Active Risk Allocation

December 2022

ORIGO CONSULTING

Independent | Transparent | Disciplined

Markets today

- Inflation was just a bad dream
- An economic soft landing is all but sure
- Central banks will “pivot” rates back to zero
- Stocks will rise to a new all-time high before x-mas
- Halleluja!

Status

Stock markets and fundamentals diverge

- Inflation may have peaked, but will remain sticky
- Interest rates will not come down
- activity slowdown, labour market resilient
- margin pressure accelerate, as do bankruptcies

Risk overview;

Short-term **Positive**

Medium-term **Neutral**

Stocks – underweight (improved)

Bonds – underweight (improved)

- Overweight credit

Alternatives – overweight

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

Macroeconomics

- Fiscal tightening, Monetary tightening (policy rates & Quantitative (QT)
- Activity; Europe is in recession. China in dramatic moderation, but no longer zero-Covid). US balancing on recession
- Global supply disruptions (post-covid imbalance, stimulus, war, trade war)

Indicators

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

Active Risk Allocation

The state of indicators

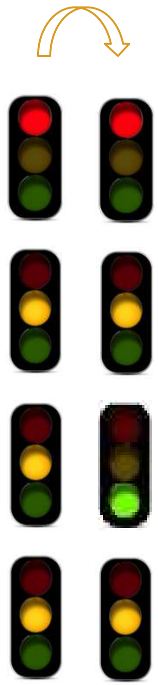
ORIGO CONSULTING

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

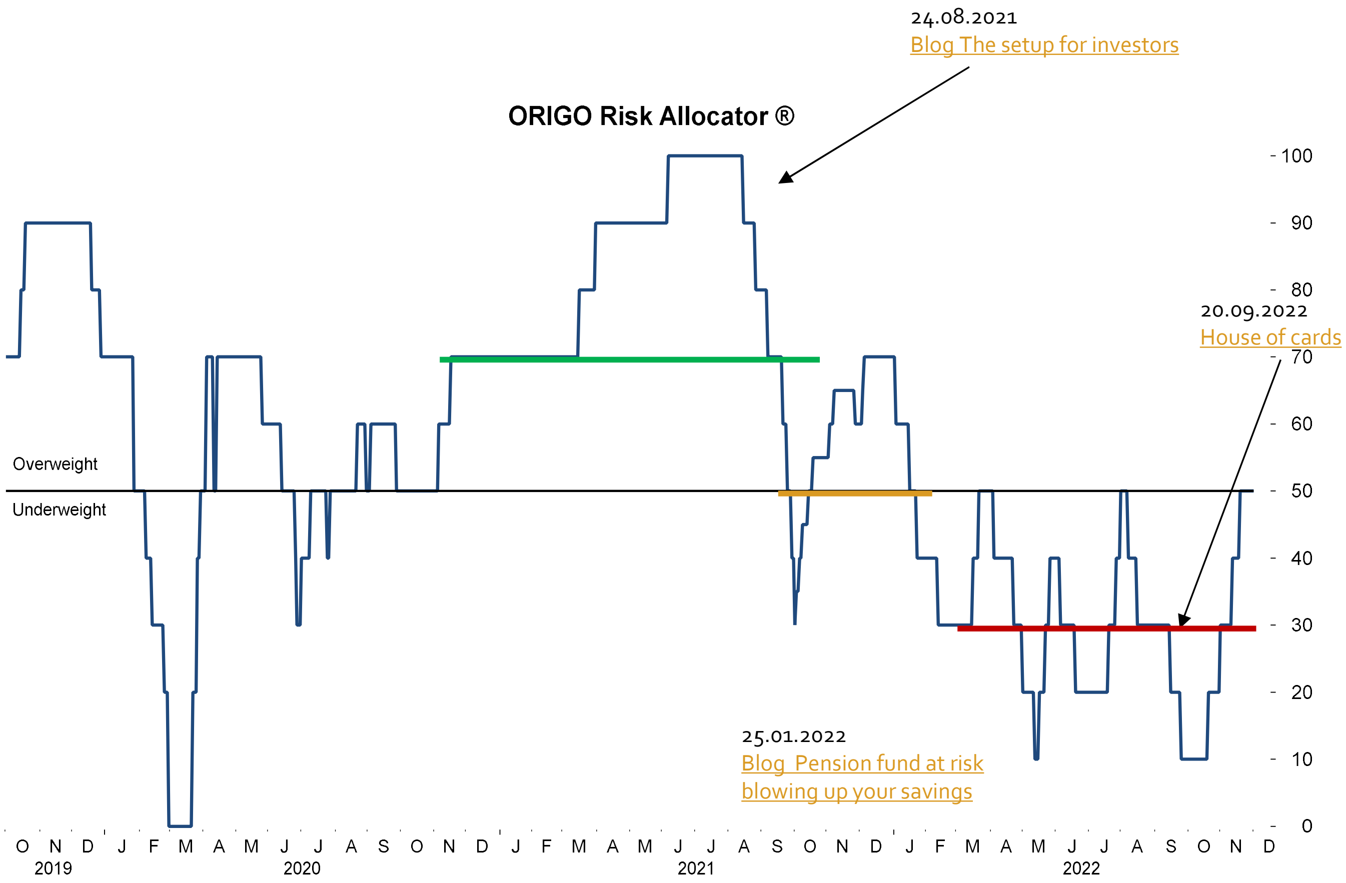
Market positioning, risk perception and dynamics

