



GLOBAL FOCUS CAPITAL LLC
INSIGHT THAT MATTERS

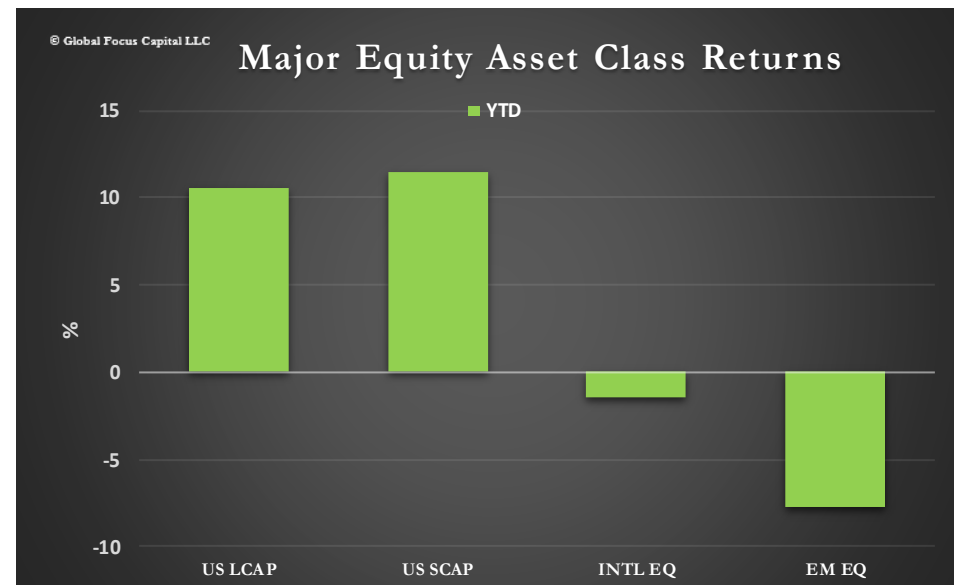
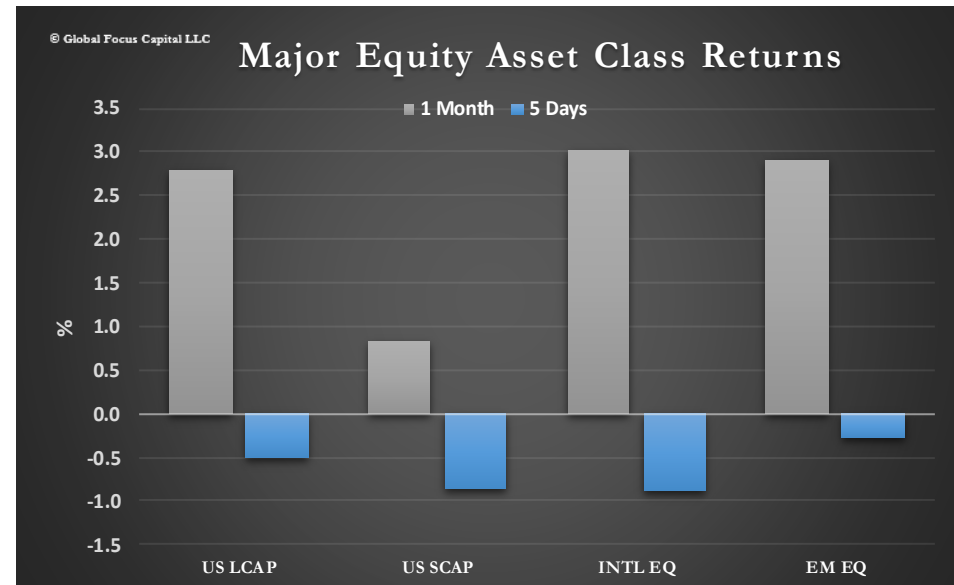
The Equity Observer

Weekly Review – September 21, 2018

Eric J. Weigel

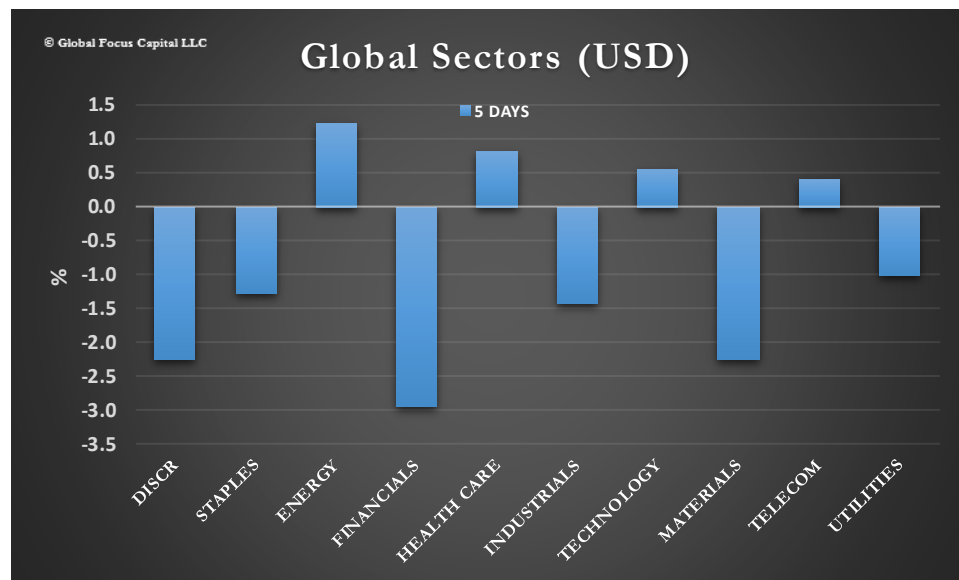
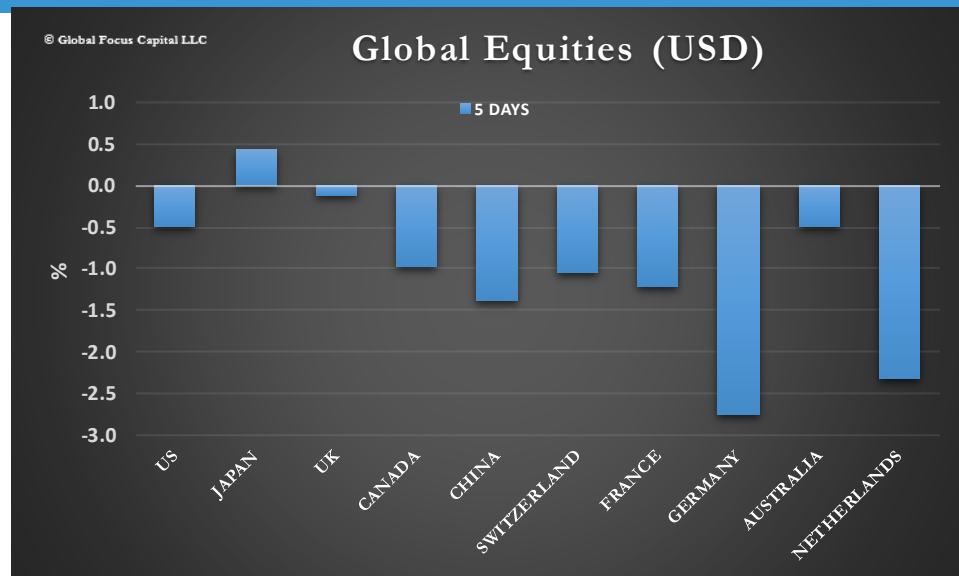
US Stocks keep outperforming international YTD, but last week was mixed

