Blackshield Capital

11.03.24 – 17.03.24

WEEKLY INSIGHTS

Another month – another bad macro print

Dynamics of key assets

Top charts of the week:

- it is harder to find a job in the US labor market
- hopes for a reduction in service inflation
- small business suffering continues

Have a question for the team? CONTACT US

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.

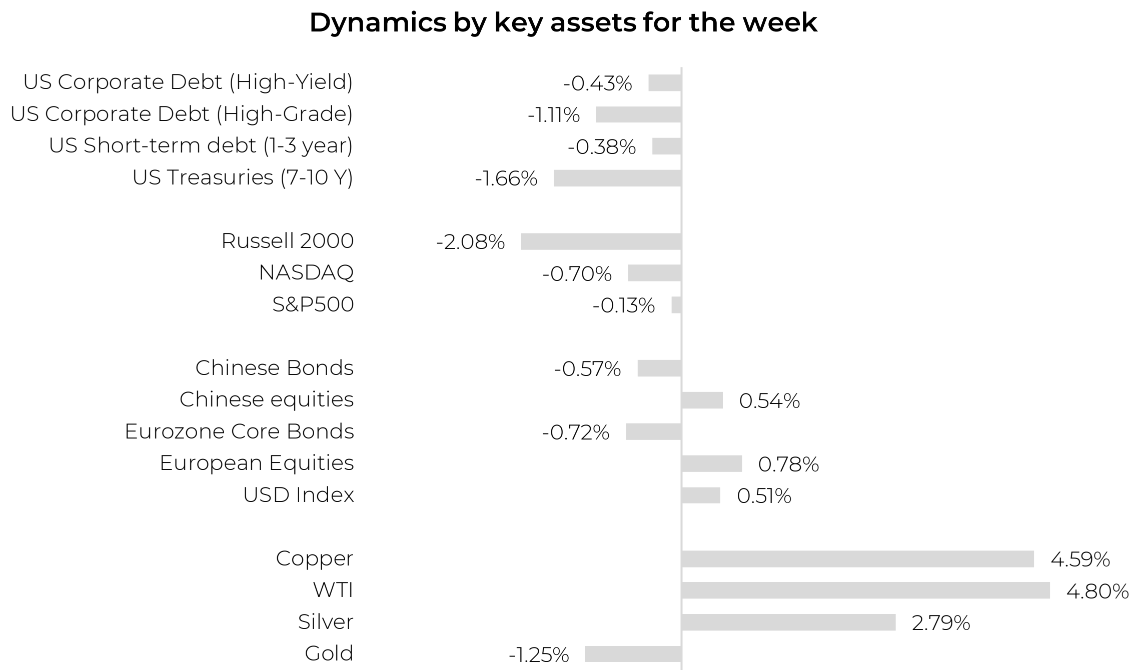
Interest rates, the real estate market, employment and unemployment, inflation and corporate profits are just a few of the variety of factors affecting asset and security pricing.

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.

