



GLOBAL FOCUS CAPITAL LLC
INSIGHT THAT MATTERS

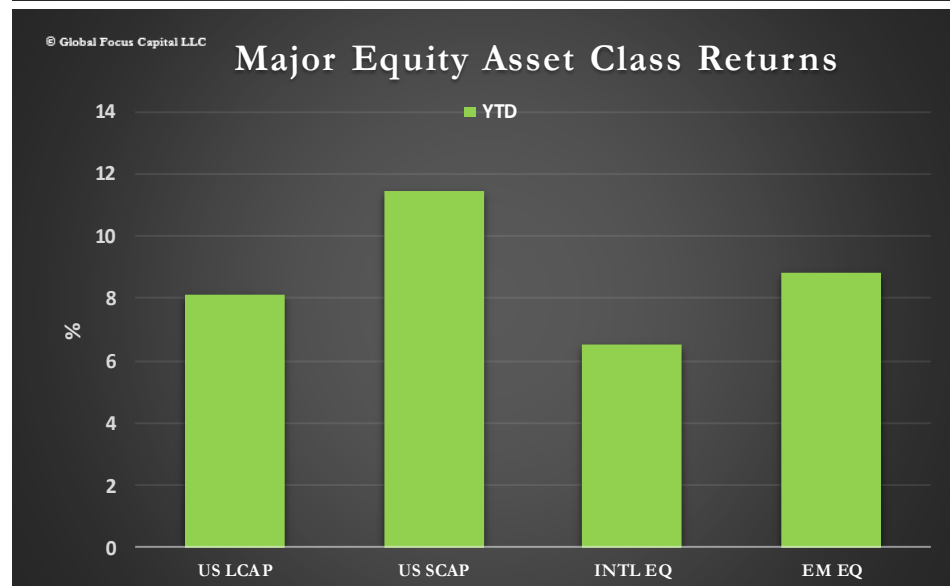
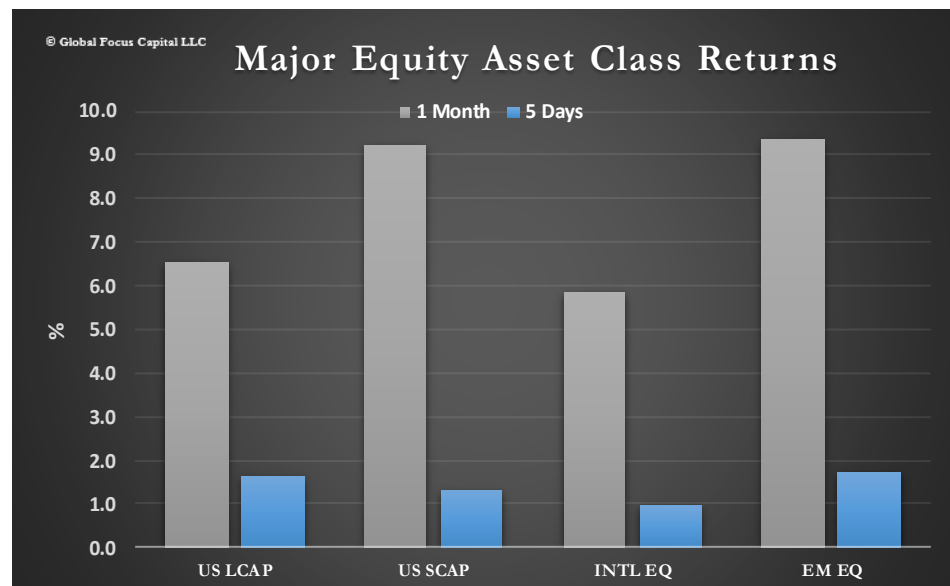
The Equity Observer

Weekly Review – February 3, 2019

Eric J. Weigel

Equity markets have had a great start to the year

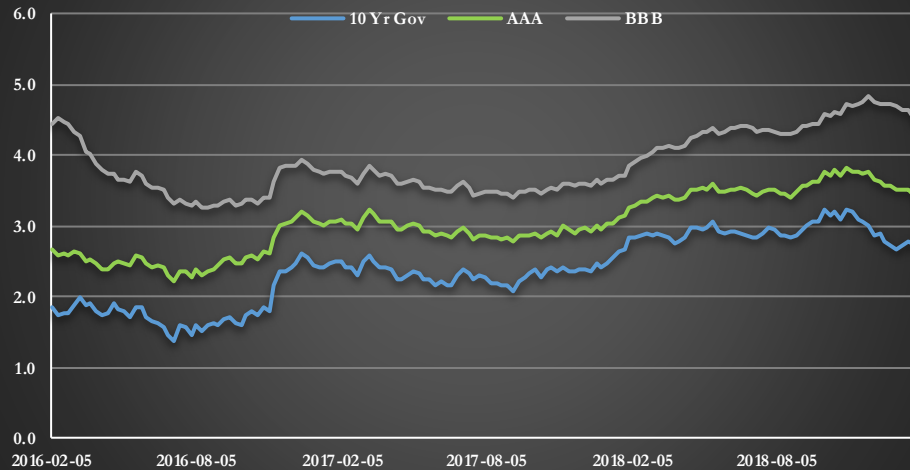
- ▶ Equity markets have staged a remarkable recovery after a dismal Q4
- ▶ Over the last month, US small caps and EM stocks have performed the best
- ▶ Over the last 12 months all major equity asset classes are down with US Large Cap the least and EM the most
- ▶ Valuations while more reasonable than 3 months ago are not yet favorable – we may be seeing a reversal from the q4 downdraft, not a fundamental uptrend
- ▶ The key for equity markets is global growth and whether we are entering a slowdown or not



Equity volatility comes way down while yield spreads continue narrowing, inflationary expectations trend down

