



Weekly Letter:

# Risk implosion ahead of Fed decision

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Carlsquare

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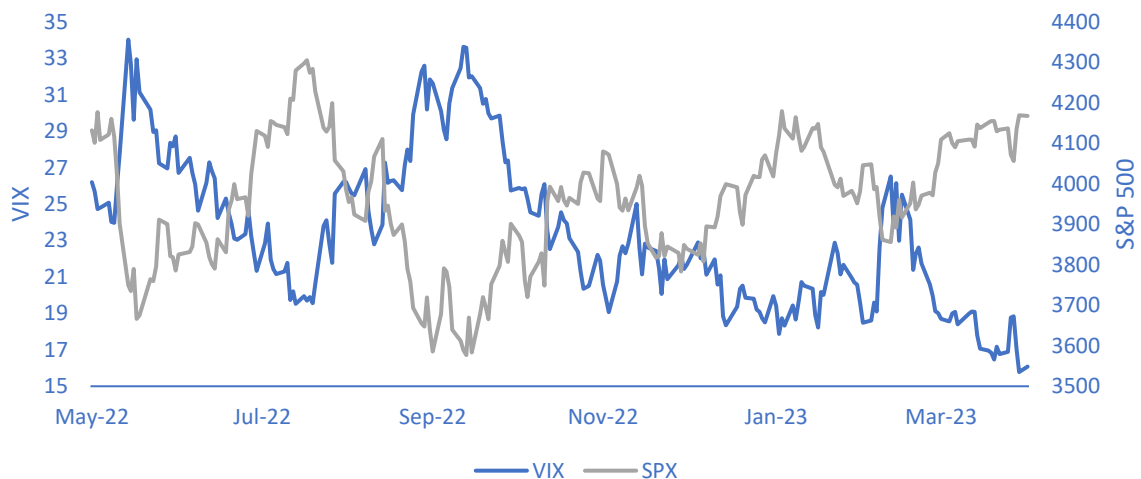
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## Risk implosion ahead of Fed decision

- The S&P 500 continues to climb due to solid earnings reports. Implied stock market volatility trades near record lows, showing that the calm markets may lull investors into security.
- This week is essential from a news flow perspective with the Fed decision tonight and the monthly payroll figures in the US on Friday, 5 May, which probably will move the market sharply in either direction.
- It is still cheap to buy protection!



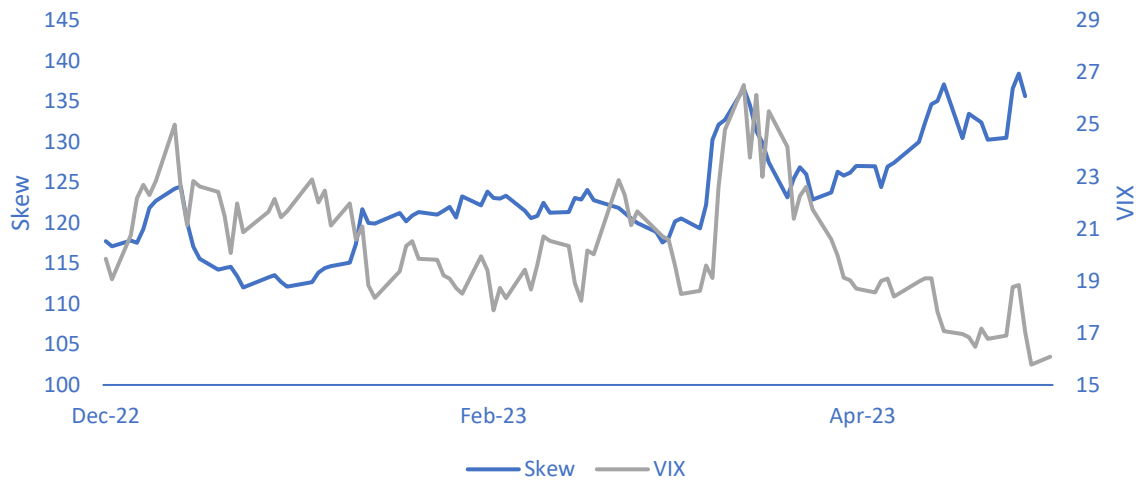
S&P 500 tests year-to-date high amid calm markets. The calm in equity markets is illustrated by the realised volatility of the S&P 500, which is close to a 12-month low.



