Active Risk Allocation

The state of indicators

April 2023

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Status

FOMO lives, but growth coming under pressure – inflation remain sticky

- "bank crisis" addressed surgical along with other "zero-rate victims"
- policy rates will continue to rise
- activity slowdown accelerate, labour market resilient, consumers holding up
- margin pressure accelerate, as do bankruptcies.
- "China grand re-open", not so much
- USD under pressure

Risk overview;

Short-term **Neutral**

Medium-term **Neutral**

Stocks – underweight

- Low vol, dividend and large cap factor

Bonds – underweight

- Overweight credit

Alternatives – overweight

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

Macroeconomics

- Monetary tightening continues, policy rates & Quantitative
- Activity at 22 year low, before consumer consumption to drop
- Price headline to half a year after Russian war – core to stick around for 2025

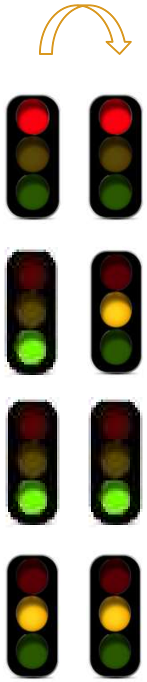
Indicators

- OPRA: Neutral / Neutral (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

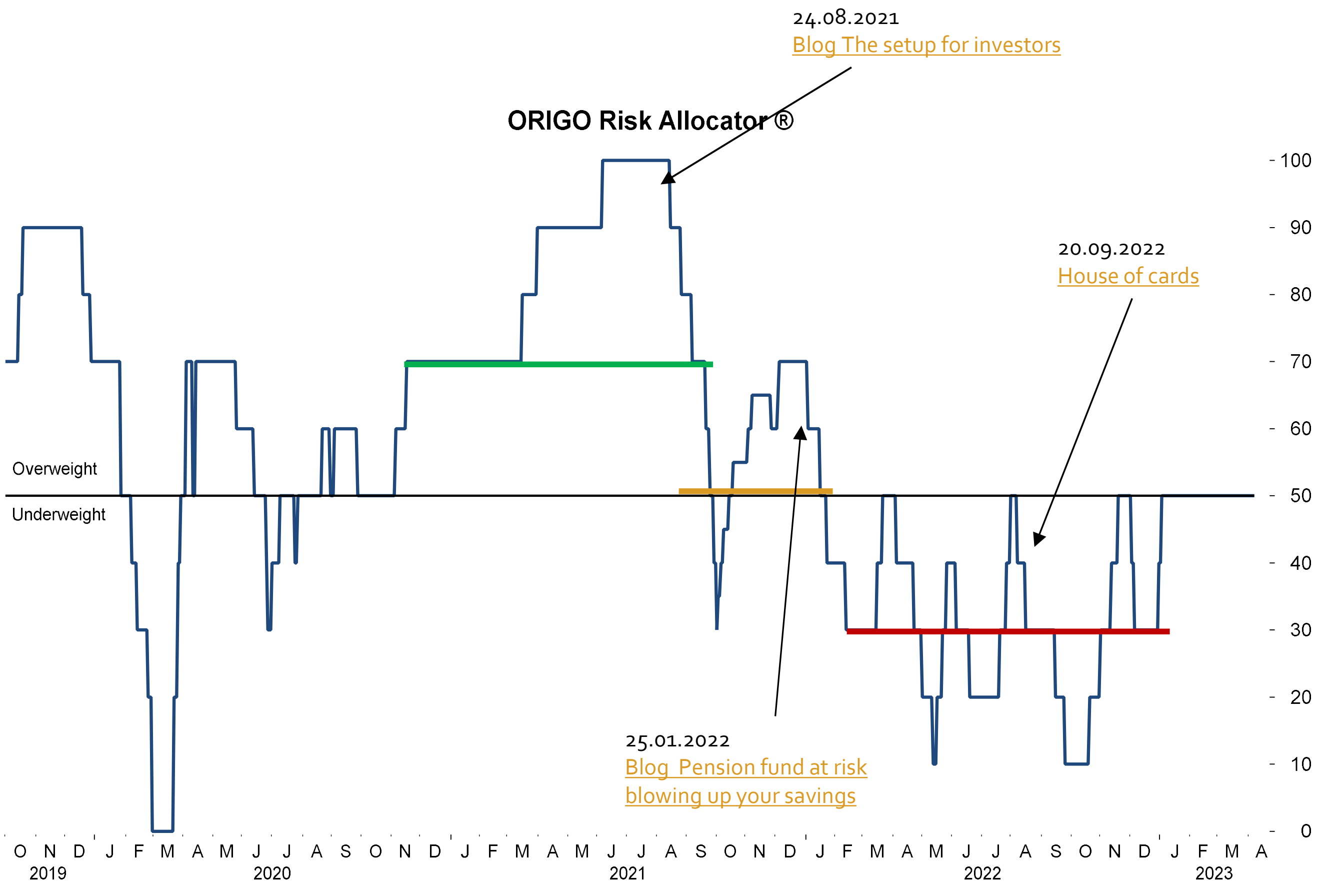
Risk models – The investment value of diversification, volatility and correlations

