

# Active Risk Allocation

June 2022



Independent | Transparent | Disciplined



## Status

### Peak inflation growth

- margin pressure
- lower economic activity

Risk overview;

Shortterm Positive

Mediumterm Negative

### ☐ Stocks – underweight

- Short-term preference to momentum. Then back to low vol factor, defensive sectors

### ☐ Bonds – underweight (if possible, no exposure)

- Regional underweight Europe. Duration underweight

### ☐ Alternatives – large overweight

- Non-interest rate sensitive, non-directional, uncorrelated assets and strategies

### ☐ Macroeconomics

- Peak inflation? Central bank rate hikes & QT (Quantitative Tightening)
- China CoVID-19 zero tolerance vs omicron B.A2 surge
- Global supply disruptions continue

### ☐ Indicators

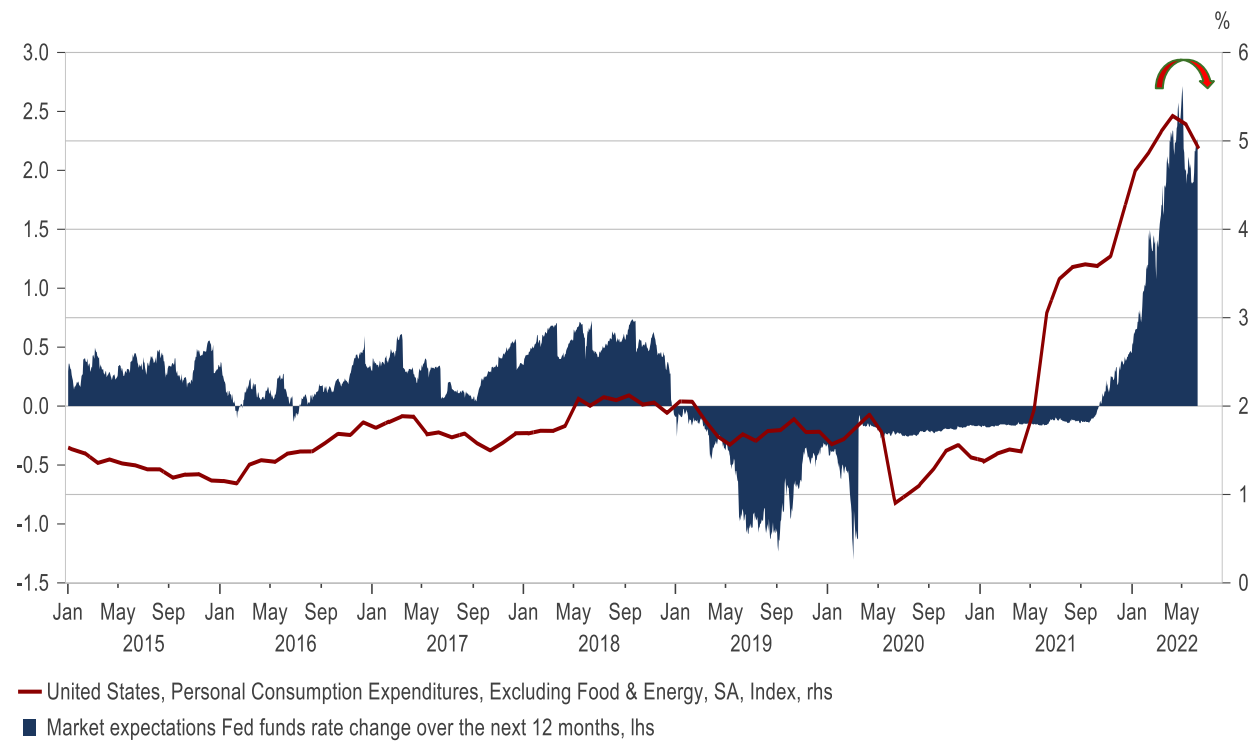
- OPRA: **Negative** / Improving (risk gauge for balance risk/risk free)
- OMRI: **High** / **Falling fast** (model volatility gauge)

## Macro risk — Inflation

### Peak inflation growth

Inflation was soaring  
heading into 2022 ..  
+ Russia-Ukraine war  
+ China CoVID19 zero  
tolerance vs Omicron BA2  
+ DeGlobalisation

