

# A good-enough earnings season

JULY 29, 2023

## Summary

### Trough earnings missing the tech catalyst

Our mid-Q2 earnings season check in shows profits again beating low expectations, but with mixed results so-far from the hoped for AI-led tech growth rebound. Whilst consumer and cyclical stocks have seen positive surprises, and pressure is coming off profit margins. S&P 500 seeing a borderline revenue recession (-1%) and trough earnings (-7%) with outlook for a gradual growth rebound in coming quarters to support the big valuation-led rally this year. [See Page 4](#)

### A historic week for central banks

Tech back leading stocks higher as near end of Fed and ECB rate hikes, with 'surprise' tightening baby-step from BoJ, China stimulus hopes, and low US PCE inflation report. Q2 results mixed with tech-relief from GOOG and META and some disappointment from MSFT. MCD to MA results and 2.4% Q2 GDP growth showed US consumer strength. See our Q3 Markets Outlook [HERE](#) and at twitter [@laidler\\_ben](#). [See Page 2](#)

### The benefits of the broadening rally

Value opportunities from healthcare to travel as [bull market broadens](#), but we think Value is an overall trap without GDP trough visibility, whilst tech-led Growth has more in tank. [See Page 2](#)

### Global economy coming out of surgery

GDP forecasts firmed, inflation concerns eased, and central banks near done. This [macro combo](#) keeps us positive but focused on 'defensive growth' and cautious on cyclicals. [See Page 2](#)

### All-weather extreme climate stocks

With [extreme weather](#) more common we see natgas, HVAC, generator, home improvement, auto repair, and solar beneficiaries and pricing offsets to ag and insurance losers. [See Page 2](#)

### Food prices are not coming down

Supply-side weather disruption driven 20% surge in our [breakfast commodities](#) basket threatening to extend the cost-of-living crisis. [See Page 2](#)

### Crypto sits out big macro events

BTC price slipped under \$30,000, ignoring the big macro event week but holding on to asset-class leading YTD gains. DOGE led major coins on TWTR payment hopes. Whilst XRP saw profit taking after big SEC-lawsuit gains. Two crypto regulation bills saw US Congress support, whilst OPEN AI CEO launched WRLD token. [See Page 3](#)

### Commodity rally continues

Commodities rebound extended, boosted by strong US Q2 GDP, China stimulus hopes, and weather-driven supply disruption. Brent oil up for 5<sup>th</sup> week ahead of Aug. 4<sup>th</sup> OPEC+ meet, but energy stocks are seeing profits halve YoY in reporting season. Ag leads gains with OJ new all-time high and cocoa 12-year high. [See Page 3](#)

### The week ahead: AAPL, Jobs, Europe, August

1) AAPL and AMZN (Thu) tech giants lead another big earnings week. 2) Europe focus is on 14<sup>th</sup> BoE rate hike and EU GDP and price slowdown data. 3) Friday's US jobs report est. fall to under 200k, would keep Fed happy. 4) End of positive July and start peak-summer August doldrums. [See Page 3](#)

### Our key views: A positive markets breather

Markets due a breather after the strong 1H, with weaker seasonality, low volatility, and coming growth slowdown. But fundamentally positive on lower inflation and coming rate cuts. Focus on defensive growth and long duration assets from healthcare to big tech. Cautious growth exposed cyclicals, commodities, and banks. [See Page 5](#)

### Top Index Performance

|        | 1 Week | 1 Month | YTD    |
|--------|--------|---------|--------|
| DJ30   | 0.66%  | 3.06%   | 6.98%  |
| SPX500 | 1.01%  | 2.96%   | 19.34% |
| NASDAQ | 2.02%  | 3.830%  | 36.79% |
| UK100  | 0.40%  | 2.16%   | 3.25%  |
| GER30  | 1.81%  | 1.99%   | 18.29% |
| JPN225 | 1.41%  | -1.30%  | 25.54% |
| HKG50  | 4.41%  | 5.29%   | 0.68%  |

\*Data accurate as of 29/07/2023

## Market Views

### A historic week for central banks

- Tech back in the driving seat and leading stocks higher as near end of Fed and ECB interest rate hikes, with 'surprise' tightening baby-step from BoJ, and China stimulus hopes. Q2 results were mixed with tech-relief from GOOG and META and some disappointment from MSFT. MCD to MA results and 2.4% Q2 GDP growth showed US consumer strength. **See NEW Q3 Outlook HERE.** See [Page 6](#) for resources and videos.

