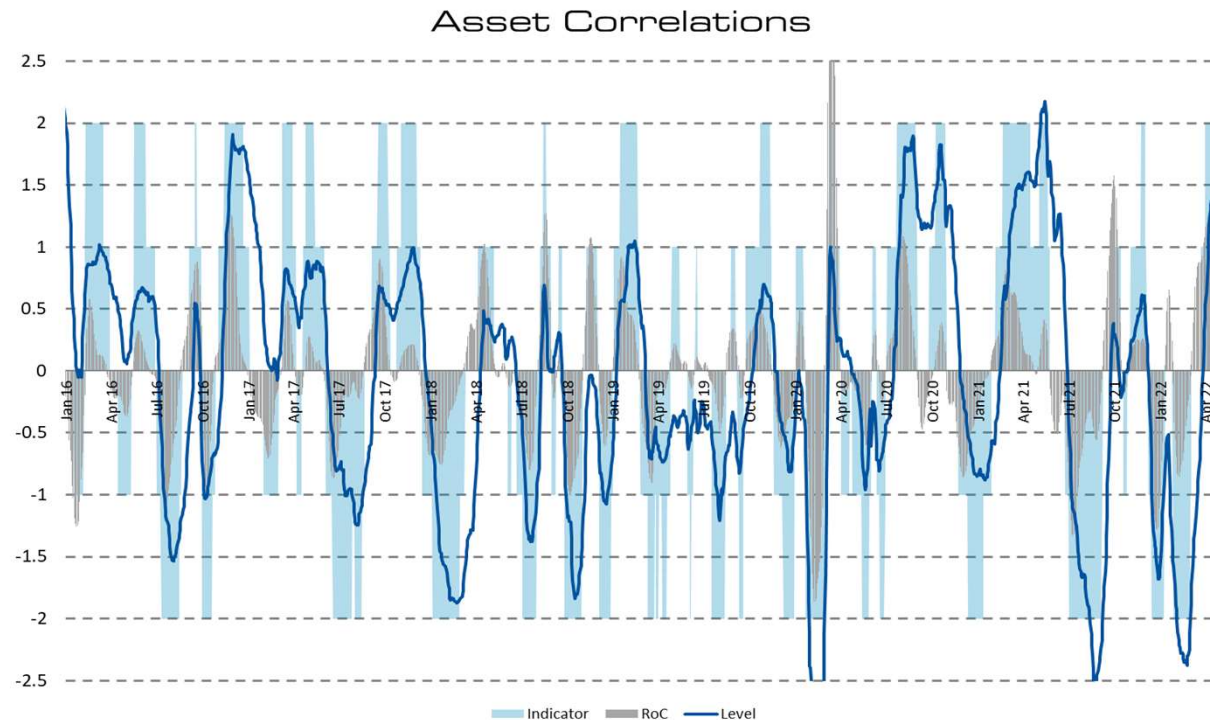
Real activity continue to moderate, yet from a level above pre-pandemic trend. Europe being the exception as Ukraine is taking toll.

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 present. Stocks and bonds drop in sync.

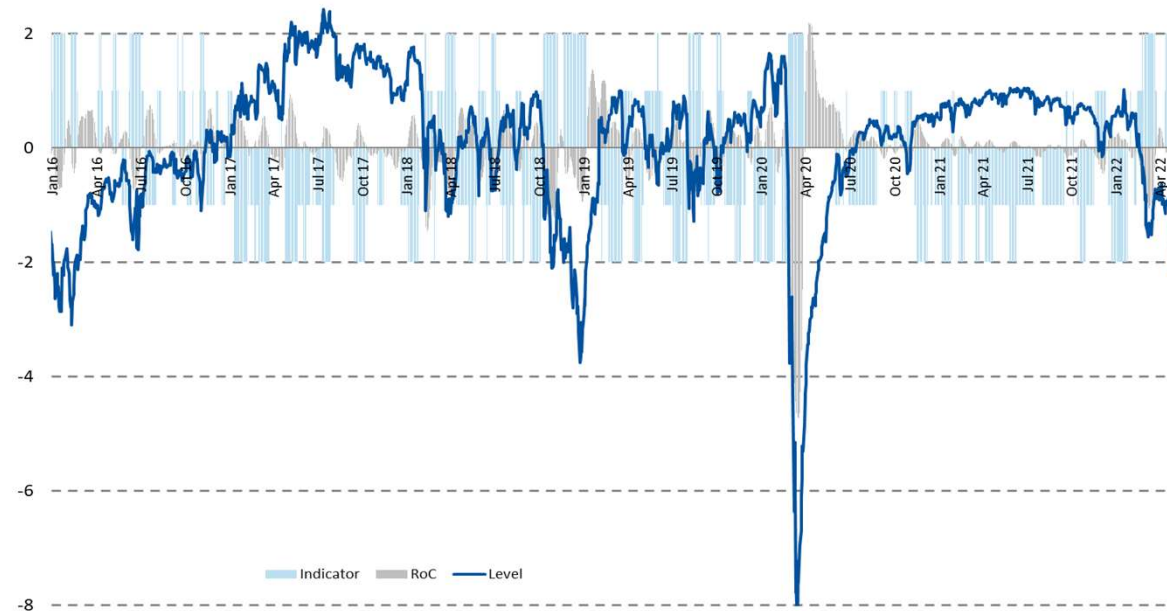
When the diversification benefit is low, there is not much to be gained from diversifying. Cash and alternatives should then be meaningfully increased.



