



GLOBAL FOCUS CAPITAL LLC
INSIGHT THAT MATTERS

The Equity Observer

Weekly Review – August 31, 2018

Eric J. Weigel

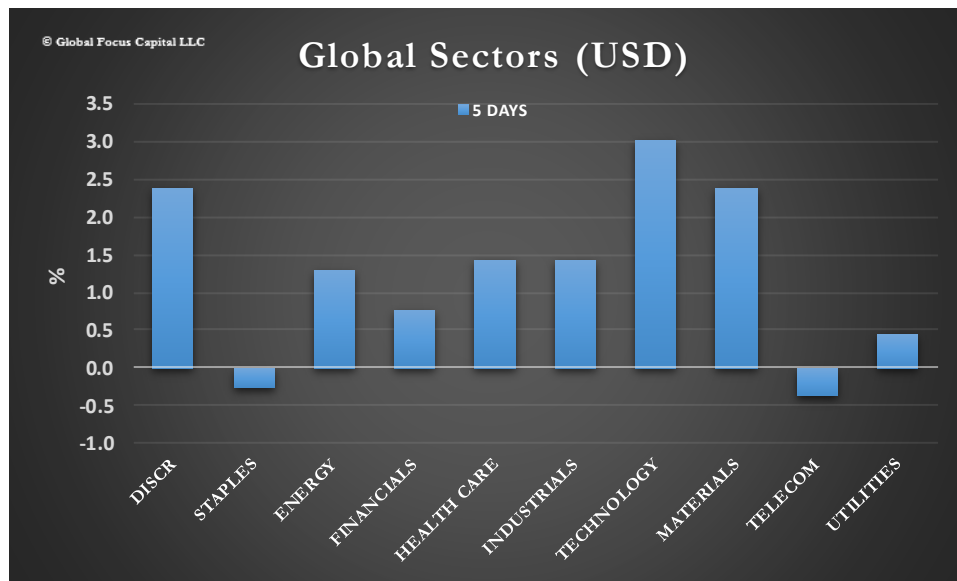
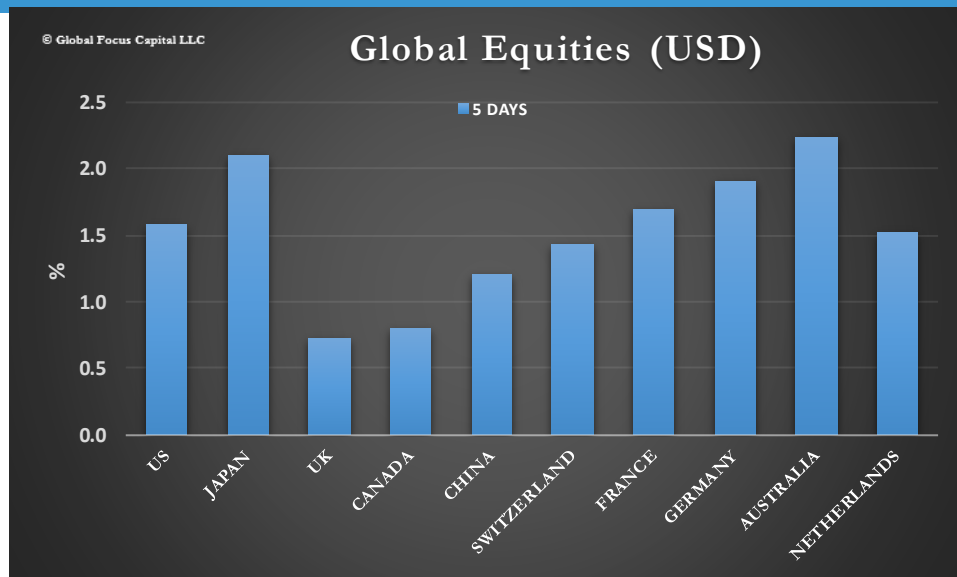
Top Equity Markets – The US keeps plowing ahead, China is dragging down Emerging Markets

© Global Focus Capital LLC							LAST 3 YEARS	LAST 5 YEARS
TOP EQUITY MARKETS	2018	2017	2016	2015	2014	2013		
UNITED STATES	9.9	21.8	12.0	1.4	13.7	32.4	15.8	14.5
JAPAN	-1.6	24.0	2.4	9.6	-4.0	27.2	7.9	7.8
UNITED KINGDOM	-3.2	22.3	-0.1	-7.6	-5.4	20.7	4.5	3.2
CANADA	-0.9	16.2	24.6	-24.2	1.5	5.6	8.8	3.6
CHINA	-7.0	54.1	0.9	-7.8	8.0	3.6	13.6	9.5
SWITZERLAND	0.6	23.8	-2.9	0.5	-0.6	27.0	5.8	6.2
FRANCE	2.9	28.7	4.9	-0.1	-9.9	26.3	10.4	7.5
GERMANY	-5.2	27.7	2.8	-1.9	-10.4	31.4	7.7	6.1
AUSTRALIA	0.2	19.9	11.4	-10.0	-3.4	4.2	11.4	4.4
NETHERLANDS	0.8	33.9	4.6	1.7	-5.6	30.7	11.6	9.3

