Blackshield Capital

22.04.24 – 28.04.24

WEEKLY INSIGHTS

Searching for positive signals in an unstable environment

Dynamics of key assets

Top charts of the week:

- change of focus in the stock market
- recession probability is at high levels
- opportunities in the commodity market

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.

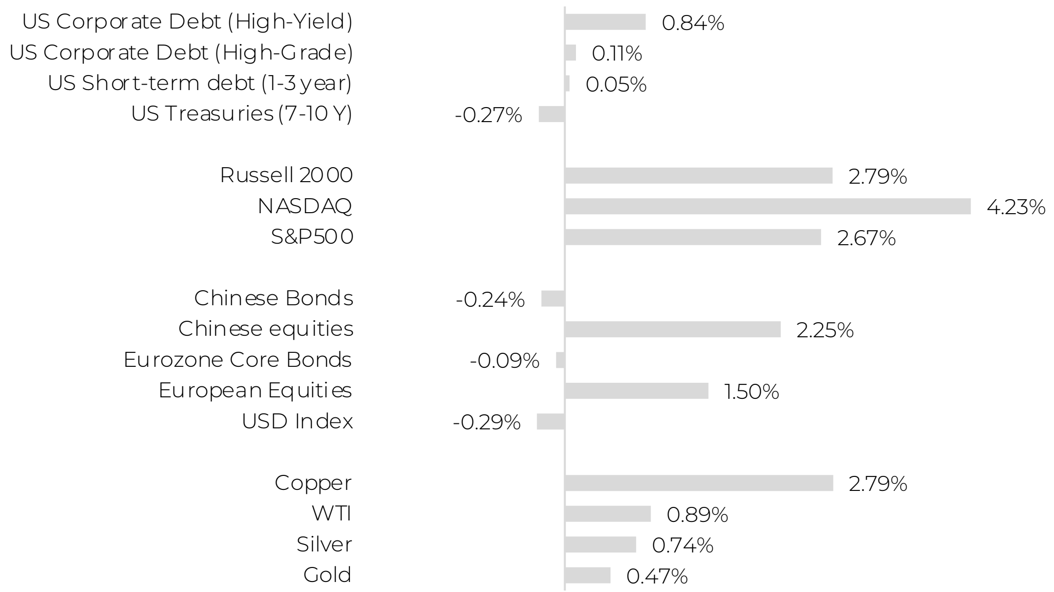
Our goal is to provide a deeper and clearer understanding of what is happening in the markets with an emphasis on illustrations, charts and visuals.

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

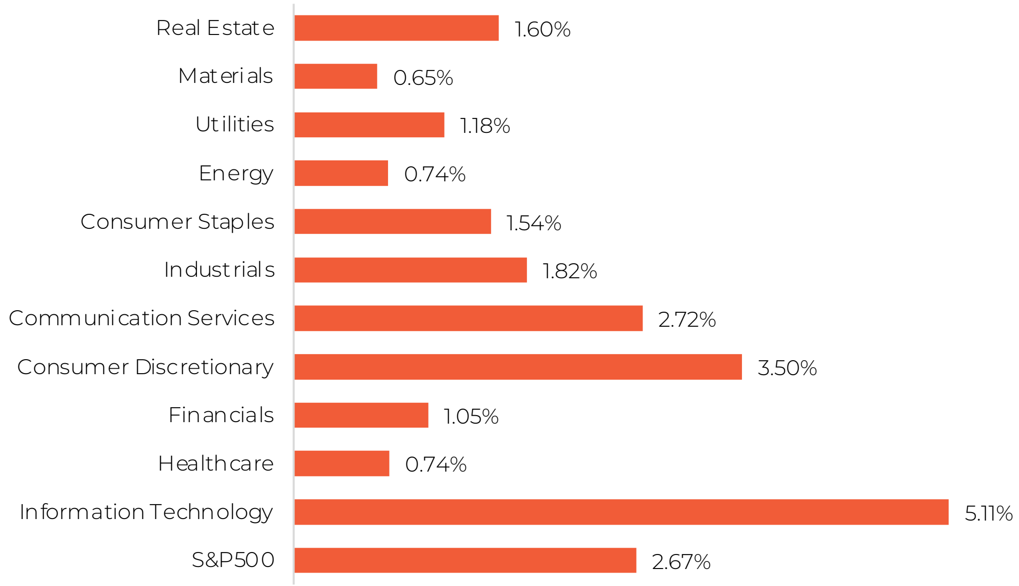
Recently, market dynamics have been fluctuating between a correction and the start of a new rebound. This week, however, the market was more inclined to the option of a new wave of growth, driven by a number of positive quarterly reports from US companies.

