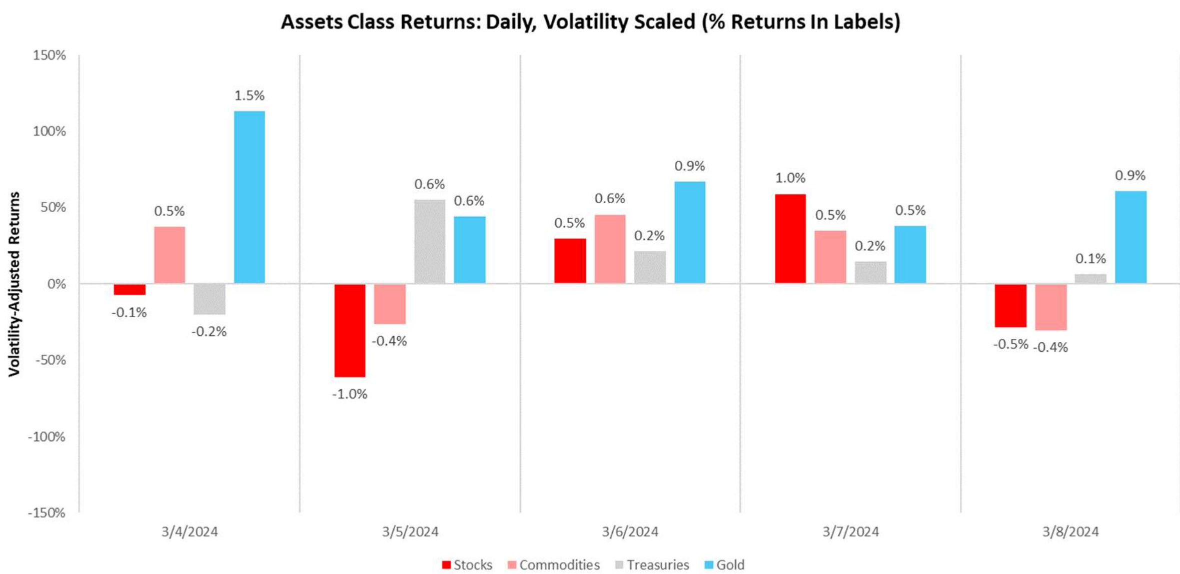
Prometheus ETF Portfolio

Welcome to Prometheus ETF Portfolio. The Prometheus ETF Portfolio aims to allow everyday investors to access an investment solution that combines active macro alpha, passive beta, and strict risk control, all in an easy-to-follow, low-turnover solution. We aim to achieve strong risk-adjusted returns relative to cash, with limited capital drawdowns in depth and duration. We do this in a highly accessible package, which rotates between five highly liquid ETFs, readily available to any investor with a brokerage account. Without further ado, let us dive into our assessment of macroeconomic conditions:

- ***Markets moved to price lower growth outcomes, but liquidity conditions remain elevated.***
- ***Economic data momentum softened significantly this week, with manufacturing data disappointing expectations.***
- ***Industrial activity remains weak, which creates a more challenging backdrop for commodities.***
- ***In this context, our long-only strategy is looking to position long Stocks: 23%(SPY), flat Comdts: 0%(DBC), flat Bonds: 0%(IEF), long Gold: 30%(IAU), and Cash: 47%(BIL).***
- ***Our long-short strategy maintains the same exposures, i.e. long Stocks: 23%(SPY), flat Comdts: 0%(DBC), flat Bonds: 0%(IEF), long Gold: 30%(IAU), and Cash: 47%(BIL).***

Let's dive into the data driving our assessment before moving on to positioning. We begin by examining the path of asset price returns over the last week:



As we can see above, assets largely moved to price in falling growth conditions, with gold and treasuries seeing the smoothest path of returns, but liquidity conditions remained abundant. This pricing came as economic data momentum fell significantly this week:

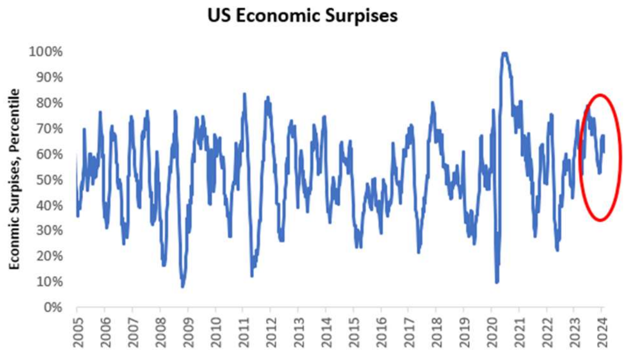
Economic Momentum: Economic Surpises vs Asset Class Performance

Asset Class Performance By Economic Surpise Percentile

	0-25%	25%-50%	50%-75%	75%-100%
Stocks	*-8%*	*2%*	*14%*	*30%*
Commodities	*-29%*	*3%*	*6%*	*17%*
Bonds	*28%*	*9%*	*-8%*	*-3%*
Gold	*15%*	*12%*	*9%*	*-3%*

Economic Surpise Percentile: Weekly Trend

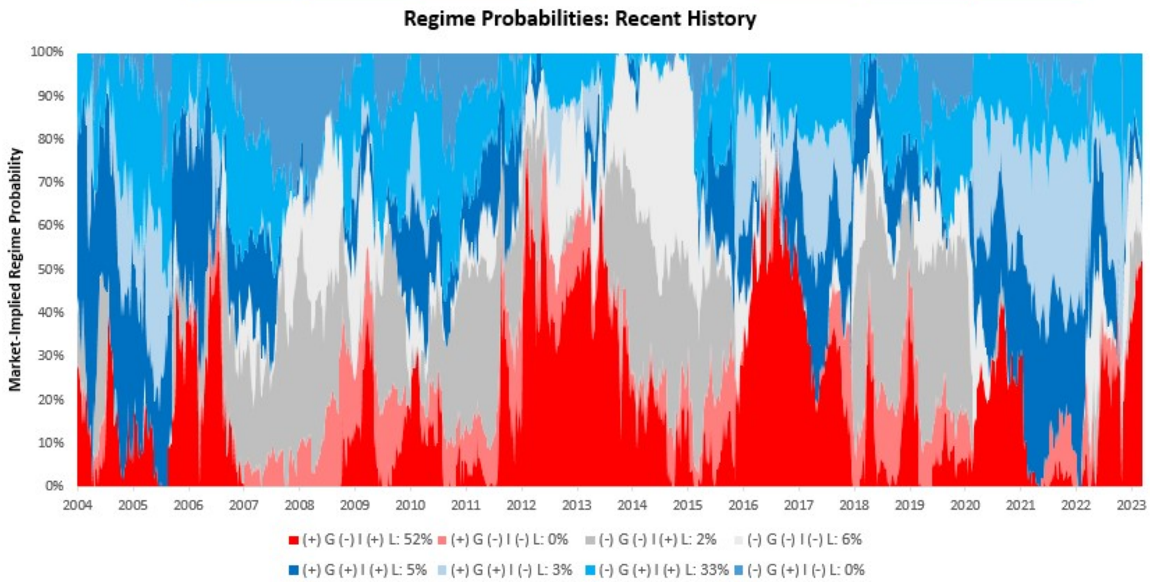
Feb 09	Feb 16	Feb 23	Mar 01	Mar 08
67.0%	65.7%	66.9%	63.3%	60.9%



This weakness in economic data momentum was driven by weak industrial data (manufacturing orders, PMIs, and manufacturing employment). For a further understanding of how economic dynamics have been priced into markets, we show our tracking of market-implied macroeconomic regime probabilities below, which reflect the aforementioned dynamics:

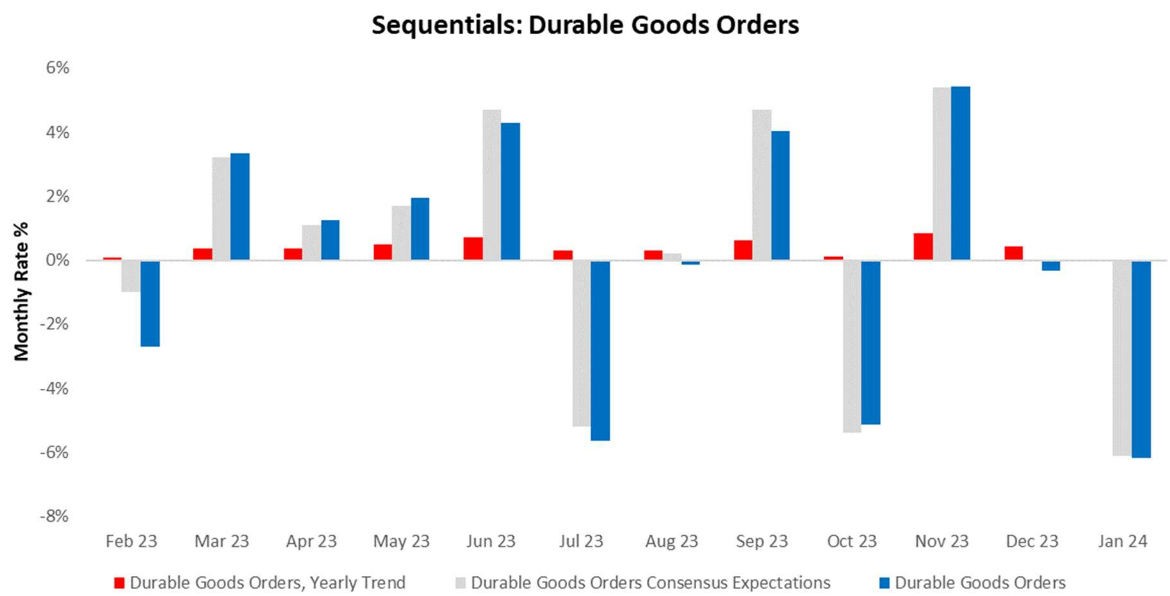
Prometheus Market Regime Probabilties

	(+) G (-) I (+) L	(+) G (-) I (-) L	(-) G (-) I (+) L	(-) G (-) I (-) L	(+) G (+) I (+) L	(+) G (+) I (-) L	(-) G (+) I (+) L	(-) G (+) I (-) L
Probability %	52.3%	0.0%	2.1%	5.9%	4.6%	2.5%	32.6%	0.0%

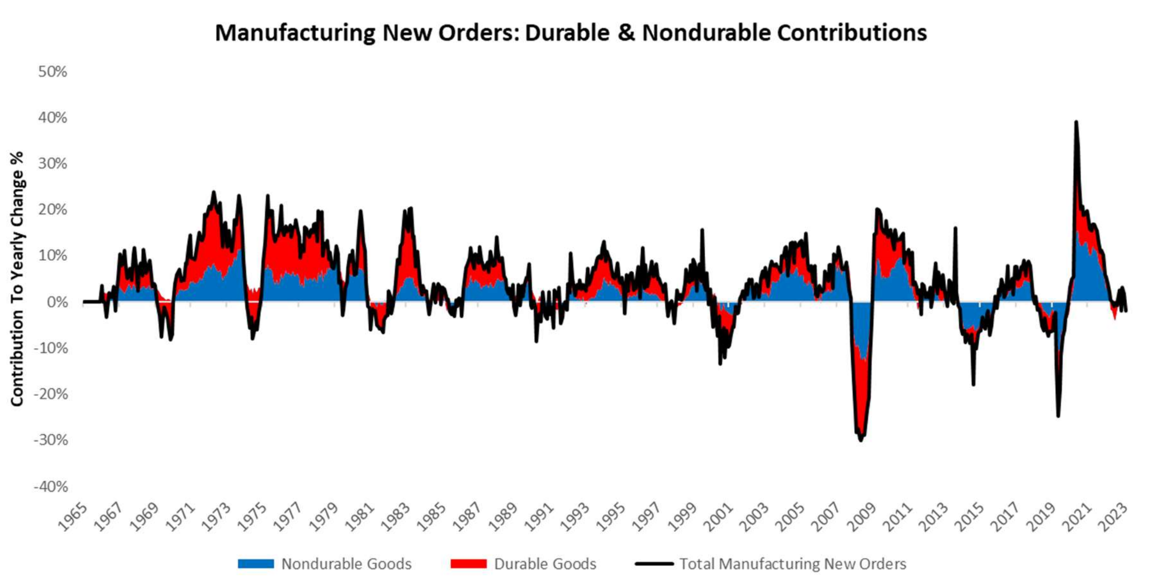


Markets continued to price regime probabilities consistent with a rising real growth and liquidity environment on a trend basis. This pricing remains consistent with our tracking of economic conditions. However, as noted, industrial activity remains weak within this broader theme of strength. We share some of the data driving this assessment.

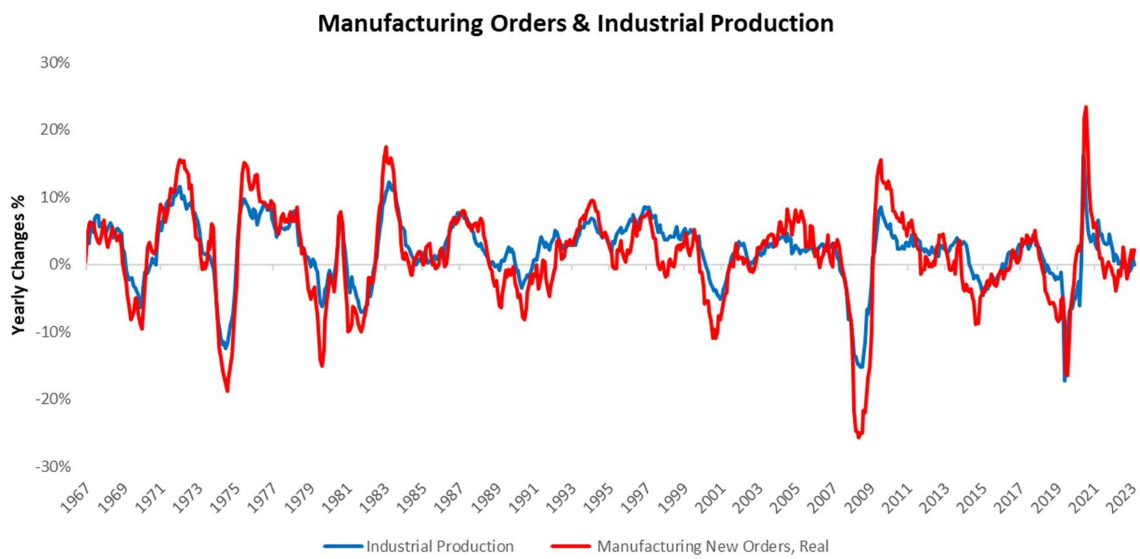
We begin with the latest data for manufacturing new orders. The latest data for January showed manufacturing new orders for durable goods decreased by -6.16%, disappointing consensus expectations of -6.1%. This print contributed to a deceleration in the quarterly trend relative to the yearly trend. Below, we show the sequential evolution of the data relative to consensus expectations:



