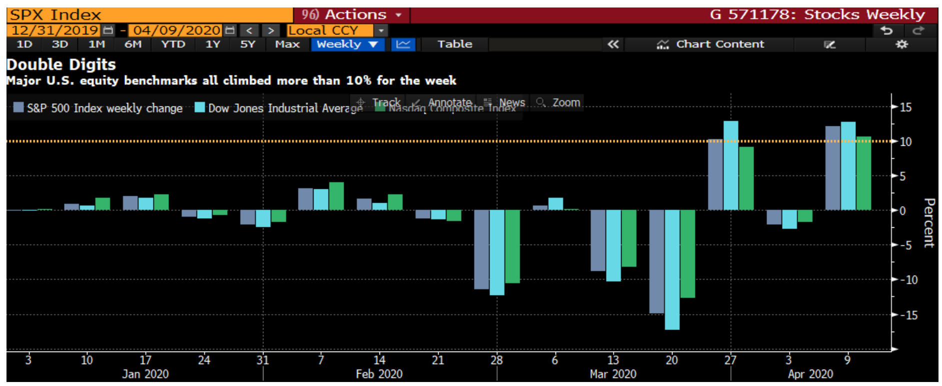
Level Four Capital Management

WEEKLY INSIGHT

MARKET COMMENTARY

LAST WEEK

U.S. equities rallied sharply over the four-day holiday week, led by some of the most beaten down and shorted names. The Goldman Sachs most shorted basket of stocks closed up 25% while the S&P 500 surged 12%, its largest weekly advance since 1974. The Dow gained 13%, and the Nasdaq 11% respectively, as cyclicals and value names outperformed growth/momentum. REITs were the best performing group with help from a big relief rally in the mortgage space. The materials sector jumped over 20% on broad-based strength with chemicals faring particularly well. Financials outperformed as banks, credit cards, asset managers and life insurance all saw large gains. Industrials outperformed on the back of beaten down airline names, while building materials and machinery names also did well. Tech lagged the broader market as a number of the mega-cap names failed to keep pace with the market gains, but still finished up over 10.5% with help from Semiconductor names. The Dollar index finished marginally lower on the week, closing down just over 1% as investors looked to shed some safe haven asset exposure.



Source: Bloomberg as of 04.14.2020

The main driver throughout the week appeared to be the tentative signs that the Coronavirus was reaching a potential peak and leveling off in numerous hotspots around the U.S., as social distancing measures appeared to be flattening the curve. Additionally, healthcare experts also highlighted a lower number of expected deaths versus what was originally anticipated. There was some policy support that Congress could ultimately add another $250B-$350B in small business lending, as well as, another Fiscal stimulus deal that could include further payments directly to U.S. citizens. Despite the more positive sentiment taking shape, there was still some skepticism about how quickly the economy could be reopened and what a recovery would ultimately look like. Comparisons between the U.S. and Wuhan have started to emerge, citing that even as Wuhan has reopened slowly, conditions remain far from normal. Data continued to show the economic fallout from the virus as initial jobless claims remained above 6.6M for a second straight week, and more than 1M furloughs were announced in retail space according to Bloomberg.

Source: Bloomberg as of 04.14.2020

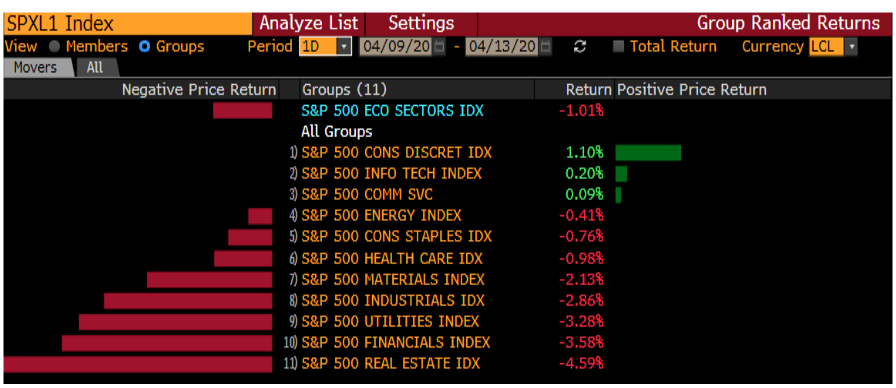
WTI crude was the big loser on the week closing down nearly 20%, and falling three of the four sessions to more than 7.5%. However, the energy sector finished +13.25%. The decline in oil prices came as OPEC+ agreed to drastic production cuts of 10mbpd, bringing an end to the devastating price war between Saudi Arabia and Russia. Even as the unprecedented deal took effect, the production cuts pale in comparison to estimates that COVID-19 has hindered demand by as much as 35mbpd. The deal, which almost fell apart amid resistance from Mexico, ultimately came together after President Trump intervened and helped broker the final compromise between the nations.

