Active Risk Allocation

The state of indicators

March 2023

ORIGO CONSULTING

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Status

FOMO lives …
Mid-2023 remain the real test

- inflation will half, but will remain sticky
- policy rates will continue to rise
- activity slowdown has bottomed, labour market is resilient, and consumers holding up .. so is Fed
- margin pressure accelerate, as do bankruptcies.

Risk overview;

Short-term **Neutral**

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 continues, 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")

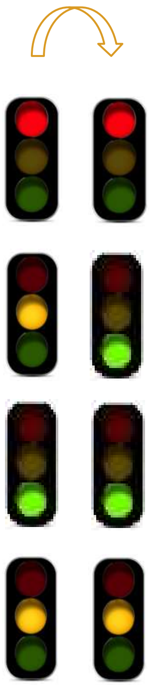
Indicators

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

Investment process

Indicators

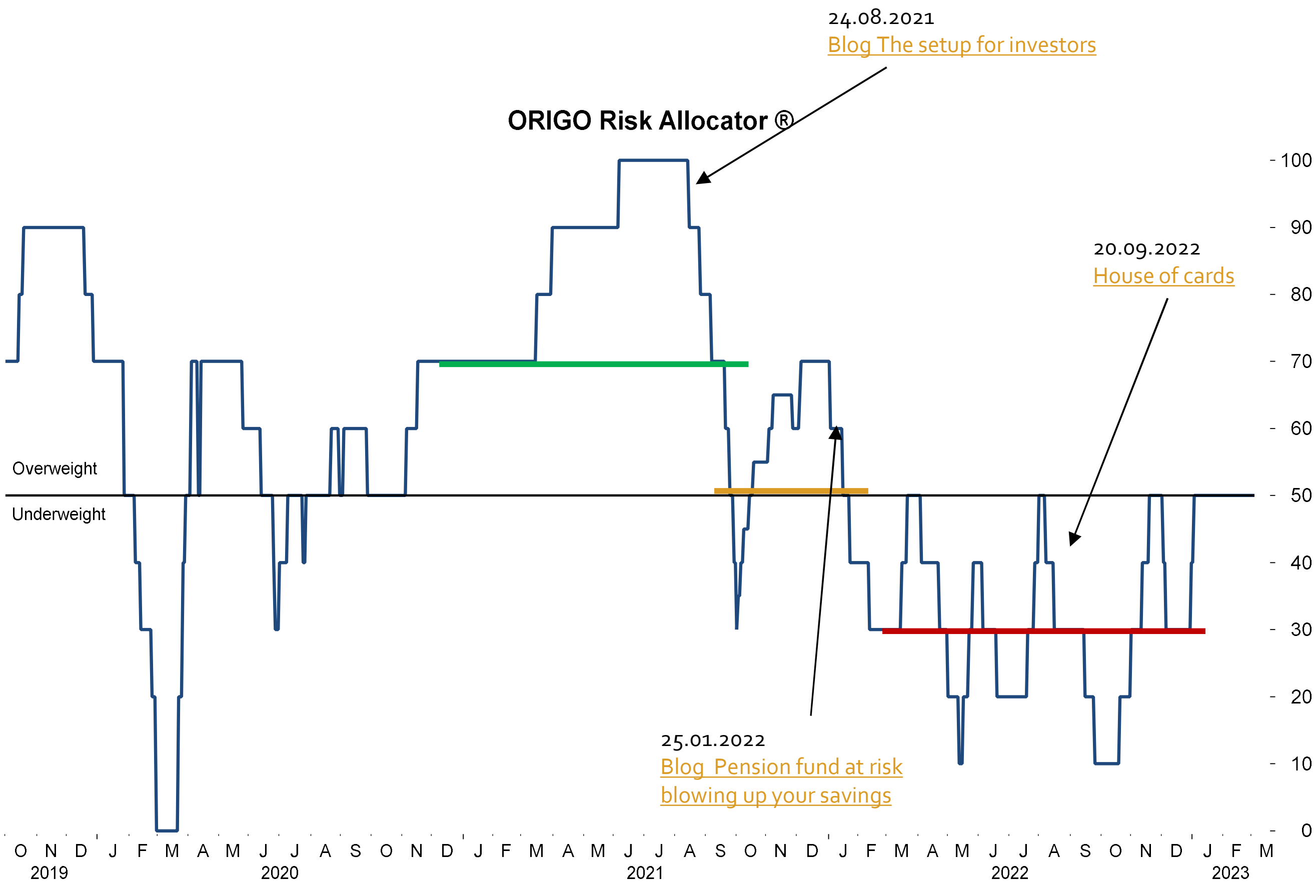
Highly sophisticated models
analysing about 150 indicators



