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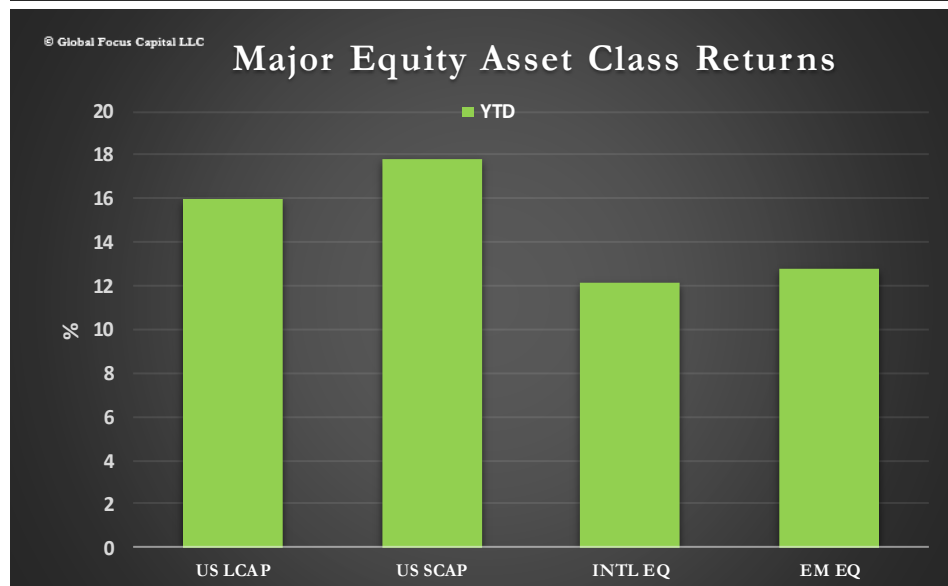
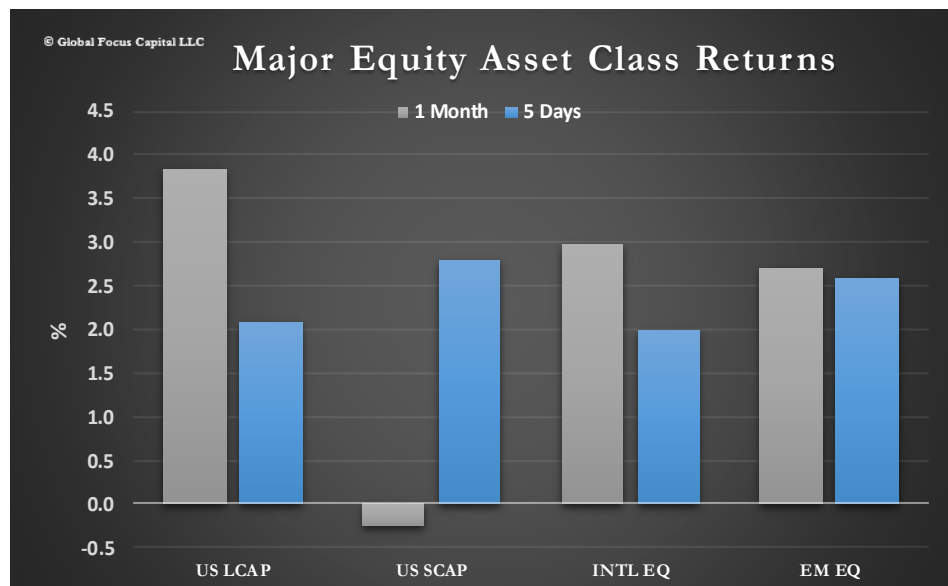
# The Equity Observer

Weekly Review – April 7, 2019

Eric J. Weigel

# Equity markets have had a great start to the year, but last week was exceptional

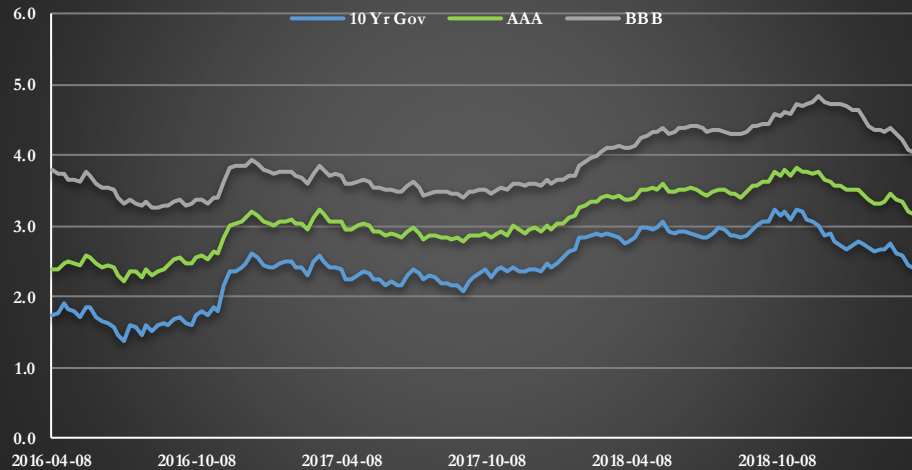
- ▶ Equity markets have staged a remarkable recovery after a dismal Q4 – last week was exceptional with small caps leading the way
- ▶ US Large cap , blue chips have outperformed in the last month
- ▶ Small caps, not surprisingly, have been a lot more jumpy but YTD are slightly ahead US large caps
- ▶ Over the last 12 months US equities are up while international still show losses
- ▶ Valuations are still a bit stretched in the US but growth and profitability are hanging in
- ▶ The key for equity markets is global growth and whether we are entering a slowdown or not



