Weekly Letter:

Time to take a break?

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Carlsquare
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- Momentum traders are still ruling the market. But the VIX, which measures expected volatility, warns that the market is ready for a test to the downside.
- Still possible to trade big tech stocks, but with tight stops in place!

We have long favoured technology stocks. Rich technology companies can ride out any recession.

Above is the heat map for US stock, year to date. Just look at the outperformance from Microsoft, Apple, Amazon, Google, Nvidia, Meta and Tesla. We could make it easy and just update last week's weekly letter with new charts where we outlined AI as the driver for the current market.

But one interesting note from the technical side is that Nasdaq may have hit the roof (at least for this wave/cycle).

The Nasdaq has broken above a wedge on the daily timeframe, which could be over-shooting.

The Nasdaq tests the rising channel's upper boundary on the weekly chart. A test to the downside would be natural.

S&P 500 is testing a resistance line in the weekly chart.

On the daily chart, the S&P 500 has filled the gap that has been a potential target for a long time. Last Friday's breakout gave room for a test of the next resistance level at the old local high 4325. The MACD on the S&P 500 is also testing a resistance line.

Trend followers can continue to follow the trend but should increase stops accordingly!

We highlighted Meta, Amazon, Apple, Microsoft, Google, Tesla and Nvidia, and nearly all of them have had a nice week and are in positive trends.

Tesla is a late entrant in the race, so the curve is very steep. We usually use EMA9 as a stop, but its super-fast EMA5 may be a better stop with this trend.

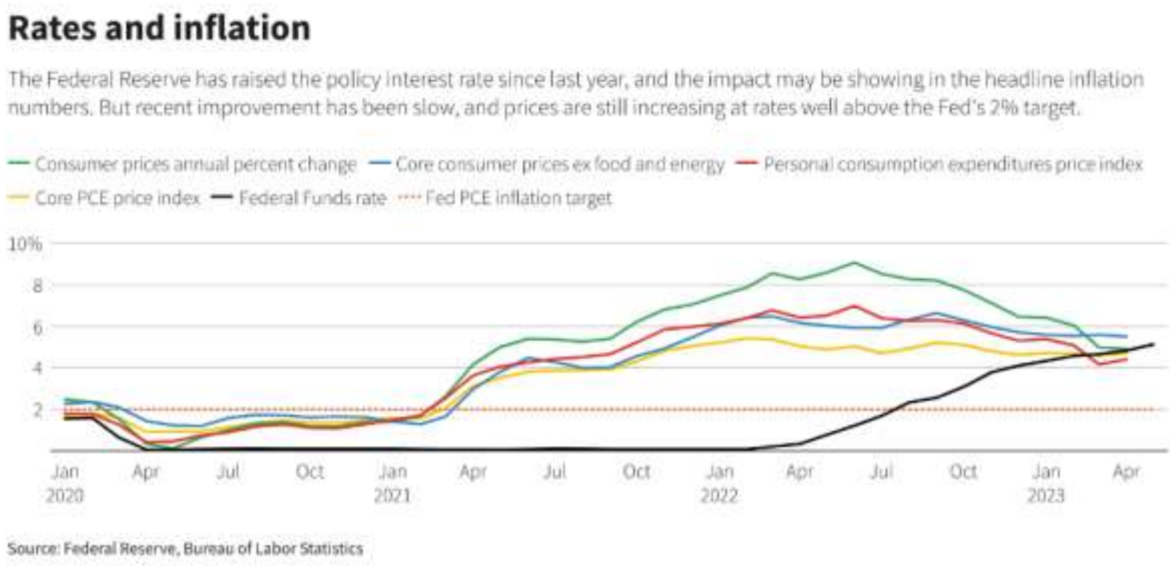
Nvidia provided the final push with its earnings report but has created a lonely island. This stock could provide an engaging guide for the coming trend. Traders will be tempted to go above the recent high at 419.4 or to take out the local low at 378.2. It is a considerable gap to fill below!

There are two arguments for a short-term pause in the uptrend: fear and liquidity.

The VIX index represents the market's expectations for the relative strength of near-term price changes in the S&P 500 Index. Because it is derived from the prices of SPX index options with near-term expiration dates, it generates a 30-day forward projection of volatility. Volatility, or the rate at which prices change, is often seen as gauging market sentiment, particularly fear among market participants.

The VIX moves in cycles - from high volatility to low volatility. High volatility almost always corresponds to falling stock prices and vice versa.

