Blackshield Capital

15.01.24 – 22.01.24

BLACKSHIELD WEEKLY INSIGHTS

Dynamics by key assets

Top charts of the week:

- Magnificent 7 corporate risks
- healthcare sector
- macroeconomic context and recession

Have a question for the team? CONTACT US

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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.

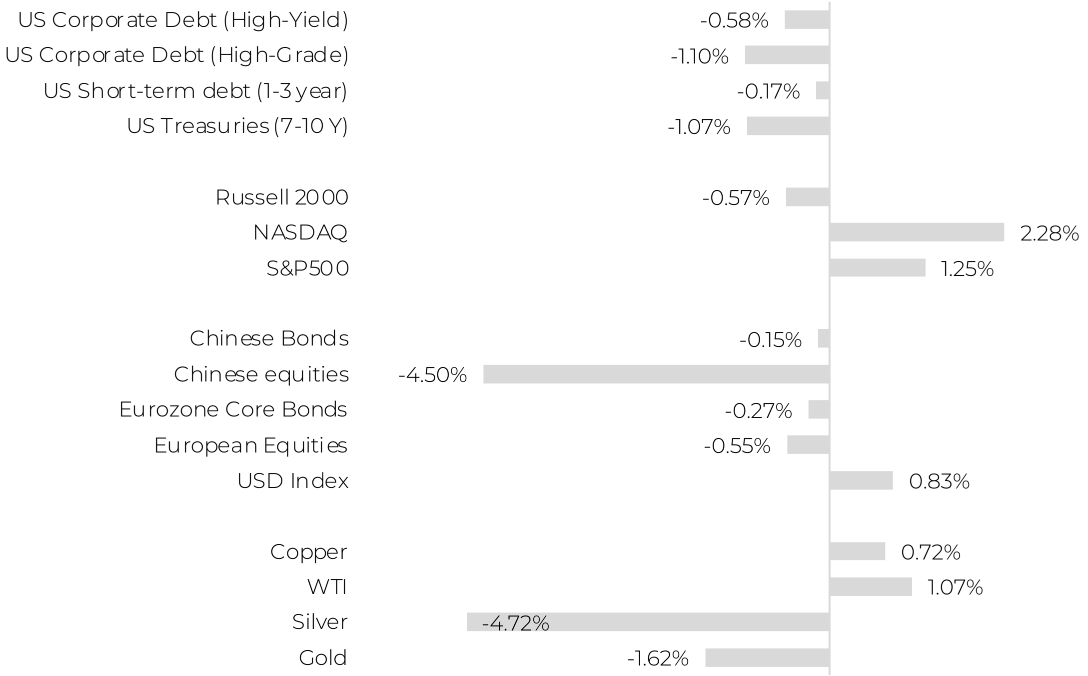
Our goal is to provide a deeper and clearer understanding of what is happening in the markets with an emphasis on illustrations, charts and visuals.

