Active Risk Allocation

January 2023

ORIGO CONSULTING

Independent | Transparent | Disciplined

Business as usual ?

ORIGO Sep 2021: ”A regime change in the making …”

	2009-2021	Today
System	Neo-liberal multi-lateralism	Zero-sum nationalism?
Geopolitics	Stable	War (trade/conventional)
Clima	Predictable	Greater variance
Trade	Global	De-globalisation
Central bank behavior	Highly stimulative	Tightening
Inflation	Dormant	40-year high
Economic outlook	Positive	Global recession a 50/50
Likelihood of distress	Minimal	Rising
Mood	Optimistic	Guarded
Buyers	Eager	Hesitant
Holders	Complacent	Undertain
Key worry	FOMO	Investment losses
Risk aversion	Absent	Rising
Credit window	Wide open	Constricted
Financing	Plentiful	Scarce
Interest rates	Lowest ever	More normal

Active Risk Allocation

The state of indicators

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Status
January 2023

2023, Reduced prime asset underweights

- Inflation has peaked, but will remain sticky
- Yields will not come down
- activity slowdown ongoing, labour market resilient
- margin pressure accelerate, as do bankruptcies and a recession is not discounted

Risk overview;

Short-term **Positive**

Medium-term **Neutral**

Stocks – underweight

- Overweight defensives

Bonds – underweight

- Overweight credit. US Long bonds, still pending

Alternatives – overweight

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

Macroeconomics

- Fiscal tightening, Monetary tightening (policy rates & Quantitative (QT)
- Activity; Europe in recession. China in moderation, US recession still 50/50
- Prices; Global supply chain improvements, post-covid imbalance in Service sector, Europe war, trade war US-China .. and EU-US?(the "Inflation Reduction Act")

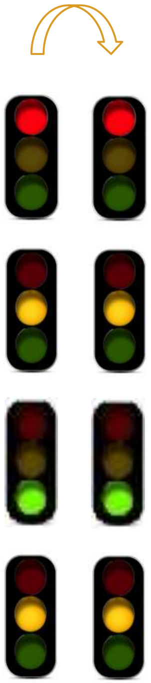
Indicators

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

Investment process

Indicators

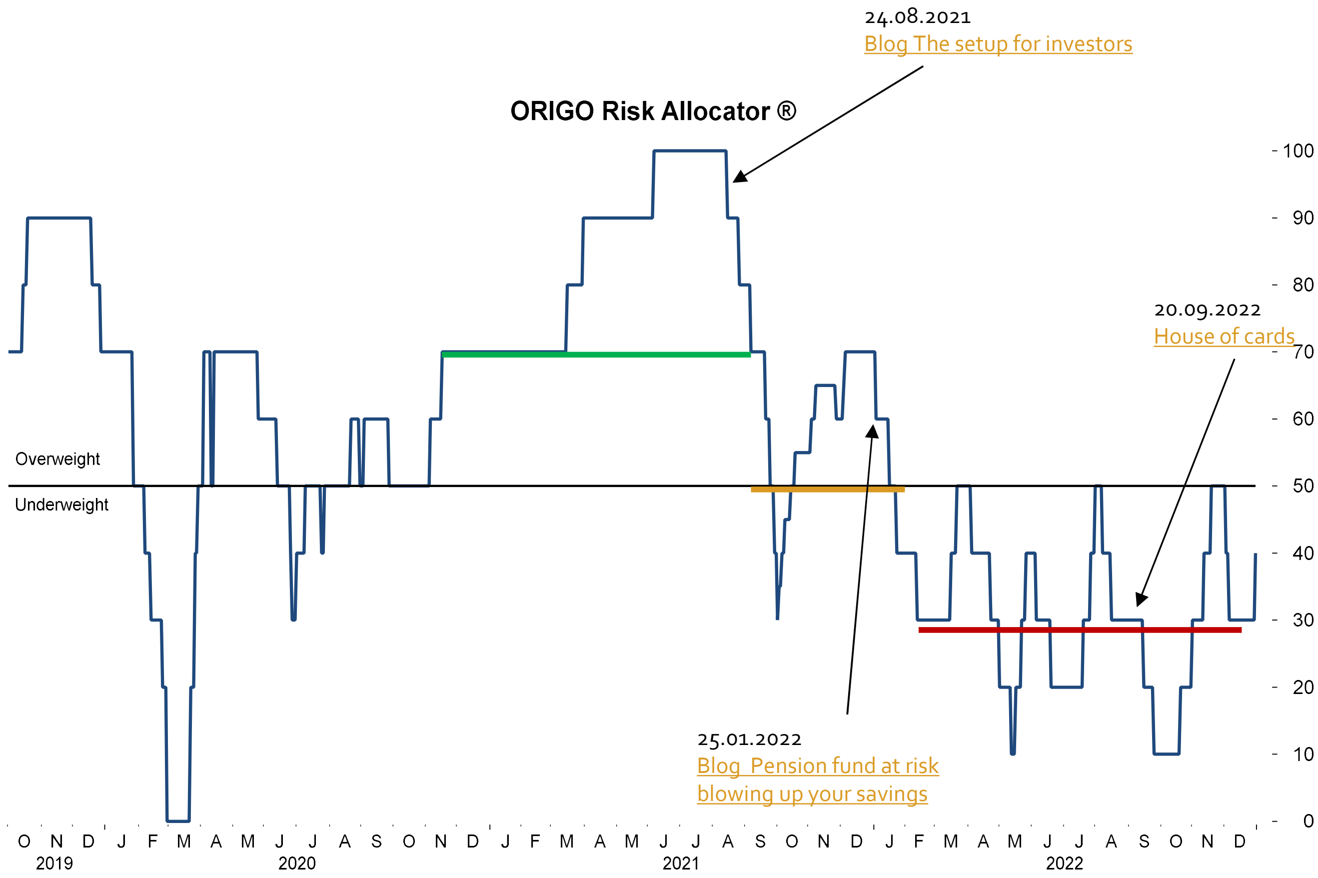
Highly sophisticated models analysing about 150 indicators