Source: iShares, all returns denominated in US Dollars

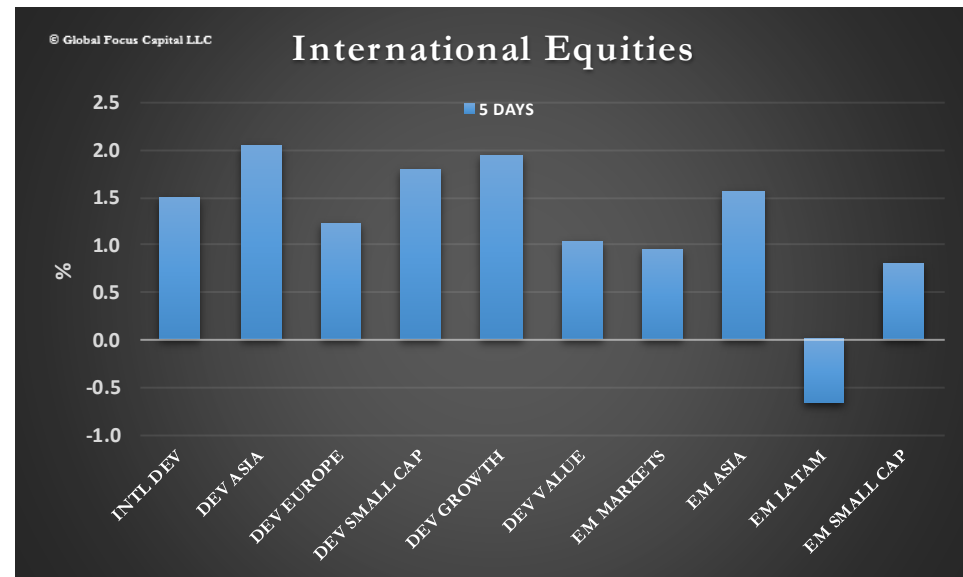
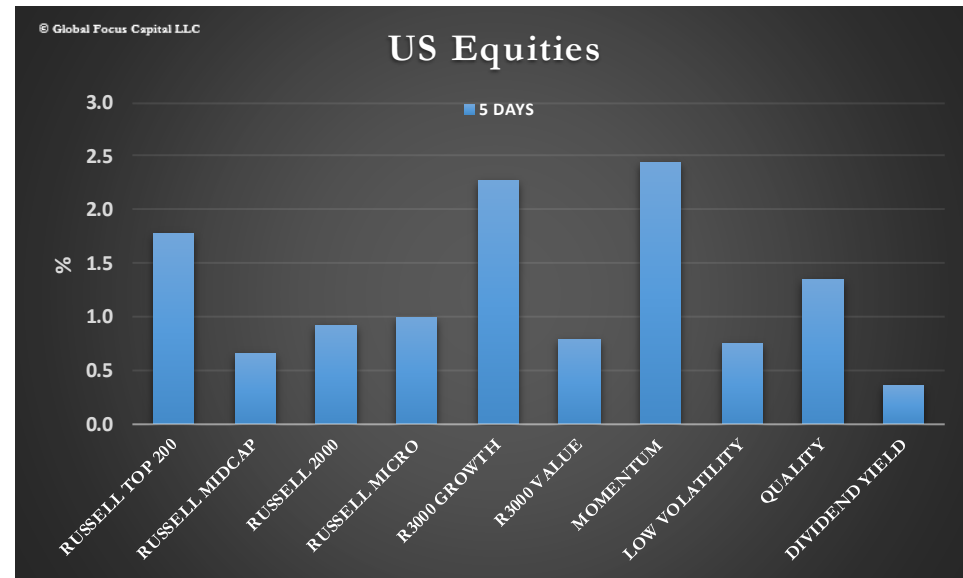
Global Equities

- ▶ Good week all around for global equities with Australia having recovered from last week's loss
- ▶ Among sub-asset classes, US Large Cap and Developed International performed the best
- ▶ Equities once gain beat bonds by a handy margin last week
- ▶ Growth outperformed Value over the last 5 trading days
 - ▶ Traditional Value sectors such as Staples and Telecom suffered losses
 - ▶ Tech has regained its mojo along with Consumer Discretionary
- ▶ Energy stocks keep recovering – tensions in the Strait of Hormuz will provide further support for oil prices



