Blackshield Capital

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BLACKSHIELD WEEKLY INSIGHTS

Dynamics of key assets

Top charts of the week:

- US labor market and inflation
- China
- commodities

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.

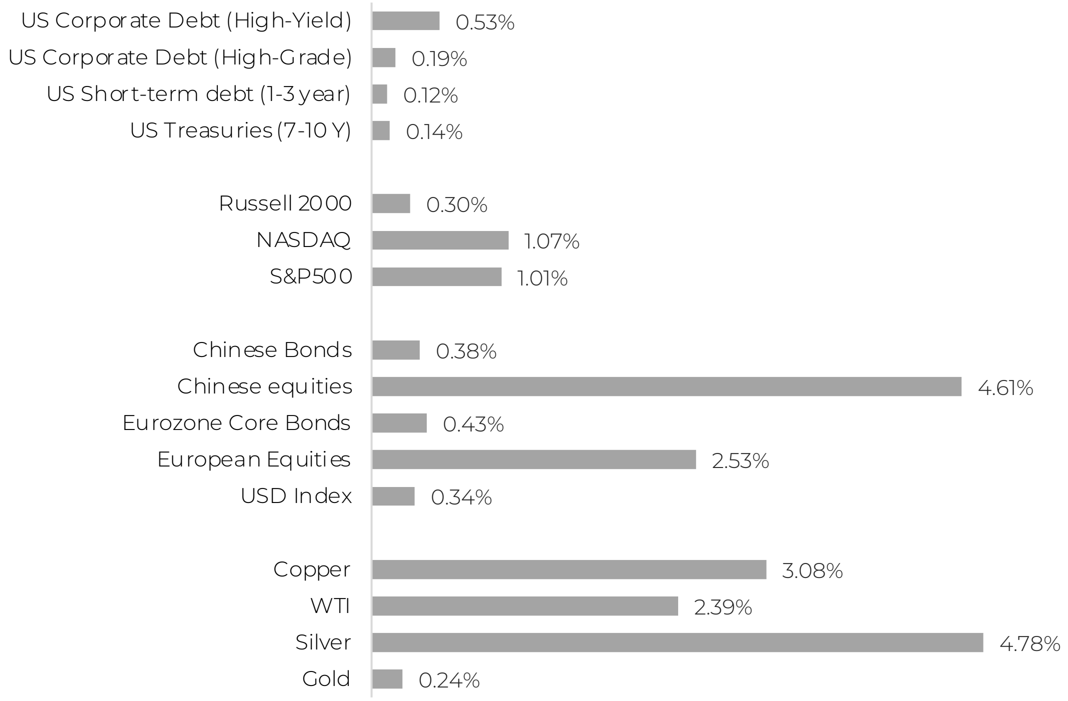
Our goal is to provide a deeper and clearer understanding of what is happening in the markets with an emphasis on illustrations, charts and visuals.

