ANALYST WEEKLY

Anatomy of investor sentiment

AUGUST.28.2023

Summary

Sentiment rebound puts focus on earnings

The strong investor sentiment rebound seen this year has helped drive markets up and taken valuations above average levels. This puts the market focus on the building earnings recovery. Institutional investors have been the most cautious on the rally. Whilst retail investors took the long view and never gave up on tech. But companies still biggest buyer of US stocks. Our eToro investor sentiment tracker is a contrarian indicator flashing a yellow warning. **See Page 4**

August set for sharp losses

Stocks stabilised but are on track for -5% August losses. Cross-currents of sharply weaker global growth PMIs, a hawkish Fed's Powell Jackson hole speech, and some easing of surged 10-yr bond yields. Stocks saw another blowout NVDA results quarter, and ARM filed for a Sept. blockbuster IPO. But also saw big post-results retail sell-offs from FL to PTON. See Q3 Markets Outlook **HERE** and at twitter @laidler_ben. **See Page 2**

A last consumer hurrah

Back-to-school/college spend rivals Christmas in size and last consumer hurrah as pressure builds and GDP growth expectations can only fall from current 40-yr highs. @ShoppingCart. **See Page 2**

Did the 'September Effect' come early?

September close and typically weakest month for stocks. But 'September effect' may been pulled into August, as now well known, and setting up for typical Q4 repositioning rally. **See Page 2**

Heat, drought, and hurricanes

Investors face potentially one of most powerful El Niño events in history, boosting commodities and extreme weather stocks. **See Page 2**

Testing the IPO market

ARM, Birkenstock, Instacart are a coming test for weak but recovering IPO market. But the number of US stocks is down 40% from peak and limited supply helping keep valuations high. **See Page 2**

Crypto depressed after flash crash

Asset class depressed, with BTC around $26,000, after the SpaceX sales triggered 'flash crash' and continued broader global markets volatility. TRX outperformed on its steadily lower supply. Whilst XRP held back by the SEC lawsuit appeal. The Bitcoin hash-rate is at a new all-time-high, whilst Ordinals subscriptions hit 25 million. **See Page 3**

Commodities mixed on PMIs and dollar

Hurt by surprisingly weak global flash PMIs and a 3-month Dollar high. Brent oil fell under $85/bbl., on Iran and Kurdistan supply outlook. Whilst EU natgas price plunged as Australia's LNG export strike was avoided. Ag prices, from sugar to coffee and cotton, rose again partly on El Nino weather supply disruption fears. **See Page 3**

The week ahead: Payrolls, inflation, and tech

1) Focus on slowing US payrolls (Fri) <200k and EU inflation (Thu) to <5%. 2) Tech and consumer earnings from CRM, AVGO, LULU, CHWY. 3) Start of seasonally weak Sept. (Fri), after poor August. 4) Holiday shortened UK week with FTSE 100 rebalance and lower house prices. **See Page 3**

Our key views: A positive markets breather

Market seeing breather after 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	-0.45%	-3.14%	3.62%
SPX500	0.82%	-3.85%	14.75%
NASDAQ	2.26%	-5.07%	29.85%
UK100	1.05%	-4.62%	-1.52%
GER40	0.37%	-5.09%	12.27%
JPN225	0.55%	-3.46%	21.19%
HKG50	0.03%	-9.84%	-9.23%

*Data accurate as of 28/08/2023

Market Views

August set for sharp losses

- Stocks stabilised, led by tech, but still on track for -5% August losses. Cross-currents of sharply weaker global growth PMIs, a hawkish Fed's Powell Jackson hole speech, and some easing of surged 10-yr bond yields. Stocks saw another blowout NVDA quarter, and ARM filing for a Sept. blockbuster IPO. But some big post-results retail sell-offs from FL to PTON. **See NEW Q3 Outlook HERE**. See **Page 6** for resources and videos.

