



GLOBAL FOCUS CAPITAL LLC

INSIGHT THAT MATTERS

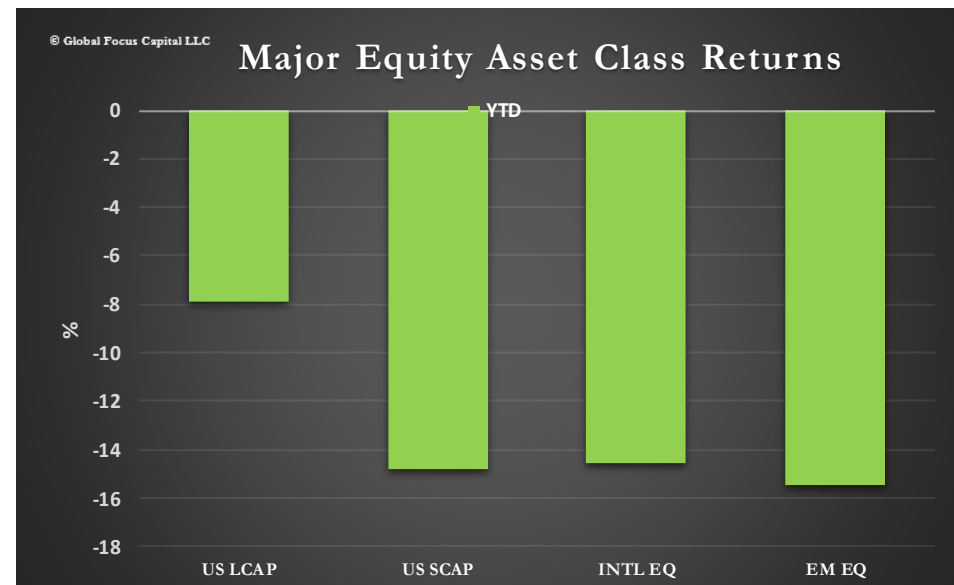
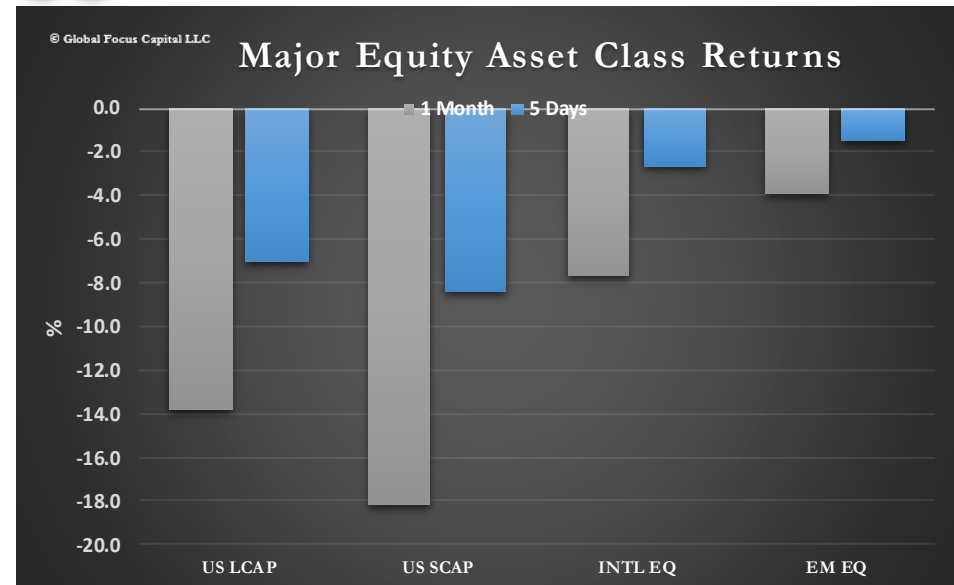
The Equity Observer

Weekly Review – December 23, 2018

Eric J. Weigel

Equity markets get pounded again with US small caps taking the biggest licks

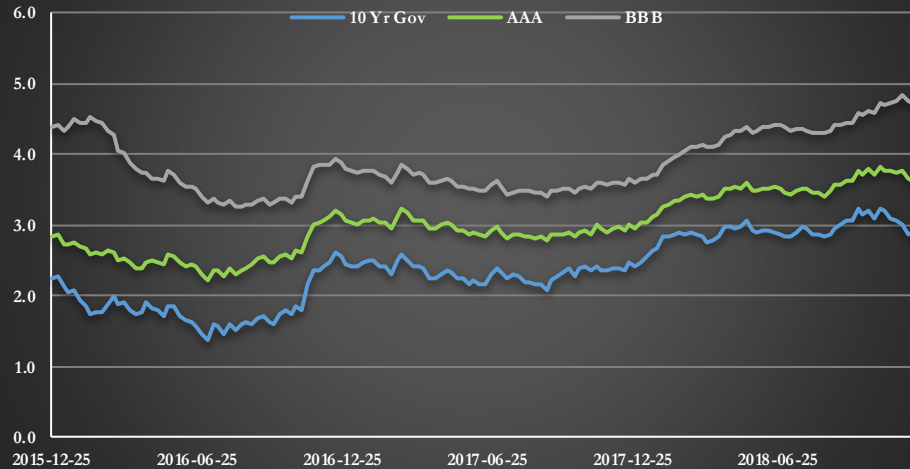
- ▶ The seesaw continues for risky assets
- ▶ Last week was particularly bad as equity markets took a deep dive again
- ▶ Surprisingly, EM stocks have lost the least over the last month but YTD remain the worst of the major equity categories
- ▶ YTD US large caps are now in negative territory
- ▶ International strategies have underperformed both in local market returns and a strong USD



Equity volatility spikes up again while yield spreads continue widening, inflationary expectations trend down