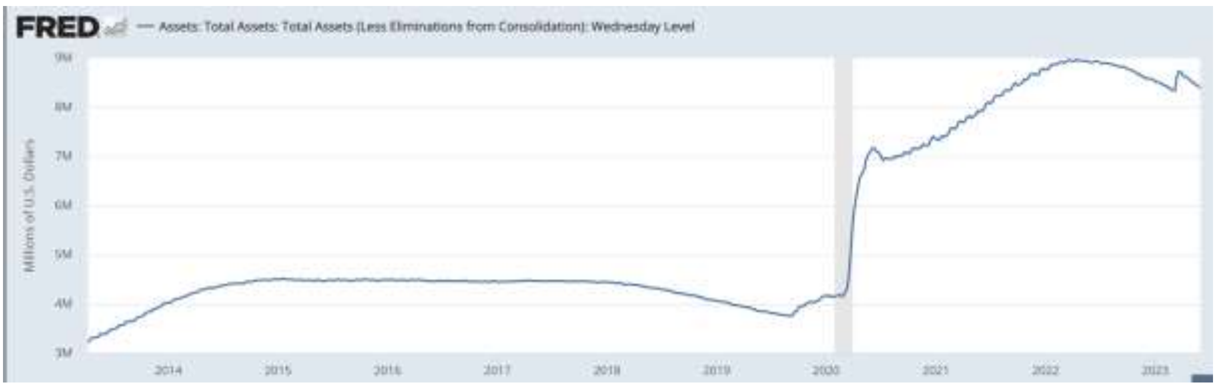
The VIX is now trading at historically low levels. On Friday, it closed below its lower Bollinger Band, a clear signal to the market that calm has gone too far. Even if this is not an opportunity for a significant reversal (which we don't think it is), buying some protection here is safe and prudent.



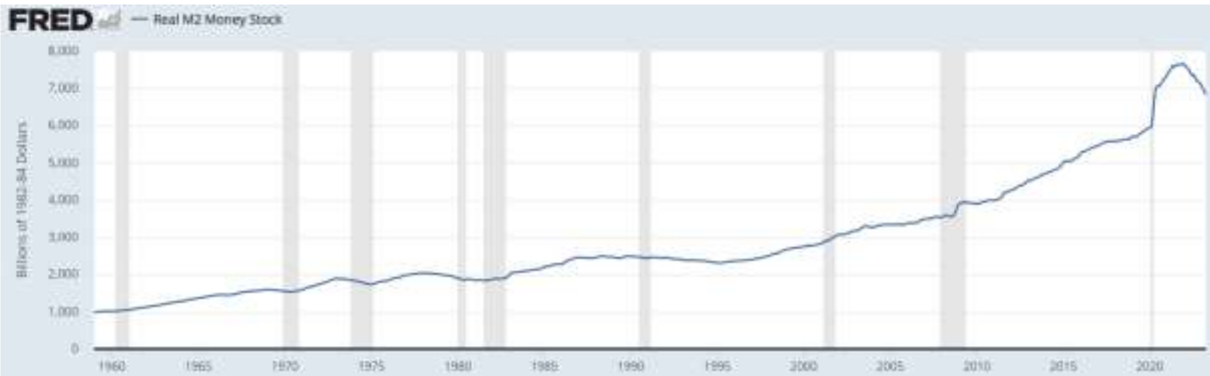
Reuters Graphics Reuters Graphics

https://www.reuters.com/markets/us/feds-new-projections-may-fill-void-interest-rate-guidance-2023-06-02/

The other argument comes from the macro side. The US Federal Reserve has been raising interest rates and taking liquidity out of the market to tame inflation. The chart above from Reuters shows how inflation is falling as the Fed raises the federal funds rate. But Reuters argues that inflation is still far from the 2% target. We argue that the Fed should change the target to 3-4 per cent inflation to relieve the market. This may not happen, but the expectation is that the Fed will pause to raise rates at the next meeting, which is a good signal.



The problem is that the current liquidity in the system is more important than the Fed Funds rate. The Fed is still withdrawing liquidity as assets under management continue to decline. The US government will be selling a significant amount of bonds in the coming weeks. Let's see if the Fed must rescue the demand side when this flood comes after the debt ceiling is lifted. Liquidity is terrible for the US dollar but good for equities!



M2 confirms that liquidity is shrinking. M2 estimates the total money supply, including all the cash people have on hand plus all the money held in current accounts, savings accounts, and other short-term savings vehicles. Low M2 and high inflation is a toxic cocktail that shows credit is drying up.

Considering all this, we will be cautious in the coming weeks. We are not becoming bearish as this could create some exciting buying opportunities. Can we have the best buying season in September-October this year?

Happy trading!

Week Ahead

Reports and events for Wednesday, 7 June: Voestalpine. Finnair traffic figures for May. Lundin Gold hosts a Capital Markets Day.

China's May trade balance will be released at 4.00 CET. German industrial production for April is due four hours later. The US trade balance for April, weekly oil inventories (DOE) and an interest decision from the Bank of Canada will be released in the afternoon.

Reports and events on Thursday, 8 June: Clas Ohlson, Systemair. SAS. Traffic figures for May. There is a Capital Markets Day organised by Volvo Cars.

Japan will release its Q1 GDP at 1.50 CET. Eurozone Q1 GDP will be released at 11.00 CET. We also get US weekly jobless claims and wholesale inventories for April.

Reports on Friday, 9 June: Nio.

