

Exploring the generational divides

SEPTEMBER.25.2023

Summary

Opportunities from Millennials to Gen Z

Spending and company preferences differ widely across the generations. Millennials are the biggest and highest earning of all and set to inherit. Younger Gen Z the true digital natives and growing faster, Whilst youngest Generation A influencing their parents buying already. Some, like AAPL and AMZN, have hit the generational jackpot by appealing to all. Whilst Millennials prefer brands PINS to COST and DAL. Whilst Gen Z prefer VFC to SONY and SPOT. [See Page 4](#)

Fed reality-check hits markets hard

Fed 'hawkish pause' of interest rate hikes hit all markets hard, pushing up bond yields to new records, in seasonally the weakest weeks of year. The UK and Switzerland surprisingly joined those global central banks on pause, hitting their currencies. CSCO offered \$28bn for SPLK. CART and KVYO publicly listed. Trade giant FDX beat and raised whilst EU bank leader SOGN downplayed the future. See Q3 Markets Outlook [HERE](#) and at twitter [@laidler_ben](#). [See Page 2](#)

Quantifying the wall-of-worry

There is a long list of US [market concerns](#): bond yields, UAW strike, Federal shutdown, student repayment restart. The only one that worries is surging oil, and that will self-correct. [See Page 2](#)

Global soft-landing health check

World seeing [stronger growth](#) now, but some payback tomorrow, as US and Japan cool and Germany rebounds. A soft-landing supports our positive but long-duration view. [See Page 2](#)

The buyback tax temptation

Companies are biggest buyers of US stocks, with [buybacks pillar](#) of S&P 500 performance and high valuation. We fear politicians won't resist the temptation to raise the buyback tax. [See Page 2](#)

Why rate hikes hurt more in Europe

Europe [more sensitive](#) to higher rates than US given higher debt, reliance on bank lending, and floating rate debt. economies. [See Page 2](#)

Crypto long-term holders and overhang ease

Crypto resilient to strong volatility across other assets, with XLM and AVAX leading crypto losses, whilst XRP and LINK resilient. BTC helped by long-term holder's proportion rising near record 76% and Mt. Gox repayment delay easing overhang sale risks. C launched token service. See latest [Weekly Crypto Roundup](#). [See Page 3](#)

Brent oil stays above \$90/bbl.

Macro fear and strong dollar drove commodities lower, including proxy 'Dr. copper', whilst cereals fell on raised harvest supply outlook, and lithium slump continued on EV demand fears. But brent oil held over \$90/bbl. as Russia temporarily suspended diesel and gasoline exports, and Uranium surged to new highs. [See Page 3](#)

The week ahead: Oct. 1 risks, inflation, Nike

1) The Oct. 1 US Federal budget deadline and the student loan repayment restart. 2) Macro focus on China PMIs, EU falling inflation, and Fed-favourite PCE. 3) NKE, COST, MU earnings + BIRK IPO roadshow. 4) End of weak Sept. and Q3 with look ahead to typically better Q4. [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	-1.89%	-1.12%	2.46%
SPX500	-2.93%	-1.94%	12.52%
NASDAQ	-3.62%	-2.79%	26.23%
UK100	-0.36%	4.71%	3.12%
GER40	-2.12%	-0.48%	11.73%
JPN225	-3.37%	2.46%	24.17%
HKG50	-0.69%	0.56%	-8.72%

*Data accurate as of 25/09/2023

Market Views

Fed reality-check hits markets

- Fed 'hawkish pause' of rate hikes hit all markets, pushing bond yields to new records, in seasonally weakest weeks of year. Whilst UK and Switzerland surprisingly joined those global central banks on pause, hitting their currencies. CSCO offered \$28bn for SPLK. CART and KVYO listed. Trade giant FDX beat and raised whilst EU bank leader SOGN downplayed future. **See NEW Q3 Outlook HERE.** See [Page 6](#) for resources and videos.

