Level Four Capital Management

WEEKLY INSIGHT

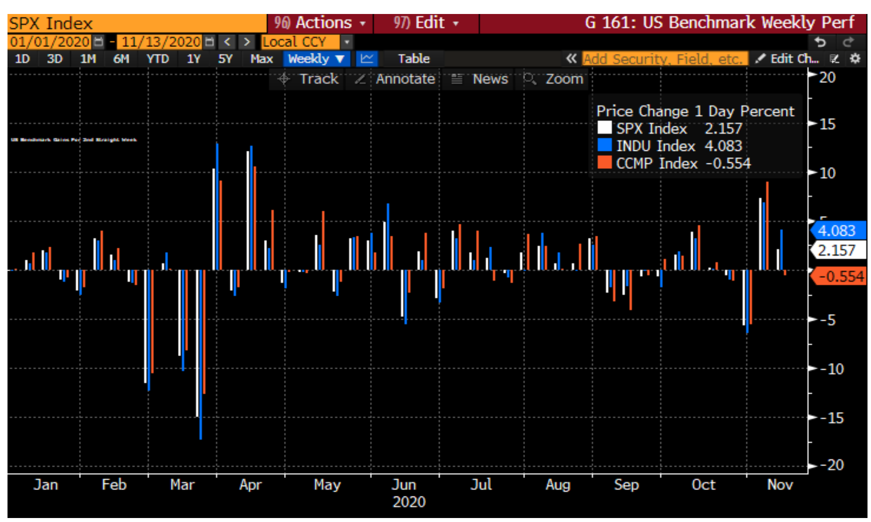
HIGHLIGHTS

- Equity indexes finished mostly higher with the Dow, Russell 2K and S&P gaining, although the Tech-heavy NASDAQ succumbed to the rotational factors seen over the course of the week and closed lower.
- The S&P logged another weekly gain, its fourth in six weeks, touching an all-time intraday high of 3,645 on Monday, while the Russell 2K gained over 6% making it its best week since the beginning of October.
- The S&P 500 Pure Growth index lagged the S&P 500 Pure Value index by nearly 900bps over the course of the week, with the move being exacerbated by positioning and extreme over/under valuations.
- FAANG heavy sectors Consumer Discretionary and Technology were the only two that finished lower on the week while Communication Services, although closing higher, lagged broader markets.
- Pfizer and BioNtech announced on Monday morning before the opening bell that their vaccine candidate exhibited a 90% efficacy rate, driving the risk-on tone seen throughout the week.
- With the outbreak at its most intense levels since March, officials throughout the country have announced the re-imposing of restrictions in their cities and states including Chicago, New York, Oregon and San Francisco amongst others.
- One of our trading partners noted a significant pickup in activity from fundamentally and institutionally-managed strategies as quant-driven trading strategies have been quieter than expected.
- U.S. equities rallied yet again in Monday's session as more positive vaccine news announced by Moderna had investors adding risk to portfolios, with a continuation of value sectors that led the week prior continuing to pave the way.
- With the recent news of a potential vaccine emerging, we have seen a surge in investor optimism with the American Association of Individual Investors survey hitting its highest levels since early 2018
- On Sunday, fifteen Asia pacific nations including China, Japan, and South Korea signed the world's largest regional free-trade agreement. The deal includes the removal of at least 92% of tariff on traded goods among signing parties, a framework for online consumer and data protection, as well as simplified customs procedures and increased foreign shareholding limit.

MARKET COMMENTARY

LAST WEEK

Equity indexes finished mostly higher with the Dow, Russell 2K, and S&P gaining, although the Tech-heavy NASDAQ succumbed to the rotational factors seen over the course of the week and closed lower. The S&P logged another weekly gain, its fourth in six weeks, touching an all-time intraday high of 3,645 on Monday, while the Russell 2K gained over 6% making it its best week since the beginning of October. Treasury yields rose as the curve steepened as the 10-year yield moved to its highest levels since March, however failed to break the 1.00% level. Gold saw its largest one day drop in more than seven years on Monday, falling 4.53% while managing to pair losses over the rest of the week, settling down 3.4% over the five days.