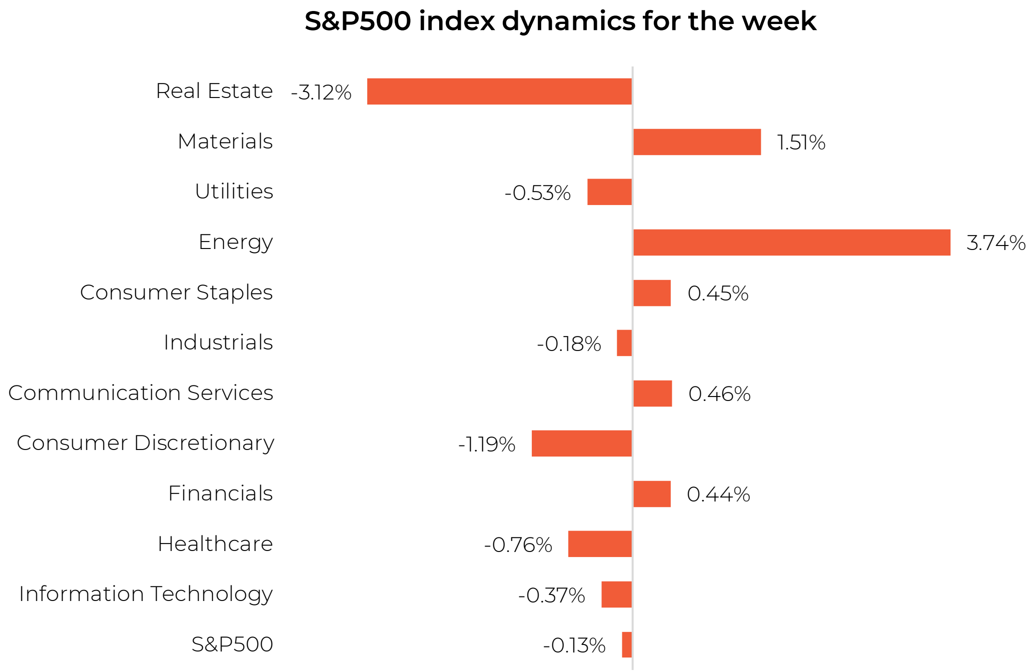
Weekly Insights will provide a more detailed look at industry specifics, delve into the nuances of price mechanics, and provide a more detailed understanding of our strategic vision offered in our quarterly strategic reports.

Dynamics of key assets

The middle of the month is full of macroeconomic data, which last week led to negative market reactions. In particular, data on US inflation, retail sales, and consumer sentiment led to a decline in US stock market quotes.



- Last week was full of various categories of macroeconomic data that pointed to a further deterioration in the US inflation situation, which shook the US and affected the European markets.
- Amid economic uncertainty, the US dollar strengthened, rising after 2 weeks of decline.
- At the same time, the commodity market continued to grow, with the largest gains recorded in oil and copper prices. In contrast, gold quotes dropped due to lower expectations of lower rates, while silver, on the contrary, received a positive price impulse.

