Active Risk Allocation

October 2022

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Status

Setup, asset 2nd revaluation 2022
Global recession 2023, 50/50

- Inflation remain sticky
- activity slowdown accelerate
- rising inventories spells new profit warnings

Risk overview;
Short-term **Positive**
Medium-term **Negative**

Stocks – underweight
- Low vol factor overweight, and defensive sectors

Bonds – underweight
- Underweight Europe. Overweight US credit

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

Macroeconomics
- Central bank rate hikes & Quantitative Tightening(QT)
- China, ideology vs reality
  - UK fiscal chaos (watch 23/11 for u-turn - if government last)
- Global supply disruptions (post-covid imbalance, trade war, war)

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

Active Risk Allocation

The state of indicators

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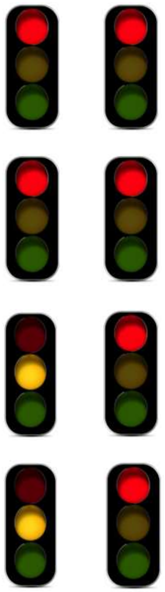
Investment process

Indicators

Highly sophisticated models
analysing about 150 indicators



Fundamentals — Proprietary macro and micro economic models

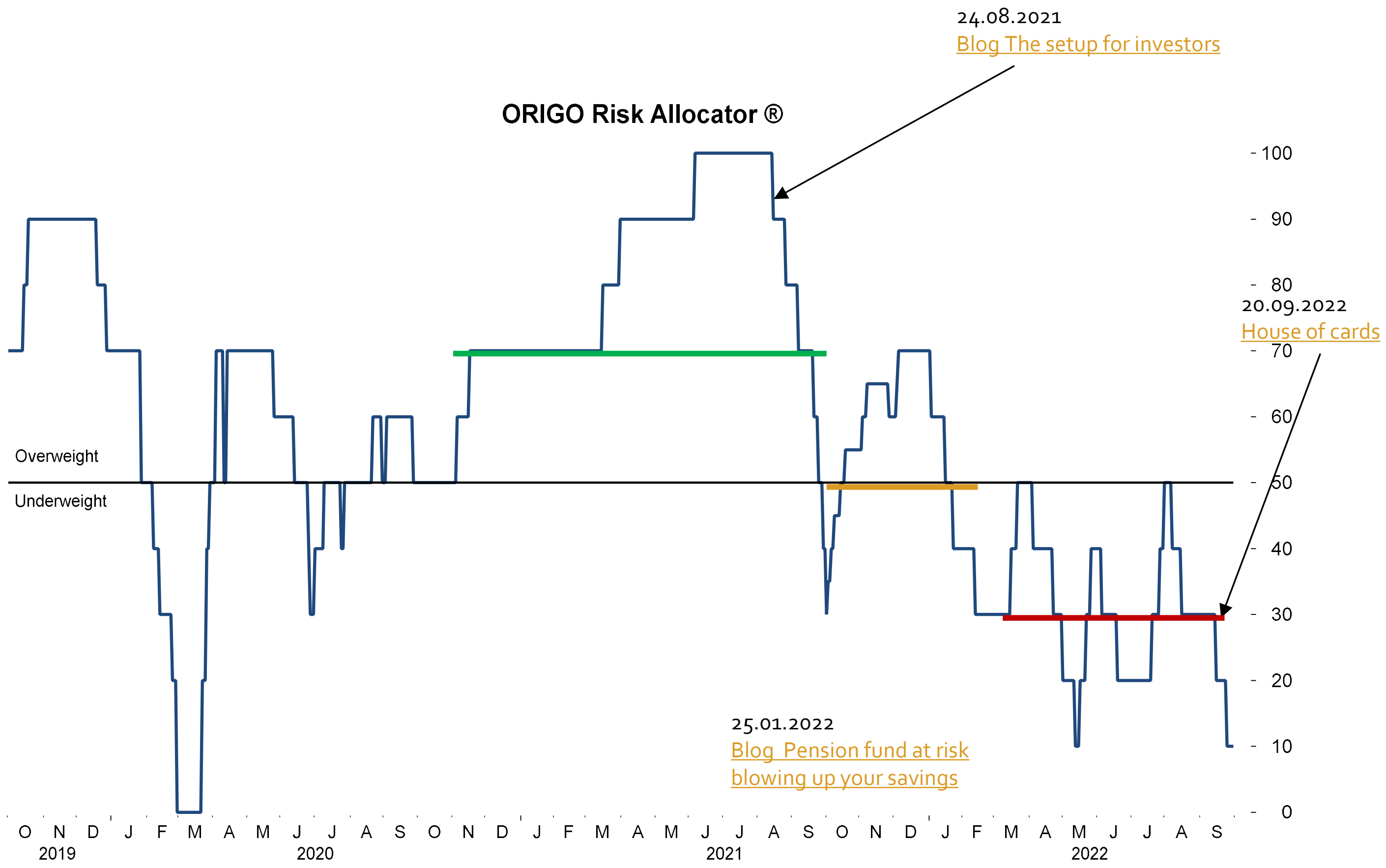
Risk models — The investment value of diversification, volatility and correlations

