



**GLOBAL FOCUS CAPITAL LLC**  
INSIGHT THAT MATTERS

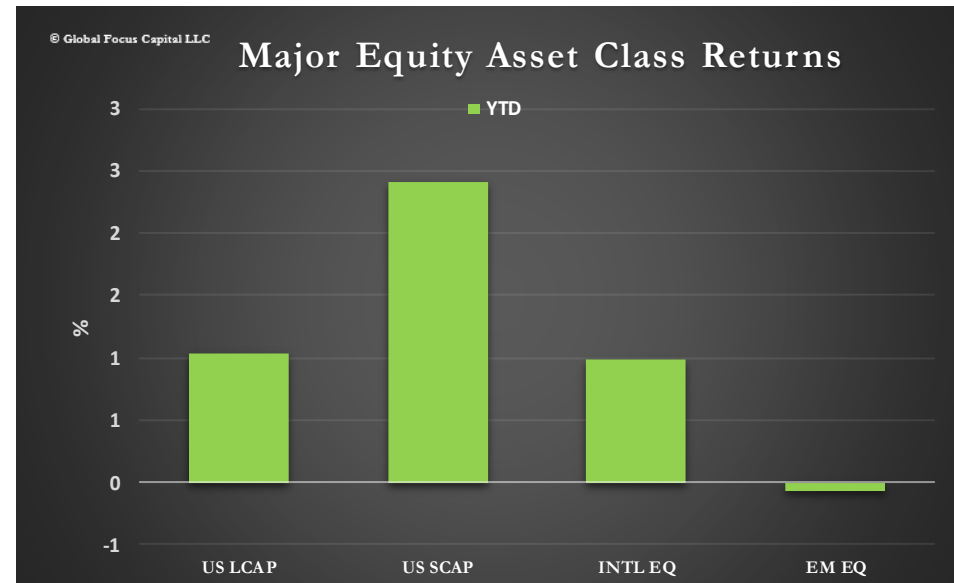
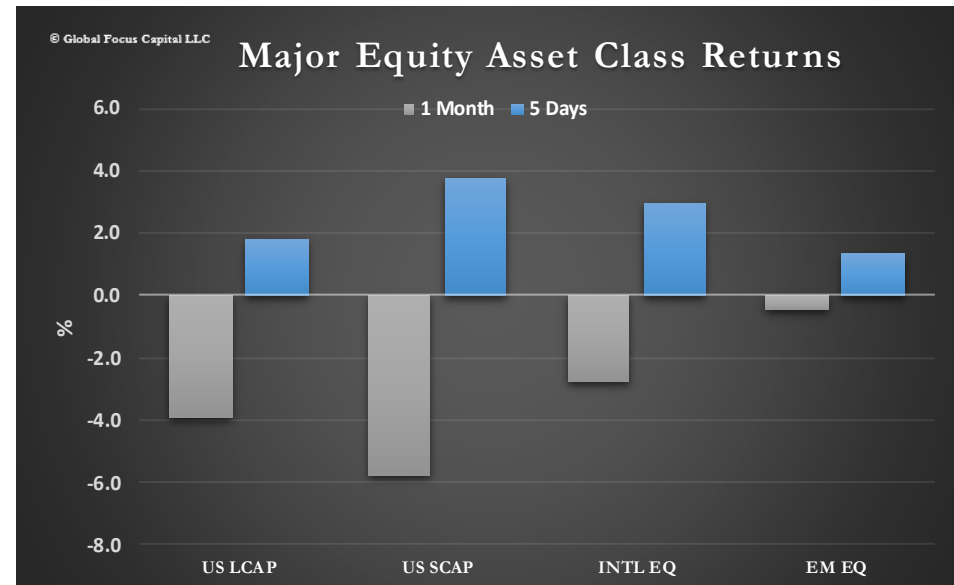
# The Equity Observer