### The benefits of the broadening rally

- The Dow Jones Industrials (DJ30) record winning streak – most since 1897 (!) - highlights a [healthy broadening](#) of US stocks rally outside 'magnificent 7' tech stocks. To traditional Value stocks, small caps, and equal-weight S&P 500. With 70% of S&P 500 stocks now above 200-day moving average.
- Reflects US economic resilience, far from feared recession, and the top of the interest rate cycle, leaving the Fed able to respond to any sharp GDP weakness with cuts. We see Value opportunities from healthcare to travel but think it's an overall trap without visibility on the GDP trough. Whilst tech-led Growth has more in the tank. [See Page 2](#)

### Global economy coming out of the surgery

- The [global economy](#) is now doing better than expected. The IMF is the latest to raise the GDP growth outlook, at same time as cutting inflation forecasts. This less-bad combo has underpinned the stocks rally, as stagflation fear proved wrong. And central banks now readying to stop interest rate hikes with inflation fallen back. The world economy 'on track but not yet out of the woods'.

- Risks still uncomfortably high and differences big. Asia is counter-cyclical and expanding with inflation low. Whilst Europe leads cyclical downturn but also forecast to be first to recover. This macro setup keeps us positive but focused on 'defensive growth' stocks and cautious cyclicals. [See Page 2](#)

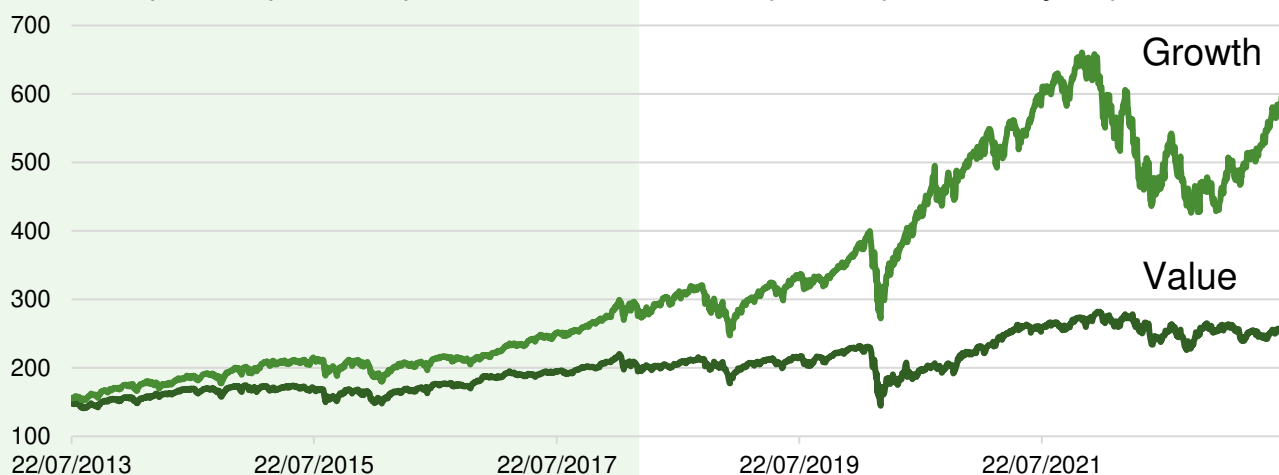
### All-weather extreme climate stocks

- Temperatures soared as climate change boosted by growing El Nino. Weather seasonality long been a driver for some. Like travel stocks or pool supplies (POOL) in summer. And ski resorts (MTN), road salt (TORO), and warm jackets (MONC.MI) in the winter.
- Newer is the steady rise and regularity of [extreme weather](#). This is a structural boost to renewable energy themes, like solar. @RenewableEnergy. But also to seasonal stocks that benefit from weather extremes. Like natgas, HVAC, generators, home improvement, and auto repair. Our related 18-stock basket has outperformed, led by solar and natgas. Whilst perceived short term losers, like ag and insurance, benefit from higher prices. [See Page 2](#)

