



GLOBAL FOCUS CAPITAL LLC
INSIGHT THAT MATTERS

The Equity Observer

Weekly Review – August 17, 2018

Eric J. Weigel

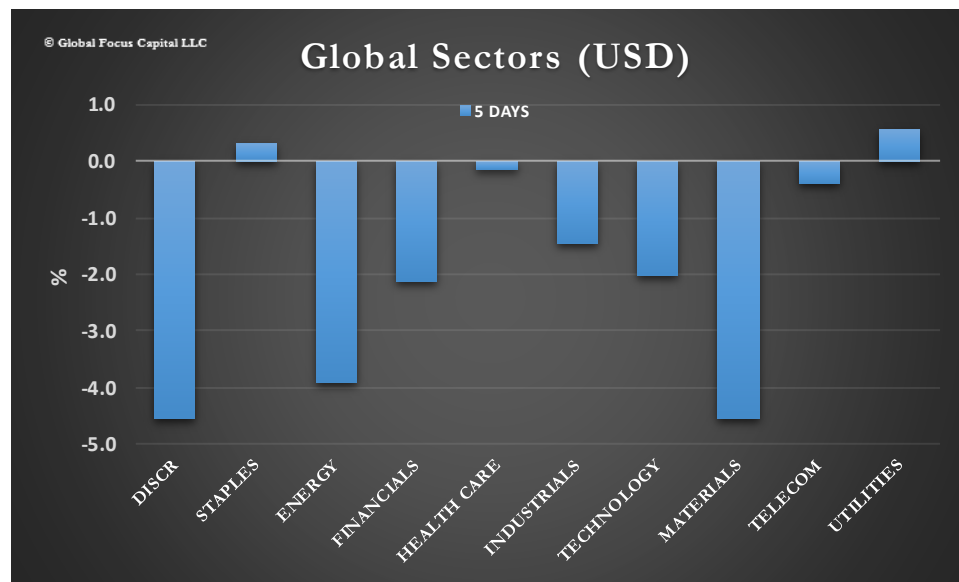
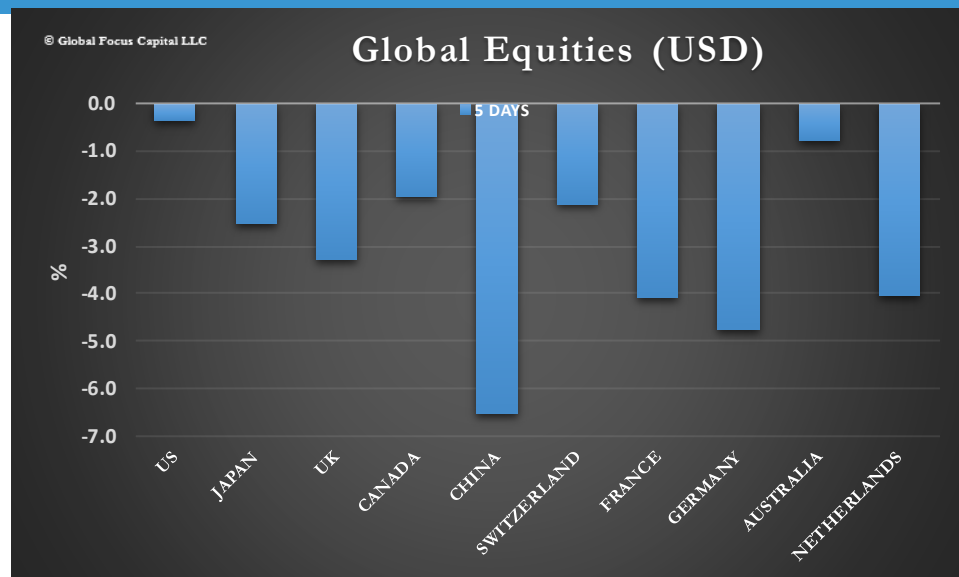
Top Equity Markets – The US keeps plowing ahead, China is imploding dragging down Emerging Markets

© Global Focus Capital LLC							LAST 3 YEARS	LAST 5 YEARS
TOP EQUITY MARKETS	2018	2017	2016	2015	2014	2013		
UNITED STATES	7.6	21.8	12.0	1.4	13.7	32.4	13.1	13.7
JAPAN	-3.9	24.0	2.4	9.6	-4.0	27.2	5.6	6.5
UNITED KINGDOM	-4.9	22.3	-0.1	-7.6	-5.4	20.7	1.7	2.5
CANADA	-2.9	16.2	24.6	-24.2	1.5	5.6	6.5	2.7
CHINA	-11.5	54.1	0.9	-7.8	8.0	3.6	7.9	7.9
SWITZERLAND	-2.5	23.8	-2.9	0.5	-0.6	27.0	3.2	4.8
FRANCE	-1.8	28.7	4.9	-0.1	-9.9	26.3	7.0	5.3
GERMANY	-9.6	27.7	2.8	-1.9	-10.4	31.4	4.2	4.2
AUSTRALIA	-0.1	19.9	11.4	-10.0	-3.4	4.2	9.8	3.9
NETHERLANDS	-2.4	33.9	4.6	1.7	-5.6	30.7	8.7	7.6

