Blackshield Capital

08.01.24 – 15.01.24

BLACKSHIELD WEEKLY INSIGHTS

Dynamics of key assets

Top charts of the week:

- stabilizing inflation
- budget deficit
- global markets

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.

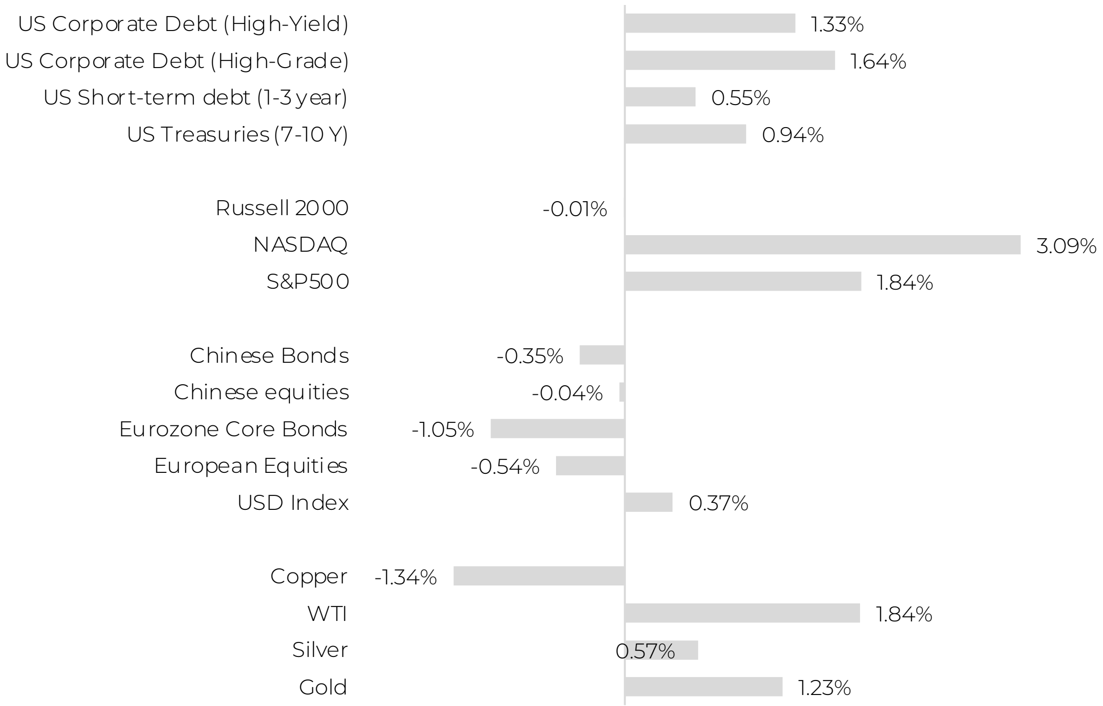
Our goal is to provide a deeper and clearer understanding of what is happening in the markets with an emphasis on illustrations, charts and visuals.

