Level Four Capital Management

WEEKLY INSIGHT

HIGHLIGHTS

- The S&P 500 had its worst weekly pullback since late March, falling 5.62%
- The selloff was largely attributed to:
  - Election Uncertainty
  - Worsening U.S. & European Coronavirus trends
  - Continued restrictions and lockdowns throughout Europe
  - Stalling negotiations on a fifth stimulus package
  - Large Tech earnings
- According to Axios, almost 72K people have tested positive in the U.S. each day over the past week, making it the new highest seven-day average on record, while almost 90K new cases were reported on Thursday setting a new single-day record.
- German Chancellor Merkel implemented the toughest restrictions seen since a national lockdown in the spring. The month-long partial lockdown went into effect on Monday, November 2nd with the hope of stymieing the rapid spread of COVID-19 throughout the country.
- While vaccine optimism has long been hailed as positive and has been a key component to bullish sentiment, there has been little progress on any meaningful updates.
- Concerns surrounding a contested election picked up as thoughts of a November surprise similar to 2016, continued to pick up momentum.
- Early voting numbers have been astonishing with more than 100M ballots already cast, representing over 66% of the 2016 turnout, according to Reuters.
- Nearly 65% of S&P 500 companies having reported 3Q earnings. According to Factset, more than 86% of companies who have reported have beat earnings estimates, which is well above the 73% one- and five-year averages.
- U.S. equities rebounded from their worst week since March, with the S&P 500 gaining 1.23%. Investors geared up for an action-packed week which will include:
  - U.S. Presidential election
  - Corporate Earnings announcements
  - Two day Fed meeting
  - Jobs number

MARKET COMMENTARY

LAST WEEK

U.S. equities ended sharply lower on the week as the S&P 500 had its worst weekly pullback since late March. The Dow was the worst performing index falling 6.47%, followed by the Russell 2K which declined 6.21%, the S&P 500 which fell 5.62%, and the Nasdaq which closed lower by 5.50%. All 11 sectors finished in the red, with pandemic winners even getting caught up in the risk-off move lower. The selloff was largely attributed to:

- Election Uncertainty
- Worsening U.S. & European Coronavirus trends
- Continued restrictions and lockdowns throughout Europe
- Stalling negotiations on a fifth stimulus package
- Large Tech earnings

Source: Bloomberg as of 11.03.2020

SECTOR PERFORMANCE

On a sector basis, there was no place to hide as Industrials, Technology, Consumer Discretionary, Energy and Health Care all underperformed broader benchmarks.

Industrials was the worst performing space on the week with weakness in airlines, aerospace/defense names and logistic/shipping companies.

Technology was the second worst performing sector and saw outsized downward pressure with weakness in software and data processing names.

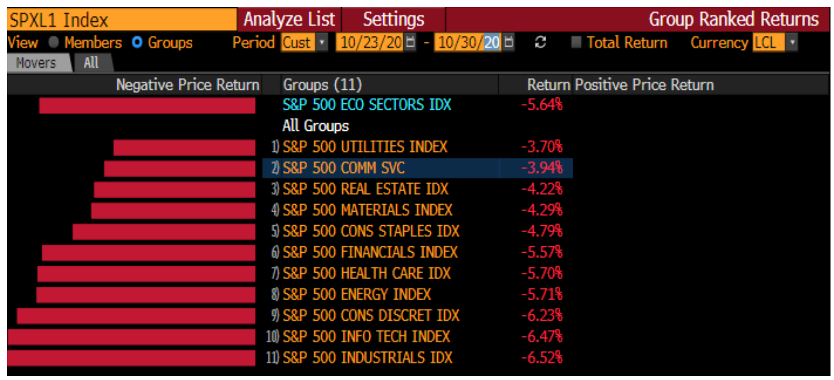
Consumer Discretionary underperformed after names pegged to the reopening trade were among the largest decliners. Department stores, cruise lines, hotels, restaurants and apparel retailers were the standout decliners.

Energy lagged as WTI crude was down more than 10% on the week as demand and supply concerns persisted, although the former seemed to capture most of the attention. Crude closed at its lowest level since early June.

Consumer staples was a relative outperformer as food-related names found some cushion (but were still weaker) from Coronavirus concerns.

Communications services outperformed and was the second best sector on the week with relative strength in broadcasting names, however still lost nearly 4%.

