The Former British Empire Resurfaces
Via TrackMacro

By Didier Darcet
didier.darcet@
gavekal-intelligence-software.com

Risk is a broad but intuitive concept. In our daily lives, we have an extremely hard time anticipating the outcomes of our decisions, but we know quite well when we're taking risks. Does this mean that we can forecast risk better than we do outcomes?

Let's start with outcomes.

Financial markets are known to be memory-free. Price adjustments quickly absorb daily news flows. Arbitraging the market therefore requires high-speed computing. In this world, the past is the past, and the future is unpredictable. Value is concentrated within increasingly short time scales.

Let's now consider the market from another angle: the risk of instability.

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

TrackMacro is an artificial intelligence program focusing on risks associated with macroeconomic factors. The application estimates risk states in relation to inflation, growth, trade, liquidity, asset valuations and wealth effects, currency and commodity prices.

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As risk fluctuates and spreads from one country to another, and from one region to another, global risk is channeled through a chain of correlation. In times of severe equity stress, all measures of risk are highly correlated. In times of stable growth, the dependency between countries loosens. Throughout the full cycle, a chain of regional correlation emerges, representing the sub-structure of a world map.

Fig 1. Primary world correlation chain of TrackMacro signals
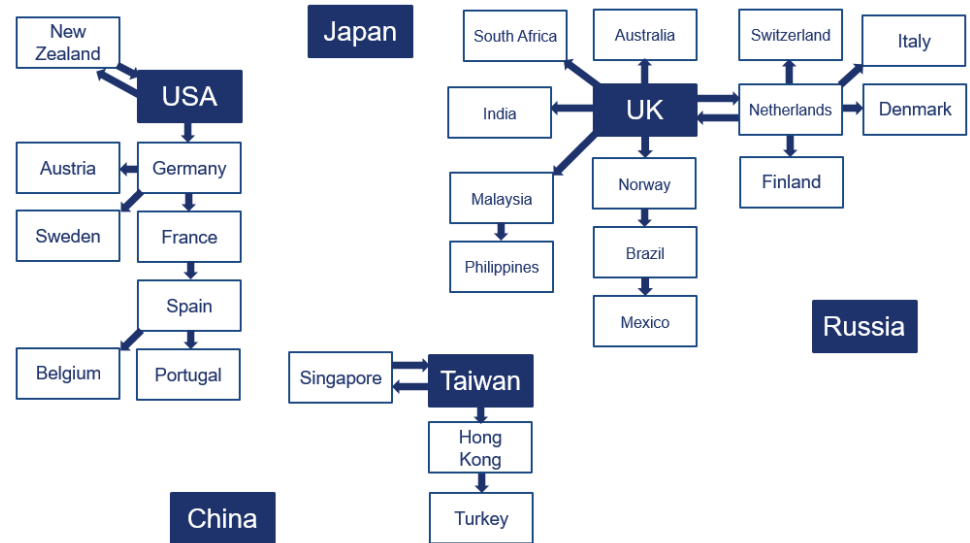
The history of economic influences appears to resurface via TrackMacro:
- The United Kingdom, with a bilateral link to the Netherlands, is at the centre of an extended zone binding developed and emerging economies from various angles: the former British Empire, a commodity-producer zone ex-Russia, and northern Europe.
- The Euro zone, driven by Germany, is under the primary influence of the USA.

- Japan, China, and Russia, are more isolated.

- A third Asian zone emerges, led by Taiwan.

The map simply associates countries according their highest correlation with other countries, in terms of "risk states", as measured by TrackMacro. Such a map would not be visible within traditional correlation matrixes, calculated with equity returns.

What TrackMacro shows is that risk has a very durable memory. Thus, forecasting risks is a much easier task than anticipating outcomes.