Active Risk Allocation

The state of indicators

June 2023

ORIGO CONSULTING

Independent | Transparent | Disciplined

Status

Gap between Central banks vs Markets

- financial conditions improving on peak-Fed hopes
- "China grand re-open" will not happen
- policy rates will continue to rise, not drop
- margin pressure will accelerate, as will SMB bankruptcies.

Risk overview;

Short-term **Positive**

Medium-term **Positive**

Stocks – Neutral

- Low vol, dividend and large cap factor

Bonds – underweight

- Overweight IG credit

Alternatives – overweight

- Non-directional, uncorrelated assets and strategies

Macroeconomics

- Economic activity and inflation moderating, albeit slowly
    - US relative outperformance continue on near-shoring and stimulus (IRA)
- Price headline halved a year after Russian war – core to stick for around 2025
- Maximum centralbank tightening impact to be felt 2H 2023

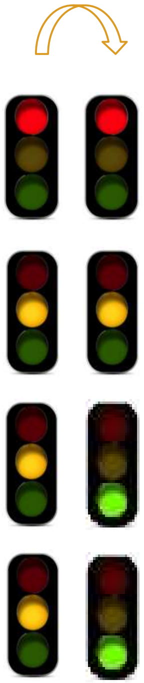
Indicators

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

Investment process

Indicators

Highly sophisticated models analysing about 150 indicators

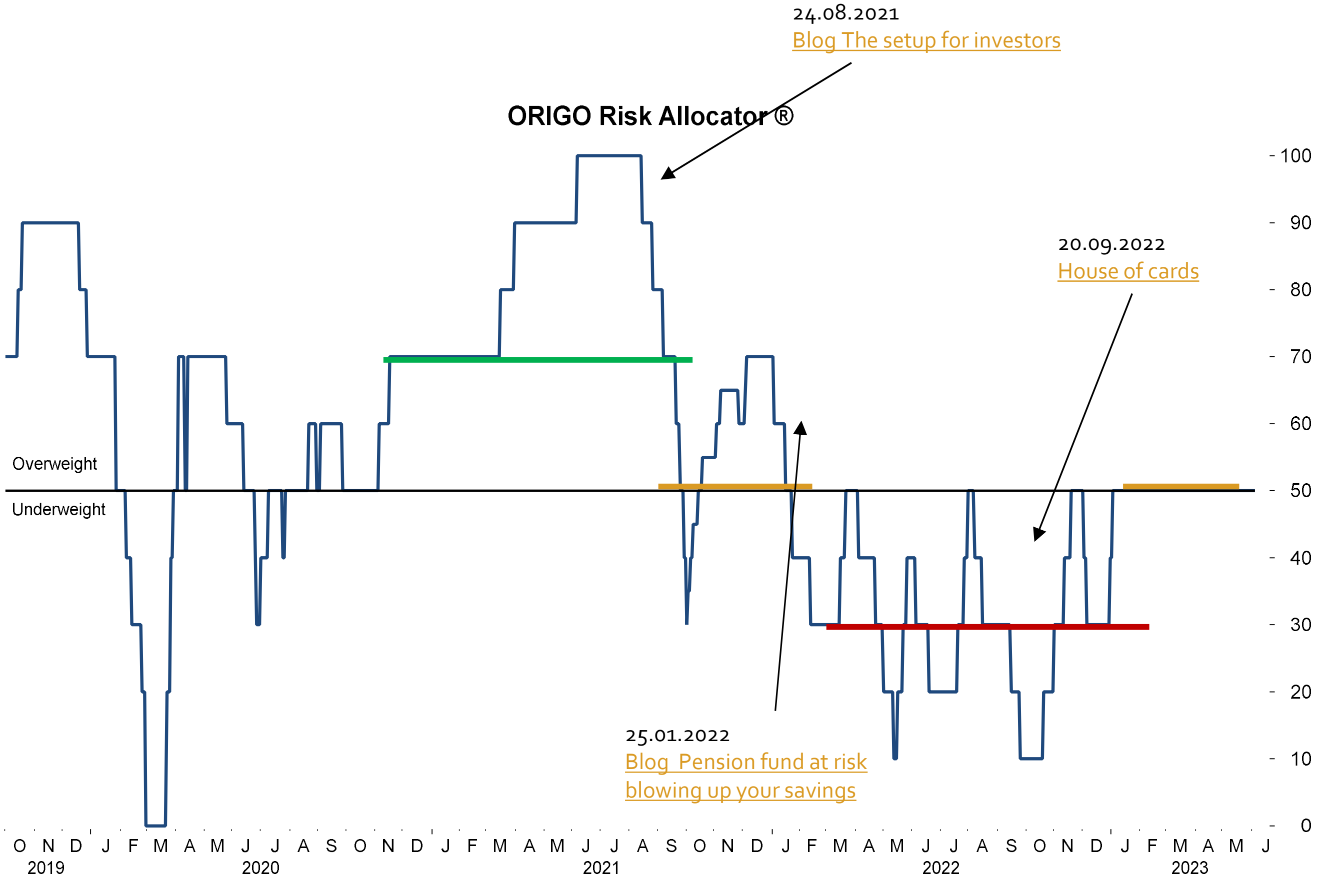


Fundamentals	Proprietary macro and micro economic models
Risk models	The investment value of diversification, volatility and correlations
Market intelligence	Market positioning, risk perception and dynamics
Trend following	Trends, direction and strength

