The GTAAI is roughly evenly split between bonds and stocks. The model is concerned that recent dollar weakness could impact global equity performance in local currency terms and seeks to avoid overconcentration in U.S. equities due to expensive valuations. The GTAAI believes bonds remain cheap, but valuations are moving closer to neutral.

For equities, the model favors U.S. and Italian stocks and also allocates some weight to Swiss and French equities.

In fixed income, the model’s top three preferred markets are British, German, and Norwegian bonds. It continues to recommend a relatively diverse bond portfolio.

ALPINEMACRO
A Unique Mind On The Markets

GLOBAL STRATEGY

September 3, 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

August 2024 Performance Review

The GTAAI model ended August with a 1.3% gain, outperforming a hypothetical balanced portfolio[1] by 0.2% (**Chart 1**). The model’s allocation tilted towards bonds over stocks. Most of the outperformance was attributable to alpha generation from equity country selection.

Global risk assets sold off sharply at the beginning of August due to a hawkish surprise by the BoJ that led to the unwinding of yen carry trades and a weaker-than-expected U.S. employment report. Fear was initially rampant, with the VIX shooting above 60 and emergency rate cuts by the Fed being discounted. However, sentiment improved as further incoming data suggested that the U.S. economy was slowing but still healthy. Both stocks and bonds ended the month in the green.

For the equity component, the GTAAI model’s country choices outperformed the MSCI Global Equity Index by 0.5% in August, with the index itself gaining 1.6%. The model was overweight Italian stocks which outperformed the MSCI Global Equity Index. The model avoided losses by not allocating to Japanese stocks, which saw a 2.7% drawdown.

For the bond component, the GTAAI model's selections underperformed the BofAML Global Investment Grade Government Index by 0.2%, which recorded a 1%

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

ALPINEMACRO 2024 INVESTMENT CONFERENCE

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Tipping Point In Financial Markets: A Melt-up or Meltdown?

Global financial markets are facing increasing challenges: the risk of recession is rising as tight monetary policy has entered its 28th month, while the bull market in big tech has turned parabolic and is due for a shakeout. However, inflation has fallen sharply, and the Fed is poised to ease at a time when political and geopolitical risks have greatly escalated.

At this critical juncture, Alpine Macro's strategists are joined by a group of highly respected outside experts to discuss the pressing issues facing investors, including:

- Are we at the tail-end of the bull market in equities, or does the bull have further to run? Which sectors should investors allocate their capital to, and what will be the new leaders in the marketplace?
- How should investors hedge against the rising risk of wars and conflicts?
- Harris vs. Trump: How will the election result change U.S. economic policies and affect financial markets?
- What's next for commodities and energy? Are we heading for a new super-cycle bull market, and is ESG dead?

Come and join us for a day of debate, discussion, and brainstorming on the big macro themes and how to capitalize on them in this highly uncertain environment.

This is an in-person only event, and seats are already 70% sold out. If you are interested in this event, please register now.

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Guest Speakers + Alpine Macro Strategists

