ALPINEMACRO
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GLOBAL STRATEGY

December 2, 2024

Global Tactical Asset Allocation ai With Artificial Intelligence

Disclaimer: *Clients are advised to use our Global Tactical Asset Allocation model with AI (GTAAI) as a quantitative reference point – not as the sole reference point. As a mechanical process, the model cannot account for unanticipated events such as natural disasters or major political or policy disturbances. As such, we recommend investors overlay their discretionary views of these risks on top of our GTAAI allocations.*

In This Report

November 2024 Performance Review

The GTAAI model ended November with a 1% gain, underperforming a hypothetical balanced portfolio[1] by 0.9% (**Chart 1**). The model's allocation was evenly distributed between stocks and bonds. Most of the underperformance was due to the model underweighting the U.S. within equities.

Global risk assets diverged sharply in November, driven by political developments. Donald Trump's presidential victory and the Republican control of Congress signal major shifts in U.S. economic and trade policy. The result has been a significant outperformance of U.S. risky assets.

For the equity component, the GTAAI model's country choices underperformed the MSCI Global Equity Index by 3.3% in November, with the index itself gaining 4%. The model was concentrated in Italian, Swiss, and U.S. equities. The model was underweight the S&P 500 versus the MSCI index, which is over 70% invested in the U.S. The S&P 500 surged on expected tax cuts, while foreign stocks lagged amid concerns over potential U.S. tariffs.

For the bond component, the GTAAI model's selections outperformed the BofAML Global Investment Grade Government Index by 0.6%, which recorded a 1% gain (**Chart 2**). The model was underweight Treasurys and JGBs but overweight gilts and bunds. JGBs were among the worst performers, while European fixed income rallied strongly.

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1 45% in global equities, 40% in global bonds, 7.5% in commodities and 7.5% in gold.

