Blackshield Capital

15.04.24 – 21.04.24

WEEKLY INSIGHTS

Investor optimism declines due to rising economic risks

Dynamics of key assets

Top charts of the week:

- the probability of misleading Conference Board LEI dynamics increases
- decrease in the level of consumer savings
- negative signals for the semiconductor sector

Have a question for the team? CONTACT US

Blackshield Capital

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.

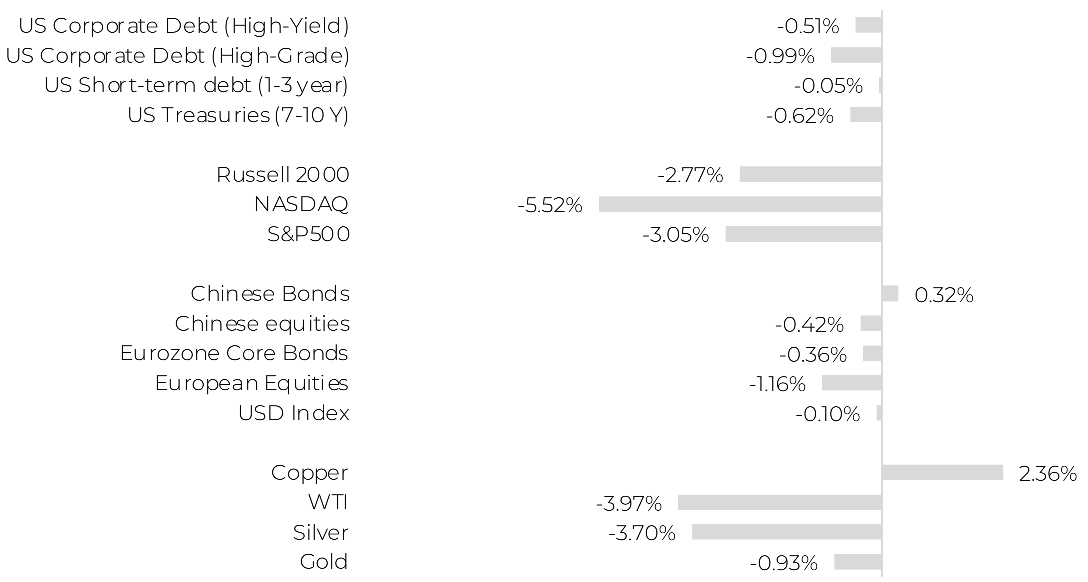
Our goal is to provide a deeper and clearer understanding of what is happening in the markets with an emphasis on illustrations, charts and visuals.

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.