# Equity volatility goes dormant again while growth fears seem misplaced at the moment

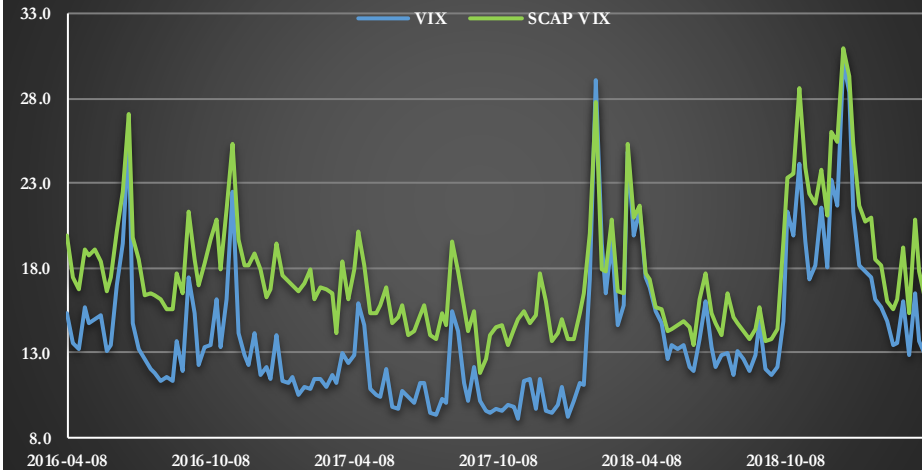
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## US Interest Rates



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## Stock Index Implied Volatility



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## Option Adjusted Spreads



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## US Inflationary Expectations

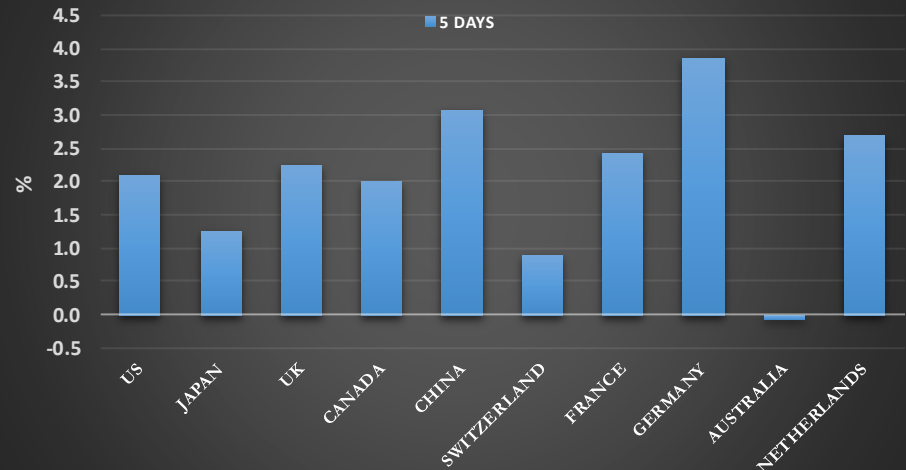


# Global Equities

- ▶ All major equity markets with the exception of Australia had strong positive returns
- ▶ Commodity indices were up big last week as oil prices continued firming up due to supply cuts
- ▶ In the US Value did very well beating Growth by close to 1%
- ▶ In international markets Value out-performed Growth by a smaller margin driven primarily by sector differences
- ▶ Globally, Discretionary, Financials and Materials out-performed last week while lower beta sectors such as Staples and Utilities lagged behind

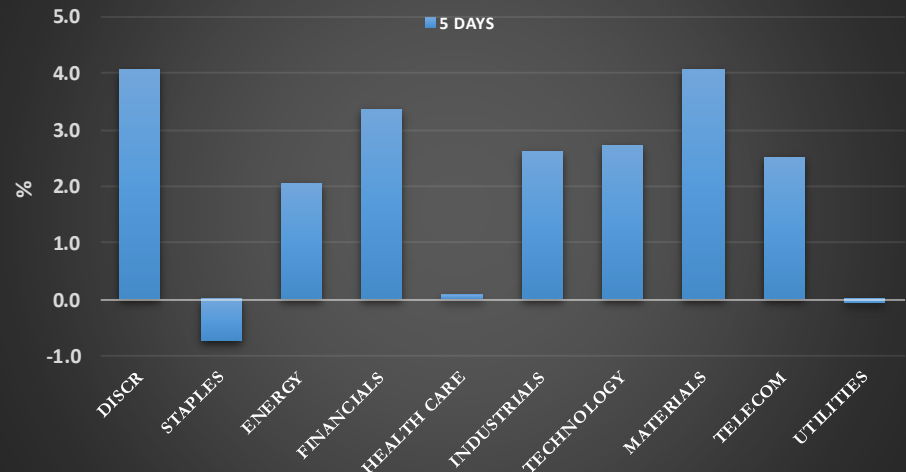
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## Global Equities (USD)



