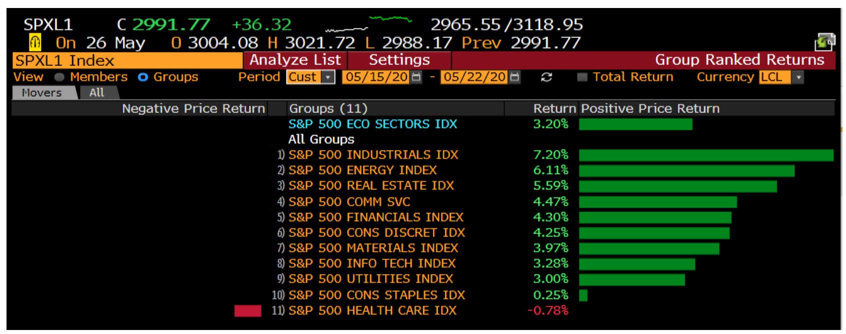
Level Four Capital Management

WEEKLY INSIGHT

MARKET COMMENTARY

LAST WEEK

U.S. equities staged an impressive rally over the course of the week as stocks leveraged to the reopening of the economy outperformed those leveraged to the stay and work from home orders. Investors continue to see value names outperforming growth and momentum, something that has not been in favor for quite some time. Industrials were the best performing sector, followed by Energy, Real Estate, Communication Services, Financials, Consumer Discretionary, Materials, and Technology, all which outperformed the broader market. Industrials gained 7.20% on the week amid help from airlines and rail related stocks. REITs had a good week with hotel and casino stocks leading the way, while Consumer Discretionary was led higher by homebuilders, travel/lodging, and apparel retailers. Communications services was lifted again by a spectacular week by Facebook (FB) which gained ~11.40% over the five days. Financials beat the tape with upside leadership from banks, while the Technology sector gained more than 3% on the back of semiconductor names as the SOX Index gained 6.00%. Healthcare was the only sector to end lower, with big pharma dragging the sector lower. With the risk-on tone, Treasuries were weaker as the curve flattened.



Source: Bloomberg as of 05.28.2020

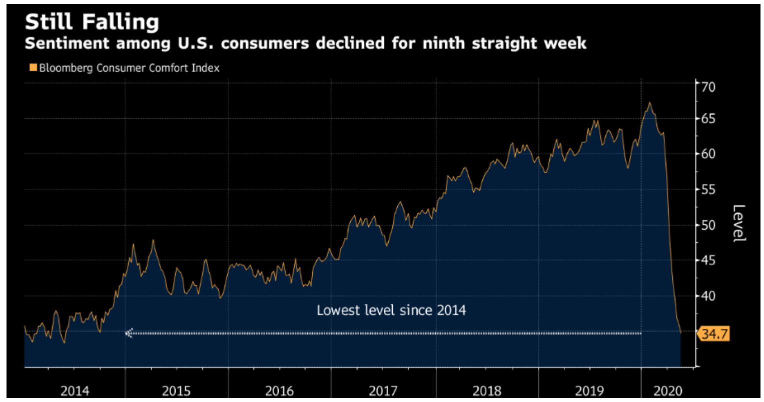
Source: Bloomberg as of 05.28.2020

Until recently, value as a factor continues to outperform growth in the near term. Values under-performance has resulted in the widest gap between the two since the dot-com era according to the Wall Street Journal. Despite recent articles noting that value may finally outperform for an extended period of time given the combination of depressed valuations and leverage of trillions of dollars to the financial system, we still remain hesitant to make a prediction. Over the past three years, investors have experienced multiple short-term stints where value has overtaken growth, only to revert back.

Developments on the COVID-19 vaccine side remained upbeat this week as Moderna (MRNA) said its vaccine candidate produced neutralizing antibodies in all eight healthy individuals who participated in a 45-person trial. The other 37 individuals are still waiting to be tested for the same antibodies. Additionally, Dr. Fauci told National Public Radio on Friday that he has seen the Moderna data and considers it quite promising, and reiterated expectations that a vaccine could be deployed late this year. Another company also working to produce a vaccine, Innovio Pharmaceuticals (INO), also gave positive commentary saying their vaccine produced robust neutralizing antibodies and immune system responses in mice and guinea pigs, however there were concerns surrounding the lack of data released from the experimental trial.