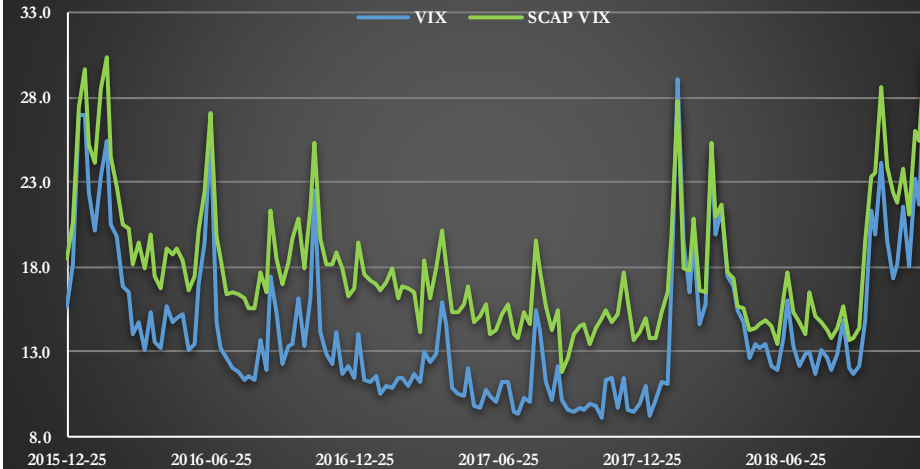
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US Interest Rates



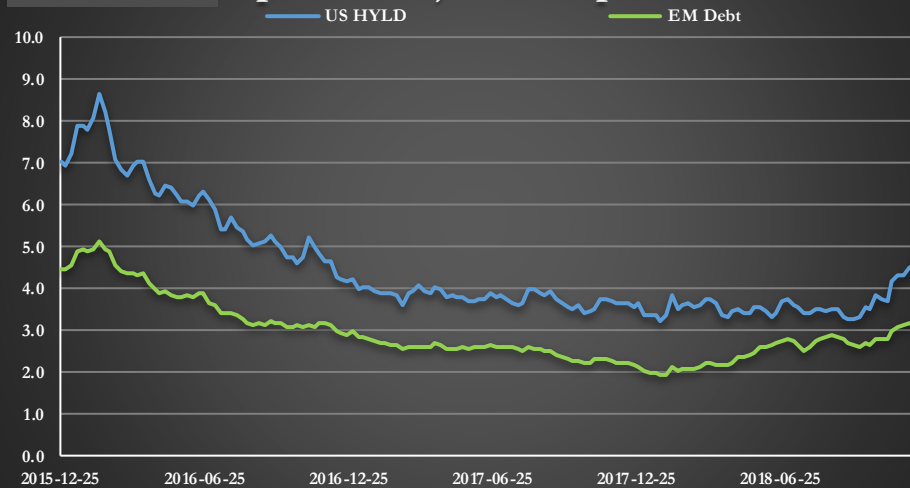
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Stock Index Implied Volatility



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Option Adjusted Spreads



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US Inflationary Expectations

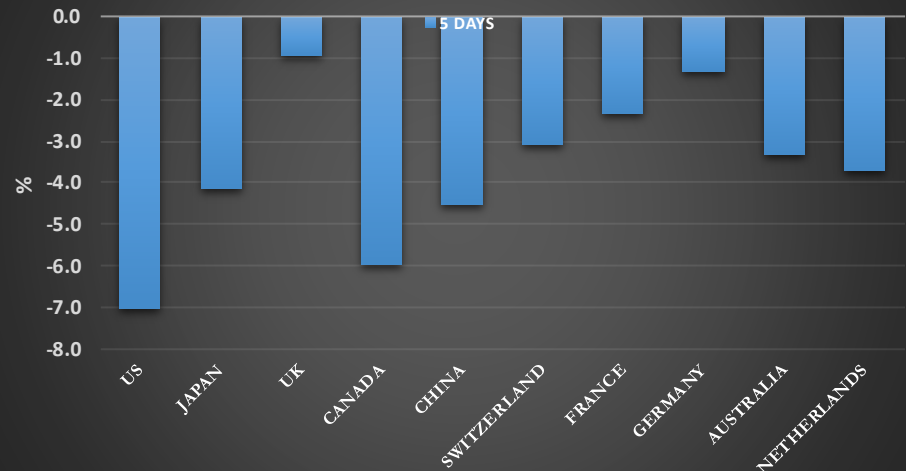


Global Equities

- ▶ The carnage continues –all major global markets took a nosedive with the US suffering the most
- ▶ Commodity indices took another down leg last week as oil prices dropped again (-13%)
- ▶ REITS are now down 2% for the year after a brutal -5.8% week
- ▶ In the US Value and Growth both got pounded last week with Value outperforming by 1%
- ▶ In international markets Growth under-performed Value last week by 50 bp.
- ▶ Tech and Energy got hit the hardest last week

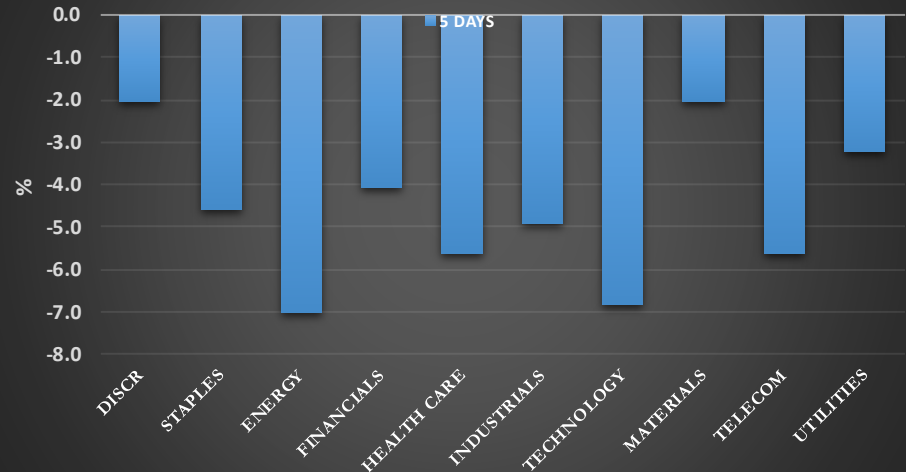
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Global Equities (USD)