Market Intelligence finally takes a step towards Fundamentals

OPRA®
Origo Portfolio Risk Allocator

Timeline, 2019 -



OMRI®
Origo Market Risk Indicator

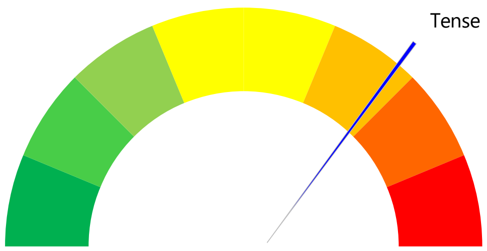
Short-term risk gauge

Market intelligence factors improve

Macro remain poor

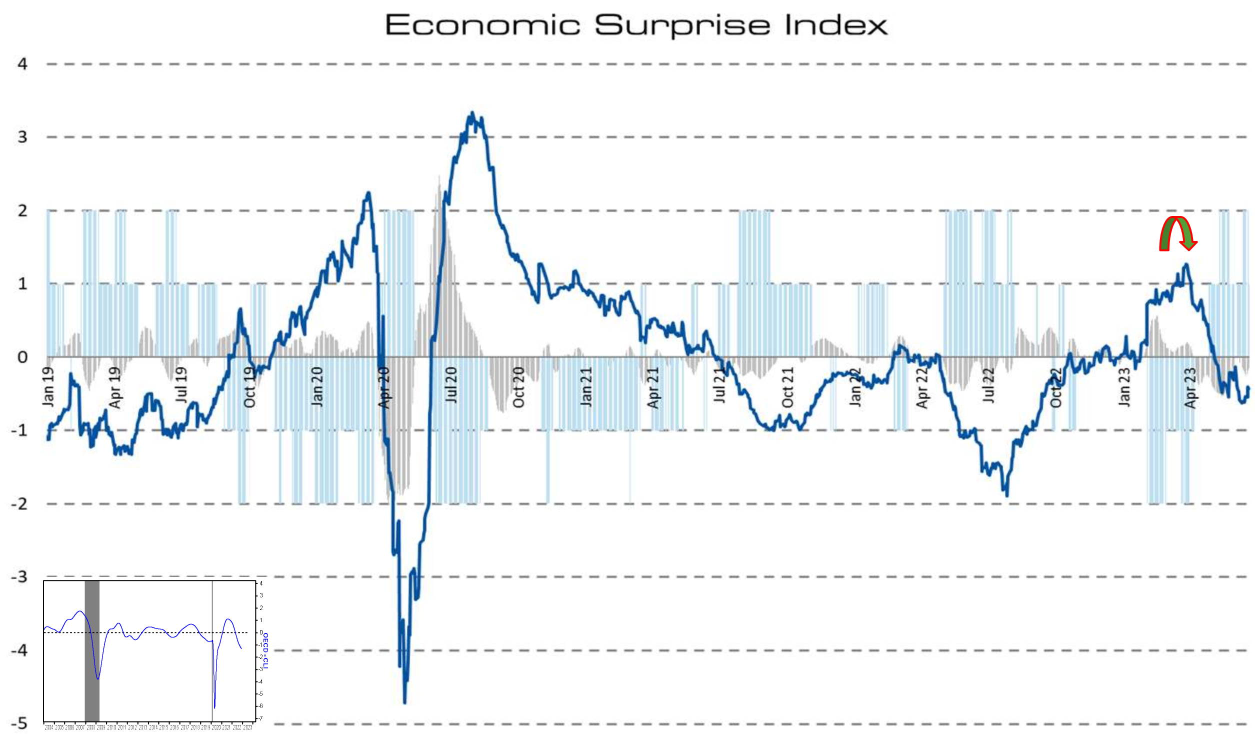
09 June 2023

Indicator	Sentiment	Last update
X-Asset correlation	High risk	09 Jun 2023
Economic Surprises	Tense	09 Jun 2023
Financial Conditions	Tense	05 Jun 2023
Global Financial Stress	Neutral	02 Jun 2023