Trend following

Trends, direction and strength

OPRA®
Origo Portfolio Risk Allocator

Timeline, 2019 -



OMRI®
Origo Market Risk Indicator

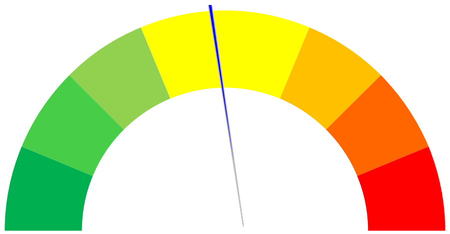
Short-term risk gauge

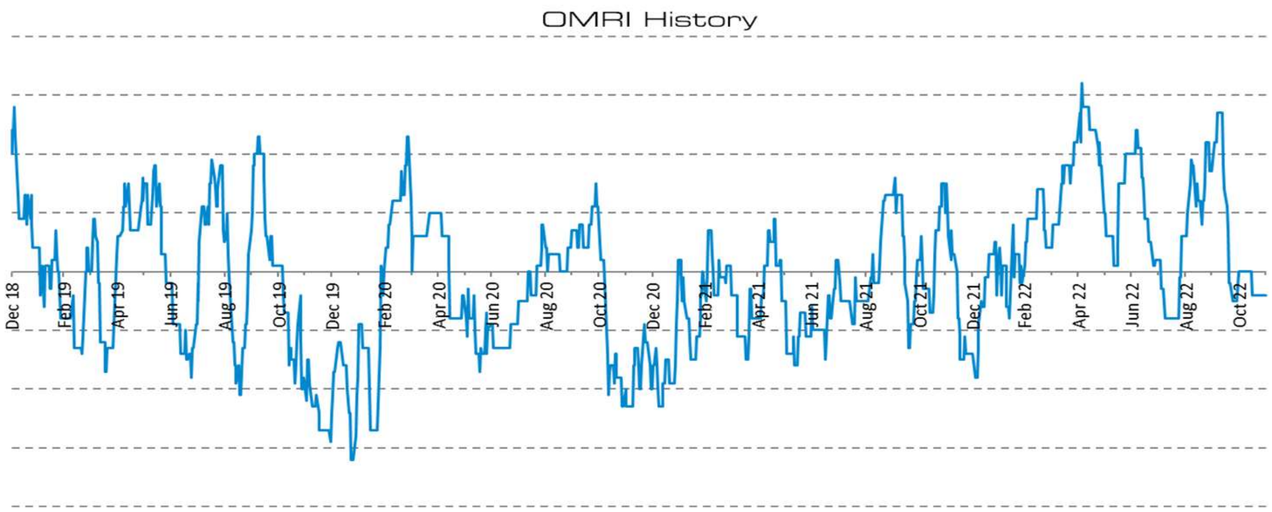
Improvement in the Market intelligence factors

Geographically, US lead while Europe financial conditions continue to deteriorate