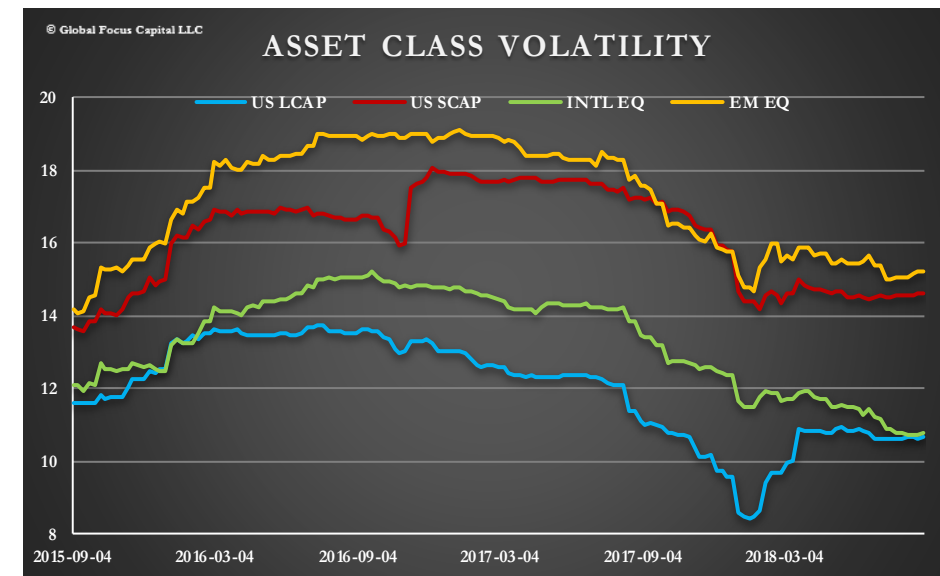
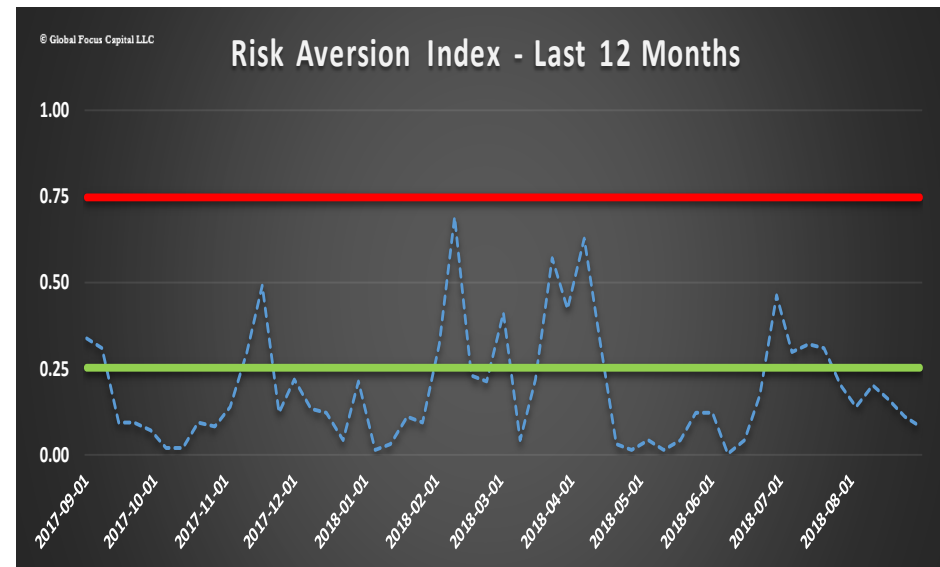
Style and Geography

- ▶ In the US, mega-caps outperformed
- ▶ Value once again underperformed Growth – a big portion of this differential is due to sector concentration differences
- ▶ Growth and Momentum keep dominating among US stocks
- ▶ Asian Developed markets (mostly Japan) propelled the MSCI EAFE to a 1.5% return
- ▶ 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 seriously underpricing 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.



