Blackshield Capital

November 2023 (27.11.23 – 03.12.23)

BLACKSHIELD WEEKLY INSIGHTS

Dynamics by key assets

Top charts of the week:

- concentration in Magnificent 7
- yield structure and statistics
- real estate market

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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.

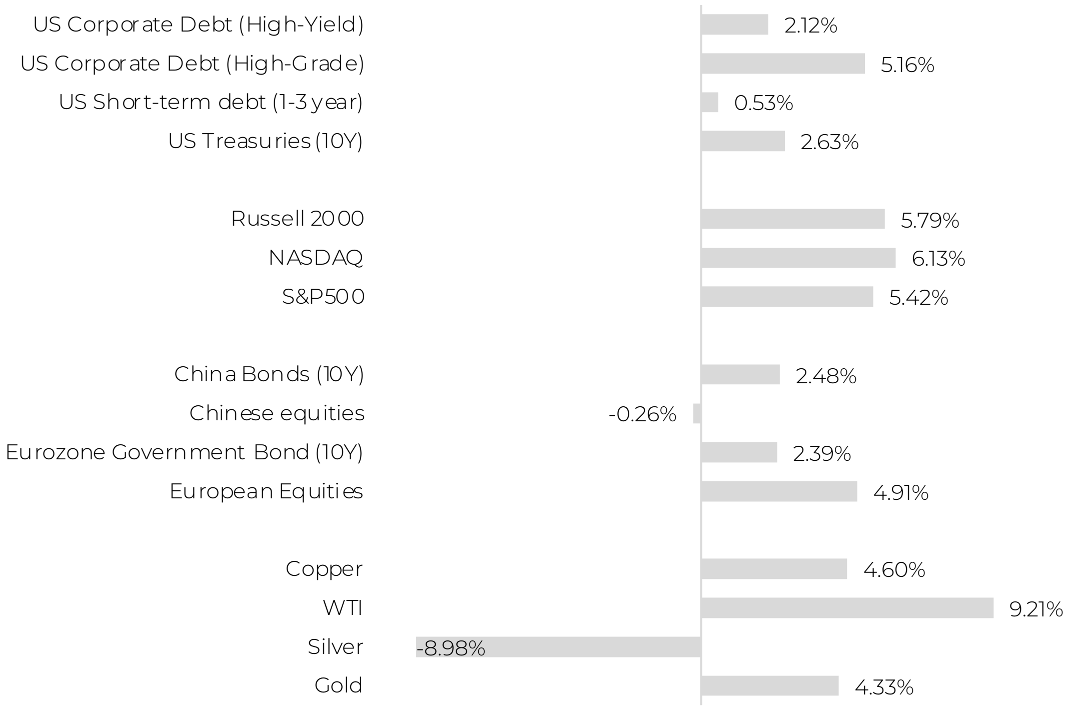
Our goal is to provide a deeper and clearer understanding of what is happening in the markets with an emphasis on illustrations, charts and visuals.

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.

Dynamics by key assets

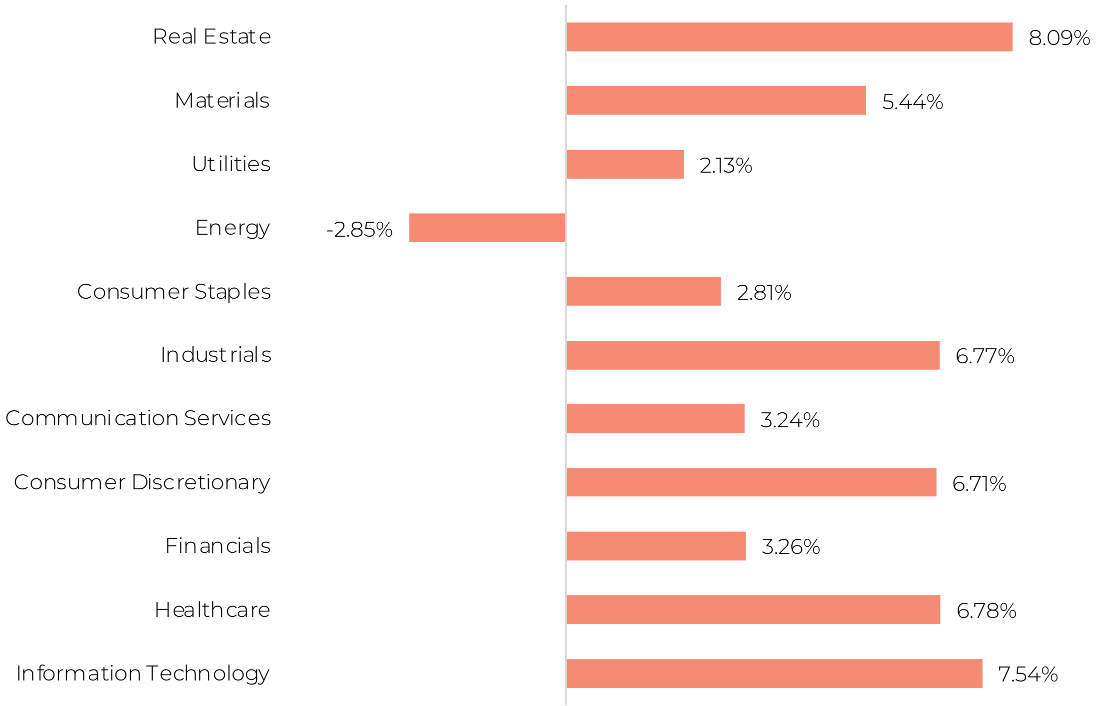
Last week was filled with both economic and corporate events. In particular, with data on the real estate market in terms of peak rates of the Federal Reserve, as well as statistics on industrial activity and the consumer sector.

