Blackshield Capital

19.02.24 – 25.02.24

# WEEKLY INSIGHTS

## Ambiguity in the macroeconomy does not slow down market growth

Dynamics of key assets

**Top charts of the week:**

- excessive expectations from the Fed
- revaluation of corporate profits
- controversy in the labor market

**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.

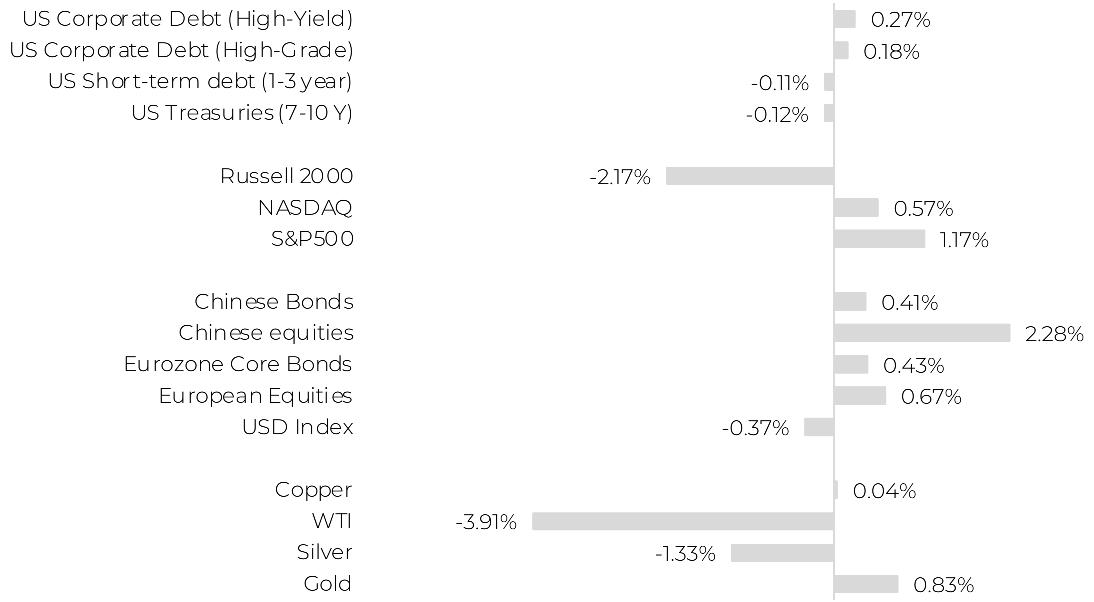
**Our goal is to provide a deeper and clearer understanding** of what is happening in the markets with an emphasis on illustrations, charts and visuals.

**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

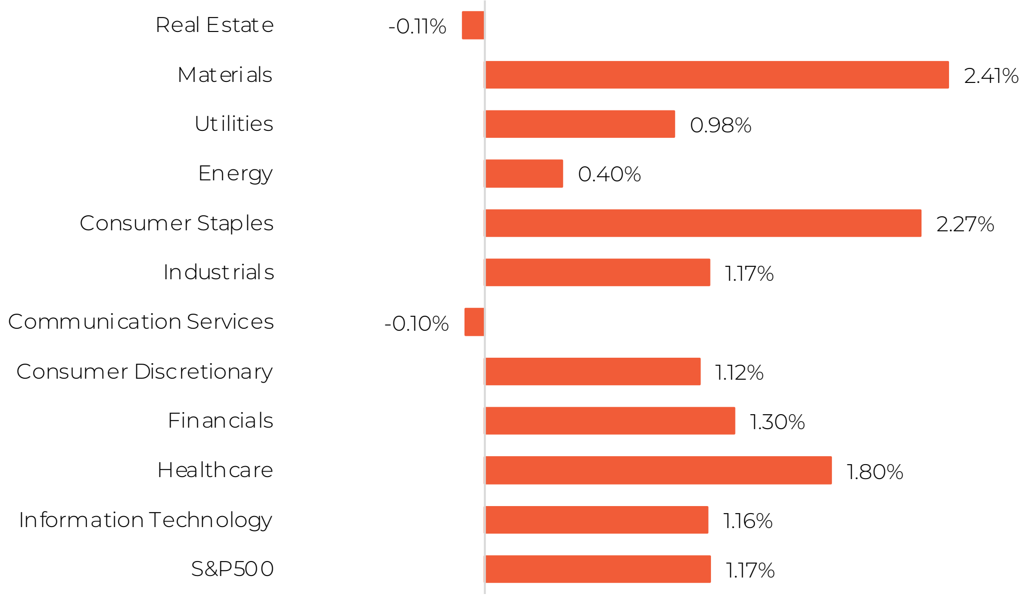
The first half of the week was more negative for the market, while the second half gave a new boost to the market's upward movement thanks to a positive report from NVIDIA, which helped to update the all-time high on the US stock market.

