Level Four Capital Management

WEEKLY INSIGHT

HIGHLIGHTS

- U.S. equities finished higher on the shortened holiday week, rallying into year-end. For a second year in a row, stocks once again posted strong gains.
- Eight of the 11 U.S. sectors finished in the green for the year led by Technology, which gained just under 44%, its best year/year gain since 2009.
- Seven Tech companies in total added $2.4T in market cap in 2020
- Energy was the worst sector, falling 33% after global consumption and demand were damaged with the onset of COVID-19.
- The S&P 500 saw more than 40 daily swings of 2% or more throughout the year, making it the most in more than a decade.
- Last week, global equities advanced 1.41% higher, boosted by optimism surrounding vaccination campaigns. All sectors were in the green with the exception of Energy, down 0.11%. Growth stocks advanced 1.16%, while value stocks gained 1.18%.
- Healthcare workers were the first in line to be vaccinated in Italy and Spain, while residents at elderly care centers received the first shots in Sweden and Denmark. The Euro STOXX Index gained 0.38% last week.
- In the United Kingdom, the parliament backed the Brexit deal 24 hours before the official split from the European Union. The FTSE 100 index was down 0.64%, with volatility spiking from 22 to 24.35.
- In India, the Health Minister said that he will make vaccines free nationwide. The Nifty 50 Index gained 1.69% last week.
- The New York Stock Exchange came back on its decision to delist three Chinese telecommunication companies after consulting "relevant regulatory authorities".

MARKET COMMENTARY

LAST WEEK

U.S. equities finished higher on the shortened holiday week, rallying into year-end. For a second year in a row, stocks once again posted strong gains. The Nasdaq 100 gained 49% over the course of the year, the Russell 2K posted a return of 20%, while the S&P 500 registered an 18% gain, and the Dow closed just under 10% higher. After an extremely volatile year (and in true 2020 fashion), the S&P 500 and Dow Jones closed at all-time record highs on Thursday December 31st.

It was a fairly quiet week with headlines, news, economic data, and volumes all remaining subdued. Gold and WTI crude finished little changed, closing up 0.1% and 0.2%, respectively. Utilities were the best performing sector, while Financials also outperformed with broad-based strength in banks and life insurance companies.

TOTAL RETURN			
INDEX	MTD	QTD	YTD
NASDAQ 100 STOCK INDX	5.11%	13.09%	48.88%
NASDAQ COMPOSITE	5.75%	15.67%	45.06%
RUSSELL 2000 INDEX	8.65%	31.36%	19.93%
S&P 500 INDEX	3.84%	12.14%	18.39%
DOW JONES INDUS. AVG	3.41%	10.73%	9.72%

Source: Bloomberg as of 01.05.21

2020 RECAP

With 2020 in the rear-view mirror, we take a look back on what an unprecedented year it was and how it will go down in the history books.

Source: Bloomberg as of 01.05.21

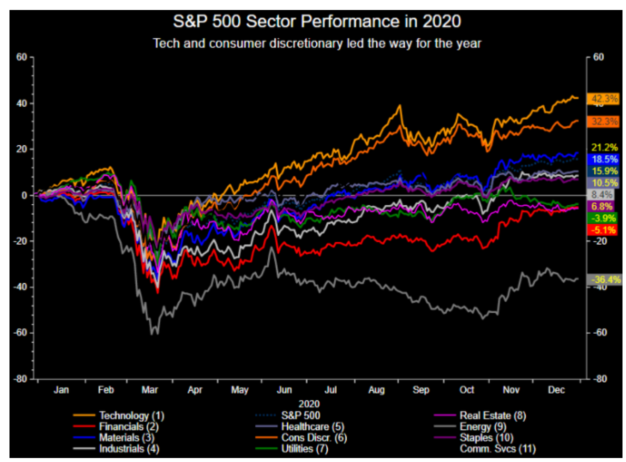
Starting with global lockdowns amid the spread of COVID-19, a virus of which no one was familiar, equities were beaten and bruised as the S&P 500 lost nearly a third of its value versus its close in 2019. Equities continued their free fall for more than a month in February and March before bottoming on March 23rd. The 23 trading days of a bear market were the fewest ever.