### Peak inflation



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## Centralbank watch

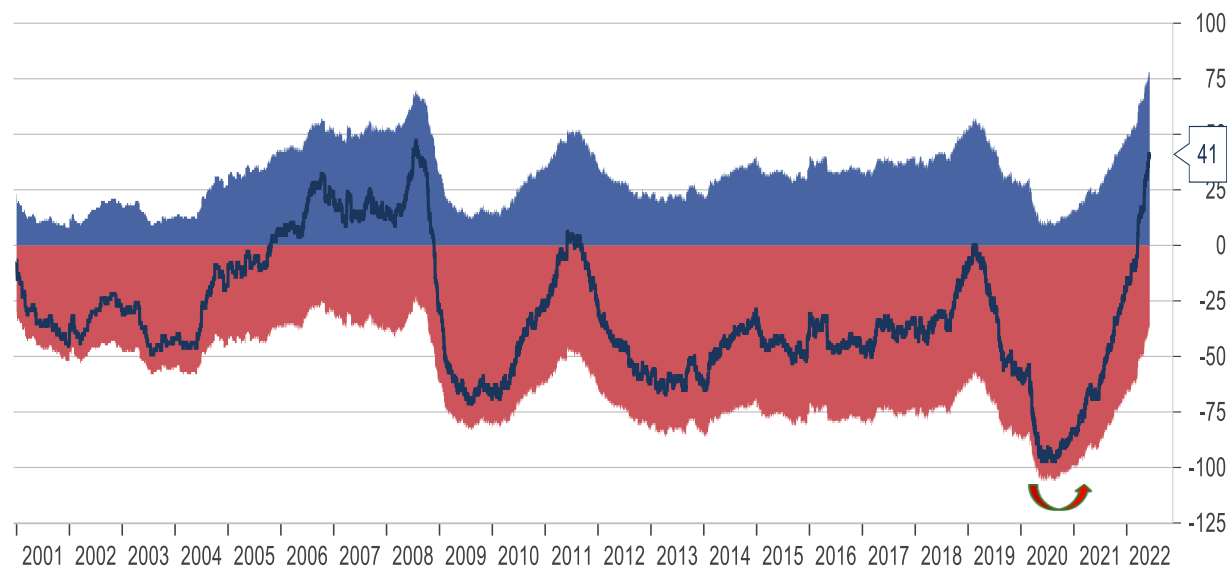
### Turn of the tide

A massive tightening cycle  
is unfolding, fast

## Central banks tighten monetary policy

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

■ Hikes ■ Cuts — Net



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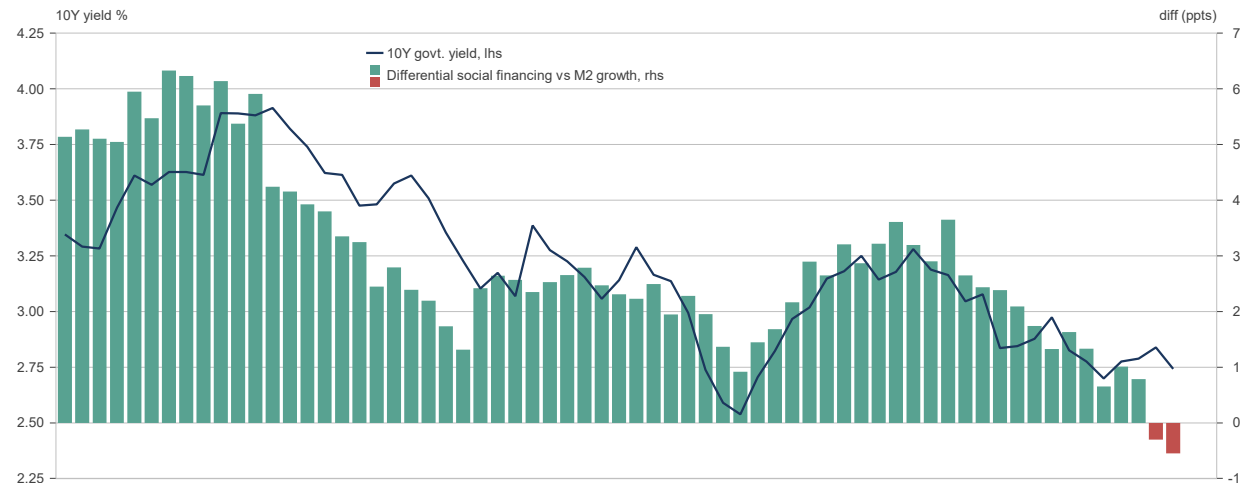
## Macro risk - China