Quantifying the wall-of-worry

- Markets typically worry, otherwise they are complacent. And as they get surmounted stocks can grind higher. There is a particularly [long list of market concerns](#) right now. From high oil and US bond yields to UAW strike and Oct. 1st US Federal shutdown and student repayment restart.
- Oil is the only one that keeps us awake, and that is a short not medium-term risk and is ultimately self-correcting. Others like a time-limited auto strike and government shutdown look bad but may also be unconventional positives in cooling a too-hot US economy and bond yields. [See Page 2](#)

The global soft-landing health check

- The latest [economic update](#) from the richer-countries OECD club makes the case for stronger growth today, but some coming slowing payback tomorrow. World GDP growth is seen at a better-than-feared 3.0% this year but next year's outlook was cut to 2.7%. With US and Japan (EWJ) leading the 2024 slowdown and Germany (EWG) the contrarian rebound candidate. This is basically the global economic 'soft landing' base case.

- But high risks, from sticky inflation to commodity shocks, that keep many on edge. This supports our positive view but focused on long-duration assets, from tech to bonds, defensive to falling growth and levered to lower inflation pressures. [See Page 2](#)

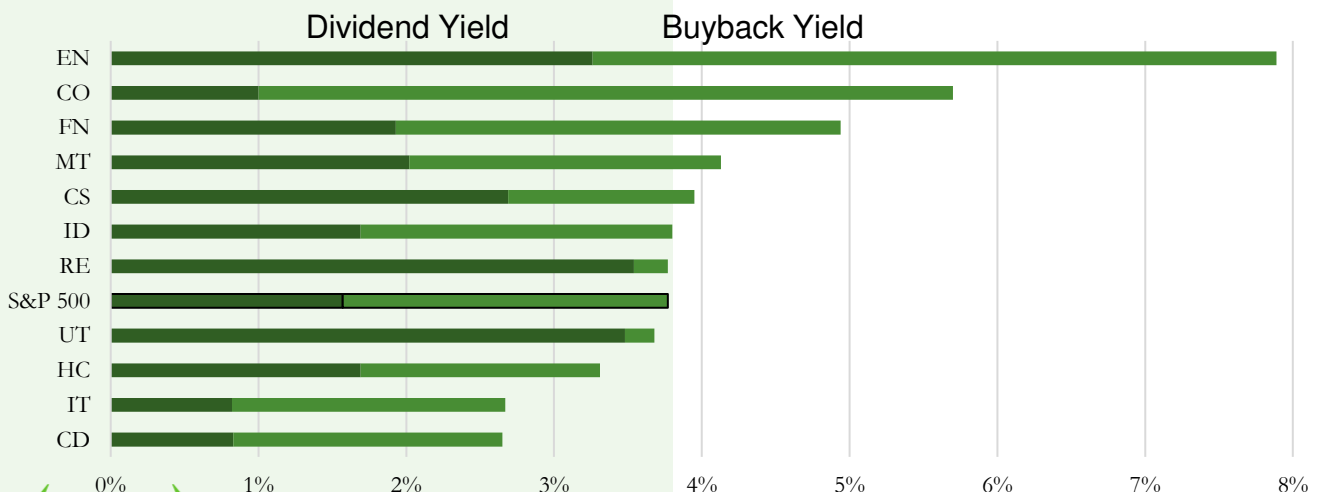
The buyback tax temptation

- Companies remain the biggest net buyer of US stocks. This is a [unique market support](#), as the rest of the world prefers dividends, and is a surprise to many. The number of S&P 500 stock buybacks is cyclically cooling but still huge at \$800 billion over the past year. For context, this is fifty times more than the \$16 billion raised in IPOs this year.
- The new 1% net buyback tax, introduced Dec. 31 last year, had a modest impact so far. But could be increased in current 2024 budget negotiations, with earlier Democrat proposals to take to 4%. This could be tipping point that threatens this unsung market support. Tech (XLK) and financials (XLF) the biggest buyers, with oil (XLE) now rising. [See Page 2](#)

Why rate hikes hurt more in Europe

- European Central Bank (ECB) signalled it is likely [done hiking](#) interest rates. With policy rate at 4.5%, after ten hikes, Germany in recession and regional PMIs contractionary. Bank of England (BoE) paused hikes despite still some of world's highest inflation.
- In contrast to US where rates higher-for-longer and economy robust. US policy transmission blunted by fixed rates and longer maturities. In UK and Europe it is quickened by higher debt levels, a reliance on bank lending, and floating rate debt. [See Page 2](#)