Source: iShares

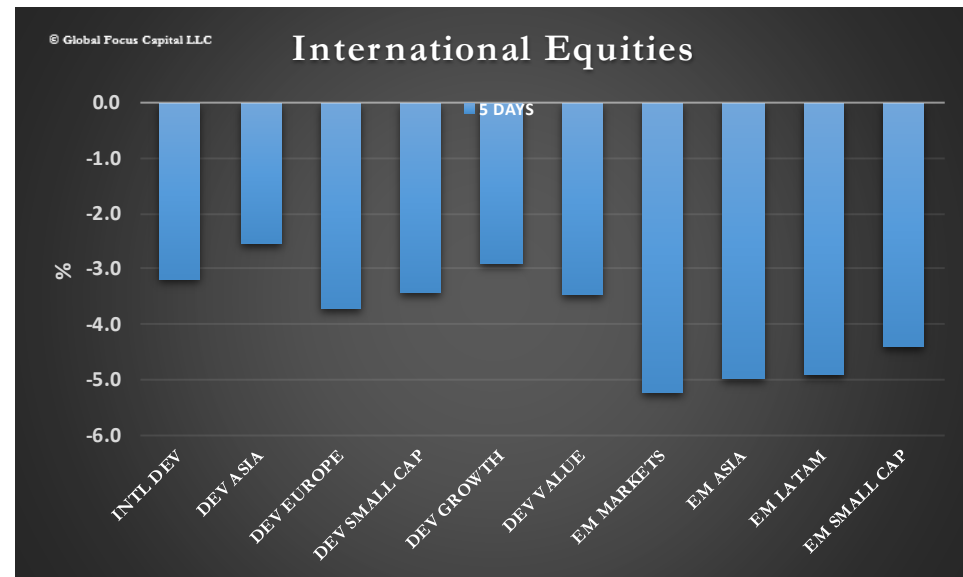
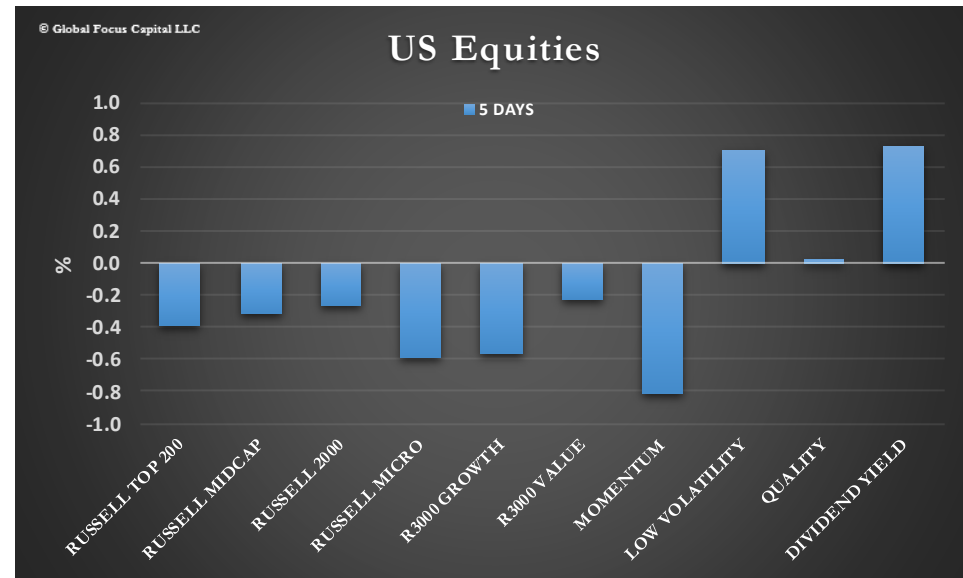
Global Equities

- ▶ Tough week all around with the US losing the least
- ▶ EM equities have been on a down trend this year and it got worse this week with the index down 5.3%
- ▶ China's equity market continues to be very volatile. Trade war jitters have had a much larger effect on Chinese stocks – stocks were down over 6% in the last 5 days
- ▶ Global sectors had losses except for Utilities and Staples – a tough week overall
- ▶ Energy stocks keep getting whipsawed by the commodity