### Going nowhere, or?

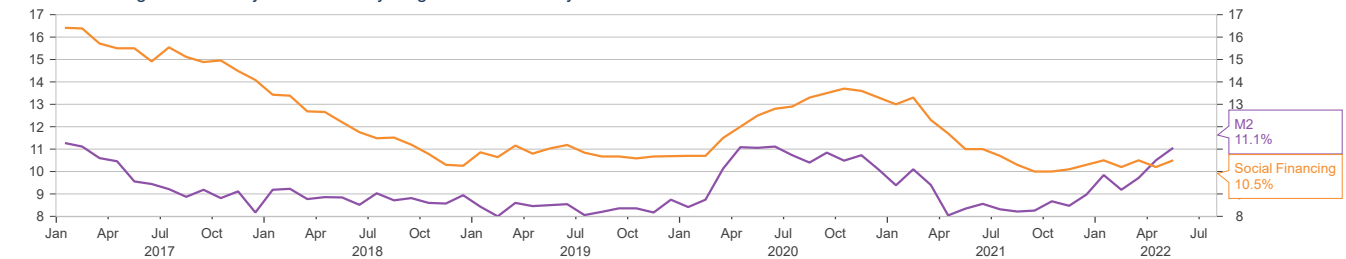
June "grand re-opening"  
boost GEM risk assets

CoVID19 zero tolerance will  
keep it a bumpy ride

China credit conditions worsen



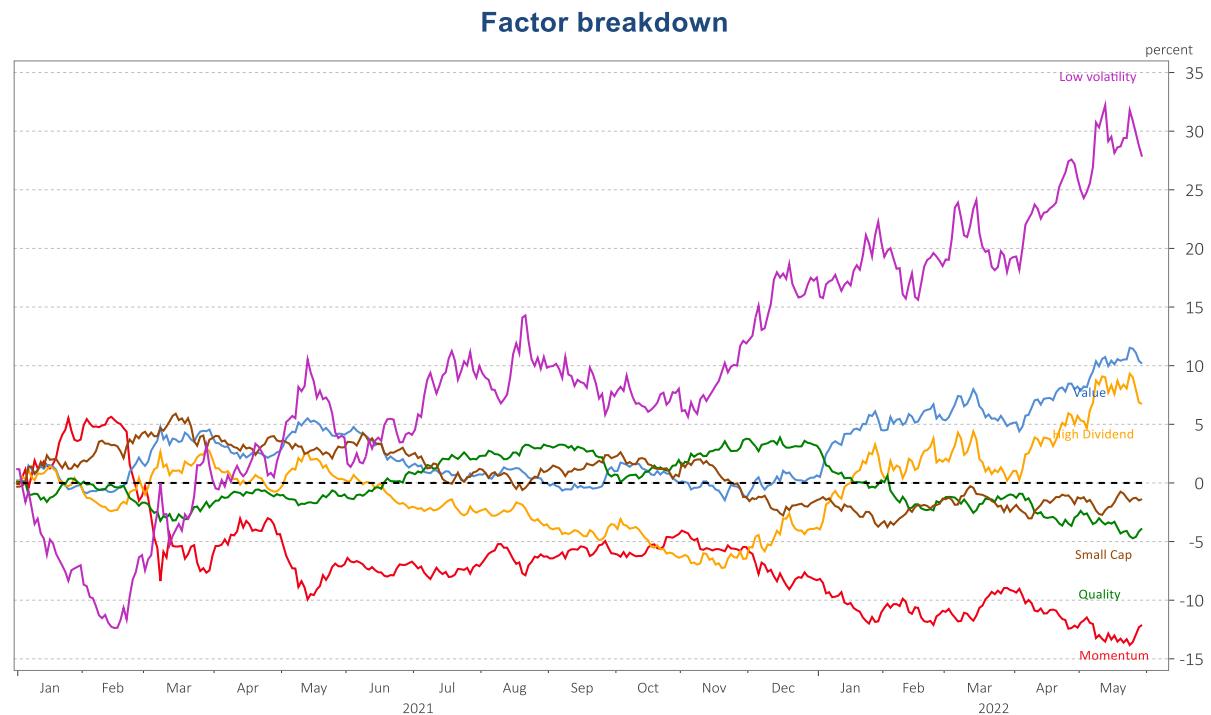
Social financing vs M2 money stock and 10-year government bond yields



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## Capital markets - Assets

Momentum factor pickup  
is likely temporary  
Then, a return for low vol  
factor outperformance



