Active Risk Allocation

The state of indicators

February 2023

ORIGO CONSULTING

Independent | Transparent | Disciplined

Status
January 2023

2023, Reducing underweights in prime asset

- 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

- Low vol factor, strategically dividend factor

Bonds – underweight

- Overweight credit

Alternatives – overweight

- Non-interest rate sensitive, non-directional, uncorrelated assets and strategies (eg. hedge funds, commodities …)

Macroeconomics

- Fiscal tightening, Monetary tightening (policy rates & Quantitative (QT). By Mar23 ECB join Fed.
- Activity; Resilient economy .. Impact to inflation? Europe in recession. China in moderation, US recession still 50/50
- Prices; Global supply chain improvements, post-covid imbalance in Service sector remain, 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)

Status
February 2023

Short covering, FOMO ...
Mid-2023 remain the real test

- inflation will half, but will remain sticky
- yields will not come down
- activity slowdown has bottomed, labour market is resilient, and consumers holding up
- margin pressure accelerate, as do bankruptcies.

Risk overview;

Short-term **Neutral/Negative**

Medium-term **Neutral**

Stocks – underweight

- Low vol factor

Bonds – underweight

- Overweight credit

Alternatives – overweight

- Non-interest rate sensitive, non-directional, uncorrelated assets and strategies (selected alternatives eg. hedge funds ...)

Macroeconomics

- Monetary tightening continue, policy rates & Quantitative (QT), ECB join Mar2023
- Activity; Consumer consumption resilient – but below potential, monetary policy continues and impact is delayed. China to pick up - some, US recession is still 50/50
- Prices; Inflation to half post-covid imbalance in Service sector remain, Europe war, trade war US-China .. and EU-US? (the "Inflation Reduction Act")

