



GLOBAL FOCUS CAPITAL LLC

INSIGHT THAT MATTERS

The Equity Observer

Weekly Review – August 10, 2018

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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	7.9	21.8	12.0	1.4	13.7	32.4	13.5	13.3
JAPAN	-1.3	24.0	2.4	9.6	-4.0	27.2	6.1	6.8
UNITED KINGDOM	-1.6	22.3	-0.1	-7.6	-5.4	20.7	2.5	3.1
CANADA	-1.0	16.2	24.6	-24.2	1.5	5.6	7.2	3.3
CHINA	-5.3	54.1	0.9	-7.8	8.0	3.6	9.9	10.3
SWITZERLAND	-0.4	23.8	-2.9	0.5	-0.6	27.0	3.8	5.1
FRANCE	2.4	28.7	4.9	-0.1	-9.9	26.3	7.7	6.4
GERMANY	-5.1	27.7	2.8	-1.9	-10.4	31.4	5.0	5.3
AUSTRALIA	0.7	19.9	11.4	-10.0	-3.4	4.2	9.2	4.3
NETHERLANDS	1.7	33.9	4.6	1.7	-5.6	30.7	9.2	8.5

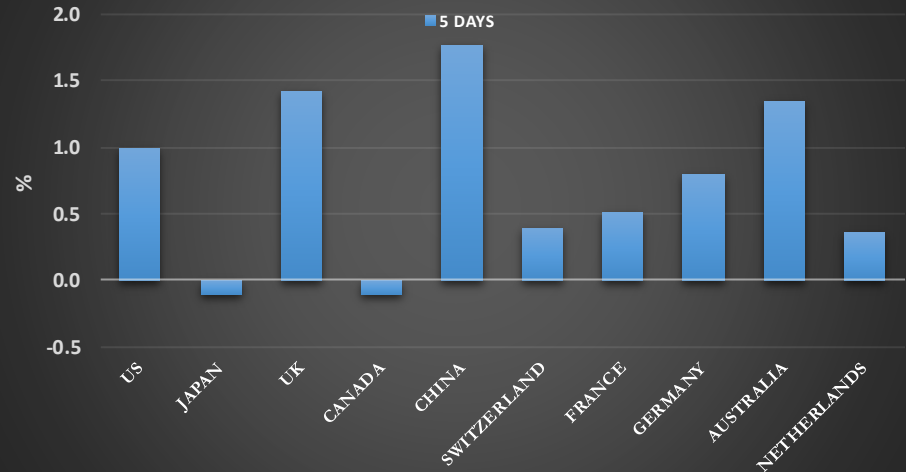
Source: iShares

Global Equities

- ▶ Large caps dominated in the last week with the S&P 500 up 1%
- ▶ EM equities have been on a down trend this year but last week were up 1.1% - part of it was currency related
- ▶ China's equity market continues to be very volatile. Trade war jitters have had a much larger effect on Chinese stocks
- ▶ Telecom had a nice recovery last week with the global sector index up 2.7% - people continue searching for yield
- ▶ Tech resumed its upward march while Energy stocks keep getting whipsawed by the commodity

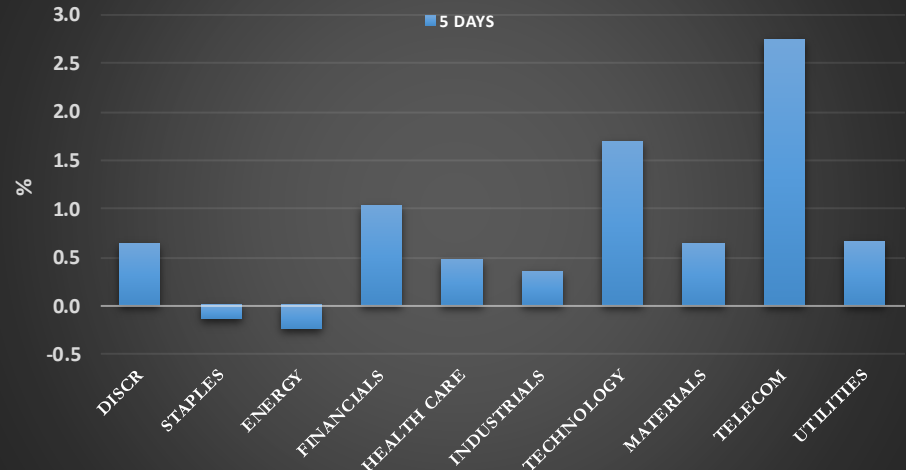
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Global Equities (USD)