S&P 500 sector dividend and stock buyback yields (%)



Source: S&P Global. Forecast dividends + trailing buybacks. EN=Energy, CO=Communications, FN=Financials, MT=Materials, CS=Staples, ID=Industrials, RE=Real Estate, UT=Utilities, HE=Healthcare, IT=Technology, CD=Discretionary. Illustration purposes only

Market Views

BTC long term holders up and overhang eases

- Crypto assets held their own even as others, from equities to bonds, were buffeted by rising Fed-driven volatility. Leading crypto losers among the largest coins were XLM and AVAX. Whilst the most resilient included XRP and LINK.
- BTC was supported by the proportion of long-term holders nearing the all-time-high of 76%. Whilst a delay in the Mt. Gox repayment plans eased concerns over the potential sale overhang.
- Other crypto news saw global bank C launch a native token service, as institutional and financial system adoption of crypto continues to build. See the latest [Weekly Crypto Roundup](#).

Oil prices stay above \$90/bbl.

- Commodity cross-currents of heightened macro fears and a stronger US dollar versus further supply-side disruption. Brent oil prices held over \$90/bbl. as Russia temporarily suspended its exports of diesel and gasoline products. Elsewhere Uranium prices continued their rally on new reactor demand and a big market deficit.
- Copper prices fell, reacting to the heightened global market risks and its 'Dr. Copper' moniker. This reflects its broad range of industrial uses that make it a barometer for economic outlook.
- Cereal prices fell as International Grains Council raised its harvest supply outlook. Lithium is down 20% this month on rising EV demand fears.

The week ahead: Oct. 1 risks, inflation, and Nike

1. Oct. 1 **shutdown** of US federal government unless Congress can pass bills for the 2024 budget. Oct. 1 also marks the date student loan repayments resume for 28 million after lengthy Covid pause.
2. Macro focus on the latest China PMIs to validate recent stabilising activity data. EU **inflation** (Fri), est. to fall under 5% and support ECB rate hike pause. And 'Fed-favourite' PCE inflation (Fri).
3. **Earnings** from sportswear NKE, retailer COST, semi MU, and meme BB. Plus, META and Huawei product events. IPO roadshow of German sandal BIRK. Are 3 weeks to Oct. 13th start of Q3 season.
4. Friday is end of **September**, typically worst stock market month of year, and end of Q3. Focus on typically better Q4, including big election calendar, Singles Day and Thanksgiving, and COP28.

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	-2.88%	-1.44%	34.51%
Healthcare	-1.52%	-2.36%	-4.07%
C Cyclicals	-5.67%	-3.03%	20.20%
Small Caps	-3.82%	-4.02%	0.87%
Value	-2.24%	-1.09%	-1.46%
Bitcoin	0.78%	2.76%	60.92%
Ethereum	-1.52%	-2.28%	33.57%

Fixed Income, Commodities, Currencies

	1 Week	1 Month	YTD
Commod*	-1.16%	0.71%	-5.83%
Brent Oil	-1.95%	9.64%	7.49%
Gold Spot	-0.04%	0.08%	6.27%
DXY USD	0.25%	1.54%	1.99%
EUR/USD	-0.13%	-1.39%	-0.53%
US 10Y Yld*	10.84	20.54	56.03
VIX Vol.	24.73%	9.69%	-20.63%

Source: Refinitiv, MSCI, FTSE Russell

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

Focus of Week: Opportunities in the generational divides

Gen Z to Millennials have different spending, with differing company preferences

We delve into the generational divide using a UK data [treasure trove](#) on each age groups granular different spending patterns. The median UK or US citizen is a borderline millennial, around 40 years old. Whilst the average German or Japanese is nearer 50 and Gen X. Whilst at other extreme much of Africa and Asia is under 30 and Gen Z. They each have often very different spending and growth characteristics, and shop with different companies. We focus on the largest and fastest growing cohorts, millennials and Gen Z.

