



## Stouff Capital

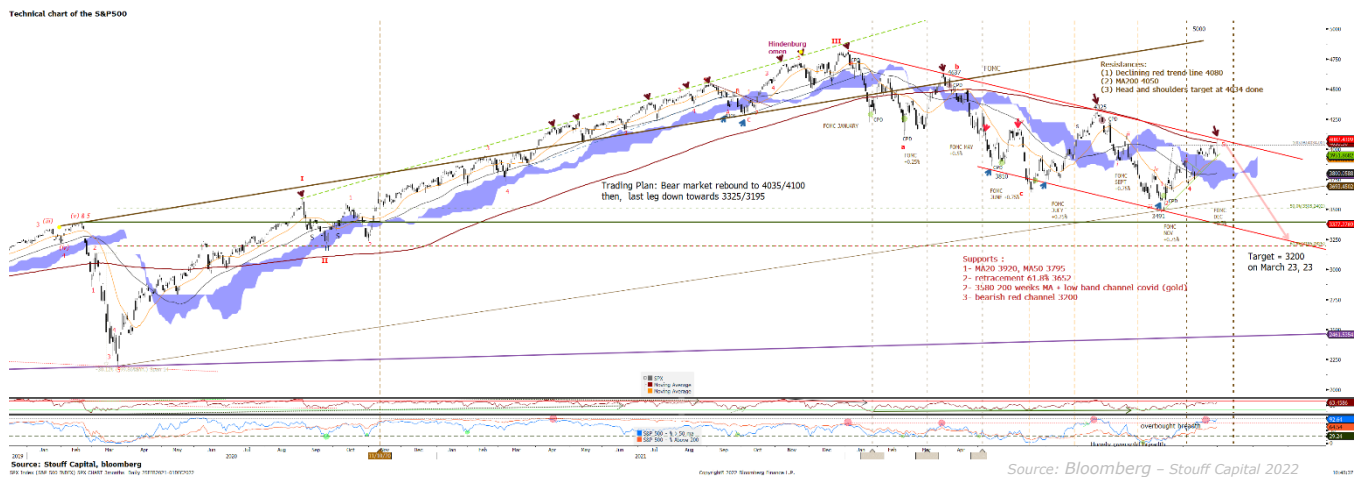
### Caimans, Alligators, Crocodiles

Stouff Capital | 8 Quai Gustave-Ador | CH-1207 Geneva | Tel: +41 22 752 22 44 | 30 November 2022

In this letter, we want to look further into the many divergences that are puzzling to us. Between the different asset classes, sectors, pairs of stocks, region etc. We identified a list of spreads that we classified into 3 categories: the short-term and small opportunities which we will qualify as caiman spreads, the medium run or cyclical spreads which we will call the Alligator spreads, and the secular big ones, on which the play could last for a very long period: the Crocodile spreads.

### Scenario 2022-23\*

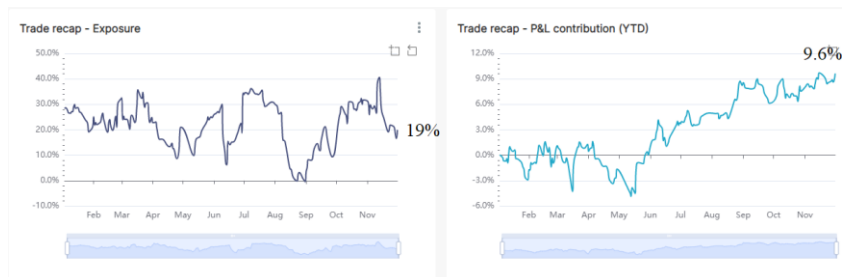
#### S&P 500 (SPX index)



### Views: Reduce net Long Equities with more hedges and switch to a market neutral stance with spread trades

Our matrix stays bullish for Global Equities for the short run, but the medium run is bearish. As global equities have reached our bear market rally targets, we aim at reducing our net exposure from +35% to null. For the coming weeks, we prefer to articulate some new trades in spreads, uncorrelated from the rise of equities.

### Net exposure (left) and Performance in 2022<sup>1</sup>



<sup>1</sup>Source: Bloomberg - Stouff Capital - [click here for the link to the trades](#)

those two charts show the net exposure of all our trading alerts and the resulting year to date performance

## Market Views

Recap	1
Cayman spreads	2
Alligator spreads	5
Crocodile spreads	8
Trades recap	10
Sectors Matrix	11
Regional Matrix	12
Footnotes	14
Disclaimer	15

In this letter, we want to look further into the many divergences that are puzzling to us. Between the different asset classes, sectors, pairs of stocks, region etc. We identified a list of spreads that we classified into 3 categories:

- the short-term and small opportunities which we will qualify as cayman spreads;
- the medium run or cyclical spreads which we will call the Alligator spreads;
- the secular big ones, on which the play could last for a very long period: the Crocodile spreads.

The pair trade or pair trading is a market neutral trading strategy enabling traders to take virtually advantage of any market conditions: uptrend, downtrend, or sideways movement. This strategy is categorized as a statistical arbitrage and as a convergence trading strategy.

This strategy monitors the performance of two historically correlated securities. When the correlation between the two securities temporarily weakens, i.e. one asset moves up while the other moves down, the pairs trade would be to short the outperforming asset and to go long the underperforming one, betting that the "spread" between the two would eventually converge. The divergence within a pair can be caused by temporary supply/demand changes, large buy/sell orders for one security, reaction to important news about one of the assets, and so on.

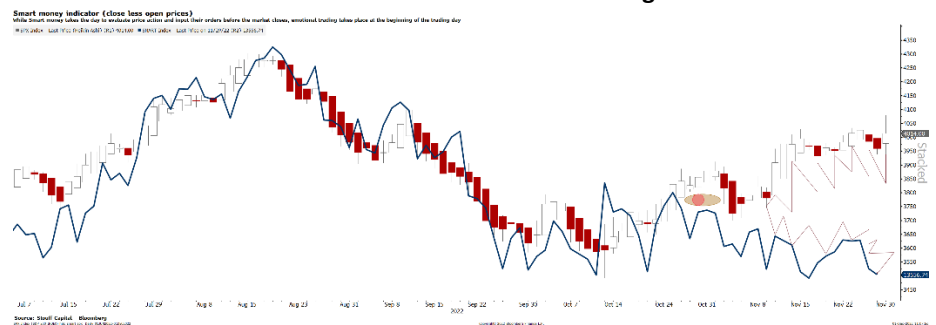
### Caiman Spreads

Let's start with the short-term and small cayman spreads. First, 2 minor spreads show a possible forthcoming correction on the S&P 500. The first one is the difference between the S&P 500 and the Smart Money Flow Index (the SMFI is calculated by subtracting the first 30 minutes of trading on the Dow). *These first 30 minutes are believed to illustrate "emotional buying", driven by the investor's greed and fear based on good or bad news.* However, the Smart money investor will wait and often test the market before by heavily shorting it in order to observe its reaction. When the Dow reaches a high which is not confirmed by the SMFI, there's trouble ahead on the medium run. Time to sell the S&P500?



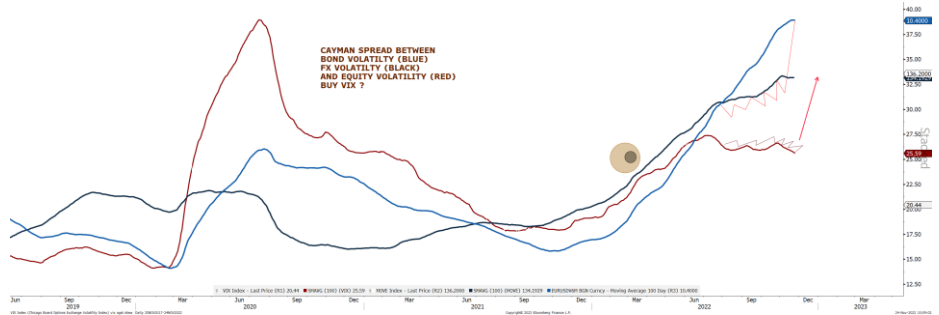
**SELL S&P500**

**Chart 1 - S&P500 rises while Smart Index falls and new highs decrease**



This divergence is confirmed by the Volatility market. Indeed, Bonds and Forex volatilities continue their stratospheric rises, while the VIX dropped to 20, near the lowest levels of the year!

