Blackshield Capital

WEEKLY INSIGHTS

Stock market volatility has increased

Key assets dynamics

Top charts of the week:
- deterioration of small business sentiment
- inflation in the US continues to rise
- the impact of Magnificent 7 increases

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.

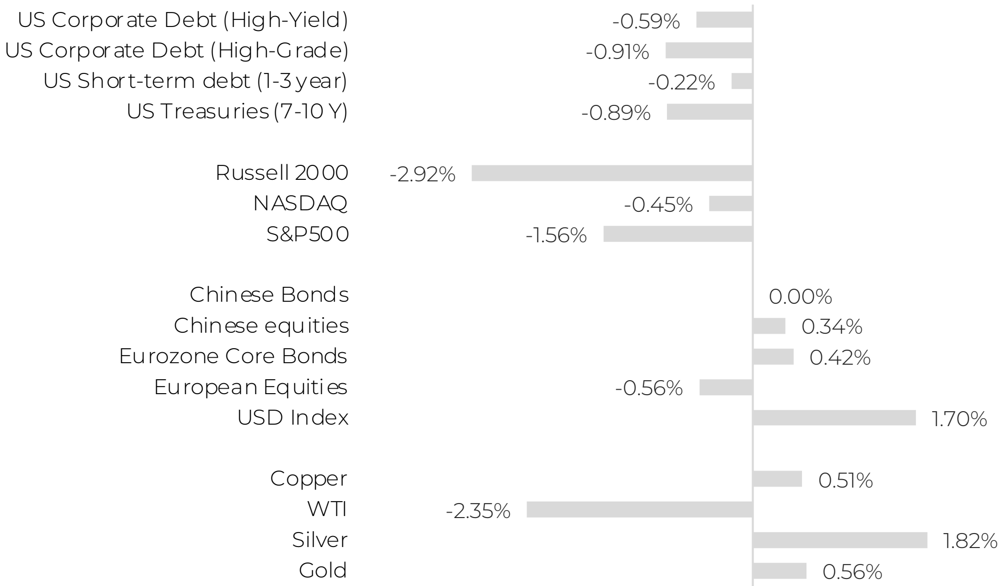
Our goal is to provide a deeper and clearer understanding of what is happening in the markets with an emphasis on illustrations, charts and visuals.

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.

Key assets dynamics

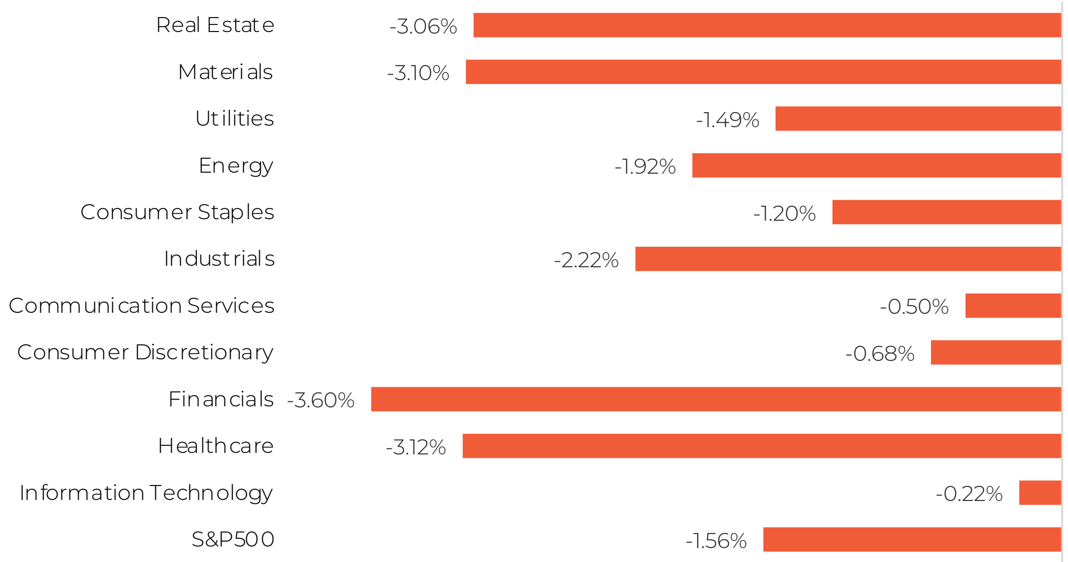
The past week was marked by rising volatility, which grew on the back of a new release of inflation that came above expectations, the escalation of the situation in the Middle East and a poor start of the reporting season.

