



Level Four Capital Management WEEKLY INSIGHT

HIGHLIGHTS

- U.S. equities finished mostly lower on the week as the S&P 500 snapped its three week winning streak
- The Russell 2K was the only index to buck broader selling pressures, closing up 0.41%.
- Value outperformed Growth on the week, however there was not a specific catalyst behind the ~100 basis point difference between the two factors.
- Tech was the worst performer after weakness in Large Cap names such as Intel and IBM. Apple fell on broad based selling pressures despite a more positive read through from sell side analysts on the iPhone 12.
- Communication Services were the best performing sector helped by Google and Facebook which overcame negative headlines surrounding regulatory scrutiny as investors focused on better digital advertising data.
- Early election polling results dominated headlines with former VP Joe Biden maintaining a high single-digit lead over President Trump.
- The biggest risk to markets continues to be the potential for a contested election.
- With earnings season in full swing, just over 25% of the S&P 500 has now reported with 84% of those companies beating EPS expectations
- Global equities pulled back on Monday, posting their worst day in seven weeks as all 11 sectors closed in the red. Investors turned cautious as multiple headwinds persisted, including:
 - Uncertainty surrounding the election, increasing COVID-19 cases, ratcheting up of U.S./China tensions, and diminishing prospects for a stimulus package before the election.
- In India, the government has set aside \$7 billion for a mass COVID-19 immunization program that will cost about \$7 per person. Prime Minister Narendra Modi reaffirmed his commitment to give universal access to the vaccine as soon as it is available. The Nifty 50 index was up 1.43% last week.

MARKET COMMENTARY

LAST WEEK

U.S. equities finished mostly lower on the week as the S&P 500 snapped its three week winning streak. The NASDAQ was the major underperformer falling 1.06%, followed by the Dow which fell 0.95%, and the S&P which declined by 0.53%. The Russell 2K was the only index to buck broader selling pressures, closing up 0.41%. Value outperformed Growth on the week, however there was not a specific catalyst behind the ~100 basis point difference between the two factors.



Source: Bloomberg as of 10.27.2020

SECTOR PERFORMANCE

On a sector basis, markets were led to the downside by Technology, Consumer Staples, and Consumer Discretionary, all which underperformed.

Technology was the worst performing sector, falling 2.21% over the five days with notable weakness in Intel (Earnings), IBM (Earnings) and Apple (Broad Based).

Consumer Staples lagged with big box retailers and food-related names trailing the broader tape.

Consumer Discretionary fell with pressure in the homebuilders and home improvement names. Retailers, apparel & accessories, restaurants, and hotels all outperformed, ending in the green on the week. Amazon also succumbed to broader selling pressures, tailing off as growth names pulled back.

Financials outperformed with strength in bank-related names (BKX Index +3.7%), particularly with regional banks as the KRX Index finished 7.9% higher with the curve steepening.

Communication Services was the best performing sector on the week. Large tech companies Facebook and Google rallied 7.1% and 4.2% respectively, helped by better digital advertising data and overcame negative headlines surrounding additional regulatory scrutiny. Netflix (-8.0%) fell after it missed expectations on subscribers after a very strong first half of 2020.

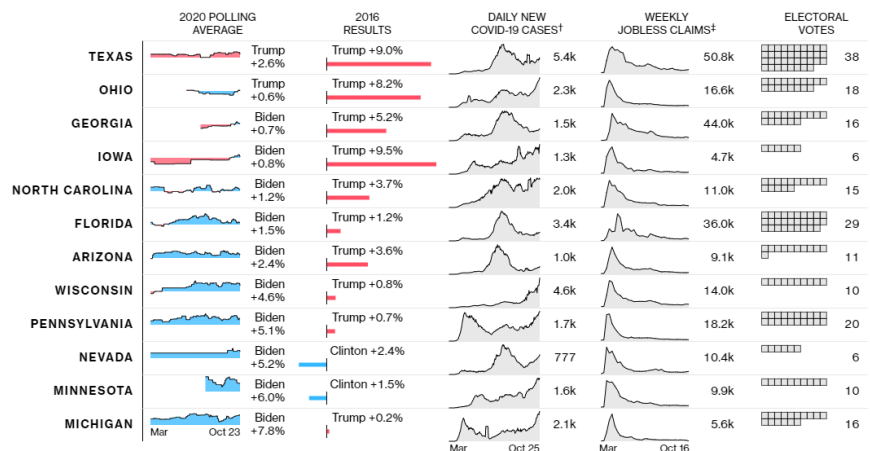
Other assets such as treasuries, were weaker as the curve steepened and yields rose with odds of a blue wave falling. The 10-year note added just over 7bps on the week to close at .8429%, touching their highest levels since late March. The Dollar index fell 1.0%, while gold was little changed.