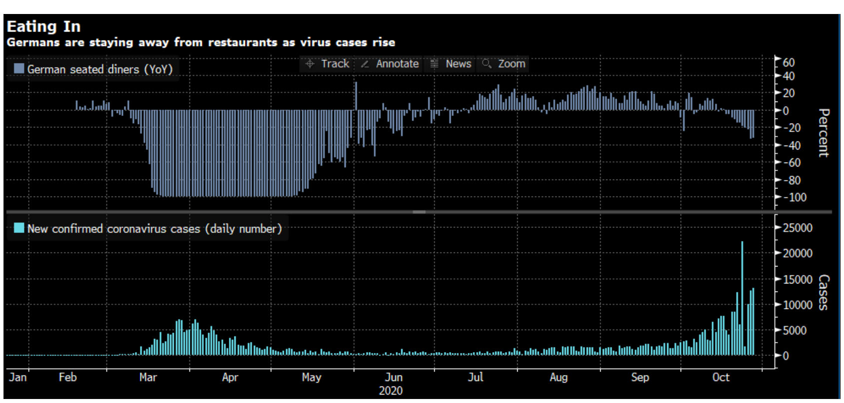
Other asset classes treasuries were mostly weaker even with the sell-off in equities. The U.S. 10-year closed about 3bps higher while the 30-year closed about 2bps higher. The Dollar index gained 1.4% while Gold lost 1.3%.



Source: Bloomberg as of 11.03.2020

WORSENING CORONAVIRUS TRENDS

Worsening Coronavirus headlines continued to dominate news outlets and was one of the primary reasons behind the risk-off sentiment seen throughout the week. According to Axios, almost 72K people have tested positive in the U.S. each day over the past week, making it the new highest seven-day average on record, while almost 90K new cases were reported on Thursday setting a new single-day record. Adding to additional investor angst was the announcement of new lockdown measures taken throughout Europe, more specifically in France and Germany.



Source: Bloomberg, John Hopkins as of 11.03.2020

German Chancellor Merkel implemented the toughest restrictions seen since a national lockdown in the spring. The month-long partial lockdown went into effect on Monday, November 2nd with the hope of stymieing the rapid spread of COVID-19 throughout the country. The plan calls for restaurants, bars, nightclubs, gyms, theaters, and concert venues to be closed. Citizens are only permitted outside with members of their own household and will be limited to 10 people. Schools, daycares, supermarkets, and hair salons are able to continue operating under current regulations.

Additionally following in Chancellor Merkel's footsteps, was French president Emmanuel Macron who announced a new nationwide lockdown, which started on Friday, October 30th, just a week after the country expanded their curfew to about two-thirds of the population. The stay-at-home order placed throughout France aims to help ease pressure on an already stressed healthcare system. Patients in hospitals are already significantly higher with hospitalizations standing at 19K on Tuesday, compared to just over 2,500 on March 17th. While U.S. cases have been climbing steadily higher, U.S. President Trump has been strongly reluctant to follow other world leaders in implementing additional nationwide lockdowns. Adding to pressure seen throughout the week is the uncertainty of what a Biden Presidential win could bring. The former Vice President has been reluctant to say whether he would implement a national lockdown, bringing the U.S. economy to a halt once again.

While vaccine optimism has long been hailed as positive and has been a key component to bullish sentiment, there has been little progress on any meaningful updates. Pfizer announced during the week that they did not yet have an update on their vaccine candidate as an independent committee monitoring the data has yet to conduct an interim analysis. Although it is worth mentioning, the company did announce they expect to file for Emergency Use Authorization (EUA) after the trial illustrates enough safety data in November.