Key assets dynamics for the week



- Last week's growth leaders were USD and, traditionally, silver and gold, which, amid the general negative sentiment in the financial markets, closed it's own trading session in positive trajectory.
- The US stock market experienced a slight correction based on the negative inflation reading, which triggered a revaluation of assets, including stocks and bonds.
- In contrast, the European equity market showed greater stability amid the ECB's decision and rhetoric, which indicated that it might cut rates as early as in June.

Dynamics of S&P 500 sectors for the week

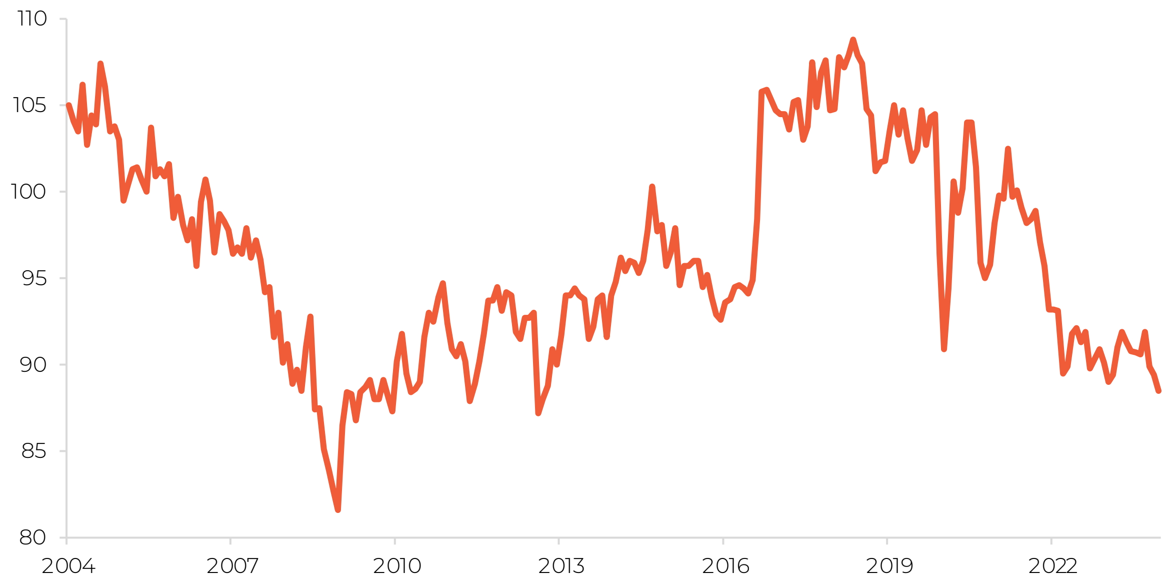


- Looking at the U.S. market by sector, for the first time in six months, the market has seen a complete sell-off across all sectors.
- The largest declines were recorded in Financials, Healthcare and Materials sectors. In contrast, the smallest decline was in the IT sector, which actually kept the market from falling further.
- At this point, we believe that this one-day correction in the stock market is a good example of what can happen when higher expectations are at odds with economic realities.

