Blackshield Capital

25.03.24 – 31.03.24

WEEKLY INSIGHTS

Finding investment opportunities amidst economic risks

Dynamics of key assets

Top charts of the week:

- high risks for regional banks
- full-time employment is declining
- the level of investment in mining is weak

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.

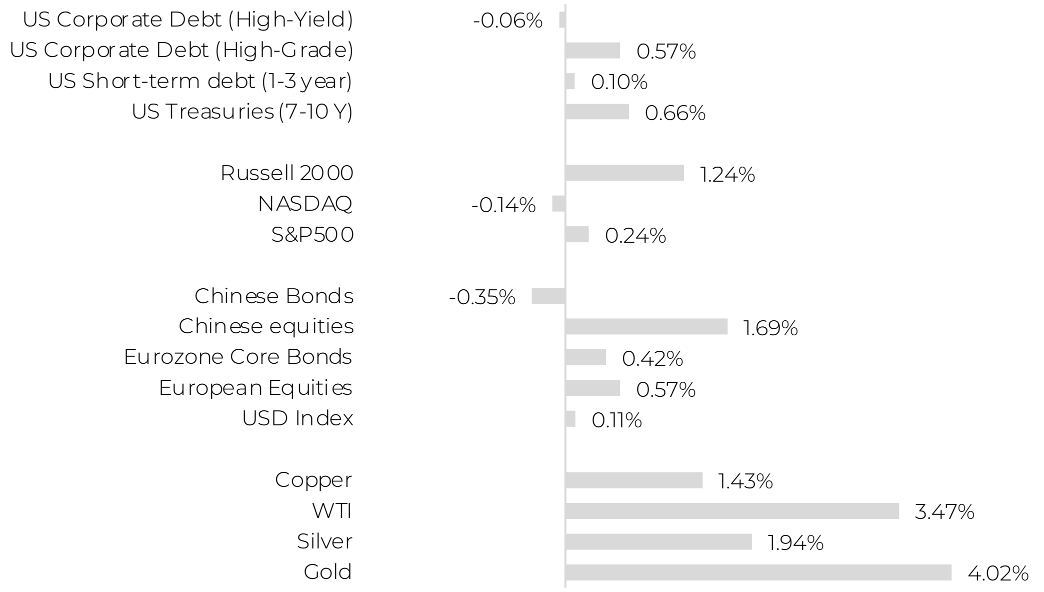
Our goal is to provide a deeper and clearer understanding of what is happening in the markets with an emphasis on illustrations, charts and visuals.

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

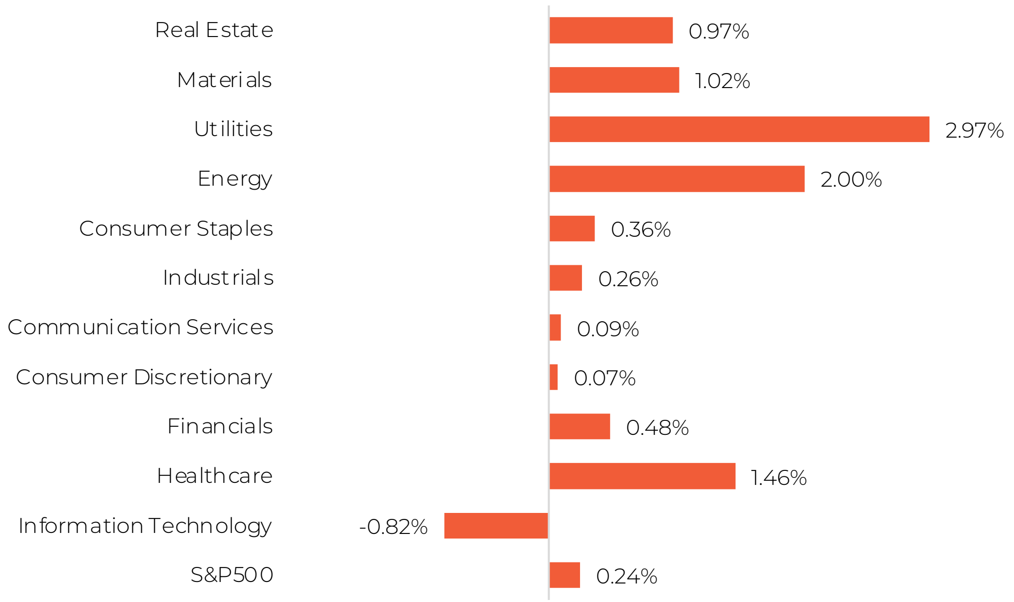
Last week was relatively calm, with no radically new information flow for the financial markets, but there was a positive difference between asset classes in favor of commodities.

