



GLOBAL FOCUS CAPITAL LLC
INSIGHT THAT MATTERS

The Equity Observer

Weekly Review – September 21, 2018

Eric J. Weigel

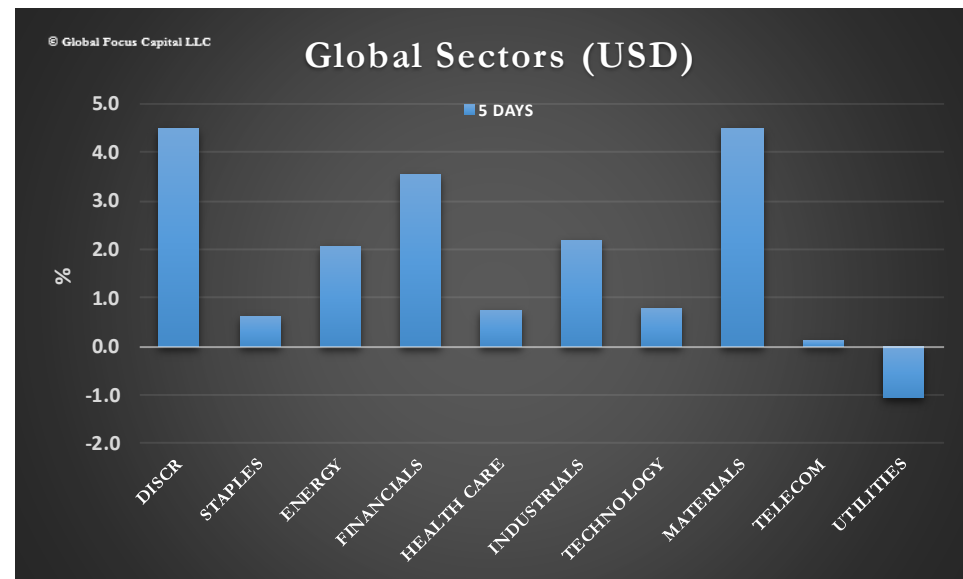
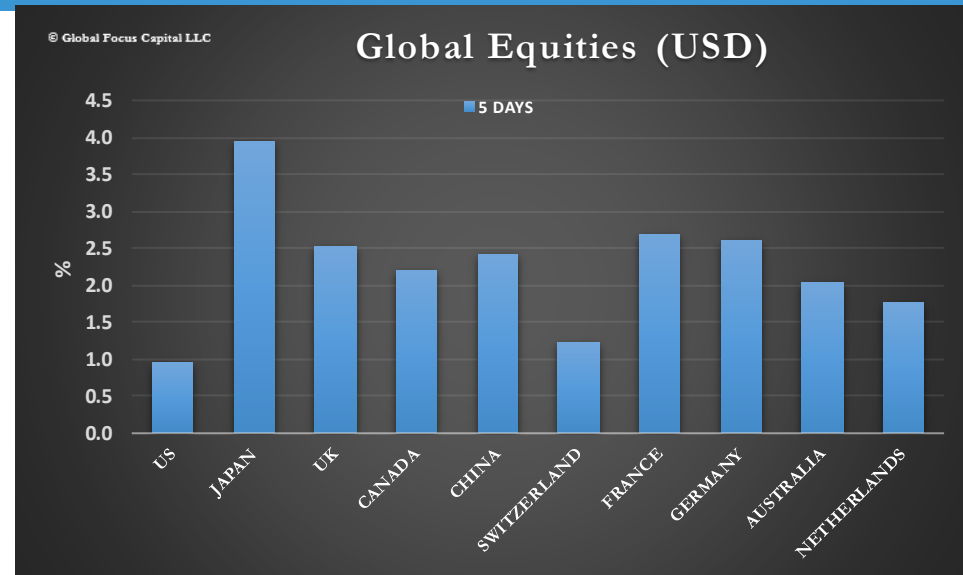
Top Equity Markets – The US keeps plowing ahead, China is dragging down Emerging Markets

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TOP EQUITY MARKETS	2018	2017	2016	2015	2014	2013	LAST 3 YEARS	LAST 5 YEARS
UNITED STATES	11.2	21.8	12.0	1.4	13.7	32.4	16.8	13.7
JAPAN	0.4	24.0	2.4	9.6	-4.0	27.2	10.5	6.5
UNITED KINGDOM	-3.1	22.3	-0.1	-7.6	-5.4	20.7	4.8	2.0
CANADA	-1.4	16.2	24.6	-24.2	1.5	5.6	8.9	2.7
CHINA	-9.8	54.1	0.9	-7.8	8.0	3.6	11.6	7.1
SWITZERLAND	1.2	23.8	-2.9	0.5	-0.6	27.0	6.1	4.9
FRANCE	3.2	28.7	4.9	-0.1	-9.9	26.3	11.1	5.6
GERMANY	-6.1	27.7	2.8	-1.9	-10.4	31.4	8.1	4.0
AUSTRALIA	-2.3	19.9	11.4	-10.0	-3.4	4.2	10.5	2.1
NETHERLANDS	-1.1	33.9	4.6	1.7	-5.6	30.7	11.6	7.2