Weekly Review – January 6, 2019

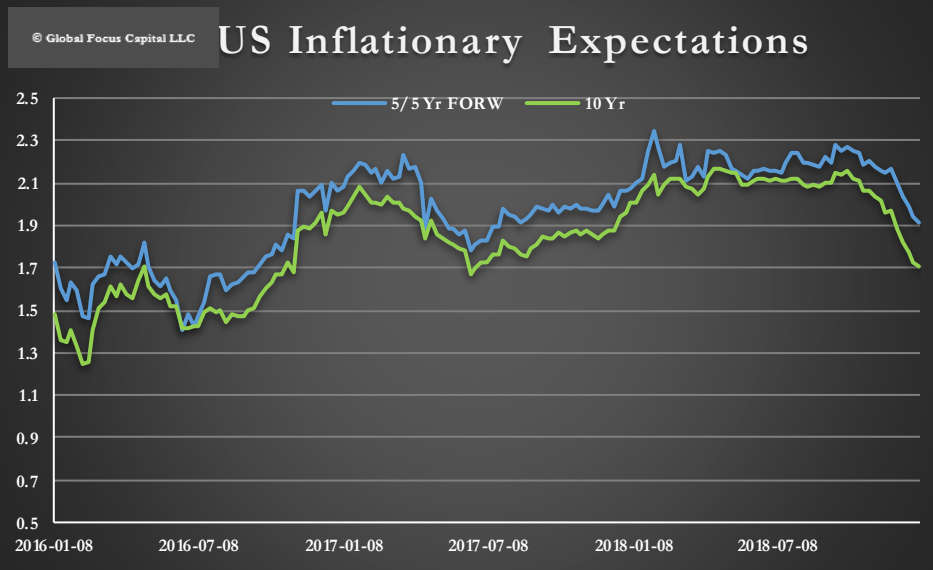
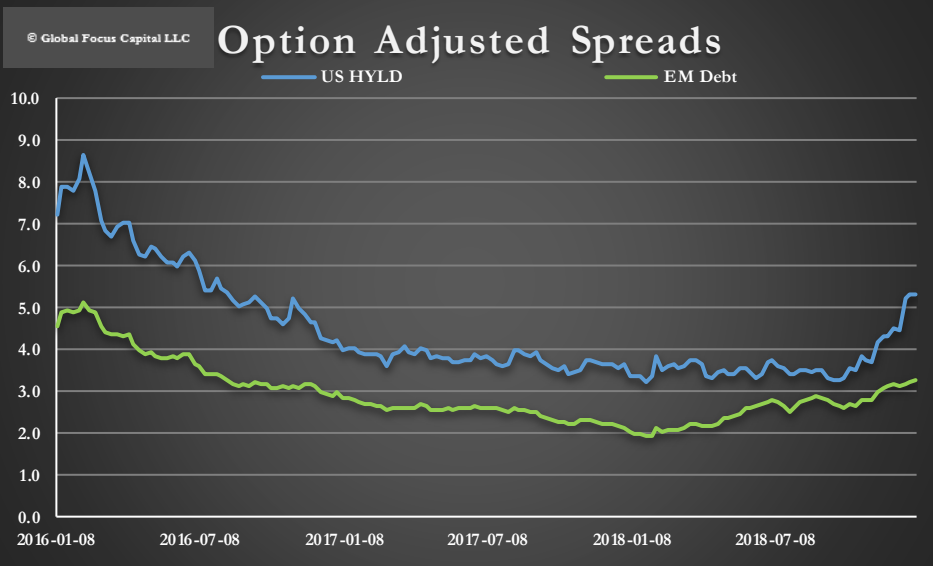
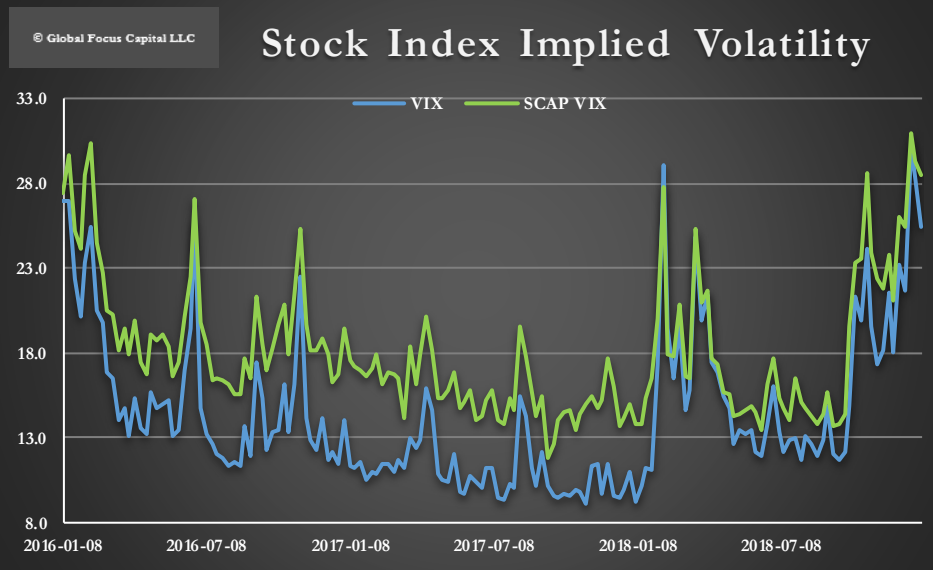
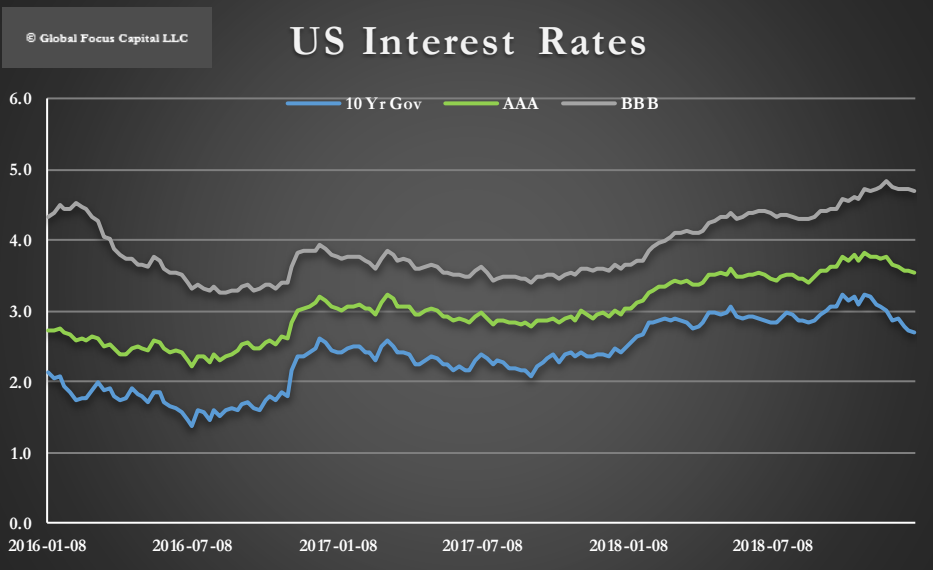
Eric J. Weigel

# Equity markets have a good start to the year

- ▶ The seesaw continues for risky assets as small caps take the lead for 2019
- ▶ Over the last month, all major equity categories have lost money
- ▶ Surprisingly, EM stocks have held up the best in this equity correction
- ▶ Valuations while more reasonable than 3 months ago are not that favorable
- ▶ The key for equity markets is growth and whether we are entering a slowdown or not

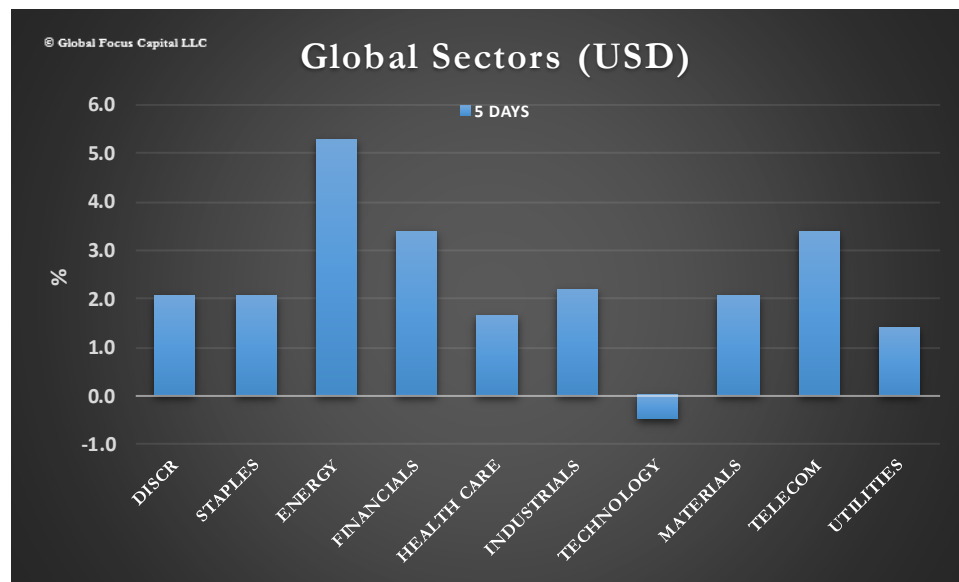
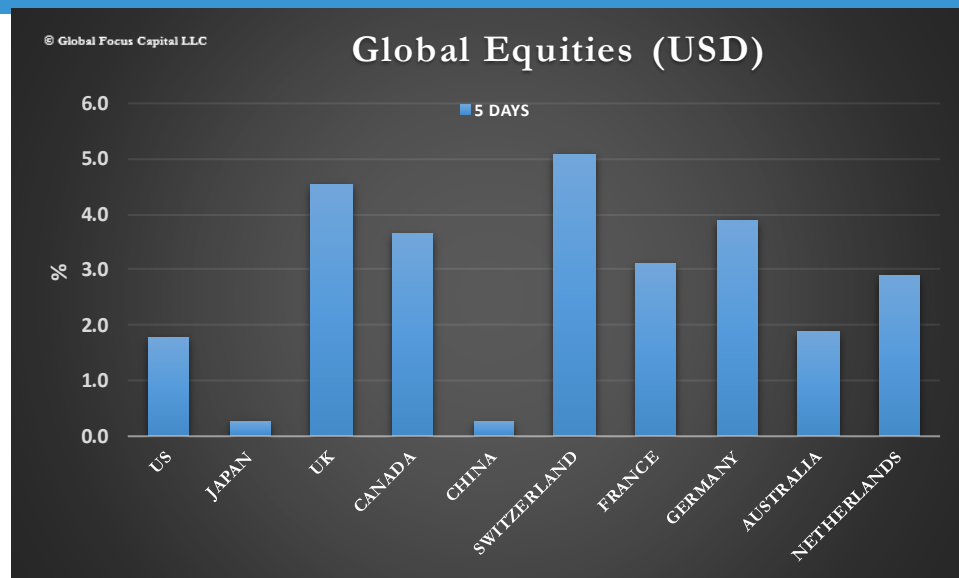