Gepolitical Risk	Feels good	31 May 2023



Fundamentals

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



The phase of better-than-expected data has peaked

Economy holding up on service sector as consumer consumption max out credit cards out and employment may be lifted by near-shoring. 2H-2023 remains the challenging phase, as consumer savings deplete and 1 year of monetary policy takes effect.

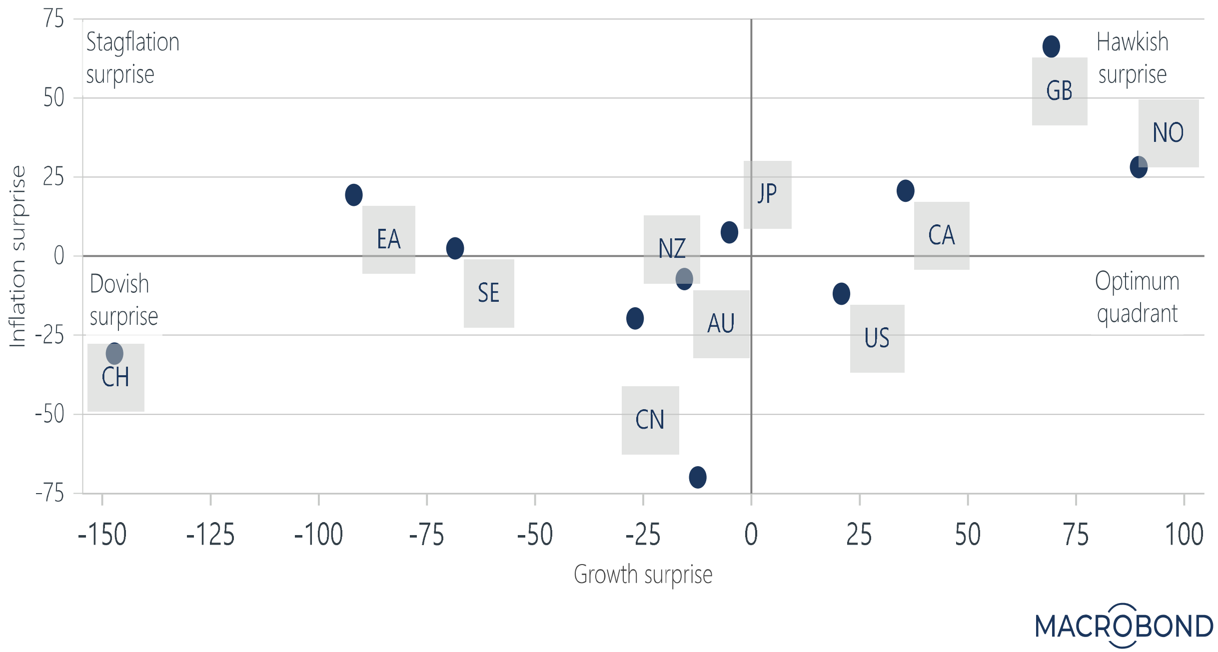
The ESI (above centre) is a powerful indicator of coming stress.