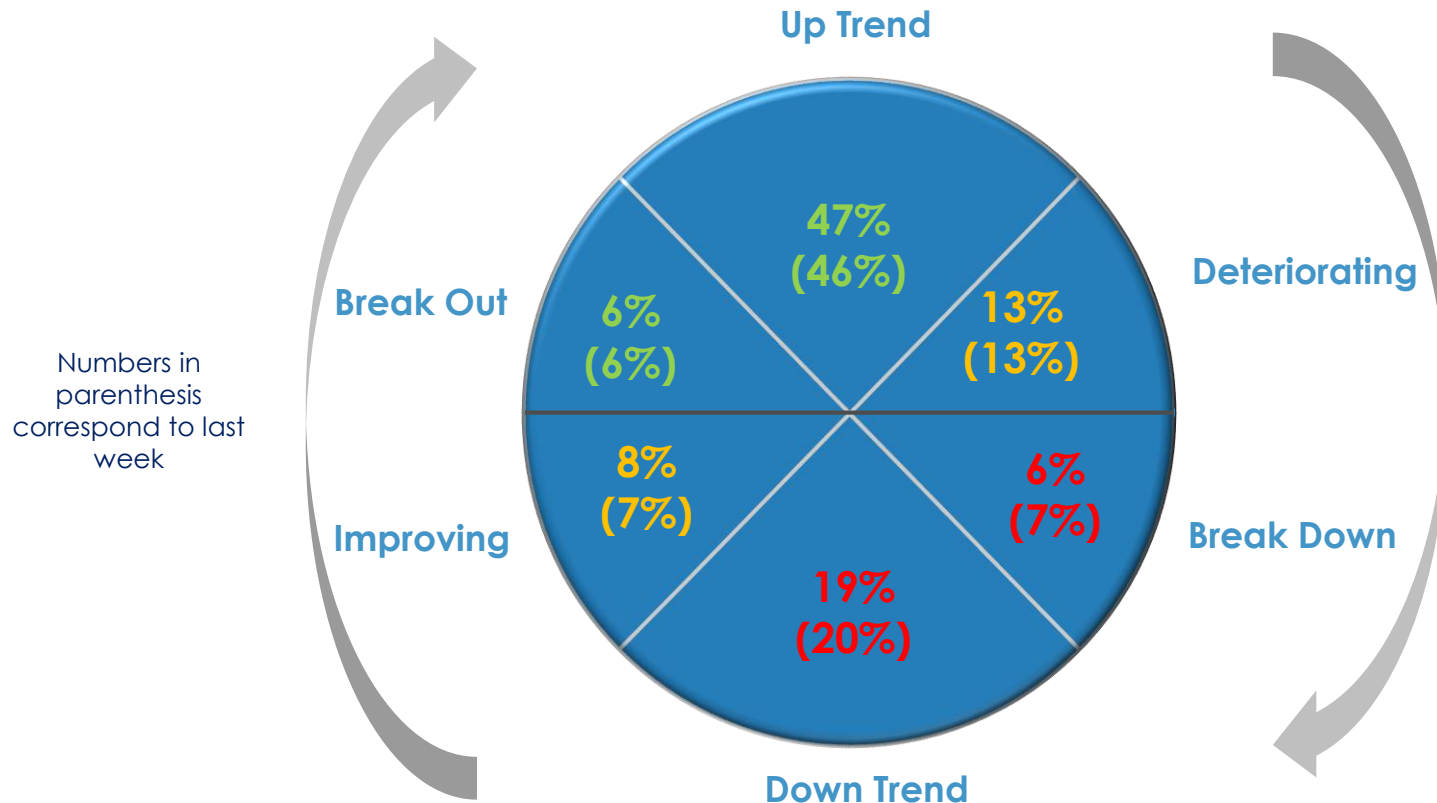


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US Equities

Weekly Performance

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

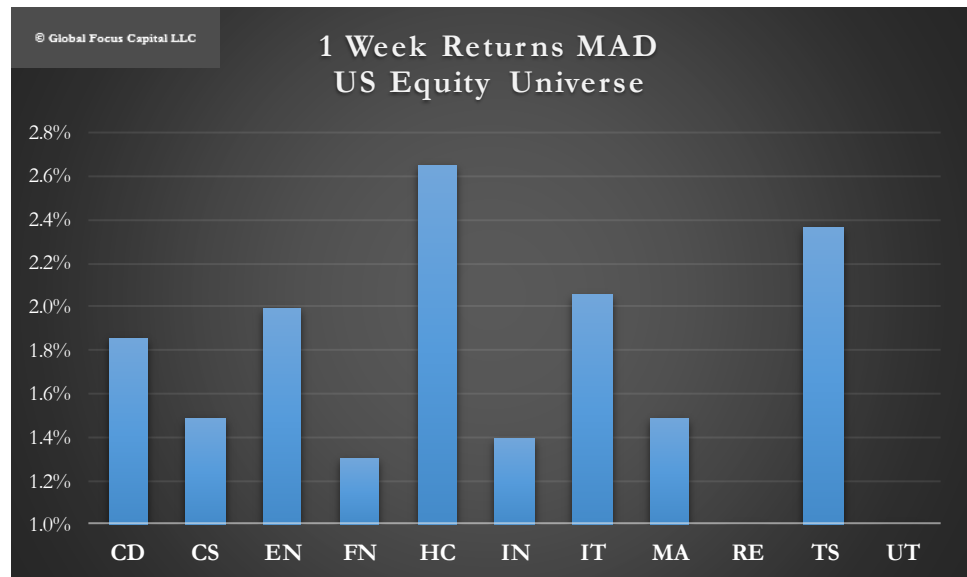
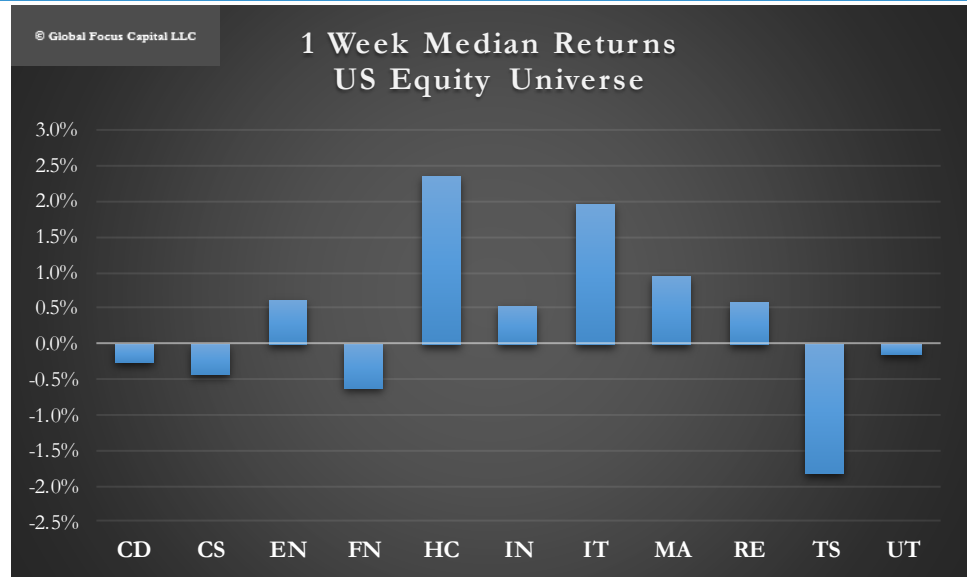