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

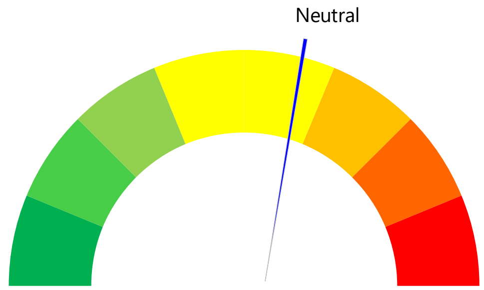
Short-term risk gauge

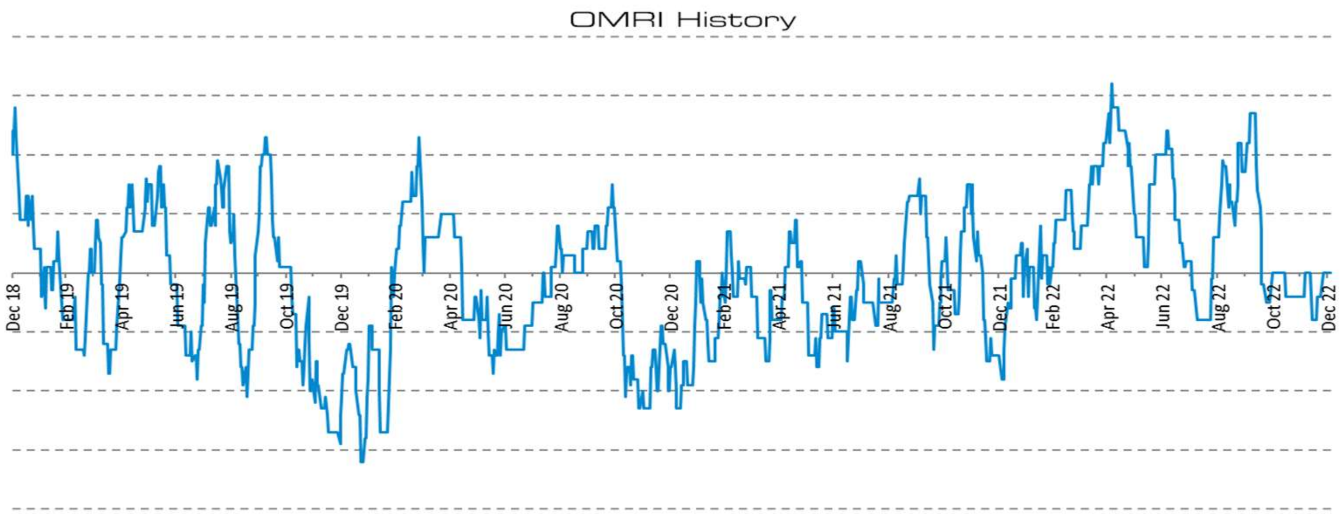
Improvement in the Market intelligence factors

Geographically, US lead while Europe financial conditions continue to deteriorate

03 January 2023

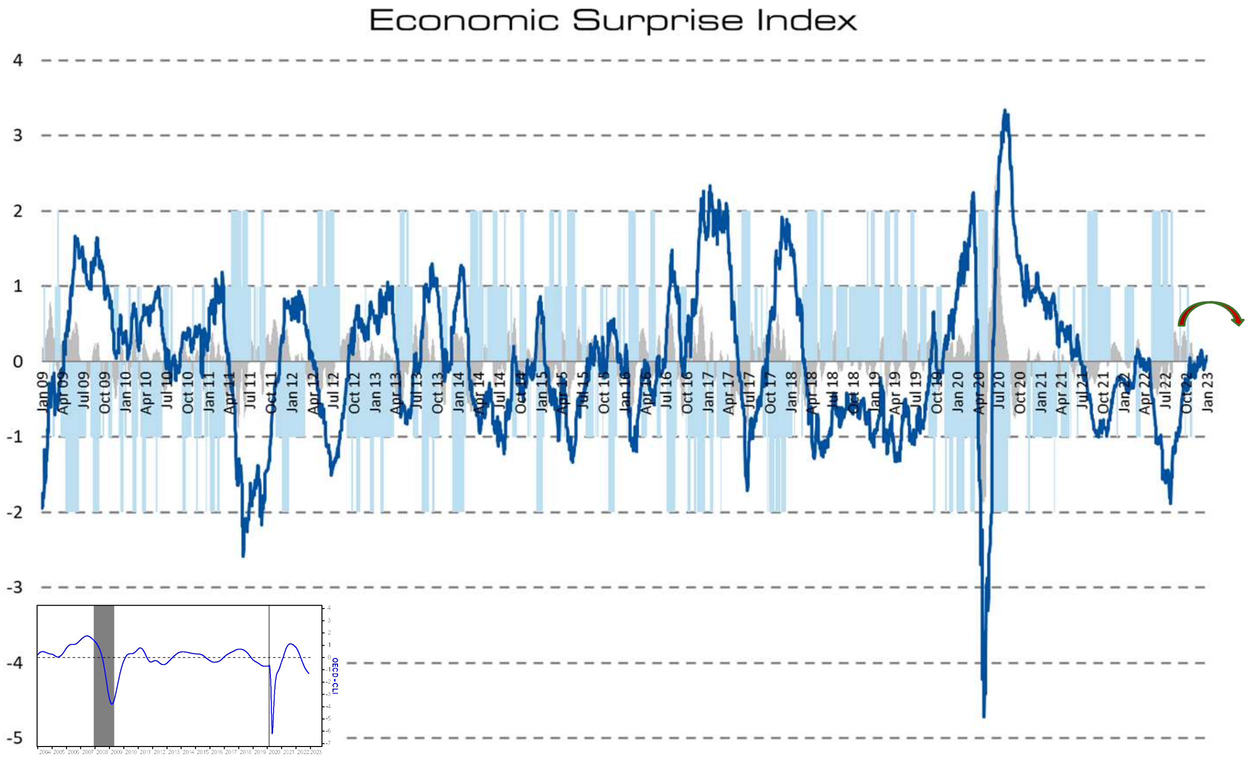
Indicator	Sentiment	Last update
X-Asset correlation	Neutral	03 Jan 2023
Economic Surprises	Neutral	03 Jan 2023
Financial Conditions	Neutral	30 Dec 2022
Global Financial Stress	Tense	29 Dec 2022
Gepolitical Risk	Feels good	31 Dec 2022