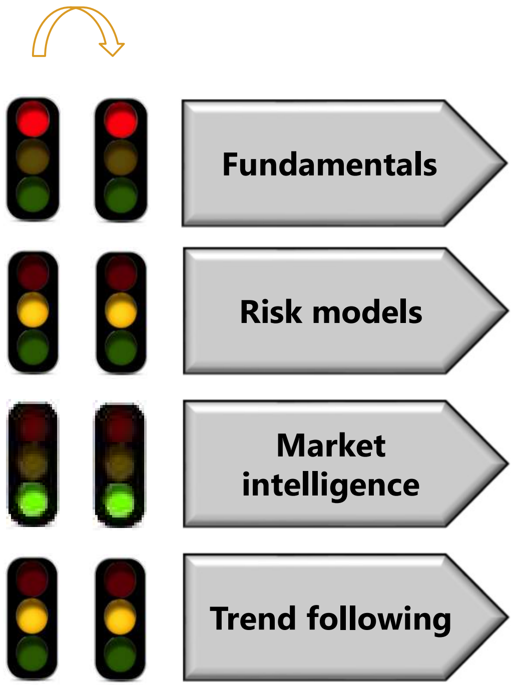
Indicators

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

Investment process

Indicators

Highly sophisticated models
analysing about 150 indicators



Proprietary macro and micro economic models

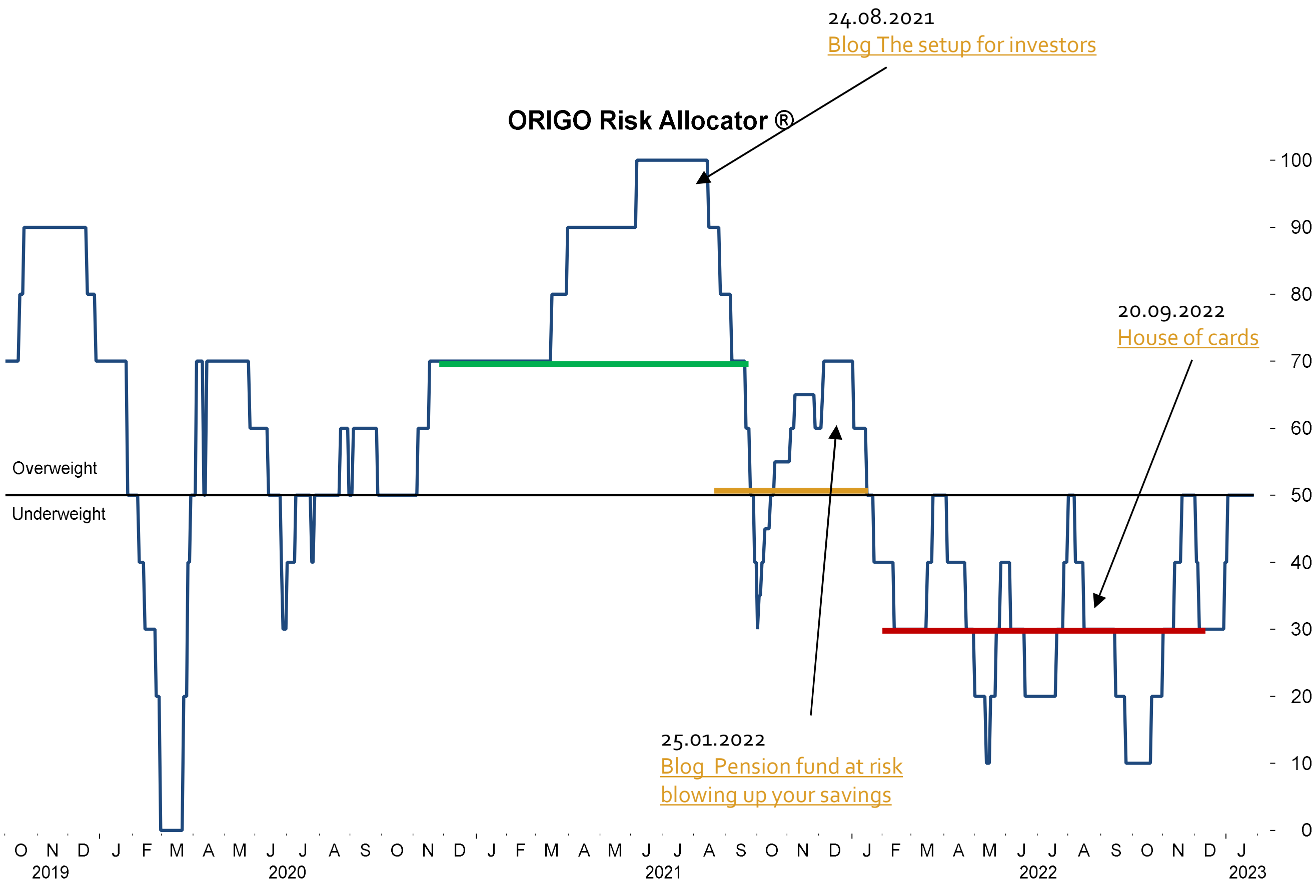
The investment value of diversification, volatility and correlations

