Level Four Capital Management

WEEKLY INSIGHT

MARKET COMMENTARY

LAST WEEK

U.S. equities finished higher for a third straight week led by the Dow which closed up 1.86%, followed by the S&P 500 (+.69%), Russell 2K (+.59%), and Nasdaq Composite (+.092%). On Wednesday, the S&P 500 traded above its February record high of 3,386 but could not maintain that level, finishing the session at 3,380. We still remain about seven points from the all-time intraday record which currently stands at 3,393.52 on 2/19/20. Additionally, the Nasdaq Composite recorded its first three-day losing streak earlier this week since early March. The move lower on Monday and Tuesday's sessions came before the index reversed course and rallied to close higher for the five days. Overall, it was a quiet week with no meaningful drivers behind the price action. With the slight move higher, the S&P 500 now stands up 5.65% on the year as of Friday's close.

The bullish narrative remained unchanged with investors continuing to point to the following as tailwinds for the continued moves higher:

- Large amounts of stimulus
- Expectations for further accommodation from the Fed
- Better-than-expected Q2 earnings season
- Vaccine optimism
- Positive economic surprise momentum
- S&P 500 Index concentrations (Heavy in Tech-related names)
- The relative stability of the U.S. / China trade deal

Source: Bloomberg as of 08.18.2020

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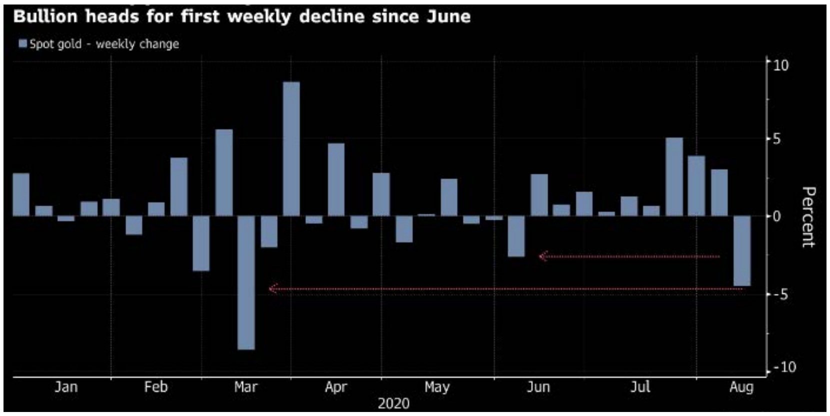
Value/cyclical names outperformed growth and momentum stocks in a significant way throughout the week with Pure Value closing up at 2.67% versus Pure Growth ending up at 0.65%. Investors saw a rotation into sectors that have recently been "out of favor" as Industrials, Energy, Consumer Discretionary, Materials, Financials, and Consumer Staples all outperformed broader indices. Industrials was the best performing sector on the week with strength in rail, airlines, and machinery-related names. Energy outperformed as Crude closed up nearly 2% on the week. Exploration and Production companies were the outsized winner as the subsector closed up over 3.5%. Materials reported better after steel, paper and select chemical names helped offset the weakness in precious metals stocks, which has carried the sector to a 23% gain over the last three months. Consumer discretionary rallied after reopening stocks such as apparel retailers, hotels, and casinos all saw large gains.

Defensive sectors, Utilities, and REITs finished down ~2% on the week, while recent high flyers such as Tech and Communications services lagged with early week rotation out of growth and momentum factors. The Merrill Lynch FANG index closed broadly lower on the week ending down 1.25% with all members, but Google closed in the red (GOOGL +0.42%). Treasuries came under pressure with the curve steepening as the 10-year closed at 0.7094%, its highest (from a yield perspective) level since June 23rd. The Dollar index continued its trek lower, finishing down ~0.3%. Gold lost about 4%, while silver closed down 6.55% on the week, snapping their respective nine-week winning streaks over which time gold and silver rallied 19.19% and 51.52%, respectively.

