Level Four Capital Management

WEEKLY INSIGHT

HIGHLIGHTS

- The Tech-heavy NASDAQ was the worst performing index for the week, falling more than 2% as investors saw growth names come under additional pressure, while value-related names rallied.
- Performance dispersion between growth and value widened, even as tech valuation premiums have narrowed from a January high.
- On Thursday, Fed Chairman Jerome Powell did little to curb investor fears that inflation may run hotter than expected in the near term, striking a dovish tone.
- Oil jumped over 7% after the OPEC+ decision to leave output unchanged in April.
- Non-farm payrolls came in higher than expected while the unemployment rate fell more than forecasted.
- Bank of America noted that global Central Banks have purchased $1.1B of assets every hour since last March, putting G5 central balance sheets at nearly $30T as of the end of February.
- With the 2% move lower on Monday, March 8th, the NASDAQ 100 has now tumbled close to 11% below its March 12th record. In the United Kingdom, Prime Minister Boris Johnson said that more than one-third of the population has been vaccinated. The FTSE 100 jumped 2.27% last week.
- The Italian government is considering tightening restrictions at least on weekends to counter a surge in COVID-19 infections. Italian stocks gained 0.51% last week.
- In Brazil, the Senate backed a $7.8 billion emergency stimulus package to support the national health system. Brazilian stocks rose 4.7% last week.

MARKET COMMENTARY

LAST WEEK

Major U.S. equity indexes finished mixed to end the week with the Dow Jones and S&P 500 gaining, while the Russell and NASDAQ declined. The Tech-heavy NASDAQ was the worst performing index for the week, falling more than 2% as investors saw growth names come under additional pressure, while value-related names rallied.

The dispersion between growth and value continued to widen even as Tech valuation premiums have narrowed from a January high, thus possibly making additional room for further normalization as "recovery beneficiaries" catch up.

Source: Bloomberg as of 03.10.21

WEEKLY SECTOR PERFORMANCE

On a sector basis, performance remained mixed with Consumer Discretionary falling more than 2.8%, and included pandemic beneficiaries such as Amazon, Lululemon, Target, Home Depot and Lowe's. At the same time however, a number of stocks, which have outperformed recently, pegged to the reopening trade and saw a bout of weakness. These included hotels, casinos and cruise ships.

Financials fared well with strength in banks as they continued their recent rally amid the backup in rates. Energy was the best performing sector on the week, gaining 10% and buoyed in large part by the OPEC+ decision to extend oil production curbs into April.

Tech-related stocks continued to underperform, with Semiconductor names coming under outsized pressure as the SOX declined 4.8% over the course of the week. Communication Services was a relative outperformer and worth noting, due to Google, Facebook, and a bulk of media names being able to buck broader selling pressures seen throughout the week.

Source: Bloomberg as of 03.10.21

The two main themes gaining most of the attention throughout the week were:

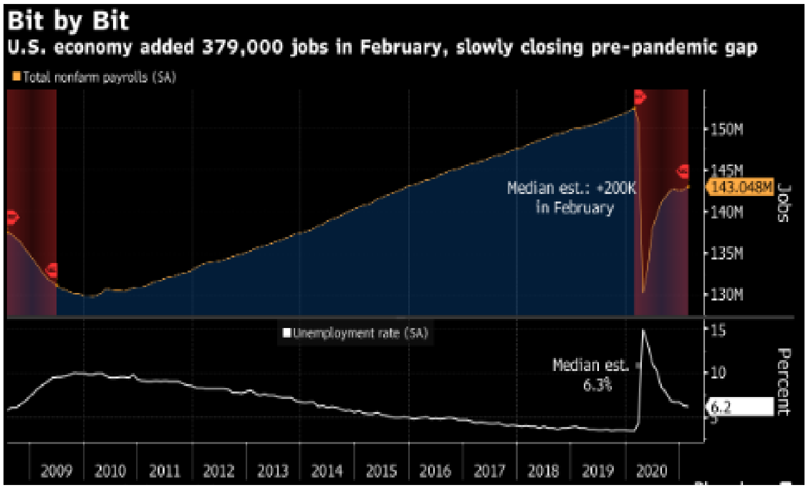
- The continued higher rate backdrop as the 10-year increased from 1.41% to 1.56% over the five days
- The lack of pushback from Fed officials on inflation