# Equity volatility spikes up again while yield spreads continue widening, inflationary expectations trend down



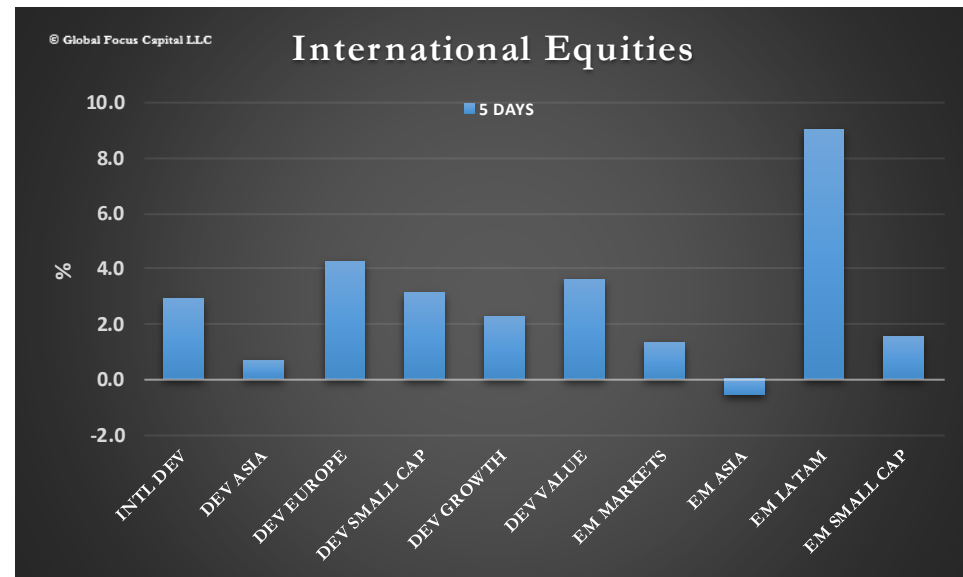
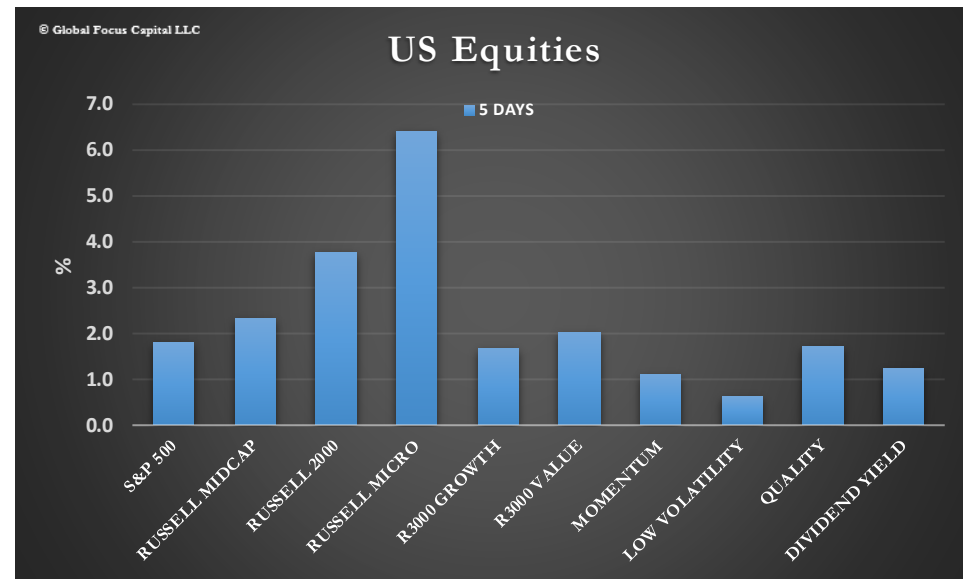
# Global Equities

- ▶ A global recovery but with large differences in global market performance
- ▶ Commodity indices recovered last week as oil prices firmed up helping resource oriented markets
- ▶ In the US Value slightly outperformed Growth last week – higher quality and dividend yield also made a difference
- ▶ In international markets Value out-performed Growth by a wider margin than in the US
- ▶ Energy performed best and Tech did the worst (Apple effect)