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

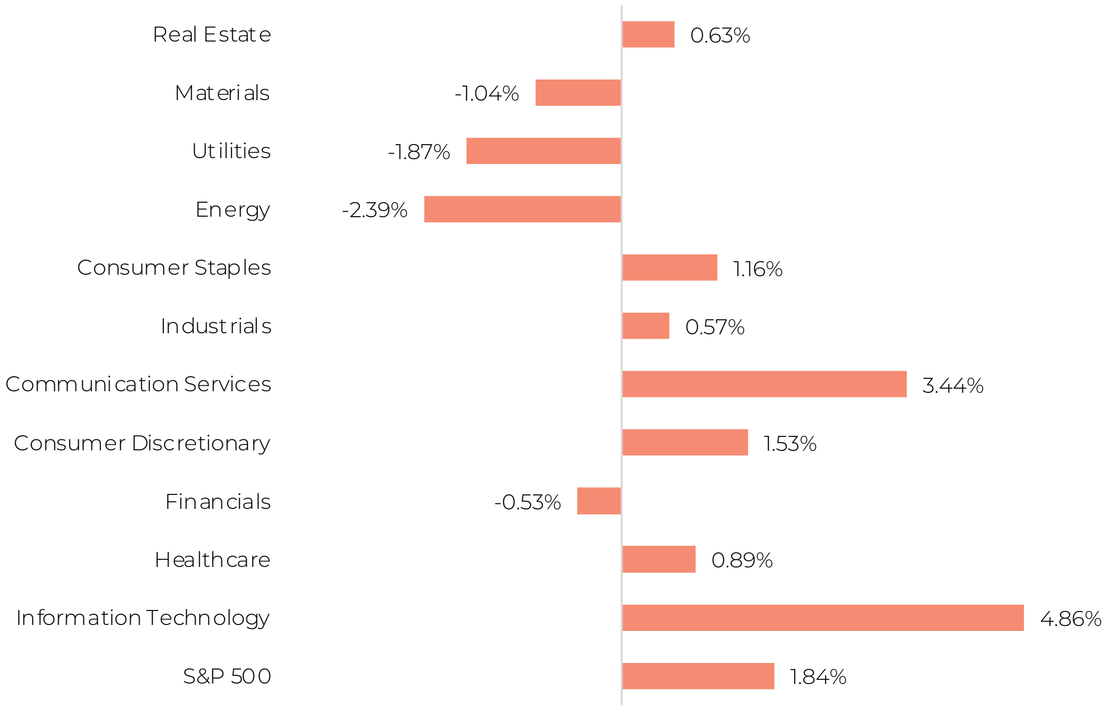
Over the past week, we have seen a slight easing in the market after declines in the first week of 2024, despite partially deteriorating macroeconomic data - steady inflation, lower business activity, and rising oil prices.

Dynamics of key assets for the week



- The leaders of growth were assets with higher sensitivity to risk-on market conditions. In particular, we are talking about NASDAQ, which during the week fully recovered its decline since the beginning of this year.
- The logistical situation in the Red Sea, which is the main driver of the recent rise in oil, remains an area of interest. Gold closed in positive territory on the back of the thesis about the decline in real interest rates.