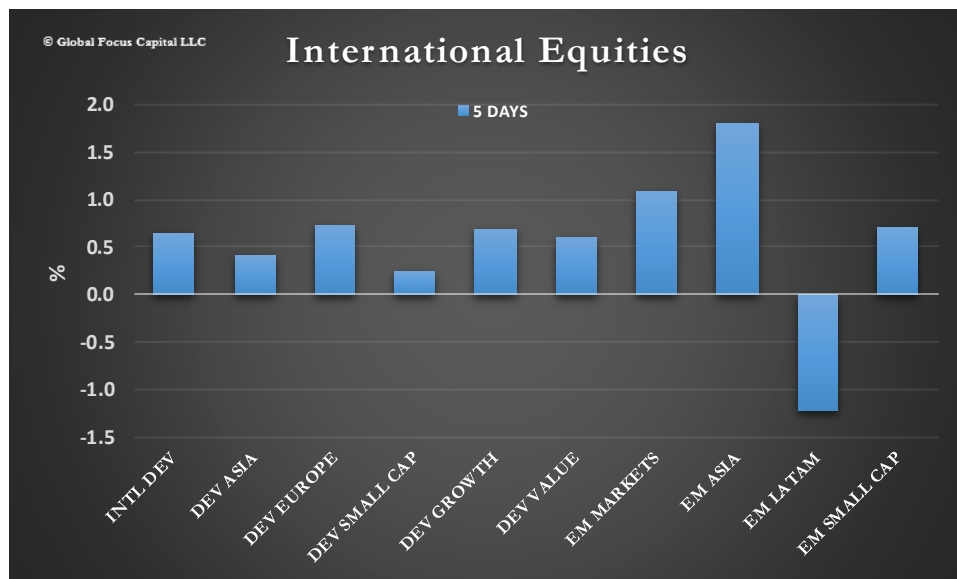
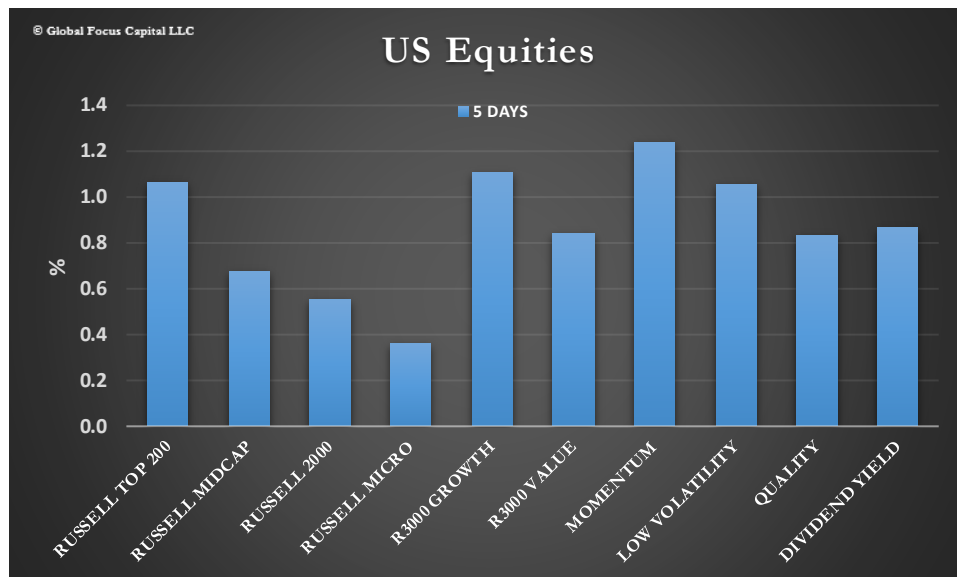
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Global Sectors (USD)



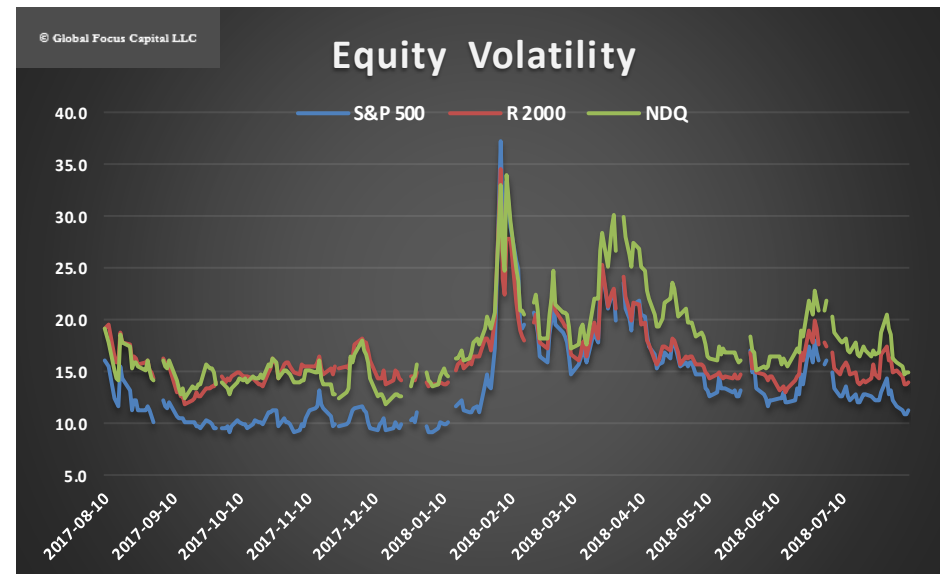
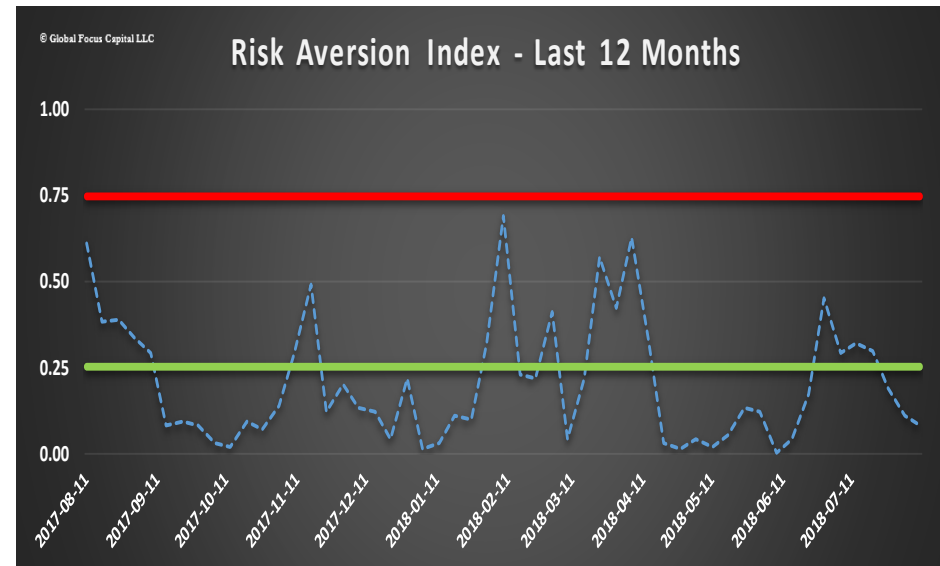
Style and Geography