The FOMO trade and various policy measures continue to be the main reason for the move higher last week. According to the most recent Bank of America Global Fund Manager Survey, a mere 10% expect a V-shaped recovery and 25% expect a new bull market. The majority (75%) of respondents still expect the U.S. will see a U- or W-shaped recovery and 68% believe we are in a current bear market rally. Even as the rally remains intact, cash levels remain elevated at 5.7%, although down slightly from April levels at 5.9%. Over the course of the week, investors saw net outflows from money market funds for the first time, following a $1T build over 11 weeks in the space. The Central Bank policy accommodation continued to be highlighted as another key driver for markets while the Deutsche Bank noted that 12 month global Central Bank liquidity is already running at more than double the peak it reached during the Great Financial Crisis, with the Fed's balance sheet pushing above $7T.

U.S.-China tensions continued to ramp up further throughout the week but did not seem to have much impact on investor sentiment. The Senate passed a bill that would force Chinese companies to comply with U.S. auditing standards. The bill, Holding Foreign Companies Accountable Act (S.945) was indirectly aimed at China and forces Chinese companies who wish to be listed on U.S. exchanges to comply with various U.S. accounting metrics. The current versions of the bills, among other things, require the SEC to prohibit trading of the securities of a foreign company if the Public Company Accounting Oversight Board is unable to inspect the issuer's public accounting firm for three consecutive years. While bill S.945 is still in its early stages and details are scarce, it does not look to be enacted immediately and instead gives companies three years to comply once passed.



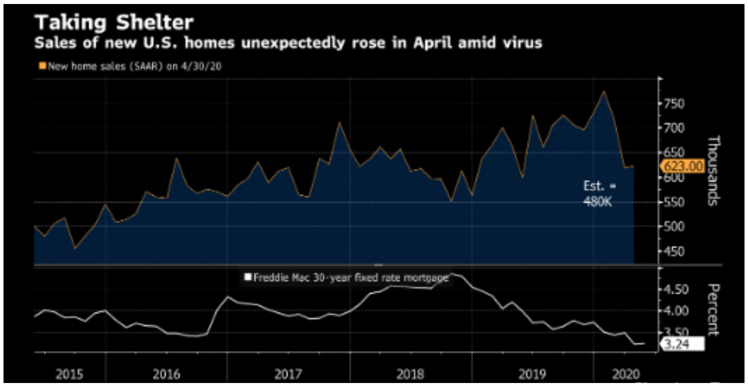
Source: Bloomberg as of 05.28.2020

On the data front, U.S. home construction starts plunged in April by the most in records back to 1959, as the nationwide lockdown to control the spread of COVID-19 hammered the housing market and broader economy. According to a government report released Tuesday, residential starts fell 30.2% to an annualized rate of 891,000 from a month earlier, the lowest level since February 2015. Applications to build, a proxy for future construction, dropped 20.8%, the most since July 2008, to a five-year low. Furthermore, Americans haven't been this pessimistic about current economic conditions in six years according to Bloomberg. The Bloomberg Consumer Comfort Index fell to 34.7 last week, a 1.1-point drop from the prior week and its ninth straight weekly decline, matching the longest streak on record. Unemployment claims totaled 2.44M for the week according to the Labor department making unemployment claims top 2M for the ninth straight week.

THIS WEEK

U.S. stocks rose, but closed sharply off their highs after Bloomberg reported that the Trump administration is considering sanctions on Chinese officials, which threatens to escalate tensions between the world's two largest economies. The S&P closed up 1.23% on the day, while the Dow ended 2.17% higher and the Nasdaq held onto slight gains of .17%. The S&P closed at 2,991, an 11-week high after trading above the 3,000 level for most of the day, led by Financials, Industrials, Real Estate, Energy and Materials, all which outperformed the broader market. Only two sectors, Technology and Healthcare closed lower on the day. The big winner on Monday was the Russell 2K which closed up 2.77% which is up over 6% on the month. The index is on track for a second monthly gain and its best against the S&P 500 Index since May 2018.

Source: Bloomberg as of 05.28.2020

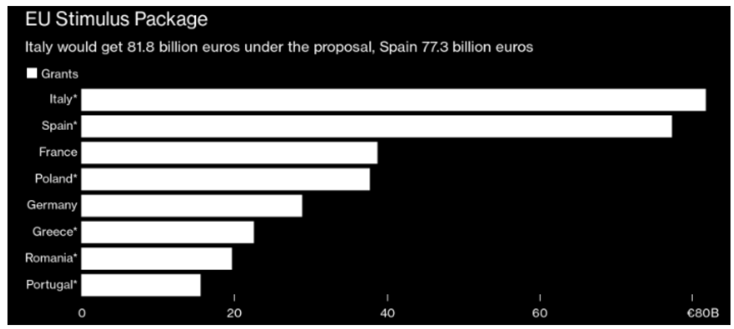


Source: Bloomberg as of 05.28.2020

Housing data released on Tuesday showed that the easing of lockdown restrictions seems to be boosting economic activity and seems to indicate that the worst from COVID-19 may be over. While the data is still abysmal by any historic comparison, the consensus among investors continues to be that the worst is behind with respect of global economies, easing investor worries.