STAGE	LATEST
UP TREND	46.82%
BREAK OUT	6.00%
IMPROVING	8.25%
DOWN TREND	19.36%
BREAK DOWN	6.07%
DETERIORATING	13.51%

GF CAP US All Equity Universe

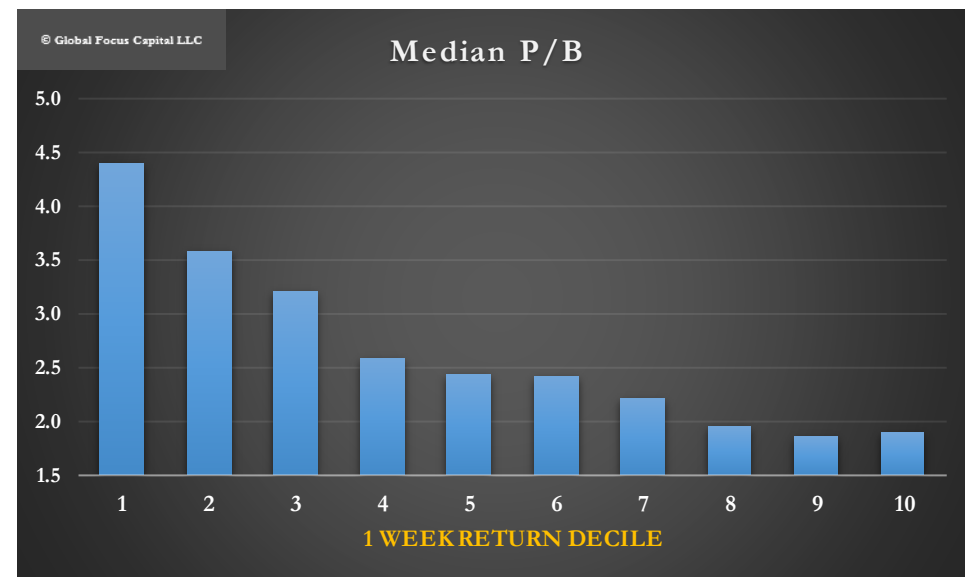
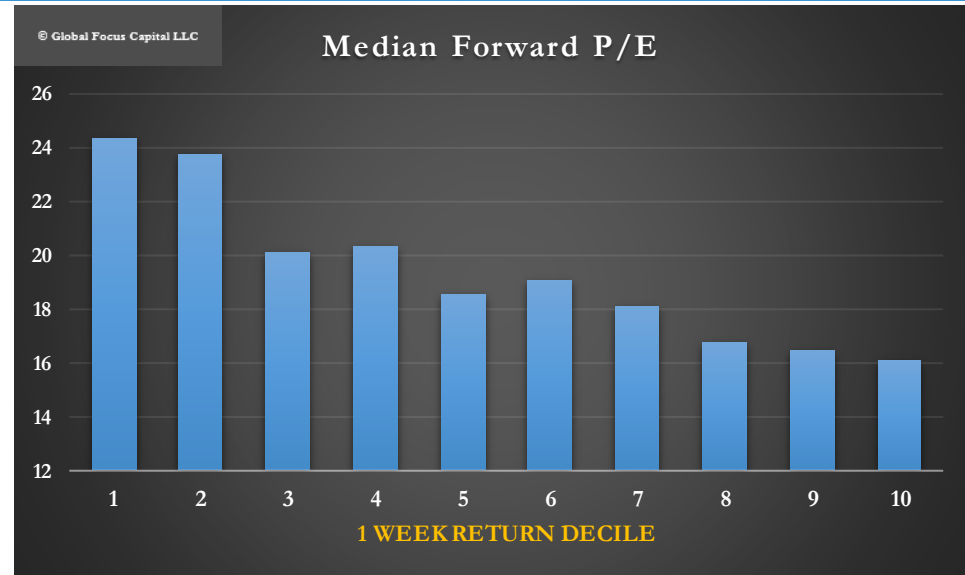
The Sector Look – median performance and dispersion

- ▶ The median stock in our universe was up 0.4% over the last 5 trading days
- ▶ Interest rate sensitive sectors continue lagging while growth sectors such as Tech and Health Care kept their momentum
- ▶ The widest variability in performance was seen in the Health Care sector – due primarily to earnings releases
 - ▶ We use the median absolute deviation as a robust measure of within sector variability