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

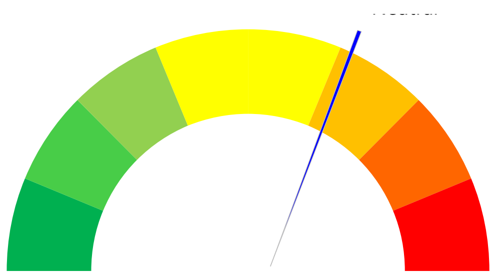
Short-term risk gauge

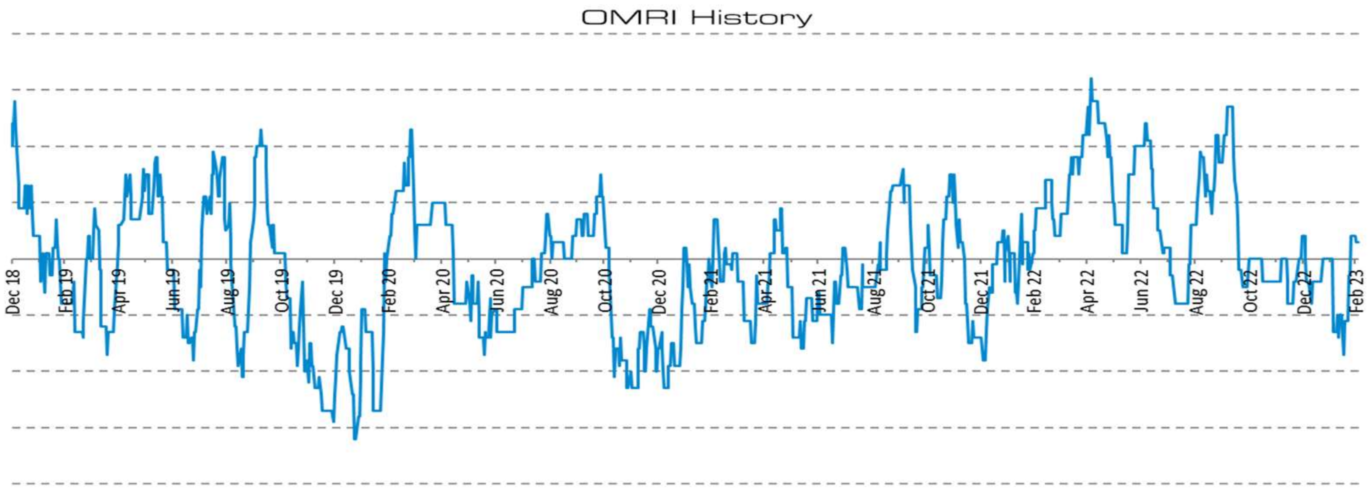
Improvement in the Market intelligence factors

Geographically, US lead while Europe financial conditions continue to deteriorate

03 March 2023

Indicator	Sentiment	Last update
X-Asset correlation	High risk	03 Mar 2023
Economic Surprises	Comfortable	03 Mar 2023
Financial Conditions	High risk	28 Feb 2023
Global Financial Stress	Neutral	27 Feb 2023
Gepolitical Risk	Feels good	28 Feb 2023

