Active Risk Allocation

The state of indicators

July 2023

ORIGO CONSULTING

Independent | Transparent | Disciplined

Status

Gap between Central banks vs Markets

- financial conditions improving on peak-Fed hopes
- "China grand re-open" not happening
- 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, both slowly
    - US relative outperformance continue on near-shoring and fiscal stimulus (IRA)
- Headline inflation halved a year after Russian war – core to stick for est. 2025
- Maximum centralbank tightening impact to be felt 2H 2023

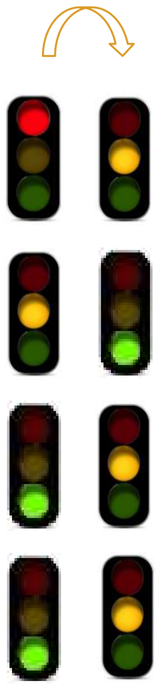
Indicators

- 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

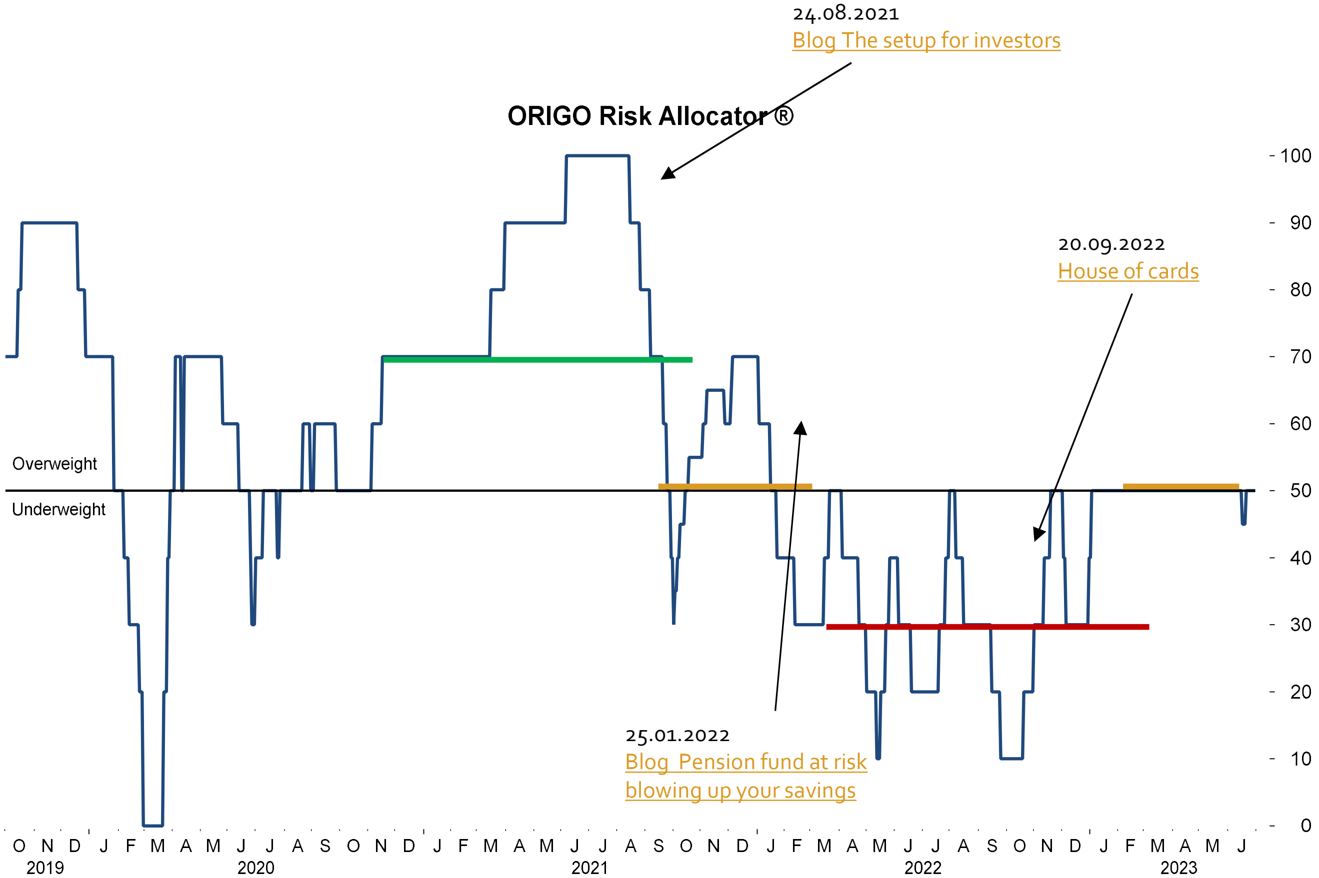


Fundamentals	Proprietary macro and micro economic models
Risk models	The investment value of diversification, volatility and correlations
Market intelligence	Market positioning, risk perception and dynamics
Trend following	Trends, direction and strength