Market intelligence — Market positioning, risk perception and dynamics

Trend following — Trends, direction and strength

OPRA®
Origo Portfolio Risk Allocator

Timeline, 2019 -



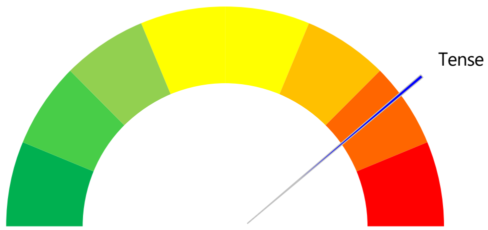
OMRI®
Origo Market Risk Indicator

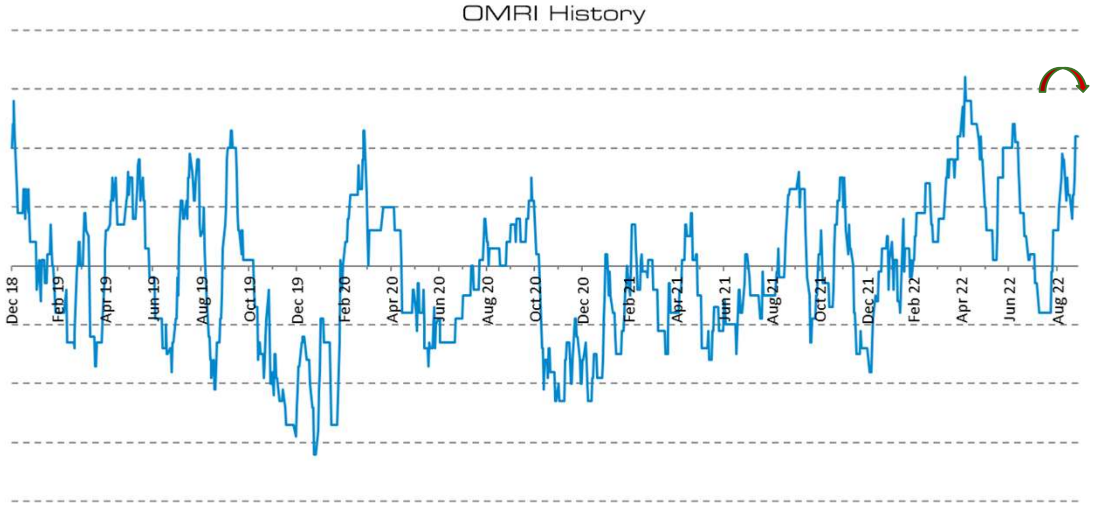
Short-term risk gauge

Deterioration across the board to another high point setup for a "darkest before dawn" mini-risk rally.

30 September 2022

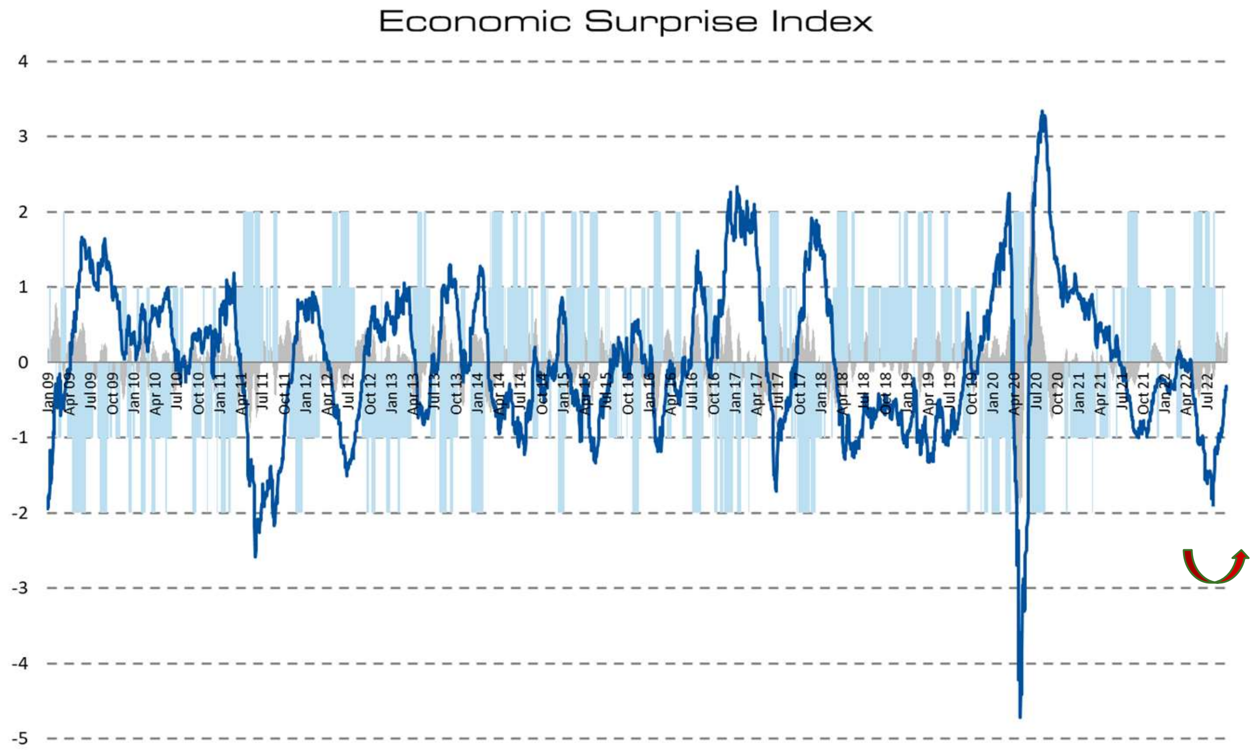
Indicator	Sentiment	Last update
X-Asset correlation	High risk	26 Sep 2022
Economic Surprises	Neutral	26 Sep 2022
Financial Conditions	High risk	26 Sep 2022
Global Financial Stress	High risk	23 Sep 2022