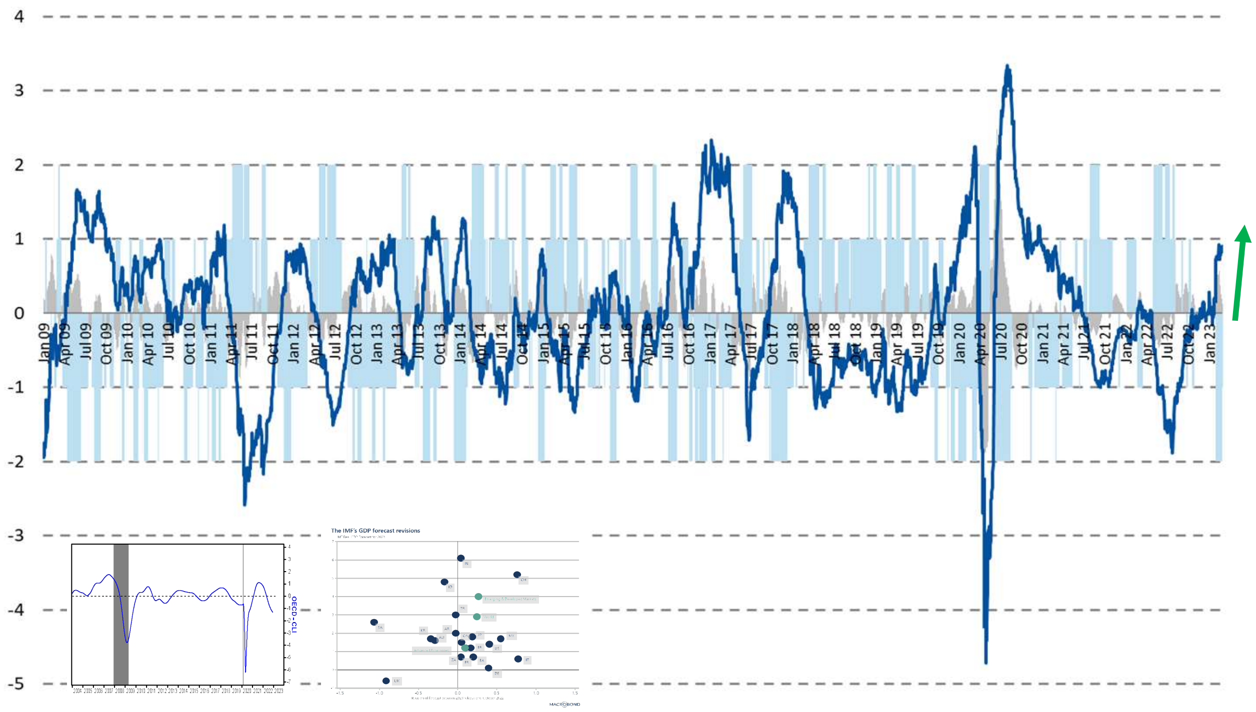




Fundamentals

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

Economic Surprise Index



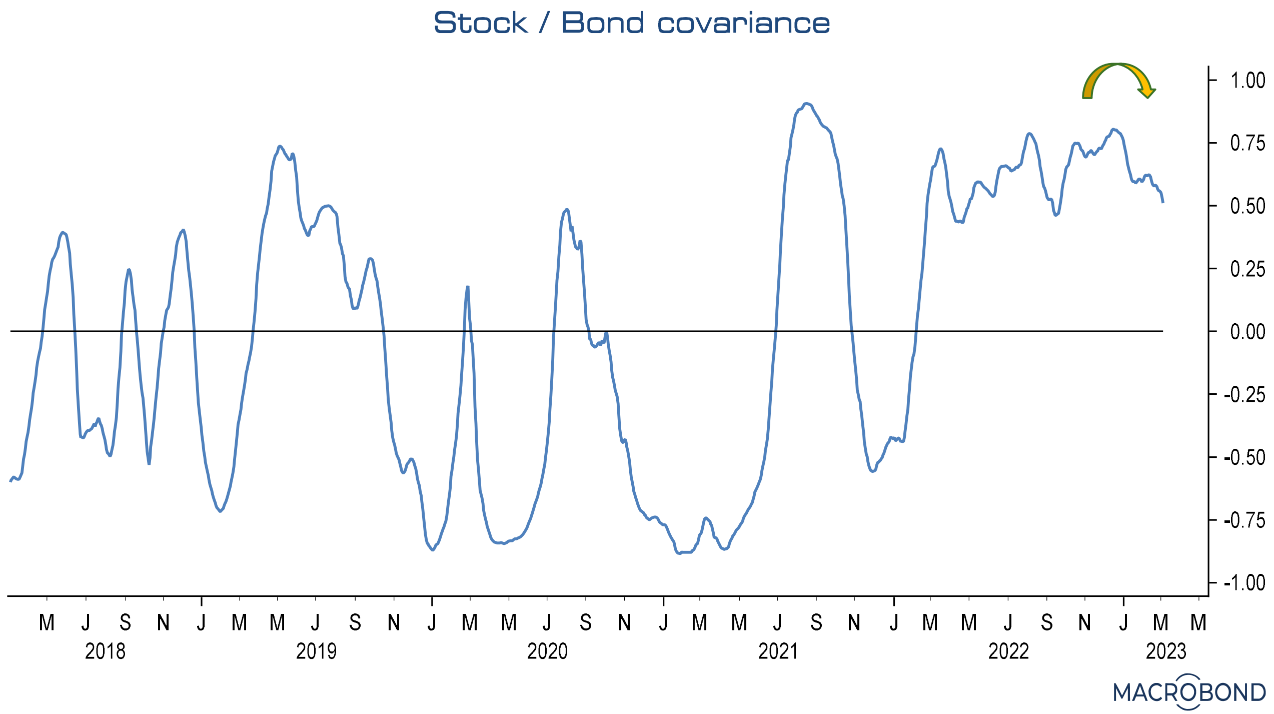
Economic data continue to show far greater resilience than economist' forecasted.

