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INSIGHT THAT MATTERS

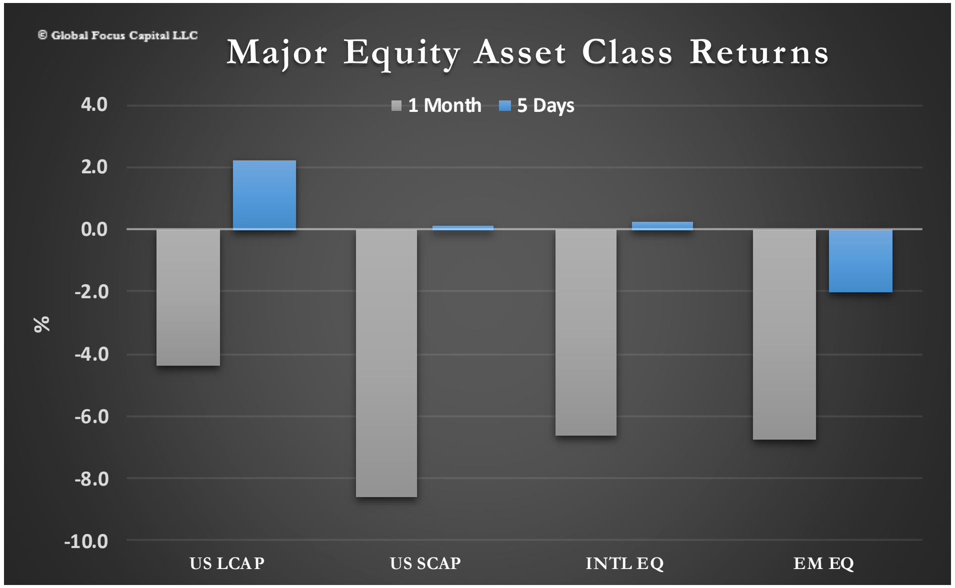
The Equity Observer

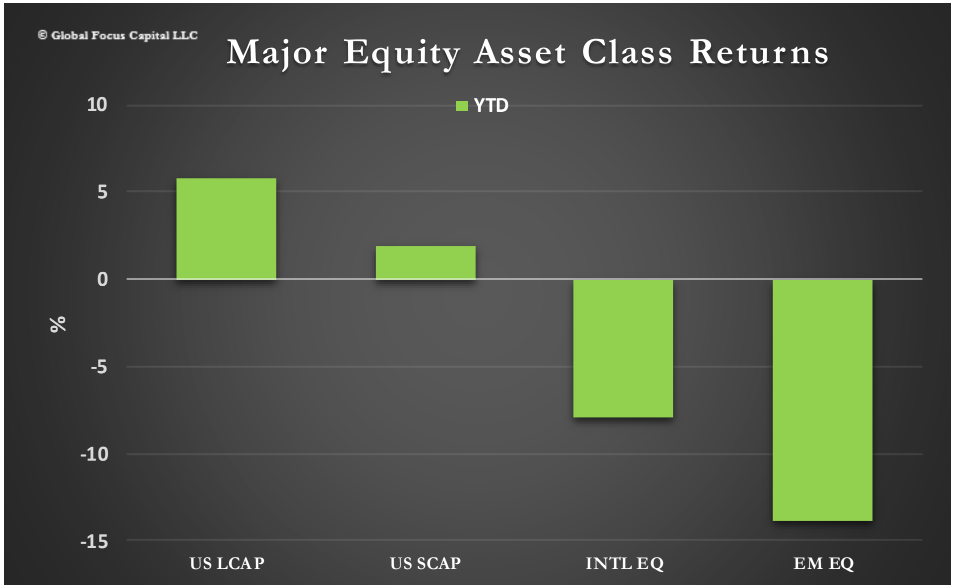
Weekly Review – November 11, 2018

Eric J. Weigel

Equity markets stabilize with US large caps performing the best

- The last month has been brutal for equity investors but some signs of stability have emerged
  - Higher rates contributed to this as well as slower expected global growth due to an escalation of tariffs
- YTD US large and small caps are in positive territory
  - The S&P 500 is up 5.7% for the year while the Russell 2000 is up a meager 1.9%
- International strategies have underperformed due both to local market returns and a strong USD





