Level Four Capital Management

WEEKLY INSIGHT

HIGHLIGHTS

- U.S. equities finished at record highs last Friday (S&P 500, Dow Jones and Russell 2K) with all 11 sectors closing higher on a weekly basis.
- U.S. treasuries continued their climb higher as the 10-year yield moved past 1.6% as the 2-year/10-year spread touched its widest mark since 2015.
- It was a light week of corporate news and directional drivers with the largest catalyst being the signing of the $1.9T COVID-19 relief bill.
- After suffering three straight weekly declines, the tech-heavy NASDAQ 100 and NASDAQ Composite both posted their best 5-day periods since early February as valuation concerns abated.
- Airlines traded near or at 52-week highs after positive commentary from corporate management teams.
- Initial jobless claims fell to their lowest levels since early November, falling 42K to 712K.
- European Central Bank President, Christine Lagarde, said that bond purchases will be significantly higher over the next quarter to offset the negative impact of rising interest rates. European banks traded lower following the announcement and finished the week up 2.06%.
- The European Union initiated a legal action against the United Kingdom after the latter decided to unilaterally delay the implementation of a key part of the deal regarding Northern Ireland. The FTSE 100 gained 1.97% last week.
- Italy headed back in to lockdown on March 15th amid a resurgence in COVID-19 infections. The FTSE MIB index gained 5% last week.
- Brazil surpassed India for second highest COVID-19 case toll in the world with over 11.4 million cases. The Brazil Ibovespa index dropped 0.9% last week.

MARKET COMMENTARY

LAST WEEK

U.S. equities posted solid gains for the week as the Dow Jones, S&P 500, and Russel 2K all finished at record closes on Friday. With multiple indexes closing at new all-time highs, it was propelled by 11 sectors finishing higher on a weekly basis, led by Consumer Discretionary, Real Estate, Utilities, and Materials. Treasuries were weaker once again with yields continuing to climb as the 2-year/10-year spread touched its widest mark since 2015 in large part due to the 10-year note peaking at 1.62%.

Source: Bloomberg as of 03.17.21

WEEKLY SECTOR PERFORMANCE

On a sector basis, investors saw the following throughout the week:

- **Consumer Discretionary:** Outperformed with help from auto's retailers and Amazon
- **Materials:** Gained 4.40% with strength in steel and agrochemical names
- **Industrials:** Led to the upside by Aerospace and Defense names as well as airlines
- **Financials:** Outperformed with rates continuing their move higher as the bank index (BKX) added 4.3%
- **Technology:** Underperformed with hardware names weighing on the space

LACKING A CATALYST

The week lacked any major surprises with the narrative remaining unchanged as investors continued to evaluate the impact of higher rates on equity markets.

All in all, it was a light week of corporate updates, commentary, and economic data released. There were few catalysts and overall directional drivers that emerged, with the most notable being the widely anticipated signing of the $1.9T COVID-19 relief bill by President Biden. The bill was passed through the Senate and signed a day earlier than anticipated, despite there being some last minute changes including keeping federal unemployment benefits at $300/week through September 6th.

GROWTH VERSUS VALUE- CLOSING THE GAP

Despite yields continuing their march higher, and value names continuing their recent outperformance over growth, the rotation to value was less pronounced versus what has been seen in recent weeks. Both growth and value swapped leadership roles over the five days as there seemed to be growing consensus that certain growth names may be oversold (particularly in the Large Cap tech space). After suffering three straight weekly declines, the NASDAQ 100 and NASDAQ Composite both posted their best five day periods since early February.

Source: Bloomberg as of 03.17.21

POTENTIAL INFRASTRUCTURE BILL ON THE HORIZON

With the newest COVID-19 stimulus package in place, attention may turn to the Biden administration's plans for an infrastructure bill. The bill, although it has garnered bi-partisan support in early discussions, has also faced adversity from moderate Democrats and Republicans given its $2-$4T price tag.

With even more aid potentially on the horizon, there has been a lot of uncertainty surrounding Treasury auctions, with many investors questioning just how much debt would the market be able to absorb. Following the abysmal 7-year bond sales on February 25th, the weeks $120B in Treasury issuance was seen as generally solid, faring better than prior weeks.

