Asia First!

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TrackMacro ™ is a software tool providing equity risk signals in 40 countries

There is no doubt that the Gavekal group has deeply planted Asian roots. The founders decided to headquarter in Hong Kong in 2001, anticipating China's formal membership to the World Trade Organization (WTO), approved in December 2001.

Gavekal Intelligence Software, the quantitative research arm of Gavekal, is based in France, but seems to stem from its parent company's roots. Its first product–TrackMacro–has massively outperformed equity markets, bond markets, and hedge fund indices in Asia for three and a half years.

TrackMacro Principles

The TrackMacro AI program was launched on June 30, 2015, with a view to capture macro risks affecting global equity markets

The program is based on the following fundamental principles:

1. Seven investment rules by Charles Gave that do not come from data mining, but from macroeconomic theories and decades of investment research.
2. The rules are the same in each country to heighten the program's robustness.
3. The embedded neural network, which helped weighing the importance of the rules, has been optimized on three markets, the USA, Germany, and Japan, and then applied to 37 other markets out-of-sample.

The model provides monthly risk on or risk off signals in 40 equity markets.

TrackMacro Performance in Japan

The model returned 34% since launch vs. 5% for the Topix and remains in a risk off mode at the end of March 2019. TrackMacro's navigation through the Japanese "risk ocean" has been remarkable, apart from one major mistake: October 2018. This was due to a misreading of world trade expectations.

Graph1. TrackMacro live performance vs equities and bonds in Japan

Source: TrackMacro

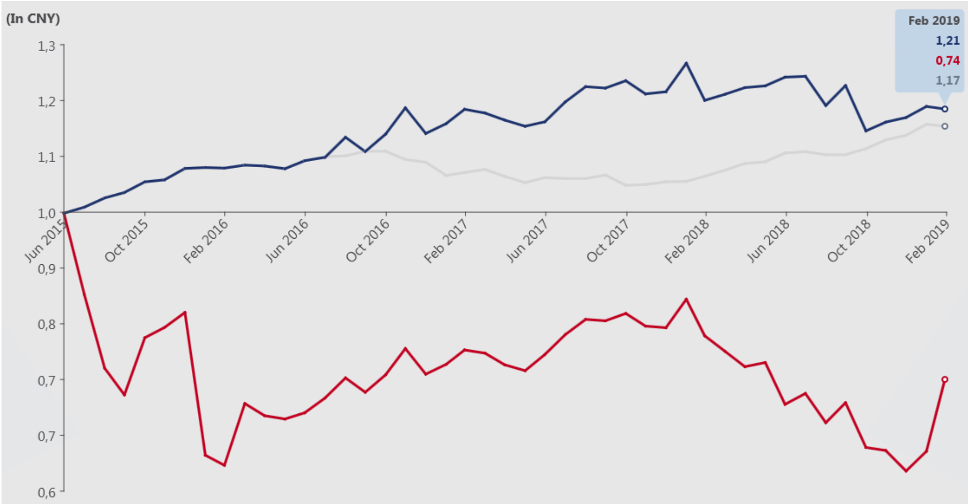
Japan was one of the three sample countries selected to optimize the artificial intelligence layer of the program. Its performance may therefore have benefitted from in-depth analysis of historical data.

However, the same cannot be said for China, or for any of the emerging Asian economies followed by TrackMacro.

TrackMacro Performance in Emerging Asia

TrackMacro performed even better in China than in Japan, returning +21% when the Shanghai SE Composite index lost 26% over the period.

