



GLOBAL FOCUS CAPITAL LLC
INSIGHT THAT MATTERS

The Equity Observer

Weekly Review – August 24, 2018

Eric J. Weigel

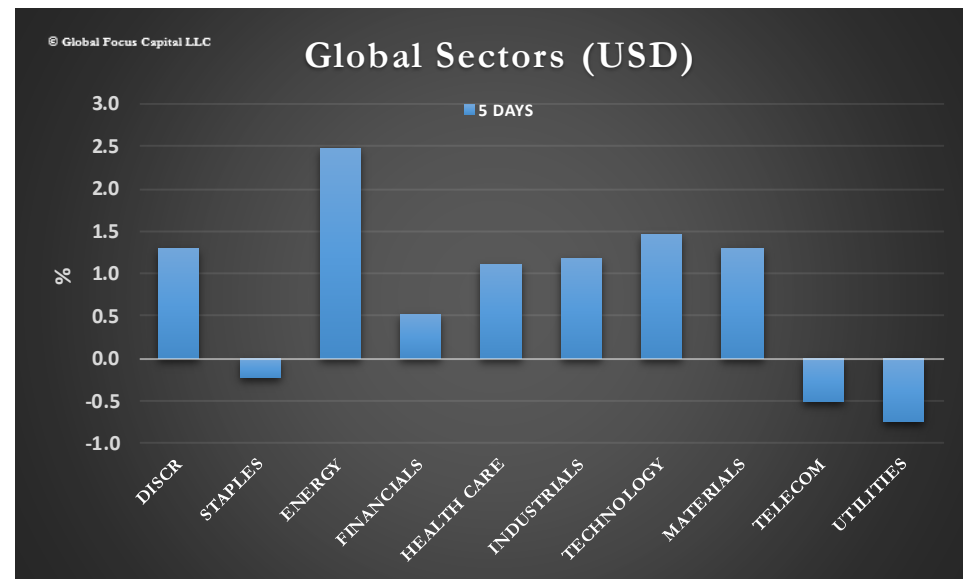
Top Equity Markets – The US keeps plowing ahead, China is dragging down Emerging Markets

© Global Focus Capital LLC							LAST 3 YEARS	LAST 5 YEARS
TOP EQUITY MARKETS	2018	2017	2016	2015	2014	2013		
UNITED STATES	8.2	21.8	12.0	1.4	13.7	32.4	15.5	13.7
JAPAN	-3.7	24.0	2.4	9.6	-4.0	27.2	7.1	6.8
UNITED KINGDOM	-3.9	22.3	-0.1	-7.6	-5.4	20.7	3.8	2.7
CANADA	-1.7	16.2	24.6	-24.2	1.5	5.6	0.0	3.2
CHINA	-8.1	54.1	0.9	-7.8	8.0	3.6	12.0	9.2
SWITZERLAND	-0.8	23.8	-2.9	0.5	-0.6	27.0	5.0	4.9
FRANCE	1.2	28.7	4.9	-0.1	-9.9	26.3	9.8	6.1
GERMANY	-7.0	27.7	2.8	-1.9	-10.4	31.4	7.4	4.6
AUSTRALIA	-2.0	19.9	11.4	-10.0	-3.4	4.2	10.2	3.7
NETHERLANDS	-0.7	33.9	4.6	1.7	-5.6	30.7	11.1	7.9

Source: iShares

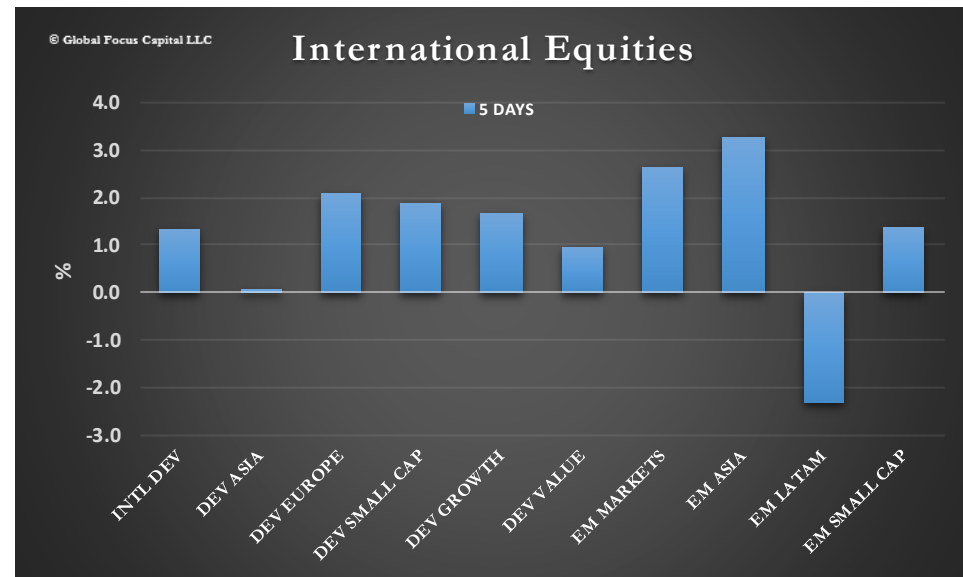
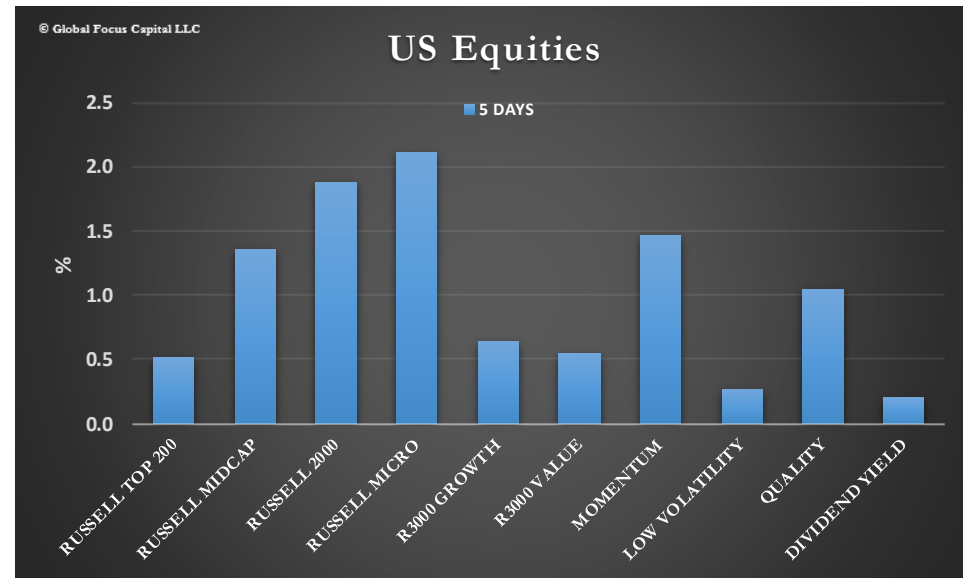
Global Equities