Fundamentals

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



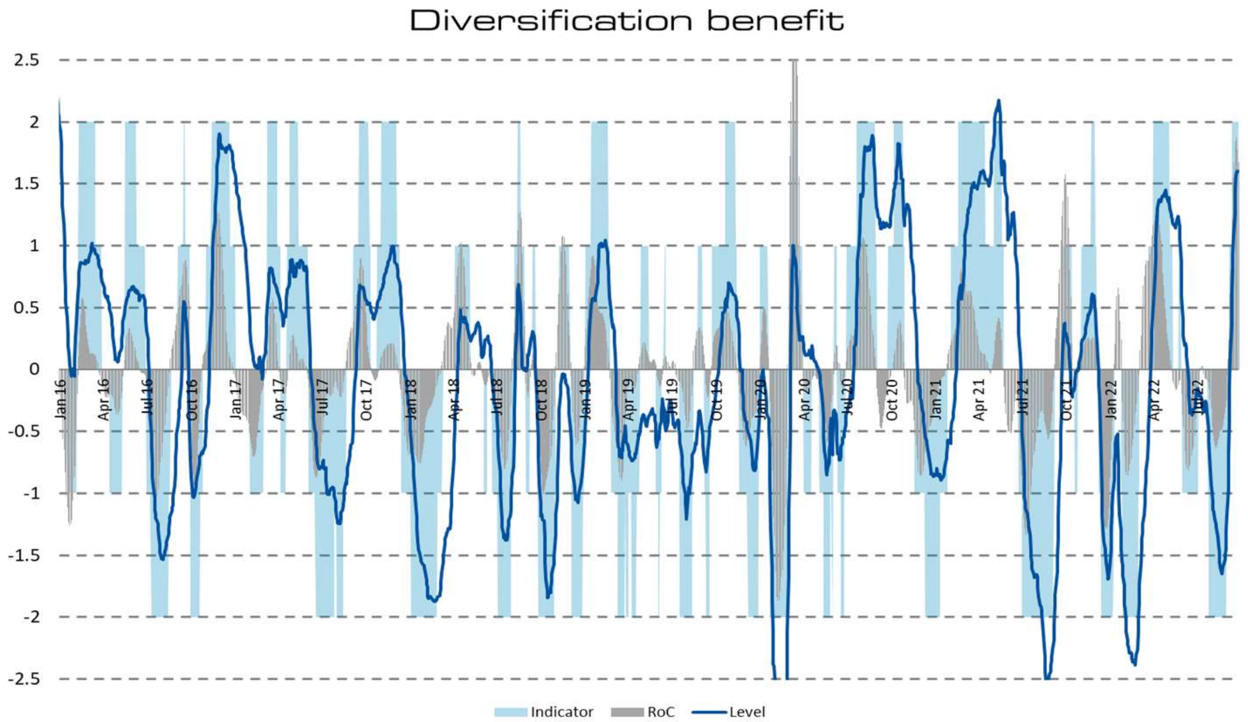
Real economic data showing more strength than economist' forecast.

Bond (and delayed stock) summer rally, now a confirmed "bear trap". For now, market dynamic for that "positive" news are bad new, as that will confirm continued centralbank tightening.

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

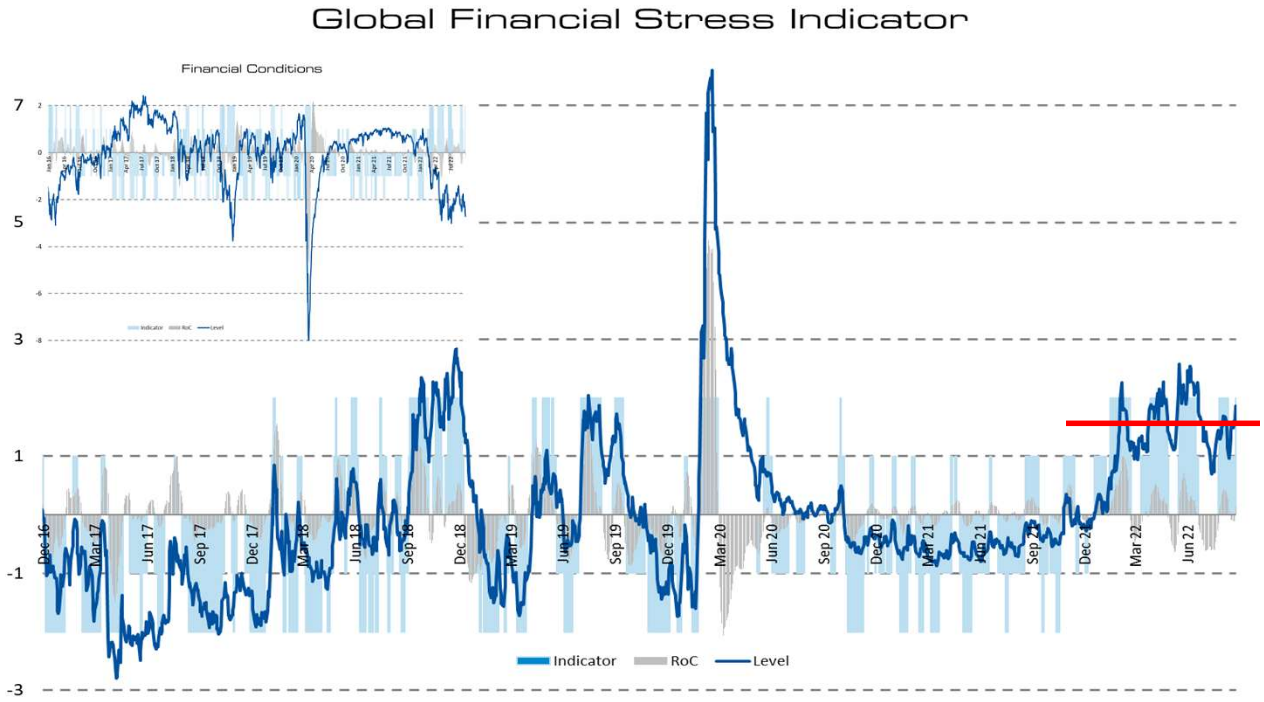


No "Markowitz benefits" in a broad based portfolio composition.

