Level Four Capital Management

WEEKLY INSIGHT

HIGHLIGHTS

- U.S. indices finished lower last week as the S&P 500 posted its first back-to-back weekly losses since the end of April and beginning of May.
- Nasdaq posted its worst weekly decline since March, falling 4.05% on the week and has declined 9.96% (Correction territory) as of Friday's close.
- The three-day decline since setting an all-time record closing high on September 2nd tied the quickest move into correction territory for the S&P 500 tech index since 2000.
- Bank of America's flow show report showed that U.S. equities saw another week of outflows, making this the fourth straight week of declines.
- Overall, there were not many changes to the narrative and the selloff was primarily blamed on overbought conditions / valuations within the U.S. tech space.
- It was a fairly quiet week on the data front, however both Initial and continuing jobless claims came in below expectations and ticked higher on a W/W basis.
- Although commentary picked up surrounding a "Stalling Recovery" (we have seen this for the last two months now) J.P. Morgan, Goldman Sachs, Microsoft, and Mastercard all gave positive signals showing the recovery appears to still be underway.
- "Merger Monday" saw a flurry of activity which helped boost optimism in U.S. equities as major indexes rallied to start the week. Nasdaq snapped it's two day losing streak as Semiconductor names were particularly strong.
- Energy names lagged after OPEC cut their demand forecasts for their oil next year by 1.1MBPD to 28Mbpd for 2021.
- Despite Prime Minister Boris Johnson wanting to make unilateral changes to the UK/EU withdrawal agreement (Brexit) to receive more favorable terms regarding the Northern Ireland border, UK stocks finished up 3.43% last week.

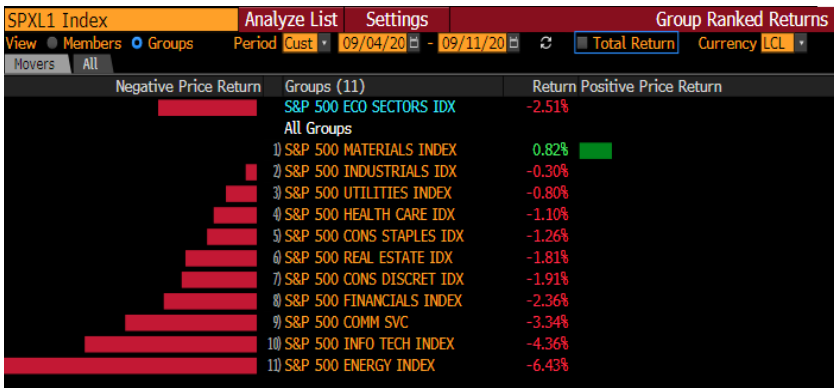
MARKET COMMENTARY

LAST WEEK

U.S. equities finished lower on the week, as the S&P 500 fell 2.50%, posting its first back-to-back weekly declines since early May. The Nasdaq posted its worst week since March, dropping 4.06% over the course of the week and finished 9.96% below the September 2nd all-time closing high. While the Nasdaq was the major underperformer, the Dow Jones & Russell tracked closer to the S&P losses, falling 1.61% and 2.45%, respectively. As all major indexes declined and 10/11 sectors finished in the red, momentum and growth underperformed value/cyclical names in a meaningful way. With the declines over the course of the week, Bank of America's flow show report exhibited that U.S. equities saw outflows again, its fourth straight week of outflows, with growth names accounting for the largest portion. The momentum factor ETF (MTUM) fell 3.4%, while the Value factor ETF (VLUE) declined 1.8%.

Source: Bloomberg as of 09.15.2020

Energy was once again the biggest laggard, leading declines for a second straight week and falling 6.43% (Crude closed down 6.1% posting its first back-to-back losses since late March) amid global demand concerns. Technology was the next worst performing sector, dropping 4.36% amid a continued selloff in FAANG and large tech names. Financials outperformed the S&P 500, however only by 15bps as the space was hit by weakness in Bank-related names, with the KBW Bank Index (BKX) declining 3.60%. Materials was the only positive sector, bucking broader selling pressures and finishing up 0.82% after precious metal miners helped buoy the space (Gold was +0.33%). Consumer Discretionary outperformed with help from homebuilders and select aspects of retail, helping offset losses in Amazon, restaurants, and travel-related names. Other notable outperformers included defensive plays such as Utilities, Healthcare, Consumer Staples, and REITS.