- ▶ Good week all around with Australia being the only down market
- ▶ China recovered nicely but remains in a down trend for the year
- ▶ EM equities have been on a down trend this year but got a reprieve last week – up 2.6%
- ▶ Lower beta sectors underperformed last week giving up some of the gains from the previous week
- ▶ Energy stocks keep getting whipsawed but had the best weekly performance – up 2.5%



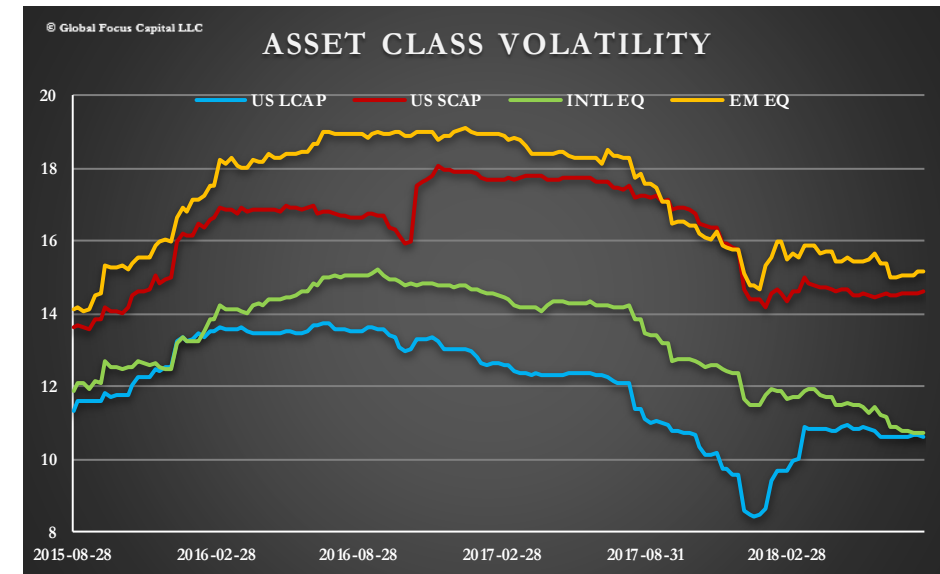
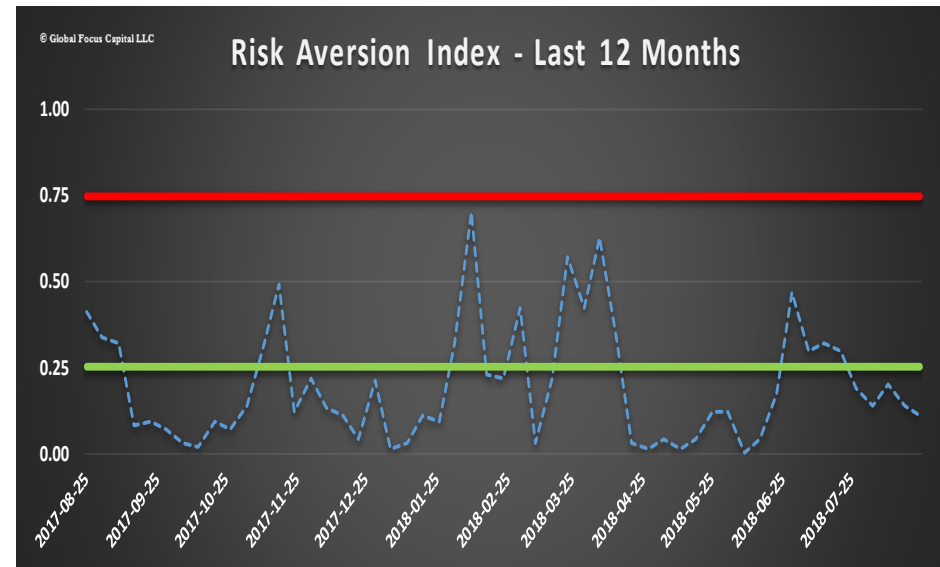
Style and Geography

- ▶ In the US, small cap won big last week while low vol and yield strategies under-performed
- ▶ Value and Growth had inline performance but YTD the gap remains quite wide in favor of Growth
- ▶ EM and International Developed equities out-performed US strategies – big US dollar effect
- ▶ EM LATAM continues to struggle with Argentina becoming a concern (never mind Venezuela)



Investor Risk Aversion remains 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
- ▶ Asset class volatility has risen from the lows of last year but remains on a down trend
- ▶ We see a huge disconnect between volatility, valuations and economic conditions
 - ▶ Global growth is good, valuations are high and economic policy is uncertain. Growth is winning for now.



