Blackshield Capital

November 2023 (06.11.23 - 12.11.23)

BLACKSHIELD WEEKLY INSIGHTS

Key asset classes performance

Top charts of the week:

- earnings season
- bankruptcy rates
- credit standards/market sentiment

One of **the most important tasks of an investment firm** is to respond in a timely manner to the challenges of the economy and market conditions. While many risks of a geopolitical and financial nature cannot be predicted, it is worth staying informed to understand what is happening in a meaningful way.

Interest rates, the real estate market, employment and unemployment, inflation and corporate profits are just a few of the variety of factors affecting asset and security pricing.

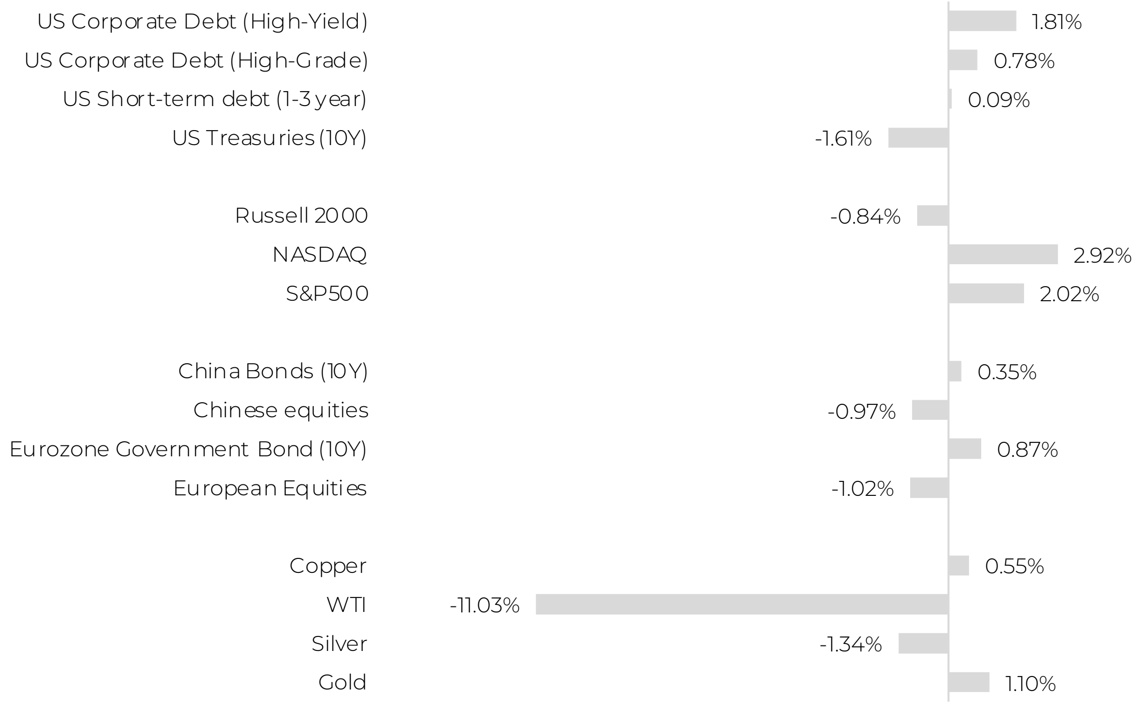
Our goal is to provide a deeper and clearer understanding of what is happening in the markets with an emphasis on illustrations, charts and visuals.

Weekly Insights will provide a more detailed look at industry specifics, delve into the nuances of price mechanics, and provide a more detailed understanding of our strategic vision offered in our quarterly strategic reports.

