



**GLOBAL FOCUS CAPITAL LLC**  
INSIGHT THAT MATTERS

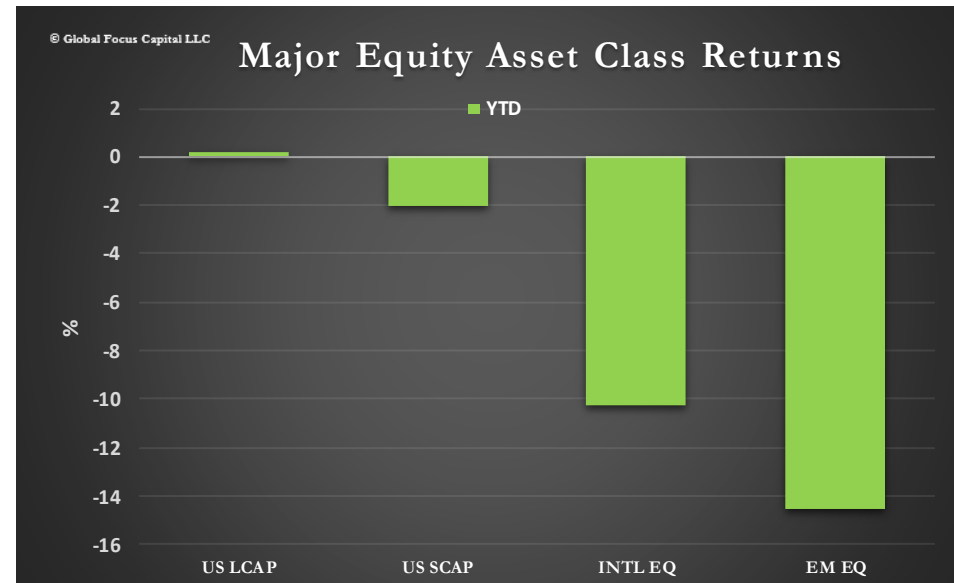
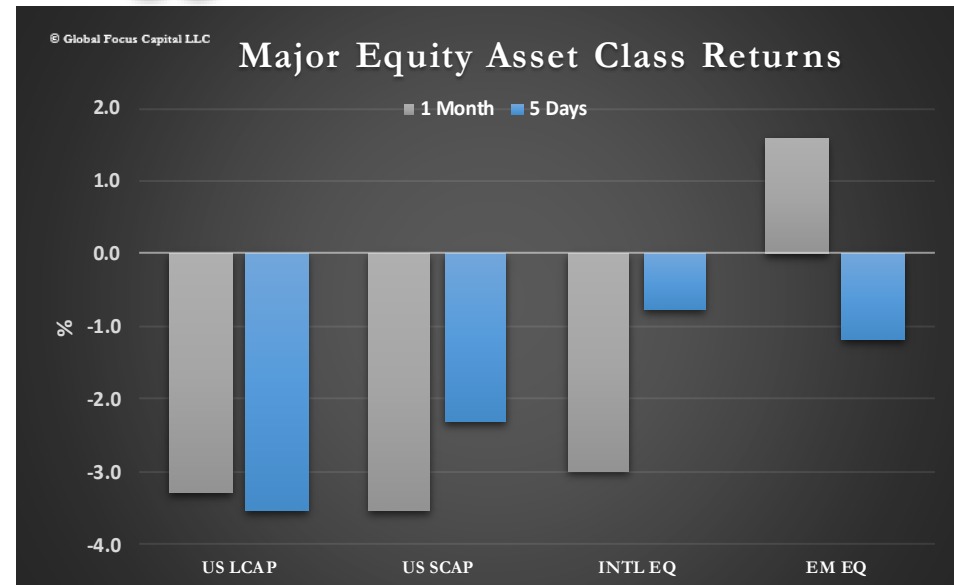
# The Equity Observer