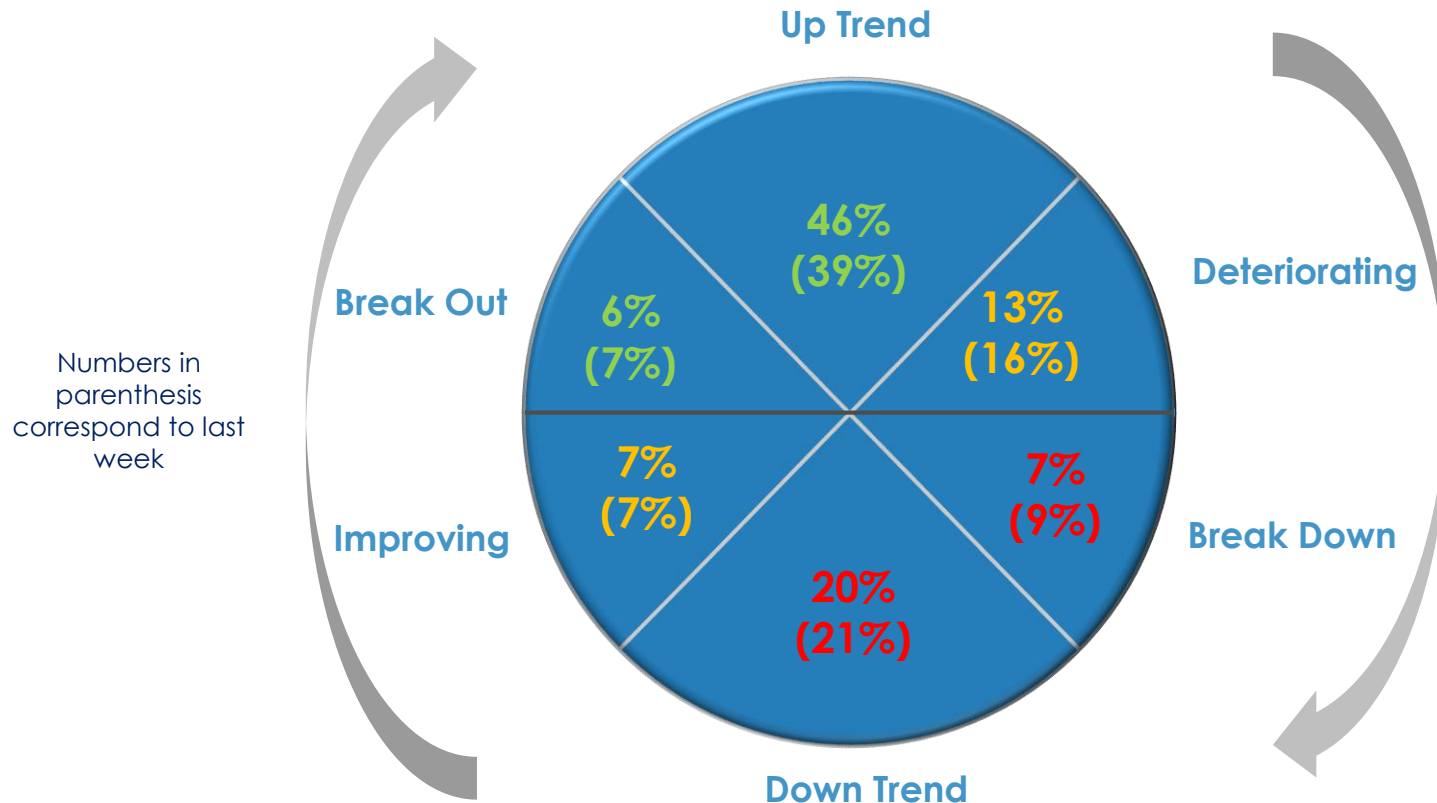


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US Equities

Weekly Performance

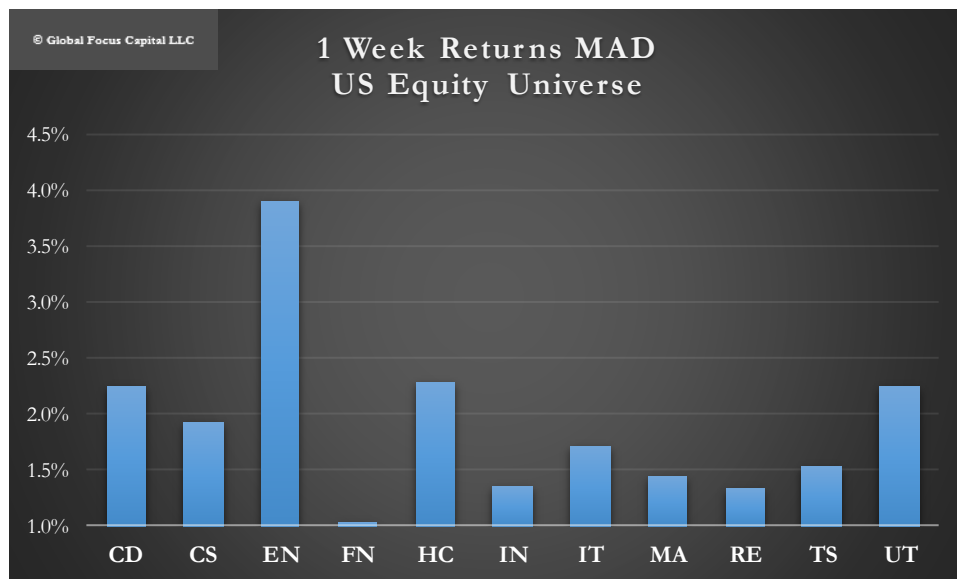
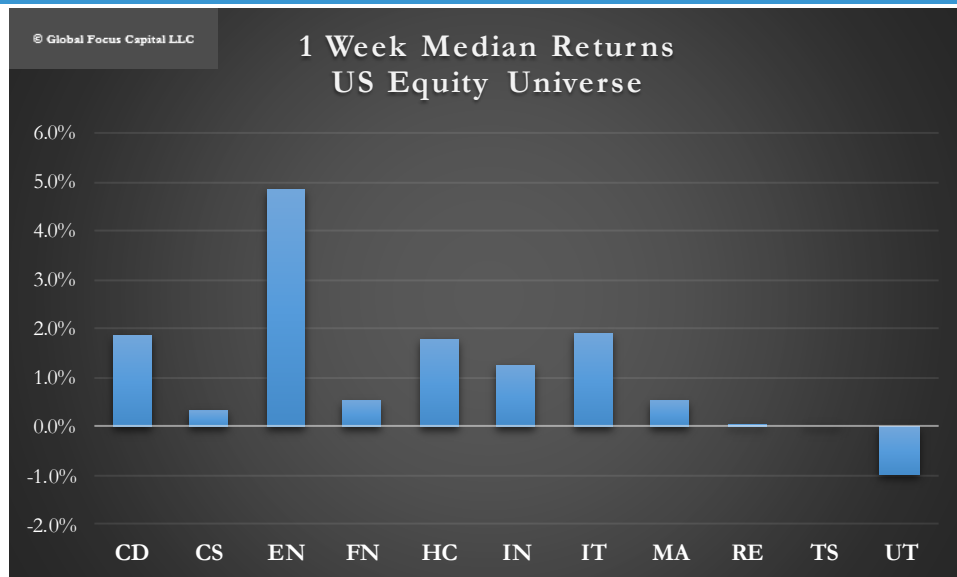
The technical picture for US stocks improved