MarketDesk U.S. Risk Demand Index

Real-time Measure of Investors' Willingness to Take Risk

Positioning

Current Takeaway Investors remain cautious across asset classes; Historically risk-on momentum is needed for above average market returns

Overview of Indicator

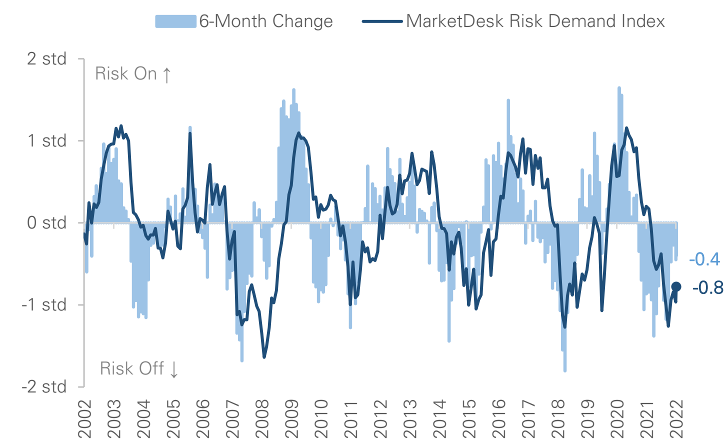
In order for markets to move higher you need a counterparty that is willing to buy what you are selling at a higher price. The MarketDesk Risk Demand Index is a quantitative model built to measure investors' willingness (or lack thereof) to increase portfolio risk. The composite index measures momentum across several asset classes including: equities, equity derivatives, credit markets, and foreign currencies. The index provides context on the current environment and signals future trend changes in investor preferences. See the "Composite Inputs" table for the underlying inputs and current readings.

How to Use

The MarketDesk Risk Demand Index should be viewed as a momentum signal rather than a contrarian signal. Historically, risk demand drops off well before the top in the market. This is why forward S&P 500 returns and win rates (i.e. the % of positive outcomes) tend to increase as the composite index moves above zero, and vice versa when the index moves below zero. When the composite index is above (below) zero, investors should consider increasing (decreasing) overall portfolio risk.

Figure 5 – MarketDesk Risk Demand Index

Latest Composite Index Reading and Current 6-Month Trend Change



Source: www.QuantPack.com

Figure 6 – Forward Performance Based on Historical Readings

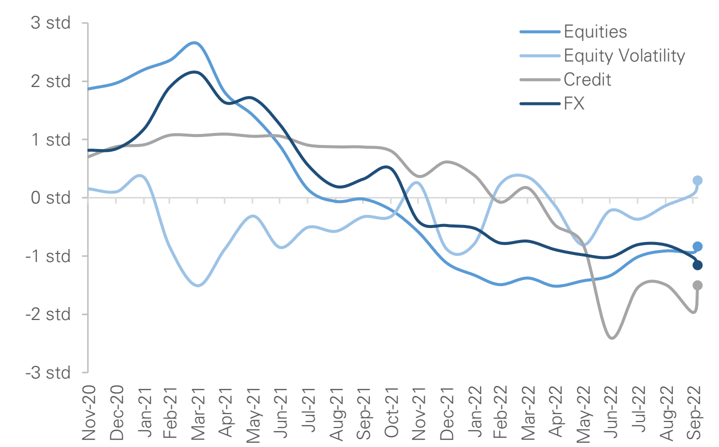
Historical Forward S&P 500 Returns (%) Since 2000

MarketDesk Risk Demand Index		3 Months Avg	3 Months Win %	6 Months Avg	6 Months Win %	9 Months Avg	9 Months Win %	12 Months Avg	12 Months Win %
Risk On	> +1.0 std	4.1	73%	4.1	60%	7.7	87%	12.0	100%
	> +0.8 std	3.6	79%	6.4	76%	9.8	94%	12.4	91%
	> +0.6 std	3.3	78%	6.9	82%	10.4	94%	12.7	92%
	> +0.4 std	3.5	83%	7.1	84%	9.5	89%	11.5	87%
	> +0.2 std	3.5	80%	6.5	83%	8.5	82%	10.3	80%
All Past Events		1.4	64%	3.0	68%	4.7	72%	6.5	72%
Risk Off	< -0.2 std	-0.3	53%	-0.8	55%	0.8	60%	2.6	62%
	< -0.4 std	0.0	55%	-1.0	51%	-0.3	56%	1.7	57%
	< -0.6 std	-0.8	49%	-1.6	48%	-2.0	50%	0.0	54%
	< -0.8 std	-0.9	53%	-0.7	50%	-1.7	53%	-0.2	53%
	< -1.0 std	-5.7	35%	-6.1	33%	-7.0	43%	-7.2	43%

Source: www.QuantPack.com. Note: Win % = # of positive events / total # of events.

Figure 7 – Risk Demand Indicator by Asset Class

Last 24 Months of Readings for Equities, Equity Volatility, Credit, and FX



Source: www.QuantPack.com

Figure 8 – MarketDesk Risk Demand Composite Inputs

Underlying Inputs of the Composite Index for each Asset Class

Asset Class	Composite Input	Measure	Z-Score	Reading
Equities	EM vs DM	Y/Y%	-0.43	Neutral
	US Cycl. vs Defen.	Y/Y%	-1.48	Risk Off
	Small vs Large Caps	Y/Y%	-0.36	Neutral
	High Beta vs Low Vol	Y/Y%	-1.08	Risk Off
Equity Vol	VIX & VSTOXX	Y/Y	0.96	Risk On
	CBOE Skew	Y/Y	-1.28	Risk Off
Credit	US HY vs IG	Spreads	-1.02	Risk Off
	EUR HY vs IG	Spreads	-1.52	Risk Off
	US IG	Spreads	-1.56	Risk Off
	EUR IG	Spreads	-1.93	Risk Off
FX	JPY/AUD	Y/Y%	-0.14	Neutral
	CHF/GBP	Y/Y%	-1.61	Risk Off
	USD Index	Y/Y%	-1.72	Risk Off

Source: www.QuantPack.com

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