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

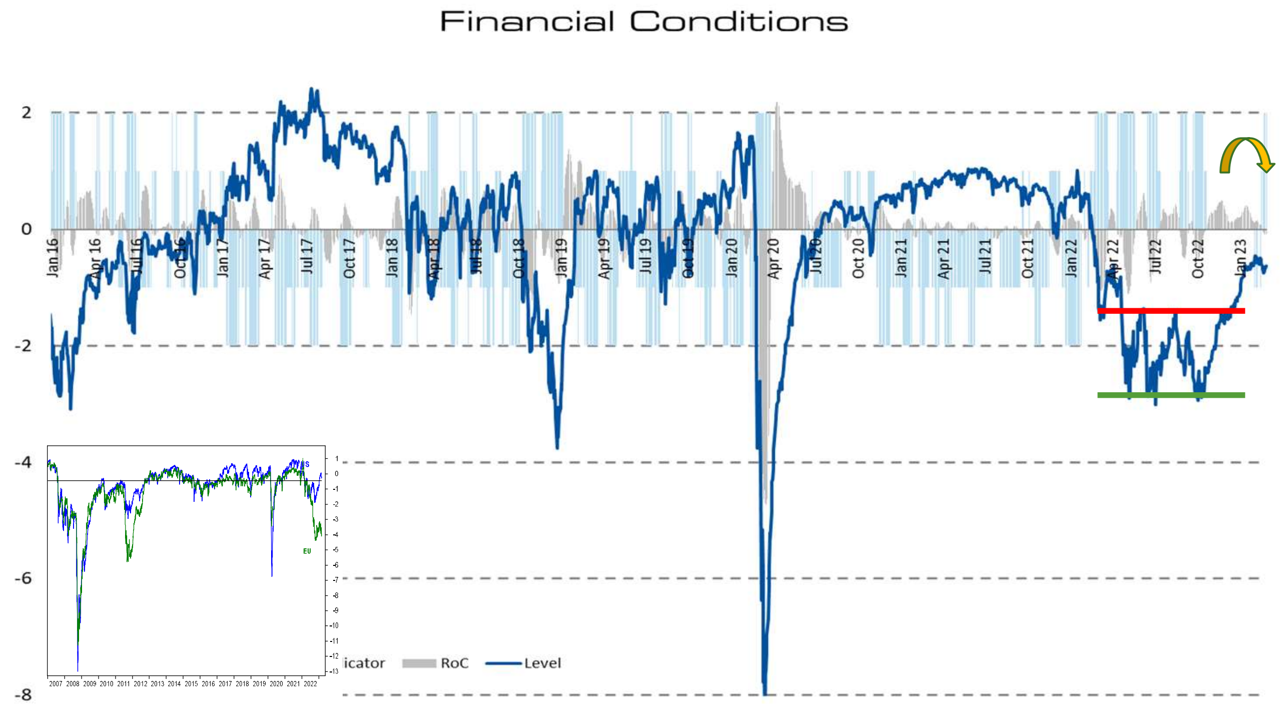


Improving, giving more room for “traditional” static allocation ideology

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

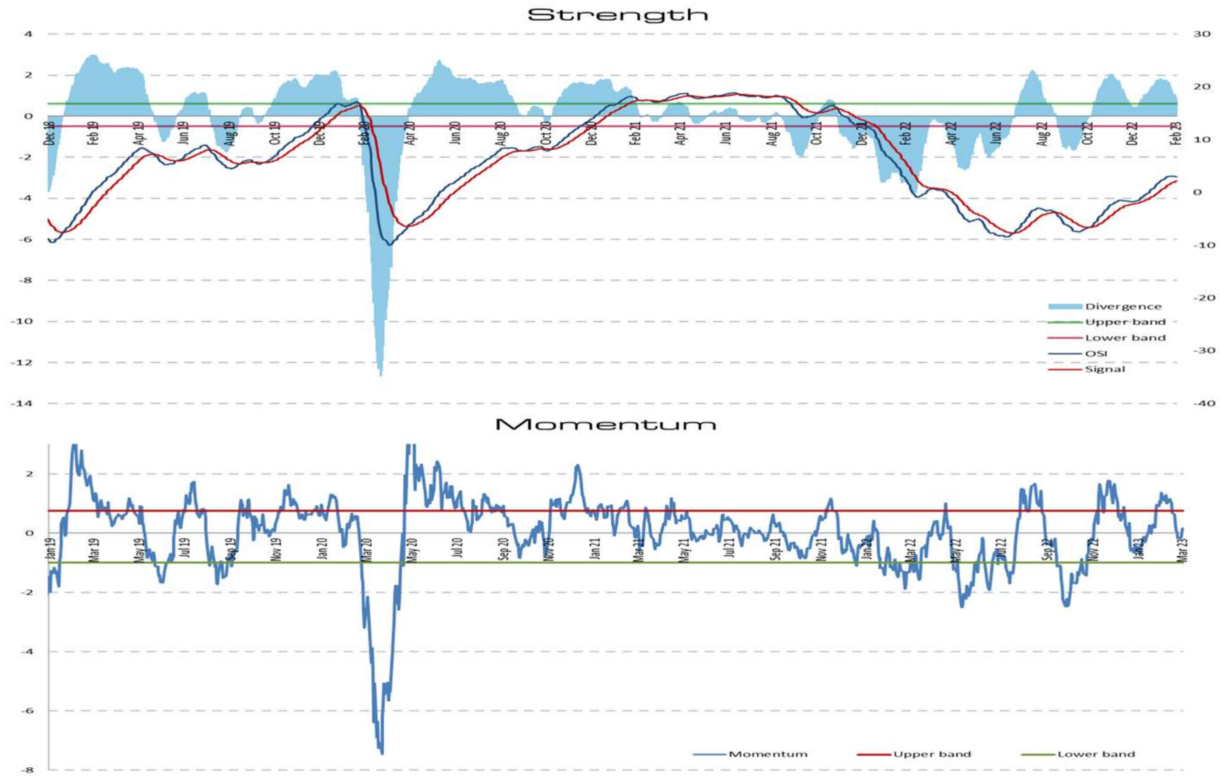


Financial conditions and market risk perception stable after breaking the 2021-2022 range of risk aversion.
Improved financial conditions are however now at odds with continued CB messaging for policy rates higher for longer - creating the next major divergence which is vulnerable to any deviation from “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**