Market Intelligence finally takes a step towards Fundamentals

OPRA®
Origo Portfolio Risk Allocator

Timeline, 2019 -



OMRI®
Origo Market Risk Indicator

Short-term risk gauge

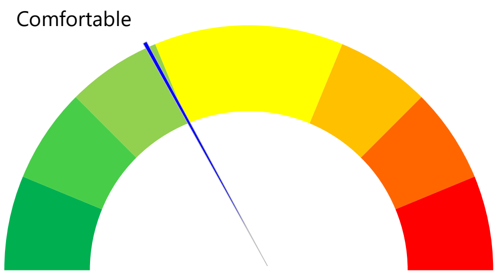
Market intelligence factors improve

Macro improving

Market Risk Indicator

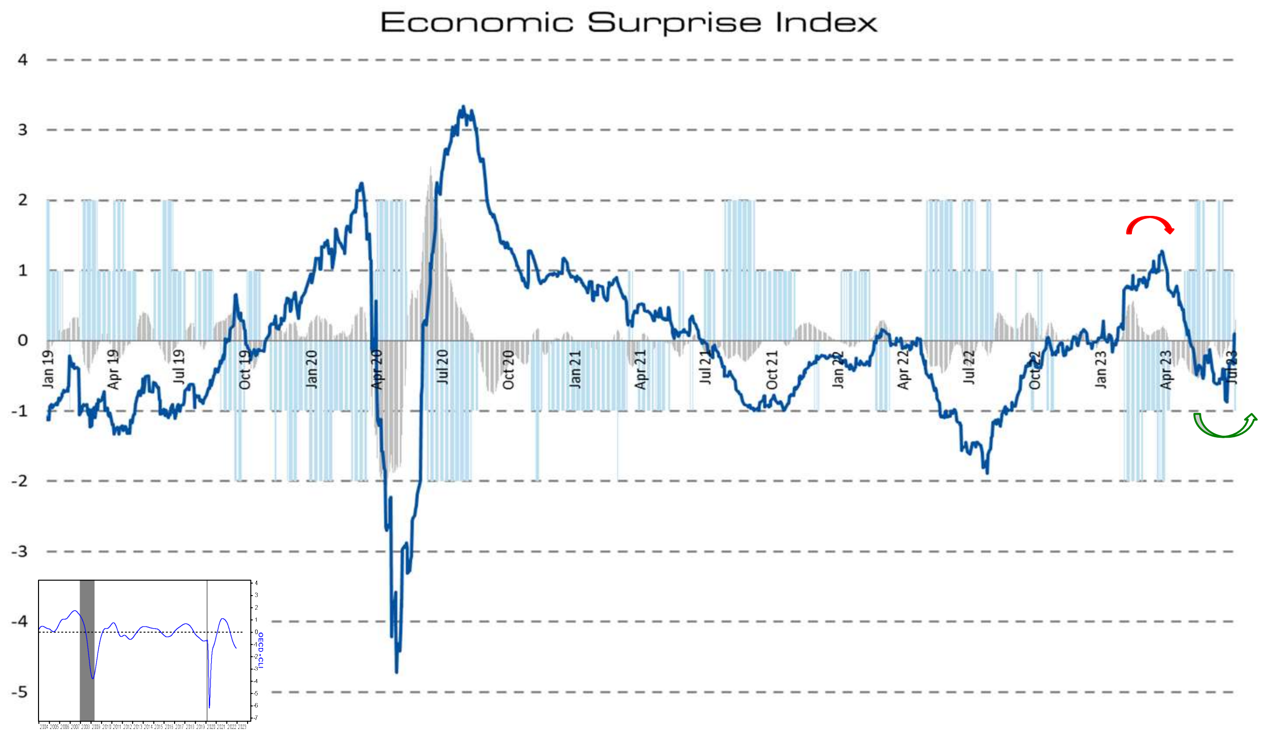
07 July 2023

Indicator	Sentiment	Last update
X-Asset correlation	Neutral	07 Jul 2023
Economic Surprises	Comfortable	07 Jul 2023