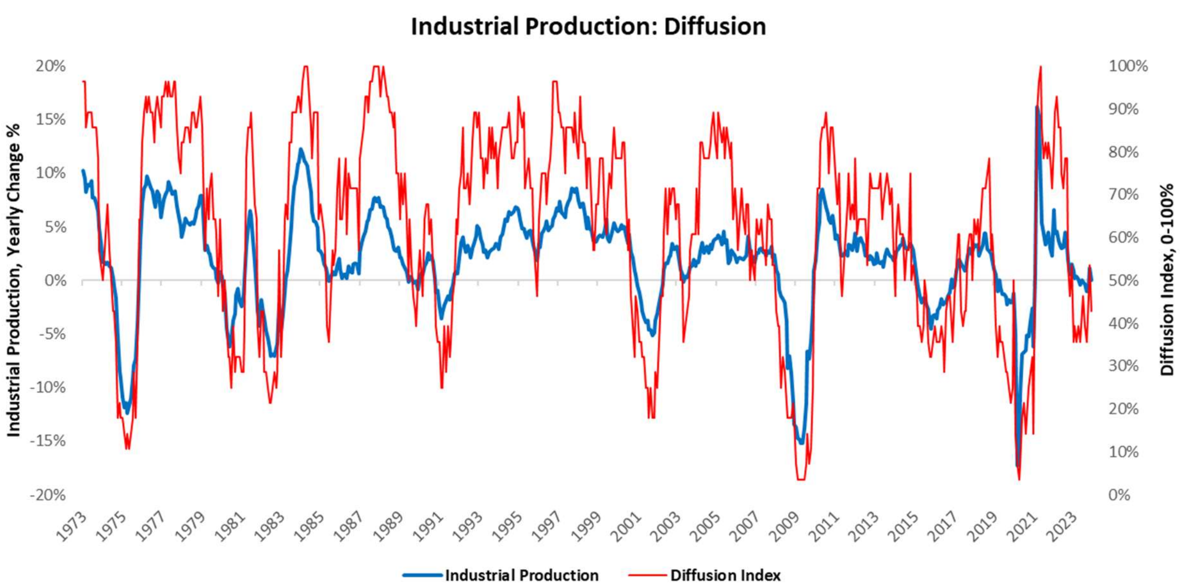
This data, along with the latest nondurable orders data, places total manufacturing new orders growth at -7.28% in January. Over the last year, manufacturing new orders have grown by -1.95% compared to one year prior. Below, we show the contributions coming from durables (-0.36%) and nondurables (-1.59%) to these changes in total new orders:



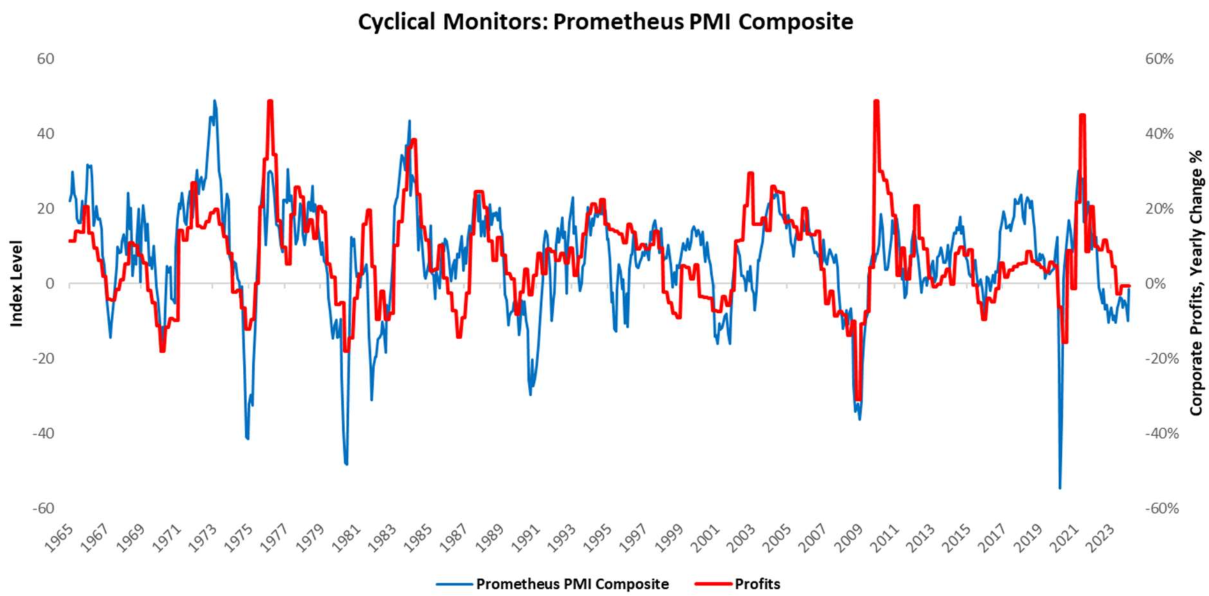
This pressure on nominal orders will likely flow through to industrial production. Real manufacturing orders and industrial production move hand-in-hand, with new orders fuelling output. Currently, orders are consistent with the latest industrial production data. We display this below:



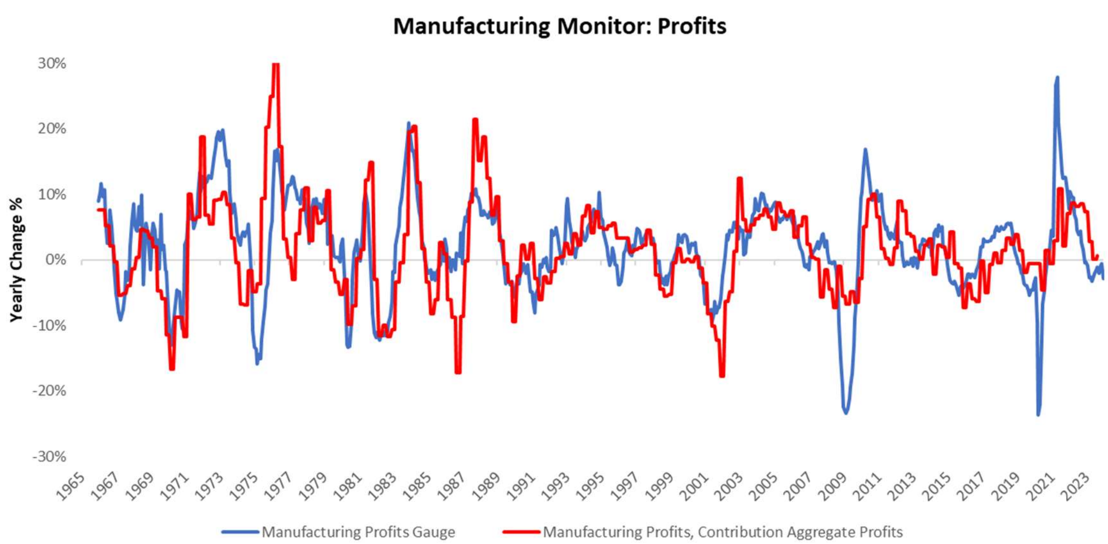
We examine the diffusion of the 28 subsectors we track to further understand these industrial dynamics. This involves examining the number of industries that are expanding versus those that are contracting. We find that 57% of industries are contracting. Below, we visualize how a diffusion index has generally been a good barometer of the durability of upturns and downturns in industrial production:



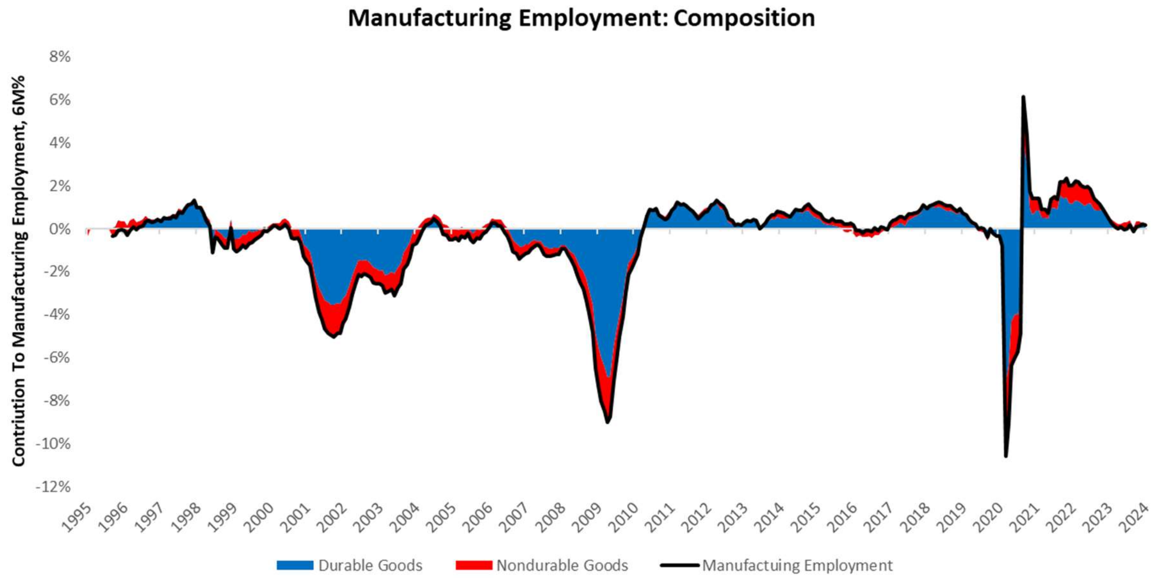
We see further evidence of these pressures in PMI data as well. We show how these measures remain in negative territory:



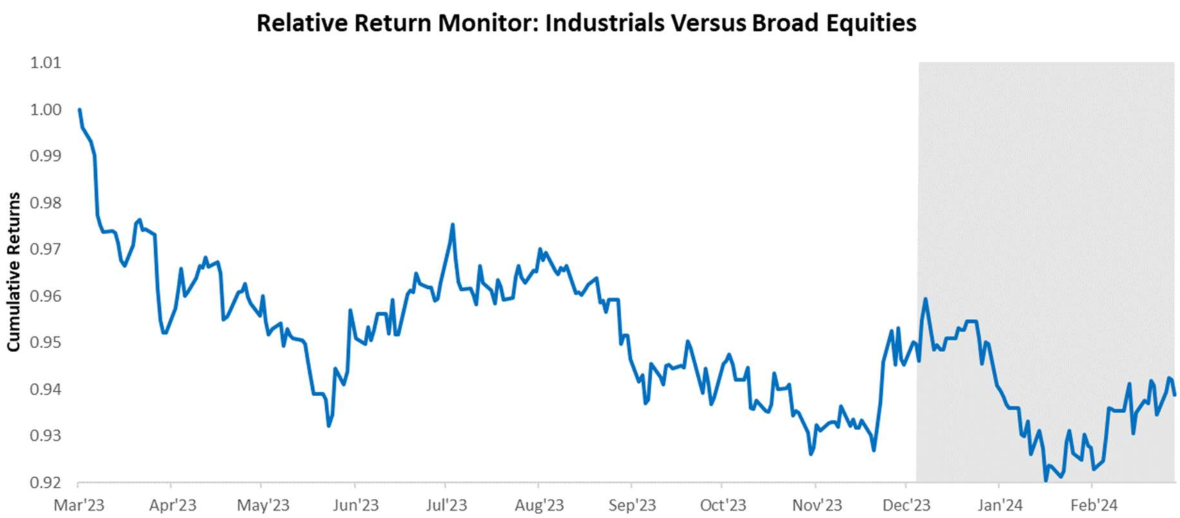
Our measures for manufacturing profits continue to show weakness as well. Below, we show how this measure has been a good guide for manufacturing's contribution to aggregate profits.



These dynamics continue to keep the pressure on manufacturing employment:



Over the last year, markets have moved to price these conditions. However, in the recent past, we have seen an uptick in industrial equities. Given the fundamental conditions outlined here, we do not think this improvement in industrial equities is consistent with the likely forward path.

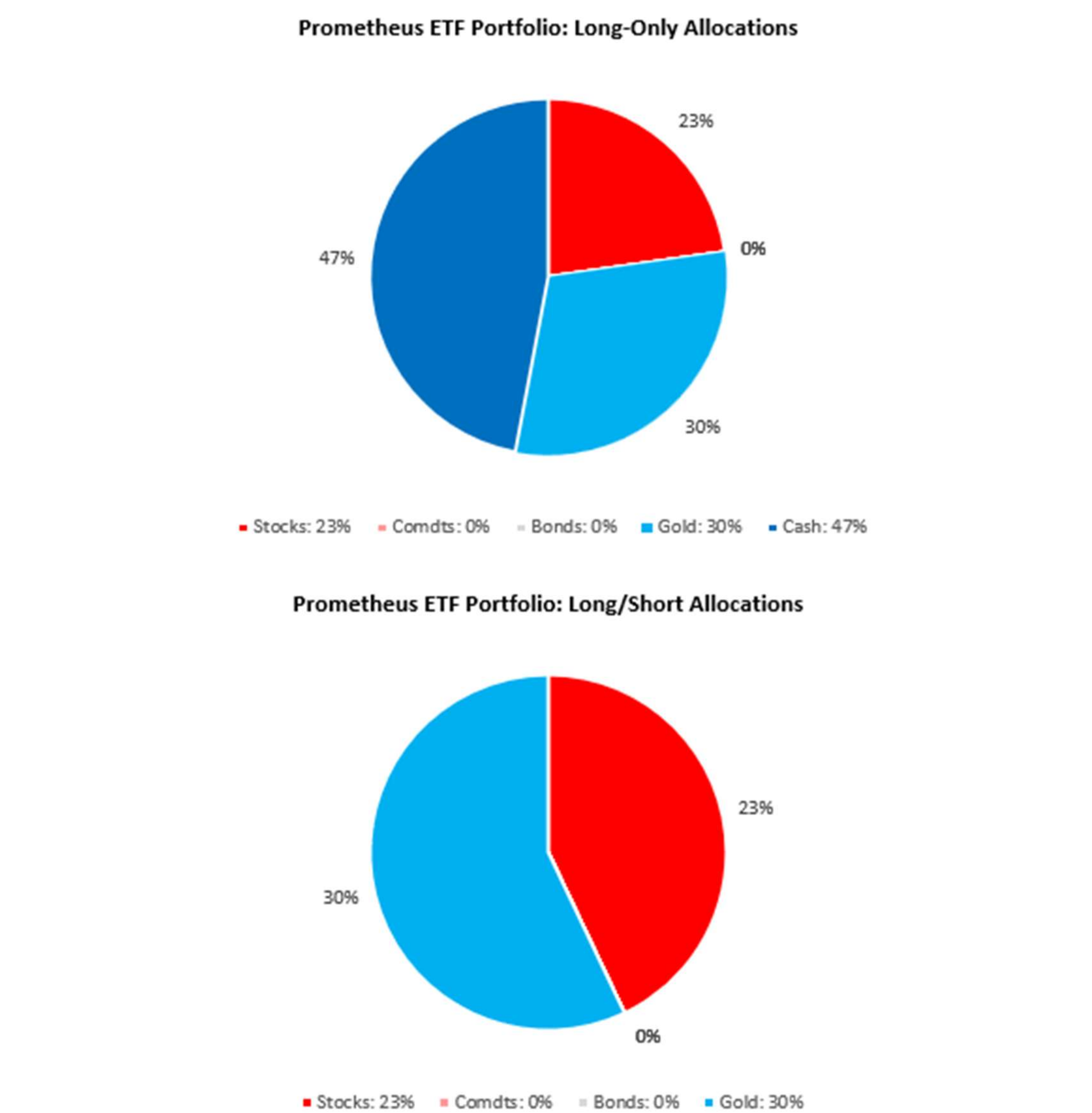


This ongoing weakness in the industrial sector dampens commodity demand and marginally reduces the potential for growth to accelerate. We allocate accordingly.

Prometheus ETF Portfolio: Allocations & Risk

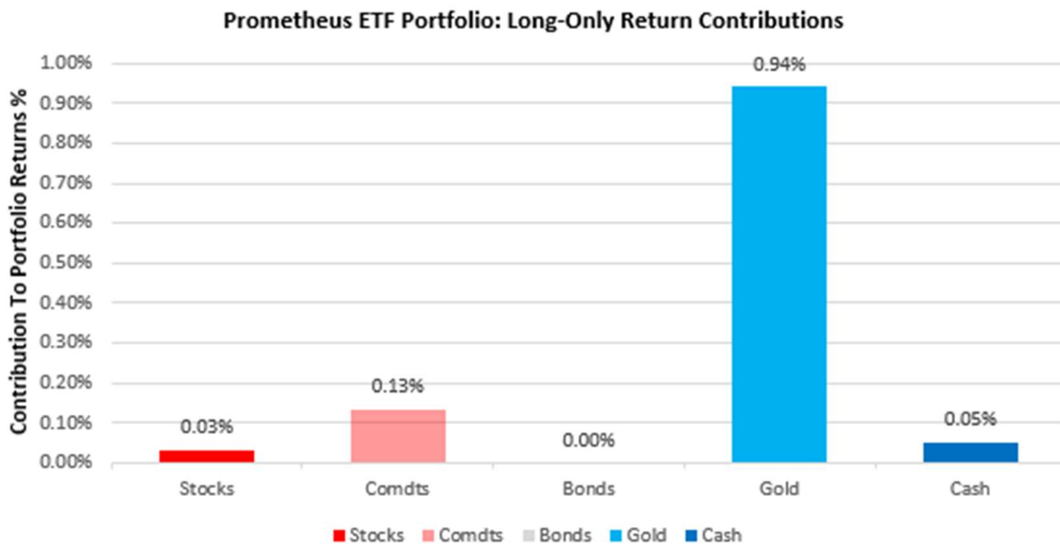
This section discusses the position and performance of our systematic allocations. In this context, our long-only strategy is looking to position long Stocks: 23% (SPY), flat Comdts: 0% (DBC), flat Bonds: 0% (IEF), long Gold: 30% (IAU), and Cash: 47% (BIL). Our long-short strategy maintains the same exposures, i.e. long Stocks: 23%(SPY), flat Comdts: 0% (DBC), flat Bonds: 0% (IEF), long Gold: 30% (IAU), and Cash: 47%(BIL).

