



Weekly Letter:

Turnaround could last until year-end

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Turnaround could last until year-end

- Falling interest rates have boosted equities ahead of the reporting period. It is still a trader's market where momentum went positive after the US jobless claims report last Friday. From a technical point of view, it can last to year-end.
- S&P500 earnings are expected to rise sharply in Q4 2023. Therefore, corporate guidance after Q3 results will be more important than usual.
- We see that Swedish banks should continue to report strongly in Q3 2023 and are therefore worth buying. The same applies to engineering companies that focus on long-cycle products, such as Atlas Copco and Volvo

Rates are coming down. At the time of writing, the US two-year Treasury yield has fallen 25 basis points to 4.95% and the ten-year Treasury yield has fallen 15 basis points to 4.65%. As illustrated in the chart below, the 2-year US Treasury yield is currently trading below its 100-day moving average.



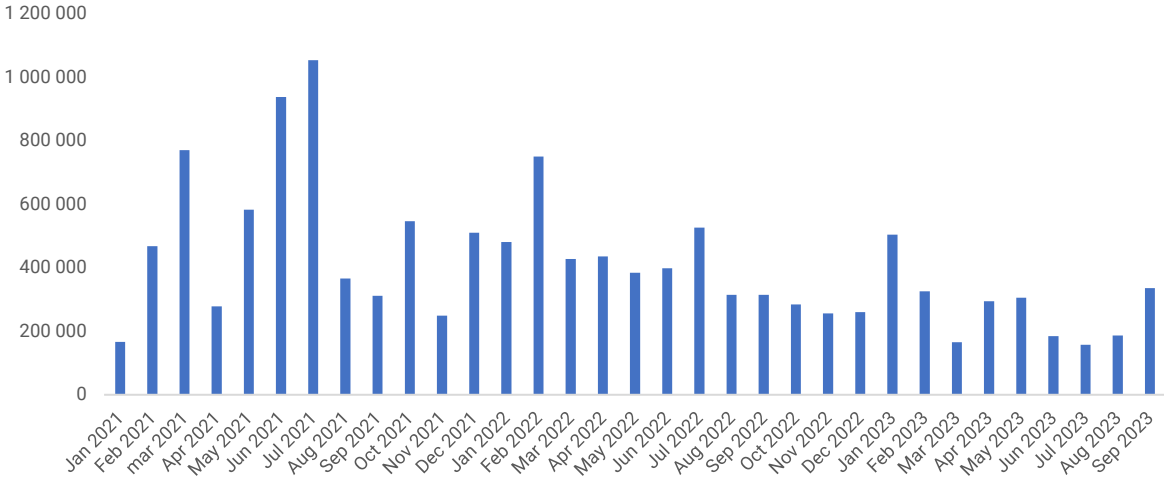
Source: Infront and Carlsquare

There are many possible explanations as to why US rates are down. Flight to safety after Hamas large-scale dawn raid against Israel, soft comments from Fed members and somewhat soft hourly earnings and lower oil prices.

US non-farm payrolls rose by 336,000 in September, compared with the average forecast of 170,000. Average hourly earnings rose by 4.2% year on year, marginally lower than the estimate of 4.3%.

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US Nonfarm payrolls, January 2021-September 2023



Source: Investing.com.

Looking at the funding futures, the implied probability of a rate hike in November is down to 13.7%, compared to 28.2% one week ago. The probability of a rate hike in December is currently at 27.5%, down from 46.7% one week ago.

The development in rates has boosted stocks. Both S&P 500 and Nasdaq 100 bounced nicely of support levels a head of the reporting season officially taking off on Friday 13 October with larger US banks releasing their Q3 reports.

Momentum

The change in momentum following last Friday's US Nonfarm Payments Report (NFP) is evident in all markets.

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But the trigger was lower oil prices, which fell after last week's unexpected inventory build-up. Lower oil prices have an impact on inflation expectations and interest rates, and with the NFP as the trigger, we got a turnaround in the markets.



