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Blackshield
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WEEKLY INSIGHTS

Short-term optimism outweighs long-term risks

Dynamics of key assets

Top charts of the week:

- the vulnerability of the European economy
- growth of European IT capitalization
- consumer sentiment in the US is deteriorating

Have a question for the team?

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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.

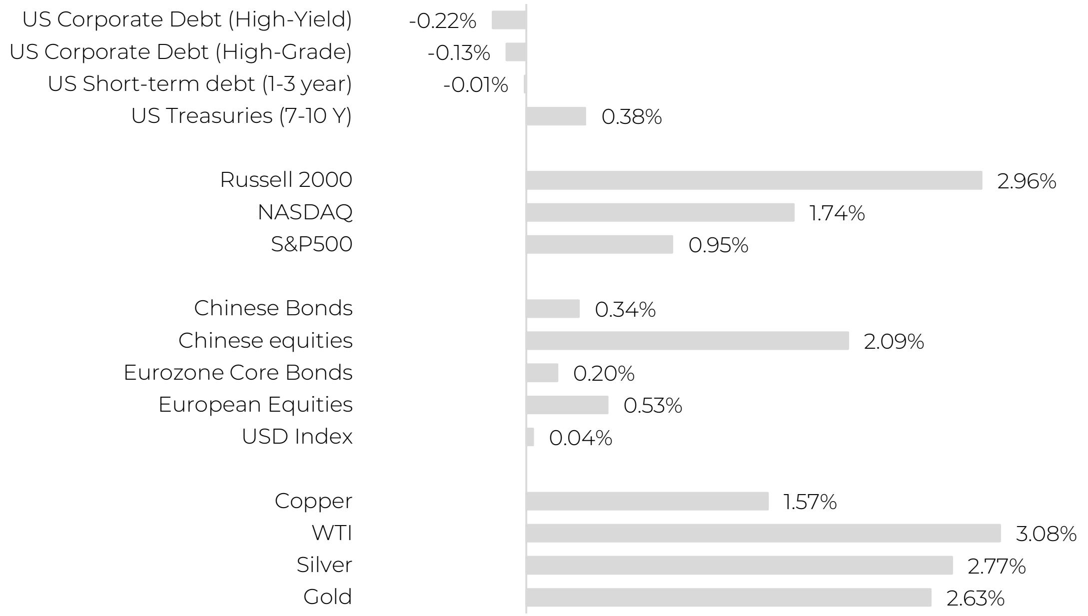
Our goal is to provide a deeper and clearer understanding of what is happening in the markets with an emphasis on illustrations, charts and visuals.

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

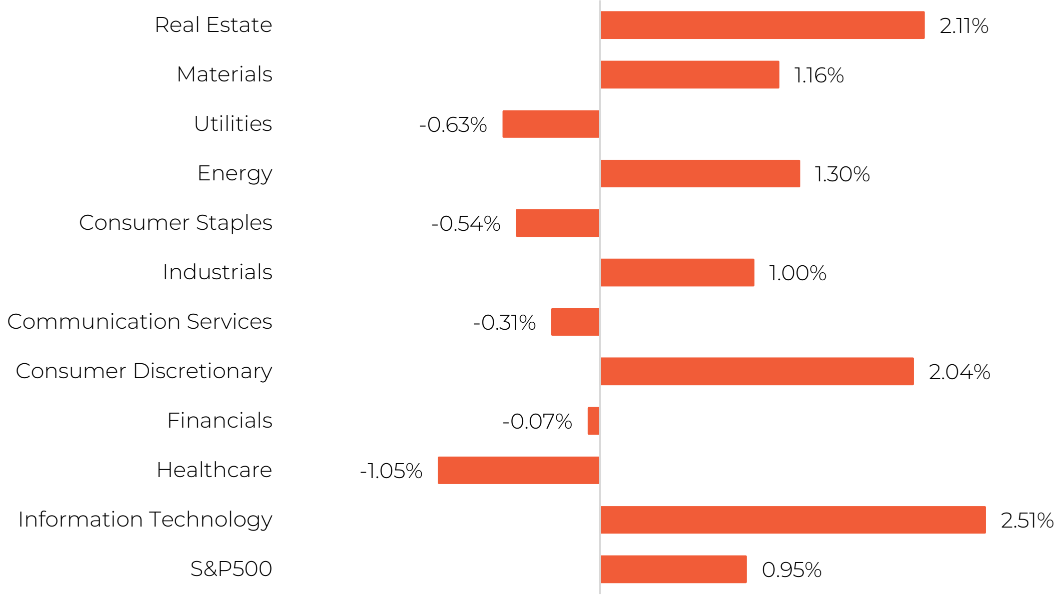
Last week was less volatile in terms of quotations. However, in US equities, there was a noticeable short-term shift of investors from defensive stocks to more cyclical ones. On average, price growth in commodity markets exceeded growth in other asset classes.

