Level Four Capital Management

WEEKLY INSIGHT

MARKET COMMENTARY

LAST WEEK

U.S. equities were mostly lower in a very busy week of earnings releases. Indices started the week with solid gains only to see them erased over the Thursday and Friday sessions. The S&P 500 ended lower by .19%, while the Dow Jones closed down .21% on the back of defensive sectors lagging broader markets for the second week in a row. As markets closed out April, March's equity rout almost became a thing of the past. The S&P posted its best April in 33 years, closing up 12.68% on the month and paring S&P losses to 9.3% on the year, wiping out all of March's losses.

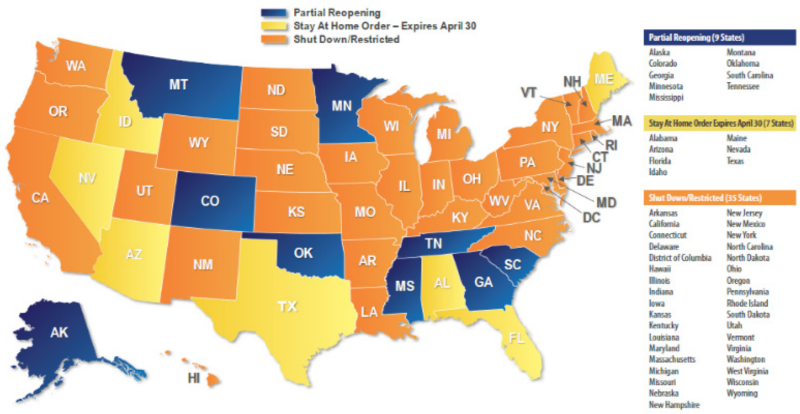
Over the course of the week, Utilities were the main underperformer followed by Healthcare, Consumer Staples, Consumer Discretionary, and REITS. Healthcare was broadly weaker; however, large Pharma and Medtech were among the largest laggards, while auto and apparel names weighed on Consumer Discretionary, although the large outsized underperformer was Amazon after reporting earnings on Thursday. Tech-related names were mixed with weakness in semiconductors, but were offset by some strength in hardware and service-related names. Energy was the best performing sector on the week led by exploration and production companies, which also saw large outsized gains the week before. MegaCap names Google, Facebook and The Walt Disney Company were standout performers on the week, all gaining over 3%. This helped to buoy the communication services sector, which was the second-best performing space throughout the week, closing up 2.04%. Crude continued its extremely volatile swings amid ongoing demand and storage concerns, but closed up 16.8%.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
10 Yr Avg	1.15	2.34	1.71	1.22	-1.23	.30	2.18	-1.29	.67	2.29	1.63	.48
2020	-.16	-8.41	-12.51	12.68	-2.81							
2019	7.87	2.97	1.79	3.93	-6.58	6.89	1.31	-1.81	1.72	2.04	3.40	2.86
2018	5.62	-3.89	-2.69	.27	2.16	.48	3.60	3.03	.43	-6.94	1.79	-9.18
2017	1.79	3.72	-.04	.91	1.16	.48	1.93	.05	1.93	2.22	2.81	.98
2016	-5.07	-.41	6.60	.27	1.53	.09	3.56	-.12	-.12	-1.94	3.42	1.82
2015	-3.10	5.49	-1.74	.85	1.05	-2.10	1.97	-6.26	-2.64	8.30	.05	-1.75
2014	-3.56	4.31	.69	.62	2.10	1.91	-1.51	3.77	-1.55	2.32	2.45	-.42
2013	5.04	1.11	3.60	1.81	2.08	-1.50	4.95	-3.13	2.97	4.46	2.80	2.36
2012	4.36	4.06	3.13	-.75	-6.27	3.96	1.26	1.98	2.42	-1.98	.28	.71
2011	2.26	3.20	-.10	2.85	-1.35	-1.83	-2.15	-5.68	-7.18	10.77	-.51	.85
2010	-3.70	2.85	5.88	1.48	-8.20	-5.39	6.88	-4.74	8.76	3.69	-.23	6.53

Source: Bloomberg as of 05.05.2020

Market themes continued to be dominated by Coronavirus headlines as global cases topped 3M overall and broke 1M in the U.S. with deaths surpassing 65K domestically. Nevertheless, it continues to feel as though sentiment is improving as the epidemic appears to be cresting in the country. Investors continue to process a flurry of headlines relating to the staged approach of reopening the economy and country. Multiple states began to ease shelter-in-place restrictions and are establishing a slow, methodical plan to re-opening their states full-time. Even as certain states re-open, sentiment improves and normalcy returns, there appears to be broad skepticism about the once strong belief that there could be a V-shaped recovery. While experts continue to debate the best approach to take, many believe that there could be a resurgence of cases as well as broader behavioral shifts in the consumer which could diminish the possibility for a quicker recovery.