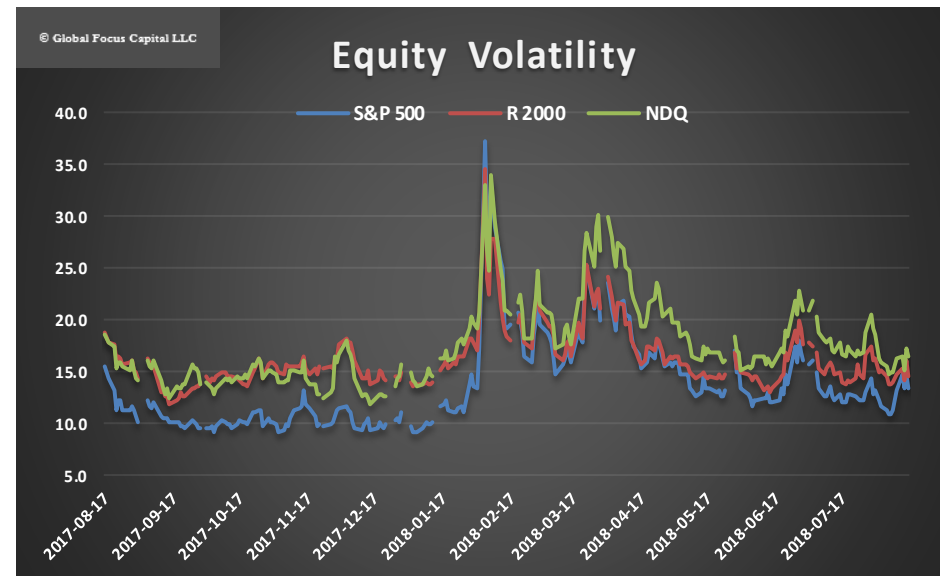
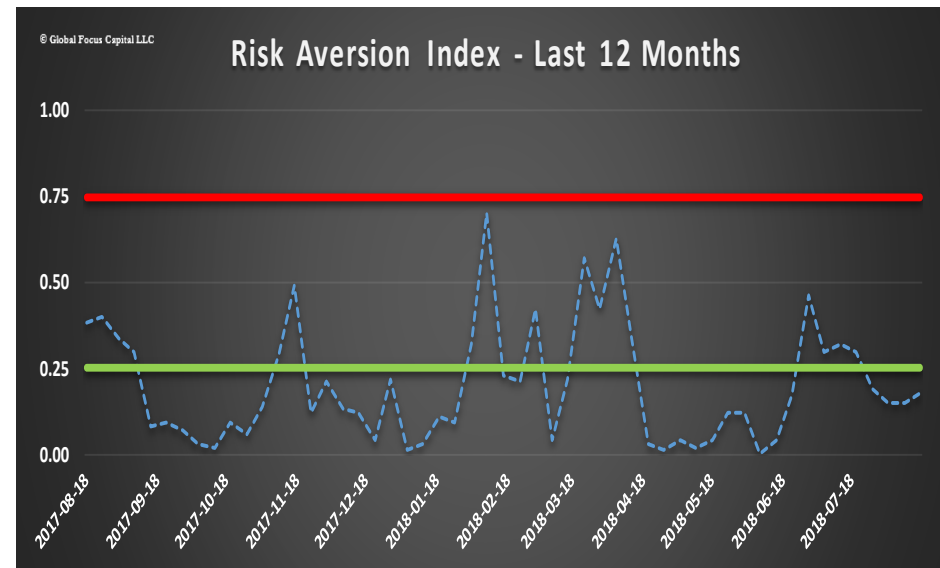
Style and Geography

- ▶ In the US, low vol and dividend yield were winners over the last 5 trading days
- ▶ 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
- ▶ Momentum took a hit last week – this style is quickly losing steam but still remains top dog for 2018
- ▶ EM and International Developed equities continue their down trend
- ▶ 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



