



Level Four Capital Management WEEKLY INSIGHT

HIGHLIGHTS

- On Friday, the S&P 500 index closed at a record high for the seventh consecutive trading session, its longest record-setting streak since 1997.
- As the 2Q ended, the S&P posted one of its strongest 1H gains in a calendar year since 1998 as speculators boosted their bullish bets on U.S. equities by the most in more than a year.
- Economic data released showed the U.S. economic recovery is still underway, posting an increase of 850K non-farm payroll jobs, ahead of economist estimates.
- While nearly 70% of jobs lost during the pandemic have been recovered, Americans continue to feel optimistic about the labor market, with a record high “quit rate” of 2.7%.
- Prices continue to surge wherever investors turn. Gasoline prices are the highest in seven years, while a measure to track U.S. home property values climbed 14.6% y/y.
- Yields continued to collapse as the 10-year yield fell to four-month lows, on easing inflation fears.
- Crude rallied to more than six-year highs before closing down 2%, after OPEC+ tensions ramped up between Saudi Arabia and the UAE.
- The JPMorgan global manufacturing PMI slightly decreased from 56.00 to 55.50, while the decline in the global services PMI was more pronounced, from 59.60 in May to 57.50 in June.
- In China, regulatory authorities are increasing consumer data scrutiny for publicly traded companies. The Shanghai Composite index dropped 2.46% last week.
- In India, the Markit Services PMI deteriorated for the fourth consecutive month and reached the lowest level since July 2020. The Nifty 50 index declined 0.87% last week.

MARKET COMMENTARY

LAST WEEK

U.S. stocks ended broadly higher for the week ahead of the three-day holiday weekend, with only the Russell 2K finishing lower. On Friday, the S&P 500 index closed at a record high for the seventh consecutive trading session, its longest record-setting streak since 1997, gaining 1.71% on the week. With the final day of the quarter closing out on Wednesday, the S&P posted a gain of 15.24%, one of its strongest first halves of a calendar year since 1998.

Growth names once again outpaced value over the five-days, with strong gains in Technology, Consumer Discretionary, Healthcare, and Communication Services, all which outperformed the broader S&P 500. Value names came under pressure with Energy, Financials, and Utilities all closing lower on a weekly basis and were the only three sectors to finish in the red.

With near record 1H gains, the Fear of Missing Out (FOMO) trade continued to stay in focus. Speculators boosted bullish bets on U.S. equities by the most in a year, based on data released in the beginning of last week. According to the latest Commodity Futures Trading Commission data, net non-commercial e-mini futures positions on the benchmark rose by almost 76,000 contracts, the highest since June 2020.

SPX Index		Spread Builder		View		Edit		Seasonality Chart	
Last Price	Local CCY	Spread	<Type security>	Last Price					
15	Years Ending 2021	Percent Change	Net Change					High/Low/Av	
Calendar Year	Trailing 12M	01-Jan	B1-Dec	Quarterly	Line	Heat Map	Securities/Lines		
		Q1	Q2	Q3	Q4				
15 Yr Avg		.97	2.56	2.50	2.80				
2021		5.77	8.17	1.07					
2020		-20.00	19.95	8.47	11.69				
2019		13.07	3.79	1.19	8.53				
2018		-1.22	2.93	7.20	-13.97				
2017		5.53	2.57	3.96	6.12				
2016		.77	1.90	3.31	3.25				
2015		.44	-.23	-6.94	6.45				
2014		1.30	4.69	.62	4.39				
2013		10.03	2.36	4.69	9.92				
2012		12.00	-3.29	5.76	-1.01				
2011		5.42	-.39	-14.33	11.15				
2010		4.87	-11.86	10.72	10.20				
2009		-11.67	15.22	14.98	5.49				
2008		-9.92	-3.23	-8.88	-22.56				
2007		.18	5.81	1.56	-3.82				
2006		3.73	-1.90	5.17	6.17				
		-22.56		19.95					

Source: Bloomberg as of 07.08.21

FRIDAY'S JOB REPORT

While it was a busy week of economic releases, which included ISM Manufacturing, housing data, and supplemental employment data, all eyes were on the U.S. nonfarm payroll (NFP) data released on Friday. The U.S. labor market continued to show signs of recovery as the NFP increased by 850K, coming in ahead of analyst expectations, which called for an increase of 695K.

The 850K gain was the largest jump in payroll data since August showing that about 40% of the jobs added came from the leisure and hospitality industry. As the U.S. economy continues to recover from the pandemic, U.S. job openings continue to surge, currently sitting at an all-time high of about 9.3M.