Fundamentals
.. Countries

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

Economic growth vs inflation surprise

Source: Citi



- US in sweet spot, benefit "near-shoring" and Biden's IRA package.
- China, no economic rebound with room for PBoC to loosen policy
- Euro Area, a stagflation scenario
- UK, caught in; systemic low productivity, Brexit self-inflicted harm …
- Sweden, the Nordic epicenter of rising interest rate effect via real estate

Fundamentals .. Consumer consumption

- **Macroeconomic models**
- Volatility and risk budgeting
- Market intelligence
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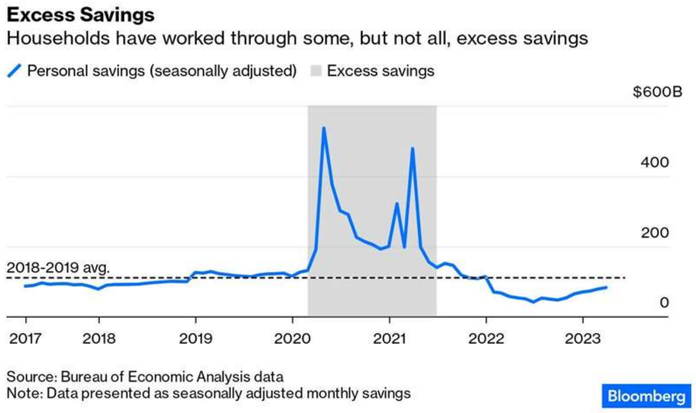
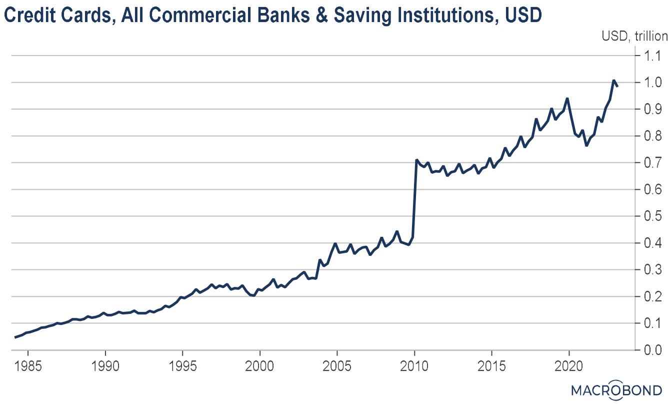
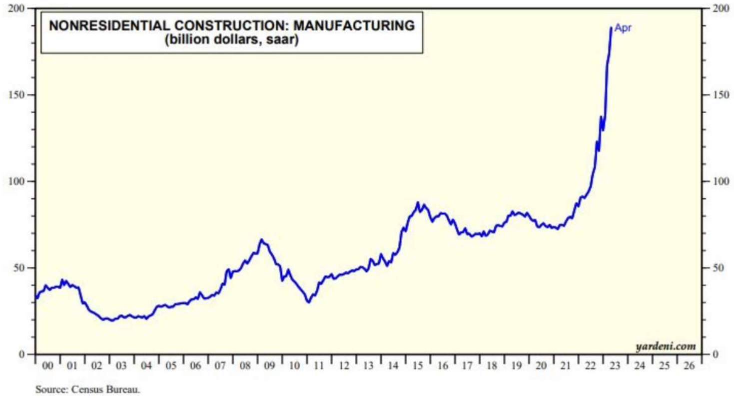






Consumer spending:

- Excess CoVid savings, getting depleted
- Consumers credit card debt soaring

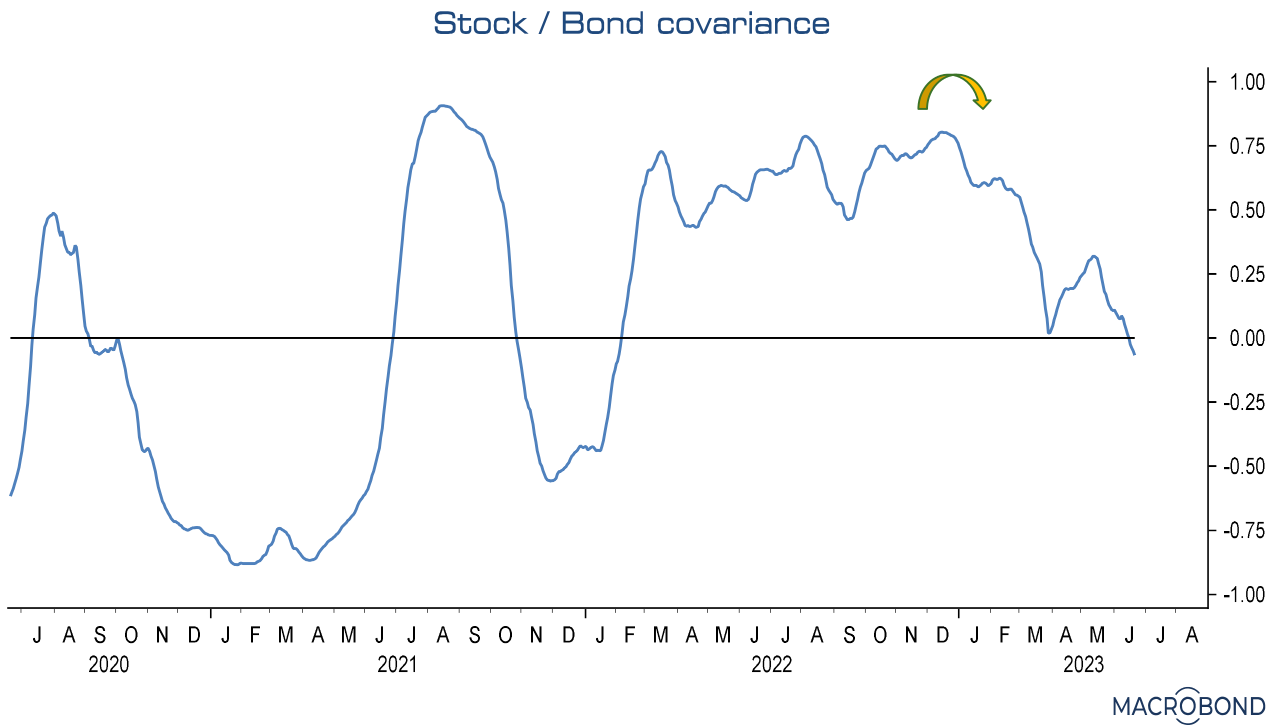
... just as the maximum impact of monetary tightening is about to land 2H2023

Construction spending:

- Construction strength is merely post-Covid pent up demand.