## Risk implosion ahead of Fed decision

VIX is a real-time market index representing the market's expectations for volatility over the coming 30 days.

The VIX is highly correlated with realised volatility and is currently trading at a 12-month low of just under 17, representing a daily move of just under 1.1%. Thus, from a risk/reward perspective, given the low levels of the VIX, there is solid upside potential if equity markets turn south.



Furthermore, the Skew Index and the VIX diverge, as shown in the chart below. The rising Skew Index means that the price of downside protection is rising - indicating that the perceived downside risk has increased. This also argues in favour of buying the VIX as a hedge.



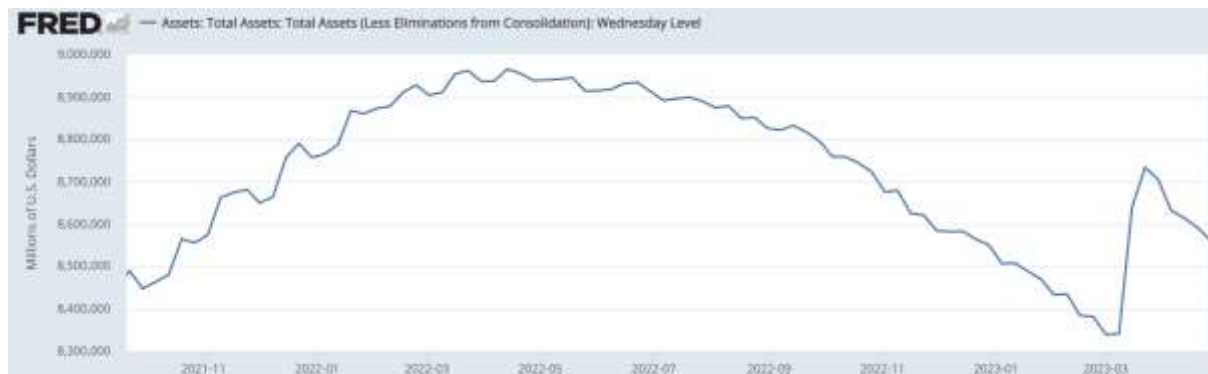
In the chart above, the VIX in red trades below 20 as the S&P 500 moves higher. In a single day, the VIX can move +10% when the market gets nervous, as it did yesterday.

## Risk implosion ahead of Fed decision



Whenever VIX hits the lower Bollinger Band, it is time to buy some protection.

It is unnecessary to speculate too much on the Fed decision once it is released and all the comments have been made. Usually, the Fed is good at manoeuvring the market into a good reaction. But the Fed continues to reduce liquidity in the market.



This is the fifth consecutive week that the Fed has reduced liquidity, as measured by total assets under management at the Fed.

## Risk implosion ahead of Fed decision



Eventually, the difference between a rising S&P 500 and lower interest rates will narrow the gap. Typically, the bond market has the best knowledge of the market. This would imply that the bond market is pricing in a coming recession, but the stock market is still trading on positive earnings reports.



As rates go down, the motivated price on the stock market also falls from a fundamental perspective. The current earnings yield on the Nasdaq 100 basket is about 3.46%, equivalent to the yield available from 10-year Treasuries. That makes it the smallest equity premium since the early 2010s. A negative risk premium is typically tenable only if aggregate earnings are likely to see a considerable shift higher. Or that interest rates are anticipated to slump a whole lot. Something must give here!



## Risk implosion ahead of Fed decision

However, the market is currently being led by the Fed. All eyes are on the Fed today. The market reaction will be very positive if the Fed moves from raising rates to hinting at a pause. The response could be very adverse if the Fed continues its current strategy.



Regional banks in the US are still struggling to survive, so one objective reason for the Fed to pause is to stop the ongoing financial crisis, as no one wants to see a full-blown banking crash. KRE and other ETFs tracking regional banks will be in focus today.