Weekly Review – November 25, 2018

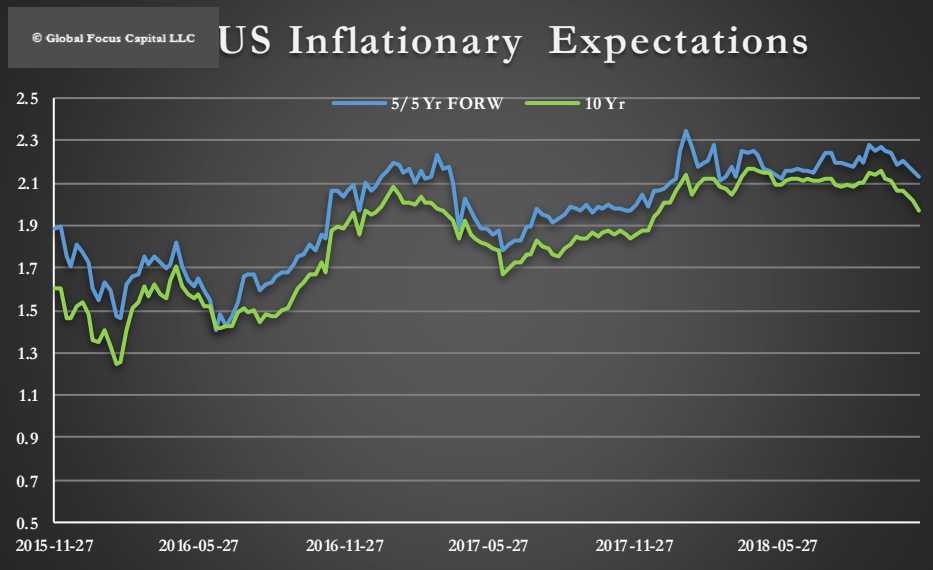
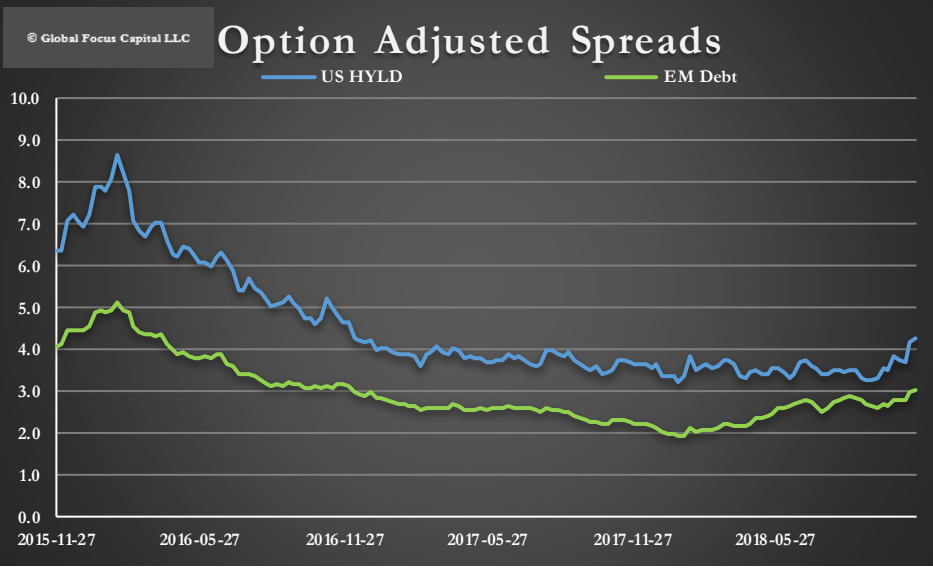
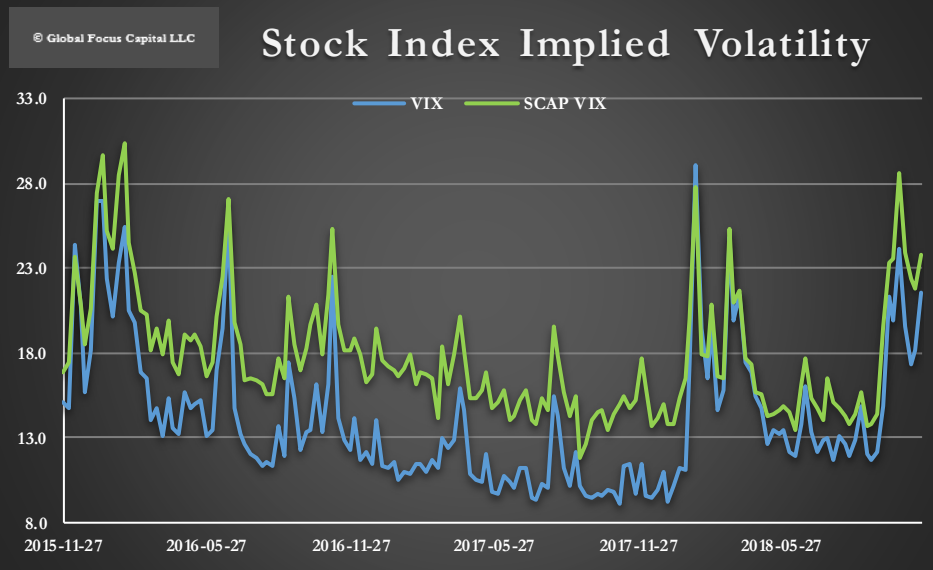
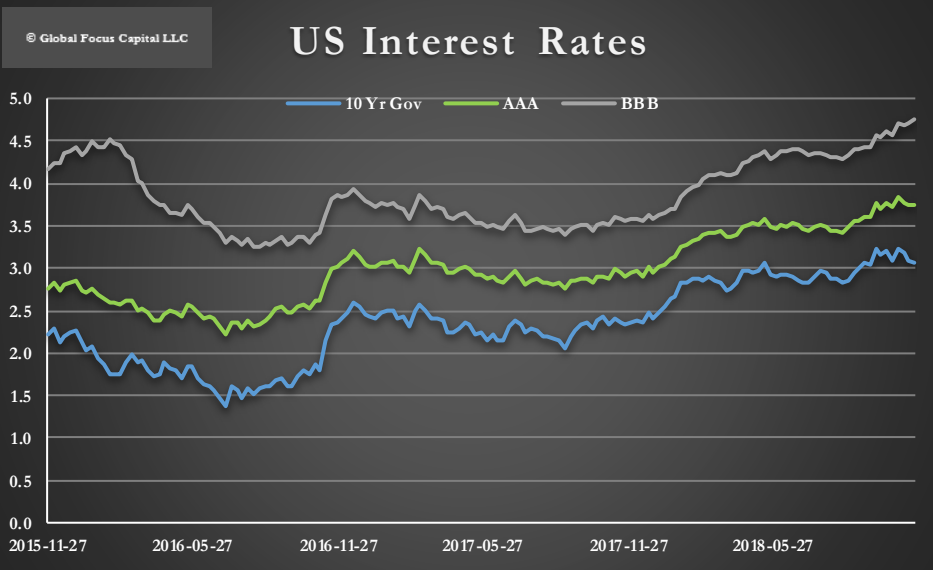
Eric J. Weigel

# Equity markets get pounded again with US growth stocks taking the biggest licks

- ▶ The last month has been brutal for equity investors
  - ▶ Higher rates contributed to this as well as slower expected global growth due to an escalation of tariffs
- ▶ Surprisingly, EM stocks are up over the last month but YTD remain the worst of the major equity categories
- ▶ YTD US large caps are barely in positive territory but US small caps are now down for the year
  - ▶ The S&P 500 is up 0.2% for the year while the Russell 2000 is down 2%
- ▶ International strategies have underperformed both in local market returns and a strong USD

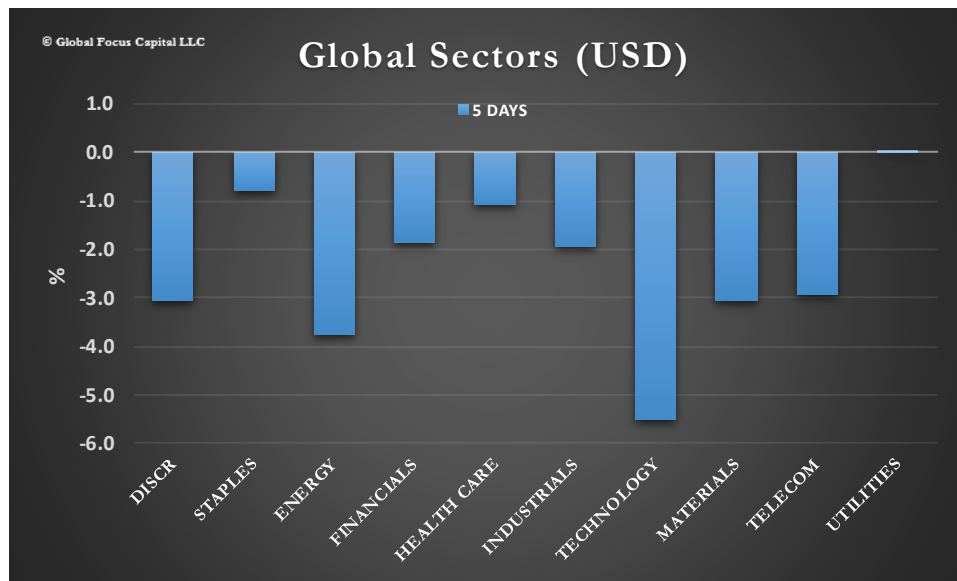
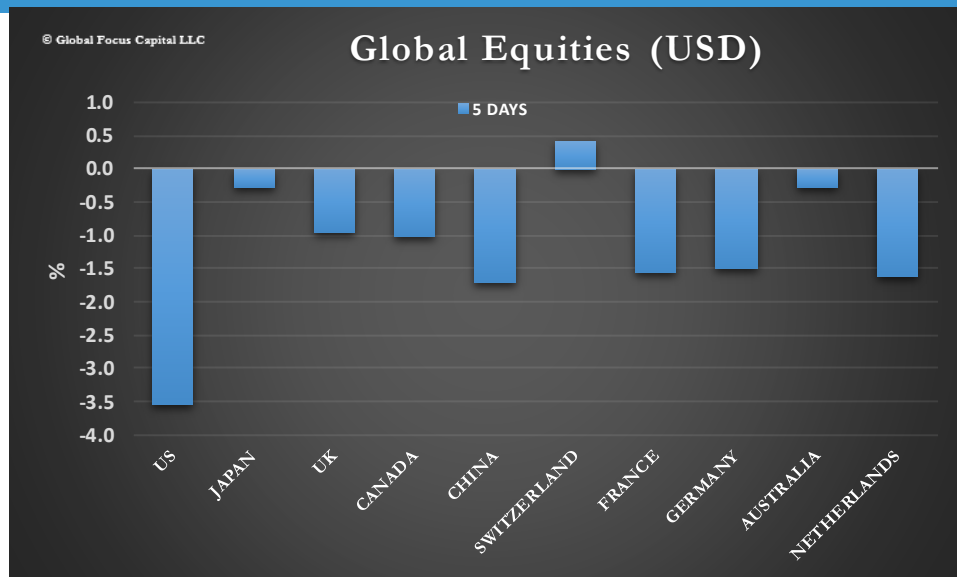


