



Level Four Capital Management

WEEKLY INSIGHT

HIGHLIGHTS

- U.S. equities staged a strong rally last week as the S&P 500 posted its best weekly performance in more than three months, gaining 3.84%, pushing it to its highest levels since early September.
- All 11 sectors finished higher led by Materials Energy, Utilities, Technology, Healthcare, and Industrials which all closed up over 4.00% on the week.
- Stimulus optimism was the primary driver behind the risk-on tone throughout the week despite headlines that seem to contradict one another.
- The difference between five- and 30-year rates increased to almost 124 basis points, their widest levels in more than a month as investors remain optimistic about a more robust economic recovery.
- Investors appear to be becoming comfortable with the increased likelihood of a clear cut, definitive win for Democrat Presidential nominee, Joe Biden and the reduced odds of a contested election.
- According to poll aggregator FiveThirtyEight's election forecasting model, Bidens chances of winning the Electoral College have risen to a record high of 86.1%.
- Numerous companies offered positive pre-announcements last week, helping to improve sentiment as investors continue to look for a bounce back in 2020 realized earnings. Positive announcements came from McDonald's, NXP Semiconductors, HCA Healthcare and Fortive.
- On Monday the S&P 500 gained for a fourth straight session adding 1.64% and brining the gains since last Tuesday to 5.06% amid leadership in Large Tech related names. The NASDAQ 100 surged as much as 4.1%, its best day since April, before pairing gains.
- Investors focus will turn to 3Q earnings season which is set to kickoff later this week with big banks announcing results.
- India is on track to pass the United States in terms of numbers of COVID-19 cases. Indeed, last Sunday, the country reported 74,383 new cases and 918 deaths, bringing the total number of infections to seven million. Despite the headwinds, Indian stocks were up 4.36% last week.

MARKET COMMENTARY

LAST WEEK

U.S. equities staged a strong rally throughout the week as the S&P 500 posted its best weekly performance in more than 3 months, gaining 3.84%. Other U.S. indices followed suit with the Russell 2K adding 6.38%, the NASDAQ gaining 4.56%, and the Dow advancing 3.27%. The move higher in the S&P 500 pushed the widely watched U.S. benchmark to its highest levels since early September amid a number of tailwinds which included:

- Increased stimulus optimism
- Decreasing odds of a contested election and potential for a clear-cut Biden win
- Better news surrounding a COVID-19 vaccine
- Positive pre-announcements heading into earnings season



Source: Bloomberg as of 10.13.2020

SECTOR PERFORMANCE

On the equity side, value lagged growth ever so slightly (by 30bps), trading largely in line with one another throughout the week. All 11 sectors finished higher, led by Materials, Energy, Utilities, Technology, Healthcare, and Industrials, which all closed up over 4% on the week.

Energy - Outperformed on the back of WTI crude gaining 9.6%, as hurricane Delta made its way through the Gulf of Mexico disrupting U.S. supply.

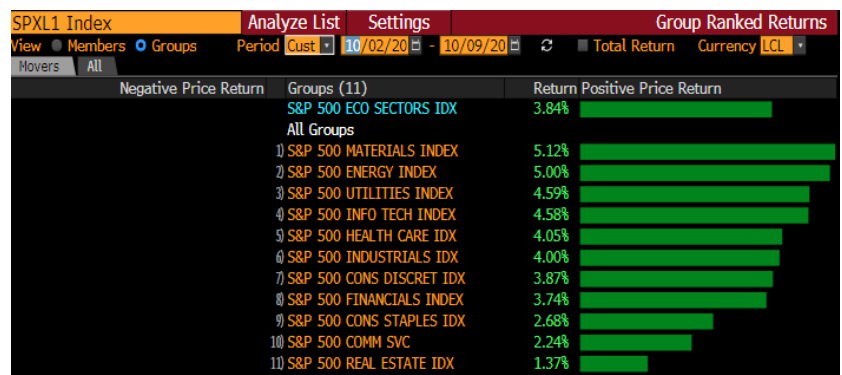
Technology - Boosted by strength in Semi-conductors after NXP Semiconductors pre-announced better-than-anticipated earnings and reports emerged that Xilinx was in talks to be acquired by Advanced Micro Devices, helping to push the Philadelphia Semi-Conductor Index to new all-time intraday highs on Friday.

Healthcare - Gained as hospitals and managed care names saw strength on dampened concerns surrounding Biden's healthcare plan.

Industrials - Buoyed by machinery and airline related names with the ladder, and saw strength on optimism for a stand-alone bill for the sub-sector, despite Nancy Pelosi saying on Thursday that any airline aid would have to be part of a larger plan.

