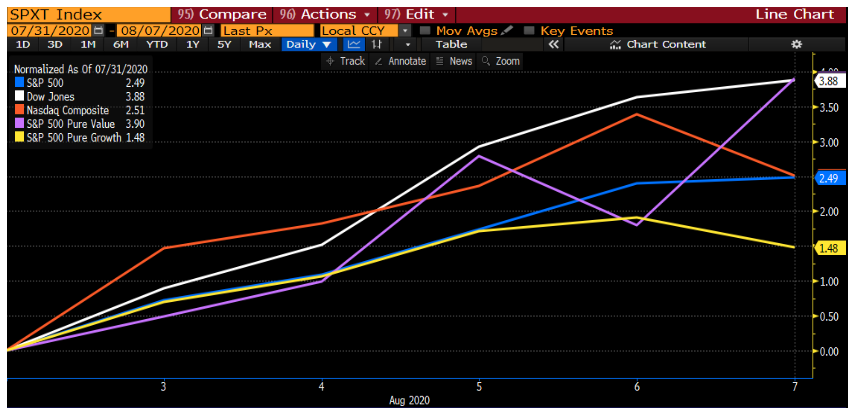
Level Four Capital Management

WEEKLY INSIGHT

MARKET COMMENTARY

LAST WEEK

U.S. equities rallied on the week, led by the Dow Jones which finished up 3.87% followed by the Nasdaq which closed 2.51% higher and the S&P which was up 2.48%. Throughout the week, we once again saw the value/growth debate playing out, however value managed to pull ahead after an impressive session on Friday. Value and cyclical names outperformed growth and momentum, as pure value ended 3.97% higher (+2.09% on Friday), while pure growth finished 1.49% higher. The rally in value came after Goldman Sachs noted that the market appeared to be underpricing the probability of a vaccine, adding that if one is developed as expected, investors could see a shift out of tech and into more traditional cyclical names.



Source: Bloomberg as of 08.11.2020

All sectors finished in the green, with leadership in Industrials, Financials, Energy, Communication Services, and Technology. Industrials outperformed with help from airlines, logistics and building materials. Financials were a standout thanks to strength in regional banks, which closed up 4.65% on the day and 6.03% on the week. Energy was the third best performing sector with WTI crude finishing up 2.4% over the five days. Technology was once again a bright spot with leadership from large cap names such as Apple and Microsoft, which finished up 4.6% and 3.6%, respectively.

Other large cap tech names such as Netflix, Advanced Micro Devices, Nvidia, Adobe, Intel, Salesforce, Broadcom, Texas Instruments, and Qualcomm all finished up over 1%. There was no lack of headlines after another rally in the tech sector with notable headlines, including:

- "The combined market cap of Apple, Amazon, Microsoft and Google is now greater than the GDP of every country in the world except the U.S. and China"
- "Apple's market cap is now close to surpassing the entire Russell 2K index"

The week seemed to lack a main catalyst behind the strength in equity markets, however, monetary policy, earnings results, and economic data were hailed as the primary drivers. More discussion emerged about the decline in real yields, with many believing the decline in rates is being fueled by an unprecedented combination of fiscal and monetary support. Economic data released was flagged as another bright spot after July's ISM non-manufacturing, ISM manufacturing, non-farm payrolls, unemployment rate, and initial jobless claims all beat expectations. The beats helped to offset recent commentary surrounding the potential fading of the U.S. economic recovery. After the beats, the widely watched Citi U.S. Economic Surprise Index remained near record highs.

Source: Bloomberg as of 08.11.2020

The White House and congressional representatives still remained at odds with one another regarding the size and scope of a fifth Coronavirus stimulus package. Consensus among experts indicates the two groups will meet somewhere in between the $1.5T-$2T range for the stimulus package. However, the two political parties remain far apart on various issues such as:

- Enhanced Unemployment Benefits
- Additional aid for state and local governments
- Payroll Tax Holiday

Source: Bloomberg as of 08.11.2020

On Saturday, President Trump signed four executive orders including enhanced unemployment benefits, a moratorium on evictions, student loan payment deferrals, and a payroll tax cut. The moves were criticized by members of both parties as an overreach of power, however appeared to be received positively by markets and U.S. citizens as the President's reelection ratings moved to their highest levels since the beginning of June according to PredictIt.

The following are what we know about the executive actions:

Enhanced Unemployment Benefits: Benefits will continue, but at $400 per week with the Federal government contributing $300 of the payment and the remainder coming from individual states. The funds would come from leftover or unspent FEMA funds and would retroactively start on August 1st, and could face pushback from state governors.