- ▶ All major equity asset classes lost money last week
- ▶ EM Equities lost the least last week (-0.3%) but continue being the worst performing equity class YTD (-7.7%)
- ▶ YTD US Small Cap leads US Large cap by less than 1% - the gap has been closing in the last month



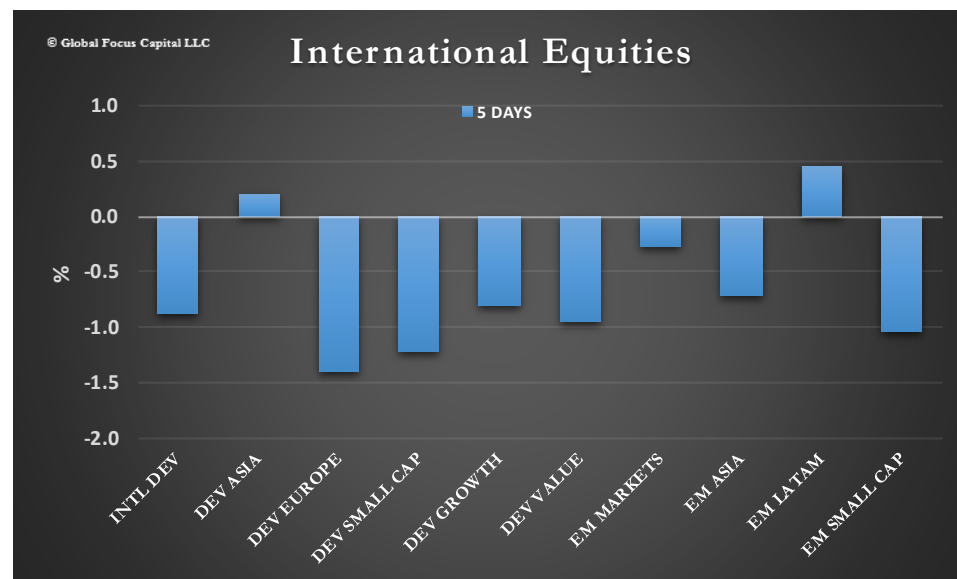
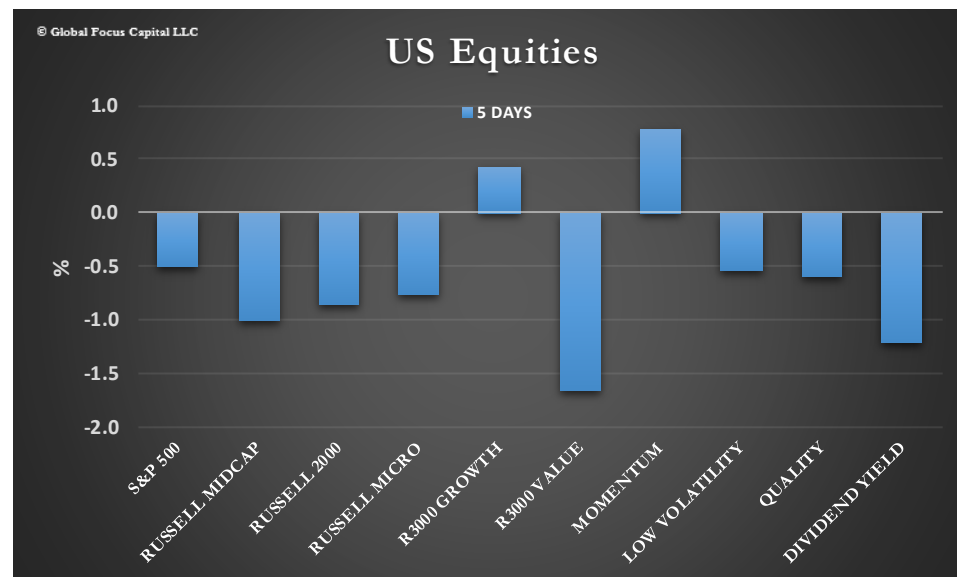
Global Equities

- ▶ Poor showing in the last 5 days with Japan being the only major market showing gains
- ▶ Equities under-performed bonds last week
- ▶ Growth out-performed Value over the last 5 trading days in the US as well as internationally
- ▶ Traditional Value sectors such as Materials and Financials gave up some of the gains from prior weeks
- ▶ Energy performed best in the US as well as in global indices



