Blackshield Capital

05.02.24 – 11.02.24

BLACKSHIELD WEEKLY INSIGHTS

Dynamics of key assets

Top charts of the week:

- instability of the real estate market
- unemployment rate
- reports of S&P500 companies

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.

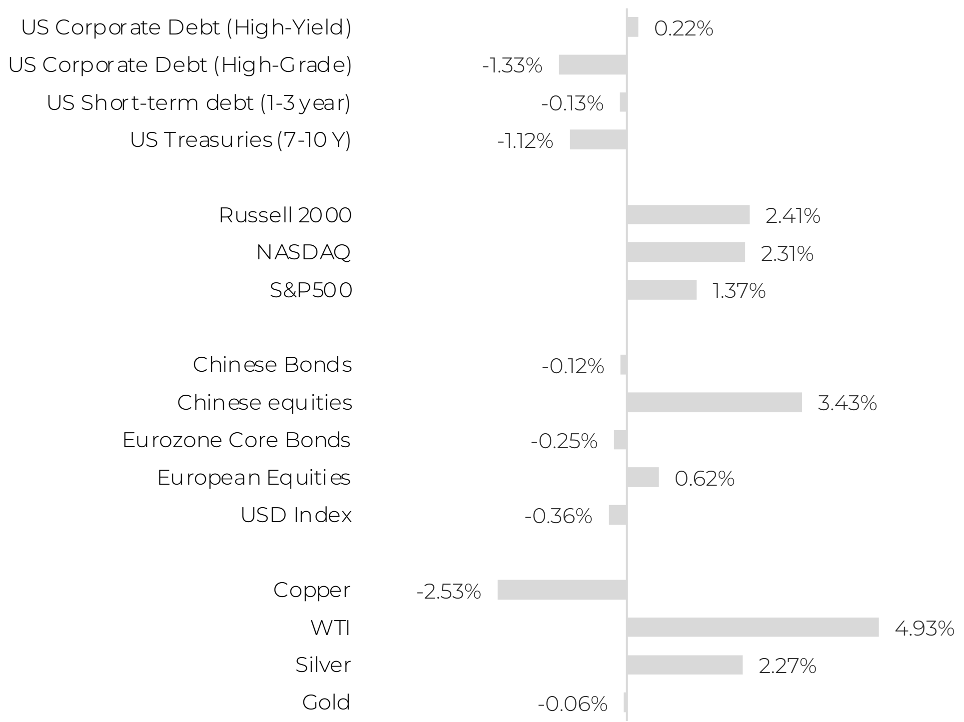
Our goal is to provide a deeper and clearer understanding of what is happening in the markets with an emphasis on illustrations, charts and visuals.

