



GLOBAL FOCUS CAPITAL LLC
INSIGHT THAT MATTERS

The Equity Observer

Weekly Review – June 29, 2018

Eric J. Weigel

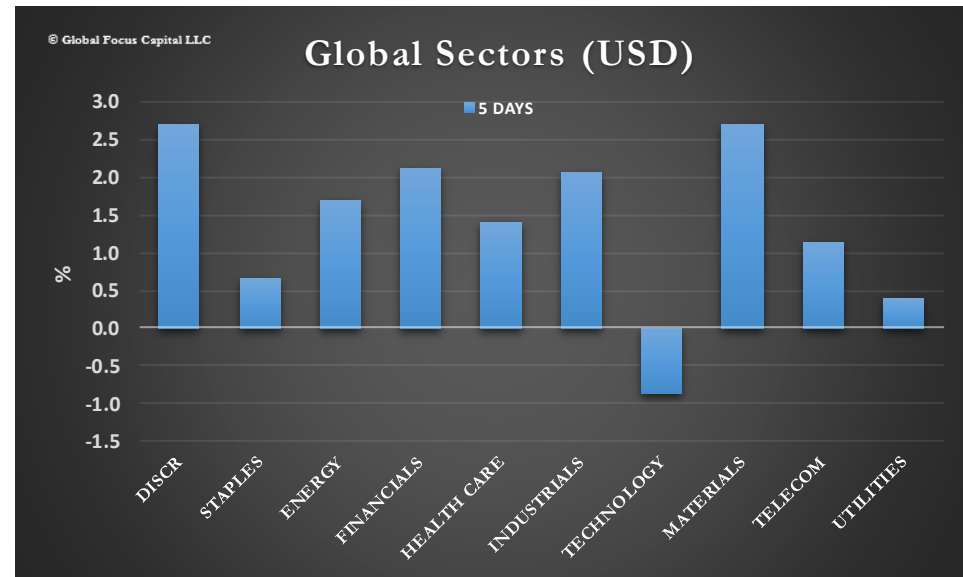
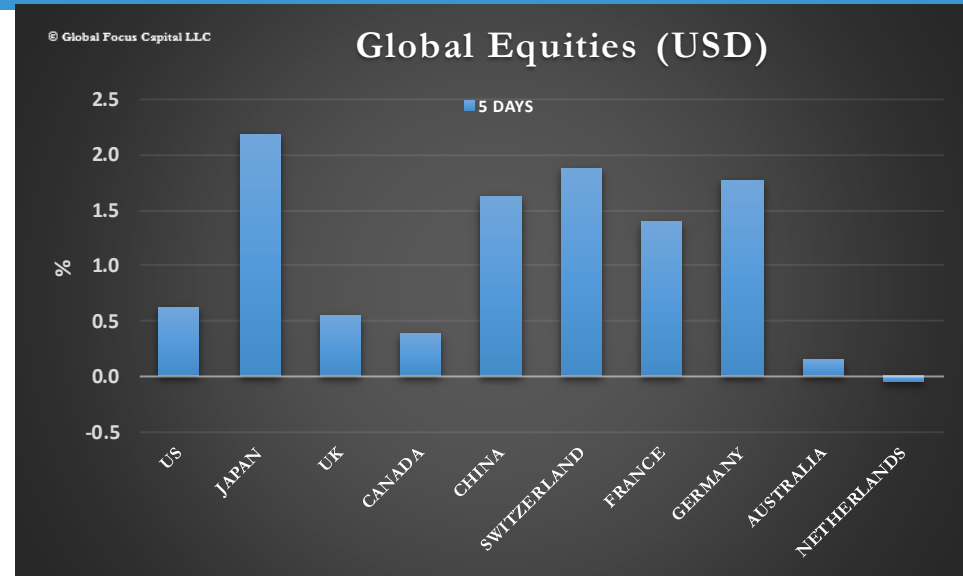
Top Equity Markets – The US keeps plowing ahead

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TOP EQUITY MARKETS	2018	2017	2016	2015	2014	2013	LAST 3 YEARS	LAST 5 YEARS
UNITED STATES	6.6	21.8	12.0	1.4	13.7	32.4	13.2	13.1
JAPAN	0.4	24.0	2.4	9.6	-4.0	27.2	7.2	7.0
UNITED KINGDOM	-0.8	22.3	-0.1	-7.6	-5.4	20.7	3.7	3.6
CANADA	-1.4	16.2	24.6	-24.2	1.5	5.6	7.7	3.0
CHINA	-2.4	54.1	0.9	-7.8	8.0	3.6	11.1	10.9
SWITZERLAND	-0.5	23.8	-2.9	0.5	-0.6	27.0	3.8	5.8
FRANCE	3.1	28.7	4.9	-0.1	-9.9	26.3	9.0	7.2
GERMANY	-3.4	27.7	2.8	-1.9	-10.4	31.4	6.5	6.1
AUSTRALIA	0.7	19.9	11.4	-10.0	-3.4	4.2	8.8	4.2
NETHERLANDS	2.2	33.9	4.6	1.7	-5.6	30.7	9.6	9.5