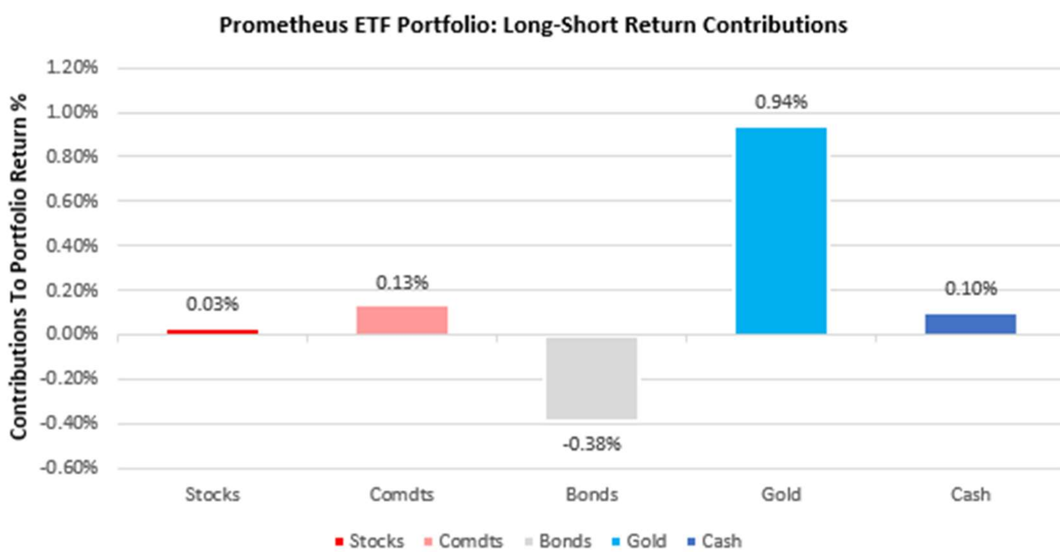
Prometheus ETF Portfolio: Allocations



Before moving further into our risk assessment, we examine recent returns on our allocations, as they provide context and inform our risk management. Over the last week, our long-only Prometheus ETF Portfolio was up 1.16%, driven largely by gains in stocks and gold, offset by commodity losses. Our long/short strategy saw a similar loss of 0.83% based on the same allocation. We show the contributions to these returns below:

Prometheus ETF Portfolio: Weekly Contributions

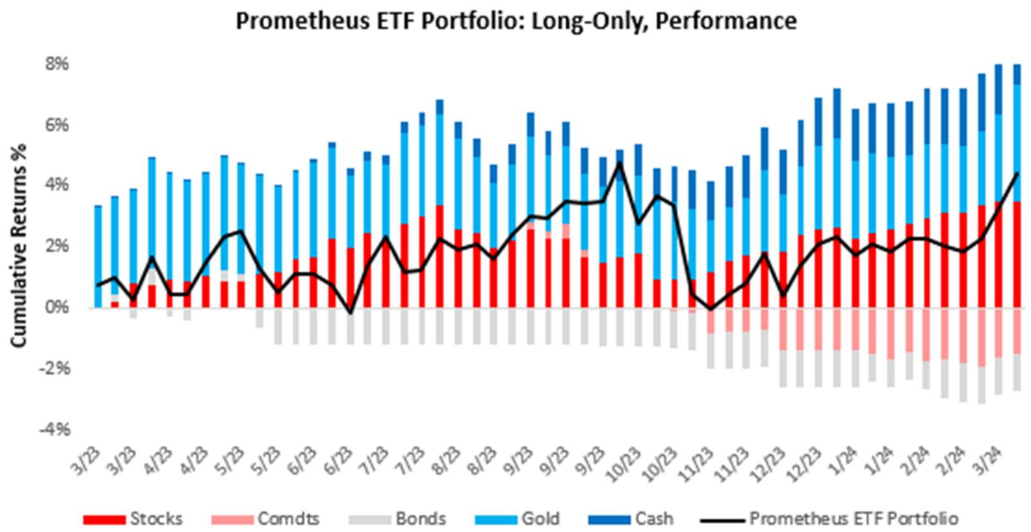


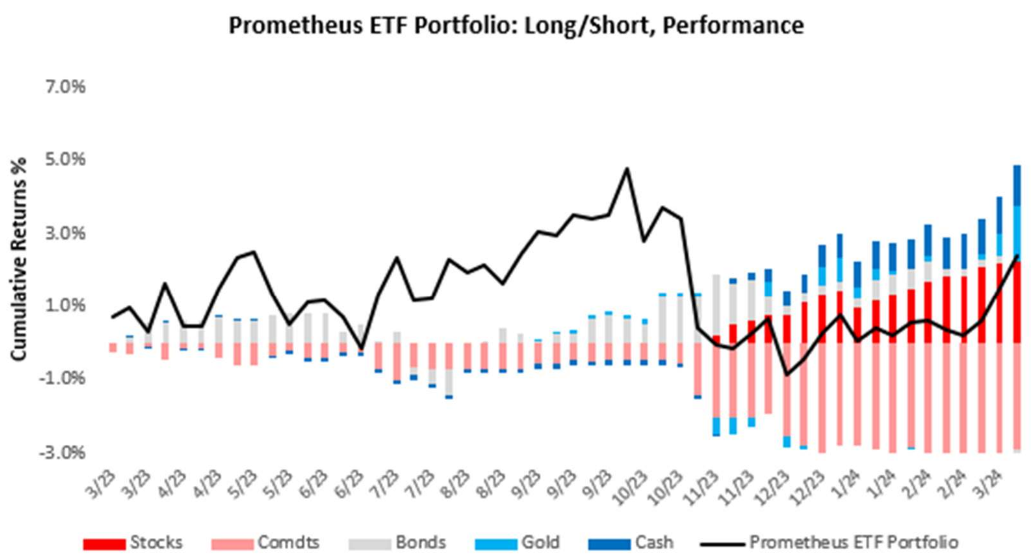


Our gold exposure was extremely additive to the portfolio this week, while our short positions in bonds weighed on our long/short portfolio.