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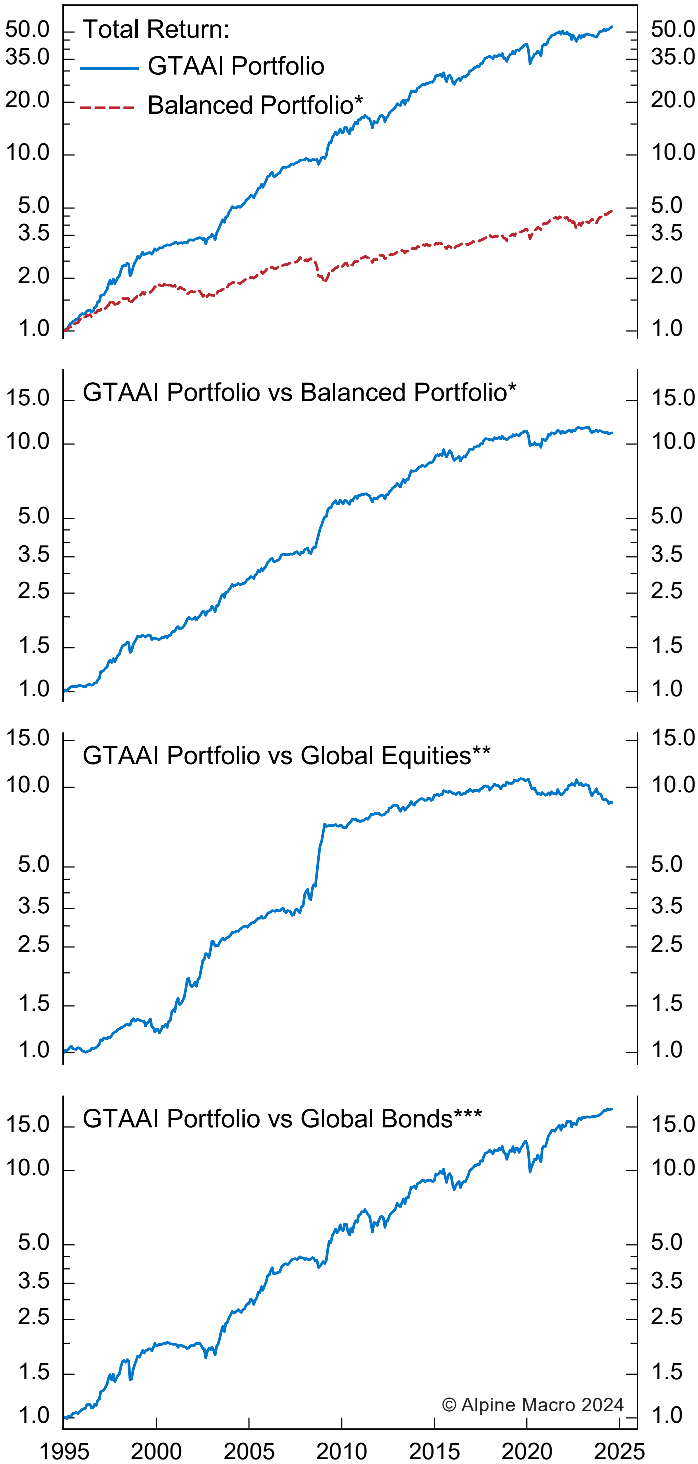
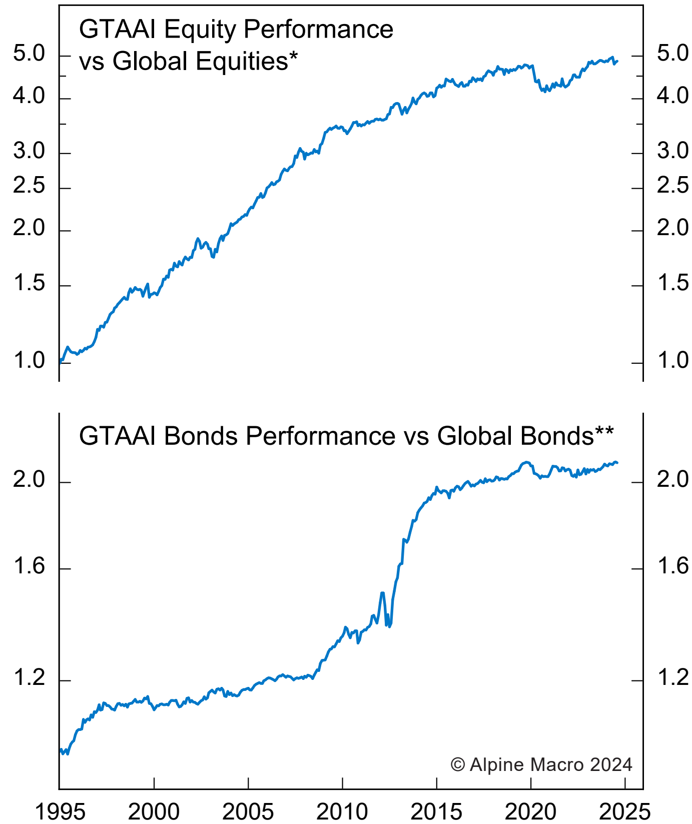
Chart 1 GTAAI Model Performance



*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

gain (**Chart 2**). The model was underweight JGBs and Treasurys, which outperformed.