Negative Price Return	Groups (11)	Return	Positive Price Return
	S&P 500 ECO SECTORS IDX	-2.51%	
	All Groups		
	1) S&P 500 MATERIALS INDEX	0.82%	
	2) S&P 500 INDUSTRIALS IDX	-0.30%	
	3) S&P 500 UTILITIES INDEX	-0.80%	
	4) S&P 500 HEALTH CARE IDX	-1.10%	
	5) S&P 500 CONS STAPLES IDX	-1.26%	
	6) S&P 500 REAL ESTATE IDX	-1.81%	
	7) S&P 500 CONS DISCRET IDX	-1.91%	
	8) S&P 500 FINANCIALS INDEX	-2.36%	
	9) S&P 500 COMM SVC	-3.34%	
	10) S&P 500 INFO TECH INDEX	-4.36%	
	11) S&P 500 ENERGY INDEX	-6.43%	

Source: Bloomberg as of 09.15.2020

Treasuries were stronger across the curve as yields fell slightly. The 10-year closed 5bps lower to settle at 0.6658% over the course of the five days and remained largely range bound. The Dollar index was higher, touching its highest levels since mid-August and rallied against the Sterling on Brexit concerns, however was slightly lower against the Yen and Euro.

There weren't many changes to the overall rhetoric as the weakness was primarily blamed by overbought conditions/valuations within U.S. technology names. While other headwinds persisted including:

- Skepticism over another relief bill as no progress was made as both parties are still far apart on size and scope of a deal
- Vaccine expectations
- Presidential election poll results
- Potential lack of clarity on forward guidance from the Fed next week at the FOMC meeting due to market expectations of low rates for several years

S&P EPS ESTIMATES 2020

High	$170.00	3,500
Low	$110.00	2,500
Consensus	$130.00	2,875

EQUITY PORTFOLIO PERFORMANCE YTD

	Absolute	Relative
Large Cap Growth	21.17%	-4.60%
Large Cap Value	-7.35%	2.45%
International ADR	0.98%	5.09%
SMID Growth	31.27%	21.41%
S&P 500 Index	6.16%	
Dow Jones Index	0.23%	

ASSET ALLOCATION PORTFOLIO PERFORMANCE YTD

	Absolute	Relative
Aggressive Growth	2.63%	0.01%
Growth	2.46%	-1.05%
Growth/Income	2.86%	-1.54%
Income/Growth	2.31%	-2.98%
Income Preservation	2.00%	-4.18%

DIGITAL ASSET ALLOCATION PERFORMANCE YTD

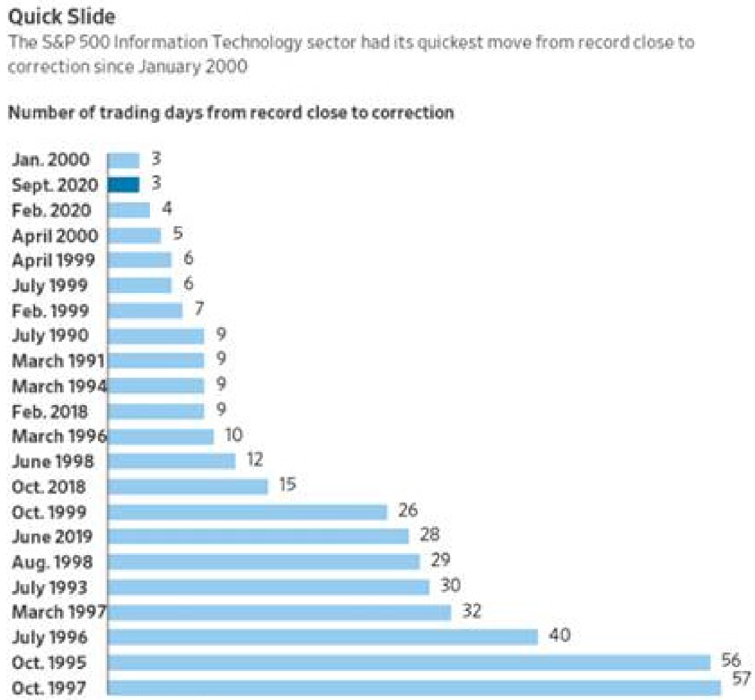
	Absolute	Relative
Aggressive Growth	2.17%	-0.45%
Growth	3.30%	-0.21%
Growth/Income	3.99%	-0.40%
Income/Growth	4.10%	-1.19%
Income Preservation	3.31%	-2.87%

**Performance numbers as of previous day close.*

Absolute - Actual performance over the stated time frame
Relative - Is performance vs the benchmark

Source: Bloomberg as of 09.15.2020

As mentioned above, Tech stocks were again one of the primary drags on equities after the Nasdaq entered correction territory (with a drop of 10%) just three days after setting record highs on Wednesday, September 2nd , tying its quickest number of trading days since 2000 for the space to enter correction territory. Adding to the downside pressure in tech was a report from Reuters that large options players unwound trades tied to tech stocks. In addition to that report, Bloomberg reported on Friday that Softbank was said to be reconsidering an options strategy that tied about $4B worth of premiums to $50B worth of U.S. technology stocks. Furthermore, Morgan Stanley offered caution surrounding positioning as they noted net exposure within the Tech space remained in the 95th percentile since 2010, thus making the total long exposure to the top 50 most popular names continuing to sit near its highest level in a decade.