slightly from last week and remains “balanced” – no sign of a bear market in US stocks



GF CAP US All Equity Universe

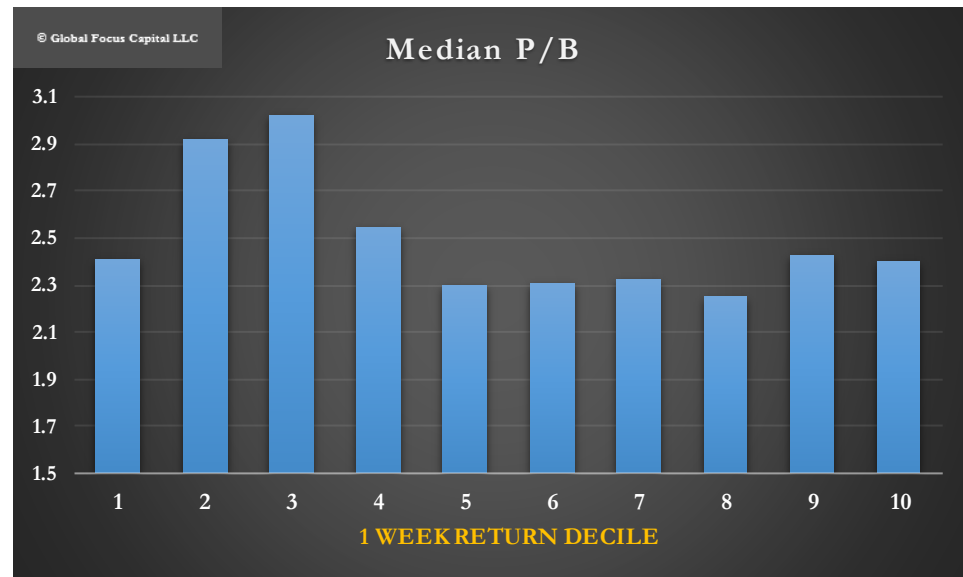
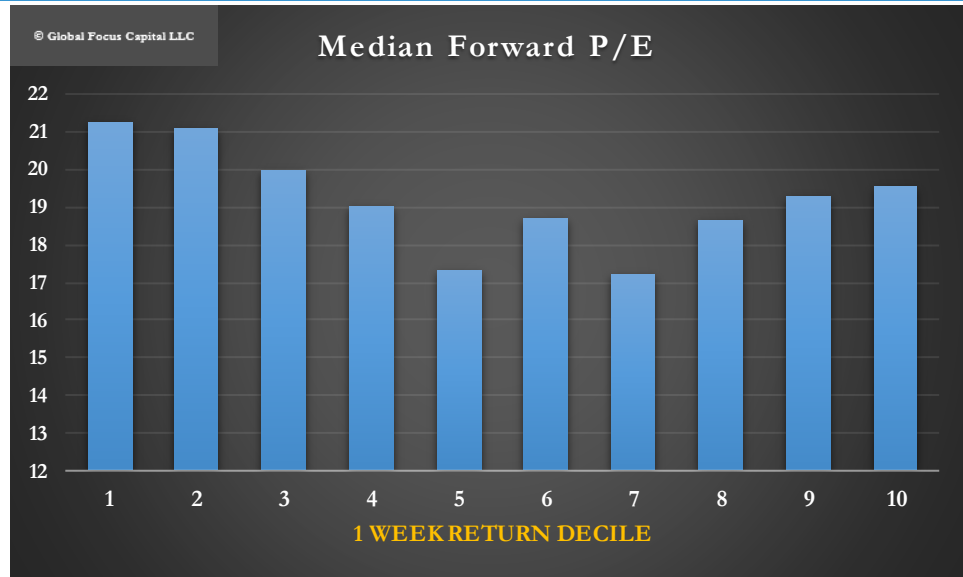
The Sector Look – median performance and dispersion

