Inside the Mind of a Macro Manager: Navigating the US Presidential Election

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Introduction

In recent weeks, clients have been keen to understand our portfolio positioning in advance of the US election. While the eventual outcome remains highly uncertain, with opinion polls and election probabilities oscillating regularly, this event has the potential to challenge the robustness of even the most disciplined investment process. At such times, it is especially important for managers to be clear on whether they are running an absolute return mandate - one that has no benchmark to blame for unusually large losses - or a relative return mandate versus a pre-defined investable benchmark. Diversified Absolute Return (DAR) falls into the first category.

In our experience, most managers find it particularly challenging to manage against "unknown unknowns", as they are the truest form of shock. Historically, robust diversification and an embedded long volatility bias has helped us navigate such shocks, especially since option markets, which we often use for their asymmetrical benefits, tend also to be relatively blind to these shocks. "Known unknowns", such as the outcome of the US Presidential Election, provide a very different challenge because implied volatility is already pricing in a high level of uncertainty, albeit to different extents across asset classes and investment horizons.

When an absolute return strategy faces an unpredictable event risk where the asset price implications are almost as uncertain as the outcome of the event itself, we believe it is imprudent to run high levels of risk. We do not see this election as an opportunity to take a large binary bet on the outcome ahead of the results. Across our discretionary funds, we have chosen to run modestly below average risk levels in the last week due to the unusually high degree of uncertainty, elevated levels of implied volatility and the likely realised volatility spike that will occur over the next few days. That said, it is also likely that many other investors have chosen to do the same and this has provided a variety of short-term ideas that can be structured to be relatively neutral to the election result. As a result, our actual ex-ante volatility going into tomorrow's election is very close to long-term target levels.

While we expect to be surprised in some areas, we also expect the portfolio to show resilience and exhibit only slightly larger than normal variation in the next few days. In general, however, it should be business as usual. We have carefully selected a number of asymmetric investment opportunities and seek to be robust to the variety of potential correlation breaks that may occur, for example between bonds, equities and the US dollar.

This note is split into two sections. Section I summarises our latest thinking on the possible election outcomes, the likely implications for government policy and possible movements in financial asset prices. Section II describes our current portfolio positioning and risk, decomposed by sub-strategy and summarised for the final portfolio. In the Appendix, we describe our investment philosophy and process in greater detail, so that our current positioning can be put into a longer-term context.

Section I: Likely Policy and Asset Price Implications of the US Presidential Election

Most investors will remember Tuesday 8 November, 2016. After an apparently one-sided election campaign, Hillary Clinton looked certain to become the first woman to occupy the White House. And, if the outsider, Donald Trump, somehow won the election, most investors believed that his policies would prove disastrous for the economy, and especially for the equity market.

That was certainly a very bad day for the consensus. Donald Trump defied the polls, winning easily, and the equity market embarked on a major rally.

The 2024 US presidential election is also critical for the financial markets, driven by distinct policy paths that a Republican sweep, Democratic sweep, or divided Congress could take. This time, there is no supposed "certainty" about who will win. On the day, or soon thereafter, this could be a binary event for many markets, as one of the candidates is declared the winner.

In the medium term, however, there is much less clarity about how the major asset classes may react. Each outcome impacts financial markets differently across key areas like trade policy, fiscal spending, government borrowing, and geopolitical strategies. Republican and Democratic sweeps present contrasting paths, while a divided Congress under a President Harris would potentially maintain current trajectories.

By contrast, if President Trump is re-elected, there is much debate about how he will actually behave in office. Will he attempt to implement a full-blooded version of his programme, as outlined in his campaign rhetoric, or will he be constrained by Congress, his Administration colleagues, the Federal Reserve and the markets? How different would Trump 2.0 really prove to be from Trump 1.0? The 2024 Presidential Election results could cast a shadow over global financial markets for many years to come, presenting major opportunities and risks for macro investors and asset allocators.

Methodology Used to Assess the Likely Outcome

In the final days of the campaign, almost everybody seems to have expressed an opinion, or a "gut feeling" about the likely outcome of the Presidential contest. However, it is important to remain disciplined about this. Hunches do not represent analysis. Personal biases do not give anyone an edge in predicting the outcome of such a close contest. Social media feeds are, in some cases, deliberately biased. Vox pop TV interviews with diners in key locations like Allentown PA, while interesting, do not provide information relevant to the result of the contest.

No-one, not even those in possession of private polls, has clearly superior knowledge about the outcome. However, we can filter out bad information and pay systematic attention to the best analysis in the public domain. We can also add proprietary models that reflect financial market behaviour in the light of changing election probabilities. That might give us an edge in gauging whether the financial markets are "pricing" the election efficiently, both in the course of the campaign, and during the confusion that may follow the declaration of the results.

In judging the likely outcome of the US election, we choose to be informed by a few main sources. (We also follow many other excellent sources, but they are already incorporated into our three primary sources.) These are:

- The Silver Bulletin, built by Nate Silver, who previously wrote the 538 column in the New York Times, and is now probably the foremost psephologist in the US. (The methodology is outlined here and here.)
- The Economist magazine, which uses models built by Andrew Gelman and colleagues at Columbia University. (The methodology is explained here.)
- The Polymarket and PredictIt betting markets.

If we had to make a choice, we would emphasise the Silver Bulletin and The Economist, since these use enormous amounts of polling information and employ academically rigorous methods (similar to those that we often use in economic analysis at Fulcrum) to gauge the popular vote and the Electoral College outcome, state by state and nationwide. They are extremely sophisticated polls-of-polls which also use "fundamental" economic and political predictors, especially early in the campaign.

It is, of course, entirely possible that the opinion polls will "predict" the winner of the race wrongly because of sampling errors and systematic biases in the identification of supporters of the two candidates (e.g., Trump voters may be missed from the sample), deliberate lying to the pollsters, and differential turnout. While these errors are entirely possible, and may be decisive in such a tight race, we assume that the pollsters and the Silver/Economist methods, do their best to eliminate them through time.

There is also a danger that pollsters make judgmental changes to their models to ensure that they do not risk being embarrassed by appearing too far outside the consensus, and then being proved wrong when the final result appears. This type of "herding" behaviour implies that the individual polls may not offer an accurate guide to the most likely result and/or sampling error that is calculated by Silver and The Economist. Nate Silver has shown that this type of "herding" is very prone to appear in opinion polls relating to the key states like Pennsylvania near the end of the campaign.

Throughout the campaign, there has been a tendency for commentators and some market participants to express views based on their own hunches. A week before election day, many commentators claimed that Trump was much more likely to win than shown by analysis based on the opinion polls. These arguments were usually based on:

- betting markets;
- momentum in the polls;
- early voting returns; and
- previous elections in which the actual Trump vote has been underestimated in the polls.

We have carefully examined all four of these "factors" and they seem to us flawed for various reasons. The betting markets are subject to the risk of deliberate manipulation. Recent momentum in the polls does not predict future moves. Early voting returns are not drawn from an unbiased and consistent sample of the electorate. Errors in underestimating previous Trump support may have been fully corrected, or even over-corrected, in the 2024 methodology used by the pollsters.

Note that there is a big difference between claiming that the best analysts are always right and making the very different claim that there is no obvious way of doing better than they do. We are claiming the latter.

The State of the Race at the End of the Campaign

For the majority of the race since President Biden dropped out, the outcome has remained close to a coin toss. Although Harris has been ahead in the popular vote, her lead has generally remained at 1-3%, the zone of uncertainty.

Note that Harris needs to win the popular vote by at least 2% to have a greater than 55% chance of winning in the Electoral College. This Electoral College edge for Trump is another source of uncertainty in this election.

