ANALYST WEEKLY

The dominant dollar

SEPTEMBER.05.2023

Summary

Dollar dominance is here to stay

The US dollar dominates global trade, debt, and central bank reserves. It's the US's currency but the world's problem. De-dollarization is only very slowly happening structurally, with rise of China, with gold and bitcoin among near term winners. But cyclically we see modest weakness with US first to cut rates and risk aversion easing. Good for pressured overseas FX (like JPY, TRY, SEK, ILS), commodities, EM, and US tech. **See Page 4**

Growth relief drives stocks higher

Signs of easing US growth and inflation pressures, with a 'goldilocks' payrolls report, propelled the S&P 500 over 4,500 and narrowed August's losses to 1.6%. Weak China data saw more drip-feed policy stimulus. CRM's Q2 beat and raise continued the positive tech and AI momentum. ORSTED.CO wind miss compounded renewables pain. First Medicare 10-drug price list a sector warning. See Q3 Markets Outlook **HERE** and at twitter @laidler_ben. **See Page 2**

Facing the September fears

August resilience is telling and sets up well to face September's weak seasonality, with event risks from El Nino and hurricanes to US budget showdown and China stimulus. **See Page 2**

Corporate debt sends a reassuring message

Junk (JNK) and investment grade (VCIT) yields over treasuries falling, blunting interest rate rise. Defaults slowly rising, maturities extended, debt loads falling, earnings troughing. **See Page 2**

A lot is riding on the new iPhone

Big implications for world's largest stock, where phones half sales, and across 200-co supply chain, shrinking smartphone market, lagging US mobile giants, and coming ARM IPO. **See Page 2**

What went wrong with renewables stocks?

Solar, wind, hydrogen, lithium slumped, lagging oil, on high interest rates, cost pressure, high expectations. @RenewableEenergy. **See Page 2**

Mixed crypto regulation messages

Crypto volatile as Grayscale GBTC appeal victory vs SEC then dampened as the agency delayed decisions on all bitcoin spot ETF applications. Crypto ended August as the worst performing asset class. HOOD expanded its crypto offering and COIN took stake in USDC issuer Circle. See latest Weekly Crypto Roundup. **See Page 3**

Commodities helped by China and energy

Commodities gained with the drip-feed of China economic stimulus and as Brent rose over $85/bbl. on outlook for continued OPEC supply restraint. US natgas rose on hot weather and hurricane disruption fears. Platinum set for biggest market deficit in 50-years. Cocoa rises on Ghana supply shortage outlook. **See Page 3**

The week ahead: Labor day, China, cars

1) US labor day holiday (Mon). 2) China trade (Wed), services PMI, and stimulus measures. 3) Australia and Canada cenbanks forecast to keep interest rates unchanged at peak. 4) Tech (DOCU, ZS, PATH) and consumer (KR, GME) earnings plus German international motor show. **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	1.43%	-0.65%	5.10%
SPX500	2.50%	0.84%	17.61%
NASDAQ	3.25%	0.88%	34.06%
UK100	1.72%	-1.32%	0.17%
GER40	1.33%	-0.70%	13.77%
JPN225	3.44%	1.61%	25.35%
HKG50	2.37%	-5.92%	-7.07%

*Data accurate as of 04/09/2023

Market Views

Growth relief drives stocks higher

- Signs of easing US growth and inflation pressures propelled the S&P 500 over 4,500 and narrowed August's losses to 1.6%. Weak China data saw more drip-feed policy stimulus. CRM's Q2 beat and raise continued the positive tech and AI momentum. ORSTED.CO wind miss compounded renewables pain. First Medicare 10-drug price list a sector warning. **See NEW Q3 Outlook** **HERE**. See **Page 6** for resources and videos.

Facing the September fears

- A strong finish narrowed August's stock loss to 2%, with dollar stronger, oil flat, and bonds and bitcoin lower. This resilience is telling after triple whammy of higher fixed income yields, oil prices, and China concerns, after record-breaking rally.