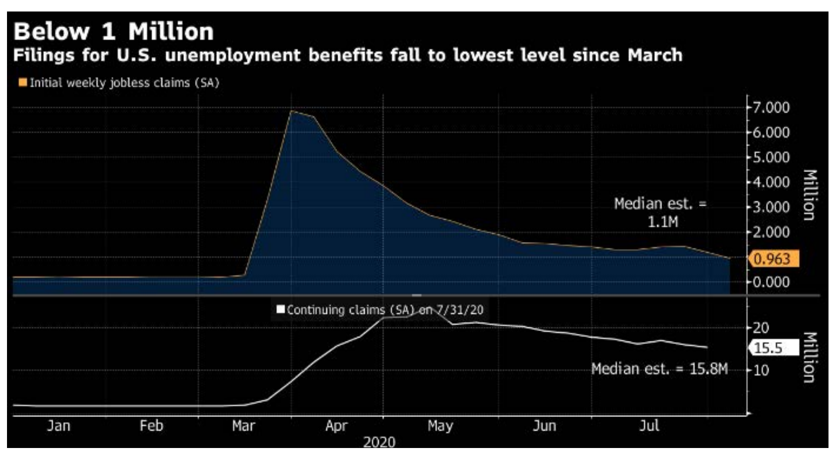


Source: Bloomberg as of 08.18.2020

Part of the reason for the selloff was attributed to Institutional managers who sold gold at their fastest pace since March, according to futures and options data. Hedge funds and other large investors reduced their long position in gold futures and options by 9.6% the week ending Tuesday 8/11/20. Tuesday was also the same day futures had their largest intraday drop in seven years, falling $115.45 (5.69%). At the same time, hedge funds seem to be slowly boosting their bets on a reversal. Speculative net short positions in S&P 500 Index E-mini futures hit their highest in almost two months on Friday, according to the latest Commodity Futures Trading Commission data. While the S&P 500 managed to eke out its sixth positive week out of seven on Friday, stretched valuations and election volatility may pave the way for a potential near-term pullback.

Negotiations over a fifth Coronavirus stimulus bill hit a stalemate between Republicans and Democrats as Trump's unilateral actions taken last Saturday dominated headlines throughout the week. As the week progressed, little headway was made between negotiators with expectations of a deal being completed in August diminishing. While investors remained optimistic and still widely anticipate a deal worth around $1.5T - $1.8T+ (reported from Cornerstone Macro, August 10th), the combination of better economic data and a congressional recess until September 8th has reduced Congresses urgency to complete any relief package for the American people.

Positive economic surprise momentum continued this week as initial jobless claims fell below 1M for the first time since March (20 weeks). Initial unemployment claims came in below expectations totaling 963K, while continuing claims declined more than forecasted to 15.5M. Additionally, core retail sales for July also beat expectations while July PPI and CPI came in hotter than originally anticipated. It was a very uneventful week of earnings as investors took a breather from the flurry of releases and reflected on what has been viewed as a much better earnings season than originally thought.



Source: Bloomberg as of 08.18.2020

Despite delaying the recommitment to the Phase One trade deal this week, U.S. / China headlines throughout the week leaned slightly more positive. According to a Bloomberg article released on August 10th, it appears China is looking to calm tensions even further with the United States ahead of the 2020 election. Overall, China's response to U.S. Sanctions on Chinese and Hong Kong officials was relatively mild, while a muted response also came after President Trump announced a ban of popular Chinese apps TikTok and WeChat.

Finally, the big news on the week came from the political side of the equation with Presidential candidate Joe Biden announcing Senator Kamala Harris as his running mate. While the move was largely expected, it appeared to have a minimal impact on market sentiment. Overall, there was some relief from both sides of the aisle after former Vice President Biden announced his selection as some thought he could move forward with a more progressive or extreme candidate. The general consensus appears to be that Senator Harris was the safe choice versus other potential candidates. According to Fox News, the latest polls showed President Trump trailing Biden by about seven points, however more commentary and articles have recently emerged regarding a potential "silent majority" which could ultimately help President Trump.

