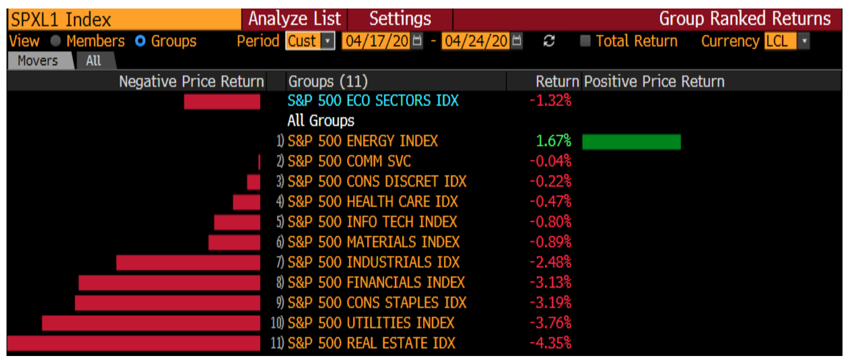
Level Four Capital Management

WEEKLY INSIGHT

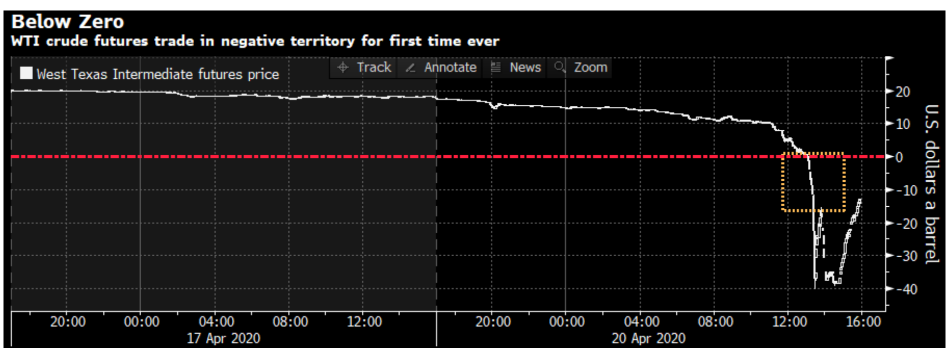
MARKET COMMENTARY

LAST WEEK

U.S. equities finished mostly lower on the week with many saying the pullback was simply consolidation following gains over the prior two weeks. The S&P finished down 1.32% while the Dow and Nasdaq closed -1.23% and -.18% respectively. Defensive sectors such as REITs and Utilities underperformed broader markets over the five days, while Consumer Staples also lagged with broad-based weakness in food/beverage and retail and tobacco related names. Financials continued to stay under pressure amid ongoing concerns surrounding margin pressures, as well as recessionary fears (JP Morgan -4.7%, Bank of America -4.7%, Citigroup -5.2%). Industrials put in a lackluster performance with weakness in logistics, truckers, building materials and airlines, while Boeing closed down 16.3%. Technology, Healthcare and Consumer Discretionary all bucked broader selling pressures and outperformed on the week. However, even as Consumer Discretionary fared better than other areas of the market, retail stocks saw a new bout of selling pressures as Neiman Marcus and JCPenney are expected to file for bankruptcy in the coming weeks. The Dollar index was up slightly on the week, posting a mere .5% gain while gold gained more than 2%.



Source: Bloomberg as of 04.29.2020



Source: Bloomberg as of 04.29.2020

Energy was the only sector that finished in the green with big gains seen in Exploration and Production companies, as well as oil service names. The 1.67% gain in the sector came despite the fact that WTI crude fell 32.3%, the largest one-week drop in history. The May WTI contract plunged by over 300% on Monday to close at -$37.63 a barrel, the first time in history WTI crude closed a session negative. While oil has come under pressure in the more recent term due to a lack of demand from the Coronavirus outbreak, the more pressing issue as of late has been the lack of storage capacity with oversupply flooding the market. Storage at Cushing, America's key storage hub and the delivery point for the WTI contract, is expected to be completely full by the first week of May. Additionally, while water storage has been a solution in the past, with more than ~160mm barrels currently being stored at sea, this has now surpassed the 100mm barrels seen stored in tankers during the 2009 time frame when demand also collapsed.

Throughout the week investors saw headlines surrounding continued plans for states to re-open. However, while this was initially flagged as a positive for equities, we have now seen some backlash emerge as some remain opposed to early reopenings. As several southern states have eased restrictions, some large companies operating within their borders have said they will keep their stores closed for the time being.