After the Trump/Harris debate, Trump's probability of winning the election spiked downwards, reaching a floor of only 45% by late September. However, Harris did not maintain her bounce after the debate, and by late October Trump was 55% likely to win. As recently as a week ago, the financial markets appeared near to a tipping point, in which a Trump victory seemed increasingly probable to many investors. However, in the final week of the campaign, Harris has recovered and, at the time of writing, the outcome appears very close to 50/50.

For a disciplined investor, there has been no period since the Democratic National Convention when either candidate should have been assumed overwhelmingly likely to win. Probabilities within the range 45-55% are not significant either way, though both the betting markets and – more importantly – the financial markets have been shifting in a consistent way as the probabilities have changed within this narrow band. (Occasionally, the financial markets seem to have shifted towards a Trump sweep by more than has been justified by objective polling data, and this has provided some opportunities for short-term risk. The situation one week ago was a case in point.)

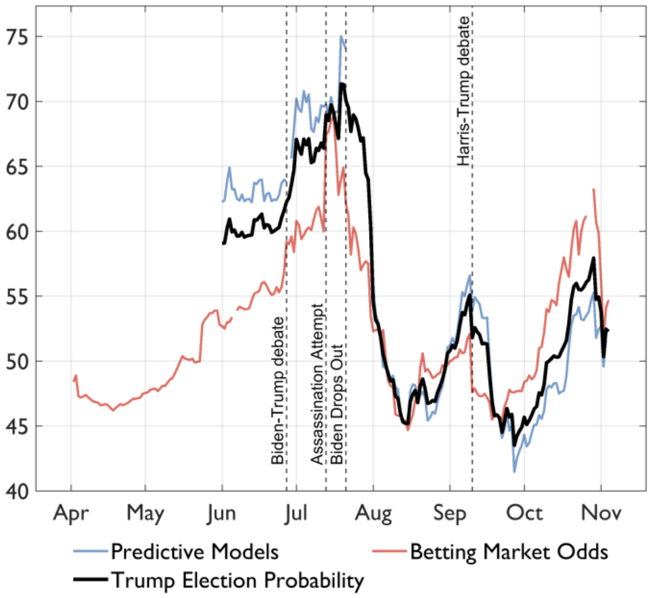
At the time of writing, 24 hours before the polls open, the Silver Bulletin is showing Trump as 53% likely to win, while The Economist scores it at 49%. The betting markets show Trump at 58% in Polymarket and 52% in PredictIt. Fulcrum's overall estimate from a weighted average of these sources produces a 53% edge for Trump. This is indistinguishably different from a genuine dead heat.

Digging one level deeper, if Trump wins, then a Republican sweep is more likely than a divided Congress. Conversely, if Harris wins, then a divided Congress is more likely than a Democratic sweep. Surprises on the night should be gauged relative to these "rational" expectations, which may be partly built into asset prices before the polls are closed.

Fulcrum Models on Potential Market Reactions

We have experimented in a number of ways to estimate the potential impact on asset prices after the result is known. With the caveat that there is significant uncertainty around both the outcome, which remains close to a coin toss, and the likely asset price consequences, below are estimates based on market movements around selected key "events" that materially changed the odds of a Trump win. Specifically, we reference Biden dropping out of the race, the Trump-Harris debate and the Trump shooting.

Exhibit 1: Estimating Trump Election Probabilities and Potential Market Reactions



Absolute (1 Day % Change)

	If Trump Wins		If Harris Wins	
	Expected	High end	Expected	High end
10Y Treasury	-1.9	-3.1	2.4	3.7
USDEUR	1.6	2.6	-2.0	-3.0
USDGBP	1.2	2.1	-1.6	-2.4
Oil Price	-0.5	-0.9	0.7	1.0
SP 500	0.9	1.6	-1.2	-1.8
Russell 2000	3.0	5.1	-3.9	-6.0

Standardised By Implied 1D % Change on 6th Nov

	If Trump Wins		If Harris Wins	
	Expected	High end	Expected	High end
10Y Treasury	-1.8	-3.1	2.3	3.6
USDEUR	1.4	2.4	-1.8	-2.8
USDGBP	1.2	2.1	-1.6	-2.4
Oil Price	-0.2	-0.3	0.2	0.3
SP 500	0.6	1.0	-0.7	-1.1
Russell 2000	1.2	1.9	-1.5	-2.3

Source: Fulcrum Asset Management LLP, The Economist, The Silver Bulletin, Predictit.org, Polymarket and Bloomberg. Notes: Impact on asset prices takes the difference between the current election win probability for Trump (53%) and applies the estimated price movement from historical moves to 75% (expected) and 90% (high end). All movements are expressed in percentage changes. Standardised moves divide the response by the expected daily price change computed using option-implied forward volatility estimates for election day.

Using a simple average probability from the three approaches referred to above, the event study estimates the asset price implications of the Presidential election outcome, without delving deeper into the specific House and Senate outcomes. From this perspective, the implications are greatest for bond and currency markets (including versus what is priced into option prices), with a Trump win likely causing a bond sell-off and U.S. dollar strength, moderate strength in the S&P 500 and a muted response in oil, and a Harris win having the opposite outcome. Given that current expectations marginally favour Trump (53%), the magnitude of moves is likely to be slightly greater for a Harris win.

In estimating these potential moves, we assume that financial markets move immediately in the direction implied by the event study to price in a probability of 75% and 90%, rather than 100%. This is to reflect the relatively small sample size in the event study and inherent uncertainties that will still prevail even after the election outcome is known. As discussed earlier, for example, there is much debate about how Trump will actually behave in office.

Uncertainty Surrounding Trump 2.0

Among the many uncertainties that the markets will consider after the results of the Presidential and Congressional elections are known, is the exact nature of the economic policies that the winning candidate is likely to pursue. Under a President Harris, these uncertainties would be minor, since she is in many ways an "incumbent" candidate. Her economic policy preferences are not known with complete certainty, but the scope for major disruptions to existing policy would be minimal, especially with a divided Congress.

The situation would be quite different under President Trump 2.0. His remarks about economic policy during the campaign have been much more extreme than the policies he pursued in his first term of office, while markets have probably made the implicit assumption that the moderate version of Trump is likely to emerge under the pressures and constraints of power.

There is, however, a realistic possibility that Trump 2.0 would embark on a maximum version of his preferred policy agenda. Below, we describe some of the key potential policy implications:

Trade Policy and Tariffs

- Trump has said that he will impose an across-the-board tariff of either 10% or 20% on every import coming into the US, as well as a tariff of 60% on all Chinese imports.
- He has also floated a 100% or 200% tariff on cars made in Mexico or on the products made by companies that move manufacturing from the US to Mexico.
- Trump has said he will renegotiate the USMCA trade deal that his own administration struck with Mexico and Canada.
- Harris has been much less explicit about raising tariffs, which she has described as a "Trump sales tax."
- If Trump implements even a part of his tariff plans, it will take US tariffs back to levels not seen since the 1970s. However, he may use tariffs as a bargaining threat before trying to implement them.

Fiscal Policy and Corporate Taxes

- Based on Congressional Budget Office (CBO) estimates, the fiscal deficit in 2026 will be 6% of GDP.
- If Trump wins with a Republican sweep (the most likely outcome), the deficit will rise by 1.6% of GDP in 2026 (according to Morgan Stanley economists).
- If Harris wins with a divided government (the second most likely outcome), the deficit will rise by 1.1% of GDP in 2026.
- The corporate tax rate may fall from 21% to 15% under Trump, while rising to 28% under Harris.

- Regulation of mergers and corporate activity would be much less onerous under Trump than Harris.