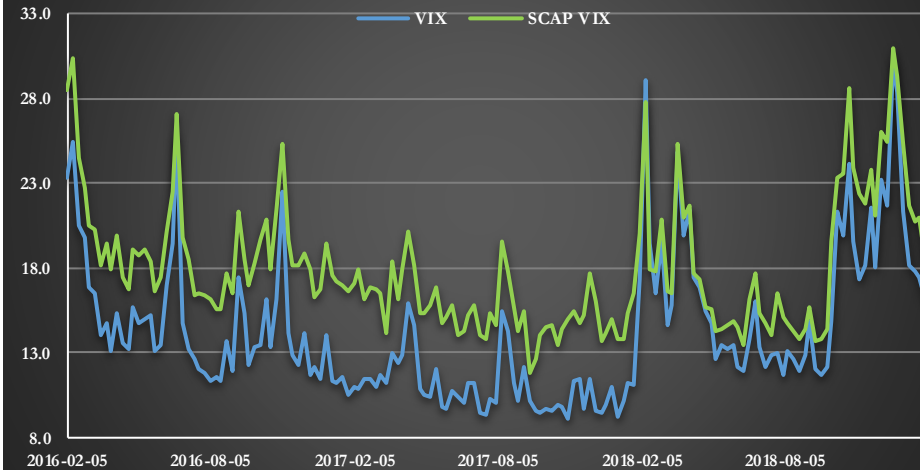
© Global Focus Capital LLC

US Interest Rates



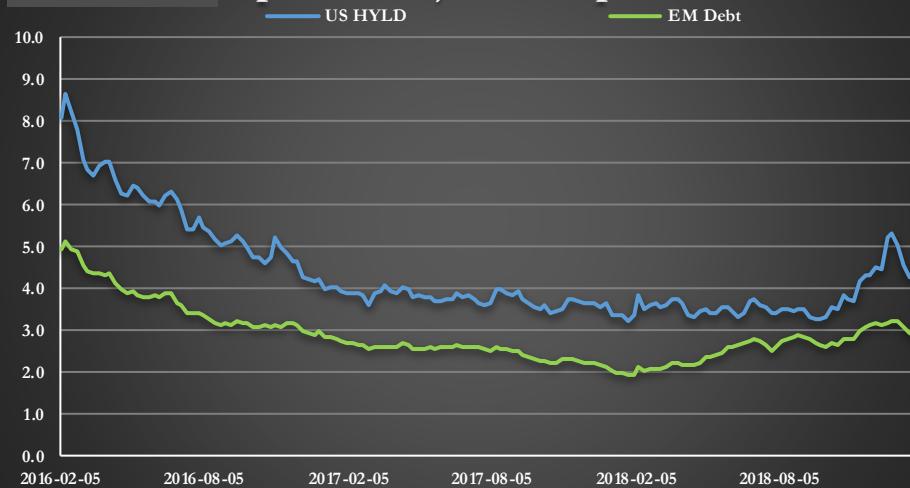
© Global Focus Capital LLC

Stock Index Implied Volatility



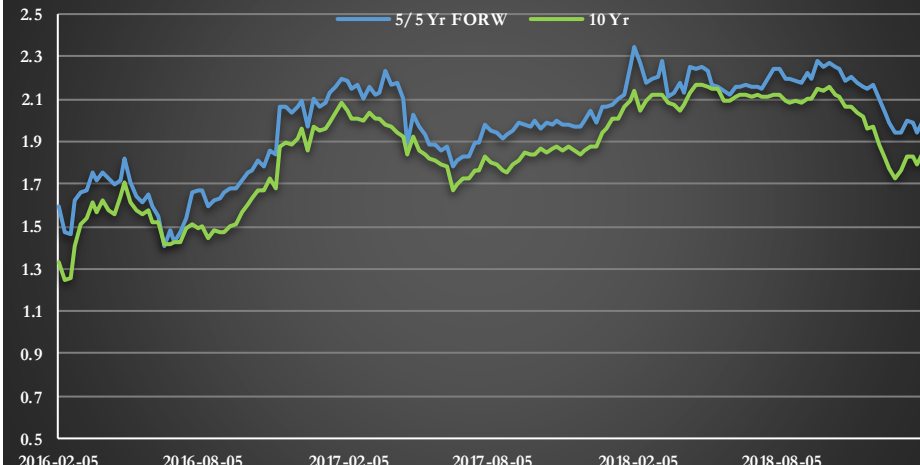
© Global Focus Capital LLC

Option Adjusted Spreads



© Global Focus Capital LLC

US Inflationary Expectations

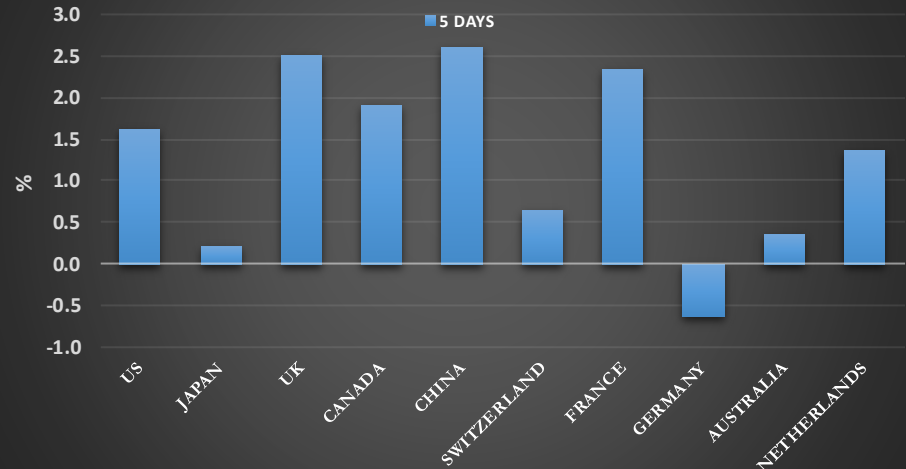


Global Equities

- ▶ A global recovery for most but with large differences in global market performance
- ▶ Commodity indices continue their recovery as oil prices firmed up helping resource oriented markets
- ▶ In the US Value and Growth performed in line last week, but higher dividend yield stocks really rocked it
- ▶ In international markets Value underperformed Growth by a wide margin driven primarily by sector differences
- ▶ Globally, Staples and Energy performed best last week while Financials gave back some of the gains from the previous week

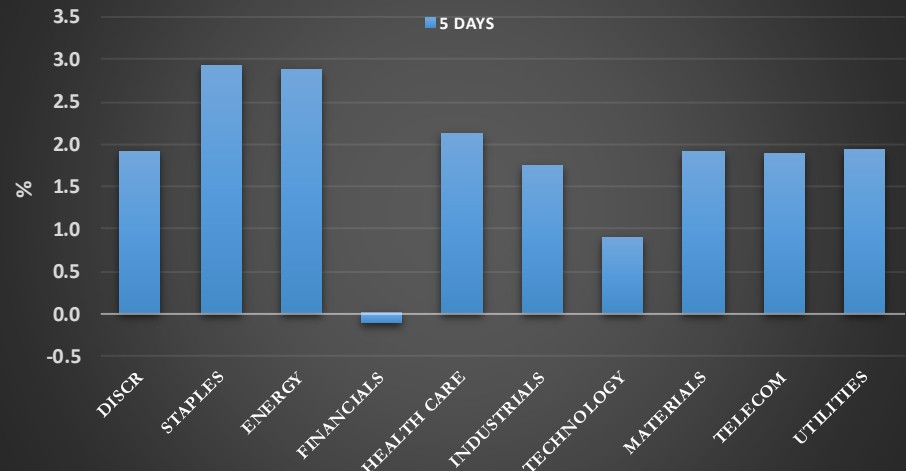
© Global Focus Capital LLC

Global Equities (USD)