- ▶ The median stock in our universe was up 1.1% over the last 5 trading days
- ▶ Interest rate sensitive sectors gave back some of their gains from last week
- ▶ Energy stocks keep getting whipsawed by the price of oil with the median stock being up 4.9% 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



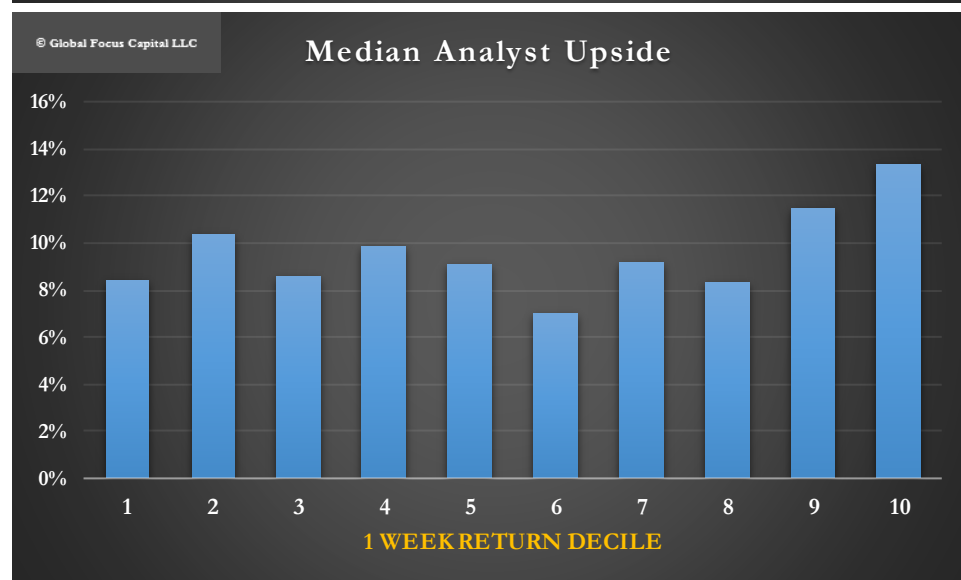
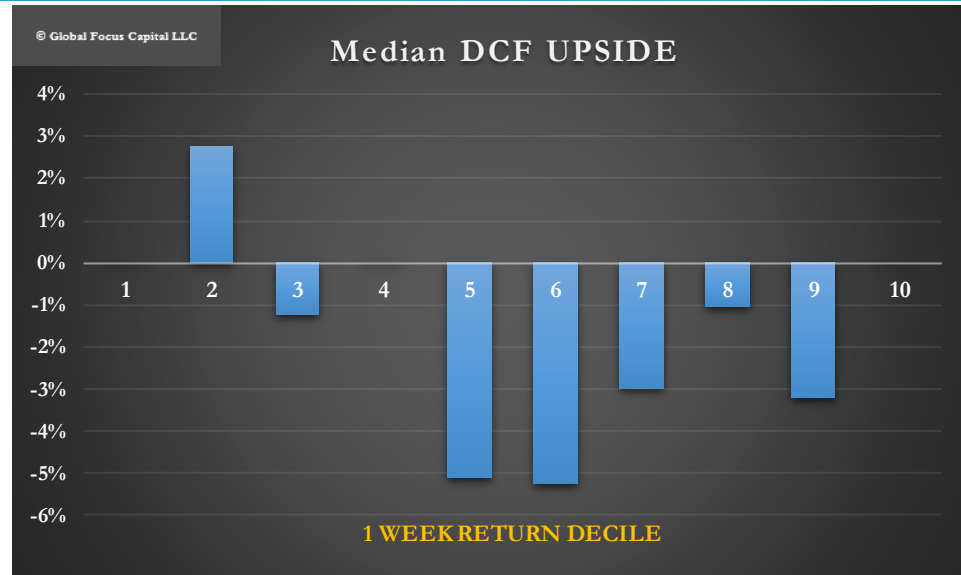
What did the markets reward last week: Valuation Multiples

- ▶ Valuation as a factor had a perverse week especially when looking at P/E ratios
- ▶ The best performers over the last 5 days had the highest median P/E
- ▶ In terms of P/B ratios there was no uniform pattern to speak of – better performers generally had slightly higher P/B ratios
- ▶ More expensive stocks continue to do better YTD – last week was no exception