A last consumer hurrah

- Consumer biggest driver of US economic surprise this year. Personal consumption 68% of GDP and 5.8% Fed GDP NOWCast a 40-yr high if realised. Low unemployment, housing and stocks 'wealth effects', wages ahead of inflation, offset lower pandemic savings, high interest rates, gas prices

- But the headwinds are building, and the consumer changed. Focused on smaller luxuries, online, groceries, and trading down. Cautious big tickets or those over-consumed in pandemic. Back-to-school spend, that rivals Christmas, may give last hurrah. See @ShoppingCart. **See Page 2**

Did the 'September effect' come early?

- September is around the corner and is typically the weakest month for markets, given the end-of-summer blues, mutual fund tax loss harvesting, and back-to-school consumer expenses. With stocks already down by 5% in August this seasonal pattern just adds to the cautious mood. We think market consolidation was overdue and volatility too low, and fundamentally supported by recovering earnings and secure valuations.

- September has historically seen a -1.1% global markets pullback, led by Italy, Germany, and the UK FTSE 250. This weak 'September effect' may have been pulled forward into August, as it is now well known, and be just setting up for the typical Q4 year ahead repositioning rally. **See Page 2**

Heat, drought, and hurricanes

- World potentially facing one of most powerful El Niño weather events in history. The impacts would be many, global, and on top of climate change trends. Would drive further agricultural and energy commodity disruption, support extreme weather stocks, and already blamed for Panama Canal trade restrictions to busier-than-hoped hurricane season.

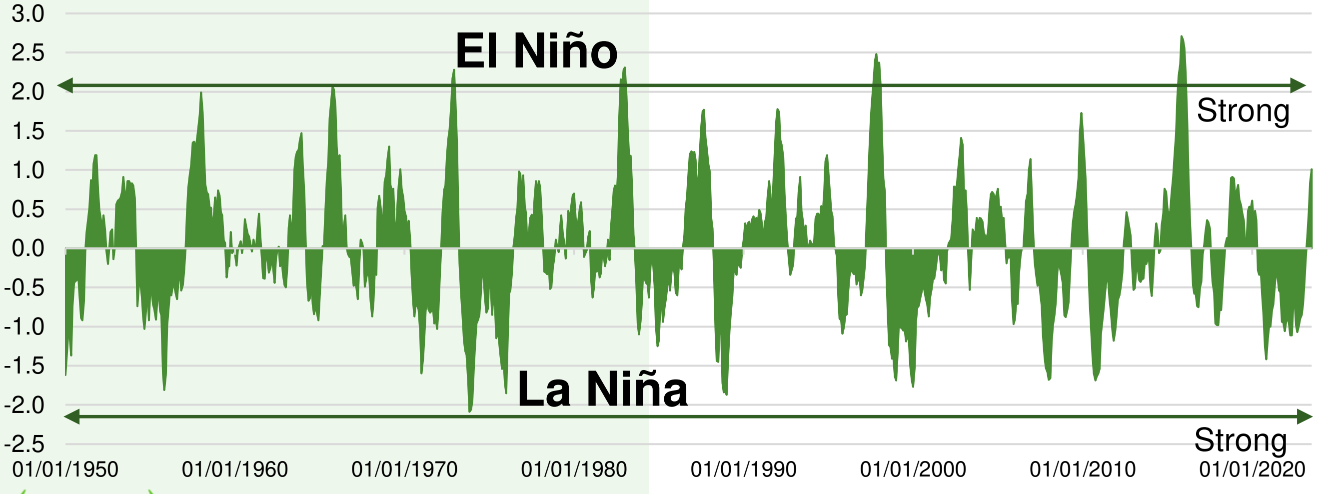
- El Niño forecast to last into next year, with a typical Nov-Jan peak, and a 2/3 chance it develops into a historically 'strong' event. Are rare (see chart), seen only four times before in last 75 years. The most recent was in 2015, the hottest year on record, and with widespread weather disruption. **See Page 2**

Testing the IPO market

- The slow revival of US IPO market set for its biggest test in Sept., with larger and tech-focused stocks testing waters. Activity this year been under 10% of the listing boom of 2021 but now dusting itself off, with ARM, Birkenstock, and Instacart in pipeline.