Top charts of the week - deterioration of small business sentiment

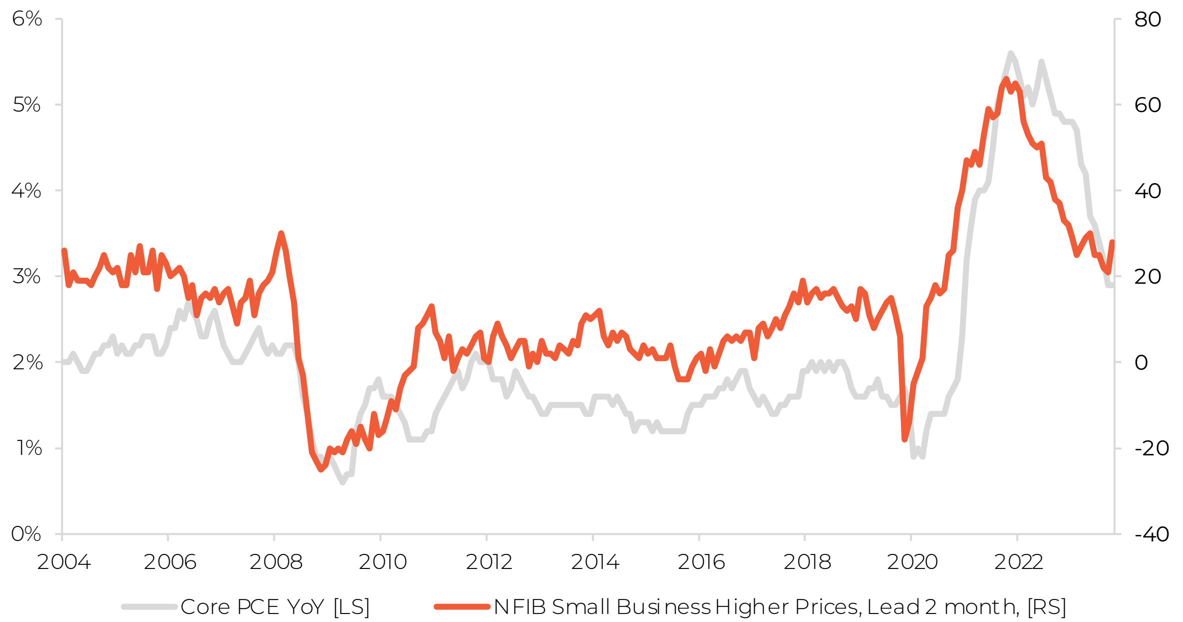
From month to month, we continue to see a downward trend in the NFIB Small Business Optimism index, which is currently at 2012 levels, raising some concerns about the resilience of small businesses.

NFIB Small Business Optimism Index



- The beginning of 2024 has become even more difficult for small businesses, which continue to suffer from high interest rates in the economy.
- According to the latest data for March 2024, the index of small business expectations for the next quarters is deteriorating and is currently at the levels of 2012.
- This trend over the past month is largely due to an increase in inflationary factors, which, on the one hand, push companies to raise prices and, on the other hand, cut costs. This may result in a new wave of layoffs, what we have written about in previous reports.