**Chart 2 – Bond Volatility (blue), Forex volatility (black) and the VIX (red)**



**BUY VIX**

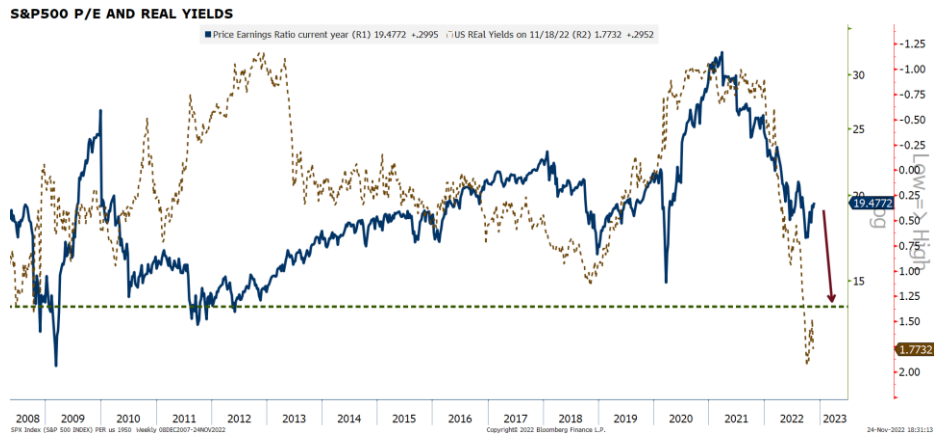
In the past, this divergence has marked tactical peaks in equities. Indeed, this other caiman spread is a short-term warning signal for the S&P500 going forward. Chart 3 shows the implicit price of the S&P500 from the VIX which is 4367. It means either the S&P500 must rise to that level or the VIX rises to 28. Unfortunately, this year, every time the VIX was that cheap versus the level of the S&P500, the uncle SAM index fell afterwards.

**Chart 3 – S&P500 (candles), Inversed VIX (blue)**



Looking at valuations versus real yields, there is a net caiman spread between higher real yields and Price to Earnings ratio that should be more around 13-15 based on past data. High real yields require lower P/E.

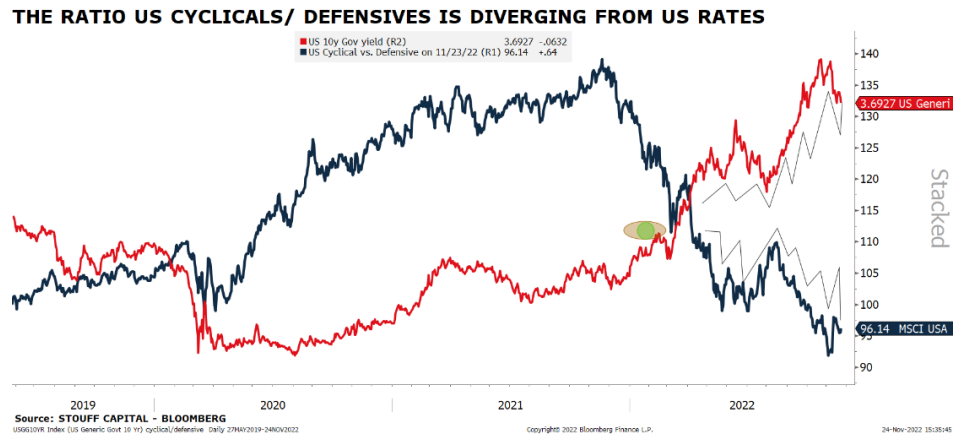
**Chart 4 – S&P500 P/E (blue), Real 1-YR yields (golden)**



There are a few caiman spreads between cyclicals and defensives. It is surprisingly not the same divergence between the European and the US ratio. First, the ratio of US cyclicals versus US defensives (blue) has collapsed in 2022, while interest rates (red) have risen. This is an anomaly in the context of a long-term time frame (left hand chart) since 2006.

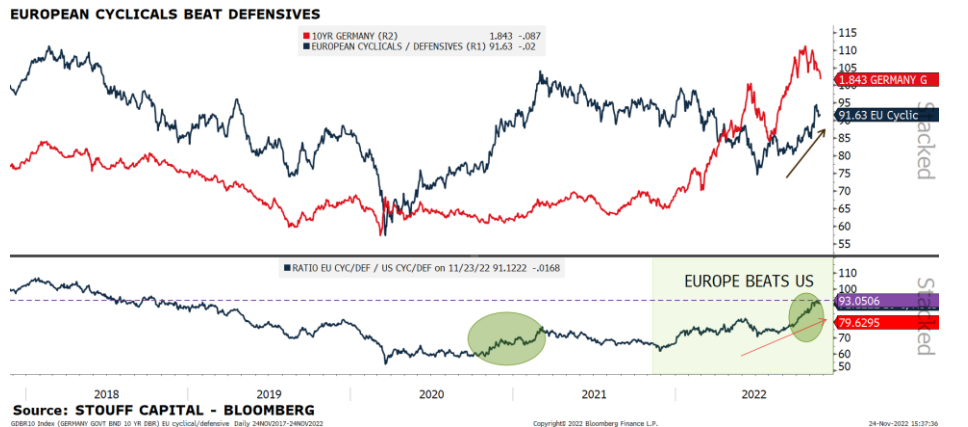
**Chart 5 – The ratio US Cyclicals versus Defensives falls while US 10YR increases**

BUY US Cyclicals



In Europe, the relationship is more logical with Cyclicals rising versus Defensives (see chart below), in line with higher rates. The ratio of ratios of European versus US Cyclicals/Defensives (bottom chart of the left chart) is back to 5 year high.

**Chart 6 - European Cyclicals beat Defensives while German 10YR decreases**



Then, there are a few caiman spreads within sectors, that we find it difficult to justify. For energy, we see a discrepancy between falling crude oil and rising energy stocks (whose relative earnings momentum does not justify anymore): time to take some money off the energy stocks complex?

**Chart 7 - US Energy stocks diverge from falling crude oil (red)**

SELL XLE

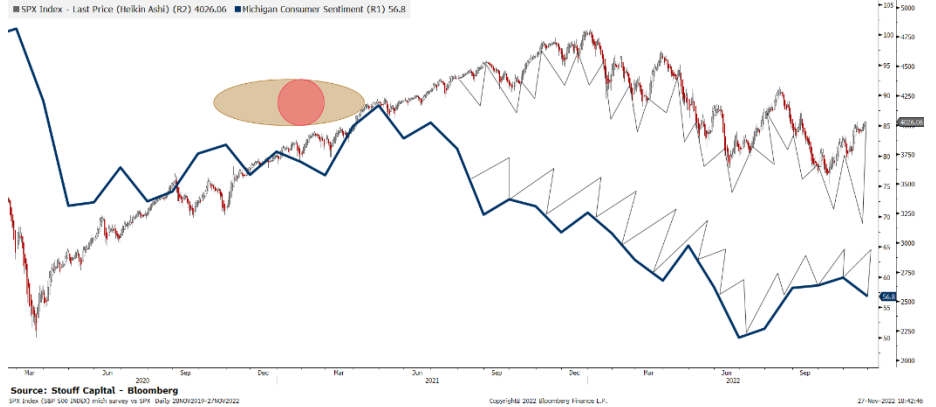




## Alligator spreads

Let's now see the Alligator gaps that underline, we believe, the next biggest opportunities on the financial markets. First, based on economic data, there is a divergence between the collapsing Economic sentiment such as the University of Michigan Consumer Sentiment and the S&P500.