As stocks started to recover after the passing of the $2T CARES Act to help support the flailing economy, and vaccine developments worldwide progressed, we saw a rotation toward companies that usually outperform coming out of a recession, including: Small Caps, Materials, Industrials, and Financials.

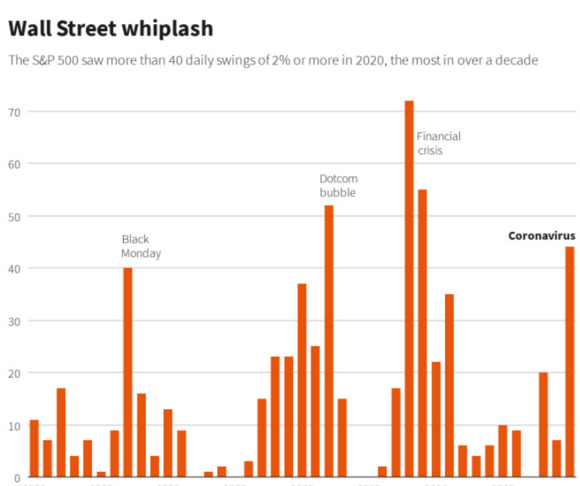
Ultimately, in a year categorized by uncertainty and fear, the S&P 500 saw its most volatile year since the Great Financial Crisis. However, unlike in 2008 when the S&P closed down 38%, the index posted its third best year in the last seven, trailing only 2019 and 2017.

2020 STATISTICS SUMMARY:

- The S&P 500 saw the end of the longest bull market and shortest bear market in history.
- The 9.5% plummet in the S&P 500 on March 12th marked the largest 1-day percentage decline since "Black Monday" in 1987.
- Eight of the 11 U.S. sectors finished in the green for the year led by Technology, which gained just under 44%, its best year/year gain since 2009.
- Seven Tech companies in total added $2.4T in market cap in 2020, including: Amazon, Apple, Tesla, Microsoft, Google, Facebook and Zoom (five of the seven names are held within our Large Cap Growth portfolio).
- Consumer Discretionary, Communication Services, and Materials were the next best performing sectors, with the latter two closing above 20% on a year-to-date basis.



Source: Refinitiv Datasteam as of 01.05.21



- Energy was the worst sector, falling 33% after global consumption and demand were damaged with the onset of COVID-19.
- Retail trading spiked throughout the year, initially making up 10% of all trading volumes. Retail trading now accounts for more than 25% of market volumes.
- The S&P 500 saw more than 40 daily swings of 2% or more throughout the year, making it the most in more than a decade.
- Over six cents of every dollar traded on Wall Street throughout the year was traded in Tesla, followed by Apple at five cents.

Source: Refinitiv Datasteam as of 01.05.21

THIS WEEK

Domestic equities closed lower to start the new year and week, with the S&P 500 leading other indexes to the downside, falling 1.48%. The 55 point move lower in the benchmark marked its worst day since late October and came as COVID-19 cases continued to surge in the United States. Names related to the re-opening trade came under outsized pressure after Boris Johnson, UK Prime Minister, announced a national lockdown starting Monday night. The lockdown is expected to last through mid-February and fears that other world leaders may follow suite. Cruise liners, hotels, casinos, and airlines all underperformed in a notable manner while FAANG and momentum names also lagged broader indices.

The Energy sector was the only sector to finish in the green after most OPEC+ nations opposed a February supply hike. Another bright spot was precious metals which outperformed with the risk-off tone as gold closed higher by 2.7%. The Dollar recovered from early session lows, versus the Yen and Euro which finished largely unchanged on the day, but continued to trade near its weakest levels since 2018.

Source: Bloomberg as of 01.05.21

Overall, there was nothing specific behind the pullback seen in Monday's session. Pre-market strength to start the year was short-lived as near-term worries came into focus, such as:

- Rising COVID-19 case levels
- Additional lockdowns announced in the UK
- Georgia Run-off elections
- Areas of stretched valuations
- Slow rollout of COVID-19 vaccines

Perhaps the most intriguing and new development spooking markets seems to be the momentum picked up by Democrats in the polls, ahead of the January 5th Senate election in Georgia. Investors appear to be preparing for the possibility that Democrats may gain control of the U.S. Senate if they are able to pull off two wins in the Georgia elections. While the recent momentum picked up by Democrats puts some focus back on higher potential taxes and increased regulations, the probability of any major changes being passed remain low.