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

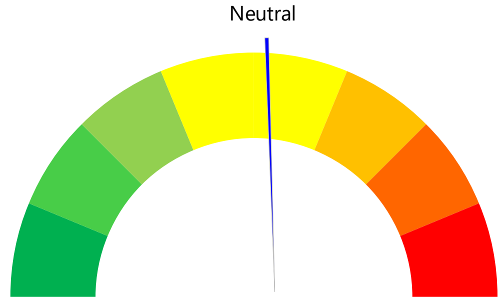
Short-term risk gauge

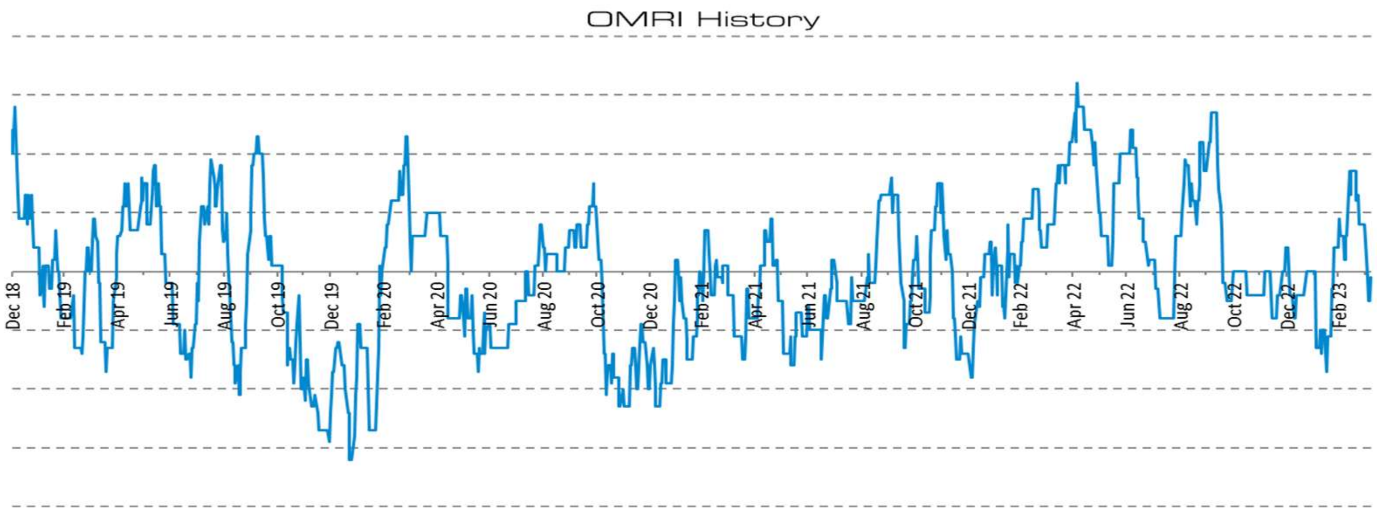
Improvement in the Market intelligence factors

Geographically, US lead while Europe financial conditions continue to deteriorate