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

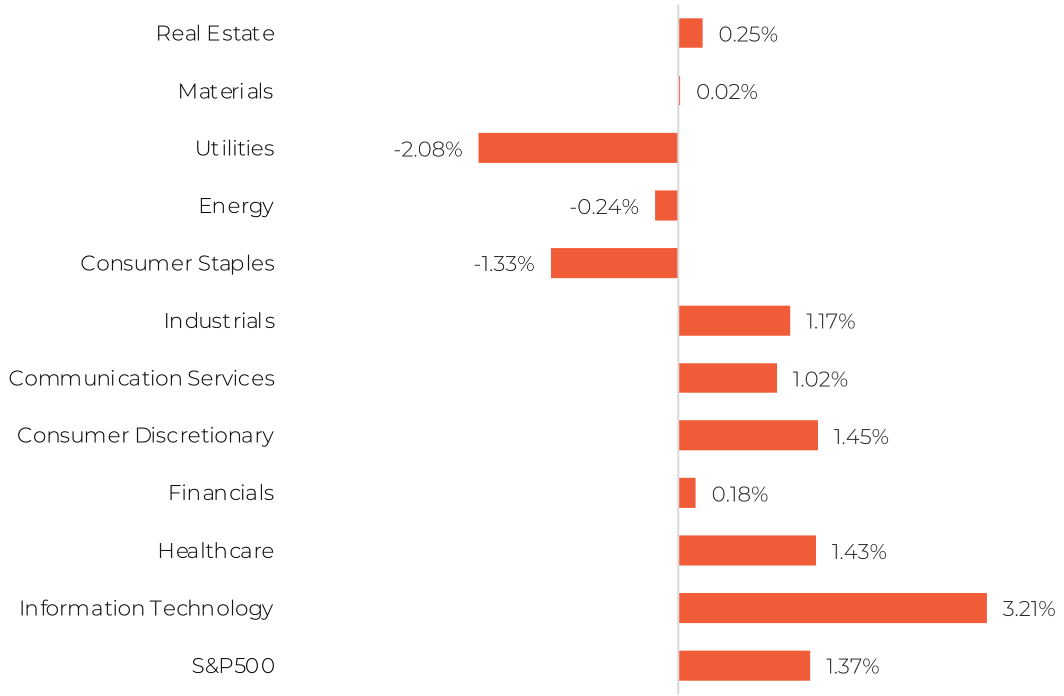
Last week was marked by an important event - the S&P 500 index reached the psychologically important 5,000 mark, which raises questions about the prospects for further growth of stock indices, as well as the economic preconditions for a possible market correction.

Dynamics by key assets for the week



- On one hand, the S&P 500 reaching 5,000 is an indicator of positive sentiment in the market, but on the other hand, it indicates a greater detachment from economic realities.
- The Chinese market also grew, showing growth amid general support from China aimed at restoring investor confidence in Chinese assets. Silver and oil resumed their growth compared to the previous week. In particular, oil rose again on news of the conflict in the Middle East.

S&P 500 index sectors dynamics for the week

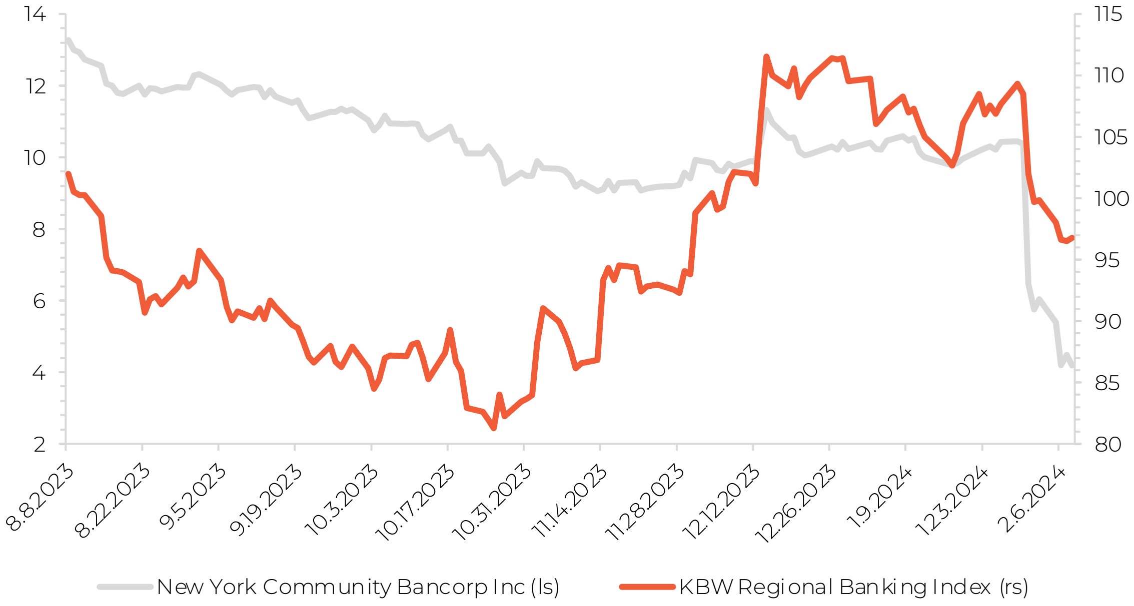


- Looking at the sectoral breakdown, the IT, Consumer Discretionary and Healthcare sectors were again the leaders of growth this week.
- It is difficult to clearly characterize the market sentiment towards cyclical or non-cyclical companies, as we have been seeing a trend of overall growth in all sectors for several weeks in a row. During the reporting season, there is not too much negativity, although the downward trend in corporate profits is confirmed.