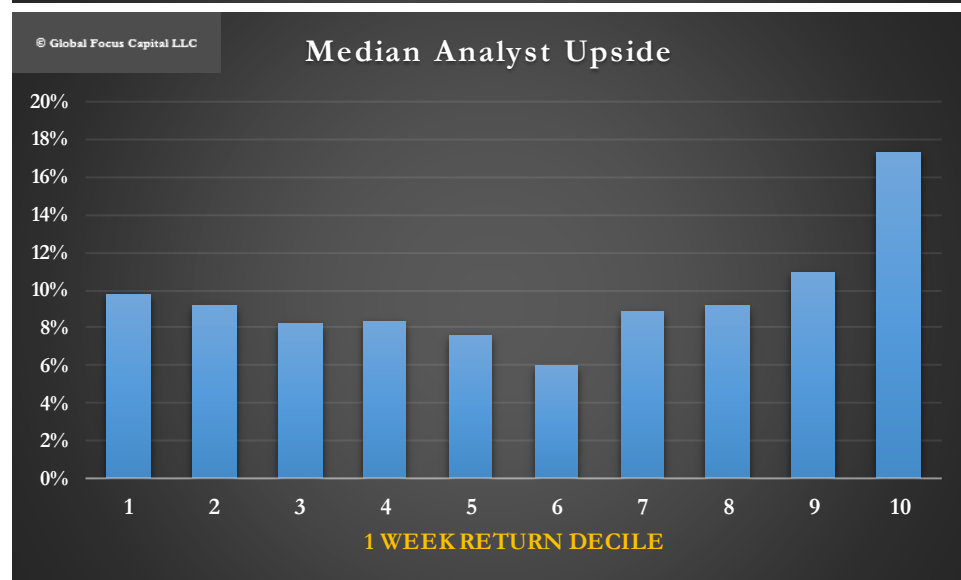
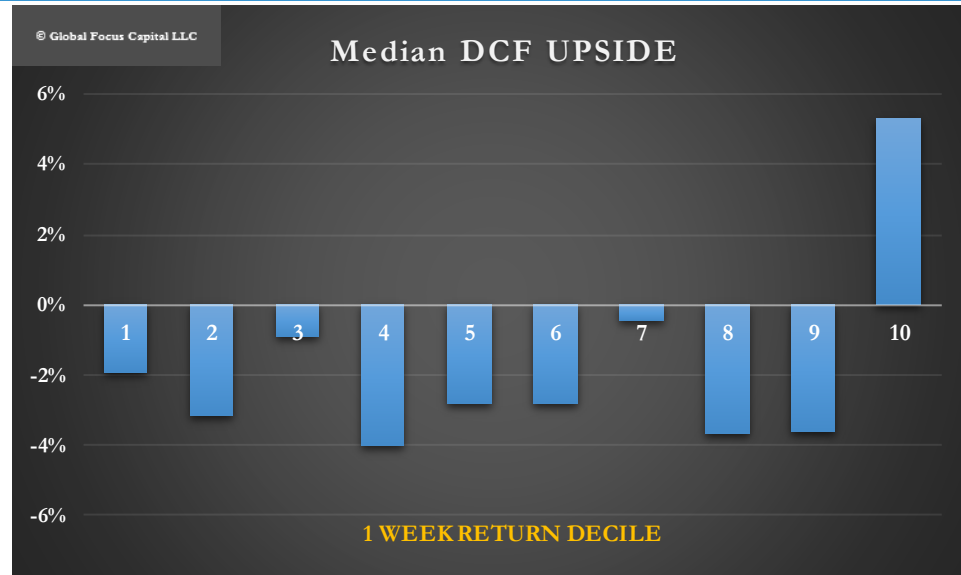
What did the markets reward last week: Valuation Multiples

- ▶ 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
- ▶ We saw the same pattern for P/B – better performers had higher P/B ratios
- ▶ More expensive stocks continue to do better YTD – last week was no exception



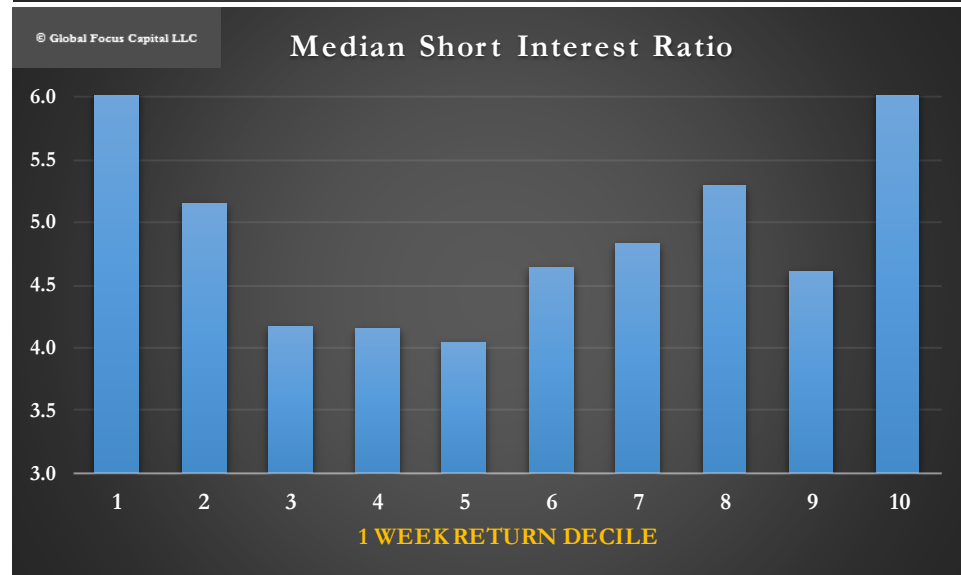
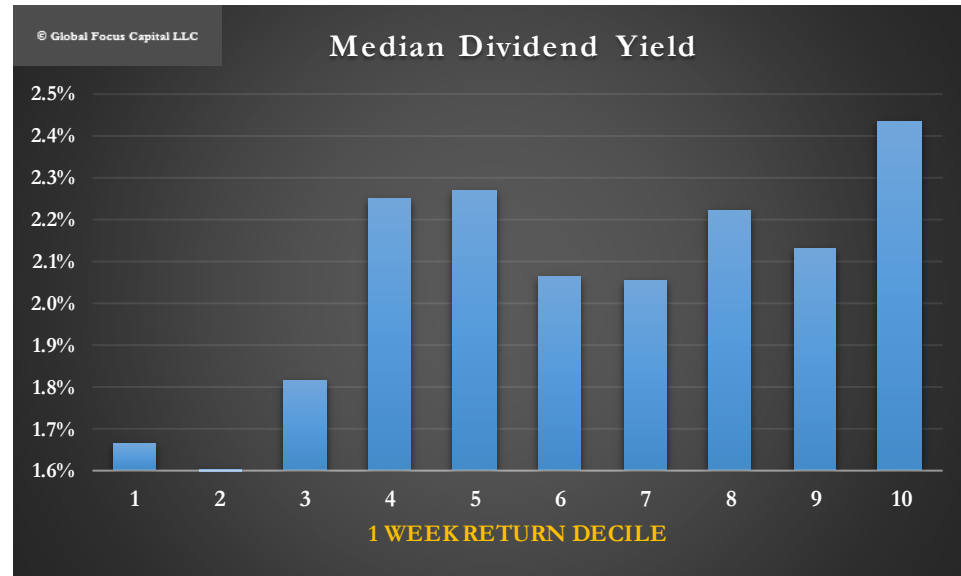
What did the markets reward last week: Valuation Models