Source: Dow Jones Market Data as of 09.15.2020

LAST WEEK'S ECONOMIC RESULTS:

- PPI Final Demand M/M: 0.3% vs Est 0.2%
- PPI Final Demand Y/Y: -0.2% vs Est -0.3%
- Initial Jobless Claims: 884K vs Est 832K
- Continuing Claims: 13385K vs Est 12904K
- CPI M/M: 0.4% vs Est 0.3%
- CPI Y/Y: 1.3 vs Est 1.2%
- CPI Ex Food and Energy: 1.7% vs Est 1.6%

THIS WEEK'S ECONOMIC RESULTS:

- Empire Manufacturing: Est 6.5
- Industrial Production M/M: Est 1.0%
- Capacity utilization: Est 71.5%
- NAHB Housing Market Index: Est 78
- Building Permit: Est 1520K
- Building Permits M/M: Est 2.5%
- Housing Starts: Est 1475K
- Housing Starts M/M: Est -1.4%
- Initial Jobless Claims: Est 850K
- Continuing Claims: Est 1300K
- University of Michigan Sentiment: Est 75.0

Source: Bloomberg as of 09.15.2020

While headlines were plentiful, there was more noise than substance when looking at COVID-19 related news. AstraZeneca (AZN) announced they would be putting their trial for a vaccine on hold after a patient enrolled in the study became ill. Additionally, the FDA's office that handles vaccines announced that drug makers seeking emergency authorization would have to meet a higher standard of efficacy than what is normally required. Expectations surrounding a release of a vaccine in Q4 of 2020 or Q1 of 2021, remained unchanged.

On the data front, it was a fairly quiet week with most data points leaning negative adding to late week selling pressures. While the selloff had already begun, the release of economic numbers did little to provide investor confidence. Initial jobless claims of 884K were slightly worse than expected, missing estimates of 832K, while continuing claims of 13.385M were also higher than the 12.9M consensus and increased on a week-over-week basis. Despite the weak data, there continued to be positive signs of the ongoing economic recovery even as some have pointed to the "stalling of the economic recovery" in recent weeks.

Commentary from multiple companies included:

- **J.P. Morgan** said their card spending tracker showed consumer spending improved to -6.5% as of September 5th on y/y basis, its highest levels since March
- **Morgan Stanley** echoed J.P. Morgan's comments saying high frequency data continued to improve in the consumer space despite stimulus payments expiring about six weeks ago
- **Goldman Sachs** said the economy is a step closer to being fully opened after improvements in retail, lodging, and box office spending over the long holiday weekend
- **Master Card** announced they have seen operating metrics improve through the end of August and see most markets in normalization phase domestically

THIS WEEK

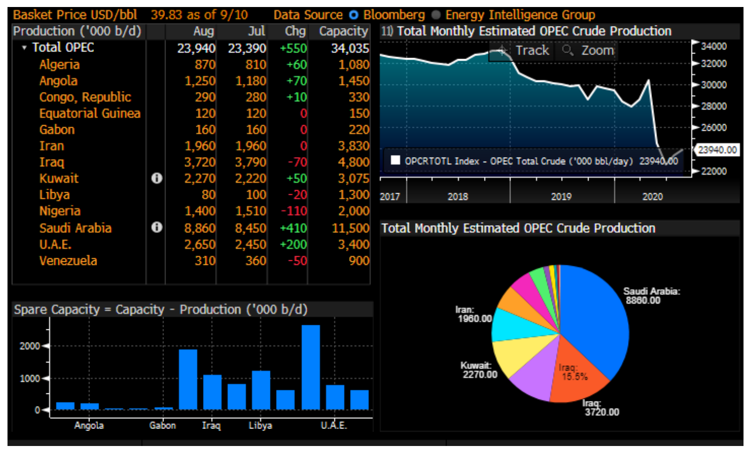
Markets started out strong on Monday with all major U.S. indices closing up over 1% on the session, helping to recoup losses from the last two weeks as valuations and profit-taking has recently weighed on equities. The risk-on tone came as Merger Monday ramped into full gear with investors waking up Monday morning to a flurry of announcements which included:

- **Gilead (GILD)** buying Immunomedics (IMMU) for $21B
- **Nvidia (NVDA)** agreed to buy ARM Holdings from Softbank for $40B
- **Merck (MRK)** said they will take a $1B stake in Seattle Genetics, with the potential to buy up to $4.5B
- **Oracle (ORCL)** confirmed they are bidding for TikTok's U.S. operations in what would be a partnership with ByteDance
- **Verizon (VZ)** announced they are buying Tracfone Wireless for up to $6.9B

Offering additional support to equities was Pfizer and BioNTech who announced they would be expanding their Phase 3 COVID-19 vaccine trials to about 44K patients.

The Russell 2K led gains, closing up 2.65%, while the Nasdaq gained 1.30%, snapping its two-day losing streak. All 11 sectors finished higher as the S&P was led by the Real Estate, Technology, and Materials sectors. Semi-conductors were particularly strong with the Philadelphia Semi-Conductor Index (SOX) closing up 2.12% as 29 of the 30 names closed in the green, while 53% of members were up over 2% on the session (Qorvo was the lone name that closed in the red).

Energy-related names lagged again, gaining only 62bps on Monday as crude slipped slightly, falling further below $40/barrel after OPEC announced they see weaker demand for their oil in 2021. With the move lower in Monday's session, crude has lost 13.78% since its six-month highs on August 26th . The group cut their outlook for the global oil market ahead of their virtual meeting on Thursday this week after adding about 760Kbpd in additional supply in August, bringing production between their 13 members to just under 24Mbpd for the month. The committee reduced its demand estimates by 1.1Mbpd to 28.2Mbpd (OPEC Only) for 2021 and continue to grapple with the decision on whether or not to ease production cuts. Current estimates show that oil consumption is on track to fall by 9.46Mbpd this year to an average of 90.23Mbpd as world economies continue to battle COVID-19. While the group has cut demand for their oil in 2021, they have subsequently raised production estimates for production outside of OPEC over the next five quarters thanks to a stronger outlook in the U.S.

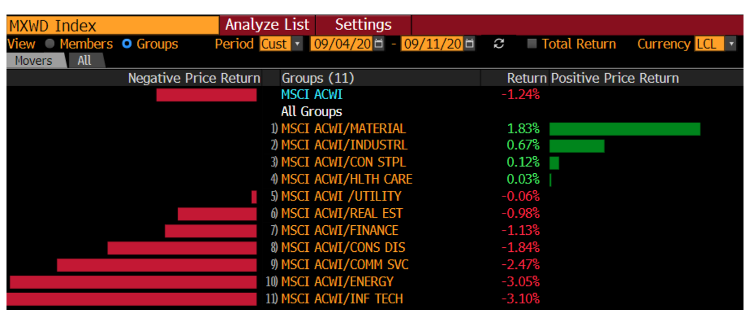


Production ('000 b/d)	Aug	Jul	Chg	Capacity
Total OPEC	23,940	23,390	+550	34,035
Algeria	870	810	+60	1,080
Angola	1,250	1,180	+70	1,450
Congo, Republic	290	280	+10	330
Equatorial Guinea	120	120	0	150
Gabon	160	160	0	220
Iran	1,960	1,960	0	3,830
Iraq	3,720	3,790	-70	4,800
Kuwait	2,270	2,220	+50	3,075
Libya	80	100	-20	1,300
Nigeria	1,400	1,510	-110	2,000
Saudi Arabia	8,860	8,450	+410	11,500
U.A.E.	2,650	2,450	+200	3,400
Venezuela	310	360	-50	900

Source: Bloomberg as of 09.15.2020

THIS WEEK INTERNATIONAL

Last week, global equities were down for the second consecutive week. The MSCI ACWI index slid 1.24%, despite 1.83% gain from materials, and 0.67% gain from industrials. Information technology was down 3.1% and energy lost 3.05% as Brent Crude Oil price dropped from $42.66 to $39.83. The Brent 60-day volatility ticked up last week from 26.22 to 27.97. Overall, growth stocks were down 1.82%, while value stocks were down 0.56%. The Global Aggregate Index finished the week higher at 5.41% yield.