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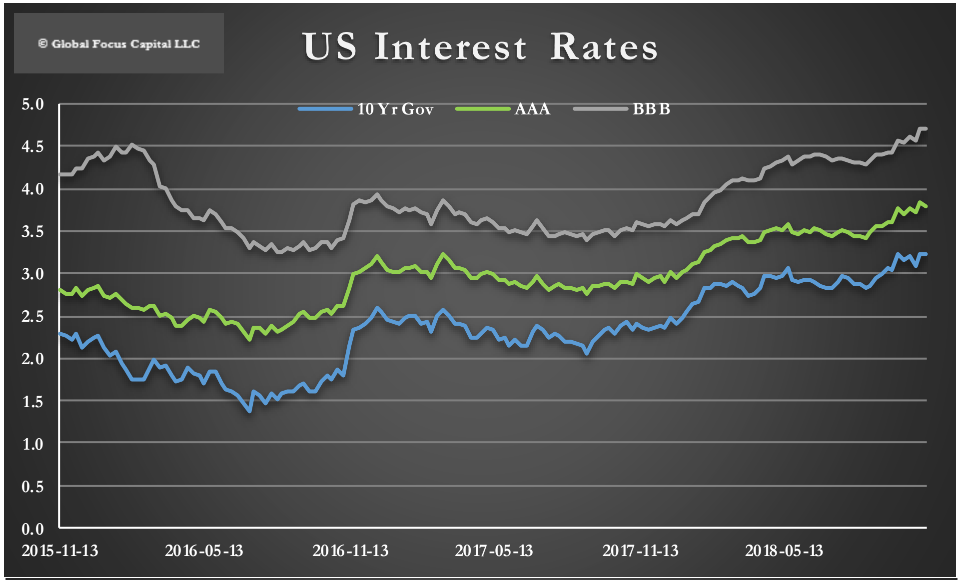
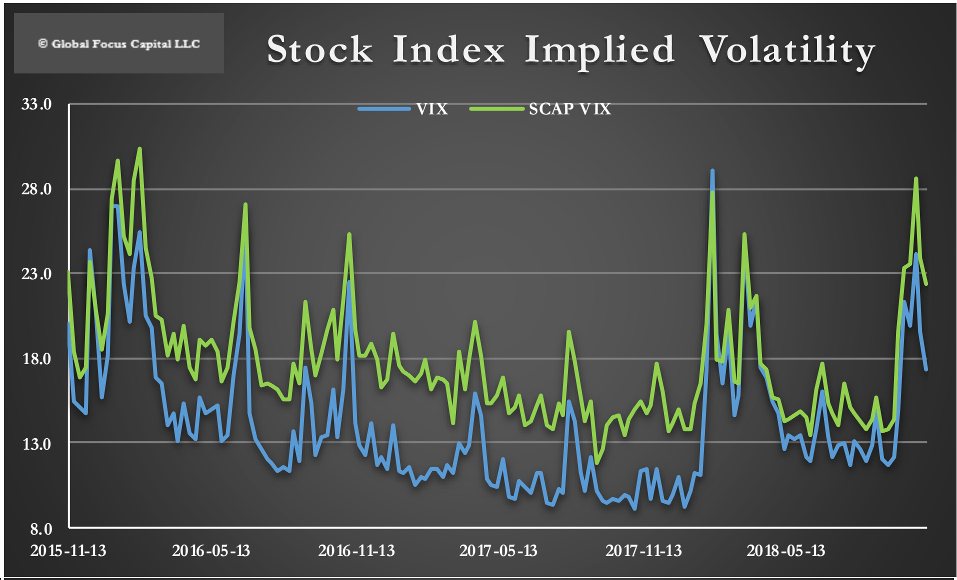
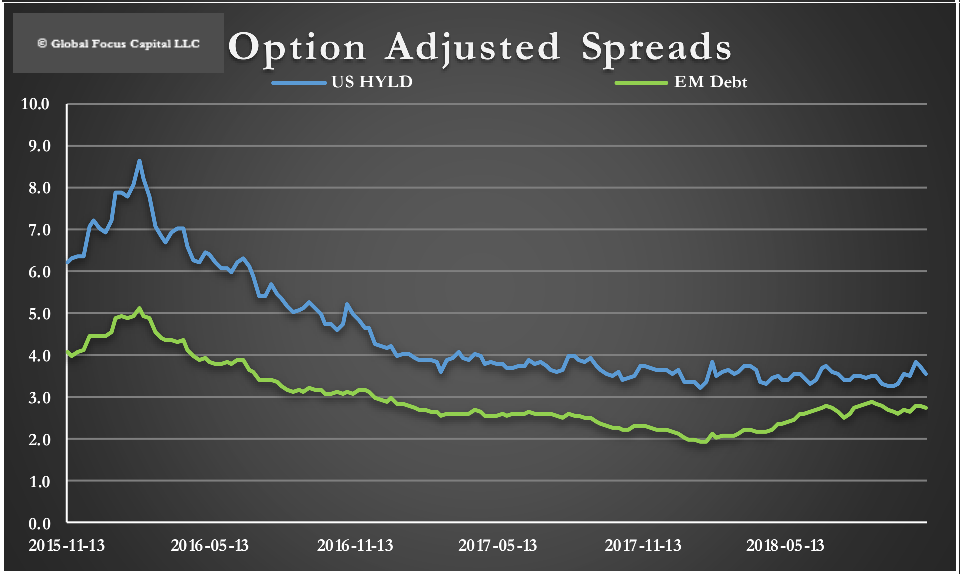
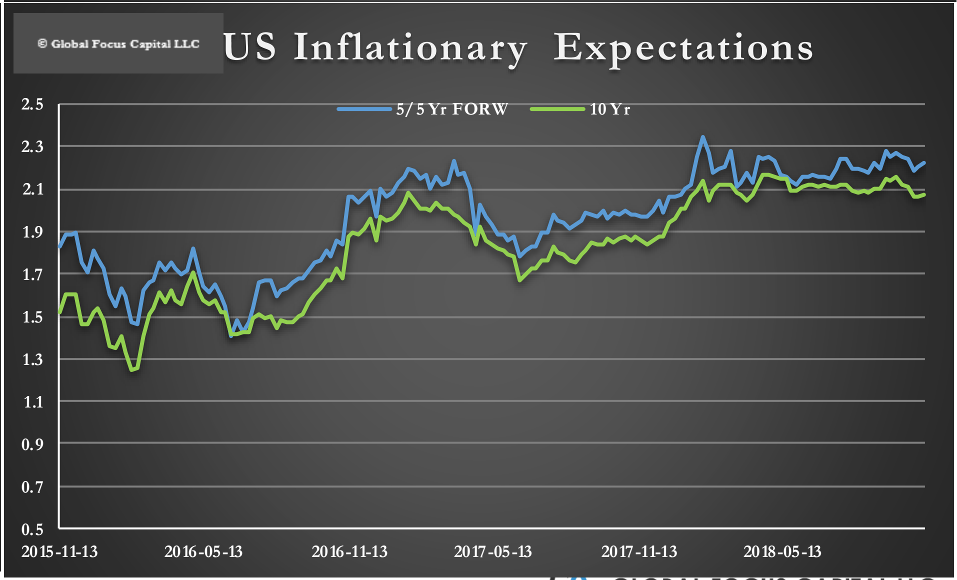
Volatility stabilizes but interest rates stay in an up trend



