



GLOBAL FOCUS CAPITAL LLC
INSIGHT THAT MATTERS

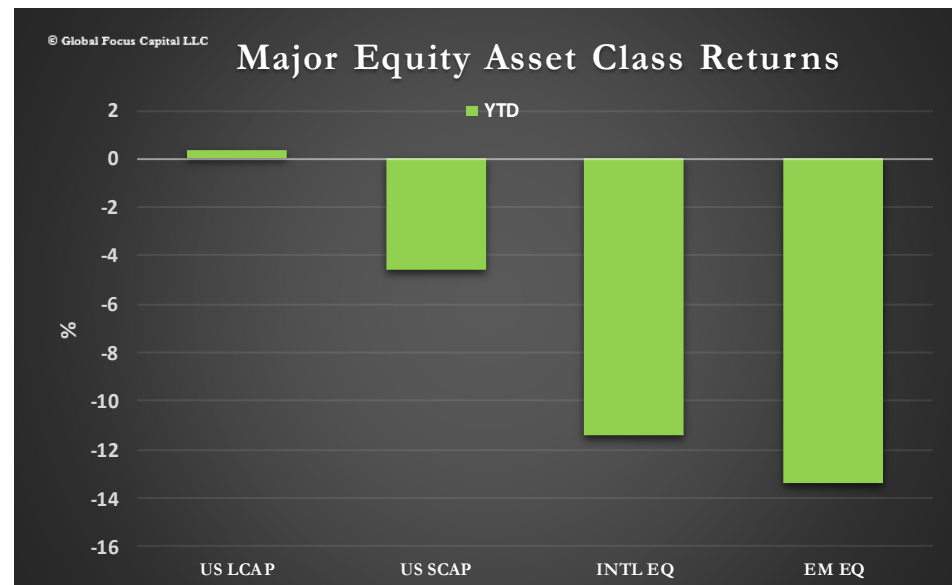
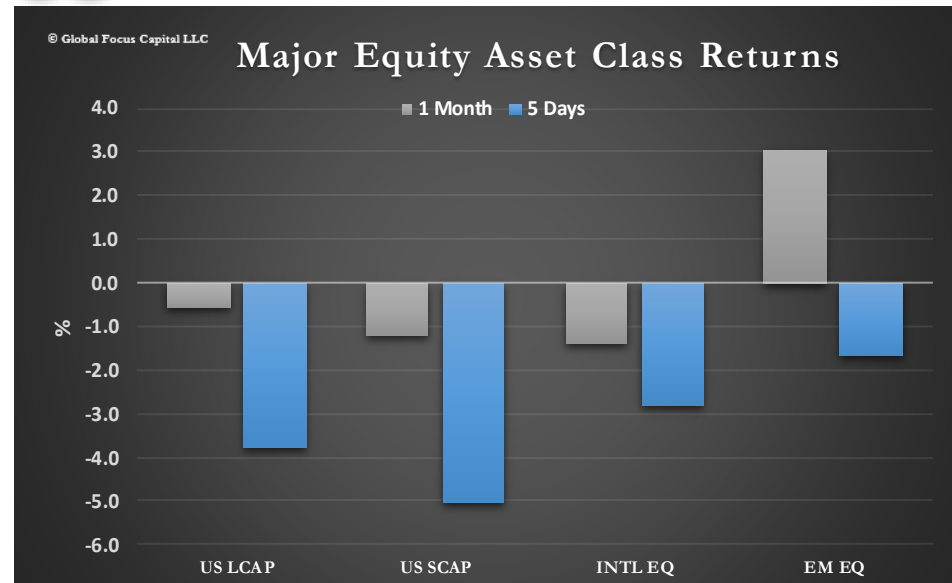
The Equity Observer

Weekly Review – December 9, 2018

Eric J. Weigel

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

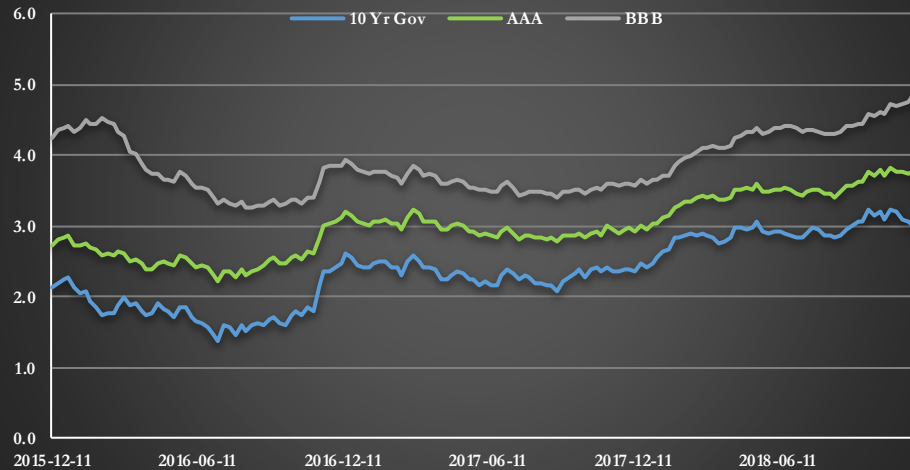
- ▶ The seesaw continues for risky assets
- ▶ Last week was particularly bad as equity markets took a deep dive again
- ▶ Surprisingly, EM stocks are up over the last month but YTD remain the worst of the major equity categories
- ▶ YTD US large caps are barely in positive territory but US small caps are now down for the year
 - ▶ The S&P 500 is up 0.3% for the year while the Russell 2000 is down 4.6%
- ▶ International strategies have underperformed both in local market returns and a strong USD



Equity volatility spikes up again while yield spreads continue widening indicating concern

