BLACKSHIELD WEEKLY INSIGHTS

Key asset classes performance

Top charts of the week:

- retail sales statistics
- consumer sentiment
- "minimums" territory

Blackshield Capital

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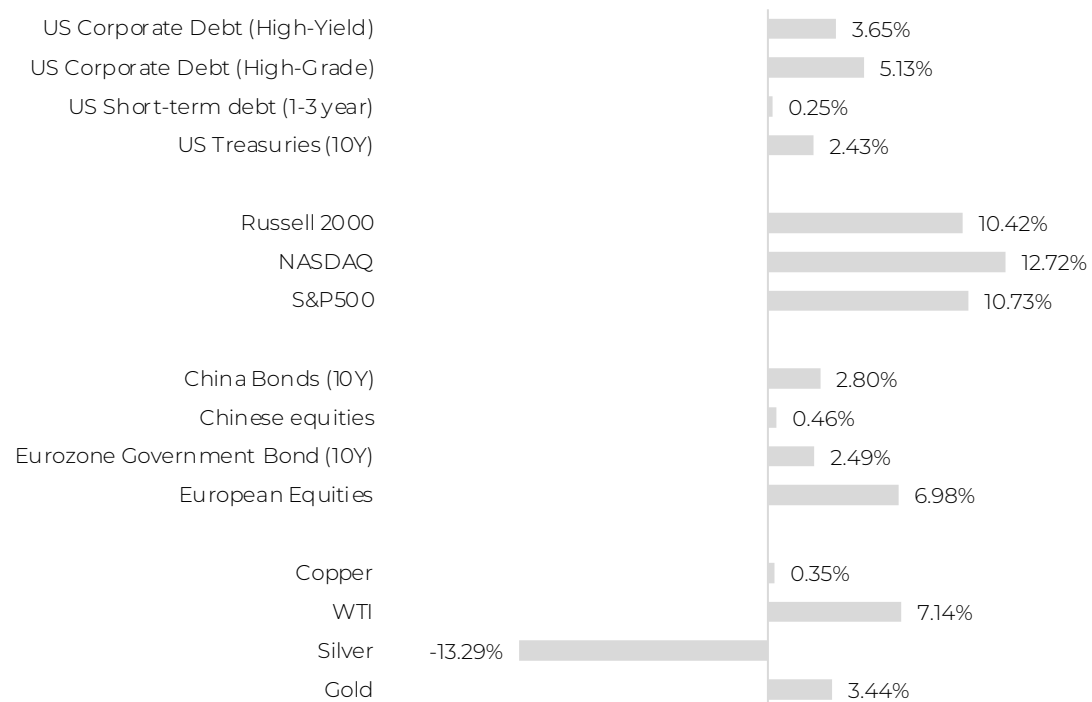
Our goal is to provide a deeper and clearer understanding of what is happening in the markets with an emphasis on illustrations, charts and visuals.

