RPg asset management
Defending Capital. Redefining Risk.

Week ending February 26, 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: The data is still mixed, but tipping back to better

1. **The whipsaw continues:** For the week ending February 26th, the S&P 500 was +1.58%. The S&P 500 started the year by falling 10% but the index has recently surged ~7% and the index stands ~4% below the start of 2016.

2. **Factor shifts keeping investors off balance:** Growth stocks have recently outperformed value stocks; however, value stocks still have a slight edge YTD. Through the lens of our model, we are also seeing "quality" factors lead in February. Our model identifies this by the improving score of the high quality biased ETFs we screen improving more quickly than the market cap weighted sector ETFs.

3. **Energy:** Energy's intra-week volatility, and the violent momentum swings in oil has coincided with the equally violent swings in the S&P 500. These violent moves in oil have illuminated the shifts in growth vs. value, and momentum may be explained by the volatile price of oil.

Domestic Indexes as of 2/26/16

Index	WTD	MTD	QTD	YTD	1YR
S&P 500	1.58%	0.40%	-4.69%	-4.69%	-7.71%
DJII	1.51%	1.05%	-4.51%	-4.51%	-8.64%
Nasdaq	1.91%	-0.51%	-8.33%	-8.33%	-7.97%
RU 2000	2.69%	0.17%	-8.69%	-8.69%	-16.30%
7-10 Y UST	-0.07%	0.95%	3.90%	3.90%	4.13%

Source: Bloomberg Finance L.P., JP Morgan

Insights from the RPg ActiveParadigm Model as of 2/26/16

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 Gold ON; REITs, MLP's, and Core S&P 500 all OFF.

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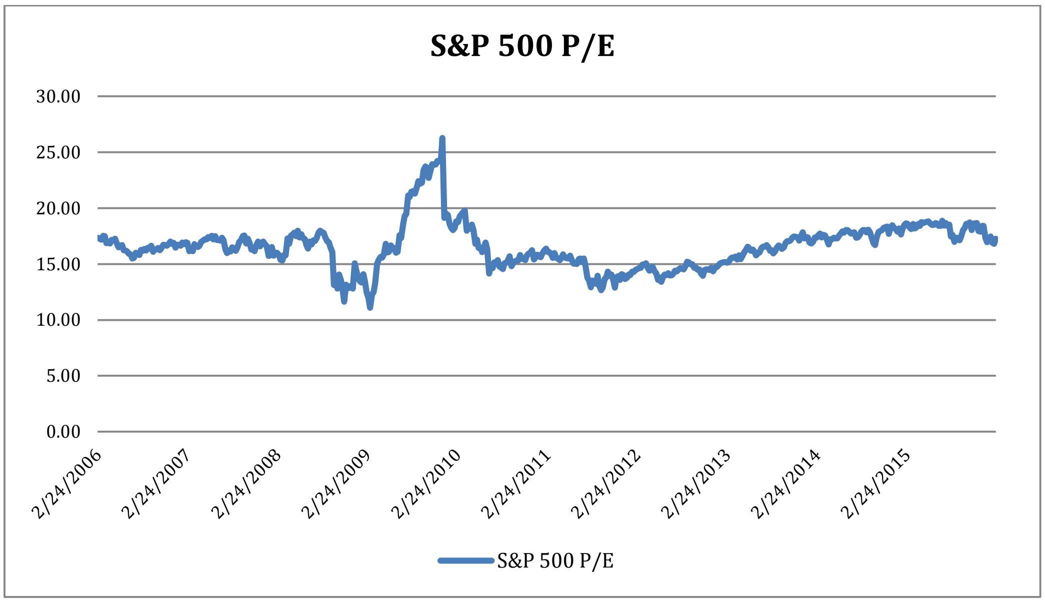
Q-OVERVIEW of the week: Data Continues to shows signs of mild improvement

US stocks gained some ground this week on the back of better data. Friday's Q4 GDP revision, CPE report and consumer credit survey were encouraging. In addition, after seeing evidence that the consumer is still spending in weeks prior, volatility receded as there seems to be less of a focus on tail risk.

While we can continue to point to data that is more constructive for risk assets, any given day can bring with it news that suggests the US economy is more opaque than it has been in the post-crisis era. But on the whole, February has been a month of better growth data than we saw in January. The S&P 500 continues to trade at a 2016e P/E of 15.98X (Bloomberg Estimates) - back up near the high-end of its post-crisis range.



Source: Bloomberg Finance L.P.

Q-TREND of the week: Receding systemic risk (for now)

Domestically, the S&P 500 was up 1.58% this week as Consumer Discretionary was the best-performing sector (+3.3%), and Energy was the worst performing sector (-0.3%). Globally the market has been contemplating the impact of having to pay someone to hold your money. Markets haven't reacted well to the unprecedented position of negative rates with Japan best illustrating this point as its currency strengthened and its stock market declined on the back of the BoJ's announcement to introduce a more aggressive negative rate policy.

RPg Tactical ETF solutions have weathered (and may still be in) one of their most challenging periods, a trendless whipsaw environment which led to the portfolios becoming defensive both in allocation and in sector exposure. We view this as an opportune time to establish or adjust point of entry in the portfolios. Should this environment persist, the RPg Tactical solutions should be well positioned to defend capital, which for RPg Asset Management 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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