**Dynamics by key assets for the week**




- Overall, last week did not show a significant breakdown in any of the markets. However, there were significant fluctuations in oil prices, which recorded a decline in price, as well as the growth of the Chinese market amid growing optimism about government support for the stock market.
- On the other hand, the US market had an interesting week, with more negative sentiment prevailing in the first half of the week until Nvidia's earnings report, which helped the stock market recover and rise by more than 2% in one day.
- The debt and FX markets remained stable due to the lack of new data and comments from the Fed on its interest rate strategy.

**S&P 500 index dynamics for the week**

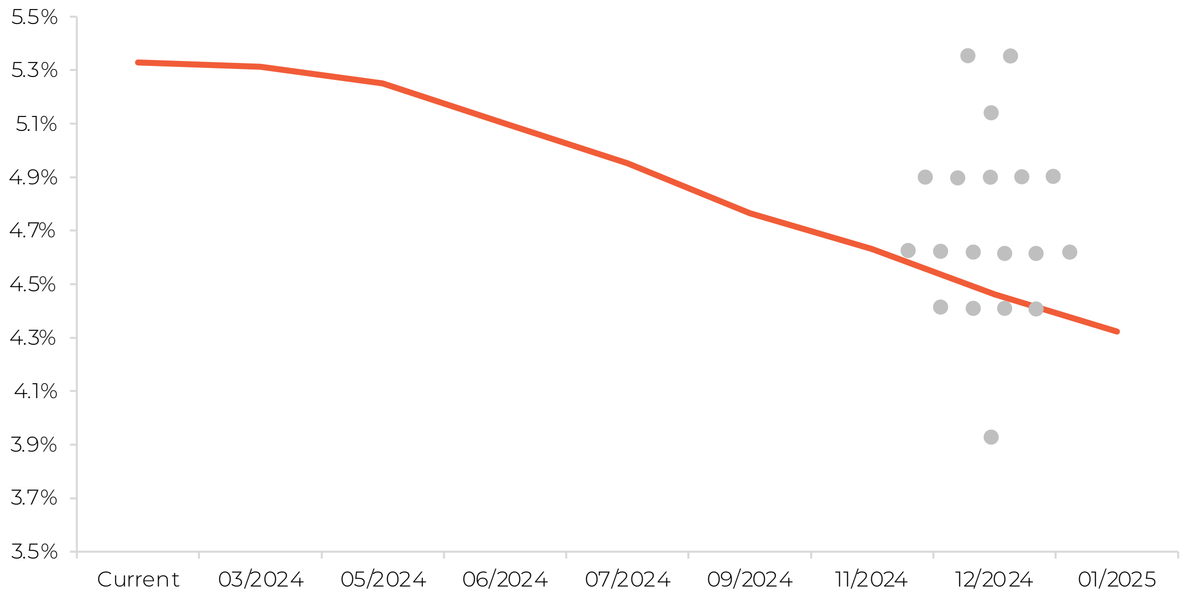



- As for the sectoral breakdown, it is difficult to identify any significant growth leaders this week, given the more or less even growth.
- The first half of the week was positive for defensive stocks (Consumer Staples, Healthcare, Utilities), while the second half of the week brought good news for the IT sector due to Nvidia's report, which became a catalyst of growth for the entire market.
- At the moment, we see such uniform sectoral growth as short-term, based on the overall economic environment.