06 April 2023

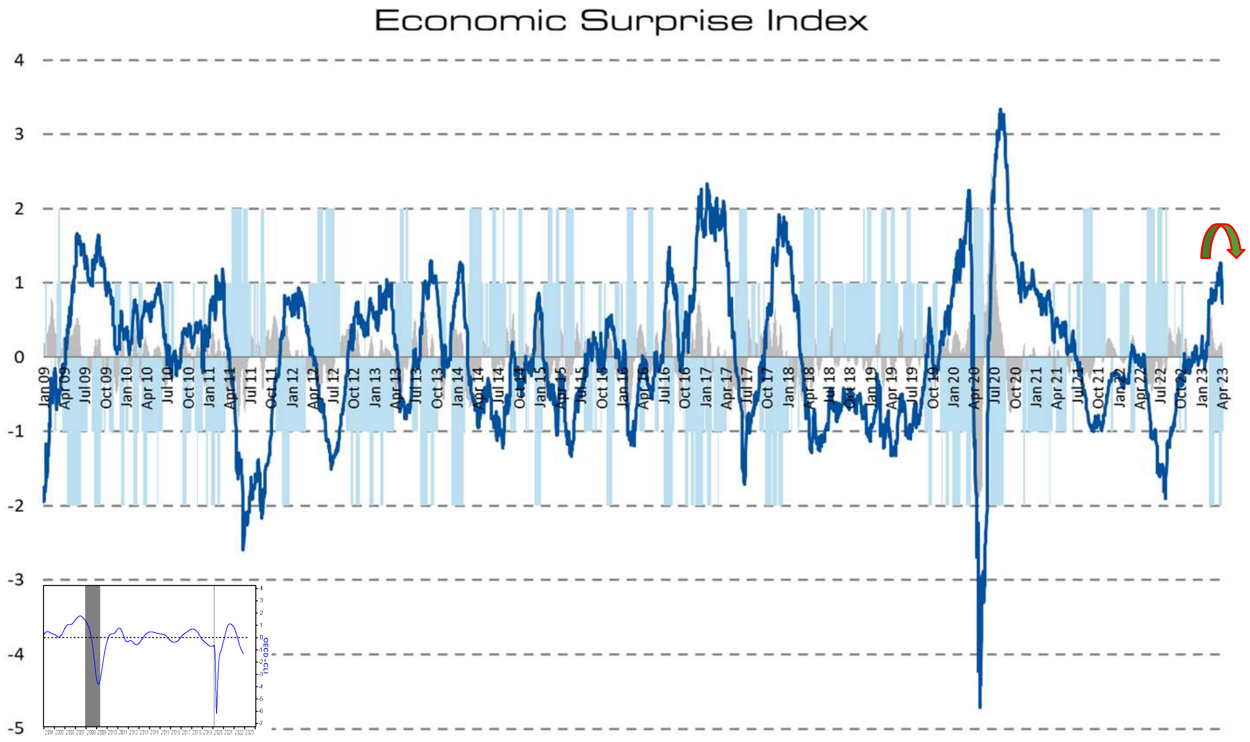
Indicator	Sentiment	Last update
X-Asset correlation	Tense	06 Apr 2023
Economic Surprises	Comfortable	06 Apr 2023
Financial Conditions	Neutral	10 Apr 2023
Global Financial Stress	Neutral	06 Apr 2023
Gepolitical Risk	Feels good	31 Mar 2023





Fundamentals

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



The phase of better-than-expected data is peaking

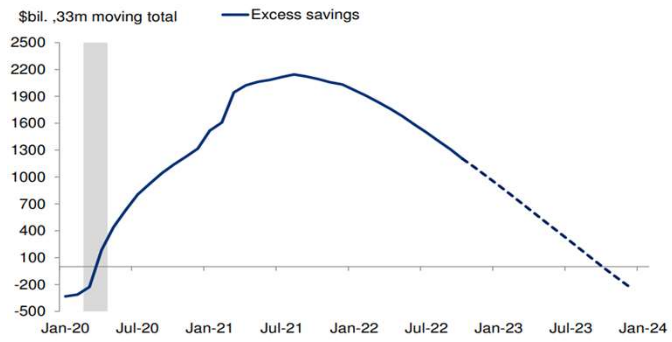
Consumer consumption holding up, service economy boom, production sector crater. Mid-2023 remains the challenging phase, as consumer savings deplete and 1 year of monetary policy takes effect.

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

Fundamentals .. Consumption & earnings

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

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



Source : BEA & Deutsche Bank

Consumer consumption to peak

Excess Covid savings has been replaced by consumers racking up credit card debt.