Financial Conditions	Neutral	27 Jun 2023
Global Financial Stress	Feels good	26 Jun 2023
Gepolitical Risk	Feels good	30 Jun 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 and employment supported by post-covid and near-shoring. 2H-2023 remains the challenging phase, as consumer savings deplete and 1 year of monetary policy takes effect.

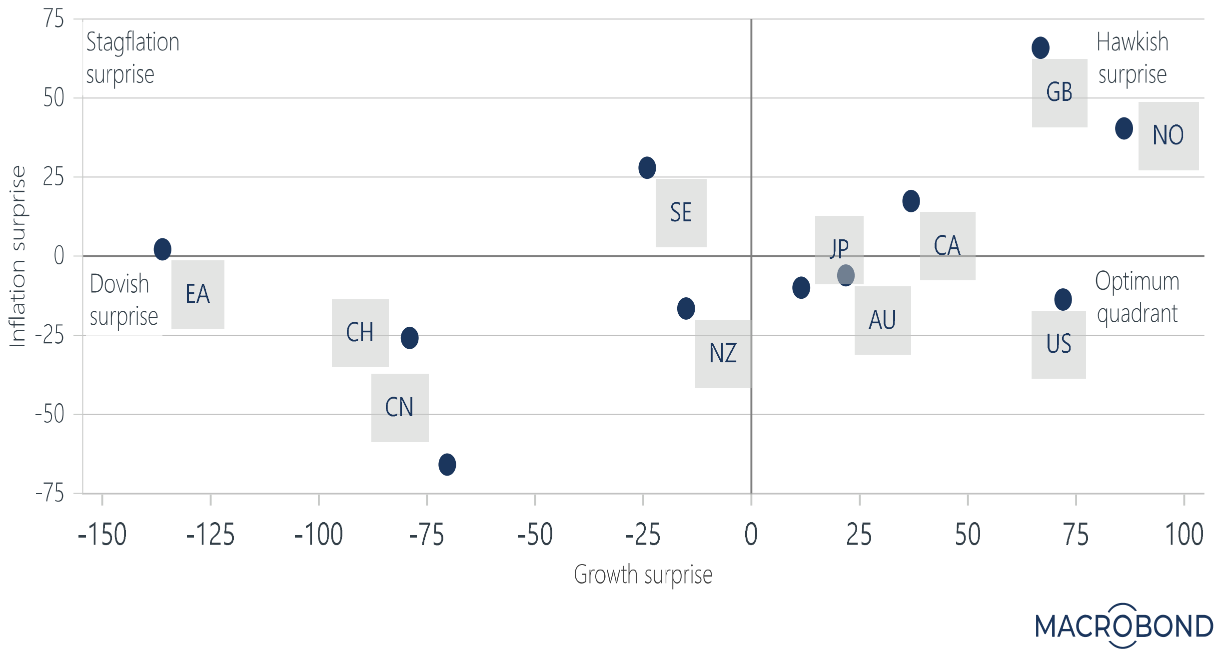
The ESI (above centre) is a powerful indicator of coming stress.

