ANALYST WEEKLY

Contrarian opportunities

SEPTEMBER.18.2023

Summary

Contrarian ideas among this year's laggards

Markets have been very strong this year, but not everyone has benefitted. We highlight the biggest laggards from small caps to VIX volatility across the world, sectors, themes, and asset classes, looking for contrarian opportunities for the brave. We highlight bottoming and weather-driven 'widow-maker' Natgas; ending of China's triple disappointment; high dividend yield as interest rate hikes end; and crypto Polygon on its rebranding and 2.0 upgrade. See Page 4

S&P 500 inflation and strike crosscurrents

Stocks firm as core US inflation hit new low and retail sales stayed strong, whilst China growth bottomed. Europe boosted by the ECB's last hike. Versus headwind from UAW car strike and 'triple witching' volatility. TSLA surge on Dojo supercomputer value. AAPL surprise iPhone15 price 'freeze' as goes for volume. ARM soared in biggest IPO of year. See Q3 Markets Outlook HERE and at twitter @laidler_ben. See Page 2

The hard last inflation yards

US inflation most important number in markets and its gradual easing, as housing and jobs pressures cool, opens way to rate cuts and helps the economic and profits outlook. See Page 2

The three drivers of the earnings recovery

Next bull market stage led by profits recovery of tech leadership, profits margins, GDP resilience taking over from rising valuations. See Page 2

Currencies in interest firing line

LatAm currencies resilient to early rate cuts but Poland's Zloty plunged, on very different real rates and FX valuations, and taste of what to come as global rate cycle turns. See Page 2

Beer shows the limits to price rises

Big beer producers are seeing the limits of their multi-year price 'premiumisation' strategy as consumers push back, whilst investors derate their premium market valuations. See Page 2

Crypto resilient to FTX overhang risk

Crypto markets benefited from broader market relief and shrugged off the overhang risk from bankruptcy court allowing FTX to sell its $3 billion crypto holdings. Credit card giant V announced stablecoin plan with SOL. Ripple bought custodian Fortress. Binance laid off workers. See the latest Weekly Crypto Roundup. See Page 3

Energy drives commodity rally on

Brent oil prices rallied to over $93/bbl. on deeper market deficit forecasts, lifting whole asset class and threatening markets. BP.L CEO resigned, throwing renewables shift into focus. Ag markets saw more weather disruption, and cocoa hit new high. Nickel hit a new low, on China slowdown and EV battery demand fears. See Page 3

The week ahead: Fed, BoE, PMIs, and Fedex

1) Fed (Wed) to keep rates unchanged at top of cycle, whilst BoE (Thu) hikes again. 2) US, EU, UK, JP, AU PMI (Fri) health check. 3) FDX, AZO, GIS, KBH, DRI, MU earnings and CART, KYVO IPOs. 4) Watch Oct.1 US government shutdown deadline, UAW auto strike, Oktoberfest start. 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	0.12%	0.34%	4.44%
SPX500	-0.16%	1.84%	15.91%
NASDAQ	-0.39%	3.14%	30.97%
UK100	3.12%	6.18%	3.48%
GER40	0.97%	2.05%	14.15%
JPN225	2.84%	6.62%	28.51%
HKG50	-0.11%	1.29%	-6.08%

*Data accurate as of 18/09/2023

Market Views

S&P 500 inflation and strike crosscurrents

- Stocks firm as core US inflation hit new low, and retail sales stayed strong. Europe boosted by the ECB's last hike. Versus headwind from UAW car strike and 'triple witching' volatility. TSLA surged on a revaluation of the value of its dojo chip business. AAPL surprised with an iPhone15 price 'freeze' as goes for volume growth. ARM soared in the biggest IPO of the year. **See NEW Q3 Outlook HERE**. See Page 6 for resources and videos.

The last hard inflation yards

- US inflation is the most important number in markets. Easing inflation opens way to Fed rate cuts and helps the economy and earnings. We are in an inflation no-man's land now. With mixed messages of oil-driven rising headline inflation, to 3.7%, but easing underlying pressure, to a new low 4.3%, as housing and jobs pressure eases.