Top charts of the week – instability of the real estate market

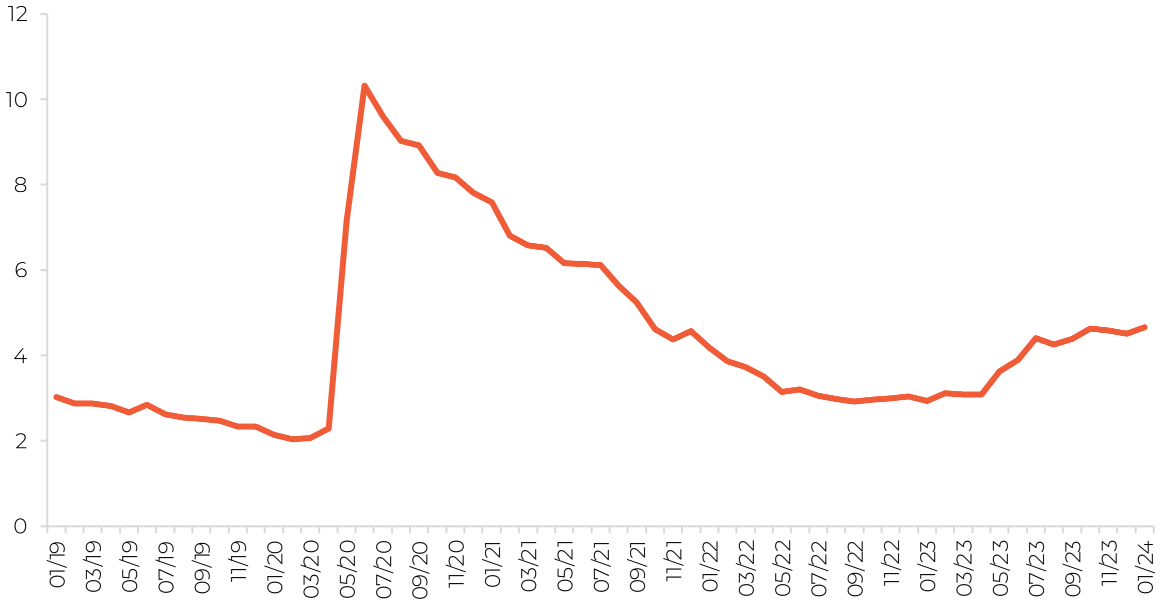
The decline in Existing Home Sales clearly indicates the weakness of the real estate market, the effects of which are felt in the reports of the banking sector. Recently, a poor report from NYCB caused a wave of concern for those banks that depend on commercial real estate lending.

Stock quotes of NYCB and other regional banks



- NYCB, one of the major banks with a large share of commercial real estate lending (over 30%), reported an overall decline in profits due to high loan delinquencies.
- The real estate market itself is considered to be an early signal of economic changes. In particular, this market often shows the mood of consumers regarding the economy and finance. In particular, the situation with NYCB is more likely to indicate regional problems, as this bank holds more corporate real estate securities in New York, where there are problems with demand. But similar problems can occur in other regions as well.