Fundamentals

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



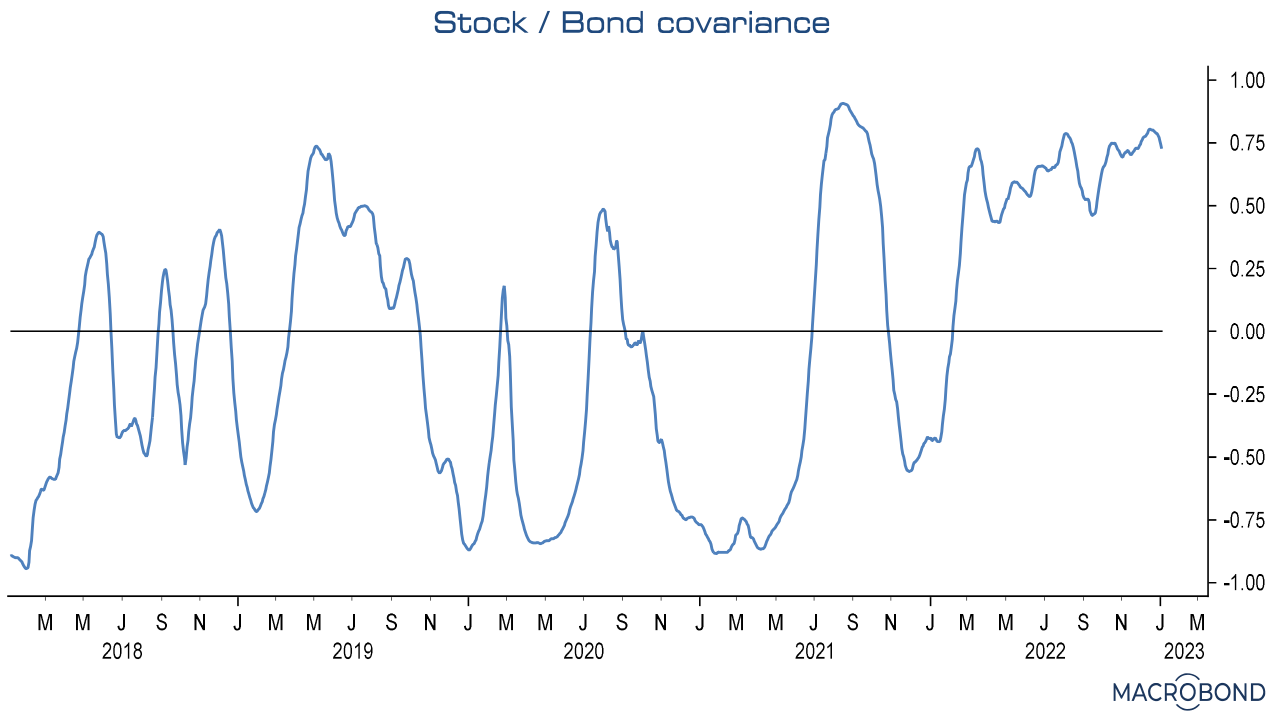
Economic data show far greater resilience than economist' forecasted.

As we approach mid-2023 this dynamic will enter a challenging phase. Meanwhile, good economic news will remain bad for risk assets.