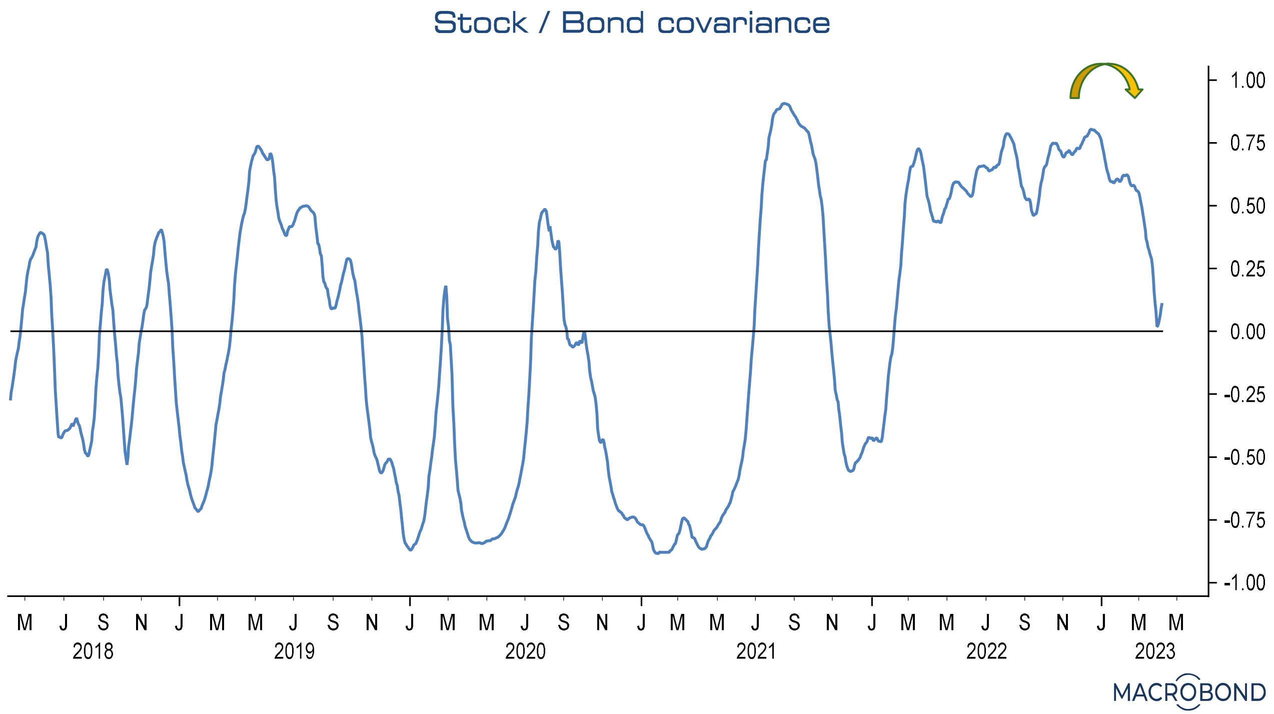
Micro earnings have peaked

Earnings growth has kept-up much better than feared as all companies push up output prices regardless of whether input prices have risen.

This is now turning and earnings growth turning negative. A prelude to a possible earnings recession

