Level Four Capital Management

WEEKLY INSIGHT

HIGHLIGHTS

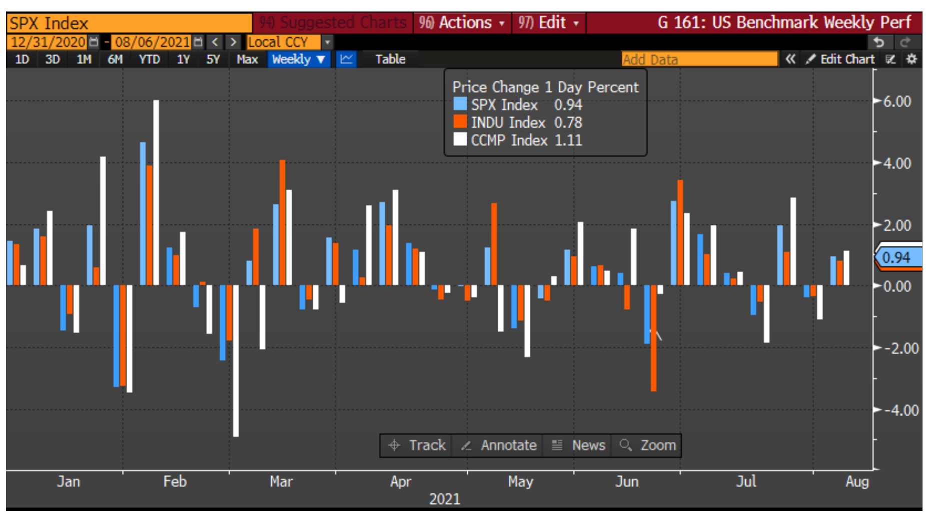
- US Equities closed at new all-time highs on Friday, its 44th record high in 2021
- Crude pulled back just under 8% as investors assessed the potential for a global economic slowdown, posting its worst week since late October
- Non-farm payrolls surprised to the upside, posting a gain of 943K vs expectation of 870K
- The 10-year treasury bounced off it's lowest levels since February, when it touched 1.13% after more hawkish commentary from various Fed officials
- Financials were the best performing sector on the week, gaining 3.60% with strength in banks amid the increase in yields
- While Healthcare performance was lackluster overall, Large Cap Pharma names stood out, with a number of them touching new 52-week highs
- US Equities on Monday were mixed, with the Nasdaq being the only index to buck broader selling pressures, posting a slight gain, for it's 5th weekly gain in 6 sessions.
- In the United Kingdom, Bank of England (BOE) indicated that a "modest tightening" in the coming years will be necessary as inflation will peak higher than anticipated around 4%.
- China's securities regulator is seeking more communication with the US regarding international IPOs after the SEC tightened disclosure requirements for Chinese ADRs using the VIE structure
- In Colombia, policy makers decided to maintain key interest rates at 1.75% despite the CPI rising closer to their 4% ceiling in June.

MARKET COMMENTARY

LAST WEEK

Stocks closed at new highs again last week as the Dow Jones Industrial finished up 0.8% to settle at 35,209, while the S&P 500 gained just under 1%. The Nasdaq and Russell 2000 led gains, each adding about ~1%. Growth outpaced value slightly, although both posted strong gains on the week.

With markets closing at all-time highs, now through the first 8-months of the year, the S&P has surged 19%, with Goldman Sachs noting Friday's close was the 44th all-time high in 2021 (One every 3.5 trading days), putting it on pace for the most all-time highs since 1995, when it occurred 77 times.



Source: Bloomberg as of 08.10.21

SECTOR PERFORMANCE

Equities bounced between gains and losses in the first half of the week, as investors awaited the highly anticipated non-farm payroll report. The choppiness eventually gave way to an end of week rally, as equity indices posted back-to-back days of gains on Thursday and Friday.

On a sector basis, Financials were the best performing, gaining 3.60% over the 5-days, supported by Banks amid the increase in yields. Utilities and Technology were the only other two sectors to outperform the broader market, with the ladder seeing strength in software and semiconductor names.

