

MarketDesk U.S. Bear Market Probability Indicator

Forecasting Drawdown Risk Over the Next 12 Months

Drawdowns

Current Takeaway Further drawdown risk remains elevated suggesting 2022's drawdown was event-driven (i.e. Fed Policy) rather than cyclical

Overview of Indicator

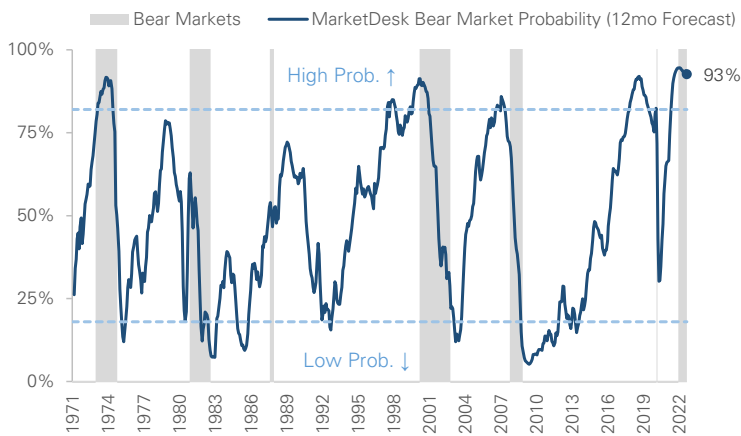
Bear markets are an unavoidable part of investing. Market drawdowns can quickly erase years of investment gains over only a few short months. However, these inflection points also offer investors new opportunities. This MarketDesk U.S. Bear Market Probability Indicator combines 12 key macro inputs to assess the risk of a bear market (i.e. 20% drawdown in the S&P 500) over the next 12 months.

How to Use

The MarketDesk U.S. Bear Market Probability Indicator is calibrated such that levels above 80% (below 20%) indicate opportunities to start reducing (increasing) overall portfolio risk. There are two model outputs to focus on: (1) the current probability level of a bear market over the next 12 months, and (2) the expectations gap of investors. We measure the expectations gap as the difference in probabilities between the MarketDesk Indicator and the implied probability based on S&P 500 put options activity. Investors will benefit most when the indicator is at extreme levels and the expectations gap is wide (i.e. nothing is priced in to the markets).

Figure 13 – MarketDesk U.S. Bear Market Probability Indicator

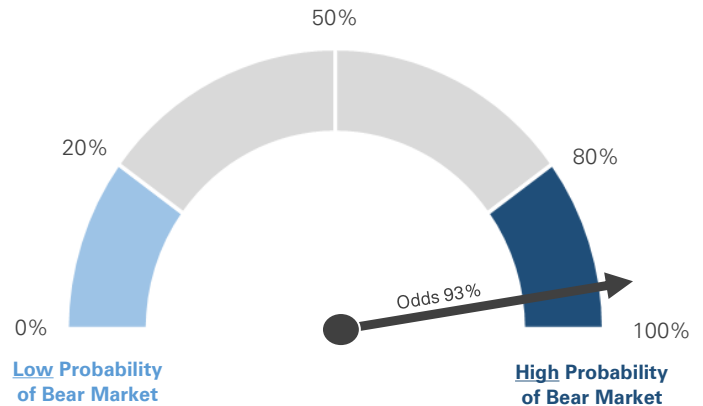
Historical Probability of 20% Market Drawdown in the Next 12 Months



Source: www.QuantPack.com

Figure 14 – U.S. Bear Market Probability Gauge

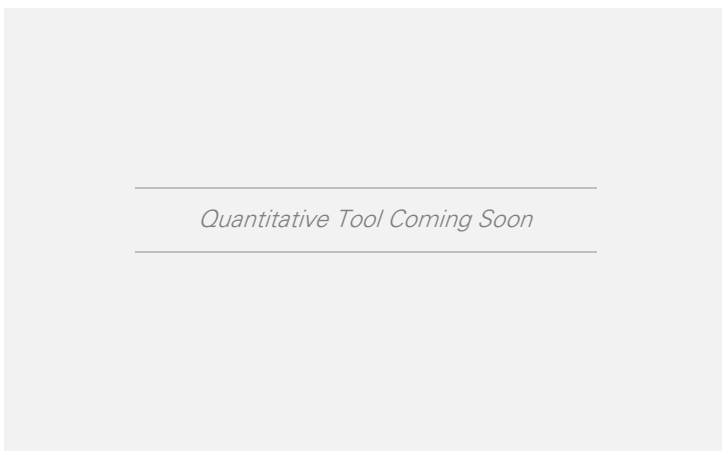
Below 20% = Increase Risk | Above 80% = Reduce Risk



Source: www.QuantPack.com

Figure 15 – Implied Probabilities of S&P 500 Drawdown Levels

Calculations are based on the 12 month forward SPY put options



Source: www.QuantPack.com

Figure 16 – Forward Performance Based on Historical Readings

Indicator Performance Track Record

Historical Forward S&P 500 Returns (%) Since 1970s

| Indicator Reading | 6 Months | | 9 Months | | 12 Months | | 18 Months | | |
|-------------------|----------|-------|----------|-------|-----------|-------|-----------|-------|------|
| | Avg | Win % | Avg | Win % | Avg | Win % | Avg | Win % | |
| Risk Off | > 90% | -6.2 | 28% | -8.1 | 38% | -8.3 | 30% | -5.2 | 32% |
| | > 80% | -0.1 | 56% | -1.0 | 55% | -0.9 | 51% | 0.3 | 49% |
| | > 70% | 2.2 | 61% | 3.4 | 67% | 4.5 | 66% | 6.9 | 65% |
| | > 60% | 2.8 | 63% | 4.6 | 69% | 6.0 | 68% | 8.0 | 68% |
| All Past Events | | 4.3 | 70% | 6.6 | 74% | 9.0 | 75% | 13.9 | 79% |
| Risk On | < 40% | 6.4 | 76% | 9.8 | 82% | 13.1 | 86% | 18.8 | 90% |
| | < 30% | 7.9 | 82% | 12.1 | 86% | 15.7 | 92% | 21.5 | 95% |
| | < 20% | 9.5 | 83% | 14.5 | 89% | 18.9 | 96% | 25.4 | 98% |
| | < 10% | 11.6 | 83% | 18.4 | 89% | 21.9 | 100% | 26.0 | 100% |

Source: www.QuantPack.com. Win % = # of positive events / total # of events.

Weekly Quant Pack

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