Key asset classes performance

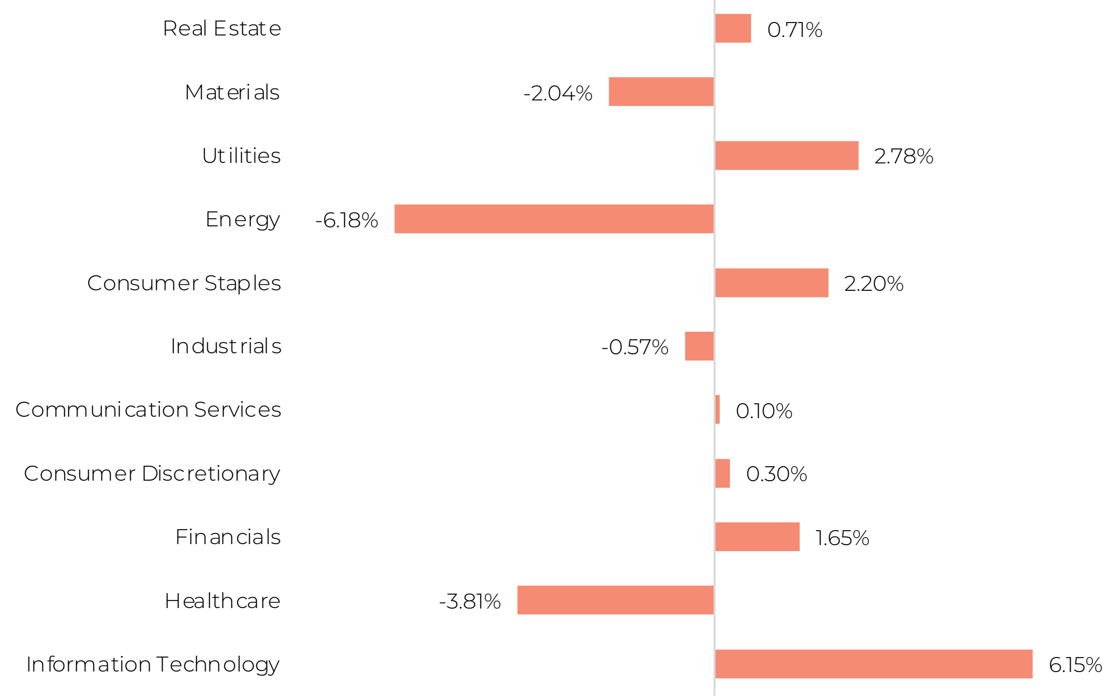
Markets continue to show mixed dynamics, given both economic risks and fears of a deteriorating labor market. Geopolitical factors continue to influence commodity asset prices, but market supply/demand balance factors dominate.

Key asset class performance, 1 month



- Over the past few weeks, risk assets have shown strong growth, including U.S. High-Yield Corporate Debt, as well as the NASDAQ index, which contains a large number of companies in the Internet sector. The biggest decline was seen in the performance of WTI crude oil, which saw a 14% correction from October 10 to November 10 relative to September 2023.

S&P500 Sectors: performance, 1 month

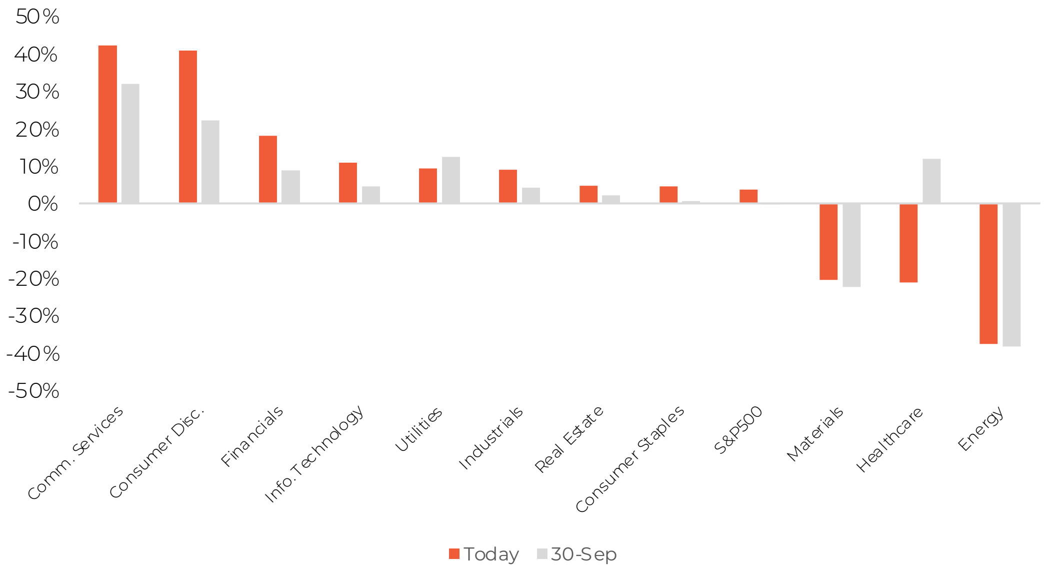


- In terms of sectoral breakdown, the sectors with higher beta - IT sector and cyclical industries - were the most growing.
- However, gains of 2-3% were seen in the primary consumer goods and utilities sectors, which can be categorized as a rebound amid a prolonged decline since early August 2023.