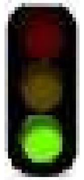


Short-term neutral in risk channel. Odds improves switching for neutral return. Medium-term trend remains stable.

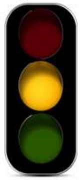
Trend strength in the various market is an expression of the persistence of the currently existing trend.

Current status

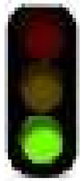
Macroeconomics
Higher for longer is the main point - not peak inflation, nor peak policy rate.
China housing bubble will stymie Grand Reopening 2.0.
IMF's "1/3 of world 2023 in recession" is the optimistic scenario. Again, the point is sub-par growth for longer, just as planned



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 improved – firstly, as asset correlation retreats.

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

Active Risk Allocation

2023

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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

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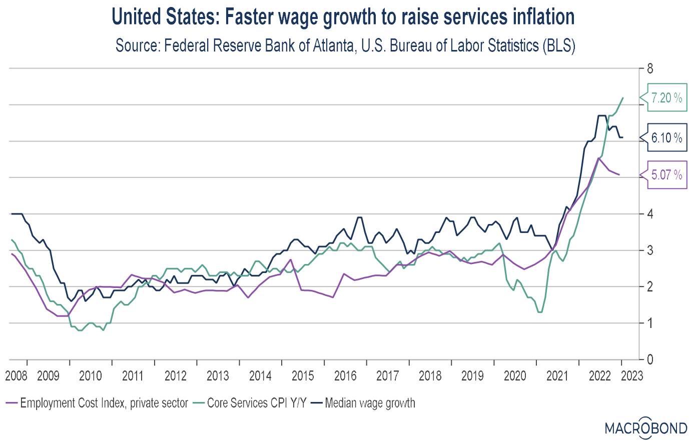
Overview

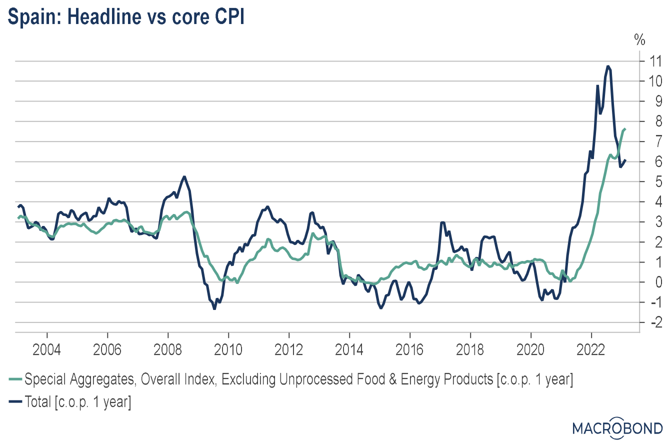
- **Inflation – falling, but slow and risk rising of renewed boost**
  - Headline inflation drop was always a mathematical, given base effect and drop in components as energy
  - Non-consensus risk if inflation sticks around 4 %
- **Centralbanks – NO "pivot" in sight**
  - Monetary tightening to continue
- **China – the next "grand opening"**
  - No change 180 degree change in Zero-CoVid policy
  - Real estate debt bubble, low productivity, low profitability, continued clampdown on the corporate sector – and empty containers in the harbours … ?