Dynamics by key assets for the week



- The week started on an optimistic note for investors, which was supported by the expected inflation data, which came in at the same level as the preliminary data.
- This gave a push to the overall growth of the US and European stock markets. China's stock market also continued to grow after the Chinese New Year amid increased government attention to maintaining investor confidence in its own stock market.
- Commodity assets, in particular oil and silver/gold, were the leaders of growth. While oil rose due to news of a possible reduction in production by OPEC, silver/gold rose on the back of lower real interest rates.

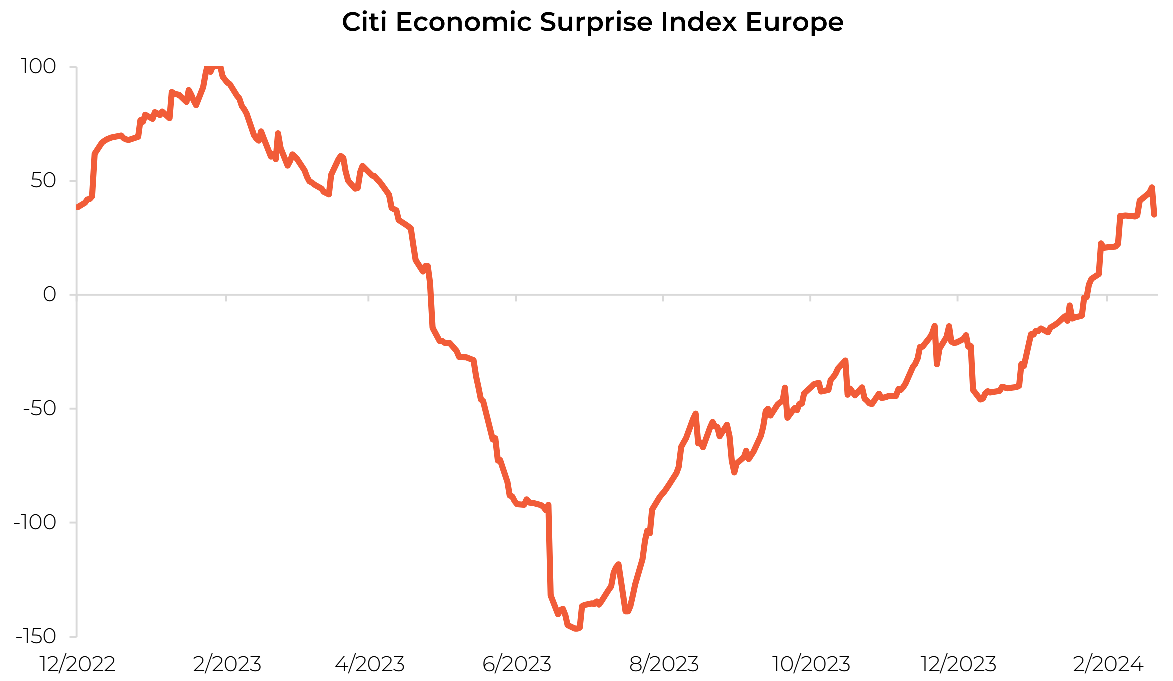
S&P500 index dynamics for the week



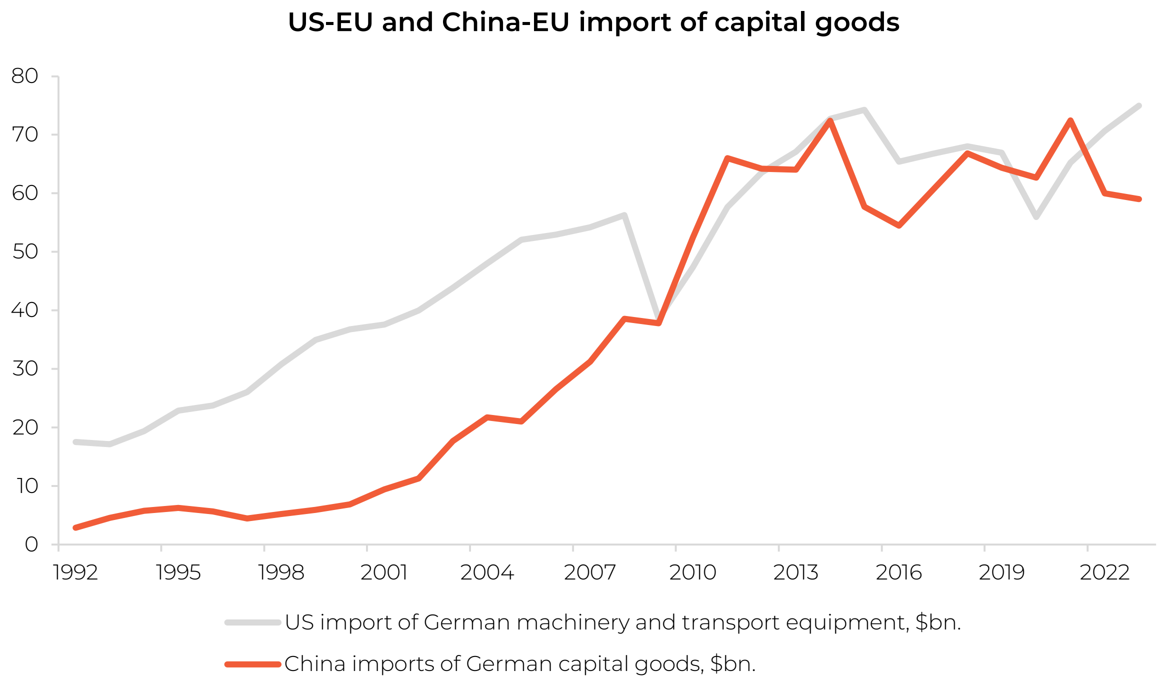
- Sectoral dynamics clearly showed a short-term change in the movement of the investor vector: a shift from defensive to cyclical/risky stocks.
- The IT sector, Consumer Discretionary, and Real Estate sectors showed the largest growth. In contrast, some of the leaders of growth since the beginning of the year - Healthcare and Communication Services - deteriorated in their valuations.
- In our opinion, given the low risk premium in equities, such shifts in investor interest are not sustainable, as they are based only on actual data on GDP, inflation and unemployment, which are inherently in strong contrast to leading indicators.

Top charts of the week – the vulnerability of the European economy

Despite the growing optimism in the European economy, based on the latest macroeconomic data, export risks remain due to Trump's election rhetoric in the United States, which may be seen as a vulnerability for the EU economy.