Source: iShares, all returns denominated in US Dollars

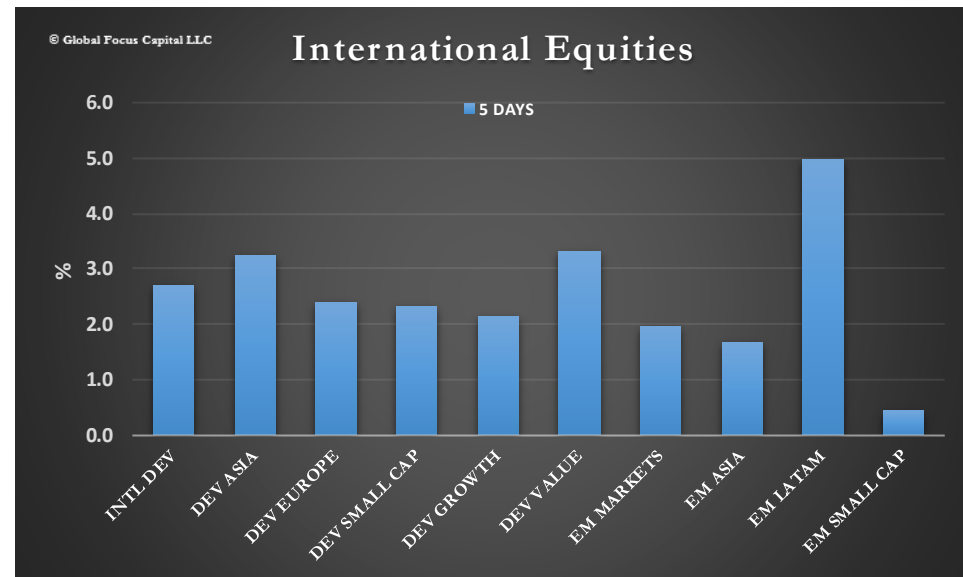
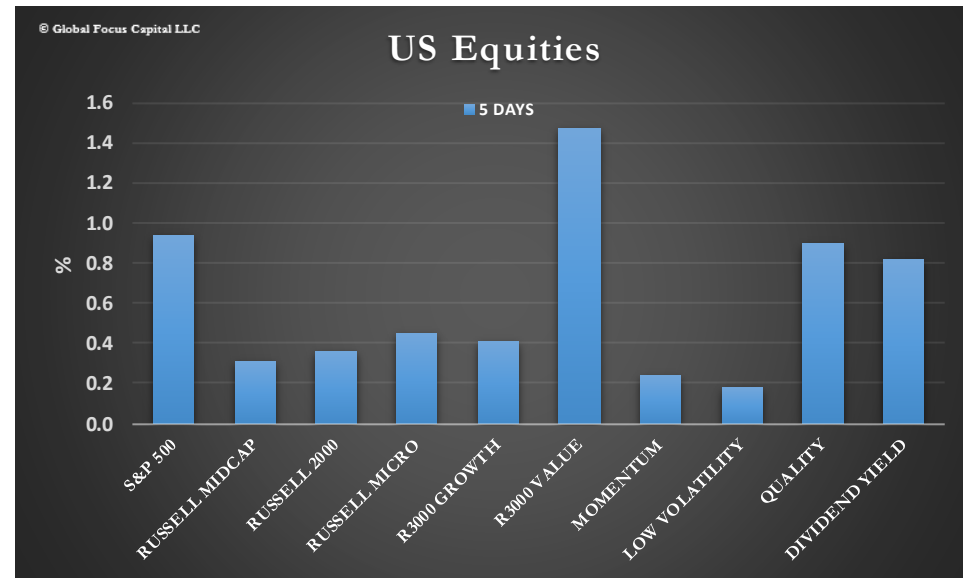
Global Equities

- ▶ Great last 5 days for global equities with Japan leading the pack
- ▶ Equities vastly out-performed bonds last week
- ▶ International equities and Emerging markets outperformed US equities
- ▶ Growth under-performed Value over the last 5 trading days
- ▶ Traditional Value sectors such as Materials and Financials made a comeback
- ▶ Utilities were the only sector in the red



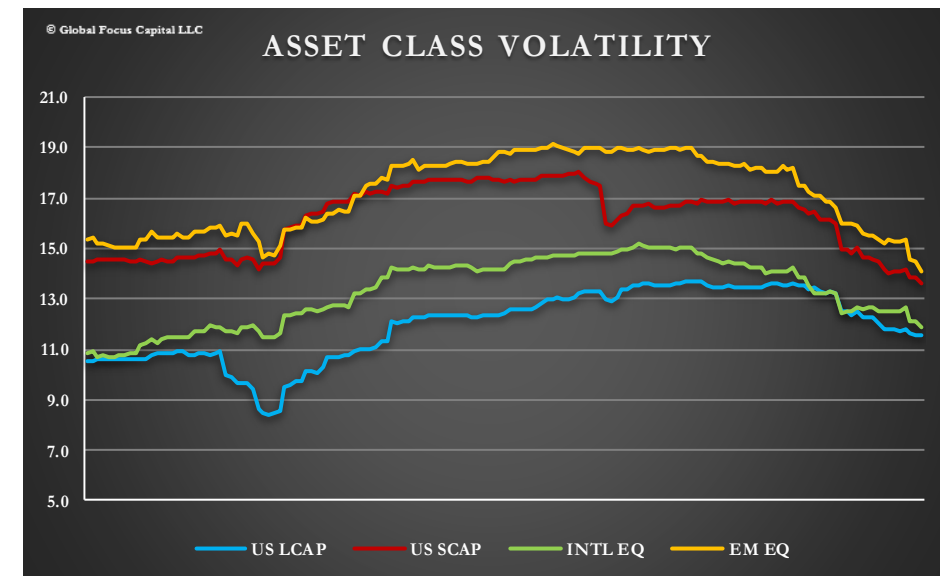
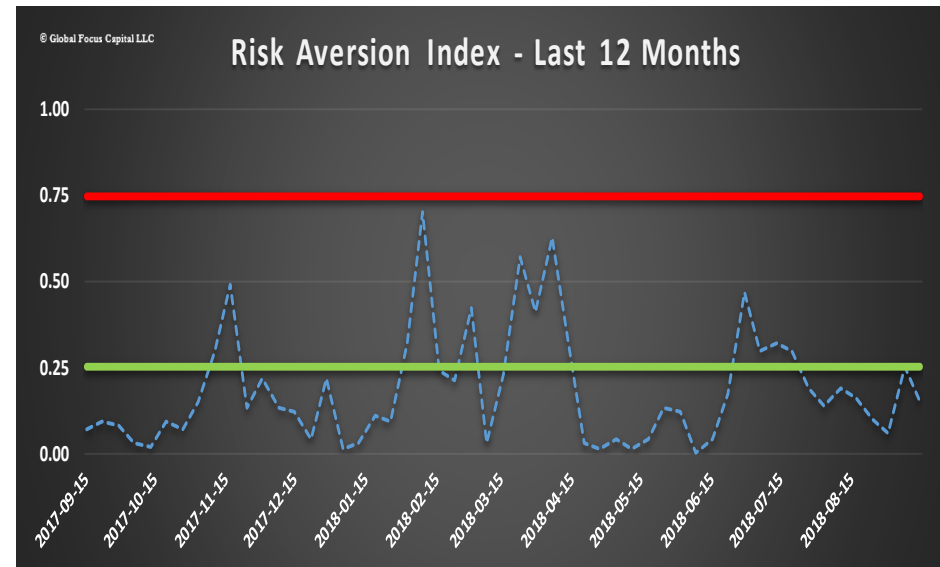
Style and Geography