DOVISH TONE FROM FED OFFICIALS

Fed Chairman Jerome Powell did little to curb investor fears that inflation may run hotter than expected in the near term. Striking a dovish tone on Thursday, Chairman Powell noted that he was primarily concerned about disorderly market conditions that may prohibit progress toward the Central Bank's inflation and employment targets. The overall message surrounding a lack of pushback against higher rates, paired with additional stimulus on the way, could cause the economy to "overheat" leaving investors on edge and further exacerbating the pro-cyclical rotation already seen.

VARIOUS BULLISH DYNAMICS SEEN

- Other dynamics seen throughout the week included:
- Minor tweaks to the $1.9T Biden administration COVID-19 relief package
- Oil gaining ~7% after OPEC+ decision to leave output unchanged while only granting slight exemptions to Russia & Kazakhstan
- A big beat in February non-farm payrolls, which came in at 379K versus 188K, while the unemployment rate fell to 6.2% coming in ahead of expectations
- Continued inflows into equities as recent market volumes remain well above 2021 averages
- COVID-19 vaccine distributions continue to ramp up with President Biden noting that the U.S. should have enough doses for all Americans by the end of May



Source: Bureau of Labor Statistics, Bloomberg as of 03.10.21

EARNINGS ESTIMATES

The liquidity tailwind continues to be one of the most powerful components to the bull narrative. Last week, Bank of America noted that global Central Banks have purchased $1.1B of assets every hour since last March, putting G5 central balance sheets at nearly $30T as of the end of February. With an additional stimulus on the horizon, the increased distribution of COVID-19 vaccines and the re-opening of some local economies, investors have seen high frequency data start to reflect some of the momentum.

The pent-up demand paired with a decline of COVID-19 cases (which have fallen more than 60% since the January peak) has in turn raised the bar for 2021 earnings estimates. Analysts now anticipate S&P 500 earnings growth for the year to be ~24%, creating a potential letdown scenario where even impressive top and bottom-line beats may underwhelm investors.

THIS WEEK

Very little changed to start the week from where markets ended on Friday. Domestic equities finished mixed as the Dow Jones Industrial and Dow Jones Transportation both ended higher, with both touching new all-time highs, despite not closing at all-time highs. The S&P 500 closed down by .54% and erased gains of nearly 1%, while the NASDAQ Composite erased earlier gains to finish sharply lower by over 2% led by another round of selling pressure in large tech names. The 10-year yield climbed above 1.6%, touching new 1-year highs with inflation concerns remaining on the forefront of investors' minds.

Source: Bloomberg as of 03.10.21

TECH TUMBLES

With the move lower, the NASDAQ 100 has now tumbled close to 11% below its February 12th record, while heavyweight component Apple was one of the worst performing large tech names on Monday, falling 4% and sinking to 3-month lows. Apple has now lost 18% since its January 26th close. The Philadelphia Semi-conductor index (SOX) fell over 5% on Monday and approached key technical support levels as investors continue to remain focused on lofty tech valuations amid the climb in yields.