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



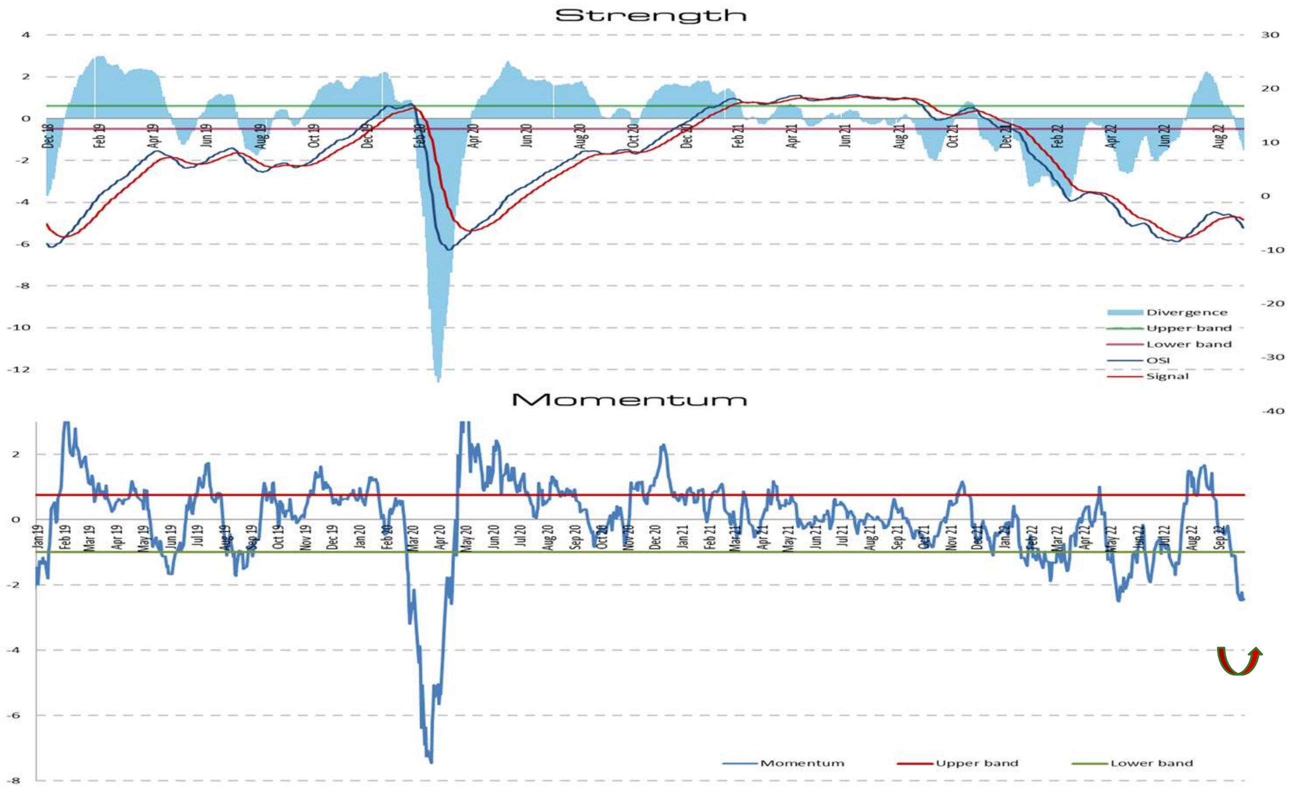
Persistently high level of stress since September 2022.

Following summer rally, market stress has again increased and this time spreading globally. Europe remain epicenter of deterioration in financial conditions, followed by China and US.

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**

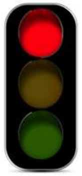


Short-term, mini-rally after stocks breaking another year-low.
Medium-term trend after summer resumed negative bear-trend.

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

Current status

Macroeconomics
Activity slowdown now accelerating, while CBs remain focused on sticky inflation fighting.
Risk rising for combined CB tightening and USD-effect leading to a over-tightening.
China housing bubble now crack.
Europe recession 2022 now a consensus.
Monetary tightening to continue.



Market Risk and market intelligence
Financial markets adapt to Powell's message for focus to ongoing inflation fighting. Forward rate curve shifting upwards, again.
"Sentiment" is the fastest and now only factor to indicate any short-term relief.

Technicals
Medium-term trend in risk assets resume negative trend.
Short-term technicals keep switching between buy/sell, indicating a trading channel in a bear-market

Volatility and risk budgeting
Portfolio risk high as assets move in synch – and now all are falling.

Continued high level of asset volatility supports our theory for having entered a new regime around Sep 2021.