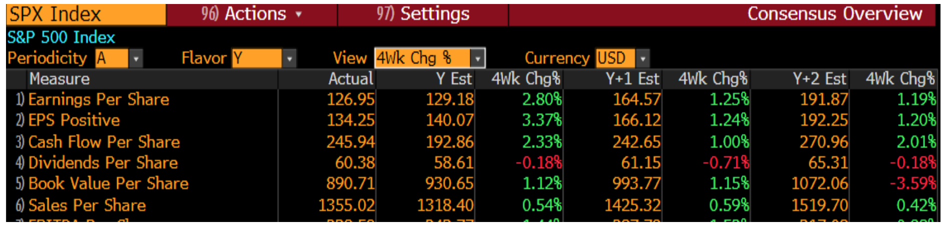
Moratorium on Evictions: The executive order is fairly limited in its details. However, under the original CARES Act, late fees and eviction filings were banned until July 25th on properties backed by federal mortgage programs. Despite the Republican proposal (HEALS Act) not addressing evictions, the executive order appears to leave the decision up to Health and Human Services Secretary Alex Azar and Centers for Disease Control and Prevention Director Robert Redfield.

Student Loan Deferral: The memorandum moves to waive student loan interest until December 31, 2020, extending the relief under the CARES Act which was due to expire on September 30th. Note that this only applies to student loans held by the Department of Education and not privately held student loans.

Payroll Tax Cut: The contentious memorandum covers a four month period from 9/1/2020-12/31/2020 for individuals earning less than $100,000 per year and will act as a deferral, not a forgiveness. This means individuals would still have to pay those taxes after the deferral period, unless extended permanently as Trump has recently said he would like to do during his second term.

Earnings season remained in full swing and last week marked the peak week of second quarter earnings. The theme remained the same as beat rates remained elevated in large part due to the very low expectations, which as mentioned in the previous few weeks, fell 40% over the course of Q2. As an update, according to FactSet, ~90% of S&P 500 companies that have reported have beaten consensus EPS estimates, with the average company in the S&P 500 beating estimates by ~22%. Another cause for the large beats has seemed to revolve around cost control, supply chain management, and the pivoting of sales tactics to online platforms, which has appeared to have provided an offset to the soft macro backdrop.

Coronavirus headlines were fairly quiet throughout the week. The most positive takeaway seemed to surround the number of infections and how across the U.S. infections appear to show signs of plateauing. In addition, President Trump mentioned there is a strong possibility for a vaccine to become available well ahead of year end, however with that, there were doubts that life will return back to normal even once a vaccine is created.



SPX Index | 96) Actions | 97) Settings | Consensus Overview

S&P 500 Index

Periodicity A | Flavor Y | View 4Wk Chg % | Currency USD

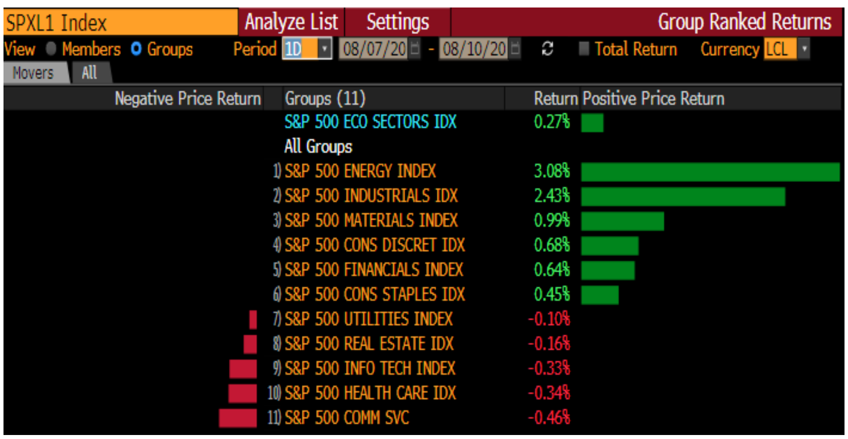
Measure	Actual	Y Est	4Wk Chg%	Y+1 Est	4Wk Chg%	Y+2 Est	4Wk Chg%
1) Earnings Per Share	126.95	129.18	2.80%	164.57	1.25%	191.87	1.19%
2) EPS Positive	134.25	140.07	3.37%	166.12	1.24%	192.25	1.20%
3) Cash Flow Per Share	245.94	192.86	2.33%	242.65	1.00%	270.96	2.01%
4) Dividends Per Share	60.38	58.61	-0.18%	61.15	-0.71%	65.31	-0.18%
5) Book Value Per Share	890.71	930.65	1.12%	993.77	1.15%	1072.06	-3.59%
6) Sales Per Share	1355.02	1318.40	0.54%	1425.32	0.59%	1519.70	0.42%

Source: Bloomberg as of 08.11.2020

All in all, the market remained resilient throughout the week and the S&P closed within 1.5% of all-time highs as investors seemingly continued to ignore a number of concerns, including:

- The continued flare-up in U.S.-China tensions
- The re-imposing of tariffs on certain aluminum imports from Canada
- The stalemate between Republicans and Democrats for a fifth Coronavirus bill