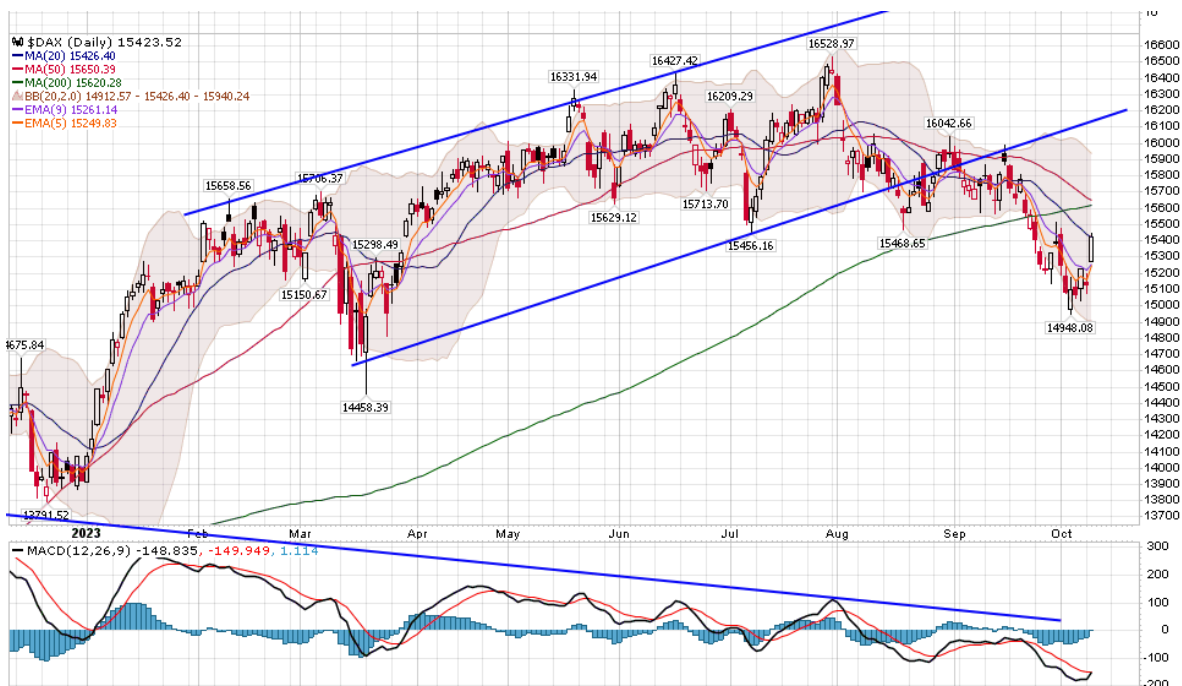
S&P 500 made a nice touch and test on MA200 which held. It then broke above EMA9 and MA20. A test of the higher Bollinger Band is natural.

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As we wrote last week, we can have a rebound from here that can last until the end of the year as the most challenging part of the year is over. But this is a traders' market, so it is important to follow the development day by day.



Risk appetite may have bottomed out, as evidenced by the HYG ETF, which tracks sentiment in the junk bond market.



Germany's DAX index has lost a lot of ground, and traders may want to take it back a little at a time.

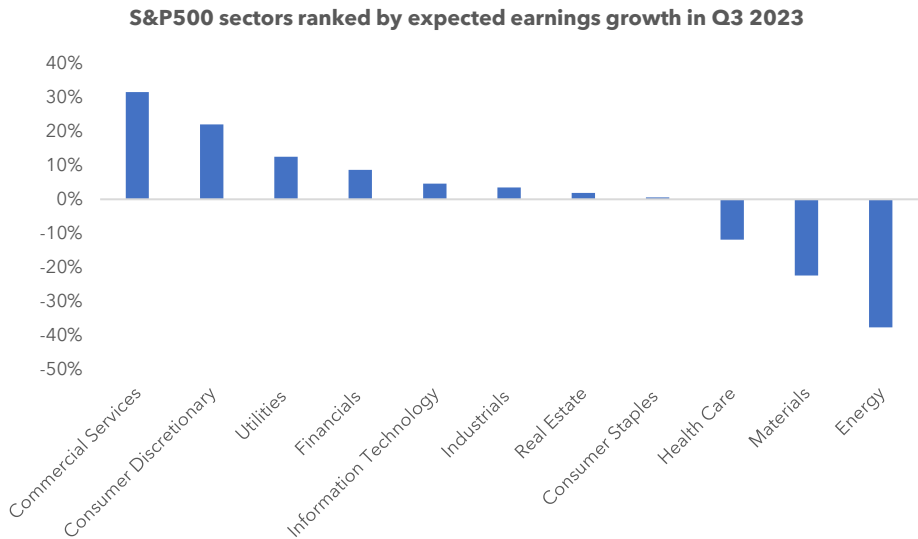
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Q3 2023 Earnings season

S&P500 stocks in the United States

For the third quarter, with 20 companies reporting so far, 17 S&P500 companies (85% of the total) have reported a positive EPS surprise as of 6 October 2023, according to Factset Earnings Insight. Meanwhile, 14 companies (70% of the total) have reported higher revenues than Wall Street analysts expected.