Source: iShares

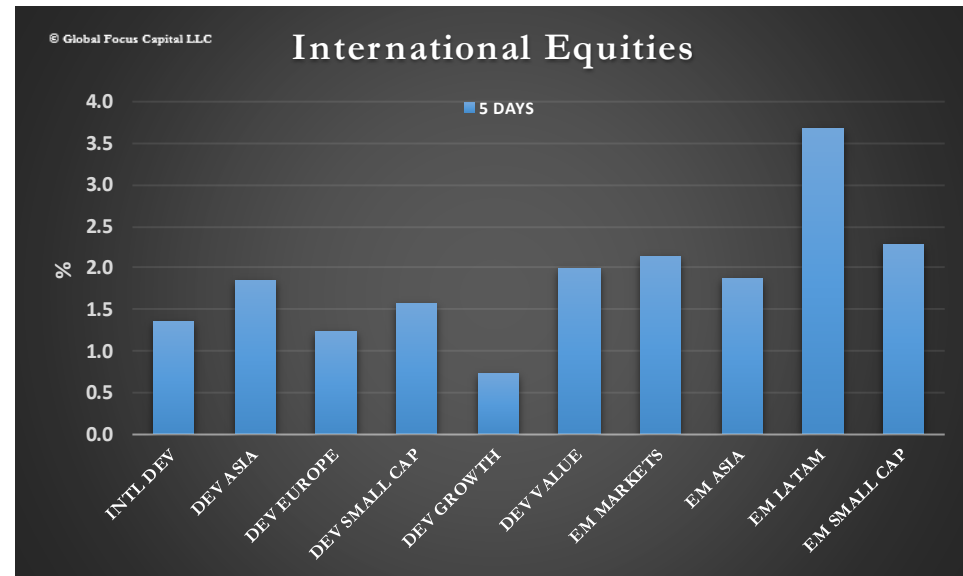
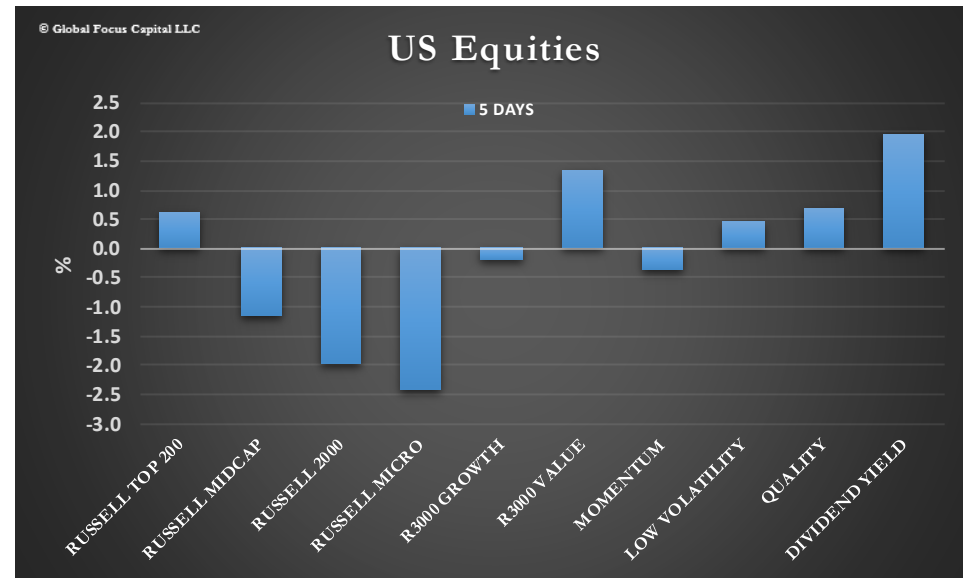
Global Equities

- ▶ Not a bad week considering all the political bomb shells
- ▶ Japan in particular benefitted from a sense that monetary stimulus may no longer be needed
- ▶ Tech for once did not lead the markets. In fact it was the worst performing sector
- ▶ Energy stocks continue to benefit from rising crude prices



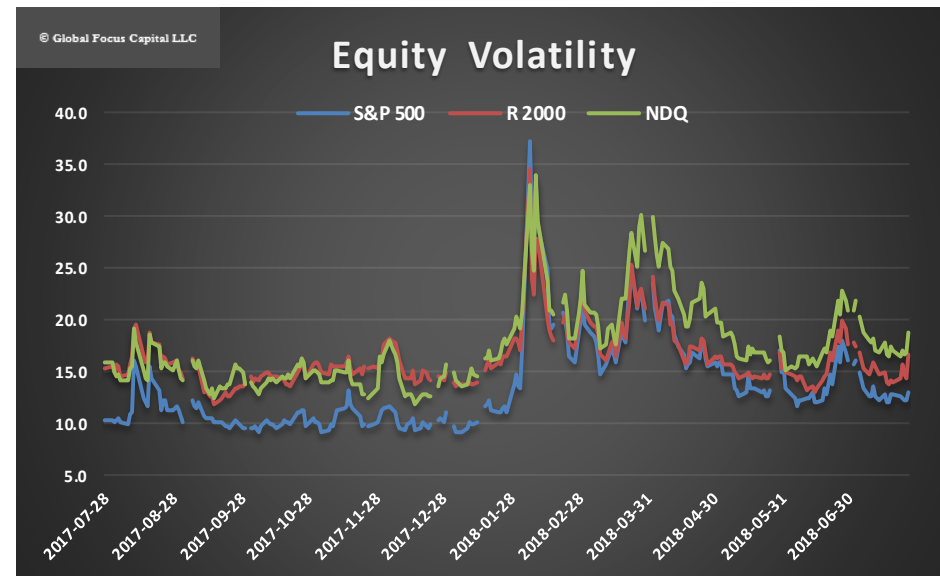
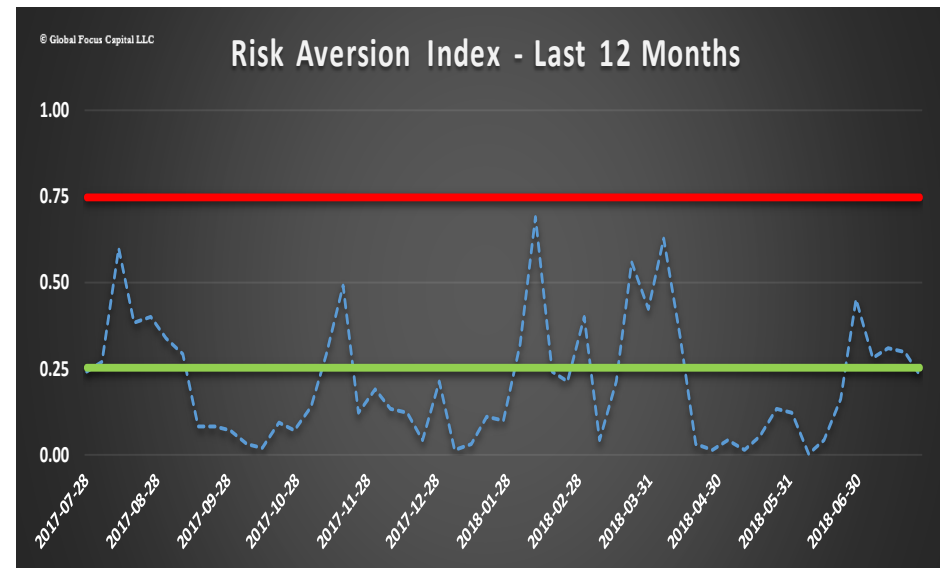
Style and Geography

