

GLOBAL MACRO AS A TRUE PORTFOLIO DIVERSIFIER

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Past performance is no guarantee of future results. Potential for profit is accompanied by possibility of loss.

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ACADEMIC FRAMEWORK DOWNPLAYS PARTICIPANTS

Classical Financial Theory

Provides tools to value assets fundamentally
Requires significant simplifying assumptions

Behavioral Finance

A grab bag of solid insights about human behavior that makes a compelling case for why human fallibility explains at least a part of why markets don't behave as expected from the above theory

Missing

Diverse, rational, and non-fundamental basis for the demand for financial assets

WHEN WE CAN FILL IN THAT "MISSING GAP", WE FIND OPPORTUNITIES THAT CAN TRULY DIVERSIFY BOTH TRADITIONAL AND "ALTERNATIVE" BETAS!

AN ALTERNATIVE SYSTEMATIC APPROACH

CONVENTIONAL

ALTERNATIVE

What *Appears* to... Work on average, move together, have momentum, or serve as unnamed drivers

What *Should* Be Asset prices *should* reflect fundamentals
When they don't, there's error and irrationality

What *We Know* Market influencers and their motivations are highly diverse; they change with the market and economic environment



PRACTITIONER'S KNOWLEDGE

TO UNDERSTAND THE MARKETS, UNDERSTAND MARKET INFLUENCERS AND THEIR MOTIVATIONS

More than just one “model investor”

... with more than just a need for return

... with reaction functions that vary with the market and economic environment

**“
the devil is in
the details
”**



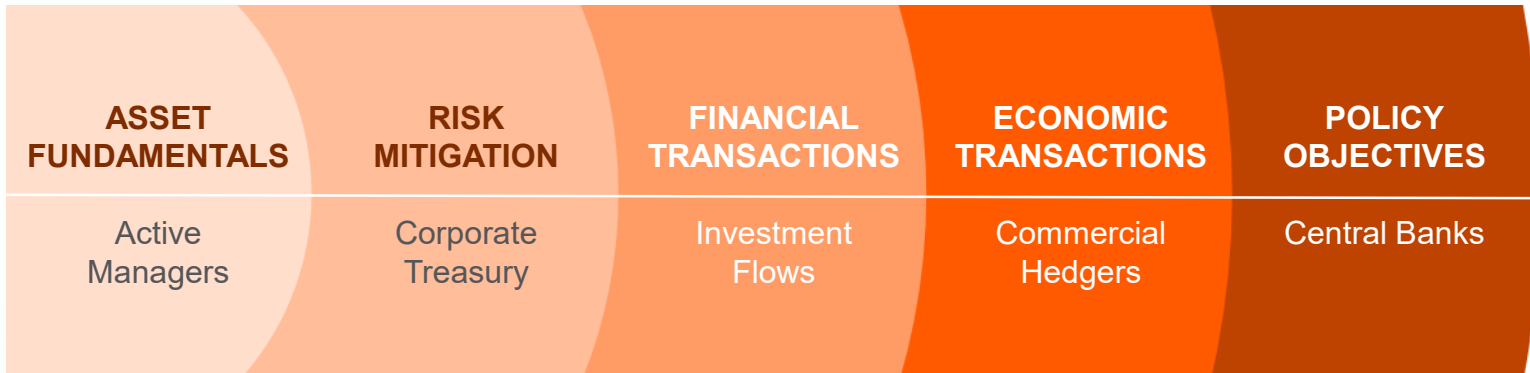
SPECTRUM OF INVESTOR NEEDS AND PREFERENCES