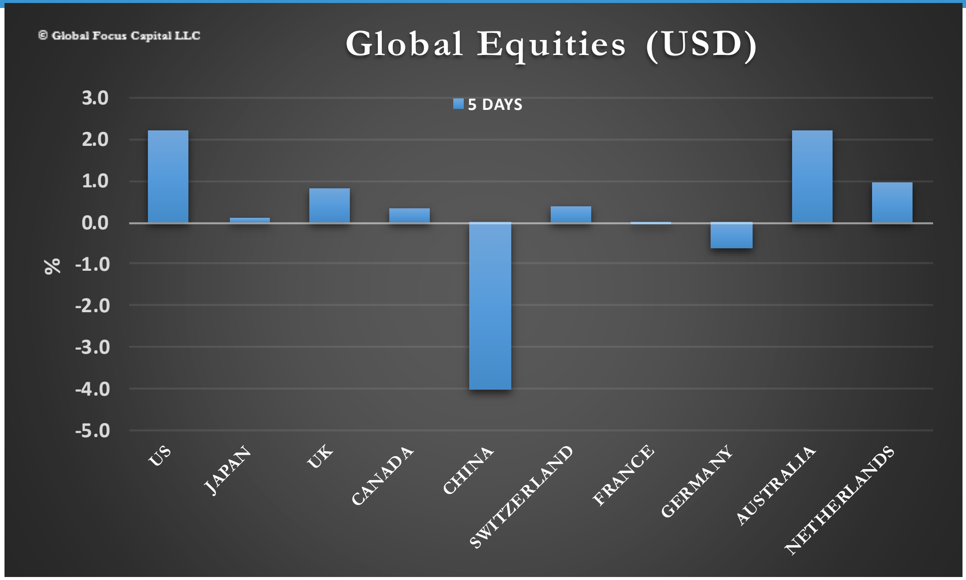


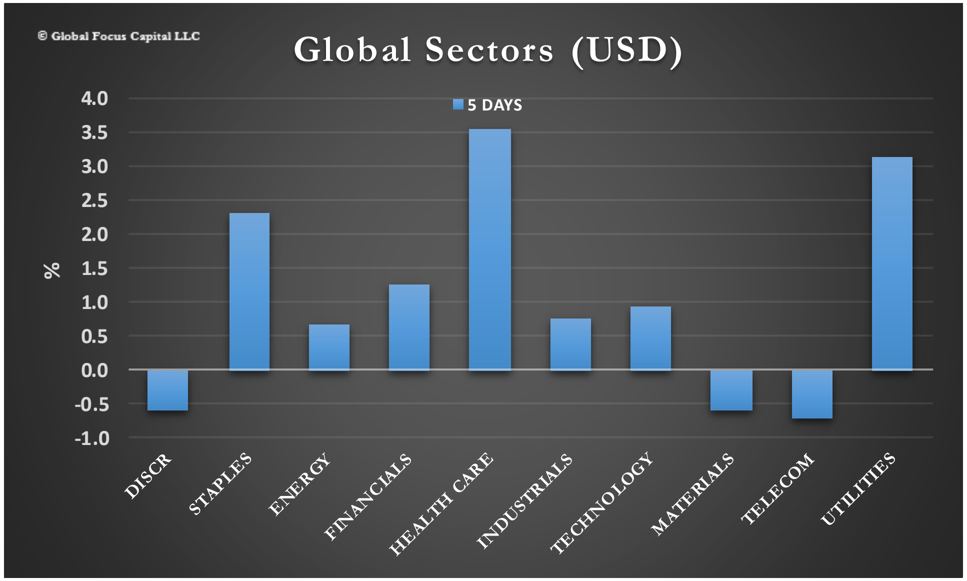




Global Equities

- The carnage continues among Chinese stocks
- Commodity indices took a beating last week (due to oil primarily) while the Real Estate market kept recovering
- In the US Value out-performed Value over the last 5 trading by over 40 bp
- In international markets Value outperformed Growth by 90 bp
- Traditional Value sectors such as Utilities and Staples outperformed along with Health Care
- Health Care and Technology are the two best sectors YTD but Tech has been losing momentum





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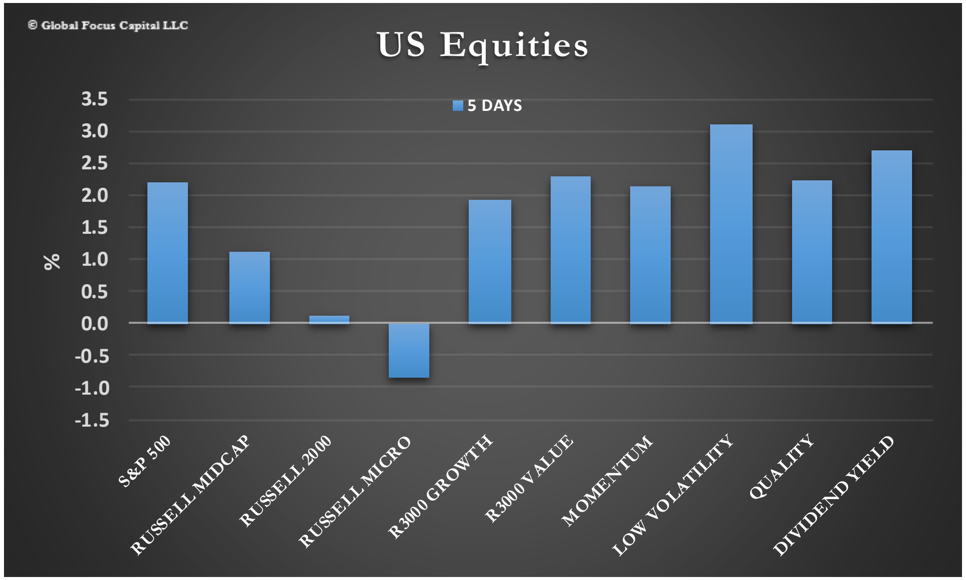
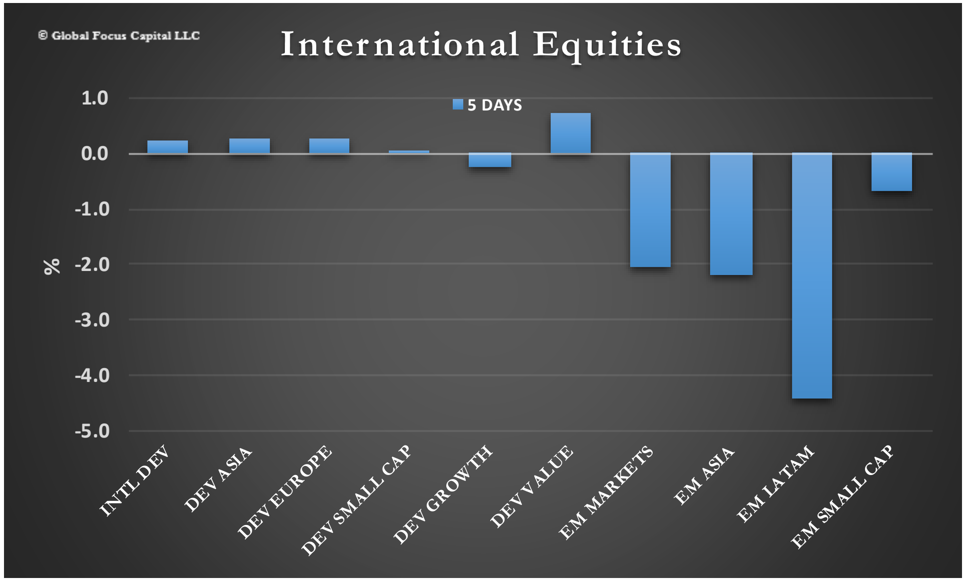
Style and Geography

- In the US, we saw a strong size effect last week with mega-caps outperforming
- Value once again out-performed Growth as the Utilities, Health Care and Real Estate performed well
- Growth and Momentum keep dominating YTD among US stocks but the lead is shrinking
- Developed international markets were flat last week but EM equities took yet another hit
- EM LATAM continues extremely volatile and driven by politics