ELECTION

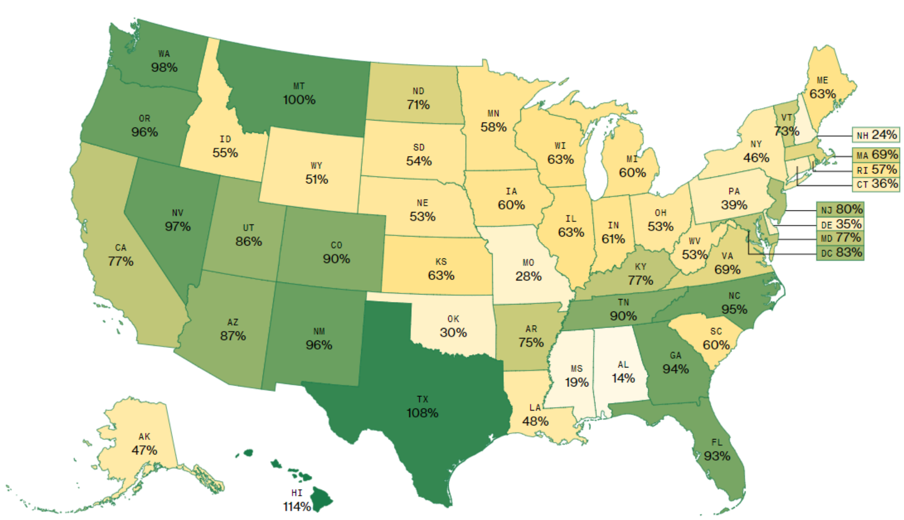
The Presidential election was also flagged as another major overhang. Concerns surrounding a contested election picked up as thoughts of a November surprise similar to 2016 continued to pick up momentum. While the market has seemingly become comfortable with a clear-cut win for either candidate, the one scenario that could hurt equity markets is any ambiguity surrounding election results, which is becoming increasingly likely.

REALCLEARPOLITICS AVERAGE		
PENNSYLVANIA	BIDEN	+4.3
WISCONSIN	BIDEN	+6.6
MICHIGAN	BIDEN	+5.1
FLORIDA	BIDEN	+1.4
NORTH CAROLINA	BIDEN	+0.3
ARIZONA	BIDEN	+1.2
GEORGIA	BIDEN	+0.4
OHIO	TRUMP	+0.2
MINNESOTA	BIDEN	+4.3
TEXAS	TRUMP	+1.2
NEVADA	BIDEN	+3.6
IOWA	TRUMP	+0.7

Source: RealClearPolitics as of 11.03.2020

According to RealClear Politics, former Vice President Biden is running 7.8 points ahead of President Trump nationally, while he is less than 4.5 points ahead in key battleground states including, Pennsylvania, Florida, North Carolina, Arizona, George, Nevada and Minnesota. Most polls have a margin of error of about 3%+, meaning that most swing states could go either way. Even as Biden's lead has maintained a fairly steady ground, there has been outsized focus on Pennsylvania where President Trump's attacks on Biden's fracking stance could potentially shift sentiment.

Early voting numbers have been astonishing with more than 98M ballots already cast, representing over 66% of the 2016 turnout, according to Reuters. Turnout in the polarized 2016 election was the highest in a presidential election so far with 138.8 million votes. Furthermore, in Texas, more voters had turned out as of Friday to vote early than what had voted in all of the 2016 election (9.6M vs 8.97M).



Source: The Associated Press as of 11.03.2020

FISCAL STIMULUS

With the uncertainty of the election fast approaching, another Fiscal stimulus package has seemingly been put on hold. This comes after House Speaker Nancy Pelosi and Treasury Secretary Steven Mnuchin failed to reach any agreement and make any headway on key issues throughout the week. The differences between the sides have remained the same for months as they remain at odds with one another on:

- State and local funding
- Liability protections
- COVID-19 testing

Expectations on a relief package remain elevated with investors anticipating one will be delivered shortly after the election.

EARNINGS

The week brought a myriad of earnings reports and with "peak week" of 3Q earnings behind us, now nearly 65% of the S&P 500 has been reported. According to Factset, more than 86% of companies who have reported have beat earning's estimates which is well above the 73% one- and five-year averages. Furthermore, the average earnings beat continues to remain elevated, standing at 19%, which is well above the 8.0% and 5.6% one- and five-year average earnings surprise. From a theme standpoint, those companies that are pegged to the stay-at-home trend (Cloud, Auto, Housing) continued to report some of the best results, while those leveraged to the re-opening of the economy have continued to see challenges persist.

While big tech earnings beat expectations, investors did little to reward the Mega-cap companies for their beats, instead focusing on negative aspects of the releases.

Apple (-5.4%) beat on revenues and earnings, but iPhone revenue missed expectations and China demand was softer than anticipated.

Amazon (-5.3%) revenues beat and operating income almost doubled Y/Y, however upcoming 4Q operating income guidance was lighter than expected.

Facebook (-7.6%) beat revenue estimates after seeing a recovery in digital advertising; however, Monthly Active Users (MAU) were down throughout the U.S.

Google (-1.0%) was the best performer of large tech names after investors saw an increase in advertiser spend but faces additional regulatory scrutiny.