Dynamics by key assets for the week



- In terms of assets, it is difficult to identify obvious losers of the week, while growth in the commodity market can be easily observed.
- In particular, gold was the top performer this week, rising 4% amid further stabilization of inflation expectations, demand from the Central Bank and geopolitical tensions. Despite the strengthening of the dollar and weak demand for gasoline from domestic consumers in the United States, oil prices also closed positively.
- As for the stock and bond markets, the previous week was more of a break for investors after rising by more than 2%. However, next week could be more positive, given Friday's positive inflation data.

S&P500 index dynamics for the week

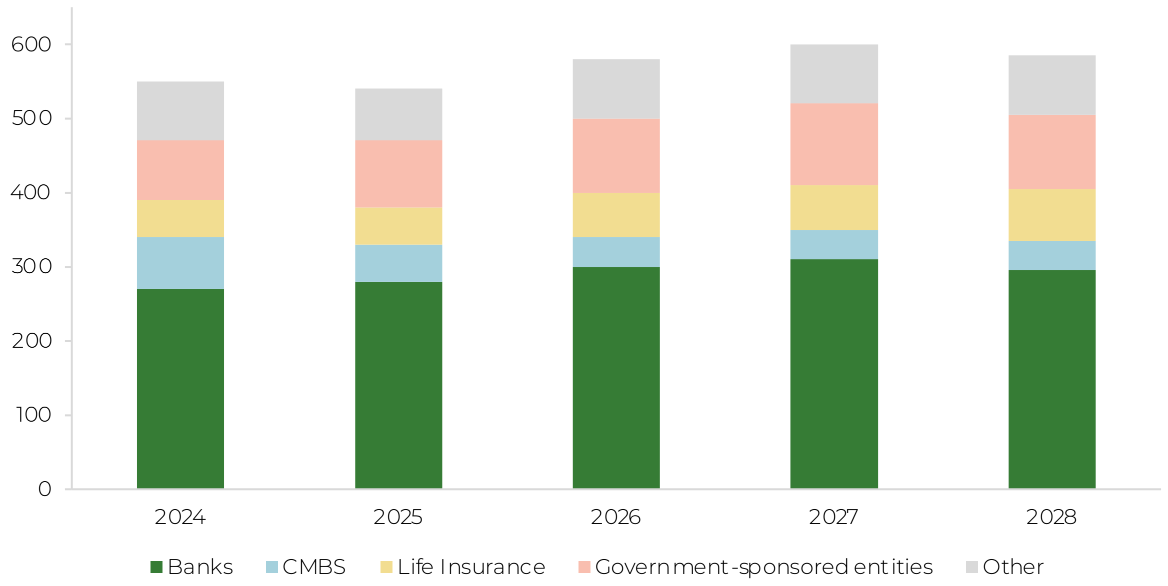


- Given the high concentration of companies from the IT sector in the S&P 500 index, this sector was the main constraint on the growth of the overall index.
- On the other hand, all other 10 sectors of the economy closed the trading week in the positive territory. There was an active growth of both defensive sectors of the economy (Healthcare and Utilities) and inflation-sensitive industries - Energy, Materials and Industrials.
- At the moment, the situation indicates the consequences of such a large disproportion within the index itself, which leads to a restrained growth of the stock market, despite the average growth in all other sectors of the economy.