**Sentiment is much more depressed than the S&P500**

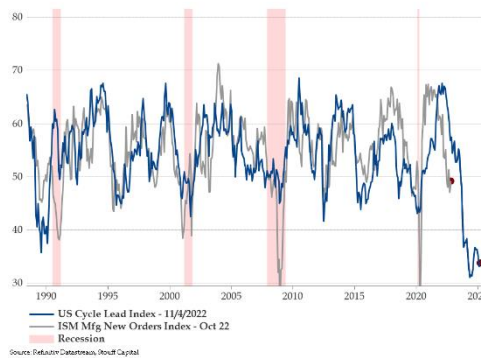


**Chart 8 - University of Michigan Sentiment justifies a lower S&P500**

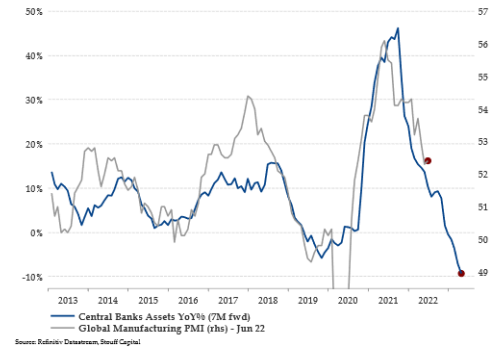
Recession is coming

This is unfortunately confirmed by chart 8 with our **US cycle Lead Index** falling to lows not seen since 1990. This index has statistically preceded economic data such as the ISM Manufacturing many months in advance. Then, the year-on-year change in Central Banks assets tells us that a US recession is coming in a few months:

**Chart 9 - US Cycle Lead Index precedes the ISM Manufacturing New orders**

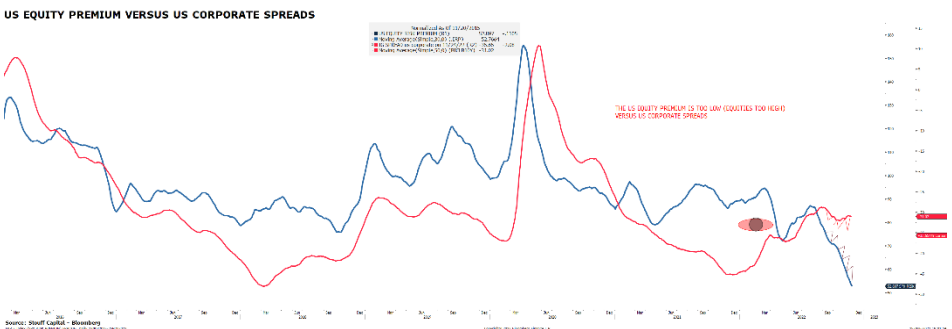


**Chart 10 - Central Banks assets YoY% fwd versus Global Manufacturing PMI**



Another Alligator spread between the US equity premium (10 YR yields minus earnings yield) and the corporate spreads warns that equities are relatively too expensive versus bonds.

**Chart 11 - US Equity premium versus Corporate Spreads**



Sell the Dollar

The difference between German and US 5 Year Interest Rates suggest that the Euro should rise to 1.10 versus the Dollar.

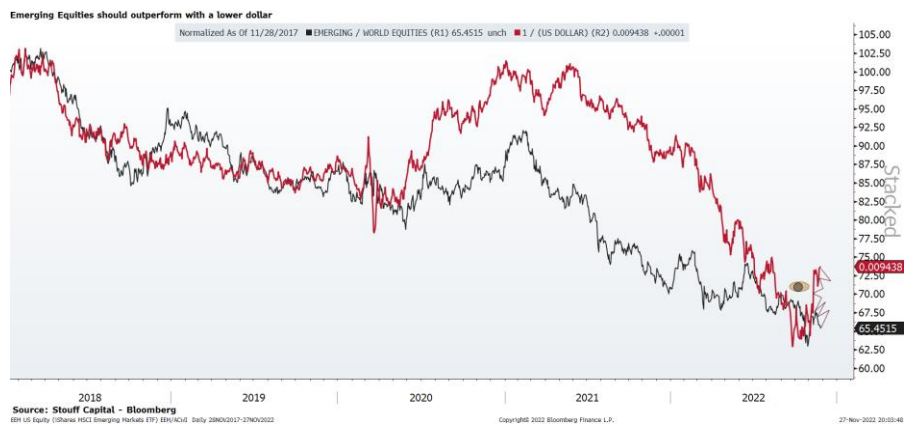
Chart 12 – EURUSD versus the 5 Years interest rates differential



Buy EEM

The good news from a lower dollar is a coming outperformance of Emerging equities. Emerging equities have massively derated since the start of 2021 in line with a higher dollar. The recent reversal of the dollar has not yet been followed by an outperformance of EEM versus the MSCI World:

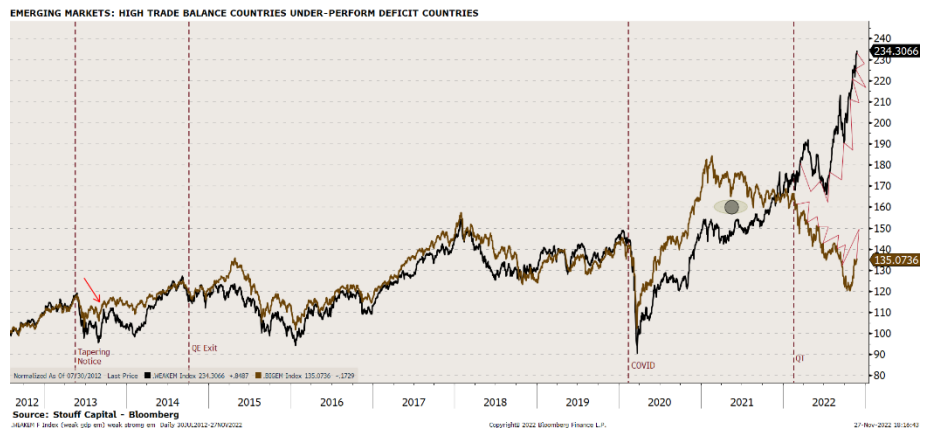
Chart 13 – EURUSD in red versus the relative return of EEM versus the MSCI World



Buy China

This outperformance should favor countries with positive trade balance versus the ones with the weakest trade deficits. The chart below shows that the spread between both has become too extreme:

Chart 14 – Emerging markets: a story of two tales



**Chart 15 – Gold (blue) versus Gold Miners (GDX US in candle)**

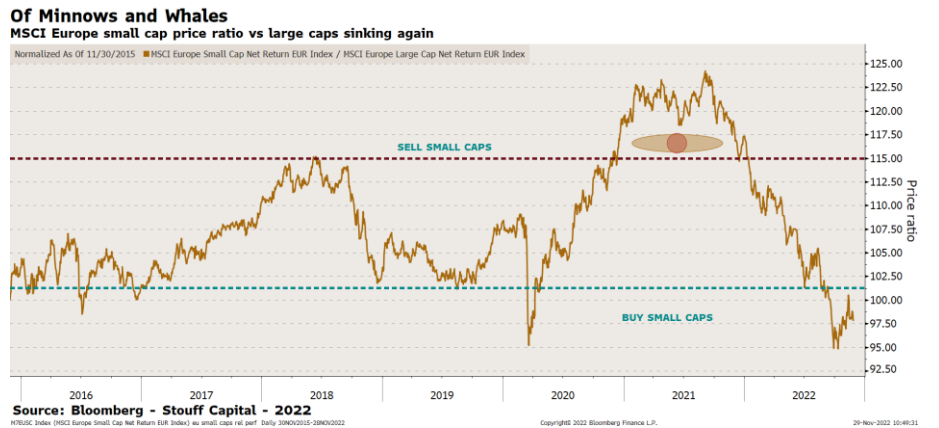
Buy Gold Miners



Gold miners are lagging gold. That being said, we have been seeing these divergences in the past when the gold miners have barely budged. If the lower jaw does not close the gap, bone-crushing the investor, the correction could come in the form of another caiman spread with the upper jaw closing down on the investor.