- ▶ In the US, momentum and growth keep leaping ahead
- ▶ The “Value” comeback seems highly dependent on the path of interest rates
 - ▶ When people worry about rising rates “value” stocks take a hit, when they don’t they do well
- ▶ Size or market cap behaved perversely – the larger the cap the better the performance
- ▶ EM equities out-performed last week with Asia doing particularly well
- ▶ LATAM gave back some of the gains from last week
- ▶ 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





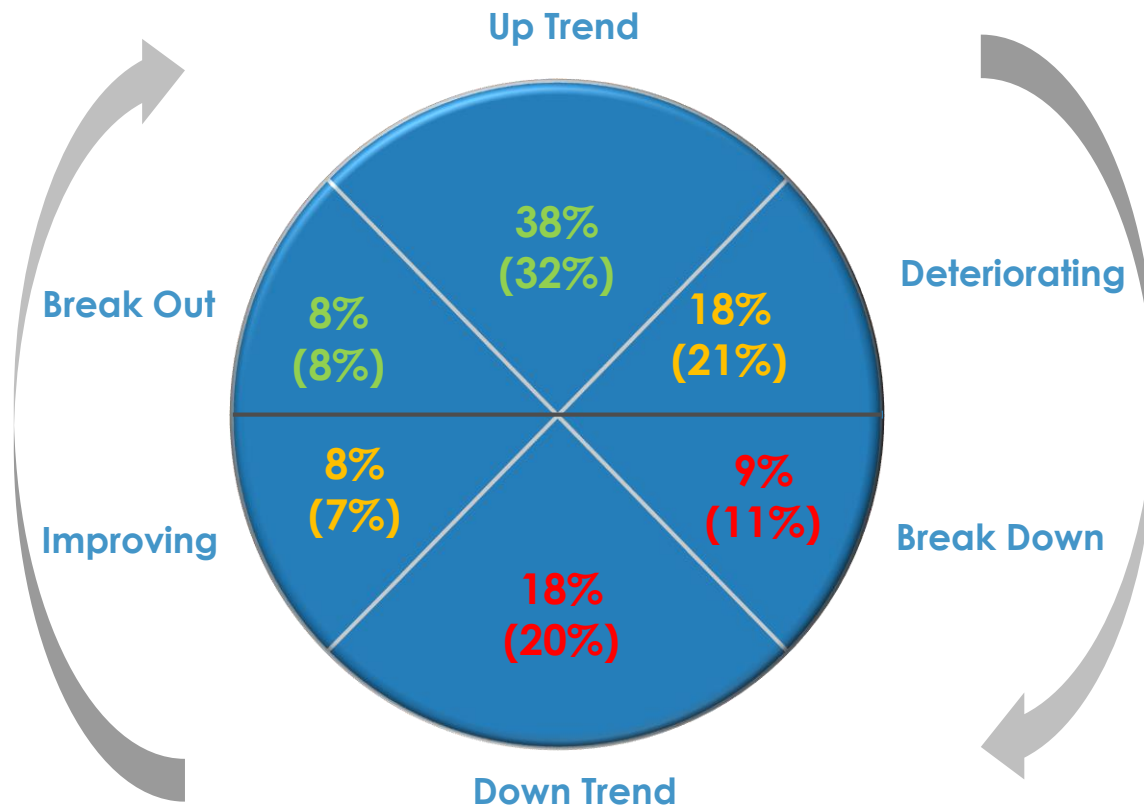
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INSIGHT THAT MATTERS