Top charts of the week – high risks for regional banks

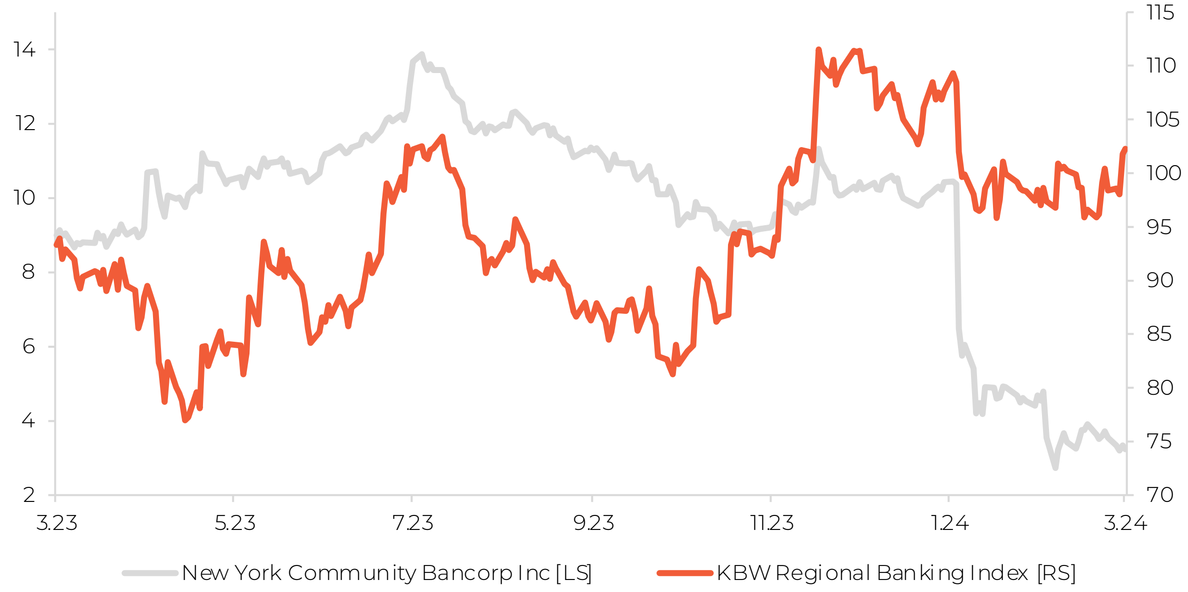
The regional group of banks is most exposed to revaluation due to its high dependence on commercial real estate lending, as their loan portfolio on average consists of 30% of this type of loans, which has risks of negative revaluation in the future.

Future maturities of commercial real estate loans in the U.S., billions



- According to the latest loan portfolio data for the financial industry, commercial real estate loans total approximately $5.8 trillion. Half of this portfolio ($2.8 trillion) matures in 2024-2028, with regional banks accounting for approximately half of this.
- Approximately 30% of the total loan portfolio of regional banks is made up of this type of lending. Given that banks have a large share of medium-term maturities in the near future, this poses certain risks to the banking industry, given the recent news of a negative revaluation of these loans by the NYCB.