Volatility and Risk budgeting

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



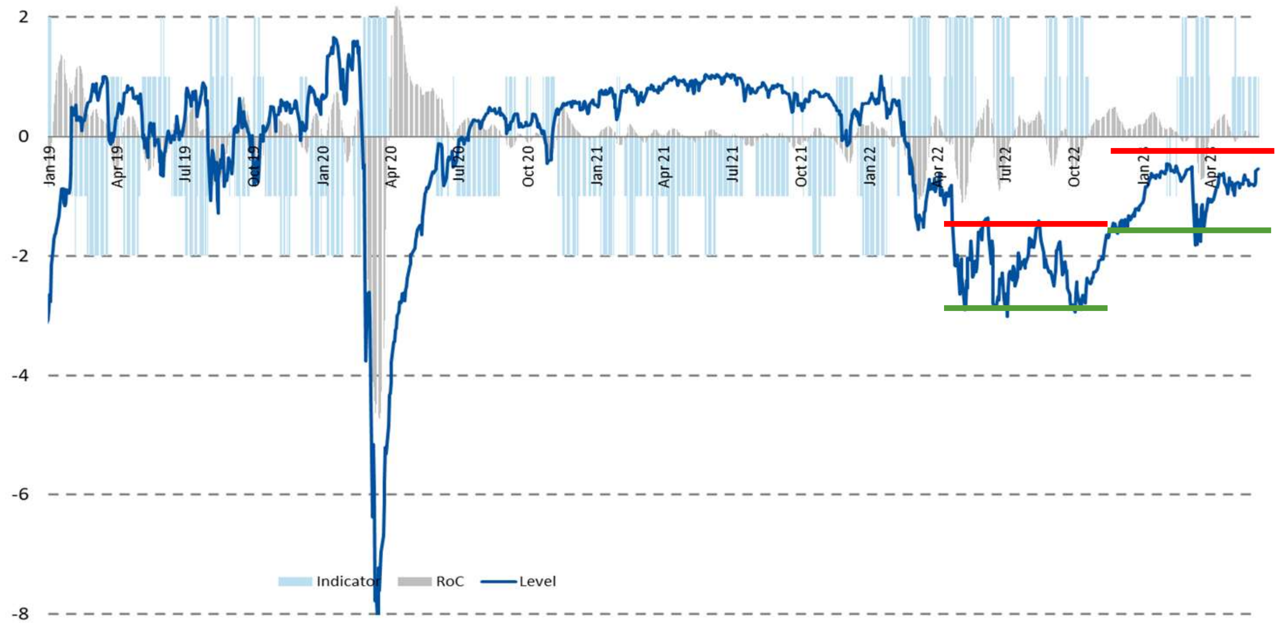
Correlations have turned random

The 60/40 passive fixed combination is based on the assumption of constant negative correlations. That is despite this being more an exception than a rule over the past 10 years – just as the entire year 2022 is a constant reminder.
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