Source: Bloomberg as of 11.18.2020

FACTOR ROTATION

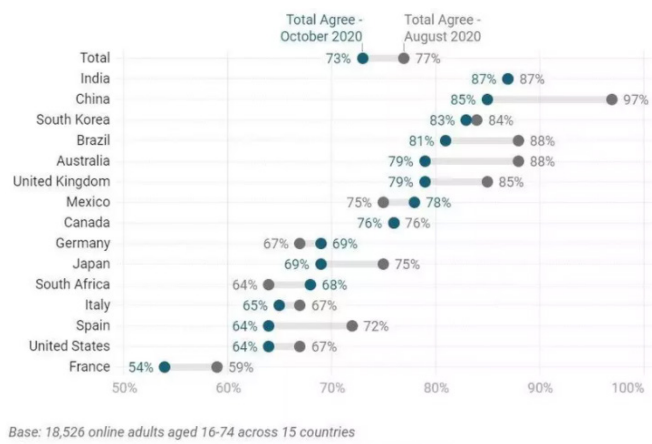
With the risk-on tone gripping markets, investors have continued to see a rotation out of growth names and into cyclical/value plays. The S&P 500 Pure Growth index lagged the S&P 500 Pure Value index by nearly 900bps over the course of the week. The move, which is likely exacerbated by positioning and extreme over/under valuations in each of the respective factors, was the largest weekly relative move for value since early June, and its second largest since 2009. Analysts have seen the valuation gap between the two near its widest point since 2012 with many of the FAANG names up around 30-60% year-to-date, while many value names remain in a negative territory on a year-to-date basis.

Source: Bloomberg as of 11.18.2020

FAANG heavy sectors, Consumer Discretionary, and Technology were the only two that finished lower on the week, while Communication Services lagged broader markets. The beaten down Energy sector, down 49.96% year-to-date while coming into the week, was the best performing, rallying over 17% as prospects for global consumption and demand appeared to pick up on the back of Pfizer's vaccine news. Other year-to-date laggards including Financials and Industrials also outperformed, with strength in Banks, Airlines and Aerospace/Defense names.

COVID-19 VACCINE UPDATE

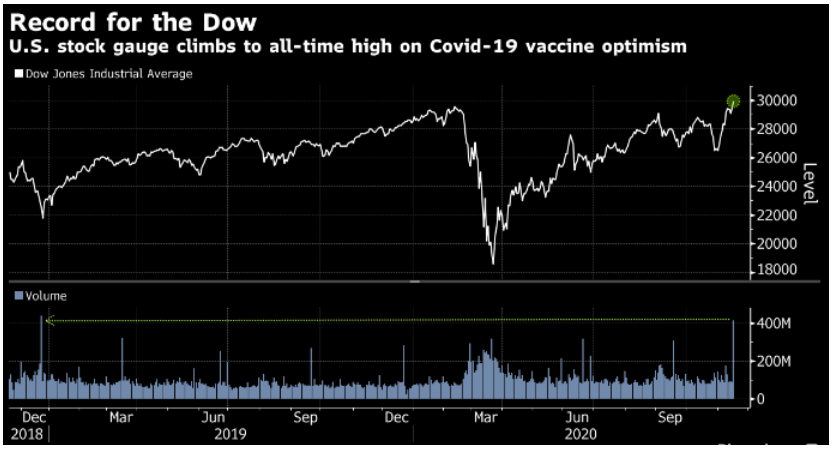
There were multiple themes adding to the risk-on rally that continued to develop over the course of the week , but none was bigger than the positive COVID-19 vaccine data announced by Pfizer and BioNtech. The companies announced on Monday morning before the opening bell that their vaccine candidate exhibited a 90% efficacy rate only seven-days after the second dose was administered. The rate was much better than the 50% experts had originally anticipated, with Anthony Fauci hailing the findings as "extraordinary". While Pfizer has said they anticipate having about 50M doses available by the end of the year and more than 1B in 2021, concerns surrounding how many individuals will actually take the vaccine have started to ramp up. According to the World Economic forum, adults across 15 countries strongly or somewhat agree with the statement "if a vaccine for COVID-19 were available, I would get it" has fallen to 73%, 4% below the original figure three months earlier. While 73% appear to agree with the statement, many experts believe that an even lower percentage will actually look to get vaccinated because the vaccine was developed and approved in record time.