Immigration

- Candidate Trump has promised drastic action to close the border to illegal immigrants and to deport the 8 million migrants whom he claims are already in the US.
- Although the difference in tone between the two candidates is very stark, Harris has moved towards Trump during the campaign.
- In addition, the number of illegal immigrants has dropped sharply since the Biden executive action in June.
- Furthermore, the Trump policies may not be very realistic in practice.
- The actual change in immigration under Trump 2.0 may be less than indicated in the language used by the candidates.
- Nevertheless, maximum Trump policies may still reduce the labour supply very drastically compared to a Harris win.

The Federal Reserve

- Candidate Trump has suggested that he would seek to control the Fed by curtailing the freedom of the Federal Open Market Committee (FOMC) to set monetary policy under the dual mandate in the Federal Reserve Act. He has threatened to do this by replacing Chair Powell at or before the end of his term in May 2026, and by changing the composition of the FOMC.
- Recently, he has indicated that he would like to express his own views on monetary policy as President, while watering down his intentions to change the legal framework and the personnel of the Fed.
- Markets are likely to be extremely sensitive to any changes in the regime surrounding the Fed and Trump will be constrained whenever market turbulence develops in response to his remarks in this area.

We believe that the markets are likely to be extremely reluctant to incorporate any version of the maximum Trump policy agenda in the months following the inauguration of the new President. However, the global economic simulations that outline the economic impact of maximum Trump are extremely concerning. For example, recent IMF simulations, incorporating a version of the above policy mix (excluding any changes to the Fed) suggest that the US would experience a major contractionary economic shock, reducing the level of real GDP by 1.6% in 2026, along with a less severe inflationary shock, implying higher policy interest rates. The eventual asset price consequences of this economic out-turn would obviously be far more severe than anything that is shown in the above market simulations.

President Trump 2.0 may give early signals about his intentions by making key announcements about the composition of his new team. These appointments seem almost completely unpredictable. There has been press discussion about the possibility of Scott Bessant becoming Treasury Secretary, Kevin Hasset for Fed Chair and Robert Lighthizer as US Trade Representative. These three positions, along with the White House Chief of Staff, will be key for the markets. The three names mentioned here would cause a sigh of relief among many investors.

Section II: Current Portfolio Positioning in the Fulcrum Diversified Absolute Return Strategy (DAR)

DAR in a Nutshell

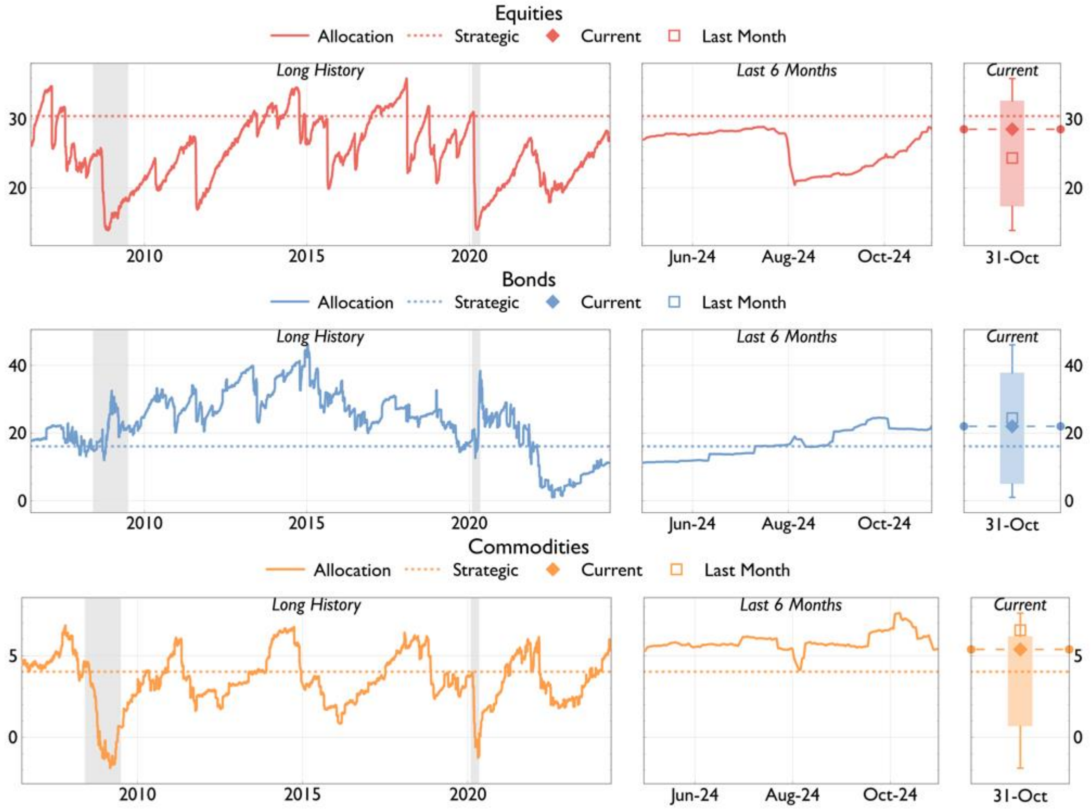
DAR combines the trade structuring expertise and agility of experienced discretionary traders with the predictability and portfolio construction benefits of systematic investing. The result is a highly repeatable, transparent and diversified absolute return investment process that we believe is unique in the market.

The DAR strategy is built using three independently-managed sub-components, each with a specific objective in mind, plus a hedging overlay to protect the overall portfolio from outsized losses when diversification inevitably fails. Those components are Dynamic Asset Allocation (DAA), Discretionary Macro (DM) and Diversifying Strategies (DS). For a detailed description of the DAR investment process, please see Section III.

Dynamic Asset Allocation (DAA) – 40% Risk Budget

The DAA process is transparent and predictable. Our weights in equities, bonds and commodities are informed by expected returns, which are in turn based on valuations (currently bottom quartile for global equities, driven by elevated valuations in the US); global economic activity (remains firm and is accelerating); global inflation (settled at a slightly uncomfortable level, but much lower than in the last two years); and price momentum (strong for equities and some commodities, weakening for bonds and improving for the US dollar). Position sizing is then adjusted to account for expected volatility levels over the near term. Currently, the DAA process results in a 28% allocation to equities (compared to a long term range of 12-35%), 22% to bonds (0-45%) and 5% to commodities (0-8%).

Exhibit 2: Current DAR Positioning within Dynamic Asset Allocation



Source: Fulcrum Asset Management LLP

Our threshold to over-ride the DAA views with short-term discretionary judgements is very high. Instead, we prefer to refine the framework over time and allow it to act independently in a dispassionate manner. The DAA framework is unaware of the upcoming election, except in so far as it has already affected asset prices, including implied and realised volatility levels. We regard it as a strength that the DAA portfolio is informed by clear views about the fundamental behaviour of the global economy that will not be rapidly changed (i.e., within a few weeks) by the US election.

Discretionary Macro – 50% Risk Budget

The suite of DAR funds are all near identical, except where regulatory restrictions within specific jurisdictions prevent implementation of certain instruments (for example, commodity futures are not allowed within UCITS). On a day-to-day basis we manage the least constrained version of Discretionary Macro, which is also run for clients on a stand-alone basis, typically at higher level of volatility (the Fulcrum Discretionary Macro (FDM) strategy). Crucially, all trades automatically flow through to the entire DAR range at the appropriate size, with identical average trade fills, subject to satisfying all regulatory constraints applicable to specific vehicles.

This is a highly dynamic portfolio where we have and will take positions that may be attractive as the election unfolds. We do not expect the performance of FDM, as currently positioned, to be greatly affected by the election results, though major opportunities may arise as the election results become available, or in subsequent weeks (see below).