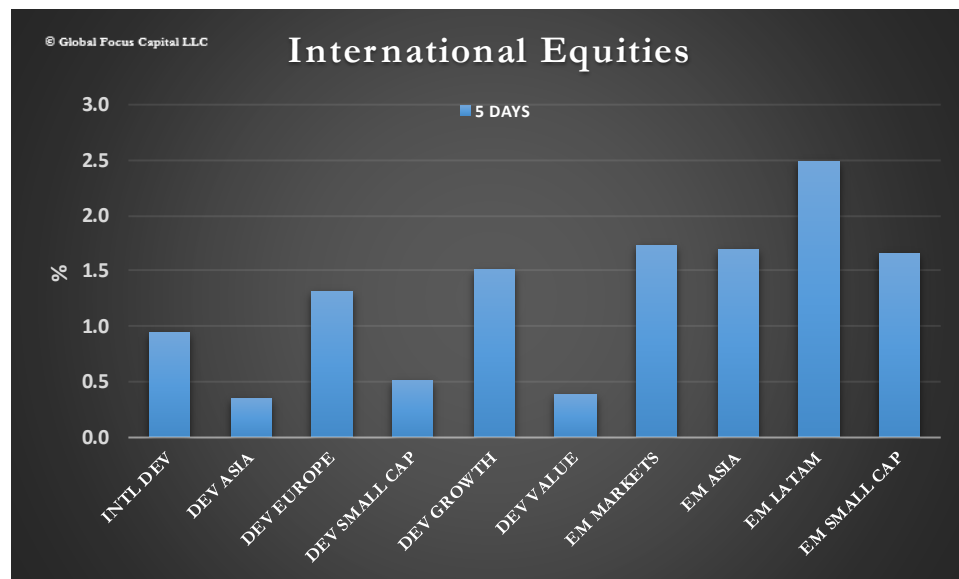
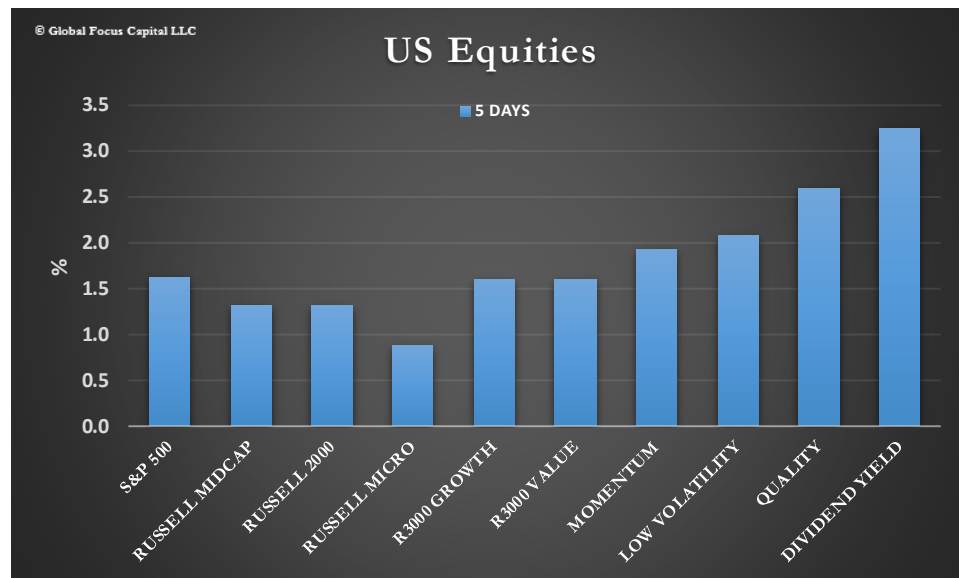
© Global Focus Capital LLC

Global Sectors (USD)



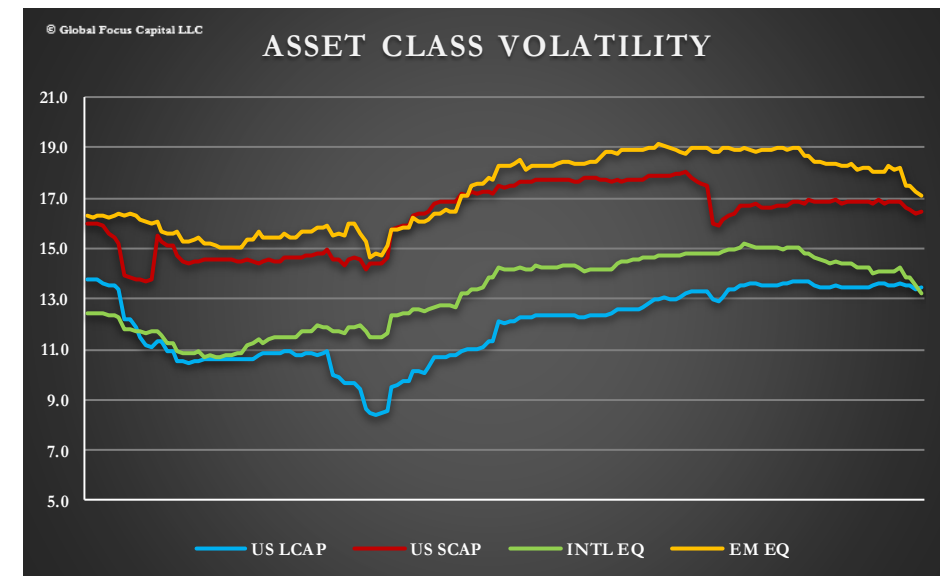
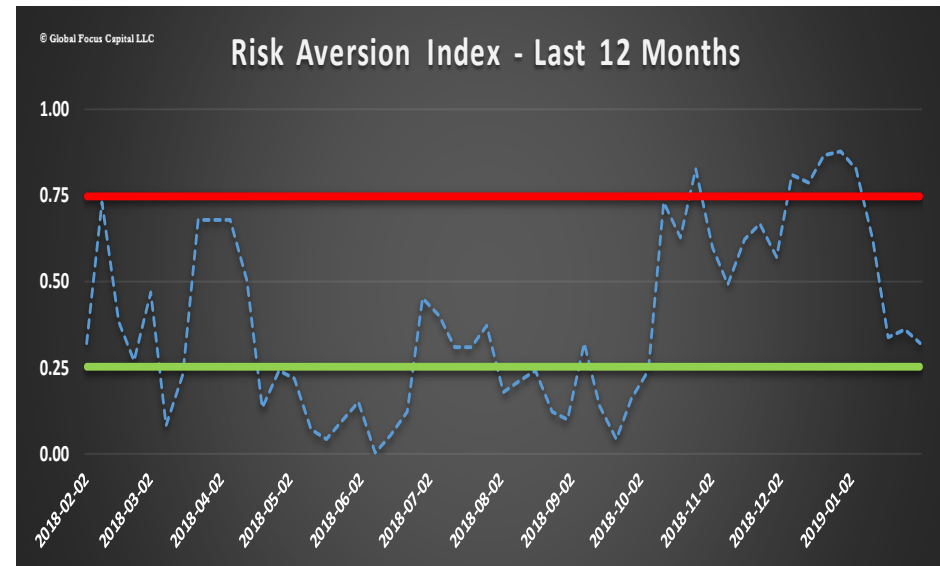
Style and Geography