Groups (11)	Return
MSCI ACWI	-1.24%
All Groups	
1) MSCI ACWI/MATERIAL	1.83%
2) MSCI ACWI/INDUSTRL	0.67%
3) MSCI ACWI/CON STPL	0.12%
4) MSCI ACWI/HLTH CARE	0.03%
5) MSCI ACWI /UTILITY	-0.06%
6) MSCI ACWI/REAL EST	-0.98%
7) MSCI ACWI/FINANCE	-1.13%
8) MSCI ACWI/CONS DIS	-1.84%
9) MSCI ACWI/COMM SVC	-2.47%
10) MSCI ACWI/ENERGY	-3.05%
11) MSCI ACWI/INF TECH	-3.10%

Source: Bloomberg as of 09.15.2020

Europe: Christine Lagarde said last week that "for the currency union to be more complete, we would like to see a fully developed banking union with all its attributes. We have also consistently indicated that we would like to see a capital market union, which would apply throughout the Euro area at least, and that would facilitate access to capital by enterprises." The Euro STOXX Index was up 1.78% last week, led by personal and household goods. Banks were down 2.2%. All major European indices had a positive week. Indeed, the DAX Index was up 2.8%, while the CAC 40 Index gained 1.39% and the Dutch stock market was up 2.17%. However, Spanish stocks were down 0.67% last week, bringing the IBEX Index price-to-book ratio to 1.11 and its free cash flow yield at 40.63%.

In England, a new regulation made gatherings of more than six people illegal. British stocks were up 3.43% last week, led by leisure goods, up 18.5%, and industrials, up 10.5%. Prime Minister Boris Johnson wants to make unilateral changes to the withdrawal agreement to receive more favorable terms regarding the Northern Ireland border. Indeed, goods circulating from Great Britain to Northern Ireland could potentially be subject to a custom duty under the current agreement. European Commission Spokesman Daniel Sheridan Ferrie said that "the full implementation of the withdrawal agreement including the protocol of Northern Ireland is a pre-requisite for the negotiation on the future partnership."

APAC: China has suspended imports of pork from Germany and announced the destruction of existing supplies over swine fever cases. Japan and South Korea also halted imports and Taiwan started to inspect luggage of inbounding passengers from the European Union. According to European Commission data, China accounted for two-thirds of Germany's pork exports in the first half of 2020. The Shanghai Composite index was down 2.83%, with industrials down 3.87%. The Hang Seng Index was down 0.78%, with financials up 0.10%.

In Japan, the ruling party is expected to elect Chief Cabinet Secretary Yoshihide Suga as the new Prime Minister on September 16th. The NIKKEI 225 was up 0.87% last week, led by industrials. Bank of Japan is expected to give its policy rate decision on September 17th. The Japanese five-year inflation expectation rose mid-week to 0.38%, before dropping and closing at -0.19%. By the end of August, Bank of Japan's balance sheet represented 128% of the GDP, versus 109.4% in March. Japanese asset prices rose 15% year-on-year last month according to Bloomberg Intelligence.

Emerging Markets: In Brazil, Bolsonaro is distancing himself from the austerity agenda of his finance minister, Paulo Guedes. Indeed, the president decided to trust his Chief of Staff Walter Braga Netto to lead negotiations with lawmakers to pass key reforms. Guedes is criticized for wanting to launch new taxes, including reinstating an unpopular tax on financial transactions that was suppressed in 2008. Bolsonaro must find ways to generate revenues for his plans without causing the economy to crack. Brazilian stocks were down 2.84% last week.

South Korea is relaxing social distancing rules after observing an improvement in the number of COVID-19 cases. The country has adopted three levels of social distancing, with the third being the highest. The Prime Minister announced that the social distancing level would be dropped from 2.5 to 2 for two weeks in Seoul. Level 2 restricts public gatherings to 49 people, which disproportionally affects the service sector. The jobless rate fell to 3.2% in August from 4.2% previously, while the number of unemployed people not seeking a job increased by 534,000. According to a survey conducted by Korea Economic Research Institute, when asked if they are willing to hire in the second half, 50% companies said they have no plans yet, whereas 24% said they will not hire and 26% said they plan to hire. The KOSPI index was up 1.2% last week, led by electrical and electronic equipment.

IMPORTANT DISCLOSURES

Model performance information has been prepared by LFCM and has not been independently verified. It is for informational purposes only and does not constitute investment advice. The performance reflects LFCM's investment models as currently implemented and are reflected gross of fees. The performance of an actual client account may vary from LFCM's investment models for several reasons, including custodial costs and other fees, actual transaction costs in a client account being higher or lower than the model transaction costs, market conditions during trading, investment selection availability, and/or other factors. Past performance of LFCM's models is no guarantee of future performance, and LFCM's strategies, like most investment strategies, involve the risk of loss.