Market positioning, risk perception and dynamics

Trends, direction and strength

OPRA®
Origo Portfolio Risk Allocator

Timeline, 2019 -



OMRI®
Origo Market Risk Indicator

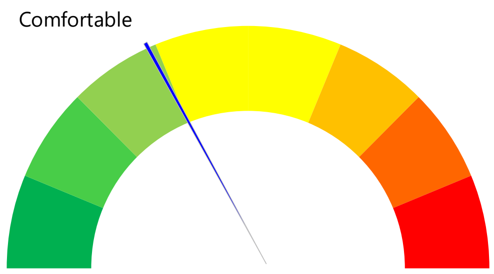
Short-term risk gauge

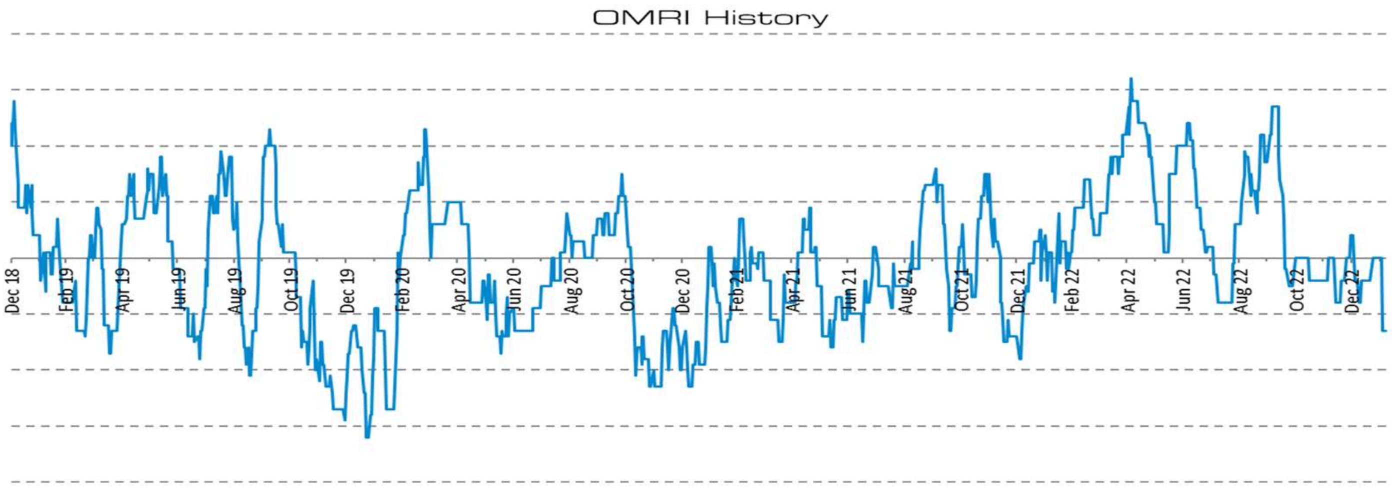
Improvement in the Market intelligence factors

Geographically, US lead while Europe financial conditions continue to deteriorate

06 February 2023

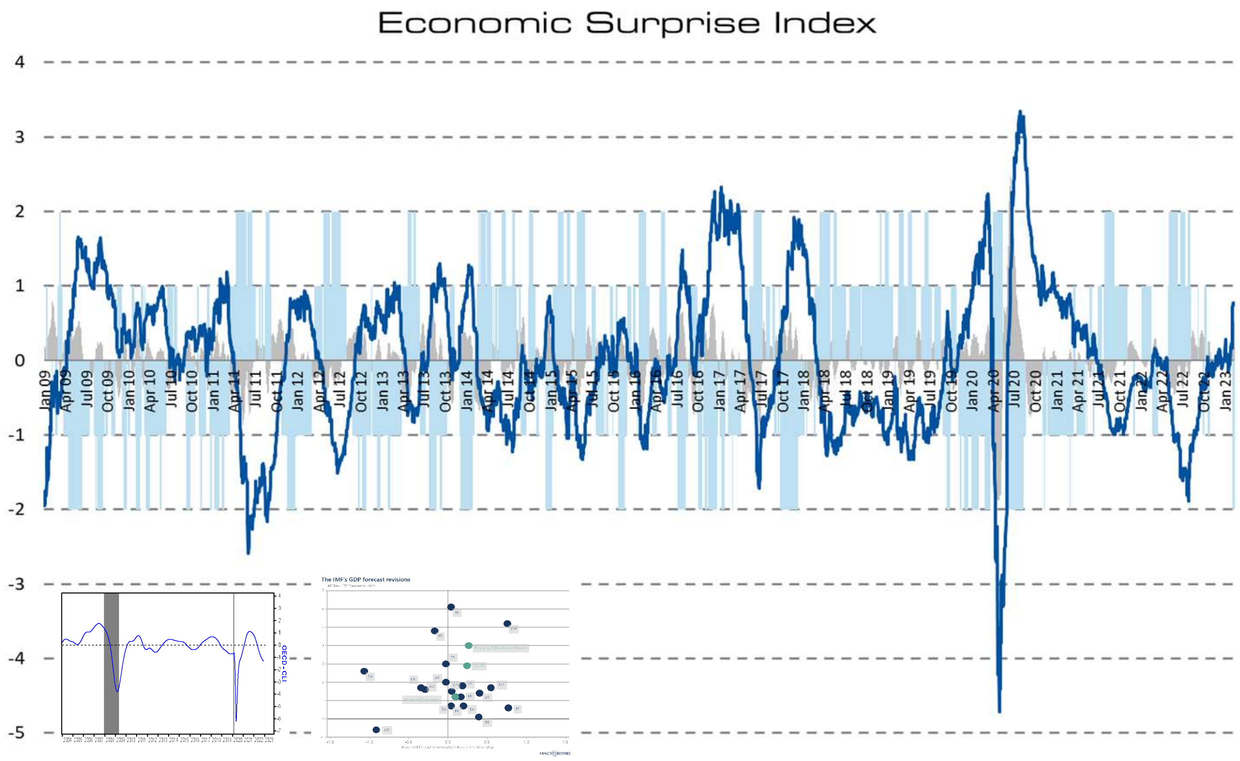
Indicator	Sentiment	Last update
X-Asset correlation	Tense	06 Feb 2023
Economic Surprises	Feels good	06 Feb 2023
Financial Conditions	Comfortable	07 Feb 2023
Global Financial Stress	Comfortable	06 Feb 2023
Gepolitical Risk	Feels good	31 Jan 2023