US Equities

Weekly Performance

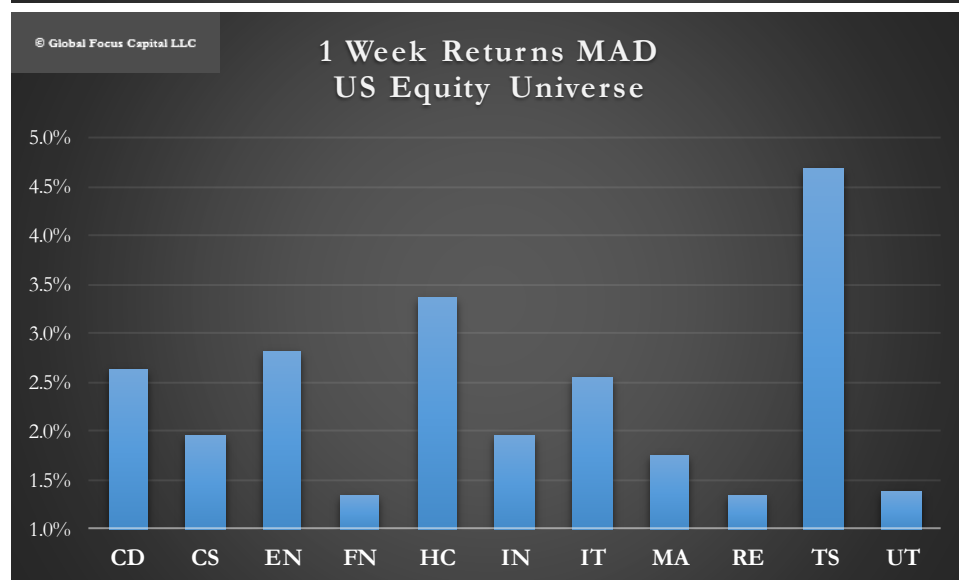
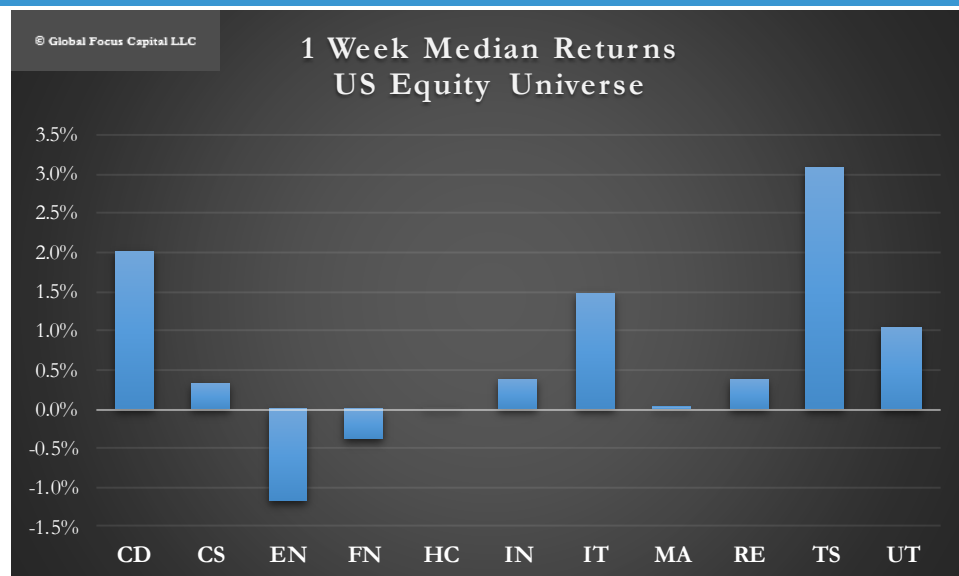
The technical picture for US stocks improved slightly from last week and remains “balanced”



GF CAP US All Equity Universe

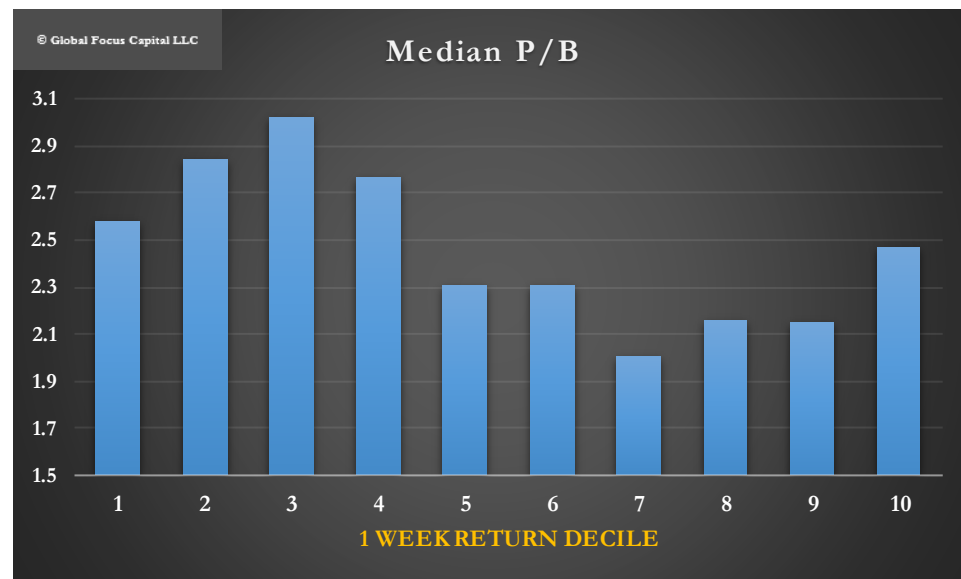
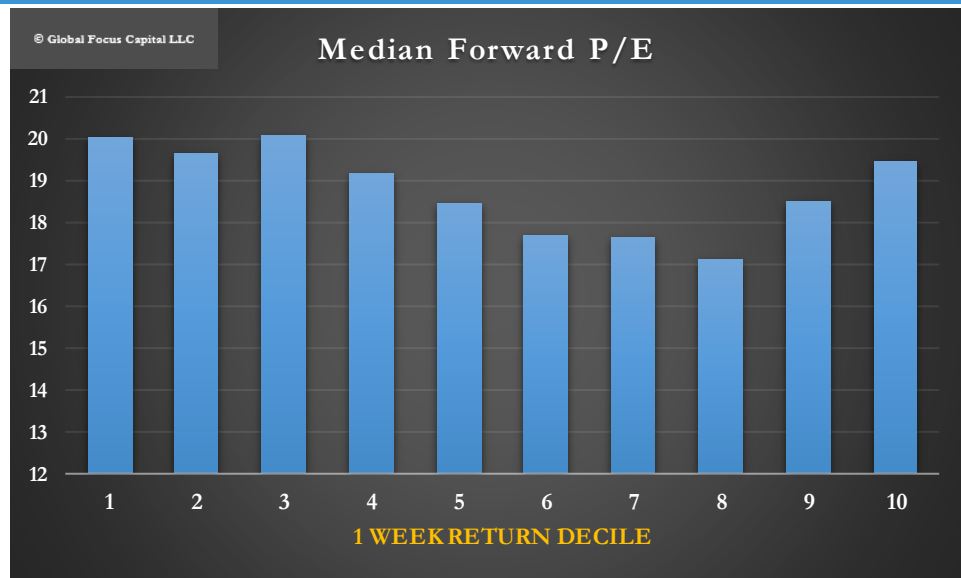
The Sector Look – median performance and dispersion