# Top charts of the week – excessive expectations from the Fed

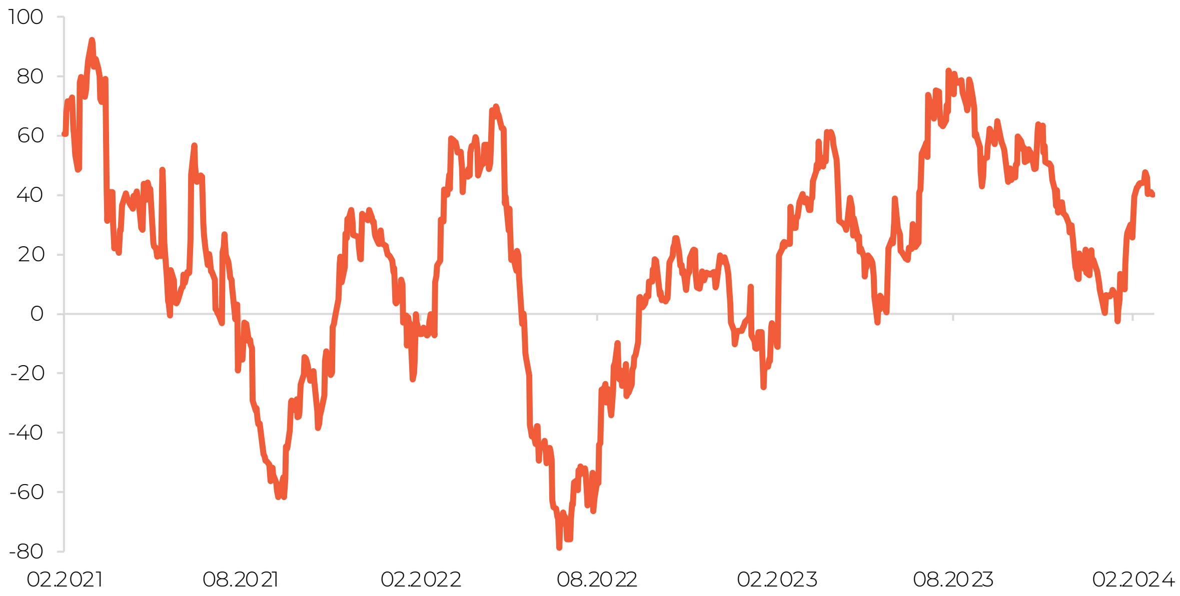
In December-January, macroeconomic data were released that gave some hope for an early rate cut in 2024. However, the release of February's data - the dynamics of early indicators on inflation, unemployment, GDP, and the forecasts of Fed members - still contradict the current expectations.

### The projected Fed Funds rate at the end of 2024 and the forecasts of Fed members




- Despite the market's overestimation of the pace of rate cuts in 2024, investors still highly rate the likelihood of a rapid rate cut to 4.5%, unlike the Fed members themselves, who, according to data for December 2023, are talking about a cut to 4.8%.
- This fact is more indicative in the sense that there are still differences between the market's and the Fed's visions, which can be disturbing in a situation where new risks to the economy are emerging: the sustainability of inflation in the service sector, the sustainability of wage growth, and the development of commodity inflation.

