Active Risk Allocation

July 2022

ORIGO CONSULTING

Independent | Transparent | Disciplined

Status

Stagflation risk receding – recession risk under control

- peak inflation growth
- economic activity drop
- margin pressure

Risk overview;

Short-term Neutral

Medium-term Negative

Stocks – underweight

- Low vol factor overweight, and defensive sectors

Bonds – underweight (improved)

- Underweight Europe. Duration underweight

Alternatives – large overweight

- Non-interest rate sensitive, non-directional, uncorrelated assets and strategies
- Macro- as micro analysts' cutting forward estimates

Macroeconomics

- Peak inflation growth. Central bank rate hikes & Quantitative Tightening(QT)
- China CoVID-19 "grand re-open" vs Omicron
- Global supply disruptions

Indicators

- OPRA: Negative / Stable (risk gauge for balance risk/risk free)
- OMRI: High / Stable (model volatility gauge)

Active Risk Allocation

The state of indicators

ORIGO CONSULTING

Independent | Transparent | Disciplined

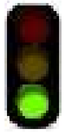
Investment process

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

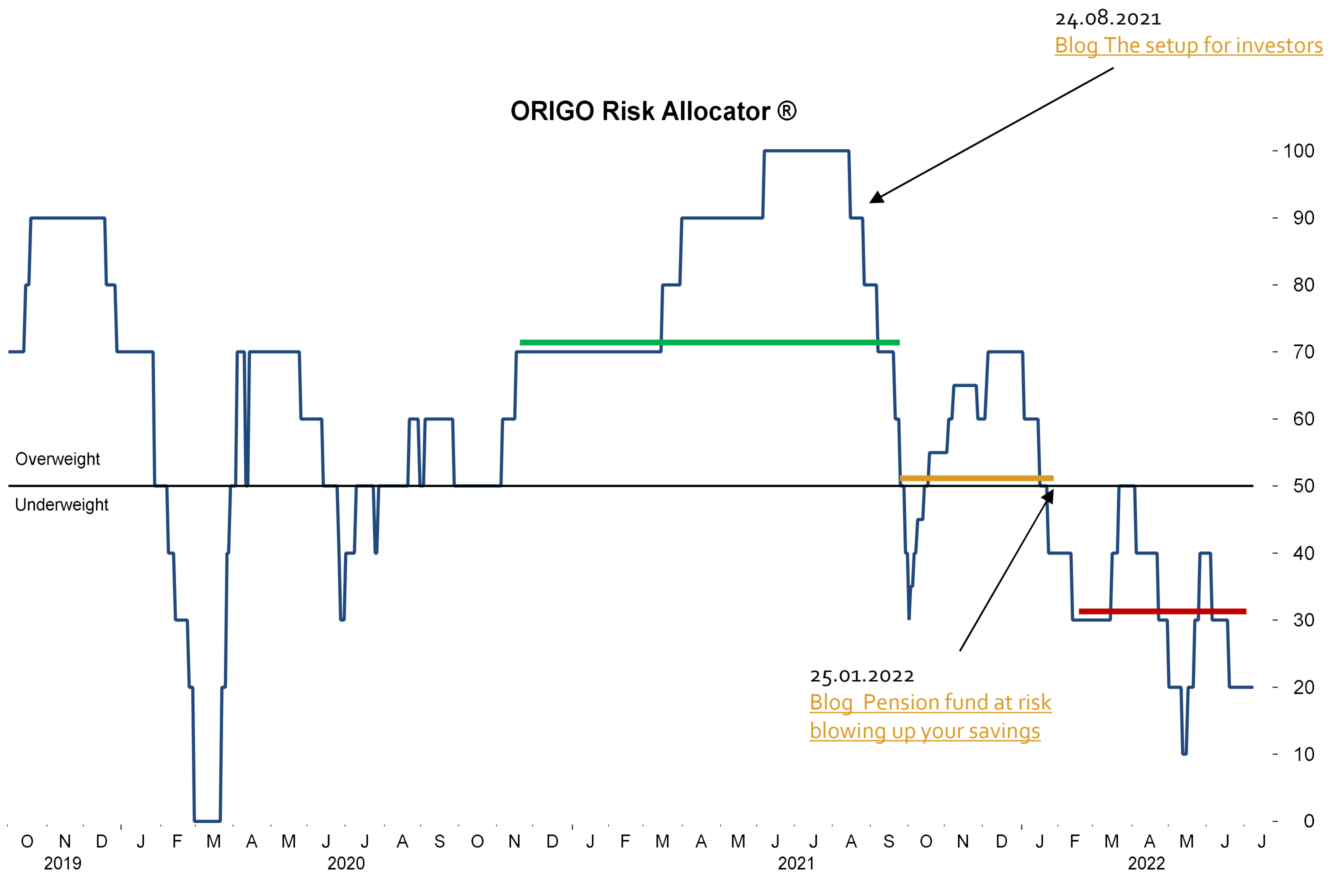
Market positioning, risk perception and dynamics