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

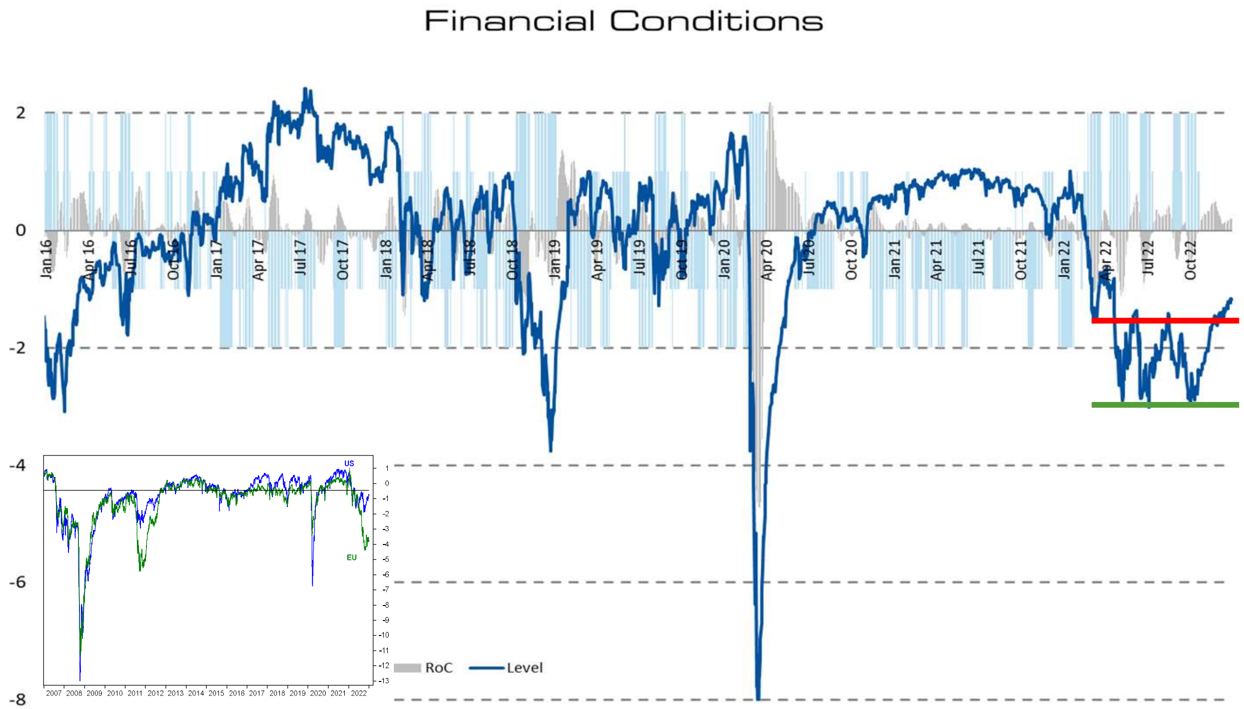


No “Markowitz benefits” with high correlation.

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



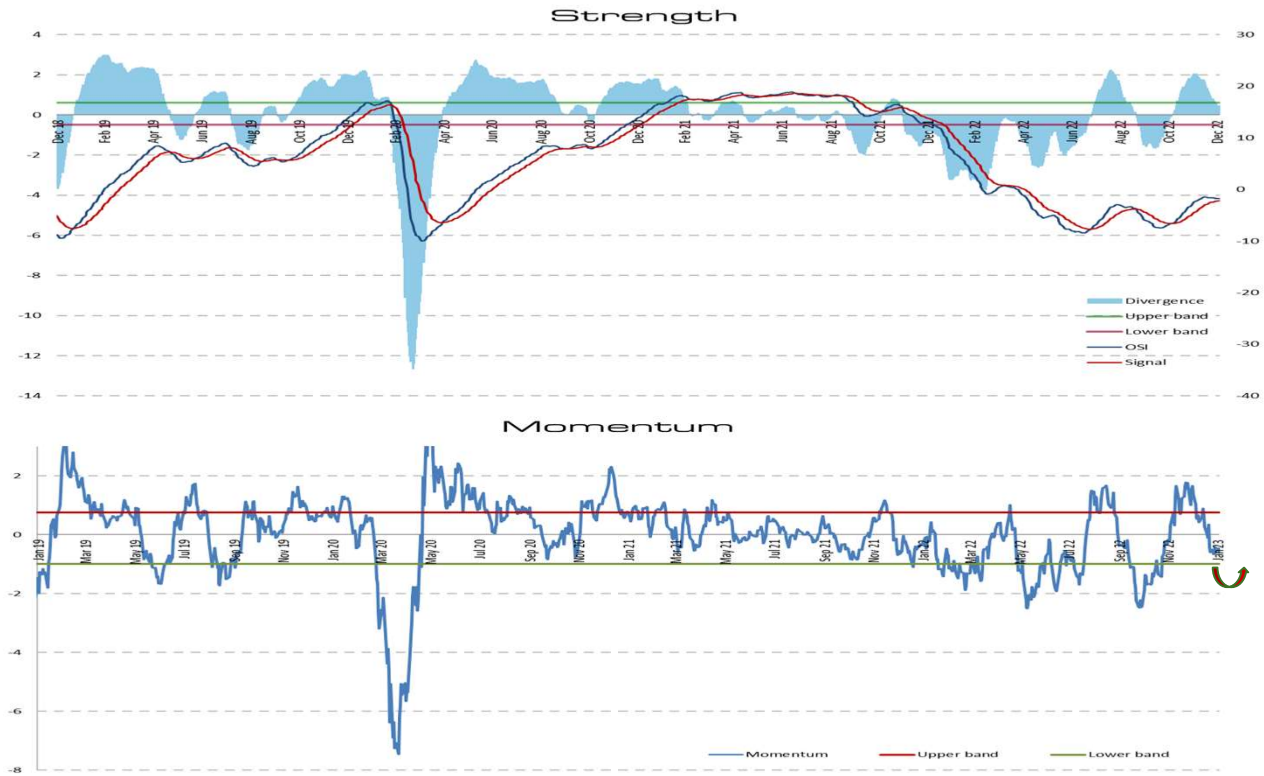
Risk perception continue to improve. Attempting to break the low range established since the turn of the year 2021-22. We see this as an indicator of the tug-of-war between financial markets and CB messaging; "rates to come higher and stay higher rates for longer".

US leads improvement while Europe remains the epicentre of lackluster financial conditions.

A measure of global cross-market measure of risk, credit conditions, hedging demand(volume, skew) and investor flows in the financial system.

Technicals

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



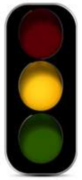
Short-term, nearing bottom in risk channel, switching odds towards positive return.
Medium-term trend fragile stabilisation.

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

Current status

Macroeconomics
CBs will slow tightening pace, but remain focused on inflation fighting.
US to continue rate hikes and QT. China housing bubble deflating and growth flatline. Europe in recession.
IMF's 1/3 of world 2023 in recession seems optimistic

Market Risk and market intelligence
US financial conditions have strongly improved.
In Dec 2022, Powell again verbally intervened to adjust market expectations towards yields to get higher and stay so for longer.



Technicals
Medium-term trend in risk assets are stabilising.
Short-term technicals keep switching between buy/sell, indicating a trading channel

Volatility and risk budgeting
Portfolio risk remain elevated as assets move in sync.