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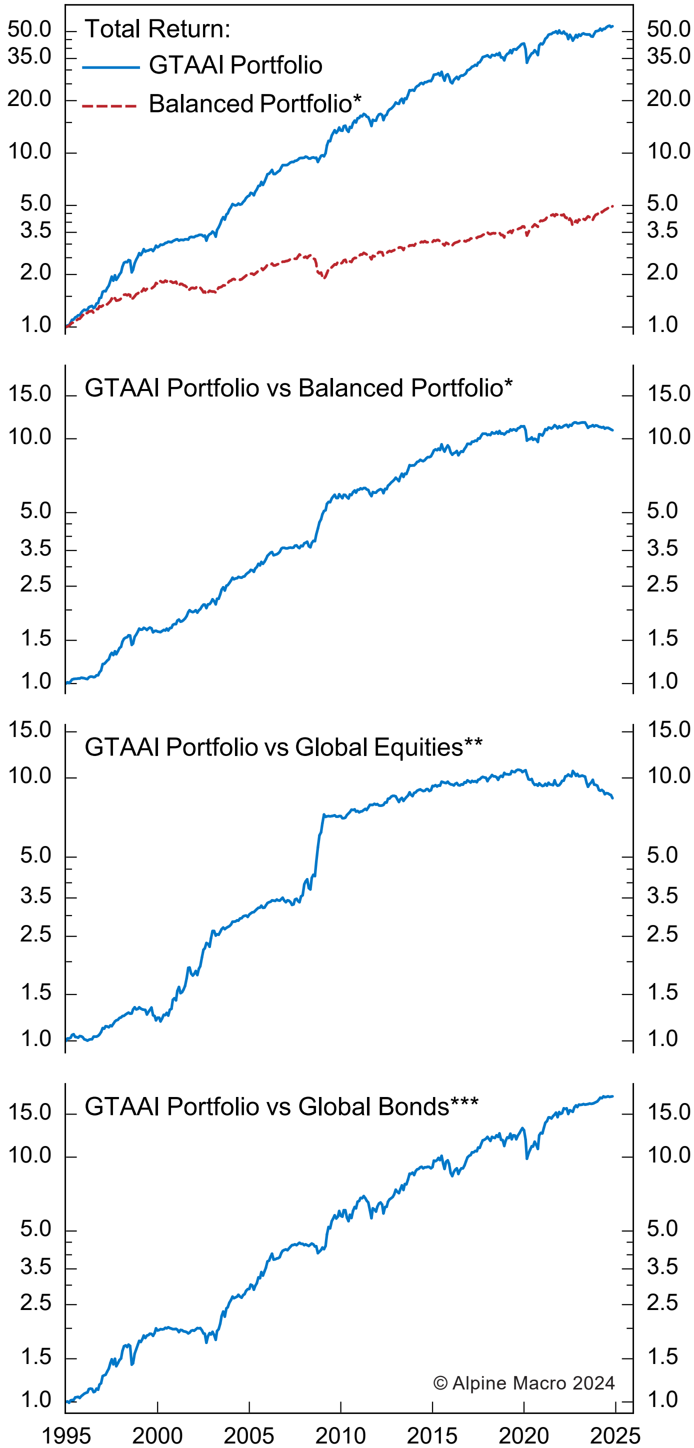
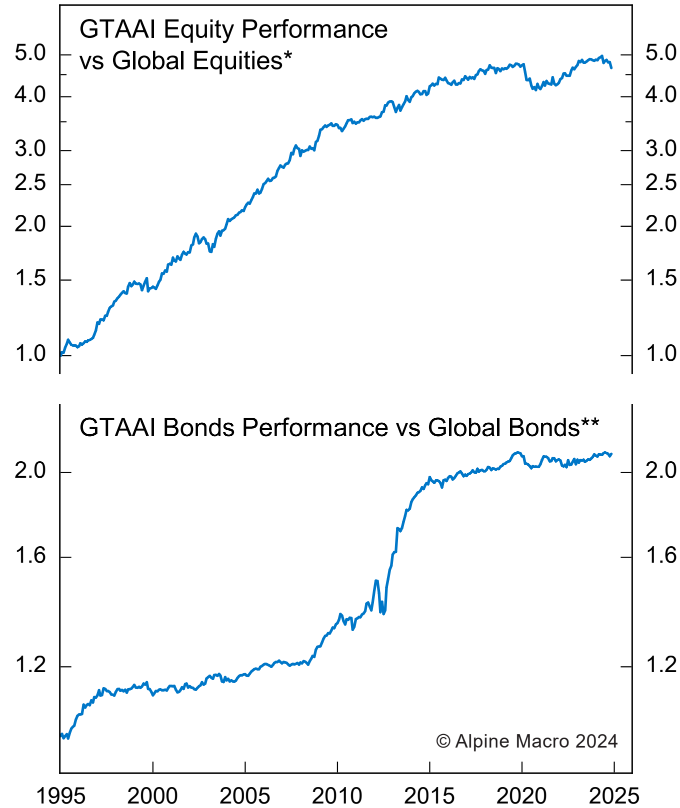
Chart 1 GTAAI Model Performance



*Portfolio with allocations to equities, bonds, commodities and gold at 45%, 40%, 7.5% and 7.5%, respectively
**MSCI All Country World Total Return Index in local currency
***BofAML Global Government Bond Index

Chart 2 GTAAI Alpha Performance



*MSCI All Country World Total Return Index in local currency
**BofAML Global Government Bond Index

We advised clients to hedge foreign currency exposure. This strategy successfully mitigated a 1.3% loss that clients retaining foreign currency exposure would have incurred. The dollar appreciated by 2.8% and 1.8% against the euro and the Swiss franc, respectively.

Model Allocations For December 2024

For December, the model adds risk, increasing the equity allocation to 62% from 49% in November. The bond allocation drops by 15 percentage points to 34%, and the gold weight remains at 3%. The GTAAI assigns almost no weight to commodities (Chart 3). Table 1 provides the model's allocation details.