Trend following

Trends, direction and strength

OPRA®
Origo Portfolio Risk Allocator

Timeline, 2019 -



Turn of 2021/22, a pivotal moment, as scenario of low inflation/high growth turn for high inflation/low(er) growth

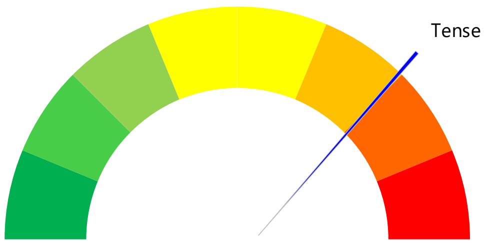
OMRI®
Origo Market Risk Indicator

Short-term risk gauge

Market Risk Indicator

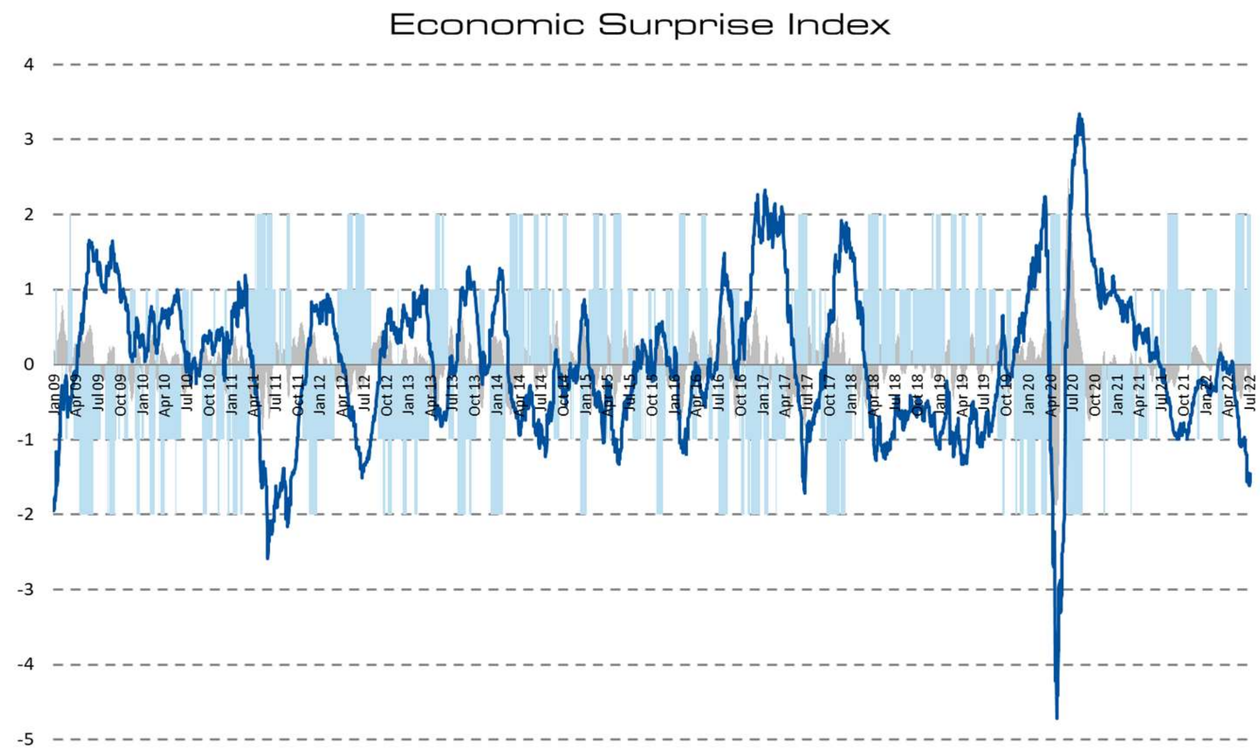
08 July 2022

Indicator	Sentiment	Last update
X-Asset correlation	Neutral	08 Jul 2022
