Active Risk Allocation

November 2022

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Status

Asset revaluation, ongoing
Global recession risk, rising

- Inflation remain sticky
- activity slowdown, labour market resilient
- margin pressure accelerate, as do bankruptcies

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

Stocks – underweight

- Overweight momentum factor and defensive sectors

Bonds – underweight

- Overweight corporate credit

Alternatives – overweight

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

Macroeconomics

- Monetary super-tightening, policy rates & Quantitative Tightening(QT)
- China, ideology vs reality
- Global supply disruptions (post-covid imbalance, war, trade war)

Indicators

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

Active Risk Allocation

The state of indicators

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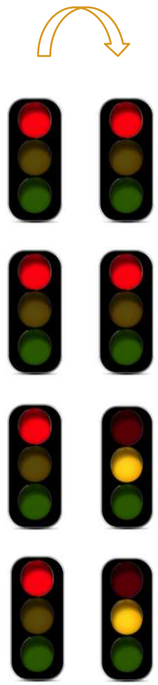
Investment process

Indicators

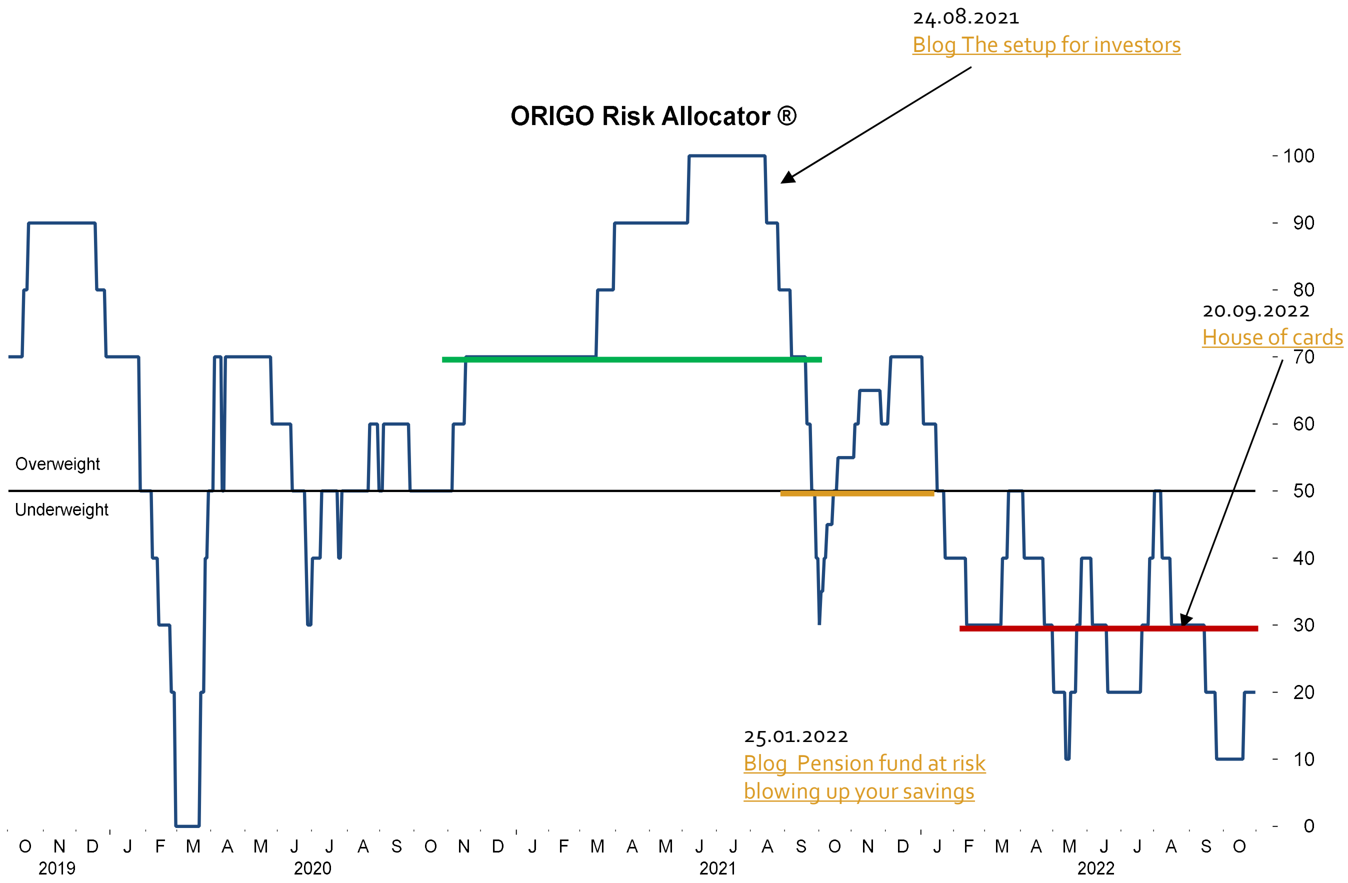
Highly sophisticated models analysing about 150 indicators