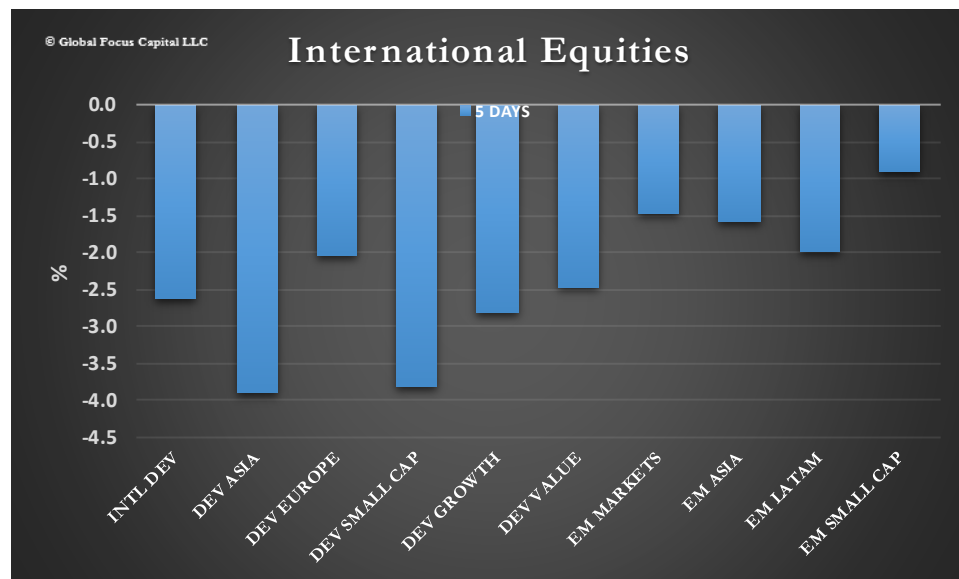
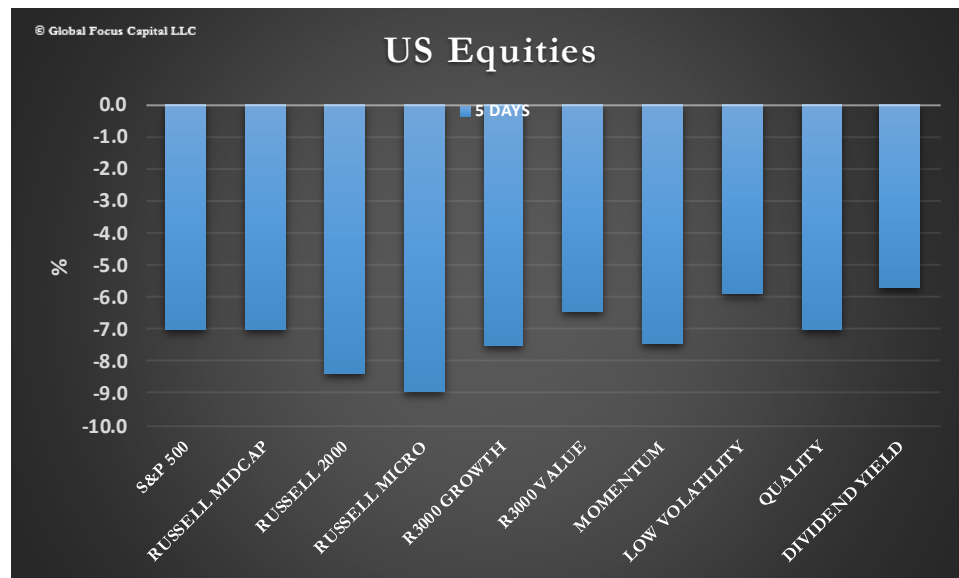
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Global Sectors (USD)



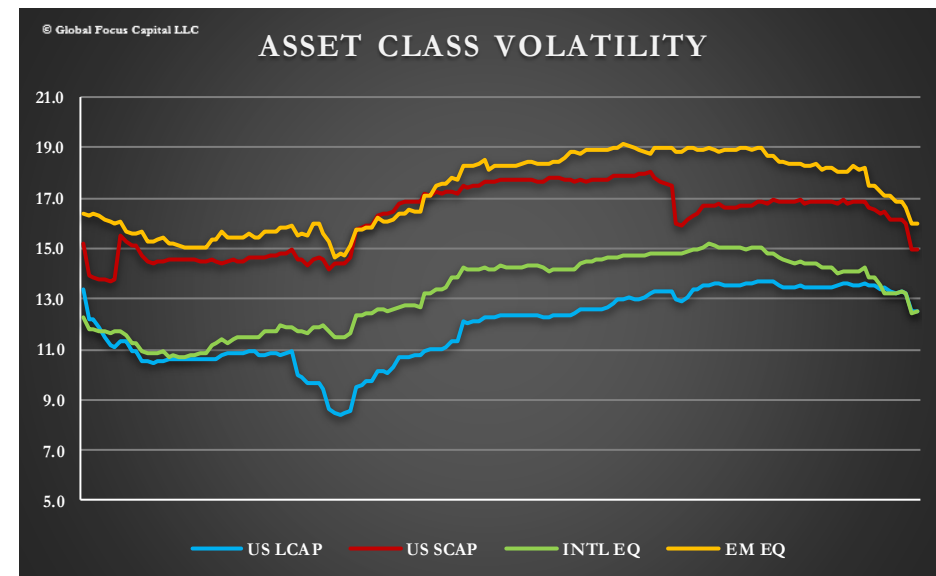
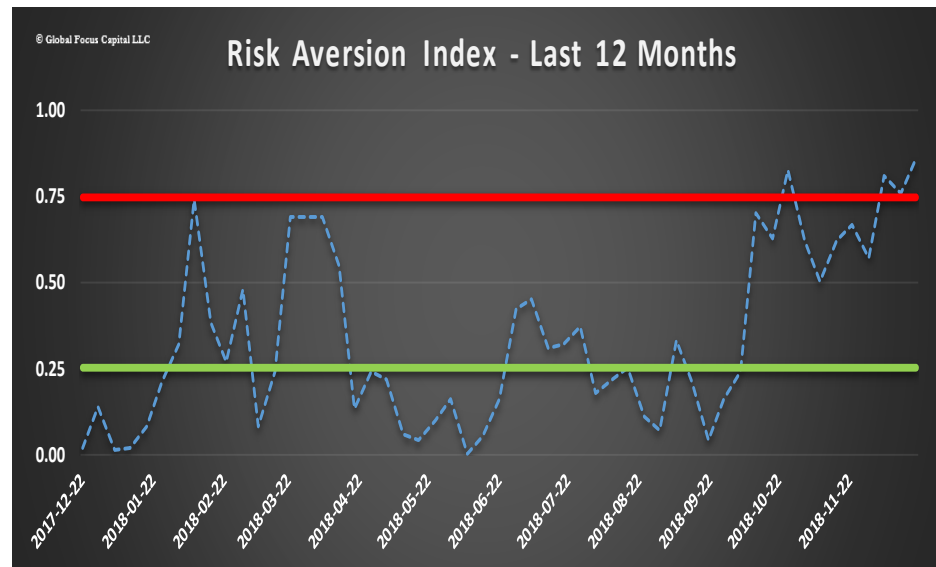
Style and Geography