30 November 2022

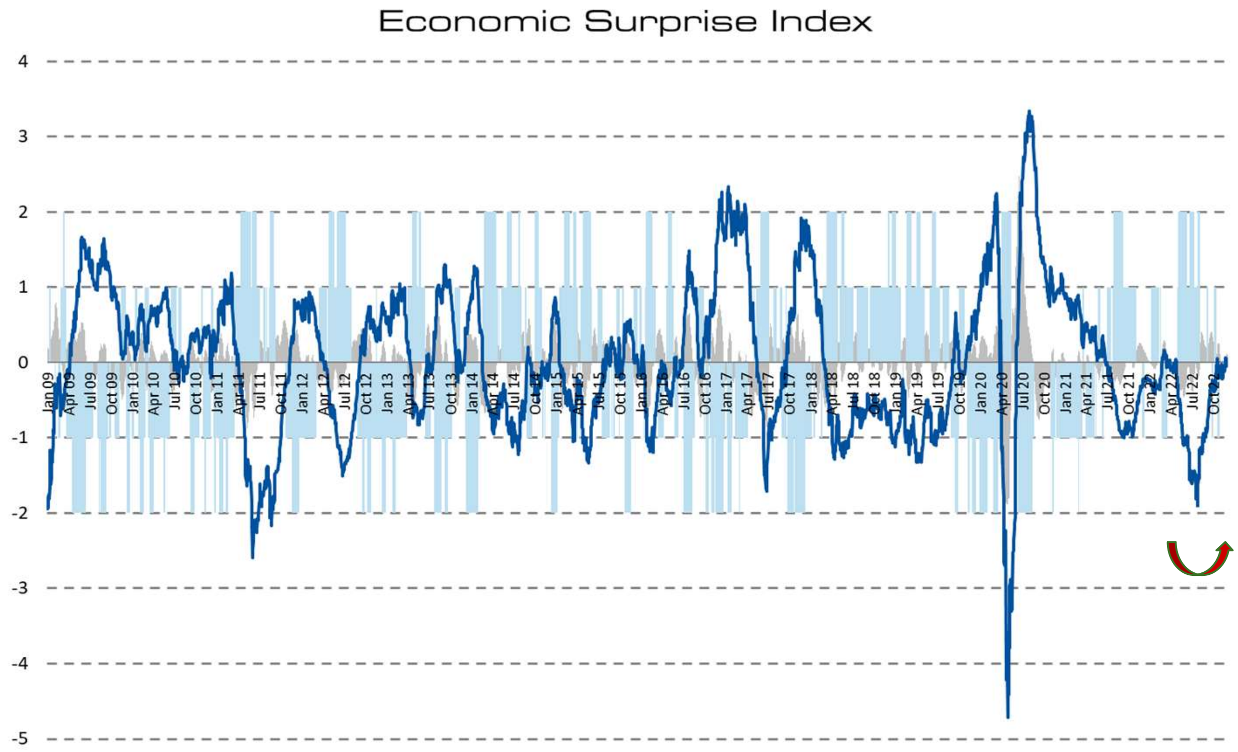
Indicator	Sentiment	Last update
X-Asset correlation	Comfortable	30 Nov 2022
Economic Surprises	Neutral	30 Nov 2022
Financial Conditions	Neutral	01 Dec 2022
Global Financial Stress	Neutral	30 Nov 2022
Gepolitical Risk	Feels good	30 Nov 2022





Fundamentals

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



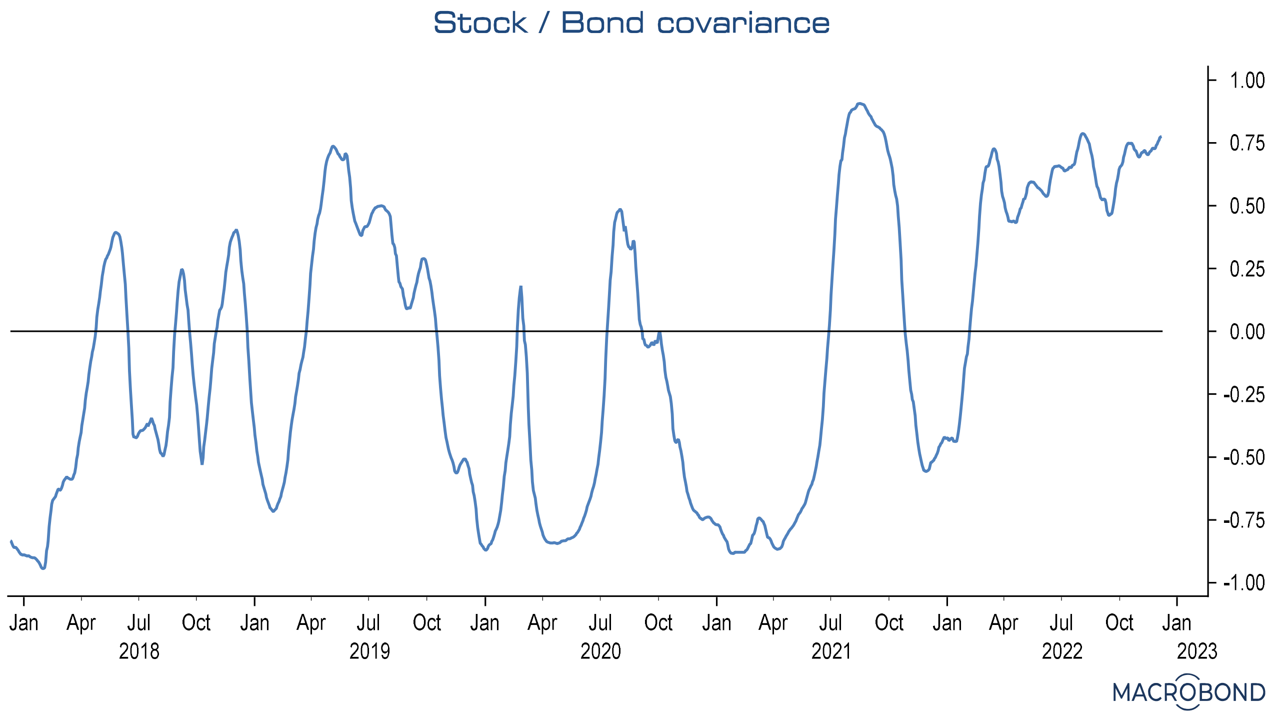
Economic data show greater resilience than economist' forecasted.

