Blackshield Capital

December 2023 (04.12.23 – 10.12.23)

BLACKSHIELD WEEKLY INSIGHTS

Dynamics by key assets

Top charts of the week:

- Labor market
- “foot traffic”
- Macro and Fed

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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.

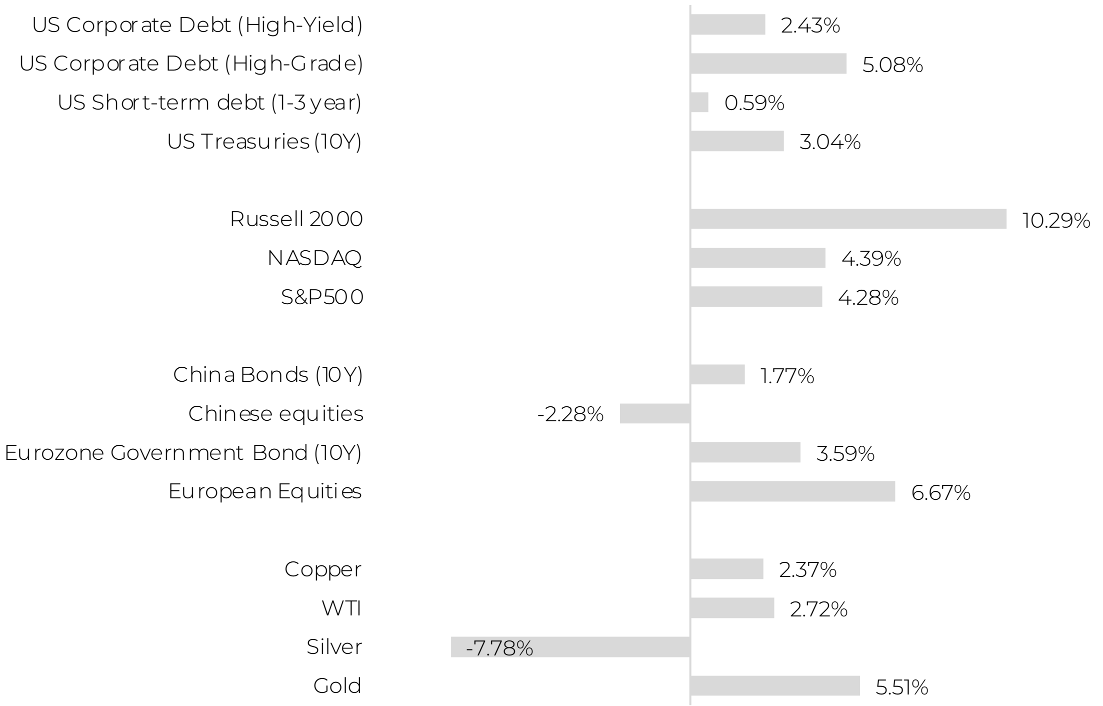
Our goal is to provide a deeper and clearer understanding of what is happening in the markets with an emphasis on illustrations, charts and visuals.

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.