Volatility and Risk budgeting

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

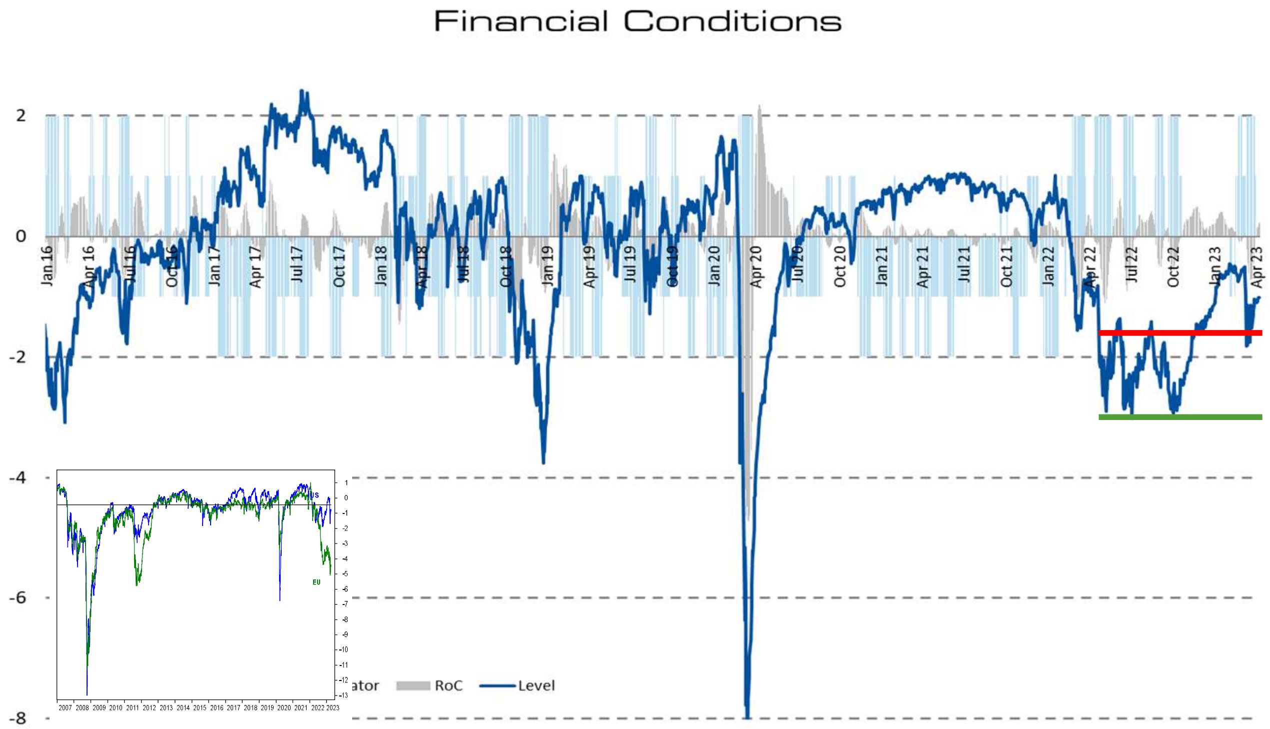


Correlations turned random

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

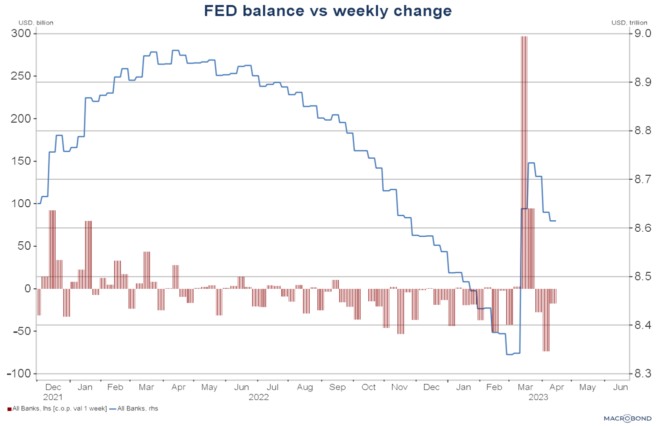


Financial conditions and market risk perception subdued but stable
Credit conditions, following knee-jerk on “bank crisis”, in a continued tightening.

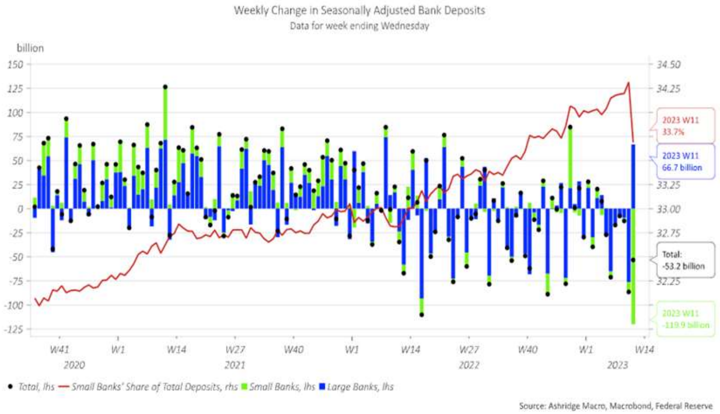
A measure of global cross-market measure of risk, credit conditions, hedging demand(volume, skew) and investor flows in the financial system.

Market intelligence
.. the "bank crisis"

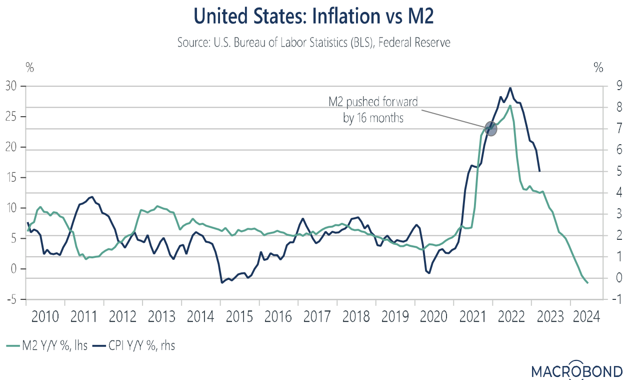
- Macroeconomic models
- Volatility and risk budgeting
- **Market intelligence**
- Technicals and trend following



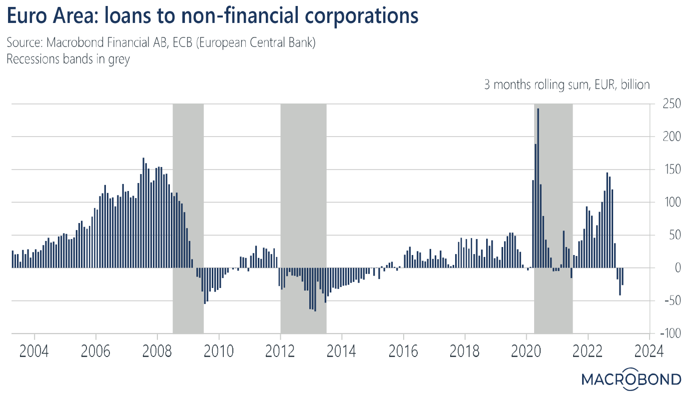
Fed balance knee-jerk on bank term funding (BTFP) providing a risk-on boost, but has resumed decline as QT continue



Cash pattern - banks move into Fed (building buffer) - clients move from small to big banks and into MM funds. Weakening credit conditions ...