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.
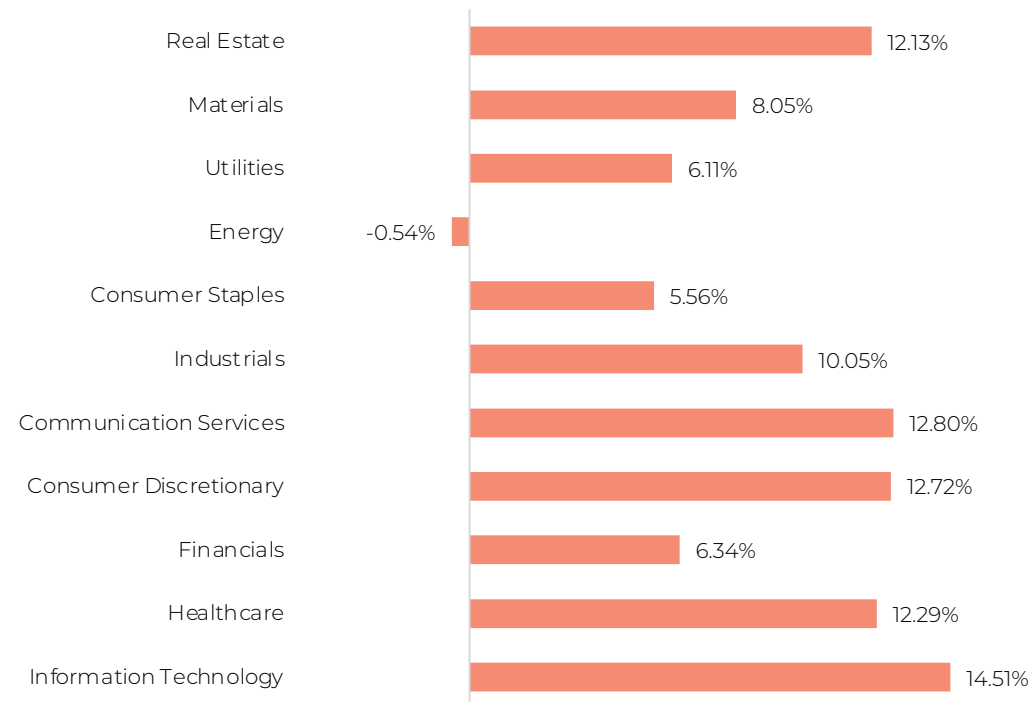
Dynamics by key assets

A small news load and near-holiday markets (due to Thanksgiving in the US) created conditions for slight gains with lower trading volumes. The stock markets in both the US and Europe remained in the lead.

Dynamics by key assets, 1 month

Asset	Value
US Corporate Debt (High-Yield)	3.65%
US Corporate Debt (High-Grade)	5.13%
US Short-term debt (1-3 year)	0.25%
US Treasuries (10Y)	2.43%
Russell 2000	10.42%
NASDAQ	12.72%
S&P500	10.73%
China Bonds (10Y)	2.80%
Chinese equities	0.46%
Eurozone Government Bond (10Y)	2.49%
European Equities	6.98%
Copper	0.35%
WTI	7.14%
Silver	-13.29%
Gold	3.44%

S&P500 sectors dynamics, 1 month

Sector	Value
Real Estate	12.13%
Materials	8.05%
Utilities	6.11%
Energy	-0.54%
Consumer Staples	5.56%
Industrials	10.05%
Communication Services	12.80%
Consumer Discretionary	12.72%
Financials	6.34%
Healthcare	12.29%
Information Technology	14.51%

- This year's festive New Year's Eve rally was delivered in advance - both stock and debt markets rose significantly on a positive economic backdrop and expectations of a risk-off environment on the Federal Reserve's upcoming interest rate releases.

- Among commodity assets, only oil and gold maintained positive dynamics, while the cyclical decline in manufacturing demand affected the prices of industrial metals.

- Sectorally, there are several leaders at once – IT, Communication Services and Consumer Discretionary, with the energy sector, the utilities sector (as the most vulnerable to rising interest rates), and the financial sector among the laggards.

- The energy sector is attracting the attention of many investors as the OPEC meeting has been postponed (hence the delayed reaction to production volumes and the impending increase in the winter season).