### Dynamics of Citi Economic Surprise US Index

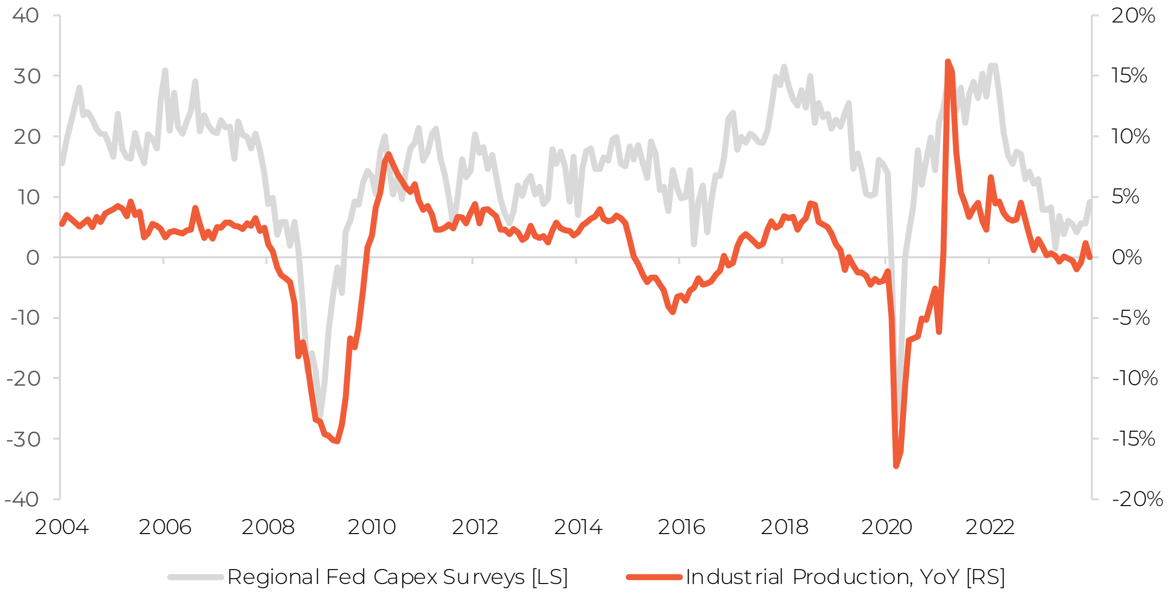



- Previous expectations of an aggressive Fed rate cut are clearly explained by the release of higher-than-expected macroeconomic data. This can be seen in the dynamics of the January growth of the economic sentiment index - from 0 to 40 points, which was due to a decline in inflation at the end of 2023, strong GDP growth in Q4 2023, and a stable labor market.
- However, the first release of January inflation immediately confused the market, leading to a certain reversal in economic sentiment. In our opinion, this situation may remain in place until the market fully incorporates the risks that the economy currently sees.

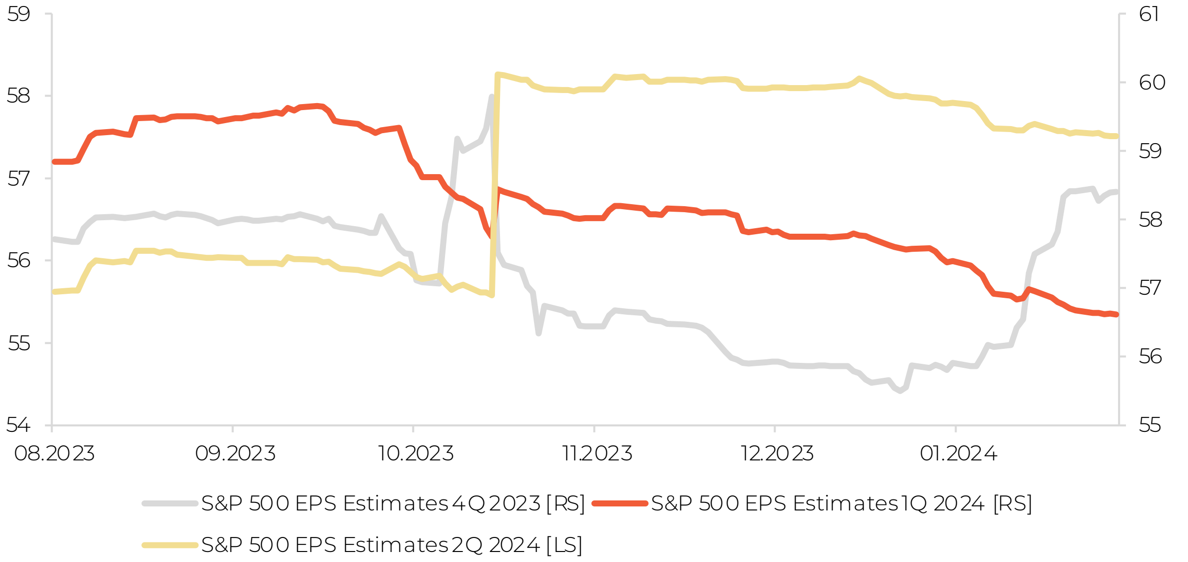
# Top charts of the week – revaluation of corporate profits

