RPg asset management
Defending Capital, Redefining Risk.

# February 2017 Commentary

**Solutions based upon the TAG Tactical Portfolio Methodology**

*Risk Paradigm Group seeks to defend capital through our managed ETF strategies based on a rules-based methodology. The below portfolio insights are related to the TAG Tactical ETF managed portfolios available as separately managed accounts.*

**Overview**

*Consumer Confidence* and other sentiment indicators such as the *Regional Fed Reports* continued to show strong optimism over the prospects for the future US economy. Follow through showed up in a strong *Retail Sales* report and key *Manufacturing* and *Service Economy* indicators. While leading industrial and capital expenditures indicators remain negative, they appear to be on the cusp of an upturn. *Housing* remains mixed and is not the major driver of the economy that it once was. However, there is a warning sign on the horizon; despite record lows in *Weekly Jobless Claims*, delinquencies are rising on auto loans, motorcycles loans, and credit cards while overall *Consumer Debt* is back to the record highs in '07.

Overseas, the *Eurozone* recovery continues to strengthen with even laggard France now joining in that recovery. Despite all the dire warnings about Brexit, the UK economy is very healthy. *Japan* is making steady, if slow, progress on its economic recovery. *Emerging Markets* remain mixed with Brazil trying to recover from its energy and government corruption recession, India struggling with slowdown as it attempts reform, and China seemingly stabilized at a much lower level of economic growth.

The *US Bond Market* continued its recovery from the fierce October/November '16 sell off (the "Trump Tantrum"). The rally has been led by "credit" bonds which tend to rally with stocks on stronger economic growth expectations. *Foreign Developed Bonds* were flattish while *Emerging Market Bonds* (hedged) were strong like US "credit" bonds on the expectation for stronger US growth supporting emerging market economies.

**Tactical Income**

The current yield is 173% higher than the benchmark, even with a 20% allocation to lower yielding, short-term high-quality bonds which serve as a risk control for the portfolio. The total return was several hundred percentage points higher due to the 60% allocation to *"credit bonds*".

**Tactical Conservative**

An overweight to US "*credit bonds*" led to substantial outperformance.

**Tactical Moderate**

A 25% allocation to *US Large Cap Growth Equities* along with 20% allocation to *US "credit Bonds"* drove outperformance of its global benchmark.

**Tactical Growth**

Allocation to *Emerging Markets Technology* and *US Large Cap Growth Equities* plus 15% to *US "credit Bonds"* drove outperformance of its global benchmark. Also, 5% allocation to *Long Term US Treasury Bonds* was an important contributor as longer maturity bonds, which sold off more in the Trump Tantrum, now rallied more.

**Tactical Equity**

A 20% allocation to *US* and *Emerging Markets Technology* and 20% to *US Healthcare* were the key drivers for outperformance of the global benchmark.

**Outlook**

TAG's macro outlook suggests the US economy should remain healthy through the second quarter and likely through the third quarter. The risk remains whether a cyclical recession will set in before new fiscal stimulus can have a positive impact. We do not expect Fed rate hikes this year to negatively impact the economy; first, rates will still be stimulative; secondly, despite years of record Fed stimulus, it did not materially impact the economy (main street).

We do not expect Brexit to have a meaningful impact on the UK or Eurozone economies. They need each other's trade and, therefore, will find a way to modify the rules permitting that trade to continue. Emerging markets have some risk from a US border tax; but, their currencies will likely fall against the dollar, thus helping to mitigate some of the tax impact.

US *"credit Bonds"* should continue to outperform *"interest Bonds"* and *Foreign Bonds* will be under pressure from a rising dollar and more competitive *US Treasury Bonds*.

It is important to keep in mind that, despite their strong performance, all the TAG portfolios have risk hedges in place as part of their asset allocation. Therefore, they represent a prudent option for investors wishing to participate in these markets.

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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. 

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