**Chart 16 – Ratio of European small caps to big caps**

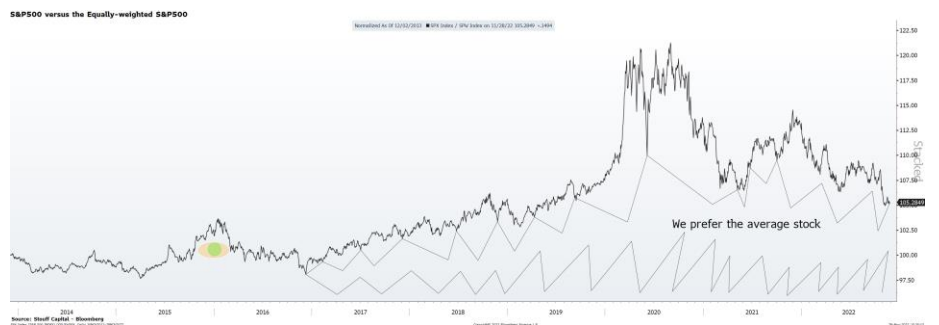
Buy European small caps/ sell the Eurostoxx50



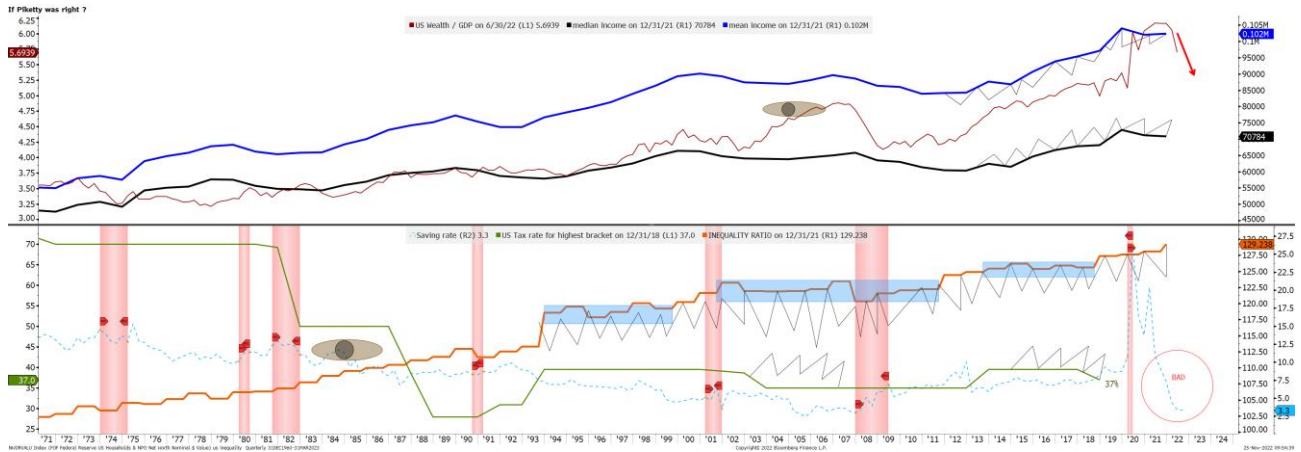
European stock performance has been more macro than micro in 2022 and this is shown in the above chart. The relative performance of Eurozone Small versus Large caps is down at the lowest levels in nearly 7 years, as macro uncertainty has favoured the most liquid stocks. In US, we like the average stock over the top of the market. The alligator spread between the S&P500 and its equally weighted version:

Buy SPW / sell SPX

**Chart 17 – Ratio of S&P500 to Equal-weight S&P500**



Last but not least, Crocodile Spread are the secular spreads, that took decades to be built

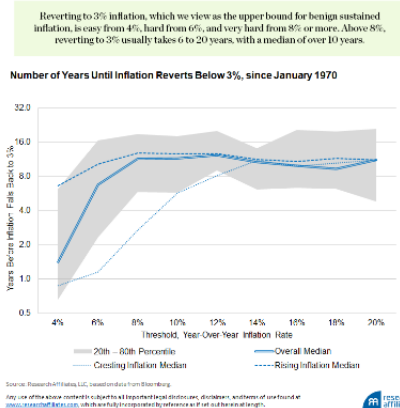


The above Crocodile spread has been built for the last 40 years. It represents the **increase in the U.S. inequality**, whose last decade's acceleration has been orchestrated by ultra-loose monetary policies. On the top chart, the black line corresponds to the U.S. Household Median Income and the blue line to the mean. The difference between the two is explained by the fact that ultra-high net worth individuals are tilting by 30,000 USD the median to the mean. At the same time, the U.S. wealth normalized by the GDP (this ratio in red in the top chart aims to show the amplitude of which the US wealth diverge from the real economy) reached an all-time high in March before reversing like in 2008. On the lower panel of the above chart, there is another Crocodile spread between the inequality ratio (gold line) and the US Tax rate for the highest bracket (green line). Notice also how the saving rate has collapsed owing inflation.

We believe the orchestrated winter of liquidity tightening from Central Banks, in response to the resurgence of inflation, should close down the upper jaw of the crocodile jaws, bone-crushing investors and by ricochet the inequality ratio. With a Fed on a furious tightening pace finally refraining governments to increase their already massive level of debt through fiscal stimuli, our 2023 scenario of S&P500 is bearish. There is a long way to go to return to normality, as investors have a get used for 4 decades of a disinflationary and so profitable environment. But, as the above charts show, cracks are emerging. A scenario of the inequality bubble imploding coupled with a shift from monetary tightening towards economic recession would be very still negative for risky assets and justify our opinion that equity markets are in a longer period of sub-returns.

What changed everything is the return of structural inflation! Investors are praying for a Fed pivot. We think these myopic/misguided Wall Street bulls are once again setting themselves up for failure. Wall Street got all excited because the most recent CPI print was lower than expected. Consensus agrees that inflation is coming down from the peak of 9% and heading toward 7%,

Based on the linked research, inflation will remain stubbornly high, and the Fed will be forced to remain hawkish. A regime shift is underway. Is it possible that inflation will recede to 4% and then to 2% in the coming year or two? History says it is unlikely. Our fiscal and monetary policies have done far more harm than good in recent years. We are fools if we allow our hopes for a rapid dissipation of



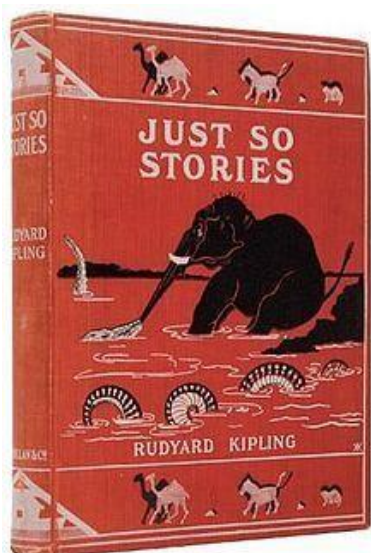


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inflation to become our central expectation.

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### Prologue



In Rudyard Kipling's marvelous novels "Just So Stories", one can read the story of "The Elephant's child". In that story, *at first, the elephants had only a blackish, bulgy nose, as big as a boot, that he could wriggle about from side to side; but he couldn't pick up things with it. But there was one Elephant--a new Elephant--an Elephant's Child--who was full of 'satiabie curiosity, and that means he asked ever so many questions. One fine morning in the middle of the Precession of the Equinoxes this 'satiabie Elephant's Child asked a new fine question that he had never asked before. He asked, 'What does the Crocodile have for dinner?' Then everybody said, 'Hush!' in a loud and dretful tone, and they spanked him immediately and directly, without stopping, for a long time. By and by, when that was finished, he came upon Kolokolo Bird sitting in the middle of a wait-a-bit thornbush, and he said, 'My father has spanked me, and my mother has spanked me; all my aunts and uncles have spanked me for my 'satiabie curiosity; and still, I want to know what the Crocodile has for dinner!'*

*Then Kolokolo Bird said, with a mournful cry, 'Go to the banks of the great grey-green, greasy Limpopo River, all set about with fever-trees, and find out.'*

*That very next morning, when there was nothing left of the Equinoxes, because the Precession had preceded according to precedent, this 'satiabie Elephant's Child took a hundred pounds of bananas (the little short red kind), and a hundred pounds of sugar-cane (the long purple kind), and seventeen melons (the greeny-crackly kind), and said to all his dear families, 'Goodbye. I am going to the great grey-green, greasy Limpopo River, all set about with fever-trees, to find out what the Crocodile has for dinner.' And they all spanked him once more for luck, though he asked them most politely to stop.*

*Now you must know and understand that till that very week, and day, and hour, and minute, this 'satiabie Elephant's Child had never seen a Crocodile, and did not know what one was like (This is just like investors who do not know that their over-owned exposure is in fact ready to be ravaged by the crocodile).*

*Till he trod on what he thought was a log of wood at the very edge of the great grey-green, greasy Limpopo River, all set about with fever-trees.*