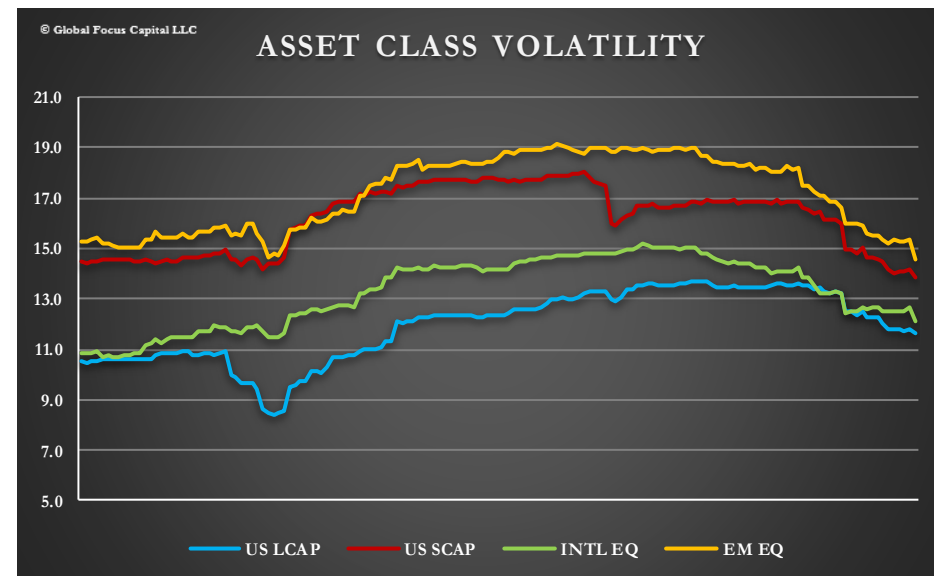
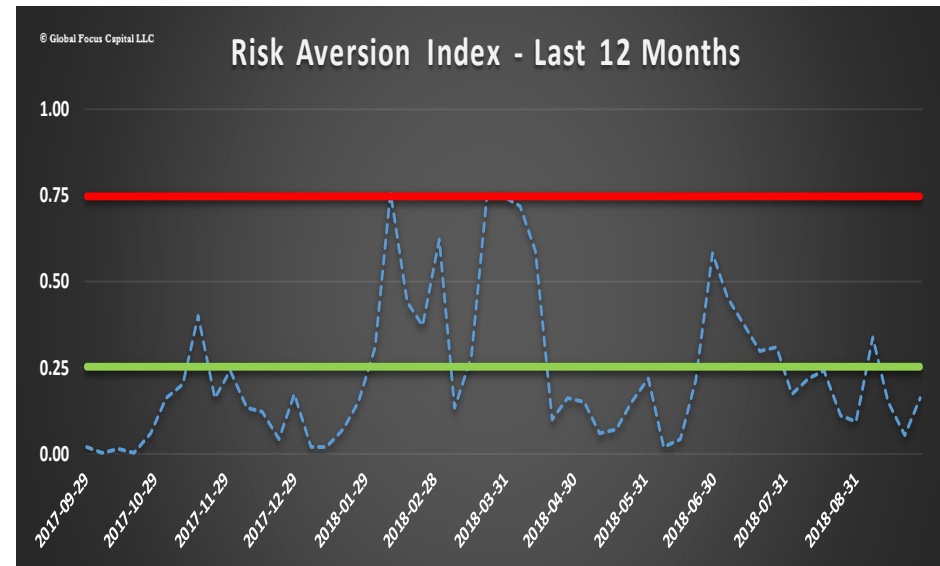
Style and Geography

- ▶ In the US, mega-caps outperformed (lost less unfortunately)
- ▶ Value once again underperformed Growth –mainly due to losses in the Materials and Finance sectors
- ▶ Growth and Momentum keep dominating YTD among US stocks
- ▶ Asian Developed markets (mostly Japan) boosted international market returns but EAFE was still down for the week
- ▶ 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.