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 of key assets

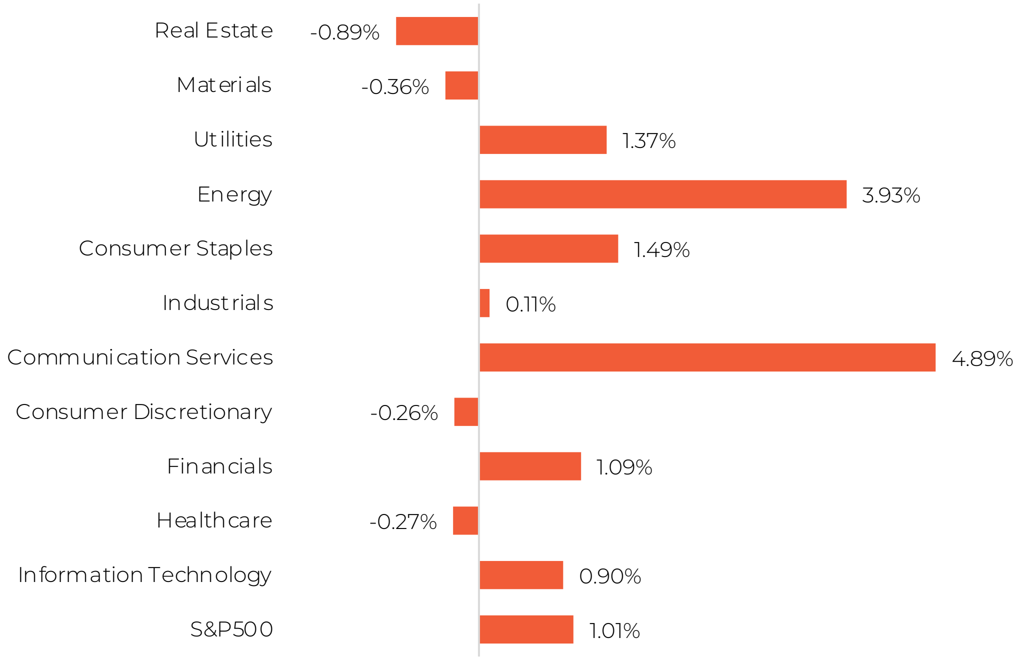
The last week of January-early February promises to be eventful for the US: the Fed meeting, the release of employment data, and the state of real GDP. All this is taking place amid the corporate reporting season and positive sentiment.

Dynamics by key assets for the week



- Last week helped consolidate the global high in US equity indices and was positive for both debt instruments and commodities.
- Assets generally grew in proportion to their risk profile. Silver and shares of Chinese companies showed the most favorable results.

S&P 500 index sectors dynamics for the week



- The corporate reporting season started with a moderately negative tone: about 15% of companies from the S&P500 index reported, where companies are not yet showing sustainable growth amid high comparative bases. The main focus will be on the market leaders, who are likely to set the tone for the first months of the year with their reporting figures.
- The energy sector (amid tensions in the Middle East) and communication services were among last week's growth leaders.

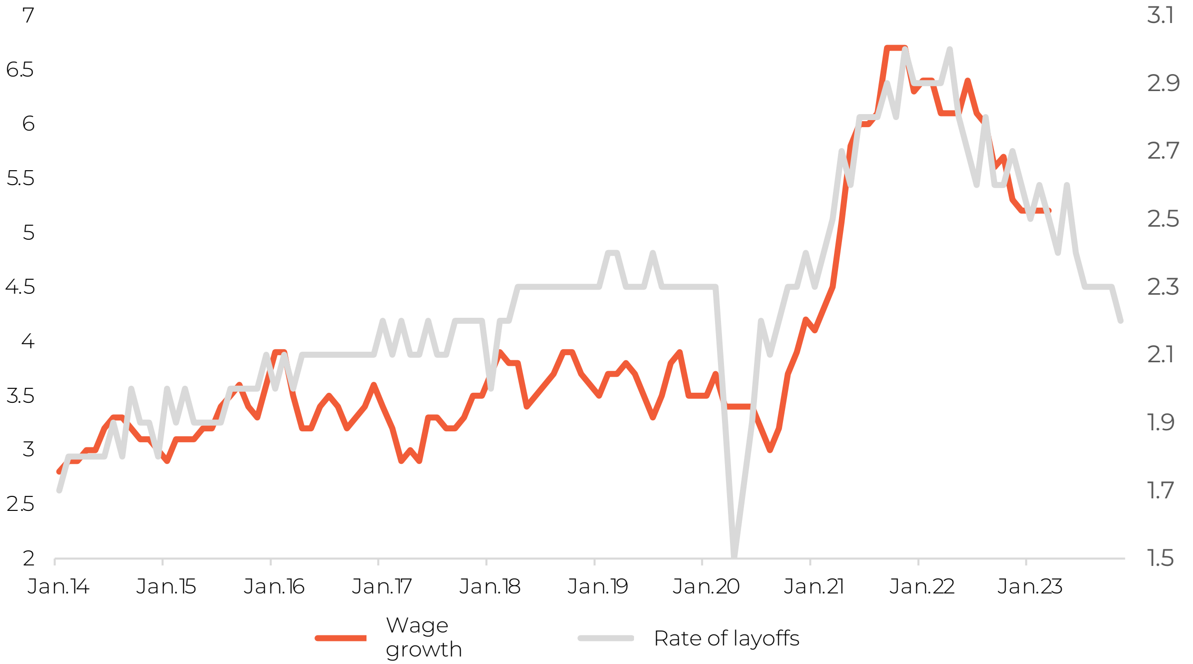
Top charts of the week – US labor market and inflation