Treatment headlines throughout the week were promising as National Institute of Allergy and Infectious Diseases (NIAID) director Dr. Anthony Fauci said he was told data from the trial showed a "clear-cut positive effect in diminishing time to recover" when discussing the institute's study of Gilead's (GILD) drug Remdesivir. The director also said the median time of recovery for patients taking the medication was 11 days, compared with 15 days in the placebo group, and "what it has proven is a drug can block this virus." Furthermore, a study of Sanofi and Regeneron's drug Kevzara only showed benefit for the sickest patients.

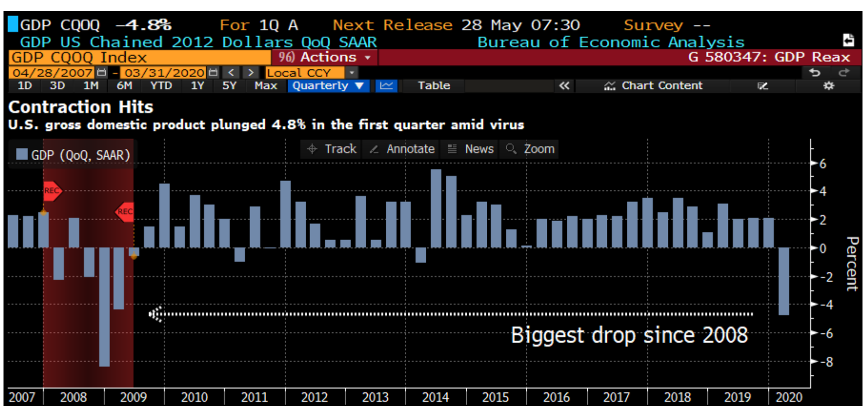


Source: FirstTrust as of 05.05.2020

On the data front, the Q1 GDP reading came in at -4.8% seasonally adjusted annual rate, which was worse than the -4.0% consensus. The contraction was the first since 2014 and the worst since the Q4 of 2008. Personal consumption was the largest drag on the overall number as anticipated, falling 7.6%, its largest decline since 1980. However, the report showed some promising aspects as there was support from residential construction, net exports, and government spending which held up better than initially thought. The weaker consumption reading causes some concern for Q2 as many expect the second quarter to be the one that bears the brunt of the weakness given the timing of the government shutdowns. Other data released throughout the week included:

- Initial jobless claims, which showed another 3.839M people filed for unemployment. The claims were higher than the 3.5M top end of the consensus range and the six-week total now stands at more than 30M, or ~18% of the U.S. workforce.
- April's ISM manufacturing gauge which fell to 41.5 from March's 49.1, however came in ahead of the 36.7 consensus
- April consumer confidence reading which dropped to 86.9, a decline of 41.9 and capped the worst two-month drop since 1967.

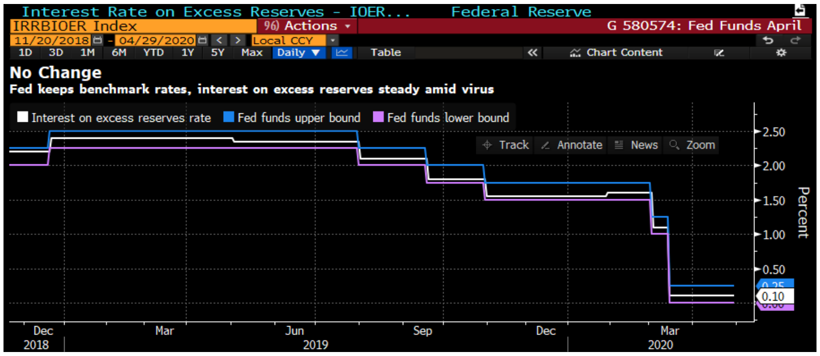
However, it is worth noting respondent expectations for improvement over the next six months rose.



Source: Bloomberg as of 05.05.2020

The Federal Open Market Committee (FOMC) left rates unchanged at 0.00 - 0.25% target, which had been widely expected after concluding their April meeting. There was very little to note in their official statement and the central bank announced no new actions, nor did they adjust the interest rate on excess reserves (IOER) as some had originally speculated. Chairman Powell's videoconference gathered more attention than normal after saying he believed the Fed could ultimately be called upon to do more than they have already done, and noted the bank's readiness to use any and all tools they have at their disposal. He also suggested there needs to be more fiscal support from the federal government if the recovery is to be robust. The chairman also indirectly commented on how various relief measures will impact the U.S. debt load saying the measures taken should not get in the way of "winning the battle" and that "the debt is growing faster than the economy, this is not the time to act upon those concerns".

