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BODMER CETTIER

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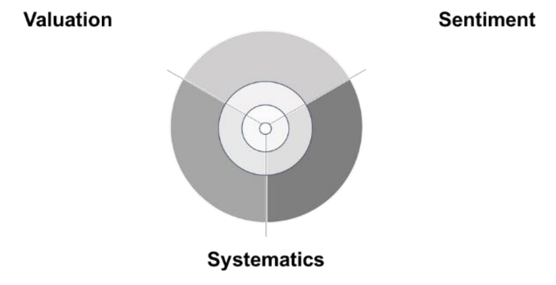
Throughout history, humans have sought to predict the future. This makes sense in order to obtain planning security and optimize resource allocation. Predicting the future is quite successful in some areas (weather forecasting), but it diminishes with increasing forecast duration. When it comes to financial markets, it would be fantastic to predict the "weather conditions" in the markets with a similarly high degree of accuracy. However, to temper expectations: this level of forecast accuracy does not exist.

**The Asset Allocation Model by Prio Partners**

In determining the current state of the markets and deriving courses of action, the Tactical Asset Allocation (TAA) model we developed is helpful.[1] The Prio TAA model consists of two signals. The first signal evaluates the current price level, and the second assesses the sentiment of market participants.

**Similar to a crystal ball, but better**

The TAA Model by Prio Partners

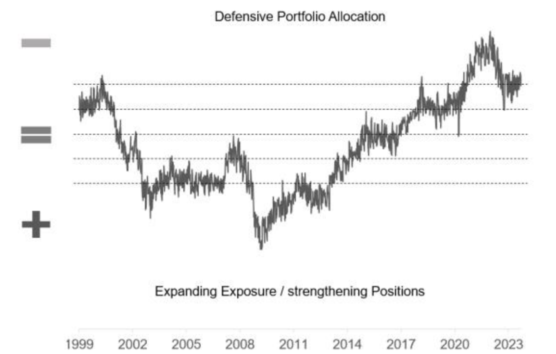



Source: Prio Partners

For both signals, there is a multitude of factors that are evaluated and finally combined into one overall signal.

**Tactical Signaler**

Prio TAA, Development of the overall factor 1999 – 2023




Source: Prio Partners

To remain realistic: The Prio TAA model is not a perfect model, but it provides us with additional information that influences the decision-making process for portfolio management. The model objectively and unemotionally highlights extremes in the markets. As a result, the portfolio managed with Prio TAA achieves comparable market returns with significantly lower risk. The average volatility is 24% lower than that of the market. The Sharpe Ratio (the achieved return per unit of risk) is correspondingly more attractive. As a result, investors can sleep more soundly, as the portfolio development runs more smoothly.

**What does the TAA model tell us today?**

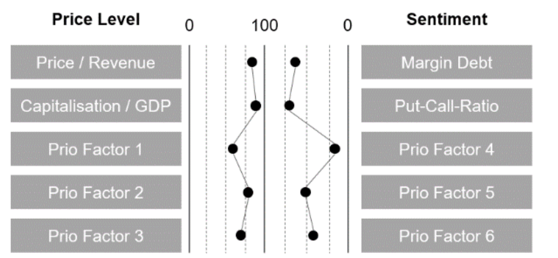
We measure the price level using a variety of factors. For hopefully understandable reasons, we cannot disclose all of them. However, we would still like to provide some insight: The TAA model

[1] In cooperation with the Institute for Banking & Finance, University of Zurich

measures, among other things, the price-to-sales ratio and relates the market capitalization of all companies to the gross domestic product. The price-to-sales ratio currently stands at 2.4x, and the market capitalization-to-GDP ratio is 1.4x (based on the Buffett indicator). In historical comparison, both factors are currently greater than 90% of all measured values. Consequently, the overall factor for determining the valuation level signals an overvaluation of the overall market. We assess market participants' sentiment using a range of factors. One approximation for risk appetite includes the level of margin debt. It is currently very high (689,185 million USD), reflecting a speculative market environment. At the same time, we observe an increase in the put-call ratio, indicating an increasing hedging of market positions (0.8x, compared to a historical average of 0.6x). All in all, the sentiment indicator shows a cooling market sentiment and therefore a more cautious stance.[2]

**Less emotion, more facts**

Parameterization of signals in the TAA model




Source: Prio Partners

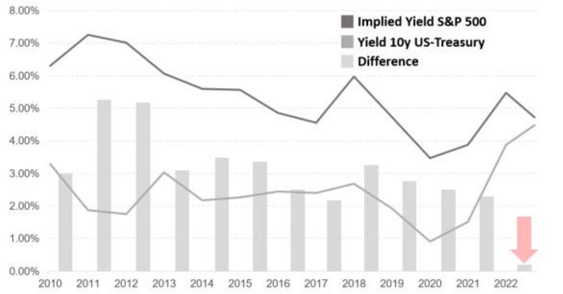
Since we attribute more significance to the valuation level in the current high-interest rate environment, the combination of the two signals results in an overall factor (Prio Score) that tends to be above historical values. Therefore, the Prio TAA suggests a more defensive portfolio allocation.

**Speaking of interest rates**

From our perspective, it is interesting to compare the implied equity market risk premium (calculated from the inverse of the price-to-earnings ratio) with the current interest rate of 10-year government bonds.

**Cash is (almost) King again**

10-Year US Treasury Bonds vs. Implied Market Yield




Source: Prio Partners, Bloomberg

Over the past few years, implied equity market risk premiums have been significantly more attractive. With the sharp increase in interest rates, interest-bearing bonds have gained significant attractiveness and represent a viable alternative.

**Tactical Positioning**

We assess the stock market as currently overvalued and observe an increasing risk aversion among market participants. At the same time, interest-bearing investments have become more attractive.

**Prio Partners Outlook**

Tactical positioning and medium-term outlook


Source: Prio Partners

Tactically, we consider cash and bonds to be relatively attractive, while we rate stocks in the portfolio context as neutral. We see the US market with relative strength and appreciate the qualities of the defensive Swiss stock market.

*Dr. Patrick Cettier*

[2] Selected Factors in the Prio TAA Model:

Price / Sales: Total market capitalization of companies in the comparison index relative to the sum of the last 12 months' sales
Market Capitalization / GDP: Total market capitalization of companies in the comparison index relative to the national economic output
Margin Debt: Sum of all debit balances in securities margin accounts of member firms of the main exchange of the comparison index
Put-Call-Ratio: Total volume of all traded put options on the reference date relative to the total volume of all call options