Fundamentals

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



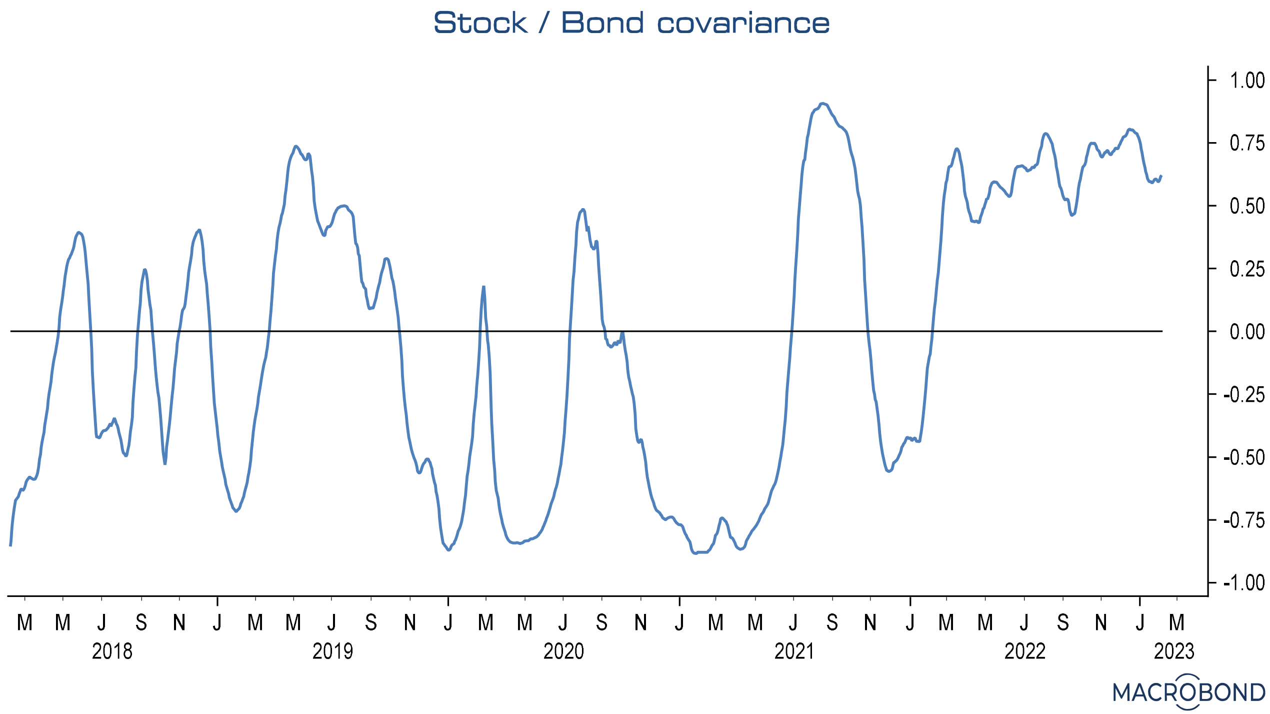
Economic data continue to show far greater resilience than economist' forecasted.