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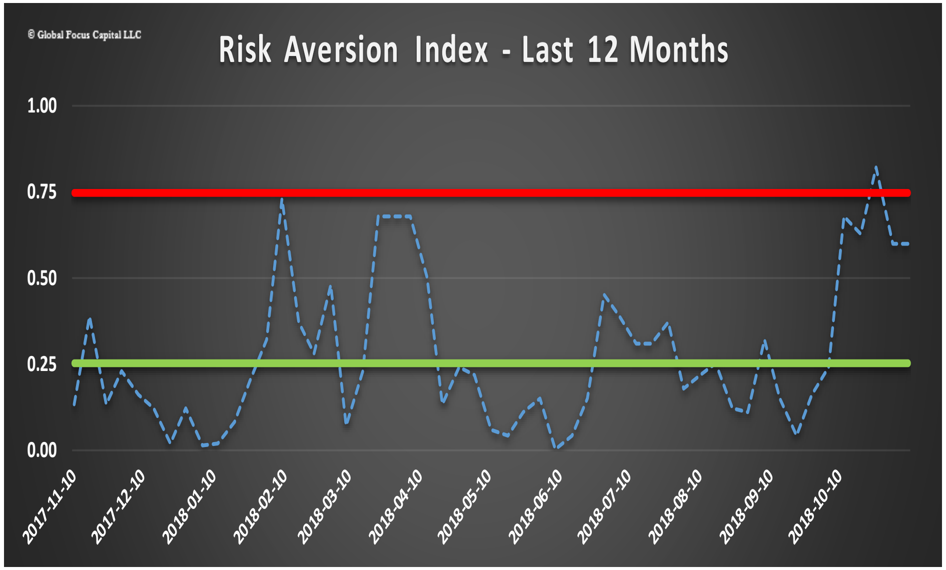
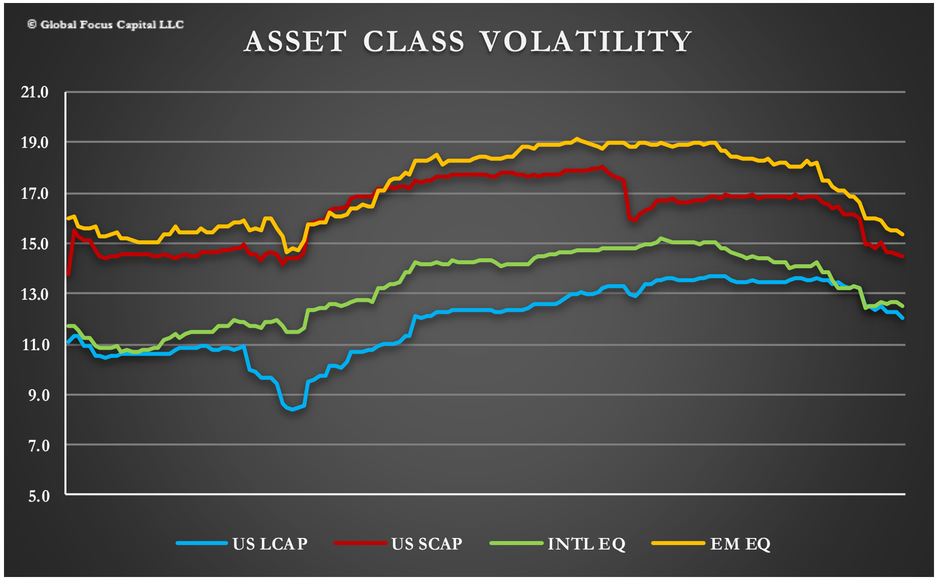
Investor Risk Aversion continues hovering toward the higher end of the Normal Zone

- Investors woke up to capital market risk over the last month
- Our risk aversion index has stabilized in the last 2 weeks
- Asset class volatility has risen from the lows of last year but remains lower than expected
- We see a huge disconnect between volatility, valuations and economic conditions
  - Global growth is good but leveling off, valuations are high and economic policy is uncertain





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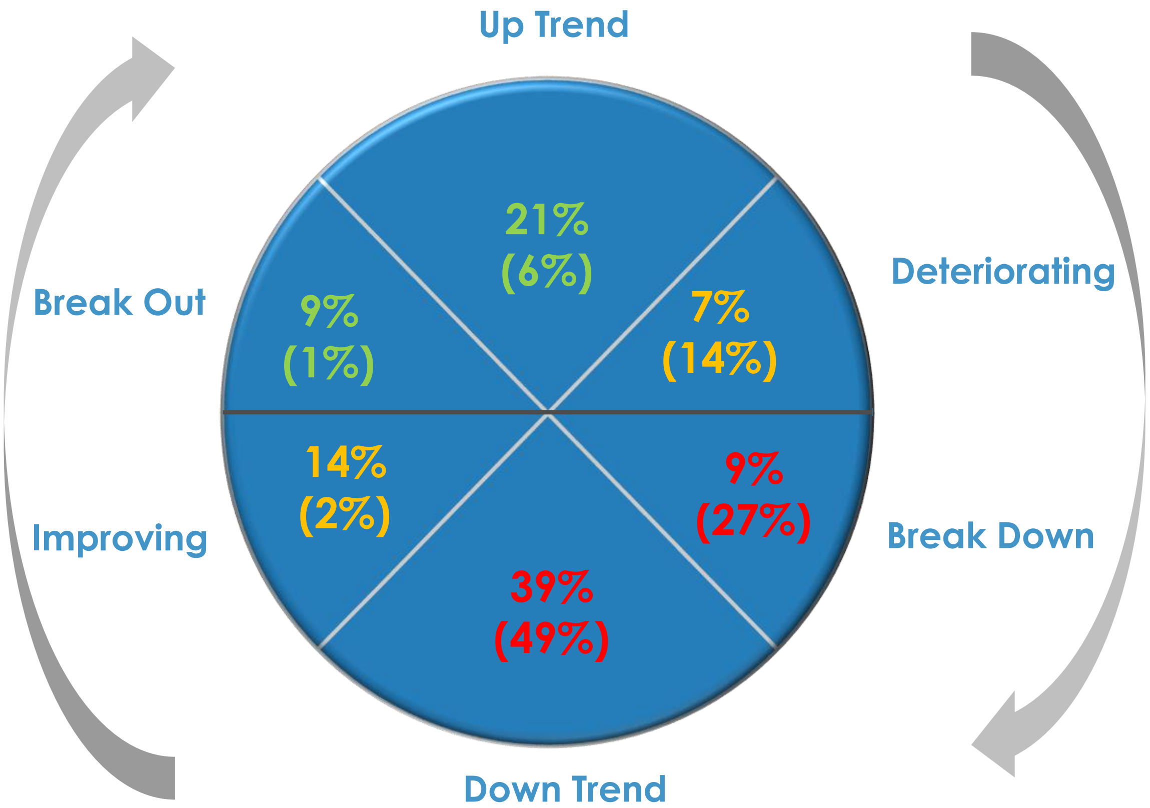
US Equities