# Equity volatility stabilizes but yield spreads widen indicating concern



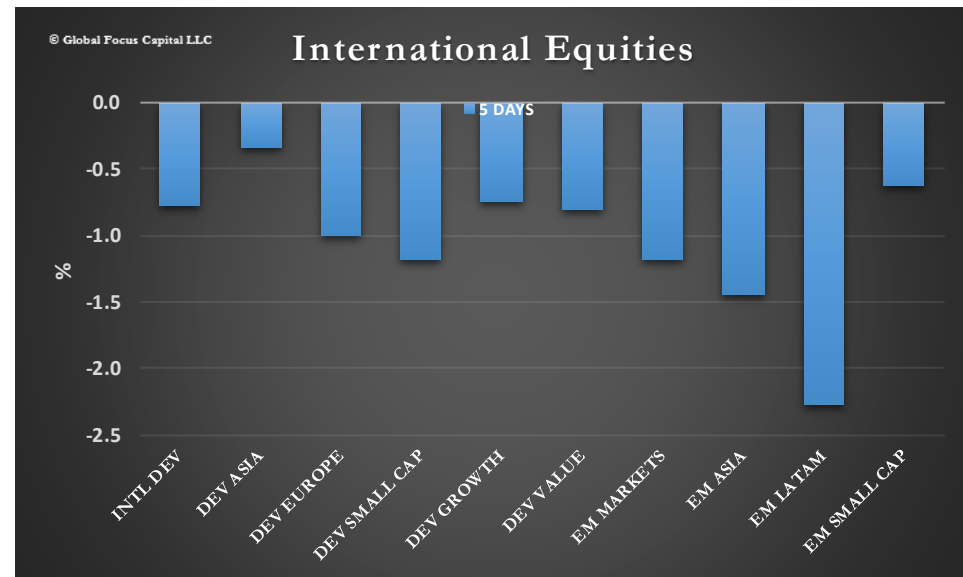
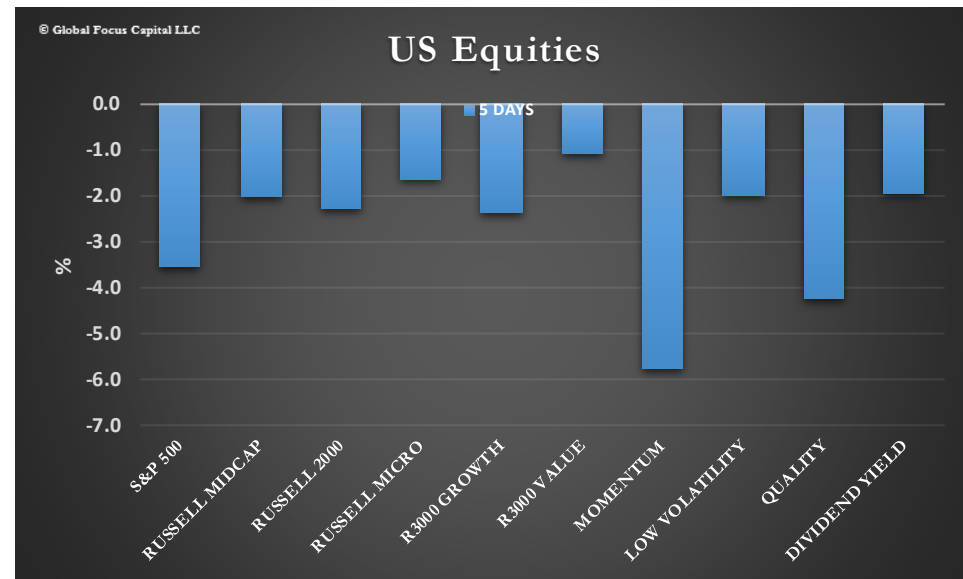
# Global Equities

- ▶ The carnage continues –US growth stocks took a huge pounding last week
- ▶ Commodity indices took a beating last week (due to oil primarily) while the Real Estate market kept recovering
- ▶ In the US Value out-performed Growth over the last 5 trading by over 130 bp
- ▶ In international markets Value and Growth performed in line with each other
- ▶ Traditional Value sectors such as Utilities and Staples outperformed along with Health Care
- ▶ Technology and Energy were the two largest losers last week