Consumer Discretionary - Amazon and select retailers helped prop up the space ahead of Prime Day (October 13th and 14th) in which estimates call for sales to total around \$9.91B for the two days, offsetting weakness in gaming and auto related stocks within the sector.

Financials - Lagged slightly, but still posted strong gains of 3.87% as banks, credit cards, and asset managers were areas of bright spots.



Source: Bloomberg as of 10.13.2020



Source: Bloomberg as of 10.13.2020

FIXED INCOME

As equities gained, yields pushed sharply higher with bond prices falling. Long-term yields closed near their highest levels since June as investors anticipate a more robust economic recovery and additional government spending. The difference between five- and 30-year rates increased to almost 124 basis points, their widest levels in more than a month, as investors scaled back safe haven assets.

STIMULUS OPTIMISM

Stimulus optimism was the primary driver behind the risk-on tone throughout the week despite headlines that seem to contradict one another. Initially, President Trump announced on Tuesday that he had instructed his representatives "to stop negotiating until after the election", adding that Nancy Pelosi was asking for \$2.4T in aid for items that are not related to COVID-19. After the announcement, the S&P 500 tumbled more than 2% to close in the red, its only down day on the week.

Fast-forwarding to Friday, the White House was reportedly prepared to propose a \$1.8T package, the largest package they have agreed upon this far. However, there was skepticism surrounding its ability to make it through the House. Adding further ambiguity

to the situation was President Trump's comments when he told Rush Limbaugh that he would like to see a larger stimulus than "either party is offering". Up until the comments, it had widely been viewed that the White House and Republicans had wanted a "skinnier" and more focused aid package than what Democrats were proposing.

While it appears the markets base case is for an additional stimulus package, it is unlikely the Senate will have enough votes to pass the reported \$1.8T package even if it were to receive approval in the House of Representatives. According to Axios, this makes it highly unlikely that a deal will be made in the next three weeks prior to the election. In the end, it appears investors continue to downplay President Trump's comments and instead focus on the potential for a larger post-election deal, one that could be proposed by front runner Joe Biden.

Economists from Goldman Sachs upgraded their U.S. economic forecasts due in part to the higher probability of a stimulus package that would be "at least" \$2T if a 'Blue Wave' election were to occur. Furthermore, echoing the same sentiment was Bank of America who outlined multiple stimulus scenarios, including one that would be labeled as a \$3.5T supersized deal if Democrats won the White House and Congress.

REDUCED ODDS OF CONTESTED ELECTION

With markets pushing close to all-time highs, investors appear to be becoming comfortable with the increased likelihood of a clear cut and definitive win for Democrat Presidential nominee, Joe Biden, and the reduced odds of a contested election. A clear and unchallenged victory would mean the avoiding of a long and messy legal battle, helping to remove uncertainty which could further fuel the risk on trade. While many have pointed to tax hikes as negative and undoubtedly put some pressure on corporate profits, economists believe it could be offset by additional fiscal policy support. As of Monday, October 12th, poll aggregator FiveThirtyEight's election forecasting model is stating that Biden's chances of winning the Electoral College have risen to a record high of 86.1%, calling for the presidential nominee to potentially win 352 of 538 potential electoral votes.

COVID-19 UPDATE

Worsening U.S. COVID-19 case trends were in focus this week, but were not able to make a meaningful impact on investor sentiment. The U.S. recorded 56K new cases on Thursday, its highest confirmed case count in nearly eight weeks, as cases continue to climb in the Northeast particularly in New York and New Jersey. Despite the case increase, optimism surrounding vaccine and therapies ultimately outweighed the negative headlines, even as the FDA essentially eliminated any chance that a vaccine could be readily available before the November 3rd election. Positive headlines surrounding treatment included:

- Eli Lilly and Co asking the FDA to authorize their COVID-19 antibody drug
- Regeneron Pharmaceuticals asked the FDA for emergency use of their antibody treatment (the same treatment President Trump took)
- Pfizer/BioNTech announced the initiation of a rolling submission to the European Medicines Agency for its vaccine

PRE-ANNOUNCEMENTS AND EARNINGS

It was a busy week of pre-announcements ahead of the official kickoff for earnings season next week. Numerous companies offered positive pre-announcements throughout the week, helping to improve sentiment as investors continue to look for a bounce back in 2020 realized earnings. Among the positive pre-announcements were McDonald's, NXP Semiconductors, HCA Healthcare and Fortive. According to FactSet's Earnings Insight, 3Q earnings are expected to decline by 20.5% year-over-year. However, despite the earnings decline expectation, estimates have actually been revised higher by 4.1% since the end of 2Q on June 30th. This compares to a 5.0% average intra-quarter reduction seen over the past five years.