Treasury yields climbed and prices came under pressure with the risk on tone. However, corporate credit was a standout this week as the LQD rallied 8.9%. Headlines that surrounded the Fed increasing the size of corporate facilities by $550B gained a lot of traction, which will now allow them to purchase corporate bonds up to $750B instead of the previous $200B. Investment-grade bonds can now be bought, in addition to High Yield bonds of corporations that were given an Investment-grade rating prior to March 22nd. These includes those that were downgraded to BB- or BAAA. It is anticipated that most of the funds buying the corporate credit will be directed towards ETF's. However, it is likely some will go to High Yield ETF's as well, which ultimately led to the third largest rally ever for HYG, finishing up over 6.5% on Thursday.

Source: Bloomberg as of 04.14.2020

THIS WEEK

U.S. equities finished mixed on Monday, paring some of last week's gains as investors await the start of earnings season tomorrow. The S&P closed down 1.01% to start the week, while the Dow Jones fell 1.39% and Nasdaq ended higher by .48%, buoyed by big tech names which outperformed the broader market. The S&P was led lower by Real Estate, Financials, Utilities and Industrials, while Consumer Discretionary, Technology and Communication services all finished in the green, bucking the broader selling pressure. Big banks, Wells Fargo and JP Morgan, reported Tuesday morning which provided some clarity towards the devastating effects Covid-19 may have on companies. Wells Fargo reported earnings per share of $.01 versus last year of $1.20. The company also set aside $4B in loan loss provisions, which is the most in a decade. JP Morgan reported earnings per share of $.78 versus $2.65 a year earlier, while putting away $8.3B to cover potential loan losses as they brace themselves for a "fairly severe recession." Other financial names such as Bank of America, Goldman Sachs, Charles Schwab, and PNC Bank are set to report on Wednesday.. As earnings season kicks off this week, global investors will be looking for a sense of how bad the hit to global profits could be as the coronavirus pandemic appears to have upended the global economy. Monday's session saw significant single stock call selling, with May and June strike dates leading some to believe that the recent rally may be temporarily short-lived.


SPXL1 Index | Analyze List | Settings | Group Ranked Returns

View: Members / Groups — Period 1D 04/09/20 - 04/13/20 — Total Return — Currency LCL

Movers | All

Groups (11)	Return
S&P 500 ECO SECTORS IDX	-1.01%
All Groups	
1) S&P 500 CONS DISCRET IDX	1.10%
2) S&P 500 INFO TECH INDEX	0.20%
3) S&P 500 COMM SVC	0.09%
4) S&P 500 ENERGY INDEX	-0.41%
5) S&P 500 CONS STAPLES IDX	-0.76%
6) S&P 500 HEALTH CARE IDX	-0.98%
7) S&P 500 MATERIALS INDEX	-2.13%
8) S&P 500 INDUSTRIALS IDX	-2.86%
9) S&P 500 UTILITIES INDEX	-3.28%
10) S&P 500 FINANCIALS INDEX	-3.58%
11) S&P 500 REAL ESTATE IDX	-4.59%

Source: Bloomberg as of 04.14.2020

The Coronavirus pandemic continued to dominate headlines and market price action was once again driven by developments related to the crisis. On a positive note, six states in the Northeast began to take tentative first steps towards reopening their economies by forming a regional panel dedicated to developing a strategy further emphasized that the eventual lifting of restrictions. Additionally, Dr. Fauci said parts of the U.S. may be ready to ease emergency measures in May, but there is not a universal light switch that will be flipped on, as this is not a one solution kind of problem. Coronavirus cases around the world continued to rise, topping 1.87M total cases on Monday, resulting in over 116K fatalities. The U.S. continues to be the most affected country in the world reporting over 550K cases, representing .17% of the U.S. population. However, experts continue to believe the virus is more widespread than current estimates are showing due to a lack of testing. New York, the epicenter of the virus in the U.S., reported 671 deaths on Monday; the first time the daily death toll has fallen under 700 in several days as Governor Cuomo said the "worst is over" in the state.