Dynamics by key assets, 1 month



- Both stock and debt markets showed small gains due to the soft rhetoric of J. Powell (Fed Chairman) regarding interest rate strategy in the coming year.
- Among a broad set of asset classes, the rising trends in both the gold and copper markets as indicators of alternative investments and manufacturing activity stand out.

S&P500 sectors dynamics, 1 month



- Comparatively balanced data in the macroeconomic field determined the growth of the S&P500 index by 0.77% over the week. Among the sectoral leaders of growth we can note sub-sectors of office real estate, as well as retail and consumer sectors.
- Among the laggards this week are health care and insurance with a negative 1.9-2.4% gain.

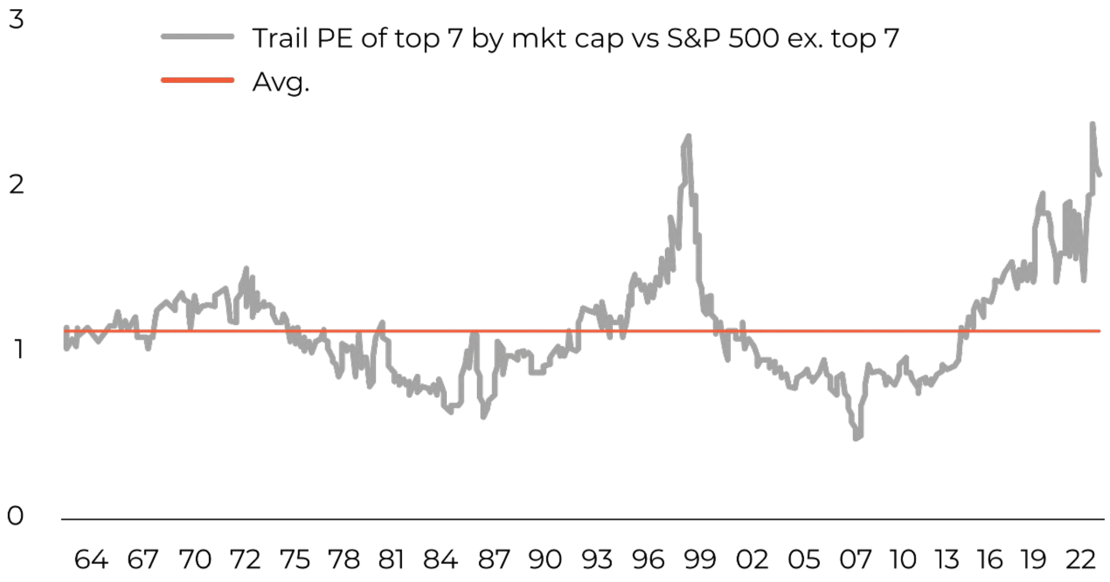
Top charts of the week – concentration in Magnificent 7

With the rising price levels of the Magnificent 7 (AMZN, AAPL, MSFT, META, GOOGL, NVDA, TSLA) differing in quality characteristics, their concentration in the S&P500 index indicates diversification risks.

Level of short interest in Magnificent 7 companies (AMZN, AAPL, MSFT, META, GOOGL, NVDA, TSLA)

- Current short positions are at their lowest levels in 15 years, indicating an extremely positive market sentiment towards these companies.
- This level may indicate a high level of pressure on the stock and a clear signal to the market that the Magnificent 7 stocks are overbought, but does not indicate an immediate trend reversal.