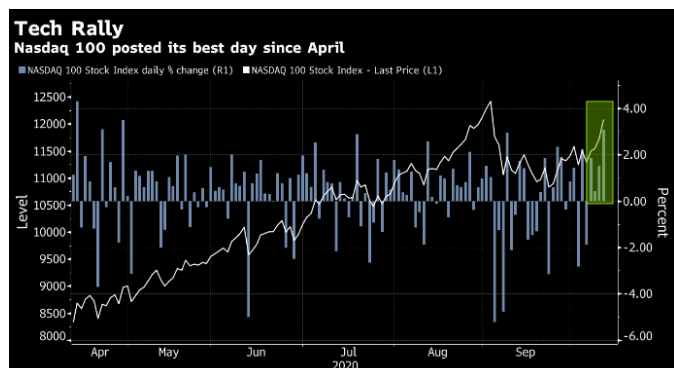
Source: Bloomberg as of 10.13.2020

THIS WEEK

Domestic stocks climbed to an almost six-week high amid a rally in Technology related names as investors focus will turn to 3Q earnings season which is set to kick off later this week. The S&P 500 extended gains for a fourth straight session, adding 1.64% on Monday, bringing the total gain to ~5% since Tuesday's close. Large tech provided upside leadership with the FAANG names accounting for 99bps of the 164bps move in the S&P on Monday.

Name	Ticker	#	% Wgt	CTR	Tot Rtn
SPDR S&P 500 ETF TRUST (SPY...)		506	100.00	163.57	163.57
APPLE INC	AAPL UW		6.80	41.28	635.21
AMAZON.COM INC	AMZN UW		4.98	22.99	475.50
MICROSOFT CORP	MSFT UW		5.70	14.62	259.02
FACEBOOK INC-CLASS A	FB UW		2.25	9.39	427.30
ALPHABET INC-CL A	GOOGL U		1.60	5.62	358.44
ALPHABET INC-CL C	GOOG UW		1.57	5.47	355.92

Source: Bloomberg as of 10.13.2020



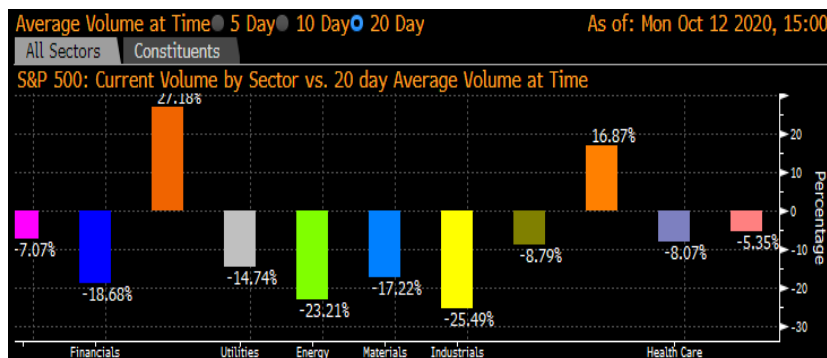
Source: Bloomberg as of 10.13.2020

The NASDAQ composite closed up 2.56% on the session while the NASDAQ 100 surged as much as 4.1%, its best day since April, before pairing gains. Tech giant Amazon gained 4.76% ahead of Prime Day while Apple soared 6.35% on a price target raise by RBC Capital citing the company's release of this year's iPhones which will embrace additional 5G technology. With the move higher in the NASDAQ 100, it now brings the index's rally to 73% since this year's March 23rd lows.

The rally came despite odds on an additional stimulus package fading. Members of the House have reportedly been told not to expect any action this week on further aid, and many Senate Republicans are said to have rejected the White House proposal believing the overall stimulus package is too large.

VOLUMES DRIVEN BY LARGE TECH

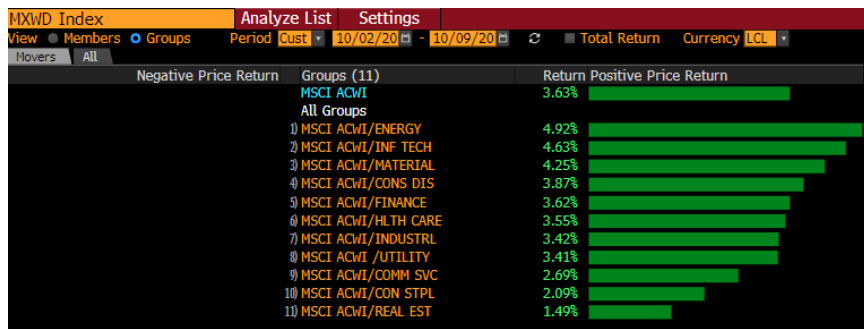
Outside of Technology, Communication Services and Consumer Discretionary are the only other two sectors to outperform. While overall market volume was light with the bond market being closed due to Indigenous People's Day, volumes within the Tech and Telecom space were up significantly versus their 20-day averages. A portion of this was due to heavy call volumes in the space with Amazon and Apple seeing more activity than normal. According to Cornerstone Macro, the Amazon Oct Call 3500 average price was ~\$43.70 on Monday, which equates to nearly \$153mm in premium for that strike alone. Call volumes within Apple were up over 100% on the day with the flurry of activity in the options market most likely contributing to the outsized moves seen in those names.