S&P 500 index sectors dynamics for the week

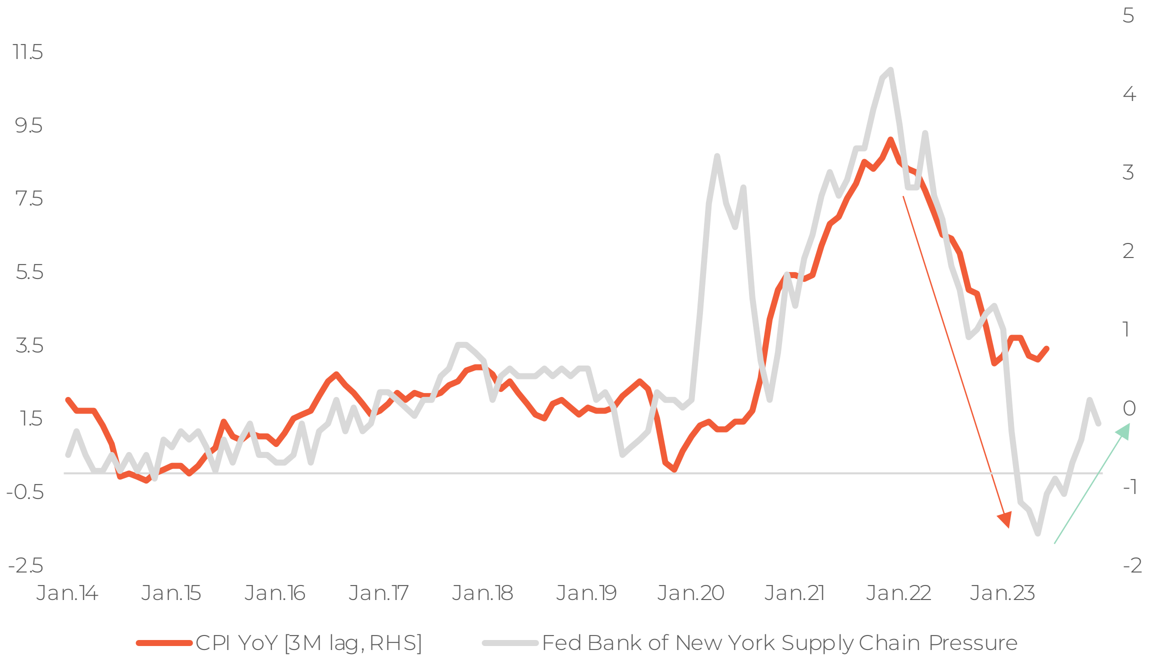


- As for the sectors of the S&P index, the highest growth rates were recorded in the IT sector, as well as communication services, where the main representatives of the sector are: Google, Microsoft, Facebook.
- Overall, the picture is consistent with a pattern of higher risk appetite: cyclical sectors rising, defensive sectors lagging and rate-sensitive sectors rising.

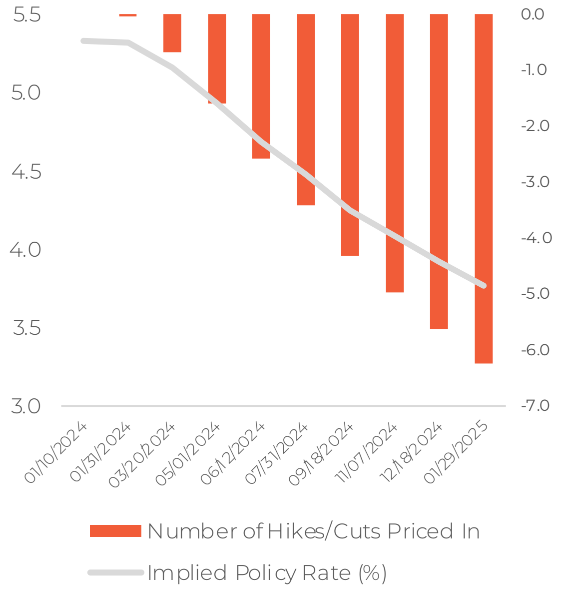
Top charts of the week – stabilizing inflation

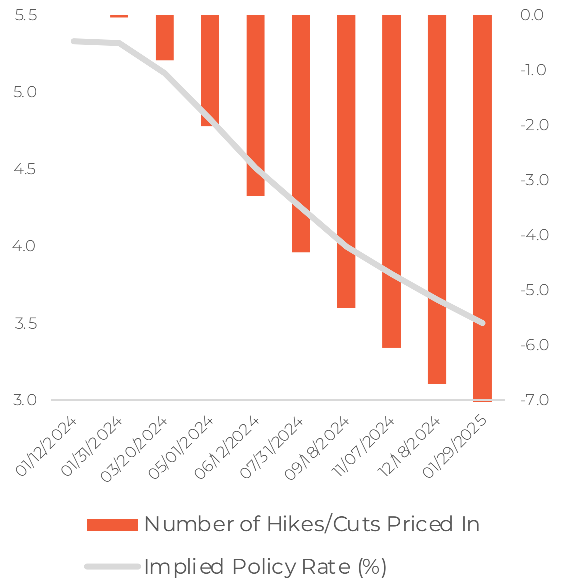
Despite such an optimistic end to 2023, the start of the year offered a small dose of sobering news for the market, where the economy showed a contraction in the rate of decline in inflation against expectations.