Consumer consumption holding up, production sector crater, service economy boom. Mid-2023 remain the challenging phase as consumer savings deplete and 1 year of monetary policy comes into effect.

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



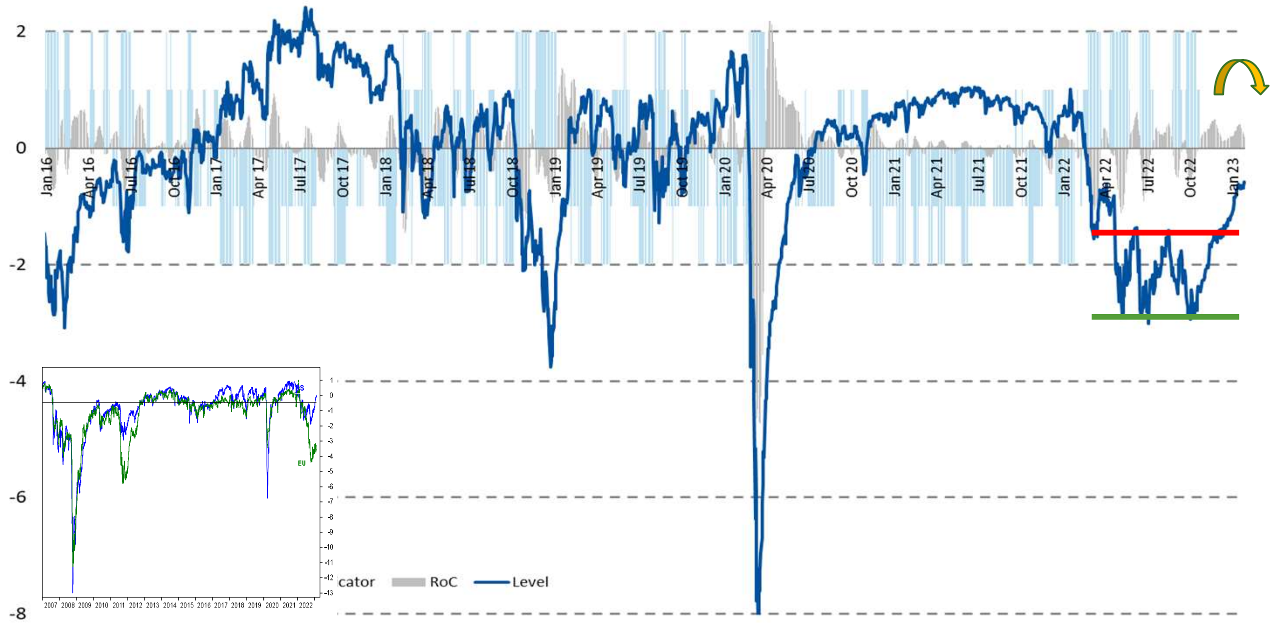
No "Markowitz benefits" with high correlation.