Throughout the week, investors dissected a large amount of Q1 earnings reports. Nearly 55% of S&P constituents have now reported through Friday. According to FactSet's Earnings Insight, the blended earnings growth rate for Q1 stands at -13.7%, which is worse than initial estimates of -6.9% but an improvement from last week's -16.1%. The upward sloping trend was assisted by positive surprises from large Tech, Energy, and Healthcare related names that reported over the course of the week. Through this point in earnings season, about 65% of those reporting in the S&P have beaten consensus EPS expectations, which is slightly below the one and five-year averages. While many are discounting Q1 and even Q2 results, global investors continue to look for management comments or signs of stabilization in business activity on management calls.



Source: Bloomberg as of 05.05.2020

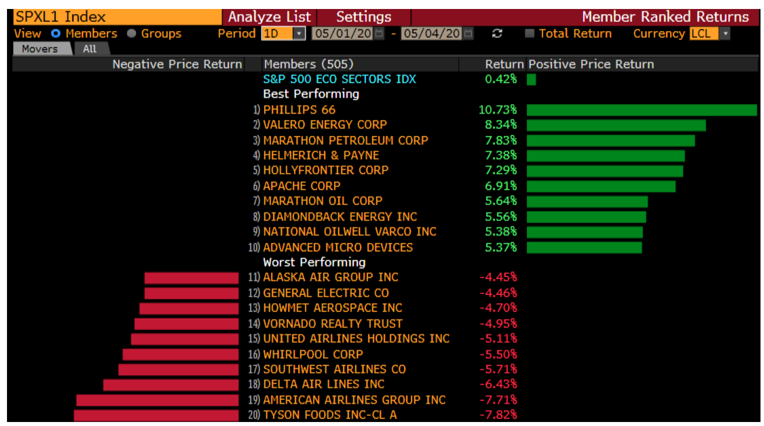
Similar themes from corporate management teams have emerged including:

- Impacts of stay at home orders
- Cost cutting initiatives
- Dividend or buyback suspensions
- Shifts in customer spending trends/behavior

Even for those that miss expectations, investors appear to be more forgiving during the announcements. Those companies surprising to the downside have seen less of a "punishment" by shareholders, as they experience less price depreciation in their stock than in the past, once again illustrating global investors willingness to write off these anomaly quarters.

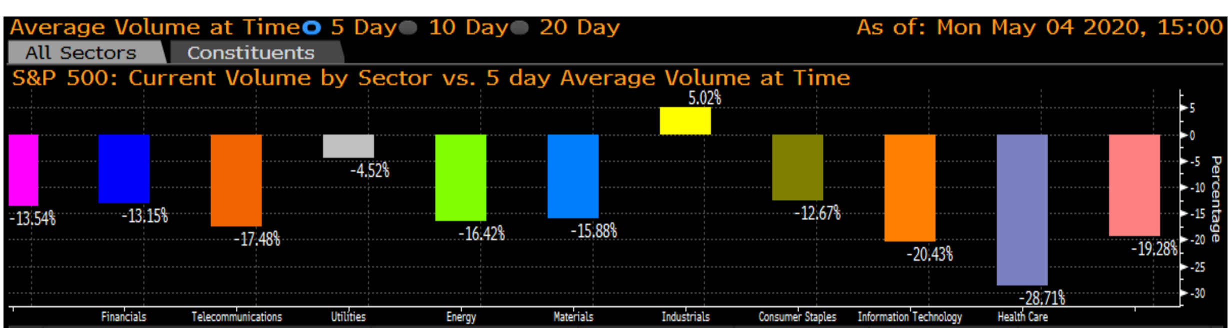
THIS WEEK

Equity markets closed higher as major indices pared initial losses after the S&P reversed course and moved into the green for the first time, late in the session on Monday. The move started around the time that California announced the fewest deaths from COVID-19 in three weeks. Investors continued to weigh fears of a potential second wave of infections as well as the possibility for additional bad economic data against efforts by many states and countries who have started to ease lockdown restrictions. Markets were led higher by Energy, Technology, Utilities and Consumer Discretionary all which outperformed the broader index. Crude oil was higher again for a fourth straight session, rising over 3% to three-week highs as investors remained optimistic surrounding potential demand coming back online. Airline stocks were the major laggard on the day after Warren Buffet noted this weekend in Berkshire Hathaway earnings that he pulled his stake from the sector (American Airlines, Delta Air Lines, Southwest Airlines, United Airlines).