- ▶ In the US, value and yield made a comeback
- ▶ Size or market cap behaved perversely – the larger the cap the better the performance
- ▶ International equities had a good week with LATAM up over 3.5% for the week
- ▶ EM equities out-performed developed international markets – maybe we are at a turning point?
- ▶ A big factor in relative performance rankings is the direction of the US dollar



Investor Risk Aversion falls back in the Exuberant Zone, but expect a rise to more normal conditions

- ▶ Investors are under-pricing risk
- ▶ Most measures comprising our index are significantly below normal levels
- ▶ Investors need to be proactive about their portfolio positioning
- ▶ We continue to expect risk on/off capital markets in 2018
 - ▶ We have seen some volatility spikes this year but nothing has stuck yet



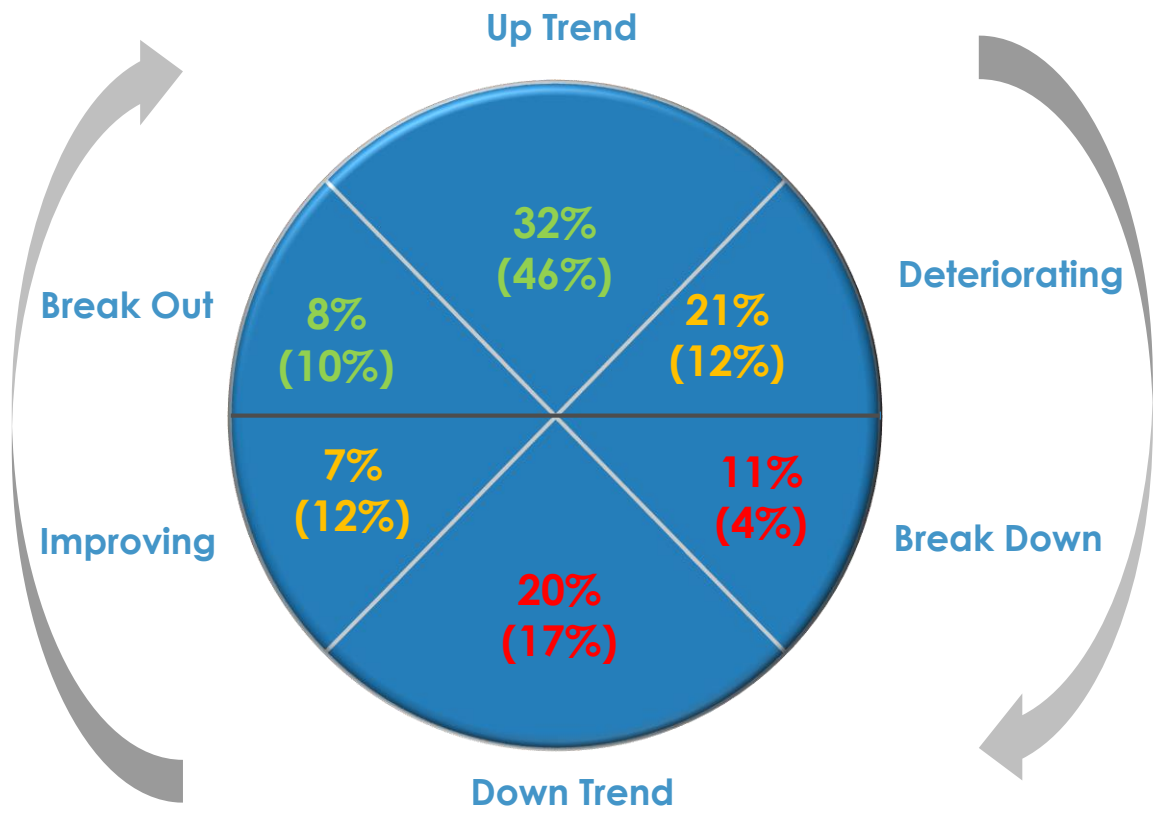


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US Equities

Weekly Performance

The technical picture for US stocks deteriorated from last week but remains “balanced”