- ▶ In the US, mega-caps outperformed
- ▶ Value for once out-performed Growth –mainly due to a recovery of the Materials and Finance sectors
- ▶ Growth and Momentum keep dominating YTD among US stocks but trailed last 5 days
- ▶ Asian Developed markets (mostly Japan) propelled the MSCI EAFE to a 2.7% return
- ▶ EM LATAM recovered last week but trouble continues in the area (Brazil and Argentina)



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.



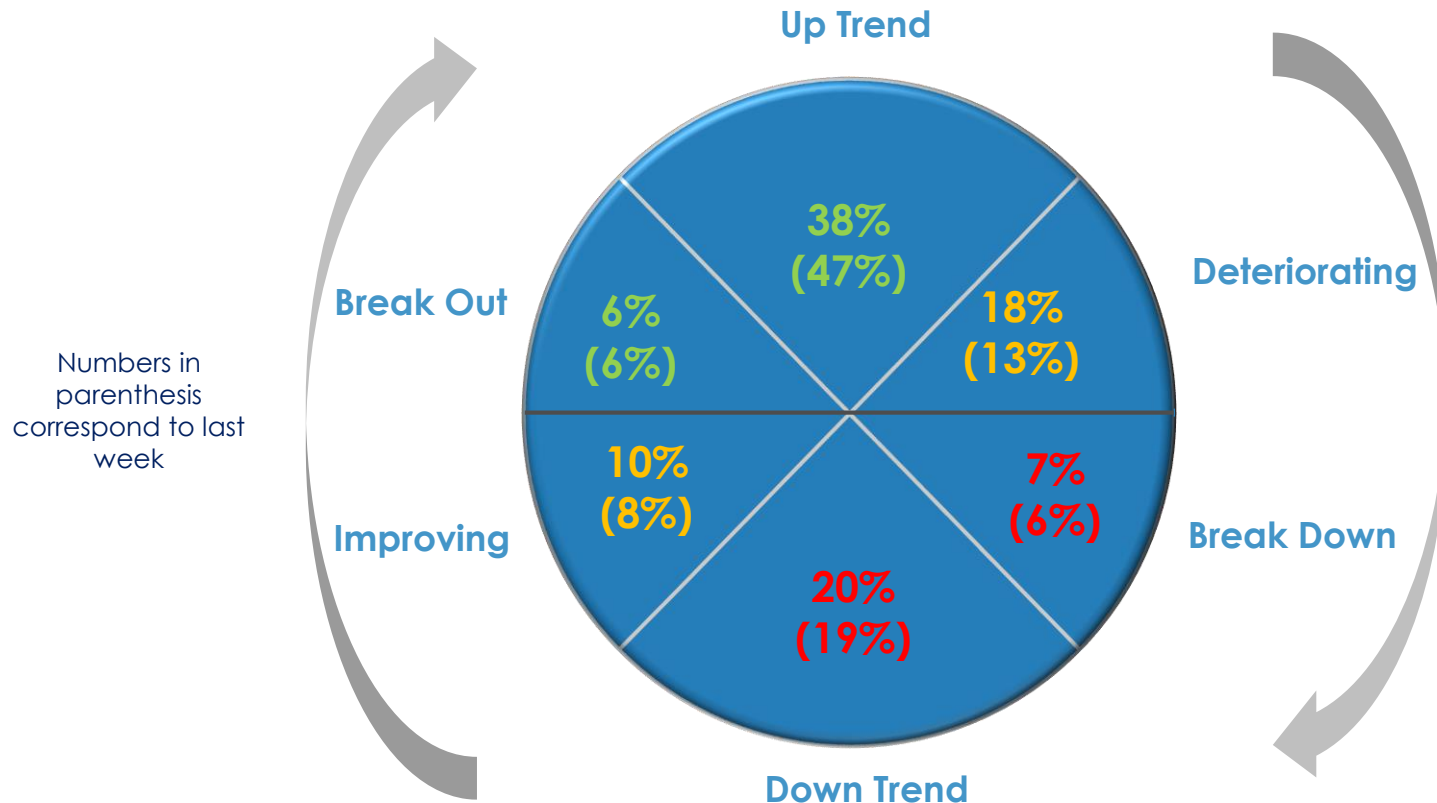


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US Equities

Weekly Performance

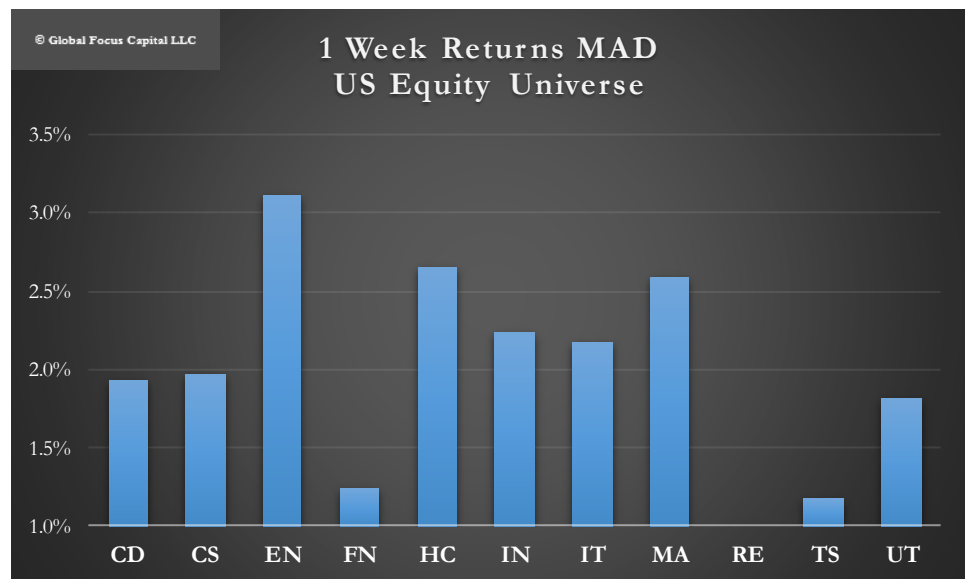
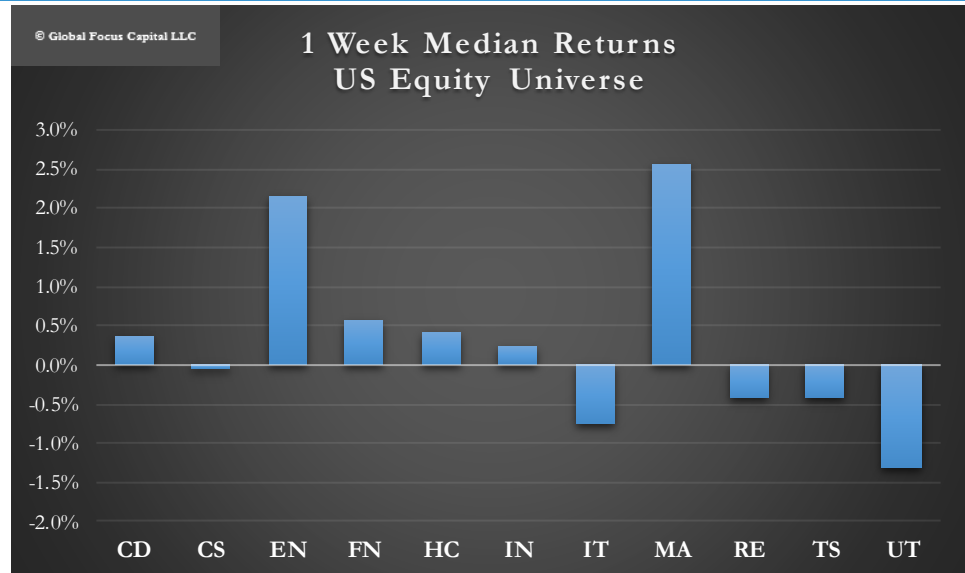
The Bull market may be getting a bit tired – jump in stocks in the Deteriorating phase, some industry rotation happening quietly