*But it was really the Crocodile and the Crocodile winked one eye--like this!*



*'Scuse me,' said the Elephant's Child most politely, 'but do you happen to have seen a Crocodile in these promiscuous parts?' Then the Crocodile winked the other eye and lifted half his tail out of the mud; and the Elephant's Child stepped back most politely, because he did not wish to be spanked again. 'Come hither, Little One,' said the Crocodile. 'Why do you ask such things?'"'Scuse me,' said the Elephant's Child most politely, 'but my father has spanked me, my mother has spanked me, not to mention my tall aunt, the Ostrich, and ... so, if it's quite all the same to you, I don't want to be spanked anymore.'" 'Come hither, Little One,' said the Crocodile, 'for I am the Crocodile,' and he wept crocodile-tears to show it was quite true. Then the Elephant's Child grew all breathless, and panted, and kneeled down on the bank and said, 'You are the very person I have been looking for all these long days. Will you please tell me what you have for dinner?' 'Come hither, Little One,' said the Crocodile, 'and I'll whisper.' Then the Elephant's Child put his head down close to the Crocodile's musky, tusky mouth, **and the Crocodile caught him by his little nose, which up to that very week, day, hour, and minute, had been no bigger than a boot, though much more useful.** 'I think,' said the Crocodile--and he said it between his teeth, like this--'I think to-day I will begin with Elephant's Child!'*

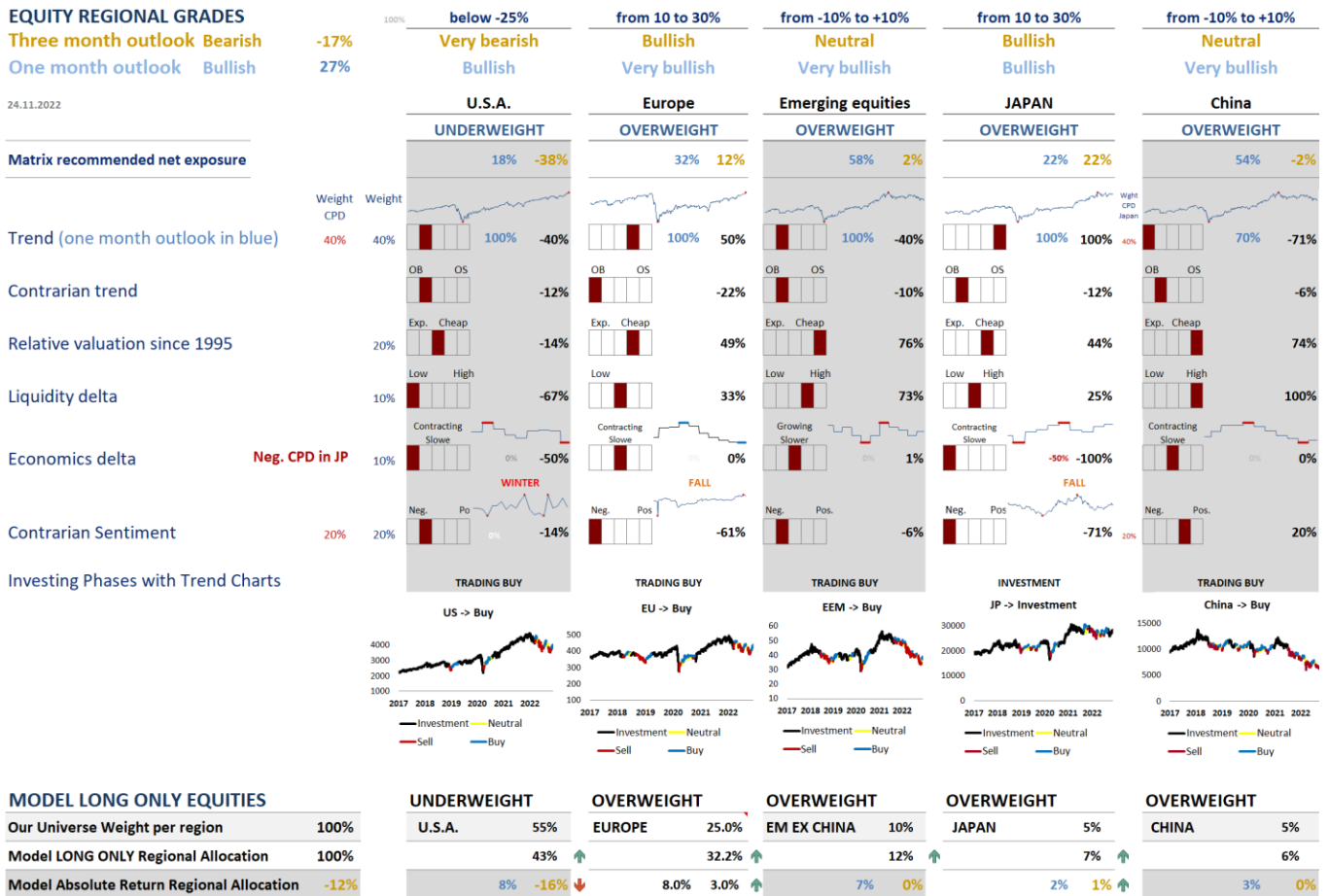




Stouff Capital has intrinsically a strategy of buying out the money options, that we dumbbed convexity, to hedge against rare events and sometimes benefit from them. Those asymmetrical strategies act as the Bi-Colored-Python-Rock-Snake, who saved the Elephant's Child by advising him to pull as hard as he possibly can, in order to escape from the crocodile and *"knotted himself in a double-clove-hitch round the Elephant's Child's hind legs"*. What we would also like to do is to avoid that your elephant nose becomes badly out of shape like the little Elephant's Child (you understand now why elephants have trunks instead of noses). Beware of the caiman, alligators, and other crocodile spreads by checking *whether* your main exposures do not belong to these big lizards' dinners.

## ANNEX 1: EQUITY REGIONAL GRADES, GLOBAL EQUITIES MATRIX 01.03.21

On the below table – our regional matrix is bullish for the short run, but bearish for the medium run. USA is Underweight, owing to negative liquidity & Economics grades. Europe is still overweight and bullish, but any reversal would trigger a bearish Change Point of Detection.



This matrix ranks from -100% to +100% the 4 regions (US, Europe, EM and Japan) with respect to 5 factors (Trend/Valuation/Liquidity/Economics/Sentiment). It suggests which region to overweight or underweight for a long only or a trader.

Source: Bloomberg – Stouff Capital 2022

## ANNEX 2: SECTOR MATRIX

In US, on the below table – OW sectors are Energy, Materials/ Industrials, Healthcare. Discretionary, Communication, and Utilities are UW. In Europe, OW sectors are Energy, Technology and Industrials. UW all interest rates sensitive sectors such as Communication, and Utilities. Financials are not far from OW.

### US SECTOR MATRIX

23.11.2022		XLF	XLE	XLV	XRT	XLI	XLP	XLB	XLC	XLU	XLK	XLRE	
Sector Grade (from -100% to 100%)		12%	39%	39%	-63%	37%	12%	17%	-26%	-39%	-24%	-3%	
Period change		↑	↑	↑	↓	↑	↑	↑	↓	↓	↓	↑	
S&P 500 Sector ranking		6	1	2	11	3	5	4	9	10	8	7	
		Financials	Energy	Health Care	Discretionary	Industrials	Staples	Materials	Communication	Utilities	Technology	Real Estate	
S&P 500 Weight per sector		12%	5%	15%	10%	9%	7%	3%	7%	3%	26%	3%	
Trend		50%	100%	100%	-100%	100%	50%	50%	-70%	-70%	-40%	-70%	
Contrarian trend		-16%	-11%	-16%	2%	-19%	-20%	-19%	-3%	-10%	-9%	-10%	
Relative valuation since 1995		9%	92%	19%	-71%	-63%	-66%	63%	83%	-91%	-20%	96%	
Earning momentum		-6%	94%	39%	-56%	11%	28%	-72%	-50%	67%	17%	39%	
Short-term intra sector perf		75%	25%	33%	0%	92%	58%	100%	8%	50%	17%	83%	
Factors		-33%	-100%	11%	-11%	55%	100%	0%	33%	0%	0%	33%	
Contrarian Sentiment		-36%	-44%	-41%	-1%	-48%	-57%	-27%	-23%	-42%	-34%	-8%	
Weight (OW, Neutral, UW)		N	OW	OW	UW	OW	N	N	UW	UW	N	N	
Catalyst (green: bullish; red:bearish)		(+) Deregulation, better Bal. Sheet	Oil up	(+) Secular tailwinds with Grey economy	(+) Opening economy	increased fed spending - Biden infrastructure plan	Higher raw material prices, opening economy	Bull commodities cycle	(-) FANG unfavored with opening economy	Energy rel. Utilities	(+) Innovation cycle (AI, cloud)	cloud industry warehouse REIT space,	
		(+) widening credit, funding squeeze		(-) Biden pricing war	(-) inflation				(-) political headwinds FANG	(-) higher rates	(-) GDPR, regulation, high PE, higher rates	(-) higher mortgage rates	
Sentiment details													
12month etf flows		6323	-6559	1077	8386	-2059	-2689	4524	-2405	-193	3400	1865	976
3month etf flows (3m=72,20d=26)		1349	-1530	792	822	-351	508	1070	-607	43	-70	253	420
20d etf flows (too high is negative)		2/3	-44%	-16%	-65%	-6%	-73%	-81%	-28%	-34%	-45%	-64%	3%
smart sentiment		1/3	-19%	-100%	6%	10%	0%	-10%	-24%	0%	-36%	27%	-31%
CHG_PCT_1m			11.34	7.24	7.32	12.88	13.35	10.20	13.50	-0.60	10.17	7.13	11.08
Rank 1 month return		4	9	8	3	2	6	1	11	7	10	5	

