Level Four Capital Management

WEEKLY INSIGHT

HIGHLIGHTS

- U.S. equity indexes closed higher on the week as the S&P 500, Dow Jones, and Dow Transports all finished at record highs on Friday.
- Even as markets traded to new all-time highs, there seemed to be a cautious undertone with more than $5B being yanked from the world's largest ETF (SPY).
- Multiple sell-side firms struck a cautious tone in the near-term including Citi, Bank of America, and Deutsche Bank.
- The cautious comments come as the American Association of Individual Investors' bullish sentiment reached its highest levels since January of 2018.
- Volumes remained anemic as the five worst volume days of the year all occurred last week.
- Q1 earnings season unofficially kicks off this week when banks report on Wednesday. According to Factset, Wall Street is looking for a 24.5% increase in y/y earnings growth.
- Investors will also look to corporate conference calls where many believe the following themes will be mentioned:
    - A strong consumer
    - Green shoots emerging
    - Higher input costs in supply chains
    - Shifting consumer spending trends
- The JPMorgan Global Services PMI improved from 52.8 in February to 54.7 in March.
- In Italy, Prime Minister Mario Draghi plans to borrow up to $48 billion to cover economic support programs. The FTSE MIB index dropped 1.14% last week.
- In China, the Producer Price Index surged 4.4% year-over-year in March, beating the consensus estimate of 3.6%.

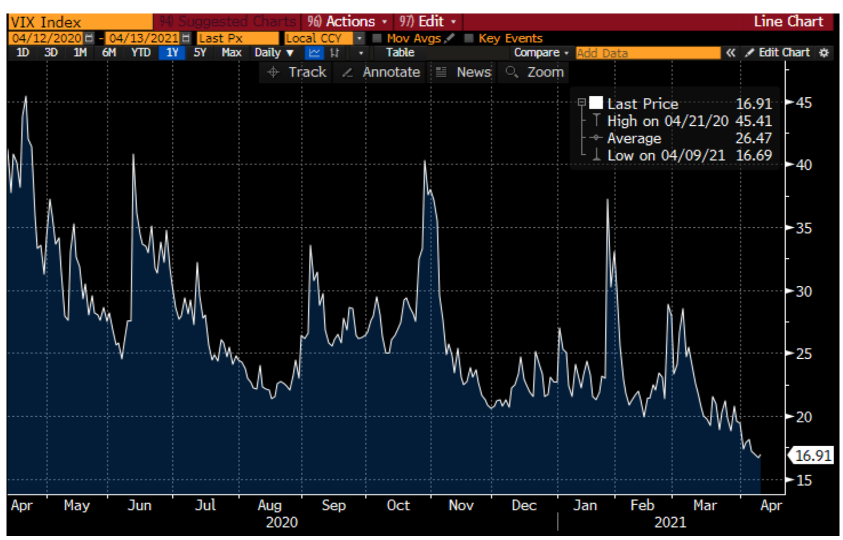
MARKET COMMENTARY

LAST WEEK

U.S. indices finished mostly higher on the week (the Russell 2K was the only one to close lower), closing at record highs on Friday. Volumes were again down as we saw an acceleration of the low volume trend. The five worst volume days of the year all occurred last week, with Friday being the lightest day of the year.

Growth and momentum outperformed value by approximately 3% as we saw a rotation with profits being taken in Energy and re-distributed into the Tech sector. The VIX continued to drift lower throughout the week, closing at a new 52-week low of 16.69.

From a sector standpoint, Technology was the best performing sector with leadership from mega cap names



Source: Bloomberg as of 04.13.21

like Microsoft and Apple, both finishing up over 6% in the five-day span. Consumer Discretionary outperformed with strength in retailers and Amazon (which also finished over 6%), while names pegged to the re-opening of the economy were mixed.

Communication Services rallied with help from heavyweights Google and Facebook, while media names generally underperformed. Financials lagged, however still gained almost 2% on the week after being buoyed by credit card providers.