Dynamics by key assets for the week



- Commodity markets have resumed their growth. The smallest gainer over the past week was gold.
- The positive market reaction to the quarterly reports of large-cap companies (Google and Amazon) allowed the stock market to compensate it's own recent losses, closing the week in positive territory.
- Debt markets showed a slight increase, with the highest demand for short-term securities and high risk debt instruments. This returns market participants' appetite for taking on more risk than at the beginning of the week.

S&P500 index dynamics for the week

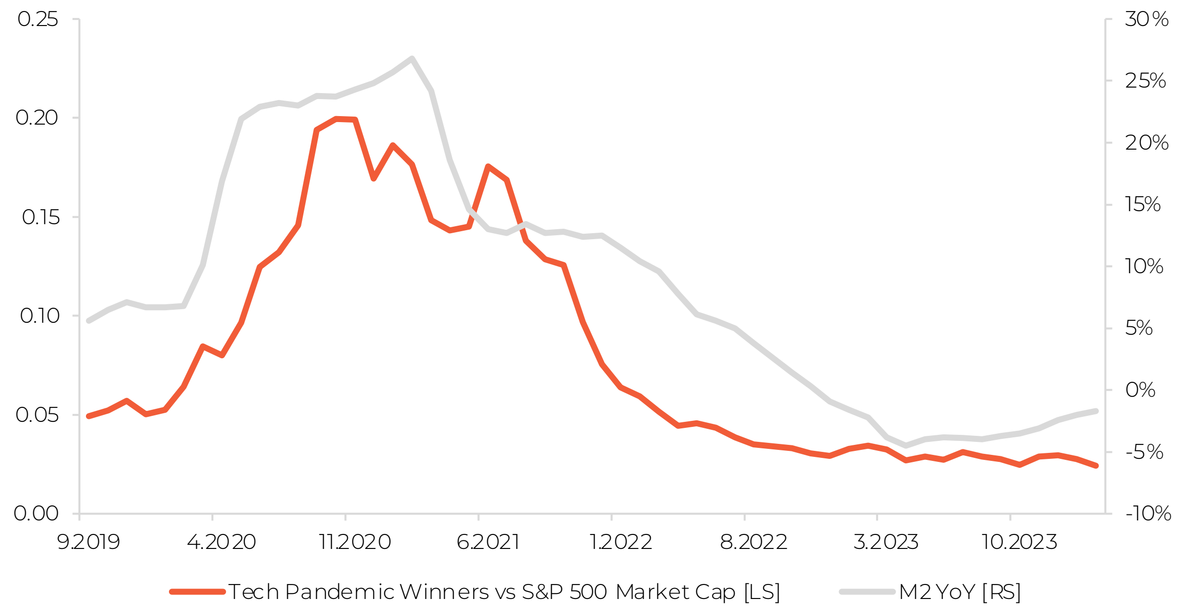


- In general, the structure of stock indices returned to a state of risk-on, as IT sector was the fastest growing over the week. Defensive and non-cyclical sectors, such as Materials and Healthcare, were the worst performers, while remaining in positive territory.
- The Real Estate sector declined significantly amid rising risks of interest rates remaining at high levels.
- We believe that it is too early to say that we are in the middle of a market correction, but it is rather the first negative signal that may appear in the future.