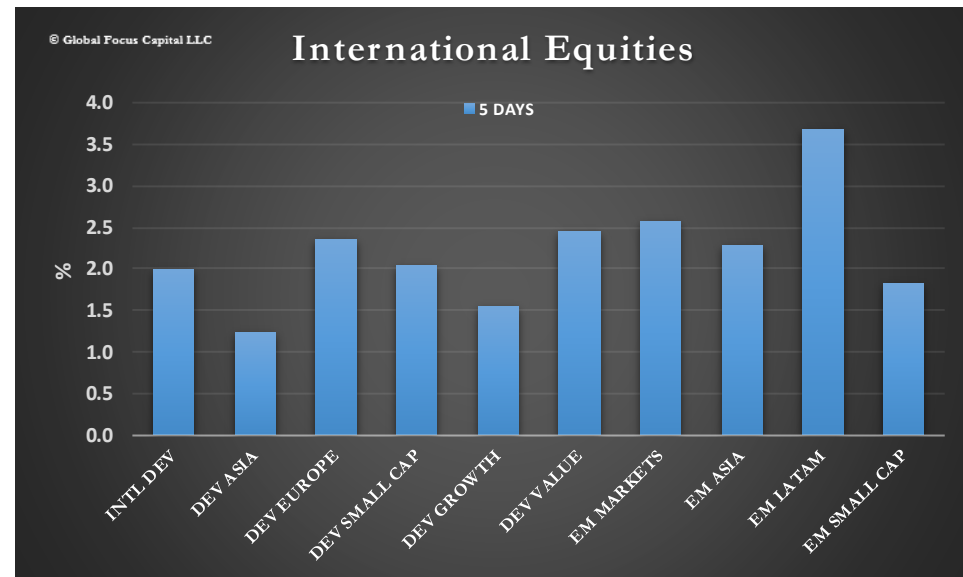
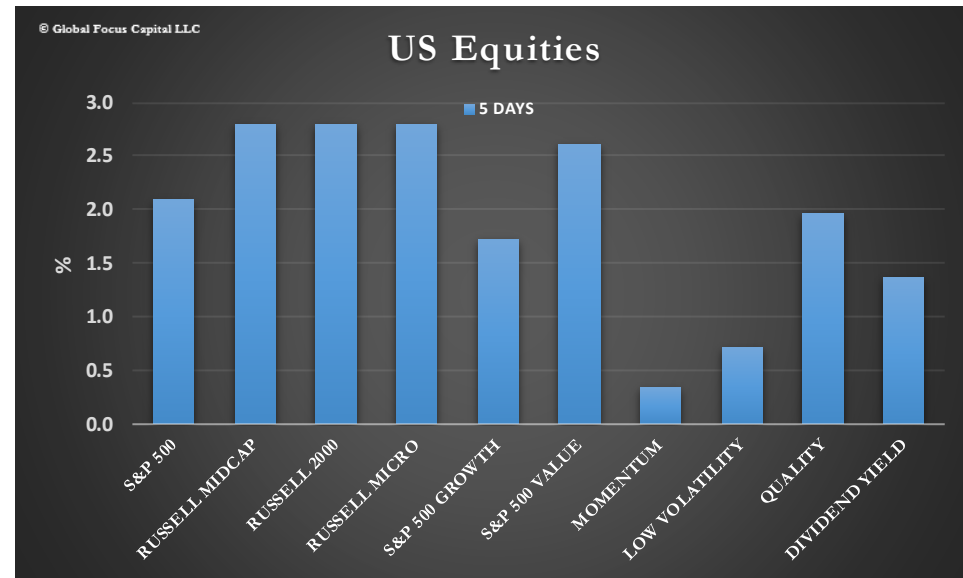
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## Global Sectors (USD)



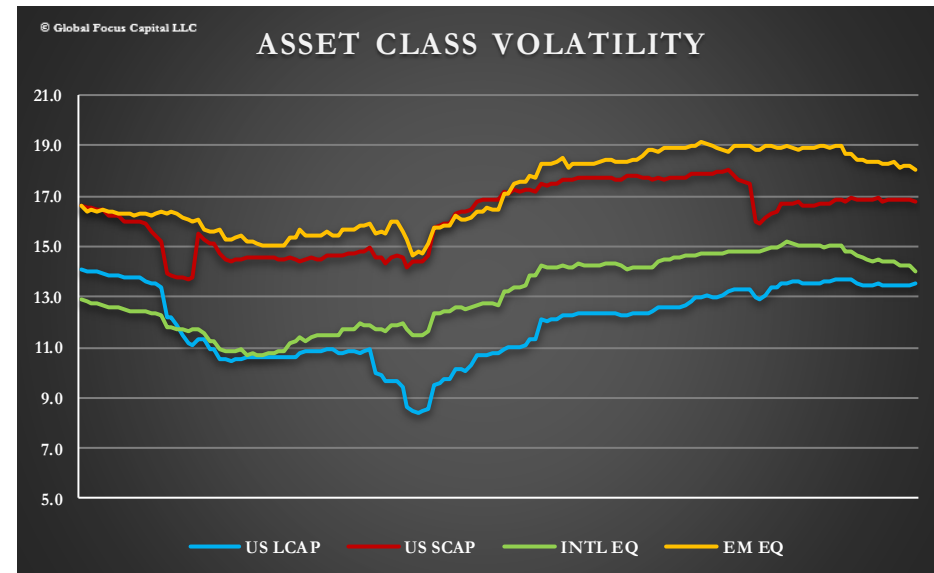
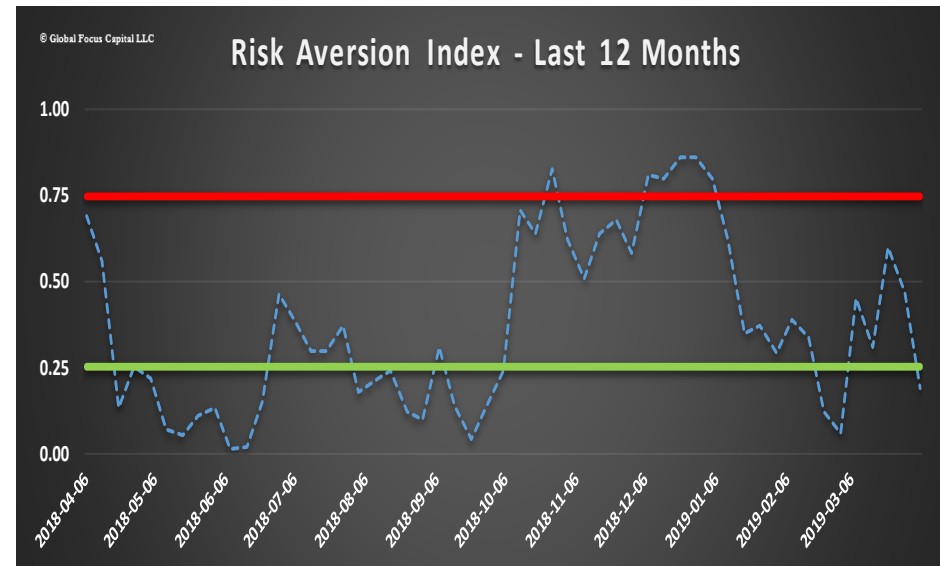
# Style and Geography

- ▶ In the US, we saw Small Caps do better than large caps
- ▶ The size effect in the US was really strong last week in favor of small caps
- ▶ Within equity styles, Quality strategies out-performed
- ▶ The Momentum factor has lost “mo” – momentum stocks have under-performed the general market this year
- ▶ International equities last week took a hit as the USD remained strong losses
- ▶ On a YTD basis developed Europe has out performed other international strategies