Top charts of the week – retail sales statistics

Understanding the dynamics of retail sales statistics, is the cornerstone in forecasting the revenue and net income of U.S. companies. Currently, real sales remain in positive territory, but the trend is downward.
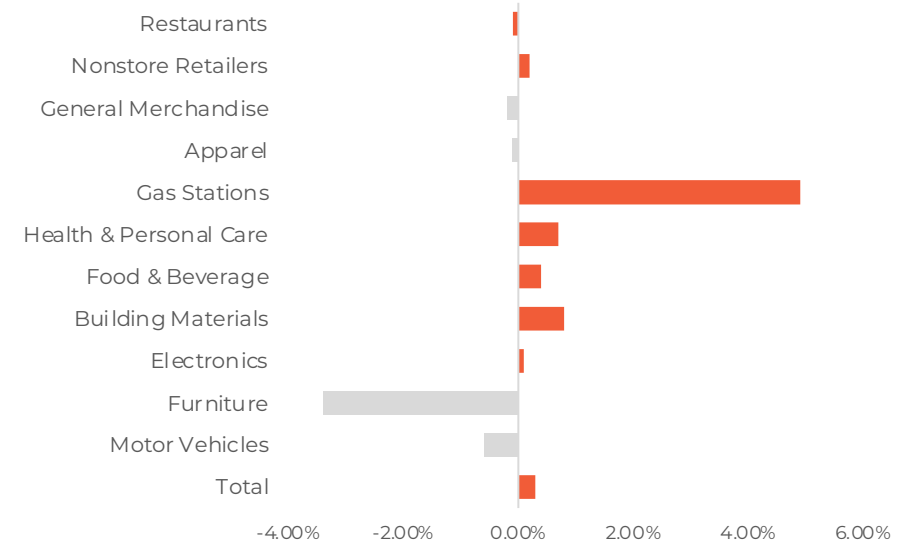
Dynamics of retail sales compared to the level of consumer lending
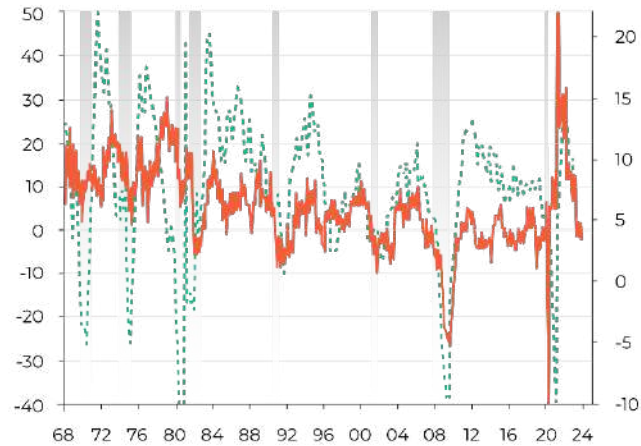
— US Bank Willingness to Make Consumer Loans Net % of Banks Easing, Leading by 2Q
— US Core Retail Sales

Structure of changes in retail sales

- Based on the data for October 2023, it can be stated that further revenues and net income of US companies are under pressure. Despite the positive value (growth amounted to 3.5% y/y), the trend remains negative.

- In particular, an interesting comparison is the dynamic between retail sales and the level of consumer credit, where the latter is the leading indicator and points to a likely stronger deterioration in the short term.
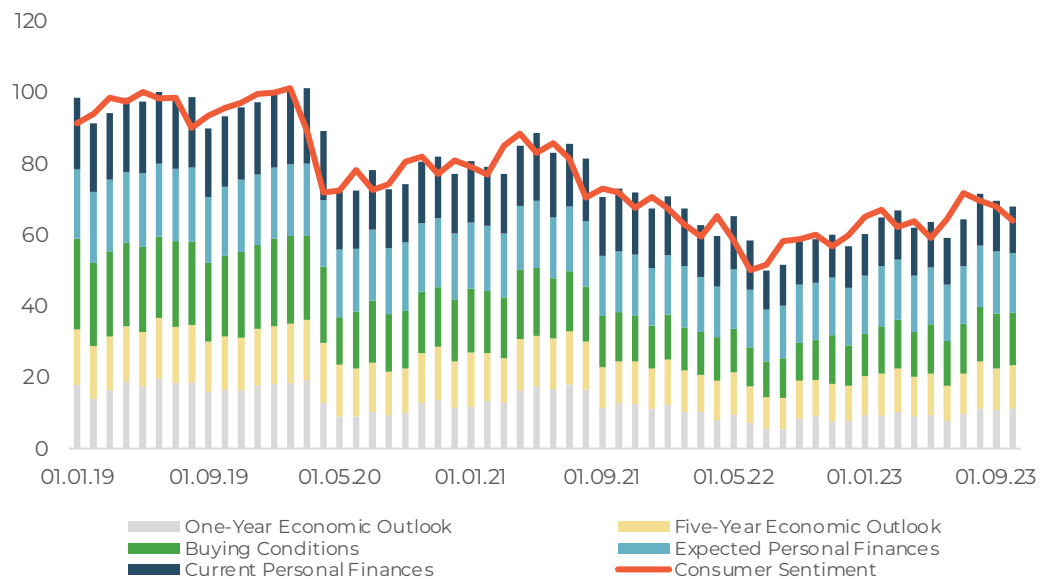
- In real terms, the growth of retail sales in October was led by gas station chains and building materials stores, where growth amounted to 4.9% and 0.8%. At the same time, the sectors themselves are cyclical, which may cause the reverse dynamics in the next reporting period.