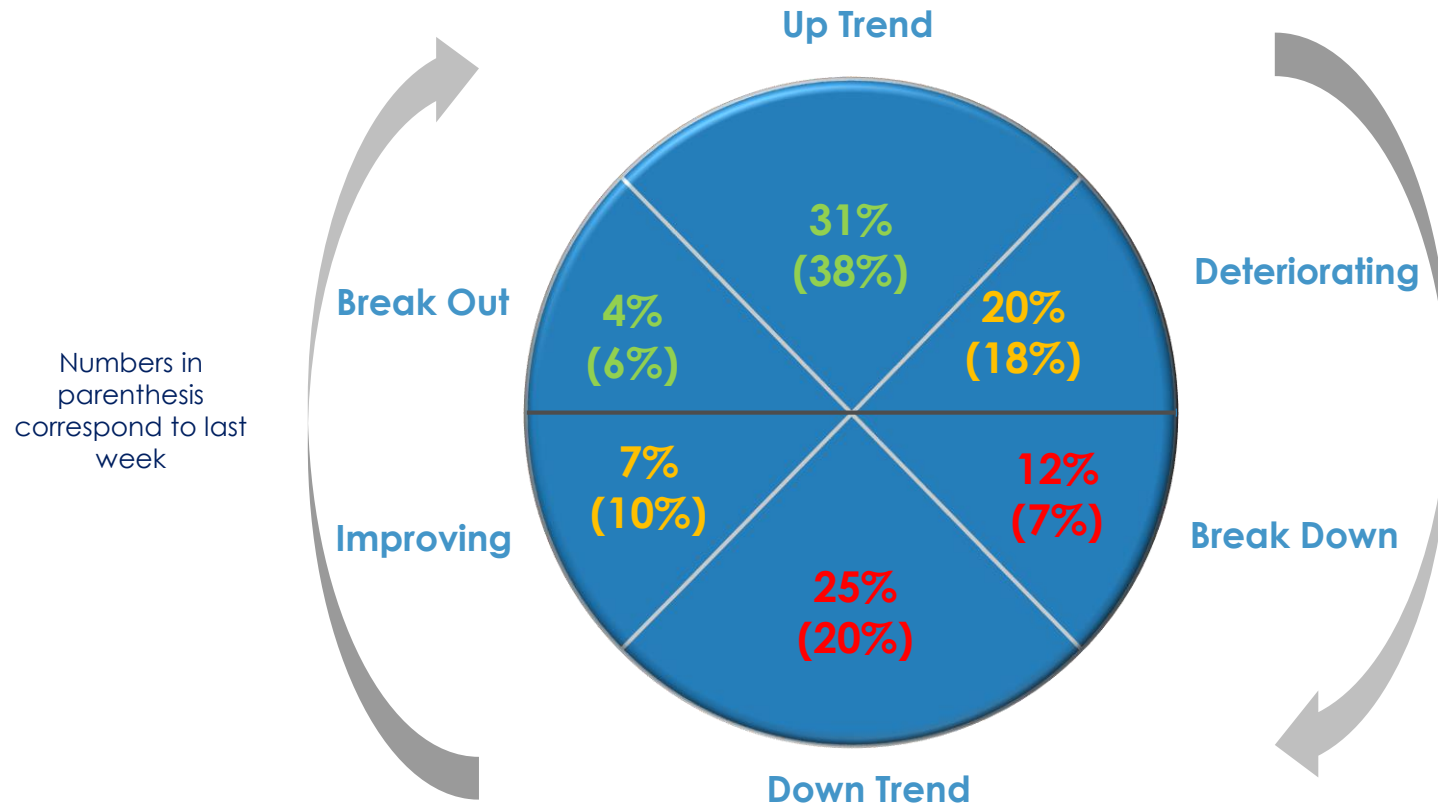
GLOBAL FOCUS CAPITAL LLC

INSIGHT THAT MATTERS

US Equities

Weekly Performance

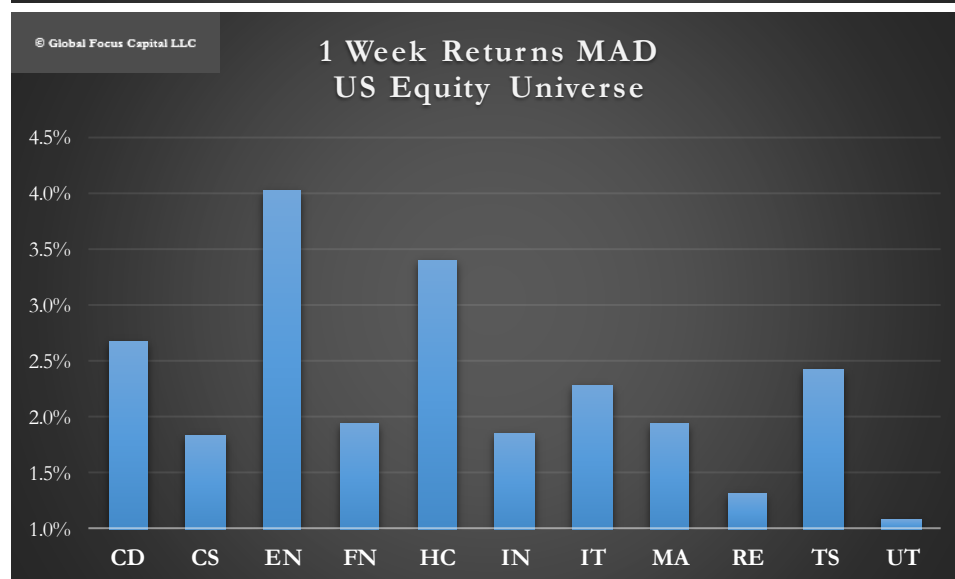
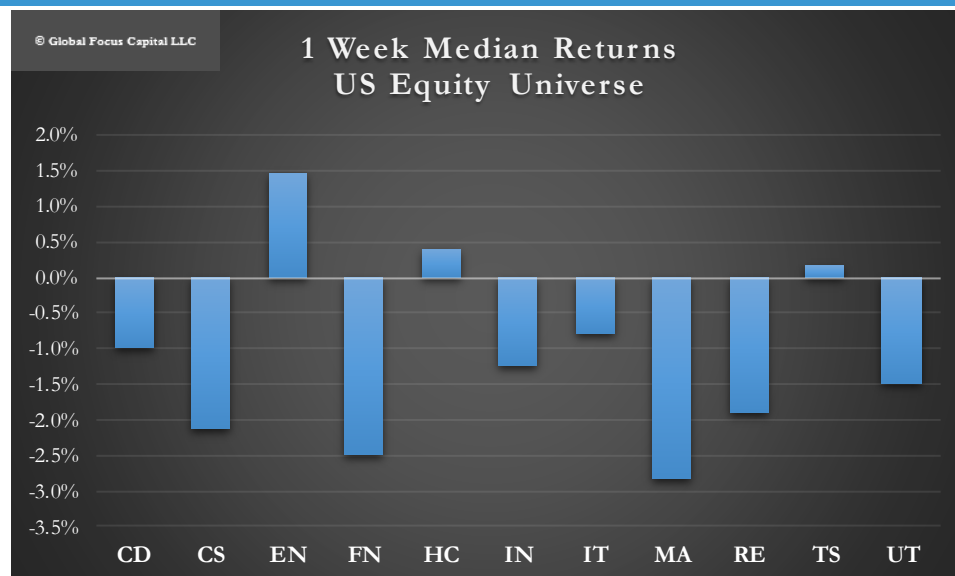
The Bull market may be getting a bit tired – jump in stocks in the Deteriorating phase, some industry rotation happening quietly