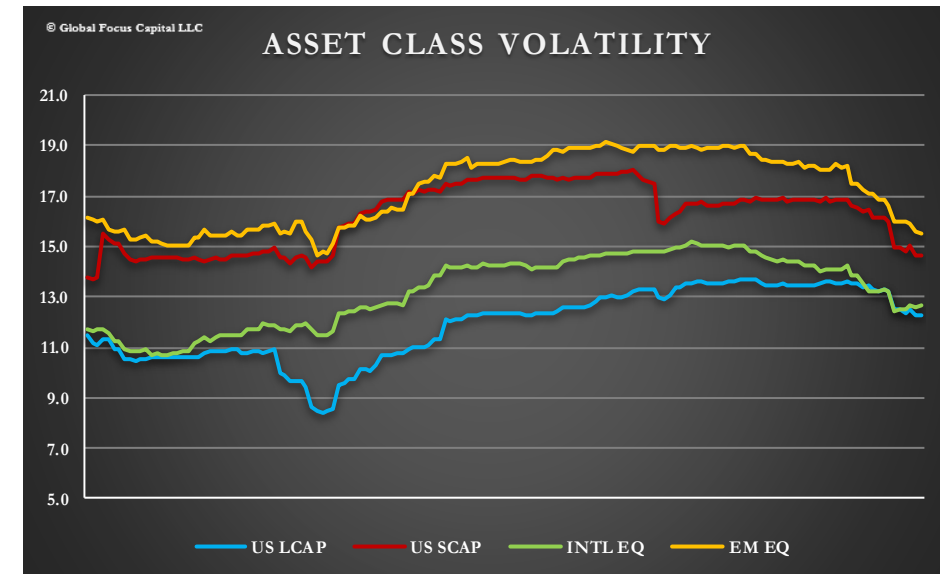
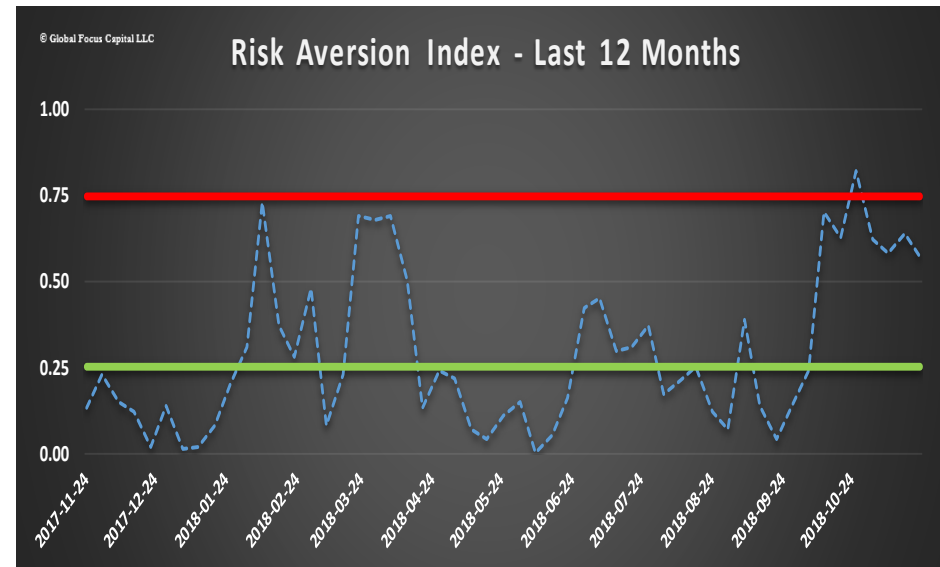
# Style and Geography

- ▶ In the US, we saw a strong size effect last week with mega-caps underperforming
- ▶ Value once again out-performed Growth as the Utilities, Health Care and Real Estate performed well
- ▶ The Momentum trade has gone in reverse and Growth Stocks are key losers but remain ahead YTD
- ▶ Developed international markets were down the least last week but remain down 10% for the year
- ▶ EM LATAM continues extremely volatile and was down 2.3% last week



# 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 still see a huge disconnect between volatility, valuations and economic conditions
  - ▶ Global growth is good but leveling off, valuations are high and economic policy is highly uncertain