On Friday 13 October, JP Morgan Chase, Blackrock, Citigroup, and Wells Fargo report their Q3 results. The US banking sector is heterogeneous, and earnings expectations vary widely from insurance companies at best to investment firms at worst. Insurance companies are expected to deliver 64% earnings growth in the third quarter of 2023. At the other end of the economic spectrum, consumer finance and capital markets companies are expected to see their profits decline by 4% and 7% respectively in Q3 2023. In between these extremes we find financial sector companies with 12% and banks with 4% expected earnings growth in Q3 2023. Overall, the S&P500 financials sector is expected to deliver 8.7% earnings growth in Q3 2023, far better than the 0.3% earnings decline in Q3 2023 expected for the S&P500 universe.



Source: Factset Earnings Insight.

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Wall Street analysts expect S&P500 earnings growth of 7.8% in Q4 2023, 8.2% in Q1 2024 and 11.8% in Q2 2024. This means that corporate guidance for Q4 2023 is likely to be more important than earnings results in Q3 2023.

In the US, Health Care is expected to report 12% earnings decline in Q3 2023 due to significantly lower sales of Covid vaccines and pharmaceuticals. It is also likely that the political and regulatory risks are facing the US health care sector. 2024 will be the presidential election and Medicare negotiations. 2020 was an exception when the sector performed very strongly on the back of the Covid pandemic.

One sector that has performed strongly in 2023, but where earnings growth expectations are modest in Q3, is Information Technology. If the trend of lower US interest rates seen earlier this week continues, this could be positive for Information Technology and the Nasdaq.

We have compiled a list of major US companies reporting their Q3 results in the coming week, along with the reporting date and expected earnings per share.

EARNINGS CALENDAR		
Date		EPSe Q1 2023 (USD)
12-Oct	Delta Air Lines	1,92
12-Oct	Infosys	0,18
12-Oct	Fastenal	0,51
12-Oct	Walgreens Boots Alliance	0,68
13-Oct	JPMorgan Chase	3,86
13-Oct	UnitedHealth Group	6,33
13-Oct	Citigroup	1,24
13-Oct	BlackRock	8,63
13-Oct	Wells Fargo	1,25
13-Oct	The Progressive	1,62
13-Oct	PNC Financial Services	3,19
16-Oct	Charles Schwab	0,76
17-Oct	Bank of America	0,81
17-Oct	Johnson & Johnson	2,52
17-Oct	Lockheed Martin	6,66
17-Oct	Goldman Sachs	5,84
17-Oct	ProLogis	1,26

Source: Zacks.com

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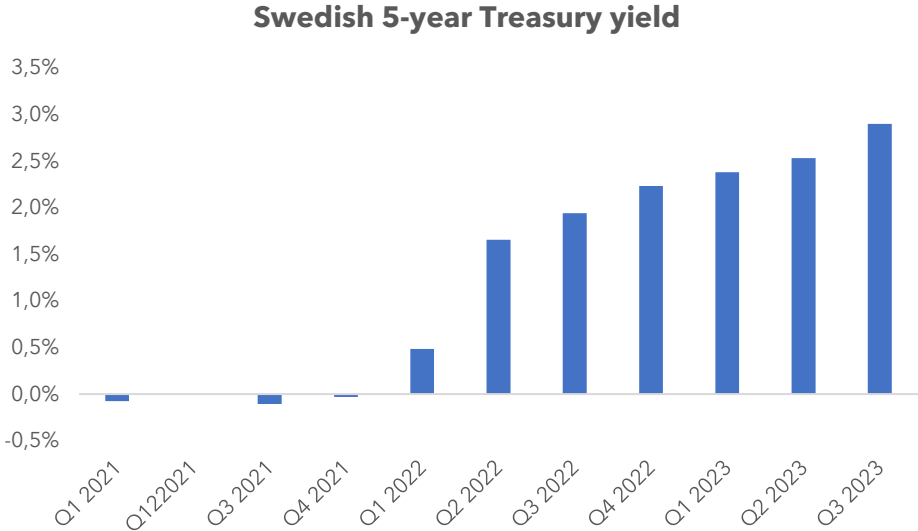
Swedish OMX stocks