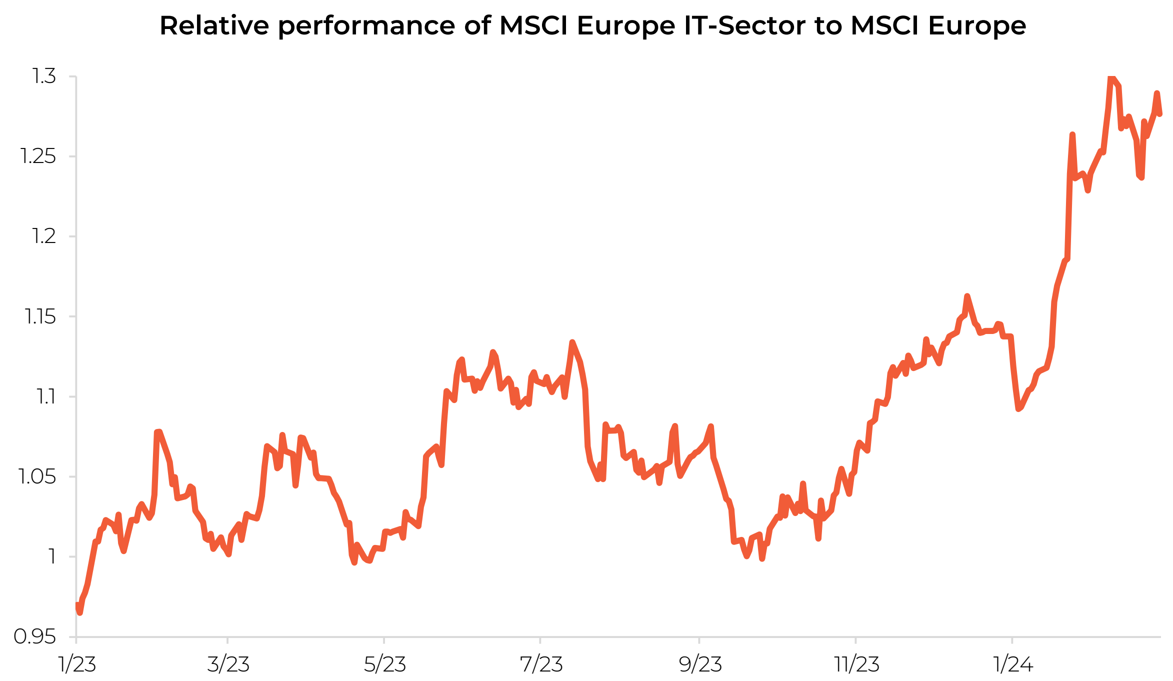
- Over the past few months, the European economy, like the US, has seen some shifts in expectations for 2024, as recent macro data increased the likelihood of a soft landing scenario in the economy.
- For example, based on the dynamics of the economic sentiment index, the market positively perceived the release of almost all data related to inflation, the labor market, and business activity starting in 2024. This gave a certain stimulus to revaluation and led to a 4% rise in the European stock market.
- However, the release of the latest data in the US also affected the prospects for the European market, which put the overall optimism on hold.



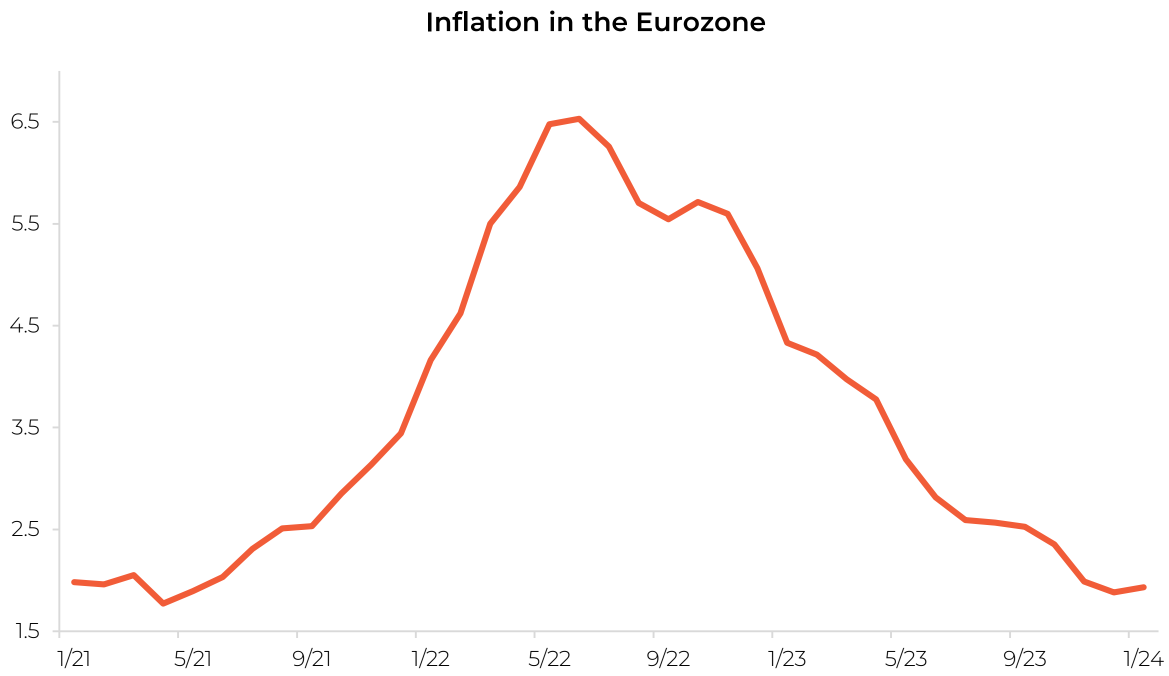
- Despite the existing risks to the EU (the threat of stable inflation, rising budget deficits, and increased military tensions), new negative factors affecting the European economy are emerging.
- This concerns Trump's rhetoric during his election program, which is aimed at protecting domestic producers in the industrial sector. As a result, such a policy may hit exports of durable goods from the EU (equipment for factories, machinery, and other mechanical means).
- Given that after Covid, the EU began to reorient its exports of these products from China (still the EU's main trading partner) to the United States, this could pose a problem for one of the most important sectors of Europe's economy.