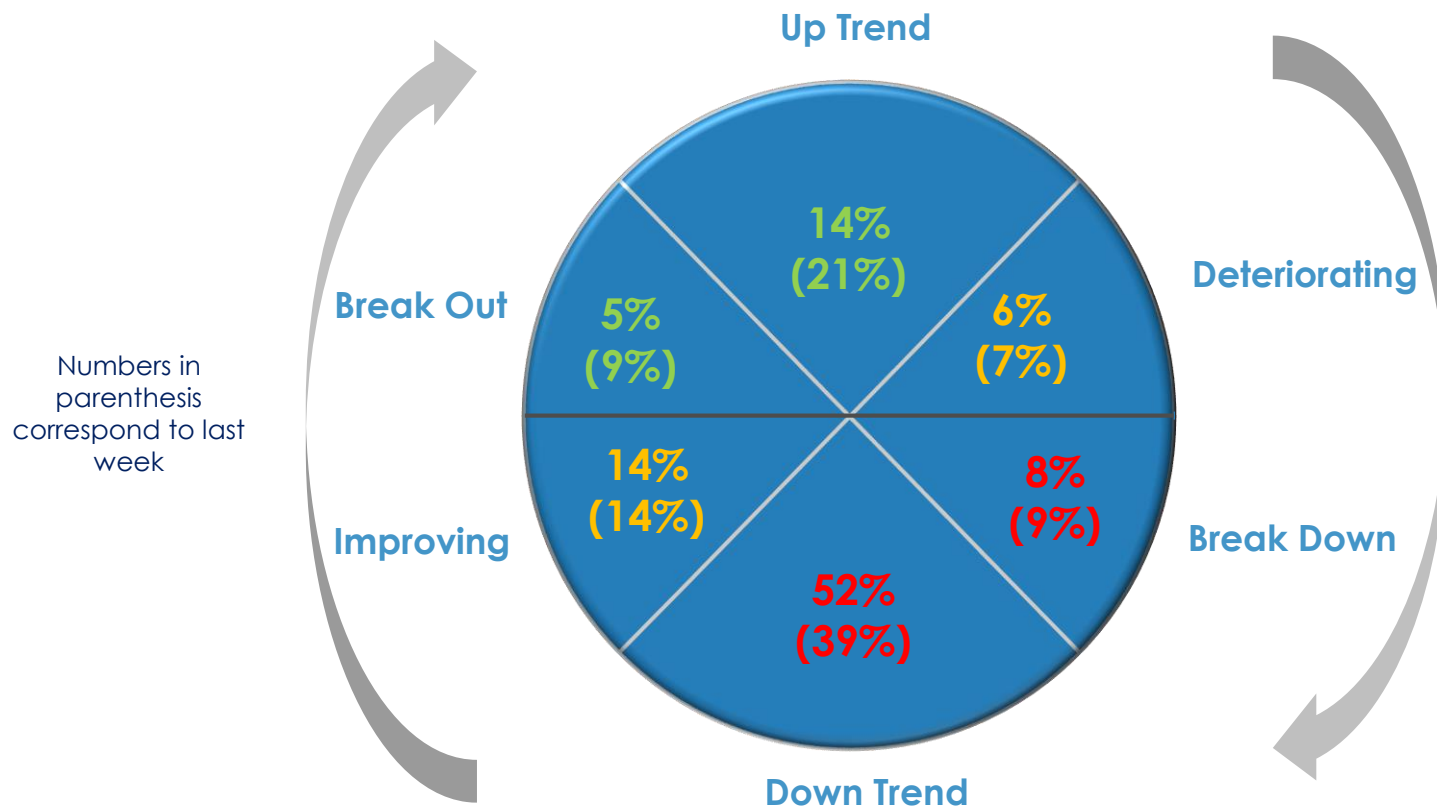


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# US Equities

## Weekly Performance

# The Bear Market is here and it is showing signs of industry rotation

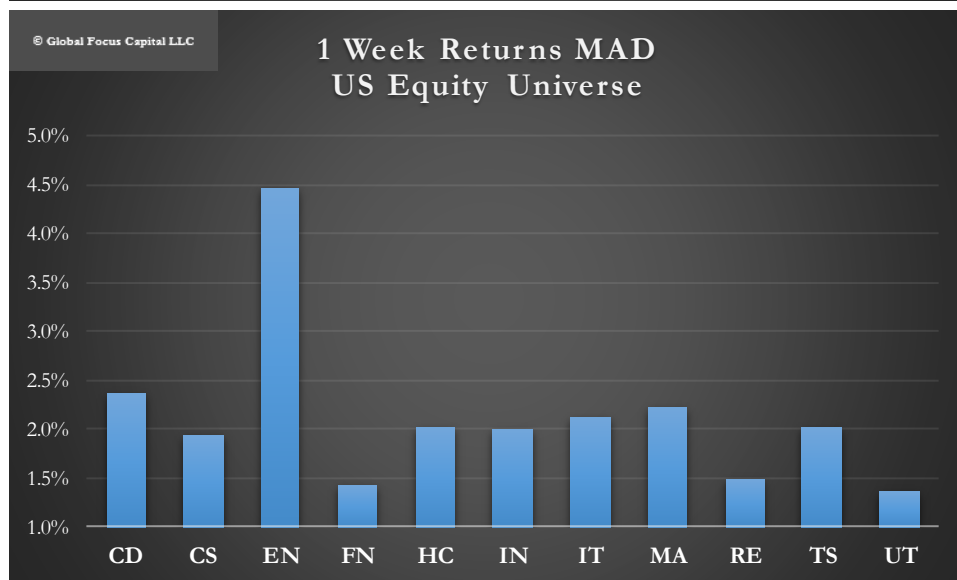
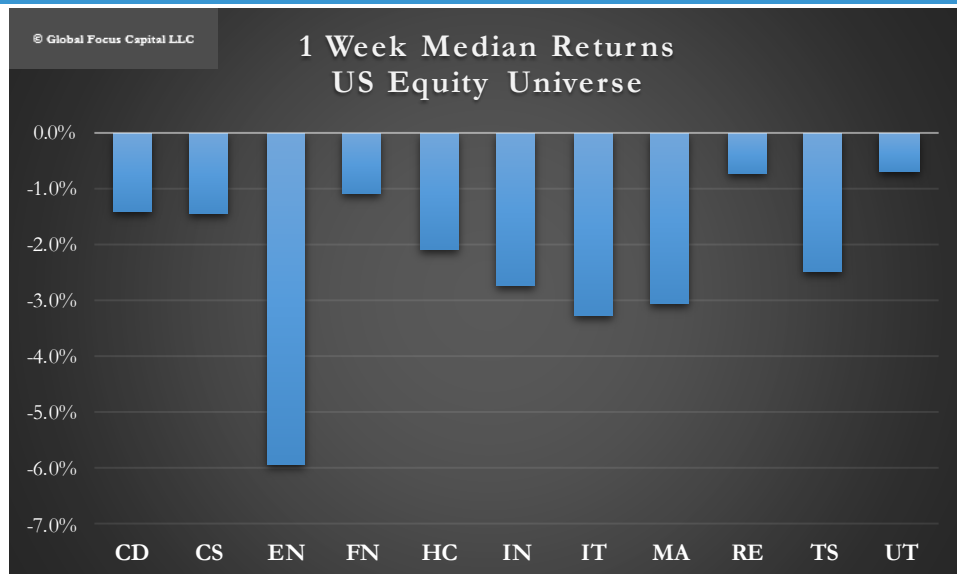


**GF CAP US All Equity Universe**



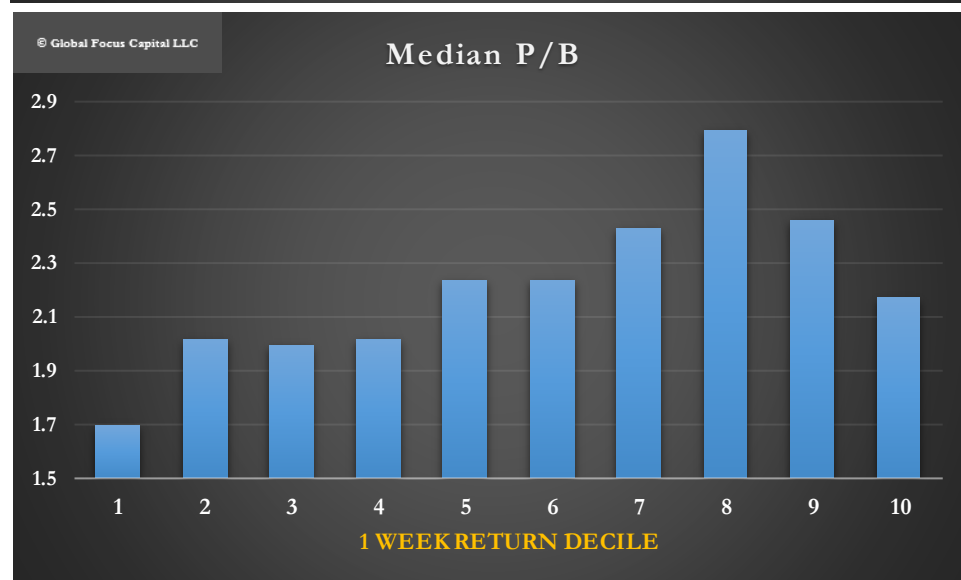
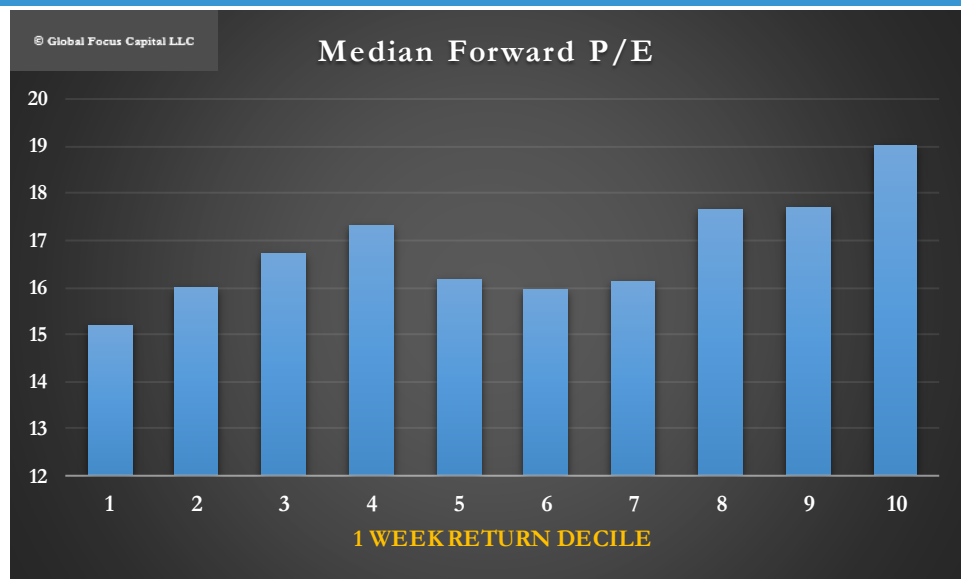
# The Sector Look – median performance and dispersion