### Global food prices are not coming down

- Ag bucked fall in Bloomberg commodity index this year. Impact from Russia's Ukraine invasion faded. But replaced by weather-driven disruption. May worsen as Black Sea deal ends and El Nino builds.
- Our basket of [breakfast commodities](#) +20% from Jan low. Threatens easing in food prices, which led headline inflation, as works through supply chain. Helps ag suppliers (MOS to DE), but pressures producer margins (NESN.ZU to GIS). [See Page 2](#)

### US Growth (like Tech) vs Value (like Banks and Commodities) stocks (Relative, 10-years)



## Market Views

### Crypto sits out the stocks rally

- BTC price slipped below \$30,000, even as broader markets moved up on global growth and central bank optimism. This gap reflects the breakdown of the crypto correlation with tech and a breather after crypto's asset leading gains so far this year.
- Meme-coin DOGE led price gains on speculation the TWTR rebranding could lead to its adoption as a payment mechanism. Whilst XRP saw some profit taking after its huge post-SEC lawsuit gains.
- Two crypto asset regulation bills passed the US House Financial Services committee, whilst the Open AI CEO launched a WRLD token.

### Commodities rally continues

- Commodities continue to move up, boosted by good US GDP growth, China stimulus hope, and continued supply cuts and weather disruption.
- Brent oil rose for a fifth week to 3-month high near \$84/bbl., with refined products gasoline and heating oil leading. Markets are looking ahead to the Aug. 4<sup>th</sup> next OPEC+ monitoring meeting after Saudi and Russia recently deepened supply cuts.
- Oil stocks led Q2 profits declines, near halving in both US and Europe on lower YoY oil prices.
- Agricultural prices continued to lead gains, with weather-related supply disruptions. Orange juice prices saw a new all-time-high, and is up 20% in a month, and cocoa is now at a 12-year high.

### US Equity Sectors, Themes, Crypto assets

|            | 1 Week | 1 Month | YTD    |
|------------|--------|---------|--------|
| IT         | 2.21%  | 5.30%   | 44.40% |
| Healthcare | -0.77% | 3.10%   | 0.26%  |
| C Cyclical | 1.17%  | 3.70%   | 29.78% |
| Small Caps | 1.09%  | 6.61%   | 12.51% |
| Value      | 0.39%  | 4.92%   | 3.96%  |
| Bitcoin    | -1.89% | -2.36%  | 77.23% |
| Ethereum   | -0.97% | 2.30%   | 56.91% |

Source: Refinitiv, MSCI, FTSE Russell

### The week ahead: Earnings, Jobs, BoE, and August

1. The mixed Q2 **earnings** season continues led by tech heavyweights APPL and AMZN, consumer-facing SBUX and UBER, pharma giants PFE, MRK, and global leaders from TM to HSBC and BABA.
2. A **Europe** focus, as Bank of England (Thu) sets to hike interest rates for 14<sup>th</sup> time, to over 5%. Whilst Euro area reports a Q2 GDP growth slowdown, to under 0.5%, and July inflation to below 5.5%.
3. US monthly **employment** report (Fri) is seen falling to under 200k new jobs, cooling a tight labour market and inflation fears. Unemployment est. low 3.6% and wages growing over 4%.
4. Markets to end positive July (Tue) as summer rally continues with lower inflation and peaked central banks. **August** focus on rest of Q2 earnings, first US presidential debate, and Jackson Hole event.

### Our key views: A positive markets breather

- Markets due a breather after very strong 1H, with weaker summer seasonality, too low volatility, and the still-coming GDP growth slowdown. But are fundamentally positive markets, with a stronger Q4 and 2024, as economies avoid recession, with lower inflation and coming interest rate cuts.
- Faster slowdown hurts earnings. But lower bond yields helps valuation. Focus on defensive growth and long duration assets, from healthcare to big tech. More cautious on assets most exposed to recession risk, like cyclicals, small caps, and commodities. Or with lower yields, like banks.