We took a neutral stance on currency hedging. Most foreign currencies appreciated, with the DXY index down by 2.3%.

Model Allocations For September 2024

For September, the model trims bonds in favor of stocks. The portfolio is roughly evenly split between fixed income and stocks, each receiving about 50% of the total allocation. Gold weight is upgraded to nearly 1%. The GTAAI assigns almost no weight to commodities (**Chart 3**). **Table 1** provides the model's allocation details.

Chart 3 GTAAI Asset Class Allocation

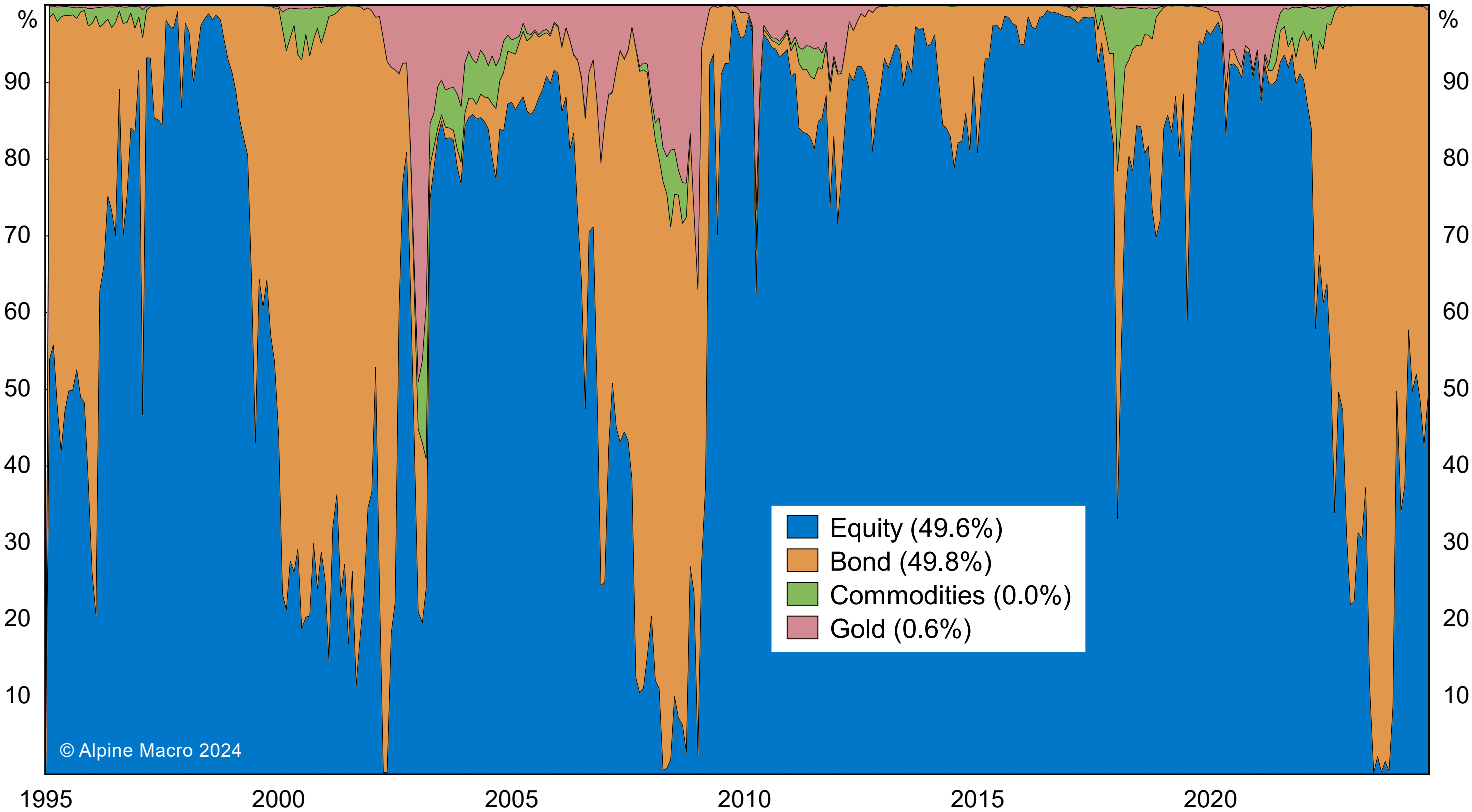


Table 1 Current GTAAI Model Allocations

	September 2024				August 2024			
	Equity (%)	Bond (%)	GSCI (%)	Gold (%)	Equity (%)	Bond (%)	GSCI (%)	Gold (%)
Australia	0.7	4.5			0.4	5.5		
Canada	0.3	4.0			0.2	5.3		
Switzerland	7.8	3.1			5.6	3.7		
Germany	1.5	7.6			1.5	7.5		
Emerging Markets	0.0	2.2			0.0	4.3		
Spain	0.9	0.0			2.2	0.0		
France	5.2	3.6			3.3	4.1		
U.K.	0.9	7.9			0.4	7.8		
Italy	14.3	0.2			13.6	0.3		
Japan	0.0	4.3			0.0	4.8		
Norway	0.9	6.8			0.4	7.0		