THIS WEEK

U.S. equities finished mixed to start the week as the Dow ended lower (BA weighed on the index), while the S&P 500 and Nasdaq each closed in the green on very light volume (8.3B shares versus YTD average of 9.6B). For a third time in the past week, the S&P 500 popped above its February closing record during the session, but ended below it. The S&P 500 closed up nine points on Monday, however still remained about five-and-a-half points short of its record close. The Nasdaq led the way to the upside with Technology names once again outperforming, propelling the Nasdaq to close up 1.00% and posting at an all-time record close. Apple and Tesla both touched all-time highs, while Semiconductor names saw outsized strength on the session which pushed the Philadelphia Semi-conductor index to close at all-time highs as well.

Ticker	Last	Chg on D	%1D	Chg WTD Pct	%MTD	Chg QTD %	%3M	%YTD
AMERICAS (17)								
DOW JONES INDUS	s27,844.91	-86.11	-.31%	-.01%	+5.36%	+7.87%	+17.91%	-2.43%
S&P 500 INDEX	3,381.99c	+9.14	+.27%	+.31%	+3.39%	+9.09%	+18.15%	+4.68%
NASDAQ COMP	↑11,129.72	+110.426	+1.00%	+.63%	+3.58%	+10.65%	+23.00%	+24.04%
S&P500 EQUAL WEIGHTED	4,500.63c	+9.19	+.20%	--	+3.84%	+8.74%	+21.47%	-4.06%
DOW JONES TRANS. AVG	s10,952.94	-6.60	-.06%	+.30%	+9.59%	+19.41%	+41.64%	+.47%
ML FANG	↓318.91	+1.35	+.43%	+.57%	+1.07%	+10.91%	+18.32%	+38.22%

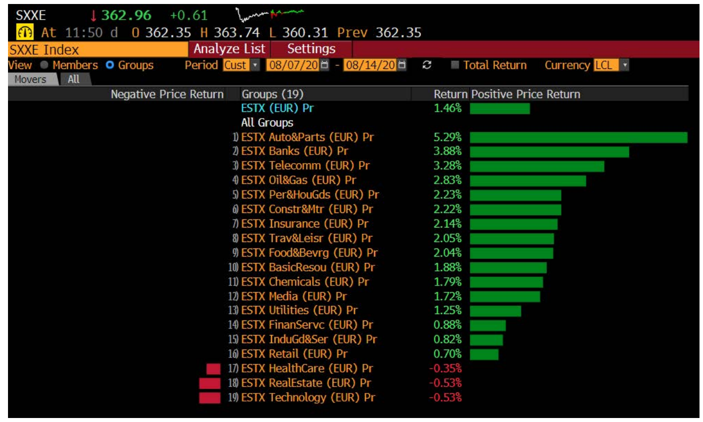
Source: Bloomberg as of 08.18.2020

Energy was one of the worst performing sectors on the day despite Oil prices rising throughout the session, as WTI crude settled at its highest closing price since March 5th. The 2.1% move higher in crude came after reports that major oil producers from OPEC+ were 97% compliant last month, with their previously stated emergency production cuts. Financials, and more specifically big banks, were the worst performing space in Monday's session after Warren Buffet's Berkshire Hathaway announced they sold stakes in many of the industry's top names. Despite the selling, Berkshire does not appear to be giving up completely on banks, trimming some of their positions while also further building their stake in Bank of America Corp.