The following table shows the top risk contributors and traditional beta exposures within Fulcrum Discretionary Macro, which is currently running an ex-ante volatility of 9.2%, versus a long-term target volatility of 8% and a limit of 12%. In terms of core beta exposures, we are running long bond and US dollar positions, short oil and neutral equities. At present, approximately 50% of our risk can be explained by these factors, which is fairly typical, and the remainder is driven by other uncorrelated ideas.

Exhibit 3: Fulcrum Discretionary Macro (FDM) Current Risk Summary

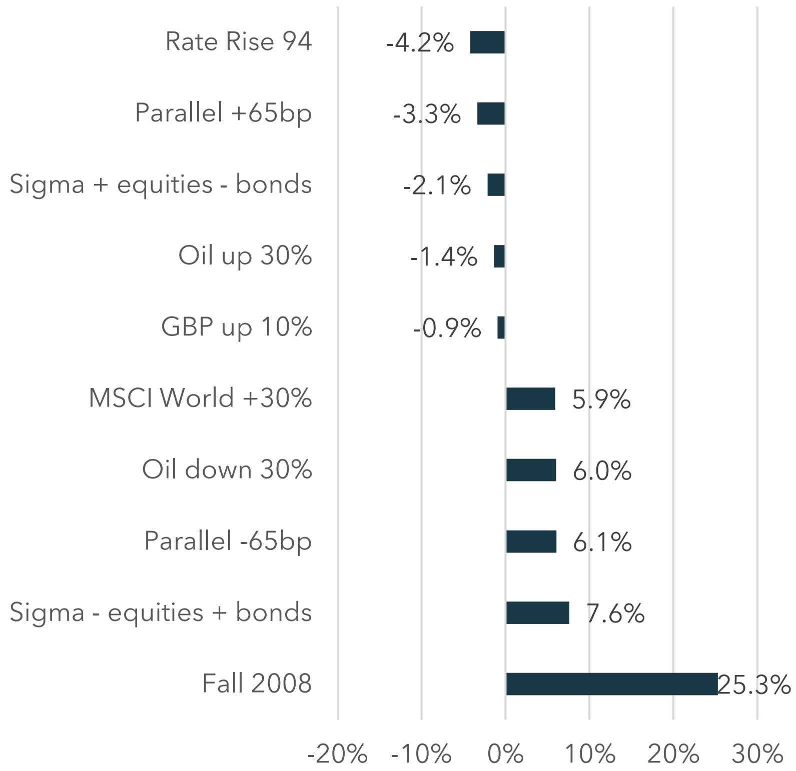
	04/11/2024 12:35					Traditional Beta Exposures						
	Top 15 Risk Positions	**Net Direction**	**iVolatility**	**Cumulative sum of iVol**	**Volatility**	**MSCI World**	**US 10 Year Treasuries**	**DV01 (inc duals)**	**Inflation DV01**	**US Dollar Index**	**WTI Oil**
1	FX vs Rates Convexity	Long	1.8%	20%	2.3%	1%	17%	3.1	0.0	9%	-3%
2	Equities vs FX Convexity	Long	1.0%	31%	2.0%	0%	-9%	0.0	0.0	25%	1%
3	US Rates	Long	1.0%	42%	2.2%	1%	35%	2.0	0.0	-24%	-3%
4	Long-dated Oil	Short	0.7%	50%	1.9%	-3%	10%	0.0	0.0	-3%	-6%
5	FX Convexity	Long	0.7%	57%	1.4%	-7%	2%	0.0	0.0	5%	-1%
6	UK Macro	Long	0.6%	64%	1.5%	6%	14%	0.9	0.0	-9%	0%
7	QMA	Long/Short	0.4%	68%	0.9%	-2%	6%	0.3	0.0	-2%	-1%
8	European Equities	Short	0.3%	72%	0.8%	0%	4%	0.0	0.0	0%	0%
9	European Rates	Long	0.3%	75%	0.5%	0%	5%	0.8	-0.1	-1%	-1%
10	Euro	Short	0.3%	78%	0.8%	-1%	-3%	0.0	0.0	7%	0%
11	Chinese Renminbi (Yuan)	Short	0.2%	81%	0.8%	-1%	-4%	0.0	0.0	8%	0%
12	UK Pound	Short	0.2%	83%	0.6%	-3%	-1%	0.0	0.0	5%	0%
13	UK Rates	Long	0.2%	85%	0.4%	0%	4%	0.3	0.0	-2%	0%
14	Australian Rates	Long	0.1%	87%	0.4%	1%	2%	0.3	0.0	-2%	0%
15	Technology Disruption	Long/Short	0.1%	88%	0.4%	0%	-1%	0.0	0.0	2%	0%
	Fulcrum Discretionary Macro		**9.2%**			**3%**	**74%**	**7.5**	**-0.1**	**25%**	**-10%**

Source: Fulcrum Asset Management LLP

Currently, approximately one third of the portfolio's risk stems from option positions, which offer strong asymmetry in potential returns and limited potential for losses. This leads to a one-week time decay of approximately 40bps. Two weeks ago, this proportion was closer to two thirds and time decay was also meaningfully higher. For context, option-based risk is typically in the region of 10-30%, only growing from these levels if the options gain substantially in value.

Given our moderate levels of risk and asymmetric implementation of trade ideas, the outcomes of stress tests for the portfolio as a whole are well within our comfort zone for a strategy running this level of long-term volatility. The chart below shows the results of running the current portfolio through our library of historical stress tests.

Exhibit 4: Fulcrum Discretionary Macro Worst and Best 5 Stress Tests



Source: Fulcrum Asset Management LLP

Diversifying Strategies – 10% Risk Budget

Our trend-following strategy remains long equities and bonds, albeit it has been reducing the latter in recent weeks as yields have reversed and moved higher. Commodity risk is meaningful, especially long precious metals and short energies. Currency risk is relatively low, with the high negative US dollar beta driven by correlation effects, not direct currency exposures.

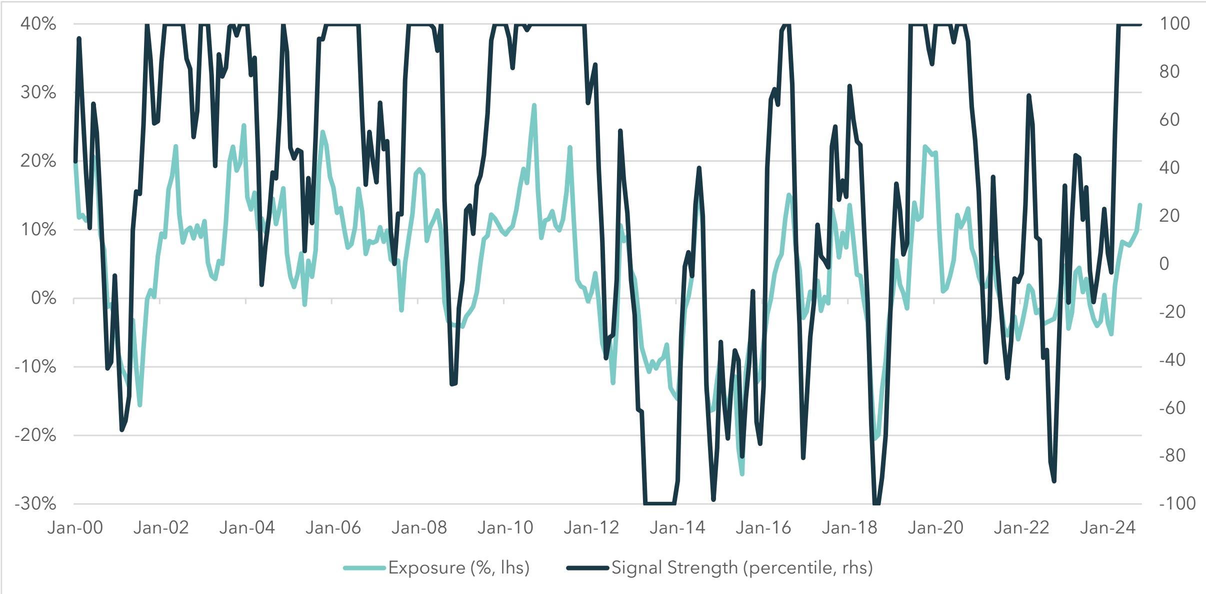
Exhibit 5: Fulcrum Multi Asset Trend (MAT) Current Risk Summary (12% Volatility Target)