Weekly Performance

Not yet at Bear Market levels but seeing definite signs of industry rotation



Numbers in parenthesis correspond to last month

STAGE	LATEST
UP TREND	21.32%
BREAK OUT	8.72%
IMPROVING	14.62%
DOWN TREND	39.40%
BREAK DOWN	8.72%
DETERIORATING	7.22%

GF CAP US All Equity Universe

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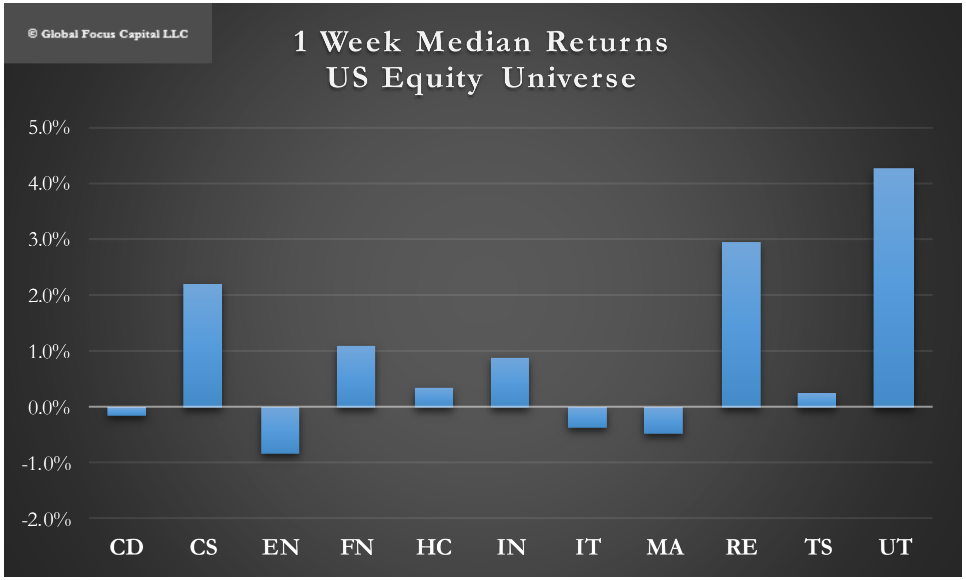
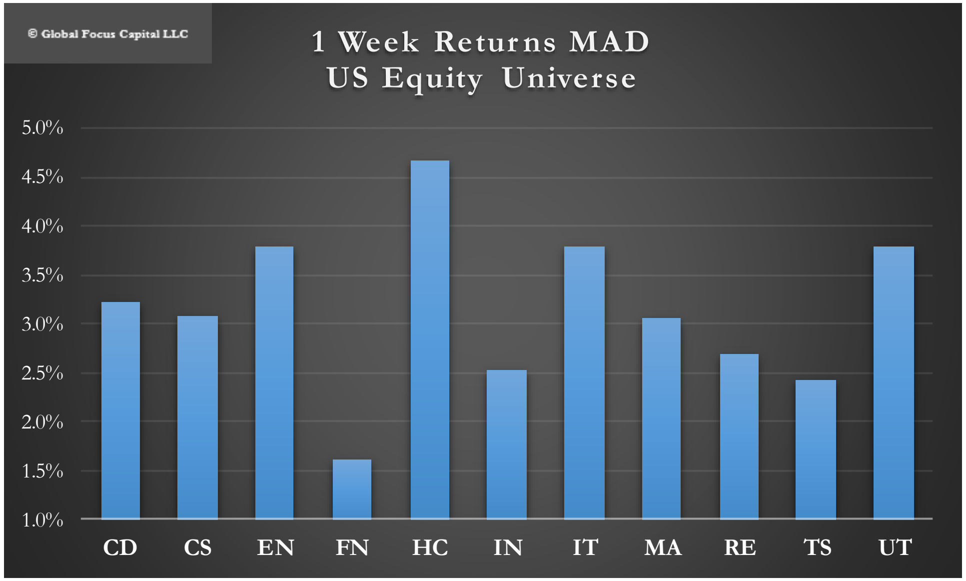
The Sector Look – median performance and dispersion

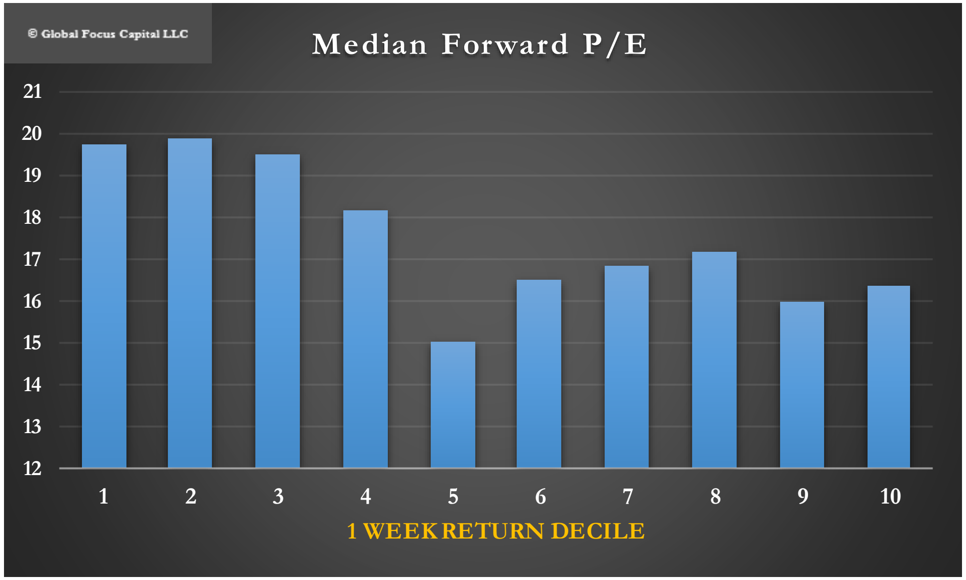
- The mean stock in our universe was up 0.2% over the last 5 trading days
- The biggest gains were seen in the Utility and Real Estate sectors
- Energy and Tech stocks continue losing momentum
- The widest variability in performance was seen in the Health Care sector – good for stock picking
- Financials showed the most homogeneity in stock price action
- We use the median absolute deviation as a robust measure of within sector variability