Fundamentals
.. Countries

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

Economic growth vs inflation surprise

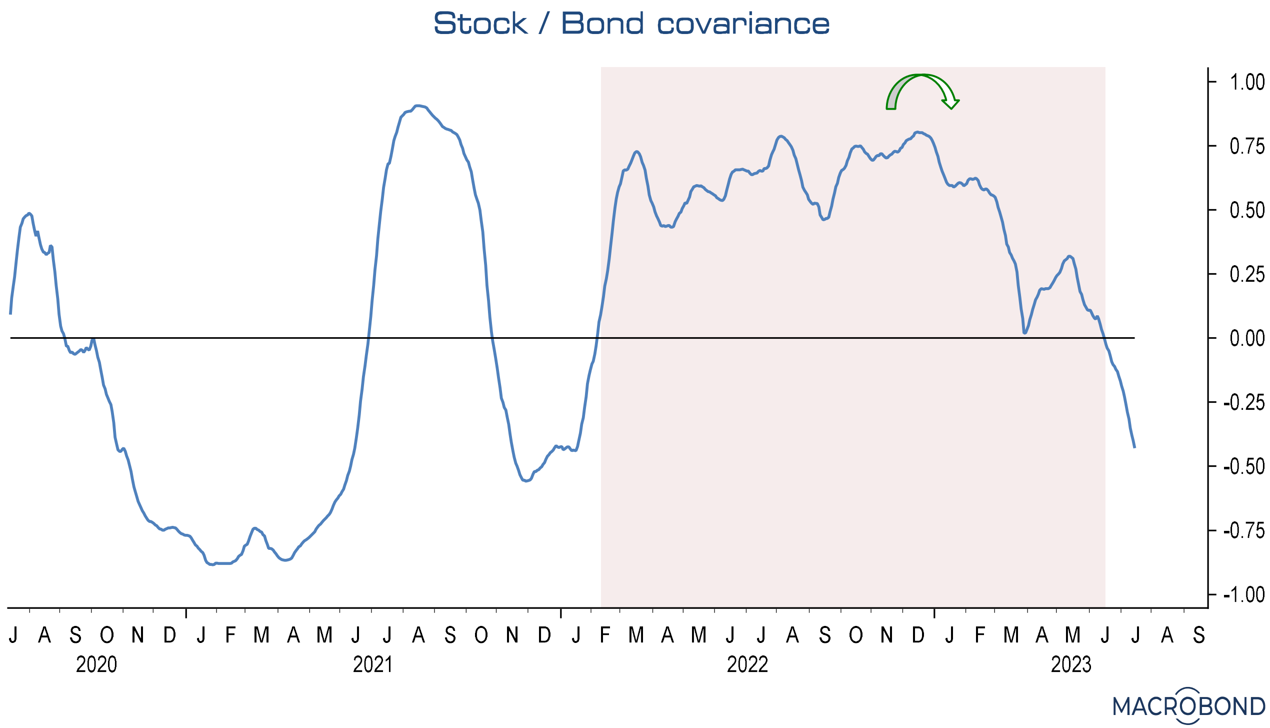
Source: Citi



- US in sweet spot, benefit consumers and “near-shoring” by Biden’s IRA package.
- China, no economic rebound, PBoC lower rates but struggle with real-estate bubble
- Euro Area, a stagflation scenario
- UK, caught in; systemic low productivity and Brexit self-inflicted harm …
- Sweden, the Nordic epicenter of rising interest rate effect via real estate