THIS WEEK

U.S. Equities rebounded from their worst week since March on Monday as the Dow led gains, rallying 1.60%. The S&P 500 closed up 1.23% and the tech-heavy NASDAQ trailed broader index gains, finishing in the green by 0.42%. Volumes were light heading into Election Day on Tuesday with only 9.09B shares trading, well below the year-to-date average of 10.8B as investors were reluctant to add significant exposure.

Investors geared up for an action-packed week which will include:

- U.S. Presidential election
- Another week of corporate earnings announcements
- Two Day Fed meeting with results on Wednesday
- Jobs report on Friday

Ticker	Last	Chg on D	%1D	Chg WTD Pct	%MTD	Chg QTD %
AMERICAS (17)						
DOW JONES INDUS	s26,925.05	+423.45	+1.60%	+1.60%	+1.60%	-3.08%
S&P 500 INDEX	3,310.24c	+40.28	+1.23%	+1.23%	+1.23%	-1.57%
NASDAQ COMP	10,957.613	+46.022	+.42%	+.42%	+.42%	-1.88%
S&P500 EQUAL WEIGHTED	s4,463.99c	+99.42	+2.28%	+2.28%	+2.28%	+1.54%
DOW JONES TRANS. AVG	s11,216.42	+110.23	+.99%	+.99%	+.99%	-.12%
S&P 500 Buyback d	s16,877.43	+342.88	+2.07%	+2.07%	+2.07%	+1.44%
Retail Favorites	130.99y	+1.90	+1.47%	+1.47%	+1.47%	-.61%
RUSSELL 2000 d	1,568.592	+30.113	+1.96%	+1.96%	+1.96%	+4.04%
S&P 400 MIDCAP INDEX d	1,937.11c	+36.93	+1.94%	+1.94%	+1.94%	+4.07%
Weak Balance Sheet US	336.01y	+7.29	+2.22%	+2.22%	+2.22%	+1.85%
Strong Balance Sheet US	419.98y	+4.25	+1.02%	+1.02%	+1.02%	-1.17%

Source: Bloomberg as of 11.03.2020

While every event will have some impact on overall market sentiment and positioning, the election and its results should take center stage, driving price action throughout the week.

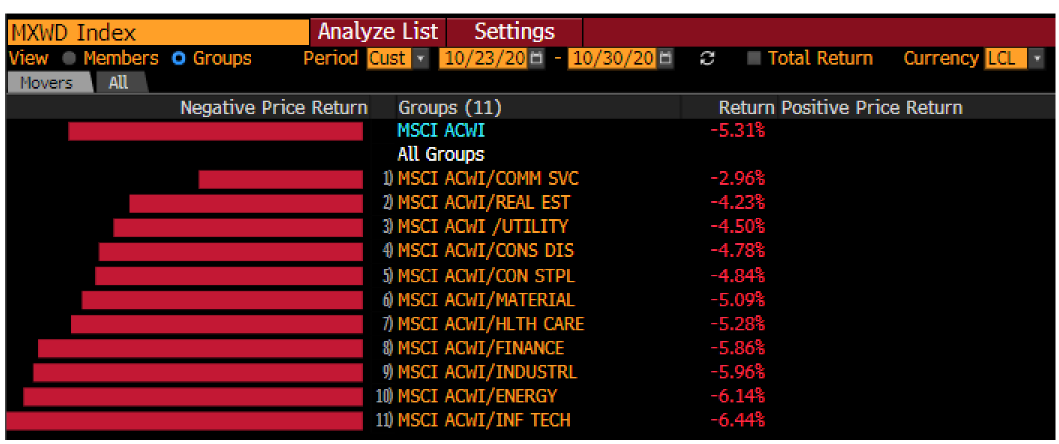
It was an interesting session on Monday in which Energy, Materials and Industrials were the top 3 performing sectors. With Vice President Biden maintaining his lead over President Trump, investors saw a rotation into those sectors that would benefit from additional stimulus (and a weaker USD) and out of those that trade with the work-from home narrative. While this was not to say a Biden win would mean the continued re-opening of the economy, it appeared to be more about the potential for a larger fiscal stimulus package. With just one day before the election, the VIX index remained elevated, closing near its highest levels since June (High was 40.28 on October 28th).

Source: Bloomberg as of 11.03.2020

Adding to the risk-on tone was the slight slowdown in COVID-19 cases seen over the weekend and the release of the ISM Manufacturing number which came in at 59.3, ahead of estimates which called for 56 (anything above 50 is expansion territory). U.S. manufacturing expanded in October at the fastest pace in more than two years, driven by the strongest orders growth since early 2004 and a pickup in employment.