Chart 3 GTAAI Asset Class Allocation

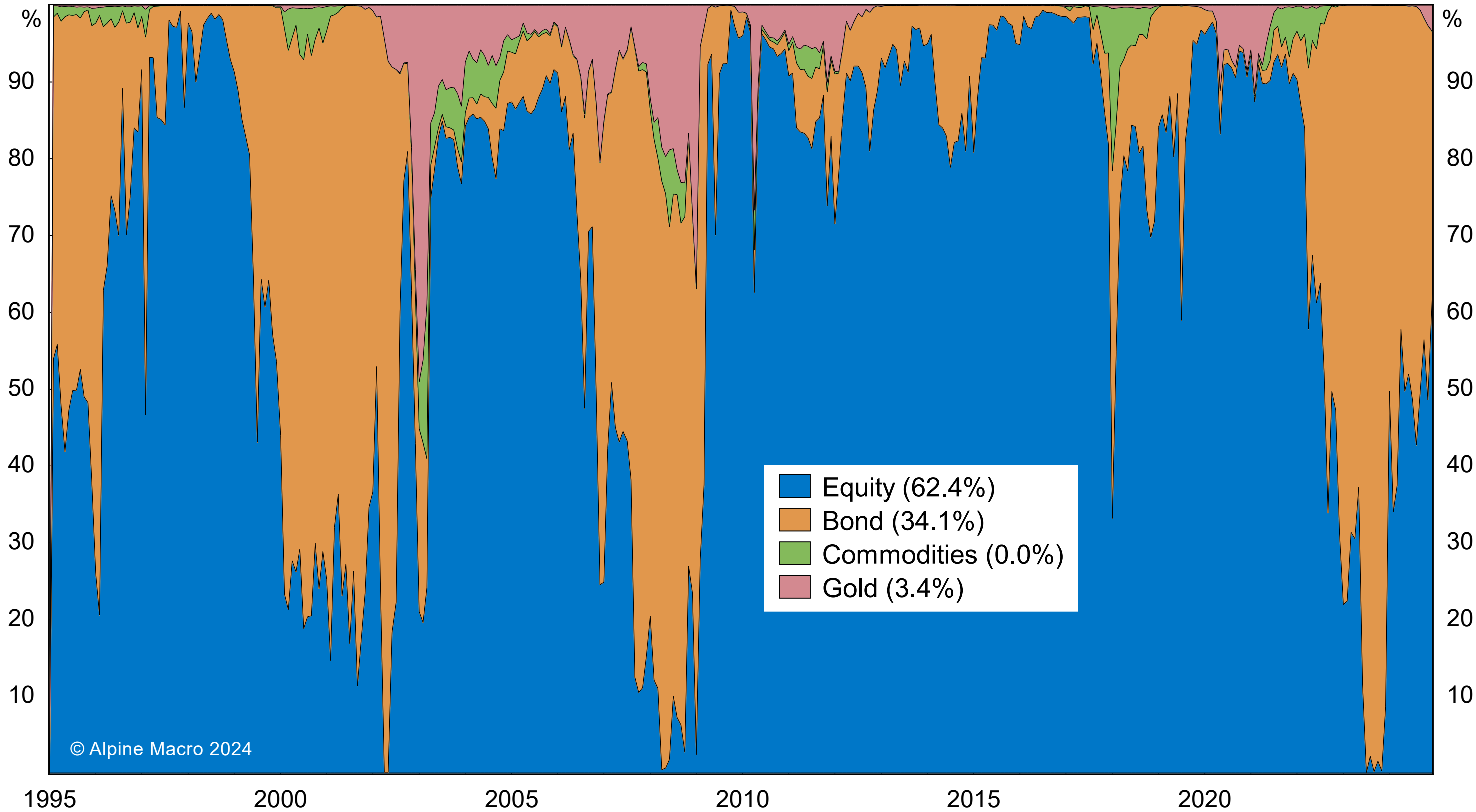


Table 1 Current GTAAI Model Allocations

	December 2024				November 2024			
	Equity (%)	**Bond (%)**	**GSCI (%)**	**Gold (%)**	**Equity (%)**	**Bond (%)**	**GSCI (%)**	**Gold (%)**
Australia	1.3	4.1			0.2	5.9		
Canada	0.1	1.9			0.2	2.4		
Switzerland	23.7	0.9			15.5	0.8		
Germany	0.1	5.4			0.5	8.7		
Emerging Markets	0.0	2.7			0.0	2.7		
Spain	0.8	0.0			1.7	0.0		
France	5.6	1.9			2.2	3.6		
U.K.	0.2	6.2			0.0	9.7		
Italy	15.1	0.0			15.8	0.1		
Japan	0.3	4.0			0.0	5.4		
Norway	7.5	4.1			1.3	5.2		
Sweden	1.6	0.9			0.3	0.6		
U.S.	6.2	2.0			10.9	3.8		
Total	62.4	34.1	0.0	3.4	48.6	48.8	0.0	2.6

Rounded to the nearest decimal point

The model's equity share is nearing its historical average. Equities outside the U.S. are oversold and relatively inexpensive. While liquidity conditions are not particularly loose, the model likes the improved money impulse in several major markets.