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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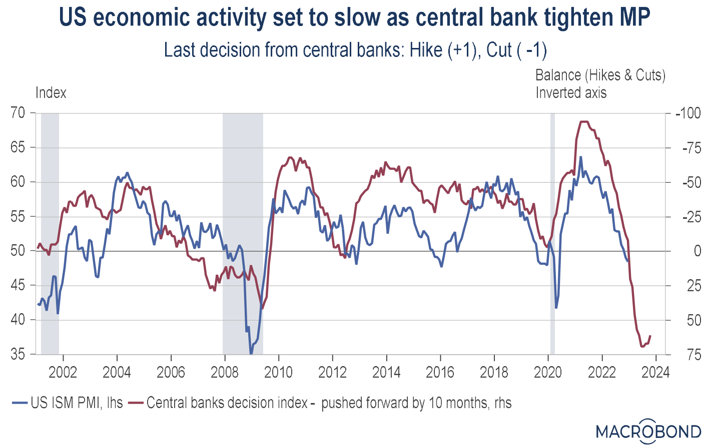
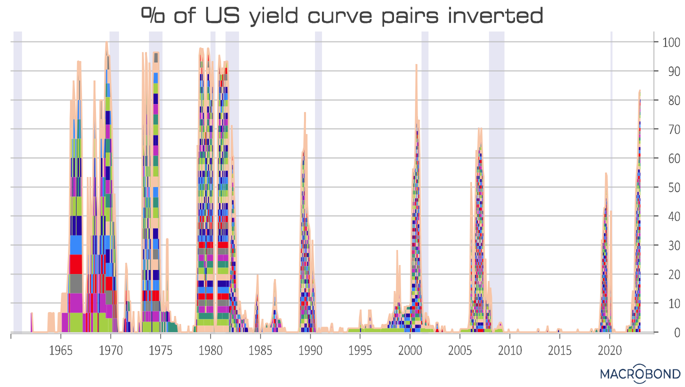
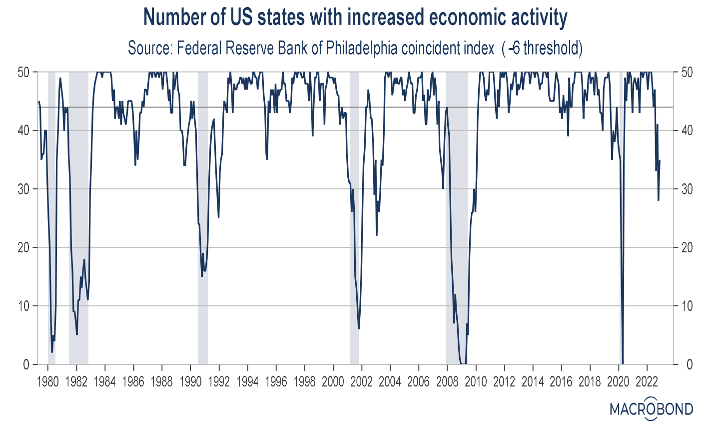
Macro risk - US

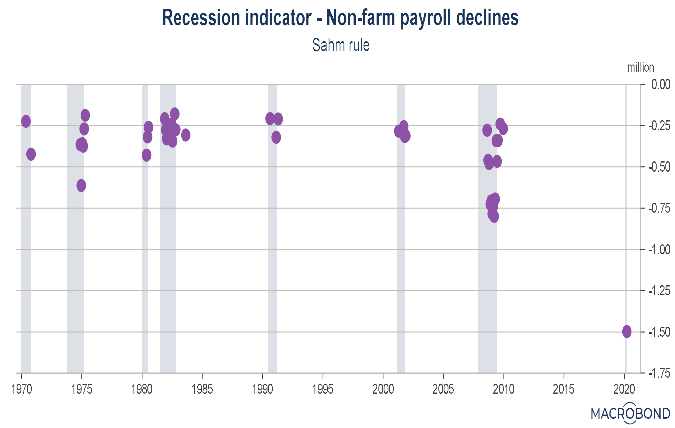
US recession still 50/50, risk rising
Labour market still strong