Real estate delinquency rates are on the rise

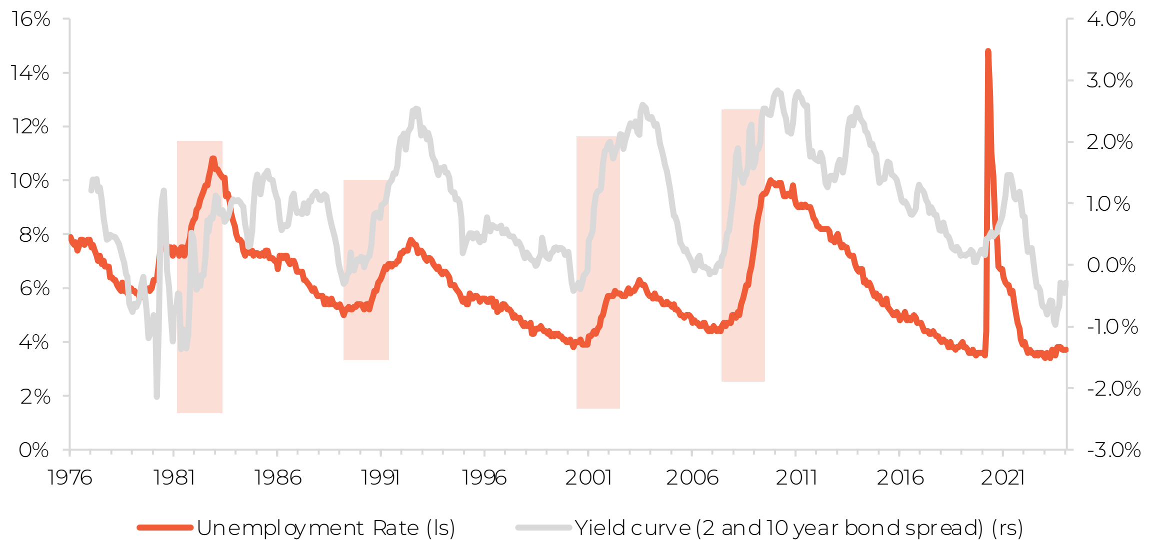


- The level of overdue debt (for US CMBS) increased to 4.66%. The maximum level of overdue debt was recorded in June 2020 amid COVID-19 - 10.32%.
- Delinquencies in the office real estate sector have experienced the most significant increase since September 2023 (up to 6.3%) due to an increase in interest rates in 2022. This situation in the market clearly indicates a tightening of lending standards due to high arrears and reflects the fact that it is too early to talk about a recovery in the real estate sector.

Top charts of the week – unemployment rate

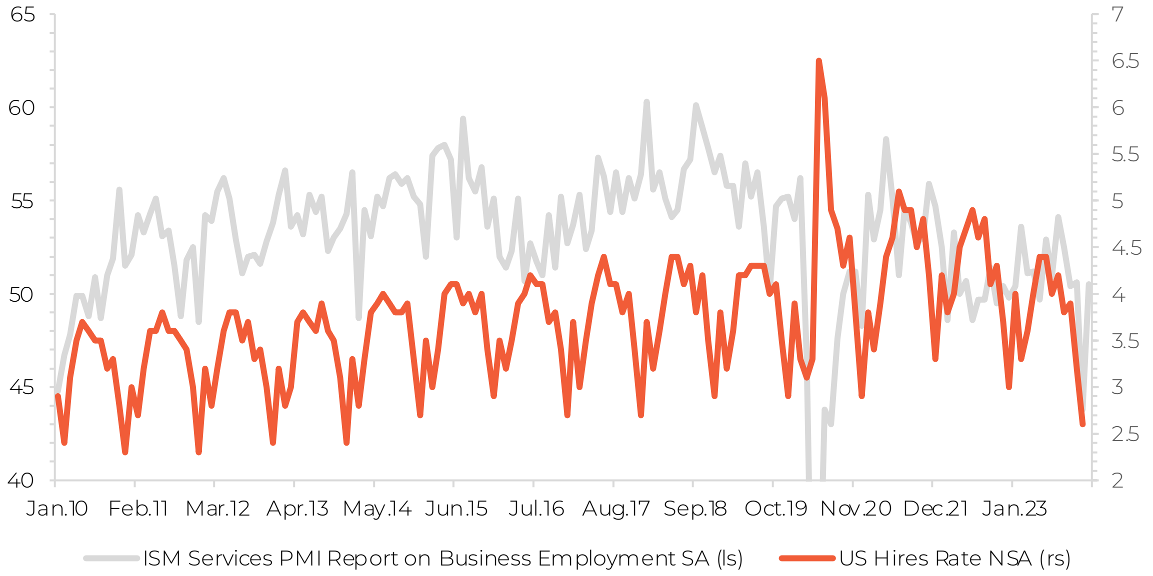
We often pay attention to the labor market because of its importance as an indicator of a recession. Given that the overall unemployment rate remains low, it is important to look at earlier indicators that may indicate the onset of an increase in unemployment.