Magnificent 7 companies are trading at a premium relative to the S&P500

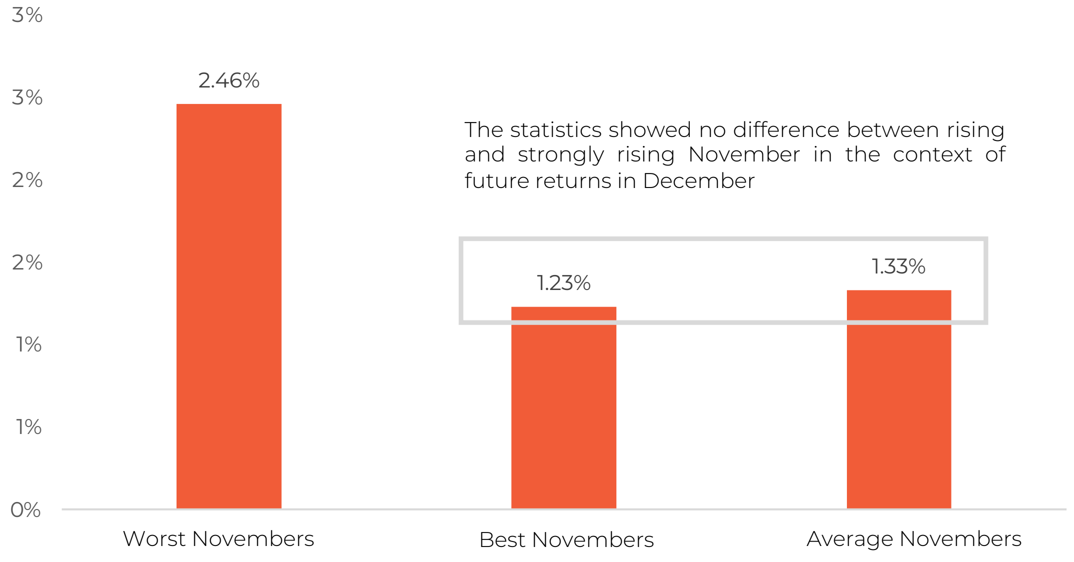


- Taking into account the valuation of these companies, we observe the following picture: the level of premium in the trailing P/E valuation is close to the highest levels in the history of observations.
- This fact confirms the presence of risk in the structure of the S&P500 index itself, where several companies set the dynamics of the whole index.

Top charts of the week – yield structure and statistics

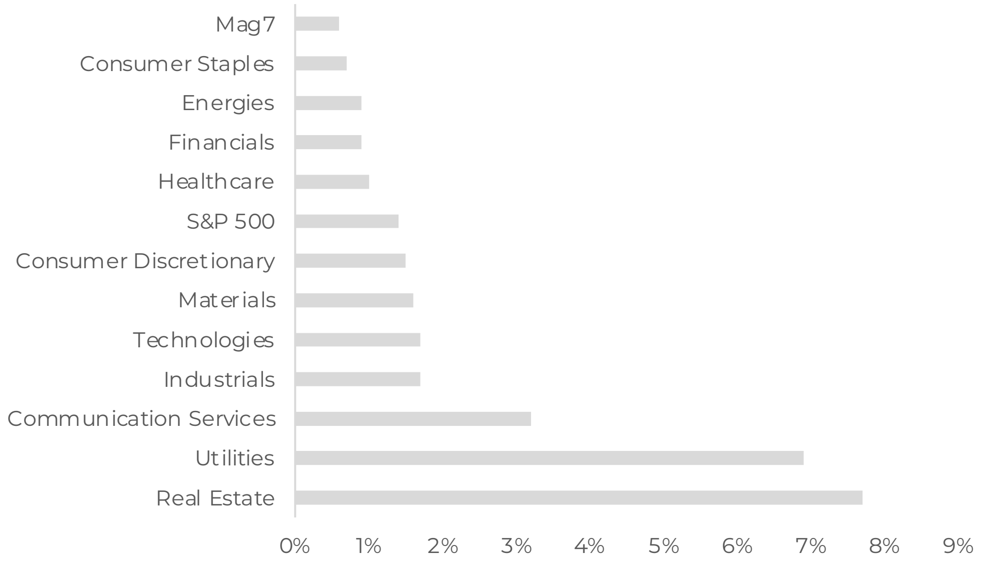
Structurally, the rate at which the S&P500 index rises or falls is directly tied to internal factors, market sentiment and fundamental data releases, and rising stocks in November have no impact on the rise or fall in December.

Statistical December returns of the S&P500 index with November performance (data since 1950)



- November, which ended exceptionally positive for the stock market, creates a legitimate question: how likely is the «New Year's rally» or has it already taken place.
- Analysis of the statistical data suggests that the December dynamics is almost independent of whether November was simply rising or strongly rising. The only anomaly identified is that on average, the S&P500 almost doubles in December if the November performance was strongly negative. Otherwise, market forces and investor sentiment is determinative and does not affect the "New Year's rally".