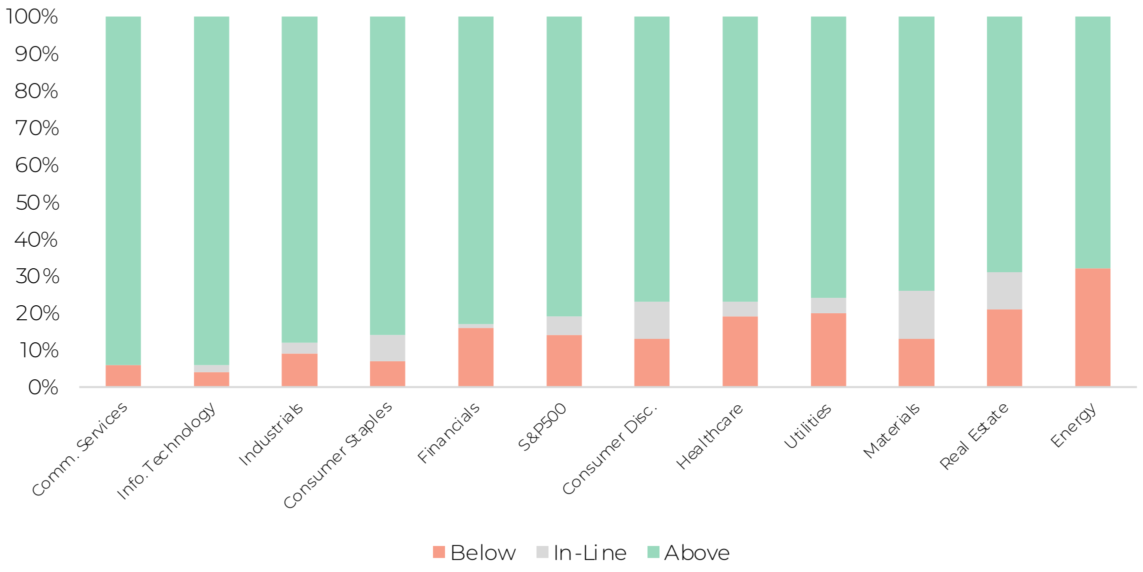
Top charts of the week – earnings season

The end of the Q3 2023 reporting season is approaching, which, according to the current state, may end up quite successful, given the higher-than-expected earnings growth. However, this indicator is retrospective.