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

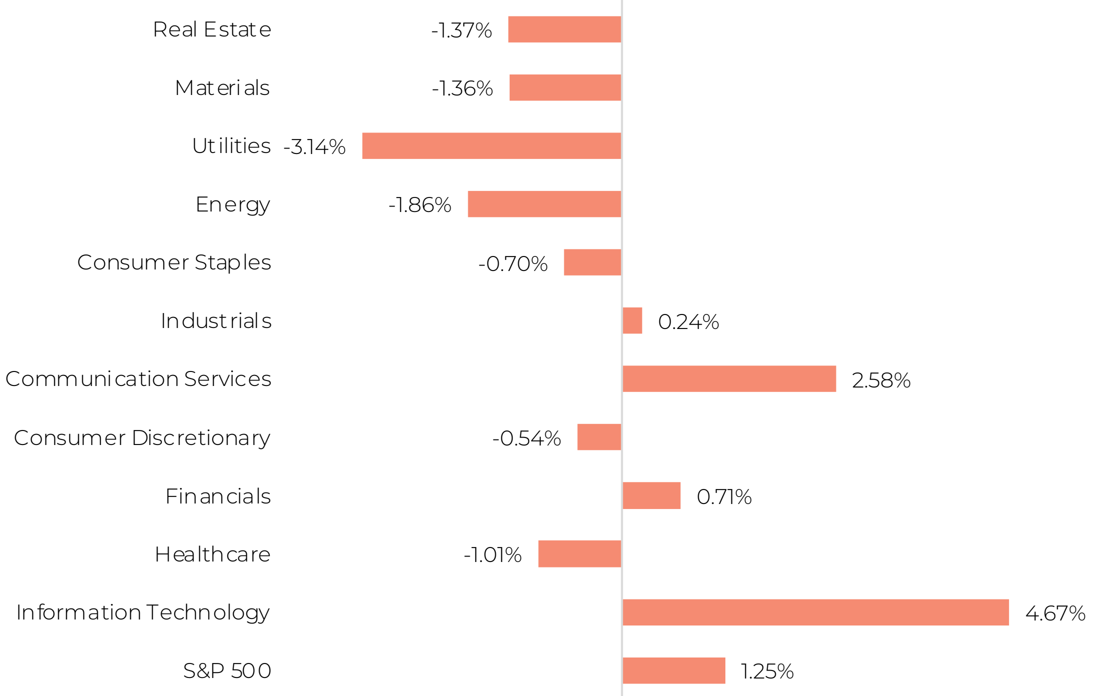
Last week was marked by the stock market reaching all-time highs, essentially underlining the positive sentiment on the back of a relatively stable economy, a good start to the reporting season and a soft Fed policy.

Dynamics by key assets for the week



- Despite overall declines across most asset classes, the NASDAQ and the S&P500 were the main rising assets. Both indices renewed their all-time highs, but the structure of index growth is uneven.
- Oil prices continue to rise due to escalating conflict in the Red Sea, and the dollar strengthens due to rising evaluations against G10 currencies and a shift in the likelihood of an interest rate cut at the Fed's closest meeting.

S&P 500 index sectors dynamics for the week

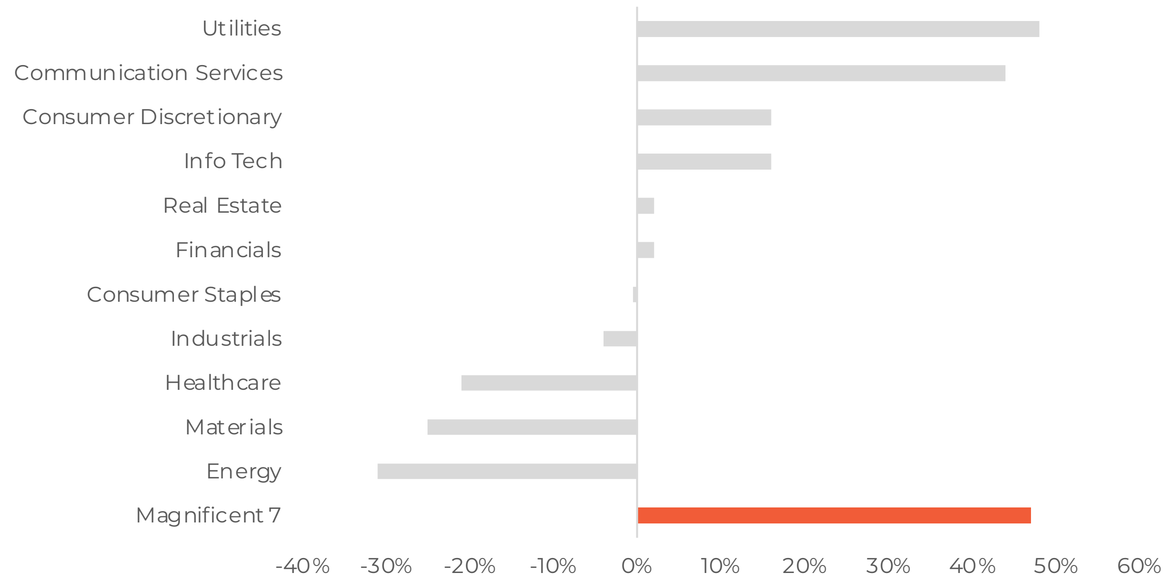


- The semiconductors sector (part of the IT sector) was the clear growth leader due to a report from TSMC and several other companies that reported high growth rates in revenue expectations due to the introduction of AI.
- Similarly, it had a positive impact on the growth of some software companies, but the corporate reporting season has only just begun.