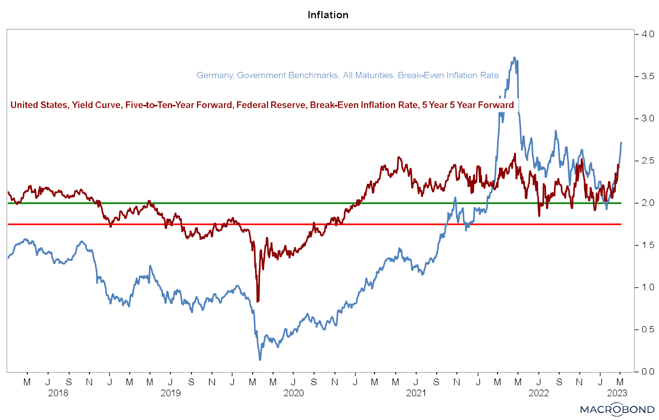
Macro risk – Inflation

Headline coming down fast – but will 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

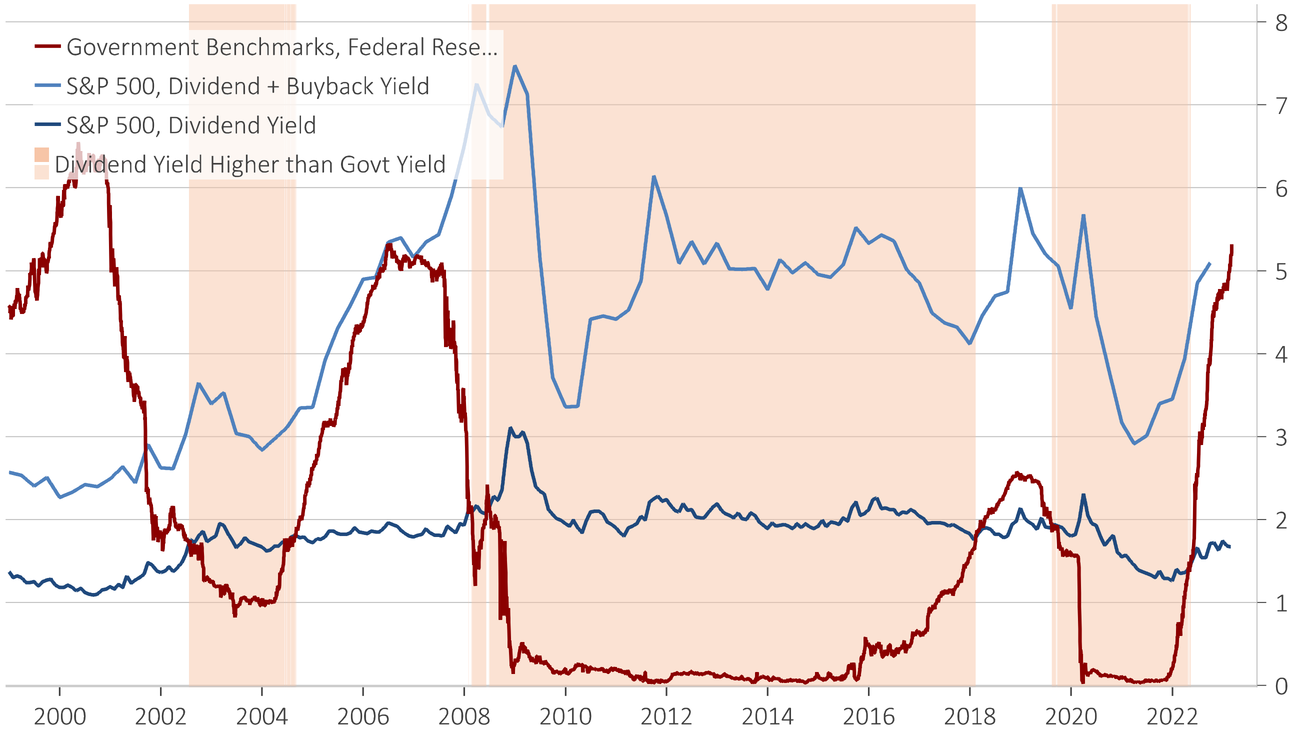






Yields

Cash yields surpass … everything else



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