THIS WEEK INTERNATIONAL

Europe - The Euro STOXX Index was up 4.44% last week, led by Auto & Parts, Industrials, and Technology. In response to France and Germany's 500B Euros emergency recovery fund proposal, the Netherlands, Austria, Denmark, and Sweden submitted their own recovery plan. The main takeaway is that they support the emergency fund proposal, but disapprove debt sharing or "significant increase in the EU's next seven-year budget." The European Commission unveiled a 750B Euros stimulus plan that must be approved by all 27 nations.



Source: European Commission as of 05.28.2020

Isabel Schnabel, German member of the European Central Bank (ECB) reacted to the German Supreme Court decision, ruling ECB's bond-purchasing program which started in 2015, partly unconstitutional. She said: "We are not adjusting our monetary policy in any way in response to this ruling. It does not directly affect us." The court told the Bundesbank that in case the ECB does not comply within three months, it must stop buying bonds and start selling more than 500B Euros worth of bonds.

In Italy, the transport minister Paola De Micheli announced that all airports will be able to reopen starting June 3rd. However, Francesco Boccia, the Regional Affairs minister, added that "it will depend on the conditions of the region. If a region is low risk, travel will probably be allowed."

Pedro Sanchez, the prime minister of Spain, announced that the country will reopen to overseas tourists starting in July. He also announced a 3B Euros minimum basic income program to help families greatly affected by COVID-19.

The UK announced that all new arrivals must self-quarantine for two weeks. A spokesman for France's Interior Minister reacted: "We take note of the British government's decision and we regret it. France is ready to put in place a reciprocal measure as soon as the system comes into force on the British side." A change of tone in diplomatic relationship between the two countries may impact the UK-EU trade negotiations.

APAC - The Hang Seng Index was down 3.64% last week, with real estate plummeting 7%. On Thursday to Friday alone, the Hang Seng Index plunged 6.02% while the Shanghai Composite Index eroded 2.43%.

Hong Kong is the center of protests against a new Chinese national security law that could jeopardize civil liberties and the city's autonomy. The law is expected to ban sedition, secession, and subversion against Beijing. Additionally, it would allow Chinese national security agencies to operate in Hong Kong. At least 180 people were arrested during the protest.

In Japan, the government plans to lift state of emergency due to successful virus mitigation. The government and the Bank of Japan issued a joint statement announcing increased collaboration to support the economic recovery. The NIKKEI 225 was up 1.75% last week.

IMPORTANT DISCLOSURES

The information provided, including any tools, services, strategies, methodologies and opinions, is expressed as of the date hereof and is subject to change. Level Four Capital Management ("LFCM") assumes no obligation to update or otherwise revise these materials. The information presented in this document has been obtained from or based upon sources believed by the trader or sales personnel or product specialist to be reliable, but LFCM does not represent or warrant its accuracy or completeness and is not responsible for losses or damages arising out of errors, omissions or changes or from the use of information presented in this document. This material does not purport to contain all of the information that an interested party may desire and, in fact, provides only a limited view. Any headings are for convenience of reference only and shall not be deemed to modify or influence the interpretation of the information contained.

This material has been prepared by personnel of LFCM and is not investment research or a research recommendation, as it does not constitute substantive research or analysis. This document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject LFCM to any registration or licensing requirement within such jurisdiction. It is provided for informational purposes, is intended for your use only, and does not constitute an invitation or offer to subscribe for or purchase any of the products or services mentioned, and must not be forwarded or shared with retail customers or the public. The information provided is not intended to provide a sufficient basis on which to make an investment decision. It is intended only to provide observations and views of certain LFCM personnel. Observations and views expressed herein may be changed by the personnel at any time without notice.

Nothing in this document constitutes investment, legal, accounting or tax advice or a representation that any investment strategy or service is suitable or appropriate to your individual circumstances. This document is not to be relied upon in substitution for the exercise of independent judgment. This document is not to be reproduced, in whole or part, without the written consent of LFCM.