Volatility and Risk budgeting

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



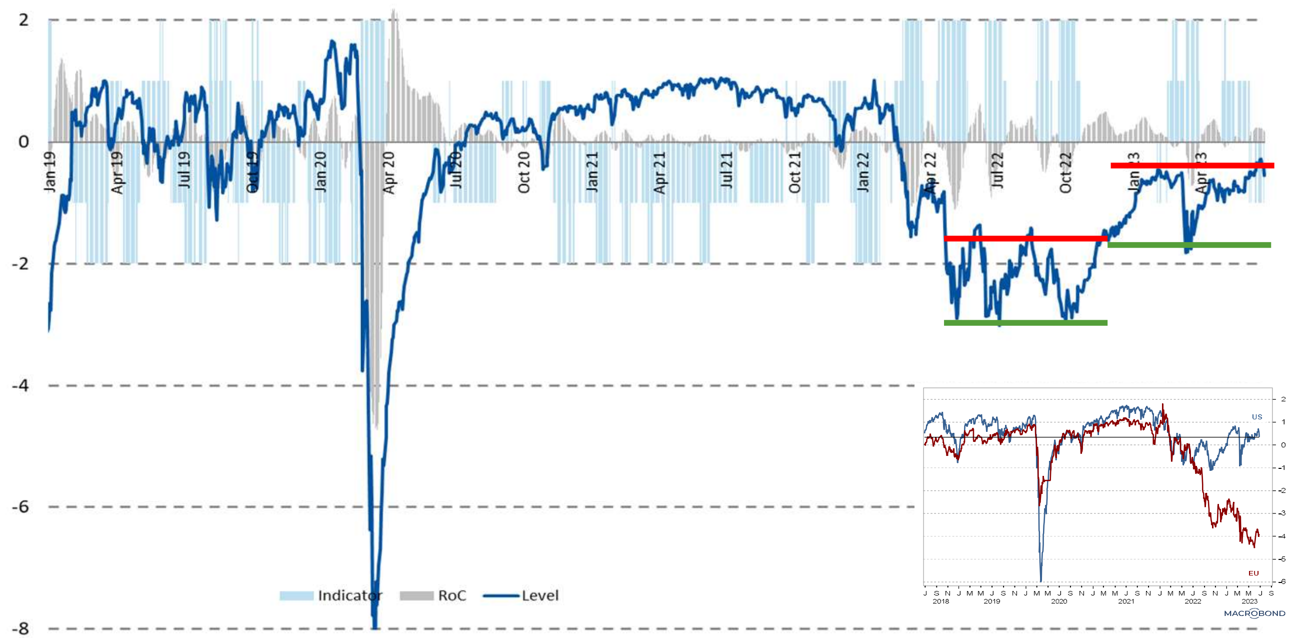
Correlations have returned to "normal", hence, low portfolio cash allocations