Source: Bureau of Labor Statistics, Bloomberg as of 07.08.21



Source: BLS, Bloomberg as of 07.08.21

Additionally, a record number of workers willingly continue to leave their jobs, with the "quit rate" being recorded of 2.7%, the highest on record. While nearly 70% of jobs lost at the start of the pandemic have been recouped, we continue to have additional room for gains with some Americans choosing to stay out of the labor market entirely, relying on unemployment payments.

PRICES SURGING

President Biden commended his administration's efforts in their ongoing effort to assist the recovering U.S. economy, saying his policies "seem to be working a little bit", citing stimulus as the driving force behind the recovery. As the economic backdrop continues to paint a rosy but fragile picture, investors continue to experience price increases in almost all parts of the economy.

This week investors saw the release of S&P CoreLogic Case-Shiller index, a metric that measures U.S. home price increases, which showed that property values climbed 14.6% in April from a year earlier. The gain was the largest on record going back to 1988 and was the 11th straight month that prices have accelerated.



Source: AAA, Bloomberg as of 07.08.21

Furthermore, with the holiday weekend wrapping up, travel continues to recover to pre-pandemic levels. High frequency data released by the Transportation Security Administration showed they had screened more than 2.1M passengers over the weekend, the most since the beginning of the pandemic.

According to AAA, the pain will be felt at the pump as it is forecasted that more than 91% of Americans are choosing to travel by car rather than fly. Data released showed average unleaded gasoline prices continue to be the highest in seven years and almost a dollar more than a year ago.

THIS WEEK

Domestic equities ended lower in their first session back from a three-day holiday weekend as the Tech-heavy NASDAQ outperformed broader U.S. benchmarks. The NASDAQ was the only bright spot on Monday, trading higher by 0.17%, while the S&P 500, Dow Jones, and Russell 2K all finished in the red, with losses ranging from .20% to 1.36%. The S&P 500 snapped its seven-day winning streak, pulling back from all-time highs with weakness in value-related sectors including Energy, Financials, and Materials who were amongst the three worst performing.

The NASDAQ was propelled higher after several large cap tech giants (Amazon, Google, and Microsoft) touched record highs and cyber security names such as Palo Alto Networks, FireEye and CrowdStrike surged, following the weekend's cyber attacks that affected over 1K companies. Volumes remained anemic following the long weekend and ahead of a quiet week that has little to note in terms of economic data, fed speak, and earnings.

YIELDS COLLAPSING

Despite seeing price increases in almost all aspects of everyday life, inflation concerns eased on Tuesday as Treasury yields collapsed to four-month lows after Central Banks continued to signal that they will not adjust easy monetary policy for the time being. The 10-year yield closed on the lows of the day, settling at 1.348% while the 30-year also closed near the lows of 1.971%.

While there was no new commentary that spurred the move lower, the easiest excuse seemed to be the release of the ISM service number, which showed growth in the service sectors eased in June, paired with negative sentiment surrounding the Delta COVID-19 variant, which increased investor fears of potentially new mask mandates and a prolonged, slower recovery.

OPEC+ AND SUPPLY

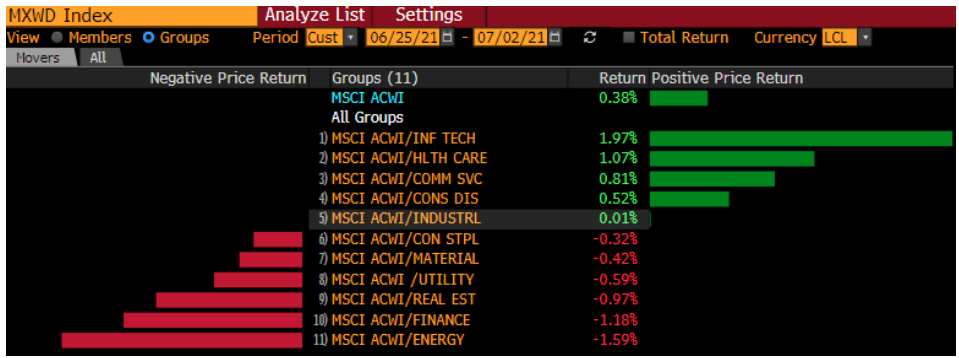
Crude oil briefly jumped on Monday morning to its highest levels in over six years (just below \$76/barrel) amid a dispute between Saudi Arabia and the United Arab Emirates (UAE) over supply increases. The unsolved disagreement continues to leave the oil market in a temporary state of uncertainty as the UAE rejected the cartel's plan to increase supply, wanting a higher production baseline for themselves.