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

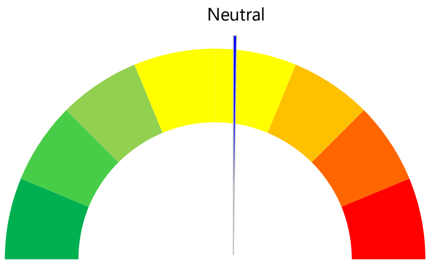
Short-term risk gauge

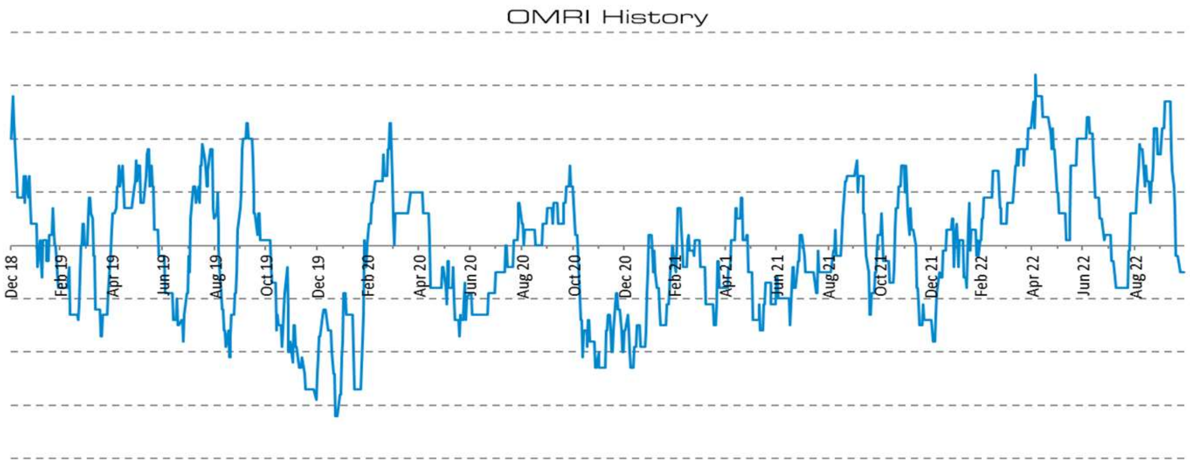
Improvement in the Market intelligence factors

Geographically, US lead while Europe financial conditions continue to deteriorate

30 September 2022

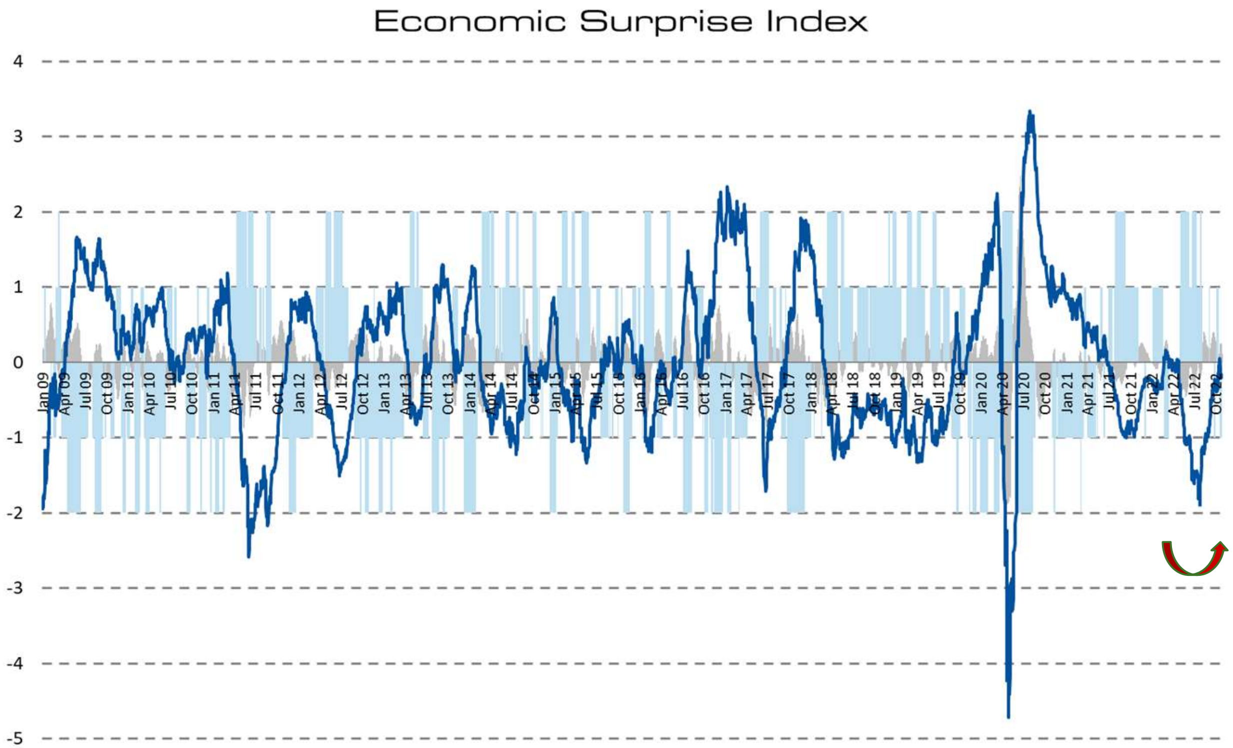
Indicator	Sentiment	Last update
X-Asset correlation	Neutral	31 Oct 2022
Economic Surprises	Neutral	31 Oct 2022
Financial Conditions	Neutral	31 Oct 2022
Global Financial Stress	Neutral	24 Oct 2022
Gepolitical Risk	Feels good	30 Sep 2022