GF CAP US All Equity Universe

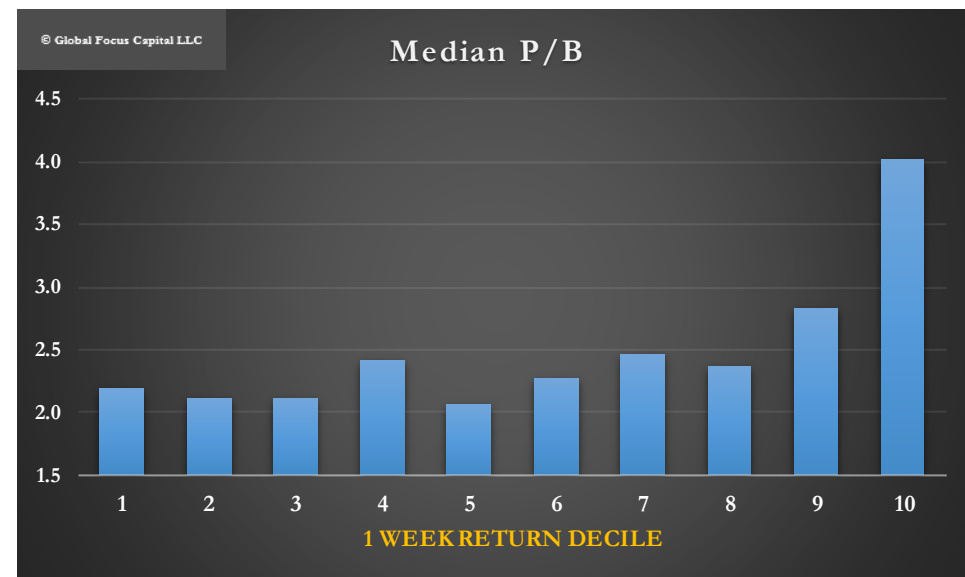
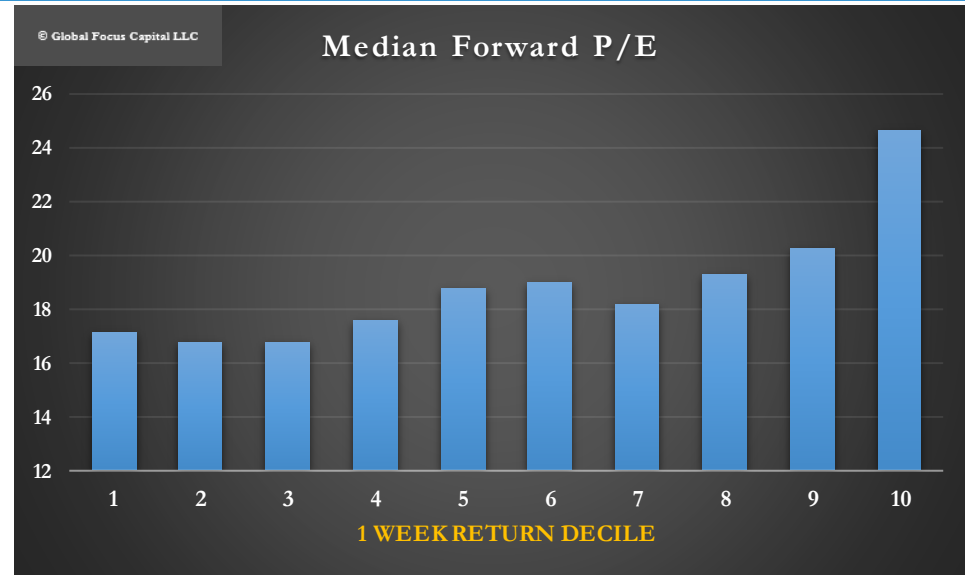
The Sector Look – median performance and dispersion

- ▶ The median stock in our universe was up 0.3% over the last 5 trading days
- ▶ Commodity oriented sectors did best last week while the median Utility and Tech stock lost money
- ▶ The widest variability in performance was seen in the Energy sector –
- ▶ We use the median absolute deviation as a robust measure of within sector variability



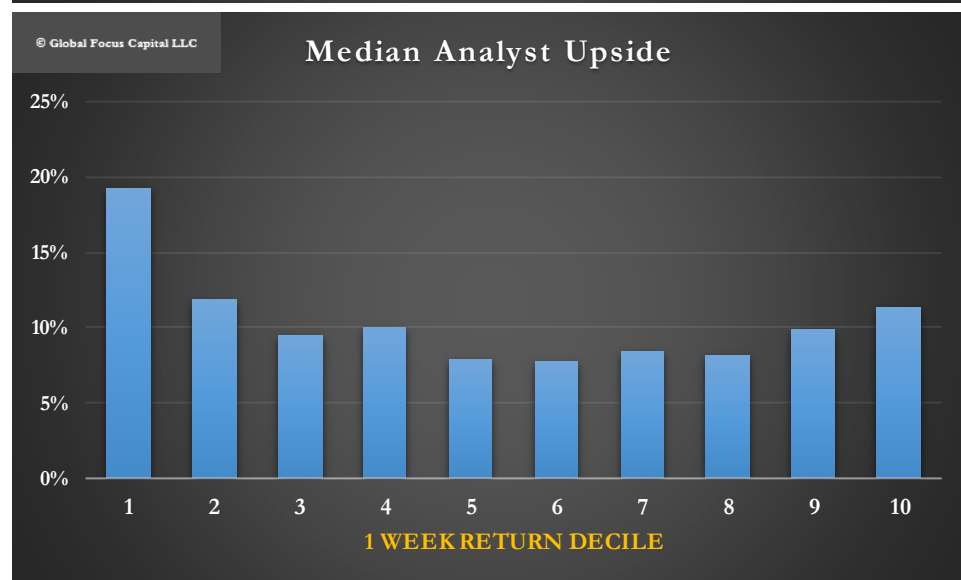
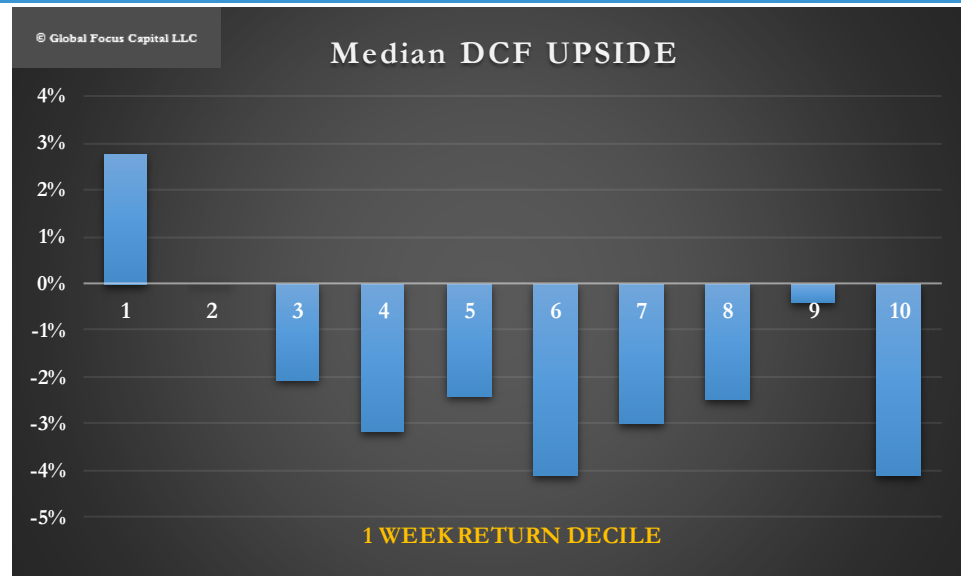
What did the markets reward last week: Valuation Multiples