- ▶ In the US, we saw Large Caps do best
- ▶ The size effect in the US was strong (in reverse of expectations)
- ▶ Within equity styles, Dividend Yield and Quality strategies resulted in better performance
- ▶ The Momentum trade has made a bit of a comeback in 2019 – it's up 7% YTD
- ▶ Latam shot up last week – the index is up 14.7% for the year



Investor Risk Aversion drops dramatically but stays in the Normal Zone

- ▶ Investors seem to be in risk-on mode again – not sure why?
- ▶ Our risk aversion index dropped precipitously a couple of weeks ago as risky assets have sprinted ahead
- ▶ 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 ok but leveling off, valuations are high and economic policy is highly uncertain



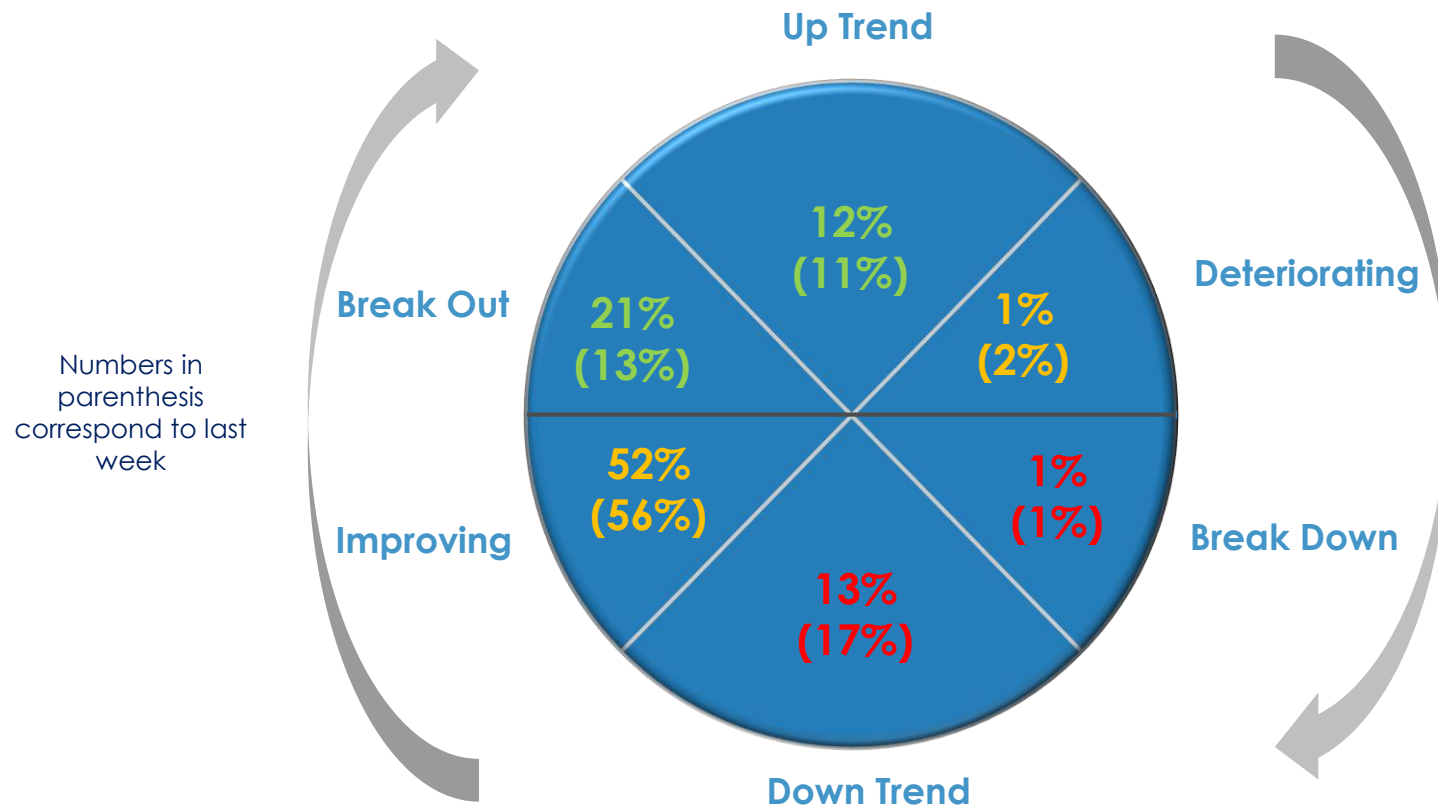


GLOBAL FOCUS CAPITAL LLC
INSIGHT THAT MATTERS

US Equities

Weekly Performance

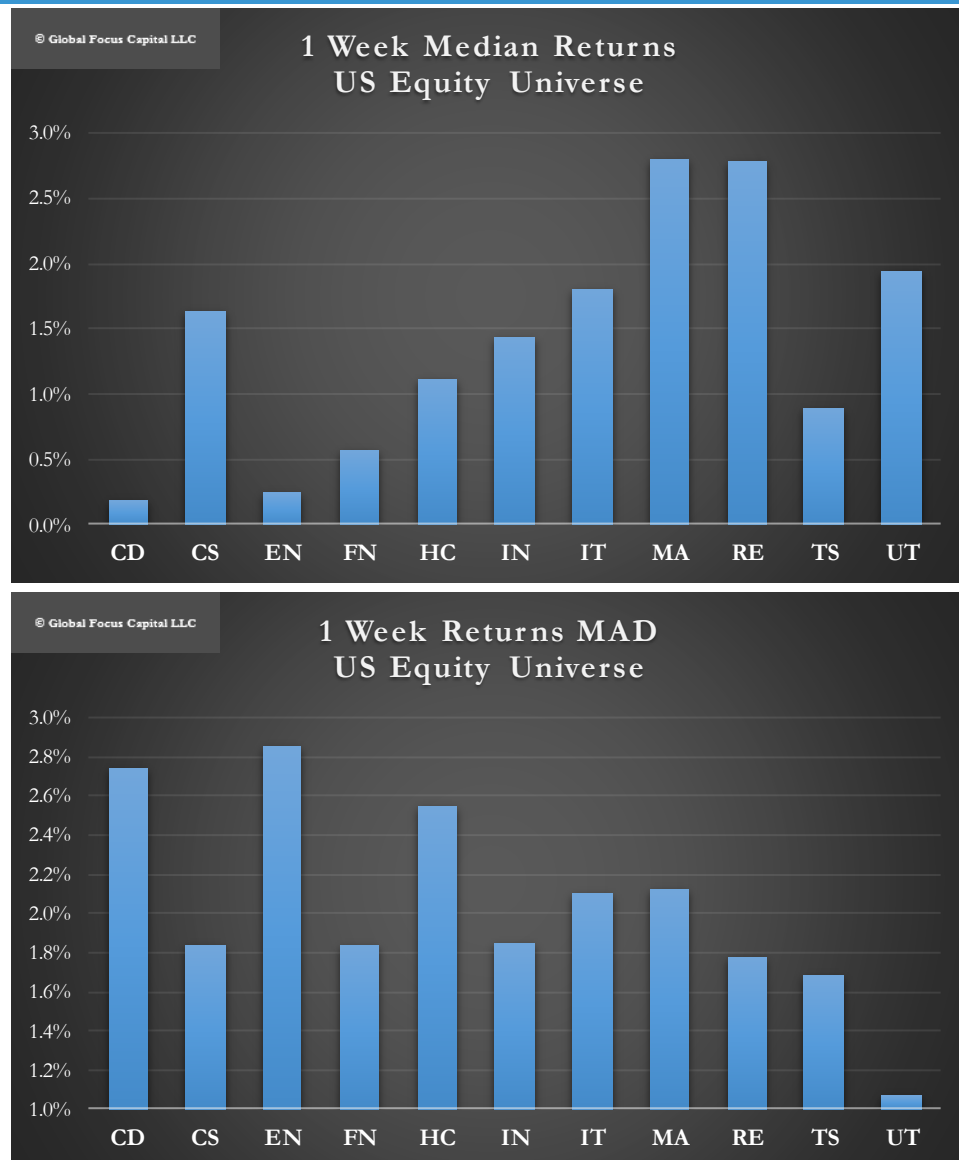
Maybe the Bear Market is not here after all. We have seen a huge improvement in the technical in 2019 – strong rebound



GF CAP US All Equity Universe

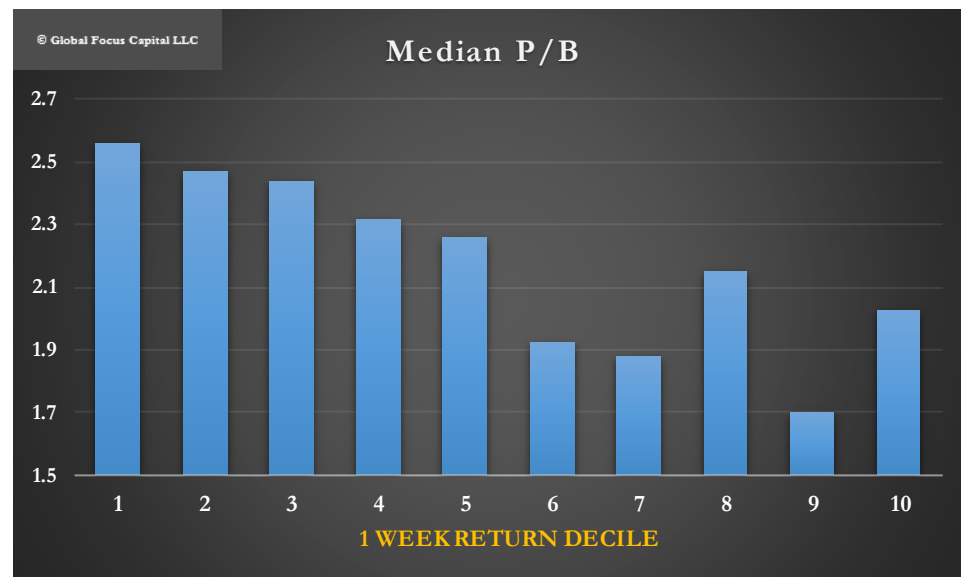
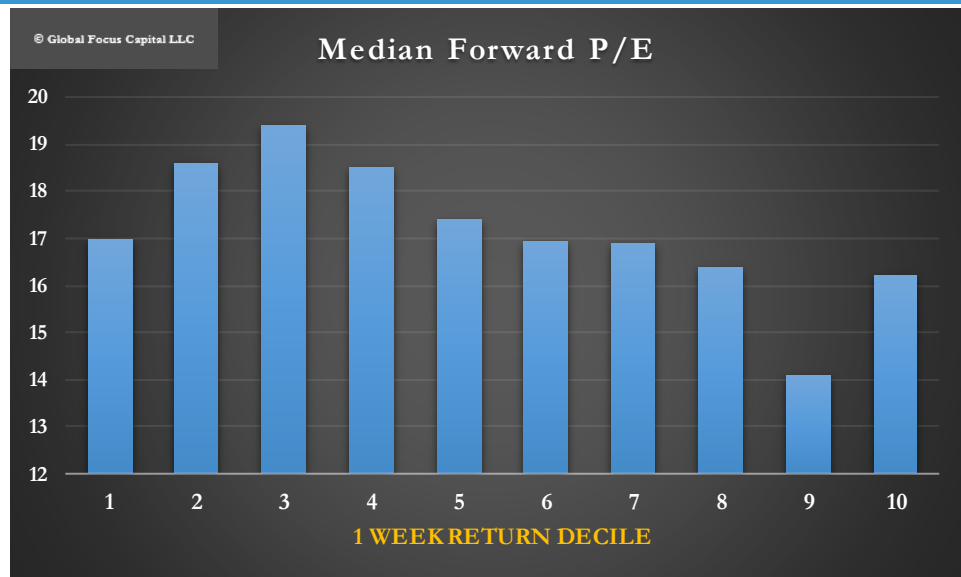
The Sector Look – median performance and dispersion