Fundamentals

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



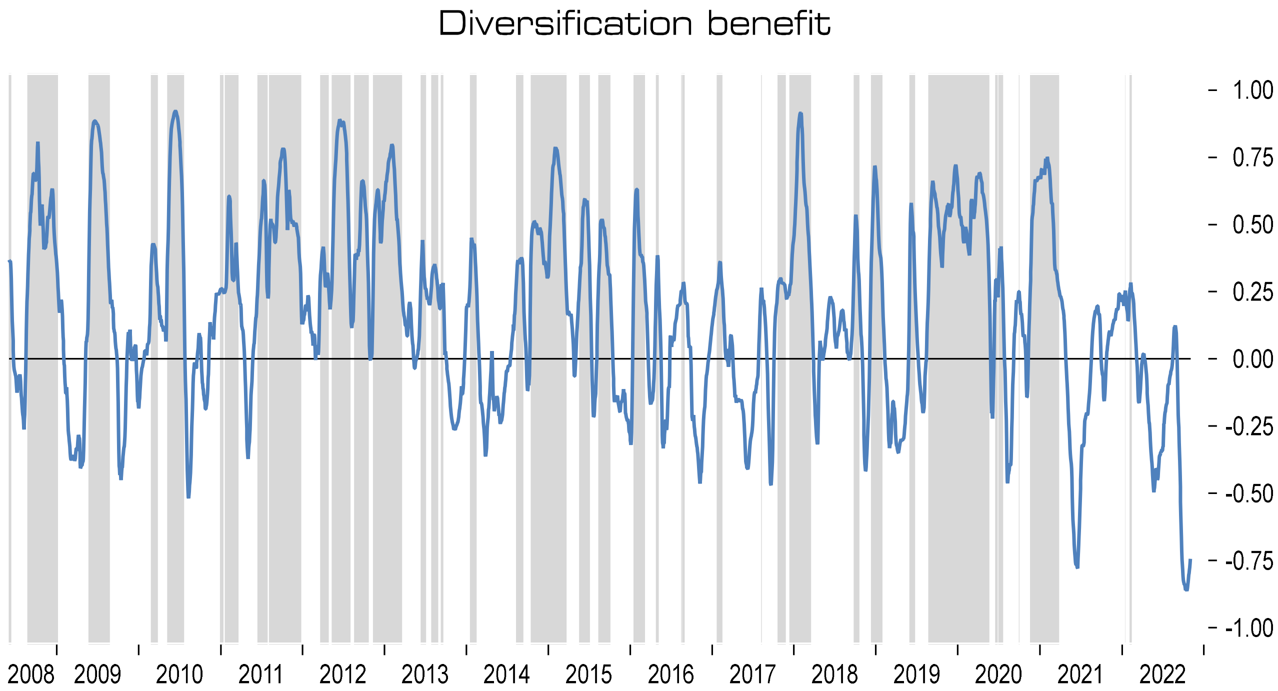
Economic data show greater resilience than economist’ forecasted.

Yet, for risk-on assets as stocks, “good” news remain bad new.

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

Volatility and Risk budgeting 1)

