Weekly Letter:

The worst may be over

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- Oil prices may indicate that the worst is over and inflation returns to normal.
- The S&P 500 and bonds are at breakout points - we have an exciting week ahead, focusing on Friday's unemployment report. But we will have to wait until after the weekend to see the reaction as we have a short trading week due to the holidays. Will it be risk-off ahead of the holidays and risk on when things get back to normal?

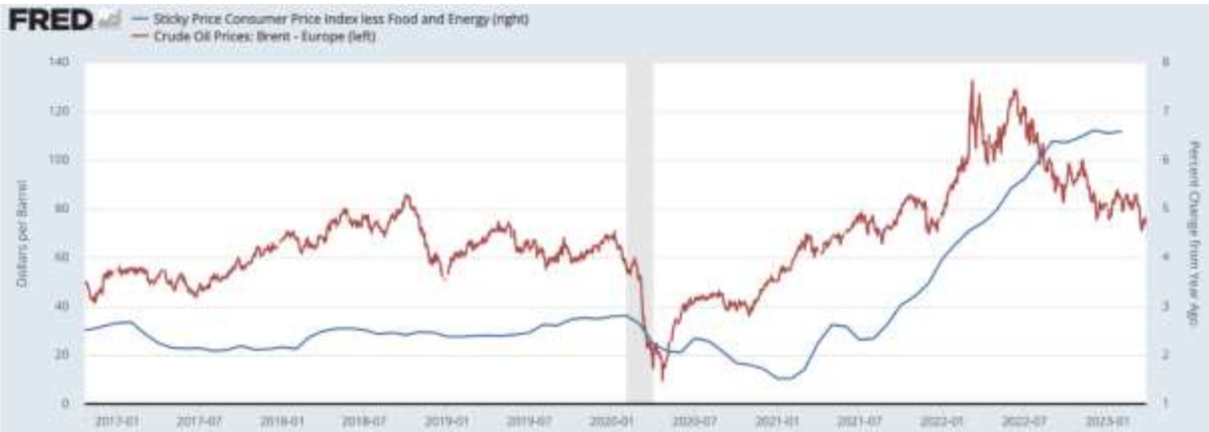
There is a myth in the market that the oil price and inflation shock started with the war in Ukraine. This is not the case, as the chart below shows.

The price of Brent oil peaked when the war broke out. Apart from a new, lower peak, the oil price has been falling ever since. Energy prices started to fall two years earlier when the market priced in that the transition from fossil fuels to renewables would be difficult given that investment in oil was declining, and nuclear power did not take off. Furthermore, seeing how windmills and solar panels could offset energy demand was also challenging.

The winners in this chaotic market are the oil companies. It is a positive double whammy. Demand increases prices simultaneously as oil investment falls => improving profit margins for oil companies.

Returning to the previous oil chart, lower oil prices should lead to lower inflation. Energy is often excluded from the CPI. However, you must recognize higher energy prices as you need energy in various processes. That goes from the farmer running his tractor to fertilizer to everything the industry produces to run the internet. Higher energy prices affect everything else, with wages at the bottom of the scale.

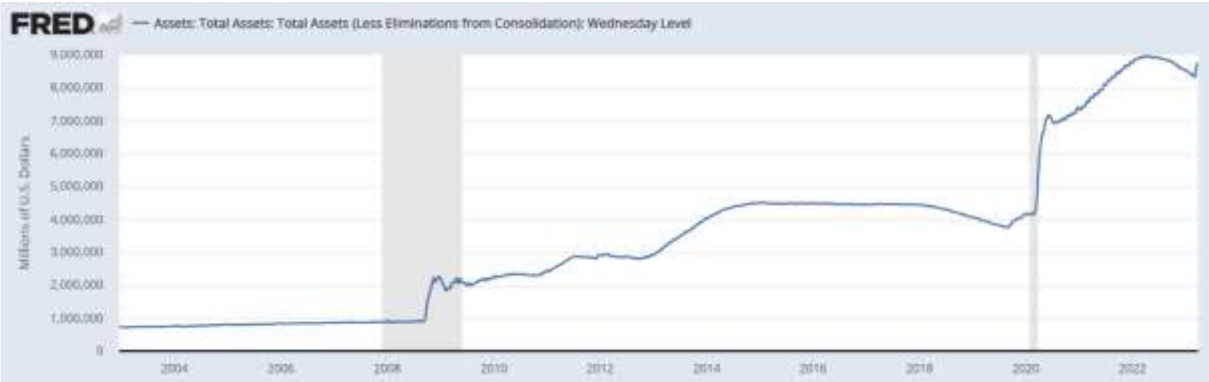
What is true of higher energy prices should also be true of falling energy prices.



Above is crude oil with a red line and inflation with a blue line. As can be seen, energy dragged inflation with it upwards. Now inflation should slow down when energy prices are falling. It is a slow process, but if we can see a peak soon in inflation, that will be good for the overall market.

Oil prices shot up after the weekend when Opec announced they would cut production. This is the usual noise in the market. When optimism returns to the market, energy prices will rise again, and the outlook goes from recession to a new upswing in the economy. But that's further down the road.

The coming boom or bust still lies in the hands of the Fed. The current financial crisis is rescued by Fed, providing new liquidity to the economy.



Above are the assets on the Fed's balance sheet. As can be seen, the Fed's late contraction (lower liquidity) will soon be wiped out by the bank bailouts. The Fed will soon be back to square one. What will the Fed do in the spring? We don't know. Central banks should be patient and wait and see what happens.

In the equity market, the higher liquidity has led to a sharp rise, with big tech stocks in the driver's seat.

The most important chart is the S&P 500 above. The index is trading in two distinct wedges. Energy is building ahead of a big move. It is impossible to say in which direction, but with the Fed in rescue mode and the USD weakening, the odds favour a breakout to the upside.