For further context, we zoom out to offer the recent one-year trailing returns on the strategy since these inform our forward-looking risk controls. These include simulated returns as our approach is dependent; as time progresses, the simulated returns will drop off from this tracking. As a cautionary note, we highly recommend not chasing the most successful components of the strategy at any given time. While a single asset may contribute to the majority of over or underperformance at any given time, over long periods of time, our edges have been fairly evenly distributed by asset class. Timing the distribution of performance on these edges is a nontrivial and perhaps dangerous pursuit. With this in mind, we show the recent one-year contributions to performance:

Prometheus ETF Portfolio: Performance, Trailing 1-Year

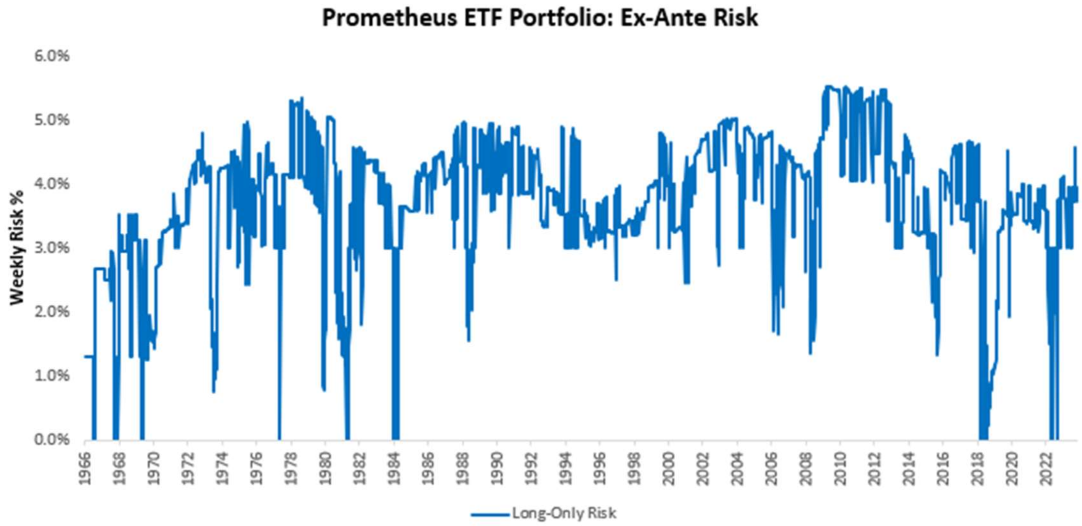


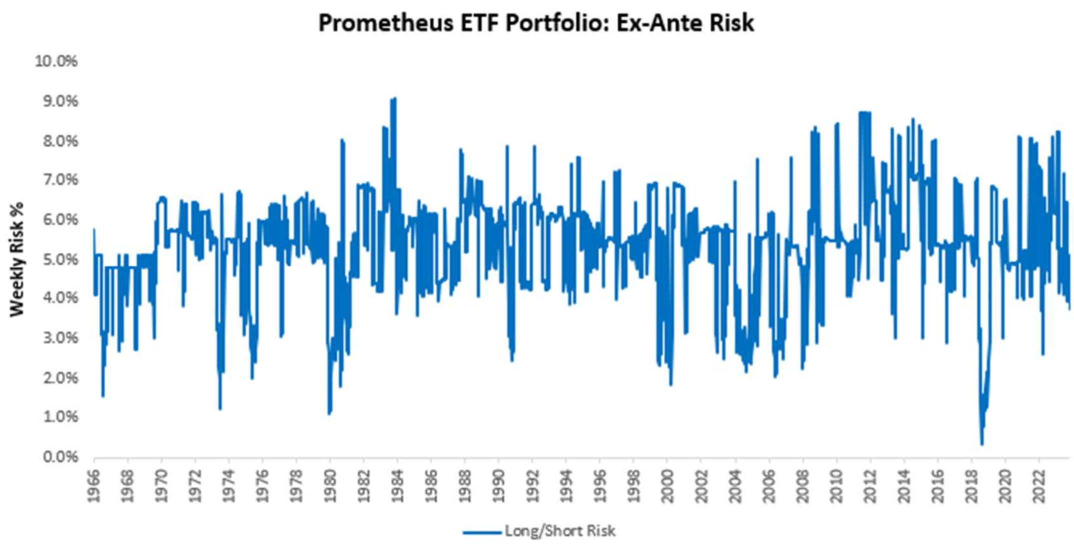


As we can see above, our strategies have begun to head higher, consistent with our recent alignment with the current macroeconomic trend. As always, we think it is best not to judge our strategies by how they make money, but rather how they control drawdowns so we can continue to compound over time.

We now turn to our risk management headed into next week. Heading into next week, we estimate our long-only allocation is running a risk of a loss of 3.7%. Our long/short process runs the same risk level with a potential loss of 3.7%. Recall that these risk estimates are multi-standard deviation losses across the portfolio with a zero percent hit rate. We visualize these losses below.

Prometheus Portfolio Risk Control: Ex-Ante Risk Estimates

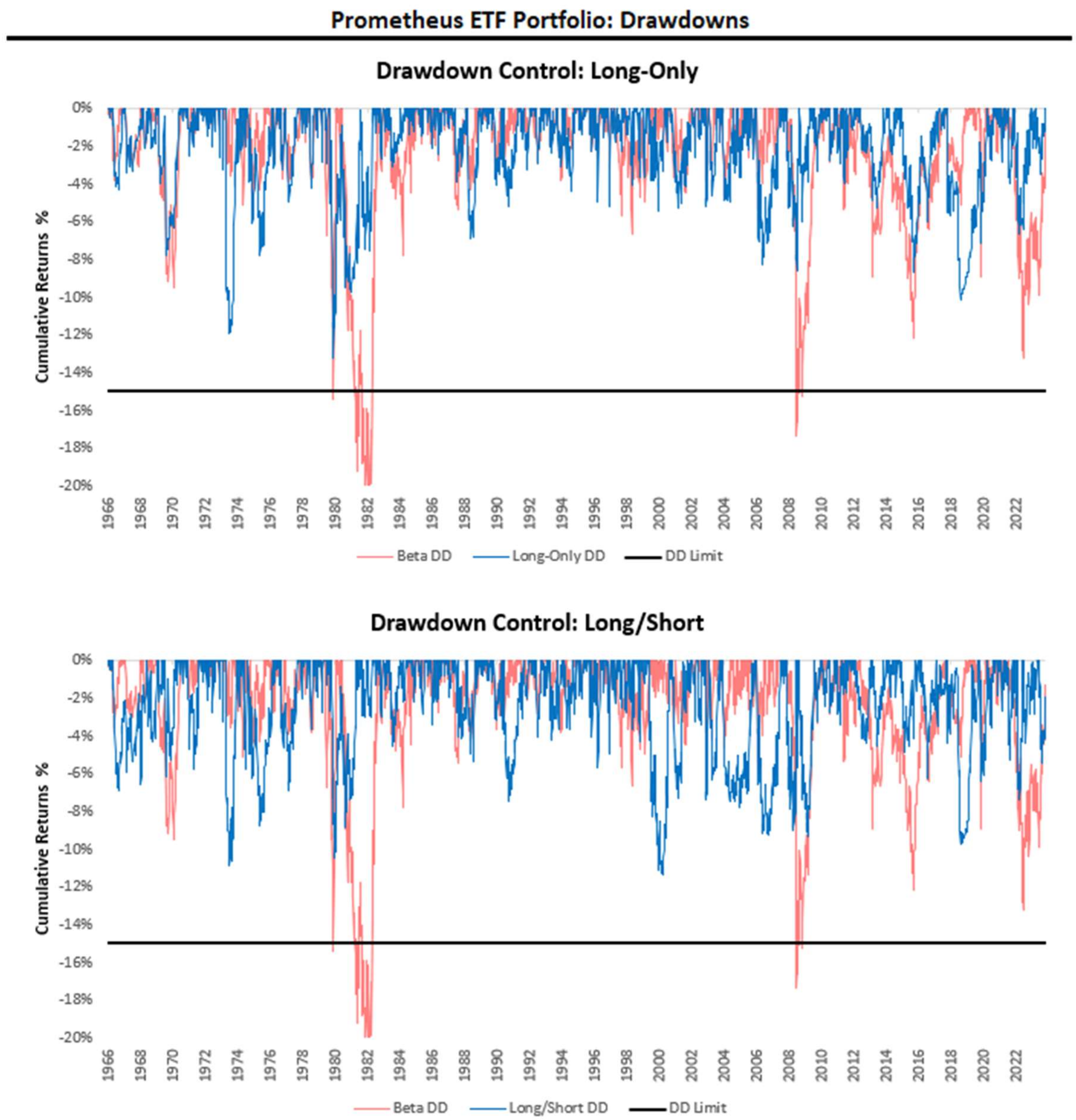




These loss numbers are intended to allow users to adjust their exposures as desired to meet their risk objectives. Those wishing more or less risk can scale up or down positions based on our ex-ante risk assessment. For instance, if our systems are running a 5% risk heading to the next week, but an individual desires a 2.5% risk, they may scale all positions down by 50% (2.5%/5.0%=50%) while scaling up their cash by the same amount. The inverse is true for taking on more risk.