Conversely, the decline in bond yields outside the U.S. has weakened the case for larger fixed income allocations. The model favors several sovereign bond markets where yields remain oversold and have room to return to fair value.

The GTAAI model is not tied to market capitalization or debt outstanding indices, resulting in lower weights for large markets compared to these benchmarks. Its focus is solely on absolute return.

We remind clients that the GTAAI cannot forecast or directly account for major political events like the U.S. election. The model is a mechanical process based on economic and market indicators, and investors should apply discretionary judgment regarding upcoming trade and fiscal policies.

Overweight British And German Bonds

The gilt allocation decreases to 6% from 10% in November following a 22-basis-point rally in 10-year bonds that brought valuation closer to neutral. However, the model anticipates further adjustment, as gilt yields remain 120 basis points above fair value. The valuation indicator shows gilts are 1.5 sigma cheap.

The currency is no longer a headwind, and the cycle indicator does not justify a larger weight. Momentum is 0.7 sigma oversold.

German bunds are downgraded to a 5% allocation for December. Bund valuations are now 0.8 sigma cheap, having significantly narrowed from over 4 sigma undervalued during the inflation surge. With German CPI steady near the 2% target and the ECB expected to continue cutting rates, bund yields should converge to the stabilizing fair value.

Bunds' technicals are neutral according to the model's momentum indicator. Leading Economic Indicators (LEI) have flatlined, providing limited influence on the allocation decision.

Diversify With Australian, Japanese, And Norwegian Bonds

For December, the model allocates 4% each to Australian, Japanese, and Norwegian bonds.

Australian bonds are favored for their valuation, at 1.3 sigma cheap and momentum, at 0.6 sigma oversold. The currency indicator has also turned supportive. However, a strengthening business cycle is putting upward pressure on yields.

Japanese bonds have cheapened significantly, becoming the most undervalued bond market at 1.6 sigma. The carry differential has narrowed with global yields falling and JGB yields rising (**Chart 4**). Momentum is 0.8 sigma oversold, but the yen remains a headwind, reducing allocation attractiveness by 11%.

The Norwegian bond allocation is trimmed by 1 percentage point. Norwegian bond yields are among the highest in Europe. Valuations are 1.3 sigma cheap, and momentum is neutral. The currency indicator no longer poses a significant headwind.