- ▶ The mean stock in our universe was up 1.4% over the last 5 trading days
- ▶ All sectors showed positive median returns with Material and Real Estate leading the pack
- ▶ There was quite a dispersion in returns among sectors
- ▶ Utility stocks also had a good week – up 2% on average
- ▶ 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

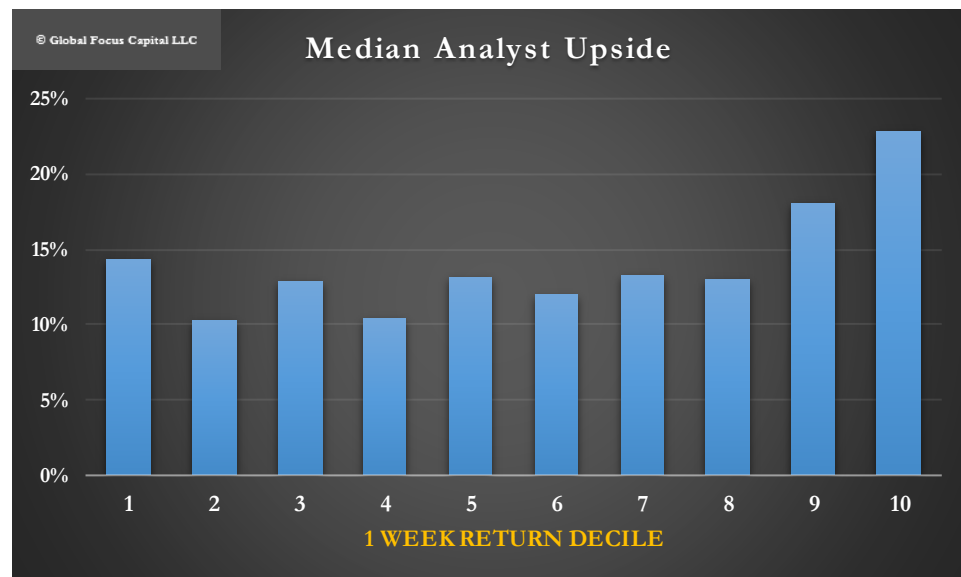
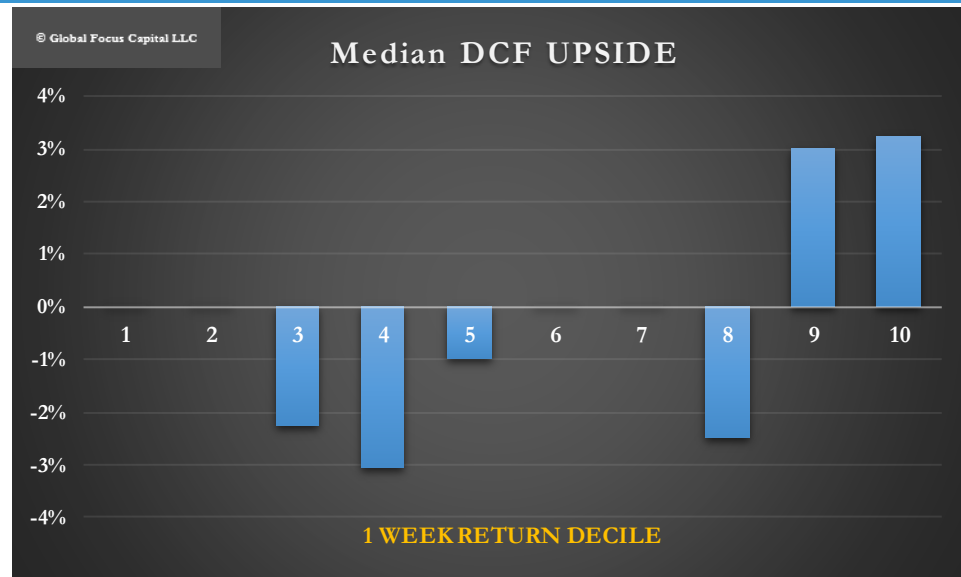
- ▶ Valuation was a poor factor in determining performance last week
- ▶ In general higher P/E stocks did best
- ▶ We saw the same pattern for P/B with higher ratios seen in the best performing deciles
- ▶ We have started 2019 with a modest Value effect



What did the markets reward last week:

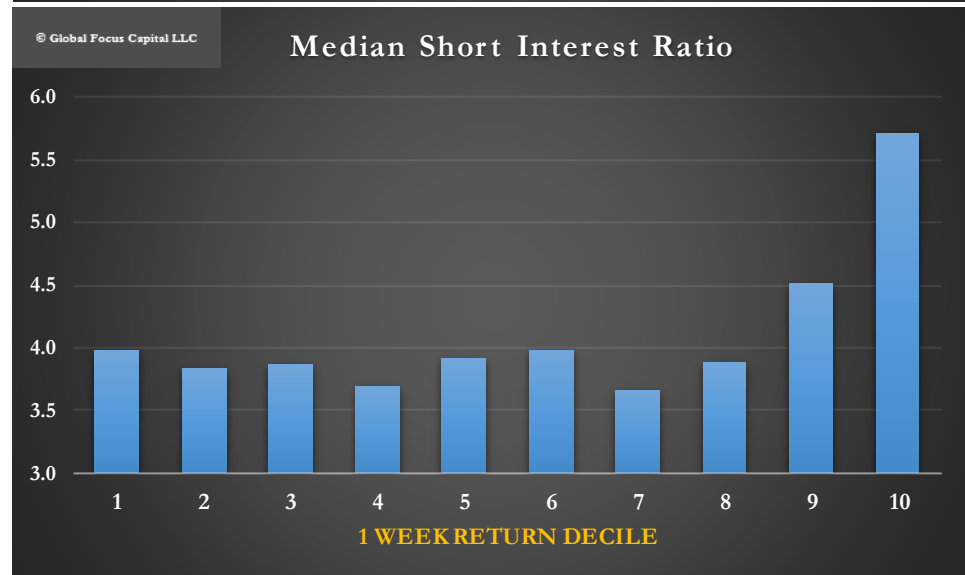
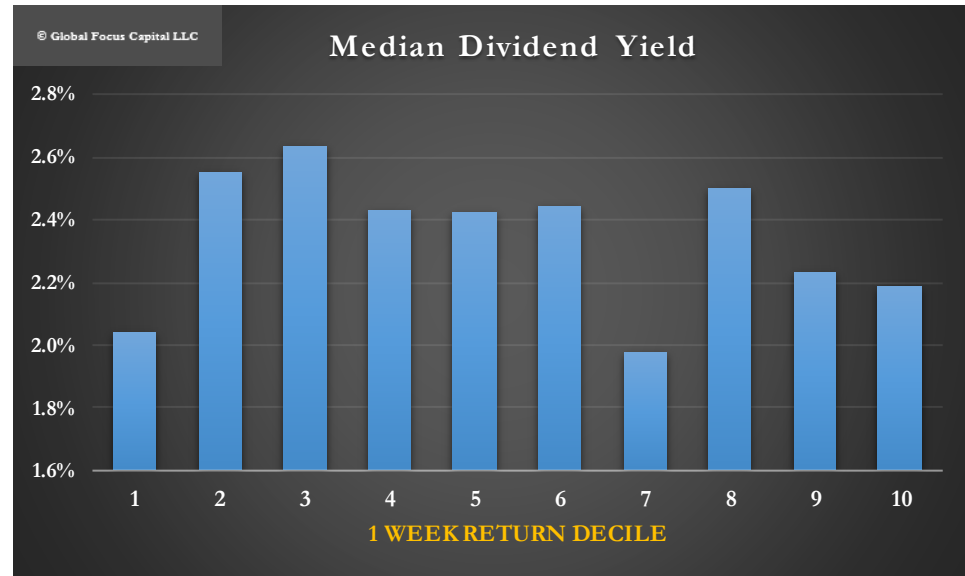
Valuation Models

- ▶ The median stock in our universe is under-valued by 1.6% according to a DCF valuation
- ▶ The markets last week rewarded slightly over-valued stocks but the effect was weak
- ▶ In terms of analyst price targets, there was little relationship
- ▶ The top 8 quintiles for performance have nearly identical median deviations from target prices (11%)



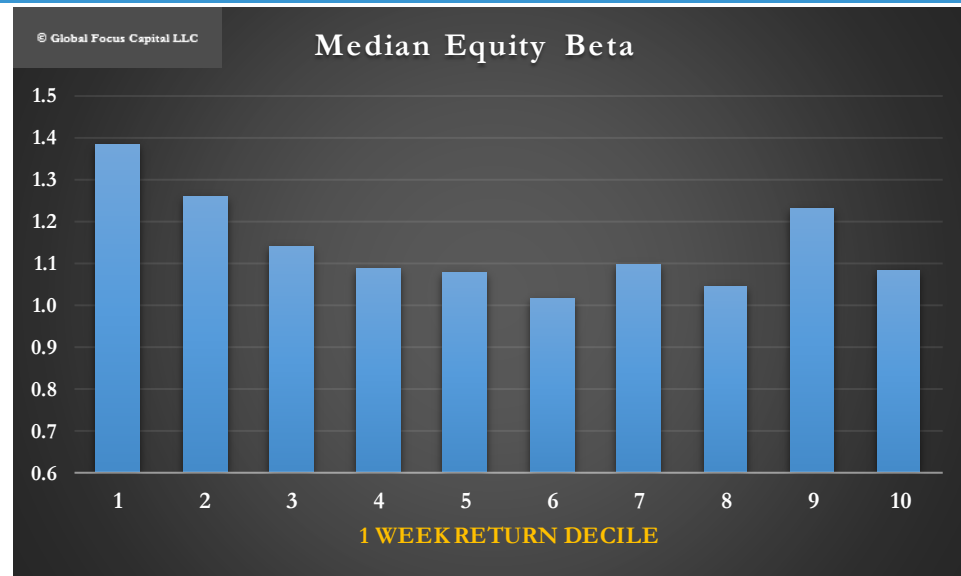
What did the markets reward last week: Yield and Sentiment

- ▶ Higher dividend yield stocks performed better than average last week
- ▶ These stocks have been top performers over the last 3 months
- ▶ Short interest, a measure of sentiment, showed a decreasing pattern of returns
- ▶ The worst performing stocks last week had higher levels of short interest



What did the markets reward last week: Beta and Size

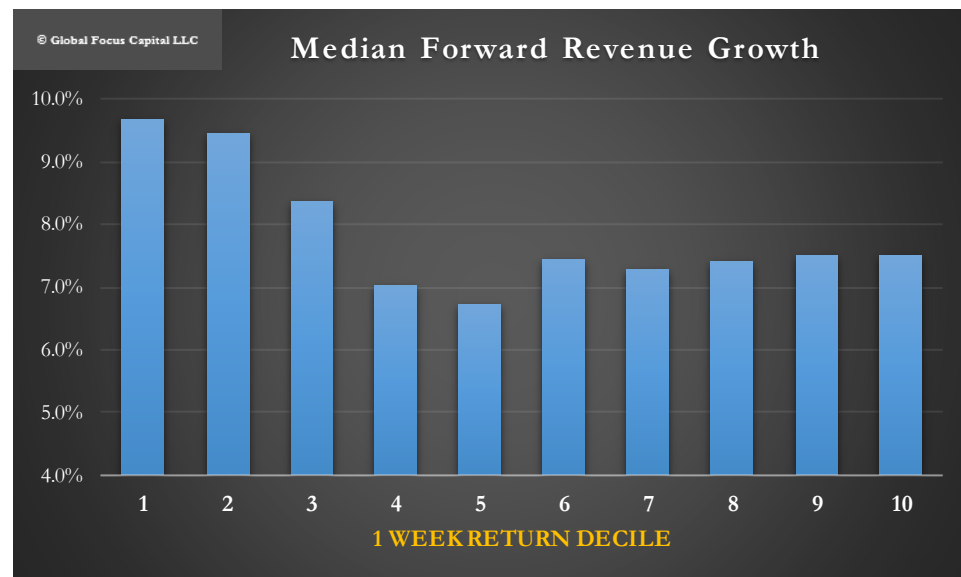
- ▶ Beta worked extremely well last week
- ▶ The higher the beta the higher the return
- ▶ In terms of market cap over the last week we have seen midcaps doing best – an inverted V shape
- ▶ Market cap weighting tells a different story with mega-caps outperforming
- ▶ The Russell 2000 index underperformed the S&P 500 by 0.3% over the last 5 trading days