Top charts of the week – growth of European IT capitalization

The EU has a different pace of achieving its inflation target than the US, which accelerates monetary easing. This has a direct impact on the faster growth of risky stocks, but given the greater weakness of the EU economy, it indicates that these stocks are somewhat overvalued.



- Comparing the overall quotes of the European IT sector with the state of the US stock market, we see similarities in the dynamics since the end of 2023.
- The main driver, as in the US market, was the release of better economic data (in particular, lower inflation), which gave the markets an incentive to positively revise their forecasts.
- As a result, investors increased their allocations to riskier stocks, in particular to IT stocks, which may indicate a certain degree of overvaluation of this sector relative to the overall stock market.

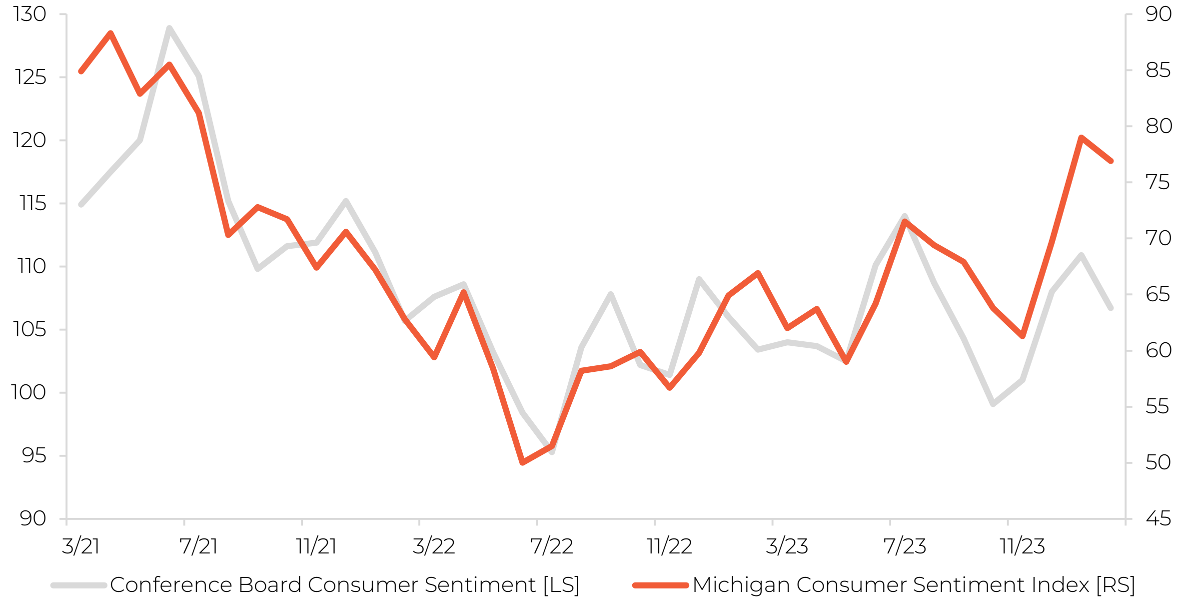


- Drawing parallels with the situation in the United States, the European Union has managed to achieve a lower inflation rate over the same period of time, which allows the central bank, and thus the market, to expect an earlier interest rate cut.
- For example, as of the end of February, the US market is already expecting 3 cuts in 2024, while in the EU this value is within 4.
- However, the ECB also takes into account the threatening causes of a new wave of inflation, which may make their first steps towards monetary easing more cautious. Moreover, it is worth keeping in mind the overall state of affairs in the EU economy, which is primarily less stable than in the United States.

