# WEEKLY INSIGHT

LEVEL FOUR CAPITAL MANAGEMENT

## MARKET COMMENTARY

### LAST WEEK:

U.S. equities were mixed last week with the Dow falling .04%, SPX .16%, and Nasdaq bucking the trend ending up .16%. Small caps underperformed broader markets with the Russell 2000 experiencing its worst week in nearly three months. The decline in the S&P 500 ended its five-week winning streak as most sectors finished lower, led by Materials (Chemicals & Steel), Consumer Staples, Health Care (Managed Care & Biotech), Utilities, Financials (Banks), Consumer Discretionary, and finally Communication Services despite seeing strength in Internet names. Energy was one of the few bright spots on the week with Exploration & Production companies providing upside in the space after WTI crude gained 2.2%, led by Friday's 3.06% rally in the commodity which stemmed from geopolitical concerns returning to the spotlight.


*Source: Bloomberg as of 01.07.20*

Despite the fairly volatile start to the year, investors' outlook still appears to be predominately bullish, due to:

- An accommodative Fed
- Stable global growth outlook
- Favorable positioning and sentiment
- The FOMO (Fear of Missing Out) Trade

The holiday week started out fairly uneventful, however geopolitical concerns upended the peace after President Trump ordered an airstrike in Iraq that killed Qaseem Soleimani, one of the most powerful generals of Iran. The attack carried out by the United States further complicates an already tense relationship between the U.S and Iran, sparking fears of heightened retaliations between both nations. Experts agree the move is arguably the most significant foreign policy/geopolitical event thus far of the Trump presidency and risks sparking a much broader escalation in the region. After news of the strike broke on Thursday evening, U.S. equities reversed most of the gains from earlier in the week. On Friday, a risk-off shift was followed with the flattening of the yield curve, while gold (ended +2.3% higher) and the risk-sensitive Yen both rallied. Given the recent market rally, some strategists have pointed out that with elevated market multiples, it could mean that there is less margin for error and with geopolitical headwinds forming, this could leave investors susceptible to volatility in the near term.

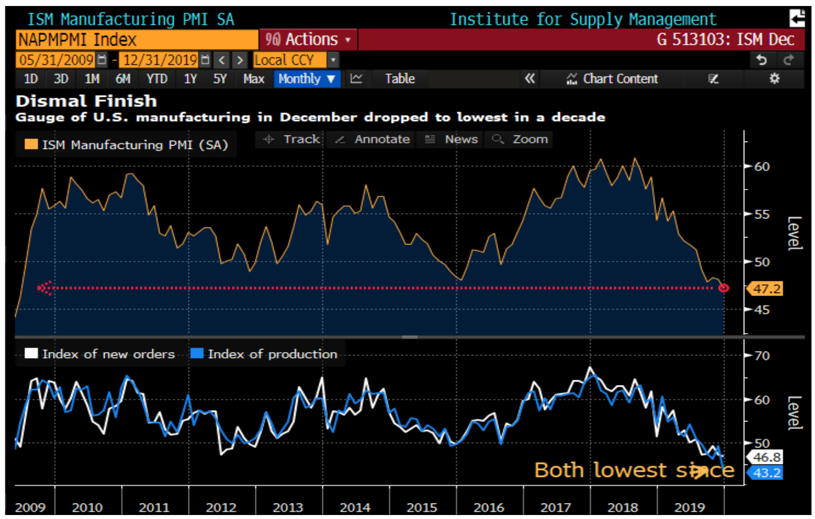
Trade optimism originally provided a very slight tailwind early in the week as President Trump announced that he would be signing the Phase One deal on January 15th. Despite the official announcement, follow through to equity markets was limited and only provided a minor bump to stocks. Market bears continue to voice their concerns pointing to Chinese officials who have yet to publicly commit to increasing imports of U.S. goods & services by $200B over two years as stated by U.S. officials. Looking forward to potential next steps on the trade front, President Trump said he would travel to Beijing in the future to start Phase Two negotiations where he is expected to push for more concessions on structural reform.