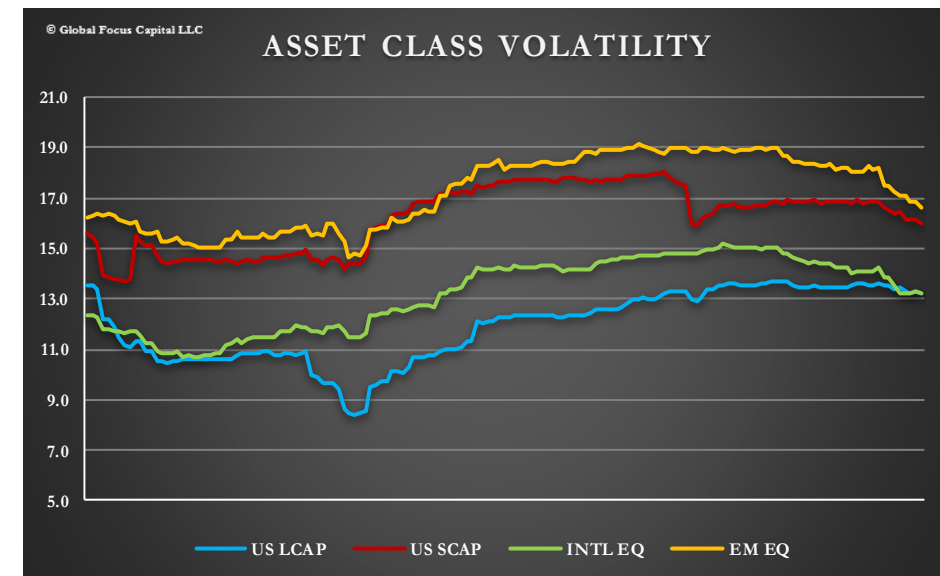
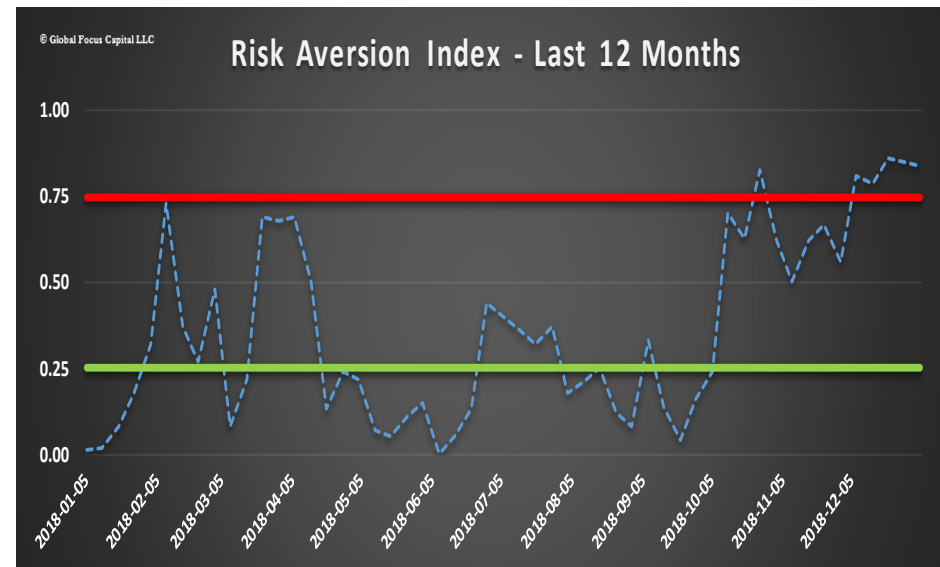
# Style and Geography

- ▶ In the US, we saw a strong size effect last week with small caps dramatically out-performing
- ▶ Value performed a bit better than Growth
- ▶ Within equity styles, Quality and Div Yield strategies resulted in better performance
- ▶ The Momentum trade has gone in reverse with last year's biggest loser performing the best thus far in 2019
- ▶ Latam shot up last week recovering from poor 2018 performance and the rise in oil prices



# Investor Risk Aversion stays in the Fear Zone

- ▶ Investors are still skittish and our RAI remained in the Fear Zone
- ▶ Our risk aversion index has consistently stayed in the Fear Zone for 4 straight weeks
- ▶ Asset class volatility has risen significantly from the lows of 2017 – 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