Sweden	0.4	1.9			0.2	2.0		
U.S.	16.6	3.8			14.9	4.7		
Total	49.6	49.8	0.0	0.6	42.7	57.2	0.0	0.2

Rounded to the nearest decimal point

The model's current allocation is heavier on bonds than its historical average, concerned that a weakening dollar may limit global equity returns in local currency terms. While the model likes U.S. stocks, expensive valuations do not warrant over-concentration. Nevertheless, cyclical indicators based on the OECD leading economic indicators (LEI) are turning up, and money impulse indicators are also improving.

The GTAAI suggests that most bond markets have become less undervalued and oversold following the recent rally. However, with carry at current levels, bonds should offer substantial total returns.

The GTAAI model is not benchmarked to any market capitalization or debt outstanding index. The weight of large markets in those indices will typically be higher than in the model, which only considers absolute return.

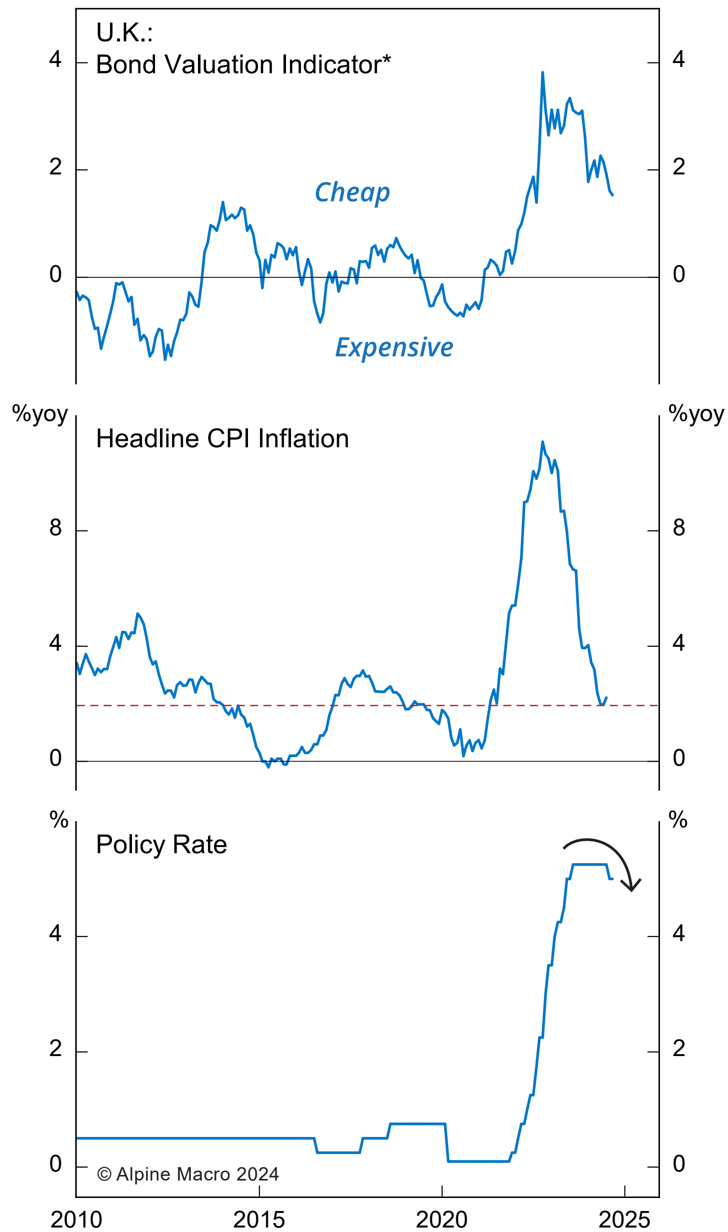
Favor British, German And Norwegian Bonds