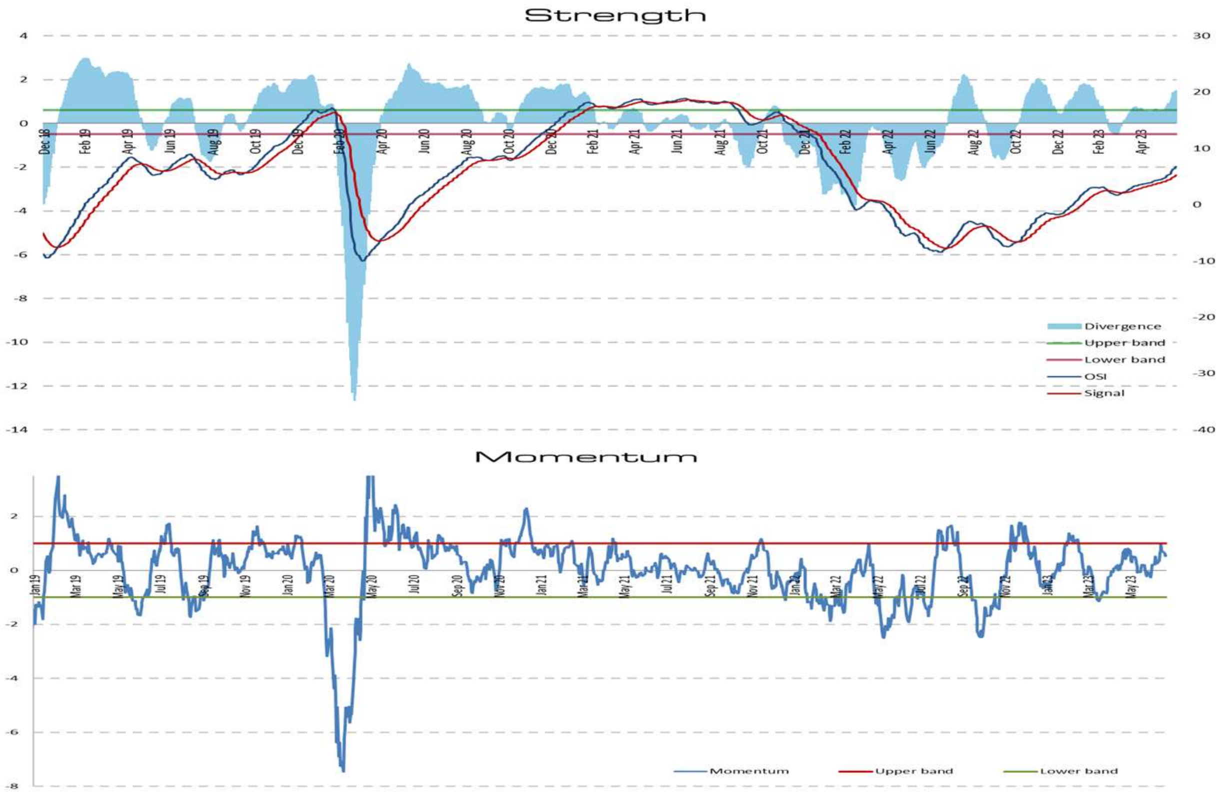


Financial conditions remain positive …
Market anticipation of Fed peak lift risk willingness.

A measure of global cross-market measure of risk, credit conditions, hedging demand(volume, skew) and investor flows in the financial system.
The component may move quite fast in both directions reflecting the bi-polar nature of financial market participators' perception of risk and risk premia.

Technicals

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



Short-term positive. Odds favour positive return for stocks as a risk proxy on a one month horizon.
Medium-term trend is turning positive.

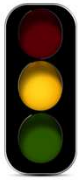
Trend strength in the various market is an expression of the persistence of the currently existing trend.

Current status

Macroeconomics
Policy rates higher for longer.
The point was not peak inflation, nor peak Fed, but persistency in level.
China housing bubble to stymie Grand Reopening 2.0.
US Fed likely to tighten further to push growth lower to get inflation closer to target.

Market Risk and market intelligence
US financial conditions surprisingly improve, as opposed to European which deteriorate.
Powell is likely again to attempt verbally to correct financial markets. Mr Market expectations for policy rate cuts are out of step with Fed and economic data.

Technicals
Medium-term trend in risk assets breaks to the upside, effectively closing the 2022 bear market.
Short-term technicals keep switching between buy/sell.



Volatility and risk budgeting
Portfolio risk is unattractive. Volatility now in the low end of channel and correlations has turned stochastic.

The correlation & volatility patter has adapted to a new regime starting around Sep 2021.

On the radar

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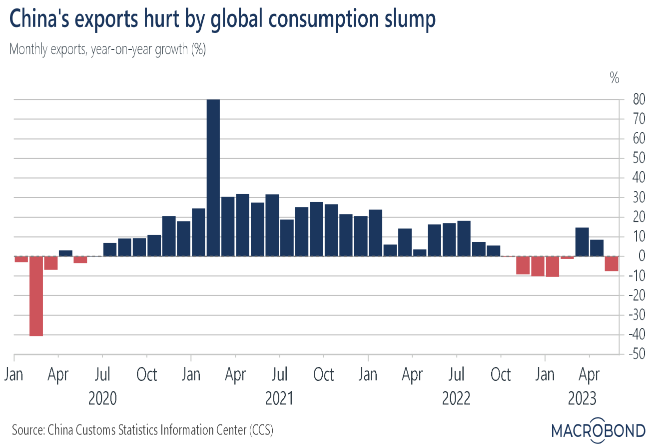
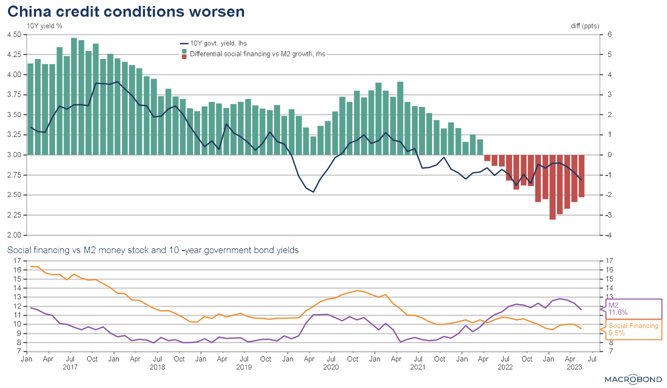
Macro risk - China

