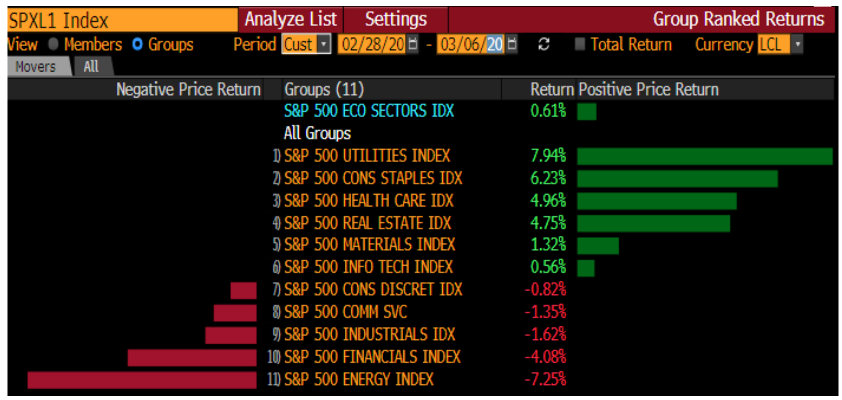
Level Four Capital Management
WEEKLY INSIGHT

MARKET COMMENTARY

LAST WEEK

Despite the extremely volatile moves once the dust settled on the week, the Dow, S&P, and Nasdaq finished higher over the course of the five days. Sector performance remained mixed as Energy continued to underperform amid demand concerns. Financials and banks continue to be hit by yields, once again moving lower across the curve, while Consumer Discretionary names lagged with travel and leisure names continuing to take a beating. Flows once again had a defensive tilt to them with Utilities, Consumer Staples, Healthcare, and Real Estate all outperforming. Materials closed higher on precious metals strength with the Vaneck gold miners (GDX) closing up 12.2%. Healthcare rallied on the back of political headlines after former Vice President Joe Biden gained momentum after an impressive Super Tuesday showing. Treasuries continued their surge higher as part of an ongoing record-breaking global bond rally.



Source: Bloomberg as of 03.11.2020

For the week, there was no lack of talking points, including:

- An extremely volatile week with multiple bounce attempts being largely chalked up to very oversold conditions
- A jump in Coronavirus cases in Italy, U.S., and South Korea, only adding to slowing growth concerns
- Fed's decision to enact an emergency 50bps cut before their official March meeting
- Lower guidance being released on Coronavirus impacts which still remains too early to tell

Coronavirus - Investors saw concerns deepen in the U.S. as Washington, California, New York, and Maryland all declared emergencies, while officials continued to hold a cruise ship linked to the virus off the coast of San Francisco. Additionally, Seattle area schools announced they would close for a few weeks while tech companies in the area also asked employees to work from home. Other multinational companies have also suspended all "nonessential" travel in order to limit the impact of the virus on global operations. Growth fears continued to ramp up over the course of the week even as economists, analysts and companies still cannot fully anticipate the impact to their respective businesses. According to FactSet, S&P 500 earnings are now expected to see a slight contraction versus what many were expecting would be a year for global earnings to rebound, somewhere in the range of ~7% growth.

While we have not seen a translation into price action, some commentary from companies were more upbeat including:

- Apple supplier, Foxconn, said they expect to reach full capacity by the end of March
- Starbucks said 90% of their China stores are now open
- Workday gave comments saying they have not seen demand impacted from the Coronavirus
- ON Semiconductor said orders have picked up and their factories are restored back to normal operations
- Microchip Technology said while things are returning at a slower than expected pace, orders continue to improve by the week

Additionally, the Organisation for Economic Co-operation and Development (OECD) warned that a longer or more intense outbreak of the virus could cut global growth to 1.5% in 2020, which would be half the rate originally projected at the end of 2019. Airliners and travel-related names are some of the worst effected companies. The International Air Transportation Association (IATA) said that airlines could potentially lose more than $100B in passenger traffic revenue in 2020 if there is an "extensive spread" of the Coronavirus.

On Tuesday, the Fed announced what many investors had been calling for - a rate cut. The announcement resulted in a 50bps cut to the benchmark rate, taking the range down to 1.00-1.25%. In their statement, the group noted that while the U.S. economy remains strong, the Coronavirus poses evolving risks to economic activity. Almost immediately after the announcement, and despite giving the market exactly what they seem to want, U.S. equity markets moved lower and closed the day almost 800 points or 3% lower. The backlash seemingly followed with many pointing to the fact that this is not a monetary policy issue, but rather a consumer confidence one and little could be done if consumer confidence continued to wane. According to the Washington Post, the Trump administration is said to be considering relief to both workers and companies impacted by the outbreak which could include tax payment deferrals.