Top charts of the week – Magnificent 7 corporate risks

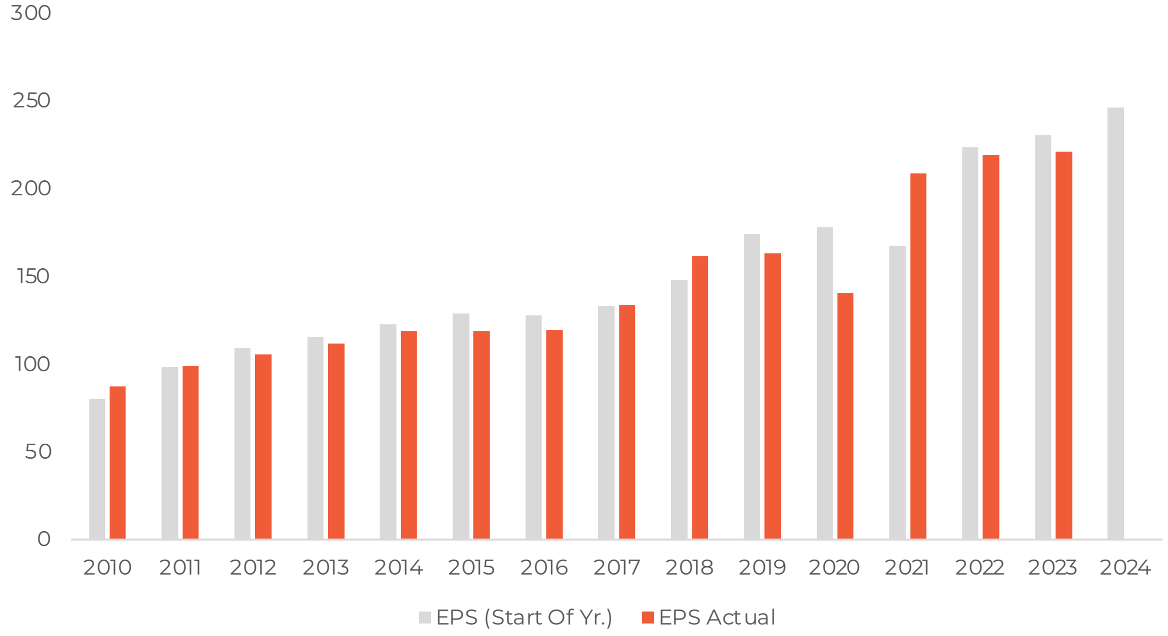
High expectations for Q4 2023 profitability of Magnificent 7 companies become a growing risk for the stock market, given the concentration of these companies in the index. The main risk is the exaggeration of the impact of AI on the profitability of companies in the coming years.

Market expectations for Q4 2023 corporate reports



- Current analysts' expectations are the highest for Mag 7, which, for its part, is rational in view of the speed of volume growth in this sub-sector's target markets.
- Among the high expectations for positive reporting are also the communications and utilities sectors. In the current macro environment in particular, we see more prospects in cyclical value sectors than in non-cyclical ones.