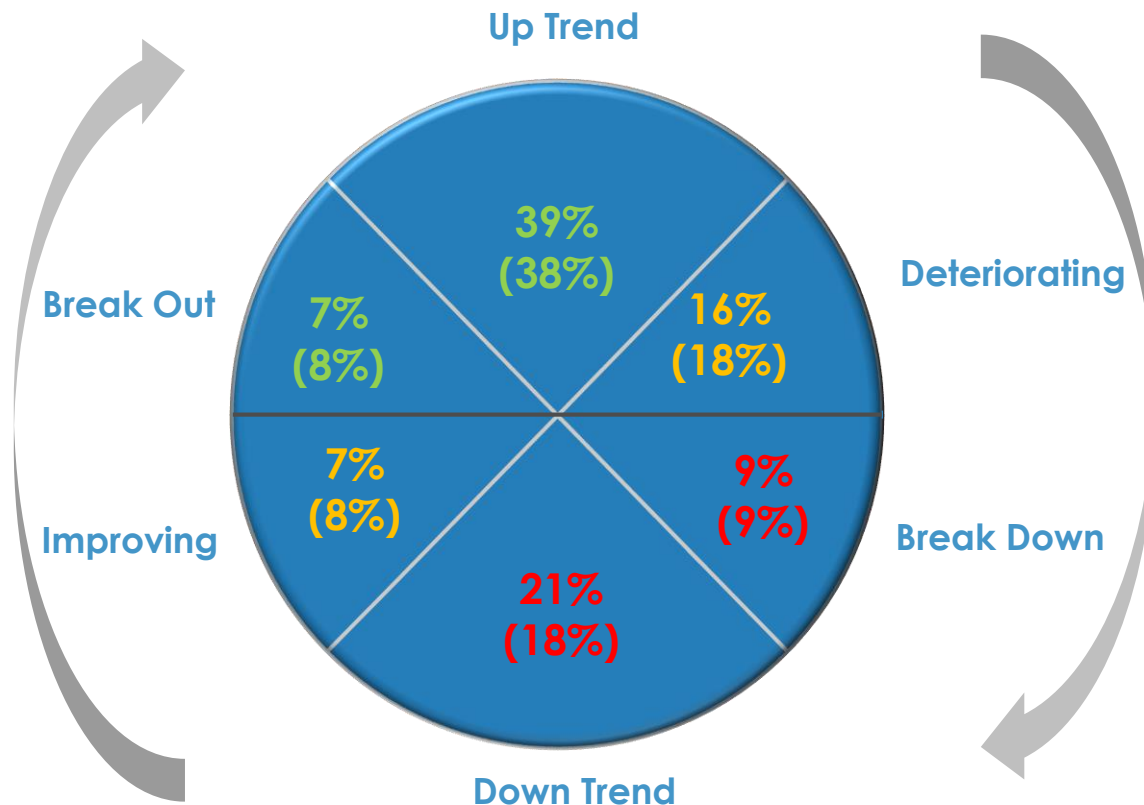


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US Equities

Weekly Performance

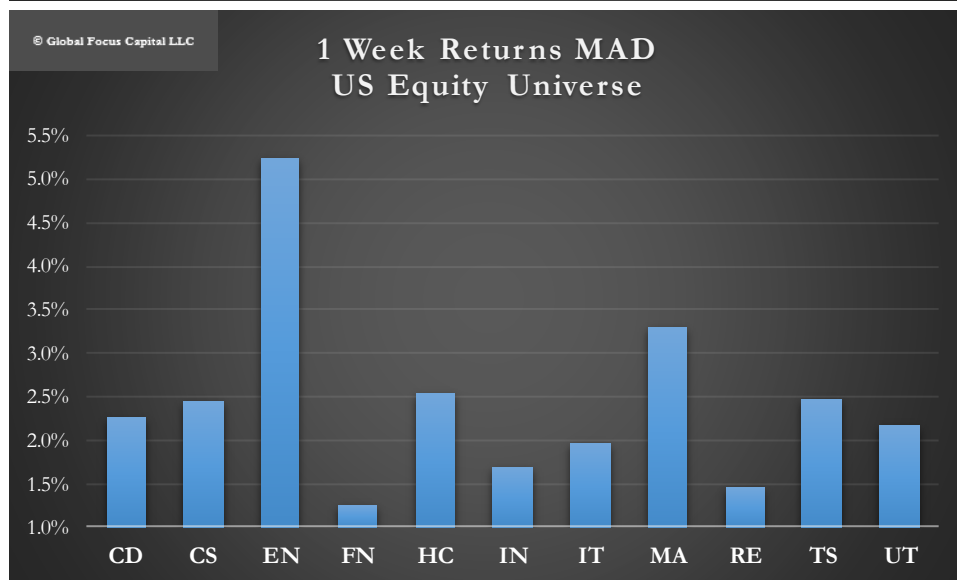
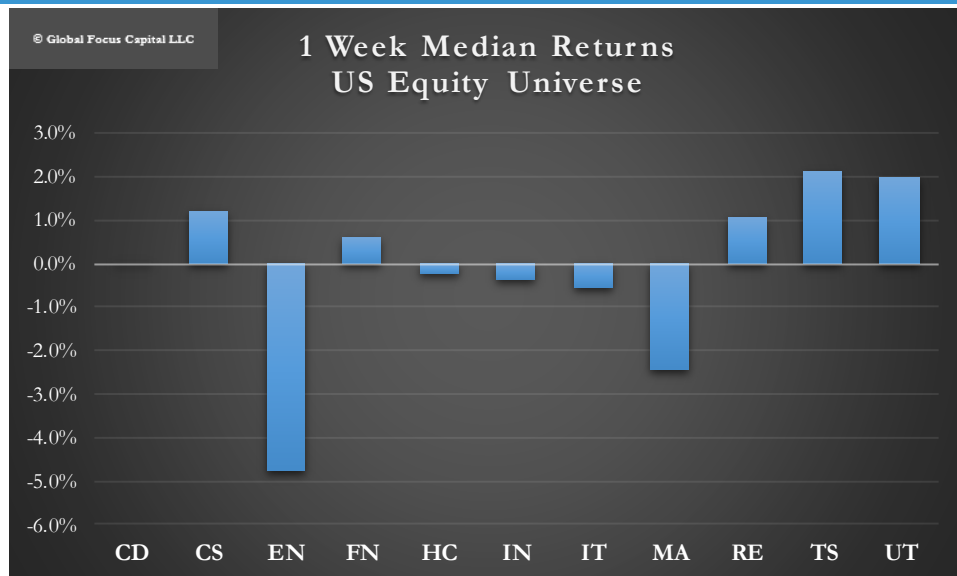
The technical picture for US stocks remained unchanged from last week and remains “balanced”