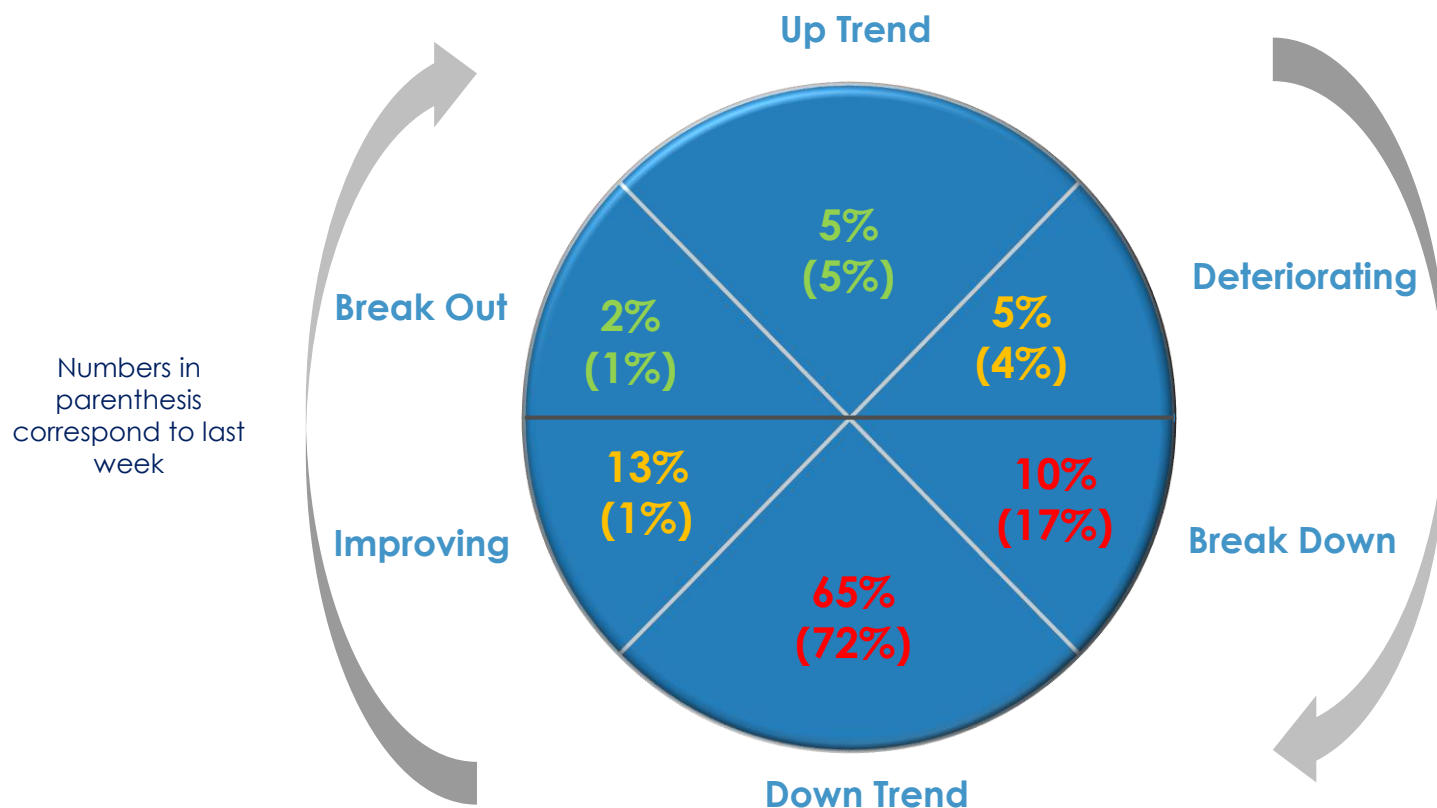


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# US Equities

Weekly Performance

# The Bear Market is here and it is showing signs of industry rotation from Growth to Value sectors

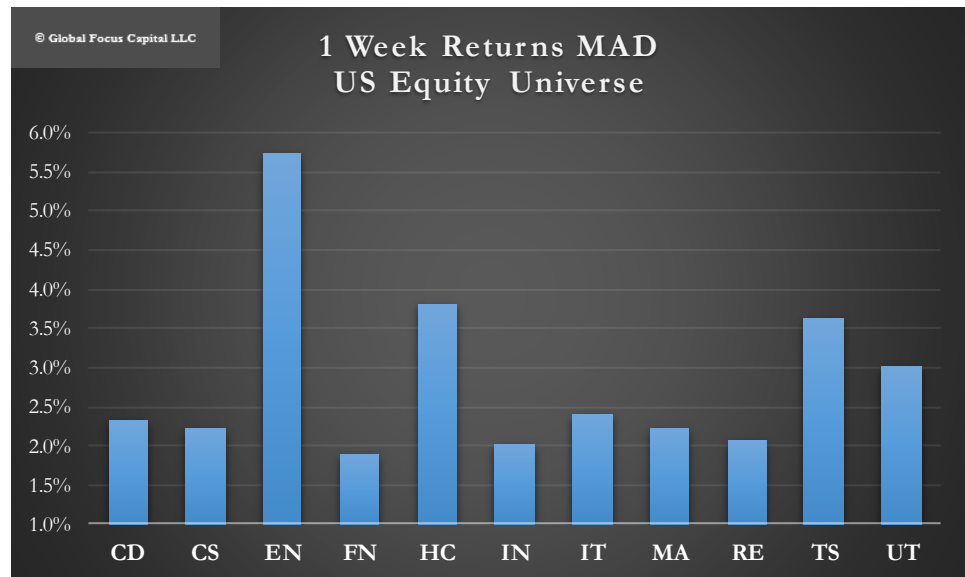
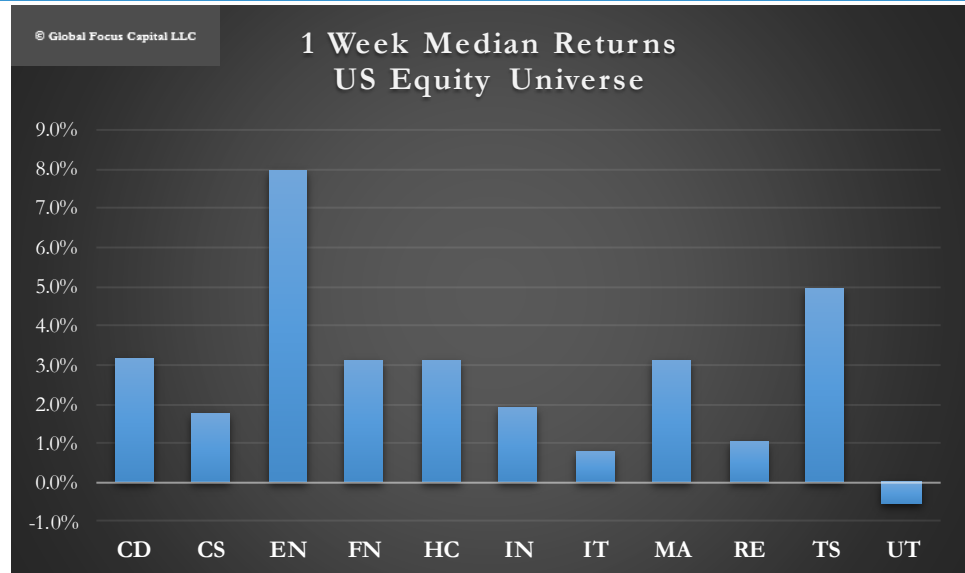


**GF CAP US All Equity Universe**



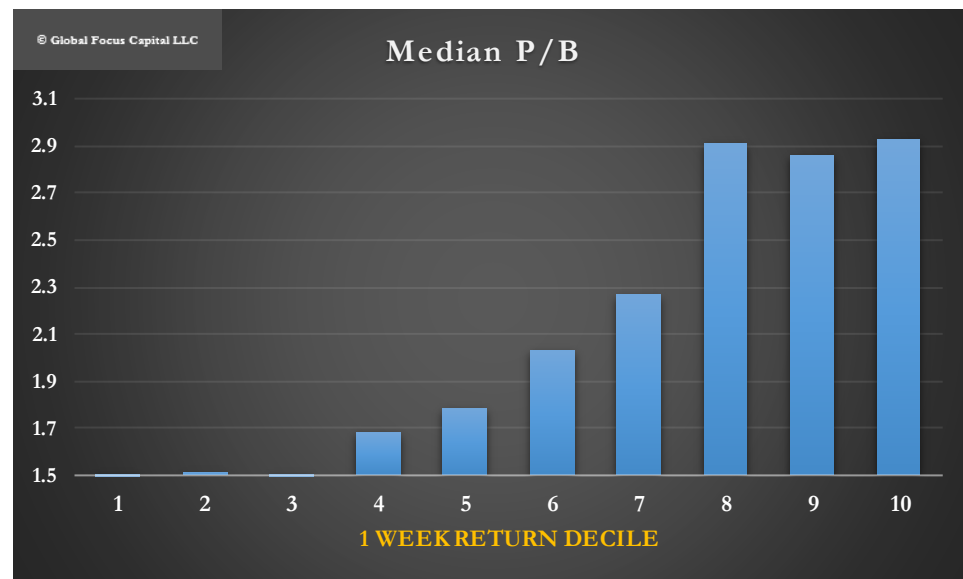
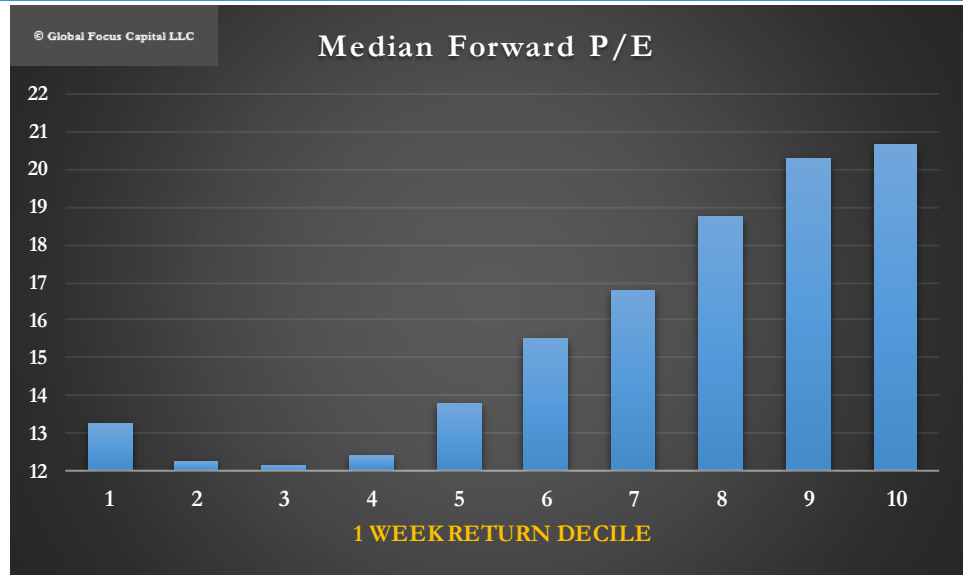
# The Sector Look – median performance and dispersion