- ▶ Stocks in the US were mainly up over the last week with large caps outperforming small caps
- ▶ Telecom stocks while down 1% YTD on a cap weighted basis had a great week
- ▶ Energy stocks keep getting whipsawed by the price of oil with the median stock being down over 1% last week
- ▶ The widest variability in performance was seen in the Telecom sector – not a sight we see often!
 - ▶ We use the median absolute deviation as a robust measure of within sector variability



What did the markets reward last week: Valuation Multiples

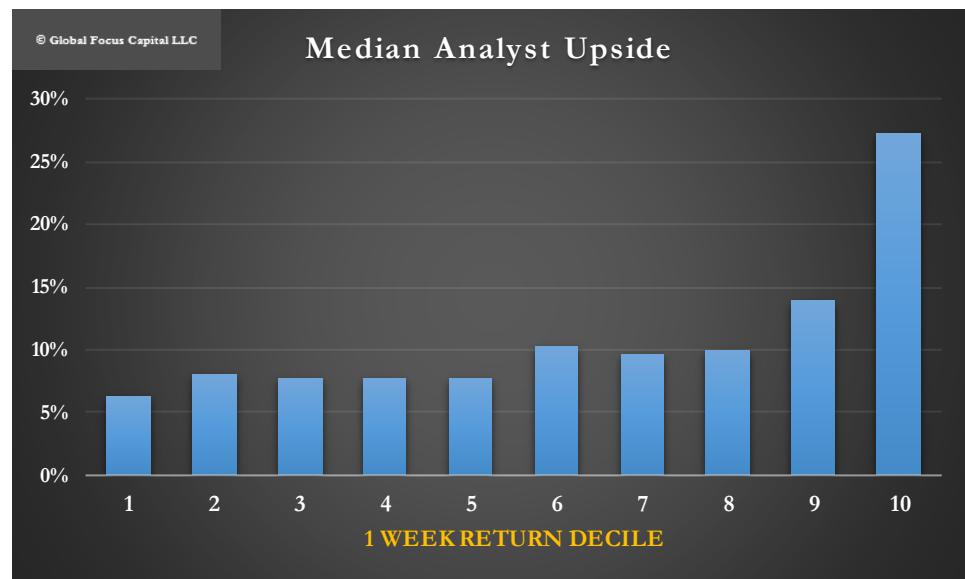
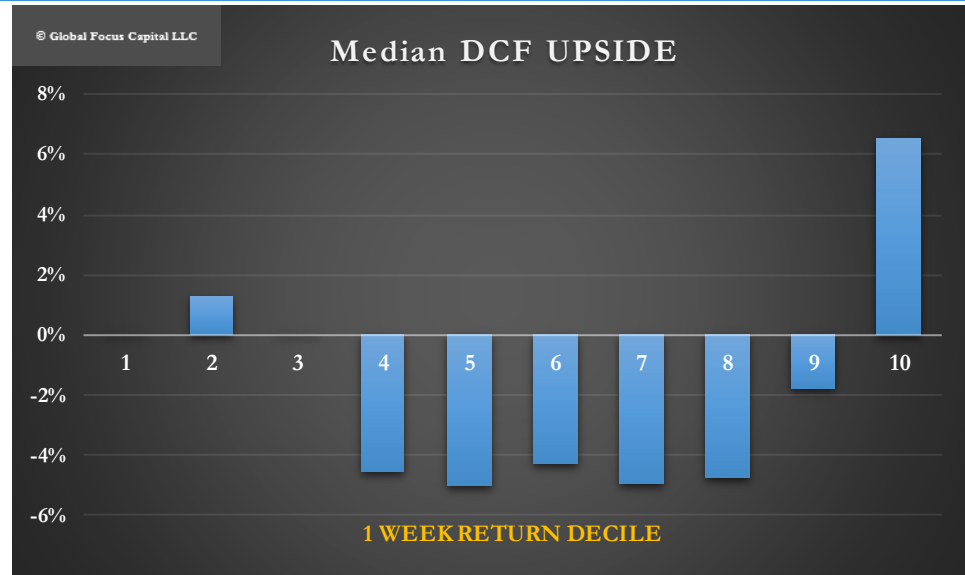
- ▶ Valuation as a factor had a mixed week
- ▶ We do not see much of pattern of reward for valuation metrics
- ▶ More expensive stocks continue to do better YTD – last week was no exception
- ▶ The “value” effect is hardly ever uniform with the tails usually behaving badly