- ▶ Valuation as a factor had a wonderful week especially when looking at P/E ratios
- ▶ The best performers over the last 5 days had the lowest median P/E
- ▶ We saw the same pattern for P/B – better performers had lower P/B ratios
- ▶ More expensive stocks continue to do better YTD – last week was an exception



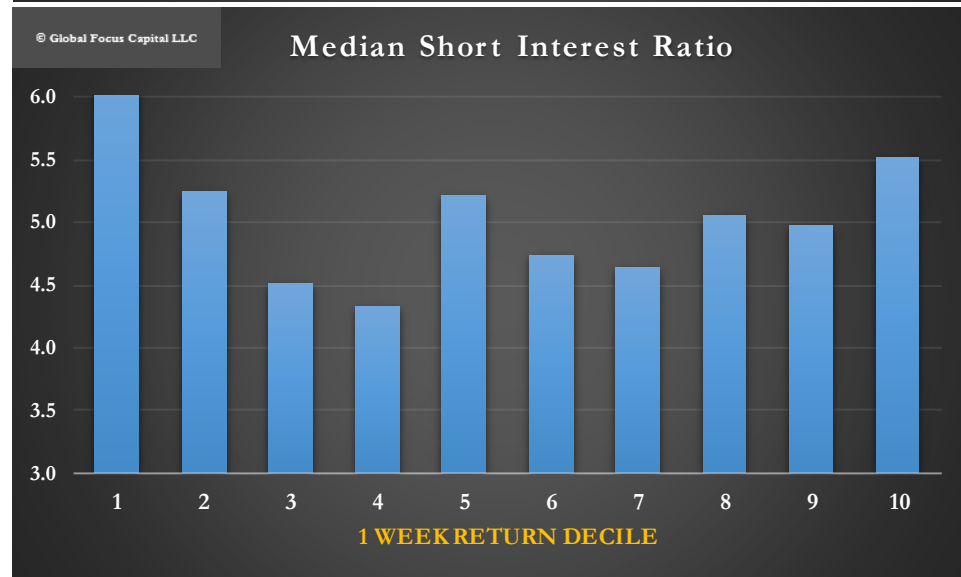
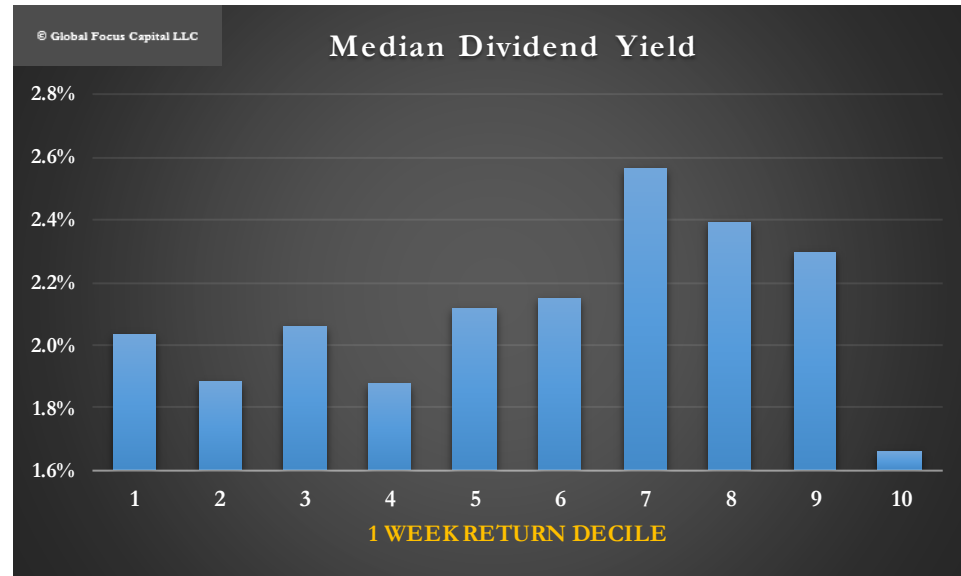
What did the markets reward last week: Valuation Models

- ▶ The median stock in our universe is 3% over-valued according to a DCF valuation
- ▶ Except for the best performing stocks (Decile 1) all other return deciles exhibit over-valuation
- ▶ In terms of analyst price targets, there was a direct relationship
 - ▶ Stocks doing the best had the highest price targets
 - ▶ This represents a reversal of the usual occurrence



