Level Four Capital Management

WEEKLY INSIGHT

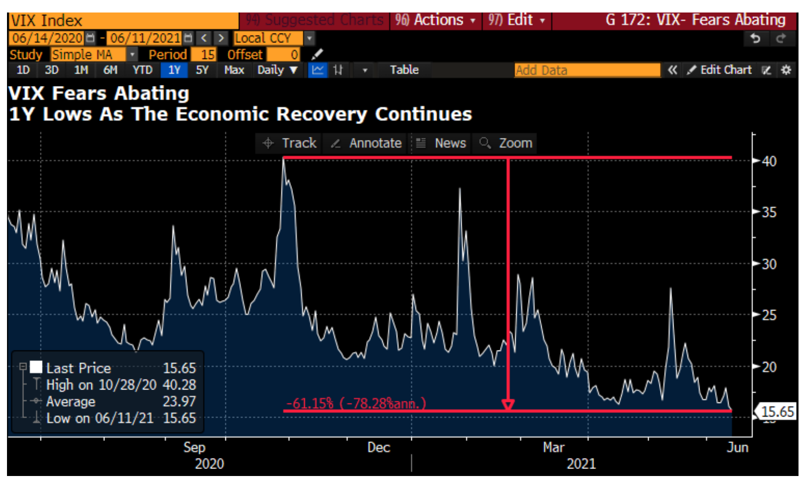
HIGHLIGHTS

- In what was another quiet week, the S&P 500 finished the week posting back-to-back record closes.
- Volumes were once again anemic, with the S&P 500 posting its lowest volume week this year.
- The VIX continued its slide, falling 15.15, its lowest reading since before the pandemic.
- The decline in yields and the bond rally was exacerbated by short covering, which JPMorgan noted were at their highest levels in U.S. Treasury markets since 2018.
- May inflation numbers came in only modestly higher versus expectations, as CPI headline rose 5%, its highest levels since 2008.
- The NASDAQ continued its four-week winning streak on Monday, now posting gains in six of the last seven sessions, with outperformance in Large Cap Tech.
- Oil prices touched new 32-month highs before paring gains, as the economic recovery gains steam.
- Prime Minister Boris Johnson announced on Monday the extension of the pandemic restrictions until July 19th in the United Kingdom as the Delta variant of the virus continues to spread quickly.
- Japanese Prime Minister Yoshihide Suga gained backing from Joe Biden regarding maintaining the Olympics. The NIKKEI 225 gained 0.02% last week.
- In Taiwan, an outbreak at one of the world's largest chip-testing factories led to the temporary closure of the facility. Taiwanese stocks gained 0.39% last week.

MARKET COMMENTARY

LAST WEEK

Markets finished the week primarily higher, although the Dow Jones was the only major U.S. index to close in the red. The S&P 500 wrapped up Friday posting its second record close in as many days (posting a new record-high on Monday, June 14th as well), trading in a tight range with another quiet week, in what was the lowest trading volume on a weekly basis for the S&P 500 this year. The VIX touched lows of 15.15 in Friday's session, its lowest reading since before the pandemic-related selloff more than a year ago. The 10-year continued its trek lower, moving to lows of 1.43% on Thursday, for the first time since March 3rd, losing more than 14bps over the five days.



Source: Bloomberg as of 06.16.21

The bond rally on the week was exacerbated by short covering as traders covered short bets in the U.S. Treasury market, which, JPMorgan noted were at their highest levels since 2018. The USD remained in a very tight range, failing to bounce much above the 90 level on the DXY Index, as investors continued to bet against the USD, anticipating the U.S. Central Bank will keep rates lower for longer and their accommodative monetary policy in place.

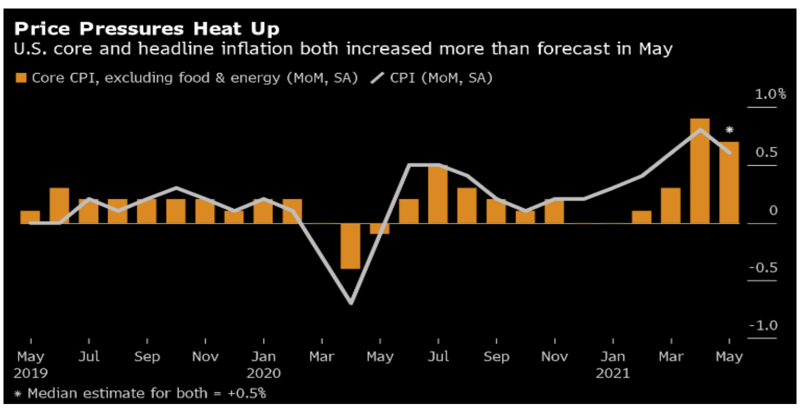
SECTOR PERFORMANCE RECAP

The NASDAQ led the way to the upside, gaining 1.85%, driven by software names. Semi-conductors and Memory device-related names were weaker, finishing in the red as large cap names such as Micron Technology, Teradyne, Seagate Technology, Lam Research, Applied Materials, and Western Digital all finished down more than 2%. Industrials were an underperformer with stocks such as Caterpillar, ADM, and John Deere coming under pressure as investor doubt surrounding an infrastructure bill has crept higher.