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

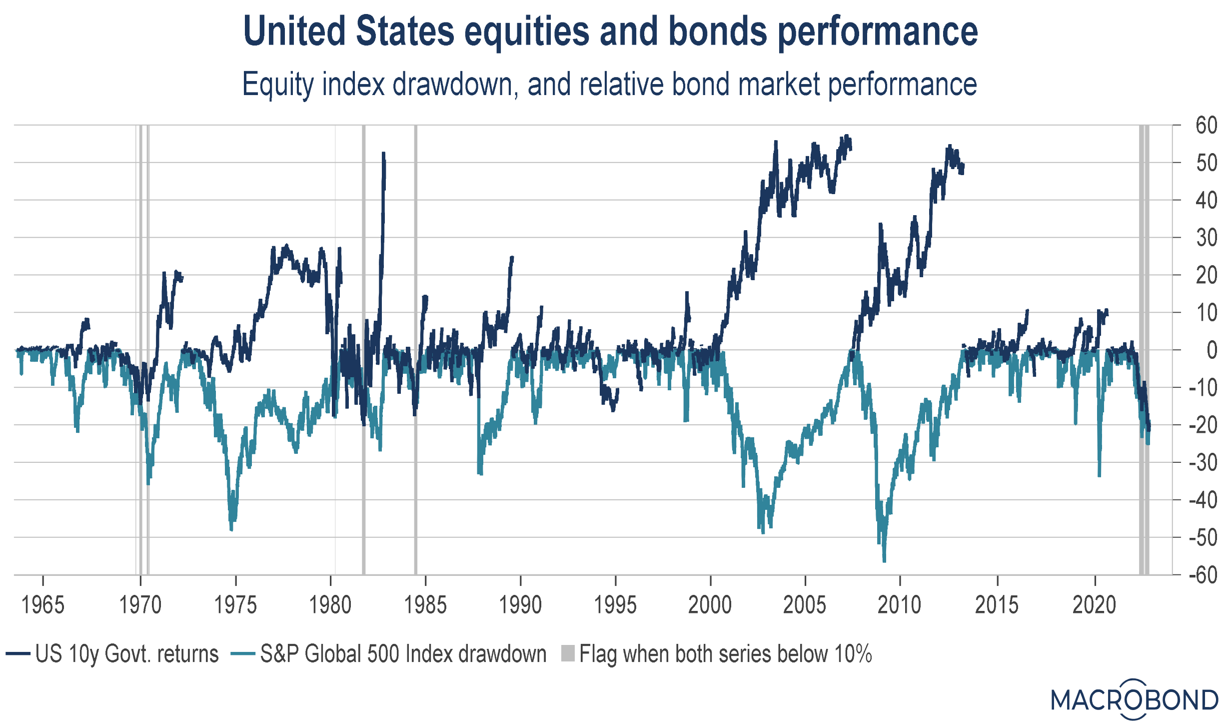


Still no "Markowitz benefits" in a so called diversified portfolio.

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.

Volatility and Risk budgeting 2)

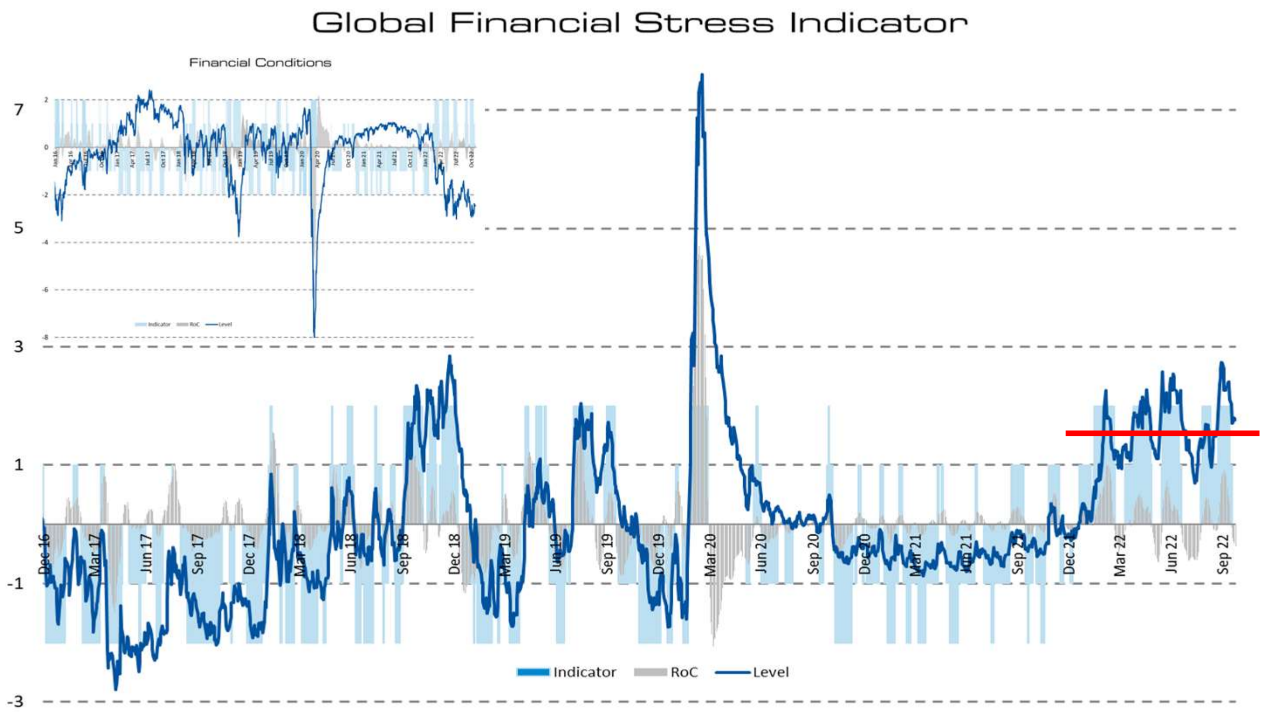
- Macroeconomic models
- **Volatility and risk budgeting**
- Market intelligence
- Technicals and trend following



The 60/40 portfolio investment strategy remain on pause, structurally supporting active investors over passive peers.