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

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

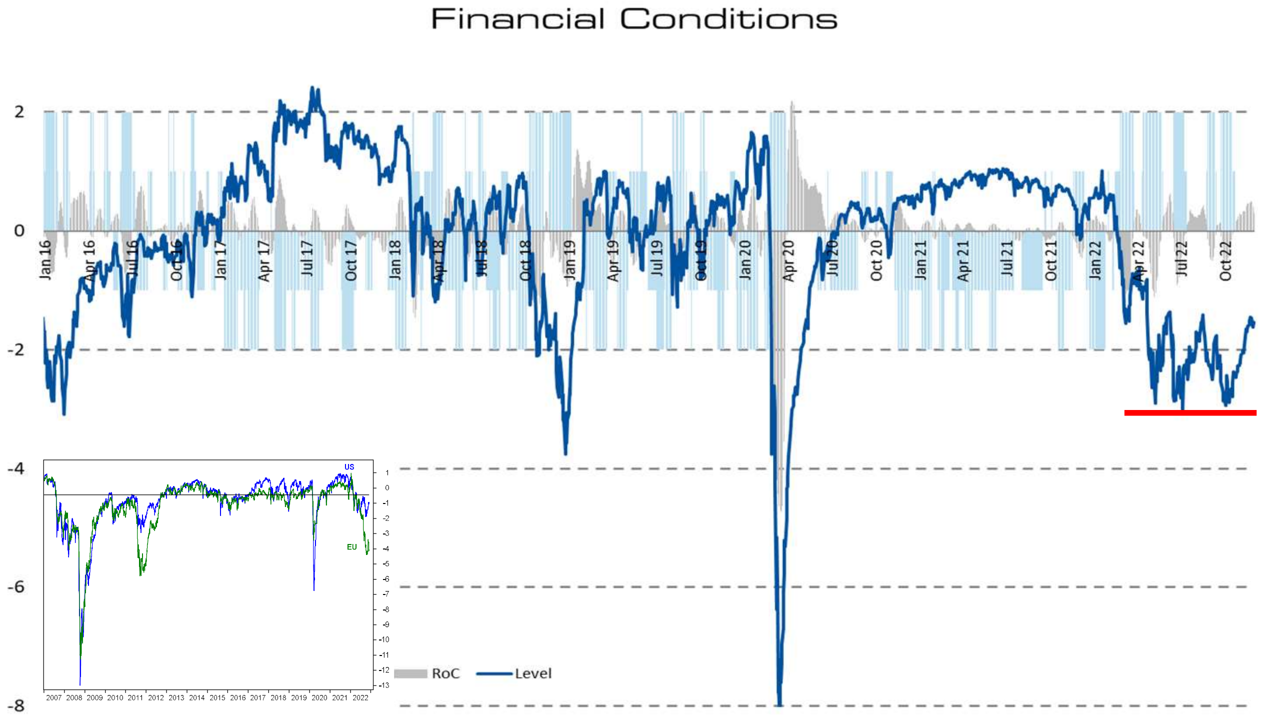


No "Markowitz benefits" with high correlation.