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

Financial Conditions



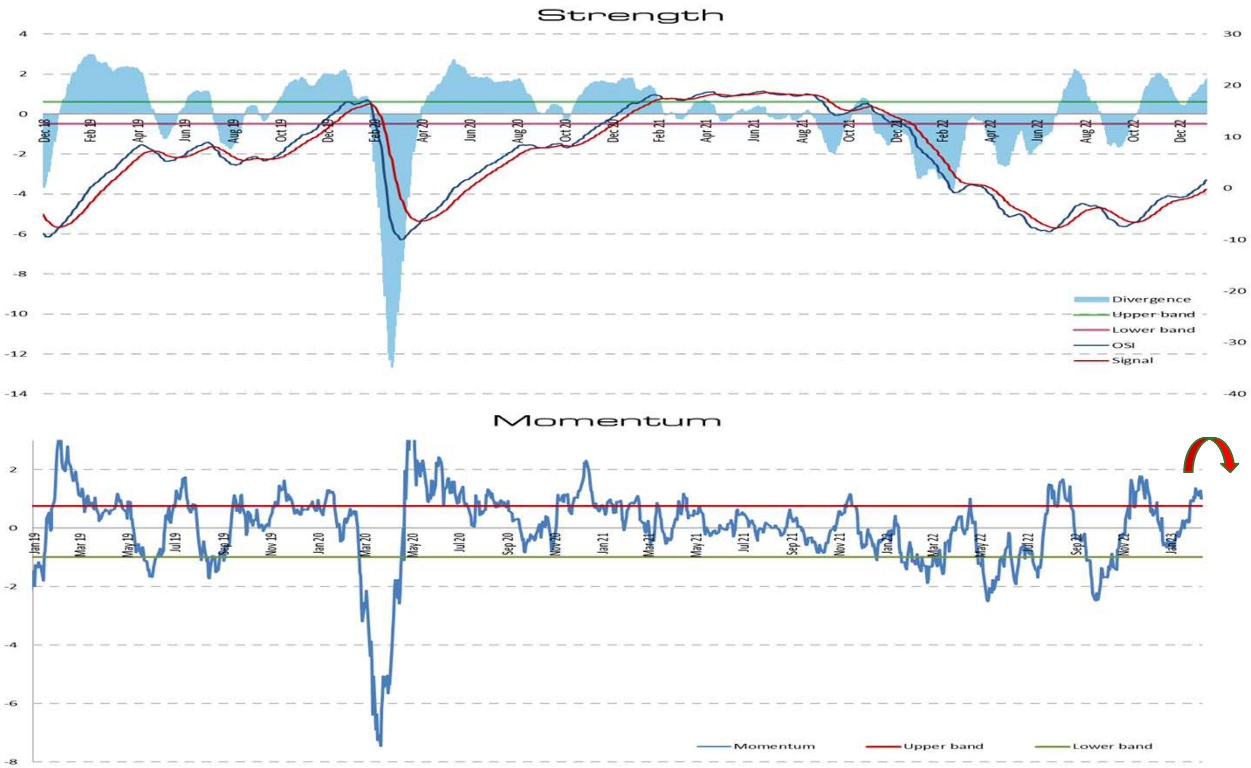
Financial conditions and market risk perception continue to improve. The 2021-2022 range of risk aversion channel is broken.

Improved financial conditions are however now at odds with continued CB messaging for policy rates higher for longer - creating the next major divergence which is vulnerable to any deviation from "sunshine, everyday".

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**



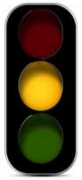
Short-term, nearing top in risk channel. Odds switch for neutral/negative returns for long risk exposure.
Medium-term trend remains stable.

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

Current status

Macroeconomics
Higher for longer is the main point - not peak inflation, nor peak policy rate.
China housing bubble will stymie Grand Reopening 2.0.
IMF's "1/3 of world 2023 in recession" is the optimistic scenario.
Again, the point is sub-par growth for longer, just as planned

Market Risk and market intelligence
US financial conditions have strongly improved.
Powell has stayed of verbal intervention in 2023, for now



Technicals
Medium-term trend in risk assets are stabilising.
Short-term technicals keep switching between buy/sell.

Volatility and risk budgeting
Portfolio risk has retreated with drop in volatility. Asset correlation stay elevated.

The volatility patter is adapting to a new regime probably entered Sep 2021.

