

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:** As goes the US consumer, so went the S&P 500 this week*

- 1. Tax reform** – US stocks finished the week strong as progress on tax reform resumed, markets digest an as-expected Fed Funds rate hike that had no impact on 10-year Treasury yields, and evidence that the US consumer is out shopping again.
- 2. Central Bank** – This was a big week for central banks. The US FOMC raised its benchmark rate by 25 bps at this week's meeting but did not signal any more aggressive rate hike stance than previously communicated.
- 3. Sector analysis** – Technology and both consumer sectors had solid weeks and pushed the S&P 500 to new highs. While we are not fundamental managers, we are seeing strong quantitative scores from sectors that can benefit from an ongoing capex cycle which would be supported by tax cuts if they arrive.

Indexes as of 12/15/2017					
Index	WTD	MTD	QTD	YTD	1YR
S&P 500	0.95%	1.14%	667%	21.86%	20.90%
DJII	1.34%	1.64%	10.65%	27.75%	27.24%
Nasdaq	1.43%	0.94%	7.05%	30.30%	29.06%
RU 2000	0.61%	-0.82%	2.90%	14.15%	13.67%
ACWI Index	0.62%	0.38%	4.52%	23.09%	23.08%
7-10 Y UST	0.20%	0.44%	-0.42%	0.74%	2.08%

Source: Bloomberg Finance L.P.

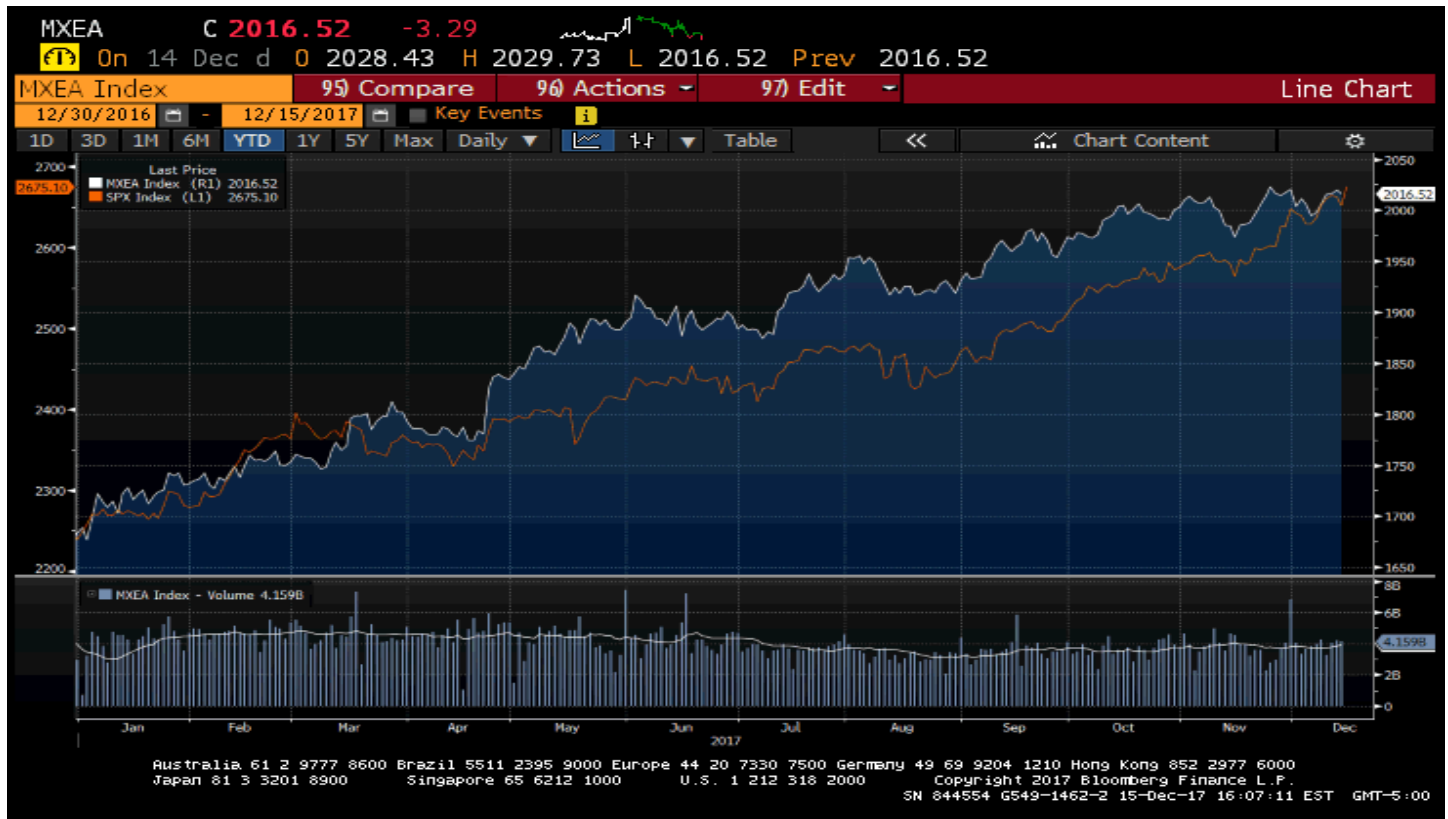
Insights from the RPg ActiveParadigm Model as of 12/15/2017

Asset Class	Trend	Key Message
US Equities	 Bullish	Fully invested – equally allocated to eight (8) of the nine (9) major sectors of the S&P 500 in our universe. Energy came on while Utilities was removed the week of 9/25.
International Equities	 Bullish	Since 12/9/2016, the International sleeve has been fully invested in all six (6) sector ETFs. EM, Japan and Europe continue to lead the way.
Fixed Income	 Neutral	With a neutral allocation to credit and rates, our scoring methodology is starting to favor credit and prefers shorter duration.
Alternatives	 Neutral	S&P core, REITs, and Gold are ON with only MLPs OFF.

Week ending December 15, 2017

Q-Trend of the week: Diversification is working this year, at least geographical

While international exposure was a headwind in recent years past, the MSCI EAFE index has added just under 23% YTD.



MXEA INDEX (MSCI EAFE Index), SPX INDEX (S&P 500 Index) – Source: Bloomberg Finance L.P.

Q- OVERVIEW of the week: Strong employment, rising incomes, consumer confidence and low inflation are the foundation of the economy's strength.

Data continues to suggest fourth quarter economic growth will be strong. Next week we will get more data and continue to see if the consumer is holiday shopping with strength and confidence. For the week ending December 15, 2017 the S&P 500 was up 0.95% with Tech, Consumer Cyclical and Staples leading while Utilities, Materials and Financials were the laggards.

As this current economic expansion matures (8+ years), we view this as one of the most opportune times in many years to establish a point of entry in the RPg tactical strategies. This should not be viewed as a bearish posture, but rather keeping a systematic eye on protection. The RPg Tactical solutions are currently well positioned to benefit from the continuation of the current cyclical rally. Our first priority, however, is defending capital by moving to a defensive posture when our process is expecting a bear market.

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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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