THIS WEEK

Domestic equity indexes closed at record highs yet again, for a third straight session on Monday amid growing optimism surrounding the economic rebound. The Volatility Index (VIX) traded back to near 52-week lows, closing at $20.03, down from $31.90 just two weeks ago as fear has seemingly abated from the stock market with investors clinging to various bull narrative talking points which include:

- Continued vaccine rollout
- Re-opening of local economies
- Approval of additional economic stimulus
- The release of better than anticipated economic data

REOPENING TRADE

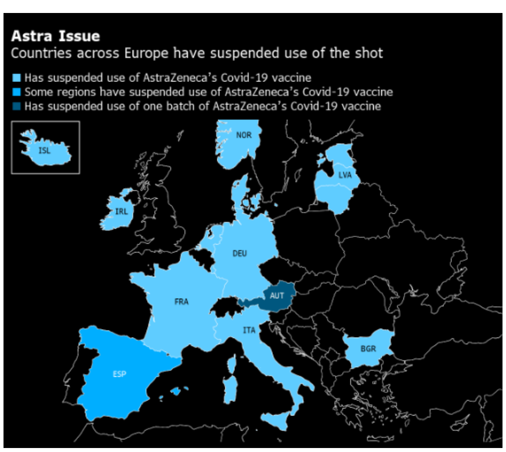
The "reopen" trade continued to outperform with outsized gains coming in retailers, airlines, casinos, hotels, and theme parks. Multiple casinos including the Wynn, MGM Grand, and Las Vegas Sands all toughed 52-week highs after Las Vegas announced they would increase capacity limits to 50%, while some airlines also touched 52-week highs.

Airlines continued to see strength after high frequency data and corporate commentary showed positive trends continuing over the weekend, which included:

Source: Bloomberg as of 03.17.21

- Strong TSA traveler count
- American Airlines saying sales over the last three weeks have been the best since the pandemic began
- United Airlines saying that due to high demand for travel, they have now turned cash flow positive for the month
- JetBlue and Southwest both announced they see revenue declining less than originally expected for Q1
- The Delta CEO giving comments that the rebound "seems like it's real" this time

VACCINE WOES IN EUROPE



Source: Bloomberg as of 03.17.21

The biggest news in Monday's session, although it did little to stop the rally, was the announcement by some of Europe's largest countries such as Germany, France and Italy, that they would suspend the use of AstraZeneca's COVID-19 vaccine. The decision to suspend the vaccine came after multiple reports of blood clotting issues as the European Medicines Agency reiterated that the benefits of the shot outweigh the risks; however, the group also called for a meeting later in the week.

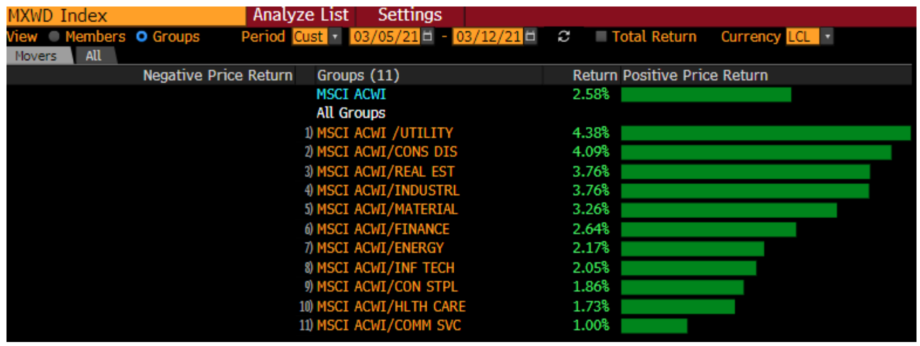
GLOBAL RATES & CENTRAL BANKS

With rates on the rise, multiple Central Banks meetings are set to take place later this week as the Bank of England, Bank of Japan and Federal Reserve will all meet amongst themselves. Although little change is expected, the meetings will likely set the tone for next steps regarding global rates.