Market intelligence

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



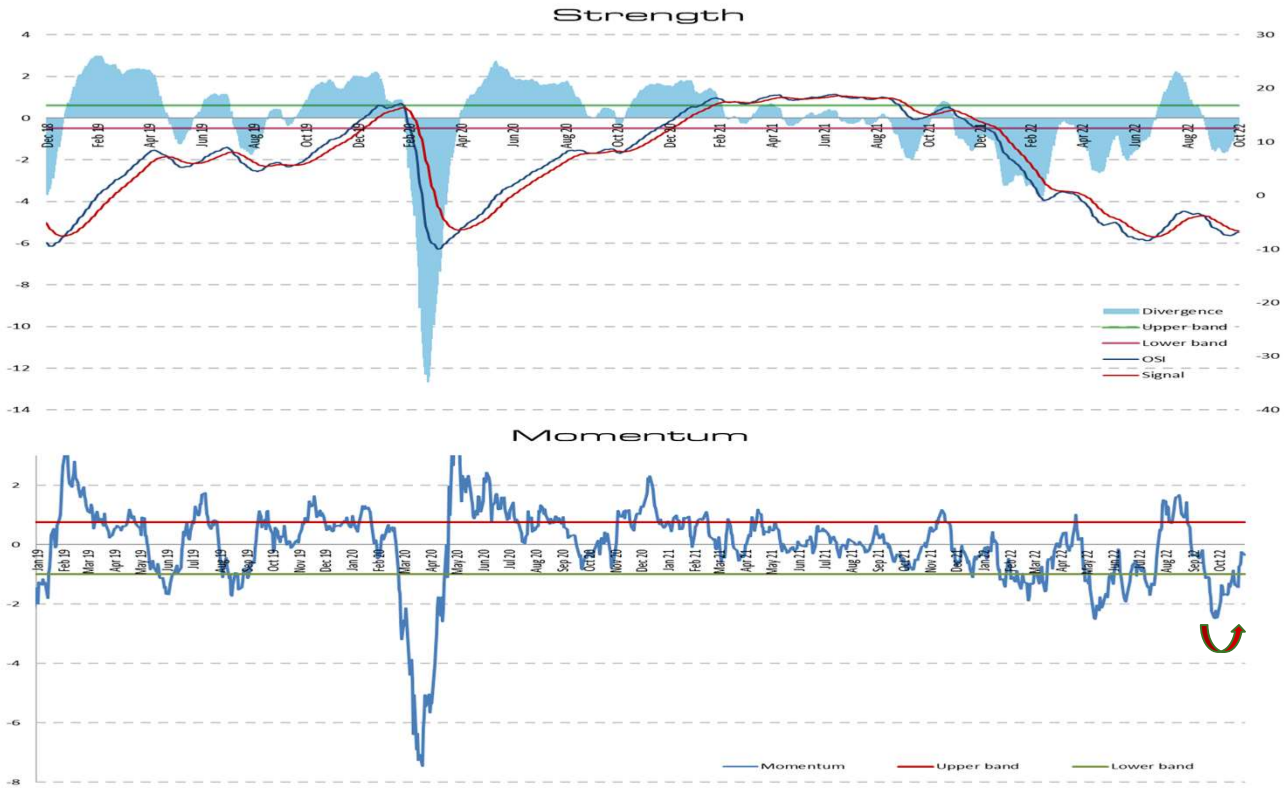
Risk aversion has eased, but level remain persistently high since turn of year 2022.

Europe remain epicenter of deterioration in financial conditions.

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**



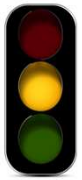
Short-term, rebound in risk-on assets is not completed.
Medium-term trend remain negative.

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

Current status

Macroeconomics
CBs remain focused on sticky inflation fighting.
US to continue rate hikes and QT.
China housing bubble deflate under zero-CoVID policy.
Europe recession 2022 now a consensus, yet monetary tightening to continue.

Market Risk and market intelligence
Slight improvement, but remain fragile.
Powell again adjust market expectations towards rates higher for longer.



Technicals
Medium-term trend in all interest rate sensitive assets remain negative reflecting ongoing re-pricing.
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.

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 – Inflation

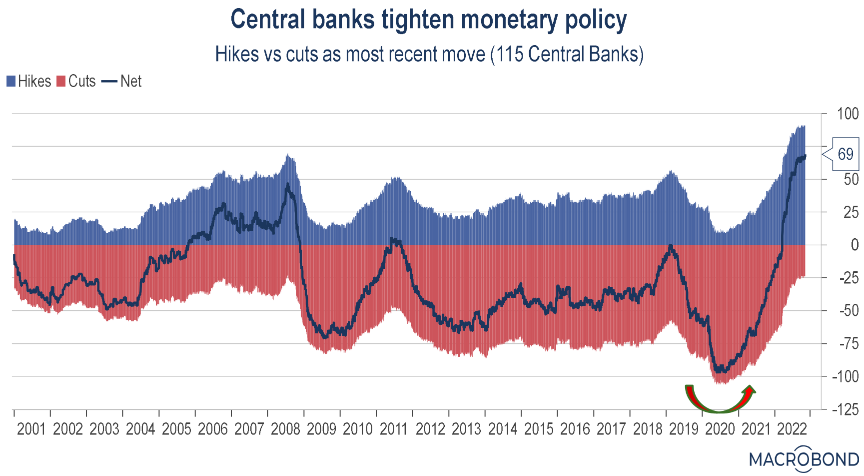
CBs still catching up
Upcoming 2Q23 base effect