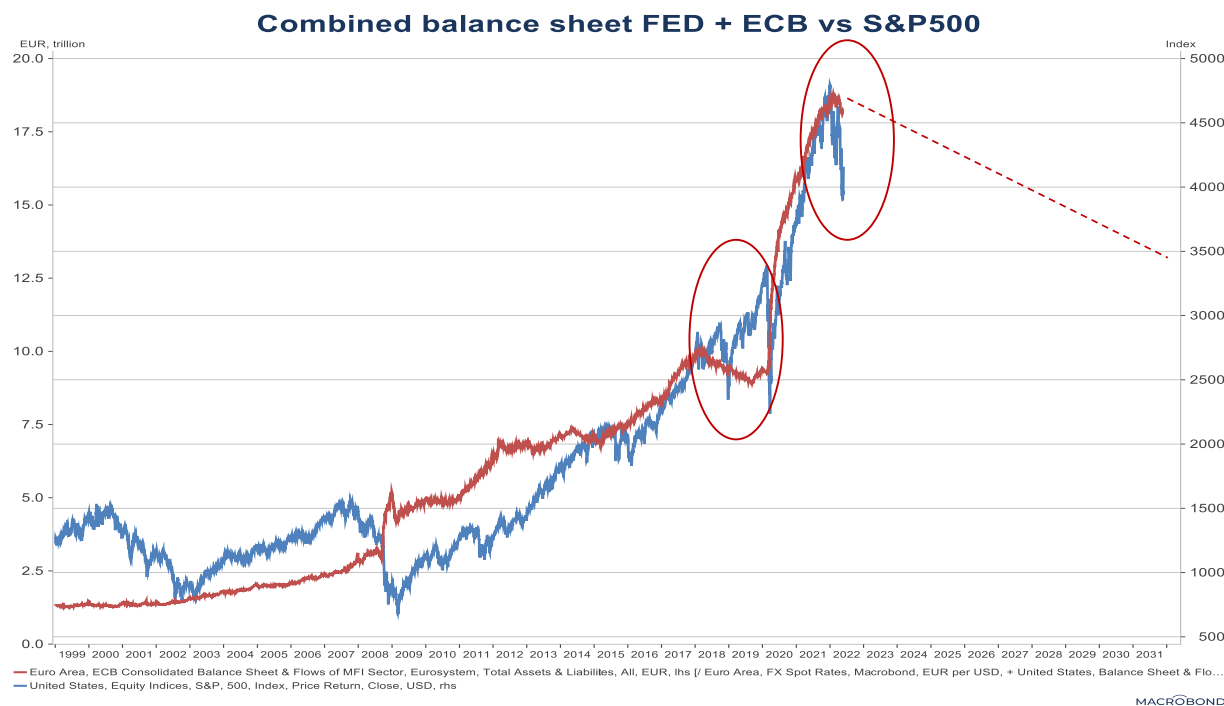


## Capital markets - Stocks

### Just getting started

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

So far, stocks sideways under high volatility since 9 months

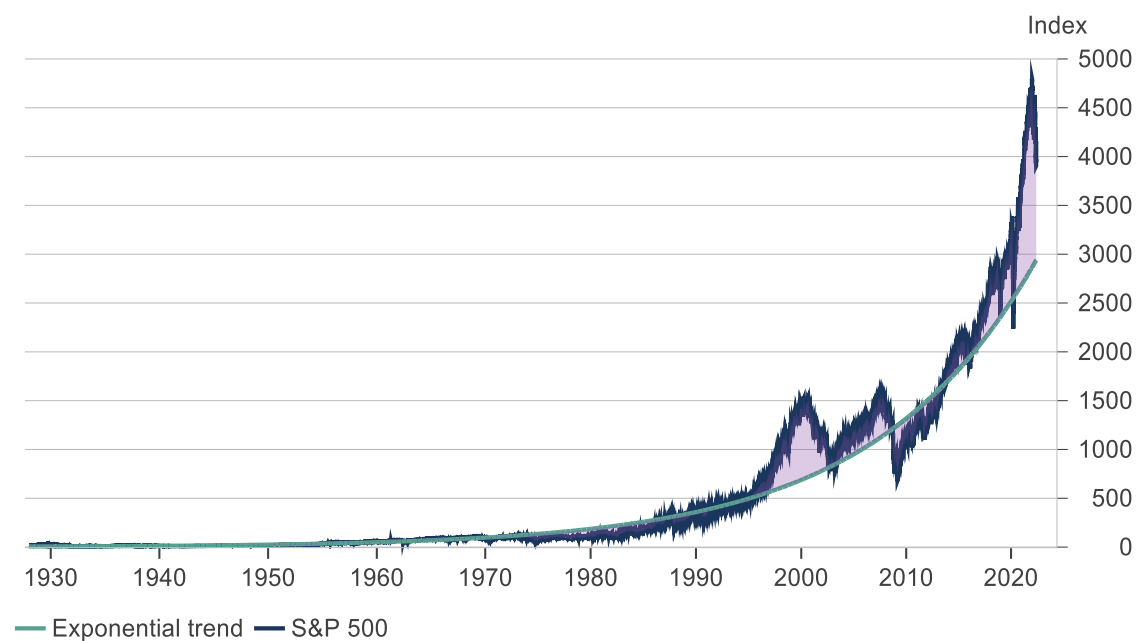




## Capital markets - Stocks

Still above trend