Market reassessment of companies' results at the end of the calendar year

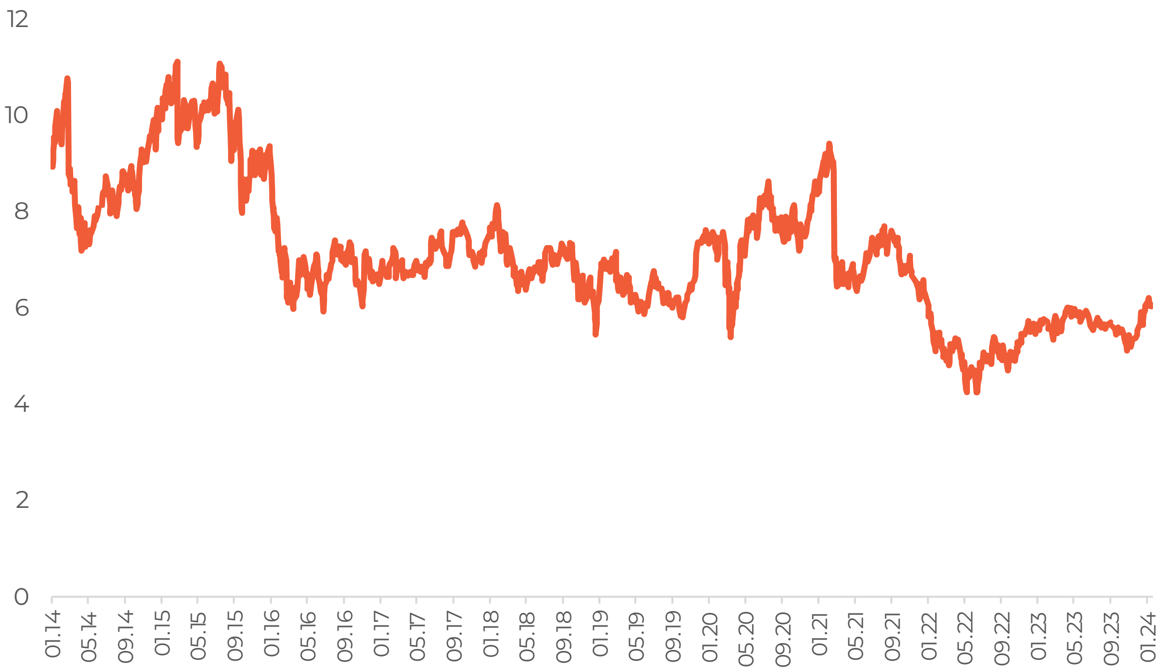


- Looking back at the reports of big chip makers, which became higher than the market expectations, we can say that their forecasts are confidently transferred to the final profit of companies from the software market. The interdependence between the two is simple - demand (software) generates supply (hardware).
- However, on the market side, there may be false inflated expectations about the rapid impact of AI solution sales already in the coming quarters, which could create a wave of lowered net profit forecasts. For example, in 17 out of 26 cases in recent quarters, market expectations were 6.9% higher than the actual numbers.