Market intelligence

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

Financial Conditions

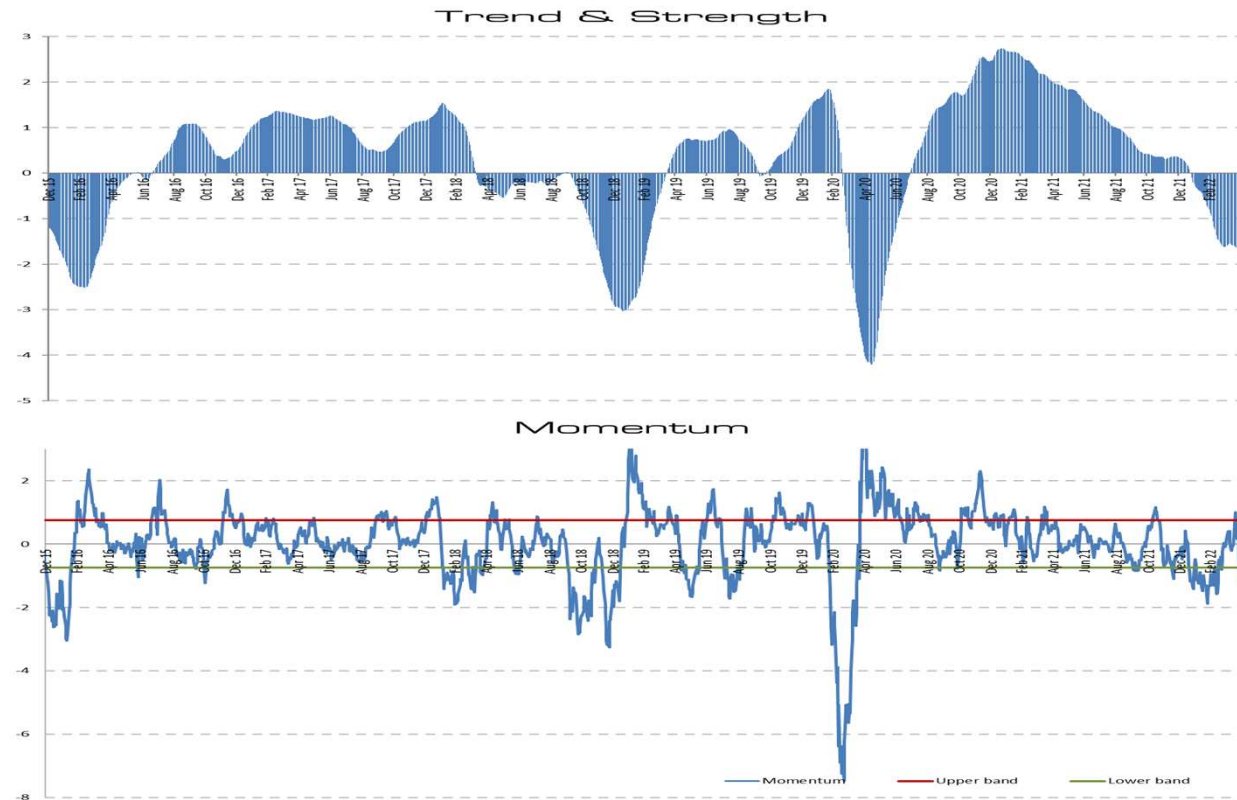


Pronounced stress measured in financial markets across all asset classes.

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**



The medium-term negative trend since Jan 2022 continue, and is gaining momentum.

The short-term trading scenario has improved, but only show a smallish traders rebound potential as the negative trend has established.

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

Current status



Macroeconomics

Regional growth decoupling, US moderate from overheating, Europe slide below trend as does China.

US tighten rates and QE.T while China to stimulate, while keeping breaks on with CoVID19 zero tolerance



Market Risk and market intelligence

Risk appetite soured to levels not seen since Mar2020.

Uncertainty if China CoVID policy - or - Fed rate hike+QET to tilt global growth into recession



Technicals

All interest rate sensitive risk assets trends remain negative since Jan2022,

Only "traders rebound" following another latest sell-off.



Volatility and risk budgeting

Portfolio risk is negative on measures of cross asset volatility and increased correlation

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