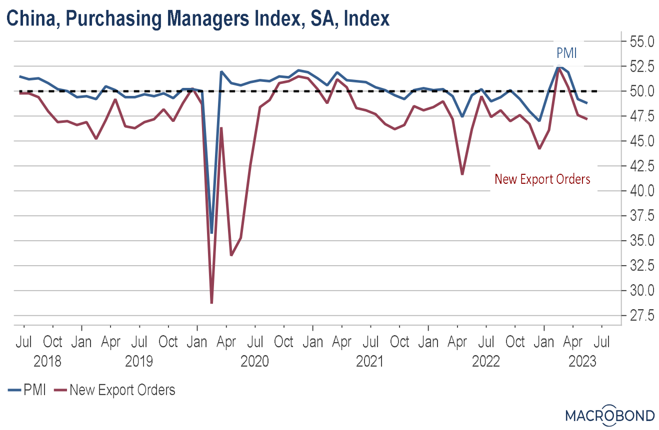
"Grand opening 2.0" – already sputtering

PBoC May 2022 stimulus

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







China, Russia's war on Ukraine has shown the cards of not just Russia, but also China. The autocratic cluster of countries represent a ideology of "might is right", as opposed to the post-WW2 "rules based order".
Geopolitical risk triggering re-organization of global alliances and supply lines

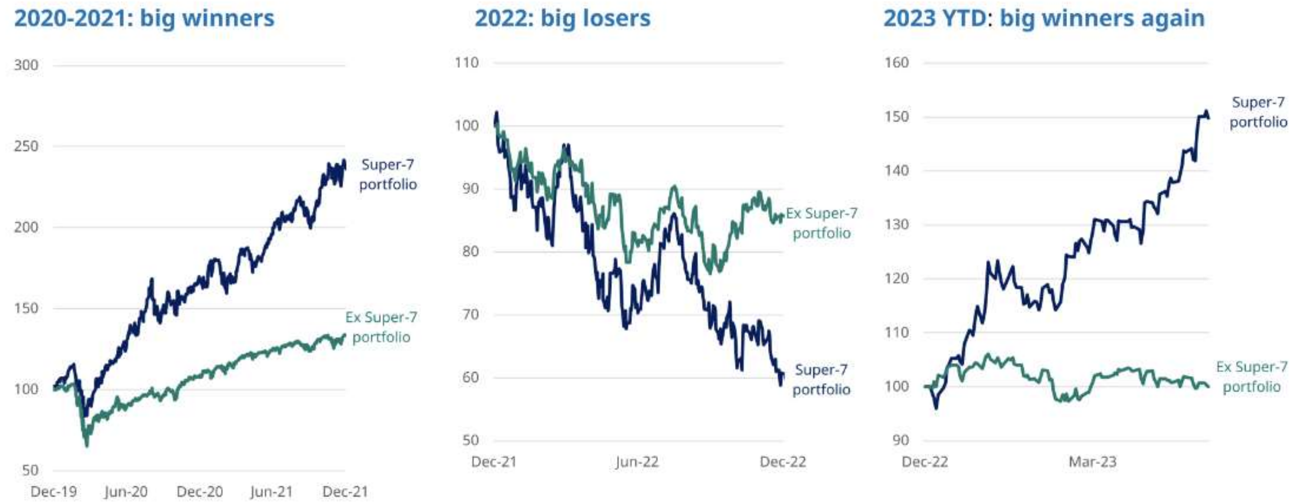
Manufacturing rebound is not quite stable, as global demand is fading

Micro risk - Equity breadth

“New economy”, again

Equities are far more aligned with bonds on scenario of lackluster activity/sticky inflation than meet the eye

The US super-7 are up 50% YTD, the rest of the US market is flat: returns highly concentrated



Past performance is not a guide to future performance and may not be repeated.
Large-7 portfolio is portfolio of seven largest companies in MSCI USA by free float market capitalisation as at 31 December 2021. These are Apple, Microsoft, Alphabet (Google), Amazon, Tesla, Meta (Facebook), Nvidia. Ex Large-7 is a portfolio of the remaining constituents of MSCI USA. Data to 31 May 2023. Source: Refinitiv, Schroders. Please see relevant disclaimers on slide 39

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