Despite concerns and recessionary risks, the Fed has chosen an interest rate decision strategy based on economic data, and the critical data remain positive. Inflation is stabilizing, while the labor market is not deteriorating much, positively affecting inflation.

Long-term inflation rate around the 2.5% level

- Falling consumer price inflation is having a negative impact on income growth. Goods inflation has been virtually zero over the past year as consumers have normalized their spending and social habits in the post-pandemic era.
- This shift in behavior has affected the sales performance of many companies that have been under pressure from the effects of the pandemic on household spending for some time. Historically, there has been a strong correlation between consumer price inflation and income growth, and we expect both to slow - perhaps to zero or below - in 2024.

The rate of layoffs outpaces wage growth by an average of 3 quarters

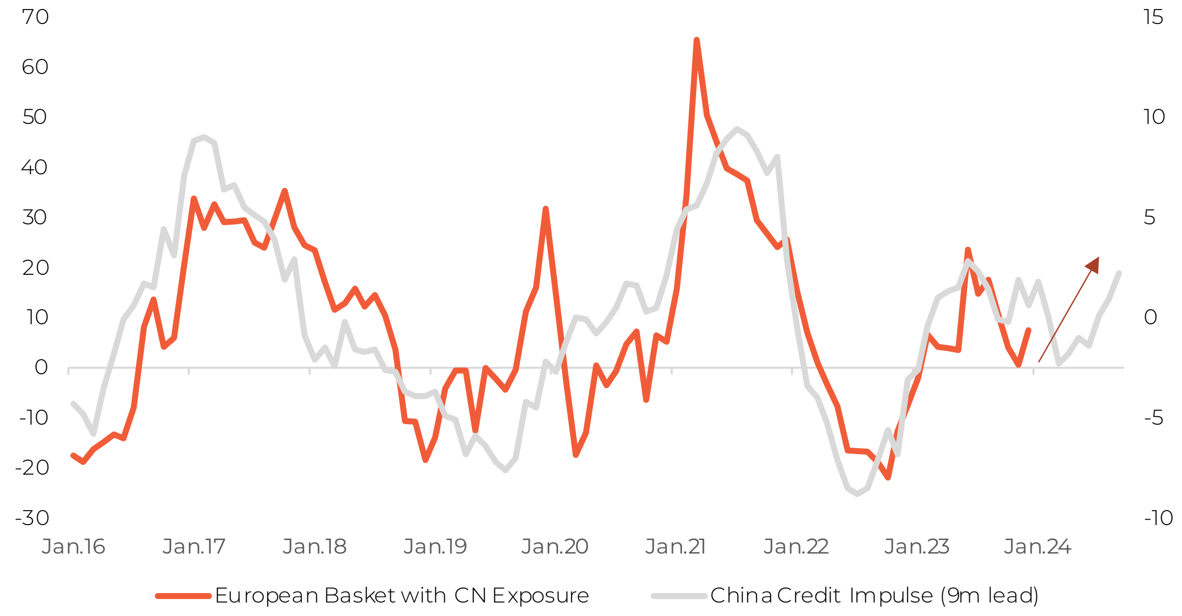


- In addition to goods inflation, wage inflation is no less important, and its decline is much more likely. Slowing economic growth attracts a lot of attention from analysts trying to forecast corporate earnings. But, one should not underestimate the fall in inflation.
- Last year was unusual in that producer price inflation normalized quickly while consumer price inflation remained high. This gap is likely to narrow in 2024 when core inflation returns to the Fed's 2% target.