- Some of September's weak seasonality fear may been anticipated and we remain positive markets. With inflation falling, interest rates now peaking, earnings troughed and valuations supported. We focus on long duration and defensive growth, from tech and bonds to crypto. Cautious value trap cyclicals with slowdown coming. **See Page 2**

Corporate debt sends a reassuring message

- US corporate bond market sending a reassuring signal that financing fundamentals supportive. Spreads of investment (VCIT) and non-investment grade (JNK) bonds have been falling (see chart). This has blunted the increase in interest rates and signals optimism among bond investors. Q2 results showed earnings troughing, debt maturities were extended in the 2020 refinancing boom, and corporate debt/GDP has been falling.

- 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**

A lot is riding on the new iPhone

- Apple's (AAPL) Sept. 12th iPhone 15 launch has big implications far beyond the world's largest stock, where phones are half of sales. Revitalizing the falling smartphone market would be felt across its 200-company supply chain, lagging US mobile giants (VZ, A, TMUS), and the coming ARM IPO.

- Global phone shipments have been falling for two years, with penetration high, replacement cycles lengthening, and differentiation difficult. Apple's premium segment sole exception and dominates industry profits. Hope is a new product and lower inventories may drive an upgrade and replacement growth cycle. @5GRevolution. **See Page 2**

What went wrong with renewables stocks?

- Renewables stocks slumped this year, with largest thematic ETF (ICLN) down 20%. Been doubly bitter with oil stocks (XLE) flat. Renewable growing pains have been broad, from solar to wind and hydrogen to lithium. Driven by combination of high interest rates, cost pressure, and high expectations.

- Pockets of renewables strength, from EV's to solar, have given some opportunity. Whilst 'big oil's' renewables pullback offers some competition relief. See @RenewableEnergy. **See Page 2**

Key upcoming market events to watch in September)

Date	Country	Event
Sept 01	Global	Start of historically seasonally weakest month of year
Sept 09	Global	G20 leaders summit in India. UN General Assembly & SDG next wk
Sept 10	US	Historic peak of the Atlantic hurricane season, as El Nino builds
Sept 12	US	World's largest stock AAPL iPhone 15 launch. iPhone 48% of sales
Sept 13	US	August inflation w/ headline rising but core falling under 4.7%
Sept 14	Europe	European Central Bank (ECB) meet, est. on hold at 4.25%
Sept 15	US	'Triple witching' quarterly US futures and options expiry
Sept 15	China	PBoC 1-yr MLF announcement as stimulus measures gather pace
Sept 20	US	FOMC meeting and new 'dot plot'. Futures say on hold at 5.25%
Sept 21	UK	BoE est. 15th hike to 5.50% w/ developed world's highest inflation
Sept 30	US	Fiscal 2024 budget deal deadline to avert government shutdown

Source: Refinitiv. For illustration purposes only

Market Views

Mixed crypto regulation messages

- Crypto assets volatile after a US court upheld Grayscale appeal against the SEC denying its ability to convert to an ETF. This helped sharply narrow the GBTC discount to net asset value.
- But sentiment was dampened as the SEC then delayed all decisions on the long pipeline of spot bitcoin ETF applications. Crypto was supported by the broader equity rally, on a slower US GDP growth and inflation outlook.
- Robinhood (HOOD) expanded its crypto offering, adding wallet support for bitcoin and dogecoin. Solana Pay was integrated into Shopify (SHOP). Coinbase (COIN) bought a stake in USDC issuer Circle. See the latest Weekly Crypto Roundup.

Commodities supported by energy and China

- Commodity prices saw modest gains. Supported by a continued drip-feed of China economic stimulus announcements in response to weak economic data. This drove modest gains across industrial metals. And higher energy prices, with natgas gaining on hot US weather and hurricane Idalia disruption fears, plus simmering Australia LNG strike fears. This came alongside Russia's announcement of coming production cuts.
- Platinum prices rose on reports of its biggest ever supply-demand deficit in over fifty years, as big producer South Africa suffers power disruption. Cocoa gained on concerns of building supply disruption in major producer Ghana.