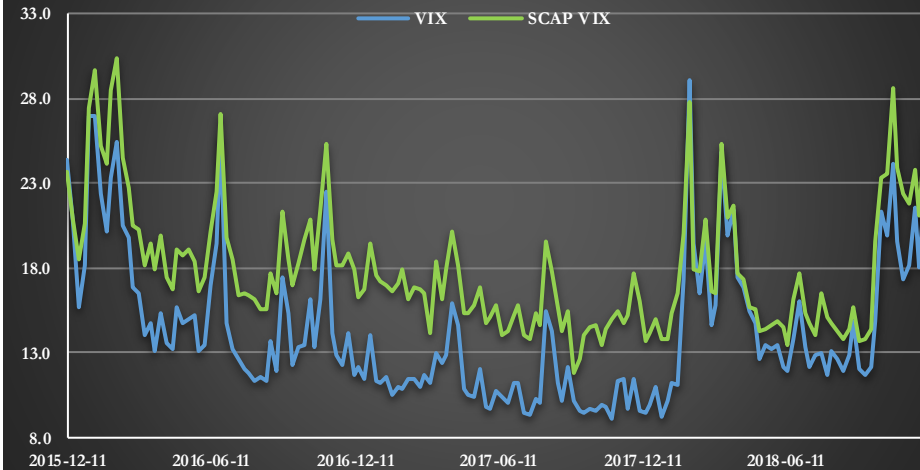
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US Interest Rates



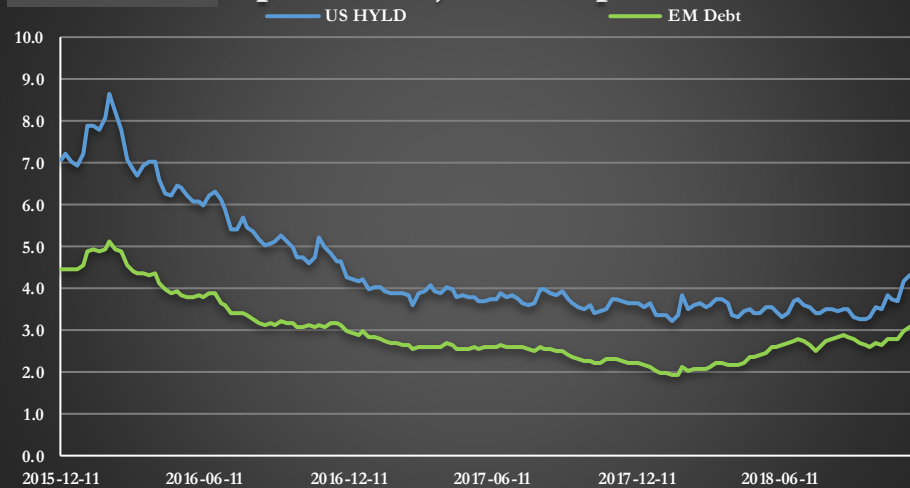
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Stock Index Implied Volatility



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Option Adjusted Spreads



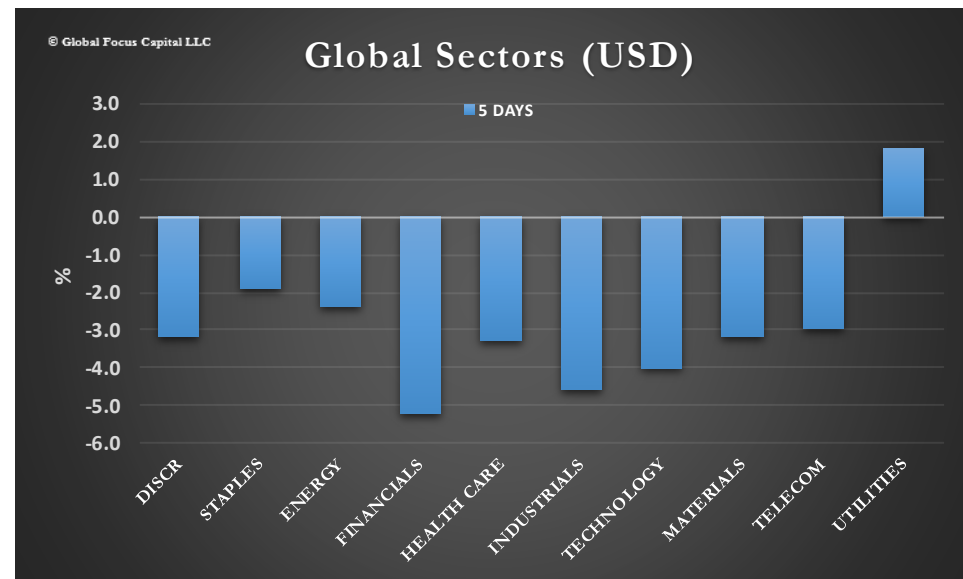
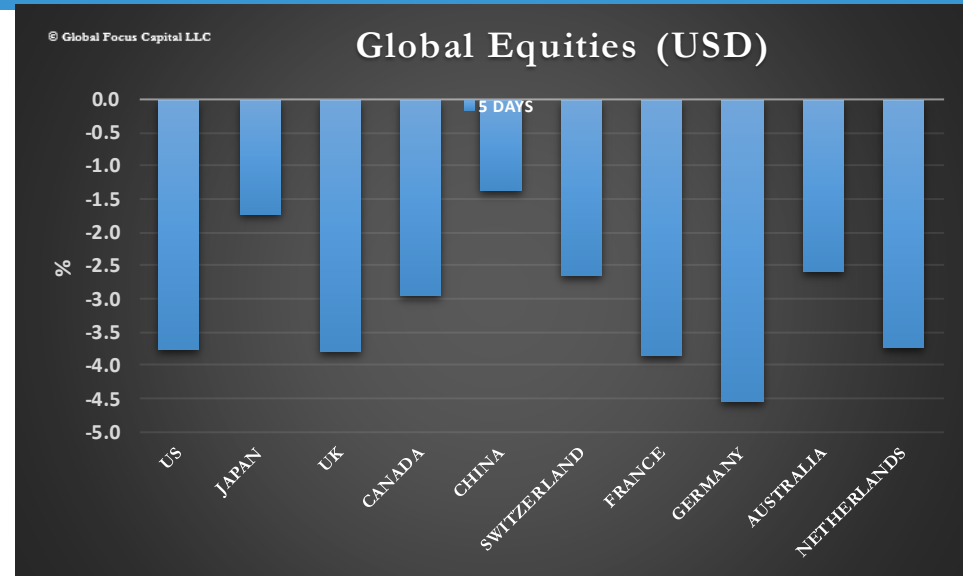
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US Inflationary Expectations