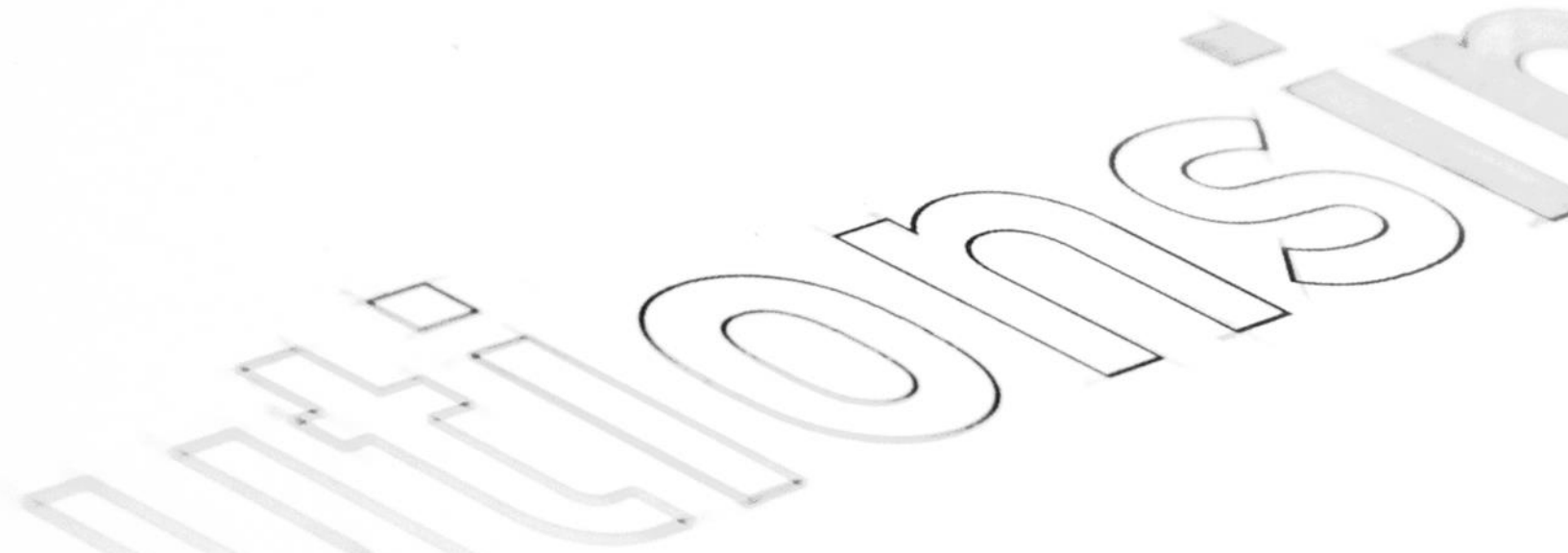
LESS AND LESS WEIGHT PLACED ON COMPETING FOR RETURN



SPECTRUM OF INVESTOR NEEDS AND PREFERENCES



EXAMPLES



HOW WE DO THIS?

