Defending Capital. Redefining Risk.

**Week ending February 5, 2016**

# Q-Tube Watch

A brief digest of the past week's market activity through the RPg quantitative model with a focus on evolving risk, reward and correlation trends and their implications for portfolio construction.

## *Q-POINT of the week: High volatility and correlation, but no capitulation yet*

1. **Increasingly cautious stance.** After the recent market correction, it is rational that our model, that incorporates recent asset price momentum, is positioning portfolios with more caution. As a result, allocation to equity has declined, and allocation to US Government bonds and short duration fixed income has increased. (During market sell-off, safe haven assets have historically been more resilient.)

2. **Higher volatility indicates a regime shift from complacency to caution.** Defensive sectors are outperforming cyclical sectors in this current environment. A series of weak and disappointing data releases have contributed to a volatile start of 2016 year-to-date.

3. **A low-return environment** and with correlation remaining high, the benefit of diversification is diminished. Hence, investors should be looking to reduce portfolio risk by holding more bonds or more cash than in past years.

**Domestic Indexes as of 2/05/16**

| Index | WTD | MTD | QTD | YTD | 1YR | 3 YR |
|---|---|---|---|---|---|---|
| S&P 500 | -3.11% | -3.11% | -8.02% | -8.02% | -8.85% | 79.03% |
| DJII | -1.59% | -1.59% | -7.00% | -7.00% | -9.39% | 59.64% |
| Nasdaq | -5.44% | -5.44% | -12.87% | -12.87% | -8.44% | 91.61% |
| RU 2000 | -4.79% | -4.79% | -13.22% | -13.22% | -18.45% | 81.26% |
| 10 Y UST | 0.63% | 0.63% | 3.56% | 3.56% | 2.46% | NA |

Source: Goldman Sachs

**Insights from the RPg ActiveParadigm Model as of 2/05/16**

| Asset Class | Trend | Key Message |
|---|---|---|
| **US Equities** | ↓ | Currently significant cash levels with defensive sectors, Consumer Staples and Utilities ON and overweight. |
| **International Equities** | ↓ | Currently 100% cash with NO country or regional sector ON. |
| **Fixed Income** | ↓ | High Yield, Inflation Protection and spread product sectors OFF |
| | ↑ | High Quality, Short Duration sectors ON. |
| **Alternatives** | ↓ | Currently 50% Cash and REITs ON; Gold, MLP's, and Core S&P 500 all OFF |

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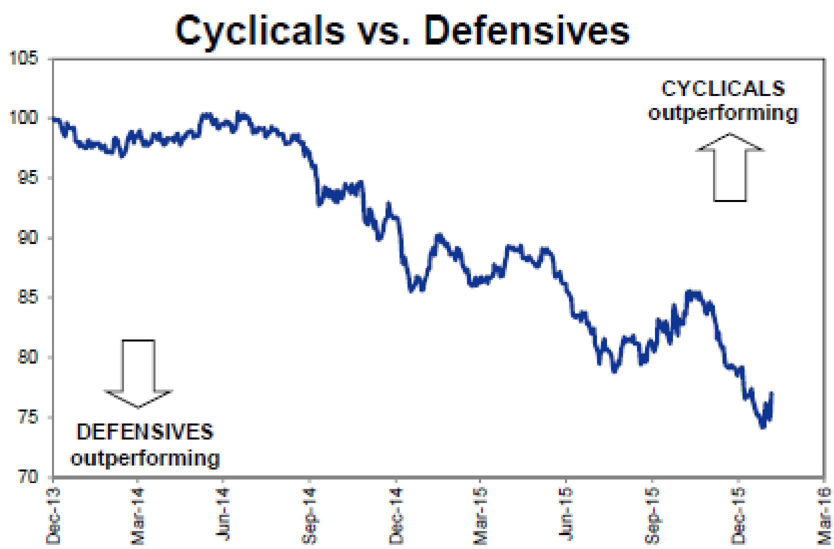
## *Q-OVERVIEW of the week: Recession fears rising*

The S&P 500 was down ~3% this past week. Materials was the best performing sector (+4.8%) while Consumer Discretionary was the worst performing sector (-5.4%). Investors continue to focus on the prospects for a US recession, citing in the past week the ISM manufacturing survey of 48.2, weak construction spending, rising jobless claims, and no growth in personal spending.

Over the past three months, volatility of equity markets increased, especially for Asian markets like China, which has been the most volatile. RPg's portfolios have evolved to a more defensive nature with defensive sectors remaining an overweight in equities, a US bias in equities, high quality, short duration fixed income, and cash.




Source: Goldman Sachs Investment Research

## *Q-TREND of the week: Momentum continues to move to safe havens*

The ISM non-manufacturing index, which has represented the strength of services and consumer despite weak industrial data, remains above 50 but declined sharply from 55.8 to 53.5, falling for the third straight month. These data add to investor concerns about downside risk to the US from China, the dollar, and commodity prices.

RPg Tactical ETF solutions have come through one of their most challenging periods, a trendless whipsaw environment which led to the portfolios becoming defensive both in allocation and in sector exposure. Should this increase in volatility continue and risk assets continue to sell off, the RPg Tactical solutions should be well positioned to defend capital, which for RPg is priority number one.

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References to Indexes
The S&P 500 Index is an unmanaged index of 500 stocks that is generally representative of the equity performance of larger companies in the U.S. Please note that an investor cannot invest directly into an index.

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Sources: Bloomberg. Goldman Sachs Investment Research. 

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