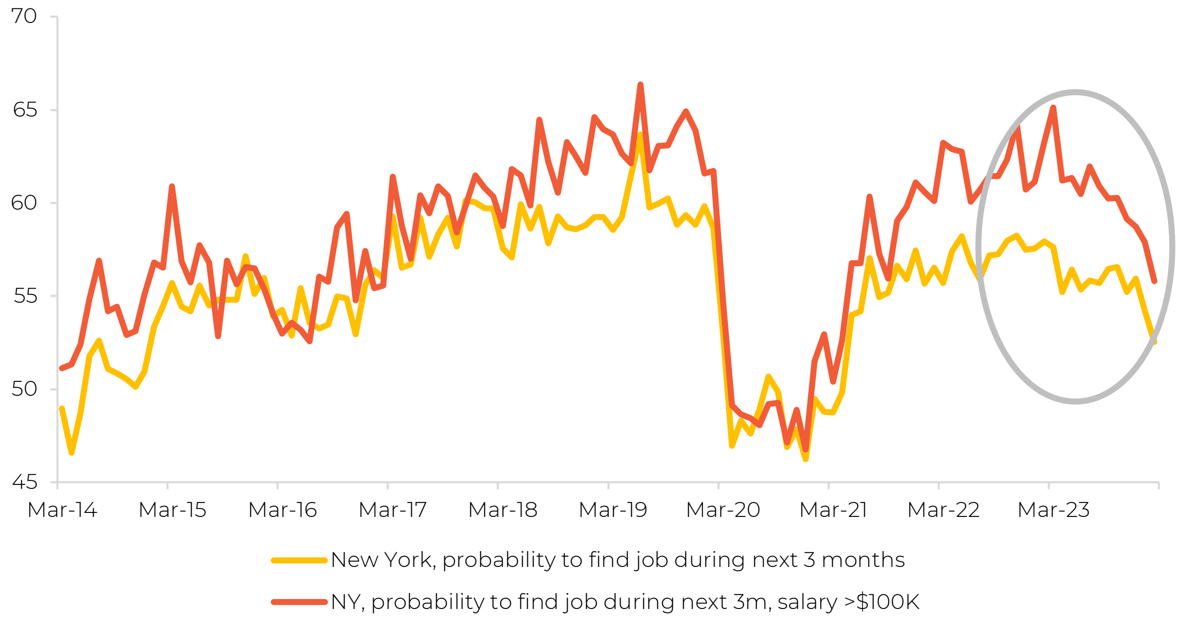


- The release of ambiguous macroeconomic data led to an increase in daily volatility on the stock market. The main beneficiaries this week are the Energy and Materials sectors, which are positively sensitive to rising inflation.
- While on Wednesday and Thursday the S&P 500 index held its own on average due to the growth of BigTech companies, on Friday almost all sectors were in red territory.
- However, it is worth noting that with the largest daily decline over the past week (on Friday), there was a flow of funds into more defensive stocks, which closed in a positive trajectory against the background of the entire market.

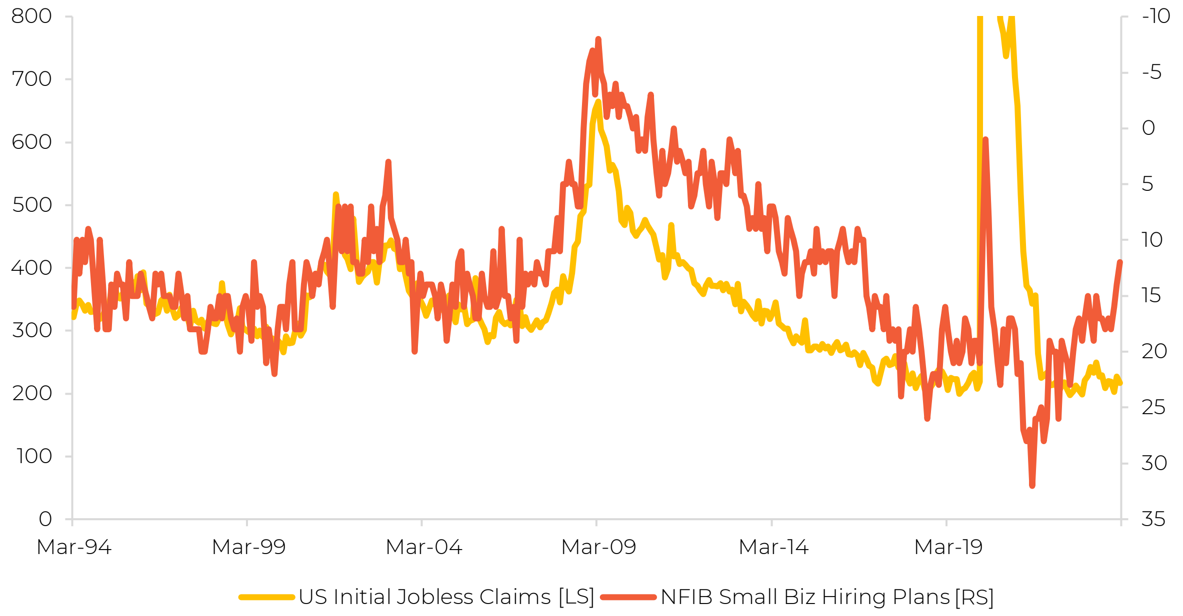
Top charts of the week – it is harder to find a job in the US labor market

Although the unemployment rate is fairly stable, as we noted earlier, there are several leading indicators that may point to further growth in unemployment. One such indicator is the difficulty of finding a new job, which, as we have seen, continues to decline.