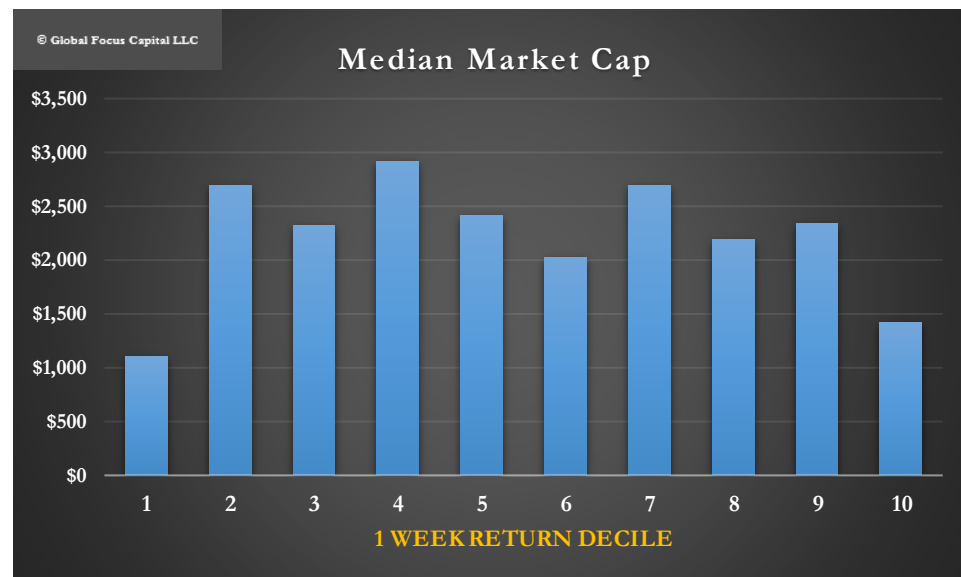
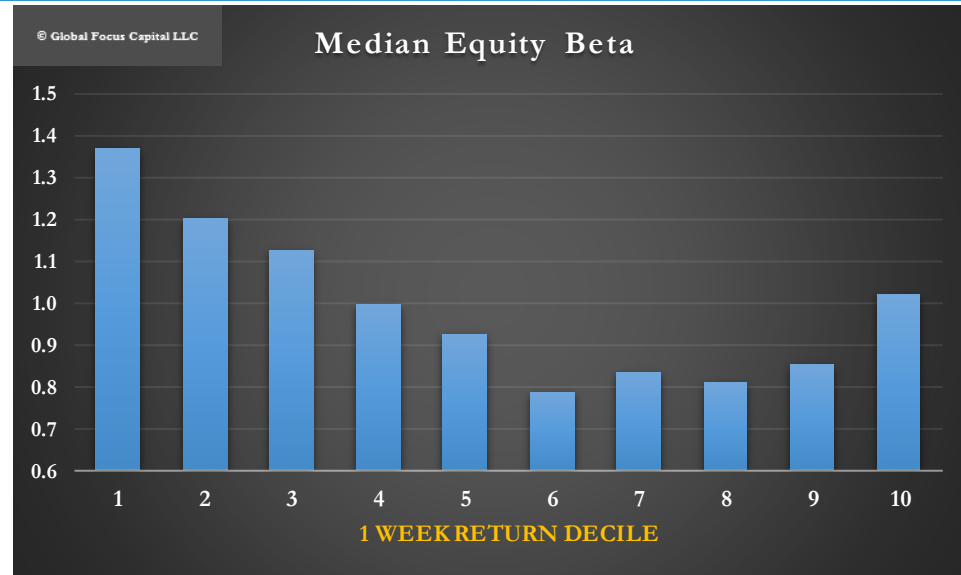
What did the markets reward last week: Yield and Sentiment

- ▶ 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 (Deciles 7-9) 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 and materials sectors



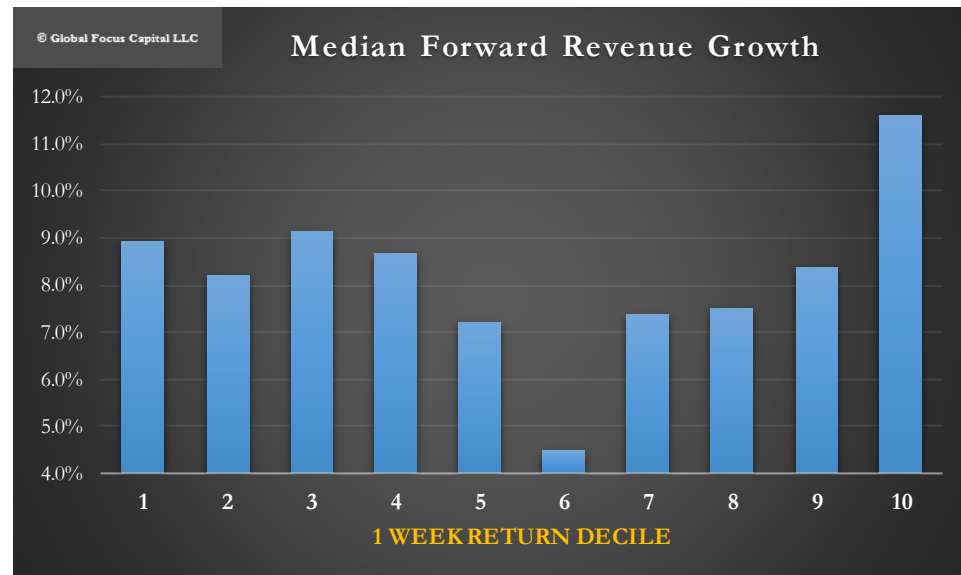
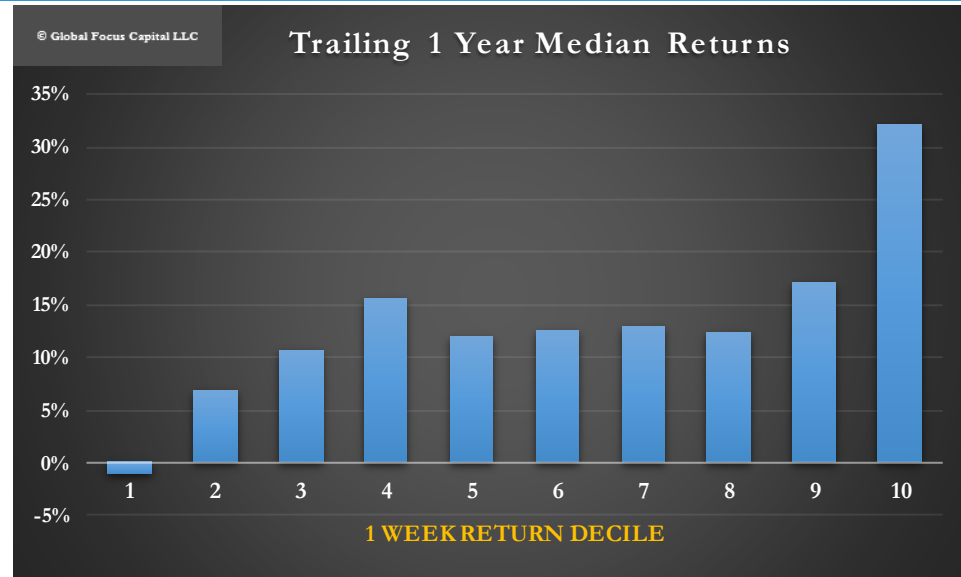
What did the markets reward last week: Beta and Size