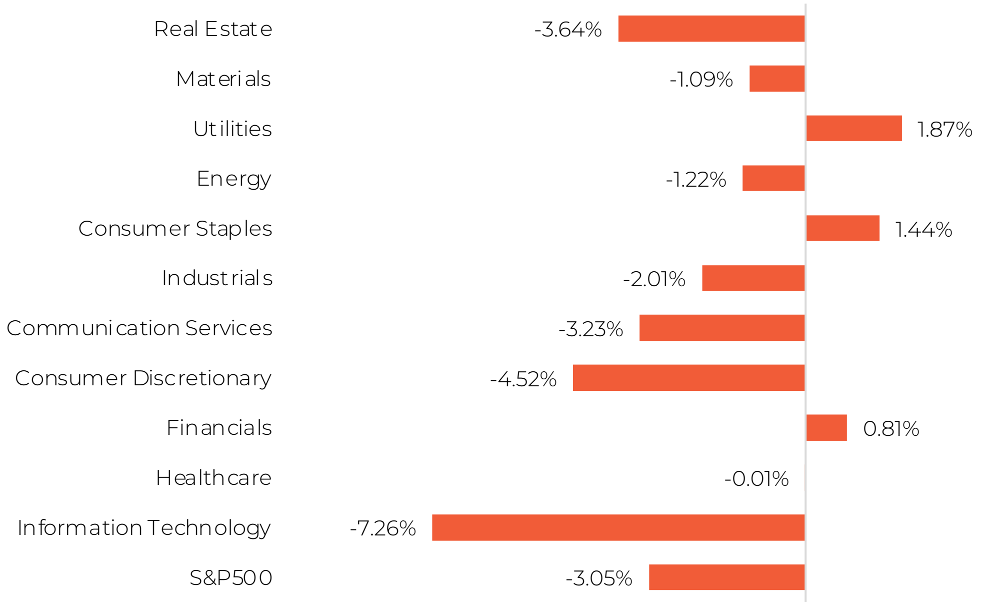
Dynamics of key assets

Last week, investor sentiment was completely negative amid a possible risk of a new wave of inflation, postponement of rate cuts by major global central banks and a possibly weak earnings season.

Dynamics by key assets for the week



S&P500 index dynamics for the week



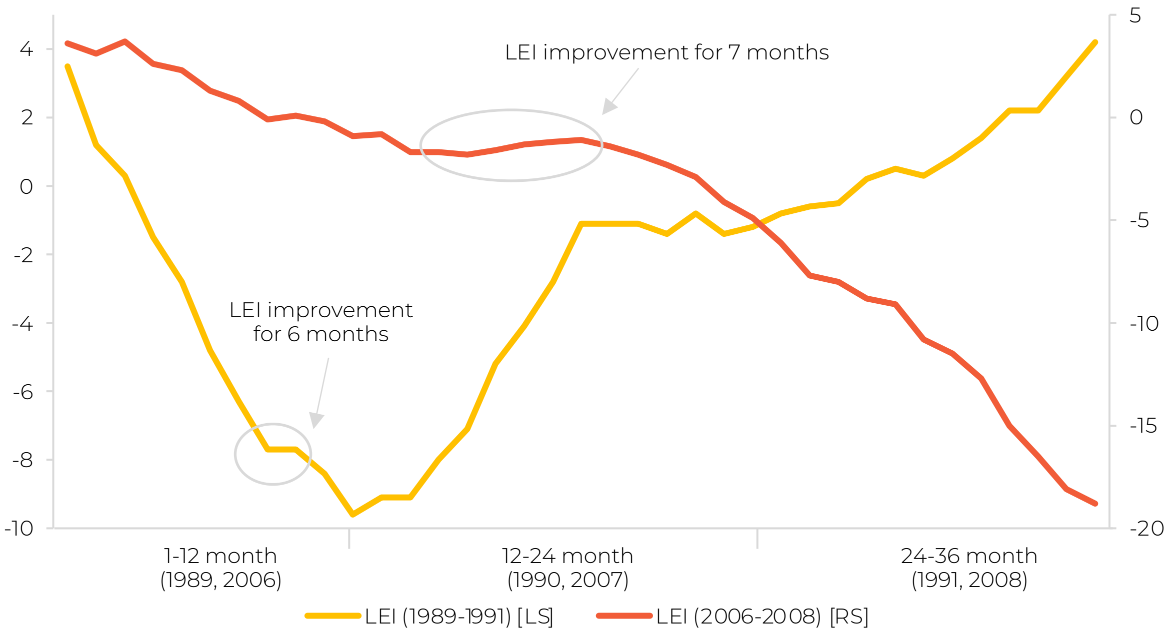
- Last week continued with an even greater decline in asset prices. In particular, the largest correction was recorded in the US stock market, which is currently down 5.5% from its peak at the end of March this year.
- The US stock market was also followed by the European market's correction, which, although was down by less, was also in the negative zone due to global risks of a new wave of inflation.
- Commodity markets also paused their growth, with oil, silver, and gold all declining for the first time in recent weeks. For example, the reason for the decline in oil prices was de-escalation in the Middle East.

- As for the U.S. stock market by sector, we are seeing a continuation of the overall decline in all industries except Utilities, Consumer Staples and Financials.
- The largest decline was recorded in IT sector, where the main reason for decline was not only technology companies with a smaller than average sector capitalization, but also the Magnificent 7 companies.
- Currently, we believe that the market will be focused on earnings season reports, which is in full swing. Further dynamics of corporate earnings may become the main trigger for further correction in the market, which is on the verge of a possible turning point.