The best signal of future business expectations is their capital investment forecasts, which directly indicate their plans for additional capacity. At present, expectations are negative, which will continue to affect corporate profits.

### Dynamics of expectations regarding future plans for capital investments and industrial production




### Projected values of corporate earnings growth in the S&P 500



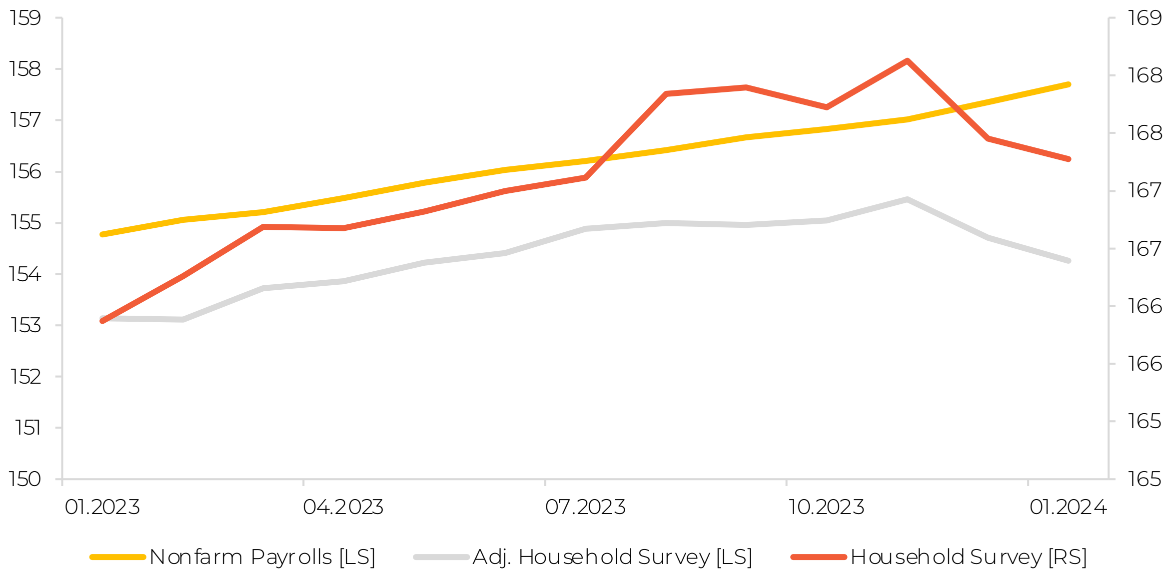

- There is a certain historical correlation between indicators of capital investment expectations and industrial production.
- At present, the dynamics of recent months indicate a certain decrease in companies' plans for future investments based on the macroeconomic conditions they observe. This may affect production going forward, which is expected to decline.
- Over the past month, companies' plans for investment have improved, which may indicate short-term optimism, as this data is not supported by the overall negative macroeconomic outlook, which does not provide a basis for further enhancement of the conditions for capital investment.