Source: Global Advisor and World Economic Forum-Ipsos as of 11.18.2020

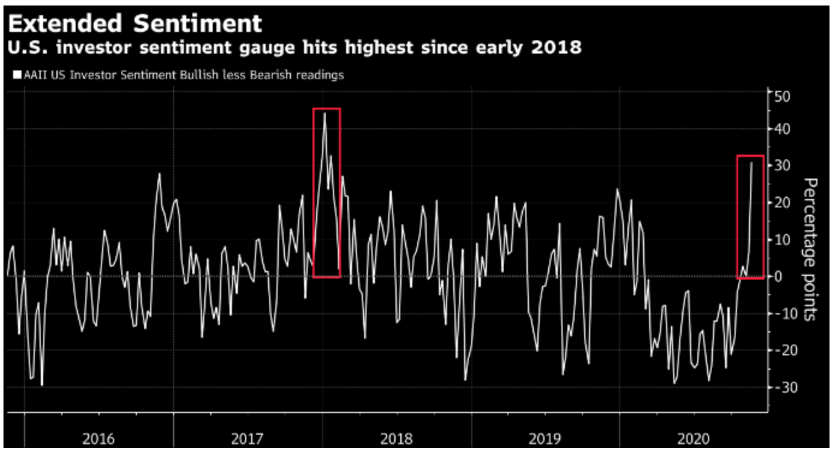
THIS WEEK

U.S. equities rallied yet again in Monday's session as more positive vaccine news announced by Moderna had investors adding risk to portfolios. The company announced that their COVID-19 vaccine candidate demonstrated 94.5% efficacy in its Phase 3 trial, outdoing the already better-than-anticipated 90% efficacy announced by Pfizer and BioNtech last week. The news sent the Dow Jones to a record intra-day high as value names once again outperformed its growth counterpart by more than 80bps.



Source: Bloomberg as of 11.18.2020

With the recent news of a potential vaccine emerging, we have also seen a surge in investor optimism. According to a survey from the American Association of Individual Investors, U.S. investor sentiment hit its highest levels since early 2018, as those who remain positive on the market versus those who are bearish, is now more than two standard deviations above the average of the last five years.

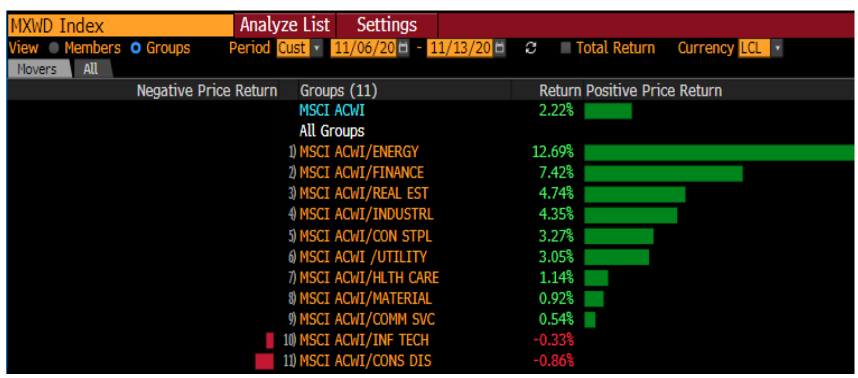


Source: Bloomberg as of 11.18.2020

Picking up right where we left off last week, Energy, Industrials and Financials all outperformed, while Technology, Communication Services and Consumer Discretionary lagged broader U.S. benchmarks. Cruise lines, retailers, restaurants, travel, lodging and casinos all saw outsized gains on COVID-19 vaccine optimism, while the stay-at-home beneficiaries were amongst the largest decliners. The move lower in software, telehealth, online food delivery, and online retailers comes despite the rising infection numbers across the U.S. Oil prices rose 3% on Monday and another 0.22% in Tuesday's session, adding to last week's 8% gain even as global demand still remains well off pre-pandemic levels.

THIS WEEK INTERNATIONAL

Last week, global equities moved 2.2% higher as investors' risk appetite climbed over the prospect of a 2021 rebound. Energy was the best performing sector with 12.69% gains, capitalizing on a steady rise in crude oil prices. Financials and real estate also posted solid gains as the rotation towards value continues to gain traction. However, Technology and Consumer Discretionary lagged the MSCI ACWI index with negative weekly returns. The year-on-year world economy weighted inflation dropped from 2.6% to 2.3% as COVID-19 continues to put downside pressure on consumer prices.