# Investor Risk Aversion increases – ready for another risk off week?

- ▶ Investors seem to be in risk-on mode again
- ▶ Our risk aversion index dropped precipitously a couple of weeks ago as risky assets have sprinted ahead
- ▶ We are now at the top end of the Exuberant Zone
- ▶ 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



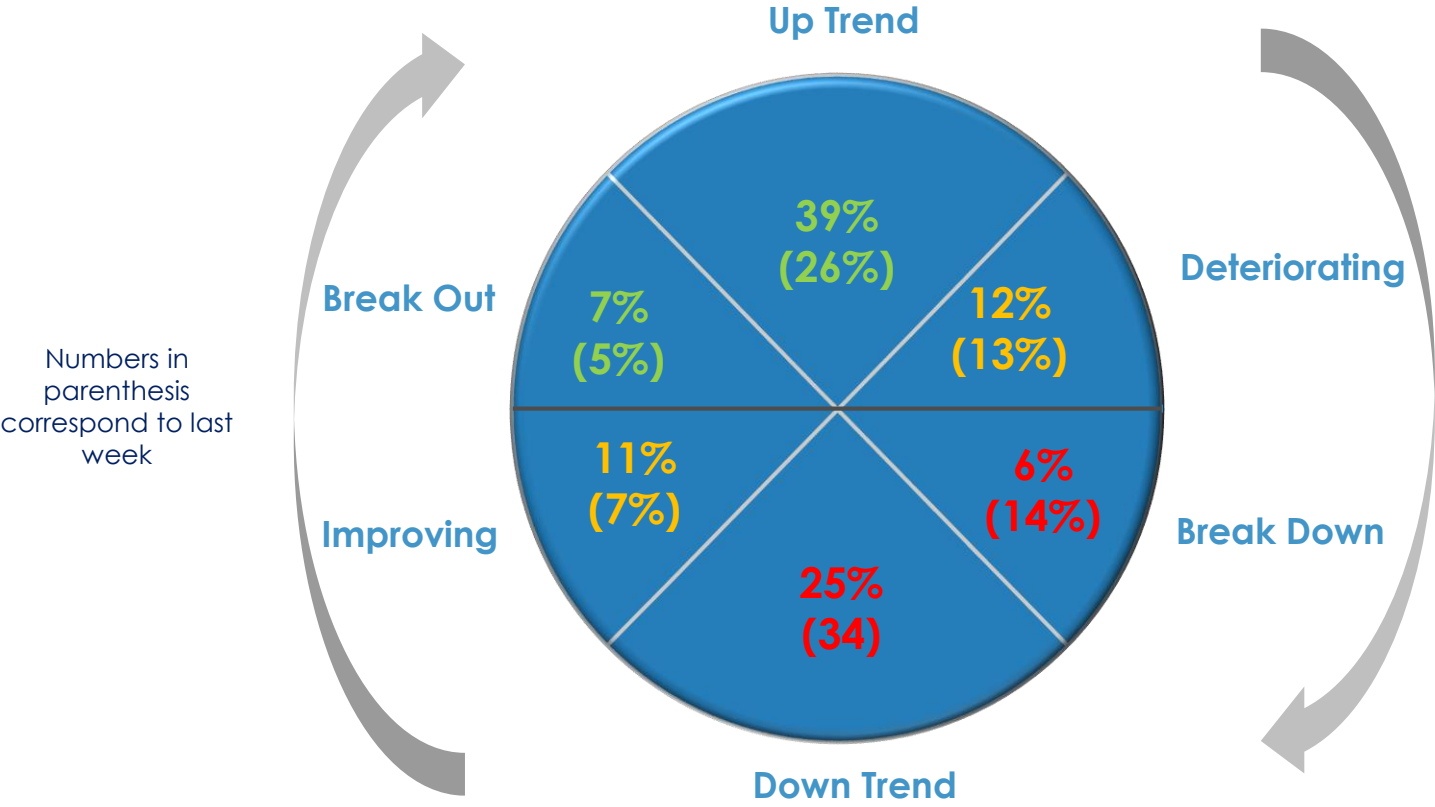


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# US Equities

## Weekly Performance

# Maybe not quite a Bear Market, but more of a sector rotation

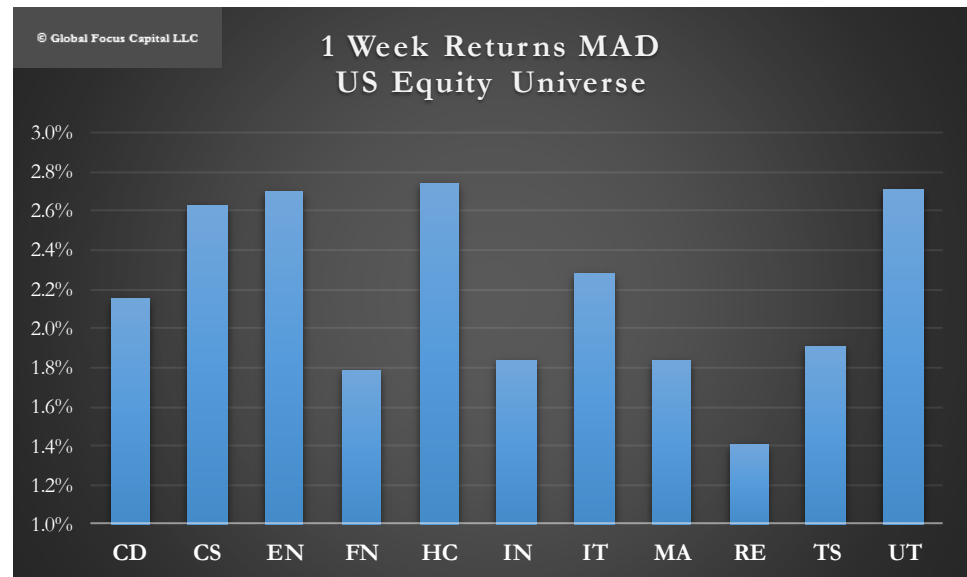
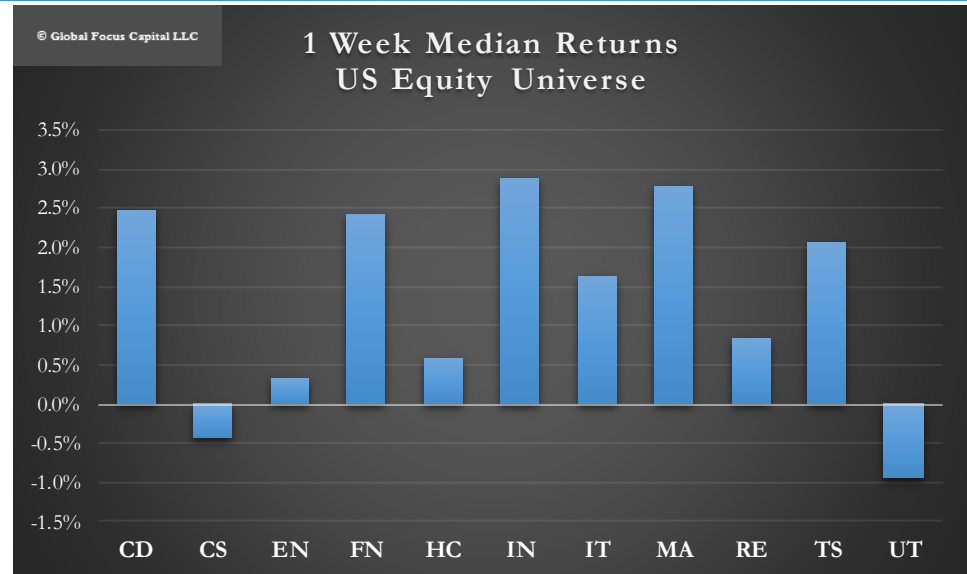