Financials were the worst performing sector on the week, losing 2.38% as brokerage/execution names slipped after SEC Chair Gary Gensler said he would like to ensure fair competition between exchanges and brokerage firms, including addressing best execution and payment for order flow. Furthermore, regional Banks came under outsized pressure with the back up in yields. Huntington Bancshares, SVB Financial Group, Comerica, Zions Bancorporation, Regions Financial Corporation, M&T Bank, and People's United Financial all declined more than ~3.50%.

Source: Bloomberg as of 06.16.21

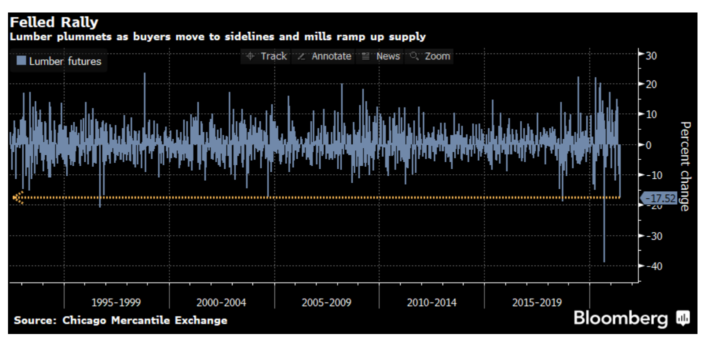
ECONOMIC DATA AND INFLATION NUMBERS



Source: Bureau of Labor Statistics, Bloomberg as of 06.16.21

May inflation numbers came in only modestly higher versus expectations as headline CPI rose to 5%, its highest level since 2008, while core prices jumped as well, but again below expectations. The only slightly hotter-than-expected data failed to raise fears that the Fed may have to taper sooner than anticipated, signaling that investors appear to be more comfortable with the so-called "transitory" inflationary pressures. Not only are Americans seeing inflationary pressures in tangible goods, they are also now starting to see a build-up in service costs. With more people traveling, dining out, and re-engaging in social activities, services inflation should continue to move in tandem with the CPI goods metric.

Further evidence of transitory inflation is falling lumber prices, which has repeatedly been flagged in the recent Beige Book reports on economic conditions across the U.S. Lumber futures posted their largest ever-weekly loss, falling more than 18% over the week, and 40% from last month's record highs. The tumble comes as bottlenecks continue to ease, sawmills ramp up output, and buyers hold off on purchases.



Source: Chicago Mercantile Exchange, Bloomberg as of 06.16.21

INFRASTRUCTURE BILL

On the political side of the equation, a bipartisan group of 10 senators put fourth an infrastructure proposal that would cost nearly $1T over five years. With $579B in proposed new spending, the deal would be financed without a tax increase, making the initial proposal more appealing than others previously discussed, although it is notably less in terms of size and scope.

THIS WEEK

U.S. equities were mixed in a quiet session, as a cautious tone appeared to be forming ahead of Wednesday's June Federal Reserve policy meeting results. The Dow Jones and Russell 2K pulled back slightly on the day, while the tech-heavy NASDAQ composite led gains to the upside, adding 0.74%, behind strength in large cap names. The S&P 500 closed at an all-time high again, in what was a light day of trading, with only 9.8B shares trading on U.S. exchanges. The NASDAQ continued its recent stretch of gains, coming into Monday's session with a four-week winning streak and closing higher in six of the last seven trading days.

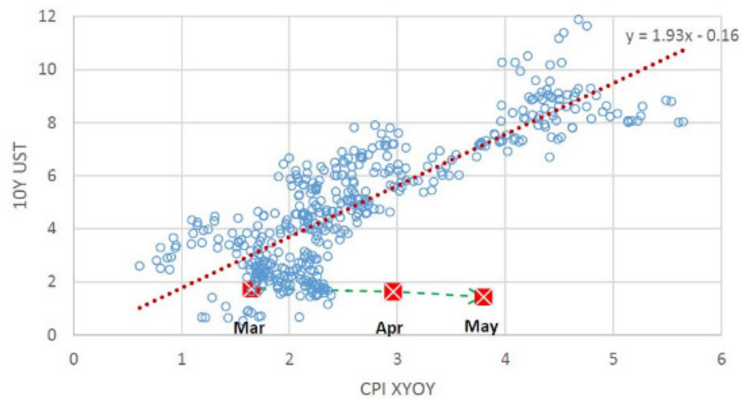
PAUL TUDOR JONES COMMENTS

There was little to note in terms of sentiment, positioning, or themes, but hedge fund manager Paul Tudor Jones comments to CNBC saying, "this is the most important Fed meeting we've had in five years". Adding that he will be watching carefully to see if Chairman Jerome Powell "shrugs off" the higher inflation numbers. While broader consensus is that the U.S. Central Bank will not take any action in regards to rates or the tapering of their monthly bond purchases, investors have been closely monitoring expectations and models.