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

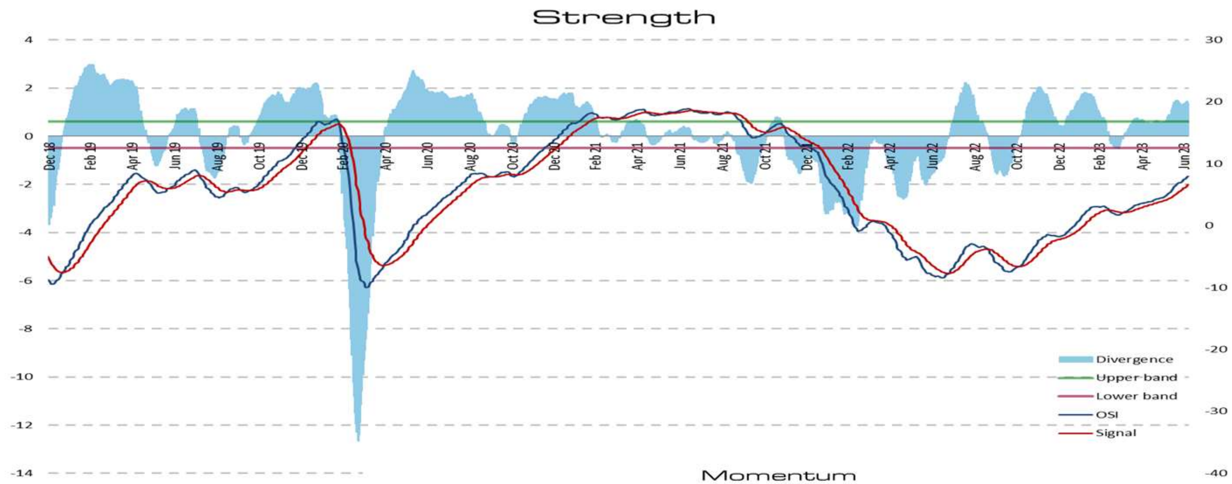


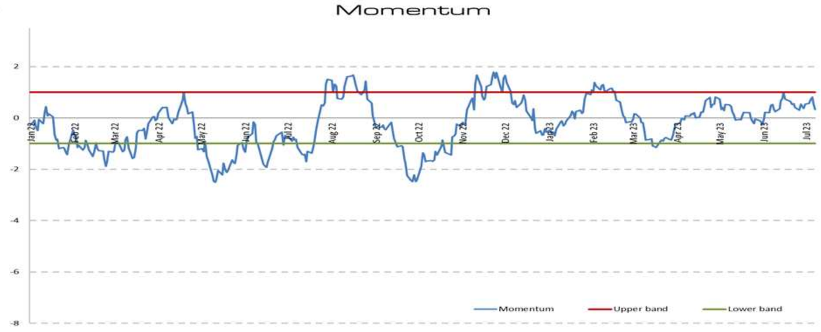
Financial conditions remain positive …
Market anticipation of Fed peak keep risk willingness high, particularly in the US.

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 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
US economic activity continue to surprise positively – supporting our view for olicy rates higher for longer.
Market focus for peak inflation, peak Fed is not the point - a persistent higher level is.
China housing bubble to stymie Grand Reopening 2.0.
US Fed likely to keep tighten further to push growth lower to get inflation closer to target.

Market Risk and market intelligence
US financial conditions positive as economic resilience continue and headline inflation data continue soften.

Mr.market expectation for rates to drop remain out of lockstep with fundamental data and central bank guidance.

Technicals
Medium-term trend in risk assets breaking to upside.
Short-term technicals keep switching between buy/sell.

Volatility and risk budgeting
Portfolio risk is balanced. Volatility in the low end of channel and correlations have turned negative.

On the radar

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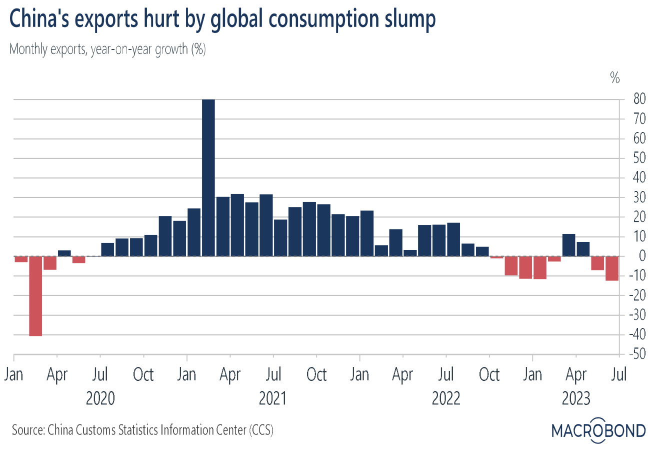
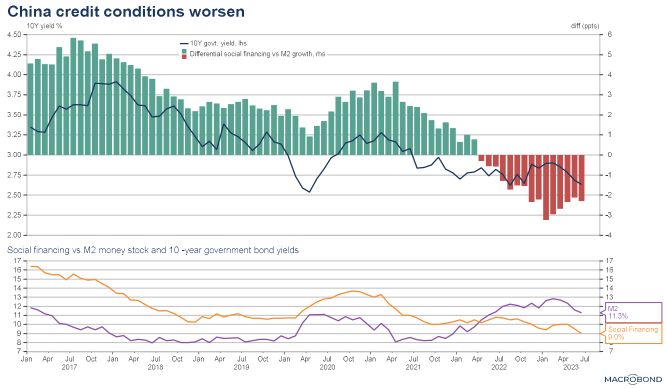
Macro risk - China