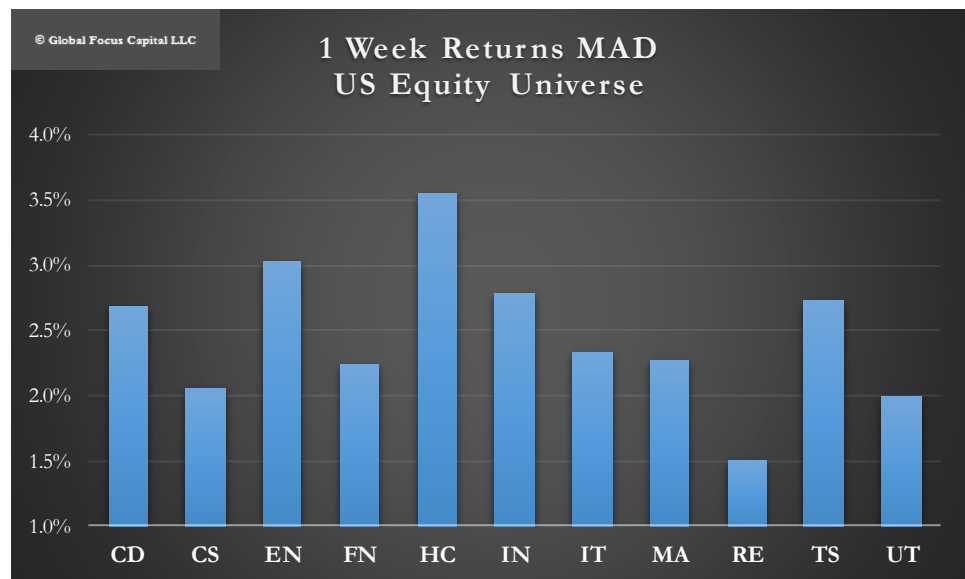
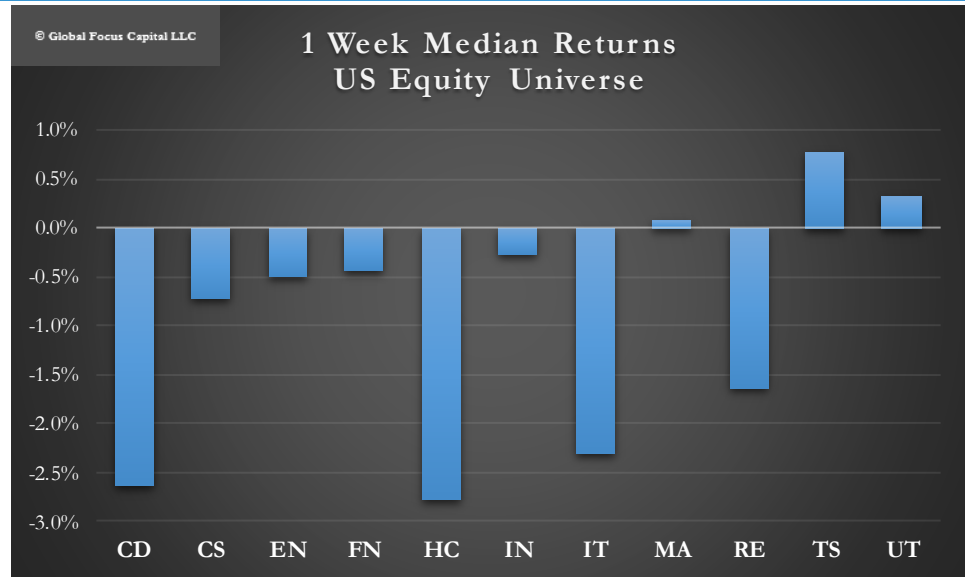