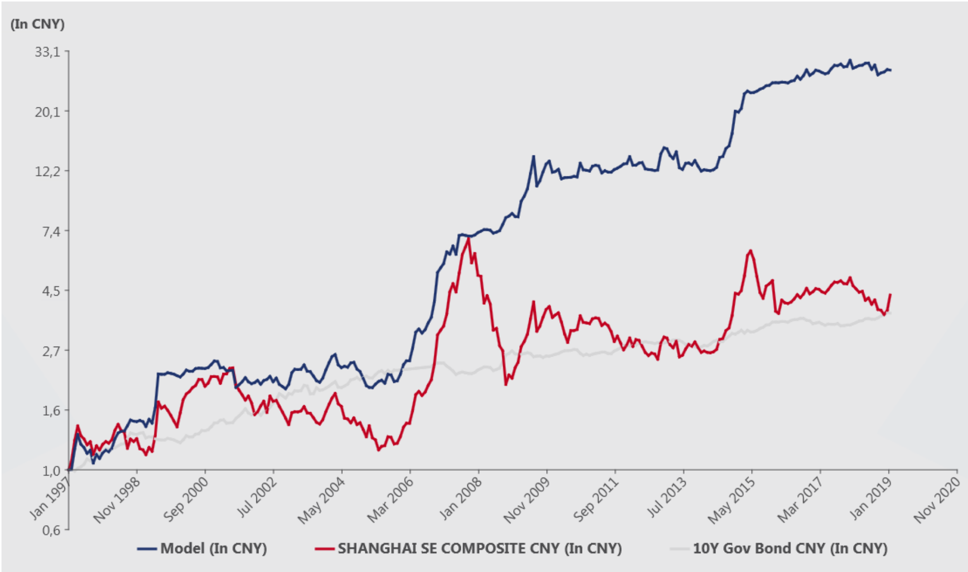
Graph2. TrackMacro live performance vs equities and bonds in China



Source: TrackMacro, 30/06/2015 to 28/02/2019

The model's live performance is consistent with its back-tested ability to escape from high equity risk configurations.

Graph2. TrackMacro back-tested performance vs equities and bonds in China



Source: TrackMacro, 31/01/1997 to 28/02/2019

Emerging Asian economies provided a widespread range of equity behavior and returns in the last three and a half years.

In the nine tracked countries, the system performed largely in line with the local equity markets in three countries (Indonesia, Malaysia and Philippines), underperformed in India by 10%, and significantly outperformed five markets (China, Hong Kong, South Korea, Taiwan, Singapore).

Table 1. TrackMacro live performance vs. equities in Emerging Asia

In %		CUMULATED RETURN		
		TRACKMACRO	INDEX	ALPHA
CHINA	Shanghai SE Composite	21	-26	47
HONG KONG	Hang Seng	58	24	34
INDIA	Sensex	24	35	-11
SOUTH KOREA	KRX100	44	15	29
TAIWAN	Taiex	39	29	10
SINGAPORE	Straits Times	39	10	29
INDONESIA	Jakarta Composite	47	40	7
MALAYSIA	FTSE Bursa	11	12	-1
PHILIPPINES	PSEi	4	8	-4

Source: TrackMacro, 30/06/2015 to 28/02/2019

The Reason for TrackMacro Asian Outperformance

TrackMacro is not a forecasting model anticipating, for instance, the price of oil, or the German inflation six months down the road. TrackMacro is a risk model, based on published data, and issues warning signals when a combination of macro trends has historically collapsed equity value for risk.

The model's purpose is to protect investors from major capital misallocation, to avoid significant drawdowns, and thereby to build alpha over time. Its long-term ambition is to prove that an active global portfolio, switching its equity vs bond positions 2 to 3 times per year, can produce much higher returns than indexed products, not by taking more risk, ***but by taking less risk*.**

The consequence is that TrackMacro has very little chance to outperform index trackers when equities rally with subdued volatility, which is what happened for instance in the USA since launch (TrackMacro returned +34% vs. +46% for the S&P).

Asian markets, on the opposite, went through three to four bifurcations, and it is TrackMacro's duty to capture most of them with a safe lag.

Graph 3 below shows the live model alpha per annum as a function of the maximum drawdown of the index trackers in major economic zones. Bifurcations means drawdowns and TrackMacro seem to fancy bifurcations.

Graph 3. TrackMacro's alpha per annum as a function of the equity index trackers drawdowns since launch.

Source: TrackMacro, Bloomberg data

TrackMacro has steadily and progressively built its track-record month after month for almost four years. It proved that equity risk monitoring is a valuable path to success, especially in complex markets.

For TrackMacro, it was Asia First!