Economic Surprises	High risk	08 Jul 2022
Financial Conditions	Neutral	08 Jul 2022
Global Financial Stress	High risk	08 Jul 2022
Gepolitical Risk	Feels good	30 Jun 2022



Fundamentals

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

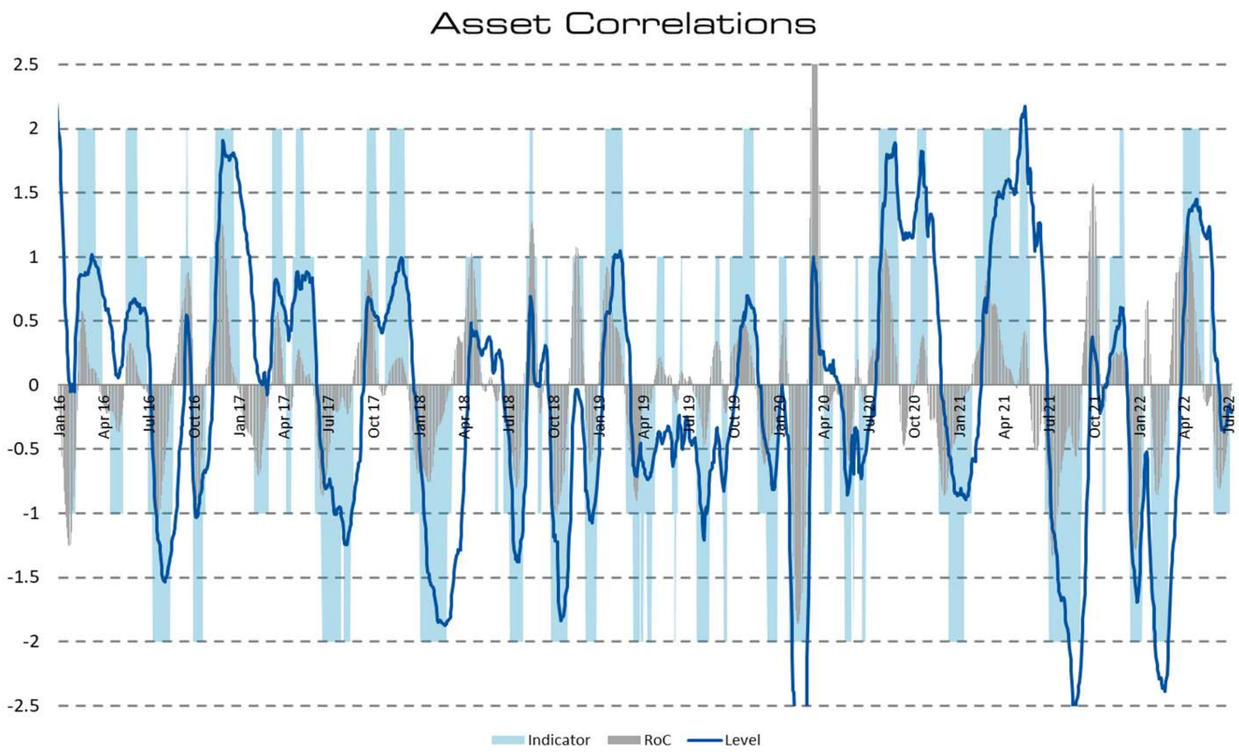


Negative surprises reflects activity moderation is gaining pace. Analyst' are behind the curve and working to lower their economic activity estimates.