Small business inflation indicator and core PCE

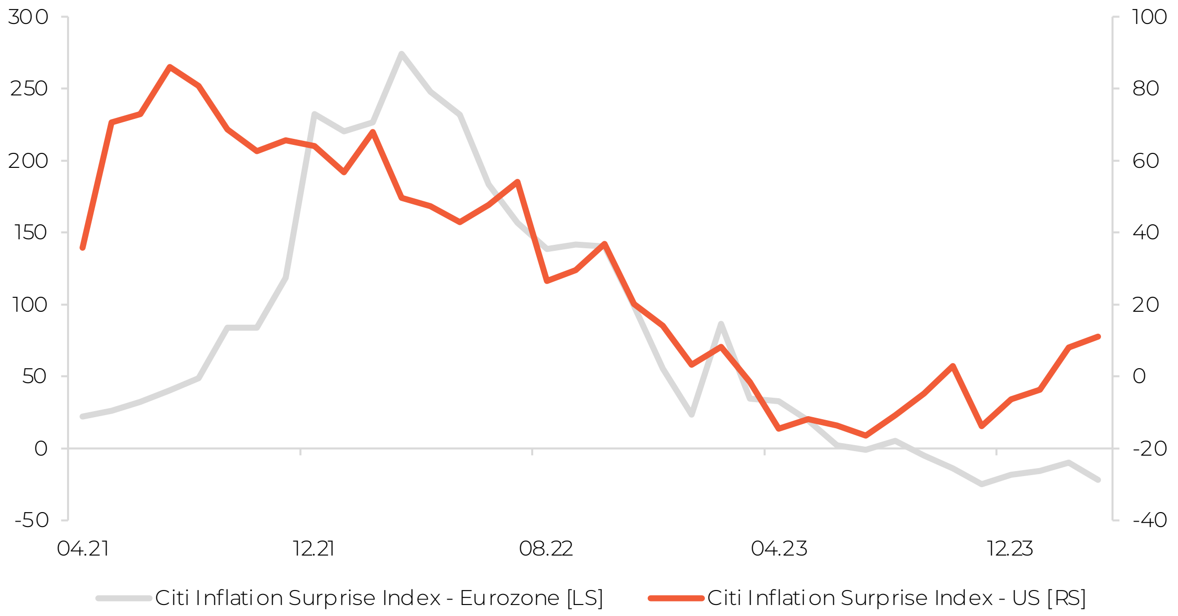


- Based on historical observations, the index of small business expectations for future changes in selling prices has a high correlation with the dynamics of the Fed's main inflation indicator - PCE.
- On average, the indicator of future selling prices is 2 months ahead of inflation. This suggests that the current dynamics of expectations for price increases by small businesses may directly indicate an increase in inflation in the future.
- Meanwhile, the CPI inflation reading for March 2024, which came out this week, indicates that inflationary pressures are continuing.

Top charts of the week - inflation in the US continues to rise

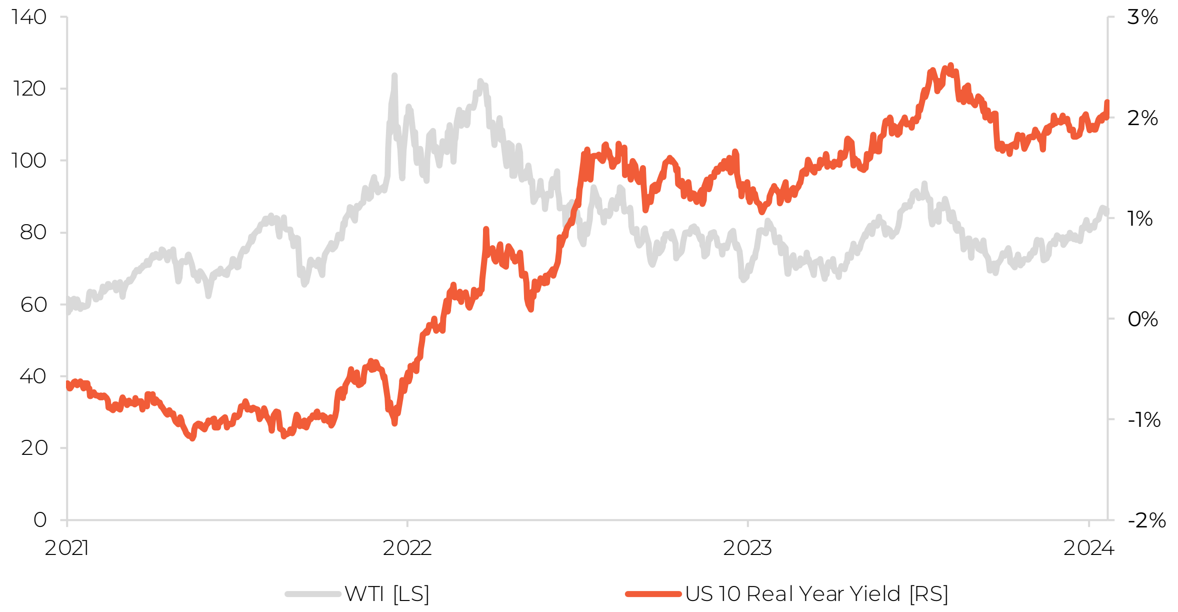
Despite the global impact of inflationary drivers, the dynamics of price growth in the EU and the US are different. Since the end of 2023, we have seen the rate of excess inflation expectations increase in the US, while it has been decreasing in the EU.