Top charts of the week – LEI dynamics can mislead investors

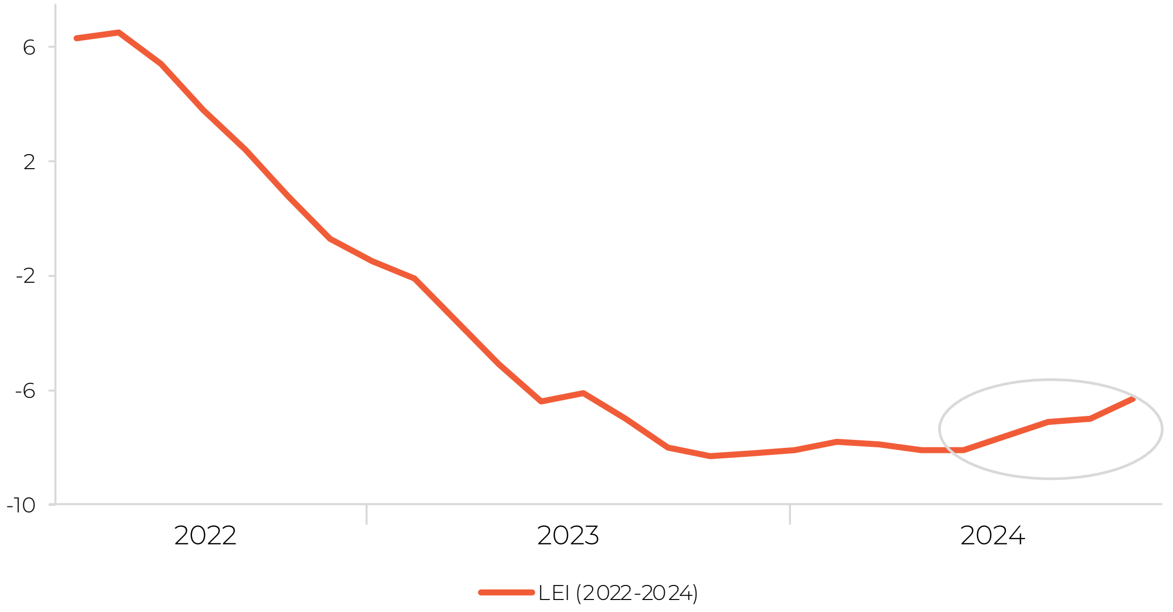
Recent positive Conference Board LEI dynamics, as the main leading indicator of the economy, indicates possible positive changes. However, historically, such short-term increases in the indicator can be deceptive, which periodically misleads investors.

Historical dynamics of Conference Board LEI in the pre-recession years



- Leading indicators, such as the Conference Board LEI, have historically indicated in advance the onset of a possible economic slowdown and problems in the economy leading to recession.
- However, despite these properties, a number of leading indicators, including the LEI, can be misleading in the short term. For instance, prior to the recessions in 1990 and 2008, LEI indicated an improvement in its own dynamics for six months, after which a recession commenced.
- Such misdirected leading indicator dynamics can create conditions for a so-called "bear market rally," which is a short-term market event.