STAGE	LATEST
UP TREND	31.93%
BREAK OUT	7.89%
IMPROVING	7.45%
DOWN TREND	20.46%
BREAK DOWN	11.03%
DETERIORATING	20.80%

Russell 3000 Universe

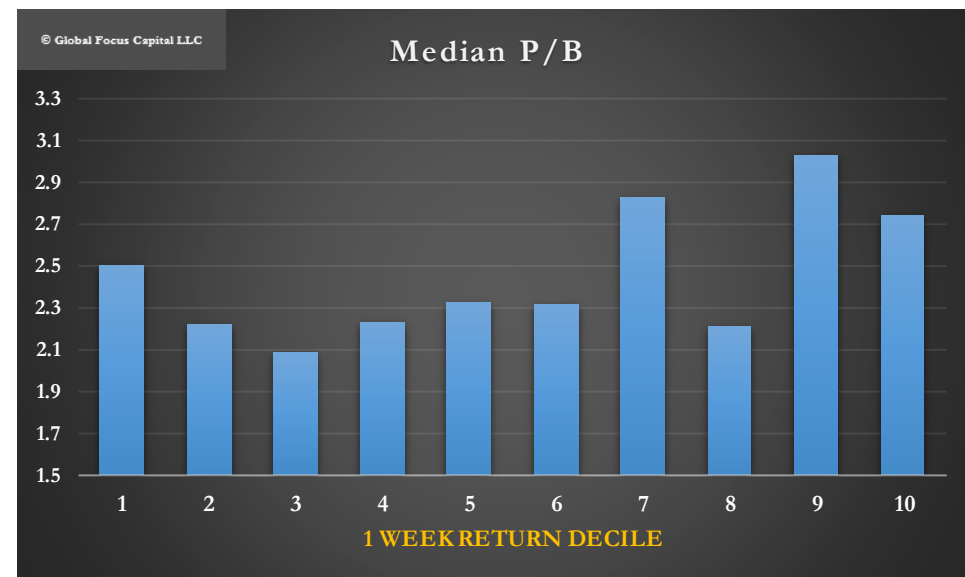
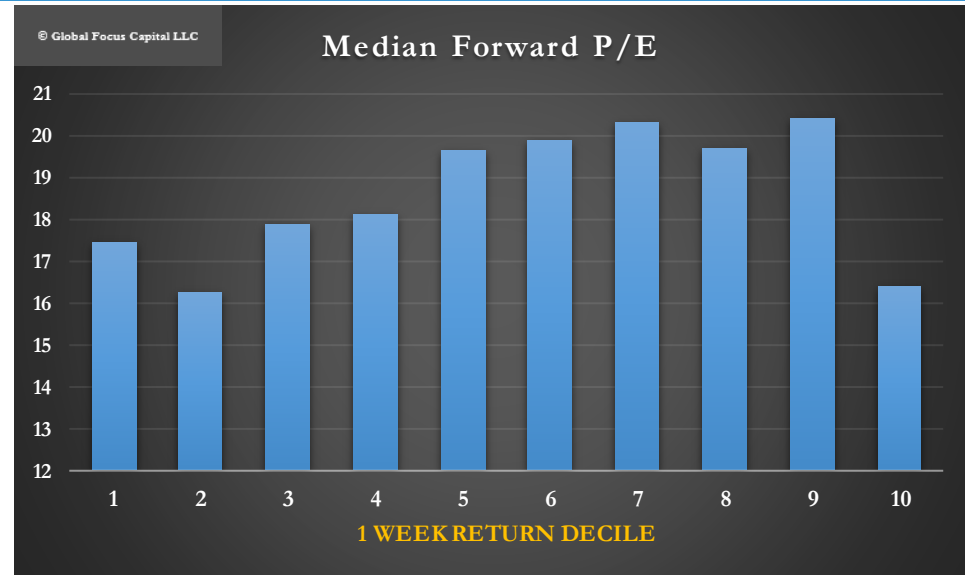
The Sector Look – median performance and dispersion

- ▶ Stocks in the US were mainly down last week
- ▶ The S&P 500 was up about 61 bp due almost exclusively to the performance of mega caps
- ▶ Only Telecom, Utilities and Materials had positive median returns last week
- ▶ The worst median performance was observed in the Discretionary, Health Care and Technology sectors
- ▶ The widest variability in performance was seen in the Health Care sector
 - ▶ We use the median absolute deviation as a robust measure of within sector variability



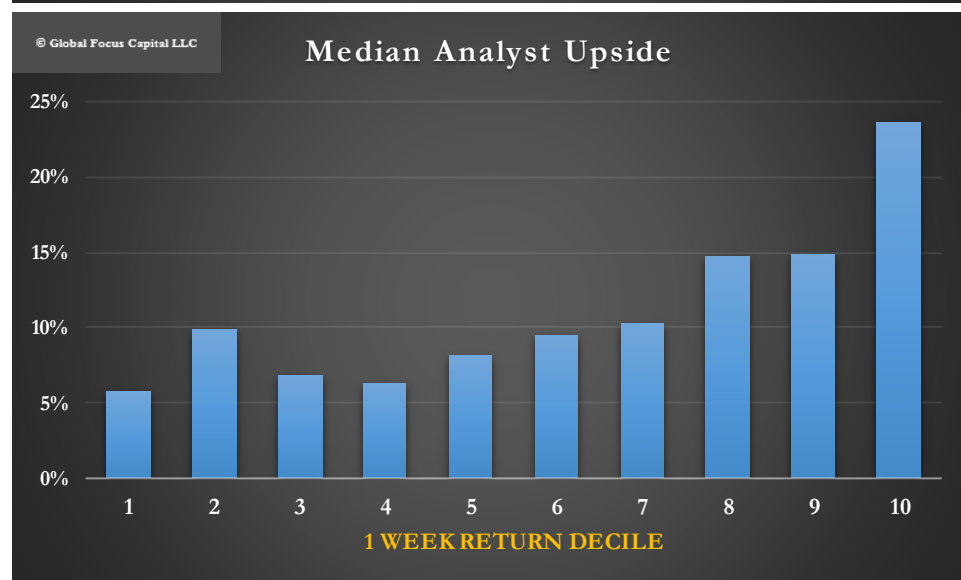
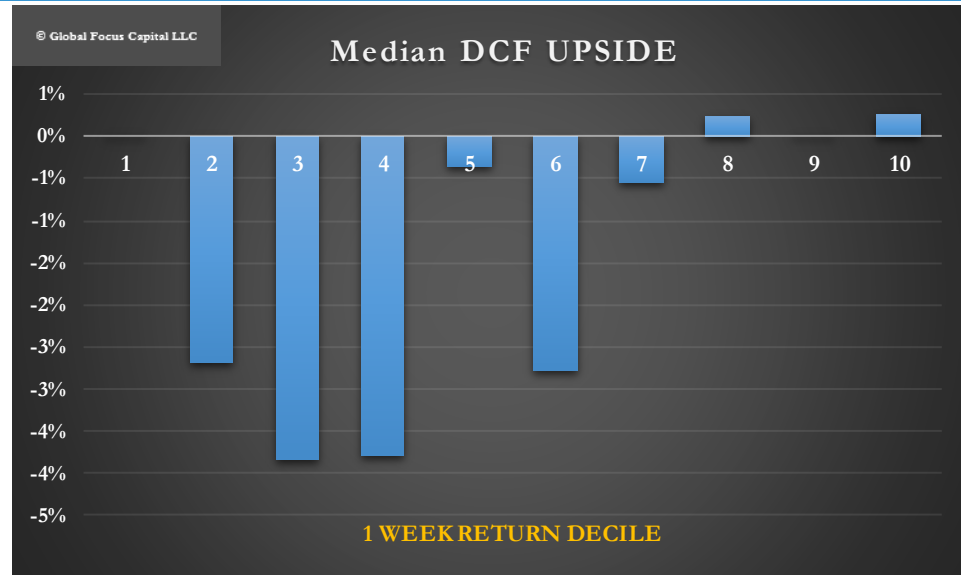
What did the markets reward last week: Valuation Multiples