The week ahead: Labor Day, China, tech earnings

1. A shortened week in the US with Monday's **Labor Day** holiday marking the end-of-summer, return to school, college, and markets, and typically the seasonally-weakest month of the year.
2. Focus on **China** with its struggling economy and policy stimulus drip-feed. August trade (Wed) after last double-digit import and export slumo, and hope for stabilising key services PMI (last 54.9).
3. Narrow consensus Australia (RBA) and Canada (BoC) **central banks** hold interest rates steady at respective 4.1% and 5.1% as global bankers near the top of the rate cycle with inflation easing.
4. Tech and consumer **earnings** DOCU, ZS, GTLB, PATH, and artificial intelligence play AI plus KR, CART, and meme GME. Plus **autos** focus on the German international motor show, from Sept 5.

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.

US Equity Sectors, Themes, Crypto assets

	1 Week	1 Month	YTD
IT	4.37%	-1.09%	43.13%
Healthcare	0.42%	-0.20%	-1.15%
C Cyclicals	2.86%	-1.95%	26.91%
Small Caps	3.63%	-3.68%	9.06%
Value	1.56%	-2.24%	1.59%
Bitcoin	-1.55%	-12.26%	54.93%
Ethereum	-1.98%	-13.06%	35.22%

Source: Refinitiv, MSCI, FTSE Russell

Fixed Income, Commodities, Currencies

	1 Week	1 Month	YTD
Commod*	1.18%	0.75%	-5.39%
Brent Oil	5.56%	3.30%	3.49%
Gold Spot	1.18%	-0.61%	7.44%
DXY USD	0.27%	2.20%	0.72%
EUR/USD	-0.10%	-2.06%	0.77%
US 10Y Yld*	-4.87	13.98	30.62
VIX Vol.	-16.52%	-23.45%	-39.59%

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

eToro

Focus of Week: The pros and cons of dollar dominance

The US dollar dominates the world economy, across trade, debt, and central banks

The US dollar is the world's de-facto reserve currency. It is one-side of 88% of global currency transactions, 80% of global trade, makes up 60% of central bank reserves (see chart), and 60% of international loans. This structurally high demand for dollars allows the US to borrow cheaply and gives it unique leverage globally. This will only slowly rebalance as China rises as a global power and others look to diversify, given the powers of incumbency. A near term outlook of peaked Fed interest rates and less risk aversion sets a path of gradual dollar weakness to support hard-pressed currencies, commodities, EM, and US tech stocks.

This has advantages and but also disadvantages for the US

The US dollar has dominated global markets since dethroning the British Pound (GBP) after WWII, when all currencies was pegged to the dollar (and in turn gold). This structural dollar demand allows the US to easily finance its chronic fiscal deficit, and gives it unique influence around the world, from sanctions to access to the US financial system. But it has also resulted in an expensive currency, undermining US exports and over-stimulating consumption. The benefits of US dollar incumbency are big, and come alongside its super-sized financial markets, without capital controls, and the world's still-largest economy.