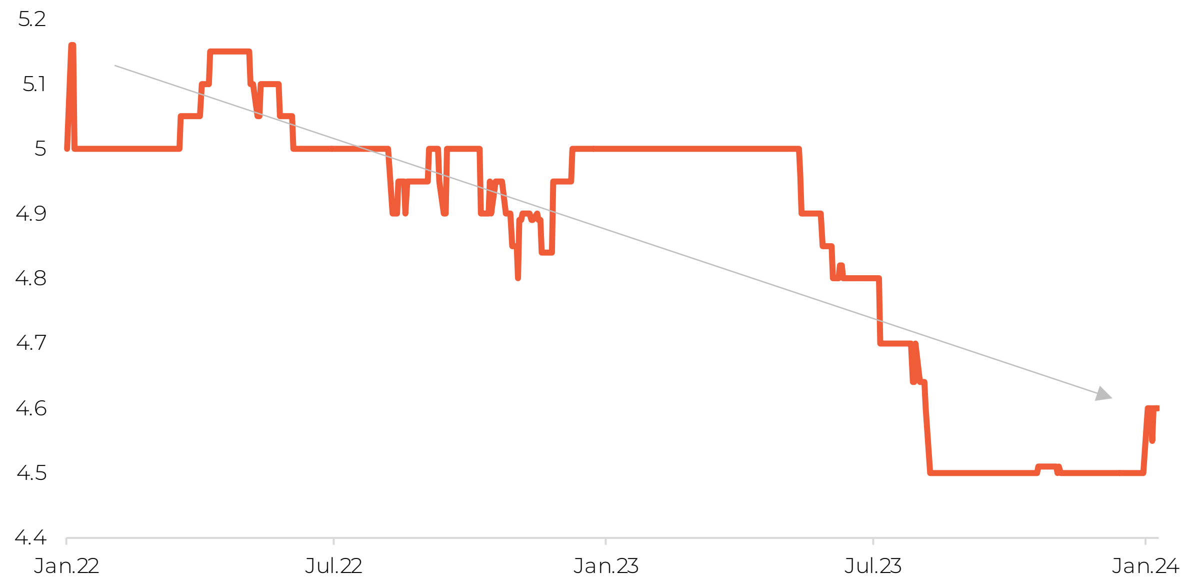
Top charts of the week – China

Chinese equities have been trading in a mixed pattern since the beginning of the year, where positive investor sentiment has been combined with highly uneven economic data. Chinese exporter stocks remain the most stable, while there is a growing talk in the market about targeted economic stimulus and the fight against deflation.