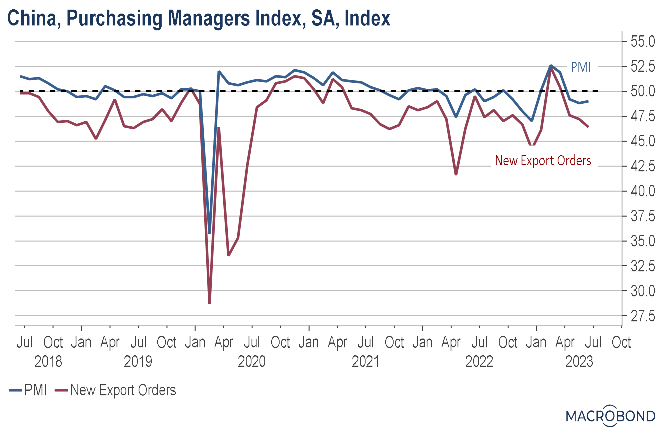
“Grand opening 2.0” – is not happening

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







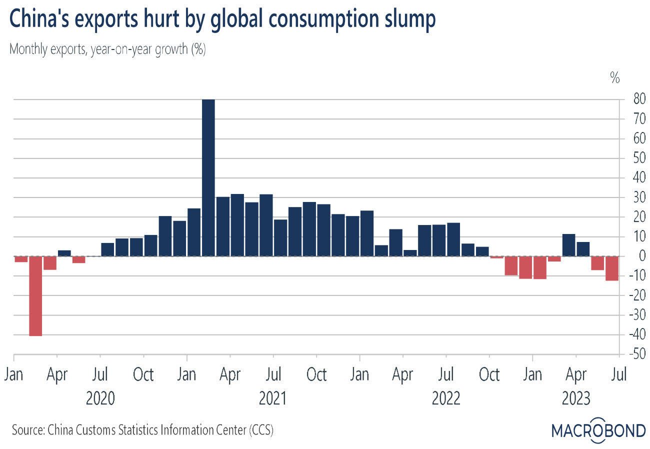
Manufacturing rebound is not quite stable, as global demand is fading

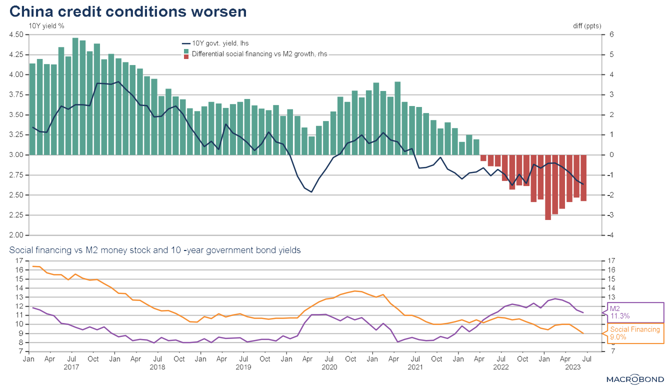
China, Russia’s war on Ukraine has shown the cards of not just Russia, but also China. The autocratic cluster of countries represent a ideology of “might is right”, as opposed to the post-WW2 “rules based order”.
Geopolitical risk triggering re-organization of global alliances and supply lines