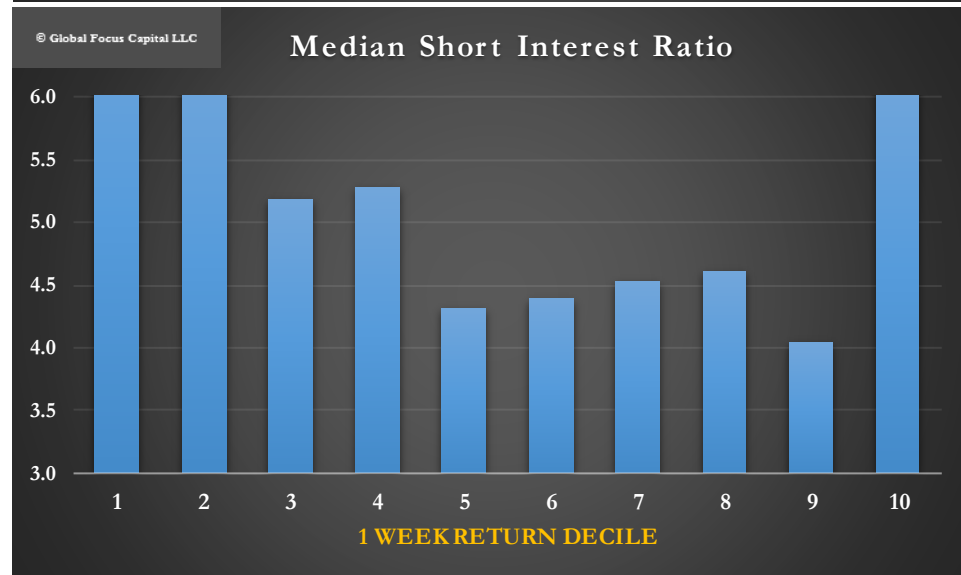
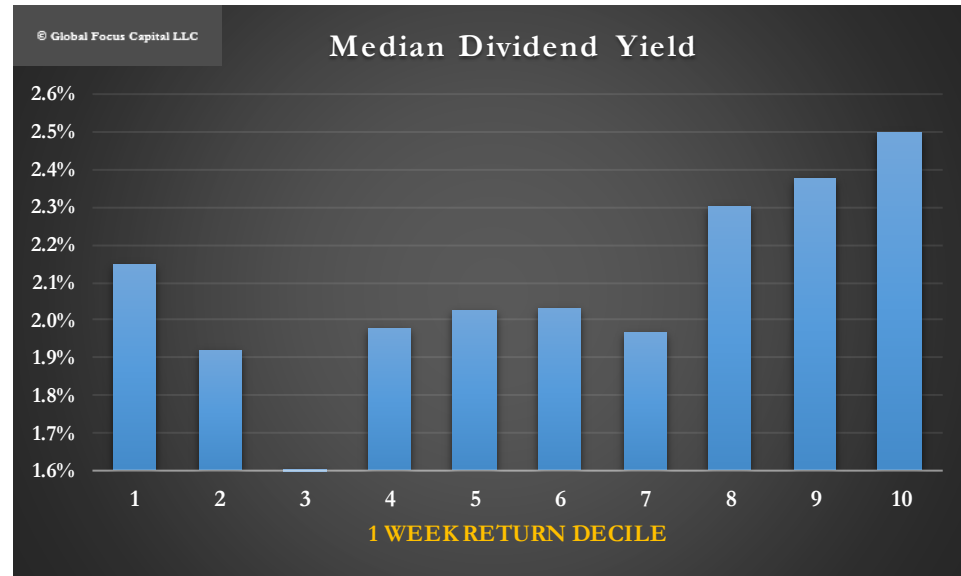
What did the markets reward last week: Valuation Models

- ▶ The best performing decile (Decile 1) had a median DCF valuation close to zero
- ▶ The worst performing stocks (Decile 10) also appeared as fairly valued by a DCF methodology
- ▶ In terms of analyst price targets, there was an inverse relationship
 - ▶ Stocks doing the best had price targets within 8% of the actual price
 - ▶ The worst performing stocks had a price target over 12% above the current price