Current dynamics of the LEI Conference Board

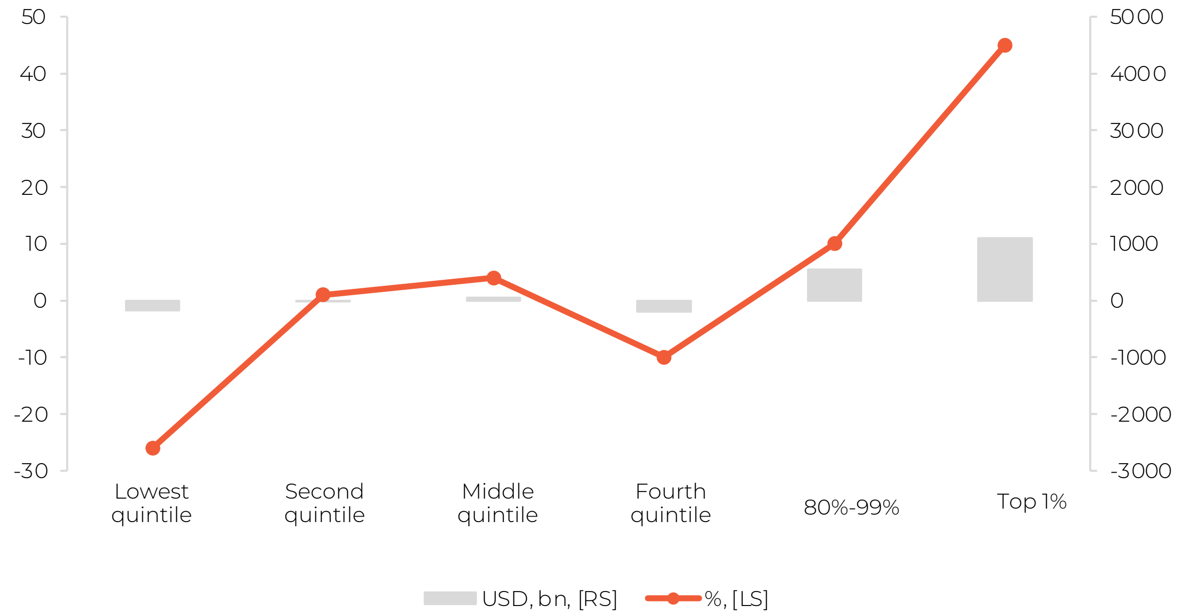


- Currently, we are seeing a similar picture: when, after a 2-year decline, there is a gradual increase in LEI, which, in our opinion, may again be a false signal to the market.
- The reason for this skepticism is the stability of service inflation, as well as a possible rise in goods inflation amid rising oil prices. The most effective way to address this level of inflation is through monetary tightening, which, of course, has certain consequences.
- After all, according to the Phillips curve rule, as inflation falls, unemployment rises. The growth in unemployment is a consequence of a decline in business activity, which is an indicator of a recession in the economy.

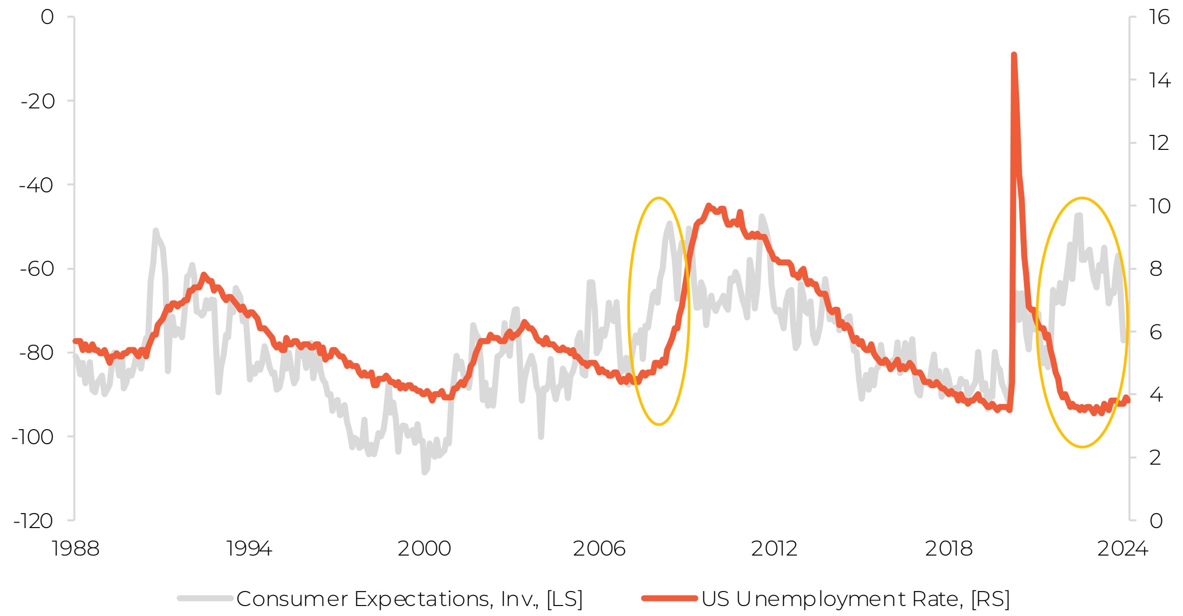
Top charts of the week – decrease in the level of consumer savings