Consumer Staples were the only space to finish lower on the week after weakness in food & household product related names (CLX -10.12%, KHC -3.30%, CPB -3.25%, STZ -2.47%, SJM -2.45%, HRL -1.94%). Healthcare blended in with other sectors from a performance standpoint, however, Large Cap Pharma was a standout with multiple names making new 52-week highs in Wednesday's session (LLY, BMY, A, ABC, DGX, EW, HCA, LH, MOH, WAT, ZTS).

COMMODITY PRICING PRESSURE

Elsewhere, commodities such as gold and oil pulled back after recent strength. WTI crude posted a loss of 7.75% on the week, its worst week since late October amid a stronger USD (due to Fed commentary), and the potential for a global slowdown due to a rise in covid cases. Gold also sold-off, closing down -2.82%, as it approached its lowest levels since March after fears the Federal Reserve would raise rates quicker than expected.

Source: Bloomberg as of 08.10.21

ECONOMIC DATA- EMPLOYMENT NUMBERS

The US economy continued to show its recent strength as non-farm payroll data surprised to the upside, posting a gain of 943K versus expectations which called for an additional 870K jobs to be added. The unemployment rate fell to 5.4% versus 5.7%.

With the strong jobs number, the economy has now recovered more than 16 million non-farm payroll jobs after losing more than 21 million during the pandemic.

Source: Bloomberg as of 08.10.21

YIELDS

On Wednesday, US Treasuries bounced off their lowest levels since February, when the 10-year yield fell below 1.13% and came on the back of commentary from various Federal Reserve officials. The move higher was also supported by the strong jobs report released later in the week. When all was said and done the yield on the 10-year treasury rose above 1.3% and closed at its highest levels since mid-July.

COVID-19 UPDATE

Covid-19 stories, the spread of the Delta variant & vaccination rates continued to dominate headlines. Over the course of the week, some of the largest S&P 500 companies announced various vaccination policies for employees returning to the office, including: Walmart, Walgreens, Walt Disney, Tyson foods, Google, and Ascension Health. Furthermore, Blackrock and Amazon both announced the delaying of their "Return to office plans" until January due to the recent virus surge.

With the pickup in Covid cases, the 7-day moving average now stands at around 110K cases compared to May when the same moving average stood at around 11K. Despite the significant increase in cases, the death rate has not seen a dramatic percentage increase. Nonetheless, investors continue to monitor the ever-evolving situation closely to assess any economic impact the spread may have.

FEDERAL RESERVE COMMENTARY

Throughout the week various Fed officials continued to give commentary regarding the path of rates including:

- Federal Reserve President of Dallas, Robert Kaplan who said the central bank should start to reduce their bond-buy program soon, & in doing so would give them more flexibility on raising interest rates.
- Fed Vice Chair Richard Clarida- Said the Federal Reserve should begin raising rates in 2023 as the US economy continues to meet the central banks employment and inflation goals.
- With the strong employment data, the debate continues as to when the Federal Reserve will begin the tapering process. With the recent surge in Covid-19, investors globally continue to evaluate how much support the Fed will continue to offer the US economy.

THIS WEEK

Domestic Equities finished mixed to start the week, with the Nasdaq Composite being the only index to buck broader selling pressures, gaining 0.16% in Monday's session. The gain for the Nasdaq was its 5th in the last 6 sessions, while the S&P pulled back from recent highs set last Friday.

It was a quiet session as investors assessing the spread of the Delta variant and the potential pullback in Federal stimulus. There with few themes to note, and only a handful of single stock headlines, as 8.6B shares changed hands on US exchanges, the lowest volume day in a month.