### Fixed Income, Commodities, Currencies

|             | 1 Week | 1 Month | YTD     |
|-------------|--------|---------|---------|
| Commod*     | 0.97%  | 5.67%   | -4.94%  |
| Brent Oil   | 4.20%  | 12.10%  | -1.98%  |
| Gold Spot   | -0.26% | 1.61%   | 7.03%   |
| DXY USD     | 0.62%  | -1.18%  | -1.76%  |
| EUR/USD     | -0.96% | 0.96%   | 2.95%   |
| US 10Y Yld* | 11.28  | 11.01   | 7.41    |
| VIX Vol.    | -1.99% | -1.91%  | -38.49% |

Source: Refinitiv. \* Broad Bloomberg index. \* Basis points

## Focus of Week: Earnings season check in

### Trough earnings enough to support markets, but without a positive tech catalyst

Half of S&P 500 companies have now reported [Q2 results](#), and we have closed out the season's busiest week. We still have a way to go but the broad contours can be seen. Three quarters of those reported have beaten analysts' earnings expectations. Whilst all eleven major sectors have beaten profits forecasts. We are on track for a borderline revenue recession (c.-1%) and trough earnings growth (-6%) for this cycle. Profit margins are stabilising, but tech stocks have provided only partial AI growth relief. We believe these earnings are good-enough to keep investors focused on the gradual turn up in the profits cycle from this trough, led by big-tech and AI trends. We are [cautious on chasing](#) the recent Dow Jones and Value rally, despite the yawning valuation discount, ahead of an economic growth slowdown.

### Five earnings takeaways so far, from high expectations to stabilising profit margins

**Growth:** Consumer discretionary has seen both the strongest growth (35%) and biggest surprise (18%), at the intersection of the resilient consumer and recovering technology. Communications services has not been far behind. GOOG and META have been boosted by returning ad growth.

**Cyclicals:** Traditional cyclical sectors like transport, industrials, and financials have also seen solidly double-digit earnings growth, from BA to DAL. This reflects [resilient economies](#), ongoing post-pandemic demand catch ups, and depressed margins. But we are still somewhat cautious here, ahead of a slower economy.

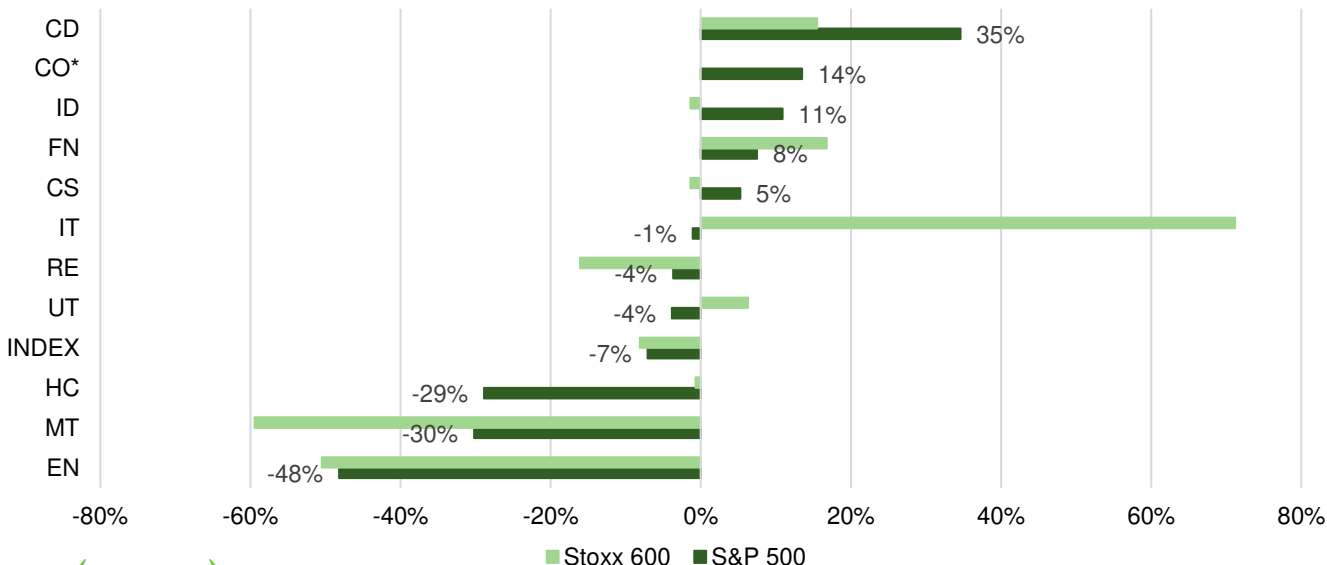
**Expectations:** Investors have been merciless with any who missed high expectations implicit in strong stock price gains. This has focused on tech names, like TSLA, NFLX, and MSFT, who all 'beat' forecasts but still fell. A similar reaction was seen in European luxury at LVMH and CFR.