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



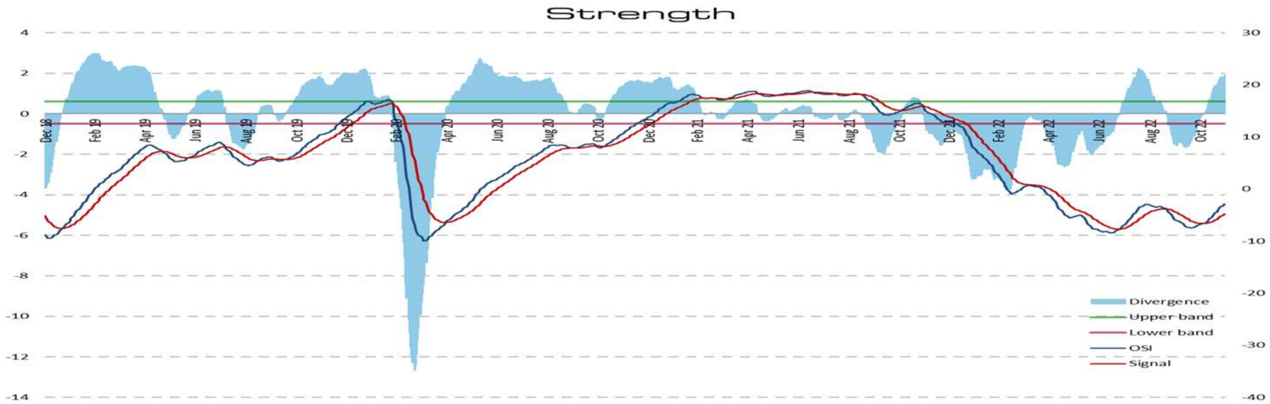
Risk aversion has eased, but level indicate tightened credit conditions since turn of year 2022.

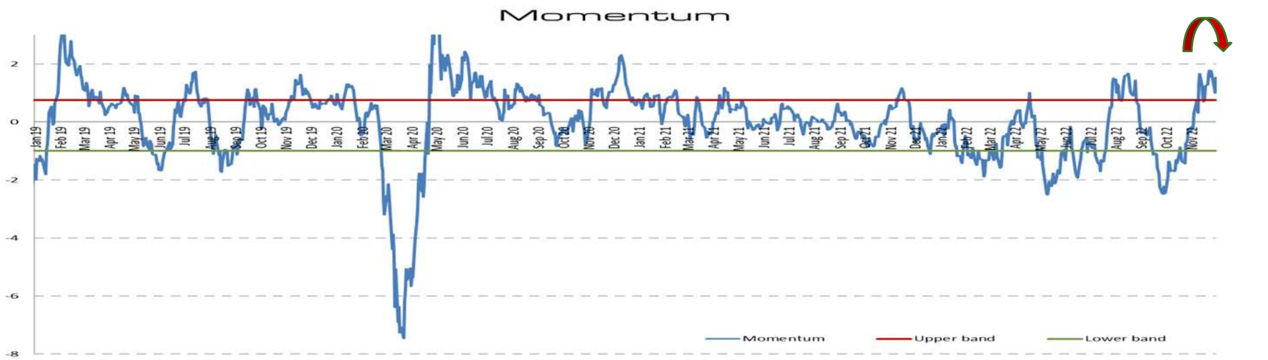
Europe remain the epicenter of deterioration in financial conditions.

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**



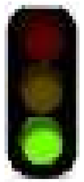


Short-term, top in risk channel, vulnerable to any deterioration in market sentiment.
Medium-term trend remain negative.

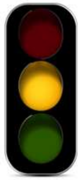
Trend strength in the various market is an expression of the persistence of the currently existing trend.

Current status

Macroeconomics
CBs will slow but remain focused on inflation fighting.
US to continue rate hikes and QT.
China housing bubble deflate and growth flatline.
Europe recession 2022 now a consensus, yet monetary tightening to continue.



Market Risk and market intelligence
Particularly US credit conditions have improved.
Risk now high of Powell to 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 remain high as assets move in synch.