Citi Inflation Surprise Index for Eurozone and the US



- Today, in addition to internal factors such as differences in labor markets that put pressure on inflation, there are external factors, such as rising oil prices, which have an impact on the global economy.
- However, despite certain similarities between the drivers of price growth in all developed economies, the dynamics of exceeding inflation expectations is somewhat different in key global markets, the EU and the US.
- While inflation in the EU has largely been on a positive (downward) trend since the beginning of 2024, the opposite is true in the United States. This creates different grounds for further monetary policy, which emphasizes the importance of this divergence.

Oil price and US 10-year real yield

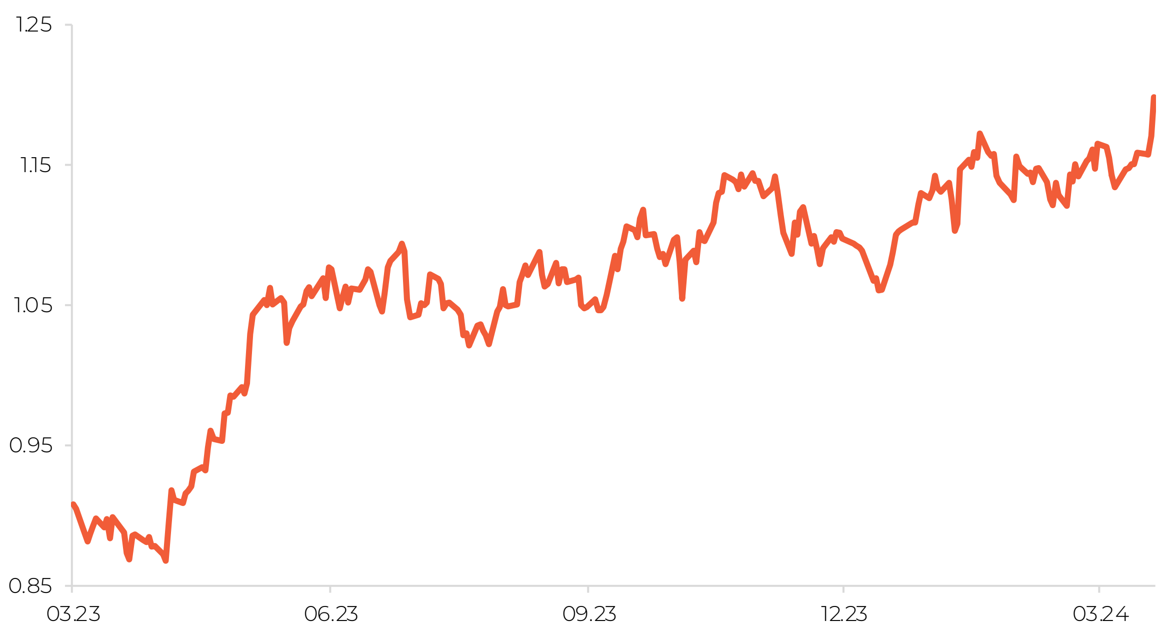


- Historically, it is a sharp rise in oil prices that can cause sharp changes in inflation forecasts, which are currently rising not only in the United States but also globally.
- Thus, despite a certain decline in inflation in the EU amid global energy price increases (which directly affect the pricing of goods), we believe that this divergence in the dynamics of price growth in the US and the EU is more temporary and is partly explained by the difference in the states of the economies, their structures and labor markets.
- We do not expect a significant misalignment of central bank decisions in Europe and the US, at least in the near future.