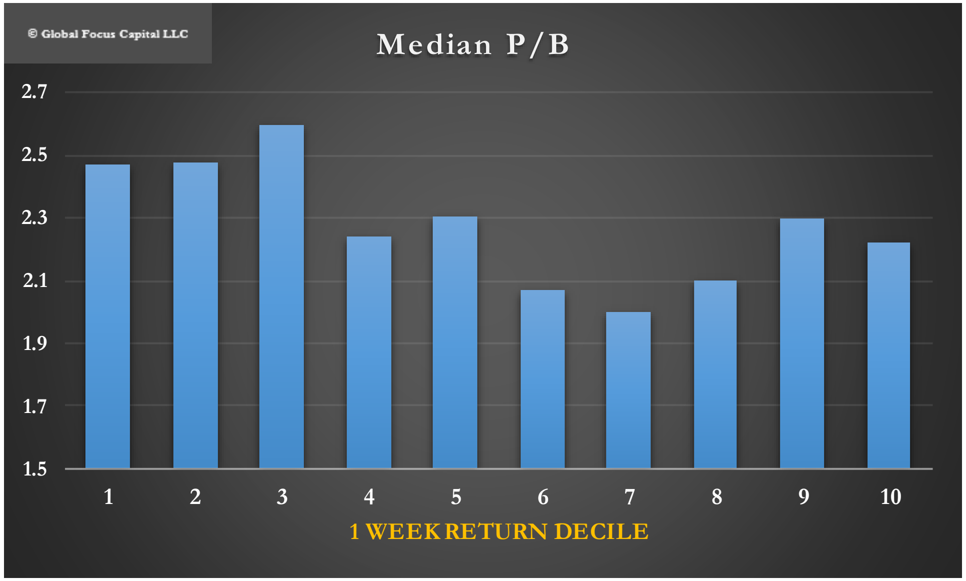




What did the markets reward last week: Valuation Multiples

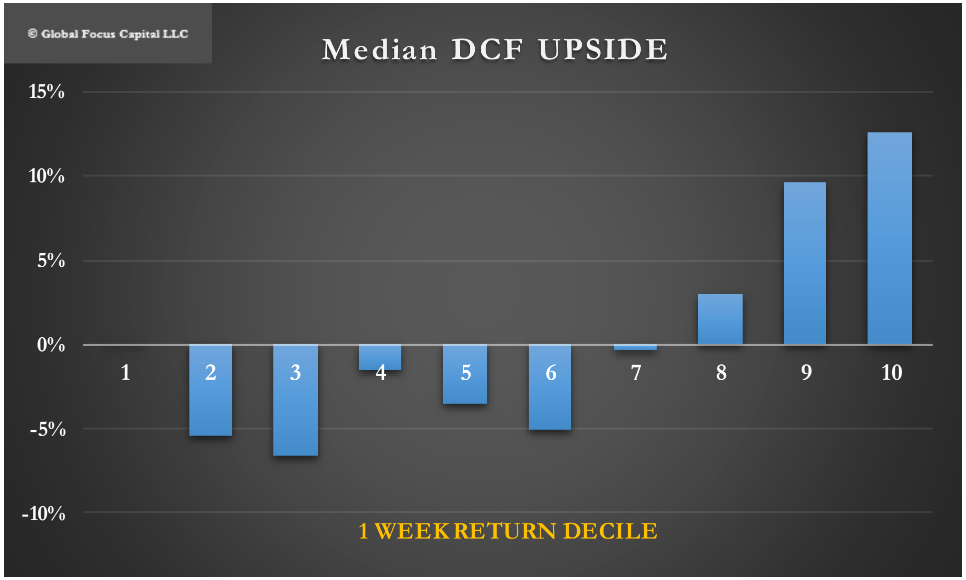
- Valuation as a factor had a poor week especially when looking at P/E ratios
- The best performers over the last 5 days had the higher than average P/E's
- We saw the same pattern for P/B – better performers had slightly higher P/B ratios
- More expensive growth stocks continue to do better YTD

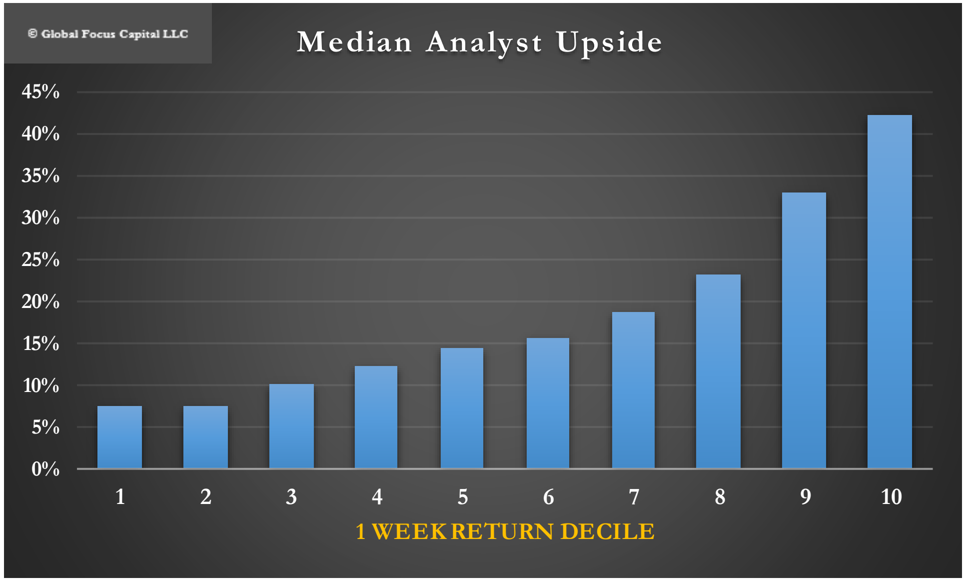




What did the markets reward last week: Valuation Models

- The median stock in our universe is fairly 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





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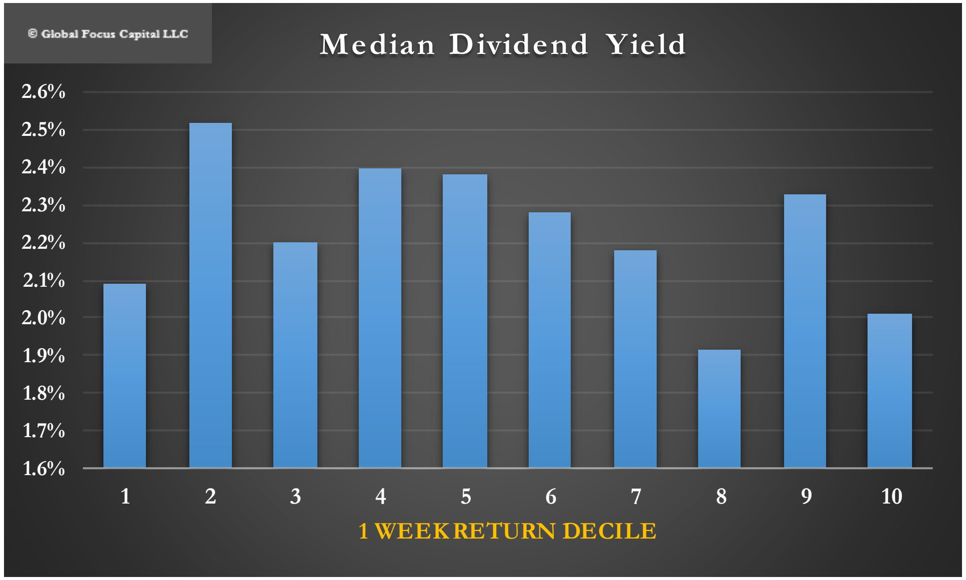
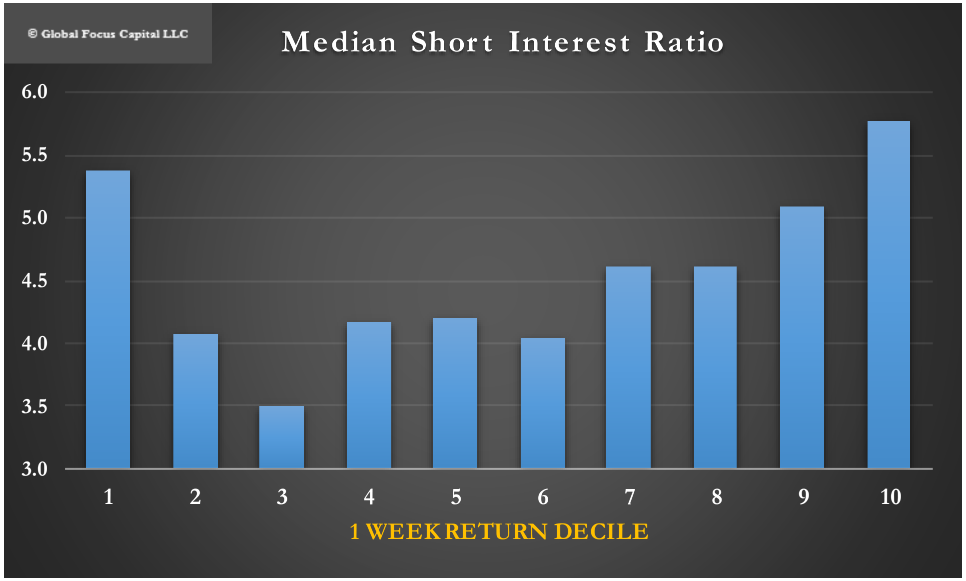
What did the markets reward last week: Yield and Sentiment