The model's fixed income allocation has become more concentrated over the past several months. The three markets receiving the largest allocation are British, German, and Norwegian bonds.

Gilts receive an 8% allocation for September, unchanged from August. Gilt yields have been range-bound for the past few months and this market remains heavily undervalued (**Chart 4**). The valuation indicator suggests that fair-value 10-year gilts are at 2.82%.

The upward drift in British fair-value yields may soon revert with the Bank Of England cutting rates on inflation falling to 2%. Our model also includes an estimate of NAIRU, which has been declining.

Chart 4 BOE Easing And Lower Inflation Will Anchor Gilt Fair-Value Yields



*Alpine Macro proprietary indicator

This anchors fair-value yields low and illustrates the difficulty in generating sustained labor market driven inflation.

The currency indicator's contribution to the gilt allocation decision fell to 2% from 6% in August. Momentum has become somewhat less oversold, at 0.7 sigma bullish. The model does not think the cycle indicator is an important driver of allocation at the moment.

German bunds also receive an 8% weight. The indicator suggests that bunds are 1.3 standard deviations undervalued. Fair-value yields for bunds have risen due to higher ECB policy rates and inflation since the reopening, but the remaining undervaluation will likely be absorbed through lower yields as both inputs decline.

The momentum indicator for bunds currently suggests that this market is 0.7 sigma oversold, down from a peak of 2.4 sigma. The business cycle is slightly bearish, with the OECD LEI for Germany having improved over the past several months.

Norwegian bonds receive a 7% allocation, unchanged from August, mostly underpinned by favorable valuations. Norwegian bond yields are 1.2 standard deviations above fair value. Currency is also a tailwind and contributes 7% to the decision to allocate to this market.

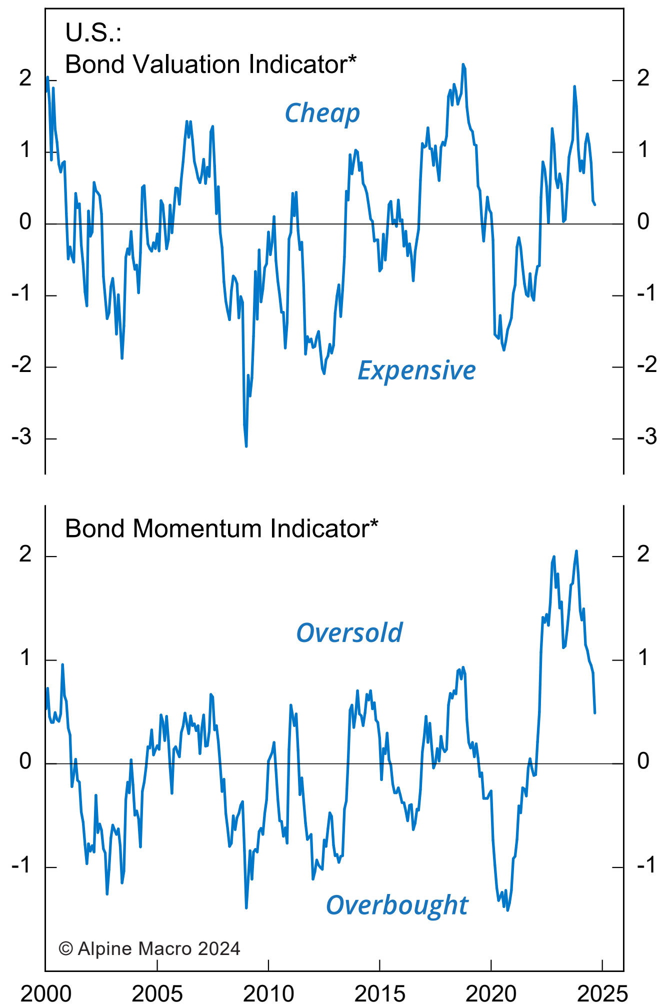
Oversold momentum has been weakening and is approaching neutral. The economic cycle presents a slight headwind. The recent recovery in Norwegian PMIs is bond bearish.

