

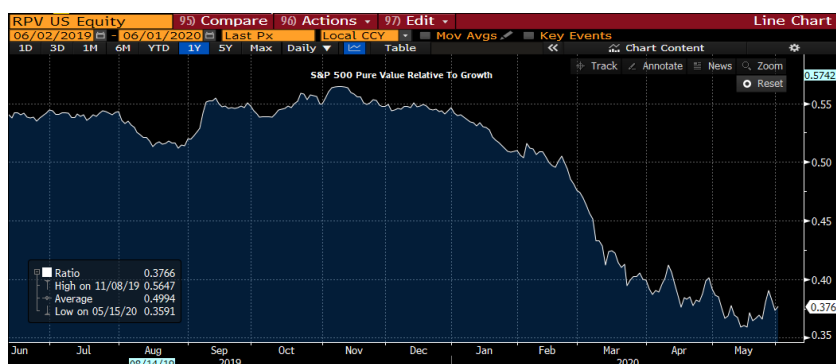


Level Four Capital Management WEEKLY INSIGHT

MARKET COMMENTARY

LAST WEEK

Major averages closed higher on the week, with the S&P 500 finishing up 3% and posting its first back-to-back weekly gains since mid-April. Value versus momentum continued to be a main market theme. The week started with investors once again seeing a strong value tilt with the S&P 500 pure value outperforming pure growth by 7%; however, value gave back some gains and the gap narrowed significantly to 1.2%, losing ground on a relative basis during the Thursday and Friday sessions. Value has been a large underperformer this year, with the MSCI USA Value index down -15.51% through Friday's close, while the MSCI USA Growth index is up 6.69% over the same time frame. Barron's recently noted that gains from some of the largest and best performing stocks year-to-date could be a liability moving forward as lofty valuations make underperforming names look more attractive based on a number of different metrics.



Source: Bloomberg as of 06.02.2020

All 11 sectors finished in the green, while leadership did not come from FAANG and technology related names. The Technology sector finally took a breather and ended only 1.42% higher, lagging broader index gains. Heavyweights Apple, Microsoft, Facebook, and Netflix closed lower over the five days which was the primary reason the sector trailed (Facebook and Twitter were lower on the week likely due to Trump signing an executive order to reign in the large tech companies). Financials, and more specifically banks, were the best performing sector and continued to benefit with the rotation toward value, as the Bank Index (BKX) closed up 9.47% on the week, while still remaining off by 33% on the year. Industrials also outperformed amid strength across transports, airlines, aerospace and defense names. Materials moved higher with help from steel and chemical related names. Consumer staples were slightly ahead of the broader market, as cosmetics and beverages led the group to the upside, while Consumer discretionary underperformed with Amazon +0.2%, taking a breather after gaining 33% on the year. WTI Crude gained 6.7% and posted its fifth straight week of gains; however, the Energy sector failed to follow the impressive gains, with E&P companies being the major drag and faring the worst. The Dollar index extended its recent declines and closed down 1.5% on the week.

As we closed out May, the S&P 500 once again posted another impressive month, finishing 4.53% higher, its best May since 2009. Over the past two months, the Index has now gained 17.21%, is now ~32% higher than the closing low on March 20th, and stands just 4.97% lower year-to-date. Broader leadership continues to come from groups leveraged to the reopening of the economy and



Source: Bloomberg as of 06.02.2020

Bloomberg continues to note that the global economy is seeing better trends across high-frequency data. Even in spite of leadership coming from those tied to the re-opening, investors continue to see a lack of breadth with the five largest stocks in the S&P 500 up ~15% YTD, while the remaining 495 are down ~8%.

Headlines related to COVID-19 over the course of the week were tilted positive with the following being the most notable:

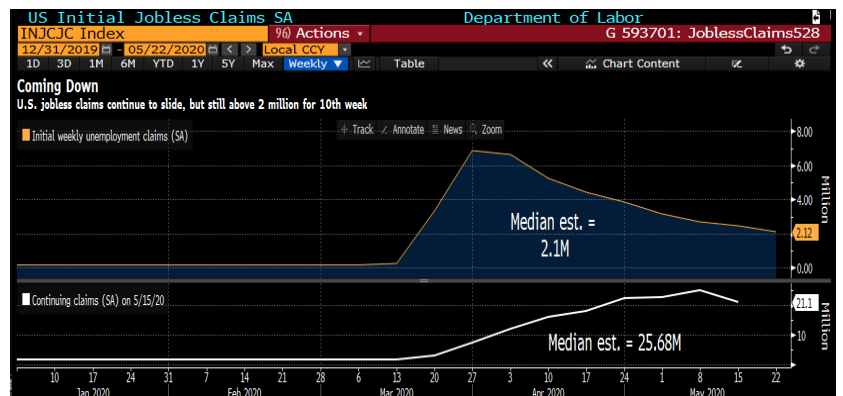
- Novavax announcing that it is starting the first human study of its experimental vaccine
- Dr. Anthony Fauci, giving comments to CNN that a vaccine could be available by November or December if everything goes as expected
- Dr. Fauci also saying this week that a second coronavirus wave isn't inevitable as long as states reopen correctly