On the radar

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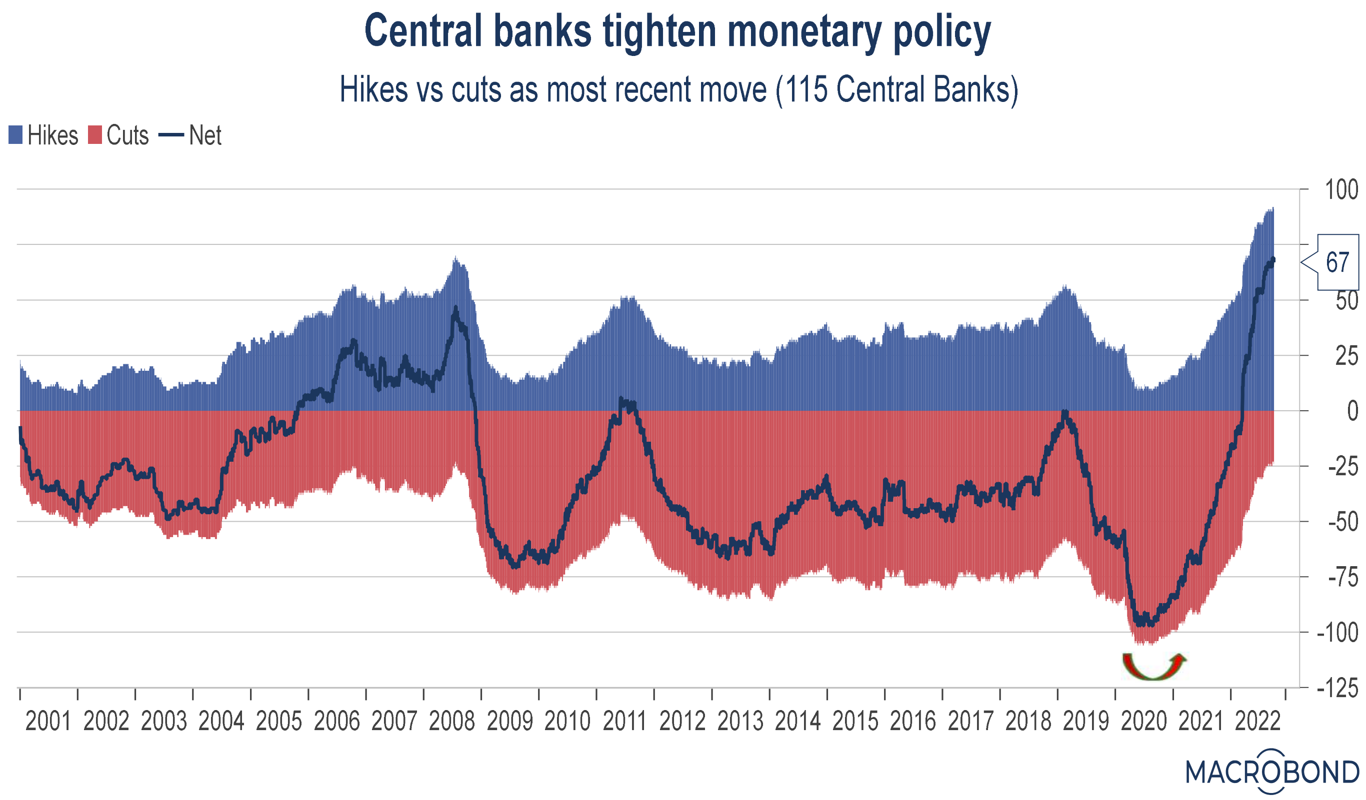
Macro risk - centralbanks

Rising risk over combined CB over-zealousness

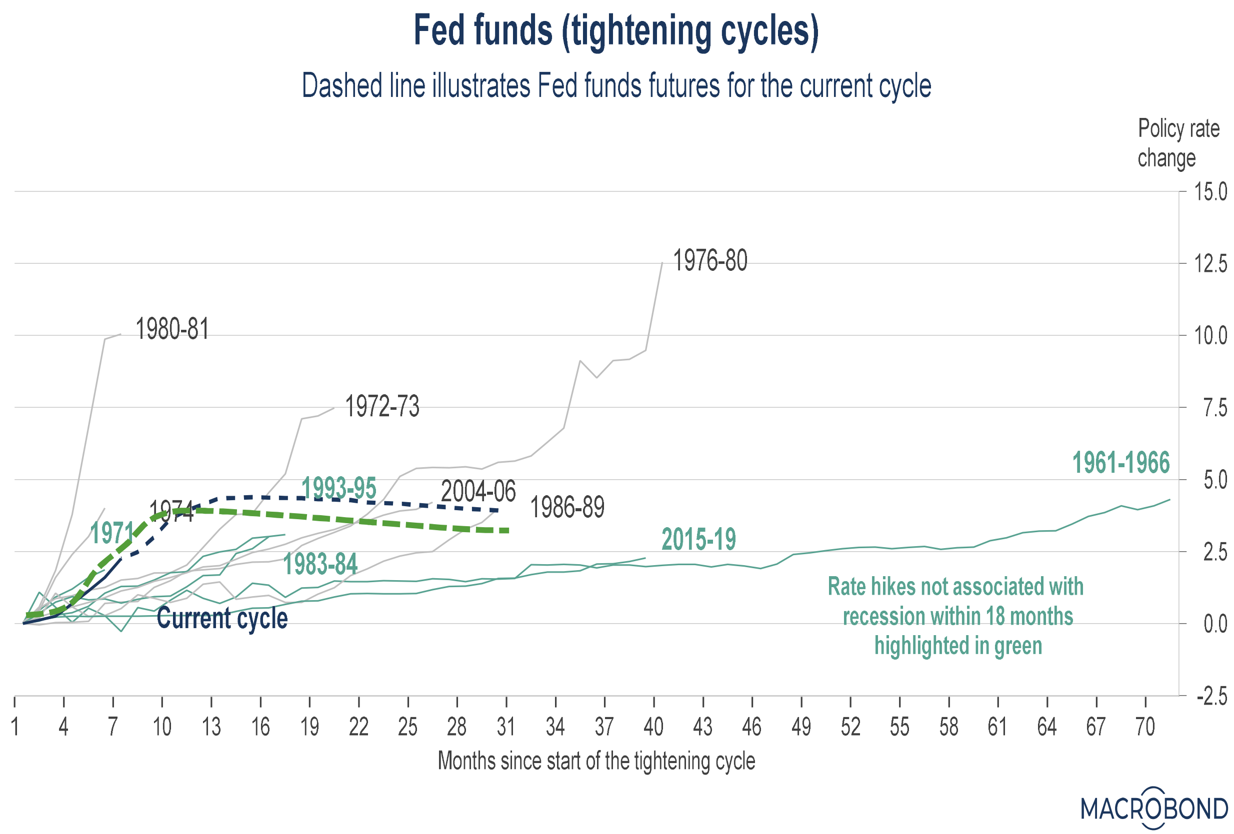
A massive tightening cycle is unfolding. Reversing monetary policy since The Great Recession