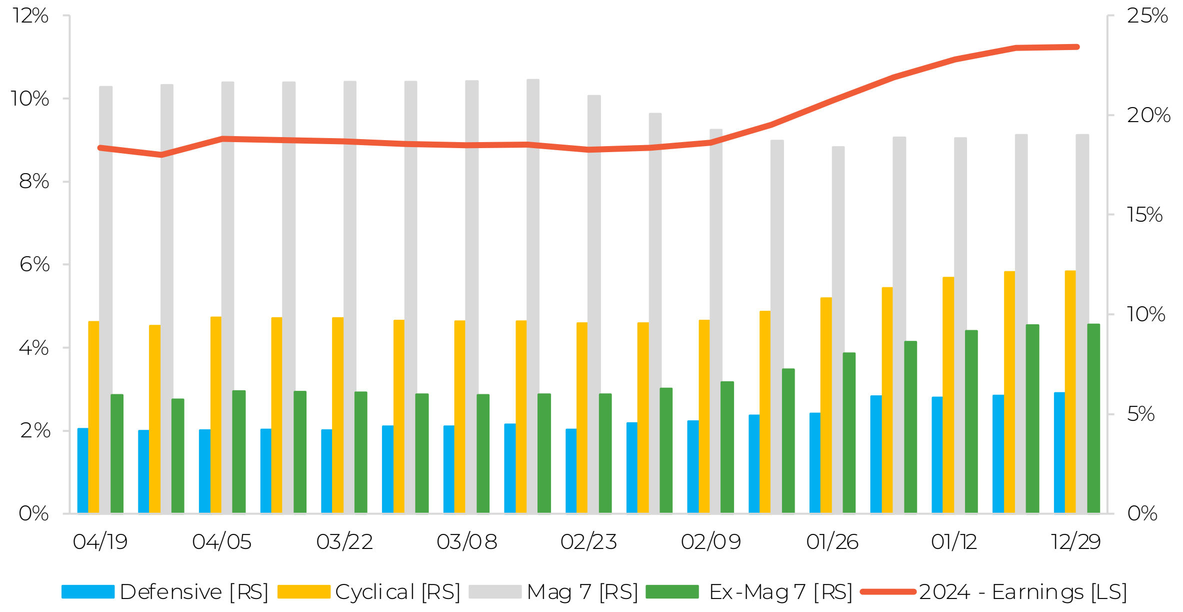
Top charts of the week – shifted stock market focus

In recent years, liquidity has had a major impact on stock market dynamics. However, given the new wave of its decline, the market has shifted its focus to assessing the financial stability of companies, which may be an important factor in keeping the market from a correction.

Dynamics of changes in the monetary aggregate M2 and stock prices of technology companies



Dynamics of changes in EPS growth forecasts for 2024 by major share categories



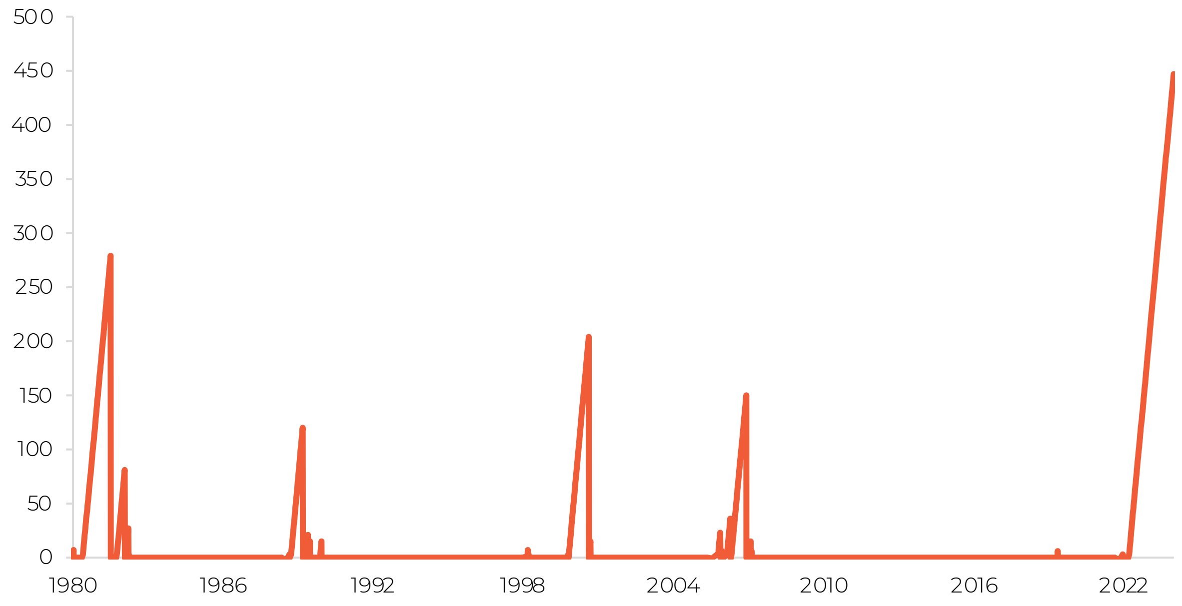
- Since the beginning of COVID-19, there has been a significant inflow of liquidity from the Central Bank, which has significantly affected stock market trends and, in turn, created an imbalance in the direction of growth of the so-called hype covid stocks (Roku, Peloton, Zoom, DocuSign, etc.).
- This emphasizes the fact that liquidity levels have become particularly important in the Post-Covid era as one of the main drivers of stock market growth.
- However, today, the liquidity factor is already having the opposite effect, because, given the Fed's policy, a decrease in liquidity directly reduces the level of trading activity, which affects current stock market quotes.