- ▶ Valuation as a factor had a good week
 - ▶ Do I hear a sigh of relief?
- ▶ In general, cheaper stocks outperformed more expensive stocks
- ▶ The effect is hardly ever uniform with the tails usually behaving badly



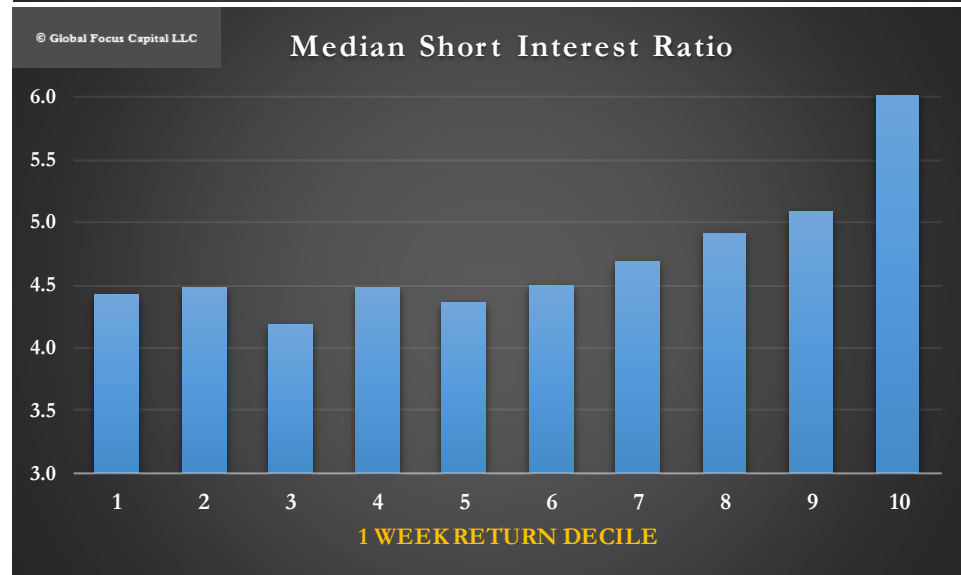
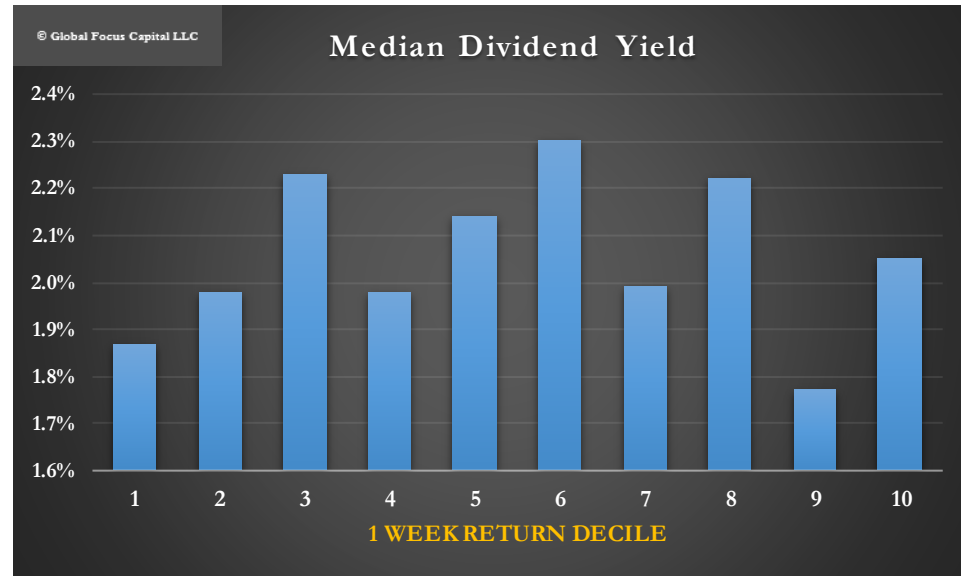
What did the markets reward last week: Valuation Models

- ▶ The best performing decile (Decile 1) had a median DCF valuation close to zero
- ▶ The worst performing stocks (Decile 10) remain slightly undervalued according to a DCF methodology
- ▶ In terms of analyst price targets, there was an inverse relationship
 - ▶ Stocks doing best had price targets within 5% of the actual price
 - ▶ The worst performing stocks had a price target over 20% above the current price