**AI:** Signs of a concrete artificial intelligence revenue boost were mixed, whilst companies continue to invest heavily. No one has had the breakout revenue success seen by NVDA last quarter. It did not propel faster Azure growth at MSFT, but its AI subscription plan holds out a better future.

**Margins:** Net profit [margins are stabilizing](#) around 11.3%, the five-year average, with the combination of easing producer price pressures and still-strong corporate pricing power. This remains an offset to weak sales. KO to ULVR showed ability to keep flexing pricing power and still see sales ahead of forecast.

**Europe:** UK and Europe are seeing a stronger sales shortfall (-7%) but less margin pressures, with earnings falling in line (-8%). The continent's small tech sector has led growth (+71%) and the surprise (+50%). These are stronger in Europe (+15%) than the US, reflecting Europe's lower expectations.

### US and European second quarter sector earnings growth (%. YoY)



Source: Refinitiv. Blended reported and forecast earnings. \*Not available for Stoxx 600. CD=Consumer Discretionary. CO=Communications. ID=Industrials. FN=Financials. CS=Consumer Staples. IT=Technology. RE=Real Estate. UT=Utilities. HC=Healthcare. MT=Materials. EN=Energy. For illustration purposes only.

# Key Views

## The eToro Market Strategy View

### Global Overview

Aggressive and extended Fed interest rate hiking cycle and stubborn inflation accelerated our 2023 view. Of a coming GDP slowdown, but not recession, plus lower inflation, and a peaking Fed interest rate cycle. Will pressure earnings but also lower bond yields and take pressure off de-rated valuations. We are invested, believing Oct 2022 was the low, and focus on cheap and defensive assets for a faster 'V-shaped' market recovery. See our Q3 Outlook [HERE](#)

### Traffic lights\*

### Equity Market Outlook

#### United States

World's largest equity market (60% of total) seeing slowing but resilient GDP and earnings growth. Valuations led the rebound this year and are supported high company profitability and peaked bond yields. Focus on cash-flows defensives, like healthcare and high dividend. And Big-tech supported by defensive growth, cost cutting, and AI. See gradual 'U-shaped' rebound as inflation slowly falls and de-risks market and boosts tech and crypto appetite.

#### Europe & UK

Favour defensive and cheap UK ('Economies not stock-markets') and continental European equities. Recession risk easing with lower natgas prices and reopening China with high 'buffers' of rising fiscal spending (defence and refugees) and weak Euro (50%+ sales overseas). Even as ECB hikes aggressively. Equities cushioned by lack of big tech sector and 30% cheaper valuations vs US. Banks better capitalised and regulated but loans/GDP much higher.

#### Emerging Markets (EM)

China, Korea, Taiwan dominate EM (60% wt.), and more tech-centric than US. Positive China as economy reopens, supports property sector, eases tech regulation pressure. Valuations 30% cheaper than US and markets out of favour. Recovery helps global sectors from luxury to materials. EM needs weaker USD and peak US rates catalyst.

#### Other International (JP, AUS, CN)

Canada and Australia have benefitted from strong equity market weight in commodities and financials, as global growth resilient and bond yields risen. Now could be becoming headwinds. Japanese equities among worlds cheapest with own and China-proxy growth and governance improving but threats of tighter monetary policy and stronger Yen.

### Traffic lights\*

### Equity Sector & Themes Outlook

#### Tech

'Tech' sectors of IT, communications, consumer discretionary (Amazon, Tesla), dominate US and China. Expect better performance as 1) lower bond yields take pressure off valuations and 2) high profit margins and fortress balance sheets make defensive to recession risks. 2) Cost cuts and AI add to growth. 'Disruptive' tech much more vulnerable.

#### Defensives

More attractive as recession risks rising and bond yields have peaked. Consumer staples, utilities, (some) real estate attractive with defensive cash flows, less exposed to rising economic growth risks, and with robust dividends. Healthcare is the most attractive, with cheaper valuations, more growth, some rising cost protection.