- On an equally weighted basis, dividend yield had a decent week
- The best performing stocks had lower than average yields but Deciles 2-5 had significantly higher yields
- Short interest, a measure of sentiment, showed a "U" shaped pattern of returns





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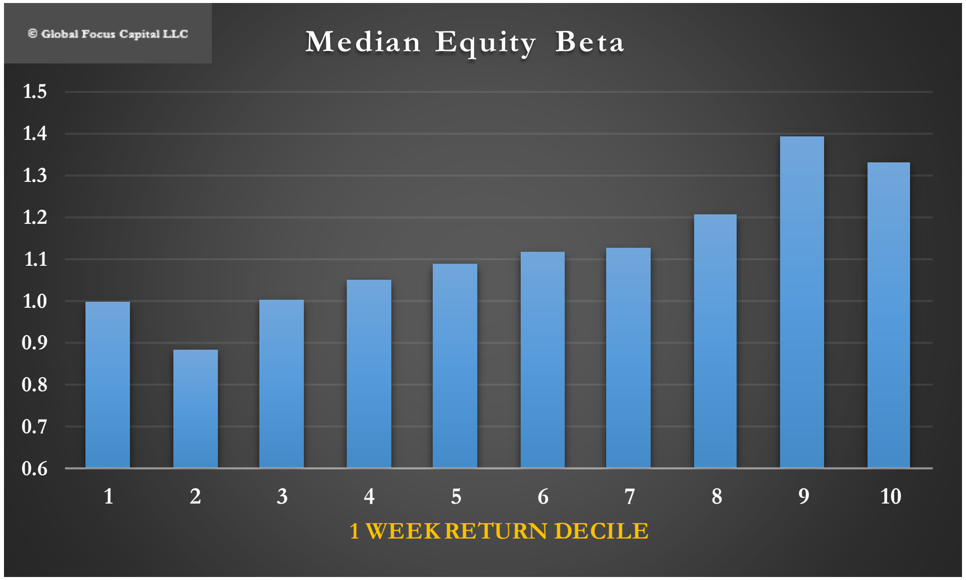
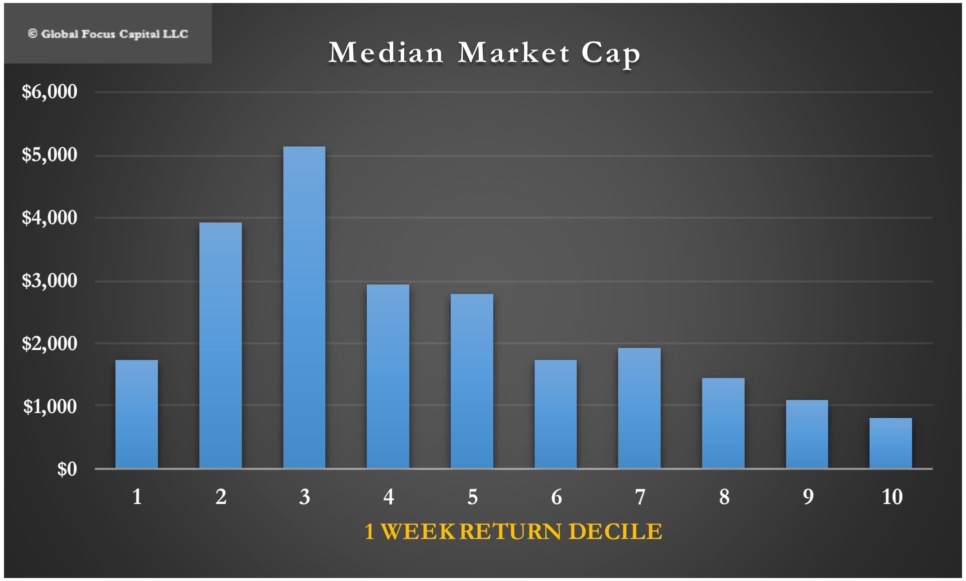
What did the markets reward last week: Beta and Size

- Beta worked extremely well last week.
- The lower the beta the better
- In terms of market cap over the last week we have seen an inverted V pattern – repeat from previous weeks
  - Decile 3 had the highest average market cap
- The Russell 2000 index under performed the S&P 500 by 2.1% over the last 5 trading days
  - Over the last 3 months large caps have beaten small caps by 6%





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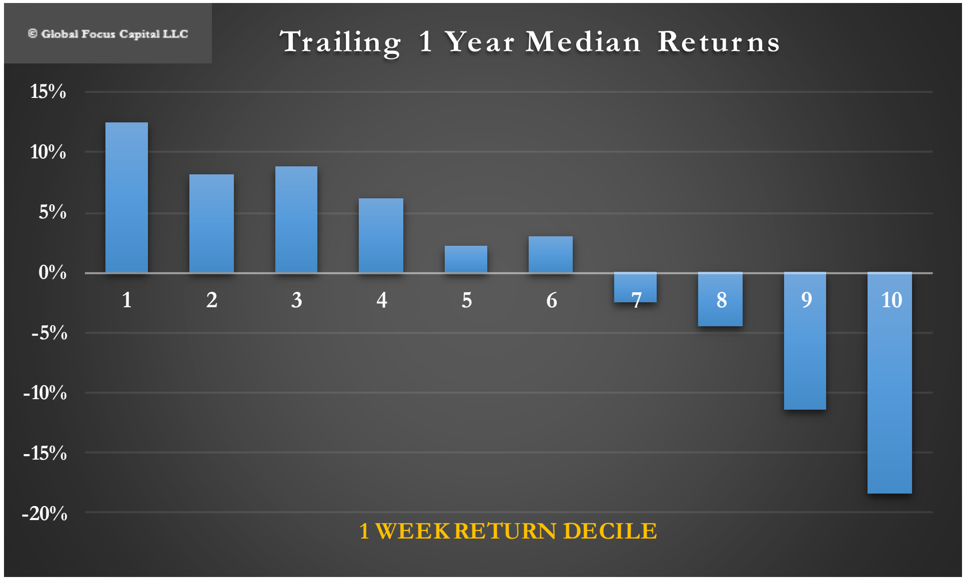
What did the markets reward last week: Momentum and Growth