Source: Bloomberg, PredictIt as of 10.27.2020

ELECTION UPDATE

It was a busy week in terms of headlines, however, there was little that emerged to cause any meaningful shift in the overall narrative. Early election polling results dominated headlines with former VP Joe Biden maintaining a single-digit lead over President Trump. According to the RealClear Politics, Biden has a 7.9-point lead over Trump nationally, and a 4.0-point lead in the battle ground states. Despite the polling numbers, some sources continue to highlight the possibility of a November surprise, potentially mimicking 2016 as the race in some swing states continues to narrow. Thursday's second and final debate was vastly different than the first, as much more focus was placed on discussion of the issues at hand. With the election about a week away, the biggest risk for the market remains potential for a contested election.



Source: RealClear Politics as of 10.27.2020

STIMULUS


Despite headlines being volatile on the stimulus front, there were no real developments on an additional Fiscal stimulus package with both sides remaining at odds with one another. While there seemed to be some progress made, funding for state and local governments continues to be one of the main sticking points. Overall, the scope and size of the package has moved closer to \$2T, even as Senate Republicans have become increasingly frustrated with various concessions Treasury Secretary Mnuchin has made. While neither side has formally abandoned ongoing talks, it has become increasingly unlikely that a deal is struck prior to the election with both Democrats and Republicans continuing to point blame at one another.

EARNINGS

With earnings season in full swing, just over 25% of the S&P 500 has now been reported. According to FactSet, 84% of those who have announced have surpassed consensus EPS expectations (73% one and five-year averages), announcing beats of nearly 17.2% above expectations. This remains elevated compared to the one and five-year averages of an upside beat of 8.0% and 5.6%, however is off of the 22% positive surprise rate seen the week prior.

THIS WEEK

U.S. stocks posted their worst day in seven weeks as the Dow fell 2.29% (Over 600 points), the S&P declined 1.86% and the NASDAQ dropped 1.64%. All 11 sectors finished in the red, although Utilities were the major standout finishing largely unchanged for the day by dropping only 0.05%. Other defensive sectors such as Health Care, Real Estate, and Consumer Staples all outperformed, however still finished lower. Energy was the worst performing sector, declining 3.47%, followed by Industrials (-2.50%), Communication Services (-2.27%) and Financials (-2.23%), all of which were amongst last week's top gainers. Software was the biggest decliner in the Tech space after German software company, SAP, warned on their revenue guidance causing shares to plummet over 20%, weighing on the space.



Negative Price Return	Groups (11)	Return	Positive Price Return
	S&P 500 ECO SECTORS IDX	-1.86%	
	All Groups		
	1) S&P 500 UTILITIES INDEX	-0.05%	
	2) S&P 500 HEALTH CARE IDX	-1.11%	
	3) S&P 500 REAL ESTATE IDX	-1.20%	
	4) S&P 500 CONS STAPLES IDX	-1.27%	
	5) S&P 500 CONS DISCRET IDX	-1.44%	
	6) S&P 500 INFO TECH INDEX	-2.17%	
	7) S&P 500 FINANCIALS INDEX	-2.23%	
	8) S&P 500 COMM SVC	-2.27%	
	9) S&P 500 MATERIALS INDEX	-2.46%	
	10) S&P 500 INDUSTRIALS IDX	-2.50%	
	11) S&P 500 ENERGY INDEX	-3.47%	

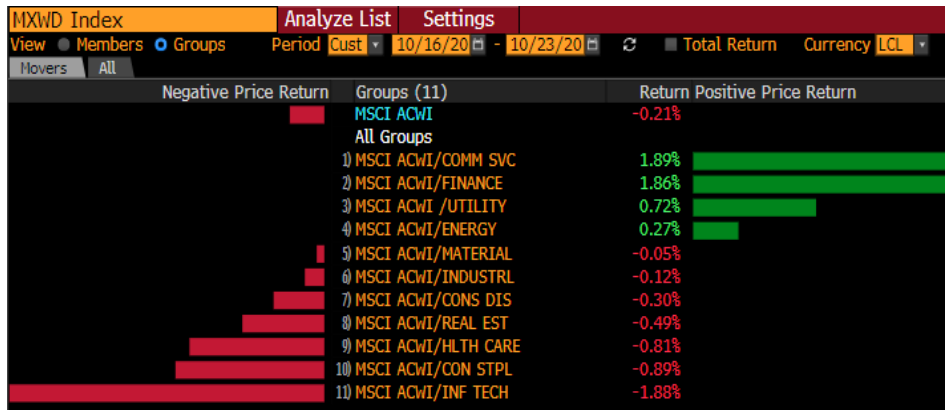
Source: RealClear Politics as of 10.27.2020