BULLISH NARRATIVE AND SOME CONCERNS

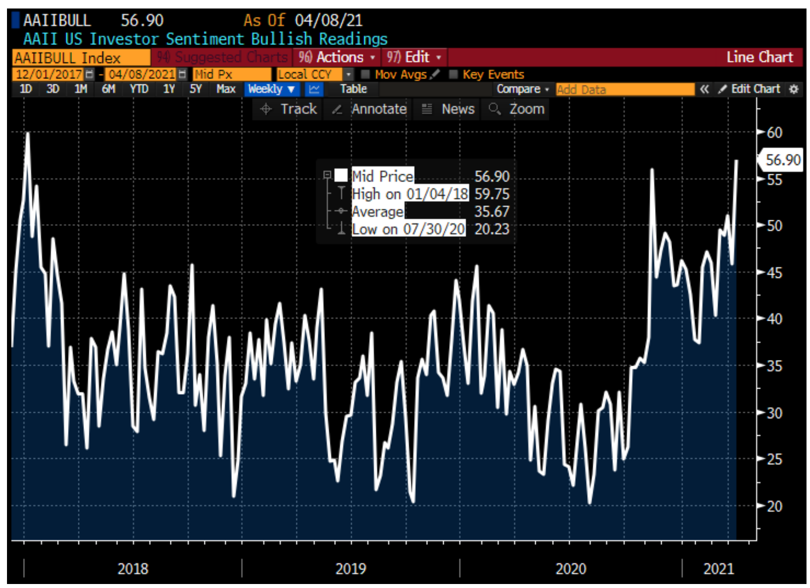
Overall, the bullish narrative remained intact throughout the week supported by:

- An accommodative fed accompanied by continued liquidity
- Fiscal stimulus
- The continued ramp up of vaccine distributions
- Economic data that has continued to surprise to the upside ahead of earnings season

Investors continued to remain optimistic based on the above themes. However, even as markets traded at all-time highs, they seem to have a cautious undertone. Investors saw large notable outflows, yanking more than $5B from the world's largest ETF (SPY), which has more than $350B in assets. The redemptions from SPY on the week led all U.S. exchange traded products even as volumes waned.

With the move higher, multiple sell-side firms struck a cautious tone in the near term including:

- Deustche Bank said they expect a 6%-10% drawdown as growth peaks, before equities rally into year-end.
- Bank of America noted their "sell side indicator" rose to a 10-year high and is the closest to a contrarian "Sell" signal since May 2007.
- Citi said sentiment continues to be overly bullish and is "worrisome".
- The comments come as the American Association of Individual Investors' bullish sentiment reached its highest levels since January of 2018, right before the late January selloff when the S&P declined 10.16%.



Source: Bloomberg as of 04.13.21

QUIET WEEK AND RECAP OF ECONOMIC DATA

It was another quiet week from a headline perspective and the positive recovery sentiment appeared to be the main driver behind price action, echoed by the release of a much stronger-than-expected March employment data.

As mentioned last week, Non-farm payrolls surged 916K versus expectations of 660K, the largest gain since last August. Additionally, the unemployment rate fell by 0.2% to 6.0% with economists noting positive takeaways, including broad-based job creation and additional room to recover within the industry's most adversely impacted by the pandemic.

THIS WEEK

Domestic equities ended slightly lower on the session, slipping from record highs seen last week in the Dow Jones, S&P 500, and Dow transports. Abysmal volumes and the low volatility themes continued for a second straight week.

The NASDAQ led losses, closing down 0.36% with Biotech's weighing on the index as the XBI (Biotech ETF) closed down just under 2%. Volumes continued to be anemic ahead of earnings season, which kicks off on Wednesday when major banks are set to report. In Monday's session, just over 9B shares traded on U.S. Exchanges, ~40% below its year-to-date average.