- Ultimately, such negative trends affect corporate earnings, which is already evident in the dynamics of revisions to S&P 500 EPS for Q1 2024.
- In the first months of winter alone, the market has already lowered its earnings expectations by 5% for Q1 2024, which is not the final value, as the reporting season is not yet over, the first quarter has just crossed its equator, and the overall impact of new inflationary risks is not fully reflected in the forecasts.
- Going forward, we see some risks of negative revisions to corporate earnings forecasts for the next quarters, which could send a negative signal to the market.

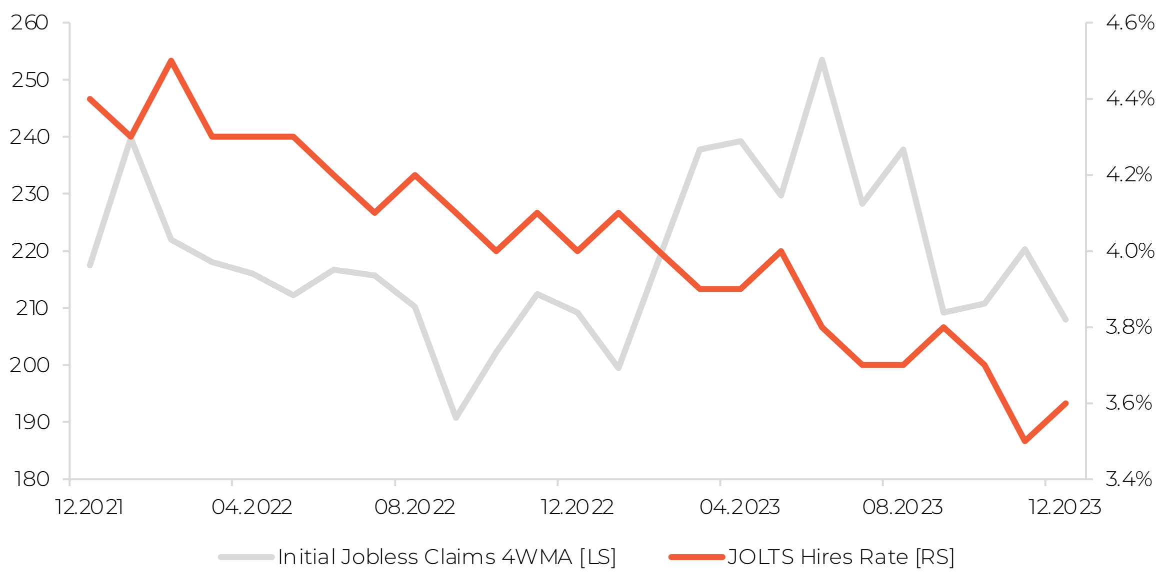
# Top charts of the week – controversy in the labor market

Today's labor market signals can sometimes contradict each other, a striking example being the dynamics of new jobs in nonfarm payrolls and household surveys, which, on the one hand, differ in their methodology, but have some divergence in trends.

**Dynamics of indices of new jobs in the economy, thousand**




**Dynamics of unemployment claims filed**




- Employment is one of the most popular indicators that demonstrates the creation of new jobs in the economy. According to the latest dynamics, employment continues to grow, which gives optimism to the market, increases the likelihood of a soft landing scenario and a certain illusion that the labor market is in a stable state.
- However, there is a number of data that suggest the opposite, for example, the so-called household survey, which has different dynamics. Moreover, the adjusted household survey is almost identical to nonfarm payrolls, but it also shows negative dynamics for several months. Thus, we conclude that the current labor market is ambiguous, which raises questions about its future dynamics.

- On the other hand, in contrast, there are data on new jobless claims, which have remained unchanged for a certain period of time (ranging from 200 to 220 thousand). Such dynamics does not generally indicate high levels of layoffs, but the dynamics of closing new vacancies, for example, indicates the opposite.
- Over the past 6 months alone, the JOLTS Hires Rate has dropped from 4 to 3.6%, indicating that companies are cutting back on current hiring. This shows some signs of negative trends in the labor market that may continue.

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

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