On the data front, the December ISM Manufacturing Index fell 0.9 points month-over-month to 47.2 which missed expectations of 49.0 as various components including:

- New orders
- Production
- Employment
- New export

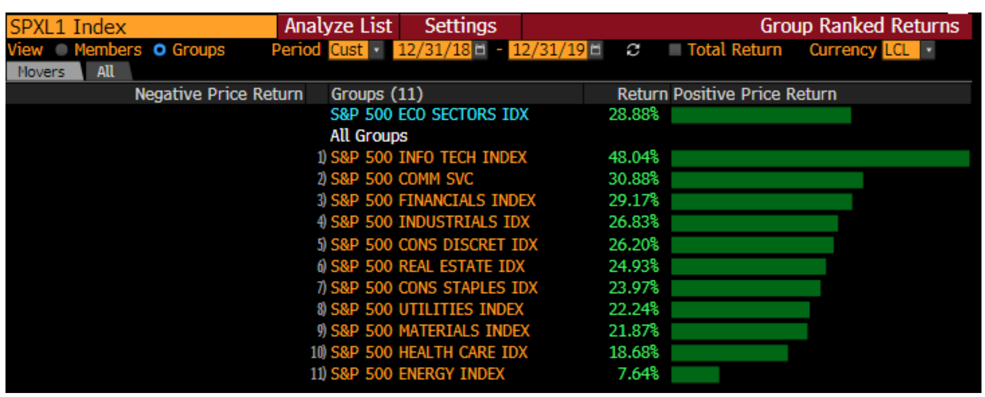
All of these components declined from their November readings. The report was the worst headline number since June of 2009, the fifth-straight month of contraction, and the eighth monthly decline in the past nine months. Even as manufacturing data remains weak, it continues to be offset by strong consumer data.

As we start 2020, we wanted to take a moment and point out a few interesting statistics from an incredible 2019:




*Source: Bloomberg as of 01.07.20*

- In 2019, investors saw a non-discriminatory rally with Energy & Healthcare being the only sectors that did not finish the year +20%. *(refer to bottom graph)*
- Technology gained 48%, which was the largest yearly increase since 1999 and the third largest overall rally since the early 90s.
- Semiconductor stocks **AMD, LRCX** and **KLAC** were the three best performers, gaining +148%, +115% and 99%
  respectively.
- It is worth mentioning **AAPL,** which was the most impressive and gained +86% while its Market Cap increased by $556B. The increase alone was larger than every other company's Market Cap in the S&P 500 excluding FANG names MSFT, GOOG, AMZN and FB.
- In 2019, Apple and Microsoft accounted for one-third of the Nasdaq 100's great 37.8%.
- 448 of the 505 members of the S&P 500 index gained on the year (89%), while 62% of those members saw gains over +20%.
- Hedge Funds (HF) continue to falter and in the last five years, more than 4,000 HF liquidated with many continuing to succumb to pricing pressures and lackluster returns. In 2019, the Hedge Fund index was up 10%, trailing the S&P by more than 17%.




*Source: Bloomberg as of 01.07.20*

## THIS WEEK

U.S. equity indexes closed higher to start the week as the risk-off rally sparked by the U.S.-Iran conflict lost momentum Monday. The tech heavy Nasdaq Composite rallied more than 100 points off its intraday lows, while the Dow rallied after being down over 200 points as markets seemed to brush off the negative sentiment that weighed on capital markets early in the session. The S&P was led higher by Communication Services, Energy, Healthcare, Consumer Discretionary and Technology. Both Crude & Brent prices pared early session gains and finished off their best levels of the day after touching seven-month highs, while gold which initially jumped to more than 6-year highs, retreated slightly to finish up .87%.

| Ticker | | Last | Chg on D | %1D |
|---|---|---|---|---|
| AMERICAS (15) | | | | |
| DOW JONES INDUS | | s28,703.38 | +68.50 | +.24% |
| S&P 500 INDEX | | 3,246.28 | +11.43 | +.35% |
| NASDAQ COMP | | ↑9,071.465 | +50.695 | +.56% |
| DOW JONES TRANS. AVG | | s10,848.73 | -62.67 | -.57% |
| ML FANG | | ↓239.22 | +5.13 | +2.19% |
| S&P 500 Buyback | | 19,309.31y | -207.03 | -1.06% |
| RUSSELL 2000 | d | ↑1,663.257 | +2.387 | +.14% |
| S&P 400 MIDCAP INDEX | d | ↓2,054.16 | -1.51 | -.07% |
| Weak Balance Sheet US | | ↑385.89 | +.59 | +.15% |
| Strong Balance Sheet | | ↑348.39 | +1.28 | +.37% |
| Most Short Rolling | | ↑155.51 | +.60 | +.39% |
| S&P 1500 Composite Index | | ↓743.7000 | +2.3283 | +.31% |

*Source: Bloomberg as of 01.07.20*

Tensions in the Middle East continued to escalate over the weekend after President Trump warned of a "disproportionate" response if Iran were to retaliate against American people or U.S. interests. The President issued a stark warning to Iran that U.S. officials have targets on 52 Iranian sites (representing the 52 American hostages taken by Iran many years ago), stating "some at a very high level and very important to their culture" that would be struck "very fast and very hard" if they decided to retaliate against the United States. In addition to the ongoing tensions with Iran, the Iraqi parliament voted to expel all U.S. troops from the country, raising tensions even further and drawing additional comments from President Trump who in response said Baghdad would be sanctioned "like they've never seen before ever," and that "it'll make Iranian sanctions look somewhat tame," referencing the 1,000+ economic sanctions the U.S. has imposed on the country.