Strength of the US consumer is the main driver of continued economic growth in 2023. However, in light of the near depletion of consumer savings, we anticipate a decline in consumer confidence, which could have a detrimental impact on economic growth.

Consumers liquid assets by income level, 4Q 2019 - 3Q 2023



Dynamics of consumer expectations and unemployment



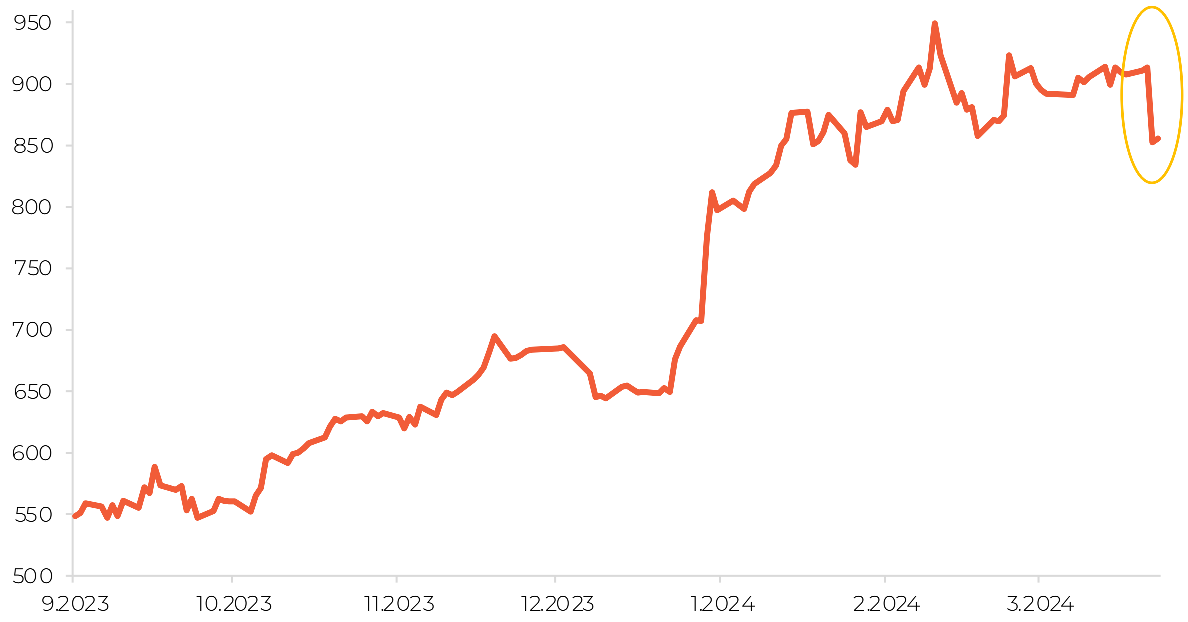
- Last year, a major supportive factor for the economy was the resilience of consumers, who, having a sufficient financial cushion, maintained a stable level of demand, thus stimulating economic growth.
- This year, the situation may change drastically, as the savings accumulated during the Covid period are beginning to come to an end. This is especially true for low- and middle-income consumers.
- On the other hand, high-income consumers still have an increase in savings, which can still create a certain liquidity cushion in the economy. However, we expect the overall trend in consumption to change.