Negative Price Return	Groups (11)	Return	Positive Price Return
	MSCI ACWI	2.22%	
	All Groups		
	1) MSCI ACWI/ENERGY	12.69%	
	2) MSCI ACWI/FINANCE	7.42%	
	3) MSCI ACWI/REAL EST	4.74%	
	4) MSCI ACWI/INDUSTRL	4.35%	
	5) MSCI ACWI/CON STPL	3.27%	
	6) MSCI ACWI /UTILITY	3.05%	
	7) MSCI ACWI/HLTH CARE	1.14%	
	8) MSCI ACWI/MATERIAL	0.92%	
	9) MSCI ACWI/COMM SVC	0.54%	
	10) MSCI ACWI/INF TECH	-0.33%	
	11) MSCI ACWI/CONS DIS	-0.86%	

Source: Bloomberg as of 11.18.2020

EUROPE

European Central Bank president Christine Lagarde announced that policy makers will remain neutral on interest rates and use the emergency Quantitative Easing (QE) program to adjust monetary policy. She said, "while all options are on the table, the pandemic emergency purchase program and targeted longer-term refinancing operations have proven their effectiveness". One unintended consequence of the program is the narrowing of credit spreads, which consequently pushes yield-seeking investors to the junk bond market. The Euro STOXX Index rallied 6.39% last week led by banks, up 20.01%.

French president Emmanuel Macron said in an interview with Paris-based policy journal Le Grand Continent that under Biden, the European Union (EU) cannot go back to relying on the United States. He added, "the United States will only respect us as allies if we are earnest, and if we are sovereign with respect to our defense". In a separate interview, he announced that bars and restaurants would remain closed until mid-January while stadiums will be closed to the public until the beginning of 2021. The CAC 40 Index gained 8.45% last week, led by industrials and financials.

In the United Kingdom (UK), insufficient progress was made regarding the Brexit transition which prompted the negotiating parties to extend the deal deadline once again. British Prime Minister Boris Johnson commented, "it is far from certain that an agreement will prove possible, and time is now very short. The UK is keen to secure a deal with the EU, but not at the cost of our core principles around sovereignty and control over our laws, borders, money and our fish". The FTSE 100 Index increased 6.88% last week.

APAC

On Sunday, fifteen Asia pacific nations including China, Japan and South Korea signed the world's largest regional free-trade agreement. The deal includes the removal of at least 92% of tariff on traded goods among signing parties, a framework for online consumer and data protection, as well as simplified customs procedures. Bloomberg reports, "at least 65% of services sectors will be fully open with increased foreign shareholding limits". India is the major absentee from this deal, as Prime Minister Narendra Modi pulled out of the Regional Comprehensive Economic Partnership (RCEP) last year. The trade agreement is viewed as a manifestation of China's growing regional influence just three years after the United States exited the Trans-Pacific Partnership (TPP). The Shanghai Composite index decreased 0.06% last week.

In Japan, the Bank of Japan (BOJ) announced a new facility that will pay 0.1% interest to banks that will agree to restructure their operations through mergers or cost cutting. The facility will be available for three years to March 2023. This initiative was designed to offset the impact of negative interest rates on regional banks. Prime Minister Yoshihide Suga expressed that he was in favor of banking consolidation because there were according to him "too many regional banks". BOJ's program is estimated to inject $475 million, which may be too little to encourage mergers. The Nikkei 225 gained 4.36% last week.

EMERGING MARKETS

In Brazil, municipal elections held on Sunday resulted in the defeat of most candidates backed by President Jair Bolsonaro in big cities. The election was interpreted as a referendum on the president's governance. Indeed, COVID-19 plunged the country into a recession which cost Bolsonaro a few popularity points. However, Brazil has registered manufacturing PMI above 60.0 for three consecutive months, which points to the effectiveness of the monetary and fiscal response. The Brazil Ibovespa Index increased 3.76% last week.

India is keen on attracting foreign investments to build up to 100 smart cities post pandemic. According to the Indian Ministry of Housing and Urban Affairs, 40% of population is expected to live in cities by 2030. The second most populated country in the world will have to develop 800 million square meters each year until 2030 to meet rising demand. According to Prime Minister Narendra Modi, two-thirds of the $30 billion project has already been completed. As part of its affordable rental housing initiative, the government plans to invest in 10 million urban homes by the end of 2022. Indian stocks gained 3.72% last week.

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