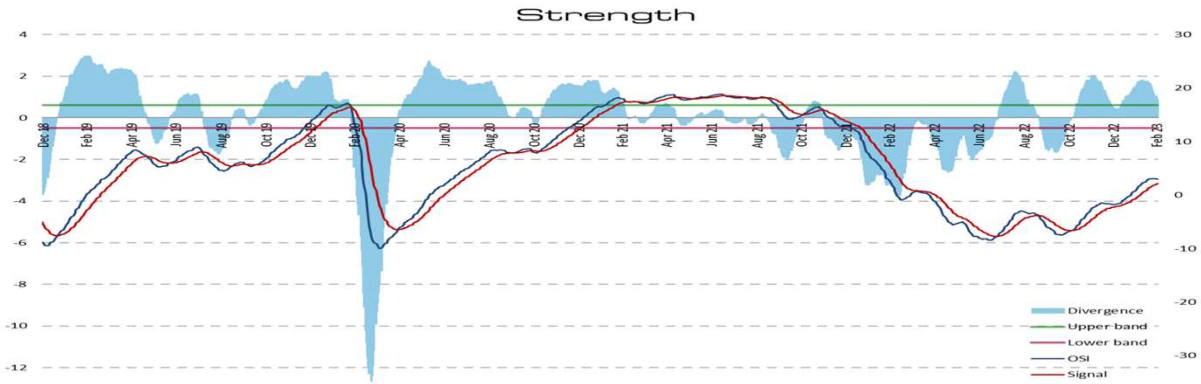
M2 growth has turned negative as excess Covid-liquidity is reversed

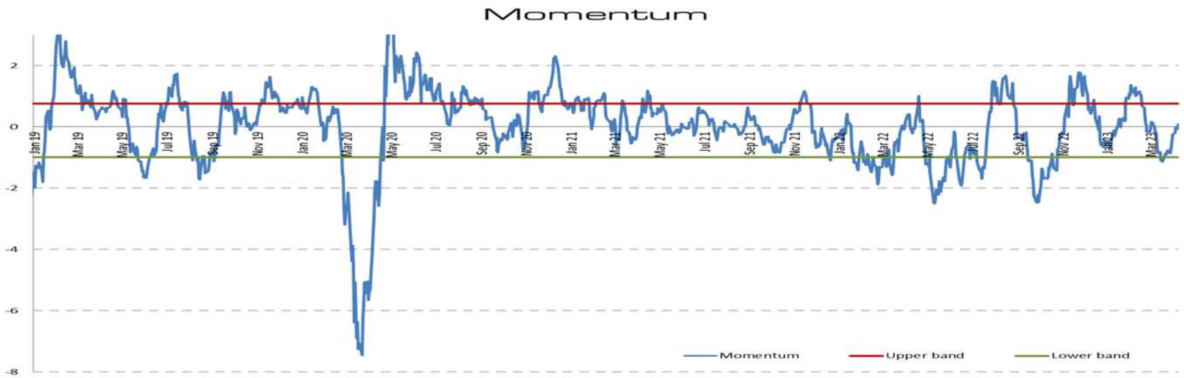


EU bank credit growth is now in negative territory

Technicals

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





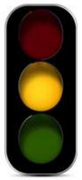
Short-term neutral in risk channel. Odds improves switching for neutral return. Medium-term trend remains stable.

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

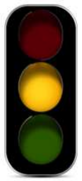
Current status

Macroeconomics
Policy rates higher for longer. The point; not peak inflation, nor peak policy rate.
China housing bubble to stymie Grand Reopening 2.0 as will contraction in consumer demand.
IMF's "1/3 of world 2023 in recession" holding up towards a period of sub-par growth – all according to plan

Market Risk and market intelligence
US financial conditions have improved. Powell has stayed off verbal intervention in 2023, for now, but might just step up again.
Credit conditions following US "mini-bank crisis" has weakened already tight scenario



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



Volatility and risk budgeting
Portfolio risk has weakened – volatility now in low end of channel and correlations has turned stochastic.