Top charts of the week - the impact of Magnificent 7 increases

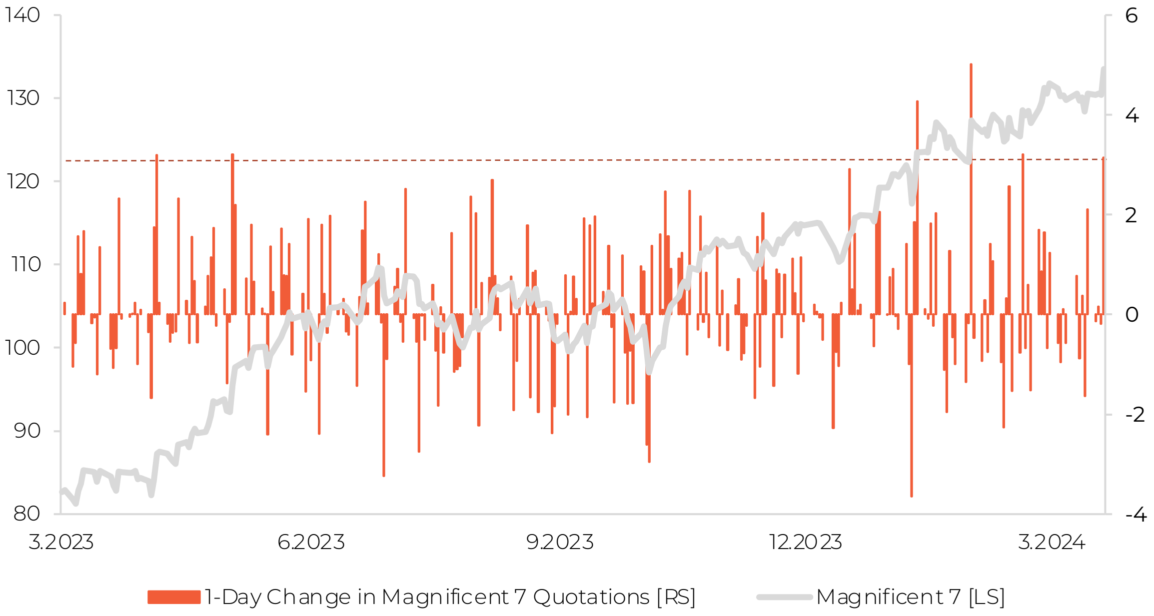
Despite the generally negative market sentiment amid rising inflation in March 2024, concentration in the indices only increased, indicating further divergence between the dynamics of Magnificent 7 group of companies and the S&P 500 excluding Magnificent 7.

Dynamics of Magnificent 7 relative to S&P500 Ex-Magnificent 7 quotations



- In the first half of the week, a wave of negativity due to rising inflation in March 2024 increased the risks of postponing the first interest rate cuts by the Fed. This had a direct impact on stock market prices, which were down 1%.
- Nevertheless, by the end of the week, the market re-entered a growth phase, during which a divergence in the quotes of the so-called Magnificent 7 group of companies and the S&P500 without them was recorded.
- As a result, at the end of the trading day, Magnificent 7's influence on the stock market increased, thereby exceeding its historical maximum.

Magnificent 7 quotations dynamics



- Moreover, there was almost the largest one-day change in Magnificent 7 quotes for 2023 and 2024.
- Given the latest macroeconomic trends (rising inflation, delayed interest rate cuts and the likelihood of rising unemployment), such sharp changes in the market vector towards increased concentration of a limited number of companies indicate an increase in internal risks.
- Thus, the current situation on the US equity market raises concerns about a future correction in the coming quarters, which could be triggered by both macroeconomic factors and an unsuccessful reporting season.

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

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