Share prices of NYCB and a group of regional banks

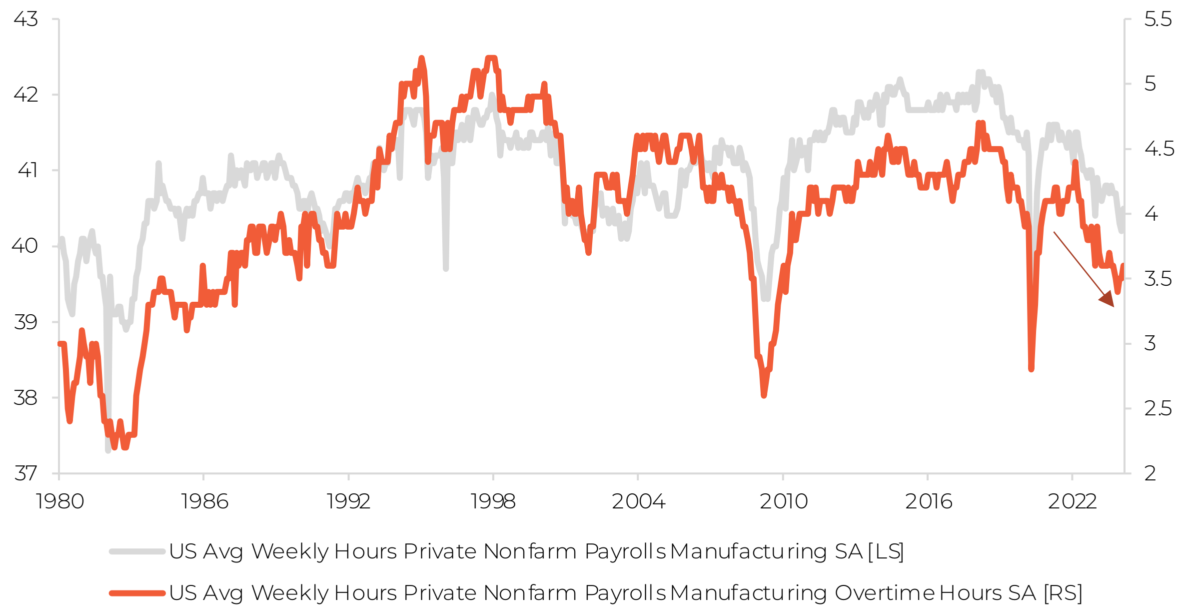


- The news about the state of the commercial real estate loan portfolio from NYCB stirred up the market in early 2024. However, this did not affect the quotes of the general group of regional banks, as the market expects that this is a purely operational issue at NYCB.
- Given the fact that this type of lending is currently problematic, the current valuation of regional banks poses certain risks to their future value.
- Thus, we are cautious about the situation in the commercial real estate market, and in the financial sector in particular.

Top charts of the week – full-time employment is declining

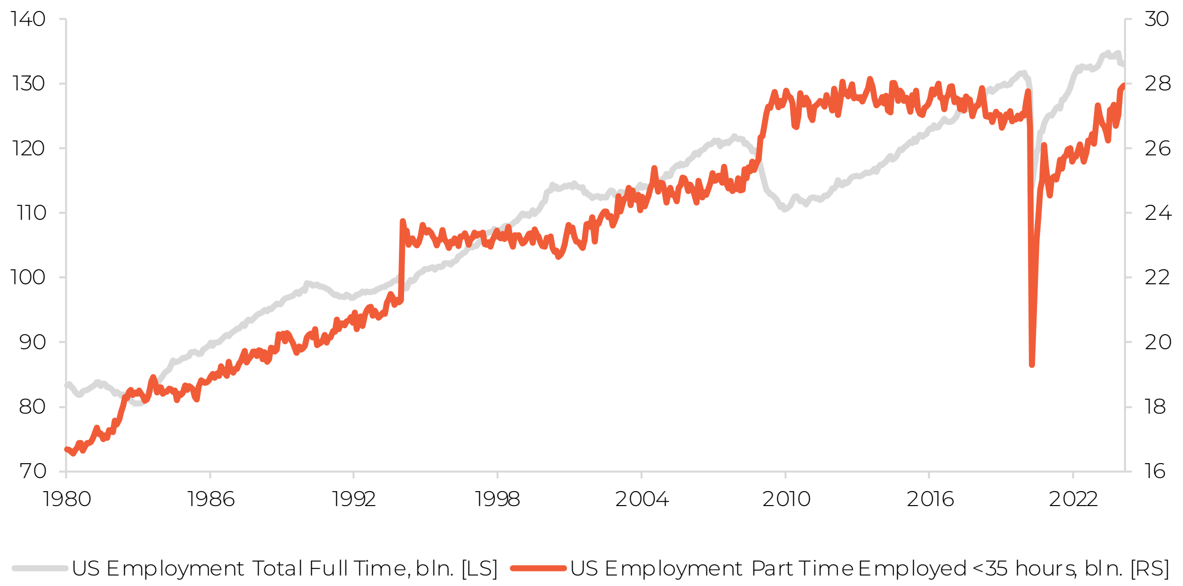
Currently, most global investment banks are paying attention to the fragility of the labor market. To date, the number of overtime hours worked and the number of full-time employees have also been declining, which is an early indicator of a turnaround in the labor market.