- But reality is that number of US listed stocks down over 40% in twenty years. Is mixed blessing. It limits investor choice. But M&A activity and c. $1 trillion annual buybacks dwarf IPO's, restrict stock supply, and support world's highest valuations. **See Page 2**

Ocean Niño Index (Sea Surface Temp °C from average, from 1950)



Source: Refinitiv. For illustration purposes only

Market Views

Crypto depressed after flash crash

- Major coins BTC and ETH stayed depressed, with bitcoin around $26,000, after the prior week SpaceX sale catalysed 'flash crash' and a catch up to the broader global market's volatility. Crypto remains by far the smallest but best performing of all the global asset classes this year.

- Amongst other major coins, TRX outperformed with the support of its steadily lower supply. Whilst the recent surge in XRP continued to fall back under weight of SEC's Ripple lawsuit appeal.

- The Bitcoin hash rate hit a new all-time-high, whilst Ordinals inscriptions hit 25 million and has generated $50 million fees for the network. See the latest Weekly Crypto Roundup for more.

Commodities pressured by PMIs and US dollar

- Commodity prices pressured by a raft of lower forward-looking global PMIs alongside the DXY dollar index nudging a three-month high 104.

- Brent oil fell for a 2nd week to under $85/bbl. on the combination of macro pressures and outlook for additional Kurdish and Iranian supplies.

- European natgas prices fell sharply as potential Australian LNG strike, representing 10% global exports, averted following CVX and WDS.AX talks.

- Ag prices rose, with gains from sugar, coffee, OJ, and cotton, as the El Nino weather phenomena builds and threatens supply disruption.

US Equity Sectors, Themes, Crypto assets

	1 Week	1 Month	YTD
IT	2.20%	-4.05%	37.14%
Healthcare	0.02%	-2.18%	-1.57%
C Cyclicals	0.12%	-3.98%	23.38%
Small Caps	-0.31%	-5.72%	5.25%
Value	-0.21%	-3.81%	0.03%
Bitcoin	-0.33%	-11.05%	57.37%
Ethereum	-0.71%	-11.35%	37.95%

Source: Refinitiv, MSCI, FTSE Russell

The week ahead: Payrolls, inflation, and tech

1. Macro focus August **US payrolls** with est. 3rd month under 200k new jobs, with stable 3.5% unemployment and 4.4% annual wage growth. EU headline inflation (Thu) est. to fall to under 5%.

2. Tech and consumer Q2 **earnings** tail-end with CRM, AVGO, DELL, VMW, CRWD plus LULU, CHWY, and BBY. The S&P 500 index earnings season is -4% YoY and Europe's Stoxx 600 -5% overall.

3. August's stock markets are on track for a c. 5% loss. **September** starts Friday and historically has seen the weakest seasonality of the year. Highlight the Sept. 20 FOMC interest rate meeting.

4. Shortened week in the **UK** with the August Bank Holiday (Mon) ahead of FTSE 100 rebalance, with MKS.L set to re-enter and latest Nationwide housing price index extending last -4% YoY fall.

Our key views: A positive markets breather

- Markets see 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*	1.18%	-1.64%	-6.50%
Brent Oil	-0.62%	0.01%	-1.97%
Gold Spot	1.30%	-0.79%	6.19%
DXY USD	0.59%	2.52%	0.64%
EUR/USD	-0.71%	-2.02%	0.87%
US 10Y Yld*	-1.82	28.08	35.49
VIX Vol.	-9.36%	17.63%	-27.65%

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

Focus of Week: Focus on the sentiment rebound

Sentiment and valuation rebound puts the focus on the earnings recovery

Our investor sentiment index rebounded strongly from January lows (see chart). It's been a big contrarian and technical driver of markets this year. When everyone is bearish a little less-bad news goes a long way, and many have room to buy. This support is now ebbing with sentiment above average but not euphoric. Similarly, the fundamental drivers are more balanced. Valuations drove all returns this year but are now stretched. Continued valuation support, from a peaked Fed rate cycle, and a tech-led turn up in earnings is now the main driver. We examine the three main investor types – institutional, retail, and corporate.