With investors paying close attention to geopolitical issues, they will soon have to pivot and turn some attention to quarterly earnings which are set to begin next week. Other focus surrounds the U.S. monthly employment report, which is due out Friday, as well as various Fed speakers including officials Richard Clarida, John Williams, James Bullard, and Charles Evans who are set to speak at an event on Thursday.

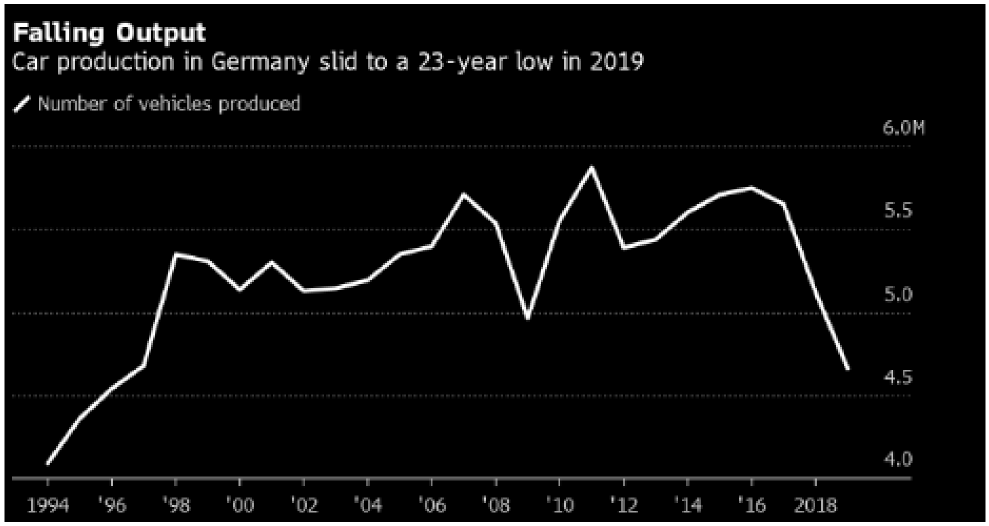
## THIS WEEK INTERNATIONAL:

**APAC** - Asian equities ended mixed on Friday with market direction likely being shaped by the latest geopolitical events in the Middle East. The region's stocks mimicked other global equity indexes and came off earlier highs with some reversing into the red. Hong Kong, India and Singapore markets were among the laggards as various safe haven assets found strength with the Yen moving higher by .44%.

It was quiet in the region outside of commentary which revolved around this week's People's Bank of China (PBOC) cut to the reserve requirement ratios (RRR). The RRR cut was seen as a necessary step to avoid a month-end cash shortage with a PBOC official saying the country still had additional room to lower the RRR as needed.

**Europe** - European markets had their best start to a year since 2013, however, reversed gains as the STOXX Europe 600 ended the week lower after geopolitical tensions rose back into the spotlight. Equity indexes in the region turned lower and safe haven currencies outperformed. Bond Yields in the region were initially firmer to start the week, continuing their run higher from year-end to their highest levels since summer of 2019, but then saw a flight to safety as the German's 10-year Bund yields slid to two-week lows after word of the Iran attack broke.

Looking ahead, Eurozone economic indicators are expected to remain weak with economists citing political instability, ongoing trade tensions, geopolitical concerns, continued disruption in the auto sector, and Brexit. The uninspiring outlook for the first half of 2020 was reinforced by weak December PMI data which came in at 46.3 as new work and output components fell at a sharper rate than expected. Additionally, economic data showed German car production fell to its lowest in almost a quarter of a century as Europe's largest economy continued to suffer from ongoing trade tensions. Automakers including Volkswagen, BMW and Daimler produced 4.66 million vehicles in German factories last year which was the smallest number since 1996 according to a Verband Der Automobilindustrie (VDA) report.




*Source: Bloomberg as of 01.07.20*

Brexit is expected to continue to dominate headlines in the upcoming year despite Prime Minister Johnson saying that it should be resolved when the Withdrawal Agreement is ratified by the end of January. Even with the positive rhetoric being echoed by Johnson, a majority of economists believe that uncertainty over the UK-EU future should limit growth and continue to weigh on business investment.

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