	04/11/2024 12:36			Traditional Beta Exposures			
	Top Risk Positions	**iVolatility**	**Volatility**	**MSCI World**	**US 10 Year Treasuries**	**US Dollar Index**	**WTI Oil**
1	Equities	5.1%	6.4%	49%	11%	-33%	4%
2	Fixed Income	3.1%	5.2%	7%	70%	-44%	-6%
3	Commodities	2.9%	4.4%	10%	12%	-26%	-2%
4	Credit	1.3%	2.0%	13%	3%	-14%	1%
5	Currencies	1.0%	2.4%	5%	1%	-6%	-1%
6	Volatility	-0.2%	0.5%	-3%	1%	0%	0%
		Total	**13.1%**	**80%**	**99%**	**-123%**	**-5%**

Source: Fulcrum Asset Management LLP

In the context of how large positions can get, CTA positioning is currently relatively moderate and unlikely to be the catalyst for an episode of market deleveraging. That said, idiosyncratic exposures in certain specific assets are close to maximum levels, which can increase the magnitude of price movements if and when there is a catalyst for trend-reversal. For example, the precious metals signal is at maximum strength (100th percentile), which leaves little room for further buying from the average trend-follower, unless we see a reduction in precious metals' expected volatility. The actual level of exposure has been about twice as high in the past, but only in the context of a more muted volatility environment. Meanwhile, many precious metals are stretched from a short-term perspective and have dislocated meaningfully from other asset classes, including the US dollar, real bond yields and the Australian dollar.

Exhibit 6: Precious Metals Exposure in our Trend Following Strategy



Source: Fulcrum Asset Management LLP

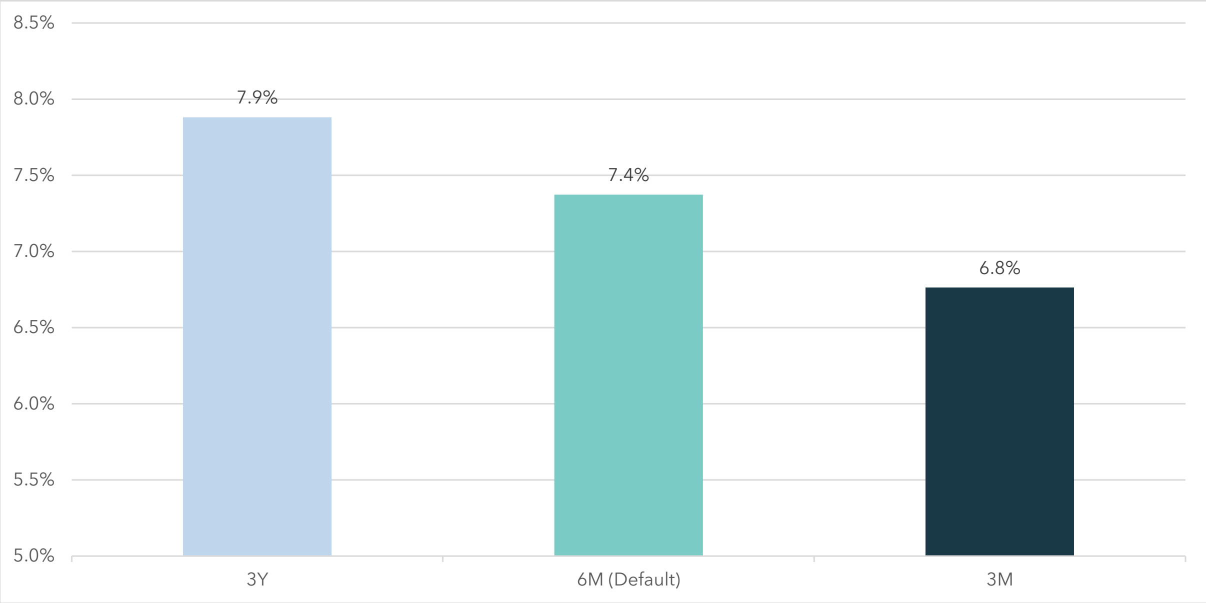
Putting it all Together: the DAR Portfolio Going into the US Election

Risk statistics, including volatility, value-at-risk and beta are all educated estimates, not established truths. We see them as part of an uncertain distribution and estimate them over a variety of timeframes to check for robustness.

The DAR portfolio's current ex-ante volatility is 7.4% using our default (6-month half-life), and most reliable, estimate. If we instead estimate using slightly longer (3 years) or shorter (3 months) windows, the risk estimate does not change much. This gives us confidence that we are measuring risk in a broadly sensible manner. For context, we impose a hard limit of 12% (1.5 times the target of 8%) on the default ex-ante volatility. We are significantly far away from this at current levels.

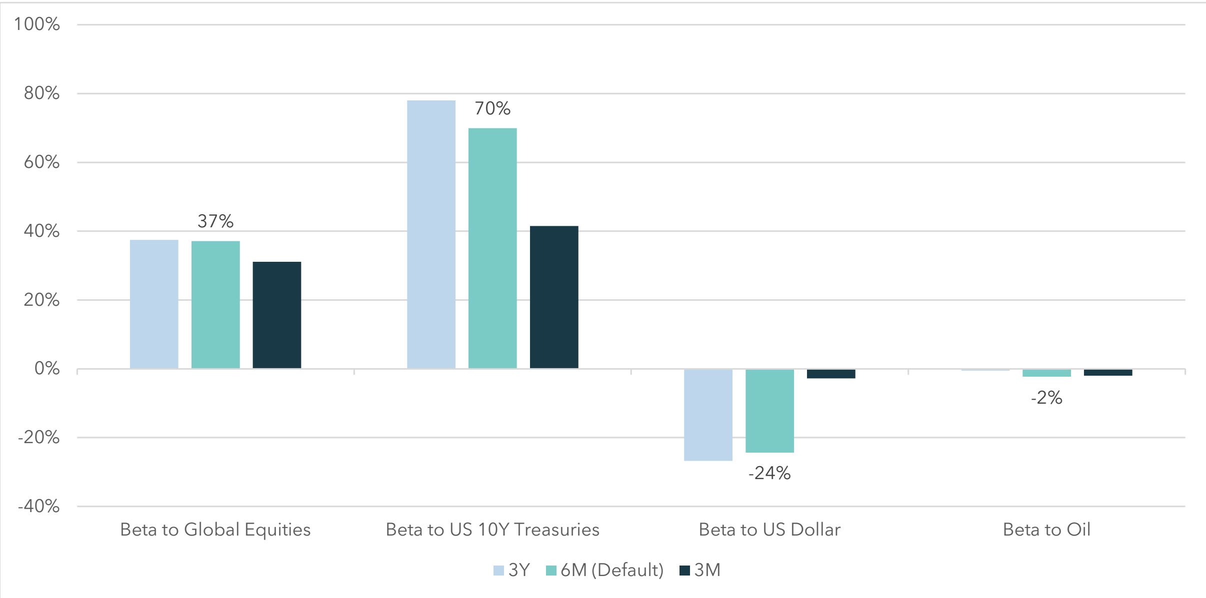
If we perform the same exercise for portfolio betas, we can conclude that the 37% equity and -2% oil beta estimates are also likely to be reasonably accurate, while the bond and dollar betas are subject to greater uncertainty due to their time-varying and unstable correlations with other asset classes. While we are actually constructively positioned on the US dollar in the Discretionary Macro component, our overall portfolio sensitivity to the dollar is negative. This is an indirect exposure that stems from the long exposure to equities in the DAA component, since equities have generally been negatively correlated with the US dollar.