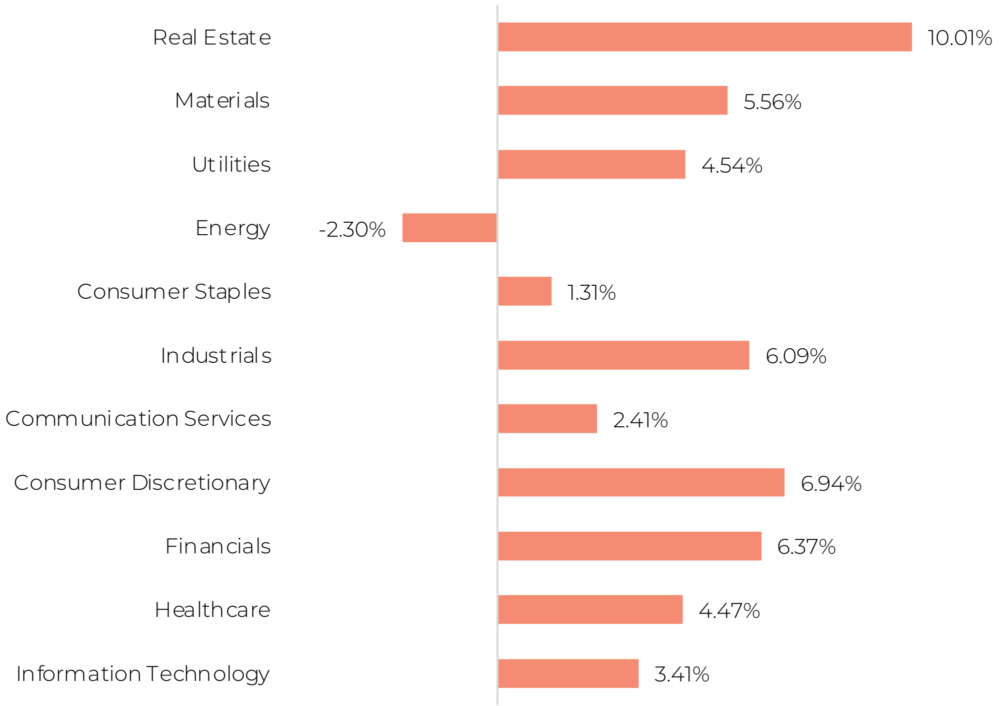
Dynamics by key assets

The main events of last week were the release of extensive data on the labor market: employment, unemployment, productivity and trade balance. The S&P500 index did not rise significantly, showing +0.21%; at the same time, the Nasdaq 100 showed a gain of 0.69%.

Dynamics of key assets, 1 month



S&P500 sectors dynamics, 1 month



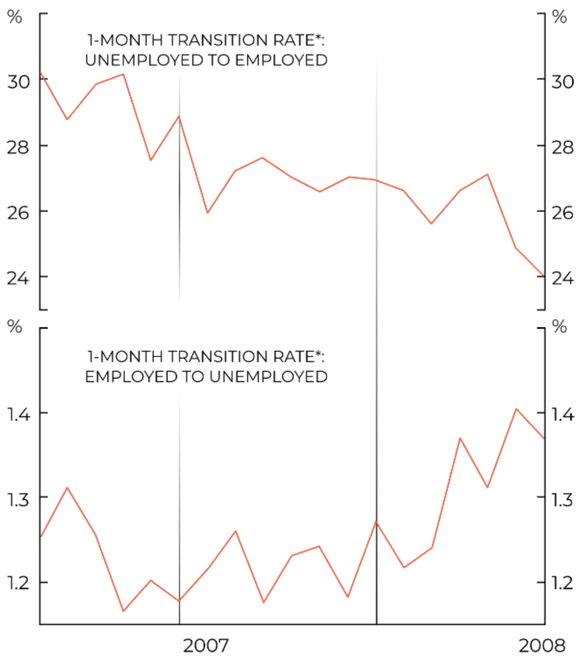
- While 10-year bonds hit local lows of 4.1%, Friday's still strong unemployment report will likely have no impact on this week's interest rate policy decision. The Fed, Bank of England and ECB are expected to remain synchronized in their decision to leave interest rates unchanged.

- In sectoral terms, real estate was the leader of growth over the last month, as the market's expected rapid interest rate cuts remove the main source of risk for this sector.
- The energy sector continues to lag mostly due to declining oil product prices due to OPEC's lack of explicit action to set new oil production limits.

Top charts of the week – labor market

The labor market is one of the important indicators for declaring a recession. Although the threshold of 0.5% increase in unemployment was not exceeded, the current 0.3% increase has historically almost always signaled a high risk of recession.