S&P500 vs long-term exp trend



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## Active Risk Allocation

The state of indicators



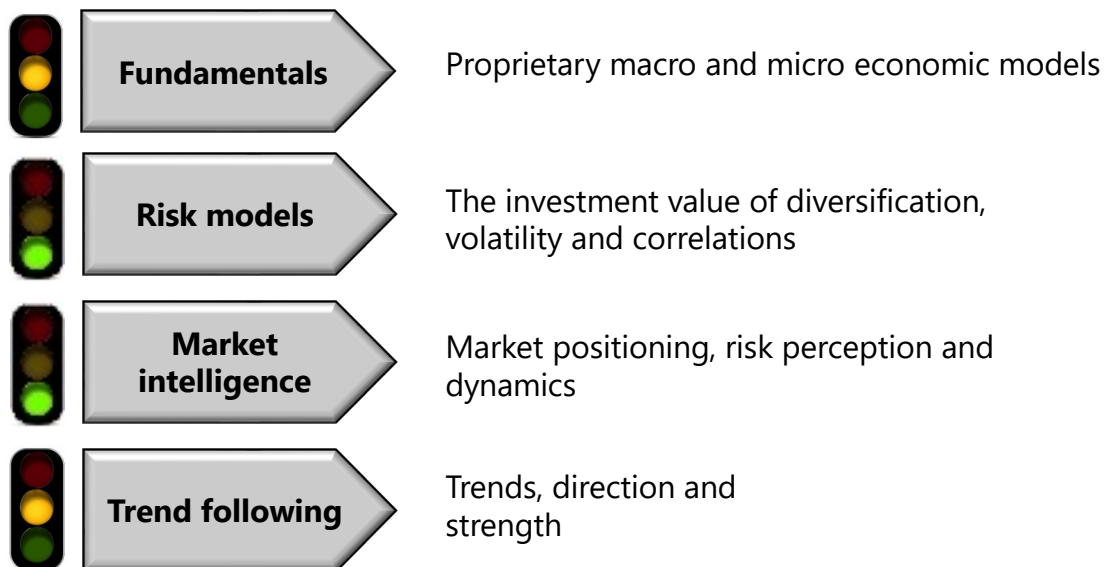
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Highly sophisticated models  
analysing about 150 indicators