MVOLUSE ↑ 9193.31 +429.20
At 15:59 O 138.59 H 9193.31 L 138.59 Prev 8764.11
MVOLUSE Index | Export | Settings | Page 1/1 Historical Price Table
US Tape A+B+C Volume
Range 04/01/2021 - 04/12/2021 Period Daily
Market Last Price Volume Currency USD
View Price Table
High 10,653.07 on 04/01/21
Low 8,764.11 on 04/09/21
Average 9,631.92
Net Chg -1,459.76 -13.70%

Date	Last Price	Volume	Date	Last Price	Volume	Date	Last Price	Volume
Fr 04/16/21								
Th 04/15/21								
We 04/14/21								
Tu 04/13/21								
Mo 04/12/21	9,193.31							
Fr 04/09/21 L	8,764.11							
Th 04/08/21	9,406.86							
We 04/07/21	9,545.29							
Tu 04/06/21	9,700.76							
Mo 04/05/21	10,160.07							
Fr 04/02/21								
Th 04/01/21 H	10,653.07							

Source: Bloomberg as of 04.13.21

There was very little to note in terms of economic news or themes, with headlines mainly pertaining to single name stocks. The overall narrative has seemingly stayed the same day after day with economic growth continuing to recover, job data improving, and the Fed remaining extremely dovish/accommodating.

Gold dropped 0.7 ($1,732.70/oz.) to its lowest levels in a week along with broader equity markets as yields edged slightly higher with investors awaiting key U.S. inflation numbers (CPI on Tuesday).

EARNINGS SEASON KICKING OFF

Q1 earnings season unofficially kicks off this week with big banks starting to report on Wednesday. According to FactSet, Wall Street is looking for a 24.5% increase in S&P 500 earnings on a year-over-year basis, which would mark the highest year-over-year growth since the Q3 of 2018 when investors saw a 26.1% bottom line increase.

According to FactSet, expectations call for Consumer Discretionary, Financials, and Materials to be the largest standouts from a growth perspective while Energy and Industrials are the only sectors anticipated to report a Y/Y decline.

SINGLE STOCK AND SECTOR HEADLINES

In the absence of economic themes, some of the top stories in Monday's session included:

- **Semi-conductor** names slipped after Citibank lowered the sector to equal-weight after its recent outperformance over the past year.
- **Travel Names** (Including United Airlines Holdings (UAL), American Airlines Group, JetBlue Airways, Delta Air Lines, Royal Caribbean Cruises, Carnival, and Norwegian Cruise Line) underperformed after UAL announced preliminary earnings. In addition to the release, United Airlines announced they will raise funds through investors and not take the governments emergency pandemic loans (now every major U.S. airline has sunned the governments emergency bailout).

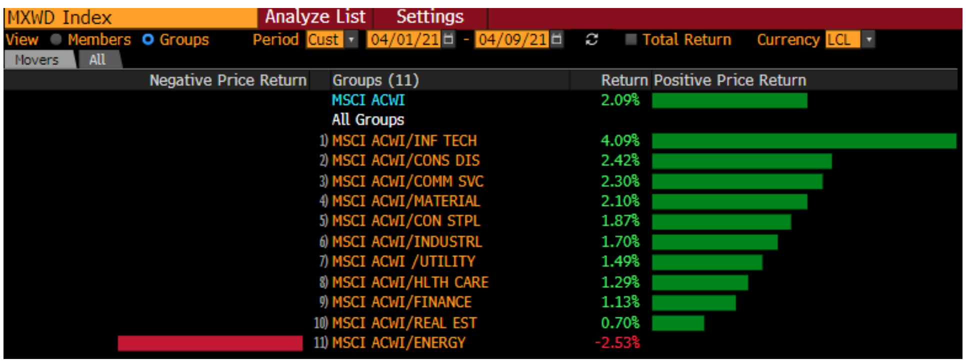
Furthermore, over the weekend, Barron's was negative on cruise lines saying that debt and equity sales have left the three major cruise lines with ample cash, however could cut into investor returns due to higher interest expenses. Combined, the three major cruise lines have raised a total of about $40B throughout the pandemic.

- **Uber** gained 3% after management said that March set a new company record for monthly bookings and is on pace to achieve adjusted EBITDA profitability this year.
- **Nvidia** jumped 5% after exposing their first server microprocessors, extending a push into Intel's most lucrative market.