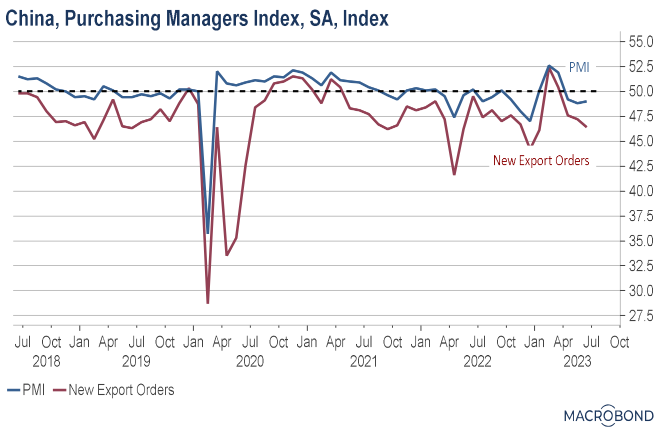
Macro risk - China

"Grand opening 2.0" – is not happening

- De-globalisation / re-shoring
- Policy mistakes; one-child, zero-CoVID
- Corporate controls (IT crackdown ..)
- Demographic decline (aging ..)
- Real estate recession (capital mis-allocation)
- Climate (draughts, river logistics ..)
- Belt & Road policy and debt trouble







Manufacturing rebound is not stable, as global demand is fading

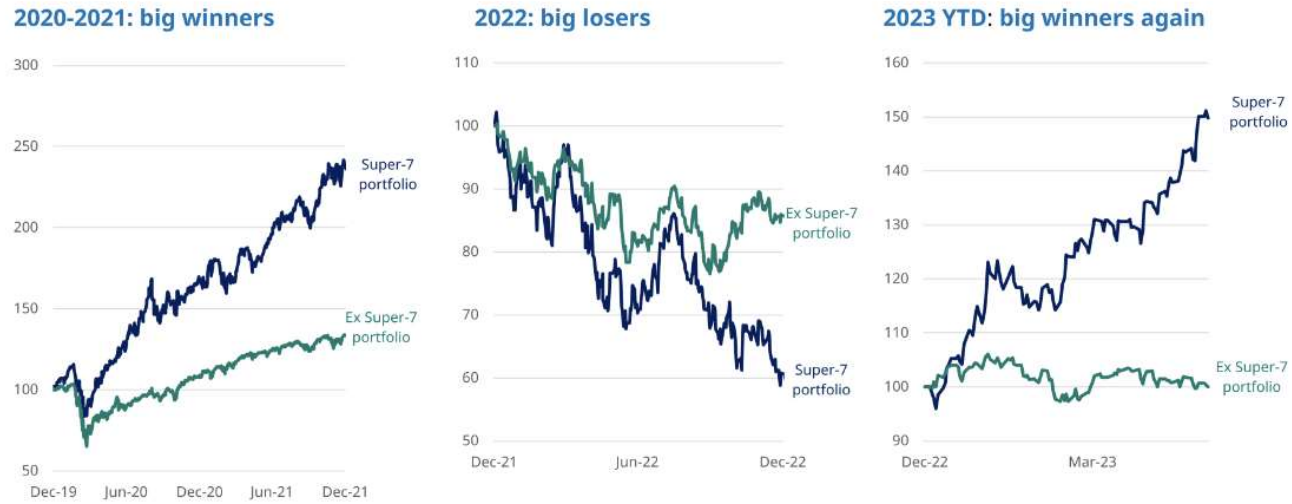
Geopolitic, Russia's war on Ukraine has shown the cards of not just Russia, but also China. The autocratic cluster of countries represents an ideology of "might is right", as opposed to the post-WW2 "rules-based" order.
Skews in geopolitical risk triggering re-organization of global alliances, globalization ideology, supply lines, military investments ..

Micro risk - Equity breadth

“New economy”

Equities and bonds performance 2023 are both flat - aligned with the scenario of lacklustre economic activity

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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