US activity has lattitude => Fed tightening will continue







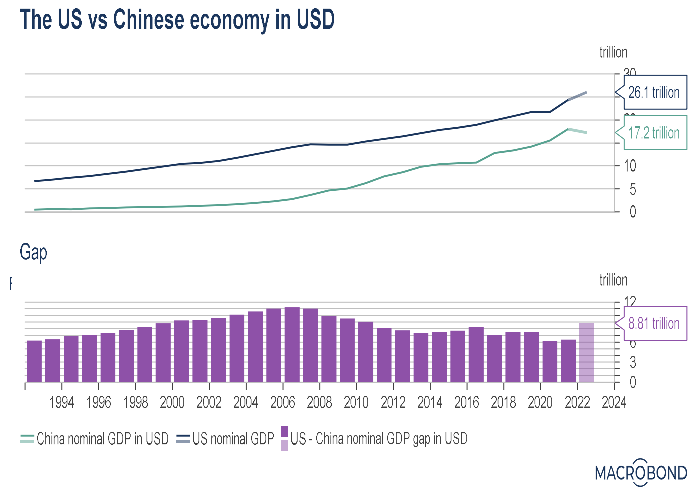


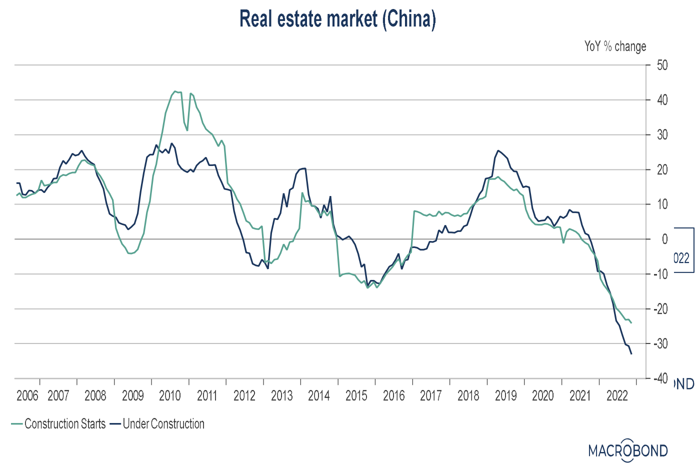
Macro risk - China

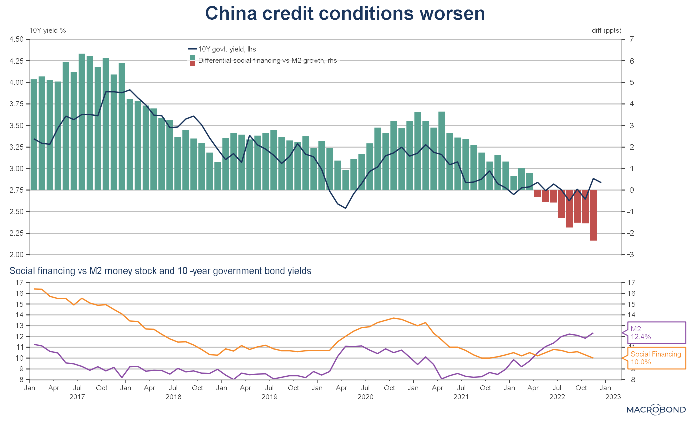
Housing deflation leads the economic slowdown. Next, "Grand opening 2.0".

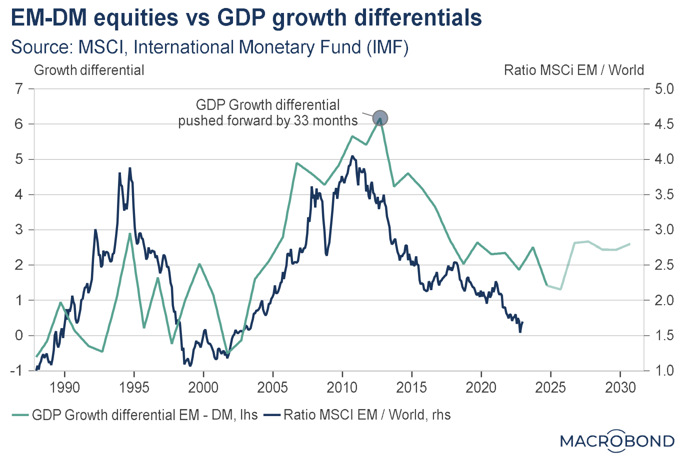
PBoC May 2022 stimulus

- Zero-CoVID policy
- Tech crackdown
- Changing demographics
- De-globalisation
- Real estate recession
- Major draught

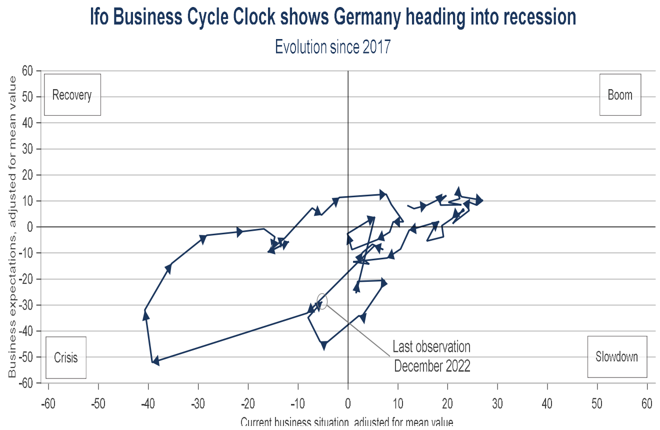


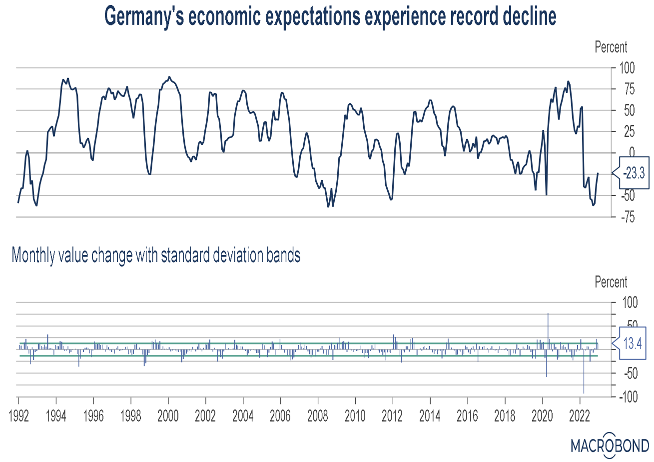






European Financial Stress

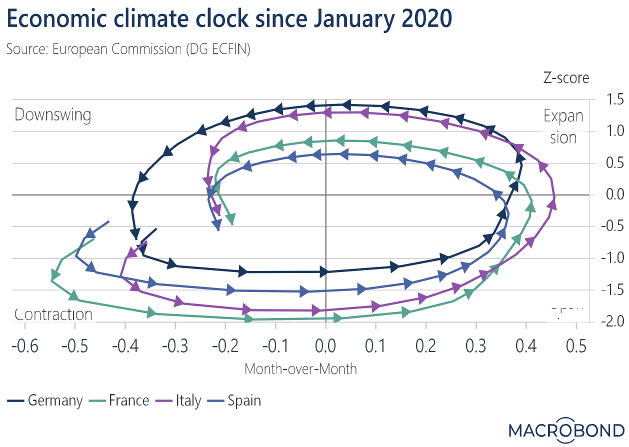


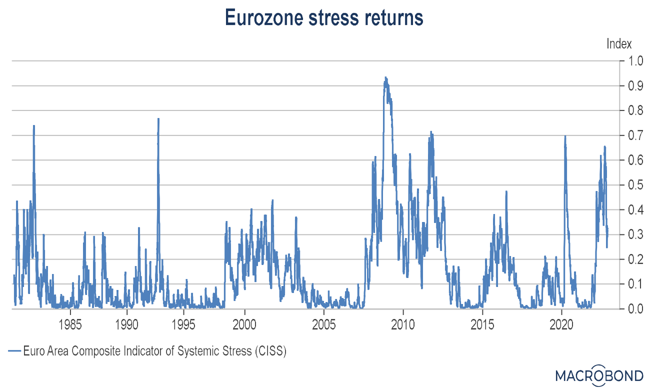


Macro risk- Europe

Recession. Negative business sentiment stabilises

- ECB emergency anti-fragmentation,"Transmission Protection Tool"(TPI) tool works
- Energy restructuring
- The Putin-put
- The age put