- ▶ In the US, we saw a strong size effect last week with small caps dramatically under-performing
- ▶ Value performed almost as badly as Growth
- ▶ Within equity styles, Low Vol and Div Yield strategies resulted in smaller losses
- ▶ The Momentum trade has gone in reverse
- ▶ Emerging markets outperformed Developed international markets but remain still 15.5% down for the year



Investor Risk Aversion stays in the Fear Zone

- ▶ Investors woke up to capital market risk over the last couple of months
- ▶ Our risk aversion index jumped last week as risky assets cratered
- ▶ Asset class volatility has risen significantly from the lows of last year – in our view volatility is here to stay
- ▶ We still see a huge disconnect between volatility, valuations and economic conditions
 - ▶ Global growth is still good but leveling off, valuations are high and economic policy is highly uncertain





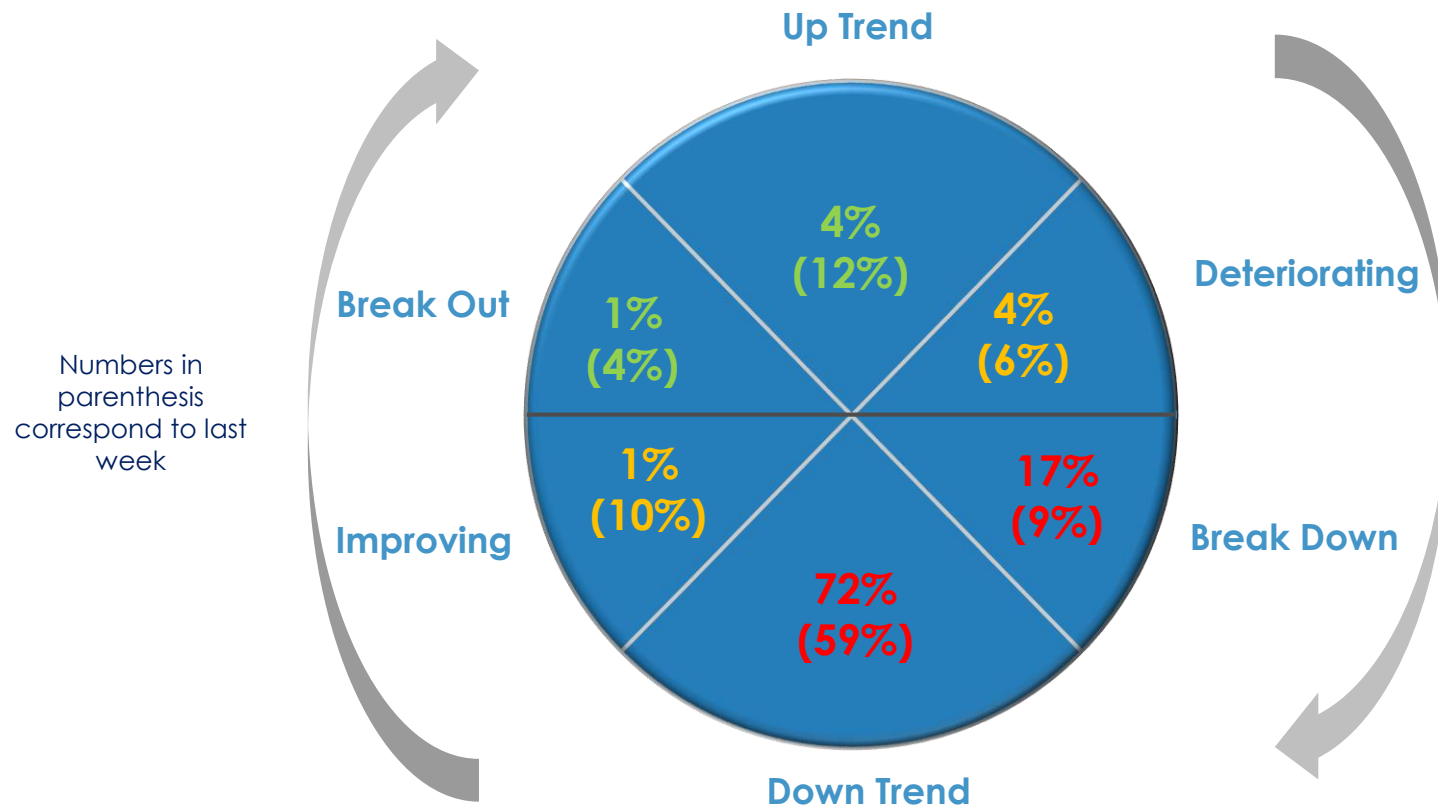
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INSIGHT THAT MATTERS