- ▶ The mean stock in our universe was down 2.2% over the last 5 trading days
- ▶ The smallest losses 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 Energy 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



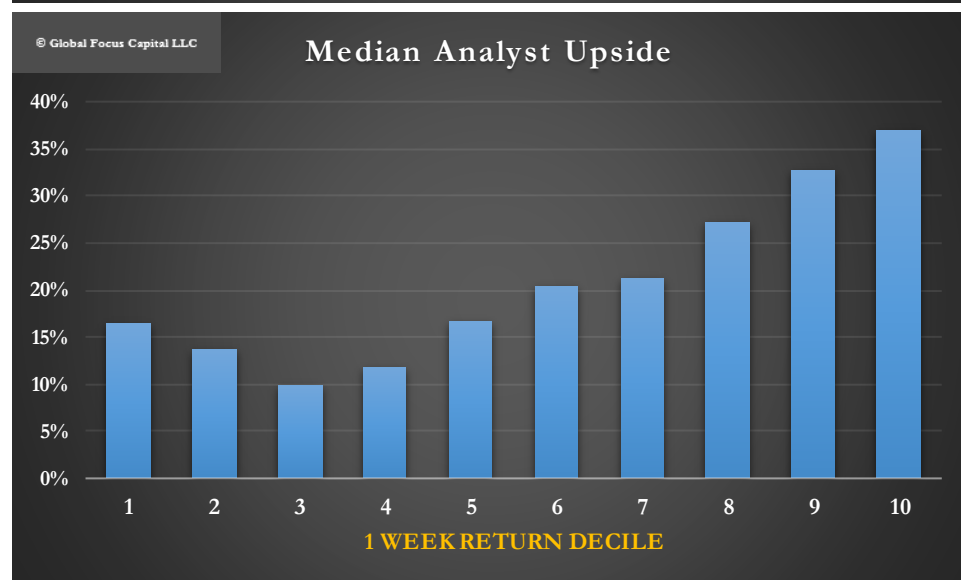
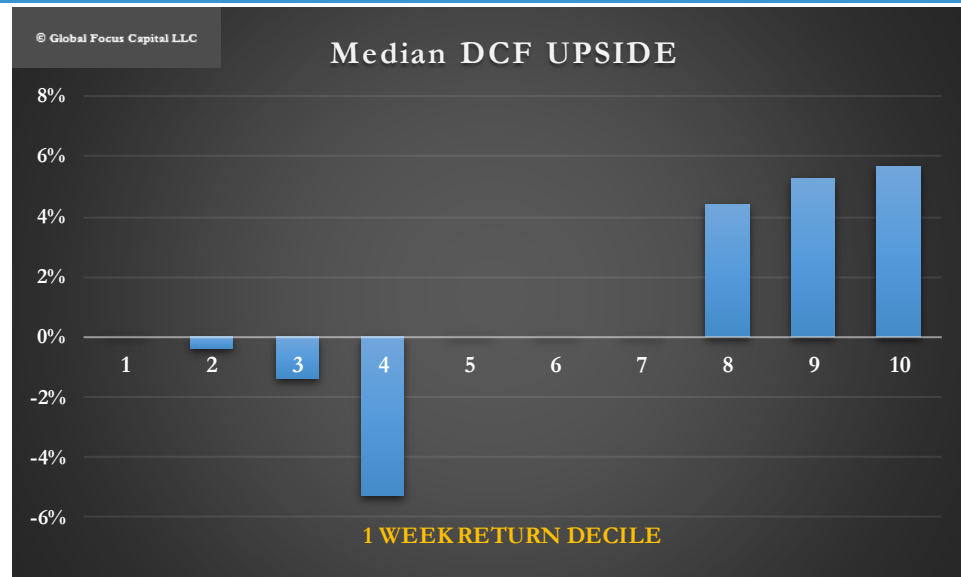
# What did the markets reward last week: Valuation Multiples

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



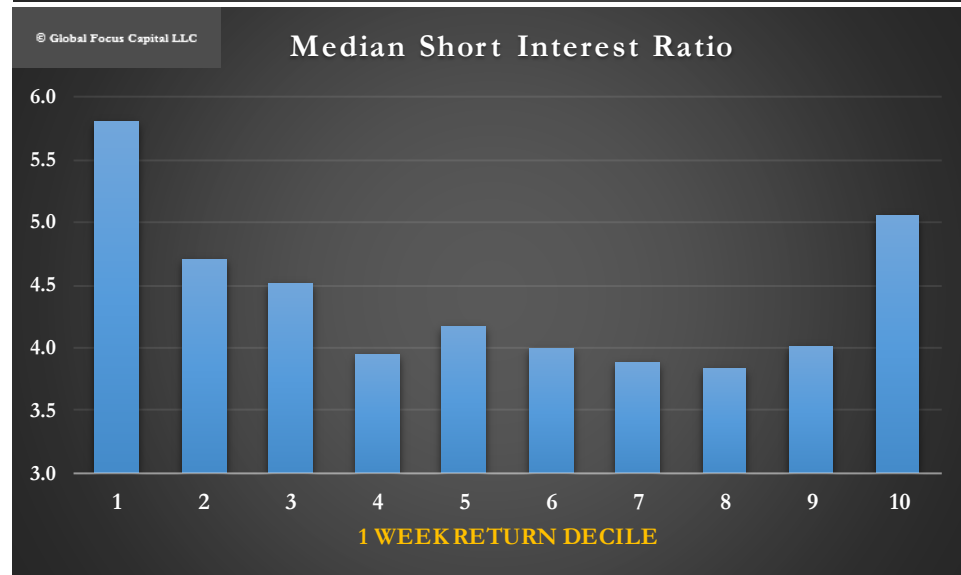
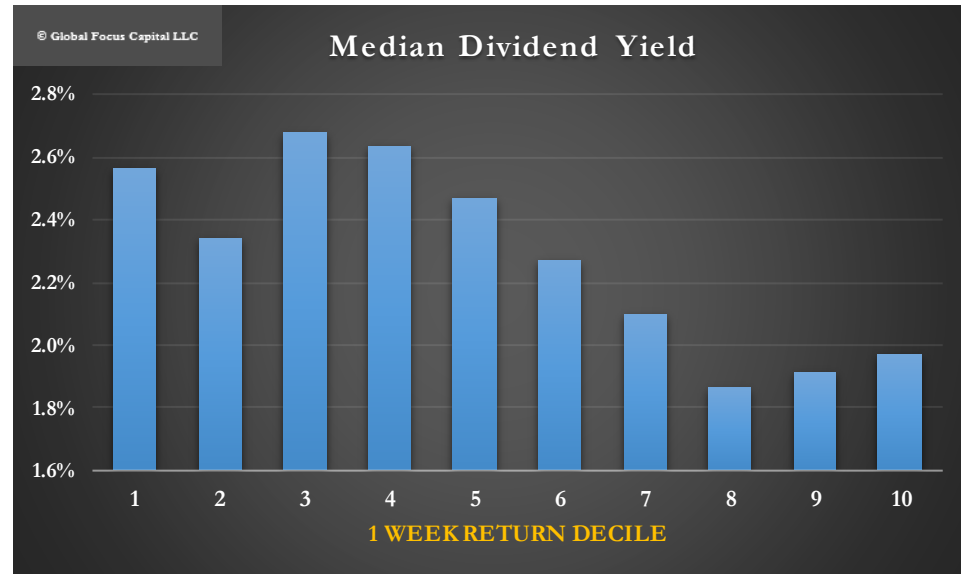
# What did the markets reward last week: Valuation Models