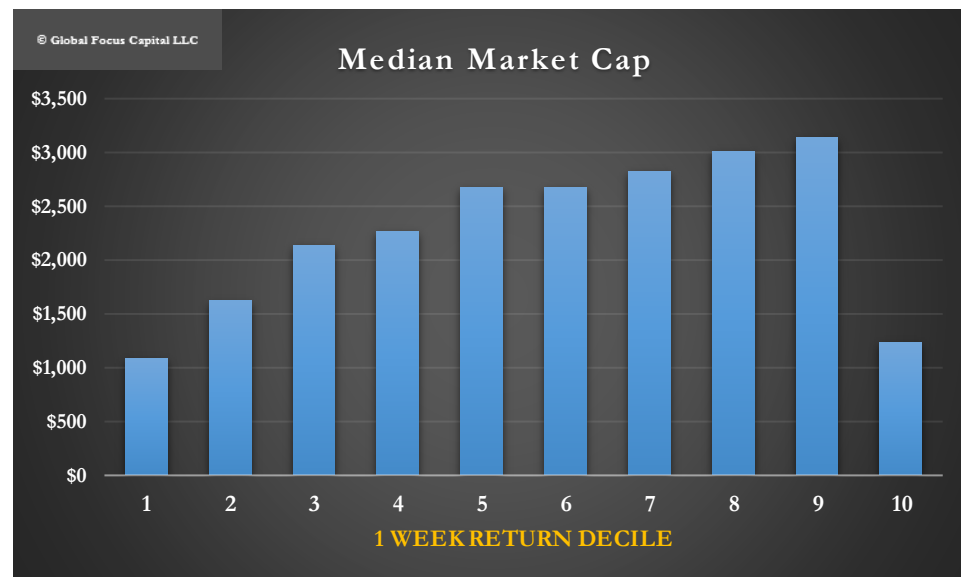
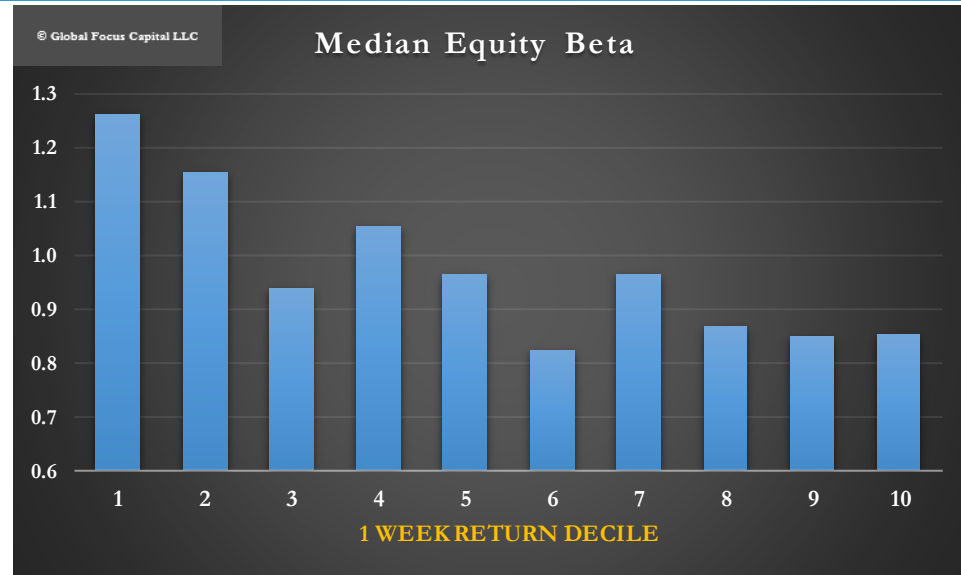
What did the markets reward last week: Yield and Sentiment

- ▶ On an equally weighted basis, dividend yield had a poor week
- ▶ The best performing stocks (Decile 1) had market average yields while the worst performers (Decile 10) had the highest yields
- ▶ Short interest, a measure of sentiment, showed a “U” shaped pattern of returns
 - ▶ We suspect some short covering took place especially within the energy sector



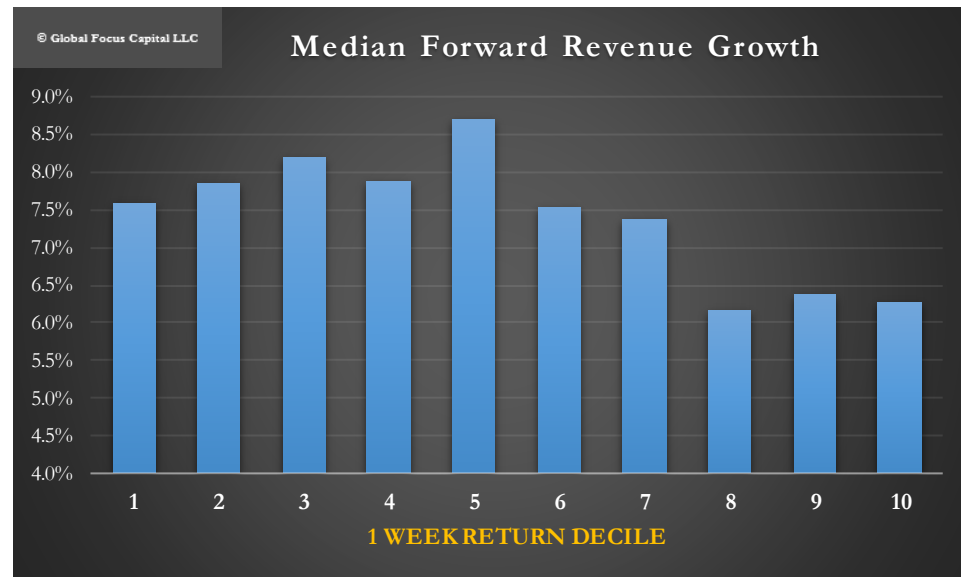
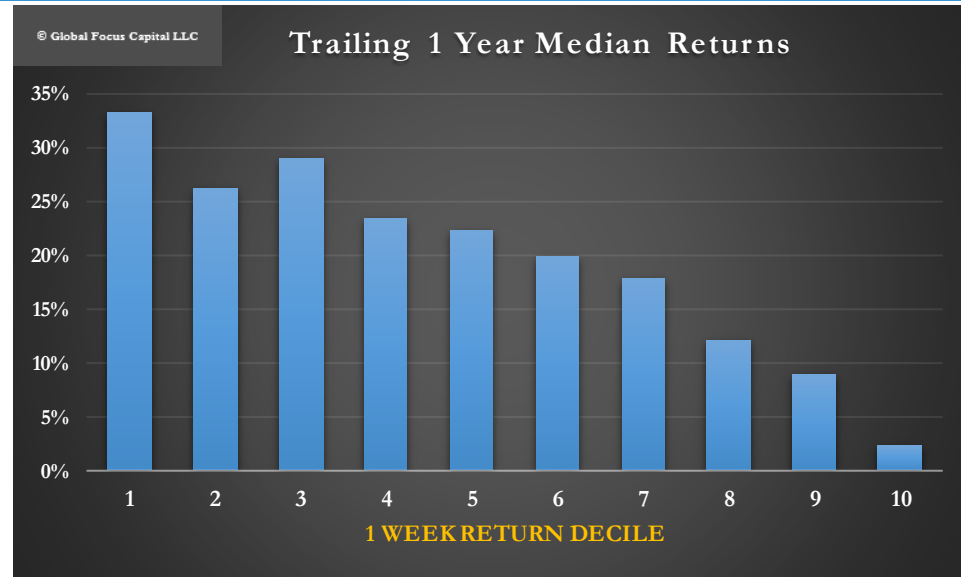
What did the markets reward last week: Beta and Size