S&P500 Earnings Growth (Y/Y): Q3 2023



S&P500 Earnings Above, In-Line, Below Estimates: Q3 2023

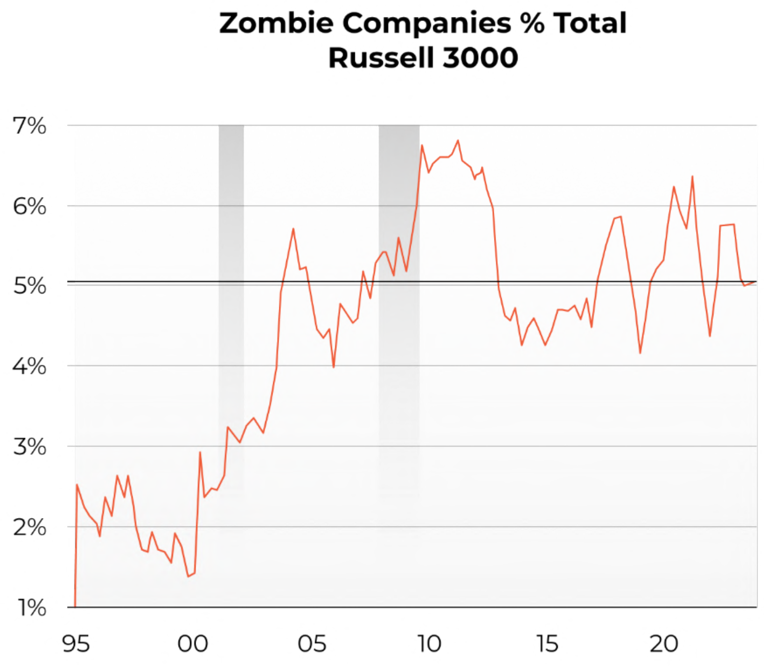


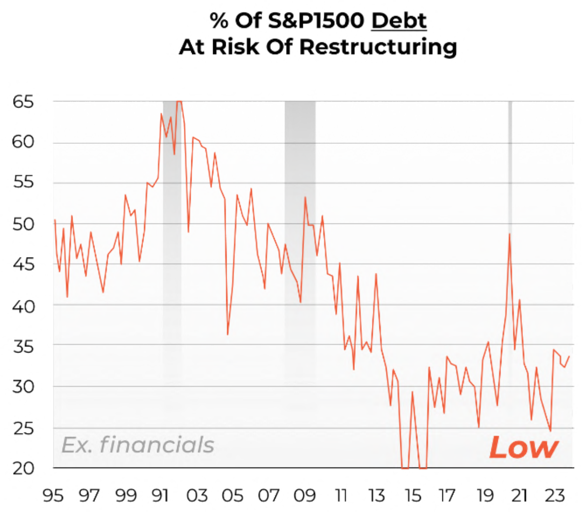
- At the end of the peak week of the Q3 reporting season, both the number of positive earnings surprises and their magnitude exceed the 10-year average.
- For today, cumulatively the index is recording higher Q3 earnings compared to the end of last week.
- The S&P 500 reported year-over-year earnings growth for the first time since Q3 2022.

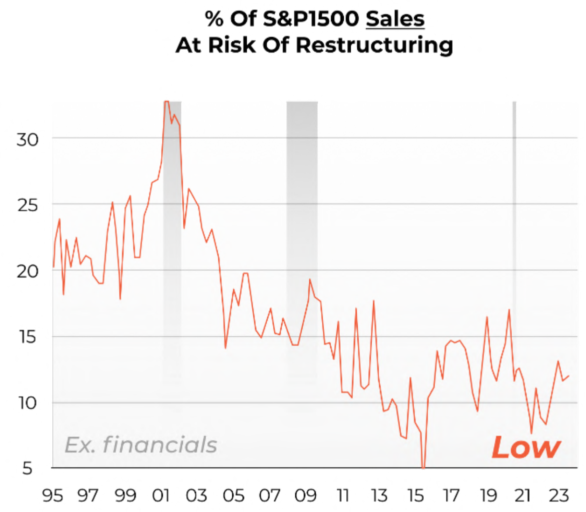
- At the end of last week, 81% of companies had already reported. Of those companies, 82% reported above actual earnings, which is above the 5-year average (77%) and above the 10-year average (74%). If the quarterly total is 82%, it would be the highest percentage since Q3 2021.
- Overall, companies report earnings that are 7.1% above forecasts, below the 5-year average of 8.5% but above the 10-year average of 6.6%.

Top charts of the week – bankruptcy rates

Liquidity squeeze is the main lever to manage inflation. However, when tightening it leads to an increase in bankruptcies, which is currently one of the main criteria for the onset of a recession.







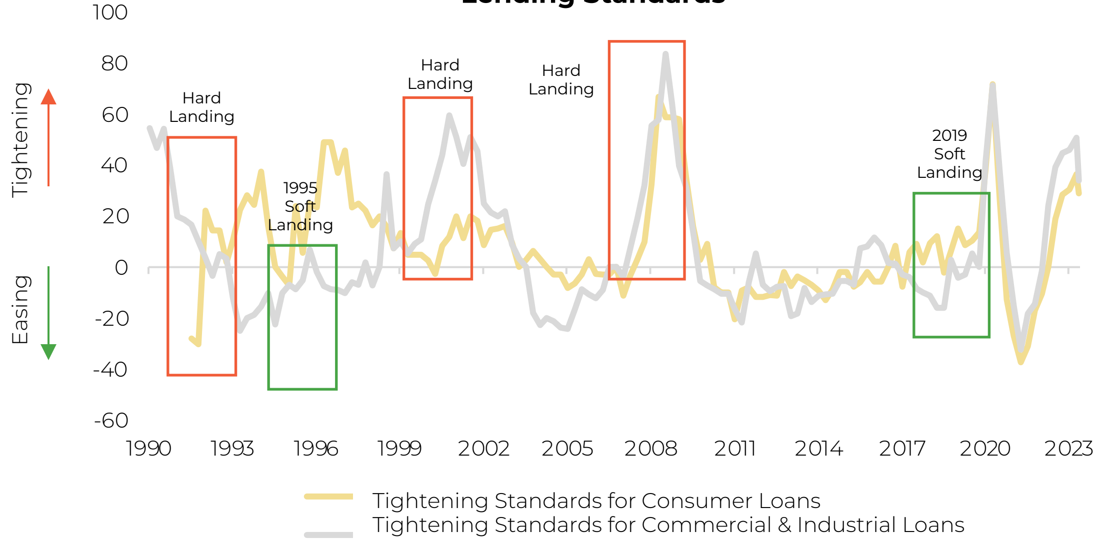
- The liquidity squeeze has contributed to an increase in the number of so-called zombie companies (i.e. those that can only cover interest payments on debt but are unable to repay the body of debt) - their number is at a high but not pre-recession level.
- In the Russell 3000 Index, the share of such companies has fallen to 5.0% - after peaking at 5.8% in Q4 2022. However, as higher rates and tighter lending standards dampen activity - the strain will intensify, setting the stage for the number of such companies to grow.

