

*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

Last week brought some disconcerting news on inflation as the *Export/Import Prices* were negative changes for the second consecutive month; y-o-y also weakened considerably down in the 1.5% range; this challenges Yellen's contention that the decline in CPI last month was "transitory"; this is standard Fed speak when facts don't materialize as they had forecasted. At the same time, serious concerns over the Trump agenda were increased from the failure of the Senate to pass a health care reform bill. Overseas, economic data from the Eurozone remained solid, so the ECB just couldn't resist mimicking the Fed by suggesting they may remove QE bond purchases by this year end. Put it all together, it presented a decidedly negative view on the Dollar; as a result, it declined -1.22% for the week; that would be a large move for a month. This caused *Foreign Equities, hedged* to be negative for the week.

As might be expected, *Global Aggregate Bonds, unhedged* were more than two times higher than *US Aggregate Bonds*. Within the US, *Interest Bonds* outperformed *Credit Bonds* consistent with the concerned view of the economy.

## Core Portfolios

All three portfolios capture a smaller percentage of their global proxies due to their position in *Foreign Developed Equities, hedged* and zero allocation to *Global Aggregate Bonds, unhedged*. They captured a good amount of their domestic proxies. The month to date notwithstanding, year to date all three portfolios have excellent performance against their domestic proxies and a solid showing against their global proxies. TAG has been reluctant to own *Foreign Bonds, unhedged* given their extremely low to negative interest rates; at such a level, a purchase is nothing more than a currency trade, which TAG does not consider an asset class; furthermore, when rates on these bonds do rise, they may suffer very significant principal losses which could overwhelm any positive currency effects.

## Specialty Portfolios

Tactical Income had a very strong week and continues its strong year to date returns from allocations to *Interest* and *Blend Bonds* versus *Credit*. There was also a strong contribution from our position in *Convertible Bonds*, which have benefitted from the rally in *Technology Equities*. The current yield is approximately 3.78%.

Tactical Equity captured a lighter portion of its global and domestic proxies due to positions in *Japan, hedged* and *US National and Regional Banks*. Doubts about future Fed interest hikes weighed on the outlook for banks' profitability from a positive interest rate spread. However, year to date performance remains excellent from positions in *Foreign, unhedged, US Technology* and *Healthcare*.

## Outlook

Our theme has remained consistent all year; will the economy run out of steam before realizing the benefits of any new fiscal stimulus programs. Corporate earnings look solid. However, the weak global inflation puts pressure on increasing revenue. As for the Dollar, with the Eurozone generating sub 2% GDP, we doubt how soon or aggressively the ECB will withdraw monetary accommodation; this realization could generate a Dollar rally in the second half of the year. *Technology* will continue to outperform other sectors if we stay in a subdued economy. The current unknown juncture in the US economy has led us to have some allocation to *US Value Equities*, but still maintaining an overweight in *Growth*. One area where the Trump administration is making considerable progress is de-regulation; this has been an outsized burden on smaller companies which should now benefit more significantly from regulatory relief; accordingly, we have a slight over weight to *US Small Cap Equities*. The portfolios remain thematically diversified which has generated consistent returns all year.

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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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