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

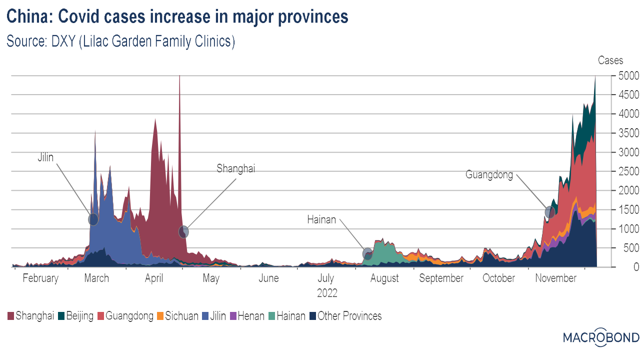
On the radar

ORIGO CONSULTING

Independent | Transparent | Disciplined

Overview

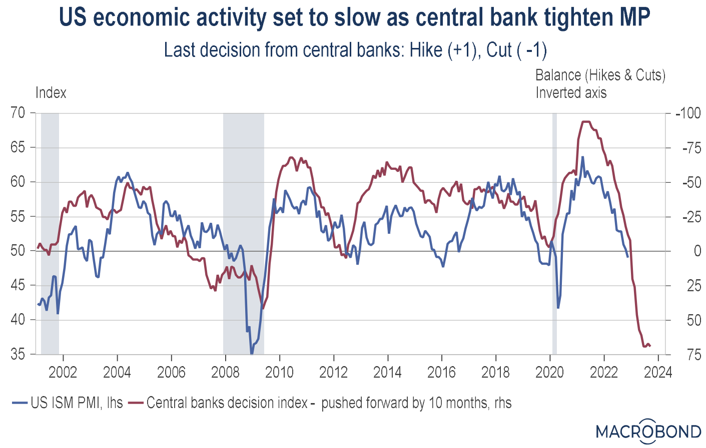
- **Inflation – a peak is forming, finally**
  - Headline inflation to drop from 10 to 5-6% mathematically given since energy has come down
  - Non-consensus risk if inflation sticks around 4 %
- **Centralbanks – no "pivot"**
  - Monetary tightening to continue
  - CBs are probably now around balanced, not restrictive
- **China – the next "grand opening"**
  - Swapping Zero-CoVid for Millions-of-dead policy, is an economic positive but an insufficient boost facing drag from real estate debt bubble, low productivity, low profitability and secular demografic decline

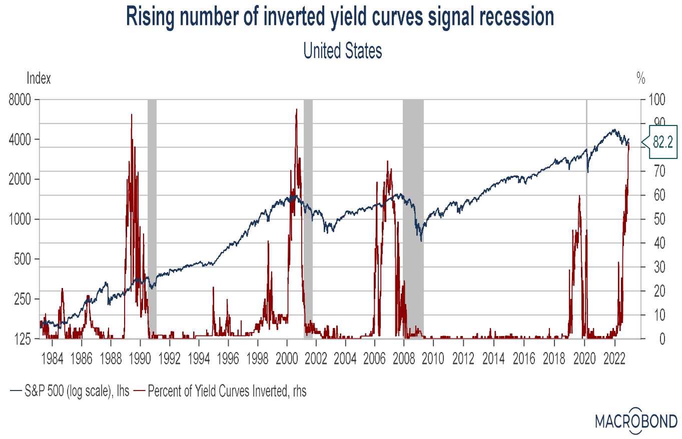


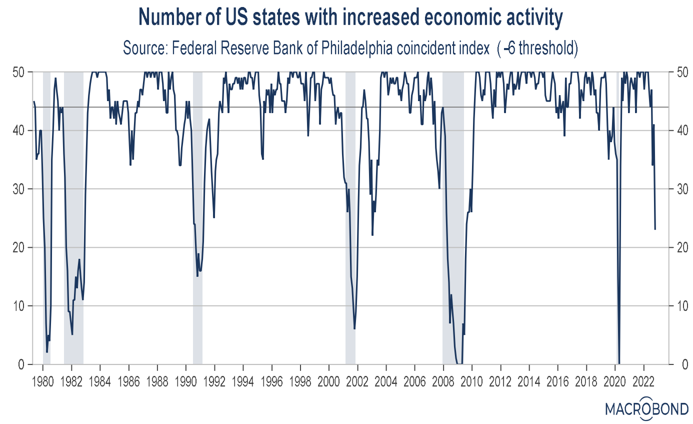
Macro risk - US

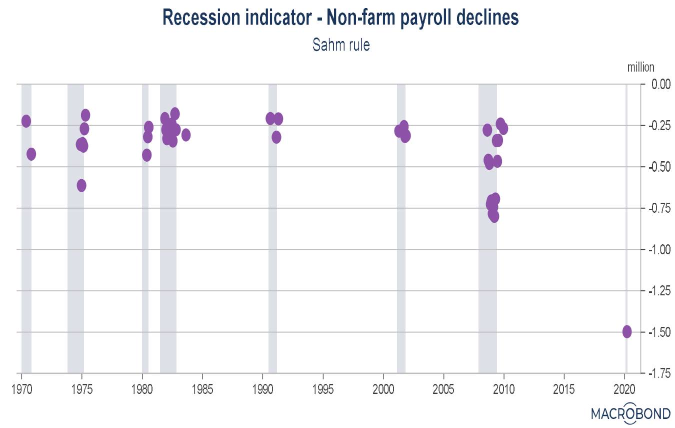
US recession risk rising
Labour market still strong