Even despite the headlines surrounding vaccines, an AP/NORC poll recently showed that only half of Americans would receive a COVID-19 vaccine if one was created. As the country continues to reopen and return back to "normal", the pain trade appears to remain to the upside, with market bulls providing support for additional gains from current levels, including:

- The potential for more monetary and fiscal stimulus despite little progress from Congress recently
- Better recent data (Consumer Income, Consumer Savings, Continuing Jobless Claims, and Initial Jobless Claims)
- Optimism around 2021 earnings
- Fear of Missing Out Trade

Tensions between the world's two largest economies continued to escalate, however, the market continued to do what it does and seemingly brush off any concerns. On Friday, President Trump held a press conference regarding China and said that the U.S. would terminate their relationship with the World Health Organization, limit entry of certain foreign nationals, and pursue eliminating the range of policy exemptions for Hong Kong. Overall, the actions taken by the Trump administration remained subdued and fairly cautious given the wide options available. Although the administration could still possibly be weighing additional sanctions on Chinese officials and firms, the current sanctions announced were modest at best.

On the data front, initial jobless claims once again remained over 2M for the week with an additional 2.12M people filing for unemployment. This brings the total number of Americans filing for unemployment benefits to over 40M since mid-March when the Coronavirus pandemic began shutting down businesses. While filings remain at levels unseen before the crisis, the pace has decelerated for eight straight weeks, bolstering the case that the worst of the labor-market hit may be over. Furthermore, continuing claims posted their first decline since the start of the virus. Other economic data included Consumer spending which to no one's surprise, showed



Source: Bloomberg as of 06.02.2020

the U.S. economy came to a screeching halt in April. Consumer spending fell 13.6% in the month, the most on record, however Consumer income posted a record 10.5% increase due to the relief payments distributed under the Cares Act. With the increase in income and decrease in spending, the personal savings rate jumped to a record 33% from 12.7%.

Furthermore, there has been some focus on the Fed's forward guidance despite the meeting still being 8-9 days away, taking place on June 9-10. While Fed Chair Powell's interview Friday was viewed mostly as a non-event, he continued to re-iterate that negative rates are not the committee's goal and stressed that they are not appropriate at this time. Additionally, multiple speakers including Williams (New York), Mester (Cleveland) and Bullard (St. Louis) all discussed how yield curve control may be used moving forward in order to implement the central banks guidance on the shorter end of the curve.

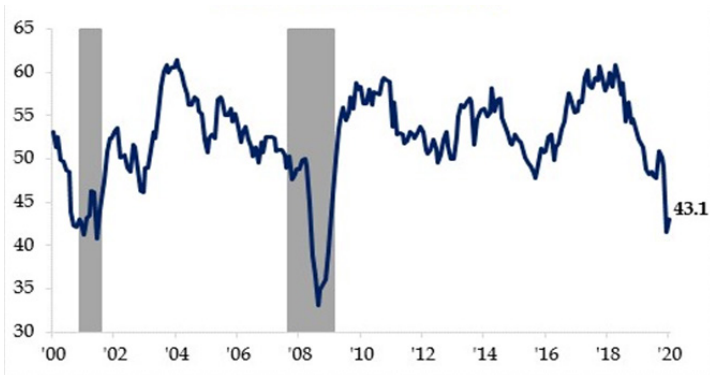
THIS WEEK

U.S. stocks closed slightly higher on Monday finishing near their best levels on the session and posting their highest close since early March. The S&P closed +.38%, while the Dow ended up +.36% and the Nasdaq +.66%. Cyclical and value names were among the top performing stocks on the day with airlines, auto's, banks, and travel/leisure names outperforming broader markets. It was a fairly quiet session to start the week with no major catalyst to note behind the move higher.

SPXL1 Index		Analyze List	Settings	Group Ranked Returns
View	Members	Groups	Period 1D	06/01/20 - 06/02/20
Movers		All	Total Return	Currency LCL
Negative Price Return		Groups (11)	Return	Positive Price Return
		S&P 500 ECO SECTORS IDX	0.35%	
		All Groups		
		1) S&P 500 REAL ESTATE IDX	0.18%	
		2) S&P 500 ENERGY IDX	0.14%	
		3) S&P 500 UTILITIES IDX	0.06%	
		4) S&P 500 FINANCIALS IDX	0.06%	
		5) S&P 500 INFO TECH IDX	0.05%	
		6) S&P 500 MATERIALS IDX	0.05%	
		7) S&P 500 INDUSTRIALS IDX	0.04%	
		8) S&P 500 CONS STAPLES IDX	-0.01%	
		9) S&P 500 CONS DISCRET IDX	-0.01%	
		10) S&P 500 HEALTH CARE IDX	-0.01%	
		11) S&P 500 COMM SVC	-0.01%	

Source: Bloomberg as of 06.02.2020

Equities initially opened the session lower after protests throughout the country surrounding the death of George Floyd caused investors to become weary of a potential spike in COVID-19 cases due to the lack of social distancing associated with these protests. Equities brushed off their early morning losses and turned positive shortly after the open, ultimately moving higher throughout the session.



