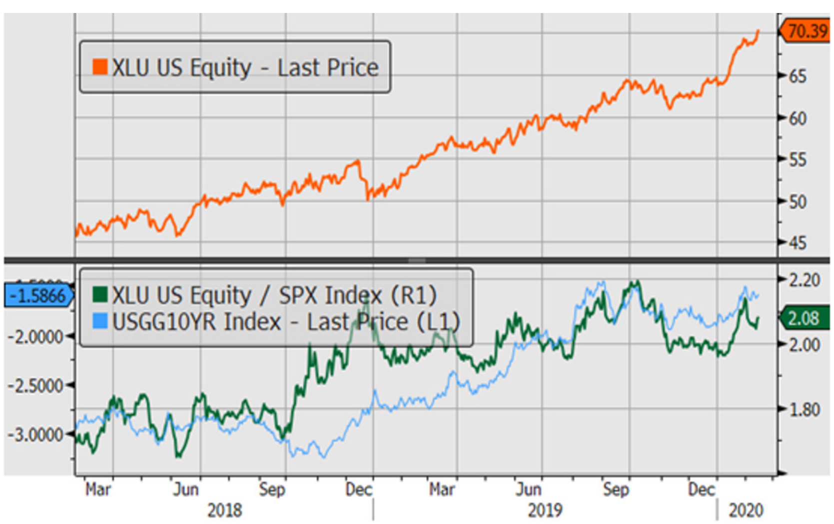
Level Four Capital Management
WEEKLY INSIGHT

MARKET COMMENTARY

LAST WEEK:

U.S. equities finished higher on the week, led by REIT's, Consumer Discretionary, Utilities and Technology. Flows remained defensive in nature, underpinned by ongoing investor uncertainty over global growth concerns from the Coronavirus. Utilities have remained a favorite for investors in a search for yield with rates drifting lower across the curve. Consumer discretionary was an outperformer as AMZN helped buoy the space, however a number of other pockets within retail also performed well throughout the course of the week. Technology also extended its recent strong performance as semi's outperformed with the Semiconductor index closing up +4.96%, helped by Nvidia which closed up 15.2% as they posted standout earnings. Energy continued to lag and once again lagged broader markets despite oil managing to snap its five-week losing streak. Some market commentary continued to swirl regarding the sector's oversold conditions as just 25% of the space is currently trading above their 50-day moving average.



Source: Bloomberg as of 02.19.2020

**Performance numbers as of previous day close.*

S&P EPS ESTIMATES 2019

High	$175.00	3,250
Low	$156.00	2,500
Consensus	$170.36	2,928

EQUITY PORTFOLIO PERFORMANCE YTD

	Absolute	Relative
Large Cap Growth	8.30%	-1.23%
Large Cap Value	-1.47%	-1.79%
International ADR	0.12%	1.11%
SMID Growth	10.88%	4.78%
S&P 500 Index	4.86%	
Dow Jones Index	3.34%	

ASSET ALLOCATION PORTFOLIO PERFORMANCE YTD

	Absolute	Relative
Aggressive Growth	2.74%	0.47%
Growth	2.59%	0.36%
Growth/Income	2.47%	0.28%
Income/Growth	2.01%	-0.13%
Income Preservation	1.69%	-0.41%

DIGITAL ASSET ALLOCATION PERFORMANCE YTD

	Absolute	Relative
Aggressive Growth	1.72%	-0.55%
Growth	1.71%	-0.52%
Growth/Income	1.71%	-0.48%
Income/Growth	1.52%	-0.62%
Income Preservation	1.27%	-0.83%

Absolute - Actual performance over the stated time frame
Relative - Is performance vs the benchmark

Source: Bloomberg as of 02.19.2020

On the data front, economic releases appeared to be a non-factor despite the data revolving around the strong consumer. Retail sales climbed for a fourth straight month on the back of cheaper gas prices, however, they came in line with expectations and University of Michigan consumer sentiment surprised to the upside. Additionally, garnering some attention was an article by the Washington Post showing that Americans believe the current economy is the best since the late 1990's. The article cites a recent Gallup survey where 59% of American respondents said they are better off financially today than they were a year ago, which stands at the highest level since 1999. Furthermore, Gallup states that "nearly three-quarters predict they will do better a year from now", which would be the most optimistic reading.

Source: Bloomberg as of 02.19.2020

LAST WEEK'S ECONOMIC RESULTS:

- CPI M/M: Est 0.2%
- CPI Ex Food and Energy M/M: Est 0.2%
- CPI Y/Y: Est 2.4%
- CPI Ex Food and Energy: Est 2.2%
- Retail Sales Advance M/M: Est 0.3%
- Industrial Production: Est -0.2%
- University of Michigan Sentiment: Est 99.4

THIS WEEK'S ECONOMIC RESULTS:

- Empire Manufacturing: 12.9 vs Est 4.8
- Housing Starts: 1567K vs Est 1428K
- Housing Starts M/M: -3.6% vs Est -11.2%
- Building Permits: 1551K vs Est 1450K
- Building Permits M/M: 9.2% vs Est 2.1%
- NAHB Housing Index: 74 vs Est 75
- PPI Final Demand: 0.5% vs Est 0.1%
- Markit U.S. Manufacturing: Est 51.5
- Markit U.S. Services: Est 53.2
- Existing Home Sales: Est 5.45
- Existing Home Sales: Est -1.7%

Source: Bloomberg as of 02.19.2020

Despite continued focus on monetary policy, there was very little in terms of Federal Reserve Chairman Powell's testimony throughout the week that changed the overall narrative. The bar remains high for a policy modification in either direction as the Fed continues to monitor any lasting effects that may be derived from the ongoing Coronavirus. Overall, Powell remained upbeat regarding the U.S. economy, noting there are no current exacerbated worries that could derail the ongoing expansion, and nothing of grave concern that makes the bull market run unsustainable at the present time.

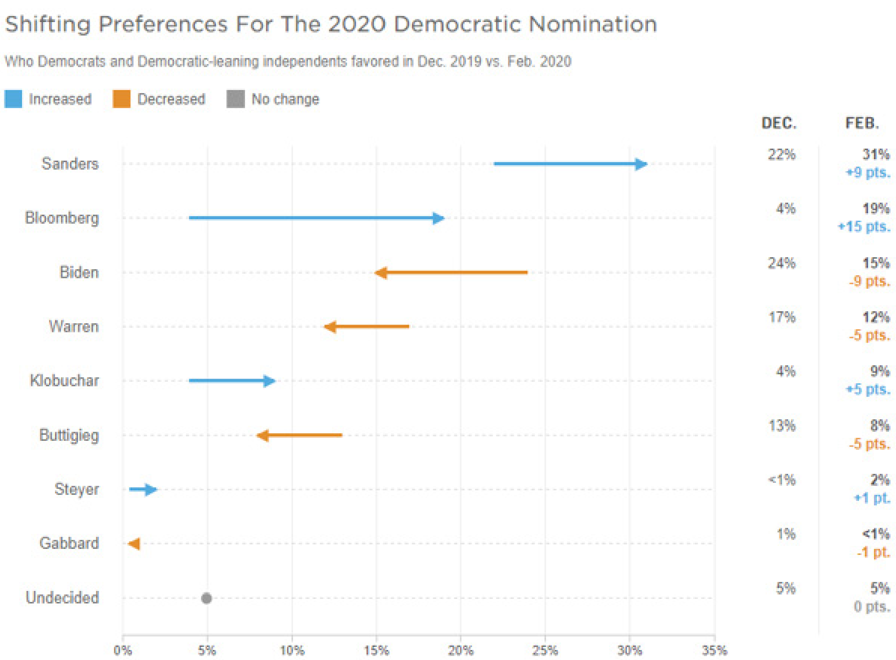
BofA Merrill Lynch's Michael Hartnett noted in the firm's Flow Show report that there have now been 800 rate cuts worldwide since the financial crisis, with fixed income funds being the biggest winner as flows continue to pile into the space. On an annualized basis, inflow would total nearly $1T into the strategy. The low-rate/tight-spread dynamic continued to be flagged as supportive for equities via the relative value theme and risk parity/systematic strategy influence.

THIS WEEK

U.S. stocks remained resilient in Tuesday's session as the Dow closed down 166 points after being down over 280 points at the lows of the day. The tech heavy Nasdaq turned positive late in the session despite a warning from Apple that sales may miss estimates due to ongoing uncertainty from the Coronavirus. Defensive sectors once again outperformed on the day as Utilities hit record highs, Communication Services finished in the green, all while Real Estate outpaced broader market declines. Gold closed at its best levels since March 2013 and Treasury prices were higher across the board as yields continued to fall. Better U.S. economic data released on Tuesday helped boost investor confidence as the February NY Fed Empire manufacturing survey came in at 12.9, ahead of expectations of 5.0. Business activity appeared to pick up, while new orders and shipments jumped. Additionally, despite falling one-point month-over-month to 74, the National Association of Home Builders Market Index remained strong as part of its best three-month run since December of 2017.