Dynamics of the unemployment rate and the spread between 2-year and 10-year government bond yields



- Historically, the largest increases in unemployment have occurred after a reversal of the difference between 2-year and 10-year bond yields from negative to positive.
- Looking at observations over more than 30 years, every strong reversal of the bond yield differential has led to an increase in unemployment.
- This suggests a direct correlation between rates and unemployment. And, as we can see, even when the bond market stabilizes, unemployment may rise, due to the effect of the delayed impact of rates on the economy, which on average reaches 36 months after the start of the rate hike.

Dynamics of the business index for hiring new employees and the level of actual hiring

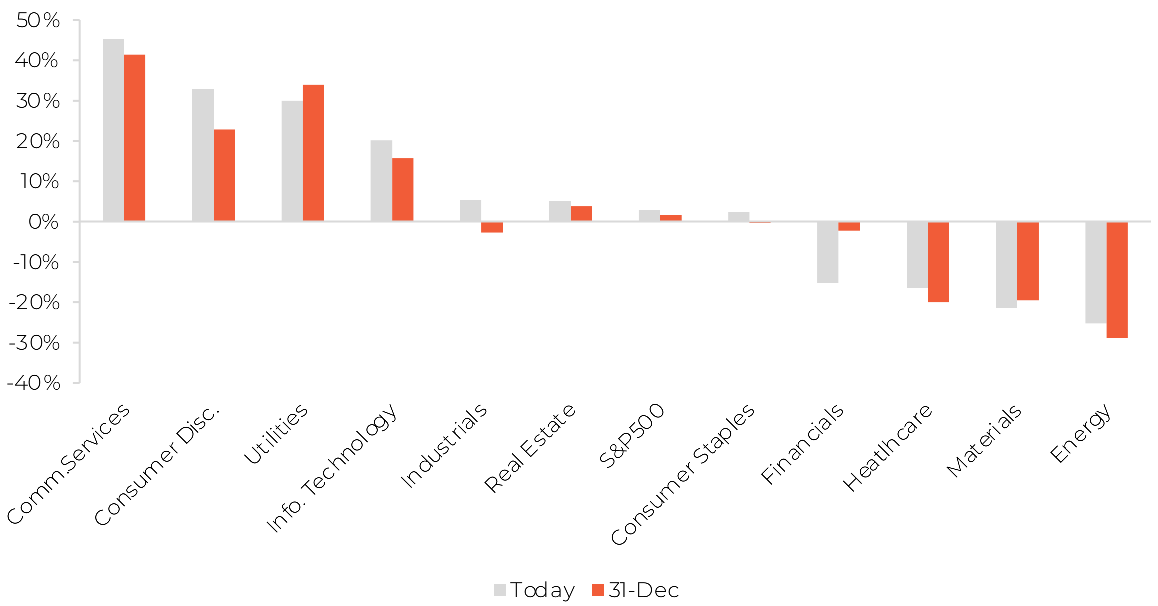


- The downward trend in hiring has been observed since mid-2021 amid a sharply declining employment index in the service sector.
- We believe that a further decline in hiring will indicate a transition to the next phase - layoffs in companies, based on the slowdown in business activity in previous years.
- This decision is logical given that each company is trying to protect its own profitability, thereby generating new layoffs.