Impact of commodity logistics problems on inflation



Projected reduction: before and after the release of inflation data





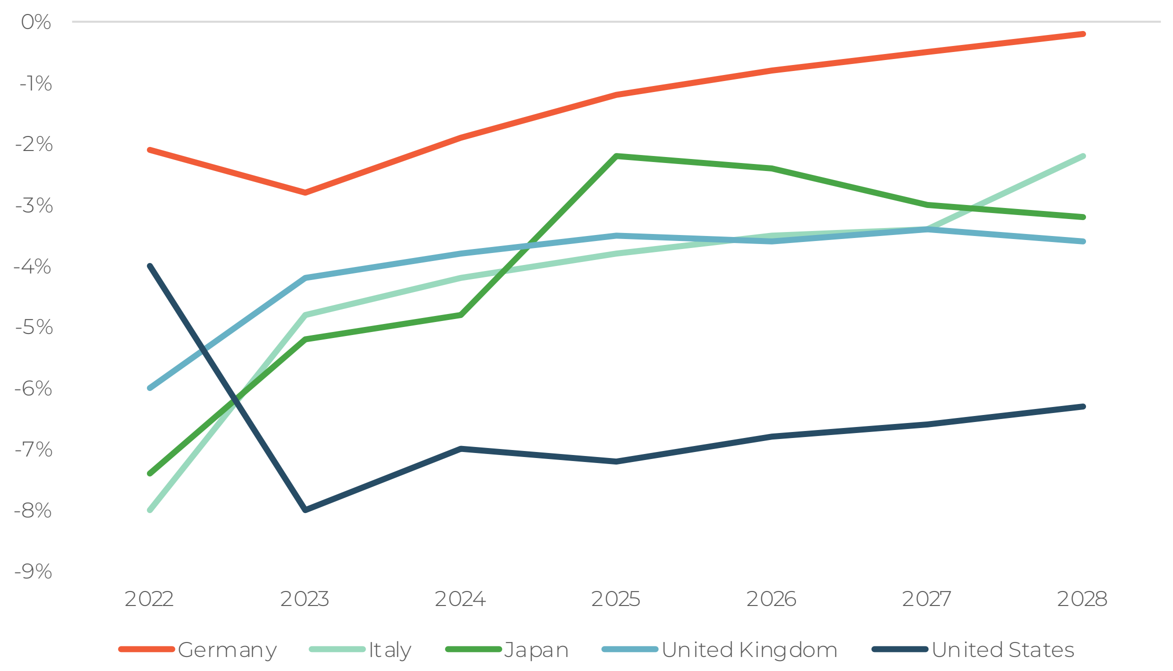
- A comparison of the indicators for logistical problems and inflation suggests that while recent improvements in logistical conditions have contributed to a faster decline in inflation, the situation has changed with the events in the Red Sea.
- As we enter the reporting season and look forward to 2024 forecasts, we are keeping a close eye on the recent spike in global container rates due to the Red Sea crisis and its potential impact on corporate earnings.

- While after the release of consumer price data, the probability of an interest rate hike dropped significantly for the March meeting, with the producer price release - the probability of a rate cut at every meeting this year has risen.
- The market continues to perceive positive news as a clue to the high probability of a stable economic situation. Such volatility of expectations is a reason to reduce and hedge risks.

Top charts of the week – budget deficit

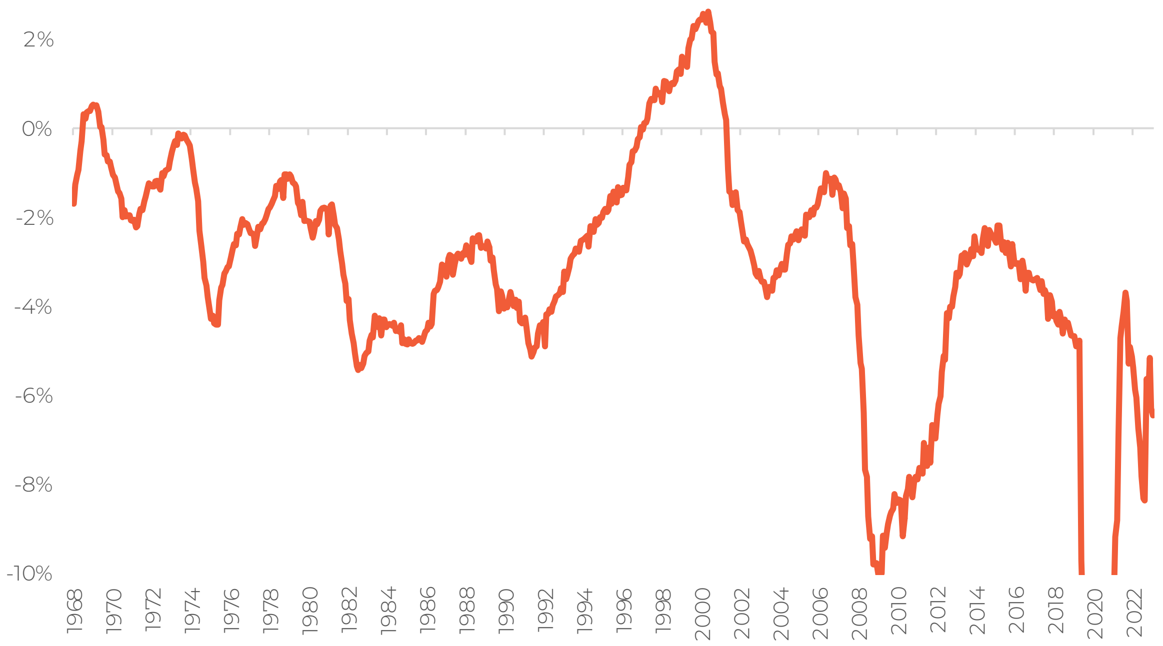
Another important topic for the stock market to consider is the budget deficit. For example, especially in the midst of a presidential election, the deficit can be a major topic of discussion.