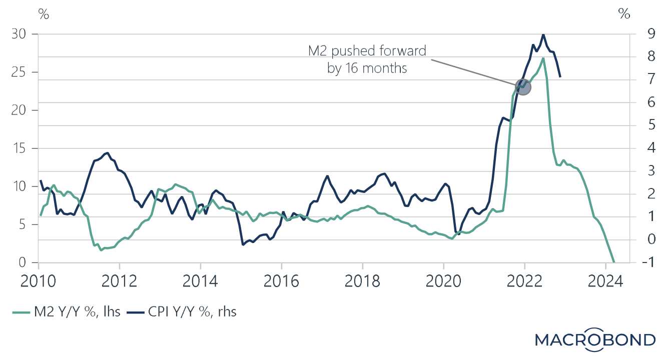


Macro risk – Inflation

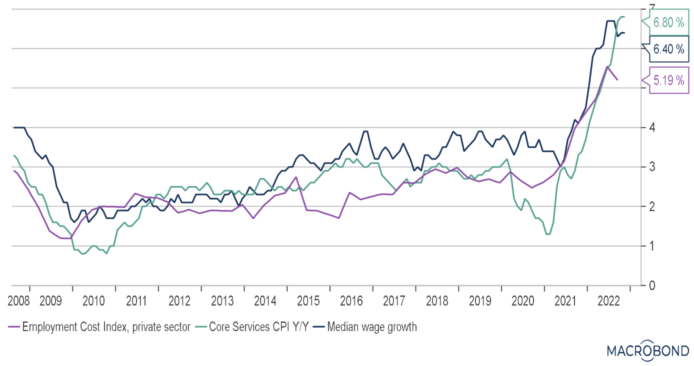
Headline coming down fast – but not disappear
Core to remain sticky at 4%

- Inflation soaring heading into 2022 (overstimulation)
- Demand-supply imbalance
- Russia-Ukraine war
- China, 1-child, zero-CoVID
- DeGlobalisation

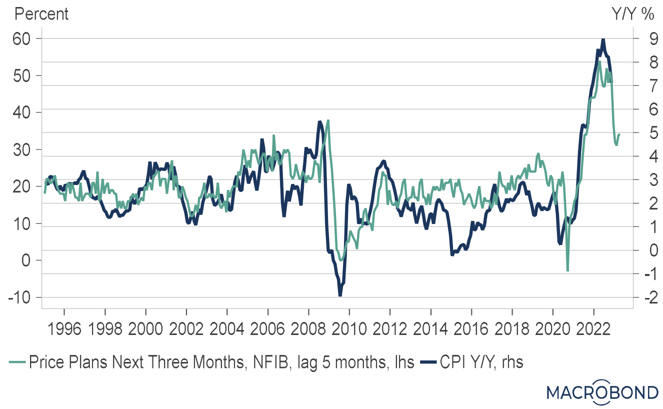
United States: Inflation vs M2
Source: U.S. Bureau of Labor Statistics (BLS), Federal Reserve



United States: Faster wage growth to raise services inflation
Source: Federal Reserve Bank of Atlanta, U.S. Bureau of Labor Statistics (BLS)



Small business pricing intentions leads CPI
Source: U.S. Bureau of Labor Statistics (BLS), National Federation of Independent Business



Spain: Headline vs core CPI

Macro risk - centralbanks

Global tightening pace peaking - effect is pending

- A massive tightening cycle is unfolding.
- Reversing money policy since The Financial Crisis
- Record number of CBs accellerate tightening

Central bank tracker: G20 & OECD Countries

	Key rate	Last decision		Last Move	Months since last hike	Months since last cut
Argentina	75.00	5.50	Hike	9/2022	4	27
Australia	3.10	0.25	Hike	12/2022	1	26
Brazil	13.75	0.50	Hike	8/2022	5	29
Canada	4.25	0.50	Hike	12/2022	1	33
Chile	11.25	0.50	Hike	10/2022	3	33
China	3.65	-0.05	Cut	8/2022	107	5
Colombia	12.00	1.00	Hike	12/2022	1	27
Costa Rica	9.00	0.50	Hike	10/2022	2	31
Czech Republic	7.00	1.25	Hike	6/2022	6	32
Denmark	1.90	0.50	Hike	12/2022	1	15
Euro Area	2.50	0.50	Hike	12/2022	1	82
Hungary	13.00	1.25	Hike	9/2022	3	30
Iceland	6.00	0.25	Hike	11/2022	1	26
India	6.25	0.35	Hike	12/2022	1	32
Indonesia	5.50	0.25	Hike	12/2022	0	23
Israel	3.75	0.50	Hike	1/2023	0	33
Japan	-0.10	-0.20	Cut	1/2016	190	83
Mexico	10.50	0.50	Hike	12/2022	1	23
New Zealand	4.25	0.75	Hike	11/2022	1	34
Norway	2.75	0.25	Hike	12/2022	1	32
Poland	6.75	0.25	Hike	9/2022	4	31
Russia	7.50	-0.50	Cut	9/2022	10	4
Saudi Arabia	5.00	0.50	Hike	12/2022	1	34
South Africa	7.00	0.75	Hike	11/2022	1	29
South Korea	3.25	0.25	Hike	11/2022	1	31
Sweden	2.50	0.75	Hike	11/2022	1	83
Switzerland	1.00	0.50	Hike	12/2022	1	96
Turkey	9.00	-1.50	Cut	11/2022	22	1
United Kingdom	3.50	0.50	Hike	12/2022	1	34
United States	4.50	0.50	Hike	12/2022	1	34