The Stockholm Stock Exchange is dominated by engineering companies and banks. In the engineering sector, order intake and sales have been strong over the past four quarters. This is largely due to the price increases introduced in autumn 2022, which have gradually had an impact on companies' earnings. From Q3 2023 onwards, comparisons will become more difficult. For Atlas Copco, Sandvik and SKF, organic sales growth is expected to slow from just under 13% in Q2 2023 to low single-digit growth in Q3 2023. Short-cycle products such as bearings (SKF) and cutting tools (Sandvik) are expected to have negative volume growth in Q3 2023. However, this is reflected in a lower valuation of Sandvik (P/E 14x 12-month forward EPS) and SKF (P/E 10x) compared with an average P/E of 16x for seven Swedish engineering companies (ABB, Alfa Laval, Assa Abloy, Atlas Copco, Sandvik, SKF and Volvo).

The four large banks in the OMX Index (Handelsbanken, Nordea, SEB and Swedbank) have all surprised positively in terms of earnings in both Q1 and Q2 2023. While Handelsbanken's share has fallen by 7 per cent so far in 2023, Nordea's, SEB's and Swedbank's shares have risen by 9, 11 and 16 per cent respectively so far in 2023.

Banks usually benefit from higher interest rates and a widening of the spread between the lending rate and the Riksbank's key interest rate. The next chart shows the average interest rate on a five-year Swedish government bond since the first quarter of 2021.

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Source: www.riksbank.se

The yield on ten-year Swedish government bonds was 52% higher in Q2 2023 than in Q2 2022. The increase was almost as large, 49%, when comparing Q3 2023 with Q2 2022. The conditions therefore remain favourable for Swedish and Nordic banks to achieve good and positive net interest income in Q3 2023.

To summarise, Swedish banks should continue to report strongly, and these stocks are therefore worth buying. The same applies to engineering companies that focus on long-cycle products, such as Atlas Copco and Volvo.

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Week Ahead

Reports on Wednesday, 11 October: Dustin.

German CPI for September will be released at 8.00 CET. The ECB will release its August household inflation expectations at 10.00 CET. From the United States, we get September PPI, weekly oil inventories (DOE) and the FOMC meeting minutes on 20th September.

Reports and events on Thursday, 12 October: Atrium Ljungberg, Creades, Chr Hansen, Green Mobility, Delta Airlines, Fastenal, Infosys, and Walgreen Boots Alliance. Skistar Capital Markets Day.

Japanese Machinery Orders for August are due at 1.50 CET. UK GDP and Industrial Production for August will be released at 10.00 CET. The IEA will publish its monthly oil report at 10.00 CET. Opec will release its monthly oil report. In the afternoon, the US will release CPI for September and initial weekly jobless claims.

Reports on Friday, 13 October: Tryg, JP Morgan Chase, BlackRock, Citigroup, PNC Financial, The Progressive, United Health Group, and Wells Fargo.

At 3.30 CET in the morning, China will release its CPI, PPI, and trade balance for September. In Europe, September CPI are due from Sweden, France, and Spain, as well as August industrial production from the eurozone. After lunch, the US will release import prices for September and the Michigan index for October.

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Reports on Monday, 16 October: Charles Schwab and Rio Tinto.

Germany's Wholesale Prices for September will be presented at 8:00 CET. Italy's CPI for September is due at 10:00 CET. This is followed by the Euro-Zone Trade Balance for August at 11:00 CET. The day will be rounded off by the US Empire Manufacturing Index for October at 14:30 CET.

Reports on Tuesday, 17 October: Ericsson, EQT, Platzer, Elanders, Nordic Semiconductor, Bank of America, Goldman Sachs, Johnson & Johnson, Lockheed Martin, and Prologis.

UK unemployment for August will be released at 8.00 CET. Three hours later, Germany's ZEW index for October is due. In the afternoon, we get Canada's CPI for September, as well as from the United States, retail sales for September, Redbook weekly retail sales, industrial production for September, inventories of unsold goods for August, NAHB housing market index for October, and weekly oil inventories (API).