Budget deficits of the advanced economies of the world



- Based on historical data, we are seeing the major economies of the world enter an era of budget deficits that is expected to be in negative territory for the next 5 years.
- Moreover, the topic of budget deficits may become the basis of presidential debates and possible measures to manage this indicator, as certain funding categories are significantly reduced in budget deficits and affect the mood of the electorate.

Fiscal deficits at current levels have only been seen during recessions

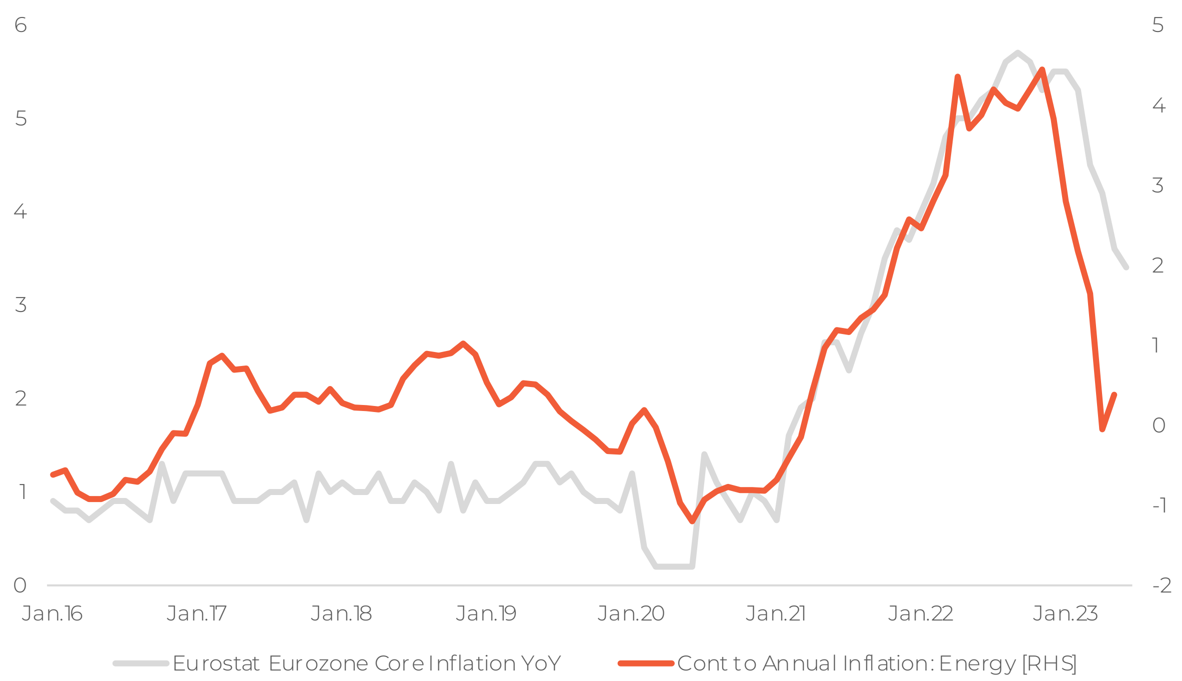


- Historically, in periods of increasing budget deficits, the economy has been in recession, which emphasizes the importance of this issue now.
- This is especially important in the current economic environment where the fiscal condition in symbiosis with the real economy, and weak consumers can cause a correction in the stock markets.