Top charts of the week – healthcare sector

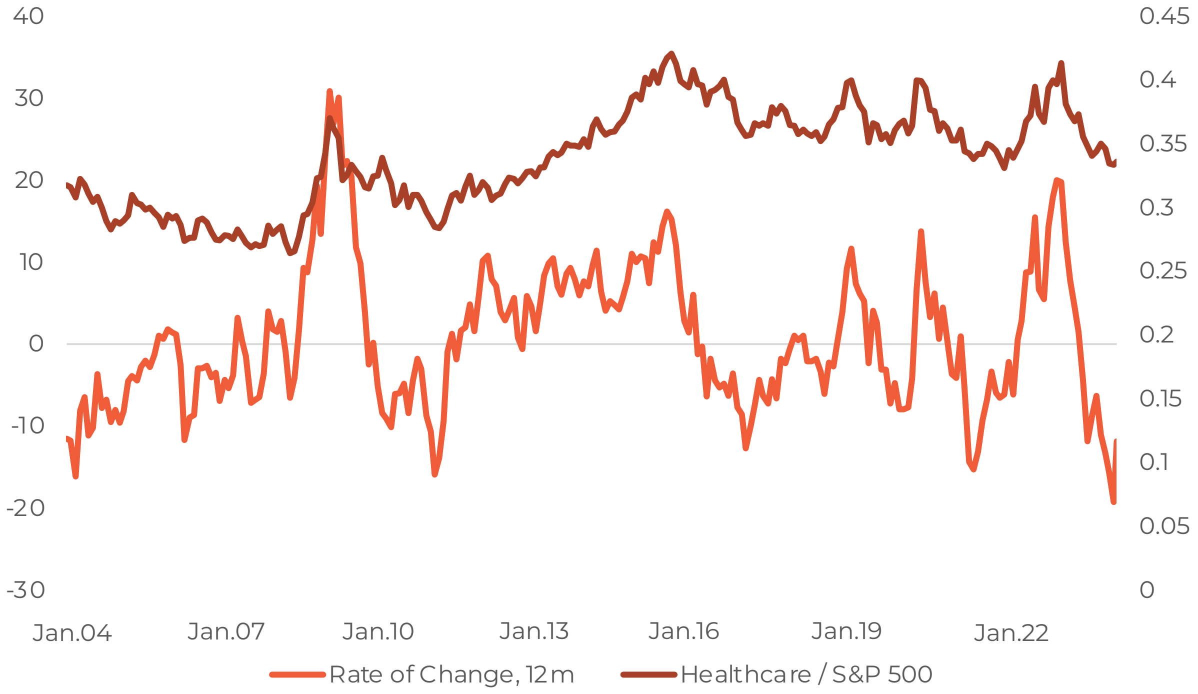
The healthcare sector is associated by investors with stability, which is important in times of uncertainty. From a valuation perspective, the healthcare sector is trading fairly cheap relative to the S&P 500, but sentiment is somewhat overheated.

Assessment of the biotechnology sector



- Current valuations of the biotech sector are near their 10-year lows, suggesting low valuations and a lack of investor appetite to buy risky assets.
- This creates conditions for consolidation in the market: big pharmaceutical companies buy small biotechs. This becomes a strong fundamental driver for big pharma companies, as the purchase of biotechs increases the revenue potential of the biotechs.

Healthcare sector assessment relative to the S&P500

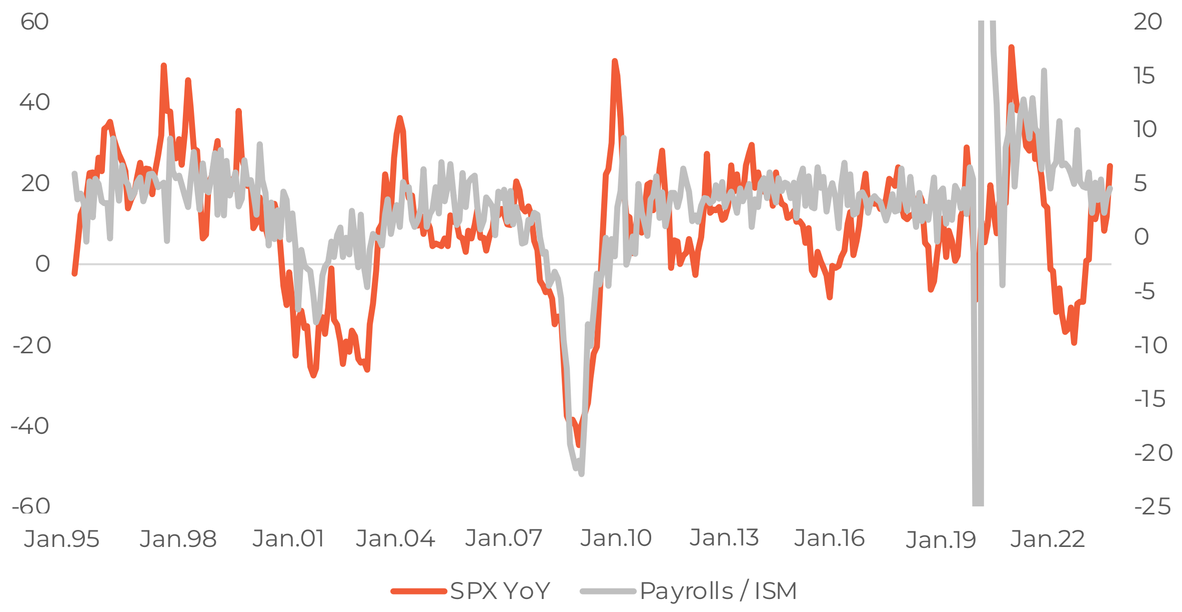


- Inputs such as the sector's defensive qualities, high dividend payouts, and the opportunity to add to one's development portfolios by buying biotech companies at low prices make the sector particularly attractive in times of volatility.
- Also important is the current entry point into the healthcare sector, which is currently near 10-year lows relative to the S&P500, and at 20-year lows in terms of y/y changes.