- Low restaurant sales mean that spending on the service sector was generally weaker in October than previously and partly reflects a shift in consumer sentiment and purchasing power.
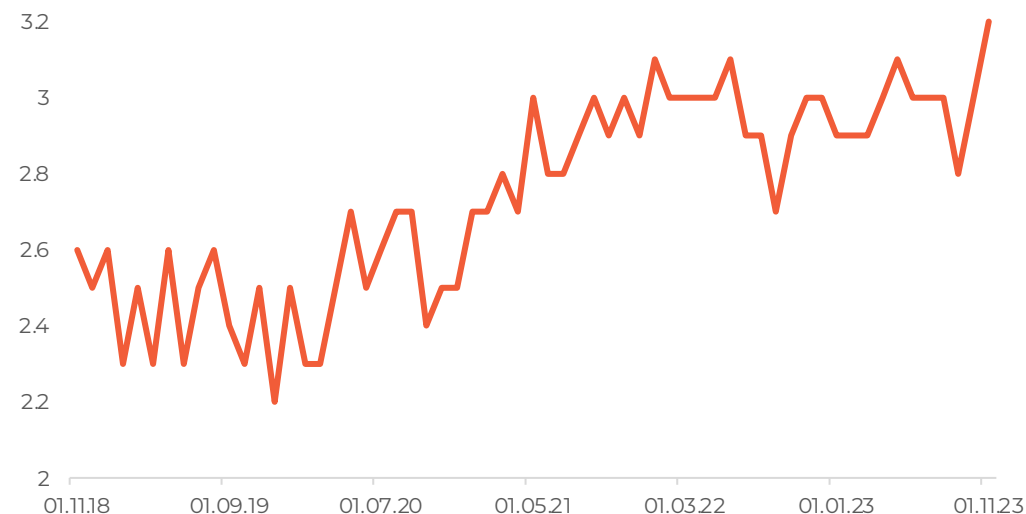
Top charts of the week – consumer sentiment

An important consideration is the statistics on consumer sentiment, which is also a leading indicator for the direction of the dynamics on earnings and net profits in the corporate sector.

Consumer sentiment: decline continues for 4th month in a row

Legend:
- One-Year Economic Outlook
- Buying Conditions
- Current Personal Finances
- Five-Year Economic Outlook
- Expected Personal Finances
- Consumer Sentiment

Consumer inflation expectations (5 years)

- The latest release of consumer sentiment data signals further deterioration, recording a decline for the 4th consecutive month after rebounding since the beginning of 2023.

- The main categories in which respondents indicated a precarious position are the 1-year and 5-year economic outlook. This in turn is confirmed by the dynamics of increased volumes of consumer loans and delinquencies on credit card debts.

- Meanwhile, expectations for 5-year inflation remain largely unchanged - average inflation in 5 years (according to consumers) will be 3.2% (up 0.2% from a month earlier).