Ticker	Last Price	Net	%1D	5 Day Total Retu	Ind Subgroup
UAL US	56.16c	-2.27	-3.88%	1.05500	Airlines
AAL US	22.91c	-0.63	-2.68%	-1.34116	Airlines
DAL US	48.82c	-0.45	-0.91%	.90109	Airlines
ALK US	71.30c	-1.33	-1.83%	4.51864	Airlines
JBLU US	20.50c	-0.56	-2.66%	3.38733	Airlines
NCLH US	29.26c	-1.28	-4.19%	10.17316	Cruise Lines
RCL US	87.06c	-2.82	-3.14%	3.70370	Cruise Lines
CCL US	27.75c	-1.55	-5.29%	9.08414	Cruise Lines
UBER US	59.44c	+1.76	+3.05%	.13889	E-Commerce/Services
NVDA US	608.36c	+32.36	+5.62%	4.25906	Electronic Compo-Semicon

Source: Bloomberg as of 04.13.21

INTERNATIONAL



Source: Bloomberg as of 04.13.21

Last week, global equities climbed 2.09% as optimism surrounding the reopening eclipsed inflation worries. Growth stocks led by Information Technology and Consumer Discretionary powered the rally despite a recent tilt towards lower beta sectors. Energy was the only sector in the red amid lockdowns and alarming rising cases across multiple regions. The JPMorgan Global Services PMI improved from 52.8 in February to 54.7 in March, showing that fiscal support and easing restrictions were fruitful. The vaccination rollout remains uneven across the globe, as the distribution process and the controversy surrounding the AstraZeneca shot continue to delay the recovery.

EUROPE

Klaas Knot, European Central Bank (ECB) Governing Council, member told Reuters "if the economy develops according to our baseline, we will see better inflation and growth from the second half onwards. In that case, it would be equally clear to me that from the third quarter onwards we can begin to gradually phase out pandemic emergency purchases and end them as foreseen in March 2022." The Euro STOXX Index gained 0.74% last week, led by Consumer Discretionary.

In Italy, Prime Minister Mario Draghi plans to borrow up to $48 billion to cover economic support programs. Following the news, yields on the 10-year surged to 0.71%, the highest level since March 2020. Last week, restaurant owners and other businessmen affected by restrictions asked for a loosening of lockdowns and additional economic support during animated protests. The government spent $32 billion last month to stimulate the economy. The FTSE MIB index dropped 1.14% last week.

In the United Kingdom (UK), customers rushed to pubs and shopping centers on Monday as the government eased the lockdown for non-essential shops. Prime Minister Boris Johnson commented "I am sure it will be a huge relief for those business owners who have been closed for so long, and for everyone else it's a chance to get back to doing some of the things we love and have missed." The UK Services PMI climbed to 56.3 in March, versus 49.5 previously. The FTSE 100 Index gained 2.65% last week.

APAC

In China, the Producer Price Index surged 4.4% year-over-year in March, beating the consensus estimate of 3.6%. Consumer prices edged up 0.4% year-over-year, slightly higher than the consensus estimate of 0.3%. The lower base partially explains for these figures, as commodity prices have largely recovered from last year's distressed levels. The higher than expected PPI reignited inflation fears globally and sent yields higher. China's Central Bank eyes around 3% inflation in 2021. The Shanghai Composite Index dropped 0.45% last week.

In Japan, the ministry of internal affairs reported that household spending dropped 6.6% year-over-year in February. Despite strong pent up demand, emergency restrictions contained consumer spending. The vaccination rollout has been very slow in Japan compared to other developed countries. In fact, according to Bloomberg, only 0.65% of the Japanese population has been vaccinated. The Japan Services PMI improved to 48.3 in March versus 46.3 previously. Equities advanced 1.29% last week.

EMERGING MARKETS

In India, the government plans to boost its vaccine production capacity as virus cases soar. A few days ago, Bloomberg reported that Maharashtra, India's COVID-19 epicenter, had only three days of vaccines in stock. India now registers over 13.5 million cases, the second highest in the world. The Indian Services PMI ticked down to 54.6 in March, versus 55.3 previously. The Nifty Fifty Index dropped 0.22% last week.

In the Philippines, the government extended lockdowns in Manila and surrounding provinces as COVID-19 cases reached the highest level in Southeast Asia. According to Bloomberg, only 0.4% of the population have received a COVID-19 vaccine. Manufacturing PMI remained unchanged at 52.2 in March for the third consecutive month. In its last policy meeting, the Central Bank maintained its benchmark rate at 2%. The Philippine Stock Index gained 1.58% last week.

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