#### Cyclicals

High risk cyclical sectors - like discretionary (autos, apparel, restaurants), industrials, energy, materials, and small caps - have cheap valuations, many with depressed earnings, and have been out-of-favour for many years. But they are significantly exposed to rising recession risks. Some especially cheap (energy) or see growth recovery (airlines).

#### Financials

Current stresses likely individual not systemic. Post GFC reforms boosted capital and size/speed of authority's response. But outlook for 1) less GDP growth, 2) lower bond yields and interest rates, and 3) valuation sensitivity after recent surprises, worsens outlook. Insurance and Diversifieds (like Berkshire Hathaway) more defensive.

#### Themes

Dividends and buyback themes attractive with resilient cash flows, rising pay-outs, and investor search for defensives. Power of compounding dividends under-estimated, at up to 1/2 of total long-term return. Small caps pressured by rising recession risk. Secular growth of Renewables and Disruptive Tech investment themes.

### Traffic lights\*

### Other Assets

#### Currencies

USD 'wrecking ball' driven by Fed interest rates and 'safer-haven' bid. DM currencies hurt by still low interest rates and struggling growth. Strong USD hurt EM, commodities, US foreign earners like tech. But helps big EU and Japan exporters. See a stabler USD outlook in 2023 as near top of the Fed cycle and global risks remain high.

#### Fixed Income

US 10-yr bond yields supported around 4% by higher Fed rate hike and stickier inflation expectations. Set to ease as recession risks slowly build and inflation expectations gradually fall. US has widespread to other market bond yields, and headwinds of high debt, poor demographics, and low productivity. 5% bill yields an attractive cash alternative.

#### Commodities

Strong USD and rising recession fears hit commodities. But still above average prices helped by GDP growth, 'green' industry demand, supply under-investment, recovering China, Russia supply crisis. Oil helped by slow return of OPEC+. But commodities not to repeat their 2021 and 2022 performance leadership. Gold benefits from safer haven demand.

#### Crypto

Potential 'surprise' after dramatic and early asset class sell-off and later specific risk events from Luna to FTX. See long term asset class development with small size \$1 trillion, correlations low, regulation growing, development/catalysts continuing - Ethereum merge to proof-of-stake and coming BTC halving.

### \*Methodology:

**Our guide to where we see better risk-adjusted outlook. Not investment advice.**

#### Positive

Overall positive view and expected to outperform the asset class on a 12-month view.

#### Neutral

Overall neutral view, with elements of strength and weakness on a 12-month view.

#### Cautious

Overall cautious view, and expected to underperform the asset class on a 12-month view.



# Analyst Team

## Global Analyst Team

|                                  |   |                     |                         |
|----------------------------------|---|---------------------|-------------------------|
| <b>CIO</b>                       | Gil Shapira                                 | <b>Italy</b>        | Gabriel Debach          |
| <b>Global Markets Strategist</b> | Ben Laidler                                 | <b>Iberia/LatAm</b> | Javier Molina           |
| <b>United States</b>             | Callie Cox                                  | <b>Nordics</b>      | Jakob Westh Christensen |
| <b>United Kingdom</b>            | Adam Vettese<br>Mark Crouch<br>Simon Peters | <b>Poland</b>       | Pawel Majtkowski        |
| <b>France</b>                    | Antoine Fraysse Soulier<br>David Derhy      | <b>Romania</b>      | Bogdan Maioreanu        |
| <b>Holland</b>                   | Jean-Paul van Oudheusden                    | <b>Asia</b>         | Nemo Qin<br>Marco Ma    |
|                                  |   | <b>Australia</b>    | Josh Gilbert            |

## Research Resources

### Research Library

[eToro Plus](#): In-Depth Analysis. Dive deeper into market insights: Read daily, weekly and quarterly summaries, catch up on the latest market trends and get the most recent, in-depth overview of markets.

### Presentation

Find our twice monthly global markets presentation on the multi-asset investment outlook.

### Webinars

eToro CLUB members can join our live Weekly Outlook webinars every Monday at 1pm GMT. Also see the other online courses and webinars.

### Videos

Subscribe to our timely video [updates](#) on market moving events, and the 'week ahead' view

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