GF CAP US All Equity Universe

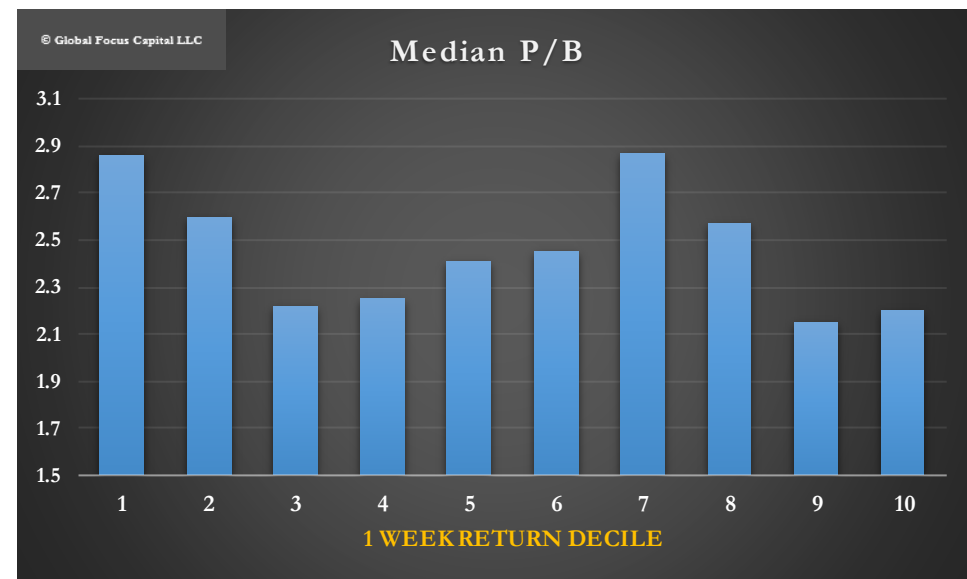
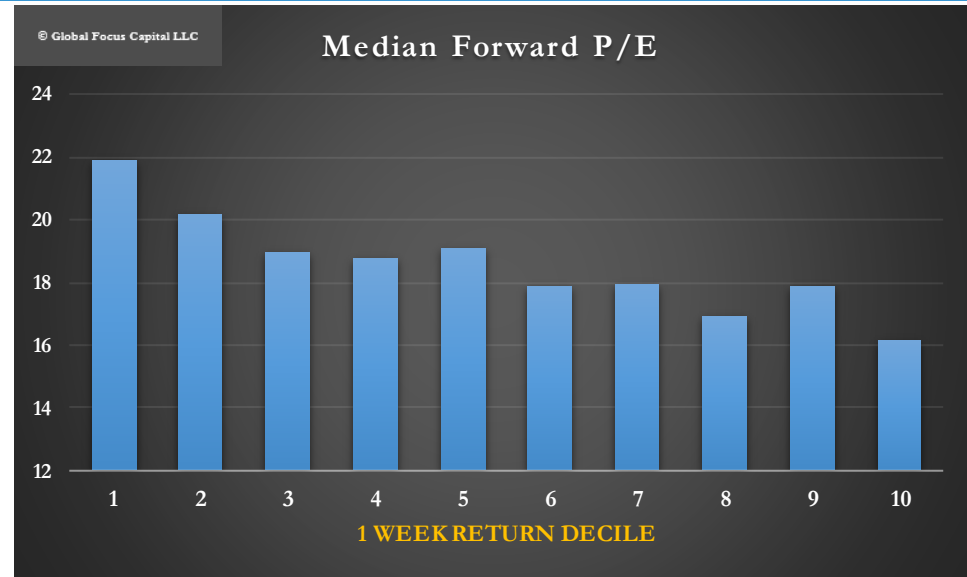
The Sector Look – median performance and dispersion

- ▶ Stocks in the US were mainly down over the last 5 trading days
- ▶ Interest rate sensitive sectors did best - Telecom stocks had another good week
- ▶ Energy stocks keep getting whipsawed by the price of oil with the median stock being down over 4% last week
- ▶ The widest variability in performance was seen in the Energy sector – due primarily to earnings releases
 - ▶ We use the median absolute deviation as a robust measure of within sector variability



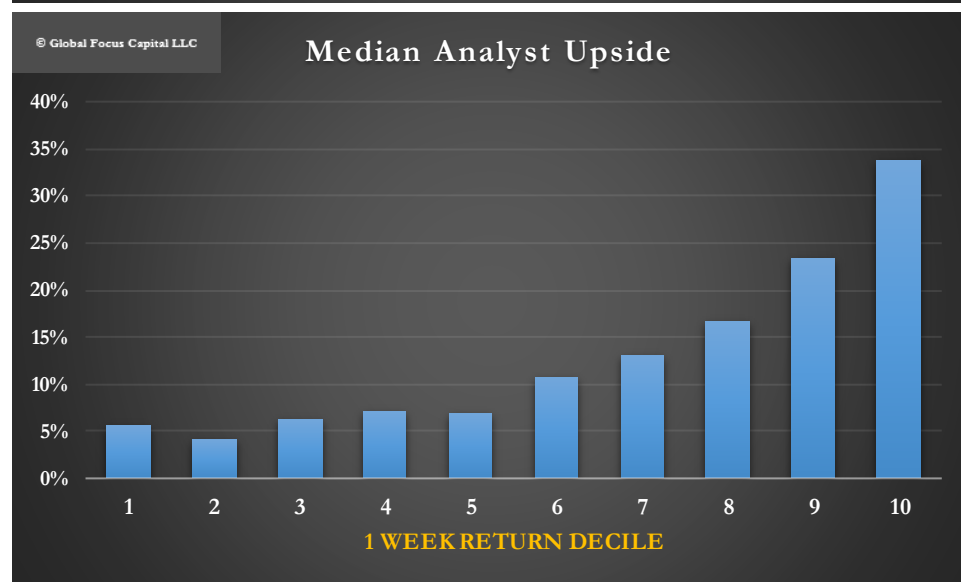
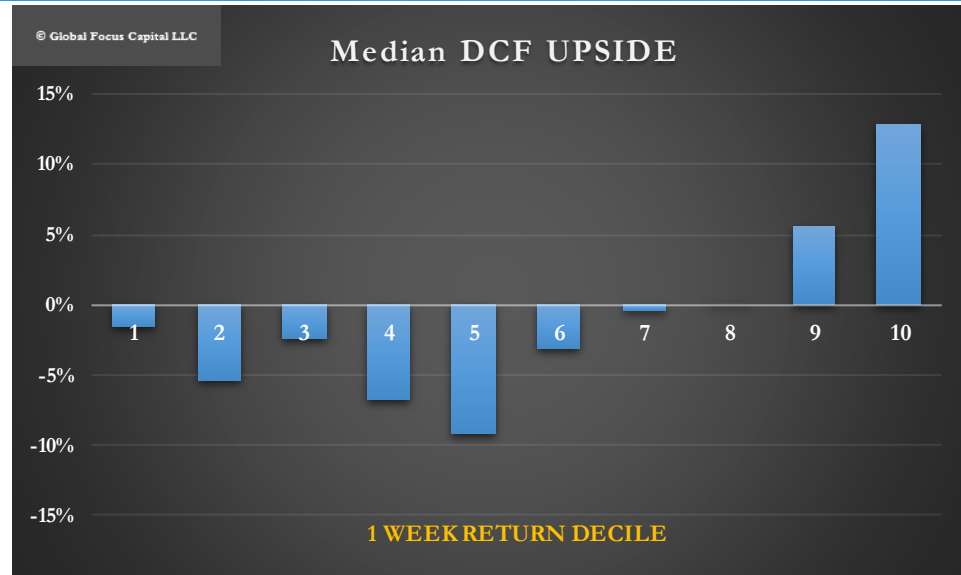
What did the markets reward last week: Valuation Multiples