What did the markets reward last week:

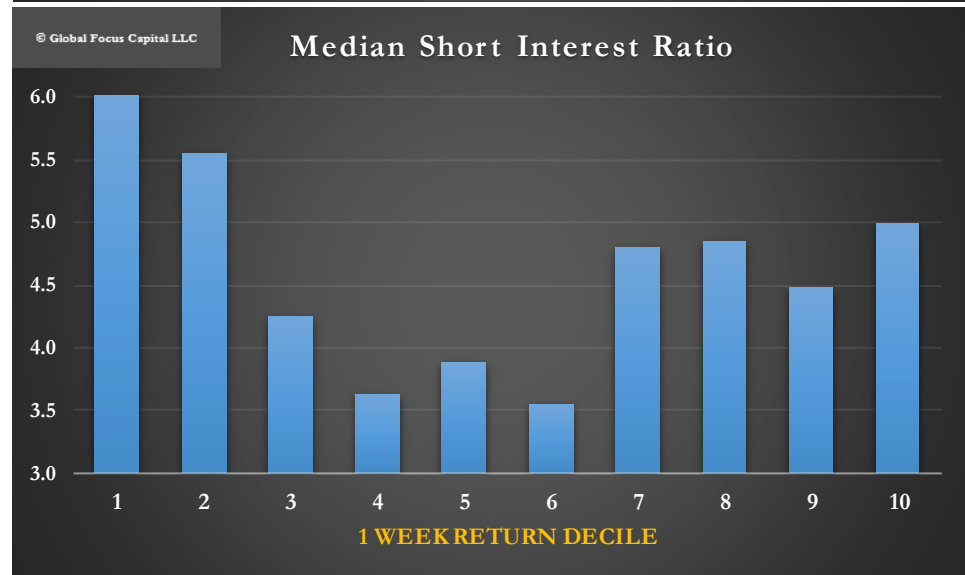
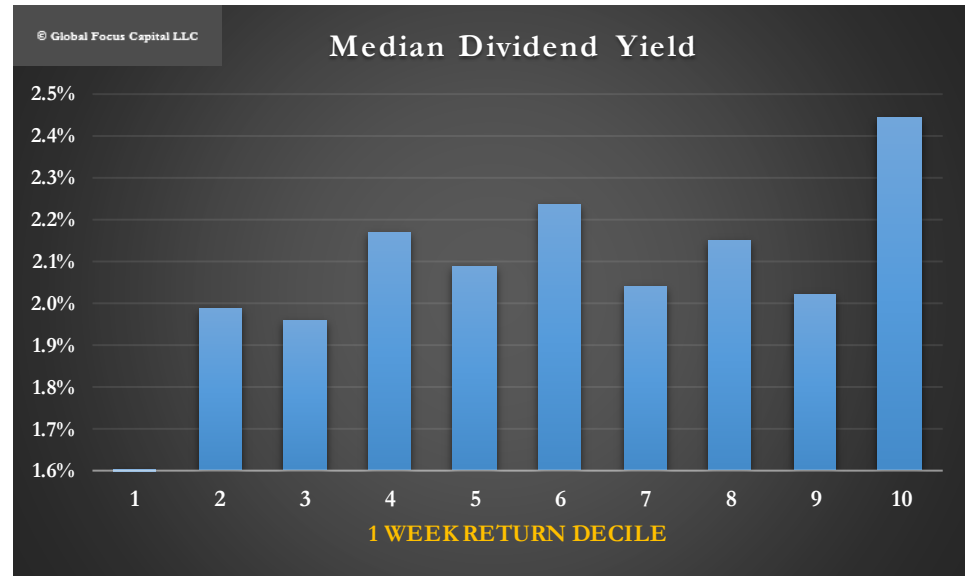
Valuation Models

- ▶ 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 the best had price targets within 5% of the actual price
 - ▶ The worst performing stocks had a price target over 25% above the current price