- The data suggest that from a consumer perspective, the Fed's desired 2% inflation rate is hardly achievable anytime soon. On the one hand, this reflects a lack of confidence in the Fed's inflation-fighting methods and reflects the real cost structure and market sentiment. There will be releases of data on the pre-holiday spending patterns of the public soon, which will create a complete picture of the consumer in 2023.

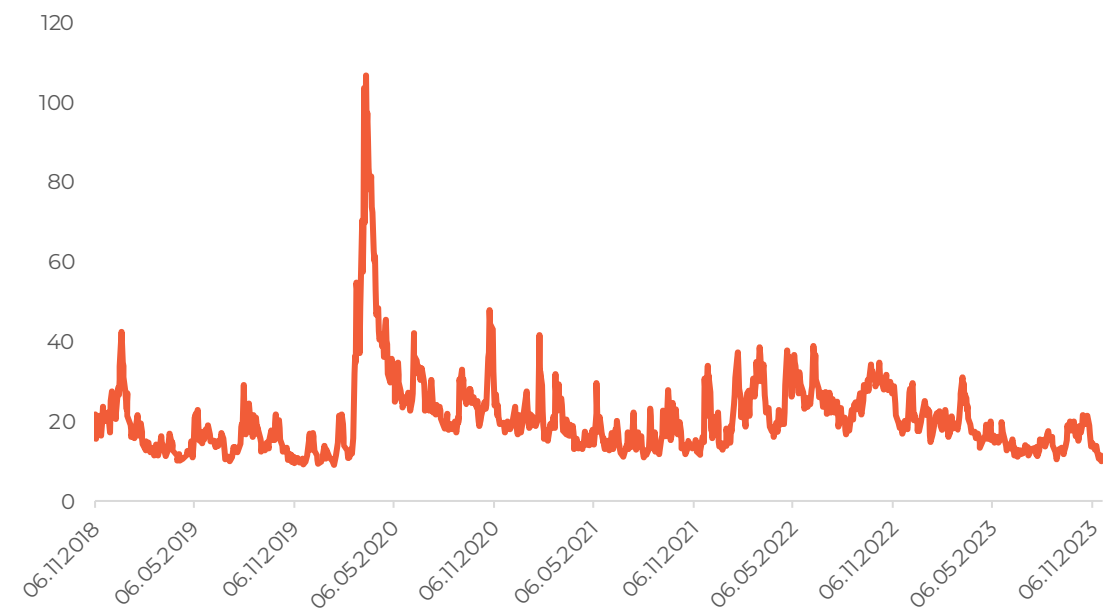# Top charts of the week – "minimums" territory

The synchronization of central bank policies as well as peak interest rates around the world, from the US to the Eurozone, are creating conditions for extreme market conditions: while the Nasdaq index and the S&P500 continue to rise, Asian markets are priced at a discount.

Chinese stocks are trading at levels close to 2018 and even 2016 levels

Short-term market volatility at extremely low levels

- One of the topics discussed last week was the Chinese markets, in particular the IT sector and the real estate market. On the one hand, the investment thesis about the cheapness of markets is far from news, but in the presence of positive sentiment and capital inflows from institutional investors, this market can grow. A good confirmation is the jump in shares of Chinese developers (by 15-20% for the week) on the background of positive news about simplification of lending and easing of conditions for the sale of luxury real estate.

- Another positive news is Xi Jinping's visit to the U.S., which, against the backdrop of global competition, leaves hopes for a shift from geopolitical to economic confrontation.

- Volatility as a measure of price volatility is traditionally regarded as a measure of risk. It is not for nothing that the traditional VIX index is called the "fear index". It is noteworthy that its short-term version is currently at the levels of January 2020, on the eve of COVID-19.

- Volatility is an interesting thing because it often signals the reversion of a market that is in a pivotal phase. But there are opposite examples: in 2017, the VIX index fell below 10, and subsequently reached the 15-16 level, but the market not only did not turn around, but continued the trend.

- Since we do not believe that the market is entering a new growth phase, the low level of volatility can be regarded as a yellow traffic light signal.

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ON WHAT MATTERS MOST

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