- ▶ The mean stock in our universe was down 2.9% over the last 5 trading days
- ▶ All sectors except Utilities showed positive median returns with Energy stocks leading the pack
- ▶ 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



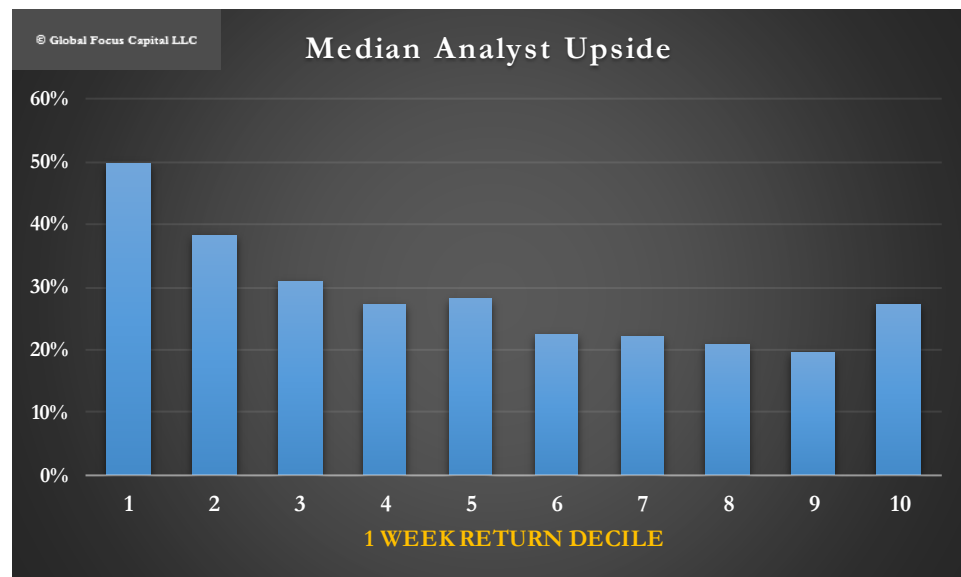
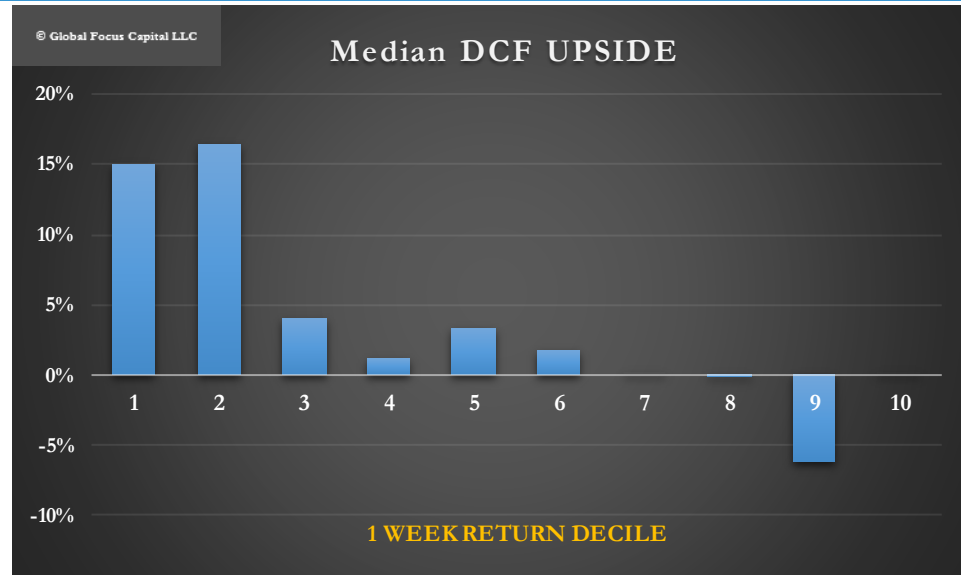
# What did the markets reward last week: Valuation Multiples

- ▶ Valuation was a big factor in determining performance last week
- ▶ There was huge discrimination among return deciles in terms of median P/E's
- ▶ We saw the identical pattern when using P/B
- ▶ Better performers had uniformly lower P/B and P/E ratios
- ▶ We have started 2019 with a strong Value effect