Top charts of the week – reports of S&P500 companies

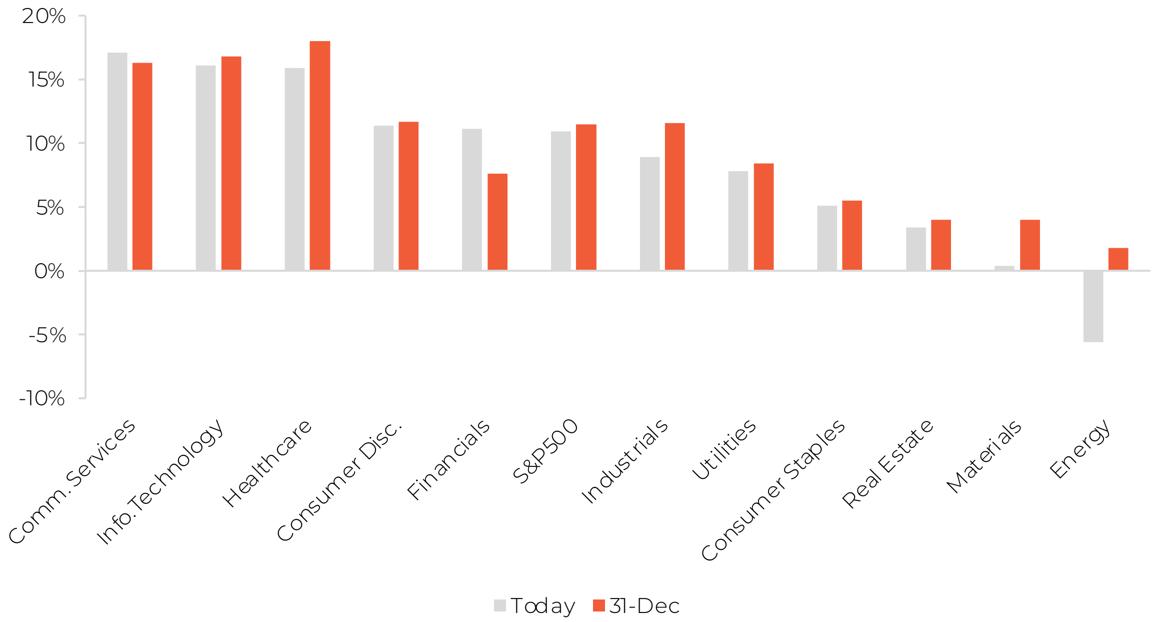
Last week was the equator for the corporate reporting season, as 65% of the S&P 500 has already reported its results. According to them, companies exceeded market expectations, but forecasts for 2024 are declining.

Actual EPS for Q4 2023



- Of the 65% of companies that have already reported, 75% reported actual EPS above expectations, which is lower than the 5-year average of 77%, but higher than the 10-year average of 74%.
- On average, better performing companies exceeded expectations by 3.8%, the lowest level in the last 10 years. This indicates a decrease in EPS-surprise, which clearly sends some signals of declining corporate profits amidst a slowdown in economic growth.

Companies' EPS forecasts for 2024



- Companies' forecasts for 2024 were lower than the market expected. In particular, the total EPS growth for the S&P 500 is 10.9%, which is less than expected at the end of 2023.
- This trend confirms the thesis of a general decline in corporate profits, which, although slow, already indicates a decrease in investment in expansion, in own capacity, and in the possibility of a wave of layoffs.

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hello@blackshield.capital

+41 43 456 25 92

Bahnhofstrasse 10, 8001
Zürich, Switzerland

Volodymyrska St, 4, 02000
Kyiv, Ukraine