- ▶ The median stock in our universe is 3% over-valued according to a DCF valuation
- ▶ Except for the worst performing stocks (Decile 10) all other return deciles exhibit over-valuation
- ▶ In terms of analyst price targets, there was an inverse relationship
 - ▶ Stocks doing the best had price targets within 10% of the actual price
 - ▶ The worst performing stocks had a price target over 17% above the current price



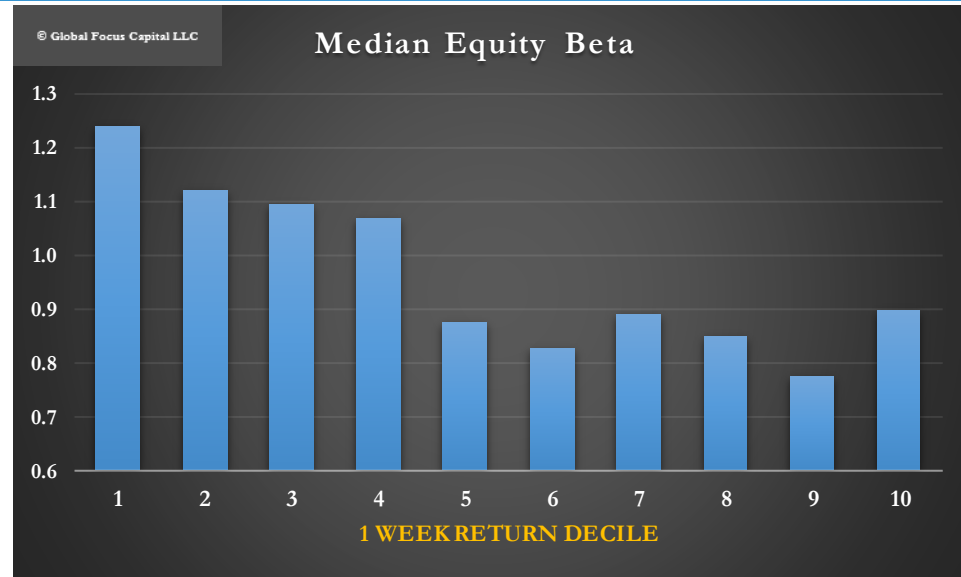
What did the markets reward last week: Yield and Sentiment

- ▶ On an equally weighted basis, dividend yield had a poor week
- ▶ The best performing stocks (Decile 1) had below-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 discretionary sector



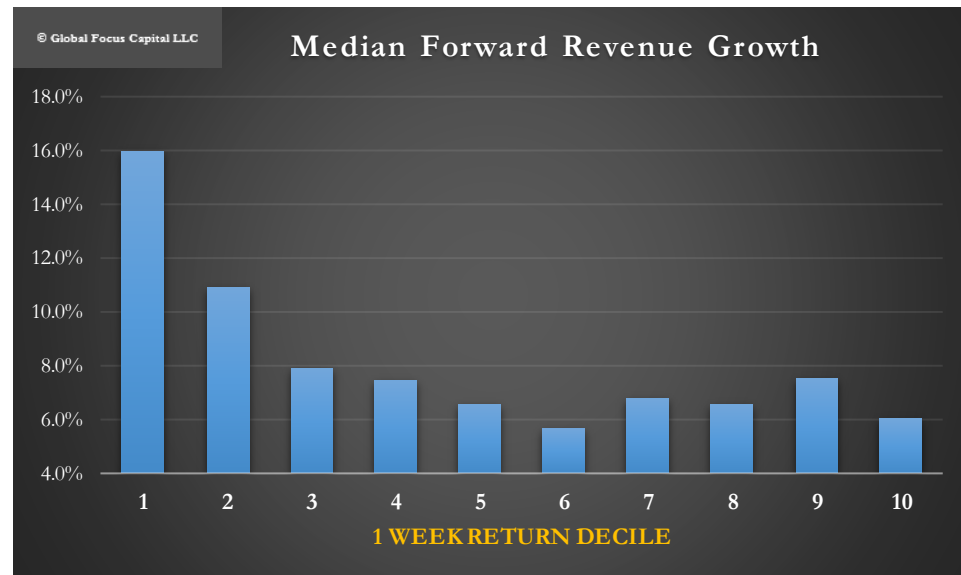
What did the markets reward last week: Beta and Size