## Risk implosion ahead of Fed decision

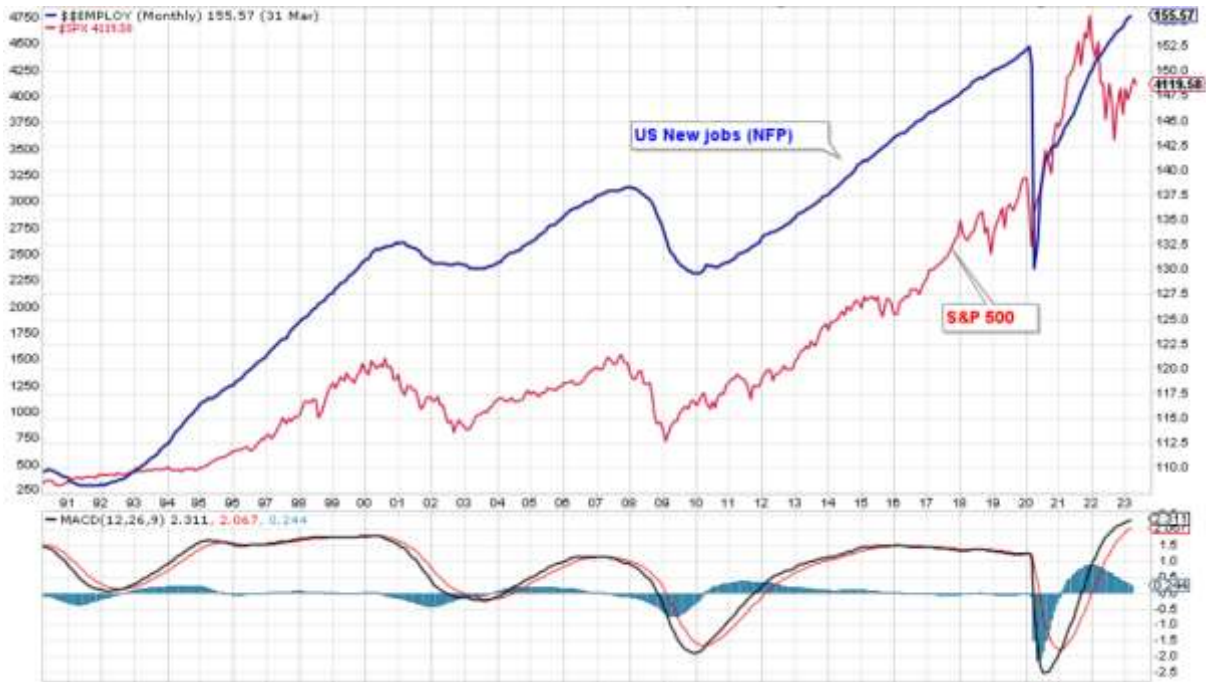


The S&P 500 is trading in a channel with plenty of room up and down inside the channel, making it a trader's market.



The USD may be the key indicator in the coming days. The fall in USD may be over for now as it has broken above EMA9 and MA20. If the Fed continues its hawkish strategy, the USD will strengthen again, pushing stocks lower. If the Fed pauses, the USD will fall again, boosting the equity market. The same goes for Friday's jobs report.

## Risk implosion ahead of Fed decision



Friday is the day of the closely watched employment report. The correlation between the S&P 500 and the NFP is high, but historically the S&P 500 has led the NFP, not the other way around.

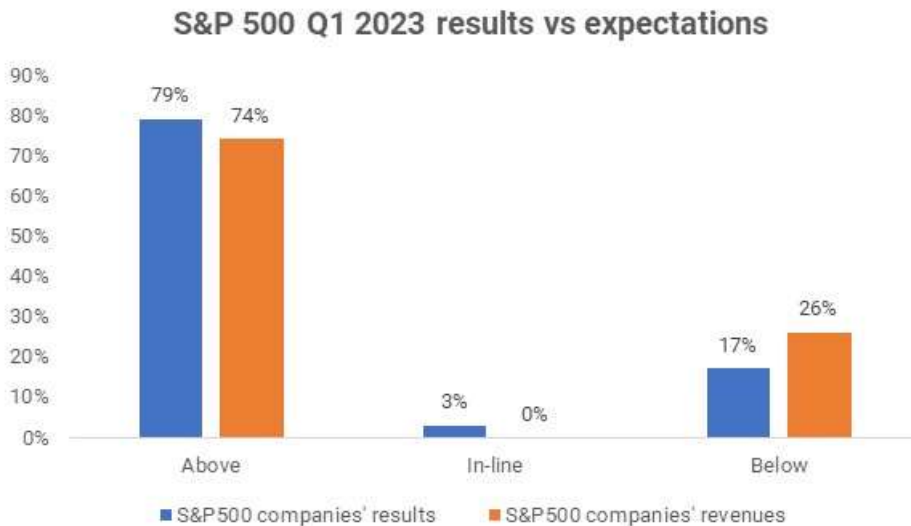
Happy trading!