Top charts of the week – macroeconomic context and recession

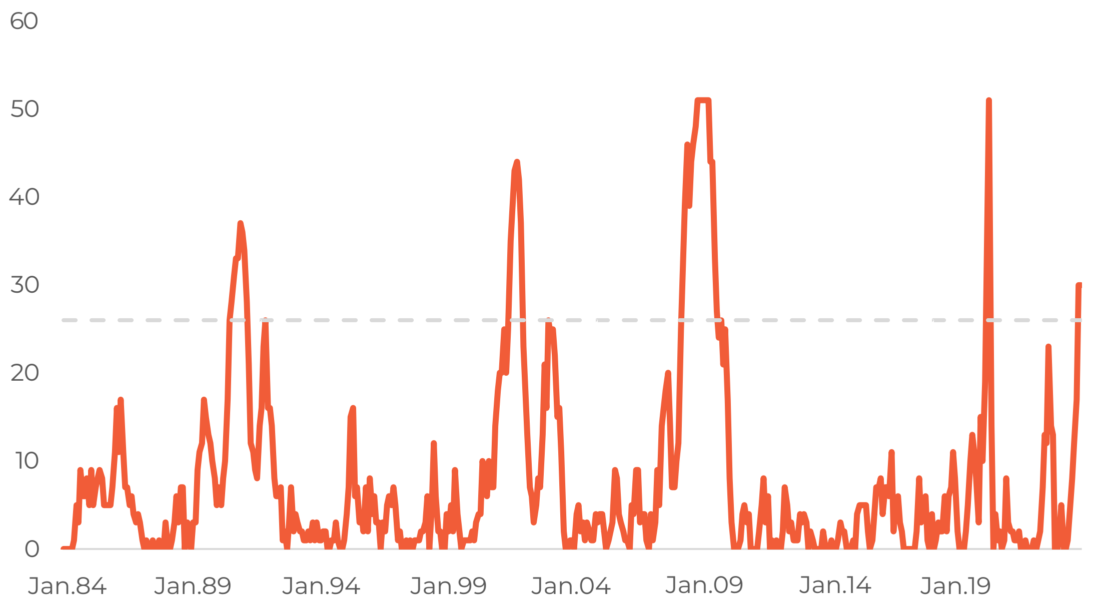
The S&P 500 Index is trading in the upper zone to the employment to manufacturing activity ratio. Stock indices rarely trade long in such a condition, as an employment cap with low manufacturing activity is a rare occurrence.

S&P 500 and the employment to ISM index ratio



- In the historical context, the market is trading with a slight positive deviation relative to the current ISM and employment levels. Considering that ISM is a manufacturing index reflecting the health of the economy, while in employment not only the current levels are important, but also the trend, it can be noted that the further dynamics of stock indices will depend to a greater extent on these two indicators.
- Manufacturing activity will reflect the outlook for the economy's ability to grow from an industrial and production perspective, while employment will provide information on the state of human capital, wage inflation, and labor market liquidity.

Philadelphia Fed number of states with negative monthly employment change



- From a recessionary point of view, the indicator of structural change in employment is important: in the last 50 years it has never shown a misidentification of a recession.
- Considering the unique characteristics of this cycle and the historically favorable starting points of many labor market indicators, the easing we are seeing is probably not as much a harbinger of recession as it has been in the past. Given the significant progress made in fighting inflation and the negative labor market dynamics, the FOMC is likely to begin easing policy in the coming months, but a recession remains on the table.

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

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