Exhibit 7: DAR Current Volatility Estimates



Source: Fulcrum Asset Management LLP

Exhibit 8: DAR Current Beta Estimates



Source: Fulcrum Asset Management LLP

Below, the overall portfolio risk is summarised, including the top ten contributors to portfolio risk and a decomposition of factor exposures for the various sub-strategies. Most of our positive equity sensitivity comes from the DAA component, while the DM component is long bonds and the US dollar.

Exhibit 9: DAR Current Risk Summary

	04/11/2024 12:37					Traditional Beta Exposures				
	Top Risk Positions	**Net Direction**	**iVolatility**	**Cumulative sum of iVol**	**Volatility**	**MSCI World**	**US 10 Year Treasuries**	**DV01**	**US Dollar Index**	**WTI Oil**
1	DAA Equity	**Long**	1.4%	18%	2.2%	18%	3%	0.0	-10%	2%
2	DAA Climate Change Equities	**Long**	0.9%	30%	1.4%	11%	4%	0.0	-8%	1%
3	FX vs Rates Convexity	**Long**	0.9%	42%	1.4%	0%	10%	1.8	5%	-1%
4	DAA Fixed Income	**Long**	0.7%	52%	1.1%	1%	18%	1.5	-11%	-1%
5	US Rates	**Long**	0.6%	61%	1.2%	0%	19%	1.1	-13%	-1%
6	UK Macro	**Long**	0.6%	68%	0.8%	3%	8%	0.5	-5%	0%
7	Equities vs FX Convexity	**Long**	0.3%	72%	0.9%	0%	-4%	0.0	12%	0%
8	Long-dated Oil	**Short**	0.2%	74%	1.0%	-2%	5%	0.0	-2%	-3%
9	Japan Macro	**Long/Short**	0.2%	77%	0.4%	2%	2%	0.0	-3%	0%
10	European Rates	**Long**	0.1%	78%	0.3%	0%	3%	0.4	-1%	0%
	DAR Summary									
	Dynamic Asset Allocation	**Long**	3.0%		4.1%	**32%**	**22%**	**1.5**	**-28%**	**4%**
	Discretionary Macro	**Long/Short**	4.1%		5.0%	**4%**	**42%**	**4.2**	**12%**	**-5%**
	Diversifying Strategies	**Long/Short**	0.5%		0.9%	**5%**	**5%**	**0.4**	**-7%**	**0%**
	Hedging	**Long**	**-0.3%**		0.5%	**-4%**	**0%**	**0.0**	**1%**	**0%**
	Diversified Absolute Return	**Long/Short**	**7.4%**			**37%**	**70%**	**6.2**	**-24%**	**-2%**

Source: Fulcrum Asset Management LLP

Portfolio Outlook

Next we turn directly to the portfolio outlook, focusing first on the US election. The key question is whether we see a Republican sweep or Democratic sweep, assuming that the asset price movements of a divided Congress will lie somewhere in between and be smaller in magnitude. In the table below, we highlight positions in the portfolio that are likely to contribute positively in each of the two decisive scenarios. Of course, there are also a number of positions in the portfolio that should be relatively immune or behave less predictably in each outcome; these have been ignored for the purposes of this scenario analysis.

Exhibit 10: DAR Positioning for the US Election

	Dynamic Asset Allocation (~40% risk)	Discretionary Macro (~50% risk)		Diversifying Strategies (~10% risk)	
	Long	**Long**	**Short**	**Long**	**Short**
Republican Sweep (45%)		Hybrid Options (SPX higher/EUR lower)	Euro	S&P 500	Euro
		Japanese Equities (Topix)	New Zealand Dollar	Nasdaq	Mexican Peso
		US Equities (S&P 500)	Chinese Renminbi	Gold	Japanese Yen
	Underweight Equities	Silver	UK Pound	Silver	Canadian Dollar
	Overweight Precious Metal	European Pipelines	Asian Currencies	Nikkei	Mexico 10 Year Bonds
	US Dollar Hedges	Equity Dispersion	US Curve Steepener	US Credit	New Zealand Dollar
Democratic Sweep (20%)	Bonds over Cash	Treasuries, Gilts and Bunds	Oil	Bunds	Oil
	Underweight Equities	Australian Dollar vs. New Zealand Dollar	Gold	British Pound	Natural Gas
	Overweight Energies	Chinese Equities vs. EM Equities	European Banks vs. Eurostoxx	UK Gilts	
	Equity hedges	Hybrid Options (Gold lower/Bunds higher)	Chinese Renminbi Volatility	Treasuries	
		Japanese Yen	Discretionary Spending vs. Russell 2000	Italian 2 Year	
		Brazilian 2 Year Bonds	High Yield Spreads		

Source: Fulcrum Asset Management LLP

Second, while the outcome of the US election is of crucial importance, not just this week but also over the medium term, it is also important to acknowledge and manage for the plethora of other macro shocks that are currently at play. These include the strength of the US and European economies, the near-term trajectory of global inflation, the impact of Middle East geopolitical tensions on oil prices, Chinese fiscal policy, and the potential for a momentum unwind.

Exhibit 11: Discretionary Macro Positioning for Selected Macro Shocks

	Top 15 Risk Positions	Red Sweep	Blue Sweep	Strong US Activity	Higher US Inflation	Oil Shock	Strong EU Activity	China Fiscal Shock	Price Momentum Reversal
1	FX vs Rates Convexity	-	+			+	-	-	
2	Equities vs FX Convexity	+	-	+	+	-	-		
3	US Rates	-	+	-	-		-	-	-
4	Long-dated Oil	+	-	-		-	+		-
5	FX Convexity	+	-	+	+	+	-		-
6	UK Macro								+
7	Quantitative Macro Alpha	-	+	-	-	-	-		
8	European Equities		-	+	-	-	+		-
9	European Rates	-	+	-	-		-	-	-
10	Euro	+	-	+	+	+	-		-
11	Chinese Renminbi (Yuan)	+	-	+	+			+	-
12	UK Pound	+	-	+	+	+	-		+
13	UK Rates	-	+	-	-		-	-	+
14	Australian Rates	-	+	-	-	-	-	-	-
15	Technology Disruption	-	+	+					-
+	Likely to Gain (% of Risk)	40%	49%	36%	31%	38%	13%	3%	13%
-	Likely to Lose (% of Risk)	49%	44%	33%	29%	32%	75%	43%	48%
?	Likely Uncorrelated (% of Risk)	12%	8%	30%	41%	31%	12%	54%	40%

Source: Fulcrum Asset Management LLP

In the table above, we highlight existing positions in the Discretionary Macro portfolio that are likely to gain, lose or remain uncorrelated for a number of the most significant shocks that we are monitoring. By design, we seek to be in a position where the risk of a single, unpredictable macro shock is manageable, ideally with at least some positions providing offsetting gains.

Overall, we have positioned the Discretionary Macro portfolio to be broadly neutral to the election outcome, albeit with asymmetric positions for each outcome and a variety of orthogonal views that should be profitable over the medium-term. Despite the uncertainty around the election, we prefer to rely on our diversified and hedged approach, rather than incurring unnecessary transaction costs by moving to cash. Clients expect us to take informed risks on their behalf but always act prudently.