- ▶ Valuation as a factor had a perverse week especially when looking at P/E ratios
- ▶ The best performers last 5 days had the highest median P/E
- ▶ More expensive stocks continue to do better YTD – last week was no exception



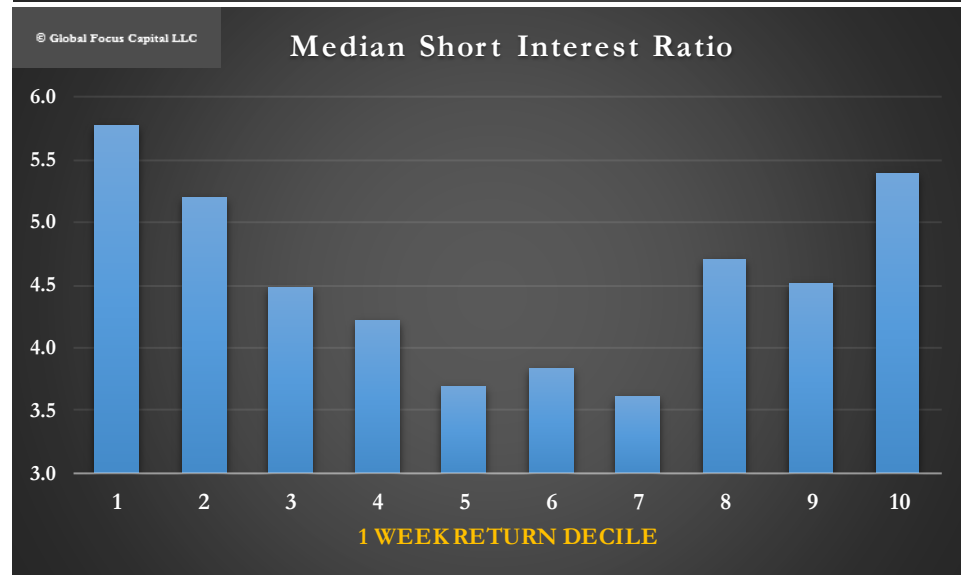
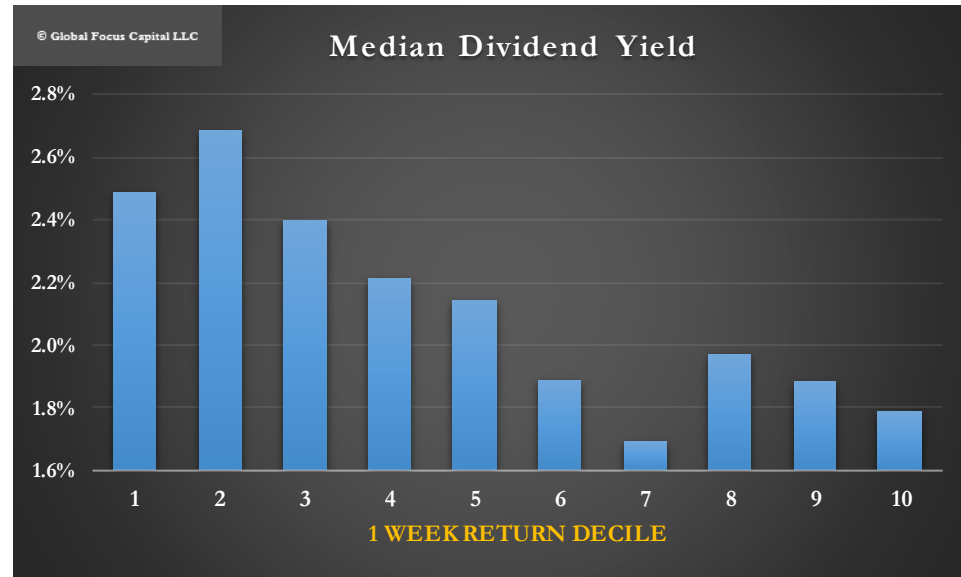
What did the markets reward last week: Valuation Models