## Q1 2023 Earnings season

### Interim reports of S&P500 companies

For Q1 2023 (with around 53% of the companies reporting), 79% of S&P companies have reported a positive EPS surprise, while 74% have reported a positive revenue surprise. This is a significant improvement in the result on the income side compared to last week (21 April).



Sources: Factset Earnings Insight, Carlsquare.

The top three sectors in earnings outcomes in Q1 2023 were Energy, Consumer Staples, and Materials, with 100%, 99% and 92% of results better than expected, respectively. Utilities, Financials and Real Estate are the worst performers, with 56%, 62% and 63% of Q1 2023 earnings better than anticipated.

## Risk implosion ahead of Fed decision

As of 31 March 2023, analysts were forecasting a -6.7% decline in earnings for Q1 2023. This expected earnings decline has decreased to -3.7% as of 28 April 2023.

For Q2 2023, 28 S&P500 companies have issued negative EPS guidance, while 20 have issued positive EPS guidance.

The following table lists some of the major US companies that have reported the last week, along with the actual and expected earnings per share, the percentage deviation and the share price movement after the report was released. The average and median figures include companies having reported since 21 March.

<u>Company</u>	<u>Report Date</u>	<u>EPS estimate</u>	<u>EPS reported</u>	<u>Surprise</u>	<u>Price Change</u>
Boeing	26-Apr-23	-0,98	-1,27	-29,6%	0,4%
Thermo Fisher Scientific	26-Apr-23	4,95	5,03	1,6%	-2,4%
Meta Platforms	26-Apr-23	1,96	2,64	34,7%	11,5%
TMobile US	27-Apr-23	1,51	1,58	4,6%	-2,6%
Amazon	27-Apr-23	0,21	0,31	47,6%	-2,0%
Intel	27-Apr-23	-0,16	-0,04	75,0%	4,1%
AbbVie	27-Apr-23	2,44	2,46	0,8%	-8,0%
Mastercard	27-Apr-23	2,71	2,80	3,3%	1,9%
Bristol Myers Squibb	27-Apr-23	1,98	2,05	3,5%	-0,6%
Caterpillar	27-Apr-23	3,79	4,91	29,6%	-0,9%
Gilead Sciences	27-Apr-23	1,63	1,37	-16,0%	-1,5%
Merck	27-Apr-23	1,34	1,40	4,5%	1,5%
Amgen	27-Apr-23	3,84	3,98	3,7%	-2,2%
Eli Lilly	27-Apr-23	1,73	1,62	-6,4%	3,7%
Comcast	27-Apr-23	0,80	0,92	15,0%	10,3%
Honeywell International	27-Apr-23	1,93	2,07	7,3%	4,0%
S&P Global	27-Apr-23	2,92	3,15	7,9%	4,6%
Exxon Mobil	28-Apr-23	2,65	2,83	6,8%	1,3%
Chevron	28-Apr-23	3,36	3,55	5,7%	1,0%
Stryker	01-May-23	2,00	2,14	7,0%	-5,0%
Advanced Micro Devices	02-May-23	0,56	0,60	7,1%	-6,5%
Pfizer	02-May-23	1,00	1,23	23,0%	-1,1%
Starbucks	02-May-23	0,64	0,74	15,6%	-5,3%
<b>Average</b> (including interim reports since 21 March 2023)				<b>8,8%</b>	<b>0,1%</b>
<b>Median</b> (including interim reports since 21 March 2023)				<b>5,8%</b>	<b>-0,1%</b>

*Source: Zacks Research.*

The average earnings per share surprise are 8.8%, and the median is 5.8% for the reporting companies in the table below. Share price movements following these quarterly reports were small (0.1% on average and -0.1% on median).