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



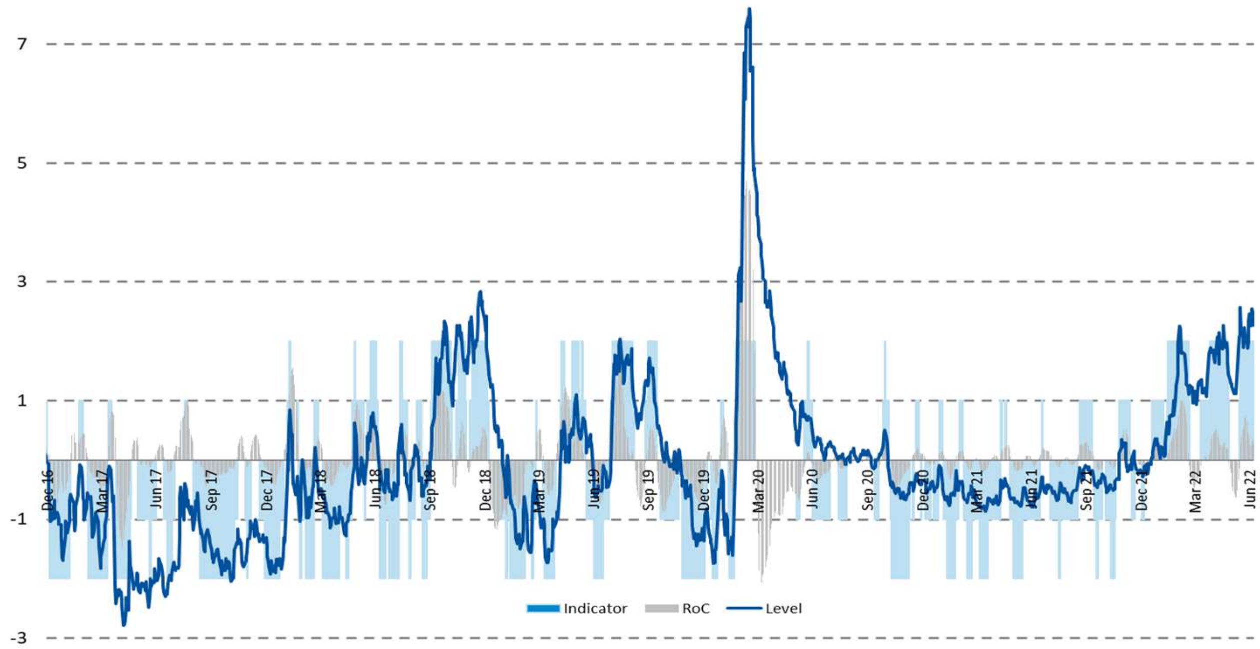
Cross asset volatility and correlations are neutral.

The 60/40 passive fixed combination is based on the assumption of constant negative correlations, despite this being more an exception than a rule over the past 10 years. 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