GF CAP US All Equity Universe

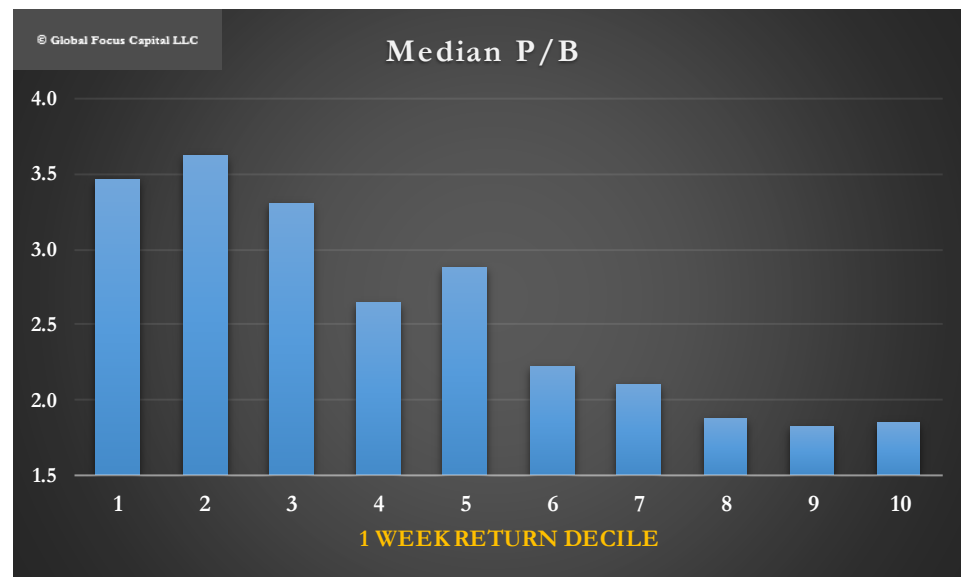
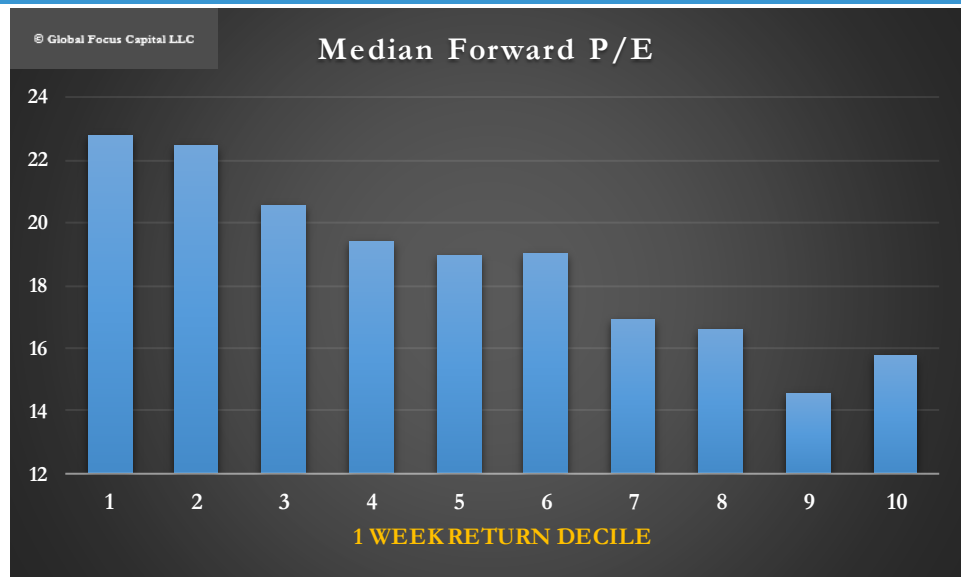
The Sector Look – median performance and dispersion

- ▶ The median stock in our universe was down 1.3% over the last 5 trading days
- ▶ The median Energy stock was up 1.5% - best among all sectors
- ▶ Only Energy, Health Care and Telecom had positive median performance
- ▶ Financials and Material stocks took the biggest hits last week
- ▶ The widest variability in performance was again seen in the Energy sector – good for stock picking
- ▶ We use the median absolute deviation as a robust measure of within sector variability