US Equities

Weekly Performance

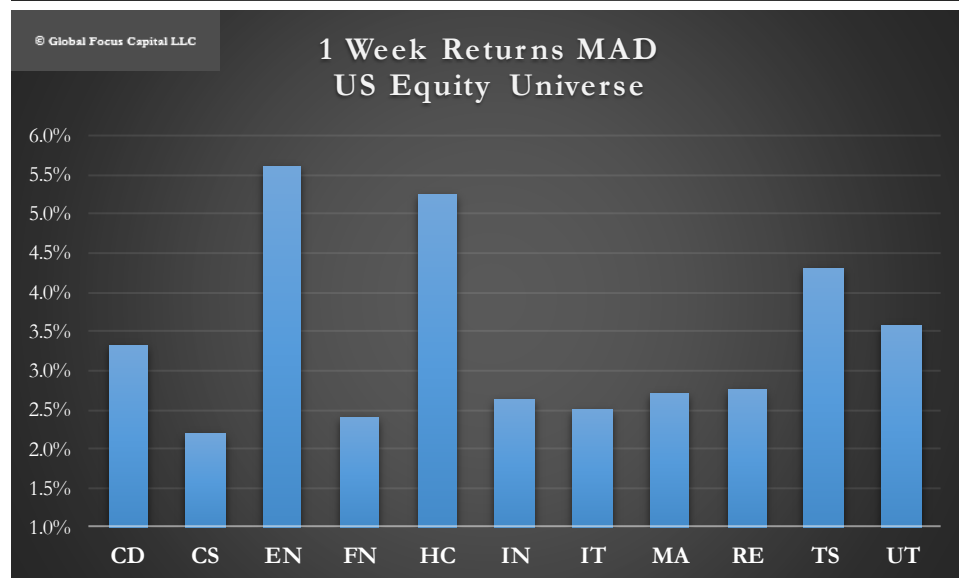
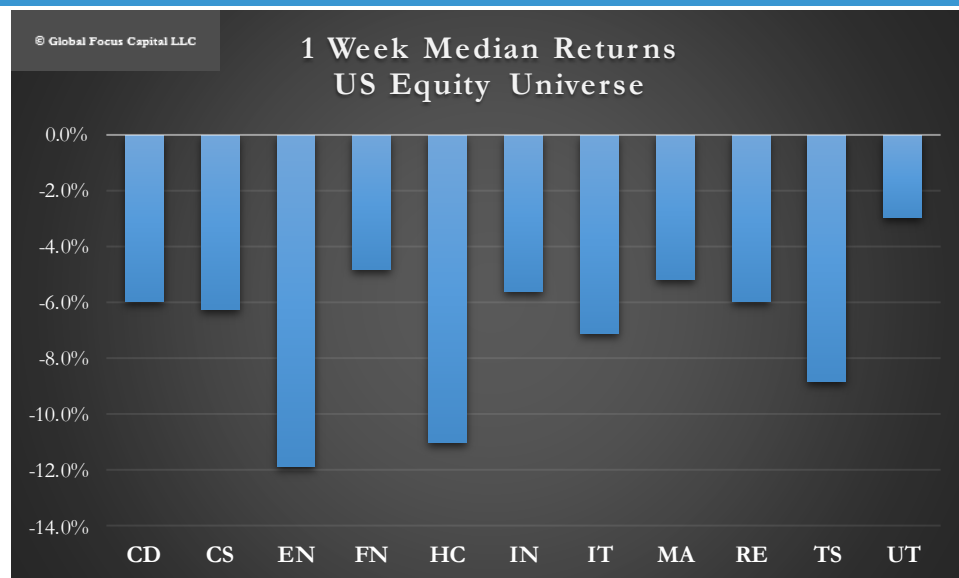
The Bear Market is here and it is showing signs of industry rotation



GF CAP US All Equity Universe

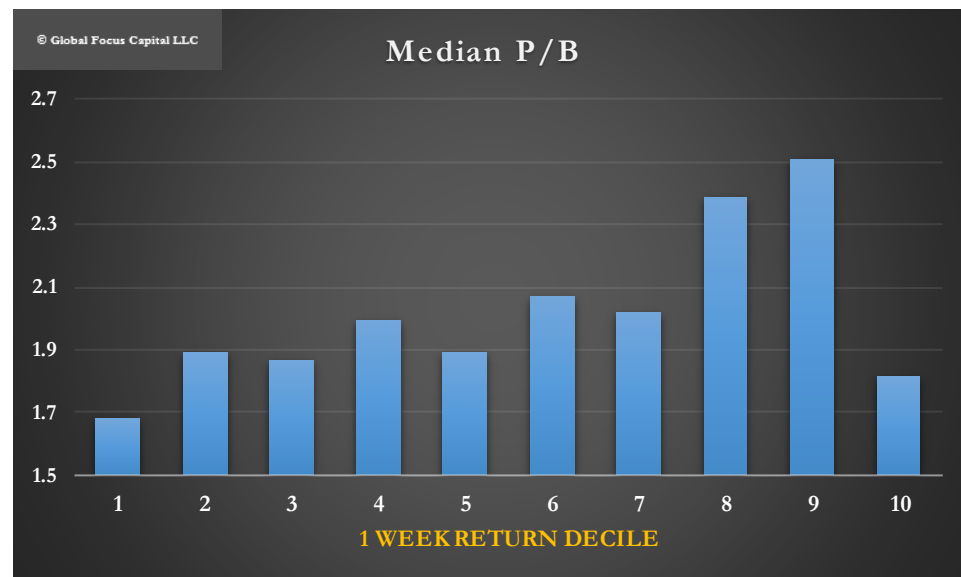
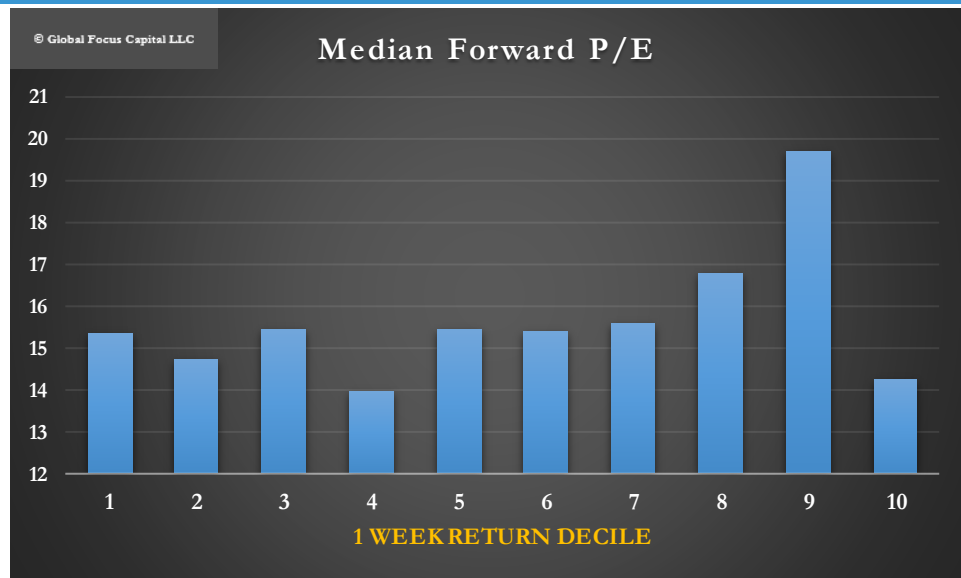
The Sector Look – median performance and dispersion