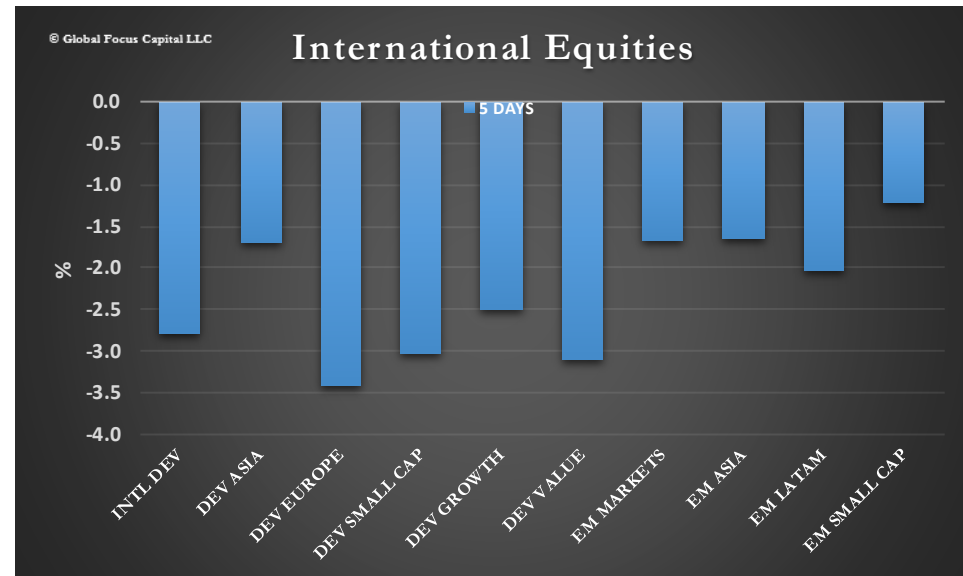
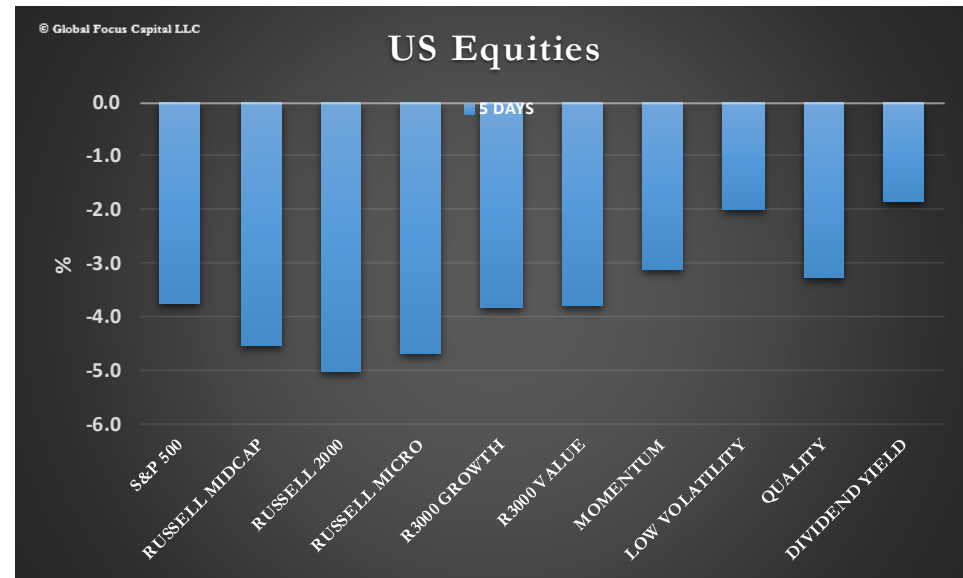
Global Equities

- ▶ The carnage continues –all major global markets took a nosedive with Germany suffering the most
- ▶ Commodity indices recovered last week as oil prices moved marginally up
- ▶ REITS continue to be the standout performer – up 1.6% last week and over 6% for the year
- ▶ In the US Value and Growth both got pounded last week (down 3.8%)
- ▶ In international markets Growth outperformed Value last week
- ▶ Utilities continue delivering – only equity sector up last week
- ▶ Financials and Industrials had the largest loses – fears of a slow down hurt these sectors disproportionately



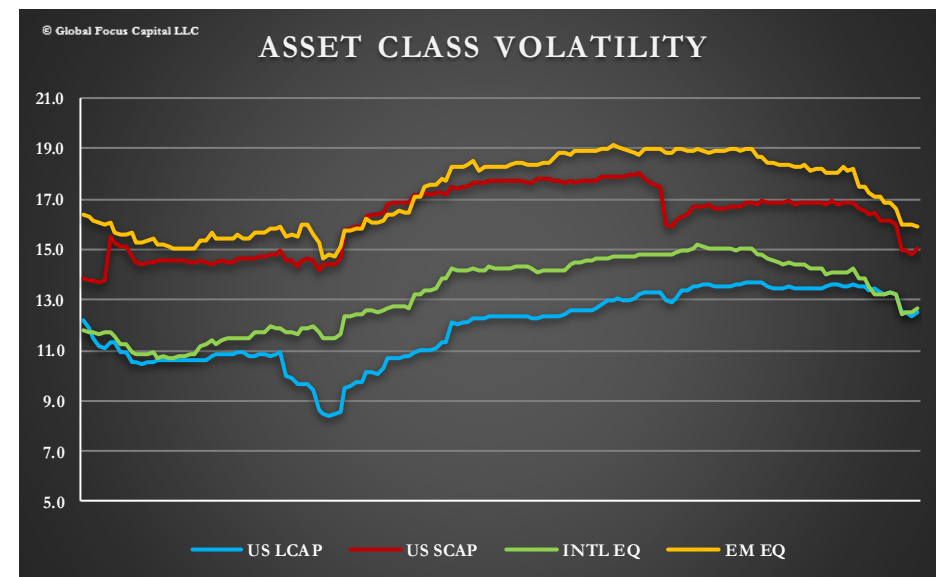
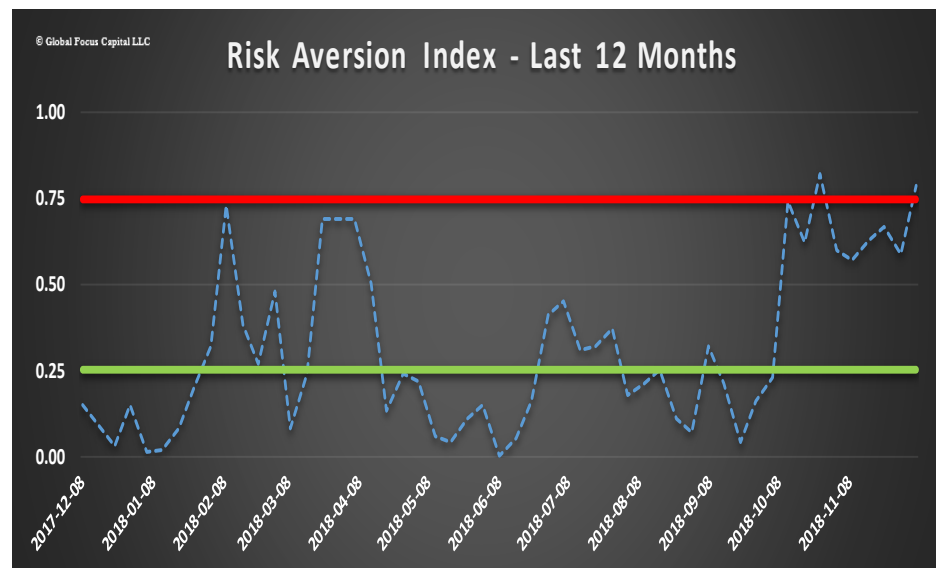
Style and Geography

