"Summer Body" for Equity Portfolios:
Lose the Weight and Keep it Off!

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

Download TrackMacro for PC from the company website

What is excess weight in an equity book?

It's the few poorly performing exposures that continuously drag down global performance. Ridding equity books of their dead weight requires a method to spot it, and a tracking system to keep it off dynamically.

TrackMacro is celebrating its 4th year of existence by offering an extended, 2.0 version. The AI, equity-risk application now benefits from additional software, tracking likely dead weight in long-only equity books.

Version 2.0 implements the research conclusions published earlier this year, in *Gavekal Portfolio Solutions*' letters:

1. Global investors can place their wealth in two legal forms: contract (ex: cash and fixed income) and ownership (ex: equities).
2. Competition across economic and monetary zones to attract excess savings induces structural disparities in the remuneration of both contract and ownership.
3. Identifying dead weight in the competition is even more reliable than forecasting winners in global asset portfolios.
4. Managing risk following (3) places the odds deeply in the investor's favor by eliminating excess weight from investment portfolios.

Identifying Dead Weight

TrackMacro 2.0 answers the following simple question:
"Which equity markets are more likely than others to falter in the coming month?"

The system is structured around the following founding pillars:

1. Investors place their cash (the "Rentier" approach) and place their risk assets (the "Entrepreneur" approach) in the most highly remunerating economic zones. Lagging countries have very little chance to attract capital.

2. An economic and monetary zone can't structurally please both the "Rentier" and the "Entrepreneur" simultaneously. High interest and foreign exchange rates, for instance, favor cash lenders but hinder company profits. Investors can reap rewards from this trade-off by splitting investment exposures between cash and equity excess return, and by getting rid of the exposures that have given up on either front of the competition.

3. There's no need to make extensive forecasts to know what pays poorly. You can simply watch cash and risk remunerations during the last twelve months across economic and monetary zones, and countries.

TrackMacro 2.0 is not a black box, but a real-time competition tracker to eliminate unfavorable bets.

Ridding Portfolios of their Dead Weight

The software tracks economic zones first, then countries within economic zones. The world is split into six economic zones, with customizable country weights for each zone: (1) North America (2) Europe Euro (3) Europe non-Euro (4) Japan (5) Developing Asia (6) Commodity Exporters.

The final zone is non-geographic, but consistent in terms of economic properties. It behaves like an "offshore" USD zone, with idiosyncratic cycles linked to commodity prices: prolonged periods of poor returns, followed by spectacular spikes.

TrackMacro calculates the monthly ranking across zones, and across countries, on equity and cash remuneration, and identifies the worst ones. The worst economic zones for equity excess return for July 2019, for instance, are anticipated to be Japan, followed by 'Developing Asia', as displayed in Figure 1 on the next page.

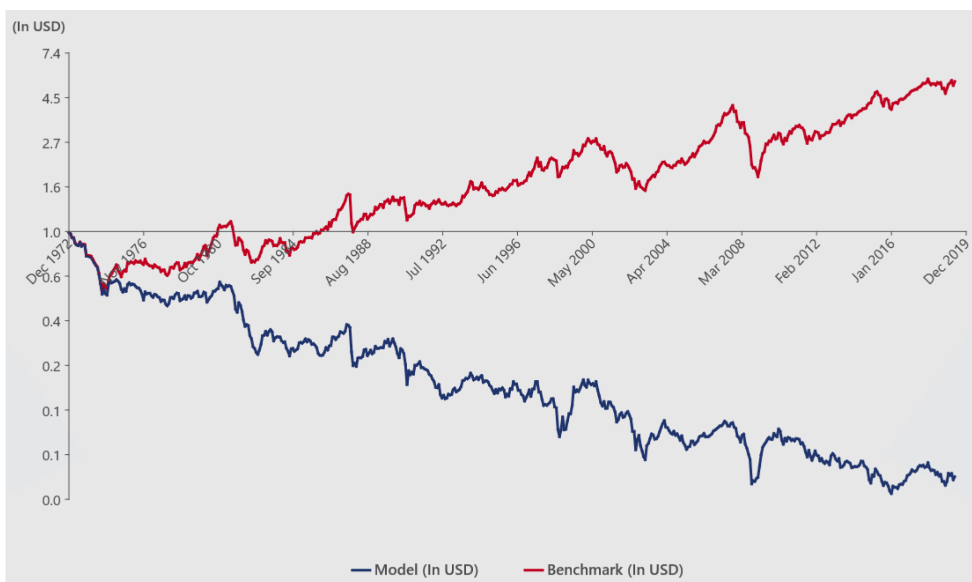
Commodity exporters, on the contrary, are leading the race: beware of potential spikes!

Fig 1. Economic zones' ranking within TrackMacro version 2.0 for July 2019

Source: TrackMacro 2.0. Gavekal Intelligence Software

TrackMacro then proposes "cleaning strategies", for instance, to get rid of the worst half of the countries in the two lagging zones. Figure 2 below shows the losses avoided with the cleaning process, i.e. -6.4% per year on such exposures (the blue line), which is 10% below the average excess return of a global equity portfolio (the red line) investing in 40 countries weighted by their GDP.

Fig 2. Performance of the worst 50% of the countries in the two lagging zones, compared with a global long-only equity portfolio, GDP weighted



Source: TrackMacro 2.0. Gavekal Intelligence Software

Does this mean that some countries are always struggling to attract capital?
Not at all.

Dead weight in equity premium (the blue line above) is correlated to outperformance in cash. Economic zones simply cannot be attractive concomitantly for both types of remunerations. Japan, for instance, is placed at the two extremes of the spectrums for July 2019: best cash and worst equity risk.

Fig 3. Currencies' ranking within TrackMacro version 2.0 for July 2019

Source: TrackMacro 2.0. Gavekal Intelligence Software

Equity returns result from economic performance, but the split between cash and risk (excess return over cash) depends on monetary policies, political and cultural factors, which, by nature, evolve on longer timescales.

Investors can put the odds in their favor by discarding the risk assets or currencies that pay poorly and weigh negatively on their global book performance.

TrackMacro's duty is to help lose that weight and keep it off!