Millennials are the biggest and highest earning generation, and set to inherit

Generation Y or so-called millennials, are typically aged from 27 to 42. They are the first digital generation, came of age during the 2007-9 global financial crisis, and have borne the brunt of the surge in housing prices in recent years. They are also the [biggest age group](#) in the world (near 25%), spend the most (see chart below), and are set to inherit from the richest generation of all, the Baby boomers. UK data shows they spend disproportionately on mortgages, home improvement, insurance, sports equipment, books.

Younger Gen Z are the true digital natives are growing fast, and like hot chocolate

Generation Z, aged from 11 up to around 26, are the true 'digital natives', was most impacted by COVID, are 'informed consumers', shop around, are less-brand driven, and most likely to buy via social media. They share many of millennials focus on affordability, flexibility, sustainability, and taking control of their financial lives. They disproportionately spend on renting (don't own their home), bus/train fares (no car and/or city livers), internet, computers, music, cinema, away from home drinks, and hot chocolate (!).

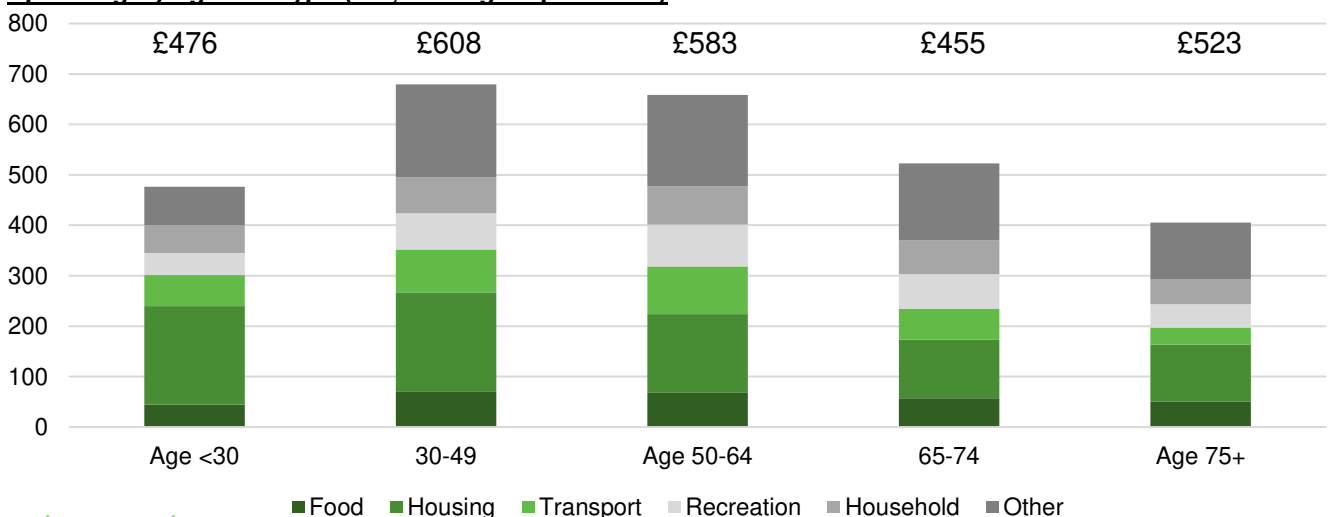
Youngest Generation A are influencing their parent buying already

A shout out to the other generations. The up-and-comers are the youngest Generation A, only aged up to 11 today, but starting to influence their parents buying, like in the recent [back-to-school](#) shopping season and being influenced by their older Gen Z siblings. Whilst the Generation X, roughly 43-58, are typically seen as resourceful, independent, liberal. Whilst the older 'baby boomers' are retiring, spending more on travel and healthcare, and starting to pass their 'richest generation' accumulated assets to their children.

Some tech companies have hit the generational holy grail by appealing to all

The holy grail for companies is to appeal to both these large and growing millennial and Gen Z demographics. Some, like Alphabet (GOOG), Apple (AAPL), Amazon (AMZN) with tech-focus and sustainability veneer succeeded, [per recent surveys](#). Millennials favoured brands range from Pinterest (PINS) to Costco (COST) and Delta (DAL). Gen Z favour Vans (VFC), PlayStation (SONY), and Spotify (SPOT).

Spending by age and type (UK, Average £ per Week)



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.

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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.

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