Ticker	Last	Chg on D	%1D	Chg WTD Pct
AMERICAS (17)				
DOW JONES INDUS	s35,101.85	-106.66	-.30%	-.30%
S&P 500 INDEX	4,432.35c	-4.17	-.09%	-.09%
NASDAQ COMP	14,860.18	+24.42	+.16%	+.16%
RUSSELL 2000	d 2,234.808	-12.953	-.58%	-.58%
S&P500 EQUAL WEIGHTED	6,239.69c	-14.34	-.23%	-.23%
DOW JONES TRANS. AVG	s14,333.58	-168.74	-1.16%	-1.16%
S&P 500 Buyback	d 25,485.80	-23.44	-.09%	-.09%
Retail Favorites	208.67y	+3.95	+1.93%	+1.93%
S&P 400 MIDCAP INDEX	d 2,709.80c	-7.56	-.28%	-.28%
Weak Balance Sheet US	500.41y	-2.66	-.53%	-.53%
Strong Balance Sheet US	565.55y	-1.50	-.26%	-.27%

Source: Bloomberg as of 08.10.21

SECTOR PERFORMANCE

Healthcare was the best performing sector on Monday with strength in vaccine related names (MRNA, BNTX, NVAX all jumped more than 12%) after a report from Reuters said the Pentagon expected to ask for President Biden's approval to make Covid-19 vaccines mandatory no later than mid-September.

Energy was the worst performing space as crude tumbled to its lowest levels since June with investor concerns rising due to the increase in Covid cases. Also weighing on the commodity was the announcement from China that they would be halting various port operations due to the effects of a typhoon, however the ladder is much more short term oriented.

FEDERAL RESERVE COMMENTARY

Continuing from last week, Federal Reserve commentary was in no short supply, as Raphael Bostic and Eric Rosengren were the latest members calling for the Federal Reserve to begin tapering as soon as September.

- Bostic added he preferred to go relatively fast, saying he wanted to see a balanced approach by reducing purchases of both MBS and Treasuries proportionately at the same rate.
- Rosengren said he believed the central bank should begin scaling back stimulus this fall, arguing that bond purchases are not helping create jobs and instead are driving prices in rate sensitive areas.

CORPORATE DEBT MARKETS

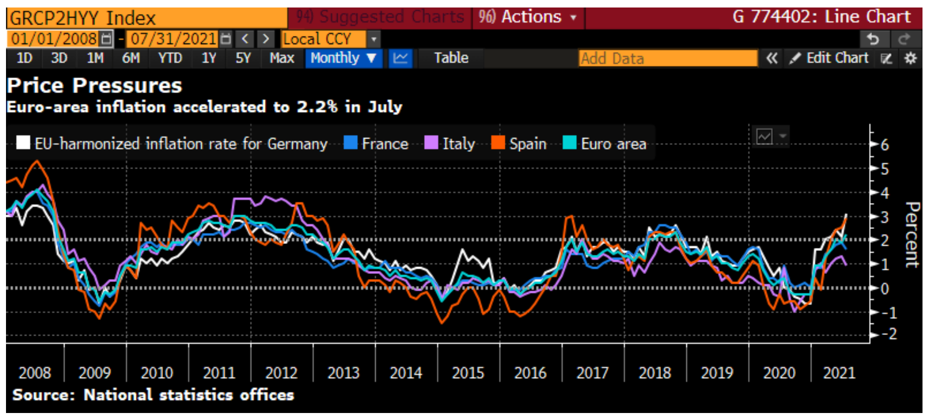
It will be a busy week in corporate debt markets, ahead of Wednesday's CPI release as companies look to continue to take advantage of low rates, pushing back against the normal summer lull. Underwriters expect about roughly about $25B-$30B in new supply, with much of that coming in the beginning portion of the week.

INTERNATIONAL

Last week, the Bloomberg World index climbed 1%, boosted by a strong rally in Europe and a solid recovery in Chinese equities. Central Banks were in the spotlight amid multiple monetary policy meetings regarding the timing of tapering and tightening. The Delta variant remains front and center for investors and policy makers as infections continue to spike in multiple regions. The JPMorgan Global Composite PMI declined from 56.60 in June to 55.70 in July as manufacturing output eased from the peak and the service sector experienced slowing demand. Recently, the year-on-year global inflation reached the highest level since March 2020, with a 4.2% reading.