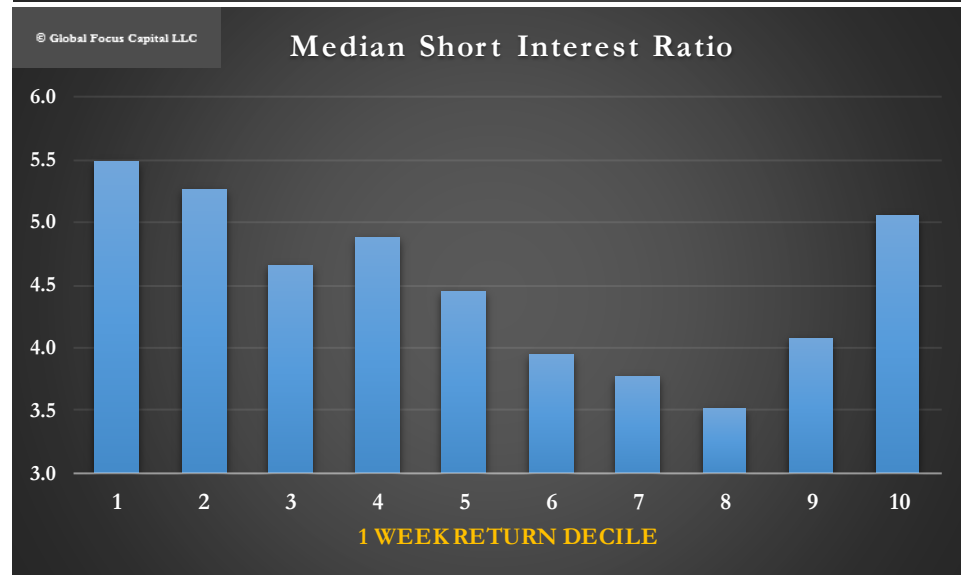
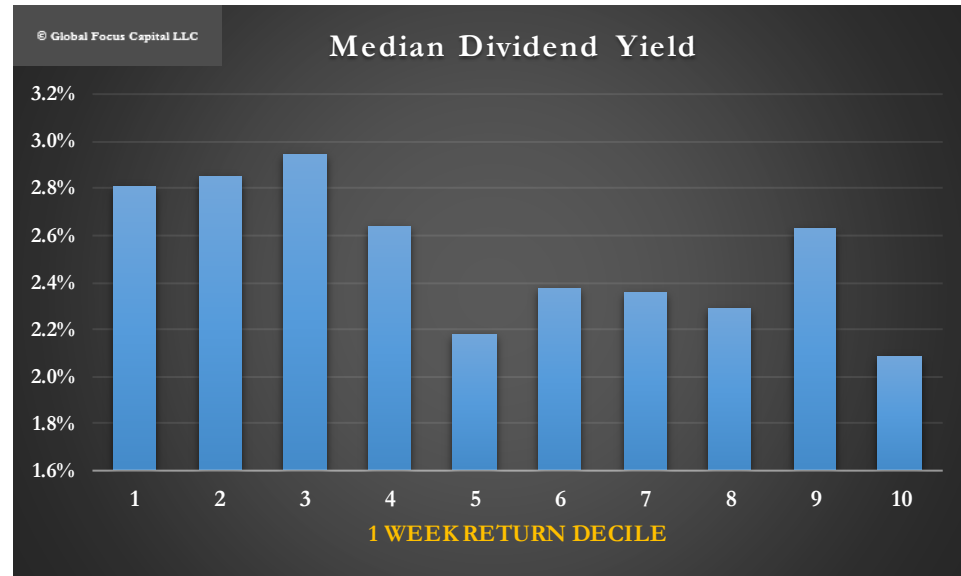
# What did the markets reward last week: Valuation Models

- ▶ The median stock in our universe is under-valued by 3.3% according to a DCF valuation
- ▶ The markets last week rewarded undervalued stocks last week
- ▶ In terms of analyst price targets, there was a direct relationship
  - ▶ Stocks doing the best had the highest positive deviations from sell-side price targets



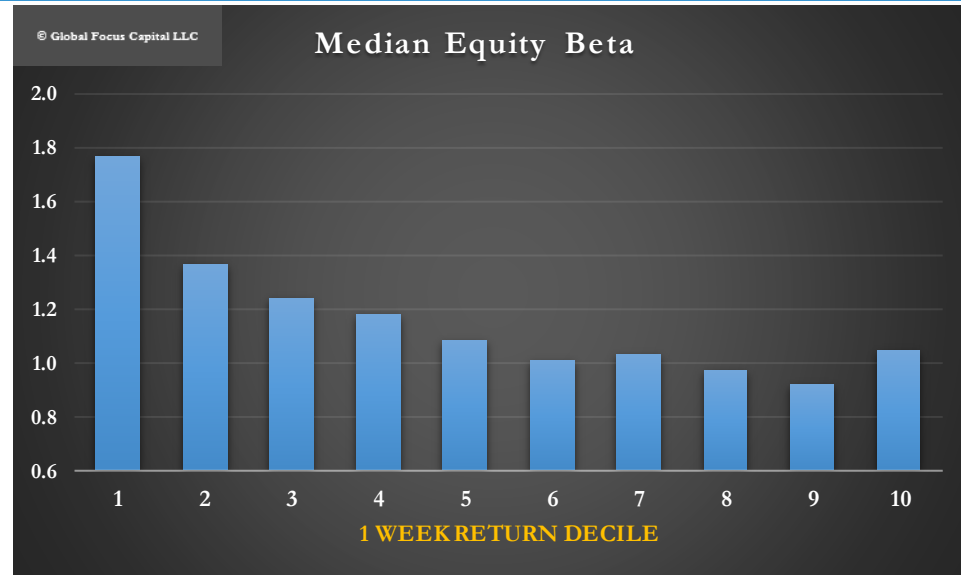
# What did the markets reward last week: Yield and Sentiment

- ▶ Higher dividend yield stocks performed better last week
- ▶ This may further reflect the ongoing sector rotation going on in markets
- ▶ Short interest, a measure of sentiment, showed an increasing pattern of returns
- ▶ The best performing stocks last week had higher levels of short interest