Hiring rate

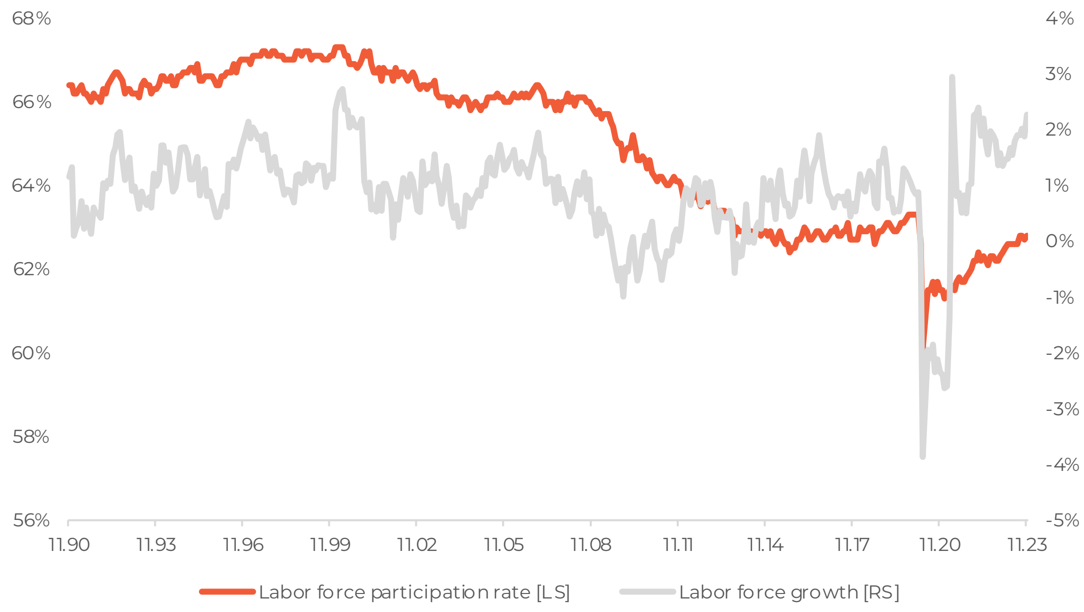


1-MONTH GROWTH FLOW ONE STATE TO THE OTHER, AS A PERCENTAGE OF INITIAL STATE.

NOTE: VERTICAL LINES DENOTE PRE-RECESSIONARY INCREASE IN UNEMPLOYMENT.

- Although unemployment rose 0.3%, one of the drivers of this increase is declining hiring and stable layoff rates.
- It is not uncommon for a rise in the unemployment rate at the end of a cycle to be driven first by a decline in average hiring and then by layoffs that follow with a delay. Actually, this is exactly what happened in the run-up to the 2008 recession.

Labor force participation rate and labor force growth

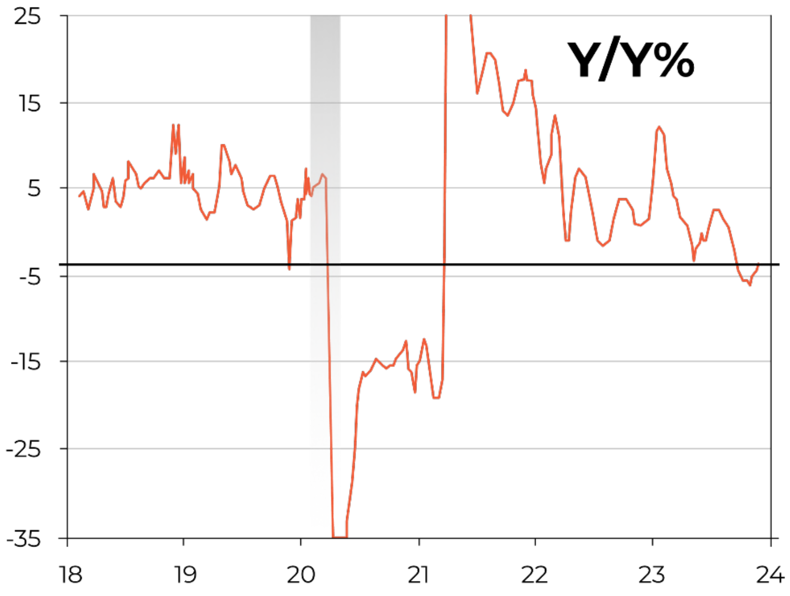


- The second reason for the recent rise in unemployment is the rapid growth of the labor force.
- Over the past 12 months, the labor force has increased by nearly 2%, which is extremely high compared to the past 30 years. While many of these new people entered the labor force immediately, many also joined the ranks of the unemployed.