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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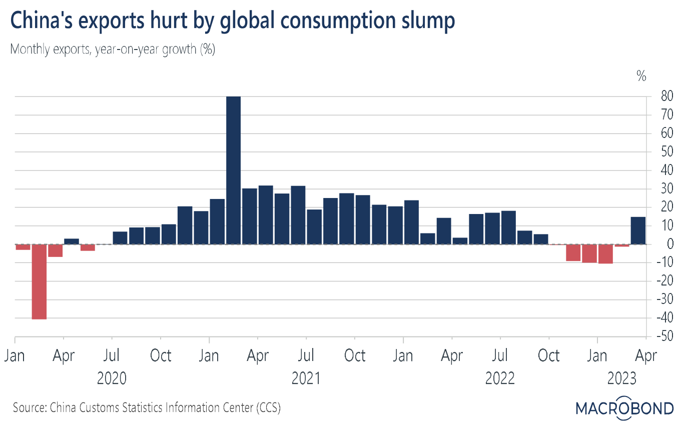
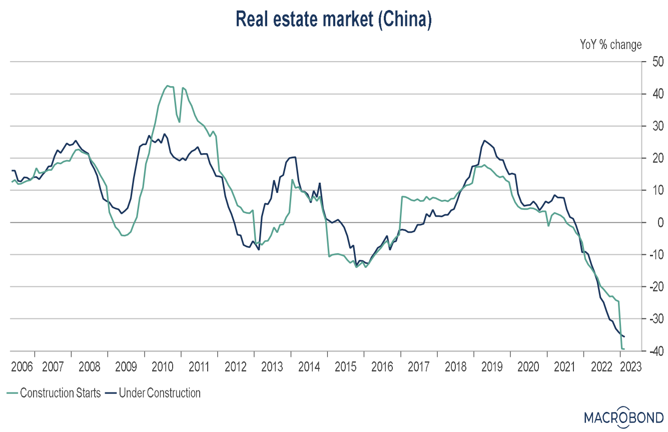
Macro risk - China

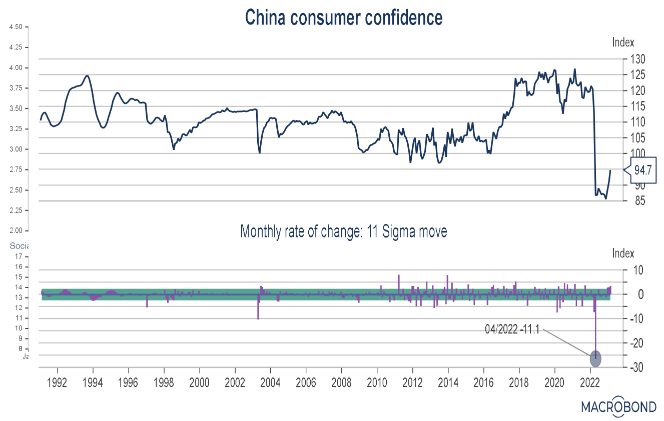
“Grand opening 2.0” – improving, not soaring

PBoC May 2022 stimulus

- Zero-CoVID policy
- Tech sector crackdown
- Changing demographics
- De-globalisation
- Real estate recession
- Major draught
- Belt & Road debt trouble







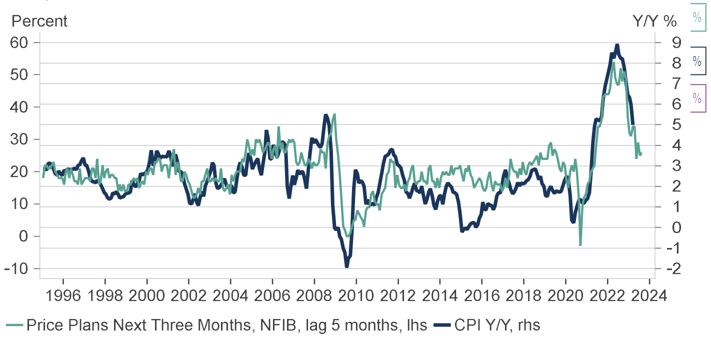
Macro risk – Inflation

As expected, headline coming down fast – core on track to remain sticky at around 4%

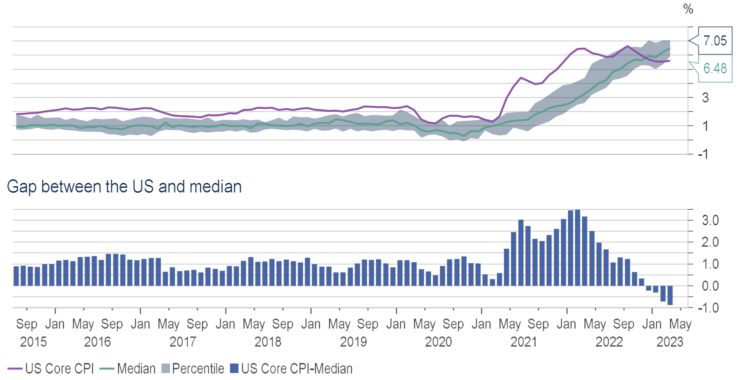
- Inflation soaring heading into 2022 (CB over-stimulation)
- Russia-Ukraine war
- China, 1-child, zero-CoVID
- De-globalisation