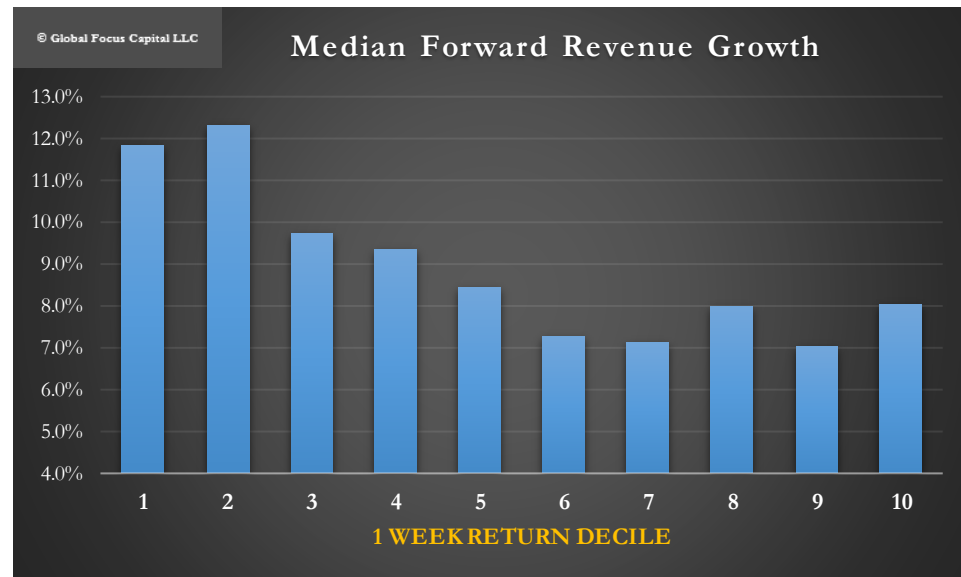
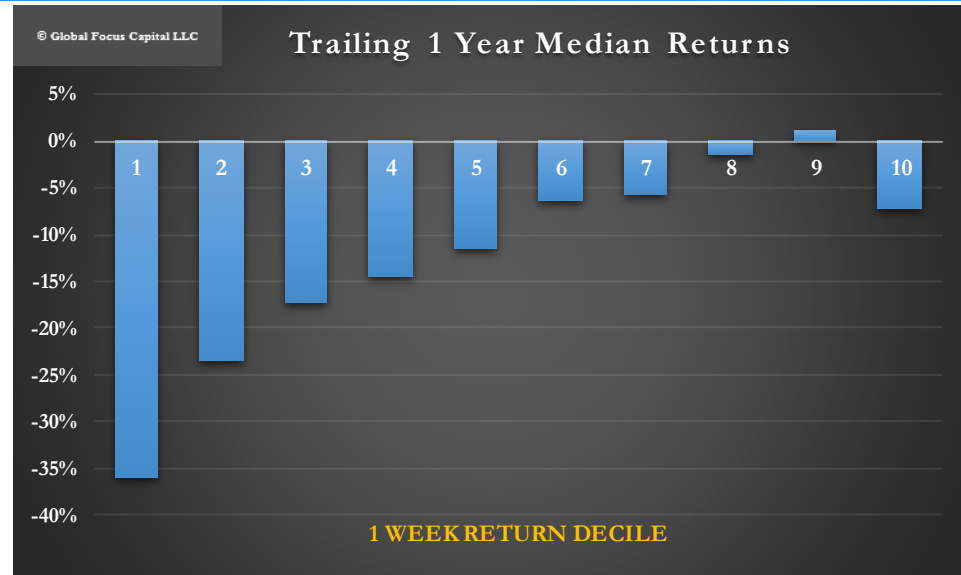
# What did the markets reward last week: Beta and Size

- ▶ Beta worked extremely well last week
- ▶ The higher the beta the higher the return
- ▶ In terms of market cap over the last week we have seen a declining pattern with the exception of the worst performing decile
- ▶ The Russell 2000 index outperformed the S&P 500 by 2% over the last 5 trading days



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

- ▶ The 1 year momentum effect worked in reverse last week
- ▶ Stocks down the most over the last year vastly outperformed last year's winners
- ▶ The industry rotation that started about 12 weeks ago is gaining strength
- ▶ Revenue growth as a factor exhibited a direct relationship to return – higher growth companies showed better performance last week



# Big Movers – Last 5 Days

## Down

Align Technology, Inc.	ALGN	Healthcare
Universal Display Corporat	OLED	Information Technology
Weight Watchers Internatio	WTW	Consumer Discretionary
Pacira Pharmaceuticals, Inc	PCRX	Healthcare
MyoKardia, Inc.	MYOK	Healthcare
Atara Biotherapeutics, Inc.	ATRA	Healthcare
Francesca's Holdings Corp	FRAN	Consumer Discretionary
Cloud Peak Energy Inc	CLD	Energy

## Up

Netflix, Inc.	NFLX	Consumer Discretionary
Celgene Corporation	CELG	Healthcare
Liberty Global plc	LILA	Consumer Discretionary
Continental Resources, Inc	CLR	Energy
Incyte Corporation	INCY	Healthcare
Hess Corporation	HES	Energy
Wynn Resorts, Limited	WYNN	Consumer Discretionary
Arconic Inc.	ARNC	Industrials
Targa Resources, Inc.	TRGP	Energy
Transocean Ltd.	RIG	Energy
Murphy Oil Corporation	MUR	Energy
Array BioPharma Inc.	ARRY	Healthcare
Eldorado Resorts, Inc.	ERI	Consumer Discretionary
Newfield Exploration Com	NFX	Energy
Navient Corporation	NAVI	Financials
Patterson-UTI Energy, Inc	PTEN	Energy
Penn National Gaming, Inc	PENN	Consumer Discretionary
Whiting Petroleum Corpora	WLL	Energy
PDC Energy, Inc.	PDCE	Energy
Amicus Therapeutics, Inc.	FOLD	Healthcare

# This Coming Week

## Reporting Soon

<b>Delta Air Lines, Inc.</b>	DAL	<b>Industrials</b>
<b>Constellation Brands Inc</b>	STZ	<b>Consumer Staples</b>
<b>Lennar Corporation</b>	LEN	<b>Consumer Discretionary</b>
<b>Acuity Brands Inc</b>	AYI	<b>Industrials</b>
<b>MSC Industrial Direct Com</b>	MSM	<b>Industrials</b>
<b>Helen of Troy Limited</b>	HELE	<b>Consumer Discretionary</b>
<b>WD-40 Company</b>	WDFC	<b>Consumer Staples</b>
<b>Commercial Metals Compa</b>	CMC	<b>Materials</b>
<b>PriceSmart, Inc.</b>	PSMT	<b>Consumer Staples</b>
<b>KB Home</b>	KBH	<b>Consumer Discretionary</b>
<b>Bed Bath &amp; Beyond Inc.</b>	BBBY	<b>Consumer Discretionary</b>
<b>AZZ Inc.</b>	AZZ	<b>Industrials</b>
<b>Lindsay Corporation</b>	LNN	<b>Industrials</b>
<b>Skyline Corporation</b>	SKY	<b>Consumer Discretionary</b>
<b>Schnitzer Steel Industries, I</b>	SCHN	<b>Materials</b>
<b>Franklin Covey Company</b>	FC	<b>Industrials</b>
<b>FuelCell Energy, Inc.</b>	FCEL	<b>Industrials</b>

- ▶ Risk Aversion should stay high and we expect choppy markets this coming week again
- ▶ Equity Technicals have deteriorated to the point that close to 65% of stocks in the Down Trend Phase
- ▶ Political drama in Washington is exacerbating the uncertainty of market participants
- ▶ Brexit is up for the spring 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 but had a nice recovery
- ▶ 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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