Active Risk Allocation

2023

ORIGO CONSULTING

Independent | Transparent | Disciplined

Business as usual ?

ORIGO Sep 2021: ”A regime change is 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

On the radar

ORIGO CONSULTING

Independent | Transparent | Disciplined

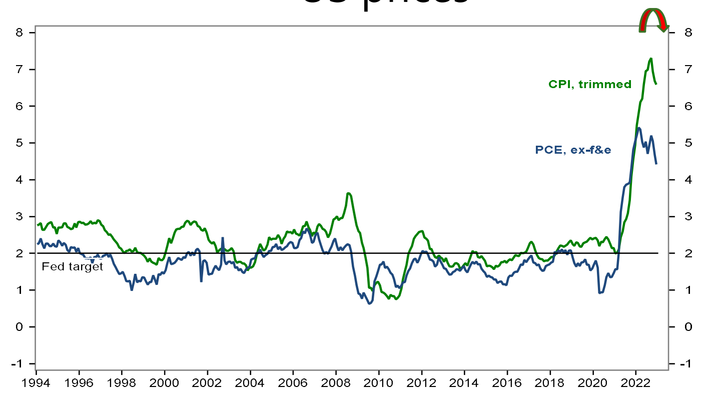
Macro risk - price / growth

The marketeers view

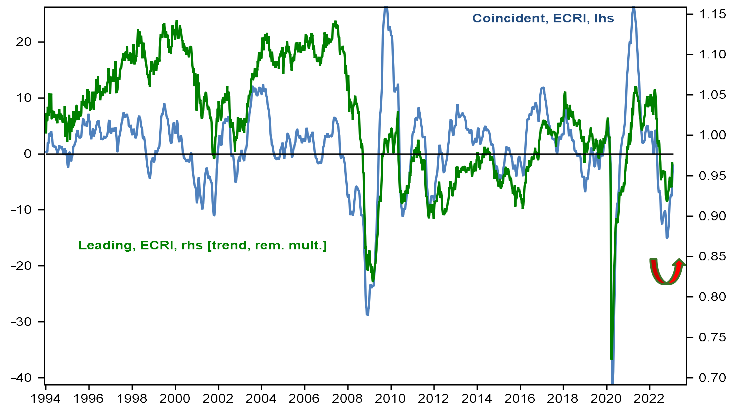
- inflation coming down
- growth bottoming out

At first glance a “goldilocks scenario”, for an armchair economists

US prices



US activity



inflation has peaked and coming down, maybe to 2%, maybe before end-2023

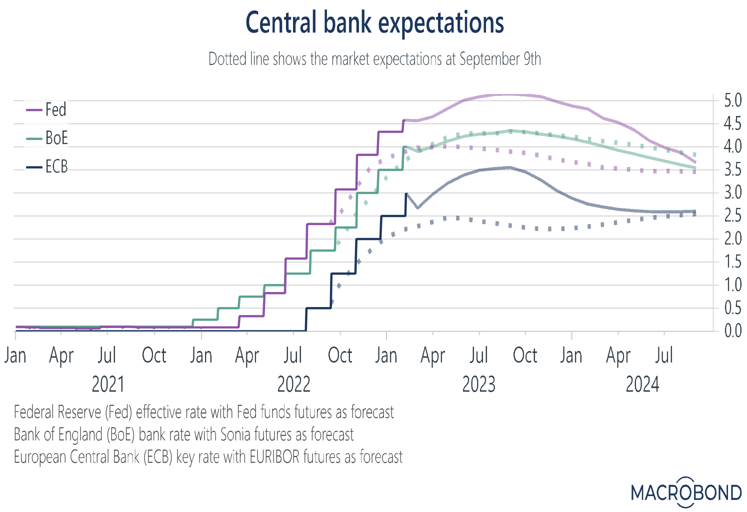
Growth bottoming and maybe returning to its potential

Yet we still see inflation stay elevated 3-4% (2x previous 5y average) and growth to remain lacklustre in years forward

Macro risk - CB action

CBs to pivot, or ?