Top charts of the week – consumer sentiment in the US is deteriorating

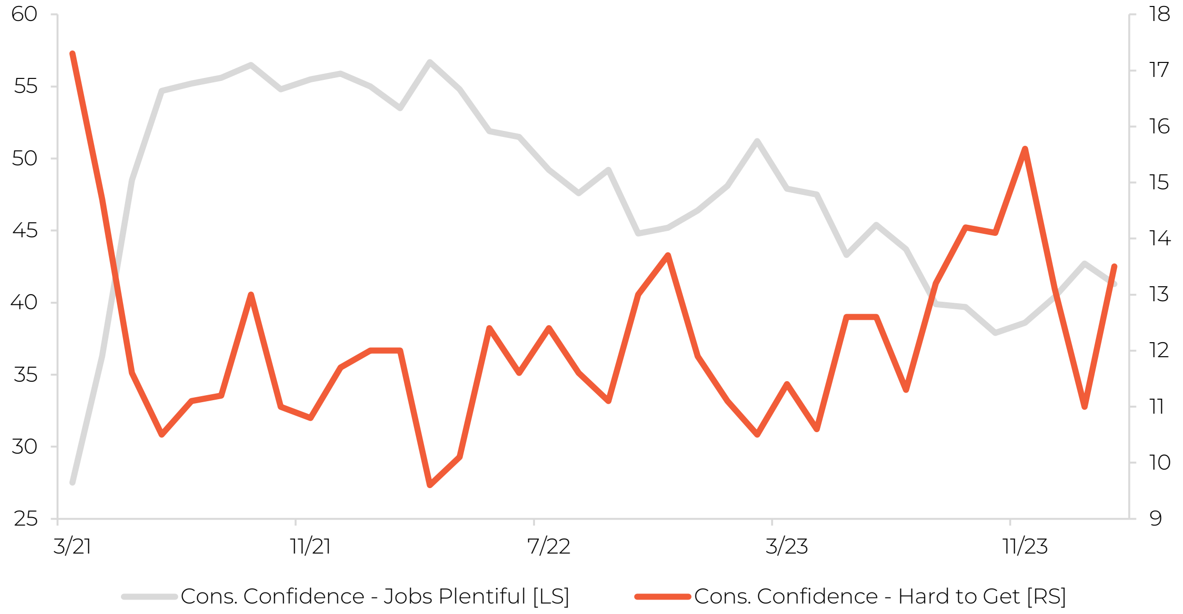
Last week's data clearly indicated the first decline in consumer sentiment in 4 months. This is primarily due to higher prices, in particular for fuel, as well as a deterioration in the labor market.

Dynamics of consumer sentiment in the US



- The latest data showed a decline in consumer sentiment in all categories (both by age and income). The data came in lower than market expectations.
- Amid a decline in the accumulated cash cushion, this is a more negative signal for the market, which may directly indicate a lower opportunity for domestic consumption.
- As a result, this could lower expectations for future corporate earnings. On the other hand, a single monthly data release is not enough to capture an overall negative trend change in consumer sentiment.

Indicators of the possibility of finding a new job in the United States



- The biggest factors that worsened consumer expectations were the general rise in fuel prices and the state of the labor market.
- With regard to the labor market, consumers increasingly pointed to the difficulty of finding a new job, which can be seen in the dynamics of the index for the number of new jobs (Jobs Plentiful) and the difficulty of finding a new job (Jobs Hard To Get).
- At this point, it is clearly correlated with other labor market indicators that also reflect the difficulty of finding a job.

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

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