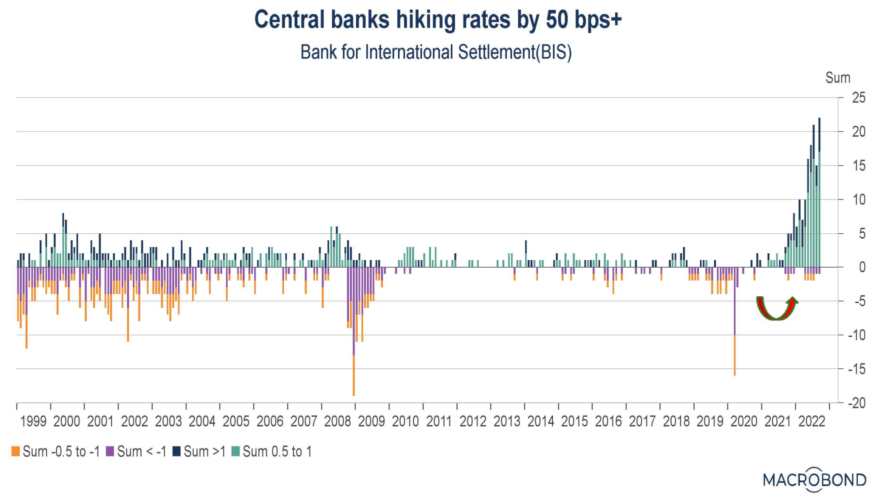
+ Inflation soaring heading into 2022 ..
+ Russia-Ukraine war
+ China “zero-CoVID”
+ DeGlobalisation

Macro risk - centralbanks

No policy pivot in tide of monetary tightening

- A historic tightening cycle is unfolding.
- Potentially reversing money policy since The Financial Crisis
- Record number of CBs accellerate tightening

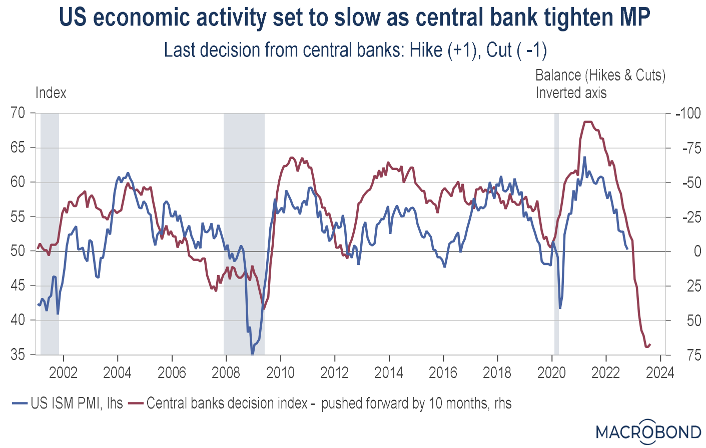


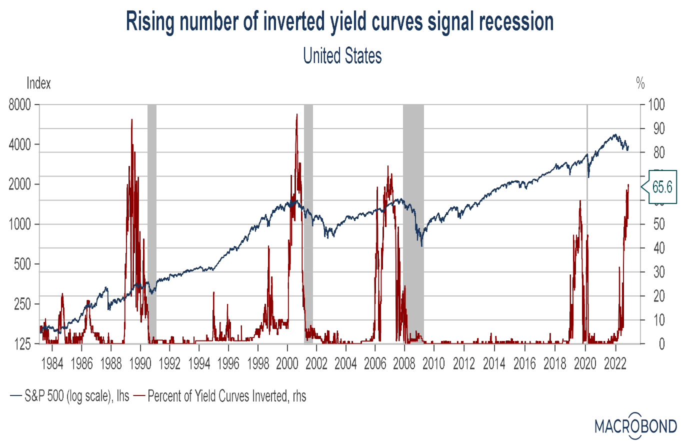


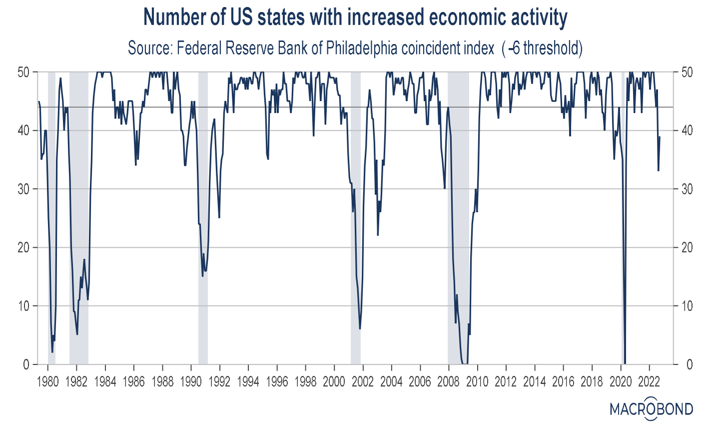
Macro risk - US

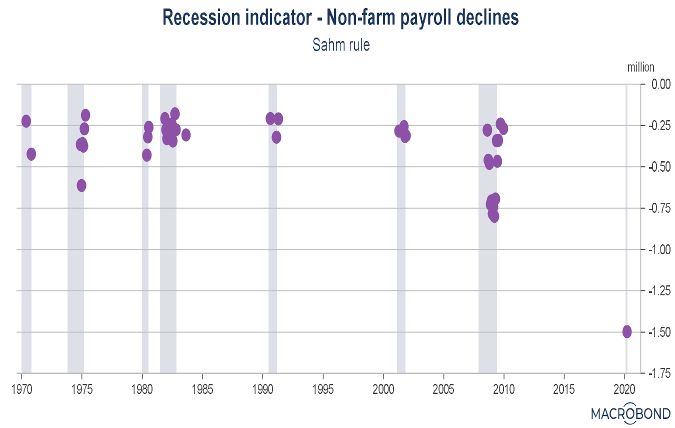
US recession risk rising
Labour market still strong