- Taking large companies into account, the share of vulnerable firms in the broad S&P1500 Index in terms of debt and sales – historically constitutes a small fraction of the index.
- Nevertheless, the share of low-liquidity companies in total S&P1500 debt increased from 25% in 2021 to 33.6% in Q3 2023, and in revenue from 8% to 12% in Q3 2023.
- These facts prompt the conclusion about the possible magnitude of the recession, which is expected to be smaller in magnitude than the GFC in 2008.

Top charts of the week – credit standards/market sentiment

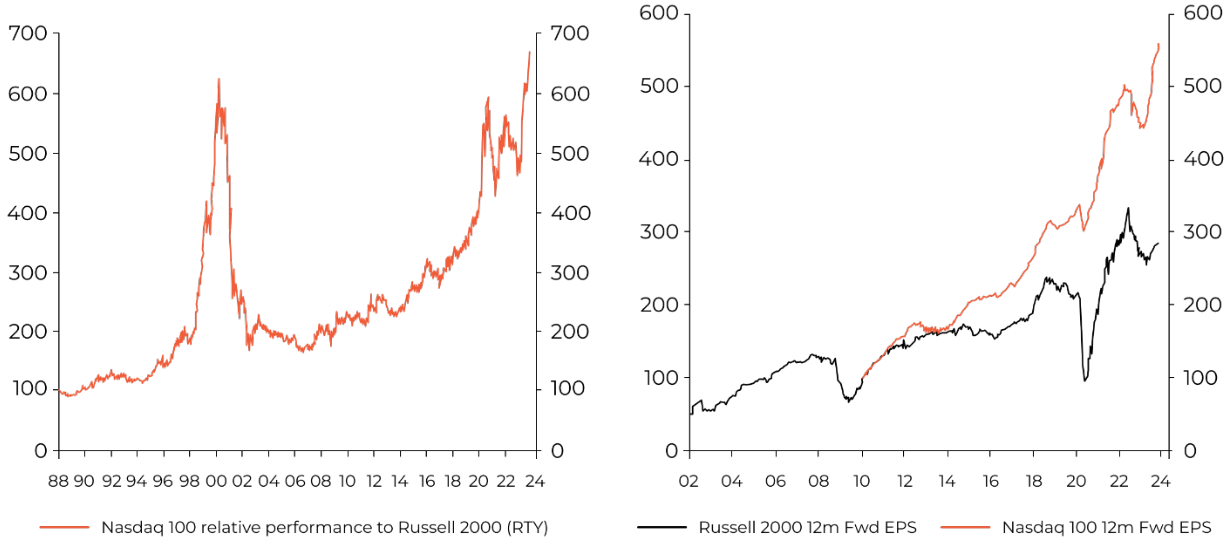
The survey among banks is one of the most important indicators of credit tightening/softening for the economy. A decrease in the intensity of tightening was noted in Q3 2023.

Soft (Hard) Landings Are Preceded By Easy (Tight) Lending Standards



- Cumulatively, there was a drop in demand for credit in the U.S. economy for Q3 2023 - demand declined for both commercial and industrial loans and commercial real estate loans. For households, there was a tightening of standards across all loan categories.
- Despite the majority of banks reporting tighter lending standards, among banks that reported easing in the third quarter, one of the most frequently cited reasons was a more favorable economic outlook, resulting in a decline from 51 to 31 in Q3 2023.

The Nasdaq 100 index is trading extremely expensive relative to the Russell



- One of the most extreme market relationships of recent times can be identified as the Nasdaq 100 index, which is trading at historic price highs relative to the Russell 2000 index.
- Despite the market's tendency to normalize, the Russell vs. Nasdaq trade still remains risky, as difficult credit conditions amid rising interest rates of late are difficult conditions for the business sector as a whole, and smaller-cap companies are being hit harder. This is one of the main reasons for this price and valuation dislocation.
- Among small capitalization companies, only companies with strong balance sheets and a niche type of business are potentially of interest.

Blackshield Capital

LET US HELP YOU TO FOCUS **ON WHAT MATTERS MOST**

hello@blackshield.capital

+41 43 456 25 92

Bahnhofstrasse 10, 8001
Zürich, Switzerland

Volodymyrska St, 4, 02000
Kyiv, Ukraine