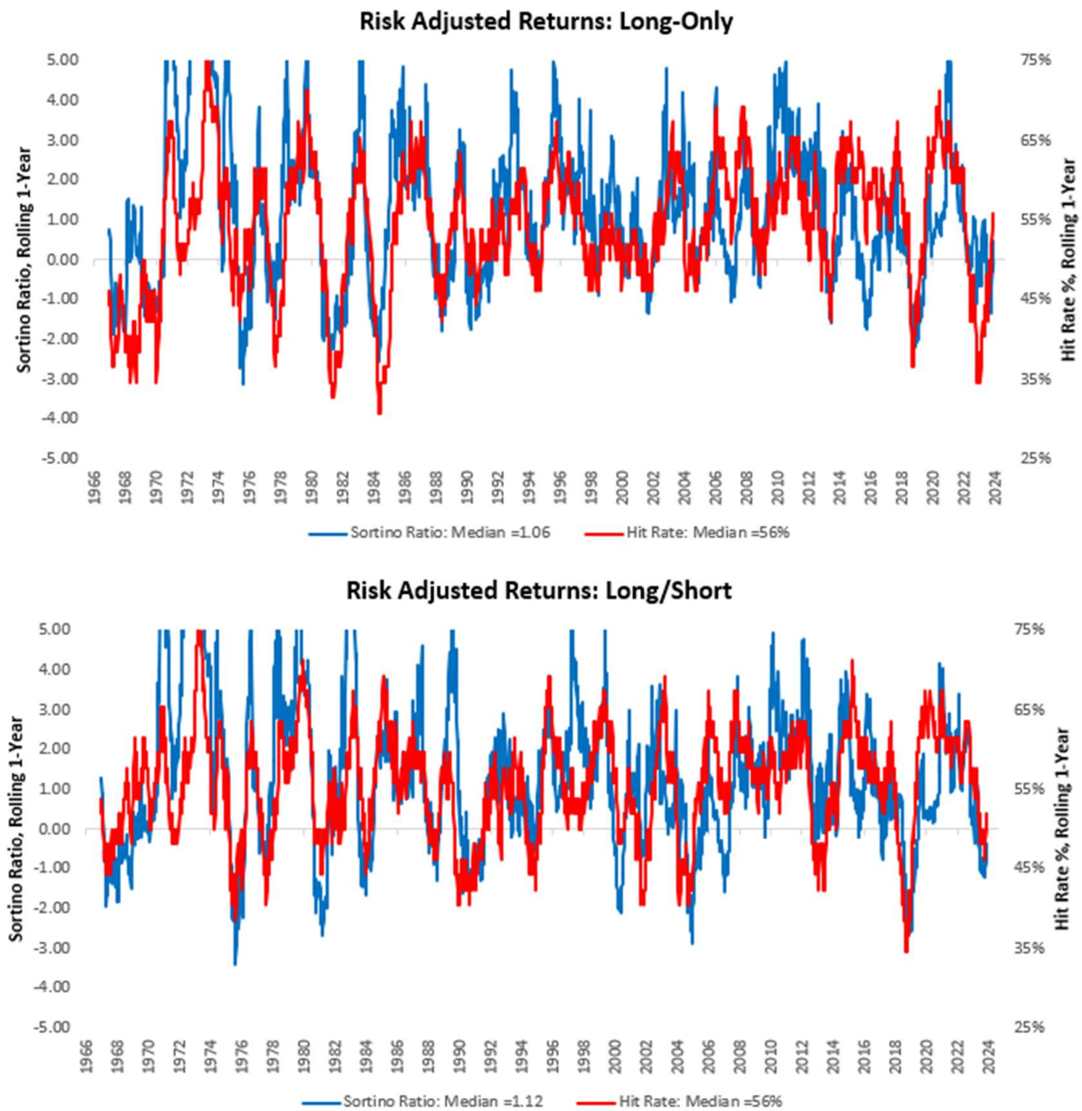
We think this is particularly important today, given the extremely low levels of risk our portfolio is taking. With cash positions this high, our volatility (4.5%) is significantly lower than traditional benchmarks (SPY: 10%) but, over time, largely consistent with a balanced beta benchmark. Our job is to get you the best return/risk we can generate. The risk is up to the user.

Next, we turn to our current drawdown profile. Our strategy remains well removed from drawdown limits, incurring no need to cut back on risk to maintain our drawdown profile for choice. Our long-only strategy is currently at a 0% drawdown (including simulation data), which does not warrant a pullback in risk. Our long/short strategy is currently in a -1.9% drawdown (including simulation data), which does not warrant a pullback in risk:



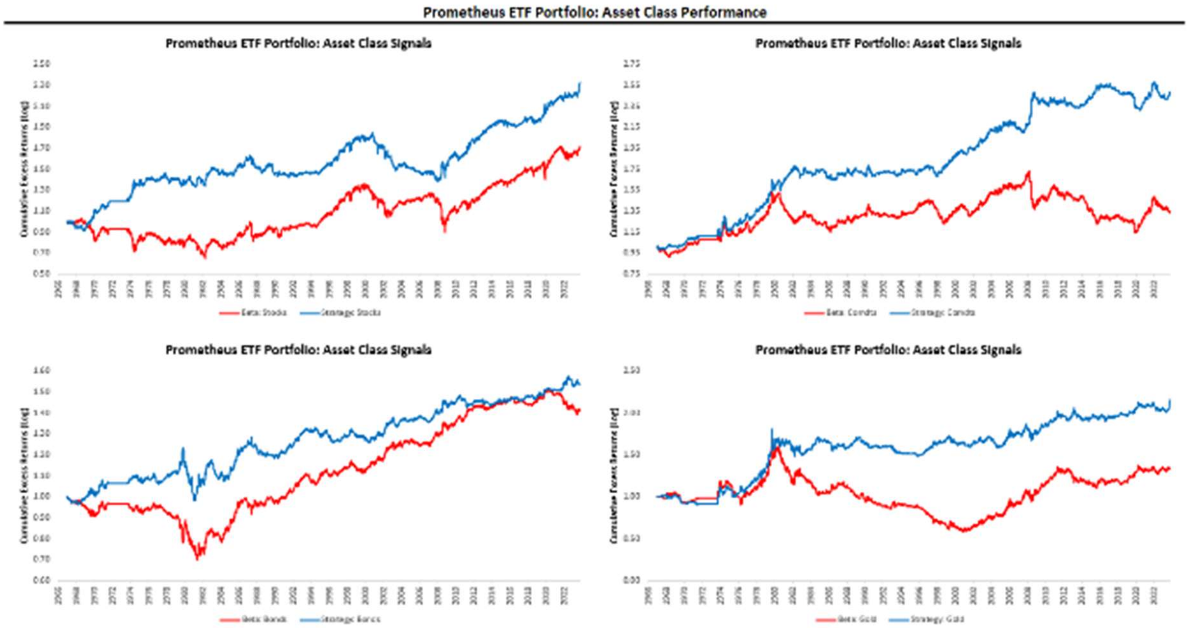
Next, we turn to our portfolio rolling portfolio hit rates and Sortino ratios to offer an understanding of the recent risk-adjusted measures. As visualized below, these typically have significant variance in the short term but are mean reverting over long periods.