Top charts of the week – global markets

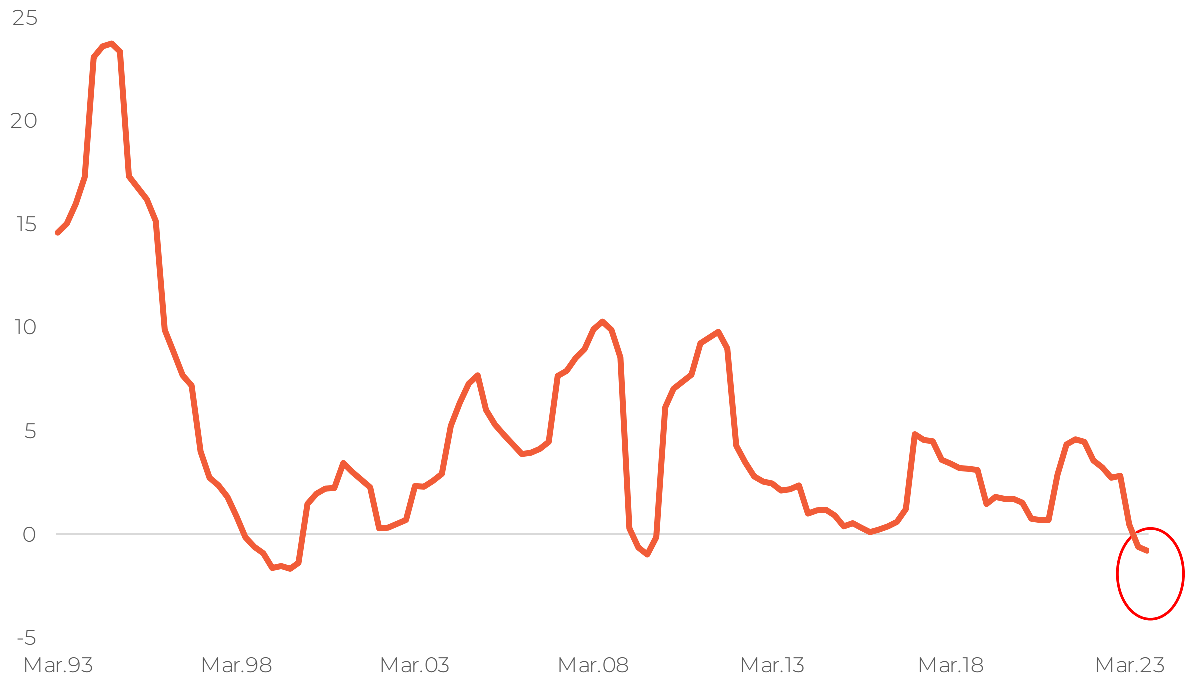
Deflationary developments in the Eurozone will allow interest rates to fall this year, but softer financial conditions and a robust labor market could delay this process. In China, on the other hand, deflation has lingered, and this is reducing the space for economic growth.

The impact of energy on Eurozone inflation



- Friday's eurozone inflation report was in line with consensus estimates. Overall inflation accelerated again from 2.4% year-on-year to 2.9% in December, partly reflecting the impact of the end of energy subsidies in Germany and France.
- The rate of energy deflation decreased from -11.5% year-on-year to -6.7% year-on-year. Moreover, the negative contribution of the energy sector to overall CPI inflation declined to -1.1 percentage points in December from -1.9 percentage points in November.

China GDP deflator, %



- Rising deflation in China creates many economic constraints to growth and the creation of a credit impulse that stimulates consumption and manufacturing activity.
- The risk of prolonged deflation is rising, a trend that could lead not only to deleveraging in the corporate sector but also among households.
- According to the latest statistics, the overall consumer price index narrowed the decline as the market expected, thanks to higher food prices and a low base of comparison.

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hello@blackshield.capital

+41 43 456 25 92

Bahnhofstrasse 10, 8001
Zürich, Switzerland

Volodymyrska St, 4, 02000
Kyiv, Ukraine