- Currently, the market is focused on financial stability of companies, namely the dynamics of revenues, EPS and cash flow generation, which are currently being reported by companies for Q1 2024.
- It is the issue of the stability of actual results and positive future forecasts from companies that may be a key factor in maintaining the current level of stock market quotations.
- However, given high valuation of the market, growing concentration and high share of EPS growth for S&P500 in Magnificent 7 companies, we believe that these structural factors create a stronger medium-term basis for correction.

Top charts of the week – recession probability is at high levels

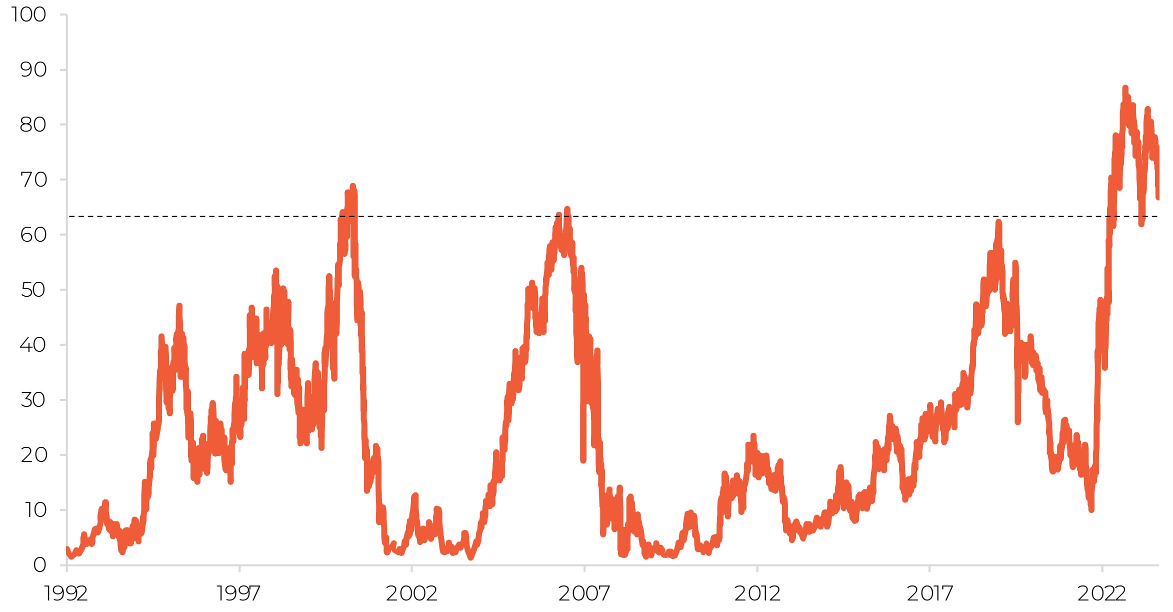
The deepening inversion between yield curves that we are currently witnessing is a signal that the market is becoming more pessimistic about the economic outlook for the near future, which is typically associated with the onset of a recession.

Duration of the inversion between 2-year and 10-year US government bonds



- Historically, yield curve inversion is one of the most stable indicators of the onset of a recession in the economy.
- As of today, yield curve inversion between 2-year and 10-year US government bonds has fallen to -0.30% from a peak of -1.57% in 2021. However, this level is still not a positive signal and indicates high uncertainty in the economy.
- Moreover, we are witnessing the longest inversion between 2-year and 10-year government bonds in 40 years, which has lasted for more than 500 days, raising the question of a slowdown in economic growth.