THIS WEEK INTERNATIONAL

Last week, global equities slid 5.31% after lockdowns and business restrictions were announced in several countries. Information technology was once again the worst performing sector as asymmetric risk and reward bets are getting harder and harder to find within the sector. In the last two months, the technology sector lost 7.77% and ranked second to last in the MSCI ACWI index. Only energy performed worse during the same period with 18.65% decline. The JP Morgan Global Manufacturing PMI expanded to 53.0 in October, up from 52.4 previously. This is the fourth consecutive month that this index is above 50.0, which signals economic expansion. However, the global economy remains fragile and reliant for the most part on monetary and fiscal support.



Source: Bloomberg as of 11.03.2020

EUROPE

European Central Bank (ECB) president, Christine Lagarde, announced more monetary support during a virtual press conference from Frankfurt. She said "the euro-area economic recovery is losing momentum more rapidly than expected. We agreed that it was necessary to take action and therefore to recalibrate our instruments at our next Governing Council meeting". The Euro STOXX index was down 6.70% last week, dragged by a double-digit decline from technology. The Eurozone seasonally adjusted GDP surged 12.7% in the third quarter, up from -11.8% previously. According to Eurostat, inflation stayed flat in October at -0.3% in the euro area.

In the United Kingdom, Prime Minister Boris Johnson announced a partial lockdown for England to contain COVID-19 cases. This comes after France, Germany and Austria announced lockdowns and tightened restrictions. Major indices across Europe were in the red, as the fear of a double-dip recession resurfaced. The CAC 40 plunged 6.42% last week, while the DAX index was down 8.61% and the FTSE 100 dropped 4.83%.

Angela Merkel, Chancellor of Germany, delivered remarks to European Union (EU) members in which she pointed out that the government should have acted earlier on lockdowns. She also proposed that the EU borders remain open to facilitate the flow of trade. In France, the government announced that a solidarity fund will be reactivated to support businesses affected by the new measures. The France manufacturing PMI ticked up to 51.3 in October, versus 51.2 previously, while Germany's PMI rose to 58.2 in October, versus 56.4 a month earlier.

APAC

Yi Gang, governor of People's Bank of China (PBOC), commented on the digital Yuan pilot program and said that it was successful. So far, the program fostered more than four million transactions totaling over $299 million. He added while speaking on a virtual panel that consumer privacy protection remains a challenge. The Shanghai Composite Index was down 1.63%, with real estate down 3.7%. Caixin Global published China's October manufacturing PMI. October's print was 53.6, up from 53.0 previously. This is strongest print since January 2011. Chinese companies registered a significant increase in new orders and manufacturing output according to Caixin Global. Staffing levels remained overall weak.

In Japan, Bank of Japan (BOJ) kept the benchmark interest rate unchanged during its last policy meeting. Supporting struggling businesses remains a priority for the Central Bank, as well as achieving 2% inflation. Governor Haruhiko Kuroda said that low interest rates are "positive for households overall". The NIKKEI 225 was down 2.29%, dragged by industrials. The Au Jibun Bank Japan Manufacturing PMI improved to 48.7 in October from 47.7 previously. According to the companies surveyed, international demand improved, especially within the Asia-Pacific region. Consumer confidence improved for a second consecutive month.

EMERGING MARKETS

In South Korea, Bank of Korea reported that the third quarter's GDP grew 1.9%, beating economists' forecast of 1.3% growth. Exports growth, fiscal stimulus, and successful virus mitigation are cited among the justifications of Korea's fast recovery. In October, South Korea's manufacturing PMI rose to 51.2, up from 49.8 previously. According to the IHS Markit, output rose at the fastest pace for seven-and-a-half years. Additionally, new orders rose for the first time since January and business expectations climbed to a nine-month high. The KOSPI index was down 3.97% last week led by medical supplies, up 1.78%.

In Brazil, the Central Bank maintained its benchmark interest rate at 2% and downplayed inflation risks. The government has been very active on the fiscal side, spending about $57 billion per month on stipends. Besides, Brazil saw a sharp improvement in manufacturing activity that limits the necessity of further easing from the Central Bank. Nevertheless, the policy decision resulted in a sharp selloff of the Brazilian Real. Brazilian stocks were down 7.22% last week.

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