Source: Bloomberg as of 03.11.2020

Throughout the course of the week, investors watched yields continue to push higher as the yield on the 10-year Treasury ended at a record-low of 0.78%, down from 1.5% two weeks prior. With the risk-off tone and global growth concerns, Treasury bond funds attracted the seventh-largest inflow on record. Furthermore, Bank of America highlighted the second-largest weekly outflow in Investment Grade/High-Yield/Emerging Market debt ever, as investors looked to move away from riskier investments within the fixed income space. With the recent move in the 10-year treasury, the spread of the S&P 500 dividend yield over the 10-year yield is now at its highest rate since the current financial era began.

THIS WEEK

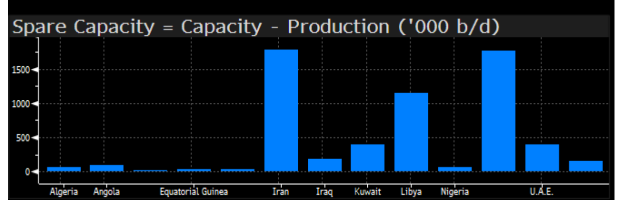
U.S. equity markets fell sharply in Monday's session sending stocks to their largest point loss ever. Investors grappled with a spreading Coronavirus, slowing global growth concerns and flaring tensions between two of the world's largest oil producers. Almost immediately after markets opened for trading, they were halted after the 7% circuit breaker trigger allowed for a 15-minute pause. Treasury yields plunged on Monday as the entire U.S. yield curve fell below 1% with many of the yields down between 22% and 30%. Investors saw extremely aggressive moves in both fixed income and equity markets with the S&P 500 closing down 7.6%, while the Dow led the way lower closing 7.79% down on the day. Markets were led lower by Energy, Financials, Materials, Industrials, and Technology, all who underperformed the broader market. The dollar continued to fall against various crosses as it is now down over 300bps against the Yen, declining to its lowest levels since November of 2016. Additionally, the Euro jumped as high as 1.15 versus the Dollar, its best levels since January of last year.

Ticker	Last	Chg on D	%1D	Chg WTD Pct
AMERICAS (16)				
DOW JONES INDUS	s23,851.02	-2013.76	-7.79%	-7.79%
S&P 500 INDEX	2,746.56y	-225.81	-7.60%	-7.60%
NASDAQ COMP	7,950.676	-624.942	-7.29%	-7.29%
DOW JONES TRANS. AVG	s8,083.49	-872.57	-9.74%	-9.74%
ML FANG	215.70y	-13.89	-6.05%	-6.05%
S&P 500 Buyback	14,948.74	-1512.26	-9.19%	-9.19%
Retail Favorites	84.07	--	--	-8.21%
RUSSELL 2000	d 1,313.440	-135.781	-9.37%	-9.37%
S&P 400 MIDCAP INDEX	d 1,633.64y	-164.15	-9.13%	-9.13%
Weak Balance Sheet US	↑295.75	--	--	-9.46%
Strong Balance Sheet US	↑310.27	--	--	-6.02%
Most Short Rolling	116.04	--	--	-9.49%
S&P 1500 Composite Inde	625.3700	-52.4513	-7.74%	-7.74%
BRAZIL BOVESPA	d 86,067.2	-11929.6	-12.17%	-12.17%
S&P MERVAL TR ARS	d 30,379.90	-4842.53	-13.75%	-13.75%
S&P TORONTO	d 14,514.24	-1660.78	-10.27%	-10.27%

Source: Bloomberg as of 03.11.2020

Investors were caught off guard by Saudi Arabia's move over the weekend to drive the price of oil lower by increasing production in response to Russia's refusal to cut their output at the Organization of the Petroleum Exporting Countries (OPEC+) meeting. Initial discussions signaled that production could be cut by around 600Kbpd after the joint technical committee made recommendations based on slowing demand growth. However, after Russia refused to participate in any additional cuts, Saudi Arabia said they would open the spigots, allowing their output to jump between 10Mbpd and 12Mbpd in an already saturated market. After news broke, oil fell as much as 34% for its largest one-day decline since the Gulf War in 1991, however closed off its worst levels, ending down 24%.

Production ('000 b/d)	Feb	Jan	Chg	Capacity
Total OPEC	27,910	28,390	-480	34,035
Algeria	1,020	1,010	+10	1,080
Angola	1,360	1,360	0	1,450
Congo, Republic	310	310	0	330
Equatorial Guinea	120	120	0	150
Gabon	190	200	-10	220
Iran	2,050	2,070	-20	3,830
Iraq	4,610	4,520	+90	4,800
Kuwait	2,680	2,670	+10	3,075
Libya	150	790	-640	1,300
Nigeria	1,930	1,830	+100	2,000
Saudi Arabia	9,740	9,730	+10	11,500
U.A.E.	3,000	3,010	-10	3,400
Venezuela	750	770	-20	900



Source: Bloomberg as of 03.11.2020

There was little place to hide as the risk-off sentiment echoed globally to start the week. With oil collapsing, new fears came to the forefront for U.S. Shale producers which include:

- Possible production halts
- Bankruptcies
- Defaults
- Cutting of oilfield employees

Elsewhere, banking names fell as yields continued their move lower with fears that lending margins will continue to disintegrate and energy-related loans may not be recouped. Leisure and hospitality names continue to lag on Coronavirus concerns as multiple states have now declared a State of Emergency with total cases in the U.S. climbing to 607.