Global Financial Stress Indicator

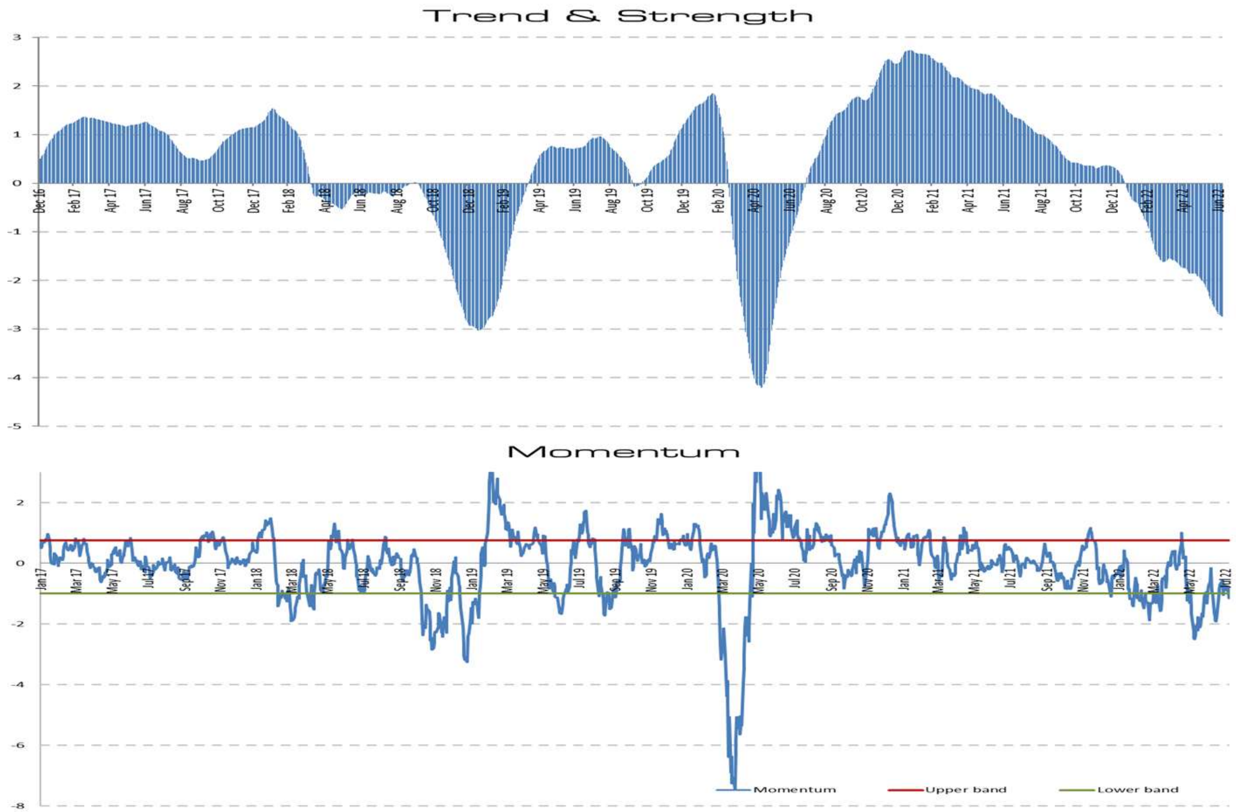


Pronounced stress across financial markets. For any change to market risk perception, this is where it will first be visible.

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**



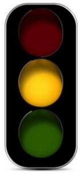
The pattern through 2022 remain consistent with volatility around a falling trend.
New short-term long stocks trading setup.
Medium-term in all interest rate sensitive assets remain negative.

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

Current status

Macroeconomics
Entering phase for US peak inflation growth potential (base effect). We expect inflation level to remain elevated.
US to continue rate hikes and QT.
China re-open for a bumpy ride.
Europe slowdown to accelerate for a stagflation scenario.

Market Risk and market intelligence
Underlying uncertainty will persist on global inflation level/growth moderation towards a stagflation/recession scenario complicated by trade- and energy-disruption.



Technicals
Medium-term negative trend in risk assets still dominant.
Short-term technicals keep switching between buy/sell, indicating a trading channel around a falling trend.

Volatility and risk budgeting
Portfolio risk har returned towards "normal" correlations.
Continued high asset volatility supports our theory for having entered a new regime around Sep 2021.