What We Know

- Participants' needs and preferences



Practitioner's knowledge



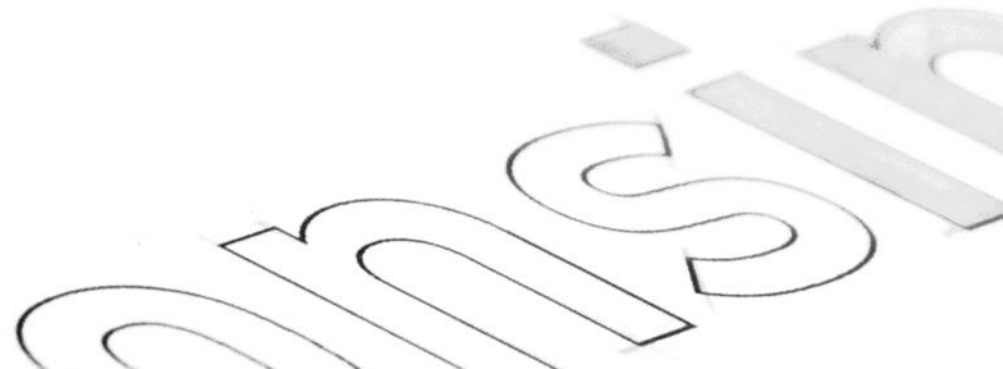
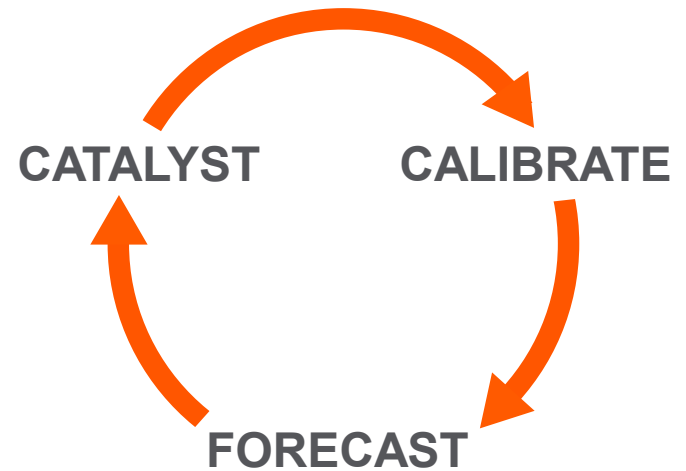
Other's research



Confirmed by our research

How We Use It

Catalysts, calibration, impact on return



DEMAND FOR LIQUIDITY

What We Know

- Intermediaries in sovereign debt markets provide direct signal for market demand for liquidity



Fed and ECB research

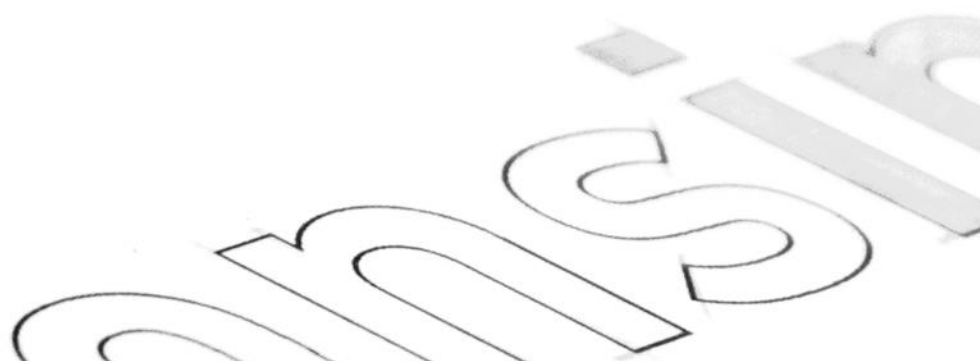
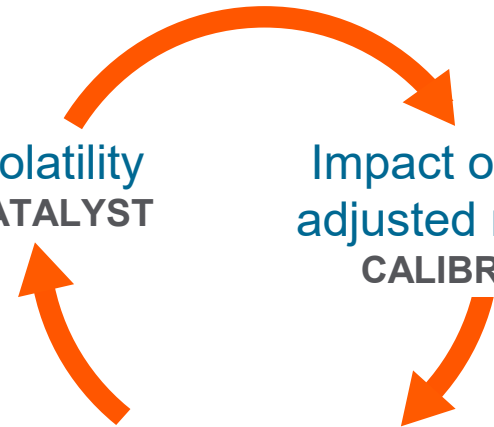
How We Use It