Dynamics of the number of hours worked by employees in the United States



- The latest dynamics show that the number of hours worked in the real sector of the US economy continues to decline in line with the trend that began in early 2023.
- At present, the level of hours worked per week has decreased from the peak post-COVID values of 41.5 to 40.5 in early 2024. This trend is not encouraging, as it indicates a lower workload of workers, which is a direct consequence of fewer orders.
- The same dynamics is also observed in terms of the number of overtime hours, which has decreased at a much faster pace from the post-COVID peak of 4.4 to the current 3.6.

Dynamics of the number of full-time and part-time employees

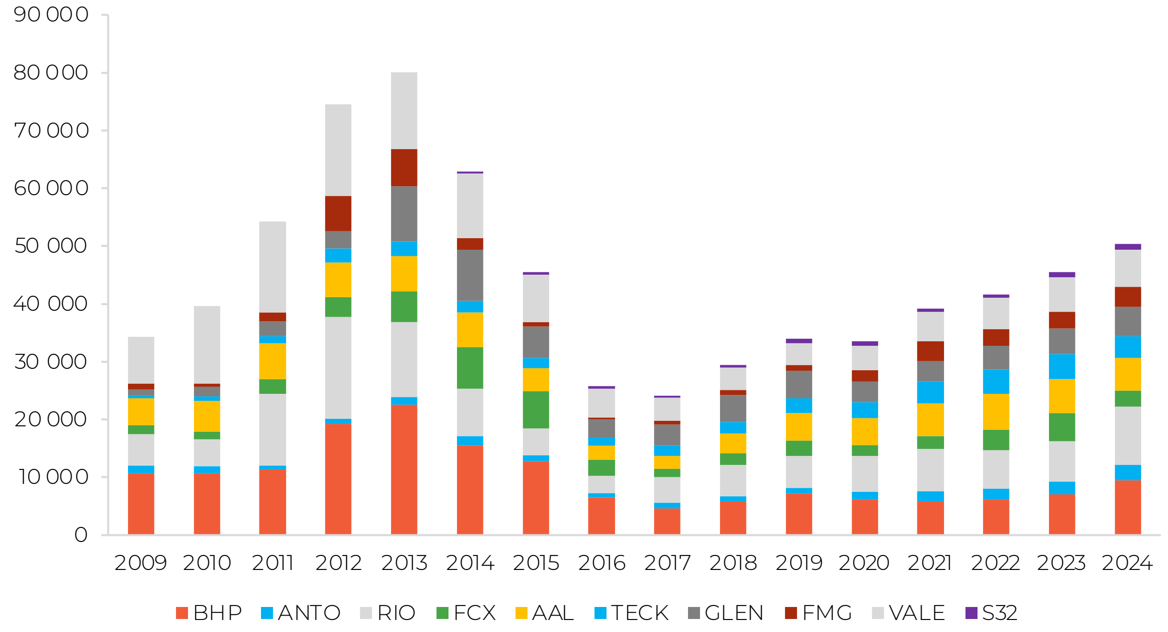


- Another interesting example is the ratio of full-time to part-time workers. This value began to diverge in its post-covid trend starting in 2023, when the number of full-time workers began to decline.
- Instead, the number of part-time workers has been growing in recent years. This may indicate that companies are starting to shift their employees to part-time work or are recruiting for part-time work.
- As with the first example of the number of hours worked, this trend is more likely to indicate that overall business activity is declining, particularly in terms of new orders.