US activity has lattitude => Fed tightening will continue





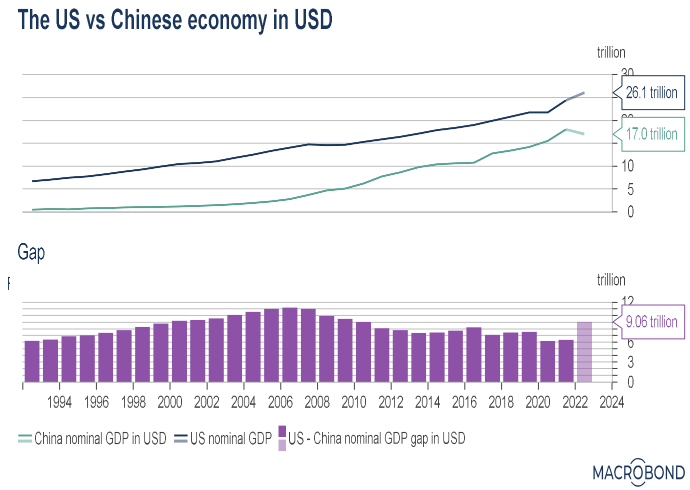


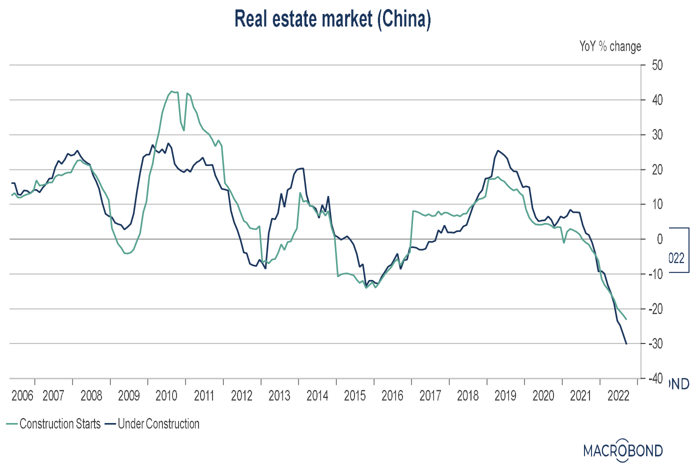


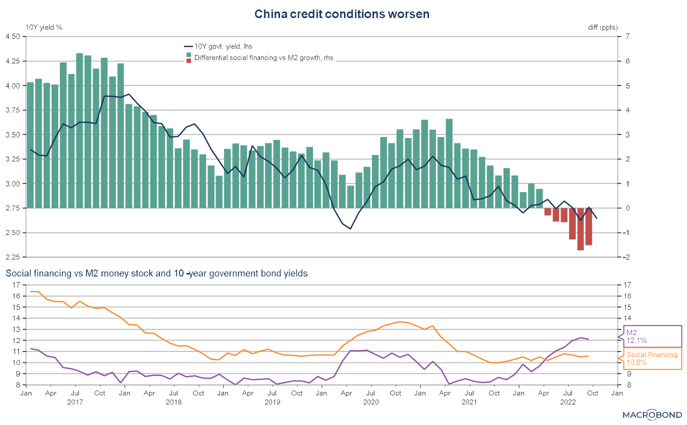
Macro risk - China

The elephant in the room. Housing deflation lead the economic slowdown

- PBoC May 2022 stimulus
- Zero-CoVID policy
- Tech crackdown
- Changing demographics
- De-globalisation
- Real estate recession
- Major draught