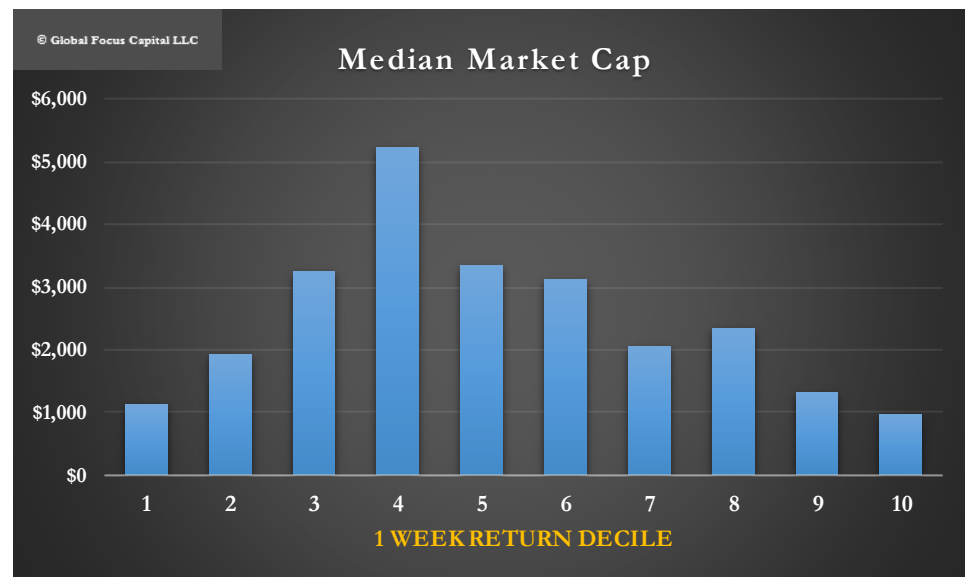
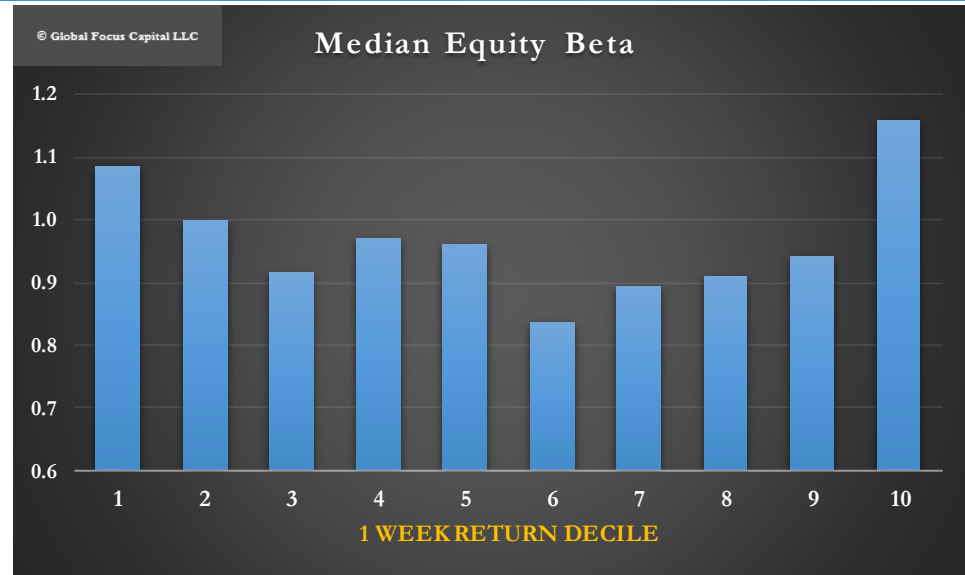
What did the markets reward last week: Yield and Sentiment

- ▶ On an equally weighted basis, dividend yield had an inverse relationship to return
- ▶ The best performing stocks (Decile 1) had low yields while the worst performers (Decile 10) had the highest median yields
- ▶ Short interest, a measure of sentiment, showed a negative link to return for the top 6 deciles of return
 - ▶ We suspect some short covering took place
 - ▶ Tesla anybody?



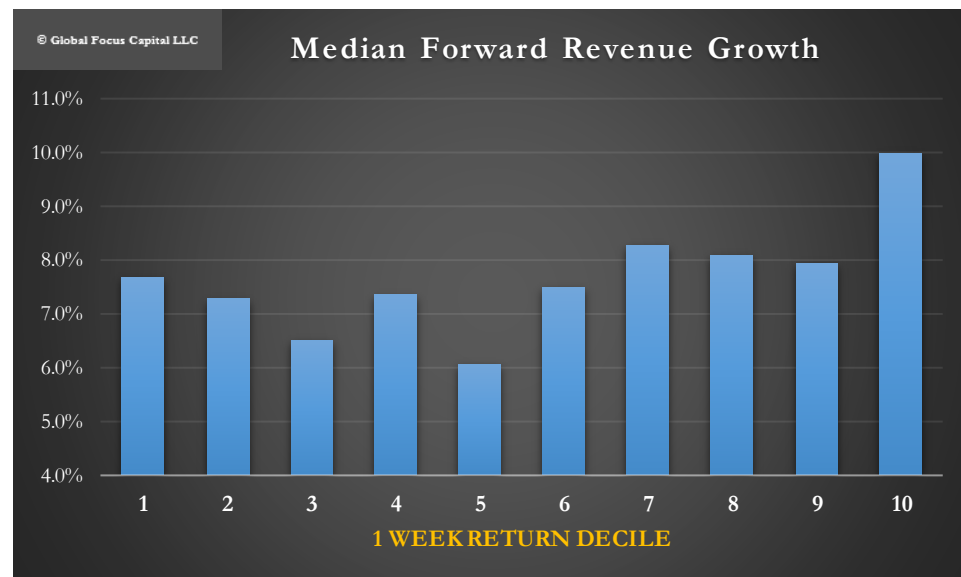
What did the markets reward last week: Beta and Size