- ▶ 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



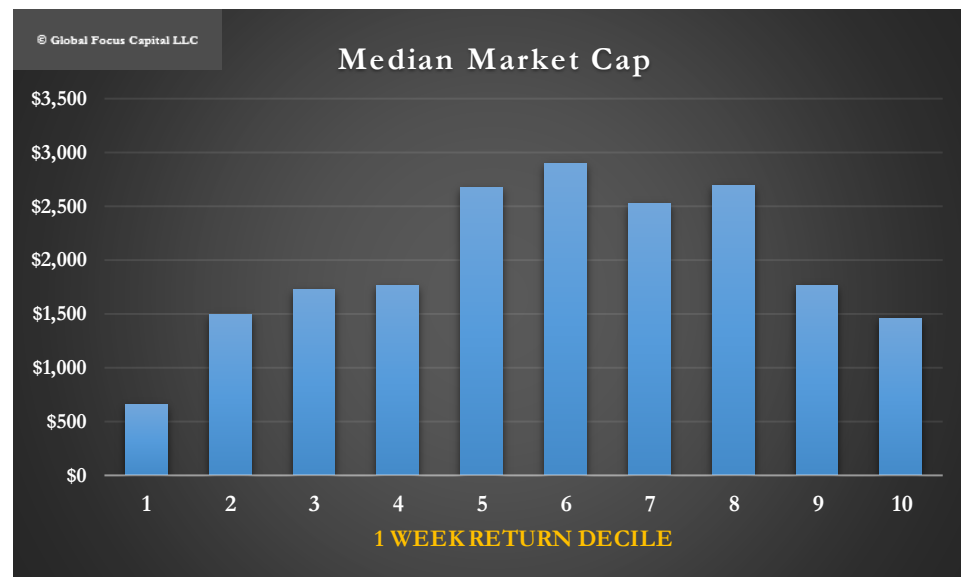
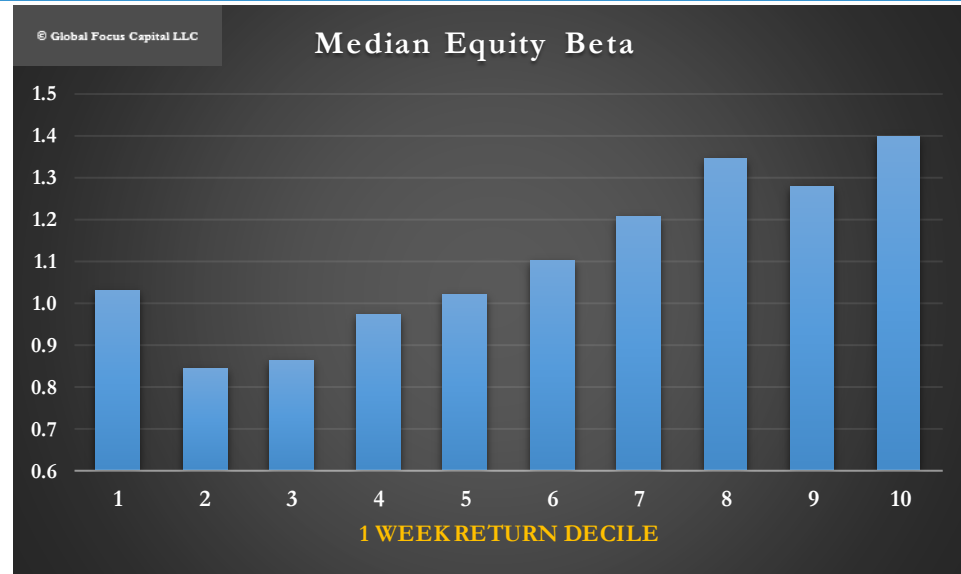
# What did the markets reward last week: Yield and Sentiment

- ▶ On an equally weighted basis, dividend yield had a good week
- ▶ The best performing stocks had higher than average yields
- ▶ Short interest, a measure of sentiment, showed a “U” shaped pattern of returns
- ▶ The best performing stocks last week had the highest levels of short interest



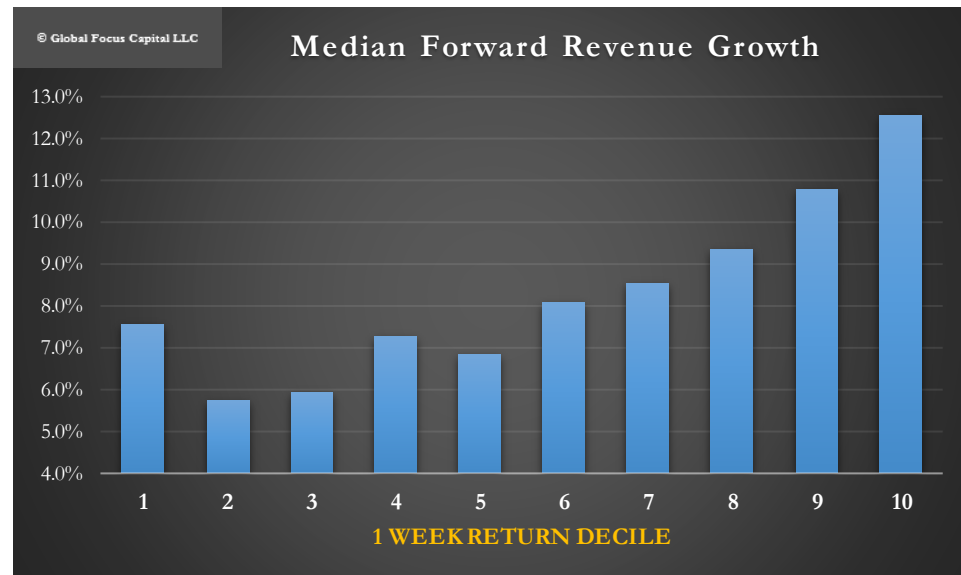
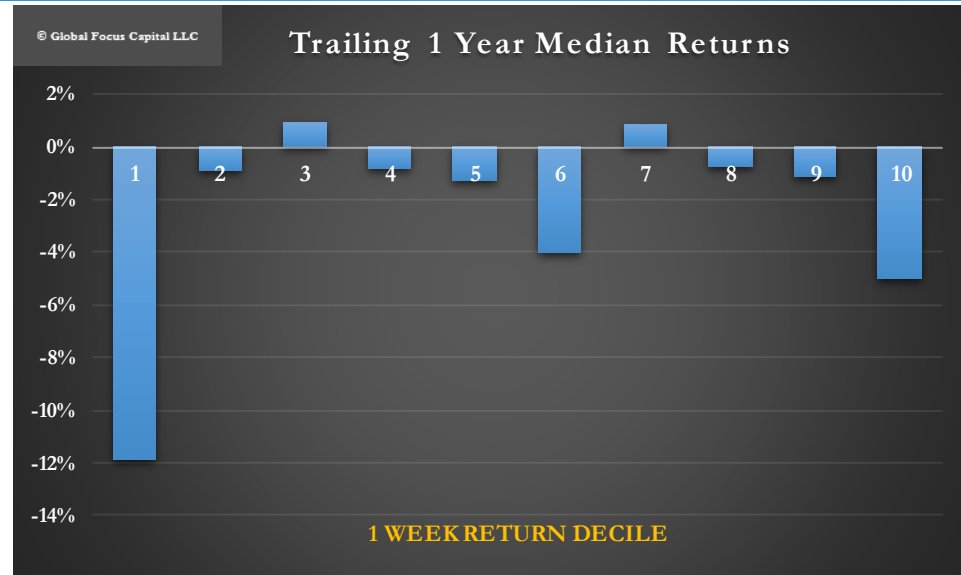
# What did the markets reward last week: Beta and Size