Source: Bloomberg as of 05.05.2020

Yields initially declined amid rising concerns about increased tensions between the world's two largest economies, however reversed course with the 10-year yield ending up 2bps to .63%. Overall, volume was light, coming in at 11% below its monthly average, while SPY ETF volume traded only 86m shares, which is -35% below its monthly average.



Source: Bloomberg as of 05.05.2020

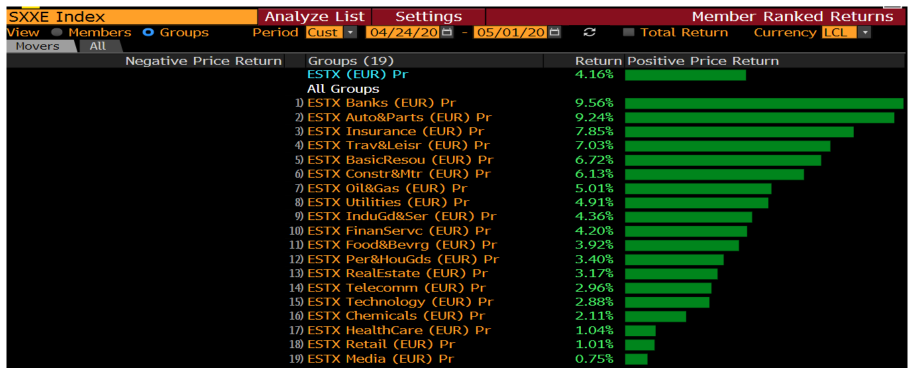
President Trump once again turned his sights to China threatening tariffs over the weekend saying they would be the "ultimate punishment" and added if the country does not buy U.S. goods, he will end the existing trade truce. The trade agreement signed less than four months ago has gone from a cornerstone, to once again a potential liability. While the phase-one pact took effect in mid-February, it appears to be falling short on Beijing's promises to purchase large quantities of agriculture and energy-related goods. Thus far, the Trump administration has been hesitant to increase pressure or walk away from the accord all together, allowing for a scaling period in order for the country to fulfill their obligations.

Investor's main focus throughout the week will be split between Friday's nonfarm payrolls report, which is expected to see the unemployment rate hit a postwar record of 15-16%, and further earnings releases with 157 more companies in the S&P 500 expected to report.

THIS WEEK INTERNATIONAL

Europe - The Euro STOXX Index rallied 4.16% last week, led by financials, automotive and travel & leisure. Confidence in reopening plans pushed European stocks to end the month close to a 23% retracement from the March lows.

The Eurozone manufacturing PMI was 33.4 in April, down from 44.5 in March. European Union (EU) members continue to take unprecedented steps to tackle the COVID-19 pandemic. Germany registered a 34.5 PMI print in April, versus 45.4 previously.



Source: Bloomberg as of 05.05.2020

French manufacturing PMI fell to 31.5 in April, down from 43.2 in March. Lockdown measures combined with weak demand brought manufacturing activity to historic lows according to IHS Markit. Italy and Spain posted weaker outputs with 31.1 and 30.1 respectively

Last week, the European Central Bank cut the cost of funding for banks and urged EU governments to launch fiscal stimulus. Christine Lagarde warned that the euro-area economy could contract as much as 12% this year.

APAC - The Shanghai Composite Index was up 1.84% last week, led by real estate, up 2.91% and conglomerates, up 2.77%. The Caixin China Manufacturing PMI dropped to 49.4 in April, versus 50.1 previously and below the market consensus of 50.3.

To protect investors, the Industrial and Commercial bank of China suspended the sale of products enabling retail investors to speculate on commodity prices after the crash in crude oil.

Caixin Global reported that Chinese authorities launched a REITs program to provide funding for infrastructure projects. The goal is to create jobs, increase investors' confidence and jumpstart the economy.

In Japan, the Nikkei 225 gained 1.86% last week, led by industrials. The au Jibun Bank Manufacturing PMI dropped to 41.9 in April, down from 44.8 in March. Japanese manufacturers expect production to fall across the coming year amid uncertainty caused by COVID-19.

In South Korea, the KOSPI Index gained 3.10% last week, led by financials, industrials, construction and utilities. The export-driven nation unveiled the world's biggest container ship able to carry 24,000 containers. The president reiterated his goal to make South Korea one of the top five shipping powers in the world.

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