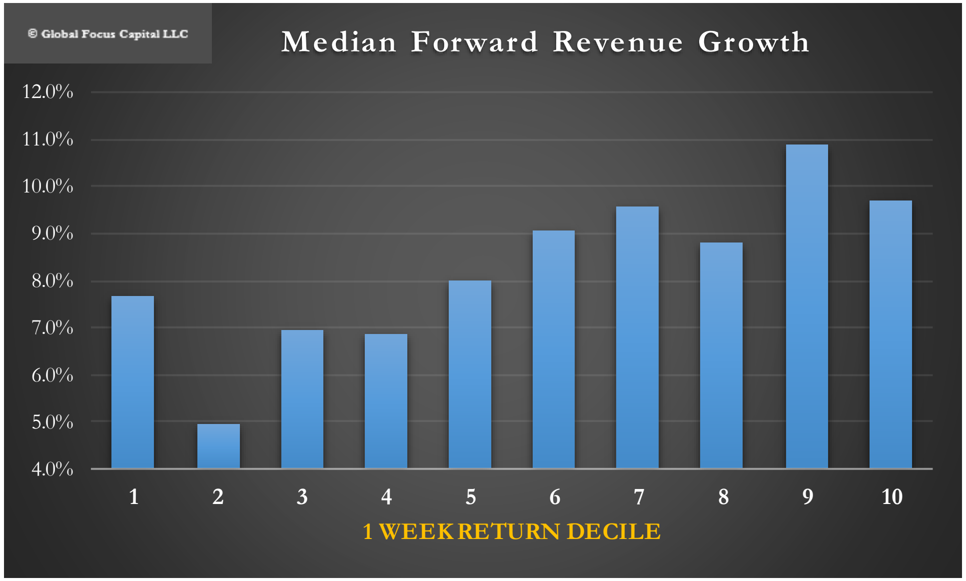
- The 1 year momentum effect worked last week in a relative sense – past 1 year winners had the highest median weekly performance

- Winners keep winning, losers keep losing

- The industry rotation that started about 6 weeks ago is gaining strength

- Revenue growth as a factor exhibited a perverse relationship to return – higher growth companies showed the worst performance





Big Movers – Last 5 Days

Down

DXC Technology Company	DXC	Information Technology
Match Group, Inc.	MTCH	Information Technology
GoDaddy Inc.	GDDY	Information Technology
Wynn Resorts, Limited	WYNN	Consumer Discretionary
Perrigo Company	PRGO	Healthcare
Alnylam Pharmaceuticals, I	ALNY	Healthcare
Michael Kors Holdings Lir	KORS	Consumer Discretionary
CDK Global, Inc.	CDK	Information Technology
Coty Inc.	COTY	Consumer Staples
Zillow Group, Inc.	ZG	Information Technology
Zillow Group, Inc.	Z	Information Technology
Nektar Therapeutics	NKTR	Healthcare
Zayo Group Holdings, Inc.	ZAYO	Telecommunication Service
Universal Display Corporat	OLED	Information Technology
BWX Technologies, Inc.	BWXT	Industrials
Marriott Vacations Worldw	VAC	Consumer Discretionary
CommScope Holding Com	COMM	Information Technology
Nu Skin Enterprises, Inc.	NUS	Consumer Staples
Inogen, Inc	INGN	Healthcare
2U, Inc.	TWOU	Information Technology

Up

O'Reilly Automotive, Inc.	ORLY	Consumer Discretionary
Mylan N.V.	MYL	Healthcare
Symantec Corporation	SYMC	Information Technology
ANSYS, Inc.	ANSS	Information Technology
Mosaic Company (The)	MOS	Materials
L Brands, Inc.	LB	Consumer Discretionary
Twilio Inc.	TWLO	Information Technology
Newell Brands Inc.	NWL	Consumer Discretionary
TripAdvisor, Inc.	TRIP	Consumer Discretionary
Cimarex Energy Co	XEC	Energy
Flowserve Corporation	FLS	Industrials
Ringcentral, Inc.	RNG	Information Technology
Charles River Laboratories	CRL	Healthcare
Hill-Rom Holdings Inc	HRC	Healthcare
Etsy, Inc.	ETSY	Information Technology
ARRIS International plc	ARRS	Information Technology
Planet Fitness, Inc.	PLNT	Consumer Discretionary
Penumbra, Inc.	PEN	Healthcare
AECOM	ACM	Industrials
Ashland Global Holdings I	ASH	Materials

This Coming Week

Reporting Soon

Home Depot, Inc. (The)	HD	Consumer Discretionary
Tyson Foods, Inc.	TSN	Consumer Staples
Rockwell Collins, Inc.	COL	Industrials
L-3 Communications Hold	LLL	Industrials
Advance Auto Parts Inc	AAP	Consumer Discretionary
L Brands, Inc.	LB	Consumer Discretionary
UGI Corporation	UGI	Utilities
Aramark	ARMK	Consumer Discretionary
AECOM	ACM	Industrials
Williams-Sonoma, Inc.	WSM	Consumer Discretionary
athenahealth, Inc.	ATHN	Healthcare
Essent Group Ltd.	ESNT	Financials
International Game Techno	IGT	Consumer Discretionary
Hillenbrand Inc	HI	Industrials
Adient plc	ADNT	Consumer Discretionary
Edgewell Personal Care Co	EPC	Consumer Staples
Children's Place, Inc. (The	PLCE	Consumer Discretionary
Global Blood Therapeutics	GBT	Healthcare
WageWorks, Inc.	WAGE	Industrials
Loral Space & Communica	LORL	Consumer Discretionary
Stratasys, Ltd.	SSYS	Information Technology
National HealthCare Corpo	NHC	Healthcare
MACOM Technology Solu	MTSI	Information Technology
Scorpio Tankers Inc.	STNG	Energy
Omeros Corporation	OMER	Healthcare
DHT Holdings, Inc.	DHT	Energy
FutureFuel Corp.	FF	Materials
EZCORP, Inc.	EZPW	Financials
Global Indemnity Limited	GBLI	Financials
Nordic American Tankers I	NAT	Energy

- Risk Aversion should stay high and we expect choppy markets this coming week again
- Equity Technicals have deteriorated but have recovered from the ugliness of prior weeks
- Tax loss selling is likely to intensify in the next few weeks
- Tariff wars are taking a bite with the IMF recently citing trade wars as the main reason for a cut in their forecast of global growth
- Small caps have massively under-performed large caps over the last 3 months – risk is being shunned at the moment
  - Our models still like small caps better
- Will EM equities recover? Seems to be all about the direction of the US dollar at the moment. Pretty beat up despite stronger fundamentals
- REITS have performed extremely well and are YTD only slightly behind US equities
- Q3 reporting is heavy in the US – looking for commentary on tariffs, slowing growth and inflationary pressures

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