Source: Strategas as of 06.02.2020

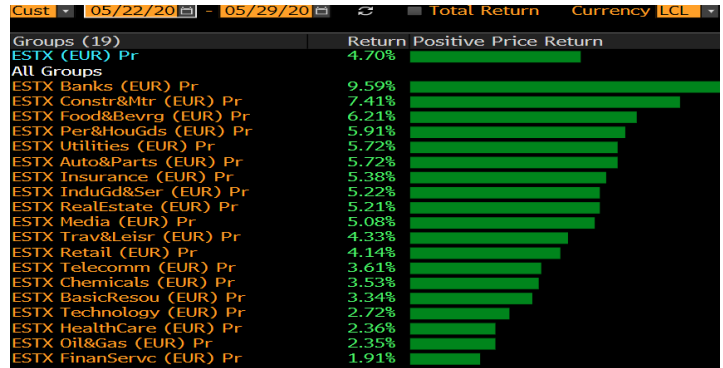
On the data front, ISM manufacturing improved in May but failed to meet expectations and remained in contraction territory. The headline print of 43.1 missed estimates of 43.5 however there were some valuable takeaways from the report with six of the eighteen sub-industries exhibiting growth in May. As the reopening of the economy continues to pick up, we would not be surprised to see other sub-industries exhibit growth including new orders as well as durable goods orders. Housing numbers remained resilient and U.S. construction spending in April declined less than anticipated.

According to the Atlanta Fed GDPNow, the measure currently suggests investors will see a further deterioration in quarter-over-quarter annualized contraction. Most recent estimates call for a contraction of 52.8% versus -51.2% in the prior reading and 35% reading mid-month. Data released on Monday morning took projections of consumption and investment growth lower than originally anticipated. General consensus remains that there should be steep declines in Q2 GDP, however it is anticipated that this will be followed by a steep but partial recovery in Q3.

The only other notable piece of news to start the week was a Bloomberg report stating that Beijing has told major state-run agricultural companies to halt purchases of some American farm goods, including soybeans and pork, until it evaluates the new tension-filled landscape with the United States. While the same message has reportedly not been conveyed to private companies, it appears to be the latest sign that the phase one deal could once again be in question.

Europe - The Euro STOXX Index rose 4.7% last week, led by value stocks. Sectors such as banks and construction rallied due to market sentiment of asymmetric risk/reward between Growth and Value.

The Eurozone Manufacturing PMI fell to 39.4 in May versus 33.4 previously. Germany and Spain respectively posted 36.6 and 38.3 in May, while Italy posted a three-month high of 45.4. According to IHS Markit, "there was a general improvement in PMI readings across the region in May, although all countries continued to experience further deteriorations in operating conditions."



Source: Bloomberg as of 06.02.2020

Business Insider reported that "increasing numbers in Brussels wonder if the British Government wants a trade deal signed before 2021." What appear to transpire out of the preliminary talks is that neither side wants to give concessions. Boris Johnson reportedly intends to use access to UK's fishing waters as a leverage during these negotiations. The FTSE 350 Index increased 1.81% last week, led by 18.28% gain from leisure goods, and 16.91% gain from auto & parts.

APAC - The Shanghai Composite Index rose 1.37% last week, versus 0.14% for the Hang Seng index.

The Caixin China Manufacturing PMI rose from 49.4 to 50.7 in May. According to Caixin Global "May data signalled a further increase in output following February's record decline. The Demand conditions remained subdued, however, with total new work declining again in May." Suppliers continued to reduce the price of raw materials to stimulate demand.

In response to the Hong Kong crisis, the UK is considering extending the rights of Hong Kong citizens that hold a British National Overseas (BNO) passport. The proposal would extend their UK residency right from six to 12 months and offer a path to permanent UK citizenship. China said that it is a violation of the handover agreement that stipulates that "BNO passport holders do not enjoy UK residency."

In Japan, the Manufacturing PMI declined from 41.9 in April to 38.4 in May. According to Au Jibun Bank, "55% of companies recorded lower output volumes when compared to April, and new orders fell at the fastest rate since february 2009." 46% of survey respondents reported that exports of goods also declined in May, while 7% saw an increase. The Nikkei 225 rose 7.31% last week.

In South Korea, the Manufacturing PMI slightly declined from 41.6 in April to 41.3 in May. According to IHS Markit, "the latest survey pointed to a further steep drop in new orders placed for South Korea goods in May. Overall demand conditions remained extremely weak, particularly abroad, as extended shutdowns at clients, order cancellations, and issues with transportation weighed on sales performances." The KOSPI Index rose 3.02% last week led by transport equipment, up 8.27% and construction, up 5.79%.

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