- ▶ The mean stock in our universe was down 6.4% over the last 5 trading days
- ▶ All sectors showed negative median returns with Energy stocks taking the biggest hits
- ▶ The widest variability in performance was 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

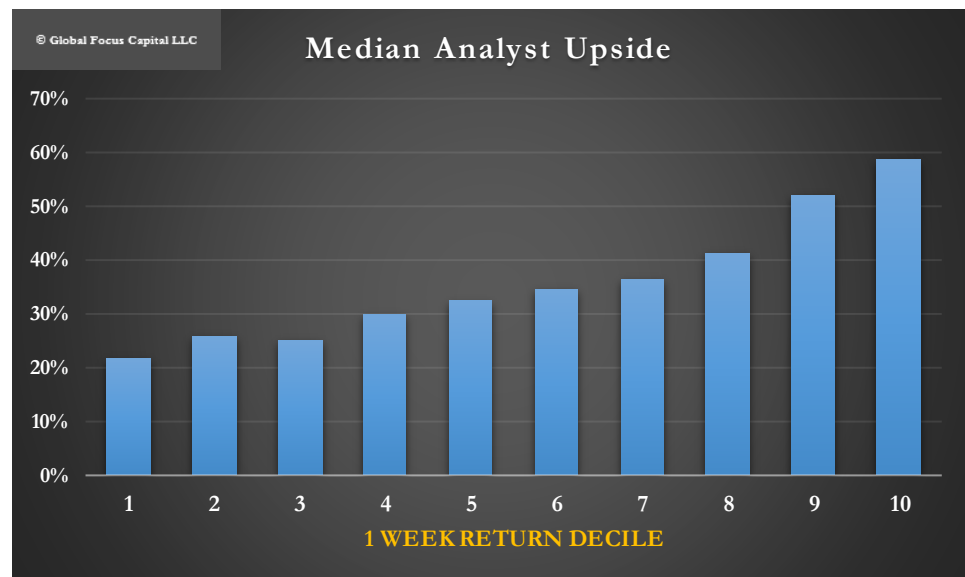
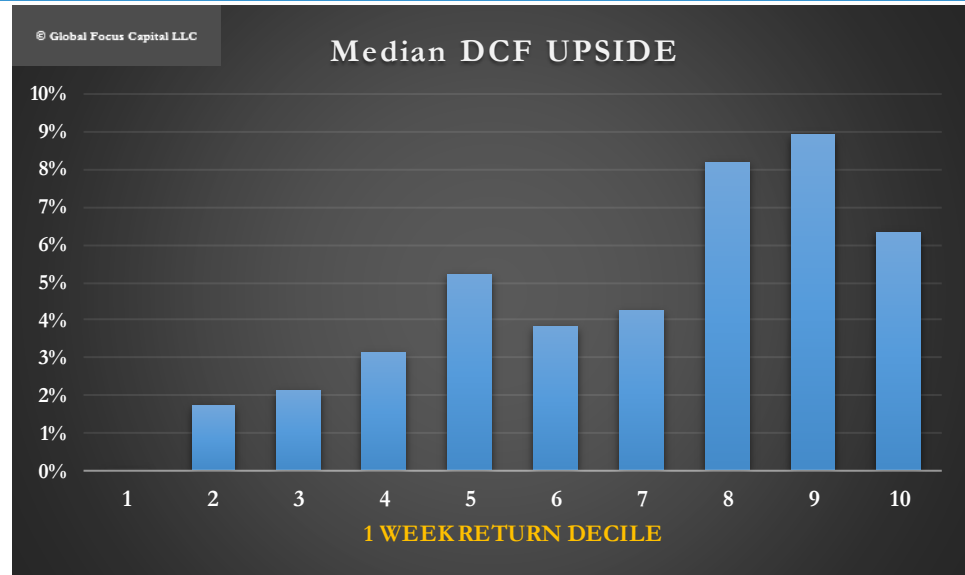
- ▶ Valuation was a non-factor last week
- ▶ There was very little discrimination among return deciles in terms of median P/E's
- ▶ We saw a slightly different pattern for P/B – better performers had uniformly lower P/B ratios
- ▶ Surprisingly, more expensive growth stocks continue to do better YTD than cheaper stocks



What did the markets reward last week:

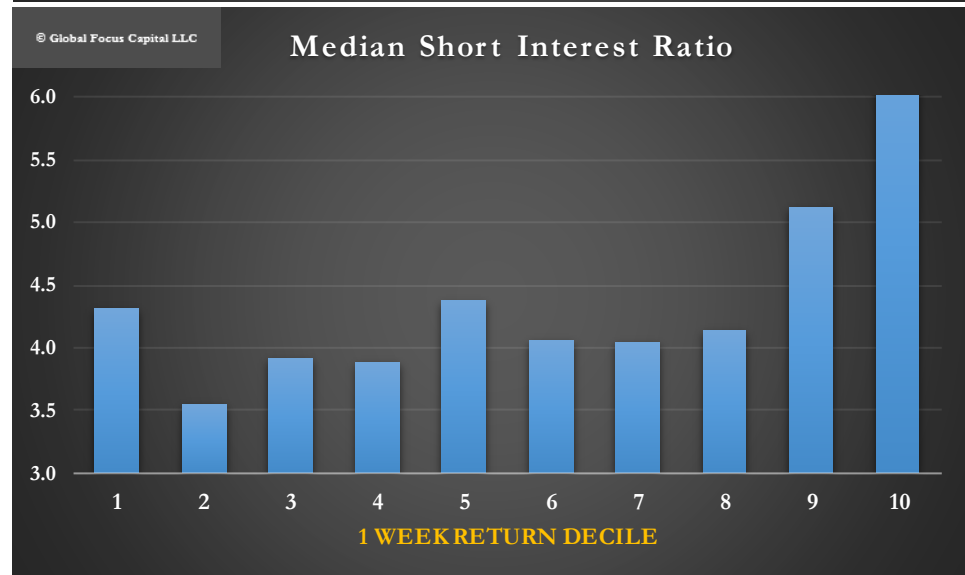
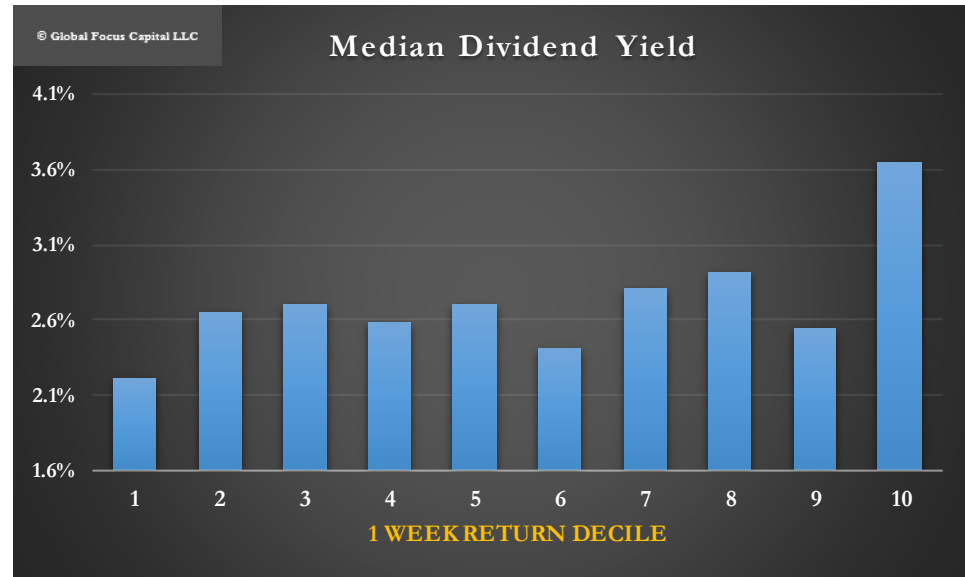
Valuation Models

- ▶ The median stock in our universe is under-valued by 6% 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



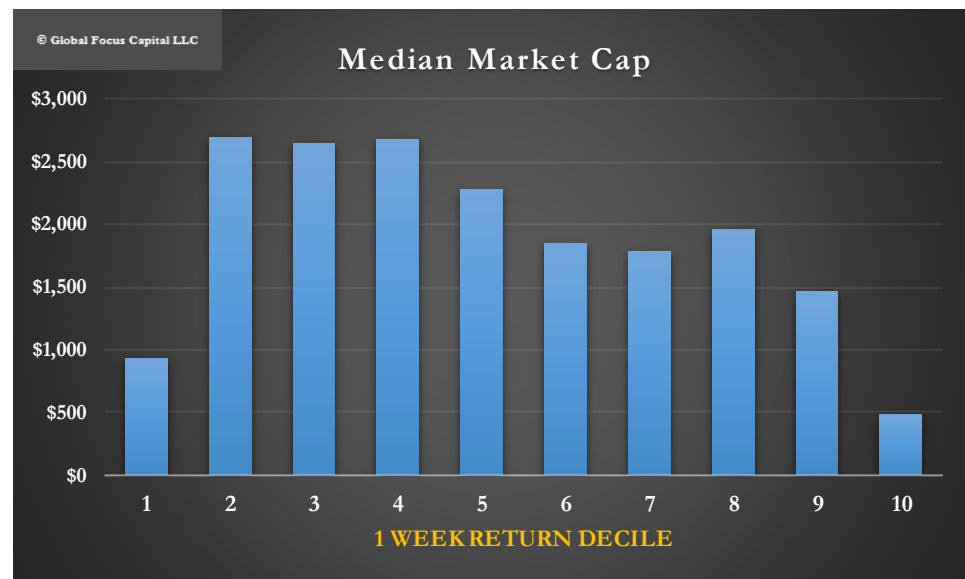
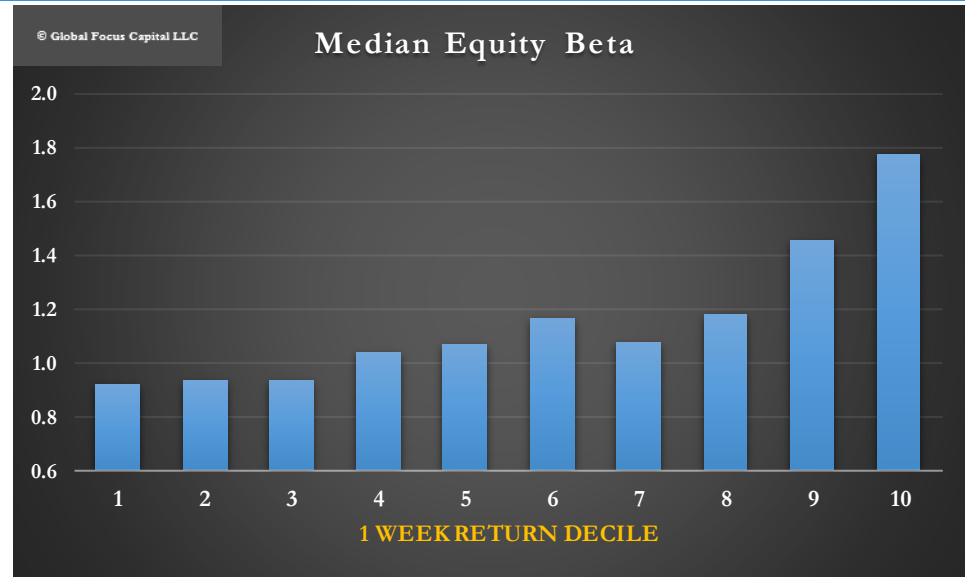
What did the markets reward last week: Yield and Sentiment