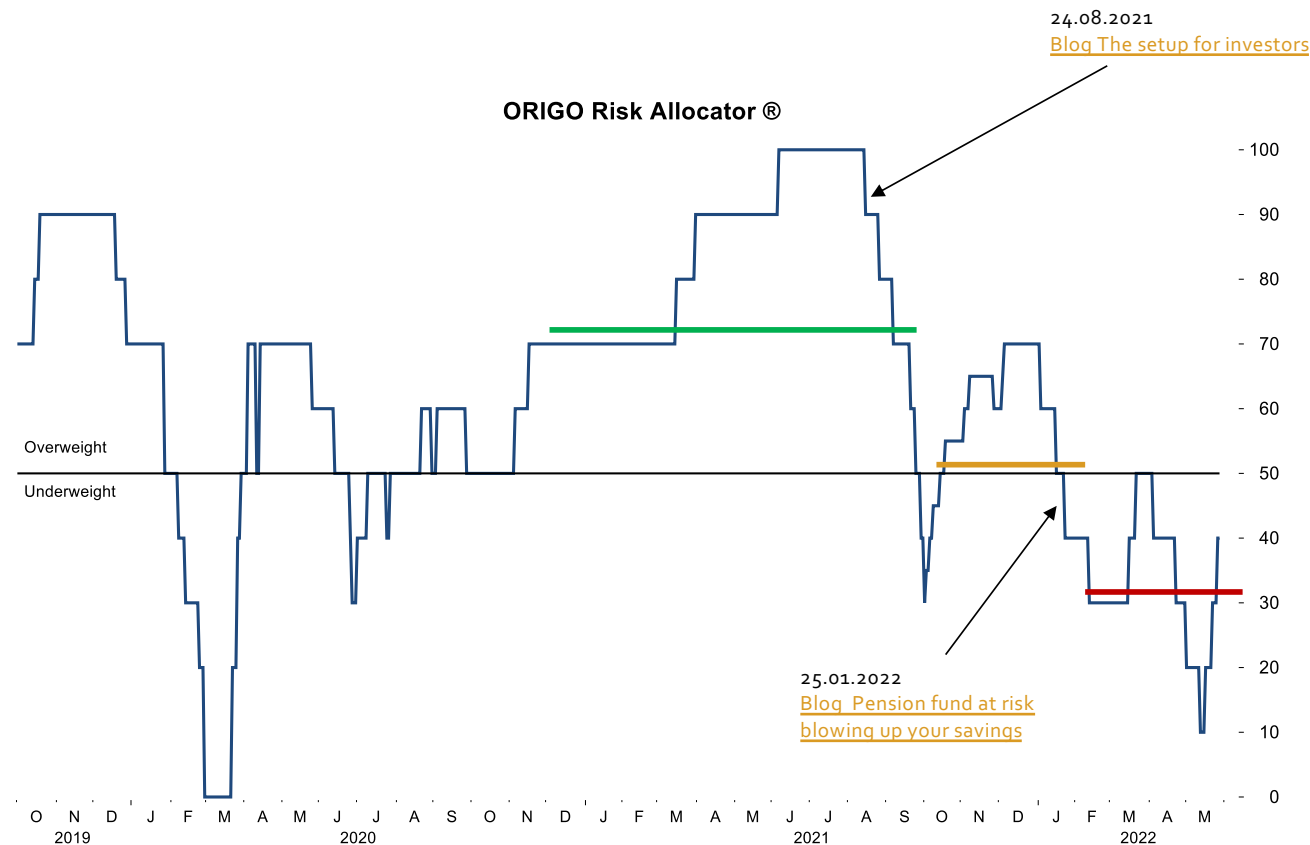
Investment  
process

Indicators



# OPRA® Origo Portfolio Risk Allocator

Timeline, 2019 -

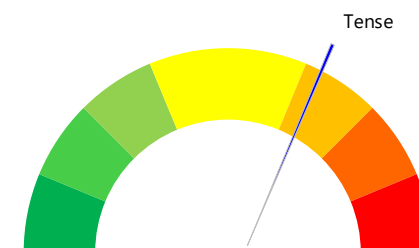


# OMRI<sup>®</sup> Origo Market Risk Indicator

Short-term risk gauge



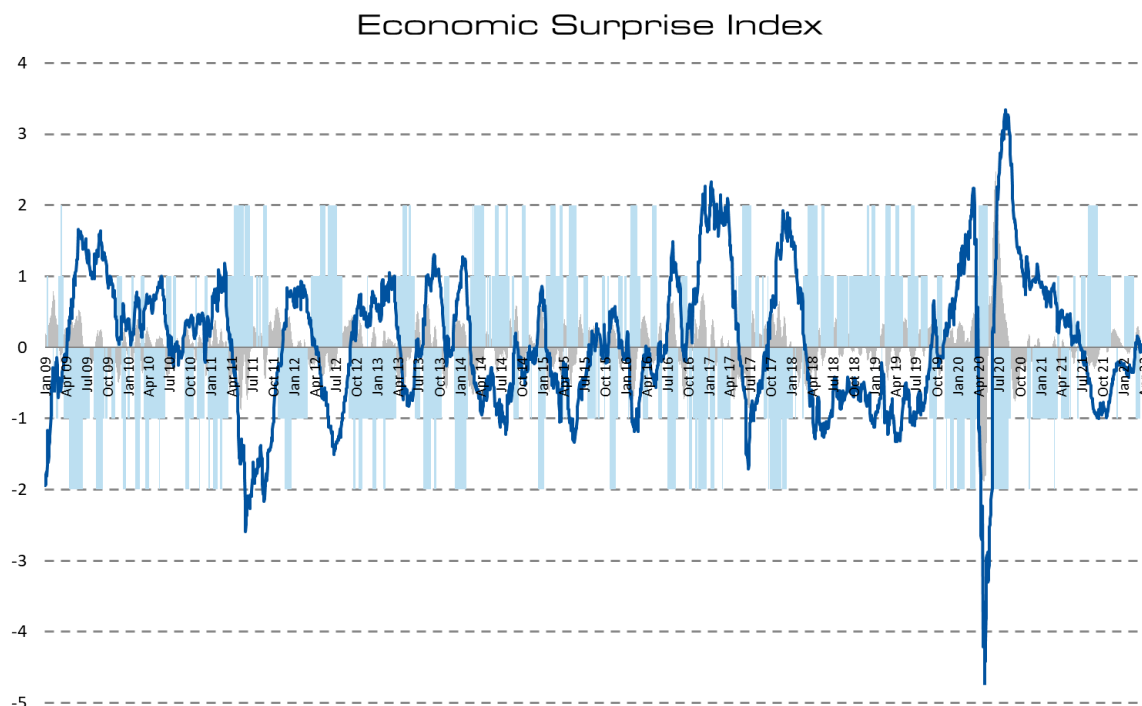
		31 May 2022
Indicator	Sentiment	Last update
X-Asset correlation	Neutral	30 May 2022
Economic Surprises	High risk	30 May 2022
Financial Conditions	Neutral	31 May 2022
Global Financial Stress	Neutral	30 May 2022