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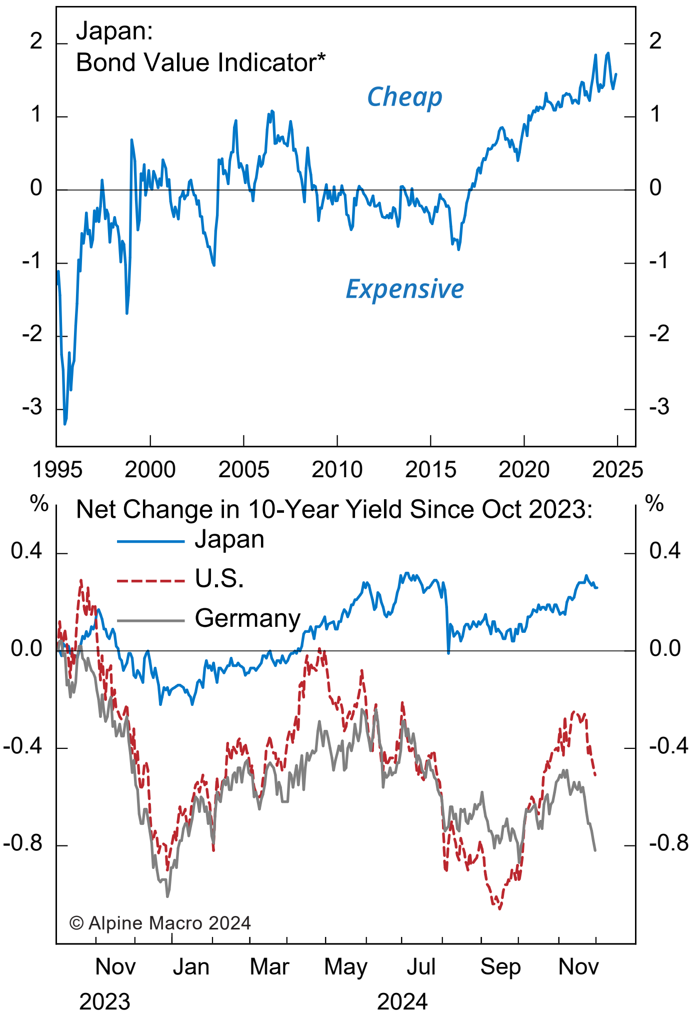
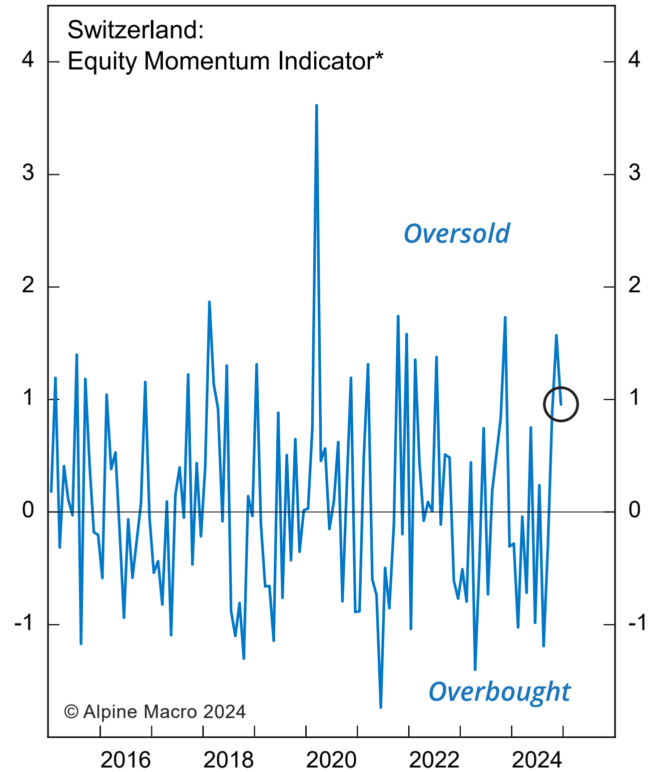
Chart 4 JGBs Have Cheapened And Their Interest Rate Disadvantage Has Narrowed



*Alpine Macro proprietary indicator

Chart 5 Swiss Stocks Are Oversold



*Alpine Macro proprietary indicator

Overweight Swiss Stocks

The GTAAI raises its allocation to Swiss stocks to 24%, up from 16% last month, driven primarily by oversold momentum. Swiss stocks underperformed the global equity index, leaving them 1 standard deviation oversold (**Chart 5**). The model anticipates a rebound.

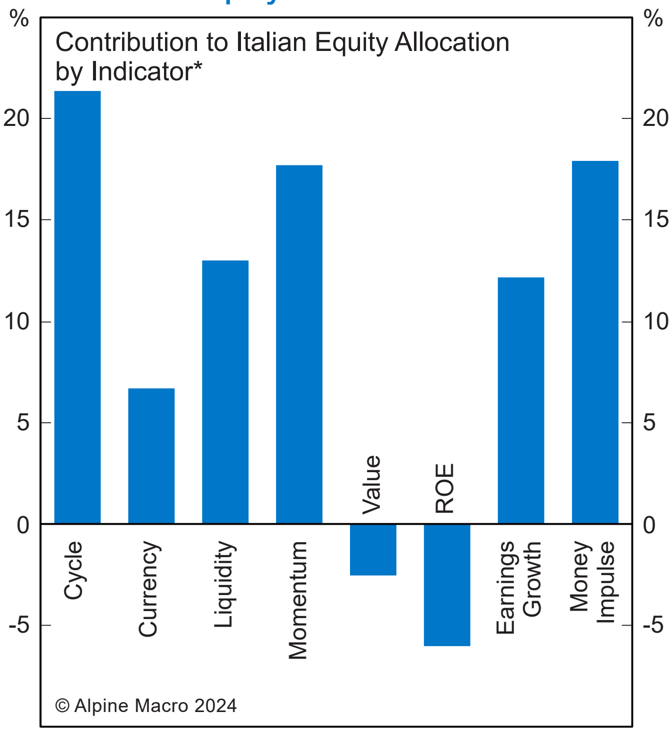
The model favors this market primarily for its strong return on equity (ROE) indicator, which is 1.6 sigma bullish. The model, based on the adaptive expectations hypothesis, believes that ROE should capture structural factors such as the regulatory environment, tax policies, propensity for buybacks, and sector composition.