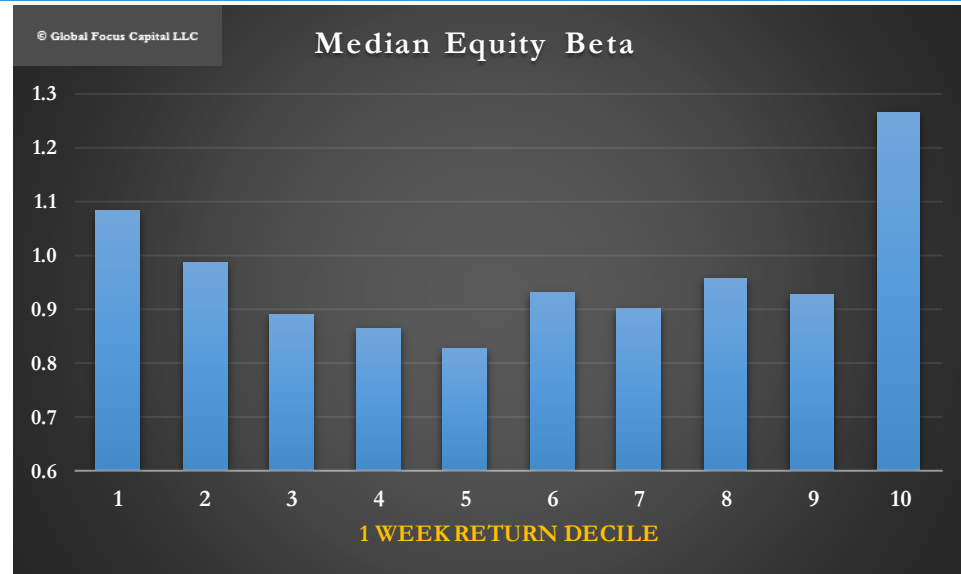
What did the markets reward last week: Yield and Sentiment

- ▶ Yield based strategies performed well last week but cap weighting had a lot to do with this
 - ▶ Recall that there was a strong negative correlation between market cap and returns last week
- ▶ In terms of equally weighted portfolios, dividend yield had a marginal positive reward
- ▶ Short interest, a measure of sentiment, showed a consistent negative link to return
 - ▶ Stocks with the highest short interest ratio performed worst last week (Decile 10)



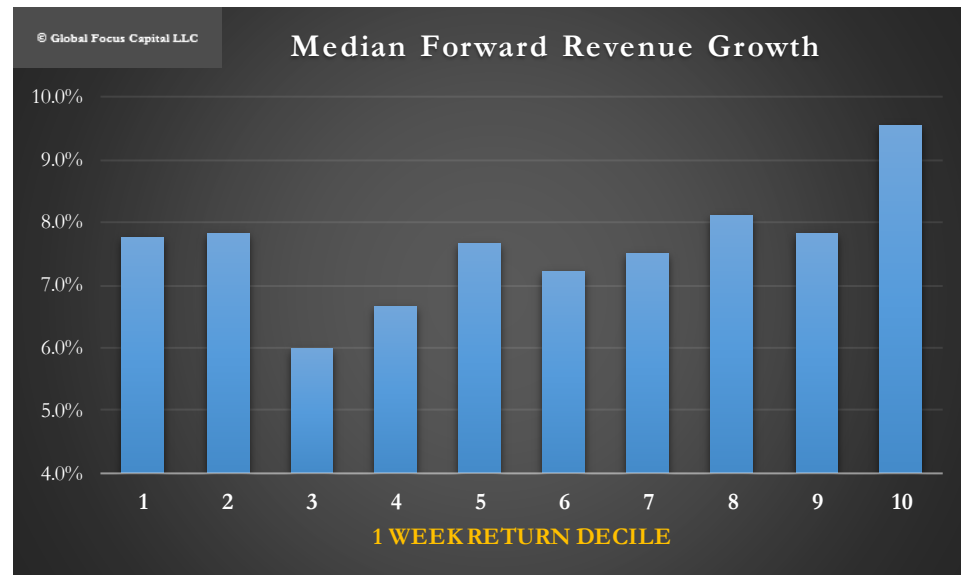
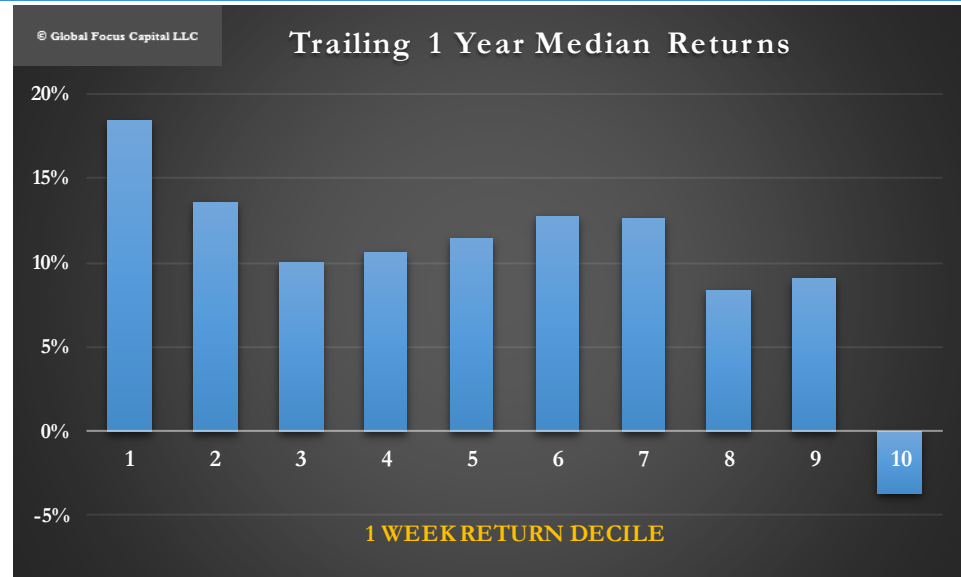
What did the markets reward last week: Beta and Size