Small business pricing intentions are a harbinger of CPI

Source: U.S. Bureau of Labor Statistics (BLS), National Federation of Independent Business



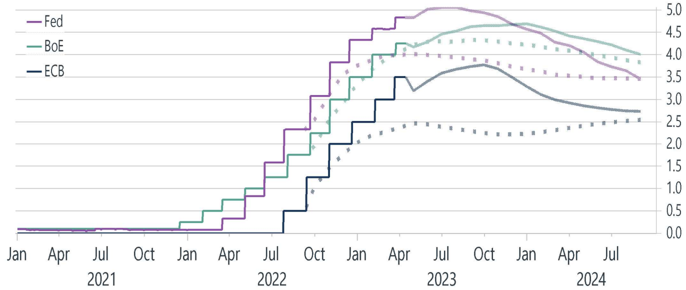
Core inflation: US vs. group of 20 advanced economies



FIFO expectation weigh on the USD

Central bank expectations

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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United States: Inflation tracker

Color-coded based on rolling 3 year z -score

	4/2023	3/2023	2/2023	1/2023	12/2022	11/2022	10/2022	9/2022	8/2022	7/2022	6/2022	5/2022	4/2022
Economic Measures													
PCE Y/Y %			5.0	5.3	5.3	5.7	6.1	6.3	6.3	6.4	7.0	6.5	6.4
Core PCE Y/Y %			4.6	4.7	4.6	4.8	5.1	5.2	4.9	4.7	5.0	4.9	5.0
CPI Y/Y %		5.0	6.0	6.3	6.4	7.1	7.8	8.2	8.2	8.4	8.9	8.5	8.2
Core CPI Y/Y %		5.6	5.5	5.5	5.7	6.0	6.3	6.6	6.3	5.9	5.9	6.0	6.1
PPI Y/Y %		2.8	5.0	5.9	6.6	7.4	8.2	8.5	8.7	9.7	11.1	10.9	11.1
Core PPI Y/Y %		3.4	4.9	5.2	5.9	6.2	6.9	7.2	7.2	7.6	8.3	8.6	9.0
Atlanta Fed Wage Growth		6.4	6.1	6.1	6.1	6.4	6.4	6.3	6.7	6.7	6.7	6.1	6.0
Manheim Used Vehicle Y/Y %		-2.4	-7.1	-12.8	-14.9	-14.2	-10.6	-0.1	8.4	12.5	9.7	9.7	14.0
Inflation Expectations													
Expected Inflation, Fed Cleveland, 1 Year	2.6	2.1	2.6	2.7	2.9	3.2	2.9	4.2	3.4	3.3	4.2	3.6	3.4
Expected Inflation, Fed Cleveland, 2 Year	2.4	2.2	2.4	2.5	2.5	2.8	2.6	3.2	2.7	2.7	3.2	2.9	2.7
Break-Even Inflation, 5 Year		2.4	2.5	2.2	2.2	2.3	2.6	2.1	2.6	2.7	2.5	2.9	3.3
Break-Even Inflation, 10 Year		2.3	2.4	2.2	2.2	2.2	2.5	2.1	2.4	2.4	2.2	2.6	2.8
Conference Board, Inflation expectations		6.3	6.2	6.7	6.6	7.1	6.9	6.8	7.0	7.4	7.9	7.5	7.5
Commodities													
GSCI Commodities Y/Y %		-10.0	-0.3	12.8	26.0	37.4	24.7	23.6	42.2	42.7	45.0	63.8	59.8
GSCI Industrial Metals Y/Y %		-21.0	-15.7	-1.9	-7.6	-3.7	-15.9	-13.2	-10.2	-7.3	-4.7	6.6	17.9
GSCI Softs Y/Y %		-1.0	3.3	1.0	-2.0	-0.7	-9.9	-0.2	13.7	12.3	21.7	33.5	36.3
Baltic Dry Index Y/Y %		-41.1	-51.5	-52.0	-31.7	-55.1	-58.4	-65.9	-76.6	-42.4	-33.8	-1.2	-21.3
Lumber Futures Y/Y %		-61.5	-69.9	-46.5	-67.4	-47.9	-22.0	-32.7	5.4	-15.1	-7.4	-50.1	-30.7

■ Standard deviations above mean shaded in darker red ■ Close to mean ■ Standard deviations below mean shaded in darker blue

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