Bond Diversification Choices

For September, the model's second-tier fixed income choices are diverse, with Australian, Canadian, U.S., French, and Japanese bonds receiving between 3-5% allocations.

The U.S. Treasurys valuations are approaching neutral following the 18 basis point rally in August.

Chart 5 U.S. Treasury Yields May Undershoot Due To Momentum



*Alpine Macro proprietary indicator

Momentum remains 0.5 sigma oversold. This suggests that Treasury yields are likely to undershoot fair value (**Chart 5**). That said, the OECD LEI indicator for the U.S. continues to improve and limit cyclical support for Treasurys.

Canadian and Australian bonds exhibit similar profiles at 0.7 and 1.1 standard deviations, respectively. Momentum is approaching neutral for both markets. The cycle for both economies is turning up.

JGB allocation remains at 5% for September. This market is currently 1.5 sigma cheap based on our indicator. Technicals have become favorable but are not yet extreme at 0.8 standard deviations oversold.

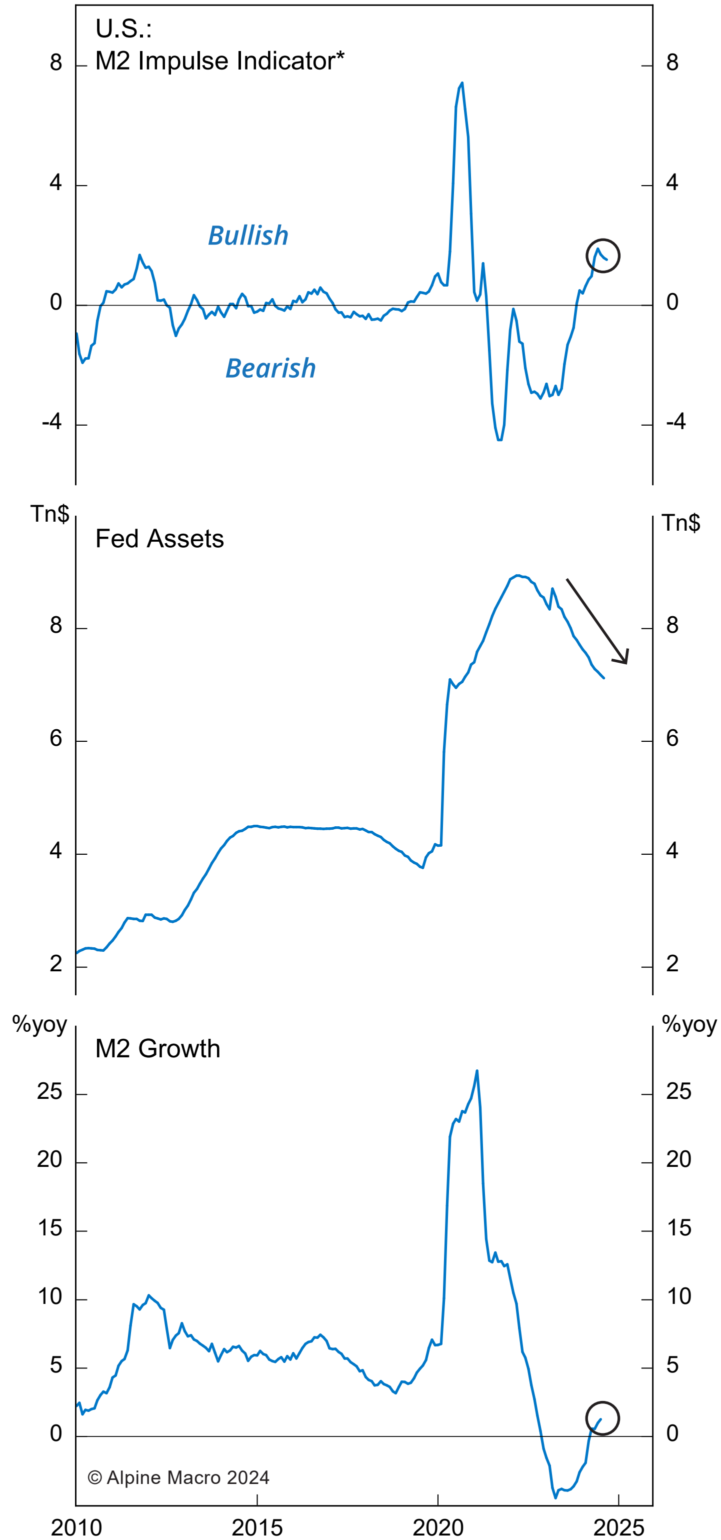
French bonds have nearly returned to fair value based on our indicator and receive a 4% allocation for September. Momentum is 0.6 sigma oversold.