EUROPE

The latest Euro-area inflation data revealed a slight uptick for the month of July. Indeed, Euro area inflation accelerated 2.2% versus 1.9% a month earlier. Consumer prices moderated in Italy and France and accelerated in Germany and Spain. Energy prices rose at the fastest annual rate with 14.1% growth versus 2.6% a month earlier. Food, alcohol and tobacco rose 1.6%, versus 0.5% in June. At the last meeting, the European Central Bank (ECB) adjusted its inflation target to a symmetric 2% target that allows more policy flexibility. ECB Governing Council member, Jens Weidmann, said that he is in favor of scaling back bond purchases as soon as possible to mitigate inflation. The Euro STOXX index gained 2.14% last week, led by banks, up 5.03%.



Source: Bloomberg as of 08.10.21

In Italy, Prime Minister Mario Draghi obtained key political support for his reform of the justice system. After months of political pressure over lockdowns, Draghi is now focused on deploying the 192 billion euros of European Union aid money across the economy. His approval rating climbed to 70% after a successful virus mitigation and a stabilization of the economy. In the July release, the Italy Manufacturing PMI ticked down to 60.30 from 62.20 a month earlier. Italian stocks rose 2.51% last week.

In France, automotive sales dropped 35% in July as the shortage of chips continues to affect car manufacturers. France passenger car registrations dropped to a seven-month low during the same period. Carmaker Renault said that the supply chain disruptions would impact production output by 200,000 vehicles this year. Carlos Tavares, the CEO of Stellantis NV, said "we are very sad to see we have order book and are struggling to deliver". The automotive industry has lagged the Euro STOXX index in the last three months. The CAC 40 index gained 3.09% last week.

In the United Kingdom, Bank of England (BOE) indicated that a "modest tightening" in the coming years will be necessary as inflation will peak higher than anticipated around 4%. The other breaking news coming out of last week's monetary policy meeting was the announcement of tapering asset purchases when interest rate reaches 0.5%. The British Pound rallied on the news to the strongest level versus euro since February 2020. The FTSE 100 index gained 1.29% last week.

APAC

China's securities regulator is seeking more communication with the US regarding international IPOs after the SEC tightened disclosure requirements for Chinese ADRs using the VIE structure. Last week was another volatile week for Chinese equities as global investors assessed regulatory risks shaking pivotal areas of the economy. China State Media told foreign brokerage firms not to overreact to measures targeting the educational sector. Chinese oversold stocks rebounded on the news and drove the Hang Seng index 0.84% higher last week. The Shanghai Composite index advanced 1.79% during the same period.

In Japan, Prime Minister Yoshihide Suga plans to decrease hospitals' occupancy rate by asking patients with mild symptoms to recover at home. This regulation proposal has faced tremendous backlash including within the Prime Minister's own party just a few months away from key elections. The seven-day average of nationwide infections hit a new high of 10,000 last week. According to Bloomberg, approximately 30% of the Japanese population has been fully vaccinated. The Nikkei 225 gained 1.97% last week.

EMERGING MARKETS

In Brazil, President Jair Bolsonaro made a few cabinet changes to appease the Senate amid rising political pressure regarding his handling of the COVID-19 crisis. He appointed influential political figures to gain support in the Congress as he faces impeachment threats and a Senate investigation. Bolsonaro also reintroduced the labor ministry to tackle the rising unemployment rate. Meanwhile, Central Bank of Brazil lifted interest rates by 1% to 5.25%. This is the most aggressive interest rate increase in nearly two decades. The Brazil Ibovespa index gained 0.83% last week.

In Colombia, policy makers decided to maintain key interest rates at 1.75% despite the CPI rising closer to their 4% ceiling in June. Central Bank of Colombia highlighted that despite the strong rebound in economic activity, the GDP is expected to grow between 6% and 6.5% in the baseline scenario, which is lower than in 2019. Additionally, unemployment rate remains elevated as the services sector continues to battle the effects of COVID-19. In the July release, the Manufacturing PMI rose from 48.30 a month earlier to 54.15. Colombian stocks dropped 2.86% last week.

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