Interim reports of OMX companies

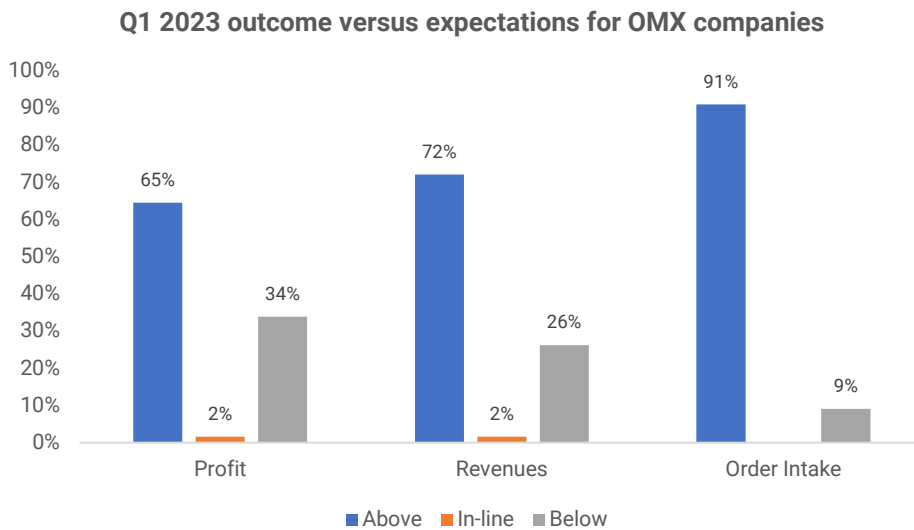
The table below summarises the results of the reports from 26 April to 2 May. It sums up to 45 companies.

Company	Date	Result			Revenues			Order Intake		
		Better	In-line	Worse	Better	In-line	Worse	Better	Worse	
Handelsbanken	26-Apr	12,3%			5,4%					
Axfood	26-Apr			-0,7%				-1,1%		
Billerud	26-Apr			-18,8%				-0,8%		
SEB	26-Apr	22,5%			9,9%					
Telia	26-Apr			-16,4%	3,1%					
Castellum	26-Apr			-0,3%	3,7%					
Coor	26-Apr			-1,3%	1,1%					
Cloetta	26-Apr	15,6%			28,1%					
Dometic	26-Apr	13,6%			1,9%					
Fabege	26-Apr	1,7%			0,4%					
Getinge	26-Apr	20,7%			6,5%			3,1%		
Hemnet	26-Apr	2,1%						-3,1%		
MTG	26-Apr			-9,0%				-3,0%		
Resurs	26-Apr			-14,2%				-0,2%		
Saab	26-Apr	26,1%			12,5%			109,7%		
SSAB	26-Apr	35,3%			4,4%					
Alleima	26-Apr				1,2%					
Assa Abloy	26-Apr	43,7%			3,5%					
NCC	26-Apr	n.m.			12,4%			6,2%		
Pandox	26-Apr			-9,8%				-4,4%		
Nordea	27-Apr	14,7%			2,9%					
Essity	27-Apr	10,2%			4,2%					
Evolution	27-Apr	2,0%			0,7%					
Gränges	27-Apr	21,9%			2,5%					
Intrum	27-Apr			-25,3%	2,0%					
Paradox	27-Apr			-22,0%	0,8%					
Sinch	27-Apr	0,5%						-1,6%		
Swedbank	27-Apr	14,6%			7,0%					
Thule	27-Apr	21,3%						-3,0%		
Volvo Cars	27-Apr	37,8%			3,8%					
Indutrade	27-Apr	11,8%			7,4%			14,0%		
Astra Zeneca	27-Apr	7,4%			2,1%					
JM	27-Apr		0,0%					6,5%		
SKF	27-Apr	8,3%			2,9%					
Atlas Copco	27-Apr	13,1%			8,0%			25,1%		
Millicom	27-Apr			-14,8%				-0,5%		
Trelleborg	27-Apr	0,4%				0,0%				
Holmen	28-Apr	20,6%			7,1%					
Electrolux	28-Apr	n.m.			9,8%					
Hexagon	28-Apr	3,1%			1,6%					
Lifco	28-Apr	11,4%			3,4%					
Epiroc	28-Apr			-1,7%	3,3%			5,9%		
Hexpol	28-Apr	2,4%						-2,6%		
SBB	28-Apr			-69,3%	0,2%					
SCA	28-Apr	19,6%						-3,7%		
Average		16,7%	0,0%	-14,3%	6,3%			-2,2%	21,7%	