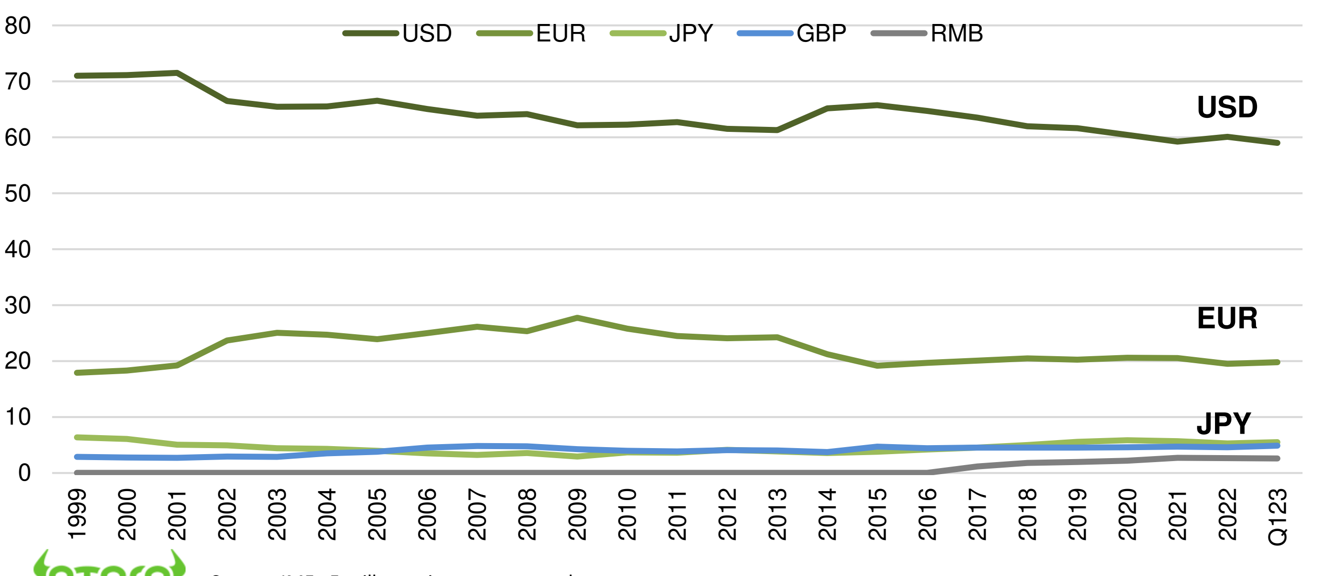
De-dollarization is a gradual process, with gold and bitcoin the winners

Dollar dominance has driven attempts by others to diversify their currency holdings. Most recently after the US froze Russia's offshore reserves, and with the planned expansion of the BRICs. And comes alongside the gradual rise of China whose RMB punches hugely below its economic weight. But the constraints are many, from China's capital controls to Saudi Arabia's US dollar currency peg and Europe's lack of unified bond market or treasury. One clear winner has been gold. It represents around 17% of global FX reserves and 1H purchases this year setting a record. 'Digital gold' bitcoin (BTC) is a longer-term option, waiting for the nearing catalyst of the first central bank to hold as part of its reserves.

'The dollar is our currency, but it is your problem' US Treasury Secretary Connolly (1971)

We see a gradual stabilisation and easing of the dollar. It is expensive and US likely the first major central bank to cut interest rates, eroding the interest rate differential. Whilst gradually healing economies and risk tolerance erodes 'safer haven' demand. This will release pressure on hard pressed currencies, with the JPY, TRY, SEK, and ILS among the cheapest according to the BIS. Support commodities, which will become cheaper for major overseas buyers like India and China. And emerging markets, which would see looser financial conditions on US dollar debts. And US tech stocks, which derives 60% of sales from outside US.

Currency composition of global central bank reserves (% total)



Source: IMF,. 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

Analyst Team

Global Analyst Team

CIO	Gil Shapira	**Italy**	Gabriel Debach
Global Markets	Ben Laidler	**Holland**	Jean-Paul van Oudheusden
United States	Callie Cox	**Iberia/LatAm**	Javier Molina
United Kingdom	Adam Vettese Mark Crouch Simon Peters	**Nordics** **Poland**	Jakob Westh Christensen Pawel Majtkowski
Germany	Maximilian Wienke	**Romania**	Bogdan Maioreanu
France	Antoine Fraysse Soulier David Derhy	**Australia**	Josh Gilbert Farhan Badami

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

Twitter

Follow us on twitter at @laidler_ben,

eToro