On the data side, U.S. homebuilders remained optimistic as record low mortgage rates continues to spur demand for new homes. The NAHB housing market index, a gauge of builder sentiment, jumped to 78 which was a six-point gain from July's levels, and the highest levels seen since 1998. Looking forward, retail names will be in focus over the course of the week with earnings being released from Walmart, Home Depot, Advance Auto Parts, Kohl's, Target, Lowe's and TJ Maxx. Additionally, the release of the Federal Reserve's latest meeting minutes on Wednesday are expected to provide investors with additional insight into the Central Bank's views surrounding the ongoing economic recovery.

Source: Bloomberg as of 08.18.2020

Europe: Last week, the United Kingdom imposed a 14-day quarantine on arrivals from France, Malta, the Netherlands and three other countries. Travel and Leisure stocks fell on the news, but still managed to post a weekly gain of 2.05%. France warned that they may retaliate and impose the same restriction to British travelers. The CAC 40 index was up 1.5% last week and the German government recommended to avoid non-essential travel to Spain. The IBEX 35 Index was up 2.93% last week. According to the UN's World Tourism Organization, the tourism sector employs 27 million people and accounts for 10% of Europe's GDP. The Euro STOXX Index was up 1.46% last week, led by Auto & Parts, up 5.29%.



Source: Bloomberg as of 08.18.2020

Italy sold $1.5B of 30-year, three-year, and seven-year Treasury bonds last week, yielding about 1.91%. The last 30-year auction occurred in April and raised $15.4B with 3.13% yield. According to Bloomberg, there was demand for 1.4 times the amount outstanding. Italian 30-year yields decreased more than 100 bps since April, signaling investors' appetite for yield. The FTSE MIB Index was up 2.62% last week.

The ECB stress level Composite Index declined to 0.20 last week versus 0.25 a week earlier. This weekly indicator has a scale from zero to one, zero signaling no risk and one indicating a systemic crisis. The index aggregates 15 financial stress metrics to gauge the stress level of the Eurozone. This year, this index peaked at 0.28 on March 31st compared to the highest reading in the index which was recorded on 03/31/09 with a 0.78 stress level.

China - The U.S. and China postponed their review of the Phase One trade deal. China is not on track to meet the $77B increase over 2017 purchases. According to reports, the meeting was delayed to allow China more time to catch up on the Phase One deal. The MSCI World Index turned positive year-to-date, lifted by optimism surrounding the vaccine and the de-escalation of U.S. / China tensions.

The People's Bank of China announced that it would facilitate the international use of the renminbi to boost trade and encourage foreign central banks to increase their renminbi reserve assets. According to the IMF, as of 2019, renminbi reserves reached $217.67B and accounted for 1.95% of total foreign exchange reserves. The renminbi gained 0.36% versus the U.S. Dollar last week. The Shanghai Composite Index gained 0.18% last week, led by real estate, up 4.73% and utilities, up 2.01%.

Japan - According to the Japan External Trade Organization (JETRO), more and more Japanese firms plan to move their operations to Southeast Asia amid U.S. / China tensions. According to a recent JETRO survey, 41% of Japanese companies are considering opening subsidiaries in Vietnam in the next three years, and 36.3% said that they were looking at Thailand as a potential destination for expanding their operations. The NIKKEI 225 Index was up 4.3% last week.

Emerging Markets

Brazil - Brazil's president Jair Bolsonaro is pushing for the adoption of a new social program that includes the extension of monthly stipends sent to informal workers expiring at the end of the year. However, he is currently getting some pushback over the cost of the program. In fact, Brazil recorded a large budget deficit for the third consecutive month in June. The Economy minister is working on a solution to find the necessary funds for the program without bypassing the spending cap. The Brazil Ibovespa Index was down 1.38% last week.

India - India's Prime Minister Narendra Modi announced that the country will invest $1.46 trillion in infrastructure projects to spark the economic recovery. He also expressed his goal to help India become a key supply chain destination for foreign companies. According to the Reserve Bank of India, as of May 2020, India monthly Foreign Direct Investments inflow was down 37.93% year-over-year. The MSCI India Index was down 0.18% last week.

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