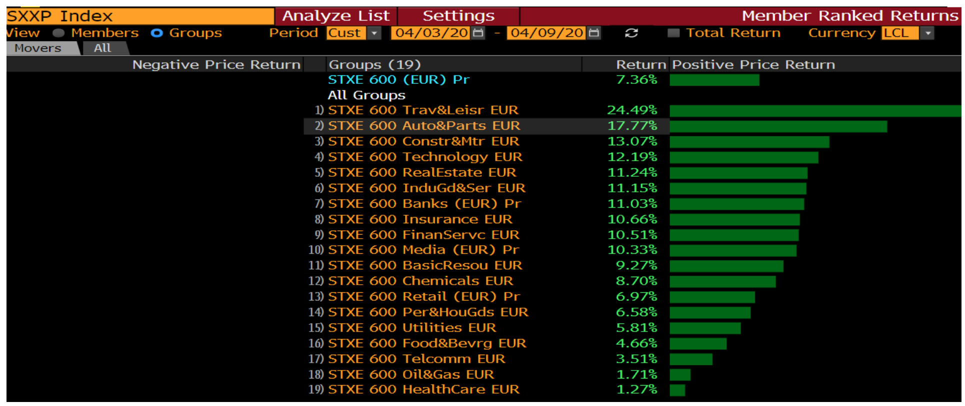
However, reopening the economy will be a "delicate balance". The World Health Organization has said there are potentially 70 Coronavirus vaccines that are currently in development with one of the most promising being Gilead's Remdesivir.

After a long holiday weekend, there were no major economic data releases and it was a fairly quiet Monday. However, there were several Fed speakers making contrasting comments which included:

- Vice Chair Richard Clarida said he was confident the economy will recover, and the Fed can unwind steps taken; however, believes rates will be kept near zero until the economy is back on track.
- Neel Kashkari said it is hard to see V-shaped recovery happening.
- Randal Quarles said he believes there are good reasons to be optimistic about economic outlook.
- Loretta Mester said the Fed is likely not done and that she is not that concerned about growth in Fed's balance sheet; "my view is that it will be something in-between V, U-shaped recovery."

THIS WEEK INTERNATIONAL

Europe - The Euro STOXX Index surged 7.36% last week, led by travel and leisure, automotive, construction, technology and real estate.



Source: Bloomberg as of 04.14.2020

The Euro depreciated 1.19% versus the U.S. Dollar and the Eurozone 10-year government bond yield declined further to settle at -0.34%.

On April 7th the European Central Bank (ECB) announced a new easing package to help businesses in this economic downturn. According to the press release, below are the measures taken:

- ECB adopts an unprecedented set of collateral measures to mitigate the tightening of financial conditions across the euro area
- Temporary increase in the Eurosystem's risk tolerance in order to support credit to the economy
- ECB eases the conditions for the use of credit claims as collateral
- ECB adopts a general reduction of collateral valuation haircuts
- Waiver to accept Greek sovereign debt instruments as collateral in Eurosystem credit operations
- ECB will assess further measures to temporarily mitigate the effect on counterparties' collateral availability from rating downgrades.

In Germany, the German National Academy of Science advised the government to progressively lift public restrictions after April 19th. According to their proposal, stores, schools and restaurants could reopen as long as hygiene and social distancing rules are respected. The Academy also wants the government to mandate citizens to wear face masks. Chancellor Angela Merkel will have a virtual meeting with leaders of the states to discuss these suggestions.

In France, President Emmanuel Macron announced that the country will remain in lockdown for another month. He said that if citizens respect quarantine rules and the number of case continue to drop, France could resume activities by May 11th.

APAC - The Shanghai Composite Index was up 1.18% last week, led by utilities, industrials and conglomerates. The Yuan gained five cents on the U.S. Dollar last week and closed at CNY7.04 last Thursday. The currency strength narrative was backed up by the trend in the treasury bond market. In fact, the 10-year government bond yield declined up to eight basis points mid-week, before recouping five basis points to close the week at 2.53%. The rebound occurred on April 8th, the day China decided to end the lockdown in Wuhan.

According to the People's bank of China, domestic loans from financial institutions to households increased by 1.78% month-to-month in March. During the same period, China's Core CPI (excluding food & energy) increased from 1% to 1.20%.

In Japan, the Nikkei 225 climbed 8.56% last week, boosted by solid performance from auto companies and industrials. Prime minister Shinzo Abe declared state of emergency and announced a trillion-dollar stimulus package to help the economy recover from the pandemic. The country will adopt measures already in effect in other countries such as social distancing, remote work and lockdown for non-essential workers. The Yen appreciated by 0.67% versus the U.S. dollar last week.

In South Korea, the KOSPI Index gained 6.4% last week, led by transportation, materials and industrials. President Moon Jae-in announced that the government will make an emergency cash payment to households, with the exception of the richest 30 percent of households, in an amount up to $816 per household.

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