Source: Bloomberg as of 10.13.2020

THIS WEEK INTERNATIONAL

Last week, global equities advanced 3.63%, with growth stocks up 3.81% and value stocks up 3.42%. The energy sector led the MSCI ACWI Index with 4.92% gain as Brent Crude Oil finished the week higher at \$42.85 per barrel. Copper also ended the week higher at \$308.25, helped by the U.S. Dollar sustaining weakness. The World Economy Weighted year-on-year Inflation closed at 2.8% last week, below the one-year average of 3.2%. Global bonds yields increased last week, signaling investors' regained risk appetite. European indices were in the green for a second week in a row, while Asian stocks rebounded from last week's decline.



Source: Bloomberg as of 10.13.2020

Europe: Christine Lagarde, President of the European Central Bank (ECB), encouraged European governments to provide fiscal support to the economy. She said "clearly what we hope, policy makers will understand and will determine, is that those supports have to be continued for a period of time, even as the recovery takes hold". The Governing Council of the ECB will hold its next policy meeting on October 29th. The Euro STOXX Index was up 2.75% last week, led by Travel & Leisure, up 7.51%, and Banks, up 6.93%.

UK Prime Minister, Boris Johnson, called the leaders of Germany and France last weekend to discuss the EU/UK trade deal. Talks are expected to continue until Thursday. Johnson warned that both parties must make progress quickly to bridge "significant gaps". Emmanuel Macron, France's President, said that he wants to preserve the current access to British waters for fisheries. The UK suggests time-limited rights instead. It may come down to Germany to play the mediator and convince both parties to compromise for the sake of a deal. The FTSE 100 was up 1.94% last week.

In Madrid, the Spanish government declared a state of emergency in the city last week and announced more business and social restrictions to slow the spread of COVID-19. According to the El Mundo newspaper, capacity in restaurants and bars will be reduced to 30%, closing hours will be set at 10 p.m., and social gatherings will be limited to six people. The IBEX 35 Index was up 2.91% last week.

APAC: The People's Bank of China (PBOC) announced that it will dial back currency control as the Yuan surged 1.6% on Friday to the highest level since April of last year. Bloomberg reports that the PBOC announced that effective Monday, "financial institutions will no longer need to set aside cash when purchasing foreign exchange for clients through currency forwards." The Shanghai Composite Index was up 1.68% last week, led by industrials, up 2.44%.

Chinese Politician, Xi Jinping, will visit Hong Kong this week where he will meet with Hong Kong leader Carrie Lam and discuss plans to promote southern China as a global technology hub. The Hang Seng Index was up 2.81% last week, led by industrials, up 3.27%.

In Japan, data compiled by Bloomberg shows that Bank of Japan's (BOJ) total assets have now reached 137% of GDP, versus 53% for the ECB and 36% for the Federal Reserve. Since the beginning of the year, Japan has more than quadrupled its purchasing of Japanese treasury bills. The BOJ now owns 71% of Japanese ETFs in the market, 42% of government bonds, 19% of commercial paper outstanding, and 7% of corporate bonds.



Source: Bloomberg as of 10.13.2020

Emerging Markets: India is on track to pass the United States in terms of numbers of COVID-19 cases. Indeed, last Sunday, the country reported 74,383 new cases and 918 deaths, bringing the total number of infections to seven million. Bloomberg Economics forecasts India's GDP to revert to pre-virus levels by March 2021 on the basis that "Bloomberg's monthly tracker for the rural economy shows a swift turnaround led by a booming agricultural sector". Indeed, net agricultural exports grew 222% year-on-year in August. Indian stocks were up 4.36% last week.

In South Korea, the ICT ministry said that the country plans to develop 50 types of artificial intelligence chips by 2030. To position the country in a growing market expected to represent \$117.9 billion by 2030, the Korean government plans to invest \$871 million in next generation chips until 2029. The KOSPI Index was up 2.75% last week, led by chemicals, up 7.10% and transport & storage, up 5.22%.

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