- ▶ In the US, we saw a strong size effect last week with small caps dramatically under-performing
- ▶ Value performed as badly as Growth despite Utilities being up for the week
- ▶ Within equity styles, Low Vol and Div Yield strategies resulted in smaller losses
- ▶ The Momentum trade has gone in reverse and Growth Stocks are key losers but remain ahead YTD
- ▶ Emerging markets outperformed Developed international markets but remain still 13% down for the year
- ▶ EM LATAM continues extremely volatile and was down 2% last week



Investor Risk Aversion returns to 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





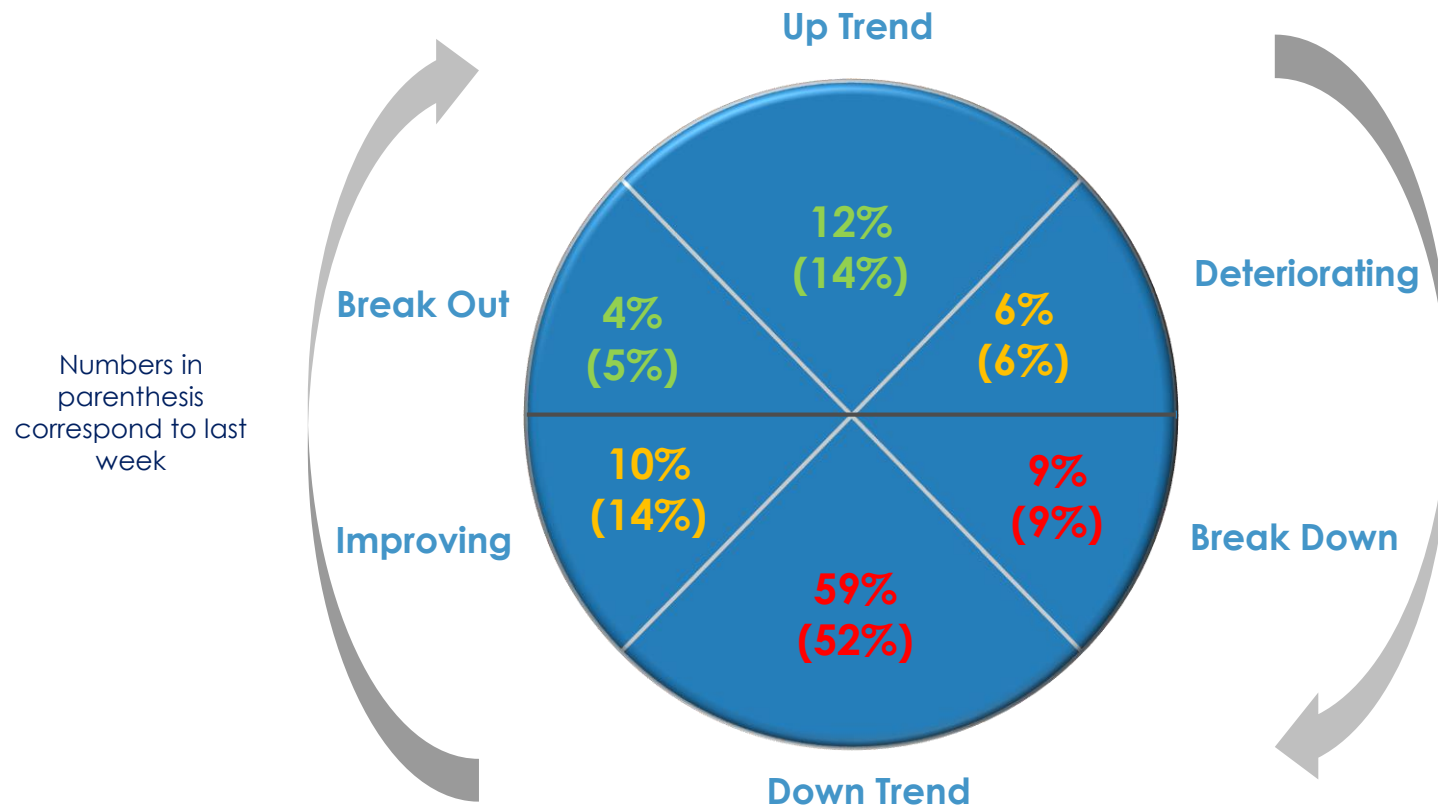
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INSIGHT THAT MATTERS