Currency dynamics remain supportive, as CHF depreciation boosts local returns and exports. Additionally, the money impulse indicator is over 2 sigma bullish, reflecting a trough in sight deposits. The SNB has stopped balance sheet tightening, which bodes well for risk assets.

Favor Italian Equities

Italian stocks receive the second-highest allocation across equity markets, at 15%. The model likes Italian stocks for several reasons (**Chart 6**):

Chart 6 Drivers Of The Italian Equity Allocation



*Absolute value sums up to 100%; positive contribution means the indicator favored allocation to this market

- The cycle remains supportive, with Italian LEIs trending higher and signaling continued economic strength.
- The euro's recent depreciation is bullish for Italian exports, further benefiting equities.
- Liquidity has tightened, but the model does not see this indicator as detracting from the Italian allocation yet.
- The FTSE MIB is 1.3 sigma oversold, reflecting recent European stock underperformance.
- Valuations are slightly expensive but not a major headwind.
- The earnings growth indicator, though moderated, remains constructive.
- The Italian money impulse indicator is back up to 1.4 standard deviations bullish. Italian M2 expansion alongside ECB balance sheet tightening points to endogenous credit growth.

Diversify With Norwegian, U.S., And French Stocks

The model increases the allocation to Norwegian stocks by 6 percentage points, reaching 8% for December, driven by three factors:

- Momentum has shifted from a detractor to a strong positive factor.
- The Norwegian money impulse indicator has strengthened. Norwegian M2 has held steady since mid-2022 but has begun expanding again in recent months.
- The NOK's recent depreciation is favorable, with the currency indicator at 0.7 sigma bullish.

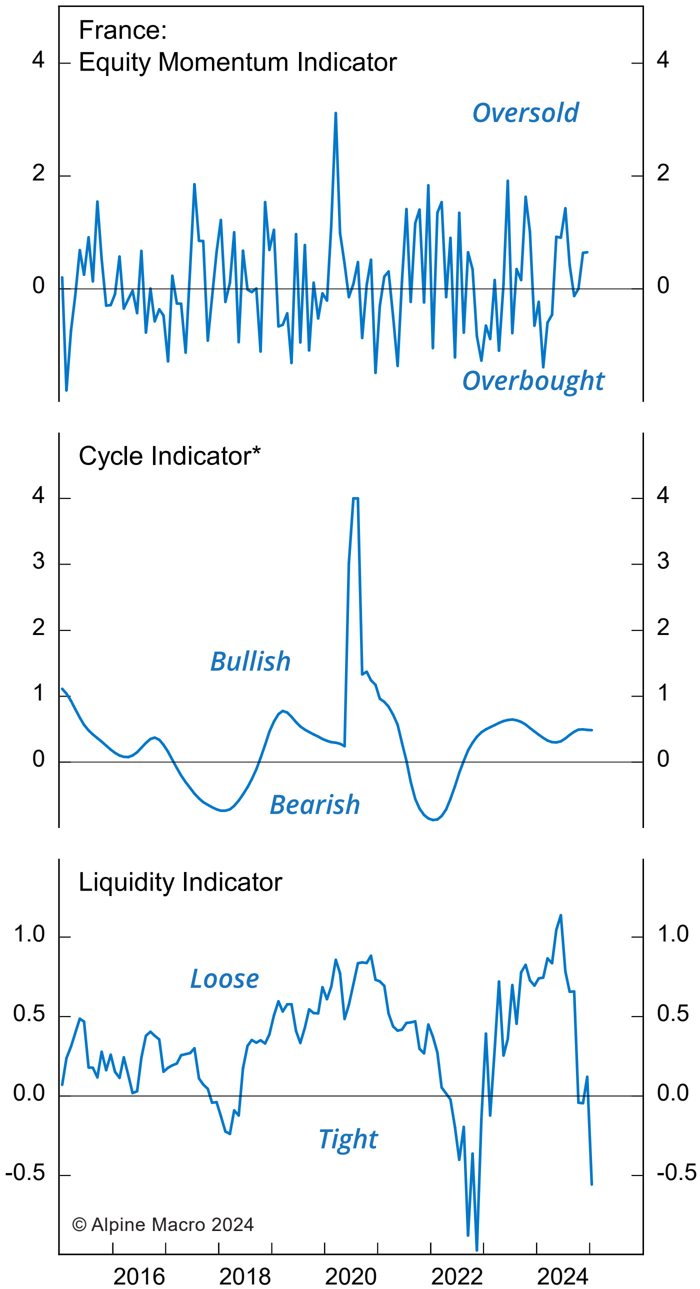
The model downgrades the U.S. equity allocation to 6%, down 5% from November.