### EU SECTOR MATRIX

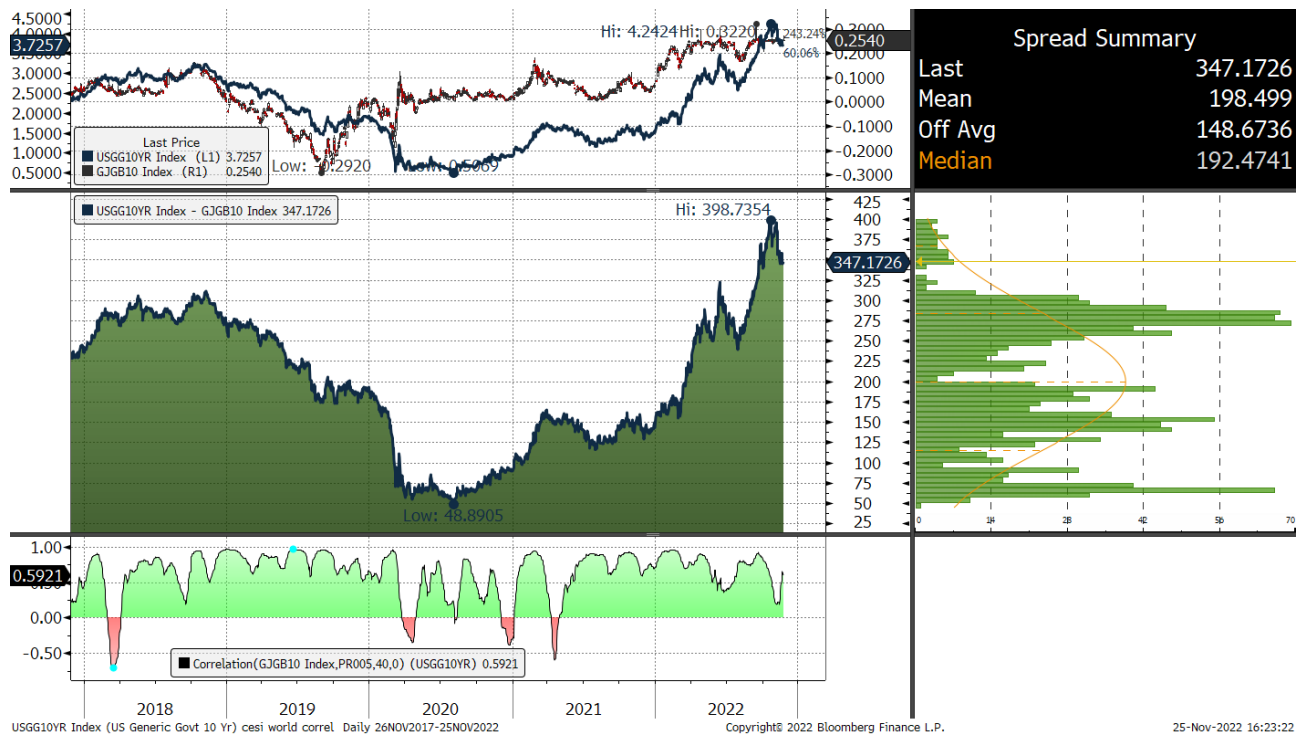
Source: Bloomberg – Stouff Capital – 2022

23.11.2022		SX7PEX	SXEPEX	SXDPEX	SXAPEX	SXNPEX	SX3PEX	SXPPEX	SXKPEX	SX6PEX	SX8PEX	SREEEX	
Sector grade (-100 to 100%)		21%	33%	-20%	10%	34%	-6%	27%	-50%	-9%	36%	-19%	
Period change		↑	↓	↑	↑	↑	↑	↑	↑	↑	↑	↑	
Europe Sector ranking		5	3	10	6	2	7	4	11	8	1	9	
		Financials	Energy	Health Care	Discretionary	Industrials	Staples	Materials	Communication	Utilities	Technology	Real Estate	
Stoxx 600 Weight per sector		14%	4%	14%	15%	15%	11%	9%	4%	5%	8%	2.0%	
Trend		55%	100%	-40%	27%	100%	-30%	57%	-70%	-40%	50%	-70%	
Contrarian trend		0%	-8%	-10%	0%	-18%	0%	0%	-5%	-21%	-18%	-6%	
Relative valuation since 1995		5%	94%	-14%	25%	-8%	-4%	53%	-36%	-16%	29%	97%	
Earning momentum		-46%	26%	-4%	53%	-7%	23%	-16%	-61%	70%	-72%	-22%	
Short-term intra sector perf		15%	-45%	-100%	-25%	22%	-50%	5%	-78%	78%	89%	44%	
Factors		26%	-100%	67%	-67%	-10%	67%	-33%	-70%	15%	100%	-70%	
Sentiment		-7%	-37%	40%	-7%	9%	21%	5%	43%	7%	49%	14%	
Weight (OW, Neutral, UW)		N	OW	UW	N	OW	N	N	UW	N	OW	UW	
Catalyst (green: bullish; red:bearish)		(+) Bal. Sheet, Yield curve	(+) Oil highs	(+) Secular tailwinds with Grey economy	R. opening fading ? Higher raw materials	EU Recovery fund	COVID19 impact fading / Higher raw materials	(+) EU go green Recovery plan	weak pricing and increased capex	(+) EU go green Recovery plan	Innovation cycle	Covid19 variant delta	
		(-) recession, default loans	(+) structural lack of Supply										
Sentiment details													
3month etf flows		-621	247	-331	-76	-33	-79	-100	-98	-64	-31	-43	-14
etf flows		2/3	-3%	-22%	58%	5%	26%	34%	19%	48%	5%	92%	48%
smart sentiment		1/3	-14%	-66%	4%	-32%	-24%	-6%	-24%	33%	11%	-37%	-52%
CHG_PCT_1m			8.60	9.15	5.68	7.56	10.24	6.38	10.28	6.89	14.86	15.86	12.92
Rank 1 month return		7	6	11	8	5	10	4	9	2	1	3	