The dynamics of the probability of a recession based on the Fed's yield curves



- Another important indicator for determining the likelihood of a recession is a model built on the basis of yield curves of a large number of securities (inversions between bonds with maturities ranging from 1 month to 30 years).
- According to historical observations, if the indicator is closer to 60%, it indicates a 100% probability of a recession.
- Currently, this indicator has slightly decreased and is at 66.8%, which is 20% less than the maximum observed in mid-2023. Nevertheless, the indicator is still at historically high levels, and the jump that occurred at the end of 2023 after 5 months of decline raises questions about the sustainability of the current decline.

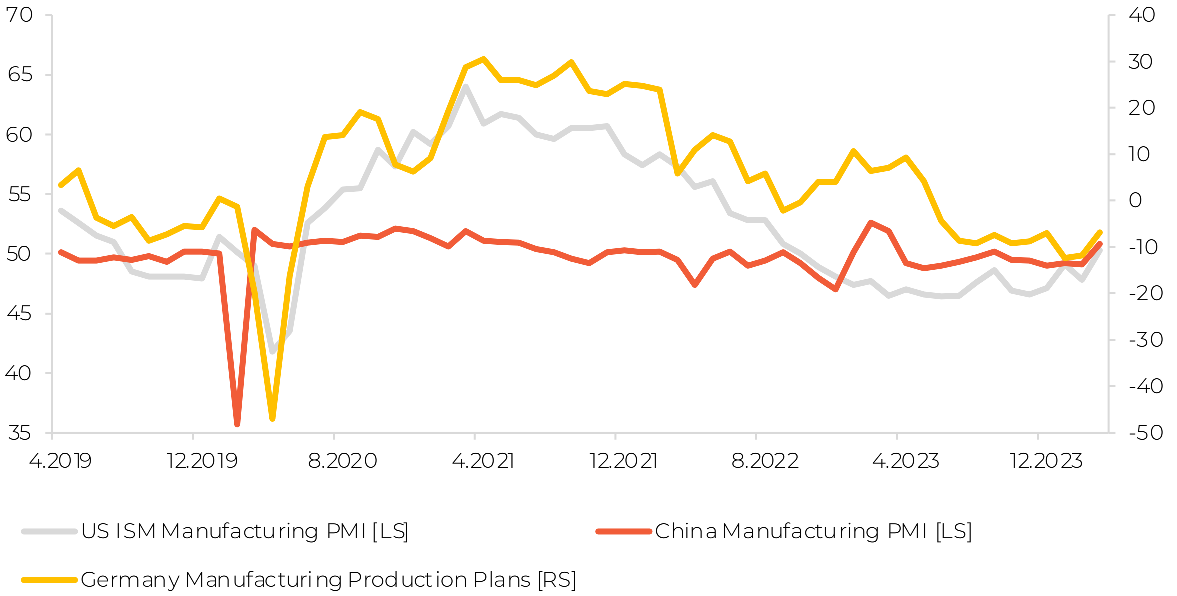
Top charts of the week – opportunities in the commodity market

The rise in copper prices is considered to be one of the indicators of market growth, as copper is often used in industries, so changes in the price of the metal due to fluctuations in demand can be a certain indicator of economic changes.

Copper growth dynamics and share prices of Materials sector companies in Europe

- In March, a new round of copper price growth began, driven by the global recovery in manufacturing sector amid increased business activity and a rise in orders.
- This led to a rise in valuation of mining companies, which historically move in tandem. In particular, such dynamics was observed in the shares of European mining companies.
- However, at the moment, we can observe a gap between the growth of the commodity itself and the growth of stock prices, which tends to widen and creates opportunities for investing in the shares of mining companies.

Dynamics of Manufacturing PMI of the world's largest economies



- Historically, rising copper prices have been highly correlated with economic recovery and current price spike could also be a positive signal for stock market growth.
- Currently, global manufacturing PMI is growing for 2 months in a row after a long decline, which is in line with the rise in copper prices.
- In particular, one of the main reasons for the rise in copper prices is China, where the growth of activity in the real sector of economy is observed, which remains almost the main trigger for the growth of global demand for copper.

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

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