STAGE	LATEST
UP TREND	39.56%
BREAK OUT	7.09%
IMPROVING	10.65%
DOWN TREND	24.82%
BREAK DOWN	6.13%
DETERIORATING	11.76%

GF CAP US All Equity Universe

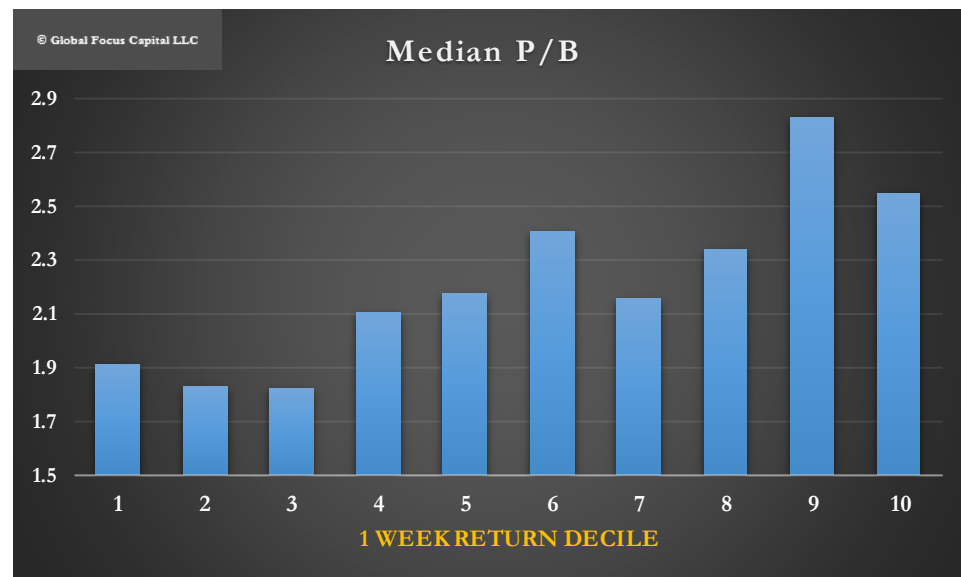
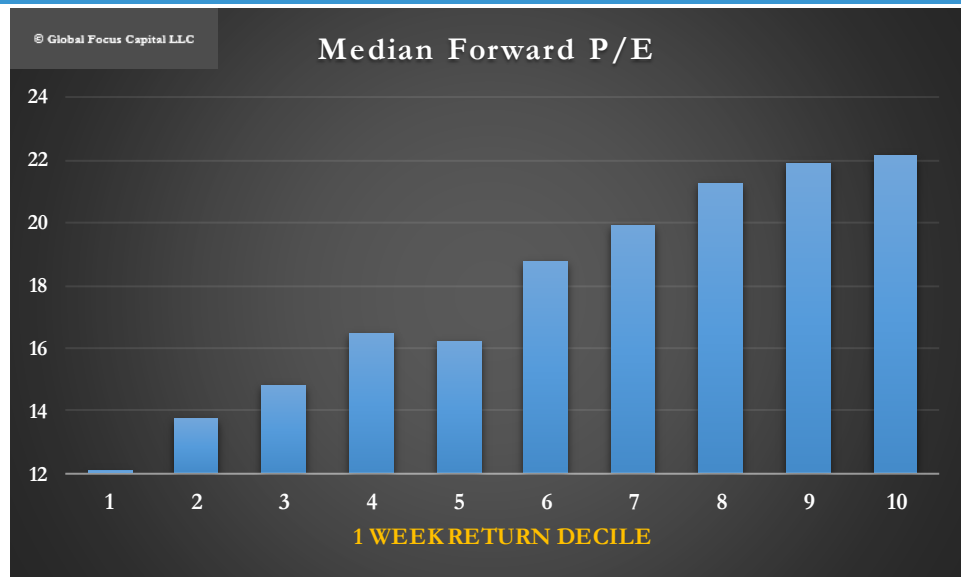
# The Sector Look – median performance and dispersion

- ▶ The mean stock in our universe was up 1.9% over the last 5 trading days
- ▶ All sectors showed positive median returns except Utilities and Staples
- ▶ Financials, Industrials and Material stocks were up big last week
- ▶ There was quite a dispersion in returns among sectors
- ▶ The widest variability in performance was seen in the Health Care sector – good for stock picking this week
- ▶ We use the median absolute deviation as a robust measure of within sector variability