Favor U.S. Stocks

The model's equity allocations are heavily concentrated in Italy and the U.S. The model increases the U.S. equity allocation to 16%, up 1% from August. Here's why:

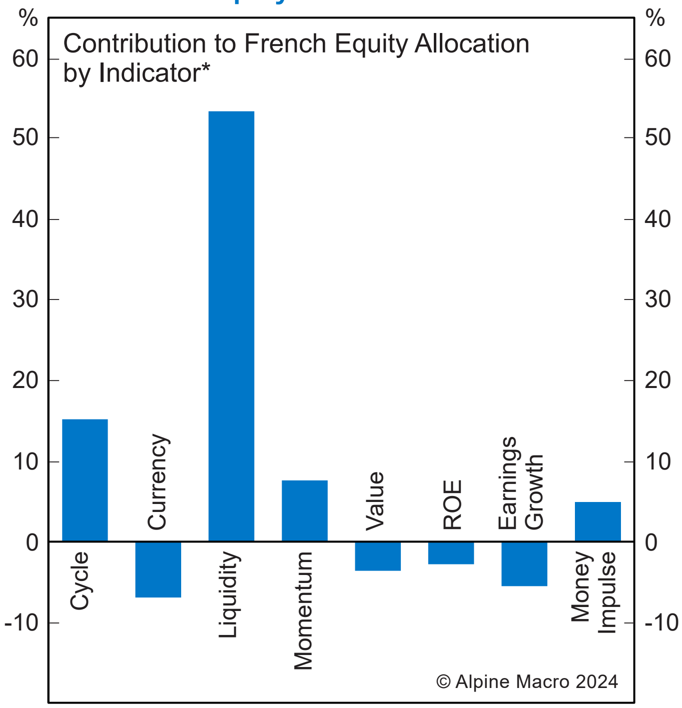
- The money impulse indicator, which tracks the second derivative of M2, remains bullish. Endogenous credit generation has more than offset quantitative tightening (**Chart 6**).
- Return on equity (ROE) is the primary driver of the U.S. allocation at 1.7 standard deviations bullish. The model, based 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.
- Liquidity is lending some support for the allocation. Money market spreads are not showing signs of stress. However, the inverted yield curve is a cause for some concern.
- The model is beginning to assign a larger weight to the valuations indicator that is 0.8 sigma expensive.
- The currency and cycle are both slight headwinds, but the model attributes a low weight to them for now.