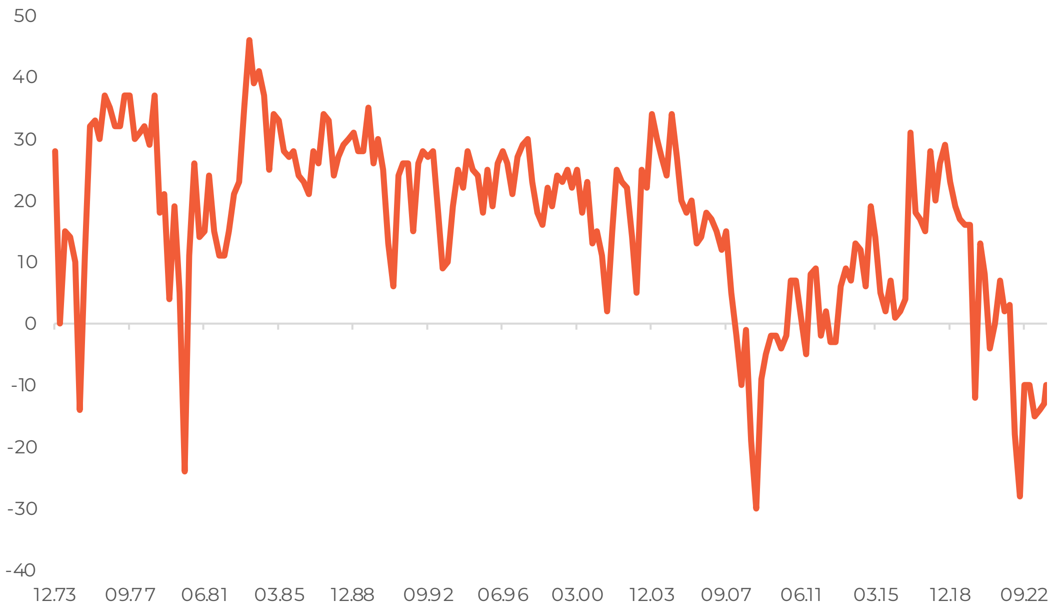
Top charts of the week – “foot traffic”

Store traffic is one of the leading indicators of overall retail sales. Current values of store attendance are at a rather pessimistic level for retailers, given the pre-New Year holidays.

Store attendance is low



Small business survey: do companies expect profits to improve



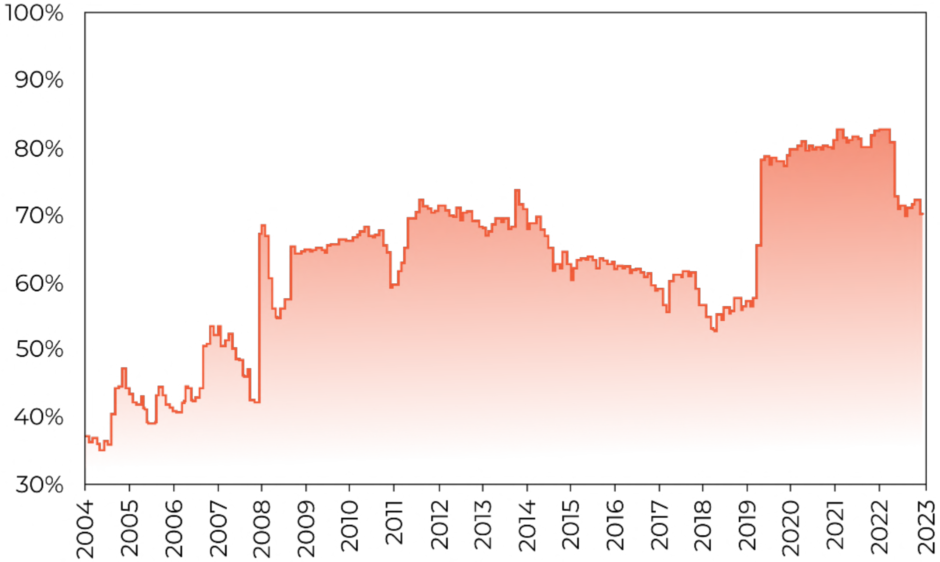
- Foot traffic is one of the precursors for future retail sales values as well as an indicator of general consumer sentiment.
- To date, attendance values have dropped to -4.0% y/y, which is a red signal for sales given the pre-holiday season, when attendance usually increases.