Institutional investors have been the most cautious on the rally this year

Institutional investors have been the most cautious and missed much of the rally this year. This started to change in the last few months. Mainstream institutions like mutual and pension funds cut cash levels to under 5% and are now the least bearish since February 2022, according to the BofA global fund manager survey. Faster moving hedge fund exposures have round-tripped and are back to being cautious again.

Retail investors never gave up on markets or tech and taken the long view

Retail investors never gave up on stocks to the extent institutional investors did. Because of a structurally more bullish tech view or a longer investment horizon. US households' equity exposure is 50% above average. Our quarterly retail investor BEAT survey showed buyers outpacing sellers 3-1. The long-running AAII US retail investor survey shows 32% bullish, slightly below the long term 37% average.

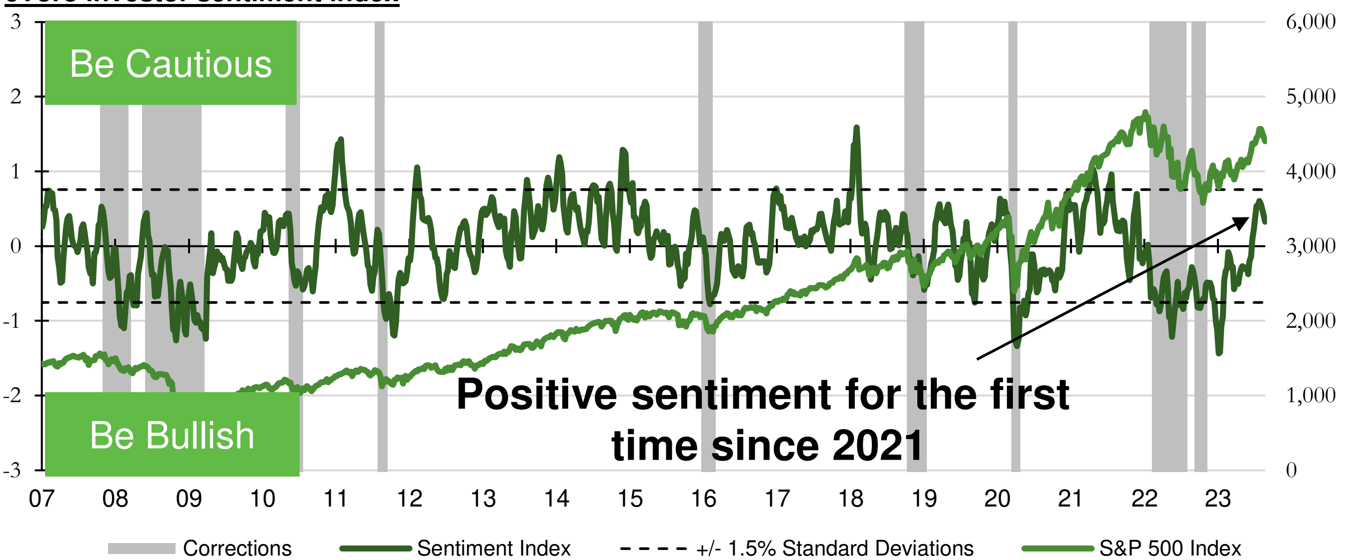
Companies remain the biggest buyer of US stocks, with near $1 trillion of buybacks

The least talked about but biggest buyer of stocks is companies. This is especially true in US, where share buybacks are favoured over dividends given their lower tax treatment and flexibility. Big tech has been the biggest user (see NVIDIA's $25bn announcement) followed by banks. Buybacks hit a record $1 trillion last year. The run rate is now lower, with weaker profits and the new 1% buybacks tax, but still a big anchor.

Our eToro investor sentiment tracker is a contrarian indicator, and turned less positive

Our proprietary sentiment indicator is made up of 1) equity mutual fund and ETF flows. 2) The American Association of Individual Investors (AAII) sentiment survey. 3) VIX index of expected 30- day S&P 500 volatility. 4) S&P 500 put/call ratio, proportion of put buying (option to sell) vs calls (to buy). A low number is contrarian bullish, with more investors left to turn positive the market. It's a better buy than sell signal.

eToro investor sentiment index



Source: Refinitiv. 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 'surpsise' 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.

Source: eToro

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