What did the markets reward last week: Valuation Multiples

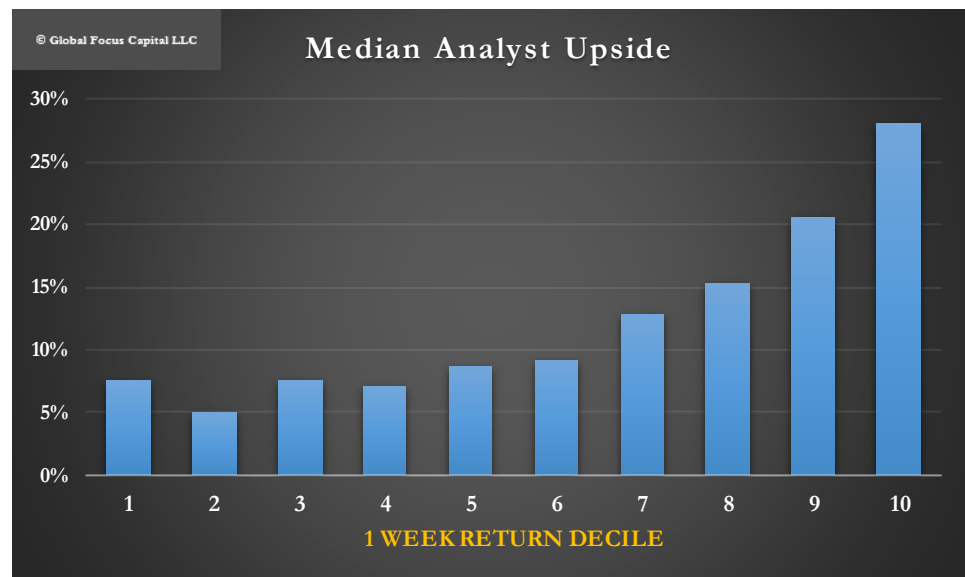
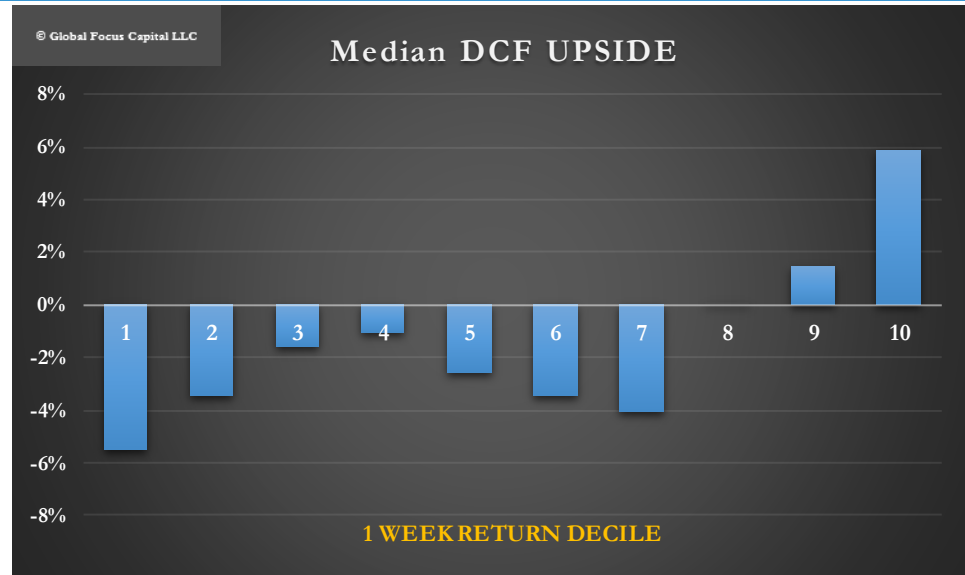
- ▶ Valuation as a factor had a terrible week especially when looking at P/E ratios
- ▶ The best performers over the last 5 days had the highest median P/E
- ▶ We saw the same pattern for P/B – better performers had higher P/B ratios
- ▶ More expensive stocks continue to do better YTD – last week was no exception



What did the markets reward last week:

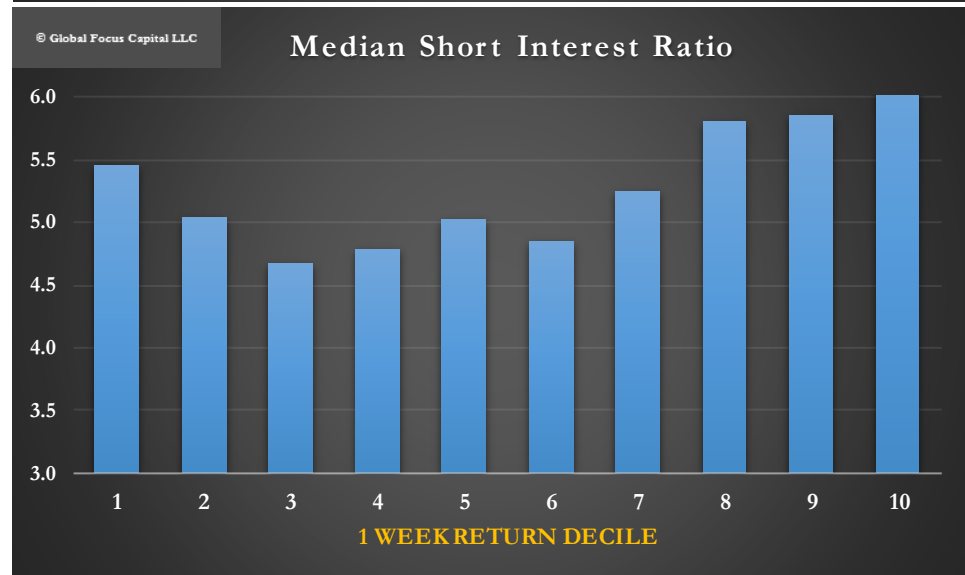
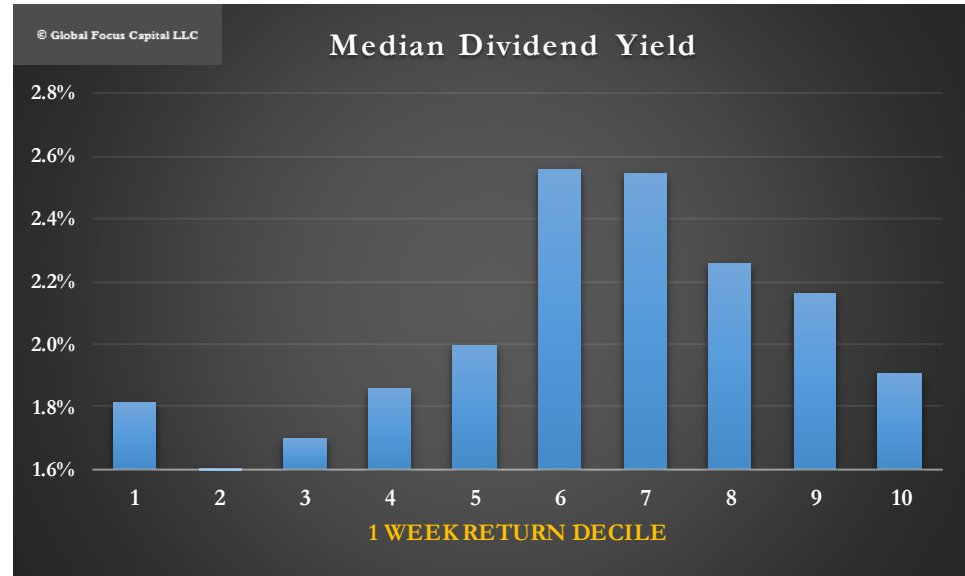
Valuation Models