On the radar

ORIGO CONSULTING

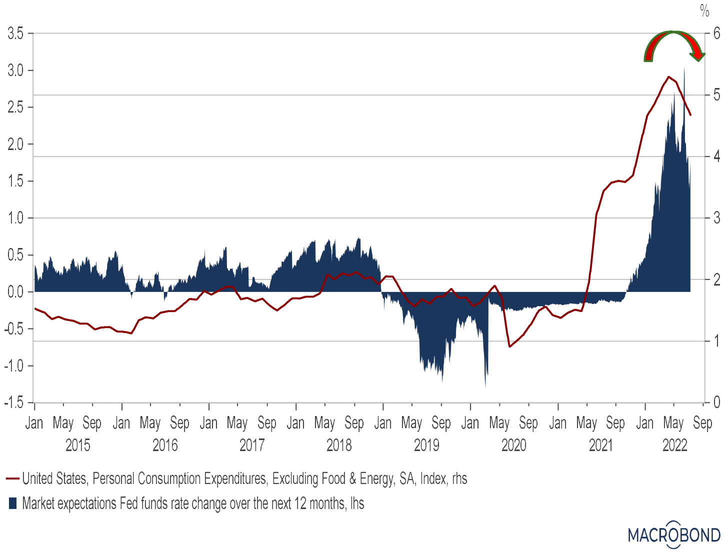
Independent | Transparent | Disciplined

Macro risk – Inflation

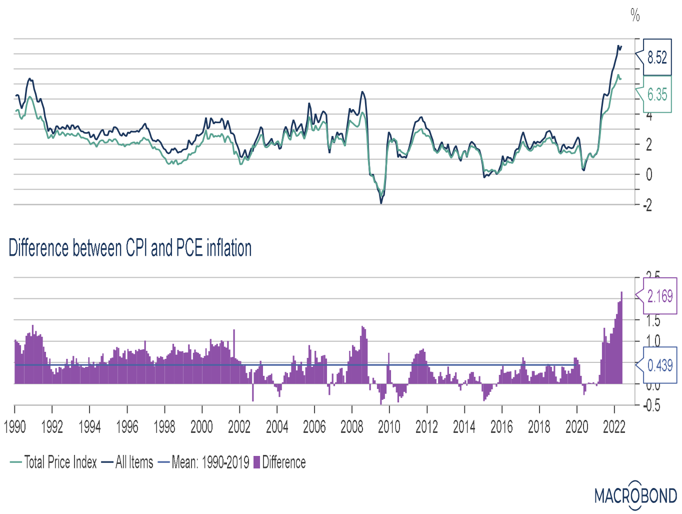
Stagflation risk abading

Inflation was soaring heading into 2022 ..
+ Russia-Ukraine war
+ China “zero-CoVID” vs Omicron
+ DeGlobalisation

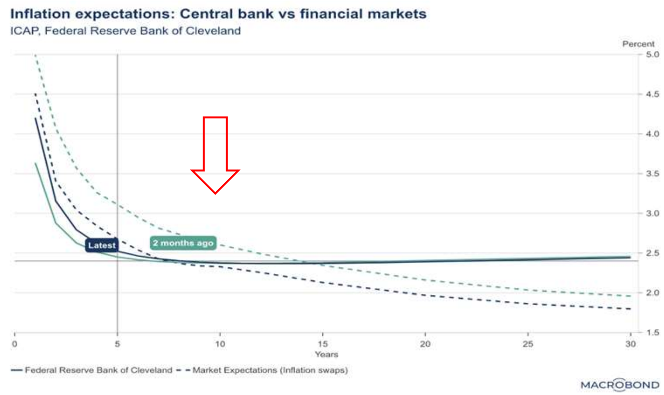
Peak inflation growth (US)



US CPI vs PCE



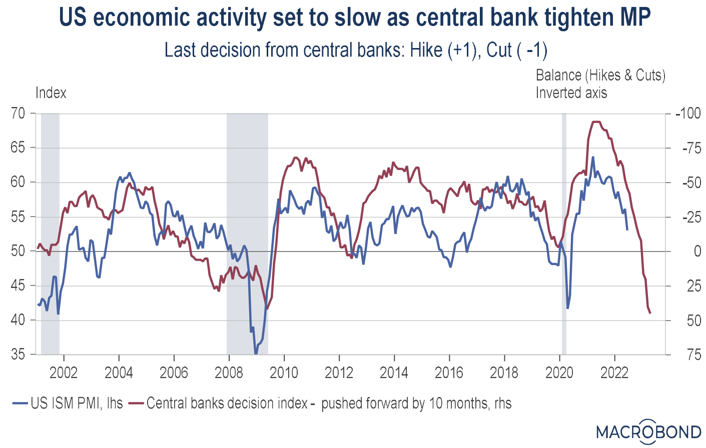
Consumer price inflation expectations (based on breakeven rate)