Growth potential for European equities with exposure to China



China's GDP projections for 2024 are downgraded



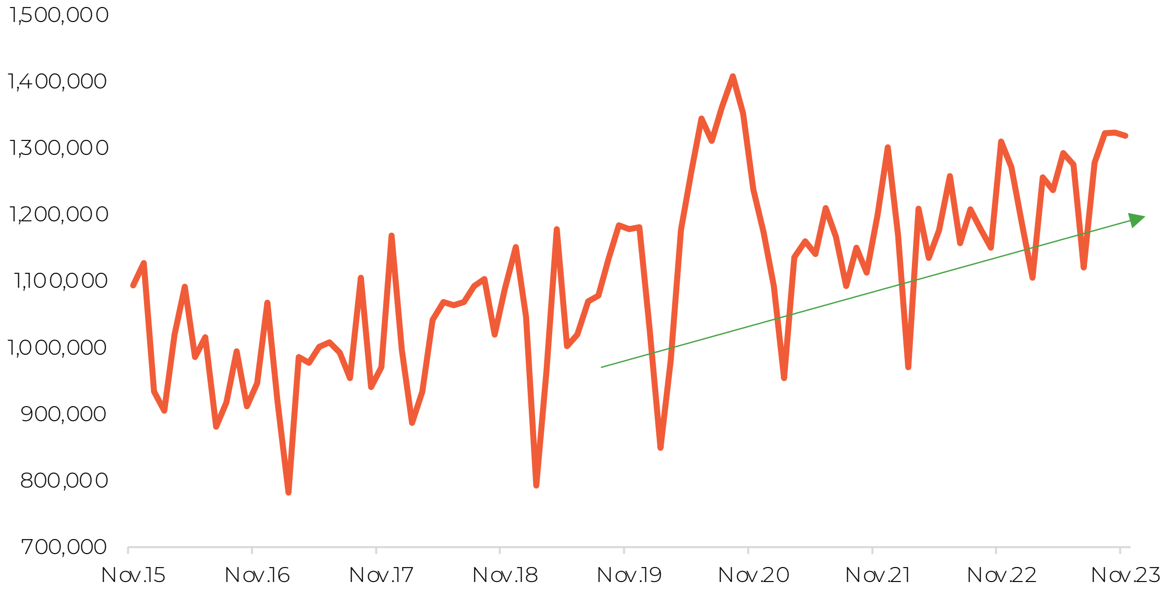
- The lowering of banking reserve requirements on the eve of the Chinese New Year is a positive signal for local markets as it reduces the burden on the financial sector and allows easier credit conditions for businesses, increasing monetary liquidity.
- We see great potential not only in Chinese equities, but also in European equities with exposure to China. The recent increase in China's credit momentum is a strong cyclical growth signal for this category of securities.

- While hopes of stimulus have been repeatedly crushed over the past year and Chinese risk assets have posted low yields in 2024, investors remain actively interested in the question of policy easing in China: whether the government will do more, and if so, when and what.
- China's real GDP grew by 5.2% in 2023. While this disappointed many investors, the post-Covid recovery did take place. Growth in the service sector outpaced growth in industry and agriculture, and unemployment rates in large cities fell below those in smaller cities, a sign that the economy is normalizing to pre-Covid conditions.

Top charts of the week – commodities

Commodity markets have traditionally attracted investors' attention as soon as macroeconomic risks rise on the back of rising markets. The fundamental characteristics of a number of commodity assets show the potential for alternative returns, especially industrial and precious metals.

China's demand for copper has grown substantially over the past few years



- The copper market this year will be at its tightest point since 2021, with an expected shortfall of 428 kt against current apparent inventories of just 260 kt. The market suffered a supply shock last quarter due to a series of mine supply drops, reducing the expected growth this year by 60% compared to expectations for mid-2023.
- All this is happening alongside robust demand (around 3% year-on-year growth), mainly from the green energy sector. The absence of a visible increase in inventories this year suggests a potential upside for copper over the 3-4 quarters ahead.

The end and beginning of the year are seasonally positive for gold

	10 Yr High	10 Yr Avg	10 Yr Low	2024
Jan	8.39	3.52	-2.67	-1.46
Feb	10.77	0.70	-6.15	
Mar	7.79	0.01	-3.2	
Apr	6.93	1.52	-2.09	
May	7.79	-0.24	-6.05	
Jun	8.77	0.76	-7.17	
Jul	10.94	0.61	-6.53	
Aug	7.54	0.58	-3.13	
Sep	0.53	-2.95	-6.15	
Oct	7.32	0.75	-2.94	
Nov	8.26	-1.29	-8.14	
Dec	6.83	2.42	-2.19	

- Gold prices were down nearly 2% in January. Historically, January is one of the best months of the year for the gold price, which has averaged a 3.5% increase over the past 10 years.
- There are several theories to explain this divergence: (1) portfolio rebalancing at the start of the new year; (2) a possible reaction to the seasonal decline in real yields; and (3) the replenishment of gold stocks in East Asia prior to the Lunar New Year. The last two times the gold price was negative in January were in 2021 and 2022; and in both years, gold prices remained under pressure throughout the year (due to rising and high real rates, as well as a strong U.S. dollar).

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

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