- ▶ 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



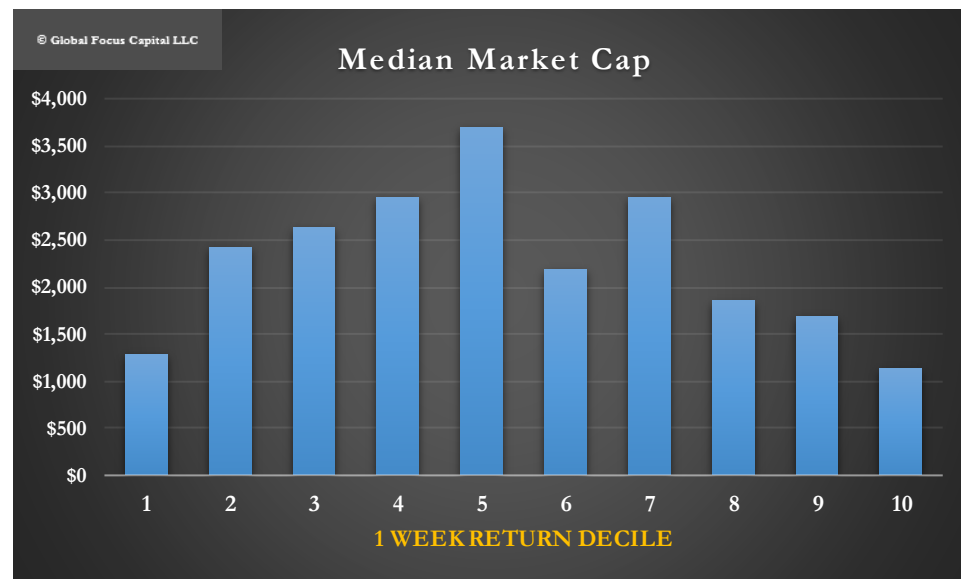
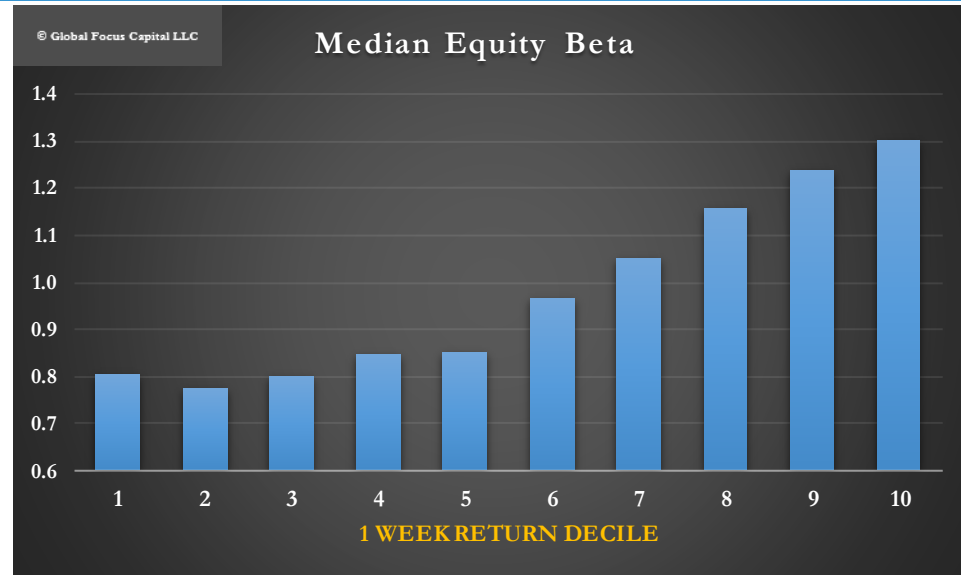
What did the markets reward last week: Yield and Sentiment

- ▶ On an equally weighted basis, dividend yield had a very good week
- ▶ The best performing stocks (Decile 1) had high yields while the worst performers (Decile 10) had low median yields
- ▶ Short interest, a measure of sentiment, showed a “U” shaped pattern of returns
 - ▶ We suspect some short covering took place



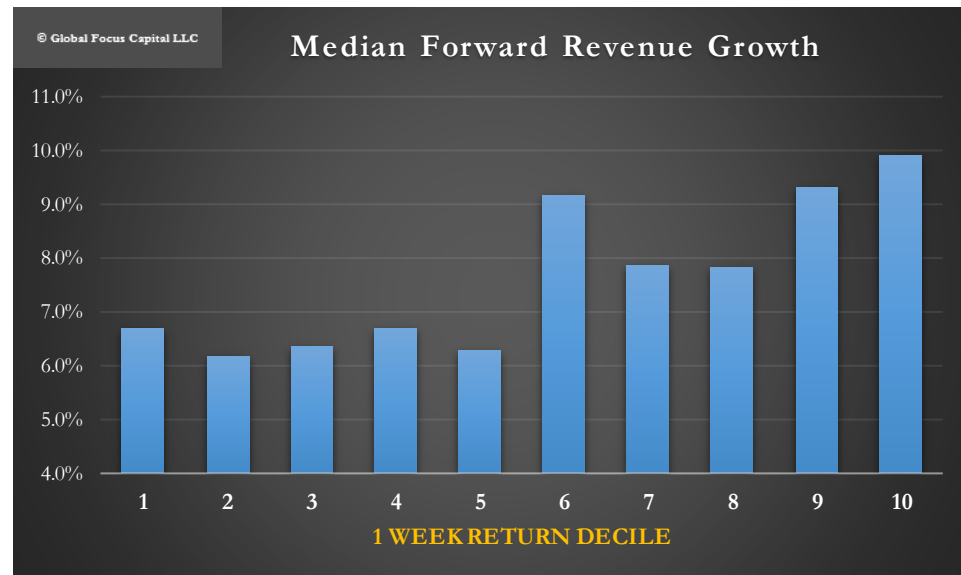
What did the markets reward last week: Beta and Size