As yields, with the exception of the two year, declined slightly on Monday, data released showed China's holdings of U.S. treasuries rose by $22.9B in January to $1.0955T, its highest level since October, while Japan's holdings rose to $1.277T, its highest level since August, making the country the largest holder of U.S. debt. Given U.S. debt issuance, inflation expectations, and the continued rise in yields, it would not be surprising to see both countries appetite for U.S. denominated debt to increase from current levels.

INTERNATIONAL

Last week, global equities rose 2.58%, led by 4.38% gains from utilities. The policy decision in Europe gave more clarity to investors about reopening bets with the path of least resistance. We witnessed a continuation of existing trends with industrials, materials, and commodities such as copper and oil attracting capital flows. Emerging markets underperformed the MSCI ACWI index as rising U.S. yields, rising U.S. dollar, and higher inflation expectation put pressure on local currencies. Governments around the world are focused on conducting their vaccination campaigns to reach herd immunity as soon as possible. According to Bloomberg, more than 381 million doses have been administered across 126 countries.



Source: Bloomberg as of 03.10.21

EUROPE

The European Central Bank (ECB) decided to keep the Pandemic Emergency Purchase Plan (PEPP) and interest rates unchanged. ECB President, Christine Lagarde, said that bond purchases will be significantly higher over the next quarter to offset the negative impact of rising interest rates. She emphasized to reporters during her press conference "we are not doing yield curve control. We are preserving favorable financing conditions with a look at the inflation outlook that we have, and how one contributes to reducing the downward impact of the pandemic on our inflation path." European banks traded lower following the announcement and finished the week up 2.06%.

The European Union initiated a legal action against the United Kingdom (UK) over Brexit violation. The lawsuit came after the UK decided to unilaterally delay the implementation of a key part of the deal regarding Northern Ireland. European Commission Vice President, Maros Sefcovic, wrote in a letter sent to the UK that "the recent measures once again set the UK on a path of a deliberate breach of its international law obligations and the duty of a good faith." The FTSE 100 gained 1.97% last week.

Italy headed back into lockdown on March 15th amid a resurgence in COVID-19 infections and Prime Minister Mario Draghi said that he wants to triple the amount of daily vaccine dose delivered. Italy's northern Piedmont region suspended the use of AstraZeneca vaccine following the death of a teacher who had received it the day before. Germany, Ireland, France, Spain and The Netherlands also suspended the use of the vaccine as a precautionary measure. The FTSE MIB index gained 5% last week.

APAC

The Chinese government announced that visa application requirements will be eased for foreigners who have received a COVID-19 vaccine made in China. Most countries in the West have not yet approved vaccines developed by Chinese companies due to a lack of transparency regarding the details of their vaccine trials. The government also commented on the renewed restrictions on technology giant Huawei made by the Biden administration. Zhao Lijian, Chinese Foreign Ministry spokesman, told reporters on Friday "it will severely disrupt the technological exchanges and trade exchanges of the two countries and the world at large." The Shanghai Composite index dropped 1.4% last week.

In Japan, machinery orders, a leading indicator of capital spending, dropped 4.5% month-to-month in January. Takeshi Minami, economist at Norinchukin Research Institute, said "this quarter's orders are likely to be negative, but this is more because October-to-December was so strong, rather than because of the state of emergency." The Bank of Japan is expected to give a monetary policy review on Friday. The NIKKEI 225 gained 2.96% last week.

EMERGING MARKETS

Brazil surpassed India for its second highest COVID-19 case toll in the world with over 11.4 million cases. The government is considering extending cash handouts beyond four months. Meanwhile, inflation surged to a four year high in February as downside pressure continues to weigh on the Brazilian Real. The Brazilian Central Bank is expected to raise interest rates at the next policy meeting to stabilize the currency and cool off inflation. The Brazil Ibovespa index dropped 0.9% last week.

Banco de Mexico Governor, Alejandro Diaz de Leon, said that policy makers are still digesting rising interest rates and inflation expectation. In February, Mexican inflation rose 3.76%, led by rising fuel costs. Banco de Mexico will announce its monetary policy decision later this month. The strong U.S. recovery has put pressure on the Mexican Peso as the U.S. dollar has strengthened. In fact, foreign holdings of Mexican bonds slid to their lowest levels since 2012 according to Banco de Mexico. Mexican stocks rose 3.08% last week.

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