Those pushing back against "too early of a reopening" have raised concerns about:

- A lack of testing
- Lack of ongoing hospital space
- Varying guidance from federal health agencies

Additionally, much of the concern has surrounded a potential new wave of Coronavirus infections and deaths that may emerge as a result. Subsequently, this has driven fears surrounding multiple open and shut cycles that could ultimately cause more economic devastation than originally thought as Americans would be even more hesitant to venture out until a vaccine is secured. On the vaccine front, it was a roller coaster of headlines as investors tried to disseminate reports surrounding one of Gilead's promising antiviral treatments, Remdesivir. Initially, draft documents accidentally released by the World Health Organization (WHO), showed that ongoing studies did not improve a patient's condition or reduce the pathogen's presence in the bloodstream. However, after a deeper dive, the company issued a statement against "inappropriate characterizations" of the trial saying that it was a clinical trial conducted within China and was terminated early due to low enrollment. Furthermore, it was reported late on Friday that a U.S. government's trial of the drug may provide results as early as mid-May with the company saying data from the trial may actually suggest a potential benefit.

Earnings releases picked up throughout the week, though there was not much to note. Companies continued to highlight favorable trends that were occurring through early March before lockdown measures took effect in the U.S. Since then, the theme has been the vast withdrawal of full-year guidance given the uncertainty surrounding the Coronavirus impact. The lack of guidance has been cited as a factor in analysts not adjusting their estimates, which leads some to believe the 2020 consensus still has to be adjusted lower. According to FactSet, S&P 500 earnings are now expected to decline 15.2% in 2020, however some believe drawdowns could be twice that.

THIS WEEK

U.S. stocks opened higher and continued their move to the upside as more states prepared to lift restrictions imposed amid the Coronavirus pandemic, helping to boost market sentiment. The S&P closed 1.47% higher led by gains in Financials, Real Estate, Materials, Industrials and Energy. Theme parks, casinos, retailers and hotels were among the best performing groups after having been some of the most battered names during the recent selloff. After the XRT (Retail ETF) impressive gain of ~5% on Monday, the ETF has now climbed back to finish just 2.4% off the August 2019 lows. The U.S. Dollar was mostly lower on the day falling against the Euro, Pound, Aussie and Canadian.

Ticker	Last	Chg on D	%1D
AMERICAS (16)			
DOW JONES INDUS	s24,133.78	+358.51	+1.51%
S&P 500 INDEX	2,878.48y	+41.74	+1.47%
NASDAQ COMP	↓8,730.164	+95.644	+1.11%
DOW JONES TRANS. AVG	s8,317.42	+225.02	+2.78%
ML FANG	↓252.14y	-2.50	-.98%
S&P 500 Buyback	↑14,739.61	+422.99	+2.95%
Retail Favorites	↑90.40y	+2.32	+2.63%
RUSSELL 2000	d ↑1,281.878	+48.825	+3.96%
S&P 400 MIDCAP INDEX	d ↓1,613.53	+63.16	+4.07%
Weak Balance Sheet US	↑295.12y	+6.53	+2.26%
Strong Balance Sheet US	↓341.31y	+4.50	+1.34%
Most Short Rolling	↑117.65y	+4.02	+3.54%
S&P 1500 Composite Inde	↑651.7402	+10.7213	+1.67%

Source: Bloomberg as of 04.29.2020

Source: Bloomberg as of 04.29.2020

Given the price action in stocks over the last few weeks, both Treasury and currency market moves have been modest in comparison. The 10-year yield climbed 6bps or 9.95% to finish at 0.66bps, its best levels since April 17th. Even with the most recent move higher, the two-month bear market has led to the largest yield advantage over Treasury securities in decades. The spread between the S&P 500 Index's dividend yield and the 10-year Treasury note's yield averaged 1.33% between February 20th and April 21st, according to data compiled by Bloomberg. In the previous bear market, from October 2007 through March 2009, the yield gap favored stocks by no more than 1.21%, helping to provide a favorable backdrop for equities.

Investor sentiment continued to be restored after the recent state-by-state reopenings (which included partial openings for Georgia, Oklahoma, Tennessee, Texas and South Carolina) which could lead to the start of a bounce back for the world's largest economy. Additionally, other states such as Ohio could soon join the re-opening group after the governor made a separate announcement describing protocols to re-open aspects of the state as early as later this week. The planned reopening's come as updates from the hardest hit areas of the Coronavirus appear to be turning more positive as NY Governor Cuomo said daily deaths related due to COVID-19 fell to 337 in latest figures, down from the 367 reported on Sunday which had been the lowest in over a month.

Markets continue to await additional quarterly earnings reports as about 46% of the S&P 500 is expected to report over the course of the week.