Momentum for this market is overbought after a strong showing last month. Additionally, the recent flattening of the yield curve and spikes in money market rates point to some liquidity tightness.

However, the ROE indicator remains very bullish, and money impulse continues to support this market. Valuations, although expensive, are not a major factor in the allocation decision this month.

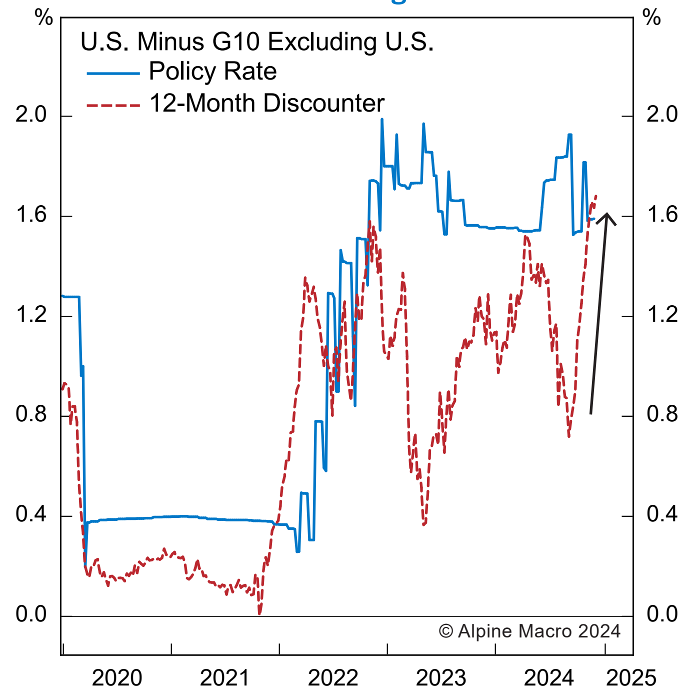
The French equity allocation rises to 6% from 2%, driven by oversold momentum (Chart 7). The cycle indicator also remains above zero. However, the

Chart 7 French Stocks Benefit From Technical And The Business Cycle But Not Liquidity



*Truncated at 4
Note: All series are Alpine Macro proprietary indicators

Chart 8 Interest Rate Differentials Favor A Stronger Dollar



liquidity indicator has deteriorated, likely reflective of the recent rise in French OAT yields versus other eurozone bonds. Both earnings and valuations are also slightly worse than neutral.

Currency Considerations

While the model considers investments in local currencies, we offer discretionary hedging advice to enhance performance. The euro, Norwegian krone, and the Swiss franc are the primary hedging currencies to consider this month.

We recommend hedging local currency exposures for this month. Expected rising tariffs from the incoming Trump administration may continue to support the greenback, even though the dollar is expensive by most fair-value measures. At the same time, the U.S. economy remains the strongest in developed markets. The Fed is likely to ease less than other central banks. Interest rate differentials also favor the dollar (Chart 8).

Henry Wu
Chief Quantitative Strategist

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