Share of interest-bearing liabilities in the revenue structure

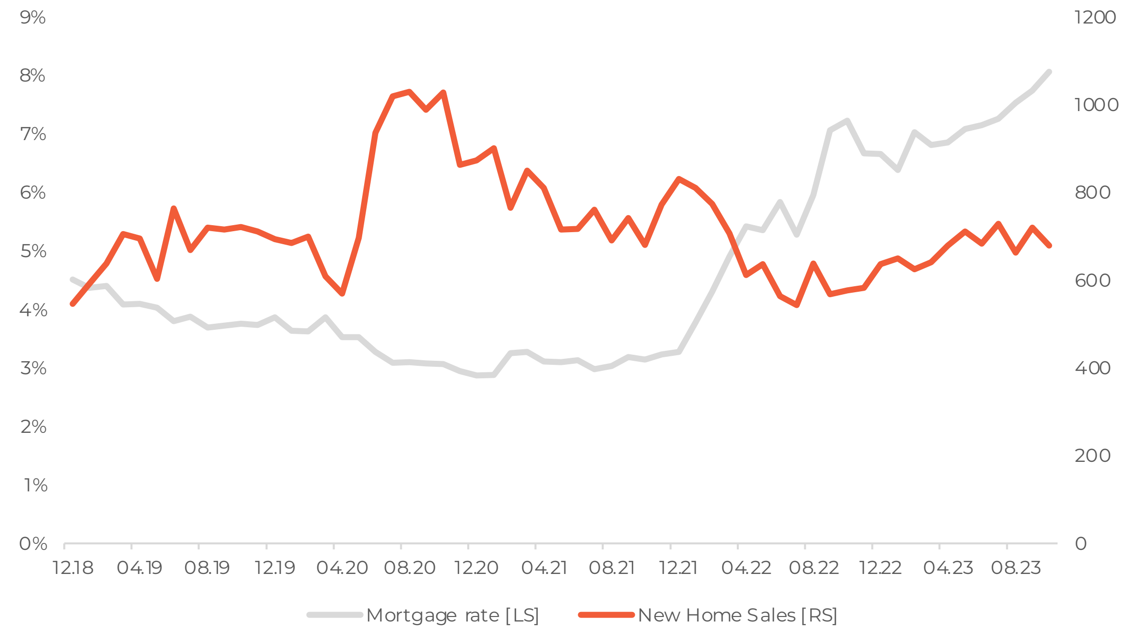


- One clear reason for the leadership of the Magnificent Seven is their low debt burden in the near term. In fact, the largest companies have the ability to issue long-term bonds, thereby mitigating the temporary burden of interest payments in the event of rising interest rates. Given that this interest rate hike cycle has been the fastest in history, this has emphasized the leadership of the large companies.
- The real estate market and the utilities sector, which are directly related to interest rates, their dynamics and expectations for them in the future, are naturally among the laggards.

Top charts of the week – real estate market

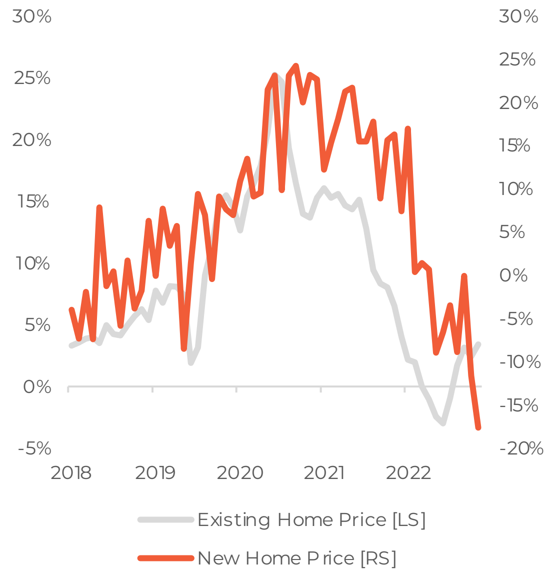
The important data this week were updated real estate market indicators that reflected a partial stabilization of sentiment. Multi-year highs in the number of new homes ready for sale confirm weak demand and oversupply.

New home sales compared to mortgage rate



Number of new houses ready for sale, th.

Median price of a single-family home, y/y.



- New home sales fell 5.6% in October (down from September's 8.6% jump), which despite the decline suggests that overall new home sales remain resilient to the broader downturn in the housing market.
- The annualized sales pace of 679k in October was about the same as the pace of 683k in June. However, further reductions in mortgage rates since October 2023 could lead to a pickup in demand.

- The gap between new and existing home prices has narrowed significantly in recent months, suggesting that inflation in the housing market has partially stabilized. The price of a new single-family home fell to $409k in October, which is $13k above the median price of an existing home (for comparison, 3 years ago the difference was $46k).
- The large number of unsold homes creates risks for the market and reflects both the unwillingness of buyers to enter into high rate mortgages and sets the stage for lower prices in the future.

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

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