Macro risk – Fed Funds

FF hiking cycles

Rates expectation shifted towards higher for longer, again



Macro risk – activity

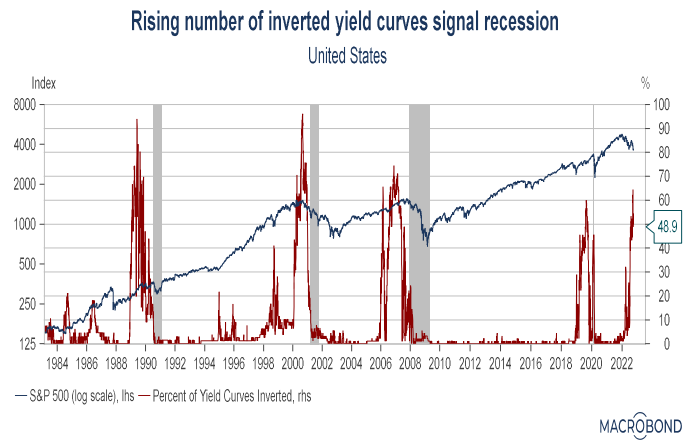
US activity decellerating - fast

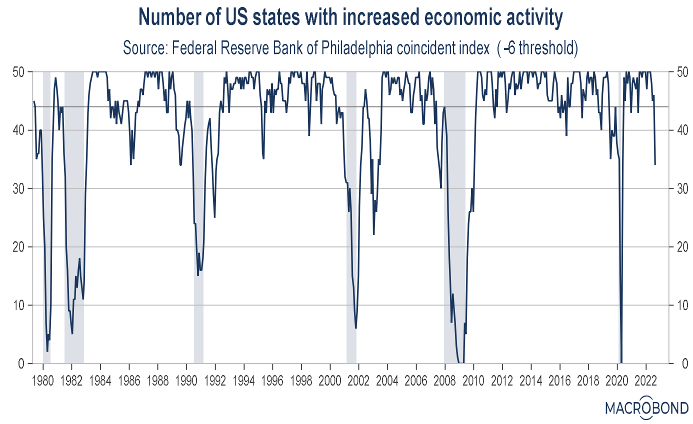
Activity remain quite resilient, but centralbank impact now point to ISM below 40