Our Plan for Election Night

On the night of the election, and in its immediate aftermath, it is important to have a trading plan. Ours is designed around our philosophy of advanced preparation, pre-identification of asymmetric opportunity, and disciplined risk management; after all, despite the recent move in polls predicting a Trump win, this election remains highly uncertain, as do the market implications of the different election results. We are structured for asymmetric gains while being resilient against volatility shocks and liquidity issues during election night.

By focusing on advance preparation only, it is impossible to make returns in all scenarios. Option-based strategies provide opportunities but, at the same time, properly managing option portfolios is critical to preventing large losses from declining volatility once the outcome is known. With this in mind, we have moderated our options exposure, particularly our sensitivity to changes in implied volatility. This is especially relevant in certain fixed income and currency markets, where volatility levels have already surged.

Election night often sees a widening of bid-ask spreads, as market makers reduce exposure to unpredictable risks. Given liquidity constraints and costs of trading, we will limit night-time trades to major currency pairs, S&P futures, and Treasury futures, as they provide the best liquidity. In line with our philosophy, this approach leverages preparation over reaction, reducing reliance on split-second decisions in illiquid markets, while maintaining flexibility to adjust as outcomes become clearer.

The most important aspect of our coverage on the night, however, is to learn about the co-movement of individual markets as election results arrive. This is a powerful way to understand how asset prices may behave in the future. Through the night, market co-movements will highlight shifts in expectations, often faster than headline results. Real-time co-movement analysis can also uncover mispriced assets across markets, which we can potentially trade once liquidity improves. It is typical for our levels of turnover to increase during periods of heightened volatility.

Appendix: Diversified Absolute Return Investment Process

Desired Client Outcomes

At a very high level, DAR is a liquid, global macro investment approach that targets net returns of cash plus 3-4% per annum with a volatility of 6-8%, a low sensitivity (beta) to equity markets and the strong downside protection that is required to qualify as "absolute return".

Strong performance during periods of financial stress has been a hallmark of our strategy, including in the Great Financial Crisis of 2008, the pandemic of 2020, and the more recent inflation scare of 2022. While our absolute return approach will inevitably lag equities in strong bull markets, it is also part of our mandate to capture rising equity and bond markets, so long as this can be done without compromising our risk management objectives. By design, and as illustrated by our positive performance in 2009, 2015 and 2024, we are not attempting to be a fund for equity bear-markets only.

The Fulcrum Investment Team

Gavyn Davies and Suhail Shaikh have worked together for two decades, developing and refining the Fulcrum Diversified Absolute Return (DAR) strategy. On the one hand, the core principles underlying our approach remain identical to when we started. On the other hand, we have evolved to embrace new technology (including innovative research techniques and data) and bolstered the team with talented minds spanning the investment landscape. We are joined on the Investment Committee by Dr Andrew Bevan (Economic Advisor), Fawaz Chaudhry (Head of Equities) and Juan Antolin Diaz (Chief Research Officer). This core team is supported by approximately 35 investment professionals. On average, the nine investment team Partners have more than 20 years investment experience and have worked with us at Fulcrum for 12 years. Together, the investment team owns a majority of the firm and has very strong incentive alignment with clients.

What Does it Take to Succeed?

Achieving uncorrelated and attractive risk-adjusted returns over time requires portfolio breadth, investment skill, mandate flexibility and investor patience.

It is our firm belief that long-only approaches cannot realistically succeed in being absolute return over the long term because they have insufficiently flexibility; instead they are reliant on i) unsustainable levels of skill in market timing and ii) stable correlations (especially between equities and bonds). Unfortunately, these correlations are unreliable and depend on the complex interaction of the various macro-economic shocks that are at play at any given time.

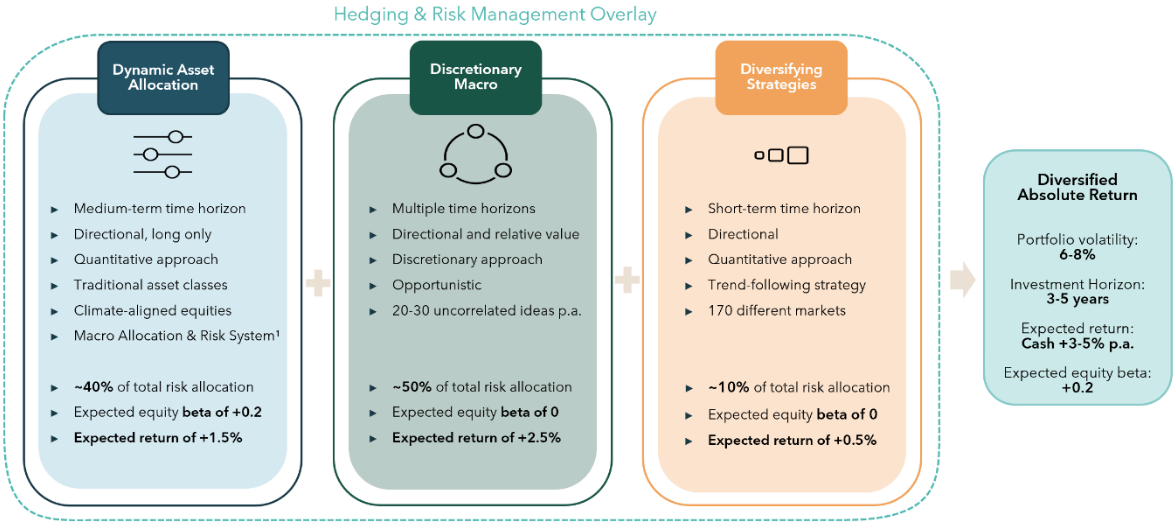
It is our responsibility to provide a breadth of views and investment skill. For us to succeed, however, it is necessary to be dynamic, opportunistic and innovative. This includes combining discretionary and systematic approaches, using appropriate levels of leverage in low volatility instruments, being able to short to express directional or relative value views, utilising derivatives extensively and embracing, rather than shying away from, cost-efficient portfolio turnover. Unnecessarily constraining the investment approach in any of these areas will likely result in worse client outcomes.

Ultimately, it is our joint responsibility alongside clients to ensure sufficient investment flexibility is possible and that long-term patience can be facilitated. In exchange for the required mandate flexibility, we have made the necessary investments in infrastructure and technology to support the necessary complexity. To facilitate patience, especially in the context of daily-dealing funds, we offer unusually high levels of transparency, strive to deliver effective risk management and seek to be fair on fees. By following these three steps, we have made it simpler, though not easy, for our clients to be patient long-term investors, which is in all of our interests.

The DAR Building Blocks: Dynamic Asset Allocation (DAA), Discretionary Macro (DM) and Diversifying Strategies (DS)

The DAR strategy is built using three independently-managed sub-components, each with a specific objective in mind, plus a hedging overlay to protect the overall portfolio from outsized losses when diversification inevitably fails.

Exhibit 12: The DAR Investment Process



Source: Fulcrum Asset Management LLP

Dynamic Asset Allocation – 40% Risk Budget

This provides a systematic approach to asset allocation with opportunistic, long-only exposure to global equities, global bonds and commodities, implemented using passive instruments at low cost. At its core, it is relatively slow moving in nature, buying more of an asset when it is cheap and when it is supported by the macro-economic backdrop – including growth and inflation. At the same time, it is able to react quickly to changes in market volatility and has a healthy respect for price action.

From a design perspective, this component ensures that there is some fundamental anchor to our asset allocation that is grounded in economic theory. While we won't time markets perfectly, this component should ensure that we do not get caught too badly in major inflection points in asset markets.