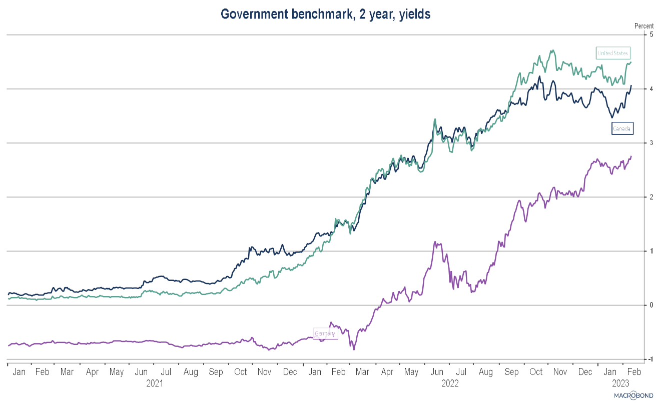
a) Recession was 2022 – now for the recovery
b) Recession is prolonged – CB effect is not clear, yet



Markets expect policy rates to pivot lower towards end-2023 …

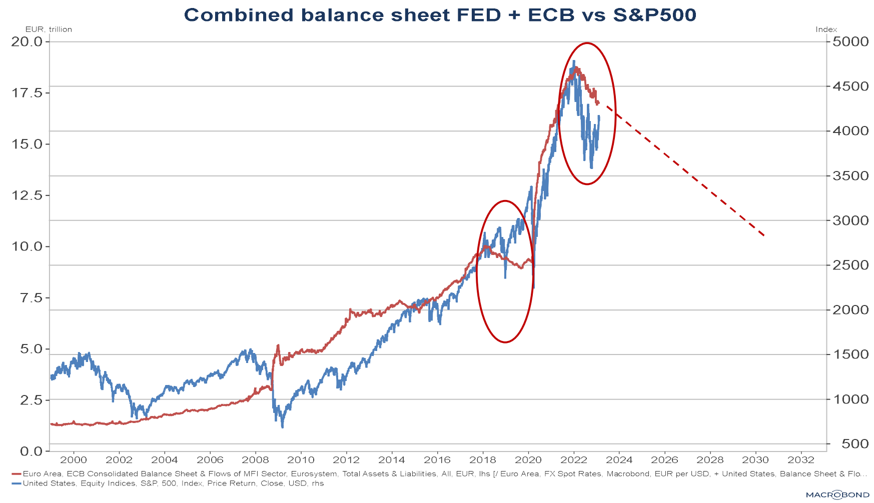
2y yields do not agree – touching all-time-high

Segment was leading CB tightening cycle, and may well still be leading



Capital markets

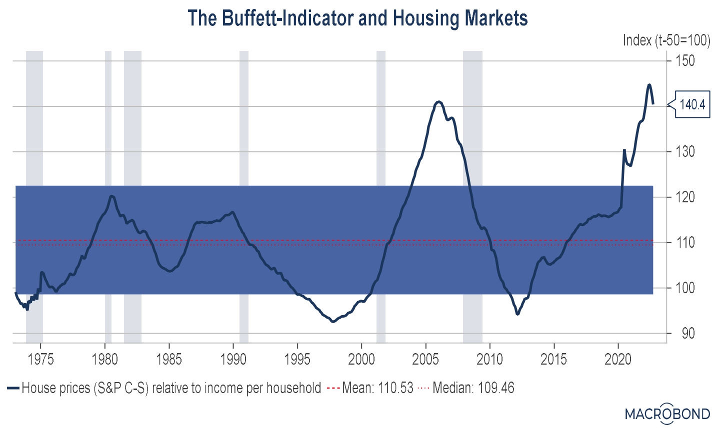
CB liquidity withdrawal to accelerate - ECB join by Mar2023



S&P500 correlation to combined CB balance remain high

Correlation suggest a high risk of capital mis-allocation into;

- high growth/no profit cpy's
- crypto's, meme stocks
- ... and off course, 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.