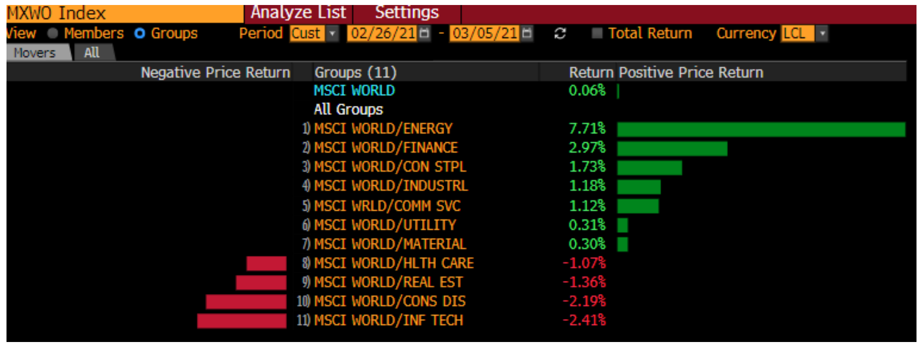
Source: Bloomberg as of 03.10.21

BRIEF PULLBACK IN OIL

Crude oil pulled back more than 1.5%, despite an attempted attack on Saudi Arabia's Ras Tanura, the largest export terminal in the world. While oil shipments were undisturbed, the attempted strike was the most serious since 2019. The pullback on Monday came after oil surged more than 7% last week to 2-year highs.

INTERNATIONAL

Last week, global equities rose 0.06%, led by the energy sector, up 7.71%. Information technology lagged the index for the third consecutive week as investors continued to focus on the reopening of the economy. The "Covid stock" label, once a catalyst for higher valuation during quarantine, became a curse for many companies. Financials have also performed well last week amid rising yields. Industrials gained 1.18% as investors continue to bet on higher demand for goods and services. The market has been very specific in picking winners and losers, and challenged the leadership of growth stock while valuation appears to be at the center of the repricing exercise.



Source: Bloomberg as of 03.10.21

EUROPE

European Central Bank (ECB) Governing Council Member, Jens Weidmann, said the size of bond yield increases is not worrisome. He added "we have to look at it and we are ready to adjust the volume of PEPP purchases. The PEPP has that flexibility embodied in it so we can react to unwarranted tightening of financing conditions." European stocks rallied on Monday in anticipation of the upcoming ECB meeting. The Euro STOXX index gained 2.35% on Monday.

In the United Kingdom, the Prime Minister, Boris Johnson, said that more than one-third of the population has been vaccinated. Bank of England Governor Andrew Bailey balanced the current optimism with a sober outlook and reminded investors to remain cautious, as downside risks have not been eradicated. The FTSE 100 jumped 2.27% last week.

The Italian government is considering tightening restrictions at least on weekends to counter a surge in COVID-19 infections. Currently, 5% of the population has received at least one dose. Italian economist, Mario Draghi, is planning to deploy $38 billion to support the economy. At the end of last year, public debt to GDP rose to 155.6%. Italian stocks gained 0.51% last week.

APAC

According to George Gao, Head of the Chinese Center for Disease Control and Prevention, China may reach herd immunity by mid-2022 if 70 to 80% of the population get vaccinated. Bloomberg estimates that China has given 3.75 doses per 100 people. The government projects 6% growth for 2021 and plan to narrow the budget deficit to 3.2% of GDP. The Shanghai Composite Index was down 0.20% last week.

Masayoshi Amamiya, Deputy Governor of Bank of Japan, commented on rising yields, "they can go up and down more as long as it doesn't hurt the effects of monetary easing." He then added that although yield volatility could lead to undesirable consequences, fluctuations "within a certain range could have positive effects on the functioning of the Japanese Government Bond markets without losing the effects of monetary easing". The NIKKEI 225 declined 0.35% last week.

EMERGING MARKETS

In Brazil, the Senate backed a $7.8 billion emergency stimulus package to support the national health system. The lower house is expected to vote on the bill this week. Brazilian swap rates soared amid speculation of a possible 75 basis point rate hike this month. The Brazilian Central Bank turned hawkish at the beginning of the year when evidence of inflation became more and more flagrant. The Brazilian real lost more than 11% of its value against the greenback this year. Brazilian stocks rose 4.7% last week in anticipation of the stimulus bill.

After facing its worst drought in 56 years, Taiwan said that it has enough water to keep chipmakers humming until May. According to Taiwan Water Resources, 20% of the water supply is used for manufacturing, and about 70% is used for agriculture. The semiconductor shortage has raised geopolitical status as the United States looks to find a solution with Taiwan. Chinese Foreign Minister Wang Yi told the media on Sunday that "there is no room for compromise or concessions" regarding Beijing's sovereignty over Taiwan. Taiwanese stocks were down 0.62% last week.

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