Defending Capital. Redefining Risk.

Week ending February 19, 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: Several developments help explain the sharp sentiment shift

1. **Growth:** Talk of a US recession that grew as the market corrected faded this week as hard data provided a counterpoint to those who were seeing a slowdown. Namely credit card and auto loan activity remains robust.

2. **Oil and credit:** Higher crude oil prices helped support stocks and have allowed high yield to outperform investment grade fixed income. This led to some of the default risk concerns to subside which had been weighing on some stocks in the energy complex. Oil's boost came in part from signs of supply restraint within the energy complex.

3. **Financials:** Banks and diversified financials, still the worst performing sector in the S&P 500 YTD posted strong gains this week as concern around tail risk in Europe's Banking system receded a bit.

Domestic Indexes as of 2/19/16

Index	**WTD**	**MTD**	**QTD**	**YTD**	**1YR**
S&P 500	2.84%	-0.45%	-5.93%	-5.93%	-8.57%
DJII	2.62%	-2.75%	-7.99%	-7.99%	-8.86%
Nasdaq	3.85%	-2.37%	-10.04%	-10.04%	-8.53%
RU 2000	3.91%	-2.46%	-11.09%	-11.09%	-17.75%
7-10 Y UST	-0.13%	1.01%	3.96%	3.96%	4.83%

Source: Bloomberg Finance L.P., JP Morgan

Insights from the RPg ActiveParadigm Model as of 2/19/16

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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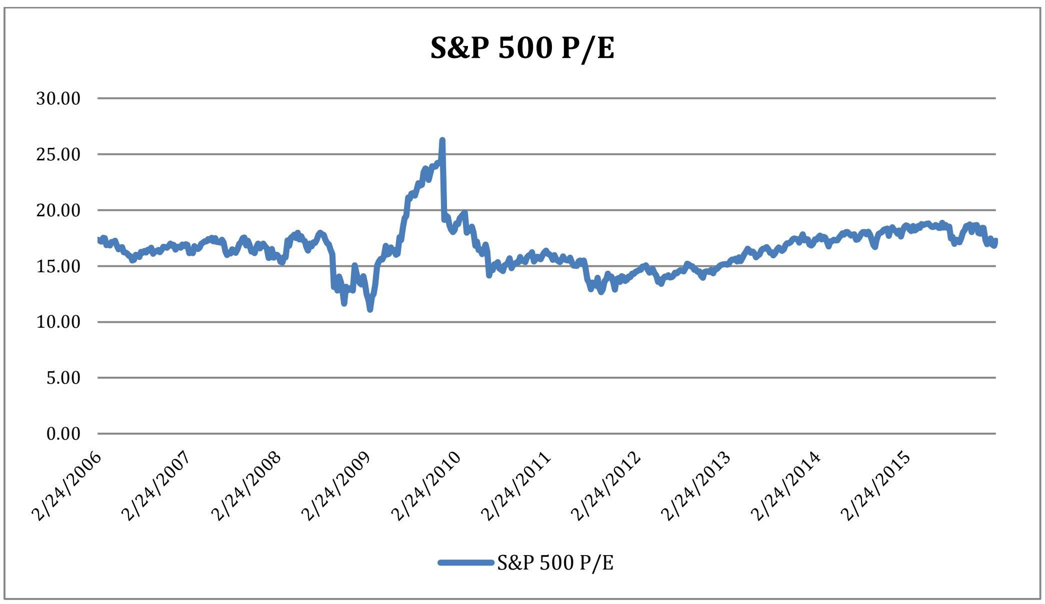
Q-OVERVIEW of the week: Recession fears easing but not gone

This week's rally - which built off of last Friday's strong bounce off a recent stock price bottom - has been attributed to a number of technical factors, including the resumption of corporate buybacks and overly-bearish positioning. In addition to a strong consumer, weekly jobless claims are back near cycle lows, and even some industrial indicators are showing signs of life.

While we can point to fundamental data to be more constructive on risk assets, the sell-off we saw earlier this year also does not look like the temporary flash crash we experienced last August. Real tail risks appear to have emerged including European Banks, China's currency, and US rate policy. Additionally, following the recent rally, the S&P 500 trades 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)

The S&P 500 was up almost 3% this week as US stocks continued to rally which started late last week and have now erased almost half of the losses we saw at one point this year. Better US (and China) data, and a now re-set (and perhaps accommodative) monetary policy explanation helped boost stocks. Financials was the best performing sector (+6.5%) while Utilities was the worst performing sector (+1.7%).

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 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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Sources: Bloomberg. JP Morgan.

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