

TrackMacro: Significant Shift in Equity-Risk Appetite

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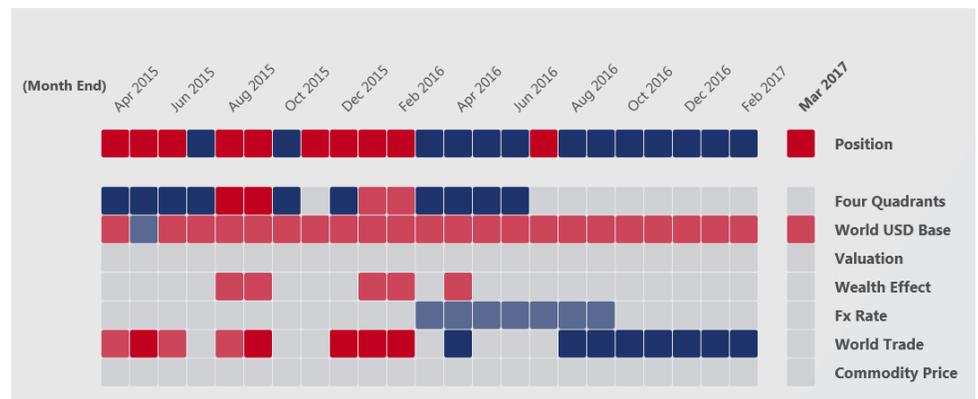
TrackMacro™ is a software tool providing equity risk signals in 40 countries

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The last Quant Corner note published mid-March 2017 (see *“The US Equity Market Today”* on www.gavekal-intelligence-software.com) concluded that the US market was still equity-friendly but getting fragile.

The TrackMacro artificial intelligence program based its “Risk On” signal on a single pillar which had little to do with the US economy—the favorable trend of world trade. To a certain extent, the situation was similar for other major equity markets such as Japan, China, Hong-Kong, or the UK. In this case, a slight weakening of world trade would entail a cascade effect on the model’s preference for equities.

Fig 1. USA. Equity “Risk On” position was only supported by a favorable world trade, which turned neutral at the end of March.

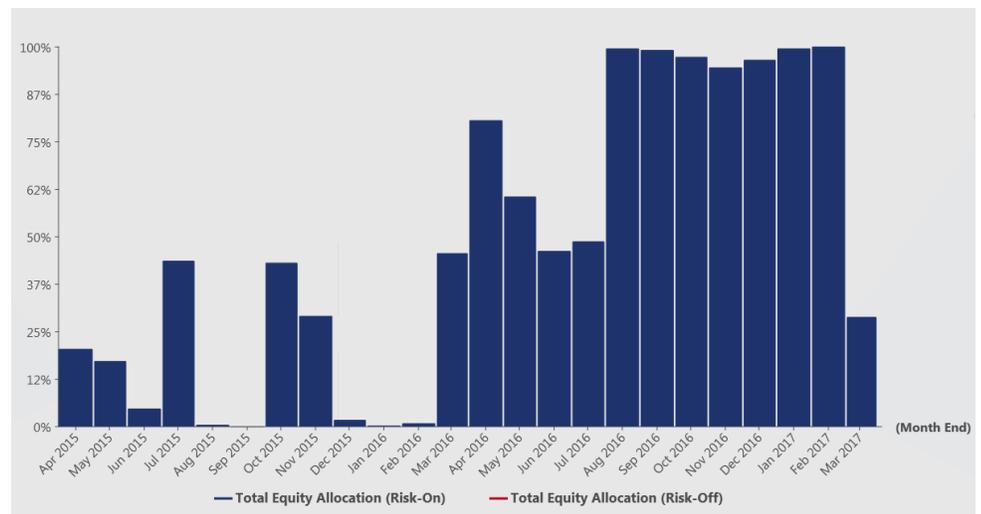


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This happened on March 31st. As a result, TrackMacro now anticipates a weakening of world trade for the month of April or, at least, is inconclusive with regards to the ability of world trade to support growing exports in major countries.

After five months of average-risk appetite for world equities, followed by seven months of full-risk appetite, TrackMacro is now drastically shifting its view in favor of risk-free assets (circa 70% of a global portfolio).

Fig 2. Total equity allocation by TrackMacro on a world equity portfolio (40 countries tracked by the system and weighted by their GDP)



Cascade effects are well-documented phenomena in complex systems. They control the fat tails of statistical distributions and tend to shape the fundamental structure of diffusing systems in geology, life sciences and social sciences.

A one-month signal is not sufficient to conclude on the magnitude of risk diffusion, but TrackMacro has indeed measured a growing instability at month end and adopted a cautious stance.