Source: Bloomberg – Stouff Capital – 2022



### Annex 3: spread short JGBs / long Treasuries.

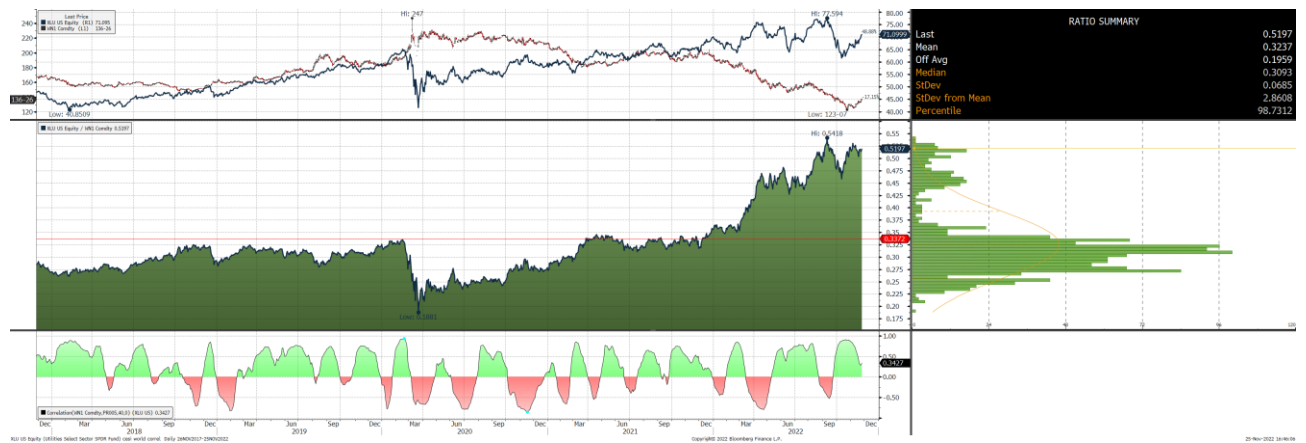


the spread between the US and Japanese 10-year is back/near to its highest at almost 350bps. The 0-0.25% peg on JGBs is holding although it is now at 0.25%. As we approach 0.25%, the Yen is pushing through 140 to the \$ and will depreciate much further if the BOJ has to intervene again to keep JGBs below 0.25%. It is hard to see how being short JGBs / long Treasuries can lose money long-term. Letting the Yen depreciate will undoubtedly increase inflationary pressures in Japan, putting more pressure on JGBs which will in turn force the BOJ to buy more bonds which will depreciate the Yen further in an untenable infernal feedback loop.

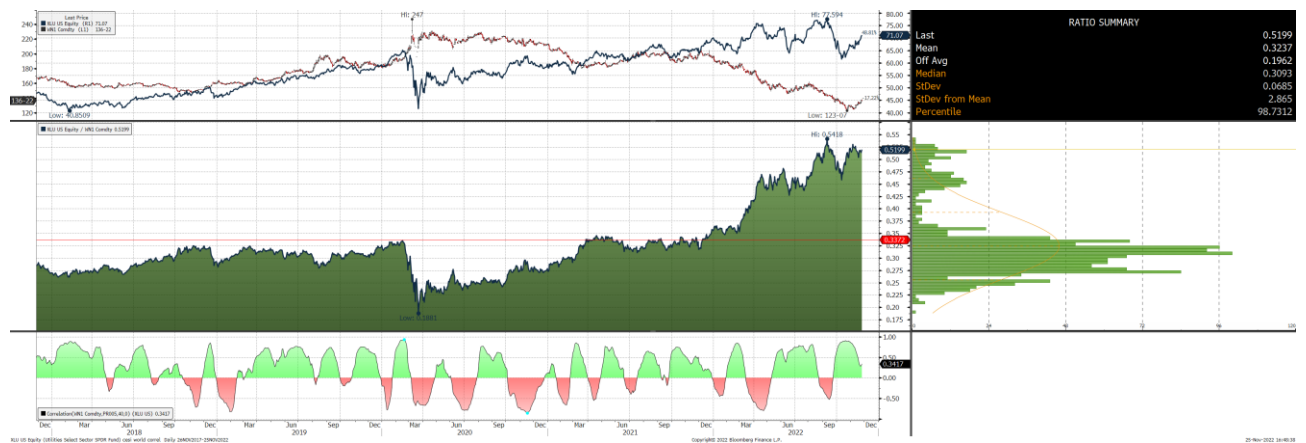
### Annex 4: Relative performance of US financials versus US 10YR interest rates



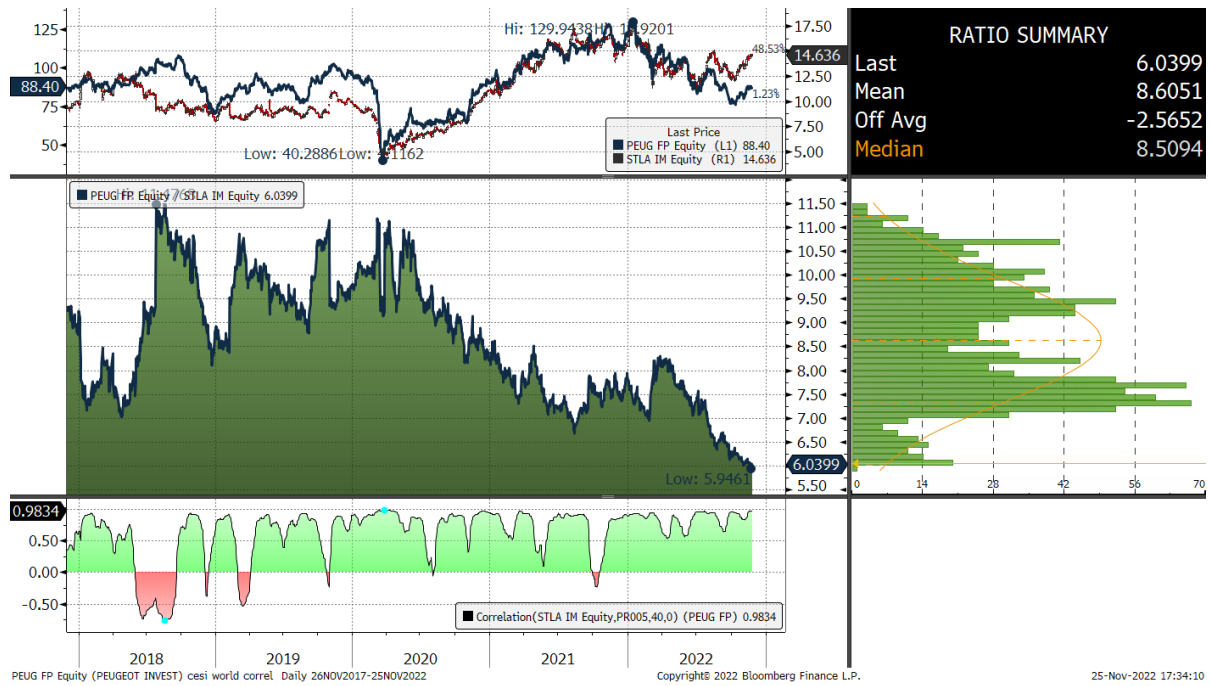
Annex 5: relative performance of US Utilities relative to the S&P500 versus US 20-year interest rates. The stratospheric rise of rates is not aligned with lower prices for Utilities and real estate stocks



Annex 6: relative performance of US Real estate relative to the S&P500 versus US 20-year interest rates. The stratospheric rise of rates is not aligned with lower prices for Utilities and real estate stocks



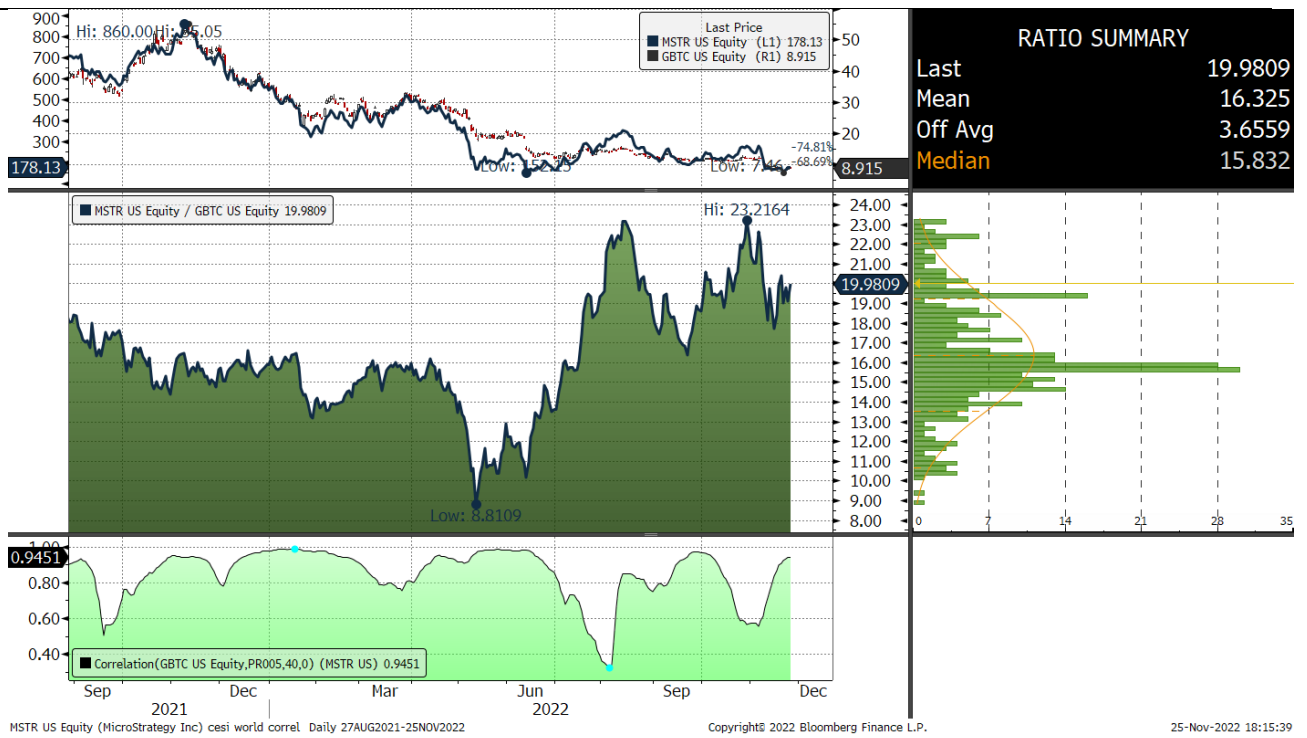
## Annex 7: single stocks arbitrage – (1) Peugeot versus Stellantis