US Equities

Weekly Performance

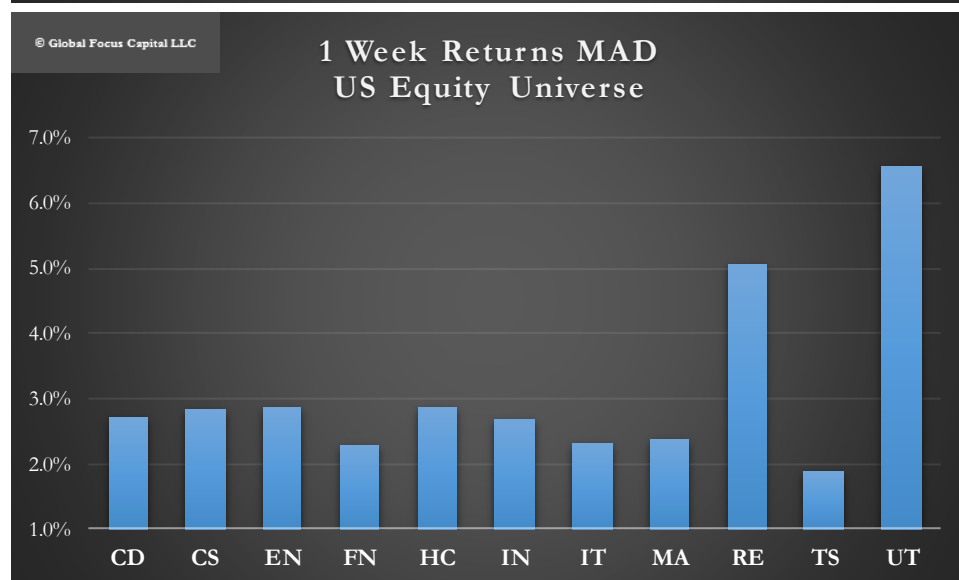
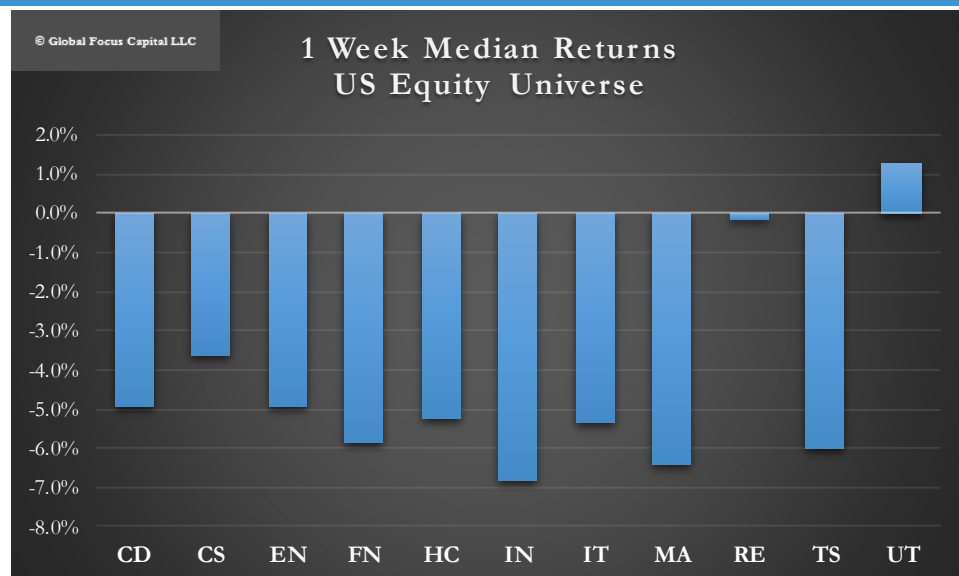
The Bear Market is here and it is showing signs of industry rotation



GF CAP US All Equity Universe

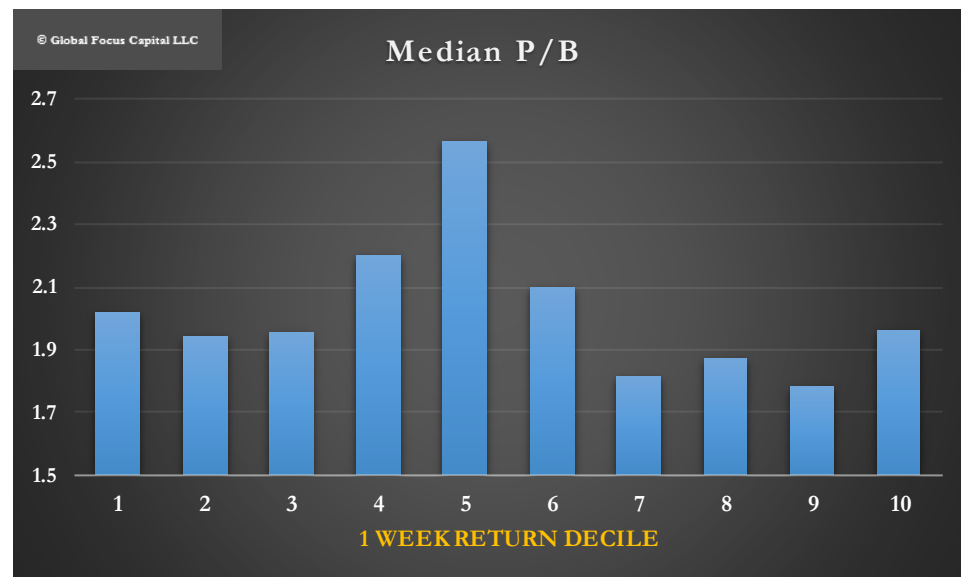
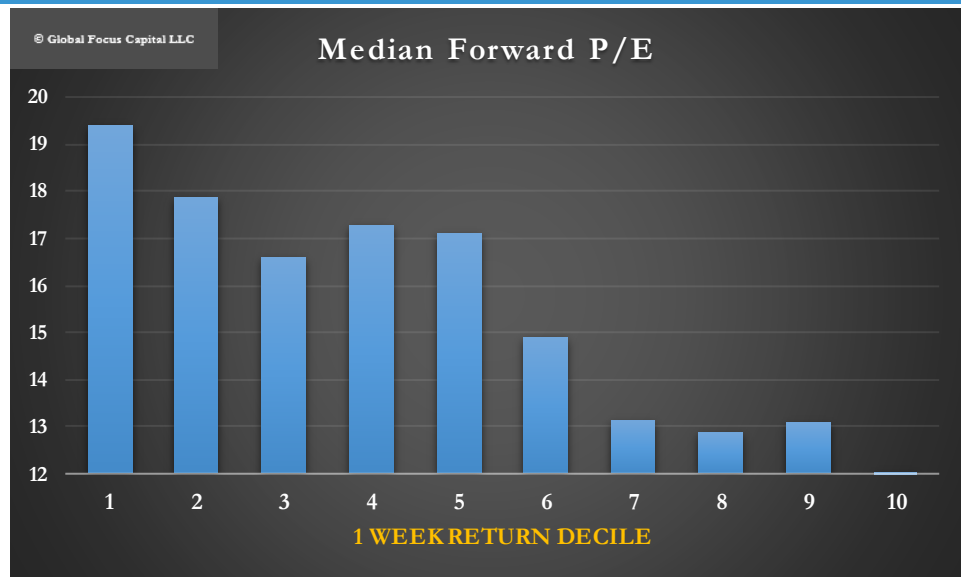
The Sector Look – median performance and dispersion