# What did the markets reward last week: Valuation Multiples

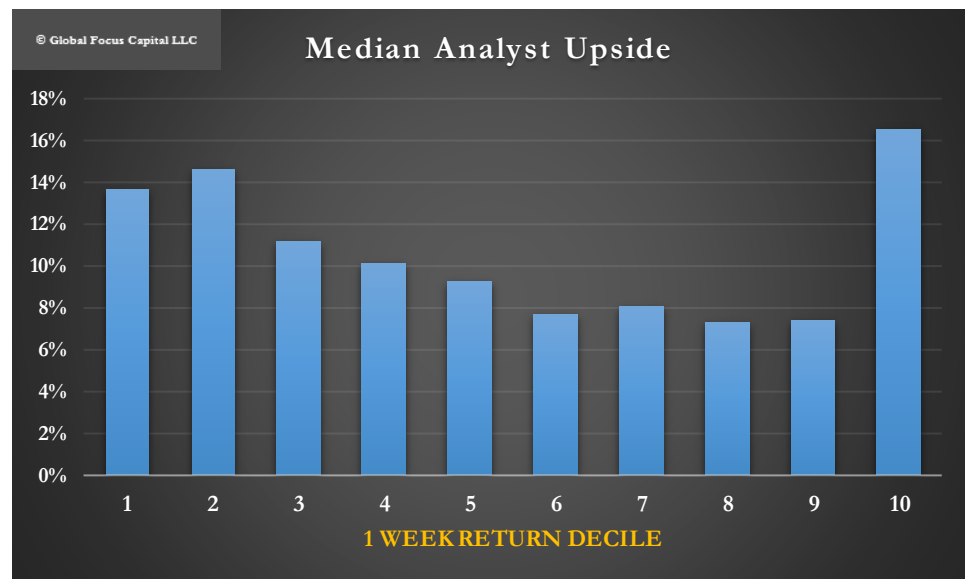
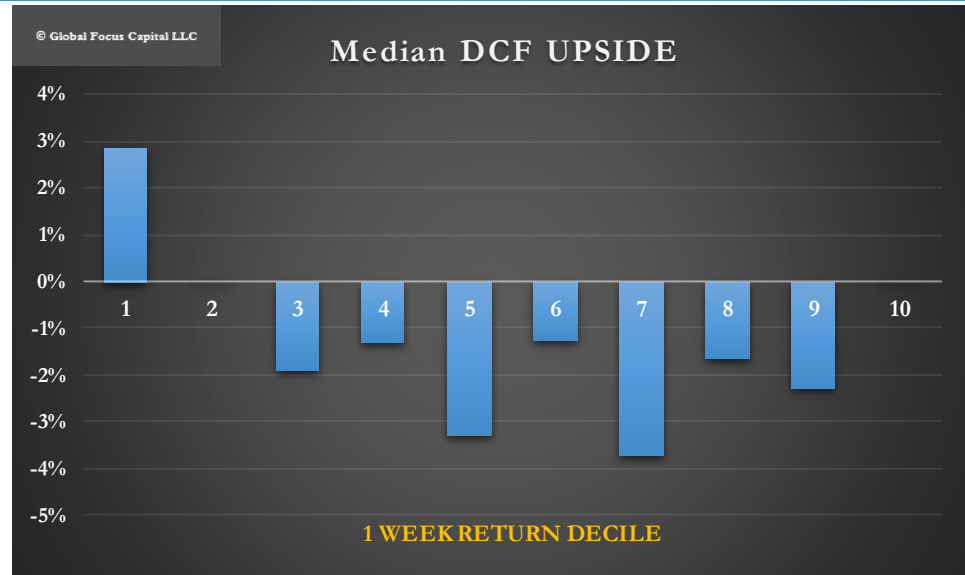
- ▶ Valuation was a great factor in determining performance last week
- ▶ In general higher P/E stocks did worse
- ▶ We saw roughly the same among P/B deciles
- ▶ We have started 2019 with a modest Growth effect (in terms of indices)



# What did the markets reward last week:

## Valuation Models

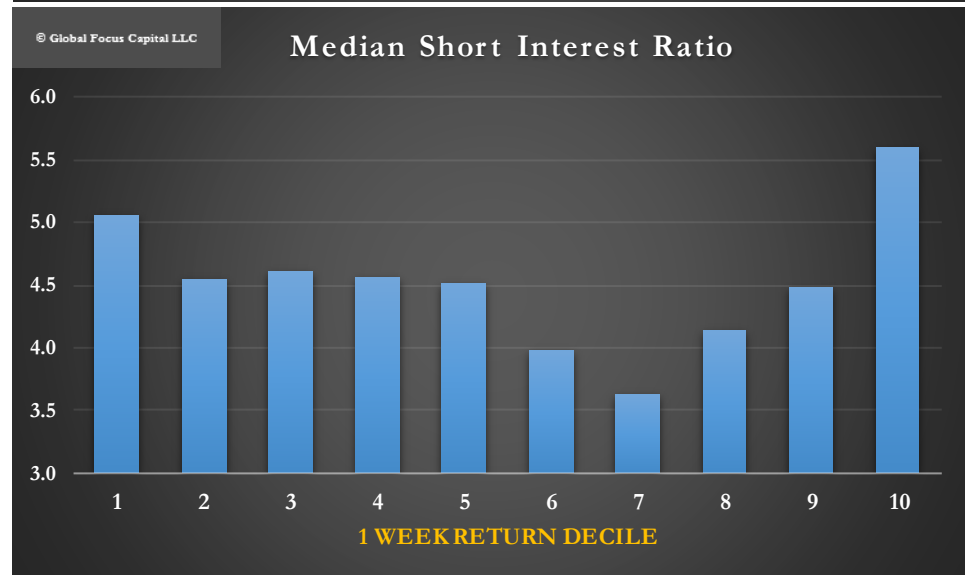
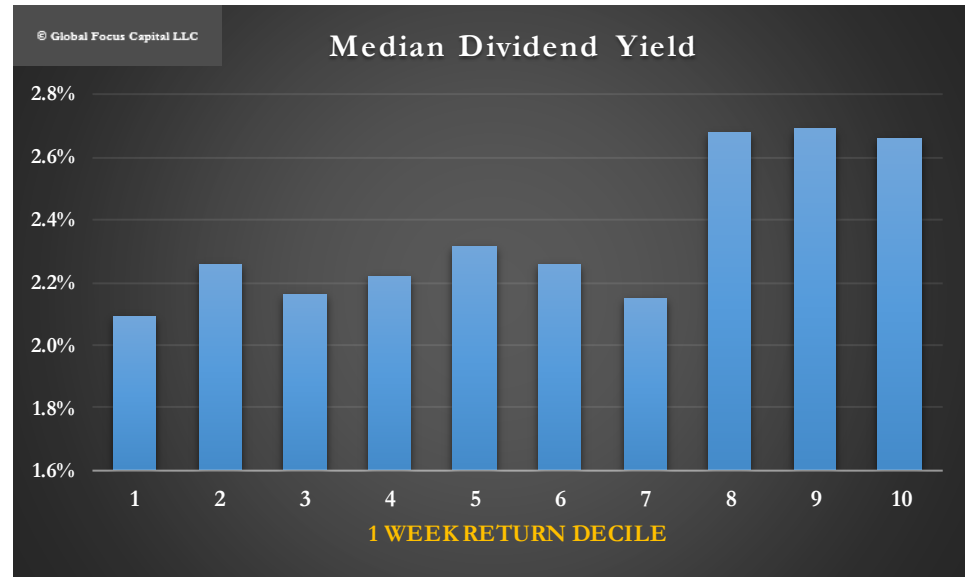
- ▶ The median stock in our universe is over-valued by 0.4% according to a DCF valuation – fair valuation conditions from a bottom up perspective
- ▶ The markets last week rewarded slightly under-valued stocks and penalized over-valued stocks but the effect was weak
- ▶ In terms of analyst price targets, stocks with the highest positive deviation from target did generally performed best