US activity has lattitude => Fed tightening will continue







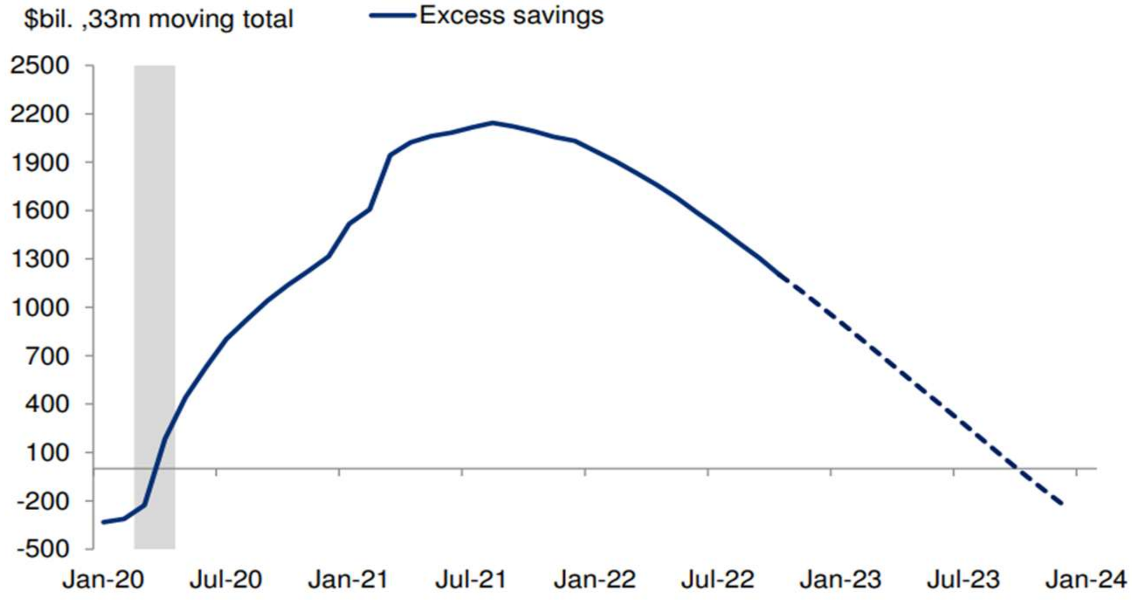


Macro risk - US

Household savings

Running out, simultaneously with maximum effect of monetary tightening

Figure 1: Excess savings still elevated but will be depleted by Q3 2023



Source : BEA & Deutsche Bank

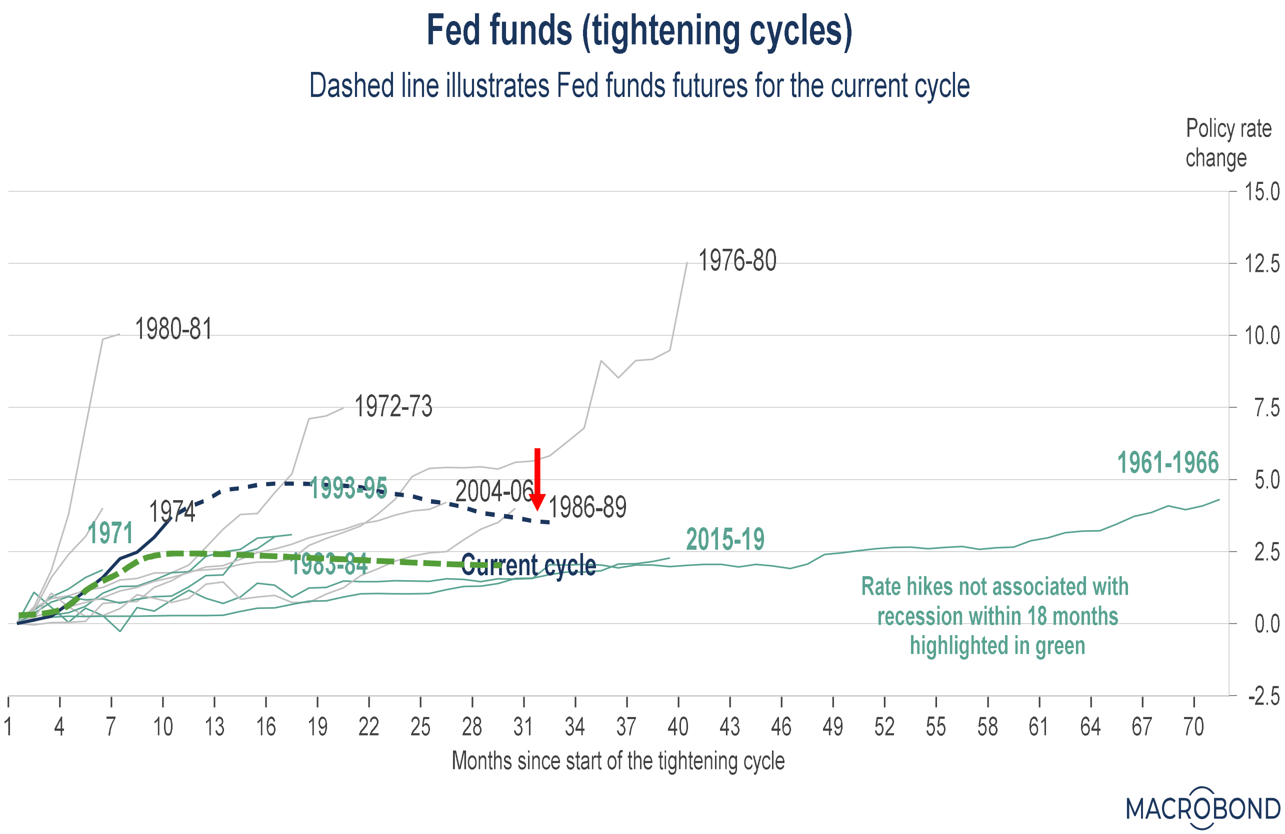
Stock vs Bonds

Simplistic indicator suggest economic growth moderation – not a recession "risk-off" scenario, yet