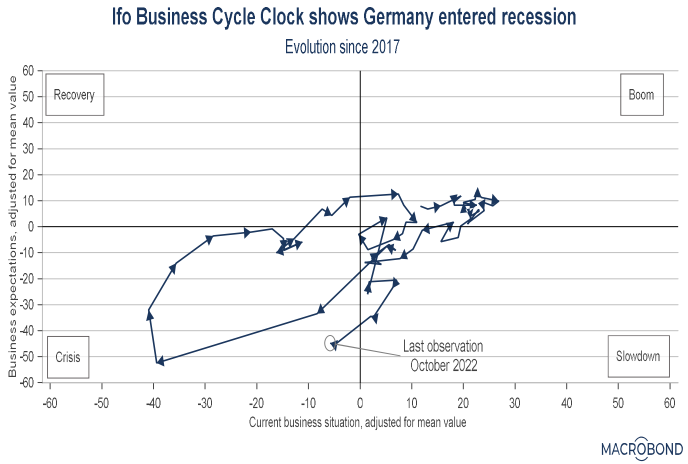


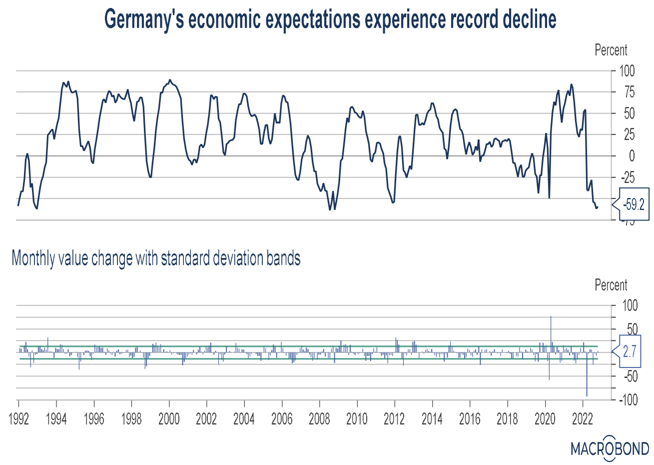


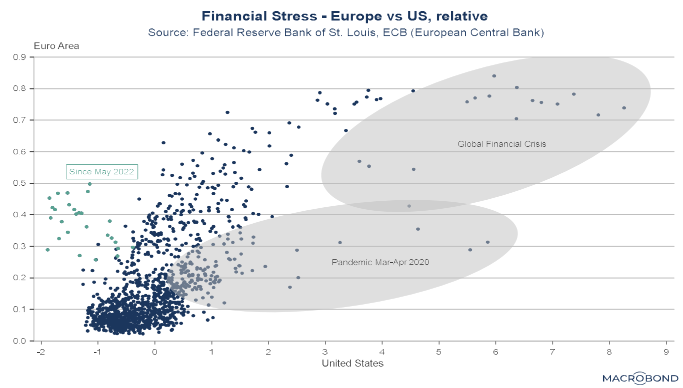
Macro risk-Europe

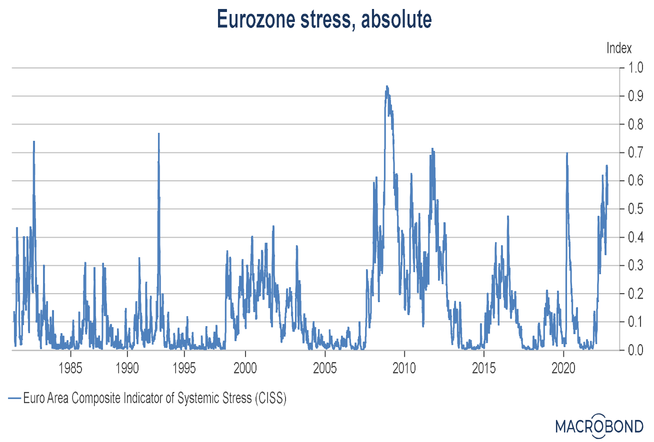
EA recession and financial stress a regional issue

- ECB emergency anti-fragmentation(TPI) "Transmission Protection Tool"
- The Putin-put
- The age put







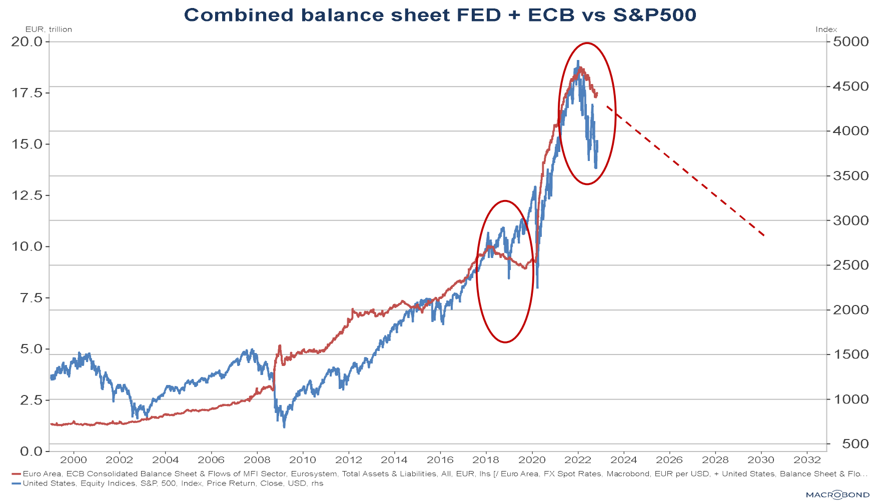


Capital markets

The big asset deflation is on track

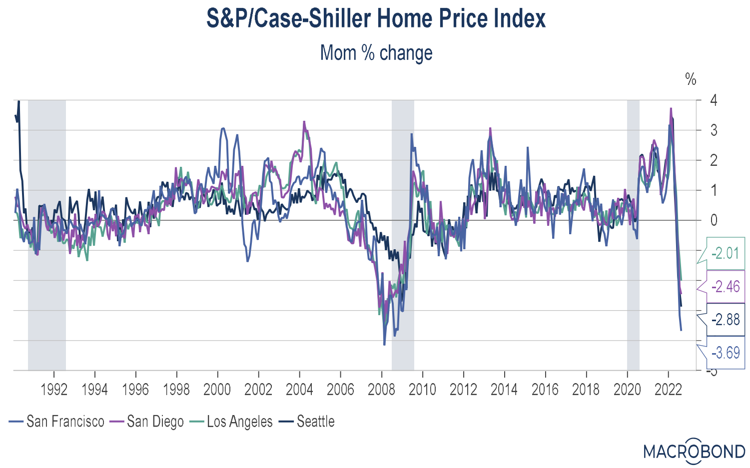
Monetary combo of rate hikes + QT reduction of €60-100bn/mt, excess of $1 tn/yr

– every year, the next 5-10 years



Correlations suggest a high risk of capital mis-allocation since GFC;

- high growth/no profit cpy's
- crypto's, meme stocks
- … and above all, real estate



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