OIL, YIELDS, AND THE LACK OF CONCERN WITH INFLATION

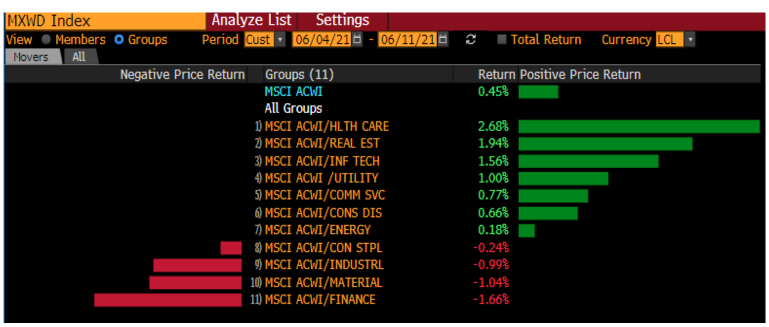
Oil prices touched new 32-month highs before pairing gains on Monday, as the economic recovery and prospects of fuel demand growth continued to push higher with vaccinations remaining strong in developed countries. Yields remained subdued with the U.S. 10-year yield remaining below 1.50%.

While market participants seem to accept the story behind inflation, they also appear to be less worried, betting that any spike in inflationary pressures, will be short lived. According to Aleksandar Kocic, Managing Director at Deutsche Bank, markets seem less concerned about inflation than they have ever been, after year-over-year CPI numbers have been rising without the commensurate reaction from bond yields.



Source: Bloomberg as of 06.16.21

INTERNATIONAL



Source: Bloomberg as of 06.16.21

Last week, global equities gained 0.45%, led by health care, real estate, and information technology. Value stocks lagged the MSCI ACWI index as global yields dropped and inflation expectation softened. Global supply chain issues remain a challenge as input costs and shipping costs are passed over to consumers. Monetary policy varies given the region, from interest rates hike in Latin America, to a neutral stance in Europe. Meanwhile, the regulatory tightening in China continues to compress valuation multiples.

EUROPE

British Prime Minister Boris Johnson hosted a Group of Seven meeting in which leaders tackled various topics including COVID-19 vaccination, climate change, and human rights. The final communique states that the G7 commits to deliver one billion COVID-19 shots over the next year. Additionally, global leaders called on China to respect human rights, fundamental freedoms, and the autonomy of Hong Kong. Regarding the transition from diesel and gas cars to zero emission vehicles, the G7 was unable to agree on a target date. The Euro STOXX Index gained 0.91% last week.

Boris Johnson announced on Monday the extension of the pandemic restrictions until July 19th in the United Kingdom as the Delta variant of the virus continues to spread quickly. British health authorities said that two doses of AstraZeneca and Pfizer vaccines were highly effective to fight the virus variant. The reopening delay is unlikely to have major consequences on the economy according to economists, as indoor hospitality and entertainment opened in May. The FTSE 100 gained 0.92% last week.

In Germany, the Bundesbank has a positive outlook for the second half of the year and sees economic activity climb to pre-crisis levels this summer. The German Central Bank revised its annual GDP growth forecast to 3.7% in 2021 and 5.2% in 2022. Bundesbank President Jens Weidmann said, “the pandemic’s containment will result in substantial catch-up effects, primarily in private consumption as well as in services sectors that had been impacted especially hard by the measures”. The DAX index remained flat last week.

APAC

In China, severe bottlenecks at the Shenzhen port are causing supply chain disruptions with direct consequences on shipping prices and container rates. Indeed, a COVID-19 outbreak in Guangdong province led a terminal operator to temporarily close container terminals at Shenzhen port. According to Bloomberg, “vessels are spending as long as five days at port recently, as containers for exports are piled high at yards stretched to maximum capacity”. The Shanghai Composite index declined 0.06% last week.

In Japan, Prime Minister Yoshihide Suga gained backing from Joe Biden regarding maintaining the Olympics. The White House affirmed in a statement that “President Biden affirmed his support for the Tokyo Olympics Games moving forward with all public health measures necessary to protect athletes, staff and spectators”. The Final announcement of the G7 meeting also said that the Olympics would be a symbol of “global unity in overcoming COVID-19”. The Japanese public is still divided over the topic. The NIKKEI 225 gained 0.02% last week.

EMERGING MARKETS

In India, the Reserve Bank of India adopted an accommodative monetary policy stance as inflation rates topped its 4% medium-term target. Last month, wholesale prices grew 12.94%, while consumer prices climbed 6.3% year-over-year. The Central Bank forecasts a 9.5% annual expansion despite supply-side issues and a slow vaccination program. Merchandise exports grew by a record 195% year-over-year in April. The Nifty 50 index climbed 0.82% last week, led by utilities.

In Taiwan, an outbreak at one of the world’s largest chip-testing factory led to the temporary closure of the facility, adding pressure to the global semiconductor supply chain. According to Taiwan’s Centers for Disease Control, King Yuan Electronics was forced to briefly shut down its main plant located in Miaoli County after 185 COVID-19 cases were confirmed. The company disclosed that this closure would cause up to 35% decline in monthly revenue. Taiwanese stocks gained 0.39% last week.

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