Among those reporting will be widely watched heavy-weight tech names:

- Alphabet (4/28)
- Amazon (4/30)
- Apple (4/30)
- Facebook (4/29)
- Microsoft (4/29)

Sector	Week of Mon, Apr 27	Week of Mon, May 04	Week of Mon, May 11	Week of Mon, May 18
S&P 500 (SPX Index)	46%	16%	2%	5%
Information Technology	57%	10%	4%	6%
Health Care	41%	17%	1%	5%
Financials	21%	21%	0%	0%
Consumer Discretionary	58%	6%	1%	20%
Communication Services	60%	14%	1%	0%
Industrials	46%	22%	0%	3%
Consumer Staples	31%	3%	0%	11%
Energy	71%	19%	0%	0%
Utilities	24%	46%	12%	0%
Real Estate	42%	47%	0%	0%
Materials	40%	46%	2%	0%
QQQ- Nasdaq 100	64%	9%	4%	4%

Source: Bloomberg as of 04.29.2020

Oil prices continued their free fall, falling $4.16 to close down over 25% as oversupply concerns continue to once again hit the sector. WTI crude remains lower by about 80% this year as demand is expected to start to creep back as normality is restored to global economies. However, even as demand looks to improve, oversupply and storage capacity still look to remain an overhang on sentiment as estimates have global demand down ~25-30mm barrels/day from February levels while supply for the month of April remained elevated. Helping supply, but not necessarily expected to solve the issue, are expected production cuts from the OPEC+ on May 1st, with ~9.7mm barrels a day less being produced.

Investors continue to see short sellers bear the brunt of recent market moves. On Monday the Goldman Sachs short index closed up 3.54% while the 50 most crowded Russell 2K shorts last week was up 4.8%, compared to a 67-basis point decline for the QQQ.

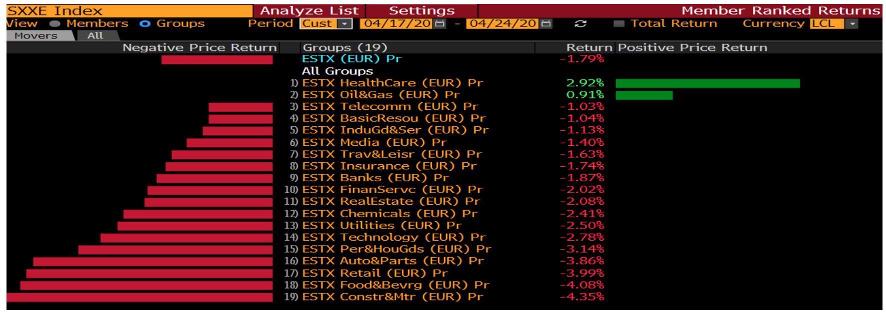
As we look towards the days ahead, investors will await:

- The upcoming Fed meeting on Wednesday
- Q1 GDP on Wednesday
- Initial jobless claims on Thursday
- ECB monetary policy decision on Thursday
- China April PMI's on Thursday
- ISM Manufacturing number on Friday

Source: Bloomberg as of 04.29.2020

<u>Europe</u> - The Euro STOXX Index was down 1.79% last week, led by healthcare which was up 2.92% and oil and gas which was up 0.91%. Retail, food and beverage and construction plummeted more than 3%.

According to the latest forecast of Angela Merkel's administration, Germany expects GDP to decrease between 6% and 7% in 2020 followed by an expected recovery in 2021 greater than 5%.



Source: Bloomberg as of 04.29.2020

S&P maintained Italy's BBB rating last week. According to the rating agency, "the ECB's current financing backstop enables Italy to refinance its debt at real interest rates of around 0%". S&P projects a 9% contraction for Italy in 2020 and a 6.4% recovery in 2021.

Italian Prime Minister Giuseppe Conte announced that lockdown measures will be relaxed on May 4th for parks, factories, and building sites, but restaurants and bars will remain closed until June 1st. However, schools will not restart until September.

<u>APAC</u> - The Shanghai Composite was down 1.06% last week; real estate and communications declined more than 2%.

Wuhan is set to reopen schools on May 6th, despite fears of a second wave of infection. In Beijing, the ministry of education announced that students must have their temperatures checked at school gates and must show that they have a "green" code on their health monitoring app to be allowed in class.

After years of research, the People's Bank of China is reportedly rolling out a new digital currency designed to make transactions fast, secure are cashless.

In Japan, the Nikkei was down 3.19% last week. The Bank of Japan (BOJ) announced an unlimited bond purchase program to keep borrowing costs low. The BOJ will also raise the maximum amount of corporate bonds and commercial paper it can purchase to $186 billion.

In North Korea, uncertainty continues to surround Kim Jong-Un's health. His sister Kim-Yo-Yong is viewed as a potential successor. She is known for playing a key role in shaping her brother's image.

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