- ▶ The median stock in our universe is 2% over-valued according to a DCF valuation
- ▶ The worst performing stocks last week (Decile 10) appeared most under-valued
- ▶ In terms of analyst price targets, there was a perverse relationship
 - ▶ Stocks doing the best had the lowest price targets



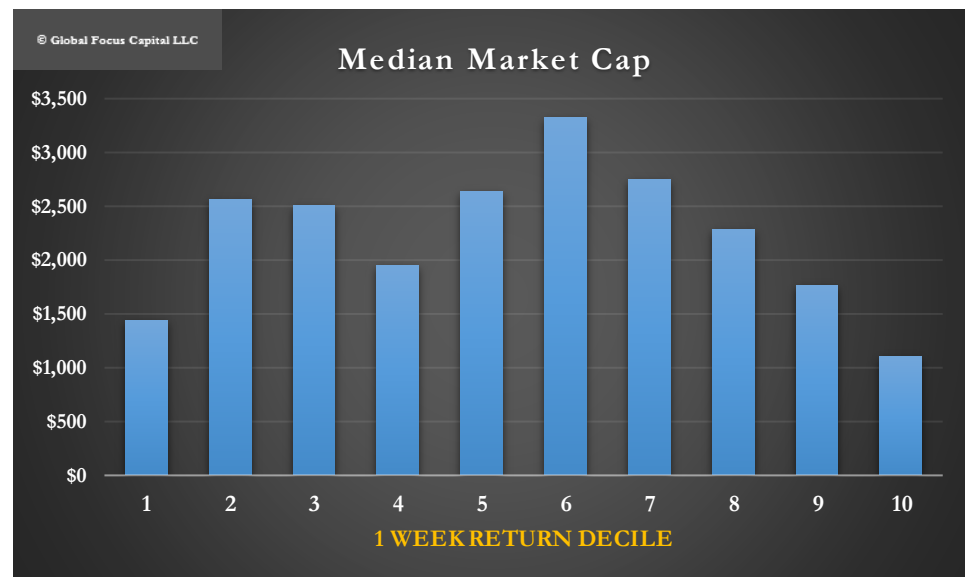
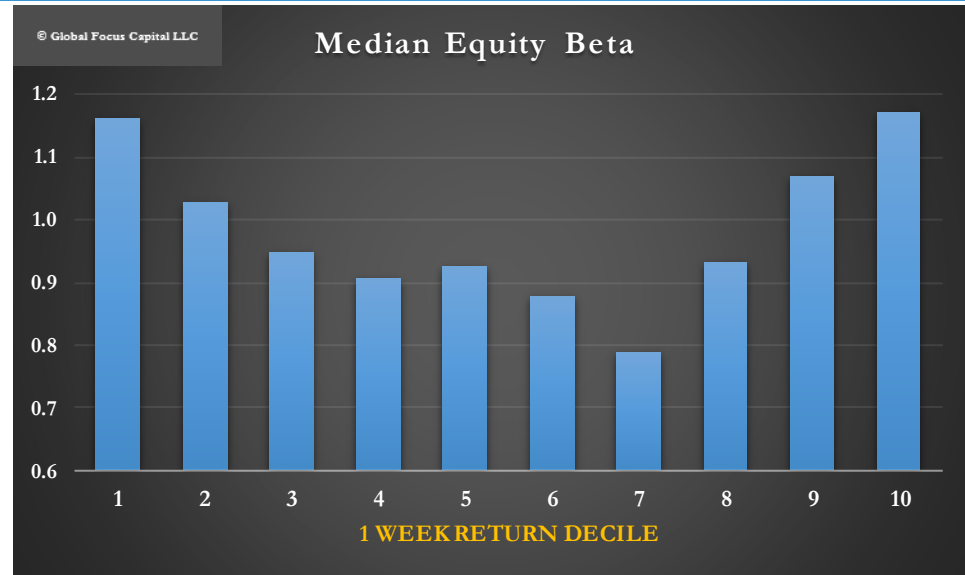
What did the markets reward last week: Yield and Sentiment

- ▶ On an equally weighted basis, dividend yield had a poor week
- ▶ The best performing stocks (Decile 1) had below-market average yields
- ▶ Short interest, a measure of sentiment, showed a “U” shaped pattern of returns



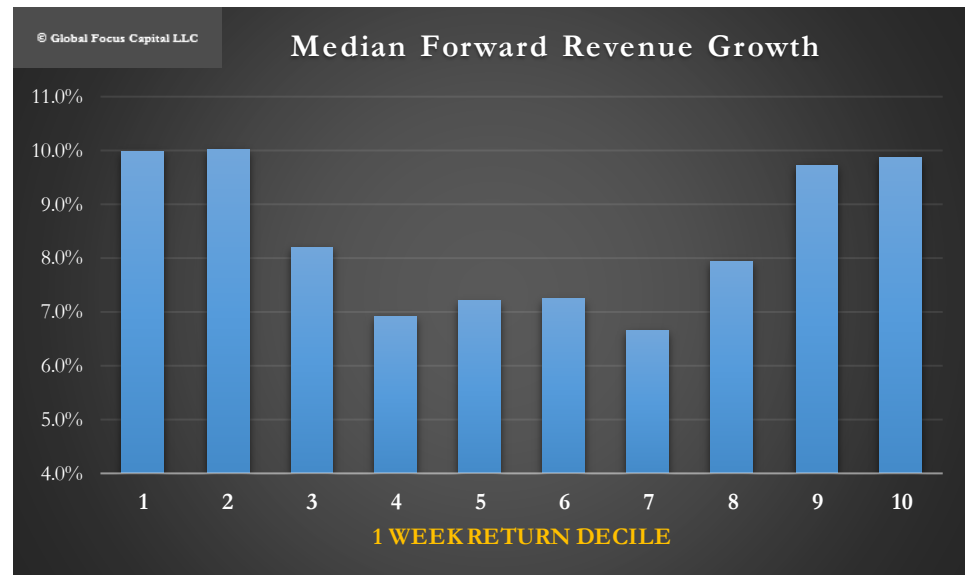
What did the markets reward last week: Beta and Size