## Fundamentals

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



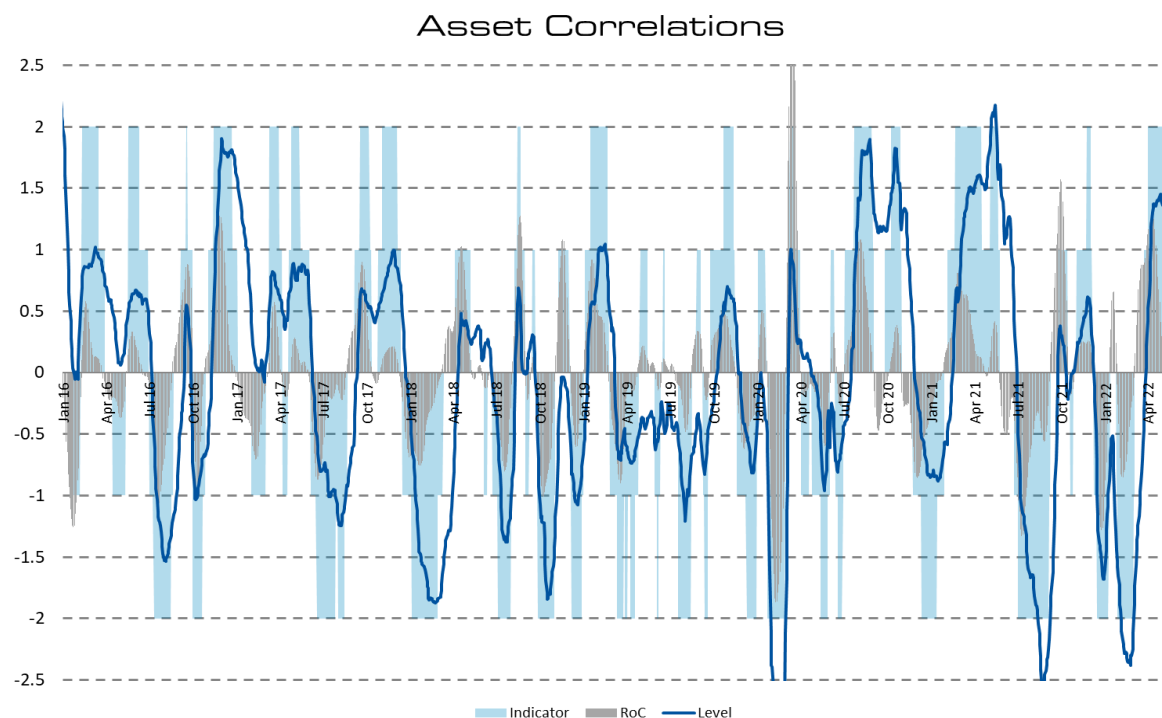
Real activity moderation gain pace. Analyst' are behind the curve and working to lower their economic activity estimates.

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



Cross asset volatility and correlations are improving.

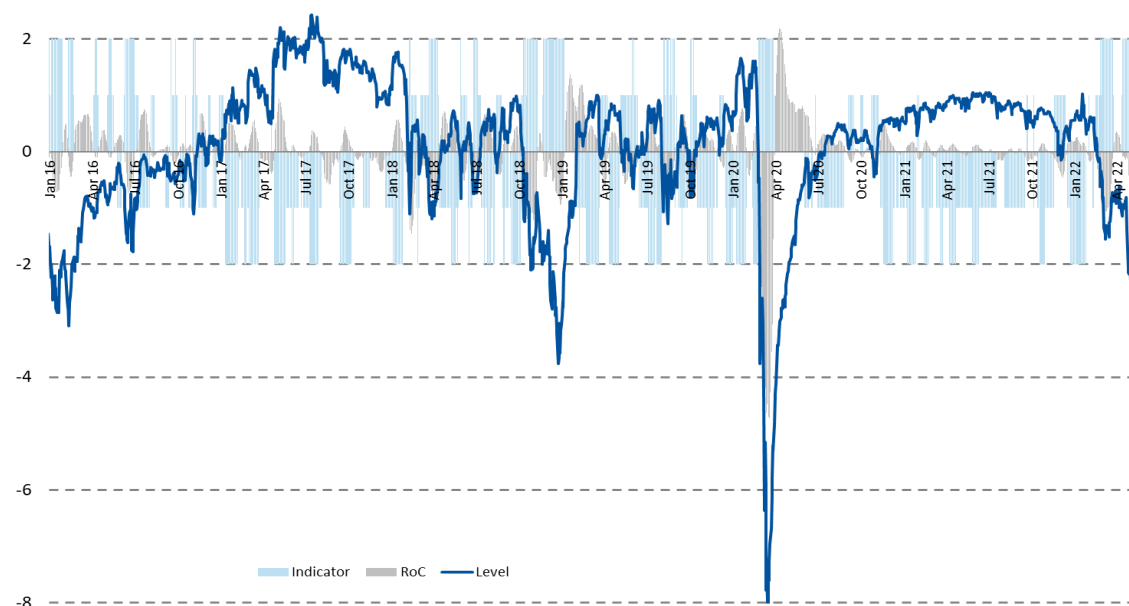
When the diversification benefit is low, there is not much to be gained from diversifying. Cash and alternatives should then be meaningfully increased.