The likelihood of finding a new job in the next 3 months is decreasing



Dynamics of hiring new workers in small businesses and unemployment claims



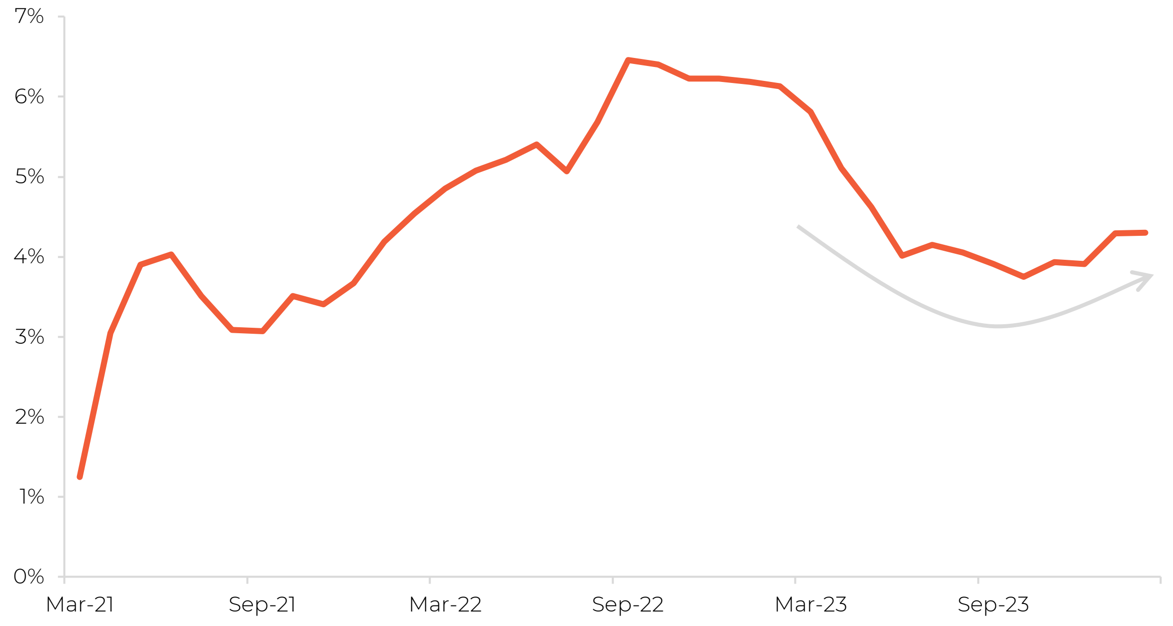
- Predicting recessions is not the best topic for investment bank analysts, as banks are usually interested in trading activity.
- After last year's unambiguous recessionary consensus, this year we see the opposite picture, with average recession expectations at zero. This is a good time to take a contrarian position.
- Despite the growth of some cyclical indicators, the structural deterioration of the labor market is evident. Confidence in the ability to find a job in the near future has declined significantly, especially among highly paid employees. This magnitude of the labor market does not correlate with a cyclical economic recovery.

- At the same time, small businesses are declining in their hiring intentions, outpacing the broader labor market.
- Despite the structural changes in the labor market since the post-COVID period, the rising rate of layoffs (as a result of corporate decisions to optimize costs) or voluntary resignations, as well as the decline in companies' intentions to hire new employees, along with the opportunity to find a new job, clearly indicate a slowdown in the economy and negative shifts in the labor market.