Sources: [www.di.se](http://www.di.se), Avanza, Placera, Carlsquare.

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65% of the 64 Q1 2023 reports since 21 March had better-than-expected results, while 72% of the Q1 reports had higher-than-expected revenues.



Sources: [www.di.se](http://www.di.se), Avanza, Placera, Carlsquare.

## Week Ahead

This week, 162 S&P500 companies will report their Q1 2023 reports. The table below only includes US companies with a market capitalisation exceeding USD 100 bn.

EARNINGS CALENDAR	
Date	EPSe Q1 2023 (USD)
03-May Qualcomm	2,16
04-May Apple	1,44
04-May AnheuserBusch InBev	0,68
04-May Conoco Philips	2,02
05-May Berkshire Hathaway	2,79

Source: Zacks.com



Reports and events on Wednesday, 3 May: Bravida, Hanza, Lindab, Alimak, Concentric, Wallenstam, Securitas, Nolato, Lundin Mining, Metso Outotec, Demant, Pandora, Sydbank, YIT, Ørsted, Demant (operational update), Sydbank, Airbus, BNP Paribas Exane, Ingersoll-Rand, Klöckner, Lufthansa, Qualcomm, Stellantis, Timken and Unicredit.

Today, Wednesday morning, we get German VDMA Machinery Orders and Eurozone Unemployment Rate for March. From the US, we get ADP private employment and the services PMI, both for April. This is followed by weekly oil inventories (DOE) and, later in the evening, the Fed's rate announcement, followed by a press conference.

Reports on Thursday, 4 May: G5 Entertainment, Tietoevry, Instalco, Skanska, AAK, Peab, Loomis, NP3, Aker Solutions, Novo Nordisk, Sanoma, Citycon, Equinor, GIG, ISS (operational update), Maersk, Netcompany, Telenor, Air France-KLM, Apple, Anheuser-Busch, Arcelor Mittal, BMW, Credit Suisse, Goodyear, Marathon Oil, Moderna, Mondi, Next (operational update), Shell, Stanley Black & Decker, Volkswagen and Zalando.

In the morning at 2.45 CET, China's Caixin Industrial PMI for March is due. This is followed by Germany's March trade balance at 8.00 CET. Otherwise, the day will be dominated by services PMIs for March from Sweden, Spain, Italy, France, Germany, and the UK. The Eurozone will release its March PPI, and the ECB will make its interest rate statement at 14.15, followed by a press conference. From the US, we get Challenger layoff data for April, the March trade balance, Q1 labour costs and weekly jobless claims.

Reports on Friday, 5 May: Biogaia, FM Mattsson, John Mattsson, Catella, Logitea, Mildef, Stendörren, SynAct Pharma, Berkshire Hathaway, Draftkings, GEA and IAG. Clas Ohlsson April sales figures. Finnair and Norwegian traffic figures for April. Synact Pharma has a Capital Markets Day.

China's Caixin Services PMI for April will be released at 3.45 CET. Sweden's April PPI and Germany's March industrial orders will be released at 8.00 CET. This is followed by France's April industrial production at 8.45 CET and March eurozone retail sales at 11.00 CET. In the afternoon, Canadian and US employment for April will be released.

Reports on Monday, 8 May: Starbreeze, Traction and Paypal. Eniro's capital markets day.

The Bank of Japan will release the minutes of its March meeting at 1.50 CET. Japan's services PMI for April is due at 2.30 CET. German industrial production for March is expected at 8.00 CET, and the eurozone Sentix investor confidence for May at 10.30 CET. From the US, wholesale inventories for March and inflation expectations will be released in the afternoon.

