Flashback

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

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A few days ago, TrackMacro reached its 3rd anniversary. On June 30th, the neural network was as concerned with equity markets as it was back in June 2015. Today's date is a good milestone to see if the introduction of artificial intelligence concepts and technologies, applied to macro fundamental rules, has delivered on its promise.
Let's have a look at the facts.

<u>TrackMacro Expectations</u>

The application tracks forty countries, with a limited set of seven fundamental macro rules defined by Charles Gave, calculated and weighted in the same fashion in every country. The app's roles are the following:

(i) To track fundamental macroeconomic variables on a continuous basis and to issue equity warning signals in the case of potential instabilities.
(ii) To simulate tactical allocation strategies between equities and bonds or cash, based on risk signals, and to continuously display monthly performance.
(iii) To avoid major capital misallocation leading to extended drawdowns.
(iv) To deliver higher returns than hedge funds, with no short position.

<u>Live Results</u>

The following graph and table illustrate TrackMacro's performance with a global portfolio of 40 countries tracked by the application and weighted by their GDP.

Over three years, TrackMacro delivered:
(i) **22.5% alpha** against the HFRX Global Hedge Fund Index
(ii) **10.9% alpha** against the global equity benchmark
(iii) **A live Sharpe ratio of 1.4**, in line with its 55-year back-tests
(iv) **A maximum drawdown contained to -4.1%**

Graph 1. NAV, the TrackMacro model, in blue, against a global equity index benchmark (40 country equity indices weighted by their GDP), in red

Source: TrackMacro

Table 1. Risk/Return performance; TrackMacro vs. a global equity index benchmark (40 country equity indices weighted by their GDP)

(In USD)	Model	Index		
Return (p.a.)	**7,7 %**	**4,5 %**	Correlation	41,2 %
Last month	0,4 %	-1,3 %	Beta	18,6 %
YtD	0,3 %	-2,0 %	Equity invested	53,7 %
YoY	6,3 %	6,2 %	Turnover (p.a)	3,2
Volatility (p.a.)	**4,8 %**	**10,7 %**	**(30/06/2015 - 30/06/2018)**	
Max. drawdown	**-4,1 %**	**-15,0 %**		
Sharpe ratio (0,9%)	1,4	0,3		

Source: TrackMacro

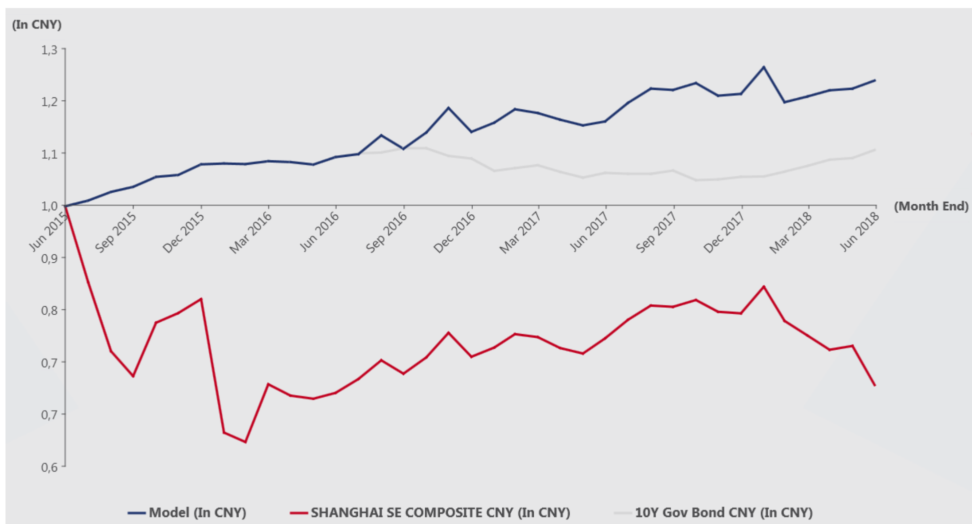
Live Successes and Failure

TrackMacro owes its first success in the past three years to its ability to spot equity risks developing between mid-2015 and mid-2016. Unlike most previous equity shocks, the 2015 stress period was triggered by a deflationary shock on oil, not an inflationary shock.

The model's flexibility in re-entering equity markets by mid-2016 counts as the second success, as it enabled it to benefit from a 19-months' rally.

The main regional success is the result of TrackMacro's correct reading of Asian markets. The model delivered a +24% return vs. -10% loss over three years in a portfolio of GDP-weighted Asian countries. Mainland China only delivered +27% vs. a -29% loss for the Shanghai SE Composite index.

Graph 2. Live TrackMacro for China



Source: TrackMacro

February 2018 will, however, be remembered as TrackMacro's failure during its three-year lifetime. The unanticipated VIX spike was not an exogenous shock per se, but a short squeeze on an illiquid VIX futures market, linked to an over-extended issuing of short VIX ETFs (cf. The Mirror Crack'd, published in March of this year). The subsequent 10% loss on the S&P illustrates the emergence of a new class of risks: the increasing computerized dependencies between global markets, regardless of their respective sizes. TrackMacro is neither immune to exogenous shocks, such as tsunamis or political crises, nor to technical shocks, such as short squeezes.

June 2018 vs. June 2015

No good news appears in the world economy's recent past, according to TrackMacro: rising inflation and cost of energy, higher USD, decelerating growth and trade, insufficient liquidity. The 'world trade' rule, for instance, turned slightly negative at month-end for the first time in 28 months, and the USD world monetary base has continued to contract in real terms for 8 months in a row. The consequence is that TrackMacro has been flashing red in most equity markets for the past five months.

The situation resembles 2015 in terms of equity risk wave, despite the fundamental change in the trigger, from deflationary to inflationary. Flashback?