- ▶ Higher beta stocks outperformed last week
- ▶ In terms of market cap over the last week we have seen again a strong relationship except in the left tail of returns
- ▶ Smaller stocks were the big winners last week
- ▶ The Russell Microcap index beat the Russell Megacap index by 1.5% over the last 5 trading days



What did the markets reward last week: Momentum and Growth

- ▶ The 1 year momentum effect continues in US – past 1 year winners had the highest median weekly performance
- ▶ The worst performers last week (Decile 10) continue to lag
- ▶ Better performing stocks had higher median forward revenue estimates but the effect was lumpy



Big Movers – Last 5 Days

Down

L Brands, Inc.	LB	Consumer Discretionary
Akorn, Inc.	AKRX	Healthcare
SJW Group	SJW	Utilities
1-800 FLOWERS.COM, Inc.	FLWS	Consumer Discretionary
Dean Foods Company	DF	Consumer Staples
Cato Corporation (The)	CATO	Consumer Discretionary
Daktronics, Inc.	DAKT	Information Technology
Digimarc Corporation	DMRC	Information Technology
Barnes & Noble Education	BNED	Consumer Discretionary
Achaogen, Inc.	AKAO	Healthcare
Lannett Co Inc	LCI	Healthcare
Sears Holdings Corporation	SHLD	Consumer Discretionary
Jones Energy, Inc.	JONE	Energy
Orchids Paper Products Co	TIS	Consumer Staples
Iconix Brand Group, Inc.	ICON	Consumer Discretionary

Up

Advanced Micro Devices, Inc.	AMD	Information Technology
DexCom, Inc.	DXCM	Healthcare
Wayfair Inc.	W	Consumer Discretionary
Tractor Supply Company	TSCO	Consumer Discretionary
Nordstrom, Inc.	JWN	Consumer Discretionary
Exact Sciences Corporation	EXAS	Healthcare
Pure Storage, Inc.	PSTG	Information Technology
Premier, Inc.	PINC	Healthcare
Transocean Ltd.	RIG	Energy
Williams-Sonoma, Inc.	WSM	Consumer Discretionary
Delek US Holdings, Inc.	DK	Energy
Chesapeake Energy Corporation	CHK	Energy
Range Resources Corporation	RRC	Energy
Myriad Genetics, Inc.	MYGN	Healthcare
iRobot Corporation	IRBT	Consumer Discretionary
Nabors Industries Ltd.	NBR	Energy
Denbury Resources Inc.	DNR	Energy
Cardtronics plc	CATM	Information Technology
Fabrinet	FN	Information Technology
Gamestop Corporation	GME	Consumer Discretionary

This Coming Week

Reporting Soon

Hewlett Packard Enterprise	HPE	Information Technology
Best Buy Co., Inc.	BBY	Consumer Discretionary
Tiffany & Co.	TIF	Consumer Discretionary
Keysight Technologies Inc	KEYS	Information Technology
Ubiquiti Networks, Inc.	UBNT	Information Technology
Eaton Vance Corporation	EV	Financials
Foot Locker, Inc.	FL	Consumer Discretionary
Catalent, Inc.	CTLT	Healthcare
H&R Block, Inc.	HRB	Consumer Discretionary
Box, Inc.	BOX	Information Technology
The Hain Celestial Group,	HAIN	Consumer Staples
DSW Inc.	DSW	Consumer Discretionary
Phibro Animal Health Corp	PAHC	Healthcare
Caleres, Inc.	CAL	Consumer Discretionary
American Woodmark Corp	AMWD	Industrials
Standex International Corp	SXI	Industrials
Buckle, Inc. (The)	BKE	Consumer Discretionary
Movado Group Inc.	MOV	Consumer Discretionary
ScanSource, Inc.	SCSC	Information Technology
NCI Building Systems, Inc	NCS	Industrials
USA Technologies, Inc.	USAT	Information Technology
Xcerra Corporation	XCRA	Information Technology
Shoe Carnival, Inc.	SCVL	Consumer Discretionary
Hibbett Sports, Inc.	HIBB	Consumer Discretionary
Ooma, Inc.	OOMA	Telecommunication Services
Lannett Co Inc	LCI	Healthcare

- ▶ Risk Aversion – expect the RAI to jump into the Neutral Zone
 - ▶ Investors keep under-pricing risk
- ▶ Will US stocks keep leaping ahead of the rest of the world? Is this dependent on the USD?
- ▶ Tariff wars do not seem to have much of an effect on US stocks – will this persist?
- ▶ Will EM equities recover? Seems to be all about the direction of the US dollar at the moment
- ▶ Are Chinese equities going to further lose ground or is this temporary? Is the down trend due to tariffs or domestic growth issues?

Contact & Subscription Information

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