# What did the markets reward last week:

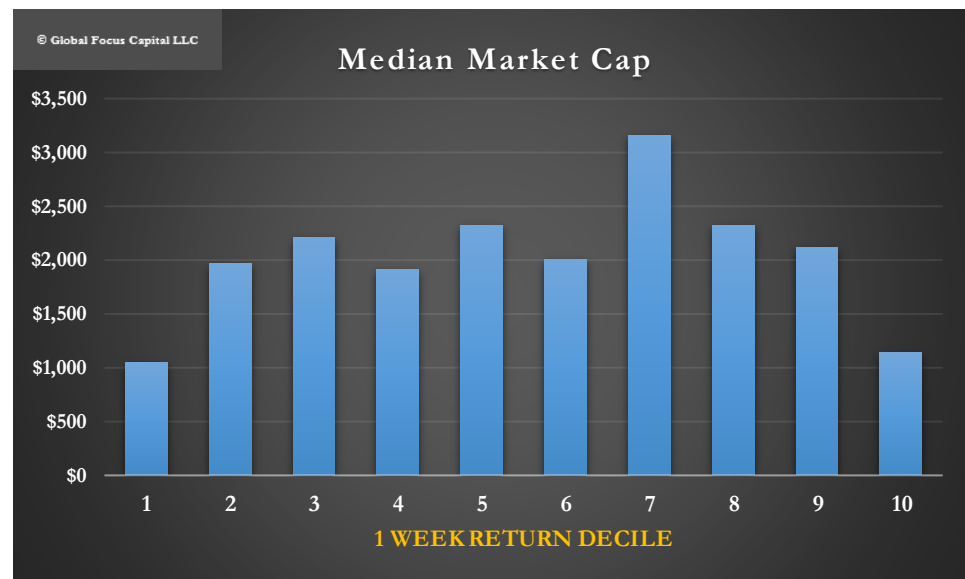
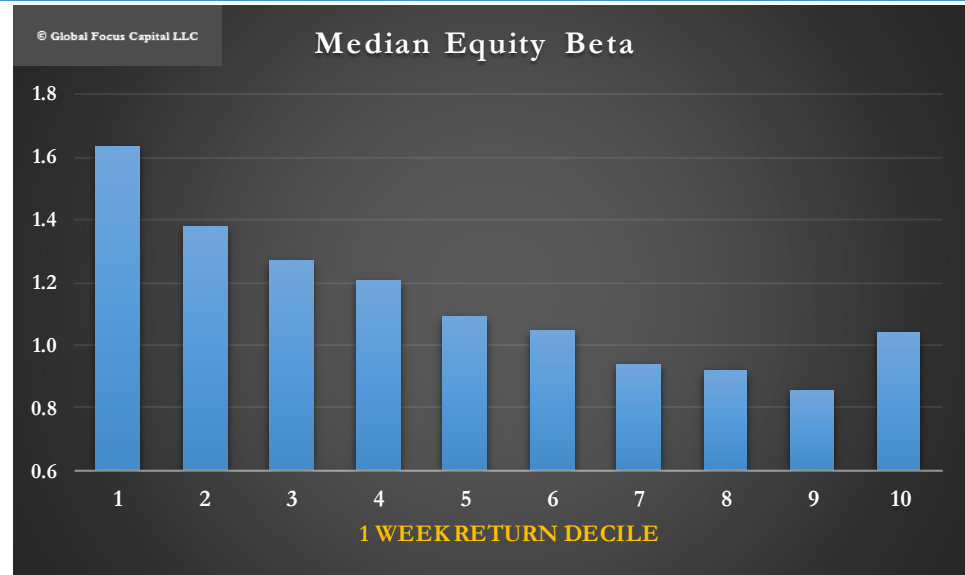
## Yield and Sentiment

- ▶ Higher dividend yield stocks performed worse than average last week
- ▶ Short interest, a measure of sentiment, showed a U shaped pattern – the best returns were in the extremes