Chart 6 The U.S. Has Endogenous Credit Growth



*Alpine Macro proprietary indicator

Chart 7 Drivers Of The French Equity Allocation



*Absolute value sums up to 100%. Positive contribution implies the indicator favored allocation to this market

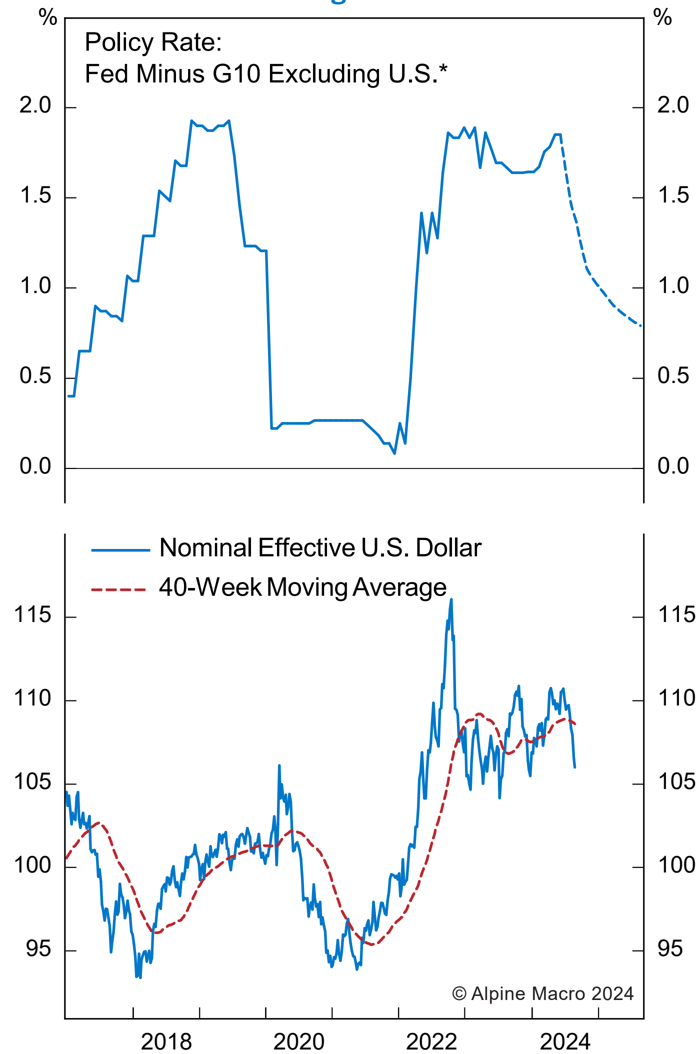
Upgrade Italian, French And Swiss Equities

The Italian equity allocation remains at 14% for the following reasons:

- Liquidity is supportive, with the indicator at 0.7 standard deviations bullish. BTP spreads versus German bunds are on the tight side.
- The Italian business cycle is 0.7 sigma bullish, contributing to one-fifth of the allocation decision.
- Italy's earnings indicator has waned but remains in positive territory.
- The ROE indicator is negative and holding back further allocation to this market.

The model upgrades French stocks to a 5% allocation from 3% in August. The main drivers behind the upgrade are an improvement in momentum and an

Chart 8 The Dollar's Interest Rate Advantage Will Shrink



*Equal-weighted average of G10 excluding U.S.
Note: Dotted line denotes market expectations from OIS curves

upturn in the money impulse indicator. Liquidity is the main allocation driver and the business cycle indicator is also supportive (Chart 7). However, valuation, earnings and currency are headwinds.

Swiss stocks receive an 8% weight, up by 2% from last month. The key driver behind Swiss equity allocation is the ROE indicator. However, momentum is overbought, and the market faces sizable headwinds from recent currency movements.

Currency Considerations

While the model considers investments in local currencies, we offer discretionary hedging advice to enhance performance.

Fed Chair Powell noted at the Jackson Hole press conference that the Fed does not want to see a further rise in unemployment and all but promised a rate cut cycle starting in September. While the pace of easing will depend on incoming labor market data, rate cuts will erode the interest rate advantage of the dollar (**Chart 8**). We recommend retaining local currency exposures.

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