- ▶ Higher beta stocks outperformed last week - some of these are beaten up stocks over the last year
- ▶ In terms of market cap over the last week we have seen an inverted V pattern
- ▶ The Russell 2000 index underperformed the S&P 500 by 0.5% over the last 5 trading days
 - ▶ While trailing YTD over the last 3 months large caps have been quietly beating small caps



What did the markets reward last week: Momentum and Growth

- ▶ The 1 year momentum effect took a hit in US last week – past 1 year winners had the lowest median weekly performance
- ▶ Dead cat bounce? Or sustainable reversal?
- ▶ More evidence of a quiet industry rotation
- ▶ Better performing stocks had lower median forward revenue estimates



Big Movers – Last 5 Days

Down

Red Hat, Inc.	RHT	Information Technology
Copart, Inc.	CPRT	Industrials
Inogen, Inc	INGN	Healthcare
SiteOne Landscape Supply,	SITE	Industrials
MEDIFAST INC	MED	Consumer Staples
REGENXBIO Inc.	RGNX	Healthcare
Apogee Enterprises, Inc.	APOG	Industrials
Government Properties Inc	GOV	Real Estate
Alder BioPharmaceuticals,	ALDR	Healthcare
TG Therapeutics, Inc.	TGTX	Healthcare
Adamas Pharmaceuticals, I	ADMS	Healthcare
Ladenburg Thalmann Fina	LTS	Financials
Hooker Furniture Corporat	HOFT	Consumer Discretionary
American Software, Inc.	AMSWA	Information Technology
Twin Disc, Incorporated	TWIN	Industrials
Maiden Holdings, Ltd.	MHLD	Financials
Viveve Medical, Inc.	VIVE	Healthcare
Obalon Therapeutics, Inc.	OBLN	Healthcare

Up

Ionis Pharmaceuticals, Inc.	IONS	Healthcare
Range Resources Corporat	RRC	Energy
Univar Inc.	UNVR	Industrials
Yelp Inc.	YELP	Information Technology
Chesapeake Energy Corpor	CHK	Energy
Southwestern Energy Comj	SWN	Energy
Accelaron Pharma Inc.	XLRN	Healthcare
Opko Health, Inc.	OPK	Healthcare
Rowan Companies plc	RDC	Energy
Pacira Pharmaceuticals, In	PCRX	Healthcare
ACADIA Pharmaceuticals I	ACAD	Healthcare
Tupperware Brands Corpo:	TUP	Consumer Discretionary
Insmmed, Inc.	INSM	Healthcare
AK Steel Holding Corporat	AKS	Materials
Fitbit, Inc.	FIT	Information Technology
MACOM Technology Solu	MTSI	Information Technology
Century Aluminum Compar	CENX	Materials
SunPower Corporation	SPWR	Information Technology
Nexeo Solutions, Inc.	NXEO	Industrials
W&T Offshore, Inc.	WTI	Energy

This Coming Week

Reporting Soon

Nike, Inc.	NKE	Consumer Discretionary
Carnival Corporation	CCL	Consumer Discretionary
Cintas Corporation	CTAS	Industrials
IHS Markit Ltd.	INFO	Industrials
CarMax Inc	KMX	Consumer Discretionary
FactSet Research Systems I	FDS	Financials
Jabil Circuit, Inc.	JBL	Information Technology
Neogen Corporation	NEOG	Healthcare
Cantel Medical Corp.	CMD	Healthcare
H. B. Fuller Company	FUL	Materials
Worthington Industries, In	WOR	Materials
Bed Bath & Beyond Inc.	BBBY	Consumer Discretionary
KB Home	KBH	Consumer Discretionary
Progress Software Corpora	PRGS	Information Technology
Actuant Corporation	ATU	Industrials
AAR Corp.	AIR	Industrials
Scholastic Corporation	SCHL	Consumer Discretionary
Comtech Telecommunicati	CMTL	Information Technology
Ascena Retail Group, Inc.	ASNA	Consumer Discretionary
Xcerra Corporation	XCRA	Information Technology
OMNOVA Solutions Inc.	OMN	Materials
Pier 1 Imports, Inc.	PIR	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 but we are seeing evidence of some quiet industry rotation
- ▶ The battle may not be between growth and value – feels more like momentum versus reversal
- ▶ Tariff wars do not seem to have much of an effect on US stocks – will this persist? |
- ▶ Small caps have quietly under-performed large caps over the last 3 months – has anybody noticed? YTD it is a different story
- ▶ 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?

Contact & Subscription Information

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