## Market intelligence

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

Financial Conditions

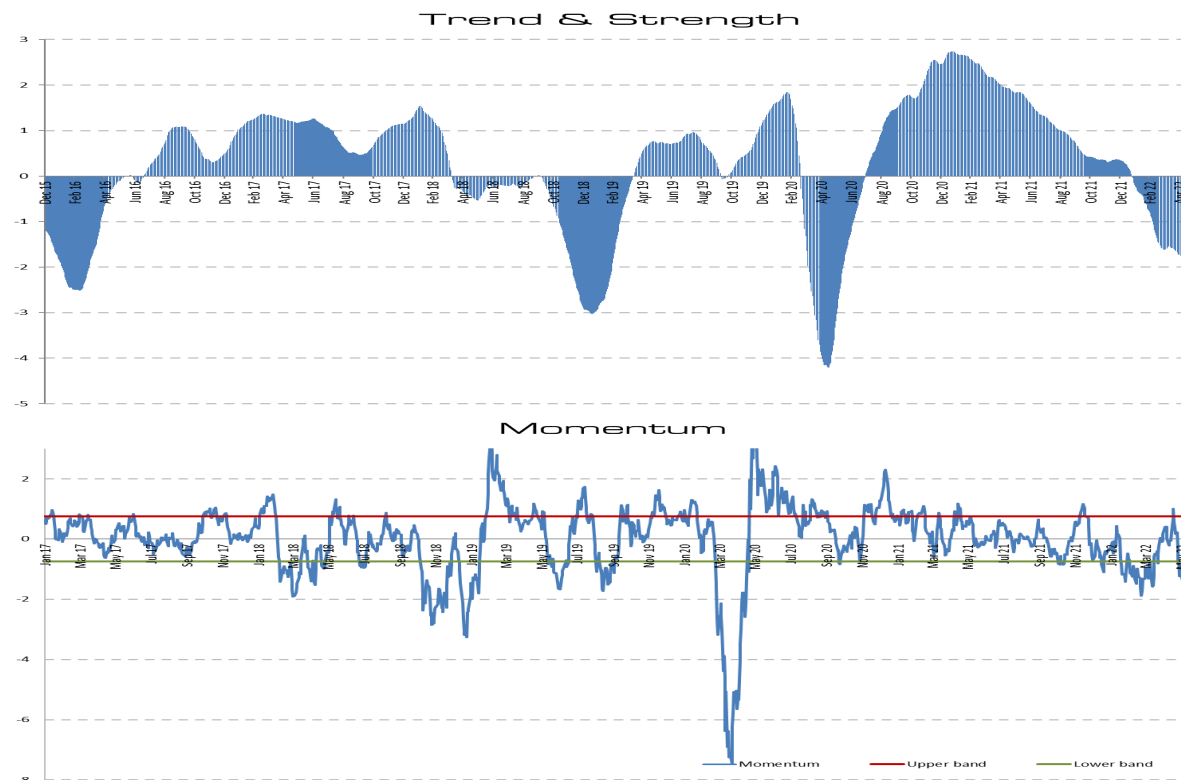


Pronounced stress across financial markets is now imp.

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**



Mean-reversion dynamics converge towards the negative trend in risk assets.  
The medium-term in all interest rate sensitive assets remain negative.

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





## Current status



### **Macroeconomics**

Peak inflation growth being the most important observation. This does not mean inflation is coming down towards 2%.

US continue rate hikes and QT.  
China probably a slow re-opening after CoVID lockdown.



### **Market Risk and market intelligence**

Short-term risk appetite improving from very low level on "peak inflation".

Underlying uncertainty will persist on inflation level, China CoVID19 policy, Russia/Ukraine and central bank policy to tilt global growth into recession



### **Technicals**

Mean-reversion dynamics towards negative trend in risk assets. The next "traders rebound".



### **Volatility and risk budgeting**

Portfolio risk is improving in both volatility from a high level and in cross asset correlation

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