Top chars of the week – hopes for a reduction in service inflation

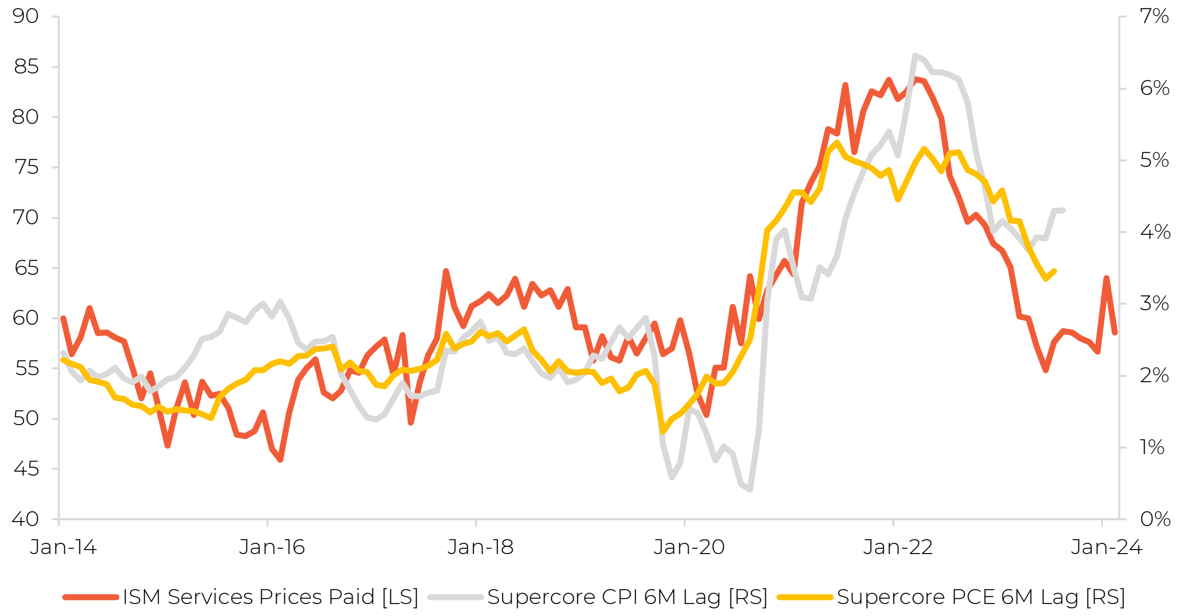
The past week has clearly brought negative news about the future dynamics of inflation and confirmed its persistence, which the market had not previously seen at the end of 2023. However, there are some early indicators that may point to a medium-term reversal in service inflation.

Dynamics of core inflation in the US



- The latest data has clearly reduced market expectations that the jump in inflation in January 2024 was a one-time event, as both consumer inflation and producer inflation came in above market expectations.
- Previously, it was often claimed that the real estate market was the main problem of inflation sustainability. However, if we look at the Supercore CPI chart, which takes into account only inflation in the service sector without the real estate market, we see that price growth has been steady at 4.3% in January and February.
- It is this type of inflation that is the most difficult to overcome, as it directly depends on real wages, which continue to grow at rates above the 3-year average.

Dynamics of ISM Services Prices Paid and Supercore CPI and PCE



- However, a good indicator for the forecast of the so-called supercore inflation is the indicator among business surveys on expected selling prices in the service sector.
- The latest dynamics of this indicator, which on average predicts inflation over a 6-month horizon, showed a turning point in its trajectory in February.
- Based on this estimate, we can assume that future inflation in the service sector will somewhat slow down, but whether this will be enough for the Fed to start cutting rates remains in question.

Top charts of the week – small business suffering continues

Small businesses are the most sensitive among companies during a period of high interest rates, which is currently having the greatest impact on the quotes of small-cap companies. Moreover, the latest data on optimistic sentiment among small businesses continues to decline.

Dynamics of NFIB Small Business Optimism

- According to the latest data, small businesses are feeling increasingly worse about the economy, with the value of the optimism index among companies falling to almost 10-year lows.
- The main obvious reasons are high interest rates, which continue to put pressure on small businesses. According to statistics, about 61% of all surveyed companies continue to state that they are not currently interested in lending in the current economic environment.
- Other factors include high inflation, which affects profitability, as well as the level of capital investment that companies are unable to maintain for their expansion.

Dynamics of the Russell 2000 index relative to the S&P 500

- These factors directly affect the quotes of small-cap companies, which experience fewer positive revisions to revenue or profit, as well as a lower level of EPS Surprise based on the reporting results.
- In particular, the Russell 2000 index lags far behind the overall stock market despite the positive sentiment among investors, which is quite paradoxical. However, it is explained by the economic conditions in which they are operating.
- In general, since the beginning of the year, the Russell 2000 has closed at 1.14% (as of March 15, 2024), which is several times less than the growth of the S&P 500 (7.80%) or NASDAQ (8.05%).

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

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