Catalysts, calibration, impact on return

Volatility
CATALYST

Impact on risk-
adjusted returns
CALIBRATE

Market State
FORECAST



ANTICIPATED CHANGES IN CAPITAL FLOWS IMPACT FX

What We Know

- Active global fixed income managers pursue higher yield



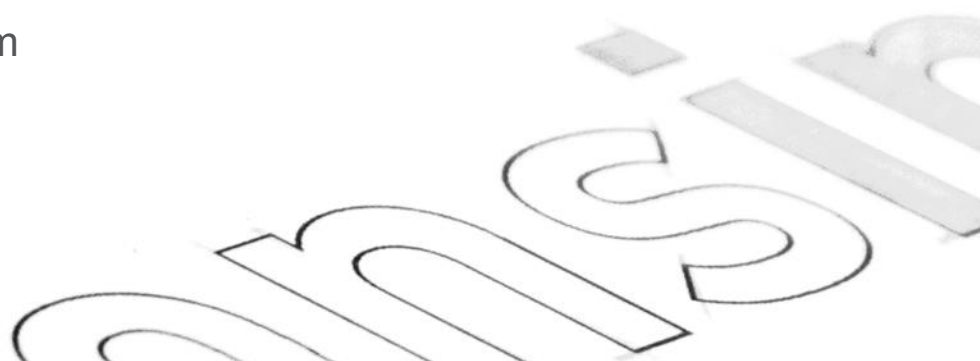
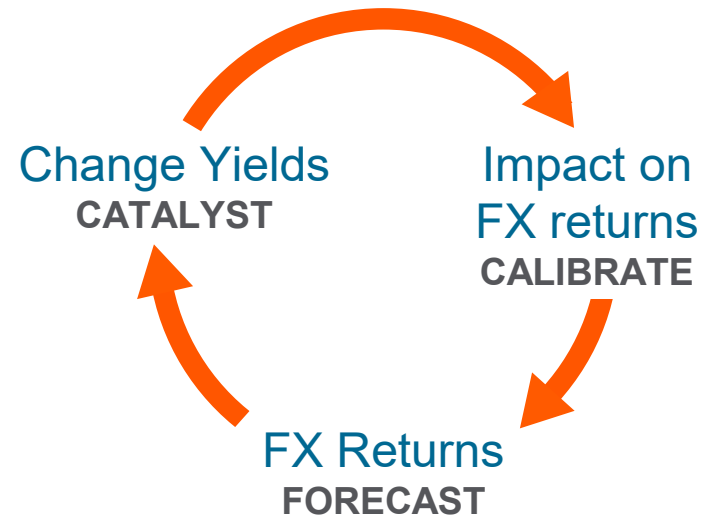
Widely understood amongst professional market participants



Accessed aggregated data from custodian bank and NGOs on fixed income flows to confirm