- ▶ Beta often displays a U shaped pattern -last week was no exception
 - ▶ The best and worst deciles of performance had betas above one
- ▶ In terms of market cap over the last week we have seen a rather unusual V-shaped pattern of returns
- ▶ The best performers last week (Decile 1) had low median capitalizations, but on a cap weighted basis large cap indices out-performed



What did the markets reward last week: Momentum and Growth

- ▶ The momentum effect continues in US equities – the effect was quite strong last week
- ▶ The worst performers last week (Decile 10) continue to lag
- ▶ The best performers last week had the highest 1 year trailing performance (23%)
- ▶ While growth outperformed value on a cap weighted basis, there was a slight negative correlation between higher revenue growers and returns



Big Movers – Last 5 Days

Down

Noble Energy Inc.	NBL	Energy
Perrigo Company	PRGO	Healthcare
Zillow Group, Inc.	Z	Information Technology
Zillow Group, Inc.	ZG	Information Technology
Newell Brands Inc.	NWL	Consumer Discretionary
DENTSPLY SIRONA Inc	XRAY	Healthcare
Stericycle, Inc.	SRCL	Industrials
Weight Watchers Internatio	WTW	Consumer Discretionary
Penumbra, Inc.	PEN	Healthcare
2U, Inc.	TWOU	Information Technology
Stamps.com Inc.	STMP	Information Technology
PDC Energy, Inc.	PDCE	Energy
Tenet Healthcare Corporati	THC	Healthcare
Scientific Games Corp	SGMS	Consumer Discretionary
Sotheby's	BID	Consumer Discretionary
Portola Pharmaceuticals, Ir	PTLA	Healthcare
Select Medical Holdings C	SEM	Healthcare
Extraction Oil & Gas, Inc.	XOG	Energy
Supernus Pharmaceuticals,	SUPN	Healthcare
Granite Construction Incon	GVA	Industrials

Up

CenturyLink, Inc.	CTL	Telecommunication Service
DISH Network Corporatio	DISH	Consumer Discretionary
Broadridge Financial Solut	BR	Information Technology
Take-Two Interactive Softw	TTWO	Information Technology
IAC/InterActiveCorp	IAC	Information Technology
Match Group, Inc.	MTCH	Information Technology
Michael Kors Holdings Lir	KORS	Consumer Discretionary
Zebra Technologies Corpo	ZBRA	Information Technology
Twilio Inc.	TWLO	Information Technology
Ringcentral, Inc.	RNG	Information Technology
The Middleby Corporation	MIDD	Industrials
Flowserve Corporation	FLS	Industrials
Nuance Communications, I	NUAN	Information Technology
Dun & Bradstreet Corporat	DNB	Industrials
Endo International plc	ENDP	Healthcare
United States Cellular Corp	USM	Telecommunication Service
Intercept Pharmaceuticals,	ICPT	Healthcare
Telephone and Data System	TDS	Telecommunication Service
Intelsat S.A.	I	Telecommunication Service
Horizon Pharma plc	HZNP	Healthcare

This Coming Week

Reporting Soon

Home Depot, Inc. (The)	HD	Consumer Discretionary
Sysco Corporation	SY	Consumer Staples
Agilent Technologies, Inc.	A	Healthcare
Synopsys, Inc.	SNPS	Information Technology
Advance Auto Parts Inc	AAP	Consumer Discretionary
L Brands, Inc.	LB	Consumer Discretionary
CDK Global, Inc.	CDK	Information Technology
Cree, Inc.	CREE	Information Technology
Myriad Genetics, Inc.	MYGN	Healthcare
Applied Industrial Technol	AIT	Industrials
Meredith Corporation	MDP	Consumer Discretionary
Viavi Solutions Inc.	VIAV	Information Technology
Children's Place, Inc. (The	PLCE	Consumer Discretionary
Brinker International, Inc.	EAT	Consumer Discretionary
Ruth's Hospitality Group, I	RUTH	Consumer Discretionary
Photonics, Inc.	PLAB	Information Technology
Fate Therapeutics, Inc.	FATE	Healthcare
A10 Networks, Inc.	ATEN	Information Technology
Nordic American Tankers	NAT	Energy
Flexsteel Industries, Inc.	FLXS	Consumer Discretionary
Rockwell Medical, Inc.	RMTI	Healthcare
Protagonist Therapeutics, I	PTGX	Healthcare
Gulf Island Fabrication, In	GIFI	Energy
Ampco-Pittsburgh Corpora	AP	Materials
Asterias Biotherapeutics, Ir	AST	Healthcare

- ▶ Risk Aversion – expect the RAI to jump into the Neutral Zone
 - ▶ Investors keep under-pricing risk
- ▶ Market Internals – expected to remain “balanced” -the technicals do not support a bear market
- ▶ Will growth keep outperforming value? Much depends on the direction of interest rates
- ▶ Will EM equities recover? The Turkey currency crisis merits some attention. Watch out for contagion effects
- ▶ More tariffs on the horizon? Will US stocks react to this? Most of the effect thus far has been on non-US stocks

Contact & Subscription Information

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