Discretionary Macro – 50% Risk Budget

We next add a Discretionary Macro trading portfolio that is split across a variety of orthogonal sub-strategies. Over time, the embedded diversification has increased significantly, as we have organically developed, or added, new and uncorrelated trading styles, all of which operate in liquid markets.

The Discretionary Macro sleeve consists of a long-term strategic allocation to nine sub-strategies, each run by an experienced portfolio manager with whom we have worked for many years. These sleeves originated with traditional macro asset classes, such as Fixed Income, Currencies and Commodities, and have evolved to include valuable diversifiers, i.e., Cross Asset, Thematic Equity, Dynamic Convexity, Volatility Strategies and Quantitative Macro. Below is a summary of the orthogonal return streams embedded in the portfolio.

Exhibit 13: Sub-Strategies within Discretionary Macro

Source: Fulcrum Asset Management LLP

From a portfolio construction perspective, it is important to ensure that each sleeve and, for that matter, each portfolio manager, delivers uncorrelated returns with the others, while also enabling synergies and ensuring robust decision making and accountability. In practice, this is achieved by i) carefully setting remits in advance, including on all necessary risk, position and drawdown parameters, ii) allowing the individual portfolio managers to operate freely within these pre-agreed parameters, iii) measuring the ex-ante correlation between their current positions, and iv) by controlling any outsized overall portfolio risks at a central level, not through intervention within sleeves.

As an illustration of this process at work, the tables below show estimates of the current ex-ante correlations between the various sub-strategies (first table) and portfolio managers (second table). In many ways, our role is similar to that of a fund-of-hedge funds portfolio manager, with one substantial difference: we have real time transparency across all positions and so are able to measure and control risk more effectively and immediately.

The far right of each table shows realised three-year and one-year correlations between approaches based on weekly returns. These are universally close to zero, which is an important driver of our edge. For a more detailed discussion on the importance of breadth in alpha generation, please see "Don't Bet The Ranch: Hit Ratios, Asymmetry and Breadth."

Exhibit 14: Ex-Ante and Ex-Post Correlation by Sub-Strategy

Sub-Strategy	Fixed Income	Currencies	Equity Thematic	Commodities	Cross Asset	Dynamic Convexity	Volatility	Equity Macro	Quantitative Macro Alpha	Average Ex-ante	3 Year Realised	1 Year Realised
Fixed Income		0.09	-0.06	0.12	0.56	-0.25	-0.05	-0.06	0.43	0.10	0.16	0.10
Currencies	0.09		-0.06	-0.05	0.21	0.09	-0.08	0.10	0.03	0.04	0.05	0.03
Equity Thematic	-0.06	-0.06		0.09	0.09	0.13	0.17	-0.02	0.02	0.04	0.05	0.04
Commodities	0.12	-0.05	0.09		0.10	-0.07	0.18	-0.06	0.25	0.07	0.01	0.08
Cross Asset	0.56	0.21	0.09	0.10		-0.29	0.29	0.17	0.12	0.15	0.02	0.08
Dynamic Convexity	-0.25	0.09	0.13	-0.07	-0.29		-0.41	-0.06	0.05	-0.10	0.07	0.02
Volatility	-0.05	-0.08	0.17	0.18	0.29	-0.41		0.36	-0.21	0.03	0.03	-0.06
Equity Macro	-0.06	0.10	-0.02	-0.06	0.17	-0.06	0.36		-0.19	0.03	0.10	0.06
Quantitative Macro Alpha	0.43	0.03	0.02	0.25	0.12	0.05	-0.21	-0.19		0.06	0.04	0.02
									Average	0.05	0.06	0.04

Source: Fulcrum Asset Management LLP

Exhibit 15: Ex-Ante and Ex-Post Correlations by Portfolio Manager

Portfolio Manager	PM 1	PM 2	PM 3	PM 4	PM 5	PM 6	PM 7	PM 8	PM 9	Average Ex-ante	3 Year Realised	1 Year Realised
PM 1		0.09	-0.15	-0.12	0.28	-0.07	0.04	0.21	0.14	0.05	0.07	0.12
PM 2	0.09		-0.06	0.34	-0.18	-0.40	0.15	0.28	-0.06	0.02	0.03	0.03
PM 3	-0.15	-0.06		0.02	-0.07	0.17	0.09	0.04	-0.07	0.00	0.03	0.03
PM 4	-0.12	0.34	0.02		-0.23	-0.21	0.11	0.22	-0.17	0.00	0.03	0.03
PM 5	0.28	-0.18	-0.07	-0.23		0.09	0.00	-0.17	0.08	-0.03	-0.04	-0.03
PM 6	-0.07	-0.40	0.17	-0.21	0.09		-0.56	0.28	0.25	-0.06	0.00	-0.02
PM 7	0.04	0.15	0.09	0.11	0.00	-0.56		-0.36	0.14	-0.05	0.05	0.08
PM 8	0.21	0.28	0.04	0.22	-0.17	0.28	-0.36		-0.03	0.06	0.08	0.10
PM 9	0.14	-0.06	-0.07	-0.17	0.08	0.25	0.14	-0.03		0.03	0.10	0.11
									Average	0.00	0.04	0.05

Source: Fulcrum Asset Management LLP

The Discretionary Macro portfolio tends to trade at a higher frequency than the DAA process and is entirely opportunistic. Each of the sleeves is expected to generate positive long-term returns and is managed by an experienced member of the investment team. Furthermore, each sleeve is explicitly intended to provide uncorrelated returns to the rest, which is achieved in practice through a combination of design constraints – what we like to call "sand-boxes" for each of the traders – and rigorous oversight.

From a design perspective, the Discretionary Macro component ensures that the overall DAR strategy maintains low sensitivity to equity markets, while generating returns in an asymmetric manner, meaning that we try to make more money for clients when we are right and lose less money when we are wrong.

Diversifying Strategies – 10% Risk Budget

Whereas the first two components of DAR are driven by various forms of fundamental analysis, including on macro-economic data, expected returns, central bank policies, global sectoral themes and geopolitical considerations, our allocation to trend-following strategies is based solely on price information across more than 150 assets. This component represents a relatively small part of the total strategy, about 10%, but it has been a valuable contributor in periods of high volatility and market stress. It is a great complement to what is otherwise a process dominated by fundamental judgments.

What we are really attracted to in a trend-following approach is its ability to be on the right side of any prolonged and substantial trend across financial markets, regardless of asset class and direction, even if we completely miss it as human traders. It also provides some useful and timely insights into assets that may have become overcrowded.

Putting it All Together: The Final DAR Portfolio

The final portfolio that results from combining the three core components, each of which is deliberately managed independently, must remain robust and consistent with our absolute return mandate. This is almost always the case, but there are times when individually selected risks compound each other and larger hedges become necessary. For this purpose, we actively manage an option-based hedging overlay that seeks to prevent -4% monthly and -10% calendar year losses, with 95% confidence.

Reflecting its design, embedded diversification and the volatility-dampening effect of hedging, the risk-adjusted return of the DAR portfolio is superior to each of its individual components (DAA, DM and DS). Putting this all together, we believe this is a robust approach to building an absolute return portfolio.

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Gavyn is a Founder and the Executive Chairman of Fulcrum. Prior to Fulcrum, Gavyn was Chairman of the BBC from 2001. He joined Goldman Sachs in 1986 and became Partner in 1988 when he also became the Chief Economist as well as Chairman of the Research Department until he left in 2001. Gavyn was a member of H.M. Treasury Independent Forecasting Panel (1992-1997). He joined the Government's Policy Unit as an Economist (1974) and was an Economic Policy Adviser to the British Prime Minister (1976-1979). Gavyn graduated in Economics from Cambridge in 1972 followed by two years of research at Oxford.

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