- ▶ Beta often displays a U shaped pattern but last week the effect was strongly
 - ▶ Low beta out-performed
- ▶ In terms of market cap over the last week we have seen again a rather unusual V-shaped pattern of returns



What did the markets reward last week: Momentum and Growth

- ▶ The 1 year momentum effect continues in US but is not offering as much discrimination as just a couple of months ago
 - ▶ The top 7 deciles had median returns close to each other
- ▶ The worst performers last week (Decile 10) continue to lag
- ▶ Last week we saw a negative correlation between higher revenue growers and returns



Big Movers – Last 5 Days

Down

Freeport-McMoran, Inc.	FCX	Materials
Microchip Technology Inc	MCHP	Information Technology
Newmont Mining Corporat	NEM	Materials
Macy's Inc	M	Consumer Discretionary
Transocean Ltd.	RIG	Energy
Cree, Inc.	CREE	Information Technology
ViaSat, Inc.	VSAT	Information Technology
McDermott International, I	MDR	Energy
Cabot Microelectronics Co	CCMP	Information Technology
ENSCO plc	ESV	Energy
Weatherford International	WFT	Energy
Amicus Therapeutics, Inc.	FOLD	Healthcare
Dycom Industries, Inc.	DY	Industrials
Diamond Offshore Drilling	DO	Energy
Dillard's, Inc.	DDS	Consumer Discretionary
Tronox Limited	TROX	Materials
Bazaarvoice, Inc.	BV	Information Technology
Portola Pharmaceuticals, Ir	PTLA	Healthcare
Puma Biotechnology Inc	PBYI	Healthcare
Mammoth Energy Services	TUSK	Energy

Up

Wal-Mart Stores, Inc.	WMT	Consumer Staples
CenturyLink, Inc.	CTL	Telecommunication Services
Nielsen N.V.	NLSN	Industrials
Universal Display Corporat	OLED	Information Technology
The Trade Desk, Inc.	TTD	Information Technology
Mallinckrodt plc	MNK	Healthcare
Spectrum Pharmaceuticals,	SPPI	Healthcare
Mack-Cali Realty Corporati	CLI	Real Estate
GTT Communications, Inc	GTT	Information Technology
The Navigators Group, Inc	NAVG	Financials
Evolent Health, Inc	EVH	Healthcare
Cardtronics plc	CATM	Information Technology
Tabula Rasa HealthCare, I	TRHC	Healthcare
WAVE Life Sciences Ltd.	WVE	Healthcare
KMG Chemicals, Inc.	KMG	Materials
Ascena Retail Group, Inc.	ASNA	Consumer Discretionary
Duluth Holdings Inc.	DLTH	Consumer Discretionary
Renewable Energy Group,	REGI	Energy
Health Insurance Innovatio	HIHQ	Financials
Briggs & Stratton Corporat	BGG	Industrials

This Coming Week

Reporting Soon

Medtronic plc	MDT	Healthcare
TJX Companies, Inc. (The	TJX	Consumer Discretionary
The Estée Lauder Comp	EL	Consumer Staples
Deere & Company	DE	Industrials
J.M. Smucker Company (T	SJM	Consumer Staples
Kohl's Corporation	KSS	Consumer Discretionary
Keysight Technologies Inc	KEYS	Information Technology
Jack Henry & Associates, I	JKHY	Information Technology
Heico Corporation	HEI	Industrials
Coty Inc.	COTY	Consumer Staples
Toll Brothers Inc.	TOL	Consumer Discretionary
Pure Storage, Inc.	PSTG	Information Technology
Premier, Inc.	PINC	Healthcare
Urban Outfitters, Inc.	URBN	Consumer Discretionary
Williams-Sonoma, Inc.	WSM	Consumer Discretionary
American Eagle Outfitters,	AEO	Consumer Discretionary
Myriad Genetics, Inc.	MYGN	Healthcare
Kronos Worldwide Inc	KRO	Materials
DSW Inc.	DSW	Consumer Discretionary
Children's Place, Inc. (The	PLCE	Consumer Discretionary
Guess?, Inc.	GES	Consumer Discretionary
Fabrinet	FN	Information Technology
La-Z-Boy Incorporated	LZB	Consumer Discretionary
Raven Industries, Inc.	RAVN	Industrials
Valhi, Inc.	VHI	Materials
USA Technologies, Inc.	USAT	Information Technology
Regis Corporation	RGS	Consumer Discretionary
Lannett Co Inc	LCI	Healthcare
Red Robin Gourmet Burge	RRGB	Consumer Discretionary
Daktronics, Inc.	DAKT	Information Technology

- ▶ Risk Aversion – expect the RAI to jump into the Neutral Zone
 - ▶ Investors keep under-pricing risk
- ▶ Will value only outperform growth when interest rates in the US drop?
- ▶ Will EM equities recover? The Turkey currency crisis merits some attention. Watch out for contagion effects
- ▶ Are Chinese equities going to implode or is this temporary? Is the down trend due to tariffs or domestic growth issues?

Contact & Subscription Information

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