On the 2-hour chart, we can see a bullish channel forming. It is a little overbought in the short term, as seen on the MACD at the bottom of the chart. A retest of the lower part of the channel or the MA200 could be a plausible scenario.

A falling US dollar indicates that the market is pricing in a more dovish Fed due to the ongoing turmoil in the banking sector.

It is also important to watch interest rates closely. The chart shows a potential third wave to 5% interest rates. But this wave could be broken if the 10-year US Treasury yield breaks below the 3.34% red line. This could mean a correlative move in the opposite direction for stocks, i.e., higher. Please also note that the MACD is very close to giving a sell signal for rates.

The trend is up, but as we are in a bear market, please stay close to the exit door.

Happy trading!

Week Ahead

Reports on Wednesday, 5 April: Enquest, Industrivärden.

The March services PMIs from Japan, Sweden, Spain, Italy, France, Germany, the UK, and the US dominate Tuesday's agenda. We also get the German VDMA machinery orders for February, the February US trade balance, and the weekly oil inventories (DOE) statistics.

Reports on Thursday, 6 April: Asos, Constellation Brands. Finnair. Traffic figures for March

Early on Thursday (3:45 CET), the Caixin Services PMI for March will be released. At 8:00 CET, the GDP indicator and industrial production are expected from Sweden. At the same time, German industrial production for February will be released. In the afternoon, we will get the March unemployment rate from Canada and the weekly jobless rate from the US.

Reports on Friday, 7 April: -

Many Western stock markets are closed on Good Friday.

At 1.30 CET, Japan's household consumption for February will be released. We also get US Employment for March at 14.30.

Reports on Monday, 10 April: -

Many stock markets are closed on Easter Monday.

We get Japan's February current account at 1.50 CET.

Reports on Tuesday, 11 April: Norwegian. Traffic figures for March.

First up on Tuesday morning are China's March Producer and Consumer Price Indices at 3.30 CET. From the eurozone, February retail sales are due at 11.00 CET. In the afternoon, we have the US NFIB Small Business Index for March, weekly Redbook retail sales, weekly data, and weekly oil inventory statistics (API).

Valuation Tables, Swedish Equities

Lowest P/E-ratio

Bolag	Price	P/E NTM
Maha Energy AB	9,8	1,8x
Tethys Oil AB	58,0	2,7x
Bonava AB	21,7	3,9x
Serneke Group AB	20,7	4,1x
Humana AB	14,7	4,5x
Bong AB	1,1	5,3x
Wästbygg Gruppen AB	30,9	5,4x
Catella AB	34,7	5,6x
ITAB Shop Concept AB	11,6	5,7x
Intrum AB	113,4	6,0x

Source: S&P Capital IQ/Carlsquare

Highest Yield

Bolag	Price	Yield, %
Intrum AB	113,4	10,9
Aktiebolaget Fastator	7,5	10,0
Tethys Oil AB	58,0	10,0
Cibus Nordic Real Estate AB	111,4	9,5
Svenska Handelsbanken AB	90,1	9,1
Samhällsbyggnadsbolaget i Norden AB	14,1	8,8
Wästbygg Gruppen AB	30,9	8,7
Bonava AB	21,7	8,4
Nordic Paper Holding AB	45,6	8,3
Resurs Holding AB	23,3	8,3

Source: S&P Capital IQ/Carlsquare

Lowest priced Net Asset Value

Bolag	Price	P/B
Oscar Properties Holding AB	1,2	0,1x
BHG Group AB	9,3	0,2x
Serneke Group AB	20,7	0,3x
Humana AB	14,7	0,3x
Corem Property Group AB	7,8	0,3x
Vivesto AB	0,3	0,3x
Bonava AB	21,7	0,3x
Cint Group AB	13,6	0,3x
Aktiebolaget Fastator	7,5	0,3x
K2A Knaust & Andersson Fastighete	12,5	0,3x

Source: S&P Capital IQ/Carlsquare

Lowest priced NAV on a debt-free basis

Bolag	Price	EV/tB
Oscar Properties Holding AB	1,2	0,1x
BHG Group AB	9,3	0,2x
Serneke Group AB	20,7	0,2x
Humana AB	14,7	0,2x
Bonava AB	21,7	0,3x
Aktiebolaget Fastator	7,5	0,3x
Cint Group AB	13,6	0,3x
Hoist Finance AB	23,6	0,3x
Q-linea AB	6,6	0,3x
Vivesto AB	0,3	0,4x

Source: S&P Capital IQ/Carlsquare

Lowest priced earnings growth

Bolag	Price	PEG
Nordisk Bergteknik AB	33,3	0,1x
TF Bank AB	131,4	0,2x
RVRC Holding AB	32,5	0,2x
Volvo Car AB	45,5	0,3x
Netel Holding AB	30,0	0,3x
New Wave Group AB	183,0	0,3x
Embracer Group AB	48,6	0,3x
H & M Hennes & Mauritz AB	149,0	0,4x
Billerud AB	107,5	0,4x
Intrum AB	113,4	0,5x

Source: S&P Capital IQ/Carlsquare

Top priced earnings growth

Bolag	Price	PEG
Hufvudstaden AB	141,9	54,8x
Tele2 AB	101,7	49,9x
Getinge AB	255,2	9,0x
AB Electrolux	126,0	7,2x
Thule Group AB	260,1	5,5x
Wallenstam AB	39,6	4,7x
Svenska Cellulosa Aktiebolaget SCA	136,9	4,6x
Axfood AB	254,5	4,4x
Atlas Copco AB	131,7	4,0x
Telefonaktiebolaget LM Ericsson	60,2	3,9x

Source: S&P Capital IQ/Carlsquare

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