- This may take a few more frustrating months to resolve, with the final fall toward Fed's 2% target the hardest. But the key is the continued fall in housing, the biggest basket component, and wages, the driver of services inflation. **See Page 2**

Three drivers of the earnings recovery

- Valuations have driven all stock market returns this year. Now the focus is on recovering earnings to lead the next leg of the bull market. These are being driven by tech leadership, stabilizing profit margins, and economic resilience. They are led by the double-digit profit estimate increases over the past three months by the semiconductor, retail, and consumer industries, whilst banks and pharma have been the notable decliners.

- These positive earnings increases have been global, with the US outpaced by markets as diverse as Korea, Japan, India, Italy, and Spain, with the UK, Australia, and China among the few countries seeing recent profit estimate declines. **See Page 2**

Currencies in the interest rate firing line

- The global interest rate cycle has begun to turn and the rate cut countdown clock started. This has big implications for FX markets, with some more vulnerable than others to falling rate support, and as the strong US dollar piles pressure on all.

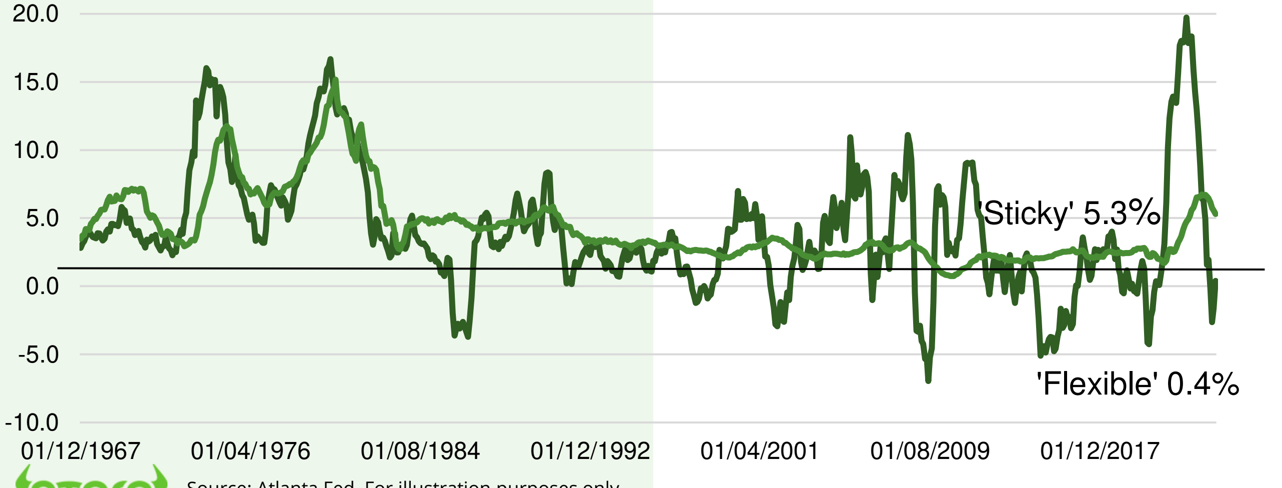
- LatAm rate cuts have come alongside reassuring currency resilience, offsetting their high valuations, as their real interest rates remain high. The US (DXY) and Canada (CAD) are likely the first bigger banks to cut next year and will take comfort from this. Poland's overly ambitious rate cut, the first in Europe, shows the risks, with Zloty overvalued and real rates very negative. This will be a concern for other low-yielding European currencies. **See Page 2**

Beer shows the limits to price rises

- World's largest beer festival, Munich's Oktoberfest, has started with attendees facing a 6.1% beer price hike. They are lucky. EU, US, and UK prices are all up 11-12% the past year. These wallet-busting hikes are double US, EU, UK inflation. This is even as our index of beer commodity input prices fell 5%.