Prometheus ETF Portfolio: Risk-Adjusted Returns



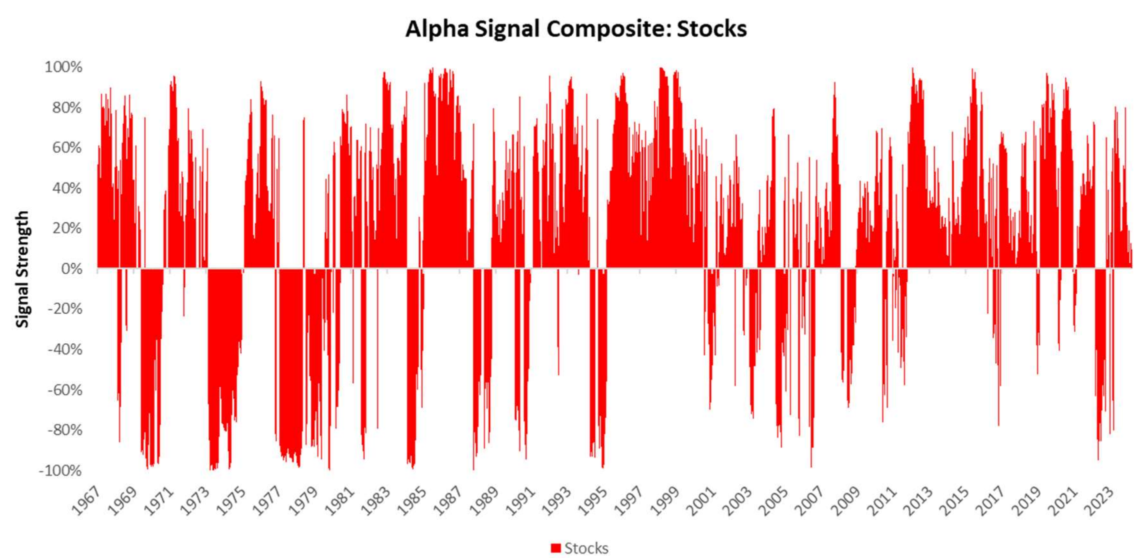
As is typical, our hit rates have begun to mean-revert. Since inception, our hit rates have been above 60% on the portfolio level, a performance we do not think is sustainable. Our long-term median hit rates are closer to 56%. Therefore, some reversion is likely. Overall, our portfolios continue to generate performance as designed.

Finally, we offer our alpha signal composites heading into next week to offer compositional insight. We show the outcomes these signals have produced over time for each asset class:

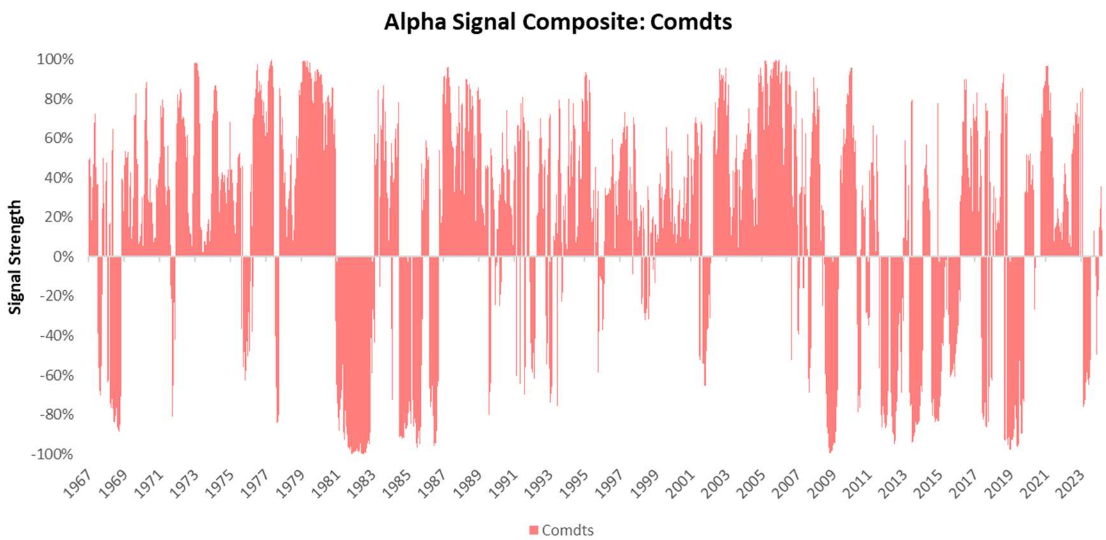


As a word of caution, we highly recommend not over-benchmarking to signal strength in any one asset class. Our edge in any one asset is modest at best. Our ETF Portfolio process was designed to work across assets, not for any specific one. While we expect these edges to outperform their benchmarks over long periods of time, we have no idea how these edges are going to be distributed for any one asset. Diversification is always essential.

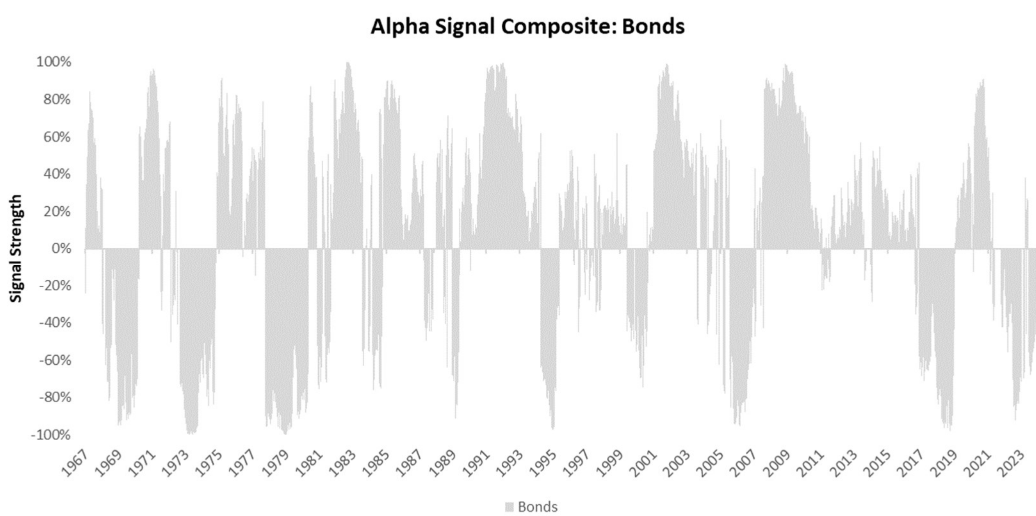
Stocks continue to look attractive in an environment where nominal growth remains resilient. While alpha opportunities are not abundant, beta is a suitable exposure in this environment:



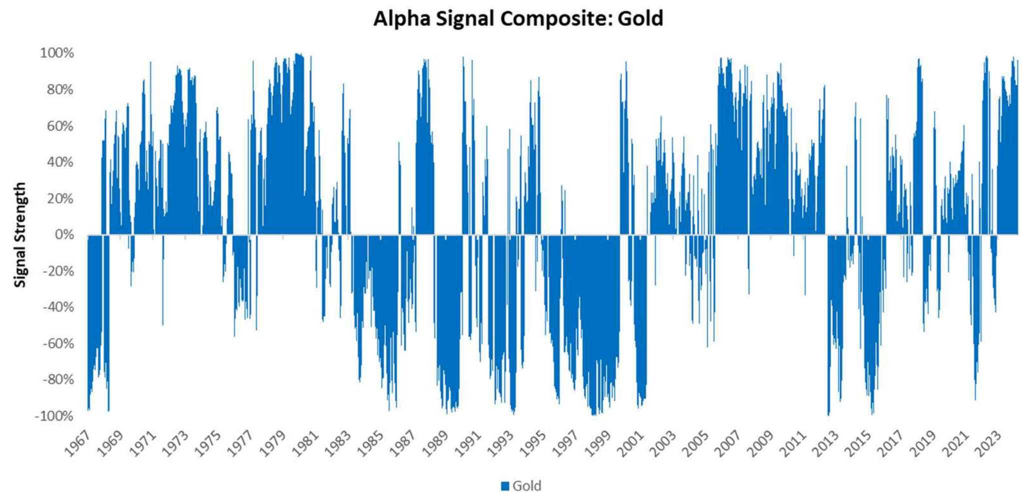
With industrial activity declining and nominal activity slowing, our commodity signals have begun to deteriorate:



However, policy expectations priced into bonds and the shape of the curve remain a headwind:



Finally, in an environment of elevated monetary liquidity, elevated valuations in stocks and bonds, and elevated inflation levels, gold continues to offer the most value:



Manufacturing has begun to deteriorate, but the aggregate economy continues to operate at high levels. This continues to weigh on bonds, but pressure is building on commodities. We remain long stocks and gold, which offer the most insulation from the current environment.

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