- ▶ Higher beta stocks outperformed last week
- ▶ In terms of market cap over the last week we have seen an inverted V pattern
- ▶ The Russell Microcap index underperformed the Russell Megacap index by 0.77% over the last 5 trading days
 - ▶ This relative loss offset the huge relative out-performance of small caps in the prior week



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 – growth is being rewarded by investors



Big Movers – Last 5 Days

Down

Dollar Tree, Inc.	DLTR	Consumer Discretionary
American Eagle Outfitters,	AEO	Consumer Discretionary
The Michaels Companies,	MIK	Consumer Discretionary
Tech Data Corporation	TECD	Information Technology
Weatherford International p	WFT	Energy
TopBuild Corp.	BLD	Consumer Discretionary
Abercrombie & Fitch Com	ANF	Consumer Discretionary
Gamestop Corporation	GME	Consumer Discretionary
Mammoth Energy Services	TUSK	Energy
Fossil Group, Inc.	FOSL	Consumer Discretionary
Chico's FAS, Inc.	CHS	Consumer Discretionary
Valhi, Inc.	VHI	Materials
Eagle Pharmaceuticals, Inc	EGRX	Healthcare
NutriSystem Inc	NTRI	Consumer Discretionary
Movado Group Inc.	MOV	Consumer Discretionary
Control4 Corporation	CTRL	Information Technology
Eros International PLC	EROS	Consumer Discretionary
Eclipse Resources Corpora	ECR	Energy
Barnes & Noble, Inc.	BKS	Consumer Discretionary
Hibbett Sports, Inc.	HIBB	Consumer Discretionary

Up

Square, Inc.	SQ	Information Technology
Autodesk, Inc.	ADSK	Information Technology
Advanced Micro Devices, I	AMD	Information Technology
Splunk Inc.	SPLK	Information Technology
Veeva Systems Inc.	VEEV	Healthcare
Yum China Holdings, Inc.	YUMC	Consumer Discretionary
Alnylam Pharmaceuticals, I	ALNY	Healthcare
Heico Corporation	HEI	Industrials
Exact Sciences Corporation	EXAS	Healthcare
Immunomedics, Inc.	IMMU	Healthcare
Ciena Corporation	CIEN	Information Technology
Ultragenyx Pharmaceutical	RARE	Healthcare
Semtech Corporation	SMTC	Information Technology
iRobot Corporation	IRBT	Consumer Discretionary
Brooks Automation, Inc.	BRKS	Information Technology
DSW Inc.	DSW	Consumer Discretionary
REGENXBIO Inc.	RGNX	Healthcare
Reata Pharmaceuticals, Inc	RETA	Healthcare
Denbury Resources Inc.	DNR	Energy
Pandora Media, Inc.	P	Information Technology

This Coming Week

Reporting Soon

Workday, Inc.	WDAY	Information Technology
Hewlett Packard Enterprise	HPE	Information Technology
HealthEquity, Inc.	HQY	Healthcare
Caseys General Stores, Inc.	CASY	Consumer Staples
Coupa Software Incorporated	COUP	Information Technology
Restoration Hardware Holdings	RH	Consumer Discretionary
At Home Group Inc.	HOME	Consumer Discretionary
G-III Apparel Group, LTD	GIII	Consumer Discretionary
AeroVironment, Inc.	AVAV	Industrials
Big Lots, Inc.	BIG	Consumer Discretionary
Calavo Growers, Inc.	CVGW	Consumer Staples
Caleres, Inc.	CAL	Consumer Discretionary
Conn's, Inc.	CONN	Consumer Discretionary
GMS Inc.	GMS	Industrials
NCI Building Systems, Inc	NCS	Industrials
USA Technologies, Inc.	USAT	Information Technology
American Software, Inc.	AMSWA	Information Technology
NAPCO Security Technologies	NSSC	Information Technology
Fred's, Inc.	FRED	Consumer Discretionary

- ▶ Risk Aversion continues to surprise on the downside – maybe old historical metrics don't apply anymore? We don't agree!
- ▶ The bull market in US stocks remains intact with growth out-performing value – we don't see anything that is going to change this dynamic
- ▶ Tariff wars do not seem to have much of an effect on US stocks – will this persist? I
- ▶ Is small cap outperformance about tariff "protection" or something else. We think that it is mostly about momentum
- ▶ Will EM equities recover? Seems to be all about the direction of the US dollar at the moment with Argentina and Turkey inflicting further damage
- ▶ Are Chinese equities going to further lose ground or is this temporary? Is the down trend due to tariffs or domestic growth issues?
- ▶ Not much in the way of important earnings in the US

Contact & Subscription Information

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