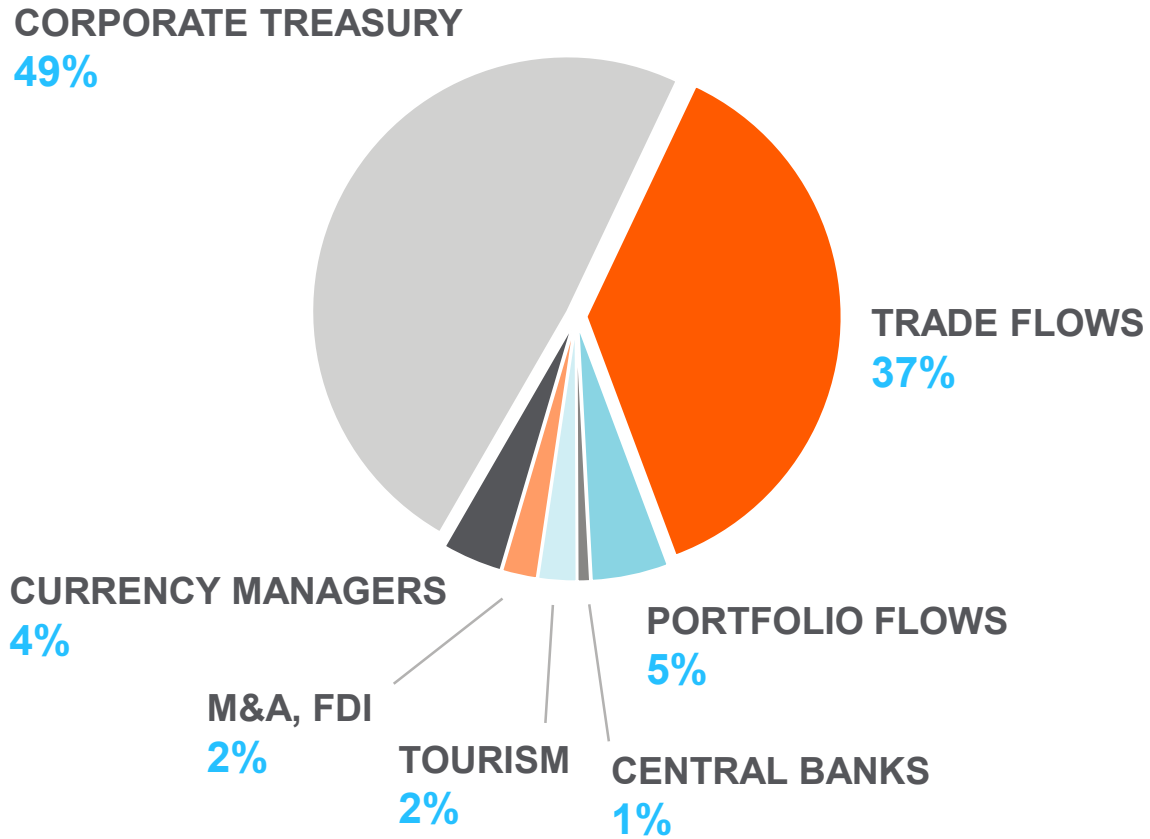
How We Use It

Catalysts, calibration, impact on return



WORLD CURRENCY TRADE

WHO TRADES CURRENCIES AND WHY?



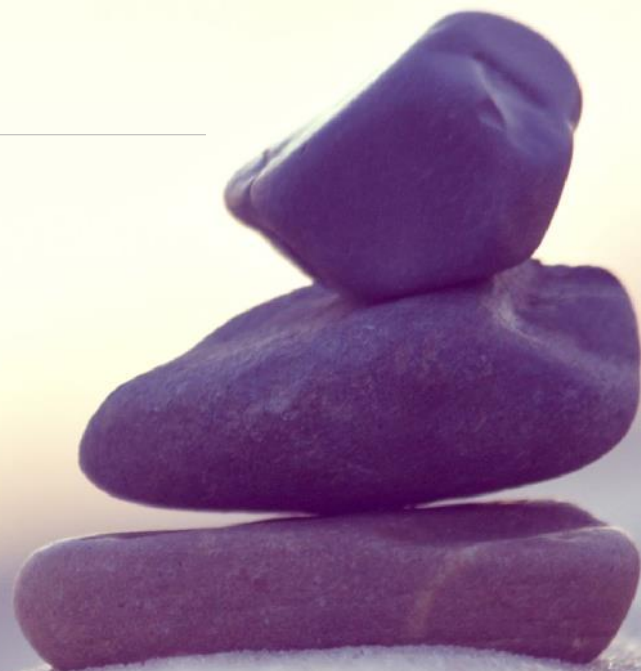
Sources: BIS, IMF, US Federal Reserve, World Tourism Organization, Datastream, First Quadrant, L.P.

Updated as of December 2019

MARKET PARTICIPANTS

Dominantly determine market state

Their rational needs and preferences drive market returns



BIOGRAPHY

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Dori Levanoni is a senior member of First Quadrant's Investments team. In his more than two decades with First Quadrant, Dori has been involved in nearly every aspect of the firm's investment process, contributing to research, risk measurement, risk allocation, portfolio optimization, trading, and portfolio management. Dori has played an integral role as portfolio manager for a number of strategies across the firm's global macro and global equity platforms, and has also contributed his insights to various research projects, journals, publications and speaking engagements. Dori began his career at First Quadrant in 1991, spending a brief period in the mid-1990s researching in the Department of Anatomy and Neurobiology at Washington University in St. Louis, before returning to the firm for the remainder of his tenure.



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