INTERNATIONAL

Last week, global equities advanced 1.41% higher, boosted by optimism surrounding vaccination campaigns. All sectors were in the green with the exception of Energy, down 0.11%. Growth stocks advanced 1.16%, while value stocks gained 1.18%. The JP Morgan Global Manufacturing PMI stayed flat in December at 53.8, despite lockdowns and travel restrictions in various regions. The world economy weighted year-on-year inflation ticked down to 2.1%, from 2.2% mid-December. Investors ended the year on a high note, betting on a 2021 recovery and prolonged fiscal and monetary stimulus.

Source: Bloomberg as of 01.05.21

EUROPE

European Union (EU) countries started a coordinated vaccination campaign using the COVID-19 vaccine developed by Pfizer Inc. and BioNTech SE. The process was accelerated amid worries regarding a faster-spreading virus strain circulating in the United Kingdom that prompted governments around the world to temporarily shut down their borders to the UK. According to Bloomberg, more than 600,000 people in Britain have already received the first dose of the vaccine. Healthcare workers were the first in line to be vaccinated in Italy and Spain, while residents at elderly care centers received the first shots in Sweden and Denmark. The Euro STOXX Index gained 0.38% last week, led by retail up 3.96%.

In the United Kingdom, the parliament backed the Brexit deal 24 hours before the official split from the European Union. UK's Prime Minister, Boris Johnson, commented "the destiny of this great country now resides firmly in our hands. We take on this duty with a sense of purpose and with the interests of the British public at the heart of everything we do". The agreement eliminates tariffs and quota for goods traded between the EU and the UK. However, services firms, which account for 80% of the UK economy, remain vulnerable. The FTSE 100 Index was down 0.64%, with volatility spiking from 22 to 24.35.

In Italy, the government is under pressure after the coalition led by Matteo Renzi, the former Prime Minister, threatened to leave the ruling majority if the government does not provide a clear pandemic recovery plan. Concurrently, the opposition, led by far-right Brothers of Italy, is gathering support via petition for a vote of confidence in the government. Prime Minister Giuseppe Conte is reportedly organizing meetings with party leaders to possibly reshuffle the government. Italian stocks gained 0.46% last week.

APAC

Last week, the New York Stock Exchange (NYSE) announced the delisting of three state-owned Chinese telecommunication companies to comply with Donald Trump's executive order over their ties with the Chinese military and intelligence. China Unicom and China Mobile said they are exploring "ways to protect their lawful rights". This week, we learned that the NYSE came back on its decision after consulting "relevant regulatory authorities". At this point, the reason for the U-turn is still unclear. The Shanghai Composite Index was up 3.27% last week, led by industrials, up 3.59%.

In Japan, the manufacturing PMI improved to 50.0 in December from 49.0 in November. This is the best manufacturing PMI print since April 2019. The highly-monitored indicator bottomed in March 2020 at 38.4 and steadily recovered ever since. According to Au Jibun Bank, "Japanese manufacturers were encouraged to take on additional staff as operating conditions stabilized. Employment levels increased for the first time since February." The NIKKEI 225 gained 2.91% last week.

EMERGING MARKETS

In Brazil, the Manufacturing PMI remained strong at 61.5 in December, despite a slight pullback from 64.0 in November. IHS Markit points out that domestic and international new orders improved. Brazilian stocks advanced 0.08% last week. Annual inflation data was also published. According to the Brazil Statistics Institute, inflation rose to the highest rates since 2018, boosted by increase in the prices of food, housing, and transportation. The Consumer Price Index (CPI) year-on-year surged to 4.22% in 2020, versus 3.91% in 2019. The Brazilian Real depreciated 22.84% versus the U.S. Dollar in 2020 amid a pandemic-induced flight to safety.

In India, the Health Minister said that he will make vaccines free nationwide. According to the government, 270 million people will be prioritized to receive the first shot. India remains the second global epicenter of COVID-19 with over 10.3 million infections. The government plans to adjust the 2021 budget in February to increase fiscal stimulus. India’s Markit Manufacturing PMI ticked up to 56.4 in December, improving from the 56.3 print in November. The Nifty 50 Index gained 1.69% last week.

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