Macro risk – Fed Funds

FF hiking cycles

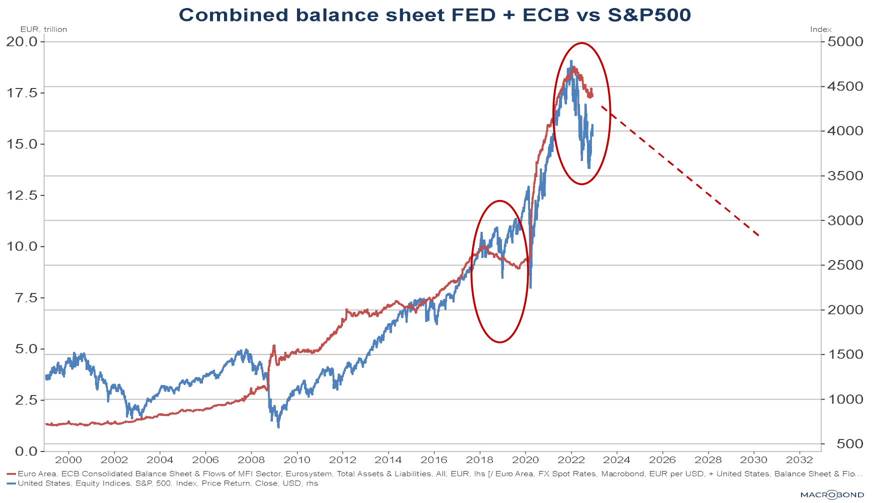
Forward rate expectations shift downwards 24m after Mar22 rate hike start



Capital markets

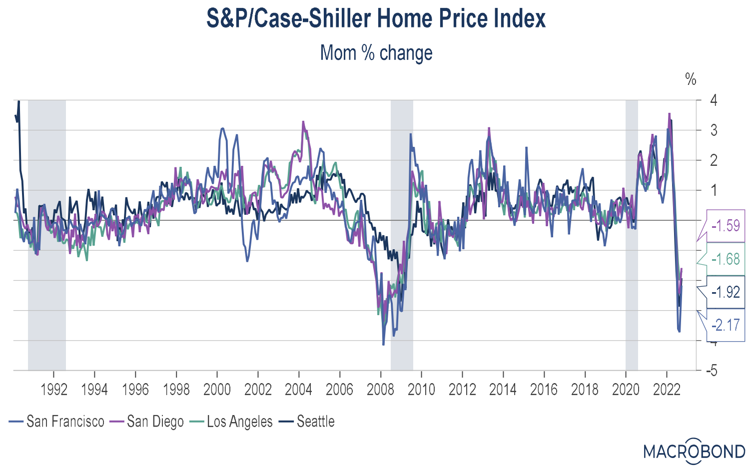
Quantitative Tightening - on track

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



Correlation suggest a high risk of capital mis-allocation;

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



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.