Investors need a strategy that can cope with the frequent risk-on/risk-off episodes, which is the new market reality. Competing systematic global macro funds underperform because they used fixed allocation to fundamental and behavioral models. Fundamental models do not work during risk-off and behavioral models get whipsawed when the market changes direction frequently.

The Prognosis Machines solution is to use new technology to discover what themes investors favor as unknowable events (policy errors, crises, disasters) shake the markets. New machine learning and deep learning algorithms choose between macroeconomic and behavioral forecasting models. The strategy then builds the portfolio based on the selected models and new macro data.

The Prognosis Machines trades the most liquid markets in the world: equity, interest rate and commodity futures and currency forwards, around 100 instruments in total.

The fund targets 20 percent volatility and one standard deviation of monthly return is 5.8 percent.

**Monthly Development**

The fund lost -5.32 percent in February (SEK R class). Equities cause the biggest part of the loss.

The strategy uses deep and machine learning to determine whether investors follow the macro and company fundamentals or ignore them. At the end of January the strategy concluded that investors followed the fundamentals in equities whereas they paid less attention to them when trading the dollar versus most major currencies. In bonds the picture was mixed. The strategy was net long equities as macro fundamentals, company fundamentals and price action were all positive for equities. Equities fell sharply in February creating a loss.

In the end of January the fund changed its net dollar position versus the major currencies from long to short. Fundamentals were favoring the dollar versus the majors as the dollar had fallen in comparison to the currencies of the major US trading partners, the US was the country where productivity growth was the strongest and monetary conditions were the tightest. But the weakening of the dollar during January indicated that investors were discounting the fundamentals, possibly because the US administration had been tweeting and talking the dollar down. In this clash between price action and fundamentals, the model declared price action the winner and changed the net dollar position from long to short in the end of January. The dollar ended February 2 percent higher, generating a loss.

When analyzing the major bond markets the strategy took mostly short positions, but for different reasons in each country. In the US and Canada the low term premium, tight monetary conditions and a negative price trend led to short bond positions. In the UK the shape of the yield curve between 1 and 5 years led to a short position. But the historically low expected inflation in the UK reduced the bet size. Because Bunds have been the preferred safe asset for some time now, the slope of the German yield curve is considered "normal". In the end of January German expected inflation was at historic lows and price momentum was positive. The strategy had a small long position in Bunds. So net, the portfolio had a big short in bonds. When equities fell, investors turned to the safety of bonds and the bond positions lost.

At the end of February, the model decreased but did not reverse its net exposure to all asset classes. It is long equities, short the dollar and short bonds. Two factors that contributed to these changes were the increase in asset co-movement indicating higher risk aversion, and changes in the return distribution of assets.

In equities the strategy increased its short position in Switzerland and added short positions in Canada, Japan to existing short positions in Spain, the Netherlands and Hong Kong. In bonds the strategy reversed its positions in Canada from short to long and increased its long Bund bet. In currencies the strategy is long EUR, JPY and short AUD. It is net short the dollar versus the majors and net long the dollar versus the Asian currencies.

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