Source: Bloomberg as of 02.19.2020

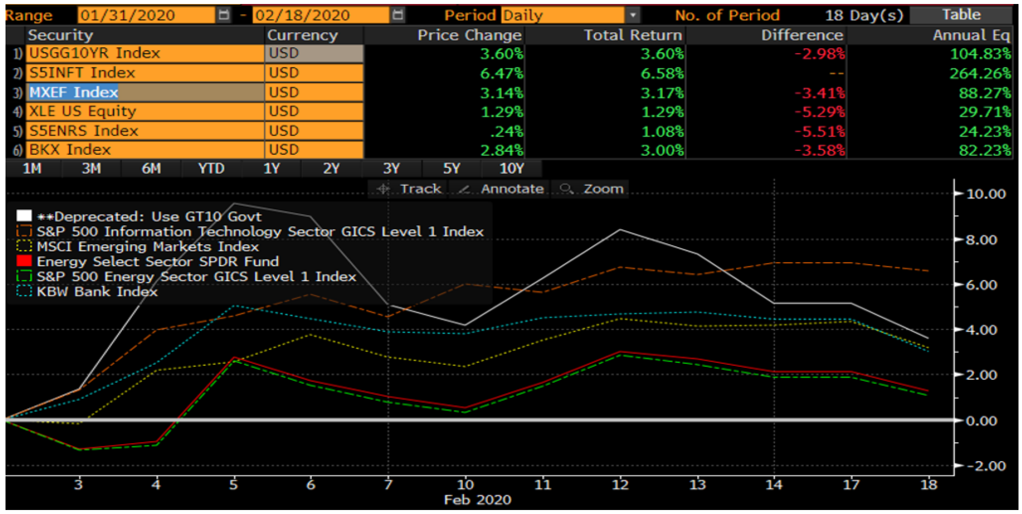
The coronavirus impact has subsided in recent weeks, however still remains the center of the market narrative and an overhang on sentiment for investors who seem to be remaining cautiously optimistic. China reported another 1,886 new virus cases, as well as 98 additional deaths in its Tuesday update which now brings the total number of confirmed cases to 72,436 and deaths to over 2,000.



Source: NPR/PBS NewsHour/Marist Poll as of 02.19.2020

On the political front, Senator Bernie Sanders is anticipated to secure another victory in the Nevada caucus on Saturday, after winning in New Hampshire last week (however underperformed expectations). According to RealClear politics, the Senator is predicted to capture 26% of the vote which puts him ahead of former Vice President Joe Biden (17%), Elizabeth Warren (13.3%), and Pete Buttigieg (11.0%). It remains very unlikely that Sanders will be able to win more than 33% of the vote in Nevada as moderates remain extremely fragmented over the other potential candidates. Investors will also look to Wednesday's Democratic Presidential debate as contender Michael Bloomberg is said to join as he qualified for the forum after the release of a new NPR/PBS NewsHour/Marist poll according to Factset. In the same poll, it's reported that Senator Bernie Sanders has increased his lead to double digits, gaining 31% of support nationally, while the next closest candidate, Michael Bloomberg, has 19%. Despite Bloomberg's recent surge in the polls and participation in the debate, he will not be featured on the Nevada ballot and instead hopes to gain traction heading into Super Tuesday where he is expected to be featured on ballots nationwide.

According to BofA's Global Fund Manager Survey, February demonstrated that investor sentiment fell from the month prior despite cash levels also declining from 4.2% to 4.0%, showing additional money being put to work. Cash levels are now the lowest seen since March 2013 and remain below the five-year average of 4.9%. throughout the month thus far, investors have seen a rotation into U.S. bonds, Technology, and Emerging Markets while rotating out of Value, Energy, and Banks.



Source: Bloomberg as of 02.19.2020

THIS WEEK INTERNATIONAL:

APAC - The Shenzhen Component Index ended the week in the green, locking a 1.4% weekly gain. Chemicals and financials were among the winners, while manufacturing and technology companies continued to suffer. The Hang Seng also posted a weekly gain of 1.4%, led by real estate and healthcare stocks. The People's Bank of China lowered rates of one-year medium term loans by 10 basis points to 3.15% on Monday and conducted a $29 billion repo operation to inject liquidity in the economy. Investors received the news favorably, along with the China Banking and Insurance Regulatory Commission encouraging firms and banks to facilitate loans at optimal rates to manufacturers and small and medium businesses affected by the Coronavirus outbreak.

In other news, China's Consumer Price Index increased by 5.4% year-over-year last month according to CEIC; up from 4.5% in December. Indeed, businesses closing their supply chain are likely causing consumer goods prices to spike. Additionally, the rise in pork prices due to the Asian swine fever also led inflation to increase in January.

In Japan, Nikkei 225 fell by 0.69% in a week marked by volatility and market sell-off. Recent cabinet office data reported that from October to December 2019, the Japanese economy tumbled by an annualized rate of 6.3%.

Europe - The Euro Stoxx 600 Index finished the week in the green for the second consecutive week with 1.43% gain. Automobile stocks rallied amid business-friendly measures taken by China to deal with the Coronavirus epidemic.

In Germany, Deutsche Bank issued a $1.25 billion Additional Tier 1 (AT1) bond yielding 6% callable in October 2025. Bloomberg reported that the bank received up to $14 billion orders for what is considered "the riskiest type of bank debt". This deal shows that there is high demand for yield below investment grade due to the low interest rate environment.

The former European Union Budget Commissioner, Günther Oettinger, said that the EU will deal with a €15 billion vacuum left by Brexit. Indeed, the United Kingdom was the second biggest contributor behind Germany of the multi-annual financial framework for the EU. Remaining members will have to split this expensive bill.

In other news, the latest data from OECD shows that the Business Confidence Index for the Euro area was up by 0.10% month-over-month in January, but down by 1.05% year-over-year. Concurrently, the Consumer Price Index for the Euro area dropped by 0.06% month-over-month and 0.19% year-over-year.

IMPORTANT DISCLOSURES

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