- ▶ The mean stock in our universe was down 5.1% over the last 5 trading days
- ▶ Utilities were the only sector with positive median returns – lower interest rates might have prompted this positive response
- ▶ The widest variability in performance was seen in the Utility 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

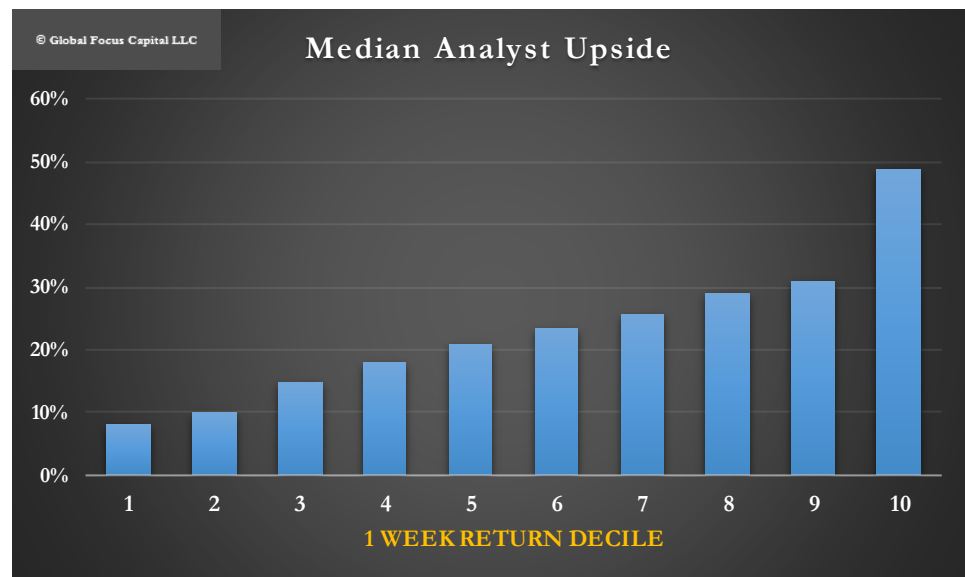
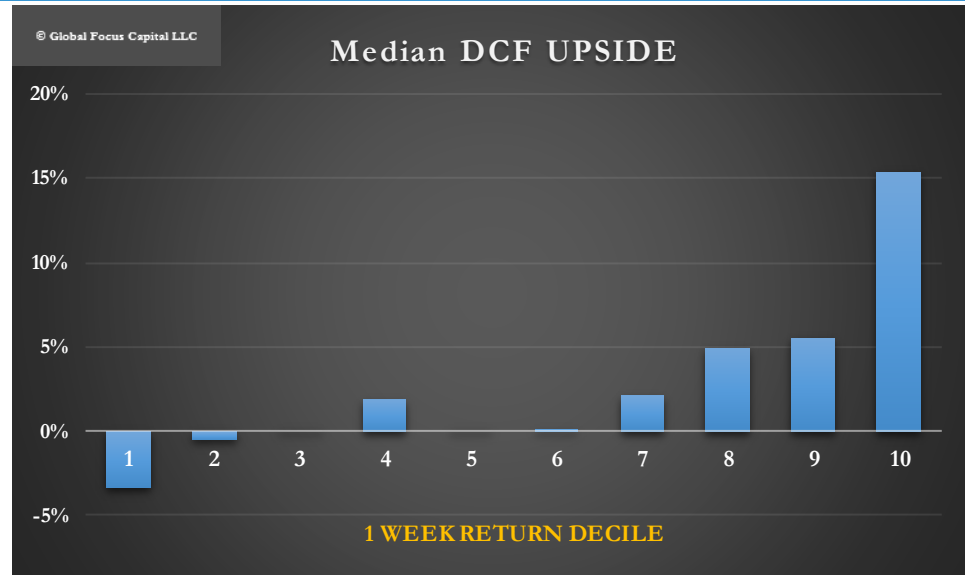
- ▶ Valuation was a non-factor last week
- ▶ The best performers over the last 5 days actually had higher than average P/E's
- ▶ We saw a similar pattern for P/B – better performers had higher P/B ratios
- ▶ More expensive growth stocks continue to do better YTD



What did the markets reward last week:

Valuation Models

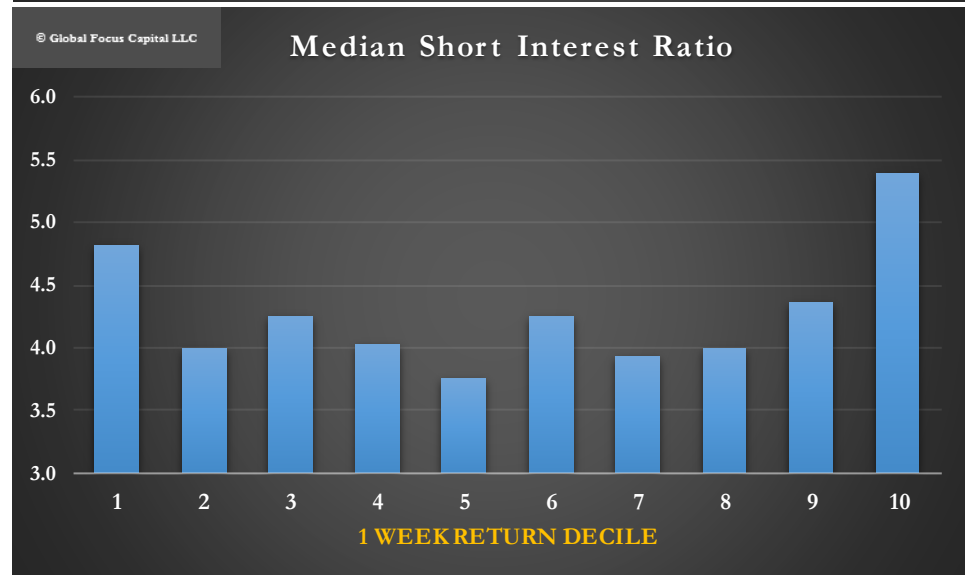
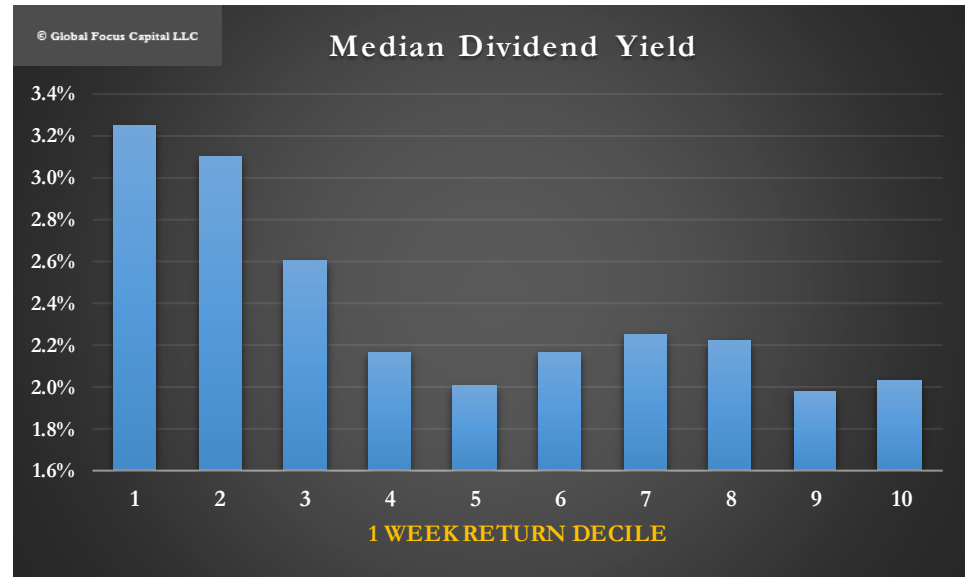
- ▶ The median stock in our universe is under-valued by 3% according to a DCF valuation
- ▶ The worst performing stocks last week (Decile 10) appeared most under-valued
- ▶ In terms of analyst price targets, there was a perverse relationship
 - ▶ Stocks doing the best had the lowest price targets



What did the markets reward last week:

Yield and Sentiment

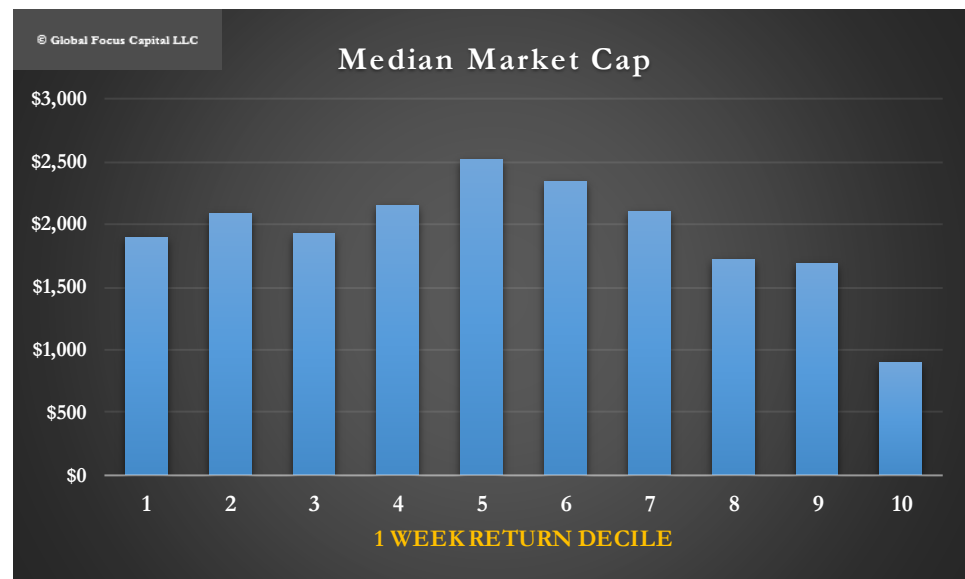
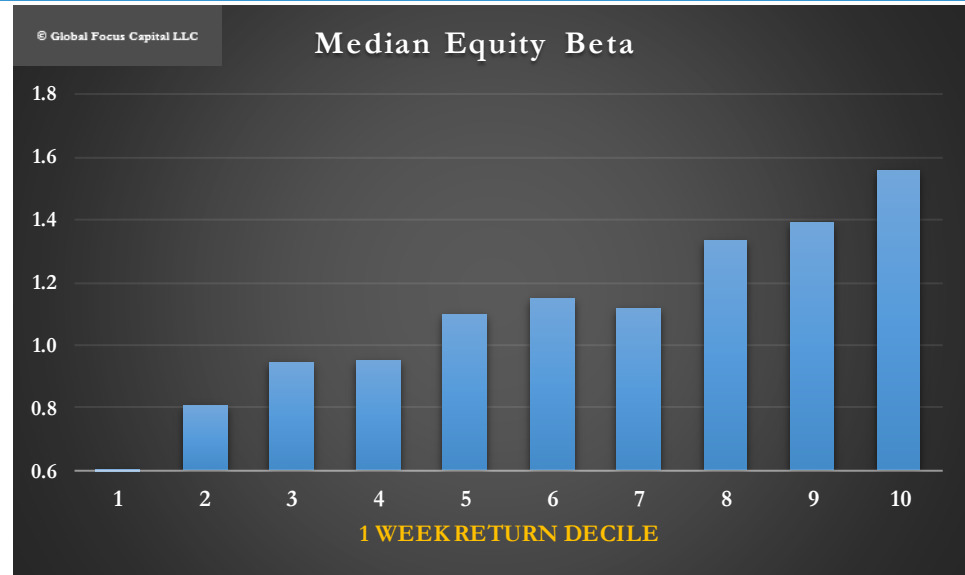
- ▶ On an equally weighted basis, dividend yield had a good week
- ▶ The best performing stocks had higher than average yields
- ▶ Short interest, a measure of sentiment, showed a “U” shaped pattern of returns
- ▶ The best performing stocks last week had the second highest levels of short interest



What did the markets reward last week:

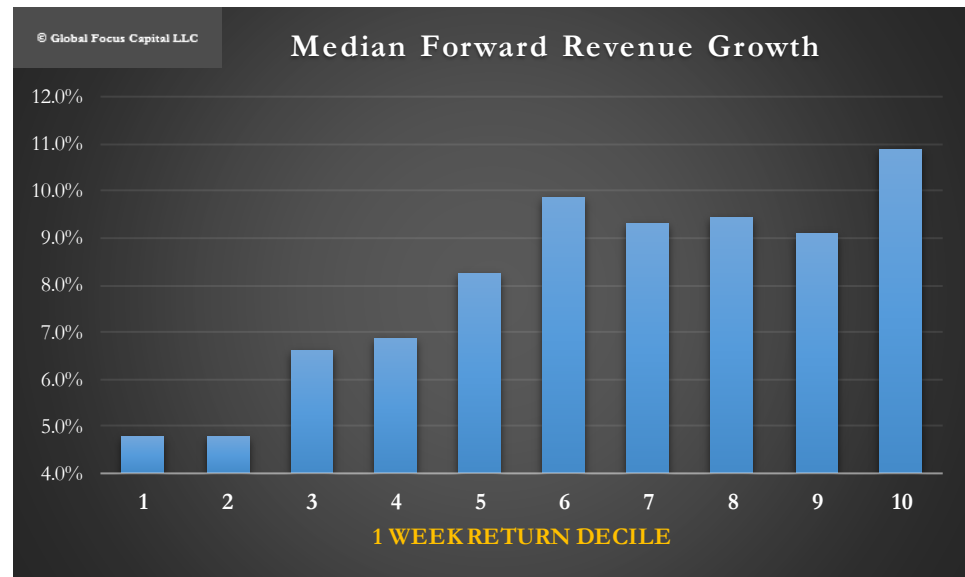
Beta and Size

- ▶ 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 underperformed the S&P 500 by 1.2% over the last 5 trading days



What did the markets reward last week: Momentum and Growth

- ▶ The 1 year momentum effect has lost effectiveness but worked last week
- ▶ The two top deciles for weekly performance had higher median trailing one year performance
- ▶ The best performing decile last week had the poorest trailing 1 year performance
- ▶ The industry rotation that started about 8 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

FedEx Corporation	FDX	Industrials
American International Gro	AIG	Financials
Ross Stores, Inc.	ROST	Consumer Discretionary
Square, Inc.	SQ	Information Technology
State Street Corporation	STT	Financials
Lam Research Corporation	LRCX	Information Technology
Northern Trust Corporation	NTRS	Financials
Ulta Salon, Cosmetics & F	ULTA	Consumer Discretionary
lululemon athletica inc.	LULU	Consumer Discretionary
American Airlines Group, I	AAL	Industrials
Ameriprise Financial, Inc.	AMP	Financials
Cooper Companies, Inc. (T	COO	Healthcare
Lincoln National Corporati	LNC	Financials
E*TRADE Financial Corp	ETFC	Financials
SVB Financial Group	SIVB	Financials
Vail Resorts, Inc.	MTN	Consumer Discretionary
DaVita Inc.	DVA	Healthcare
XPO Logistics, Inc.	XPO	Industrials
Alaska Air Group, Inc.	ALK	Industrials
United Rentals, Inc.	URI	Industrials

Up

TESARO, Inc.	TSRO	Healthcare
Tribune Media Company	TRCO	Consumer Discretionary
Restoration Hardware Hol	RH	Consumer Discretionary
BGC Partners, Inc.	BGCP	Financials
Global Blood Therapeutics	GBT	Healthcare
Vanda Pharmaceuticals Inc	VNDA	Healthcare
Clovis Oncology, Inc.	CLVS	Healthcare
Momenta Pharmaceuticals,	MNTA	Healthcare
Lattice Semiconductor Corp	LSCC	Information Technology
Revance Therapeutics, Inc.	RVNC	Healthcare
American Outdoor Brands	AOBC	Consumer Discretionary
Comtech Telecommunicati	CMTL	Information Technology
Syros Pharmaceuticals, Inc	SYRS	Healthcare
Genie Energy Ltd.	GNE	Utilities
MDC Partners Inc.	MDCA	Consumer Discretionary
Immune Design Corp.	IMDZ	Healthcare
vTv Therapeutics Inc.	VTVT	Healthcare
Hudson Technologies, Inc	HDSN	Industrials
Navios Maritime Holdings	NM	Industrials
Novelion Therapeutics Inc	NVLN	Healthcare

This Coming Week

Reporting Soon

Oracle Corporation	ORCL	Information Technology
Adobe Systems Incorporated	ADBE	Information Technology
Costco Wholesale Corporation	COST	Consumer Staples
Progressive Corporation (T	PGR	Financials
Nordson Corporation	NDSN	Industrials
Caseys General Stores, Inc.	CASY	Consumer Staples
American Eagle Outfitters,	AEO	Consumer Discretionary
Sanderson Farms, Inc.	SAFM	Consumer Staples
Dave & Buster's Entertainment	PLAY	Consumer Discretionary
DSW Inc.	DSW	Consumer Discretionary
ABM Industries Incorporated	ABM	Industrials
Scholastic Corporation	SCHL	Consumer Discretionary
Oxford Industries, Inc.	OXM	Consumer Discretionary
Tailored Brands, Inc.	TLRD	Consumer Discretionary
INTL FCStone Inc.	INTL	Financials
Investors Real Estate Trust	IRET	Real Estate
Photronics, Inc.	PLAB	Information Technology
Ascena Retail Group, Inc.	ASNA	Consumer Discretionary
Civitas Solutions, Inc.	CIVI	Healthcare
Quanex Building Products	NX	Industrials
Vera Bradley, Inc.	VRA	Consumer Discretionary
Powell Industries, Inc.	POWL	Industrials
Alico, Inc.	ALCO	Consumer Staples
Value Line, Inc.	VALU	Financials
Uranium Energy Corp.	UEC	Energy
Oil-Dri Corporation Of Am	ODC	Consumer Staples
Fred's, Inc.	FRED	Consumer Discretionary
Francesca's Holdings Corp	FRAN	Consumer Discretionary

- ▶ 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 is in a Down Trend Phase
- ▶ Political drama in Washington is exacerbating the uncertainty of market participants
- ▶ Brexit is up this week – will the Parliament vote for it?
- ▶ 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
- ▶ Our models still favor a reduction in risk in our portfolios with positive active allocations to cash and bonds

Contact & Subscription Information

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