- ▶ Dividend yield did not offer much protection last week
- ▶ The best performing stocks had about average yields
- ▶ Short interest, a measure of sentiment, showed a declining pattern of returns
- ▶ The best performing stocks last week had lower levels of short interest



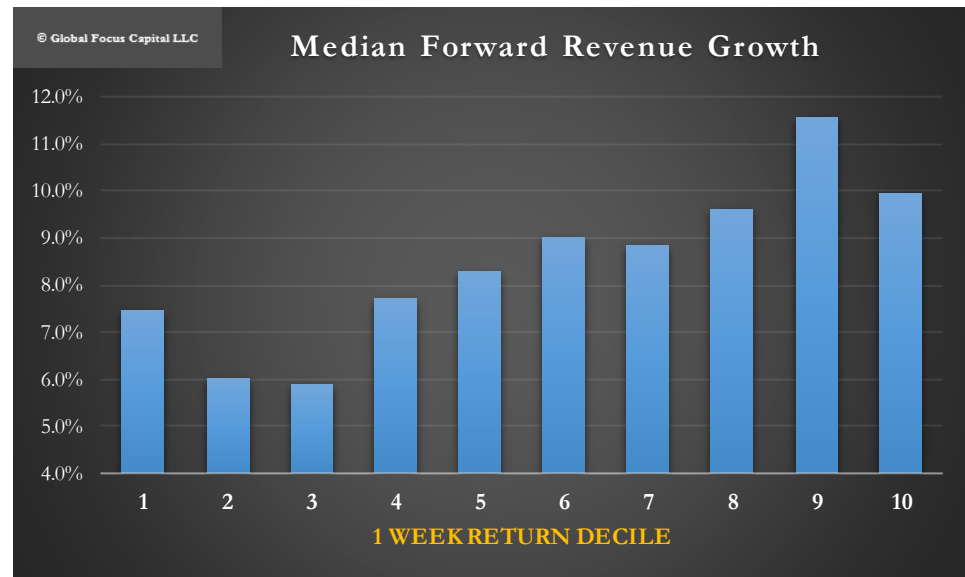
What did the markets reward last week: Beta and Size

- ▶ 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 a declining pattern with the exception of the top performing decile
- ▶ The Russell 2000 index underperformed the S&P 500 by 1.4% over the last 5 trading days



What did the markets reward last week: Momentum and Growth

- ▶ The 1 year momentum effect has lost effectiveness
- ▶ Stocks down the least over the last year have kept doing better than those stocks down the most over the last year
- ▶ The industry rotation that started about 10 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

Amazon.com, Inc.	AMZN	Consumer Discretionary
Facebook, Inc.	FB	Information Technology
Philip Morris International	PM	Consumer Staples
NVIDIA Corporation	NVDA	Information Technology
American Express Company	AXP	Financials
Walgreens Boots Alliance, Inc.	WBA	Consumer Staples
Tesla Motors, Inc.	TSLA	Consumer Discretionary
EOG Resources, Inc.	EOG	Energy
FedEx Corporation	FDX	Industrials
Cigna Corporation	CI	Healthcare
Illumina, Inc.	ILMN	Healthcare
Carnival Corporation	CCL	Consumer Discretionary
ServiceNow, Inc.	NOW	Information Technology
Twitter, Inc.	TWTR	Information Technology
Square, Inc.	SQ	Information Technology
Centene Corporation	CNC	Healthcare
Anadarko Petroleum Corporation	APC	Energy
Alexion Pharmaceuticals, Inc.	ALXN	Healthcare
Royal Caribbean Cruises Ltd.	RCL	Consumer Discretionary
Concho Resources Inc.	CXO	Energy

Up

ABM Industries Incorporated	ABM	Industrials
Air Transport Services Group	ATSG	Industrials
Coeur Mining, Inc.	CDE	Materials
Fidelity Southern Corporation	LION	Financials
Civitas Solutions, Inc.	CIVI	Healthcare
Globalstar, Inc.	GSAT	Telecommunication Services
ACNB Corporation	ACNB	Financials
XBio Inc.	XBIO	Healthcare
Hill International, Inc.	HILL	Industrials
Trinity Place Holdings Inc.	TPHS	Real Estate
Impac Mortgage Holdings	IMH	Financials
Obalon Therapeutics, Inc.	OBLN	Healthcare

This Coming Week

Reporting Soon

- ▶ Risk Aversion should stay high and we expect choppy markets this coming week again
- ▶ Equity Technicals have deteriorated to the point that close to ¾ of our stocks are in the Down Trend Phase
- ▶ Political drama in Washington is exacerbating the uncertainty of market participants
- ▶ Brexit is up for next year but prospects of passing Parliament are slim. Could we be starring at Referendum 2.0?
- ▶ 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.
- ▶ Our models still favor a reduction in risk in our portfolios with positive active allocations to cash and bonds
- ▶ This too shall pass but market participants are hyper nervous on things companies have no control over
- ▶ The price of higher equity returns is discomfort – volatility has been too low in the last few years

Contact & Subscription Information

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