UNCERTAINTY

Investors turned cautious to start the week as multiple headwinds persisted, including uncertainty surrounding the U.S. election which is now just one week away. Hopes of a meaningful stimulus package being announced before the election continued to dwindle, and tensions between the U.S. and China ramped up after China announced they would impose sanctions on multiple U.S. industrial companies. The sanctions come after the Trump administration approved \$1.8B of weapon sales to Taiwan. The sanctions are just the most recent escalations in tensions between the two world's super powers, adding to the litany of worries plaguing investors.

Adding to other concerns were increasing U.S. COVID-19 cases, where new daily cases topped 70K last Thursday for the first time since late July. Despite falling from the <70K new daily cases, infection numbers across the Midwest continue to climb as Ohio, Indiana, Montana and Utah reported single day records on Thursday. The latest data released continued to show the reversal of declining cases as the U.S. nears its previous seven day average high-water mark seen this past summer. According to the most recent COVID-19 tracking data, the seven day average rose to 61,141, slightly below the previous seven day average which peaked at 66,844. As the number of cases have rose in recent weeks, investors worry that the U.S. may follow in some European countries' footsteps, mandating lockdowns and reimposing additional restrictions.

Last week, global equities pulled back 0.21% as more and more countries introduced additional restrictions to slow the spread of COVID-19. The energy sector was in the green, despite a slight decline in the Brent Crude oil price. Some oil and gas producers now offer high single digit or double digits dividend yields, which casts doubt on the sustainability of these dividends. Information technology was the worst-performing sector, down 1.88%. Global year-on-year inflation is estimated to stand around 2.6%.



Source: RealClear Politics as of 10.27.2020

EUROPE

European Central Bank (ECB) policy maker Pablo Hernandez De Cos advised banks in the Eurozone to remain cautious regarding their dividend and compensation policies, "as long as the current uncertainty continues and until the economic recovery is consolidated." He also pointed out that banks should expect an increase in bad loans ratios in coming quarters. European banks were up 3.38% last week. Italy's treasury bonds rallied after S&P Global upgraded its outlook from "Negative" to "Stable" and maintained its BBB rating. The government three year bond yield is now in negative territory. Italian stocks were down 0.54% last week, as service providers continue to criticize Conte's new business restrictions.

The Euro STOXX index was down for a second consecutive week. Information technology lagged the index, down 4.86%. All major European indices were in the red as the fear of a second wave surges. Indeed, the CAC 40 Index was down 0.53%, while the DAX declined 2.04% and the Euronext Amsterdam index dropped 2.44%.

APAC

Xi Jinping, Secretary of the Chinese Communist Party, met with China's leaders on Monday to discuss the five-year economic plan. Details of the decisions taken will be unveiled in March in the Work Report. China's GDP rose 4.9% in the third quarter, with inflation trending down. The Shanghai Composite index was down 1.75% last week led by real estate.

Japanese Prime Minister, Yoshihide Suga, has pledged that Japan will be Carbon-neutral by 2050. He added in his address "we need to alter our way of thinking to the view that taking assertive measures against climate change will lead to changes in industrial structures and the economy that will bring about great growth." This commitment implies that Japan will shift its stance regarding coal usage and heavily invest in renewable energy. The NIKKEI 225 was up 0.45% last week.

EMERGING MARKETS

In Brazil, President Jair Bolsonaro expressed that he will lean towards investing in a cure for COVID-19 rather than a vaccine arguing that it would be a "cheaper" and "easier" option. The comment comes after his political opponent, Joao Doria, governor of Sao Paulo, took steps to get early access to China's Sinovac vaccine. According to the latest CNT/MDA poll, the government's approval rating stood at 41.2%, while Bolsonaro's personal approval rating was 52% at the time of poll. The Brazil Ibovespa index was up 3% last week.

In India, the government has set aside \$7 billion for a mass COVID-19 immunization program that will cost about \$7 per person. Prime Minister Narendra Modi reaffirmed his commitment to give universal access to the vaccine as soon as it is available. The NSE Nifty 50 index was up 1.43% last week.

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