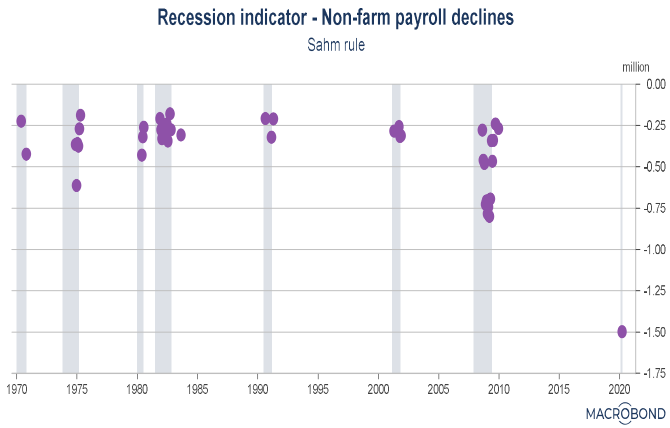
Macro risk – activity

US recession – odds now passing 50%

However, US activity has lattitude => Fed tightening will continue



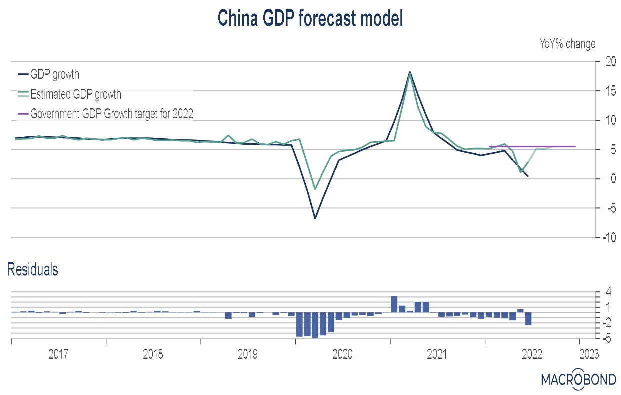


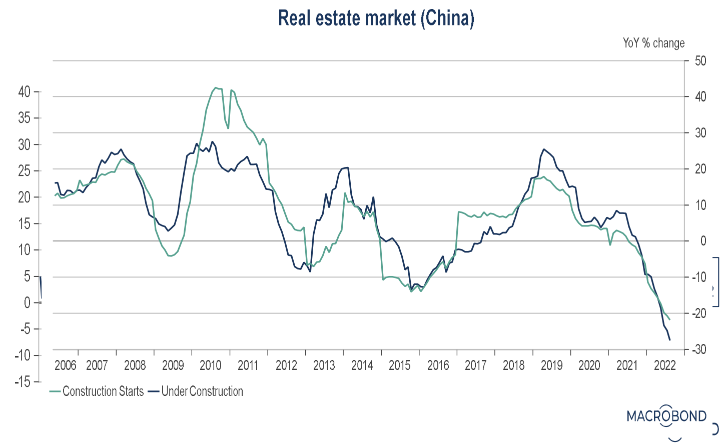


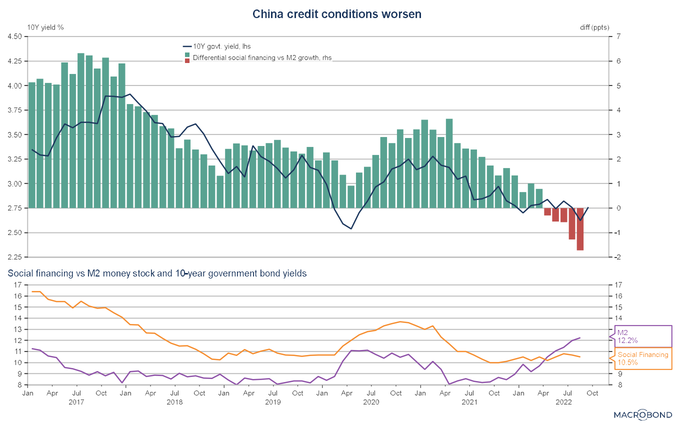
Macro risk - China

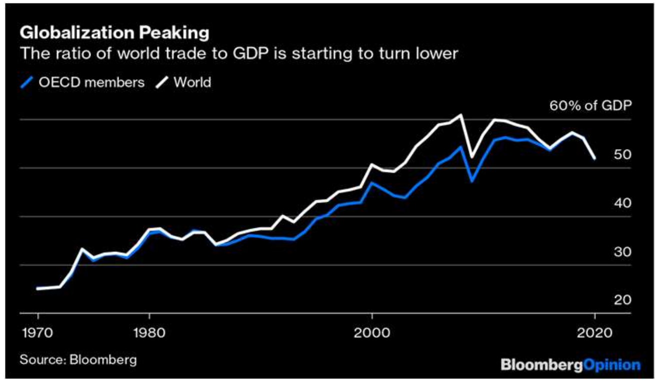
China, Evergrande a prelude for the next global debt crisis?

- Zero-CoVID policy
- Tech crackdown
- Changing demographics
- Real estate deflation
- De-globalisation



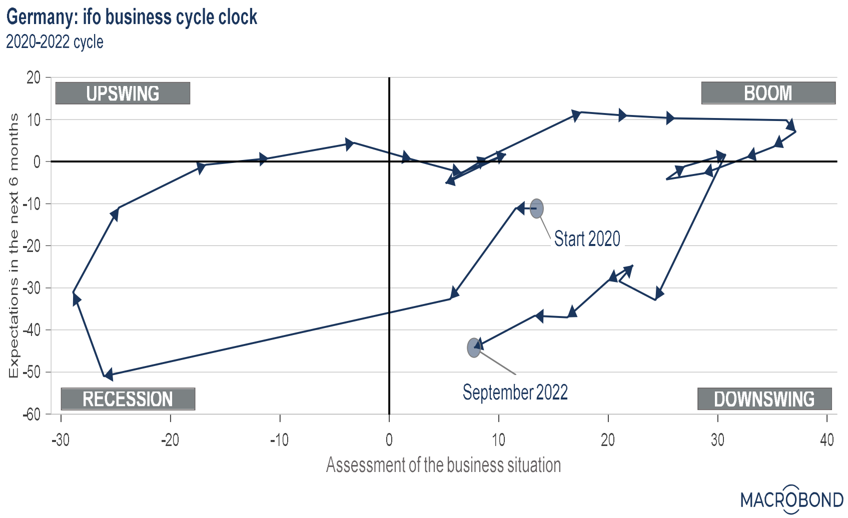




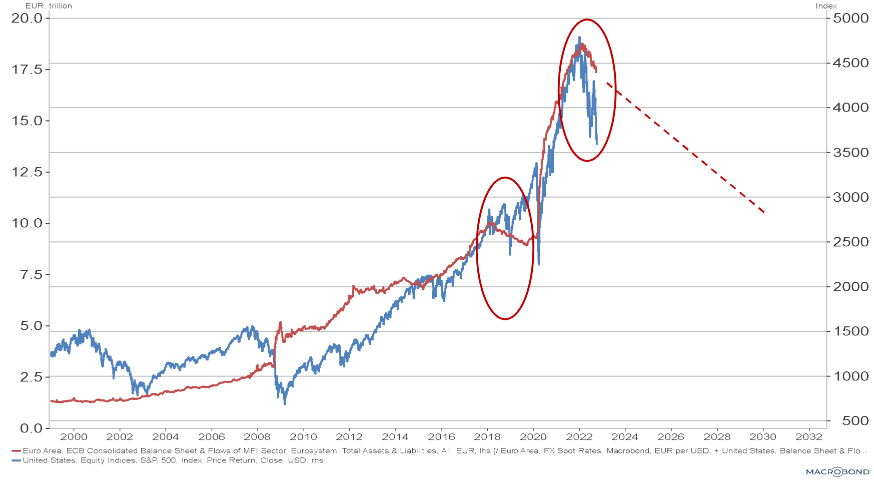


Macro risk - Europe

Germany lead Europe into recession. Italy leading into crisis?