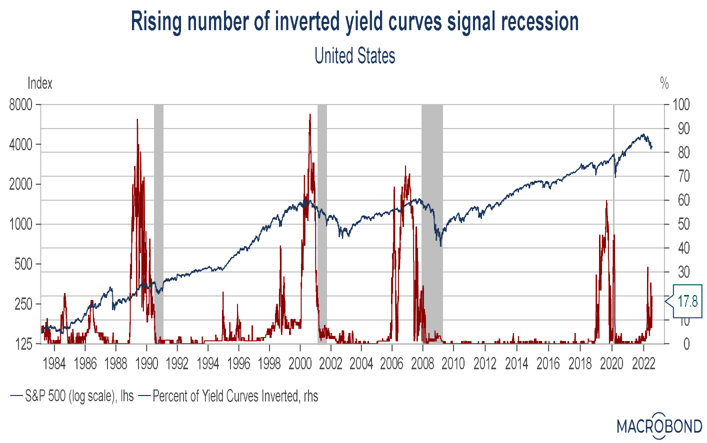


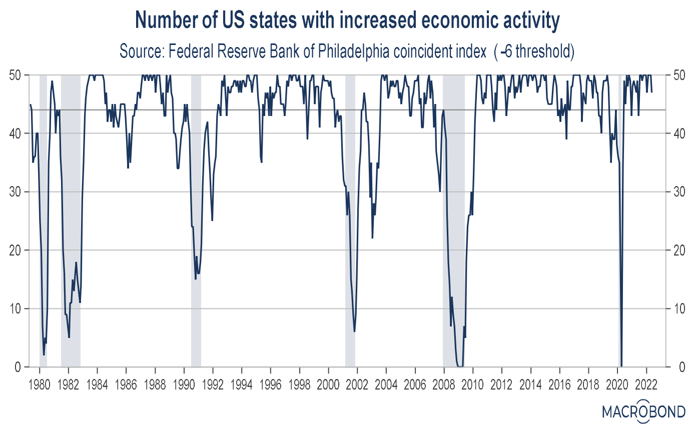
Macro risk – activity

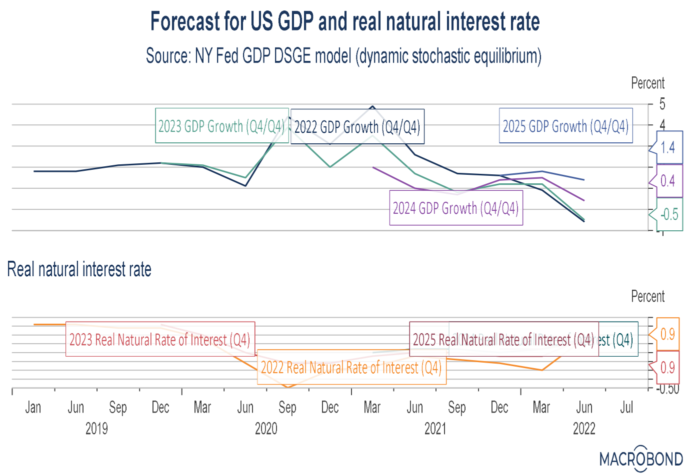
Recession risk manageble

US and Global activity has ample lattitude => Fed tightening will continue









Capital markets - stocks

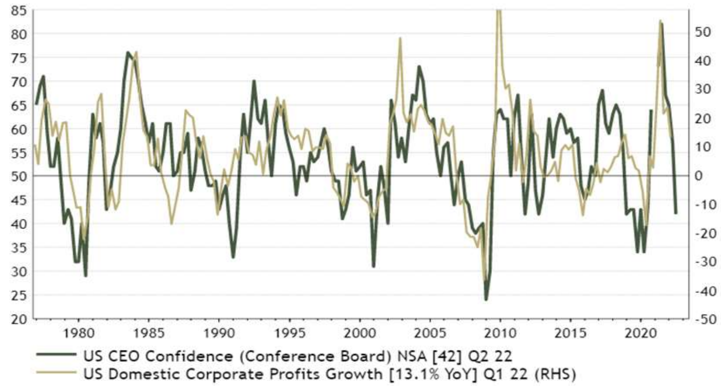
Earnings recession ?