The proposal to increase production output for the group by roughly 400Kbpd each month would help ease the undersupply of oil as global economies continue their reopening. After several days of talks, OPEC+ abandoned its Monday meeting and so far, has not set a new date to resume the discussion. The dispute between the two countries is the largest threat to oil prices since last year and with the oil market already in a deficit, the continuation of production limits could send prices even higher.



Source: Bloomberg as of 07.08.21

Last week, global equities gained 0.38%, led by information technology, up 1.97% and health care, up 1.07%. The JPMorgan global manufacturing PMI slightly decreased from 56.00 to 55.50, while the decline in the global services PMI was more pronounced, from 59.60 in May to 57.50 in June. We continue to witness a high degree of churn across asset classes as investors anticipate year-over-year comparisons to normalize and growth to stabilize. Global inflation is starting to roll over, but it is still too early to tell if the peak is behind us.



Source: Bloomberg as of 07.08.21

EUROPE

Isabel Schnabel, Executive Board member of the European Central Bank (ECB), said that the euro area may escape the low growth and low inflation paradigm that has been prevalent in the past decade. She added that she sees growing evidence of inflation moving toward the 2% ECB target. The Markit Eurozone Composite PMI improved from 57.10 in May to 59.50 in June, helped by the services sector recovery. The Euro STOXX index dropped 0.25% last week, with banks and retail down over 2%.

German Chancellor, Angela Merkel, and French President, Emmanuel Macron, urged Chinese President Xi Jinping to allow more flights from Europe as they seek to improve cooperation between Europe and China. Xi Jinping asked in return that European leaders embrace “mutual respect and close collaboration, rather than suspicion, antagonism or zero-sum games”. The comment came after European leaders adopted a sharper tone regarding China’s human rights violations. The DAX index gained 0.27% last week, while the CAC 40 index dropped 1.06%.

In the United Kingdom, businesses are debating about the issue of liability surrounding infections in the workplace as the government plans to ease COVID-19 restrictions on July 19th. Mike Cherry, National Chairman of the Federation of Small businesses, warned that “risk must not be passed on to small business owners”. Prime Minister, Boris Johnson, said that he will make a final decision regarding the reopening on July 12th. The FTSE 100 index dropped 0.18% last week.

APAC

In China, regulatory authorities are increasing consumer data scrutiny for publicly traded companies. According to a guideline published by the State Council on securities violation, several laws will be drafted regarding data security, cross-border data flow, and management of private information. Cross-border auditing may also reportedly be subject to a stronger cooperation. Share prices of technology stocks fell sharply amid the delisting of ridesharing platform DIDI Global from app stores over security risks. The Shanghai Composite index dropped 2.46% last week.

In Japan, Deputy Prime Minister Taro Aso said Japan and the United States “would have to defend Taiwan together” in case a major crisis breaks amid China’s ambition to regain control of Taiwan. He added that an invasion of Taiwan would be “an existential threat allowing Japan to exercise the right to collective self-defense”. Chinese Foreign Ministry, Zhao Lijian, replied in a news briefing, “we will never allow any country to interfere in the Taiwan question and nobody should underestimate the Chinese’s people’s strong determination”. The NIKKEI 225 declined 0.97% last week.

EMERGING MARKETS

In Brazil, President Jair Bolsonaro's popularity hit the lowest approval rating since his election amid a vaccination scandal. In fact, a Brazilian Supreme Court authorized an investigation over alleged irregularities in the purchase of vaccines. The opposition is now lobbying for the president's impeachment. According to the Bloomberg COVID-19 Tracker, only 13.2% of the Brazilian population has been fully vaccinated. On July 5th, Bolsonaro issued a decree extending Brazil emergency aid for another three months. Brazilian stocks gained 0.29% last week.

In India, the Markit Services PMI deteriorated for the fourth consecutive month and reached the lowest level since July 2020. Indeed, the June Services PMI reading was 41.2, versus 46.4 a month earlier, as the government continues to battle the COVID-19 pandemic with tighter restrictions. Manufacturing PMI also slid into contraction territory in June, down from 50.80 a month earlier to 48.10. According to IHS Markit "the latest results highlighted renewed contractions in factory orders, production, exports and quantities of purchases". The Nifty 50 index declined 0.87% last week.

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