THIS WEEK

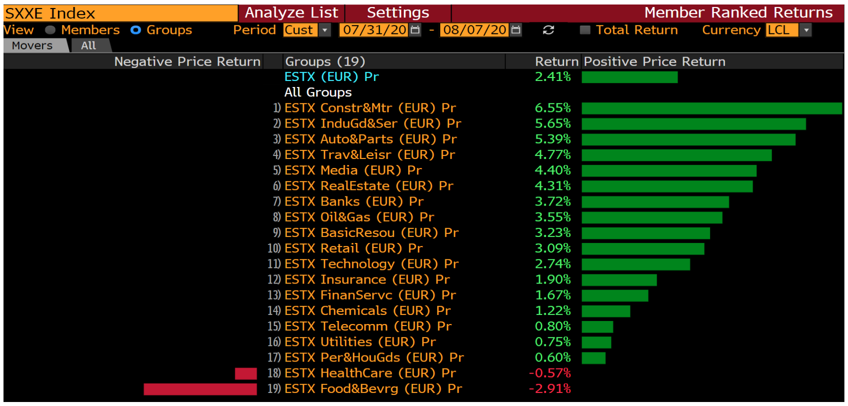


Source: Bloomberg as of 08.11.2020

U.S. equities finished mixed to start the week with the Dow Jones closing up 1.30%, while the S&P finished .27% higher and the Nasdaq fell .39%. The S&P 500 Total Return Index, which includes reinvested dividends, rose to an all-time high, exceeding its February peak, while the price-only version rose to less than 1% away from its previous highs. Equities have now rallied in five of the last six weeks, lifting the S&P to within 27 points of its all-time price highs when it touched 3386.15 on February 19th. Small caps outperformed with the Russell 2K ending up 99bps. The Nasdaq Composite fell for a second straight day after its recent run to all-time highs, as investors sold recent high-flying names. Markets were led to the upside by Energy, Industrials, Materials, Consumer Discretionary, Financials, and Consumer Staples all which outperformed. Software names led declines in Technology after the sector fell .33% to start the week (IGV ETF closed -1.45%), while some media companies fell on speculation that the college football season could be cancelled.

U.S. yields moved slightly higher, although remained rangebound, with the 10-year yield closing at 0.5772%, while the 30-year finished at 1.2538%. The U.S. Treasury is expected to sell a record amount of 3-, 10- and 30-year bonds this week with $38B in 10-year notes and $26B in 30-year bonds. Commodity prices rose as WTI crude finished up 1.80% and Gold climbed 0.6%, finishing off earlier session highs, but continuing its impressive run. The dollar declined again, giving back overnight gains providing an added tailwind for the commodity complex. The safe haven currency once again faced selling pressure given the continued low rate environment and continued easy monetary/fiscal policy.

Europe - European Central Bank (ECB) policy makers spoke on their exit strategy regarding the pandemic bond-buying program. One of the members of the ECB's Governing Council said that they will look for evidence of market stability and monitor inflation. According to a Bloomberg survey of economists conducted last month, the ECB is expected to spend close to another two trillion euros on assets by end of 2021. The Eurozone inflation is expected to remain below 2% for the next two years according to ECB estimates.



Source: Bloomberg as of 08.11.2020

The Euro STOXX Index was up 2.41% last week, led by construction and industrials.

In its latest monetary policy decision, Bank of England (BOE) decided to keep the interest rate at 0.1% and maintain its asset purchase target at $980B. The BOE expects unemployment to rise close to 7.5% by the end of the year and forecasts that the economy will return to pre-crisis condition by the end of 2021. BOE governor Andrew Bailey said to Bloomberg TV: "we've had quite a rapid recovery so far, which I'm not surprised about, as restrictions get lifted. But there's a lot of hard yards to be done from here onward."

The FTSE All-Share Index gained 2.56% last week, led by travel and leisure, up 9.18%.

APAC - In China, exports rose 7.2% year-on-year in July, versus 0.5% gain in June. Imports decreased 1.4% year-on-year, well below the consensus of a 0.9% rise. China recorded a $62.33B trade surplus last month, up from $46.42B previously. Exports to the U.S. soared while shipments to the EU and Japan decreased. Among the best performing items, medical-related goods stood out with 78% growth from a year earlier, while textile yarn and fabric exports jumped 48.4%.

The Shanghai Composite Index was up 1.33% last week, led by communications and industrials.

In Japan, real household expenditure fell 1.2% year-on-year in June, beating the consensus of a 7.8% decline. Disposable income increased 18.9% in June, versus 13.4% in May, boosted by the 100,000-yen stimulus paycheck granted to Japanese citizens. Spending is expected to increase in the third quarter as more people receive their relief paycheck. According to Bloomberg, as of July 15th, 90.9% of households received their stimulus paycheck.

The NIKKEI 225 was up 2.86% last week.

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