- Such a sharp negative change in the volume of financial savings may result in consumers' expectations weakening, and subsequently their future demand.
- Historically, the unemployment rate and consumer expectations have an inverse trend in dynamics. For example, in 2007, after a sharp decline in consumer confidence, the unemployment rate also jumped.
- Thus, the recent deterioration in sentiment may indicate a decrease in consumer confidence, which, on the one hand, may indicate a decline in future demand, and, on the other hand, a possible fall in corporate profits and the economy as a whole.

Top charts of the week – negative signals for the semiconductor sector

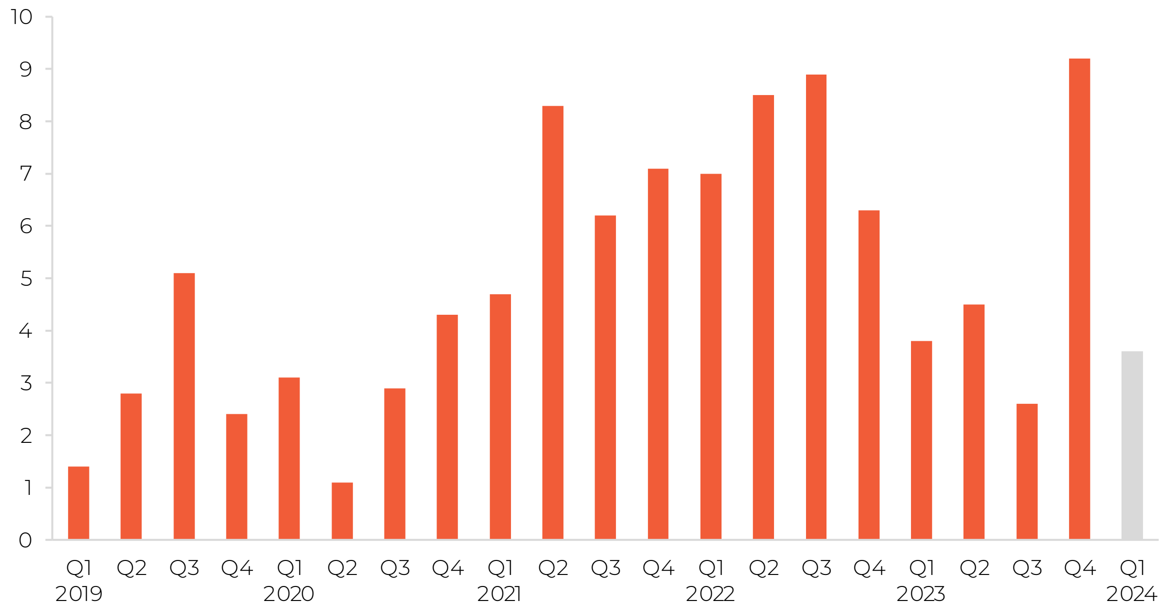
Shares of ASML, the largest supplier of equipment for the production of computer chips, fell by almost 7.0% after the published reports due to lower-than-expected order volumes for Q1 2024, which form the basis for revenue growth for the following periods of the year.

Dynamics of ASML share price



- The main reason for the decline in 1Q 2024 is the projected revenue growth for 2Q 2024, which is lower than the market expected.
- The explanation for this forecast is that Taiwanese and South Korean semiconductor manufacturers refrained from purchasing the largest modern equipment for chip production (orders for them fell by 9 times QoQ). Companies such as TSMC, Intel, and Samsung have not increased investments in high-tech equipment and are currently suspending new orders.
- In our opinion, the example of such a sharp drop in the ASML may be the first signal of the beginning of a number of other problems in semiconductor companies.

Dynamics of ASML order volumes, USD billion



- The decline in orders is also explained by measures introduced at the beginning of the year that restrict the sale of certain types of equipment to China, whose orders in Q1 2024 accounted for 50% of ASML's total sales.
- According to the company's preliminary estimates, sales to China will decline by 15% in 2024, which also raises questions about the stability of the company's future revenue dynamics.
- Despite this, the rhetoric of ASML's CEO is positive. The second half of the year is expected to bring faster growth due to subsidies from the US and EU for the construction of new fabs and the revealed South Korea's plan to create a chip manufacturing hub.

Blackshield
Capital

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