- ▶ We saw a U shaped pattern of returns in relation to beta
- ▶ Higher beta stocks appeared in the tails of the distribution
- ▶ In terms of market cap over the last week we have seen an inverted V pattern – repeat from previous weeks
- ▶ The Russell 2000 index underperformed the S&P 500 by 0.4% over the last 5 trading days
 - ▶ While trailing YTD over the last 3 months large caps have been soundly beating small caps



What did the markets reward last week: Momentum and Growth

- ▶ The 1 year momentum effect worked well last week – past 1 year winners had the highest median weekly performance
- ▶ Winners keep winning, loser keep losing
- ▶ We see some faint industry rotation but not last week
- ▶ Revenue growth as a factor exhibited a U shaped pattern



Big Movers – Last 5 Days

Down

A. O. Smith Corporation	AOS	Industrials
Nutanix, Inc.	NTNX	Information Technology
Cypress Semiconductor Corp	CY	Information Technology
Navistar International Corp	NAV	Industrials
Neogen Corporation	NEOG	Healthcare
Chegg, Inc.	CHGG	Consumer Discretionary
Visteon Corporation	VC	Consumer Discretionary
Xencor, Inc.	XNCR	Healthcare
The Medicines Company	MDCO	Healthcare
Bed Bath & Beyond Inc.	BBBY	Consumer Discretionary
Opko Health, Inc.	OPK	Healthcare
Momenta Pharmaceuticals,	MNTA	Healthcare
Vicor Corporation	VICR	Industrials
Gulfport Energy Corporatio	GPOR	Energy
Spectrum Pharmaceuticals,	SPPI	Healthcare
Bazaarvoice, Inc.	BV2	Information Technology
Inovalon Holdings, Inc.	INOV	Healthcare
United Natural Foods, Inc.	UNFI	Consumer Staples
Tronox Limited	TROX	Materials
MACOM Technology Solu	MTSI	Information Technology

Up

Square, Inc.	SQ	Information Technology
Edwards Lifesciences Corp	EW	Healthcare
Alexion Pharmaceuticals, I	ALXN	Healthcare
ABIOMED, Inc.	ABMD	Healthcare
Teladoc, Inc.	TDOC	Healthcare
Intelsat S.A.	I	Telecommunication Services
Denbury Resources Inc.	DNR	Energy
ACADIA Pharmaceuticals I	ACAD	Healthcare
Intrexon Corporation	XON	Healthcare
California Resources Corp	CRC	Energy
Steelcase Inc.	SCS	Industrials
Workiva Inc.	WK	Information Technology
Theravance Biopharma, In	TBPH	Healthcare
National CineMedia, Inc.	NCMI	Consumer Discretionary
Scholastic Corporation	SCHL	Consumer Discretionary
Sonic Corp.	SONC	Consumer Discretionary
W&T Offshore, Inc.	WTI	Energy
Vanda Pharmaceuticals Inc	VNDA	Healthcare
Verso Corporation	VRS	Materials
GoPro, Inc.	GPRO	Consumer Discretionary

This Coming Week

Reporting Soon

Pepsico, Inc.	PEP	Consumer Staples
Paychex, Inc.	PAYX	Information Technology
Vail Resorts, Inc.	MTN	Consumer Discretionary
Lamb Weston Holdings, Inc.	LW	Consumer Staples
Cal-Maine Foods, Inc.	CALM	Consumer Staples
WageWorks, Inc.	WAGE	Industrials
Xcerra Corporation	XCRA	Information Technology
USA Technologies, Inc.	USAT	Information Technology
Park Electrochemical Corp.	PKE	Information Technology
Landec Corporation	LNDL	Consumer Staples
Aceto Corporation	ACET	Healthcare

- ▶ Risk Aversion continues to surprise on the downside – maybe old historical metrics don't apply anymore? We don't agree!
- ▶ Momentum and growth were king once again last week – can this continue? Will Value only out-perform in a crisis?
- ▶ 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? I
- ▶ Small caps have quietly under-performed large caps over the last 3 months – has anybody noticed? YTD they are still ahead but barely
- ▶ 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

Eric J. Weigel

eweigel@gf-cap.com

[Website: https://gf-cap.com](https://gf-cap.com)

Publications - [Sign Up Here](#)

Weekly Asset Allocation Advisor	-	Free
Weekly Equity Observer	-	Free
The Equity Observer (Monthly) –		Subscription Required
The Asset Allocation Advisor (Monthly) –		Subscription Required

Disclaimer

NOTHING HEREIN SHALL BE CONSTRUED AS INVESTMENT ADVICE, A RECOMMENDATION OR SOLICITATION TO BUY OR SELL ANY SECURITY.

PAST PERFORMANCE DOES NOT PREDICT OR GUARANTEE FUTURE SIMILAR RESULTS.

SEEK THE ADVICE OF AN INVESTMENT MANAGER, LAWYER AND ACCOUNTANT BEFORE YOU INVEST.

DON'T RELY ON ANYTHING HEREIN. DO YOUR OWN HOMEWORK.

THIS IS FOR INFORMATIONAL PURPOSES ONLY AND DOES NOT CONSIDER THE INVESTMENT NEEDS OR SUITABILITY OF ANY INDIVIDUAL.

THERE IS NO PROMISE TO CORRECT ANY ERRORS OR OMISSIONS OR NOTIFY THE READER OF ANY SUCH ERRORS.