With the recent bout of volatility, investors and economists alike expect further action out of the Fed in the coming days and months. Goldman Sachs believes the Fed will again slash its benchmark rate by another 50bps when it meets on March 17th and 18th and then anticipates another cut at their April 28th and 29th meeting. Fed Fund futures are currently pricing in almost another four cuts in total by the end of 2020 with the implied policy rate at the December 16th meeting being 0.118%. The cuts expected by Goldman and others would bring the range down to 0-0.25%, a range we have not seen since 2016.

Region: United States »		Instrument: Fed Funds Futures »	
Target Rate	1.25	Pricing Date	
Effective Rate	1.09	Cur. Imp. O/N Rate	

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate
03/18/2020	-3.181	-318.1%	-0.795	0.308
04/29/2020	-3.564	-38.3%	-0.891	0.213
06/10/2020	-3.789	-22.5%	-0.947	0.156
07/29/2020	-3.814	-2.5%	-0.954	0.150
09/16/2020	-3.794	+2.0%	-0.949	0.155
11/05/2020	-3.690	+10.4%	-0.923	0.181
12/16/2020	-3.667	+2.3%	-0.917	0.187
01/27/2021	-3.654	+1.3%	-0.914	0.190

Source: Bloomberg as of 03.11.2020

THIS WEEK INTERNATIONAL

APAC - The Shanghai SE Composite index finished the week up 5.3%, reversing the previous weekly loss of 2%. The relief rally was led by 6.6% gain from China SE SHANG COMM index, followed by 5.9% gain from the SSE Industrial Index, 5.3% gain from the SSE Utilities Index, 5.2% gain from the SSE Real Estate Index, and a 4.2% gain from the SSE Conglomerate Index. The Chinese Yuan also appreciated relative to the U.S. Dollar last week, registering a seven-cent gain to close the week at 6.93 CNY.

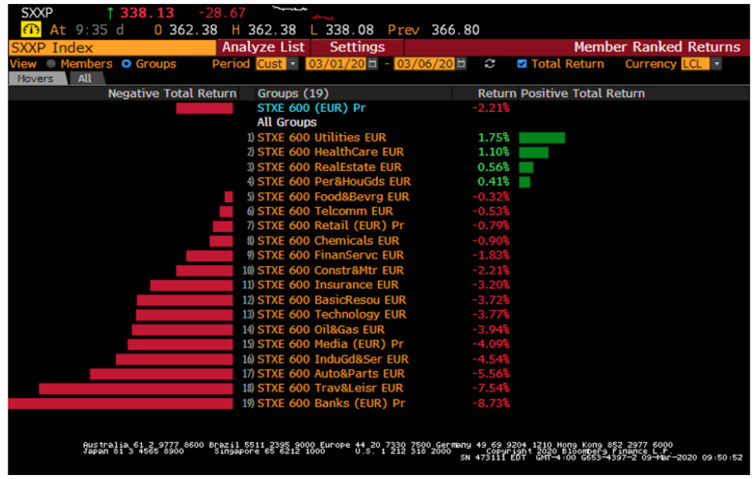
Trade data that was originally delayed in order to combine January and February information eventually came out on March 7th. China posted a $7.1 billion trade deficit for the first two months of 2020, led by a 4% decline in imports of commodities, and 17% decline in exports. The phase-one deal reportedly boosted imports from the U.S. by 2.5% according to multiple economists. Coincidentally, exports to the U.S. fell 28% during the same period.

In Japan, the Nikkei 225 finished the week in the red, losing 1.86%. Financials, materials, and mining companies dragged the index down, while gaming stocks, conglomerates, and telecommunication companies posted high single-digit gains.

In South Korea, President Moon Jae-in said the virus is near a stable phase. Indeed, the rate of increase in new infections reached its lowest level in 10 days last Sunday. The KOSPI Index was up 2.6% last week, led by medical supplies, services, and transport.

Europe - The EURO STOXX 600 index finished the week 2.2% lower. Banks led the sell-off with 8.7%, followed by travel and leisure with a 7.5% decline, auto & parts were down 5.56%, and oil & gas were down 3.9%. Utilities performed the best with a 1.7% gain, followed by healthcare which was up 1.1% and real estate, up 0.5%.

In Italy, the total number of infections jumped 25% to about 7,375 according to the Civil Protection agency. At least 15 provinces are quarantined, which means that people are not allowed to enter or leave.



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In the United Kingdom, authorities have advised citizens to avoid traveling to Italy. The FTSE 100 was down 1.5% last week, led by cruise operators, financials, and miners. However, the consumer staples sector rallied mid-single digit percentage last week, as investors looked to defensive stocks with yield to hedge current market risks.

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