While price per share has dropped, pricing has not

A -15% EPS drop = PE around 20x

<< New Orders (ISM)

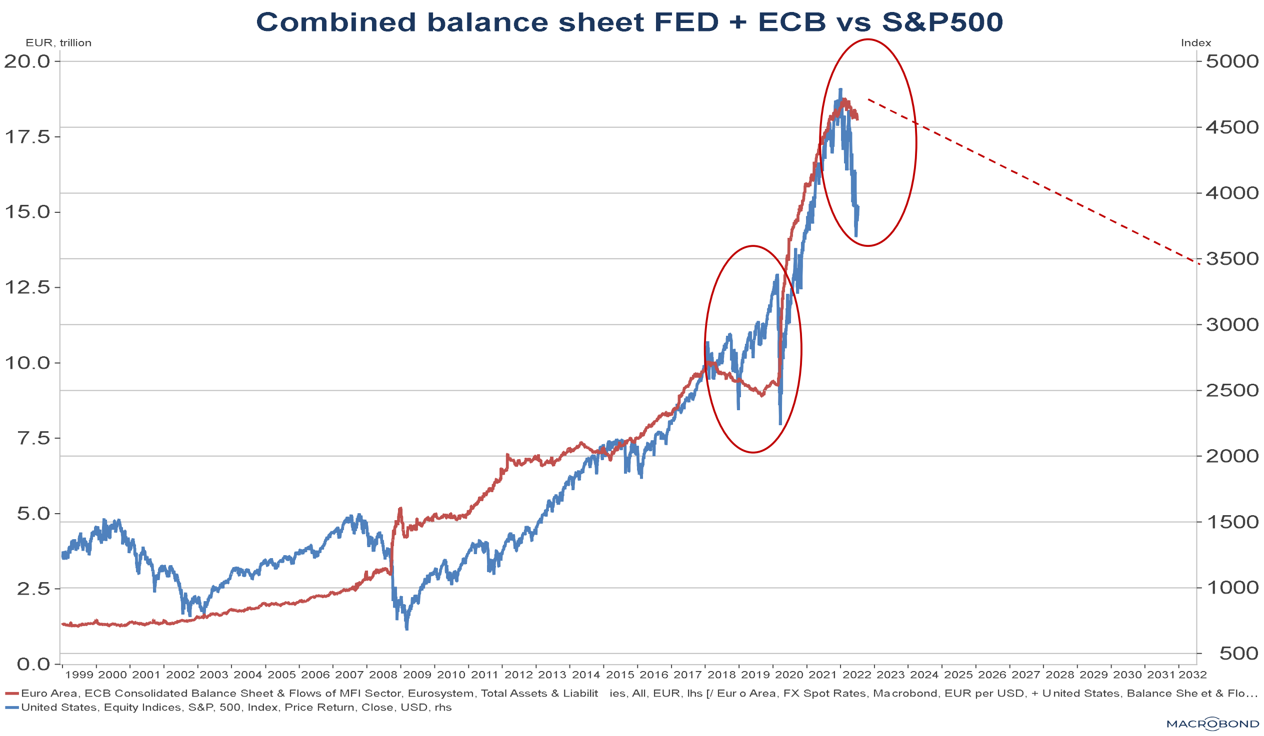
Conference Board (CEO) >>



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



Disclaimer

This document is informative and confidential and includes information intended for institutional or professional investors. It can only be read by the person to whom it is addressed. The contents of this document may not be reproduced without the prior written permission from Origo Consulting. The information contained herein has been obtained from sources deemed reliable, however the production of this information may contain errors or omissions that have escaped our vigilance and Origo Consulting or its representatives have no responsibility for the information.

Any views or opinions expressed in this presentation are solely those of the author and does necessarily represent those of Origo Consulting. Unless otherwise stated, this presentation is not investment research.

The information is not intended to provide recommendations, and should not be relied upon, for accounting, legal, tax advice or investment purposes. You should consult your tax, legal, accounting or other advisers separately. Nothing in this information summary should be construed as an offer, invitation or general solicitation to invest or to engage in any other transactions.

This presentation should not be considered as a recommendation or an offer to sell financial instruments. The past performance of a product does not represent its future performance and the value of the investments may vary up or down. Investors must make investment decisions based on their financial position and their objectives of investment in light of the regulations which are applicable to them. Origo Consulting can not be held liable for any direct or indirect result of using this document. Origo Consulting can not be held responsible for direct or indirect damages resulting from the use of this document.