What did the markets reward last week:

Momentum and Growth

- ▶ The 1 year momentum effect did have some marginal information last week
- ▶ Stocks down the most over the last year vastly underperformed last year's relative winners
- ▶ The industry rotation that started about 20 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

Allergan plc.	AGN	Health Care
Silicon Laboratories, Inc.	SLAB	Information Technology
Cimpress N.V	CMPR	Industrials
Murphy USA Inc.	MUSA	Consumer Discretionary
CONSOL Energy Inc.	CNX	Energy
SiteOne Landscape Supply,	SITE	Industrials
Bottomline Technologies, I	EPAY	Information Technology
8x8 Inc	EGHT	Information Technology
Innoviva, Inc.	INVA	Health Care
Brinker International, Inc.	EAT	Consumer Discretionary
Vicor Corporation	VICR	Industrials
Guess?, Inc.	GES	Consumer Discretionary
GTT Communications, Inc	GTT	Information Technology
Vanda Pharmaceuticals Inc	VNDA	Health Care
Tupperware Brands Corpo	TUP	Consumer Discretionary
Cardtronics plc	CATM	Information Technology
Matthews International Co	MATW	Industrials
Corcept Therapeutics Inco	CORT	Health Care
Gamestop Corporation	GME	Consumer Discretionary
Kemet Corporation	KEM	Information Technology

Up

Facebook, Inc.	FB	Communication Services
Altria Group	MO	Consumer Staples
Charter Communications, I	CHTR	Communication Services
General Electric Company	GE	Industrials
Anthem, Inc.	ANTM	Health Care
ServiceNow, Inc.	NOW	Information Technology
Advanced Micro Devices, I	AMD	Information Technology
Transdigm Group Incorpo	TDG	Industrials
Liberty Global plc	LILA	Communication Services
Liberty Broadband Corpora	LBRDK	Communication Services
Liberty Broadband Corpora	LBRDA	Communication Services
Yum China Holdings, Inc.	YUMC	Consumer Discretionary
Symantec Corporation	SYMC	Information Technology
Dover Corporation	DOV	Industrials
Sarepta Therapeutics, Inc.	SRPT	Health Care
Spirit Aerosystems Holding	SPR	Industrials
Xerox Corporation	XXR	Information Technology
PG&E Corporation	PCG	Utilities
Proofpoint, Inc.	PFPT	Information Technology
New York Community Ban	NYCB	Financials

This Coming Week

Reporting Soon

Alphabet Inc.	GOOG	Communication Services
Walt Disney Company (The)	DIS	Communication Services
Eli Lilly and Company	LLY	Health Care
Philip Morris International	PM	Consumer Staples
Twenty-First Century Fox,	FOXA	Communication Services
Gilead Sciences, Inc.	GILD	Health Care
Bristol-Myers Squibb Com	BMJ	Health Care
Becton, Dickinson and Cor	BDX	Health Care
Chubb Limited	CB	Financials
T-Mobile US, Inc.	TMUS	Communication Services
General Motors Company	GM	Consumer Discretionary
Tesla Motors, Inc.	TSLA	Consumer Discretionary
Boston Scientific Corporati	BSX	Health Care
The Estée Lauder Comp	EL	Consumer Staples
S&P Global Inc.	SPGI	Financials
Allergan plc.	AGN	Health Care
Regeneron Pharmaceuticals	REGN	Health Care
Marathon Petroleum Corp	MPC	Energy
MetLife, Inc.	MET	Financials
Intercontinental Exchange	ICE	Financials
Humana Inc.	HUM	Health Care
Emerson Electric Company	EMR	Industrials
Cognizant Technology Solu	CTSH	Information Technology
American International Gro	AIG	Financials
Prudential Financial, Inc.	PRU	Financials
LyondellBasell Industries	LYB	Materials
Sysco Corporation	SY	Consumer Staples
Fiserv, Inc.	FISV	Information Technology
Allstate Corporation (The)	ALL	Financials
Yum! Brands, Inc.	YUM	Consumer Discretionary

- ▶ Risk Aversion should spring up this week with more earnings in the US
- ▶ Equity Technicals have improved to the point that only 13% of stocks remain in the Down Trend Phase
- ▶ Political drama in Washington is exacerbating the uncertainty of market participants but investors seem to be in denial thus far in 2019
- ▶ Brexit is up for the spring but prospects of passing Parliament are slim. Could we be staring 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 are the best performing major asset class in 2019 after a dismal 2018 – some of it is due to a snap back but we are still underweight small caps
- ▶ 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
- ▶ The price of higher equity returns is discomfort – volatility has been too low in the last few years
- ▶ This coming week has huge earnings implications. Lots of companies reporting Q4.

Contact & Subscription Information

Eric J. Weigel

eweigel@gf-cap.com

[Website: https://gf-cap.com](https://gf-cap.com)

Publications - [Sign Up Here](#)

Weekly Asset Allocation Advisor	-	Free
Weekly Equity Observer	-	Free
The Equity Observer (Monthly) –		Subscription Required
The Asset Allocation Advisor (Monthly) –		Subscription Required

Disclaimer

NOTHING HEREIN SHALL BE CONSTRUED AS INVESTMENT ADVICE, A RECOMMENDATION OR SOLICITATION TO BUY OR SELL ANY SECURITY.

PAST PERFORMANCE DOES NOT PREDICT OR GUARANTEE FUTURE SIMILAR RESULTS.

SEEK THE ADVICE OF AN INVESTMENT MANAGER, LAWYER AND ACCOUNTANT BEFORE YOU INVEST.

DON'T RELY ON ANYTHING HEREIN. DO YOUR OWN HOMEWORK.

THIS IS FOR INFORMATIONAL PURPOSES ONLY AND DOES NOT CONSIDER THE INVESTMENT NEEDS OR SUITABILITY OF ANY INDIVIDUAL.

THERE IS NO PROMISE TO CORRECT ANY ERRORS OR OMISSIONS OR NOTIFY THE READER OF ANY SUCH ERRORS.