- Big producers like BUD and HEIN are seeing the limits of the premiumisation strategy as consumers push back and drink less. Investors are responding by derating their stock valuations. **See Page 2**

US 'sticky' versus 'flexible' inflation (last 45-years, y-o-y)



Source: Atlanta Fed. For illustration purposes only

Market Views

Crypto holding own despite FTX overhang

- Crypto assets inched higher, alongside broader markets, with US inflation relief. BTC and TRX among major gainers. Bitcoin sat at a technical 'death cross' between 50 and 200-day moving averages. Whilst losers led by MATIC and AVAX.
- SOL was in focus as US bankruptcy courts approved FTX to sell its $3 billion SOL and BTC focused crypto holdings, causing overhang concerns. Whilst credit card giant V announced a stablecoin plan in conjunction with SOL.
- Other news saw Ripple acquire custodian Fortress. And leading exchange Binance cut workers. See the latest Weekly Crypto Roundup.

Energy drives commodities rally on

- Oil prices extended gains, lifting the whole asset class, with Brent breaking $93/bbl. to set new YTD high. Strength driven by OPEC and IEA forecasts of widening market deficit.
- Oil major BP.L saw its CEO step down, calling into question recent strategic renewables push.
- Agricultural markets continue to bear the brunt of weather disruption impact. Cocoa prices hit a new price high with bad weather disrupting the dominant Ghana and Ivory Coast suppliers.
- Nickel prices hit new lows and been among worst performers this year on concerns over China's economy and electric vehicle battery demand.

US Equity Sectors, Themes, Crypto assets

	1 Week	1 Month	YTD
IT	-1.59%	1.22%	38.50%
Healthcare	-0.14%	-2.64%	-2.59%
C Cyclicals	1.38%	0.37%	27.42%
Small Caps	-0.24%	-2.57%	4.87%
Value	0.38%	-0.31%	0.80%
Bitcoin	2.27%	-9.42%	59.67%
Ethereum	-0.52%	-11.01%	35.63%

Source: Refinitiv, MSCI, FTSE Russell

The week ahead: Fed & central banks, PMIs, Fedex

1. Fed (Wed) headlines a big **central bank** week, set to keep rates at peak 5.25% and publish 'dot plot'. UK's BoE (Wed) to hike further, and BoJ (Fri) may be more hawkish. Whilst Brazil to extend its cuts.
2. Look for the latest global macro health-check with forward looking **PMI's** (Fri) from US, EU, UK, JP, AU. Europe is leading growth slowdown, and services now catching up with manufacturing weakness.
3. **Earnings** from trade-giant FDX to football's MU, plus AZO, GIS, KBH, and restaurant chain DRI. CART and KYVO to follow ARM in **IPO** market test. Are month away from Oct. 13th start of Q3 season.
4. Watch Oct. 1st US government **shutdown** deadline if Congress can't come to deal on 12 spending bills plus ongoing **UAW** strike on key auto sector. Also, **Oktoberfest** festival start for big global brewers.

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*	1.31%	3.09%	-4.73%
Brent Oil	4.23%	11.13%	9.63%
Gold Spot	0.15%	1.42%	6.31%
DXY USD	0.23%	1.70%	1.75%
EUR/USD	-0.40%	-1.96%	-0.40%
US 10Y Yld*	6.04	7.88	45.19
VIX Vol.	-0.36%	-20.29%	-36.36%

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

Focus of Week: Contrarian ideas among this year's laggards

Markets have been strong this year, but not everyone has benefitted

Crypto and stocks have made big gains this year, and commodities seen a late recent surge. Currencies and bonds have been more of a struggle. We look across all major markets, sectors, and themes, plus bonds, FX, commodities, and crypto to look for potential contrarian opportunities or coming catalysts among the laggards (see chart). For those looking for diversification options or just the brave contrarians.

Four to consider – Natgas, China, high dividend, and Polygon

Natgas is a famous 'widow-maker' asset that consistently confounds expectations. The contrarian bull case is that after a near 70% plunge from 2021 peak levels it is due for a recovery. Its price has been treading water most of the year, holding above the historically key $2.00/MMBtu level. Whilst seeing cross-currents of less production but potentially also less demand as the US economy cools and a strong El Nino brings a warmer winter. Europe may be a better option, with El Nino usually bringing a cold winter there.