- ▶ Beta worked extremely well last week
- ▶ The lower the beta the smaller the losses
- ▶ In terms of market cap over the last week we have seen an inverted V pattern – repeat from previous weeks
- ▶ The Russell 2000 index over performed the S&P 500 by 1.3% over the last 5 trading days
  - ▶ Over the last 3 months large caps have however handily beaten small caps by over 6%



# What did the markets reward last week: Momentum and Growth

- ▶ The 1 year momentum effect has lost effectiveness
- ▶ We saw a strong 1 year reversal effect last week
- ▶ The best performing decile last week had the poorest trailing 1 year performance
- ▶ 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

Apple Inc.	AAPL	Information Technology
NVIDIA Corporation	NVDA	Information Technology
TJX Companies, Inc. (The)	TJX	Consumer Discretionary
Target Corporation	TGT	Consumer Discretionary
Ross Stores, Inc.	ROST	Consumer Discretionary
Southern Copper Corporati	SCCO	Materials
Square, Inc.	SQ	Information Technology
lululemon athletica inc.	LULU	Consumer Discretionary
Kohl's Corporation	KSS	Consumer Discretionary
DexCom, Inc.	DXCM	Healthcare
Jacobs Engineering Group	JEC	Industrials
L Brands, Inc.	LB	Consumer Discretionary
Alcoa Corporation	AA	Materials
Five Below, Inc.	FIVE	Consumer Discretionary
LivaNova PLC	LIVN	Healthcare
HubSpot, Inc.	HUBS	Information Technology
Coupa Software Incorporat	COUP	Information Technology
Chesapeake Energy Corpor	CHK	Energy
Colfax Corporation	CFX	Industrials
Cliffs Natural Resources In	CLF	Materials

## Up

TESARO, Inc.	TSRO	Healthcare
Beacon Roofing Supply, In	BECN	Industrials
Innoviva, Inc.	INVA	Healthcare
BioCryst Pharmaceuticals,	BCRX	Healthcare
Omeros Corporation	OMER	Healthcare
Overstock.com, Inc.	OSTK	Consumer Discretionary
Dermira, Inc.	DERM	Healthcare
Empire Resorts, Inc.	NYNY	Consumer Discretionary
EnviroStar, Inc.	EVI	Industrials
Daktronics, Inc.	DAKT	Information Technology
Enterprise Bancorp Inc	EBTC	Financials
Invacare Corporation	IVC	Healthcare
Babcock & Wilcox Enterpr	BW	Industrials
Achaogen, Inc.	AKAO	Healthcare
Navios Maritime Acquisitic	NNA	Energy
Clearside Biomedical, Inc.	CLSD	Healthcare
Genocea Biosciences, Inc.	GNCA	Healthcare
Hudson Technologies, Inc	HDSN	Industrials
Orchids Paper Products Co	TIS	Consumer Staples

# This Coming Week

## Reporting Soon

Salesforce.com Inc	CRM	Information Technology
Vmware, Inc.	VMW	Information Technology
Autodesk, Inc.	ADSK	Information Technology
Workday, Inc.	WDAY	Information Technology
Palo Alto Networks, Inc.	PANW	Information Technology
Splunk Inc.	SPLK	Information Technology
Veeva Systems Inc.	VEEV	Healthcare
Tiffany & Co.	TIF	Consumer Discretionary
J.M. Smucker Company (T	SJM	Consumer Staples
Burlington Stores, Inc.	BURL	Consumer Discretionary
PVH Corp.	PVH	Consumer Discretionary
Nutanix, Inc.	NTNX	Information Technology
Eaton Vance Corporation	EV	Financials
Nuance Communications, I	NUAN	Information Technology
Cracker Barrel Old Country	CBRL	Consumer Discretionary
Pure Storage, Inc.	PSTG	Information Technology
Dick's Sporting Goods Inc	DKS	Consumer Discretionary
Semtech Corporation	SMTC	Information Technology
Tech Data Corporation	TECD	Information Technology
Box, Inc.	BOX	Information Technology
Patterson Companies, Inc.	PDCO	Healthcare
Guess?, Inc.	GES	Consumer Discretionary
Central Garden & Pet Comj	CENT	Consumer Staples
Enanta Pharmaceuticals, Ir	ENTA	Healthcare
WageWorks, Inc.	WAGE	Industrials
Monmouth Real Estate Inv	MNR	Real Estate
La-Z-Boy Incorporated	LZB	Consumer Discretionary
Bazaarvoice, Inc.	BV.2	Information Technology
Chico's FAS, Inc.	CHS	Consumer Discretionary
Wesco Aircraft Holdings, I	WAIR	Industrials

- ▶ Risk Aversion should stay high and we expect choppy markets this coming week again
- ▶ Equity Technicals have deteriorated to the point that over half of our US universe in is a Down Trend Phase
- ▶ 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
- ▶ Surprisingly EM equities have outperformed developed markets in the last month.
- ▶ REITS have performed extremely well and are YTD our best performing asset class
- ▶ Q3 reporting is heavy in the US – looking for commentary on tariffs, slowing growth and inflationary pressures



# Contact & Subscription Information

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