Reports on Tuesday, 9 May: Arctic Paper, Bure, Karnov, Sagax, Orkla, ALK-Abello, Bakkafrøst, Bavarian Nordic, Chemometec (operational update), Outokumpu, Daimler Truck, Electronic Arts, Fresenius Medical Care, Nintendo, Schaeffler. SAS. Traffic figures for April.

China's trade balance for April is due at 5.00 CET. In the afternoon from the US, the NFIB small business index for April, the Redbook weekly retail sales data and the weekly oil inventories (API) statistics will be released.

## Valuation Tables, Swedish Equities

## Lowest P/E-ratio

Bolag	Price	P/E NTM
Maha Energy AB	9,1	1,8x
Tethys Oil AB	51,9	2,8x
Bonava AB	17,4	3,7x
Humana AB	14,5	4,6x
Intrum AB	85,1	4,8x
Bong AB	1,0	5,0x
Catella AB	33,7	5,6x
Serneke Group AB	27,8	5,7x
Midway Holding AB	22,1	5,9x
Nordic Paper Holding AB	40,6	6,0x

Source: S&amp;P Capital IQ/Carlsquare

## Highest Yield

Bolag	Price	Yield, %
SSAB AB	71,6	16,6
Bonava AB	17,4	13,1
Samhällsbyggnadsbolaget i Norden AB	11,4	12,6
Intrum AB	85,1	11,8
Tethys Oil AB	51,9	11,1
Svenska Handelsbanken AB	88,4	10,6
Aktiebolaget Fastator	7,3	10,2
Cibus Nordic Real Estate AB	106,0	9,7
Nordic Paper Holding AB	40,6	9,0
Volvo AB	208,4	8,9

Source: S&amp;P Capital IQ/Carlsquare

## Lowest priced Net Asset Value

Bolag	Price	P/B
Oscar Properties Holding AB	1,0	0,1x
Eniro Group AB	0,7	0,1x
Bonava AB	17,4	0,3x
Humana AB	14,5	0,3x
BHG Group AB	11,1	0,3x
Corem Property Group AB	8,4	0,3x
VNV Global AB	20,2	0,3x
Aktiebolaget Fastator	7,3	0,3x
Serneke Group AB	27,8	0,4x
Cint Group AB	14,7	0,4x

Source: S&amp;P Capital IQ/Carlsquare

## Lowest priced NAV on a debt-free basis

Bolag	Price	EV/tB
Oscar Properties Holding AB	1,0	0,1x
Q-linea AB	4,5	0,2x
Humana AB	14,5	0,2x
Serneke Group AB	27,8	0,3x
Cint Group AB	14,7	0,4x
Karolinska Development AB	1,7	0,4x
Hoist Finance AB	25,4	0,4x
Concejo AB	28,7	0,4x
KlaraBo Sverige AB	13,8	0,4x
Eastnine AB	98,0	0,4x

Source: S&amp;P Capital IQ/Carlsquare

## Lowest priced earnings growth

Bolag	Price	PEG
Nordisk Bergteknik AB	33,1	0,1x
Volvo Car AB	40,7	0,1x
RVRC Holding AB	29,2	0,2x
TF Bank AB	136,2	0,3x
Embracer Group AB	50,4	0,3x
Viaplay Group AB	249,2	0,3x
New Wave Group AB	206,6	0,4x
Intrum AB	85,1	0,4x
H & M Hennes & Mauritz AB	145,3	0,4x
Sinch AB	24,2	0,5x

Source: S&amp;P Capital IQ/Carlsquare

## Top priced earnings growth

Bolag	Price	PEG
Hufvudstaden AB	142,7	57,3x
Stillfront Group AB	21,3	12,9x
Getinge AB	252,2	7,4x
Thule Group AB	285,2	5,0x
Axfood AB	251,4	4,3x
Inwido AB	106,0	4,0x
AB Electrolux	161,7	3,2x
Atlas Copco AB	145,7	2,8x
Telefonaktiebolaget LM Ericsson	55,8	2,7x
Karnov Group AB	54,4	2,7x

Source: S&amp;P Capital IQ/Carlsquare

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