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Valuation Tables, Swedish Equities

Lowest P/E-ratio

Company	Price	P/E NTM
Netel Holding AB (publ)	6,9	2,3x
Tethys Oil AB (publ)	53,0	3,3x
Samhällsbyggnadsbolaget i Norden	3,6	4,1x
Dustin Group AB (publ)	18,2	4,1x
Starbreeze AB (publ)	0,5	4,1x
Transtema Group AB	14,5	4,3x
Bonava AB (publ)	17,0	4,3x
Eolus Vind AB (publ)	75,5	4,5x
Stillfront Group AB (publ)	15,0	4,5x
Embracer Group AB (publ)	20,8	4,6x

Source: S&P Capital IQ/Carlsquare

Highest Yield

Company	Price	Yield, %
Samhällsbyggnadsbolaget i Norden AB (publ)	3,6	33,2
Aktiebolaget Fastator (publ)	2,8	28,5
Coor Service Management Holding AB	42,7	10,6
Cibus Nordic Real Estate AB (publ)	105,1	10,0
Nordic Paper Holding AB (publ)	34,8	9,9
Dustin Group AB (publ)	18,2	9,9
SSAB AB (publ)	61,3	8,8
Telia Company AB (publ)	23,2	8,6
Bilia AB (publ)	104,0	8,6
Svenska Handelsbanken AB (publ)	95,8	8,3

Source: S&P Capital IQ/Carlsquare

Lowest priced Net Asset Value

Company	Price	P/B
Oscar Properties Holding AB (publ)	0,6	0,04x
Moberg Pharma AB (publ)	6,8	0,13x
Aktiebolaget Fastator (publ)	2,8	0,15x
Mendus AB (publ)	0,4	0,17x
K2A Knaust & Andersson Fastighete	5,4	0,20x
Cint Group AB (publ)	9,5	0,21x
Samhällsbyggnadsbolaget i Norden	3,6	0,22x
Corem Property Group AB (publ)	6,3	0,25x
NGS Group AB (publ)	6,5	0,25x
Bonava AB (publ)	17,0	0,25x

Source: S&P Capital IQ/Carlsquare

Lowest priced NAV on a debt-free basis

Company	Price	EV/tB
Vivesto AB	0,2	0,29x
Alligator Bioscience AB (publ)	0,4	0,31x
BICO Group AB (publ)	28,9	0,34x
Ascelia Pharma AB (publ)	3,6	0,35x
Projektagemang Sweden AB (publ)	9,1	0,37x
Hoist Finance AB (publ)	26,3	0,38x
Fingerprint Cards AB (publ)	0,9	0,52x
FastPartner AB (publ)	41,8	0,60x
Byggmax Group AB (publ)	27,8	0,64x
Maha Energy AB (publ)	8,4	0,68x

Source: S&P Capital IQ/Carlsquare

Lowest priced earnings growth

Company	Price	PEG
Nordisk Bergteknik AB (publ)	25,4	0,10x
Volvo Car AB (publ.)	42,8	0,12x
Telia Company AB (publ)	23,2	0,25x
TF Bank AB (publ)	143,8	0,26x
New Wave Group AB (publ)	72,1	0,29x
Kindred Group plc	97,5	0,37x
Scandic Hotels Group AB (publ)	34,8	0,40x
Dometic Group AB (publ)	63,4	0,40x
H & M Hennes & Mauritz AB (publ)	148,1	0,41x
Embracer Group AB (publ)	20,8	0,42x

Source: S&P Capital IQ/Carlsquare

Top priced earnings growth

Company	Price	PEG
Alleima AB (publ)	61,8	74,0x
AB Electrolux (publ)	112,2	10,5x
Fastighets AB Balder (publ)	47,3	8,1x
Netel Holding AB (publ)	6,9	5,8x
Wallenstam AB (publ)	36,7	5,0x
Telefonaktiebolaget LM Ericsson (publ)	53,3	3,4x
Inwido AB (publ)	100,5	3,3x
Axfood AB (publ)	251,0	3,1x
Nolato AB (publ)	46,8	3,1x
Biotage AB (publ)	103,7	3,1x

Source: S&P Capital IQ/Carlsquare

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