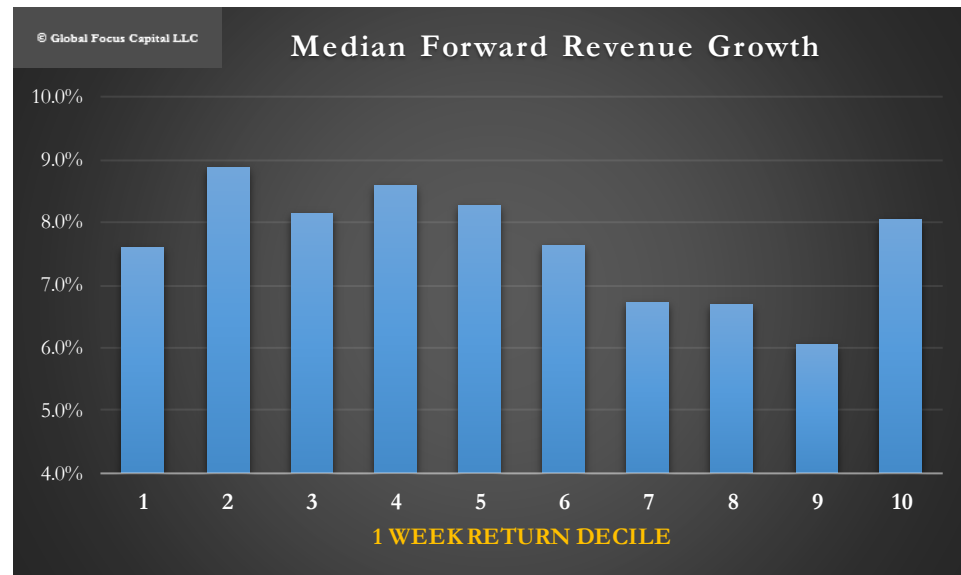
# What did the markets reward last week: Beta and Size

- ▶ Beta worked great last week
- ▶ The higher the beta the better the return except for the bottom decile
- ▶ In terms of market cap over the last week we have seen smaller market caps do the best
- ▶ The Russell 2000 index outperformed the S&P 500 by 0.7% over the last 5 trading days



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

- ▶ The 1 year momentum effect worked perversely last week
- ▶ Stocks down the most over the last year out-performed last year's relative winners
- ▶ The industry rotation that started about 5 months ago is gaining strength
- ▶ Revenue growth as a factor exhibited a positive relationship to return – higher growth companies showed the biggest gains last week



# Big Movers – Last 5 Days

## Down

Walgreens Boots Alliance, Inc.	WBA	Consumer Staples
Senior Housing Properties	SNH	Real Estate
Office Depot, Inc.	ODP	Consumer Discretionary
Benefitfocus, Inc.	BNFT	Information Technology
Puma Biotechnology Inc	PBYI	Health Care
CareDx, Inc.	CDNA	Health Care
Akebia Therapeutics, Inc.	AKBA	Health Care
Rite Aid Corporation	RAD	Consumer Staples
Meridian Bioscience Inc.	VIVO	Health Care
Care.com, Inc.	CRCM	Communication Services
Sorrento Therapeutics, Inc.	SRNE	Health Care
Resources Connection, Inc	RECN	Industrials
MannKind Corporation	MNKD	Health Care
Dean Foods Company	DF	Consumer Staples
Smart Sand, Inc.	SND	Energy
NantKwest, Inc.	NK	Health Care
Vuzix Corporation	VUZI	Consumer Discretionary
Remark Media, Inc.	MARK	Consumer Discretionary
EP Energy Corporation	EPE	Energy
Babcock & Wilcox Enterprises	BW	Industrials

## Up

Delta Air Lines, Inc.	DAL	Industrials
Advanced Micro Devices, Inc.	AMD	Information Technology
Microchip Technology Inc	MCHP	Information Technology
Liberty Global plc	LILA	Communication Services
Wynn Resorts, Limited	WYNN	Consumer Discretionary
Nielsen N.V.	NLSN	Industrials
Lear Corporation	LEA	Consumer Discretionary
IPG Photonics Corporation	IPGP	Information Technology
BorgWarner Inc.	BWA	Consumer Discretionary
Acuity Brands Inc	AYI	Industrials
CommScope Holding Company	COMM	Information Technology
Trex Company, Inc.	TREX	Industrials
Sinclair Broadcast Group, Inc.	SBGI	Communication Services
Urban Outfitters, Inc.	URBN	Consumer Discretionary
Visteon Corporation	VC	Consumer Discretionary
Dave & Buster's Entertainment	PLAY	Consumer Discretionary
Delphi Automotive plc	APTIV	Consumer Discretionary
Ironwood Pharmaceuticals	IRWD	Health Care
Hovnanian Enterprises Inc	HOV	Consumer Discretionary
Adient plc	ADNT	Consumer Discretionary

# This Coming Week

## Reporting Soon

<b>Delta Air Lines, Inc.</b>	DAL	<b>Industrials</b>
<b>MSC Industrial Direct Co.</b>	MSM	<b>Industrials</b>
<b>Washington Federal, Inc.</b>	WAFD	<b>Financials</b>
<b>Bed Bath &amp; Beyond Inc.</b>	BBBY	<b>Consumer Discretionary</b>
<b>WD-40 Company</b>	WDFC	<b>Consumer Staples</b>
<b>PriceSmart, Inc.</b>	PSMT	<b>Consumer Staples</b>
<b>Lindsay Corporation</b>	LNN	<b>Industrials</b>
<b>Argan, Inc.</b>	AGX	<b>Industrials</b>
<b>Century Bancorp, Inc.</b>	CNBKA	<b>Financials</b>
<b>Simulations Plus, Inc.</b>	SLP	<b>Health Care</b>
<b>Pure Cycle Corporation</b>	PCYO	<b>Utilities</b>
<b>American Renal Associates</b>	ARA	<b>Health Care</b>

- ▶ The strength of the equity market recovery has been impressive especially among small caps but last week was exceptional
- ▶ We believe that a risk on/off market is likely this year
- ▶ Equity Technicals have improved significantly this year and we no longer believe that we are in a nascent Bear Market
- ▶ Brexit is up for yet another delay 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
- ▶ 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
- ▶ We believe that the US yield curve will become positive again as people realize that growth while slowing down is still ok

# Contact & Subscription Information

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