China's CPI and PPI for May will start the day at 3.30 CET. At 8:00 CET, Sweden's industrial orders and household consumption for April will be released. In the afternoon, at 14:30 CET, Canada's unemployment rate for May is due.

Reports and events on Monday, 12 June: Oracle. Autoliv holds a Capital Markets Day.

The NY Fed inflation expectations are due at 17.00 CET.

Events on Tuesday, 13 June: Storytel arranges capital markets day.

The UK unemployment rate for April is dues at 8.00 CET. Germany, Spain and the US will release March CPI figures at 8.00, 9.00 and 14.30 CET, respectively. Germany's ZEW index for June is due at 11.00 CET. An OPEC oil report will be released during the day. From the US, the NFIB small business index for May, the weekly Redbook retail sales, and weekly oil inventories (API) will be released during the afternoon and evening.

Valuation Tables, Swedish Equities

Lowest P/E-ratio

Bolag	Price	P/E NTM
Maha Energy AB (publ)	8,8	2,7x
Tethys Oil AB (publ)	48,0	3,1x
Bonava AB (publ)	18,4	3,6x
Embracer Group AB (publ)	22,7	3,8x
Humana AB (publ)	15,4	4,4x
Samhällsbyggnadsbolaget i Norden	4,9	4,4x
Serneke Group AB (publ)	27,1	5,0x
Nordic Paper Holding AB (publ)	33,1	5,0x
Catella AB (publ)	30,0	5,0x
Hoist Finance AB (publ)	25,4	5,1x

Source: S&P Capital IQ/Carlsquare

Highest Yield

Bolag	Price	Yield, %
SSAB AB (publ)	70,0	17,0
Bonava AB (publ)	18,4	12,4
Aktiebolaget Fastator (publ)	6,3	11,9
Tethys Oil AB (publ)	48,0	11,5
Nordic Paper Holding AB (publ)	33,1	11,0
Cibus Nordic Real Estate AB (publ)	96,6	10,9
Svenska Handelsbanken AB (publ)	87,9	9,4
Resurs Holding AB (publ)	19,6	9,3
Dustin Group AB (publ)	28,7	9,2
Swedbank AB (publ)	170,3	8,7

Source: S&P Capital IQ/Carlsquare

Lowest priced Net Asset Value

Bolag	Price	P/B
Oscar Properties Holding AB (publ)	0,7	0,0x
Samhällsbyggnadsbolaget i Norden	4,9	0,2x
Immunovia AB (publ)	2,0	0,2x
Cint Group AB (publ)	10,4	0,2x
Bonava AB (publ)	18,4	0,2x
Corem Property Group AB (publ)	6,8	0,2x
Humana AB (publ)	15,4	0,3x
BHG Group AB (publ)	12,0	0,3x
Aktiebolaget Fastator (publ)	6,3	0,3x
VNV Global AB (publ)	20,4	0,3x

Source: S&P Capital IQ/Carlsquare

Lowest priced NAV on a debt-free basis

Bolag	Price	EV/tB
Karolinska Development AB (publ)	1,7	0,4x
Concejo AB (publ)	28,5	0,4x
Hoist Finance AB (publ)	25,4	0,4x
Vivesto AB	0,3	0,4x
Alligator Bioscience AB (publ)	0,5	0,4x
Tethys Oil AB (publ)	48,0	0,5x
Projektengagemang Sweden AB (publ)	12,3	0,5x
Maha Energy AB (publ)	8,8	0,6x
Immunovia AB (publ)	2,0	0,6x
BICO Group AB (publ)	58,4	0,6x

Source: S&P Capital IQ/Carlsquare

Lowest priced earnings growth

Bolag	Price	PEG
Nordisk Bergteknik AB (publ)	28,5	0,1x
Volvo Car AB (publ.)	38,0	0,1x
RVRC Holding AB (publ)	30,5	0,2x
Embracer Group AB (publ)	22,7	0,2x
TF Bank AB (publ)	136,2	0,3x
New Wave Group AB (publ)	178,7	0,3x
H & M Hennes & Mauritz AB (publ)	137,8	0,4x
Viaplay Group AB (publ)	223,2	0,4x
Sinch AB (publ)	23,2	0,4x
Dustin Group AB (publ)	28,7	0,4x

Source: S&P Capital IQ/Carlsquare

Top priced earnings growth

Bolag	Price	PEG
Karolinska Development AB (publ)	1,7	NA
Concejo AB (publ)	28,5	NA
Hoist Finance AB (publ)	25,4	NA
Vivesto AB	0,3	NA
Alligator Bioscience AB (publ)	0,5	NA
Tethys Oil AB (publ)	48,0	NA
Projektengagemang Sweden AB (publ)	12,3	NA
Maha Energy AB (publ)	8,8	NA
Immunovia AB (publ)	2,0	NA
BICO Group AB (publ)	58,4	NA

Source: S&P Capital IQ/Carlsquare

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