Top charts of the week – the level of investment in mining is weak

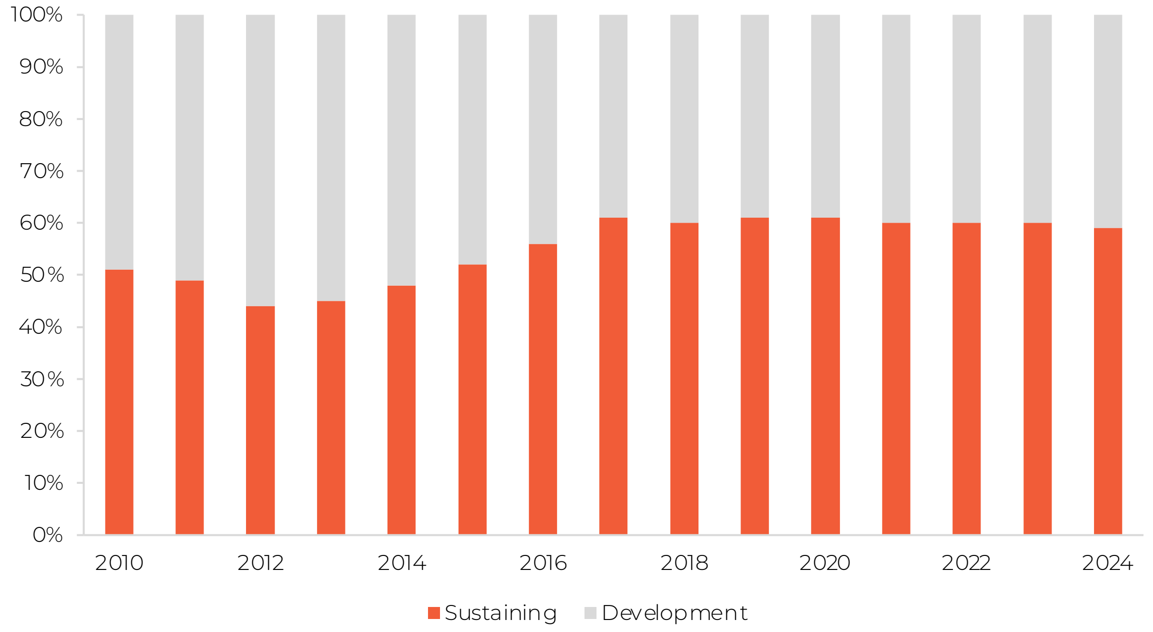
In recent years, the popularity of investing in metals has only grown. One of the reasons is the demand from large countries for infrastructure upgrades, changes in the direction of development of the automotive and manufacturing sectors, which drives up prices for various types of metals.

Dynamics of capital investments among the largest mining companies, $ billions



- The dynamics of recent years clearly indicate an increase in capital investment in new mining, particularly in metals. There are direct reasons for this, as a number of developed countries, including the US, Europe, and China, have launched programs to upgrade infrastructure, switch from ICE cars to electric cars, and reduce CO2 emissions.
- To implement these plans, countries need to increase production of a number of metals, including copper. This has given an incentive to most mining companies to increase their capacities, which is directly reflected in the growth of CAPEX over the past 5 years. However, even the current level is not comparable to the values of 2013, which indicates underinvestment in this area.

Structure of capital investments of large mining companies



- Moreover, when we split the level of capital investment into two groups: to maintain the current level of production and to expand capacities, we observe that the values of the second category are not comparable to the first.
- This confirms the thesis that there is a lack of investment in the development and expansion of capacities, which, on one hand, will indicate a lower supply on the market, and on the other hand, will push up metal prices.
- Thus, taking into account the current fundamental state of the industry, we believe that a number of metals, in particular copper, are attractive for investing.

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

hello@blackshield.capital

+41 43 456 25 92

Bahnhofstrasse 10, 8001
Zürich, Switzerland

Volodymyrska St, 4, 02000
Kyiv, Ukraine