Chinese (MCHI) stocks have seen a triple disappointment this year, driven by a weaker than expected economy, lower valuations, and capitulating investor sentiment. This tech-centric stock market is now on half the valuations of the S&P 500, with drip-feed policy stimulus to now support the economy, and investor sentiment that can arguably get no worse, and usefully uncorrelated versus broader markets.

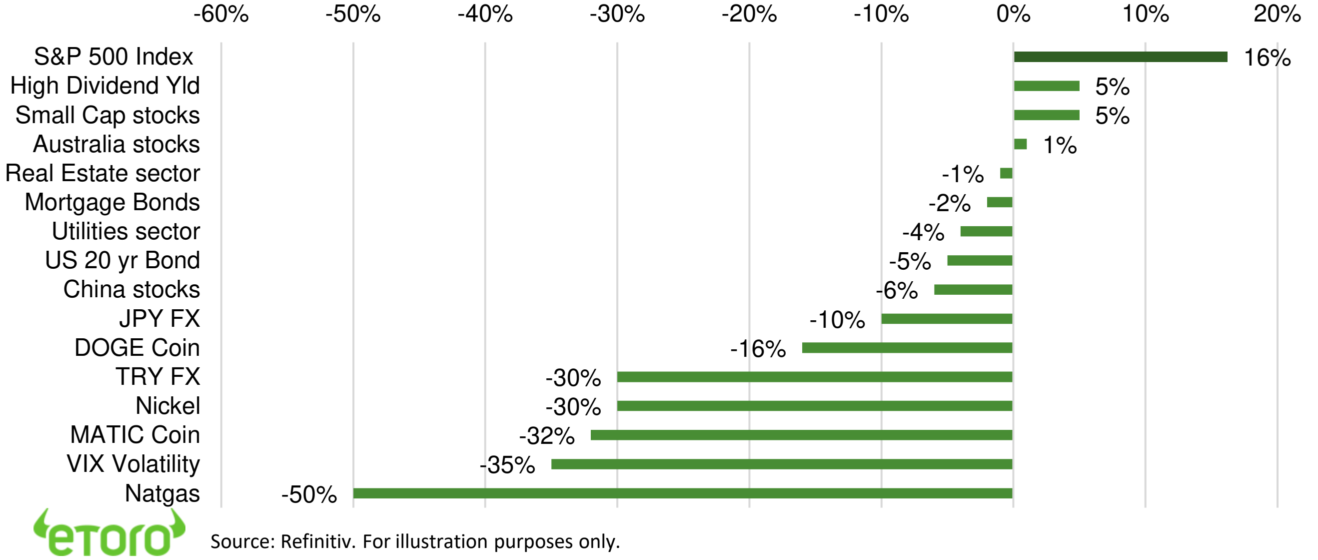
High dividend (HDV) yield stocks have seen a double headwind of more bullish market sentiment driving attention away from these defensives, and alongside the high competition from 5% risk-free interest rates. Both this competition may ease from here, as the US economy slows and interest cuts near. The relative safety of high dividend stocks, whilst keeping long term stocks exposure, may then get more appealing.

Polygon (MATIC), used for Ethereum scaling and infrastructure development, has faced steep crypto regulatory and competition headwinds this year. But we could see upside from its recently announced token rebranding (to POL), its upgrade to Polygon 2.0, and any bottoming in slumped non-fungible token (NFT) activity, where it is one of the largest marketplaces on the Open Sea exchange.

For those without the appetite to be contrarian, we are focused on long duration and stocks

We remain positive on global markets, which have seen a natural summer performance breather after a record breaking first seven months of the year. Inflation is cooling, central banks stopping hiking interest rates, whilst economies and earnings have stayed resilient. We are focused on long duration assets most geared to the inflation fall and protected from the coming economic slowdown. Favouring tech, healthcare, bonds, and crypto. More cautious on growth-sensitive small caps, commodities, and cyclical sectors.

Major cross-asset performance laggards this year (%, YTD)



eToro

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

Analyst Team

Global Analyst Team

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

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

Twitter

Follow us on twitter at @laidler_ben,