- Given the impact of foot traffic on revenue, this ground creates a volatile environment for retailers. Therefore, this could result in both lower merchandise prices and fewer hires/firings in future periods.
- For example, not to mention big businesses, small businesses are already under real pressure. Values for expected profits continue to deteriorate and are at recessionary levels.

Top charts of the week – Macro and Fed

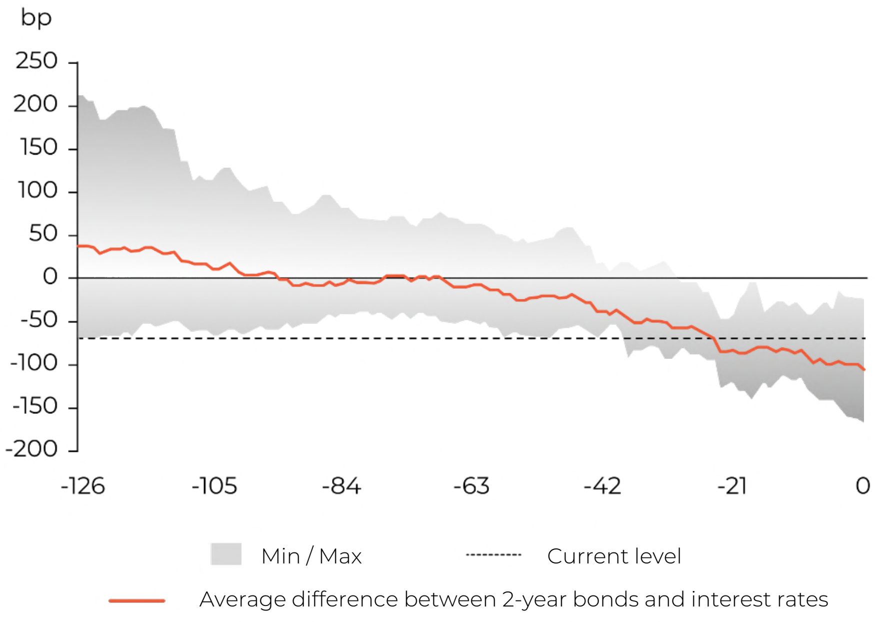
In recent meetings, the Fed Chairman has clearly indicated the strategy of Fed members to focus on economic data in their interest rate policy. It is very likely that the market is pricing in an earlier cut in interest rates.

Share of macro factors in stock market dynamics



- Macroeconomic factors have dominated the explanation of stock market dynamics since March 2020 and actually through early 2022. This is primarily evident in the fact that the market is more likely to evaluate individual stocks and businesses not through the lens of corporate policy specifics, but more in terms of major economic categories - interest rates, employment levels, inflation, etc.
- This has declined slightly recently, but remains around the 70% mark. This indicates the critical need to consider the global context when investing in individual public companies.

Average performance of US 2-year bonds minus US interest rate



Periods 1989, 1995, 2001, 2007, 2019 are included

- The market is laying out a more aggressive interest rate cut (current levels are the same historically as they were a month before the first interest rate cut), but we believe the Fed's strategy is to avoid at all costs cutting interest rates in the event of even an unlikely rise in inflation.
- Debt instruments (especially long-term bonds) experienced the first wave of rally, but we expect that the next wave of growth may be more aggressive, but only after market expectations of the first rate cut normalize.

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

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