RPg asset management
Defending Capital. Redefining Risk.

April 2016 Commentary

Solutions based upon the RPg ActiveParadigm Methodology

Risk Paradigm Group seeks to defend capital through our ETF strategies based upon the RPg ActiveParadigm methodology. The below monthly commentary is related to the RPg Tactical ETF managed portfolios available as separately managed accounts.

Overview

U.S. equity markets were up slightly in April following strong performance in March as the S&P 500 ended the month up marginally. Energy was the strongest sector on the heels of increasing oil prices, while the Technology sector struggled from lackluster earnings and entered negative territory year to date.

Economic data in April largely disappointed, leaving heightened concerns that the recovery we saw in China's March data were simply a "greenshoot". Additionally, the final week of April saw both the US Fed and the BoJ do nothing which left some questioning whether rates are going any higher in the US anytime soon. While the month end volatility may remind us of the January – mid-February angst, there are a number of differences that suggest this may simply be a breather in a tape that ran up fast in a global economy that is experiencing tepid growth.

The industrial complex continues to expand albeit at a slower pace than expected, but expansion is different/better than the sub 50 readings we saw at the beginning of this year. Going back to March it was the first time the ISM manufacturing Index was over 50 since last August. As well, the consumer continues to show signs of strength. When you add the strength in payrolls and the low unemployment numbers one can see why growth is either on track to accelerate from here, or at least not decline dramatically, rather than turn down into a recession as many market participants thought in February.

RPg Tactical US Equity

The portfolio came into April fully invested in six (6) sectors. Late in April, the strategy added: Energy, Health Care and the Financials sectors, ending the month with 9 of the possible 9 sectors allocated to. The story of April centered on earnings (and in some cases lack thereof) and statements from the FOMC and the BoJ. Earnings results in many Tech and Financials companies fell short of expectations, and the do-nothing meeting of the BoJ led to enhanced levels of volatility in the final week of the month.

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RPg Tactical US Long/Short Equity

Coming into April, the portfolio was long six (6) sectors and had inverse positions in three (3) sectors. By the end of April, the strategy added long positions in: Energy, Health Care and Financials sectors. The allocation at the end of the month was long nine (9) sectors and a 10% allocation in cash.

RPg Tactical Global Balanced

RPg Tactical Global Balanced portfolio has targeted allocations to four asset classes: US Equity (33%), Global Fixed Income (28%), International Equity (28%), and Alternatives (11%). Below are highlights of the activity for each asset class within the portfolio for the month of April.

US Equity: The sleeve came into April fully invested in six (6) sectors. Late in April, the sleeve added: Energy, Health Care and Financials sectors, ending the month with 9 of the possible 9 sectors allocated to. The story of April centered on earnings (and in some cases lack thereof) and statements from the FOMC and the BoJ. Earnings results in many Tech and Financials companies fell short of expectations, and the do-nothing meeting of the BoJ led to enhanced levels of volatility in the final week of the month.

Global Fixed Income: The sleeve came into April fully invested in nine (9) of the ten (10) Fixed Income sectors. By the end of April, the strategy turned on High Yield and ended the month fully invested in all ten (10) of the possible Fixed Income sector ETFs. The sleeve contributed strongly to performance in April, as money has flowed into high quality sovereign fixed income, as well as inflation protection and spread products like high yield and EM sovereign debt.

International Equity: The International Equity sleeve entered the month of April fully invested in four (4) of the possible six (6) sector ETFs. In late April, the strategy added Asia ex-Japan and Europe to the allocation representing six (6) of the possible six (6) sector ETFs considered in the International allocation. The International Equity sleeve's performance benefitted from avoiding a significant portion of the global sell-off within the international equity markets that started back in May of 2015. Aggressive monetary stimulus measures from the ECB and BoJ shifted away from rates and more towards direct and unconventional means of qualitative easing with the BoJ entering the stock market.

Alternatives: The sleeve started April invested in the Gold ETF and REITs sector ETFs. By the end of the month, the strategy added MLPs to the allocation, ending fully invested in: Gold, REITs and MLPs sectors.

Outlook

As a quantitative rules-based asset manager who relies on data to drive the investment decisions, we do not make market forecasts. However, the portfolio allocation does offer useful intelligence to how the methodology is interpreting current market activity. Some specific observations:

- The US Equities allocation is fully invested. The risk on/risk off environment has been challenging, but the reversal of the trend in volatility in mid-February prompted the tactical strategy to add sectors and is in a bullish allocation.
- International Equity is in a bullish stance while fully invested in all six (6) country/region sector ETFs.
- The model is bullish within the Global Fixed Income sleeve as it has evolved to include the high yield sector and ended April invested in all nine (9) sectors.
- The alternatives sleeve is in a bullish stance with Gold, REITs and MLPs all ON.

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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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