

August 2014 – U.S. Tactical Core Strategy



After shifting to a 50% equity allocation at the beginning of September, the U.S. Tactical Core portfolio moved to a full equity position going into the back half of the month, with an overall allocation of 25% large cap, 50% mid cap, and 25% small cap. The U.S. Tactical Core portfolio gained 2.2% net-of-fees in August versus a gain of 4.0% for the S&P 500 Total Return Index.

Positive readings across the momentum and yield curve categories were sufficient enough to overcome mixed economic measures, and shift the mid-month tranche into a full equity allocation. This results in the overall portfolio being fully invested.

Momentum: Equity momentum strengthened across the period for large and mid cap equities and remained positive for small cap stocks. This was accompanied by decreasing Treasury momentum as well; with both the short-term (5-Yr) measure and the longer dated (10-Yr) moving lower and crossing into negative territory. This combination is generally indicative of a more favorable outlook for equity risk premiums.

Yield Curve: Rates rose across the curve with the 10-year constant maturity level hitting 2.6%. Similarly, slope measures steepened across the entire curve.

Economic: Model credit spreads were flat across the period. The VIX drifted higher, ending at just over 14. The VIX futures complex also increased. The economic level and growth rate both declined.

This improved outlook on the U.S. equity market does not mean stocks are guaranteed to rise over the coming weeks. There are many economic and geopolitical factors that can certainly disrupt the equity markets in either direction with little to no warning. However, our research suggests when we see the kind of moves we're seeing in our risk premium measures, it is better to increase equity exposure. This has been our process over the last ten plus years and it is the consistent application of this process that we believe is most critical to implementing a sound investment strategy.

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