- ▶ Beta often displays a U shaped pattern. Last week was no exception
 - ▶ The best and worst deciles of performance had betas above 1
- ▶ The top three deciles for performance last week (1,2 &3) involved stocks with larger median market caps



What did the markets reward last week: Momentum and Growth

- ▶ The momentum effect continues in US equities but last week it was a bit more muted
 - ▶ The worst performers (Decile 10) continue to lag (negative trailing 1 year performance)
 - ▶ The best performers last week had the highest 1 year trailing performance (18%)
- ▶ Last week was not the best for growth stocks
 - ▶ Stocks with the highest forward expectations for revenue growth performed the worst



Big Movers – Last Week

Down

Facebook, Inc.	FB	Information Technology
Twitter, Inc.	TWTR	Information Technology
ABIOMED, Inc.	ABMD	Healthcare
Mohawk Industries, Inc.	MHK	Consumer Discretionary
EQT Corporation	EQT	Energy
Nielsen N.V.	NLSN	Industrials
Sarepta Therapeutics, Inc.	SRPT	Healthcare
Whirlpool Corporation	WHR	Consumer Discretionary
Exact Sciences Corporation	EXAS	Healthcare
Sage Therapeutics, Inc.	SAGE	Healthcare
Polaris Industries Inc.	PII	Consumer Discretionary
LogMein, Inc.	LOGM	Information Technology
Carter's, Inc.	CRI	Consumer Discretionary
Virtu Financial, Inc.	VIRT	Financials
Medidata Solutions, Inc.	MDSO	Healthcare
First Cash, Inc.	FCFS	Financials
Immunomedics, Inc.	IMMU	Healthcare
Range Resources Corporation	RRC	Energy
Boston Beer Company, Inc	SAM	Consumer Staples
Visteon Corporation	VC	Consumer Discretionary

Up

HCA Holdings, Inc.	HCA	Healthcare
Marathon Petroleum Corp	MPC	Energy
Corning Incorporated	GLW	Information Technology
Zimmer Biomet Holdings,	ZBH	Healthcare
Advanced Micro Devices, I	AMD	Information Technology
Yum China Holdings, Inc.	YUMC	Consumer Discretionary
GrubHub Inc.	GRUB	Information Technology
Universal Health Services,	UHS	Healthcare
Arconic Inc.	ARNC	Industrials
Robert Half International I	RHI	Industrials
Teradyne, Inc.	TER	Information Technology
West Pharmaceutical Servic	WST	Healthcare
USANA Health Sciences, I	USNA	Consumer Staples
Barnes Group, Inc.	B	Industrials
AVX Corporation	AVX	Information Technology
John Bean Technologies C	JBT	Industrials
Owens-Illinois, Inc.	OI	Materials
Spectrum Brands Holdings	SPB	Consumer Staples
FTI Consulting, Inc.	FCN	Industrials
LifePoint Health, Inc.	LPNT	Healthcare

This Coming Week

Reporting This Week

Apple Inc.	AAPL	Information Technology
Pfizer, Inc.	PFE	Healthcare
Caterpillar, Inc.	CAT	Industrials
Time Warner Inc.	TWX	Consumer Discretionary
Charter Communications, Inc.	CHTR	Consumer Discretionary
American Tower Corporation	AMT	Real Estate
Automatic Data Processing	ADP	Information Technology
Simon Property Group, Inc.	SPG	Real Estate
Tesla Motors, Inc.	TSLA	Consumer Discretionary
Illumina, Inc.	ILMN	Healthcare
Dominion Resources, Inc.	D	Utilities
MetLife, Inc.	MET	Financials
Express Scripts Holding Company	ESRX	Healthcare
Humana Inc.	HUM	Healthcare
Ecolab Inc.	ECL	Materials
Prudential Financial, Inc.	PRU	Financials
Public Storage	PSA	Real Estate
Anadarko Petroleum Corporation	APC	Energy
Fidelity National Information Services	FIS	Information Technology
Progressive Corporation (The)	PGR	Financials
Eaton Corporation, PLC	ETN	Industrials
Allstate Corporation (The)	ALL	Financials
Johnson Controls International	JCI	Industrials
Fiserv, Inc.	FISV	Information Technology
Concho Resources Inc.	CXO	Energy
ONEOK, Inc.	OKE	Energy
Square, Inc.	SQ	Information Technology
Archer-Daniels-Midland Company	ADM	Consumer Staples
Public Service Enterprise Group	PEG	Utilities
Williams Companies, Inc.	WMB	Energy

- ▶ Risk Aversion – expect the RAI to jump into the Neutral Zone
 - ▶ Investors keep under-pricing risk
- ▶ Market Internals – expected to remain “balanced”
 - ▶ The technical do not support a bear market
- ▶ Q: What will US markets do after the strong 4.1% GDP growth?
 - ▶ Will the long rate stand up?
- ▶ Will the USD give up some ground?
 - ▶ The policy of super easy money seems to be coming to an end in JP and Europe

Contact & Subscription Information

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