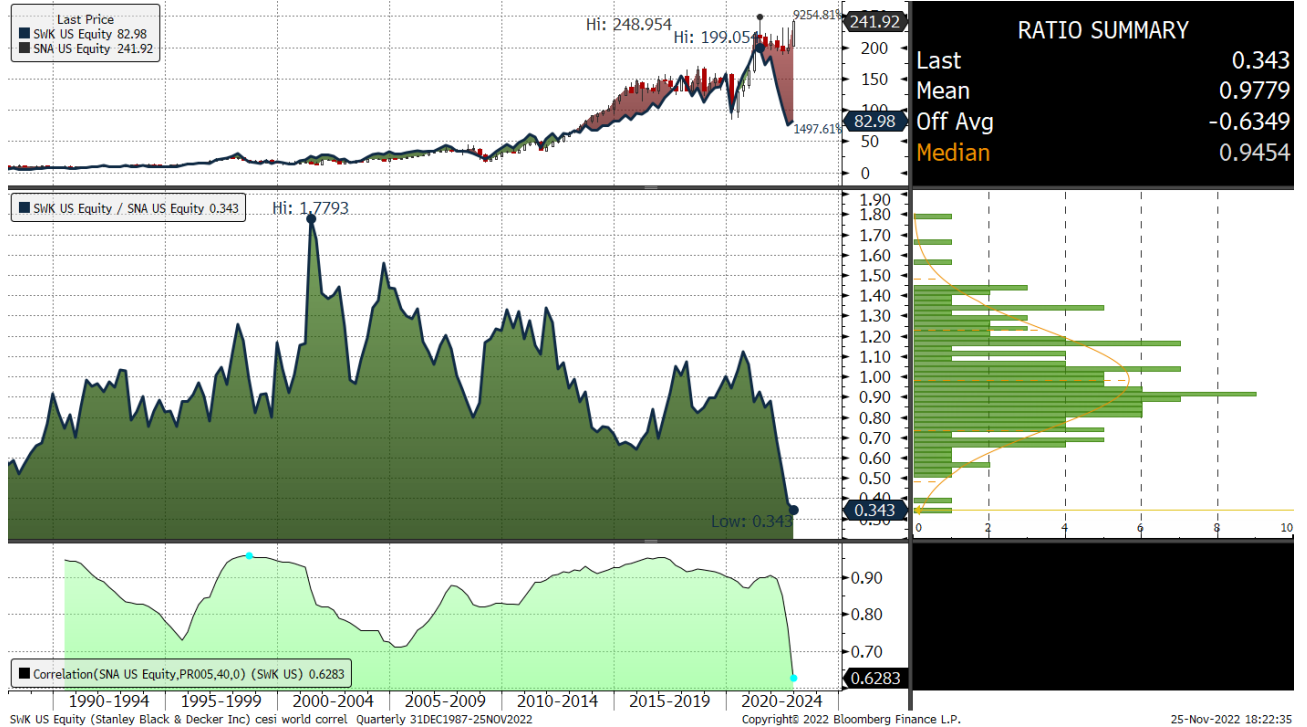
## Annex 8: US mortgage rate bearish for equities



## Annex 9: single stocks arbitrage – (2) MicroStrategy versus Grayscale Bitcoin Trust



## Annex 10: single stocks arbitrage – (3) Stanley Black and Decker versus Snap-on





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#### The Equity quantitative grades

**EPS Growth Grade:** The EPS Growth Grade is a proprietary formula made up of earnings revisions momentum, past earnings growth, earnings stability, and current and long-term earnings growth. A grade above 55 is considered bullish on a 3-month basis, bearish below 45 and neutral between 55 and 45.

**Sales Grade:** The Sales Grade is a proprietary formula made up of current and next year's sales momentum, past sales growth, sales stability, and current and long-term sales growth. A grade above 55 is considered bullish on a 3-month basis, bearish below 45, and neutral between 55 and 45.

**Relative Value Grade:** The Relative Value Grade is a proprietary formula made up of estimated P/E, P/B, P/S and P/CF ratios. 40% of the grade is based on historical values and 60% on current market data. A grade above 55 suggests a stock is cheap, below 45 expensive, and neutral between 55 and 45.

**Quality Grade:** The quality rating is a proprietary formula that focuses on the balance sheet (i.e. change in accruals, change in free cash flows and profitability). A grade above 55 suggests a stock with a good balance sheet.

**Volume Flow Grade:** The Volume Flow Grade is a proprietary formula that gives the accumulation/distribution based on the volume flows of a stock. A grade above 55 indicates good money flow and a grade below 45 suggests weak money flow.

**Global Grade:** The Global Grade is a weighted average of the Growth, Value, Berkshire, Quality and Money Flow Grades.

**Relative Strength (RS) Grade:** The RS grade measures the price momentum of a stock over its 1-year price performance.

**Smart Sentiment Grade:** Sometimes referred to as "Smart Sentiment," the Sentiment Grade ranks the sentiment of the smart money. The first digit of the figure goes to the level of bullishness, and the second digit goes to predictability. For example, a sentiment grade of 97 indicates 90% bullishness and 70% predictability.

#### The Regional MATRIX grades

The Regional Matrix grades range from -100% to +100%. We consider a grade above 30% to be very bullish, a grade above 10% to be bullish, and a grade between -10% and 10% to be neutral. A grade between -10% and -25% we consider bearish and a grade below -25% very bearish. This Regional Grade is a benchmark for the net exposure of the Urizen Fund.

**Regional Grade:** The Regional Grade (-100 to +100) is an indicator of a structural bull market or not. It is calculated by combining and applying weight to each of the other grades that make up the Regional Matrix (Trend, Contrarian Trend, Relative Valuation, Liquidity delta, Economics delta, and Contrarian Sentiment). If we believe equities to be in a structural bull market, we use 15 years of data to assess Valuation.

**Trend Grade:** The Trend Grade (-100% to +100%) is based on a moving averages model adjusted according to the overbought/oversold conditions of the region's main indices.

**Relative Valuation Grade:** The Valuation Grade (-100% to 100%) is based on the percentile rank of the regional Index stocks' P/E ratios since 1995 (current year estimated).

**Economics delta Grade:** The Economics delta Grade (-100% to 100%) is based on a combination of manufacturing and non-manufacturing PMIs and the Citigroup Surprise Indices. The Citigroup Economic Surprise Indices are an objective and quantitative measure of economic news and are defined as weighted historical standard deviations of data surprises (actual releases vs. Bloomberg survey median). A positive reading of the Economic Surprise Index suggests that economic releases have on balance beaten the consensus.

**Contrarian Sentiment Grade:** The Contrarian Sentiment Grade (-100% to 100%) is based on various contrarian and non-contrarian indicators.

#### The SC quantamental portfolios

The SC quantamental portfolios refer to our regional single stocks portfolios which are constructed through a mixed process of algos and fundamental analysis