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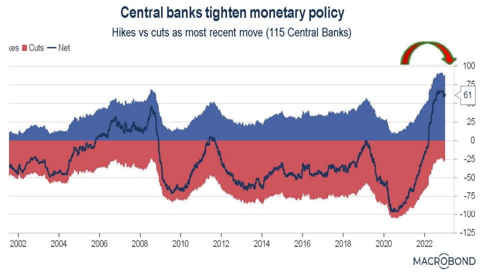
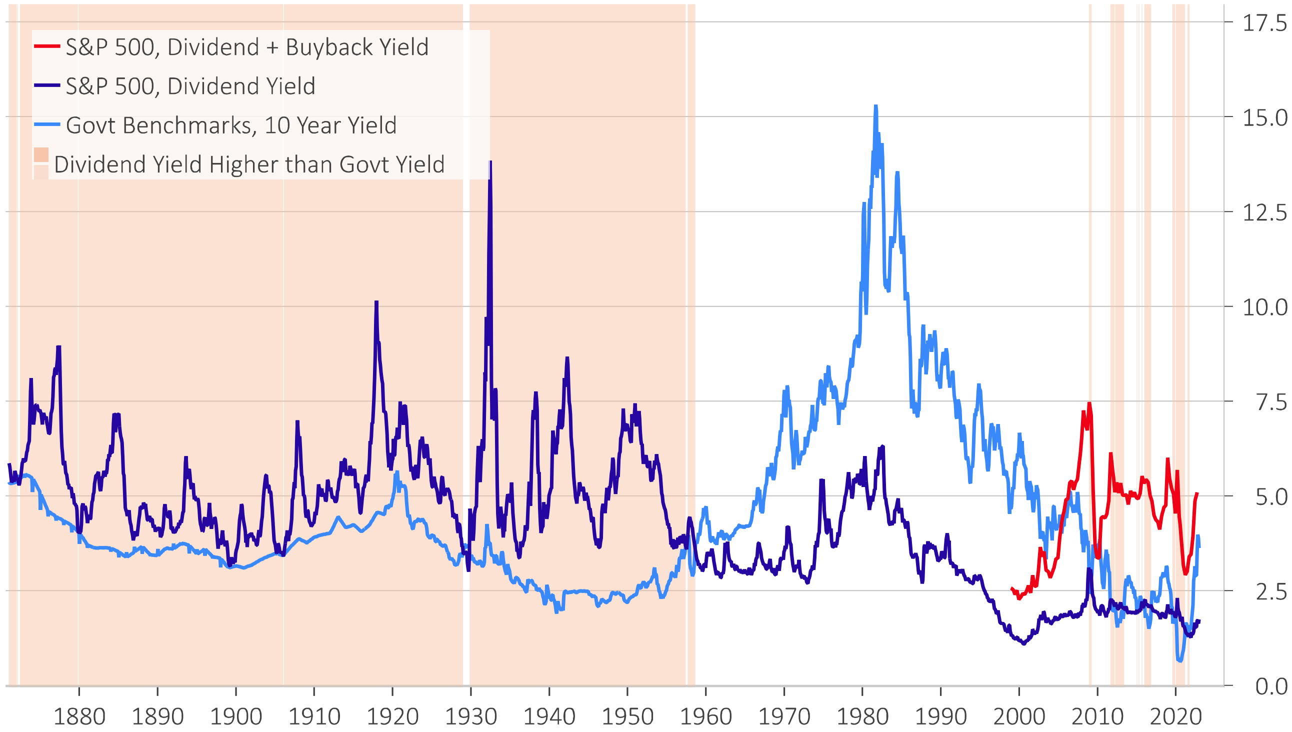


Micro risk -

2022, TINA died

Potential for rebalancering years of capital mis-allocation



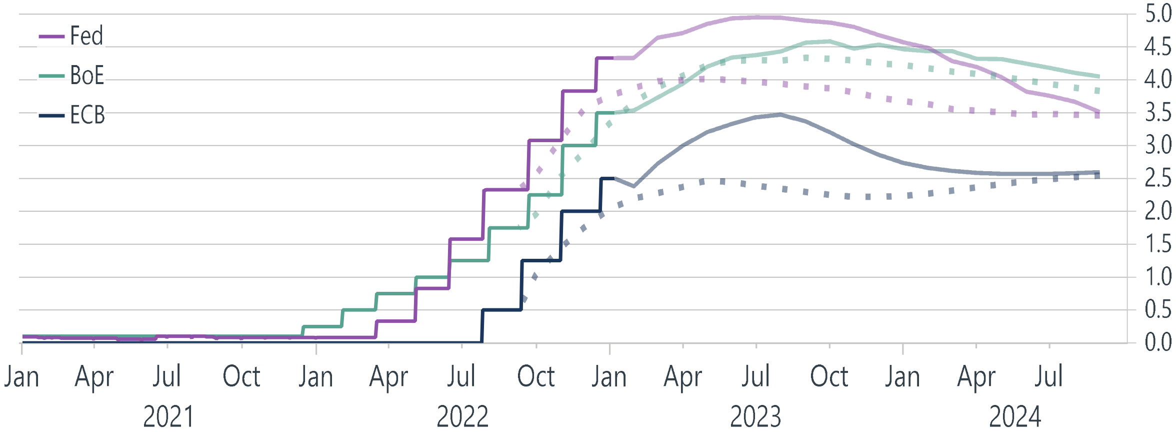
Macro risk - CB rates

FED to outhike all

..

Market no longer expects BoE to outhike the Fed

Dotted line shows the market expectations at September 9th



Federal Reserve (Fed) effective rate with Fed funds futures as forecast
Bank of England (BoE) bank rate with Sonia futures as forecast
European Central Bank (ECB) key rate with EURIBOR futures as forecast

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