Combined balance sheet FED + ECB vs S&P500



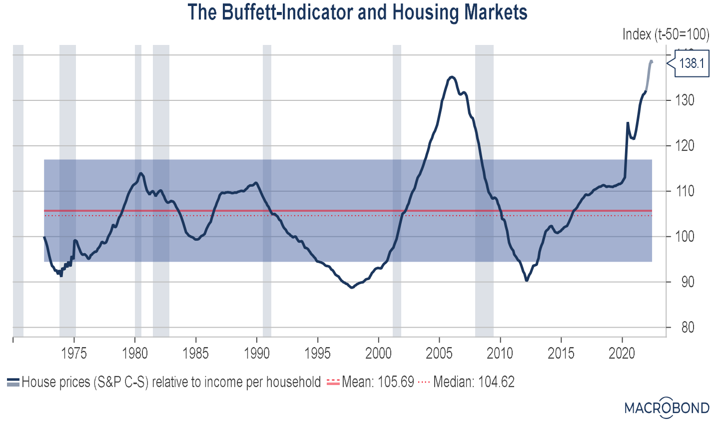
Capital markets

The big asset deflation - on track

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

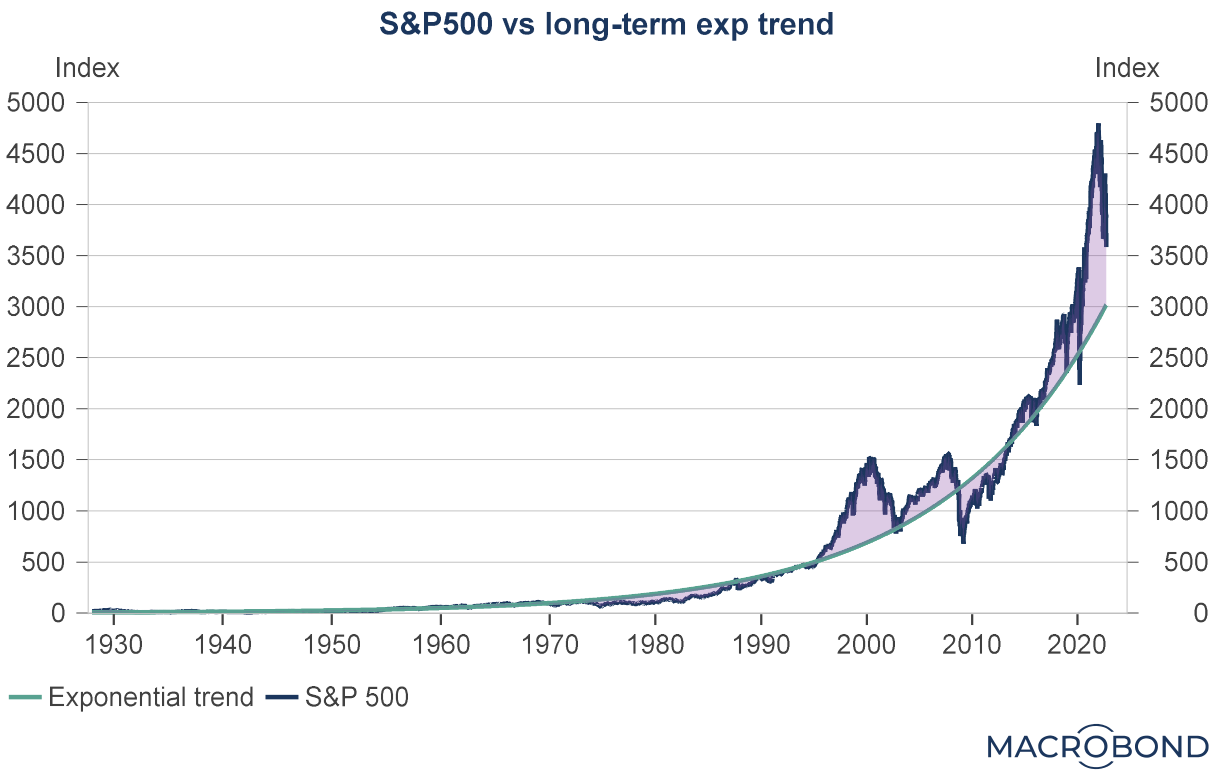
The correlation suggest a high risk of mis-allocation of unproductive capital, such as predominantly RE, high growth/no profit cpy's, crypto …

The Buffett-Indicator and Housing Markets



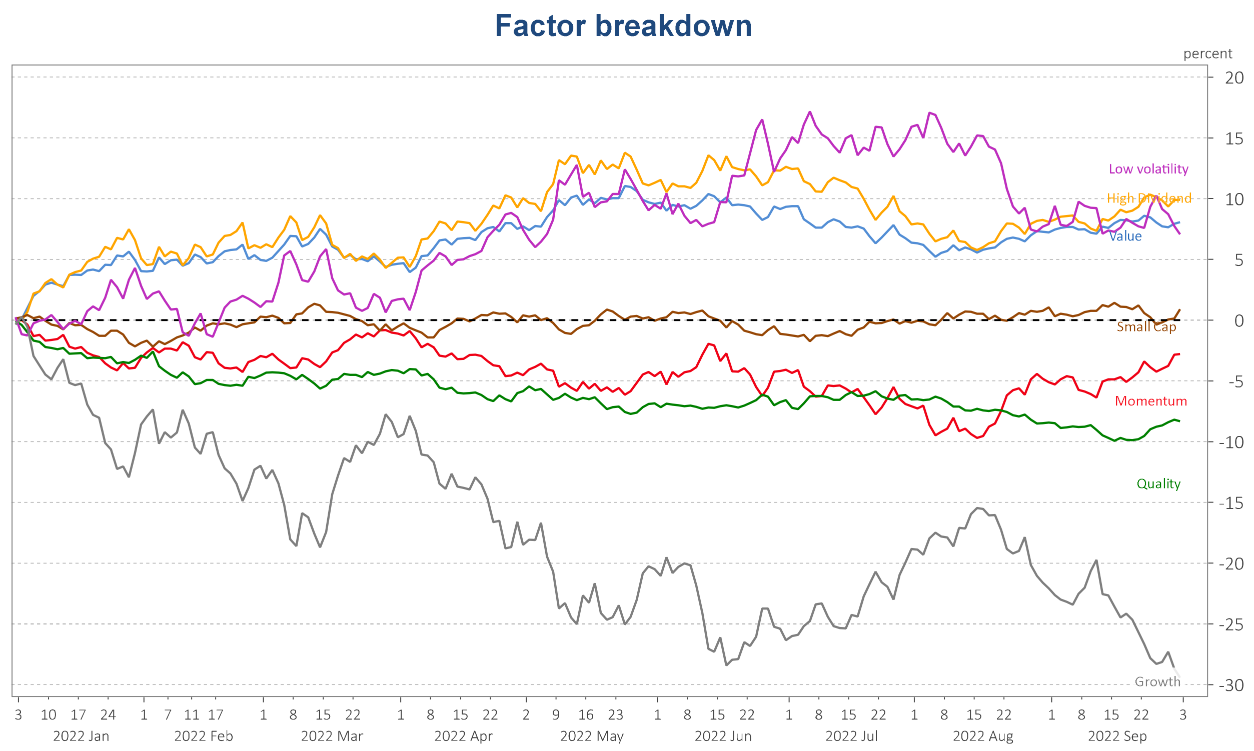
Capital markets - stocks

Still above trend



Capital markets - factor styles

Low vol factor outperformance.
Growth factor bottom-fishing dynamics



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