ANALYST WEEKLY

What retail investors are thinking

OCTOBER.02.2023

Summary

Retail investors numerous and important

We spotlight five keys from our quarterly survey of 10,000 self-directed investors across 13 markets from US to Australia. They are more worried about recession, but more upbeat about markets. They are focused on the US market and tech stocks, but contrarian positive from crypto, to banks and China. The number of new DIY investors is still structurally growing quickly and being led by women. Retail investors are more important than ever to markets. See Page 4

The bond yield and oil vice grips markets

4th down week with S&P 500 closing a miserable September -5%, squeezed by $95 oil prices, 4.5% US 10-yr bond yields and government shutdown uncertainty. Dollar soared to a 9-mth high and VIX volatility hit 19. German inflation plunged. The FTC filed suit against AMZN. PTON surged on LULU deal, NKE on results, and GME named Ryan Cohen CEO. See Q3 Markets Outlook **HERE** and at twitter @laidler_ben. See Page 2

The sunnier uplands of October

Expect markets summer fever to break in Oct. as macro 'wall of worry' pressures, from bond yields to oil ease, Q3 earnings see end of profit's recession and seasonality is positive. See Page 2

What the bond 'bear steepening' tells us

US bond yield curve seen sharply rising long-term yields, hitting stocks. But we see yields ultimately contained and 'self-correcting' by the GDP growth and inflation slowdown. See Page 2

The Fed 'put' is coming back

Fed getting policy flexibility back to cut interest rates if needed by a sharply slowing economy. This is a markets insurance policy. See Page 2

The boom in US cross-border listings

US increasingly attractive for foreign company IPO's, from ARM to Birkenstock, promising more investors and higher valuations, but it dies have often-overlooked disadvantages. See Page 2

Crypto benefits being out of sight and mind

Crypto assets side-stepped the big pick up in cross-asset volatility, with trading volumes and correlations low, and held on to its leading YTD return. ETH and LINK rose with AVAX a rare loser. MSTR bought $147 million more BTC to add to its $4.7 billion holding. Binance exited Russia. See latest Weekly Crypto Roundup. See Page 3

Brent oil hits $95 on falling inventories

High oil prices were supported by sharp fall in US inventories and Russia fuel export ban, ahead of the OPEC meeting. Uranium to Orange Juice saw even bigger price gains with supplies tight and demand firm. Biggest loser was precious metals, on the stronger dollar and higher bond yields, with gold prices at a six-month low. See Page 3

The week ahead: Shutdown, OPEC, and jobs

1) Oct. 1 US shutdown averted and student loan payment restart. Jobs report (Fri) with est. 150k slowdown. 2) OPEC meets (Wed) with oil surging. 3) STZ, MKC, LEVI, TSCO.L, earnings ahead of Oct. 13 Q3 start. 4) China 'golden week' holiday and seasonally better October and Q4. See Page 3

Our key views: Stronger months ahead

See a stronger Q4 and 2024 as summer breather and wall-of-worry fades, and investors look ahead to lower inflation and coming rate cuts as growth slows, firming earnings outlook. 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	-1.34%	-3.82%	1.09%
SPX500	-0.74%	-5.04%	11.68%
NASDAQ	0.06%	-5.79%	26.30%
UK100	-0.99%	1.92%	2.10%
GER40	-1.10%	-2.86%	10.51%
JPN225	-1.68%	-2.61%	22.09%
HKG50	-1.37%	-3.11%	-9.97%

*Data accurate as of 02/10/2023

Market Views

The bond yield and oil vice grips markets

- A 4th down week with S&P 500 closing a miserable September -5%, squeezed between $95 oil prices, 4.5% US 10-yr bond yields and government shutdown uncertainty. Dollar soared to a 9-mth high and VIX volatility hit 19. German inflation plunged. The FTC filed suit against AMZN. PTON surged on LULU deal, NKE on results, and GME named Ryan Cohen CEO. **See NEW Q3 Outlook HERE**. See **Page 6** for resources and videos.

The sunnier uplands of October

- We expect the markets fever to break in October. As multiple macro 'wall-of-worry' pressures start to ease and seasonality turns positive. We see the vice of higher oil prices and bond yields easing as US slows in Q4. It may be helped by UAW strike, government shutdown, student payments restart.

- The US economy has the GDP 'exceptionalism' momentum to take this, and it should be a relief to hard-pressed investors. Q3 earnings season will likely be a positive catalyst, with the end of the profits 'recession', and the market gets a break from the Fed until November. **See Page 2**

What the bond 'bear steepening' tells us

- The US 10-year bond yield has risen above 4.5%, to its highest since 2007. This has piled pressure on stock market valuations, depressing the 'future value of future cash flows', and widening the current S&P 500 premium versus fair value to 30%. It will also tighten financial conditions and pressure bank balance sheets. This 'bear steepening', with long term yields rising faster than short term, can also be seen in Europe.

- But it's not all bad, as it reflects higher growth, hence earnings, expectations. And we are cautious on the sustainability of this bond yield (TLT) shock, and current yields, with inflation break-evens and growth proxies like copper unchanged, and the US economy set to slow down from here. **See Page 2**

The Fed 'put' is coming back

- The ability of central banks to respond to a sharp slowdown, and stock weakness, by cutting interest rates is rising. This 'Fed put', coined from the 1987 Black Monday crash on, is set for a gradual and key comeback. It's a valuable market insurance policy, removing the most bearish scenario for investors.

- It's a big change from six months ago. Interest rates are now higher and more restrictive. Inflation fallen significantly with expectations well-anchored. And central banks increasingly on a 'hawkish pause'. Flexibility is greater for those with dual inflation and growth mandates like Fed, notwithstanding Powell's recent protestations. **See Page 2**

The boom in US cross-border listings

- There is a booming trend to IPO outside your home market. These cross-border listings are focused on the US. Most recently IPO of British headquartered ARM (ARM) and the coming German Birkenstock.

- They come for world's largest investor base and highest valuations and more industry comparables. But they also lose the ability to be included in local indices, followed by the booming US$10 trillion ETF industry. And there are disadvantages to being a small fish in a huge pond. **See Page 2**

Key events to watch in October 2023

Date	Country	Event
Oct. 1	US	US government shutdown and student loan repayment restart
Oct. 4	Global	OPEC meeting after Saudi and Russia extended voluntary cuts
Oct. 9-15	Global	IMF and WB annual meetings from Marrakech
Oct. 12	US	Mixed message inflation month of lower core and higher headline
Oct. 13	Global	JPM kicks off Q3 earnings. End to S&P 500 profits 'recession'
Oct. 14	New Zealand	Centre-right opposition National party lead General election polls
Oct. 15	Poland	Incumbent Law & Justice lead in tight General election race
Oct. 18	China	Q3 GDP slowdown to <5%, but likely monthly stabilisation
Oct. 22	Argentina	Libertarian Milei leading polls. Likely Nov. 19 2nd round run-off
Oct. 22	Switzerland	Right-wing People's Party set to gain in general election
Oct. 26	Europe	European Central Bank (ECB) est. to keep interest rates on hold
Oct. ?	China	CPC Central Commitee Third Plenum likely to be held

Source: Refinitiv. Illustration purposes only

Market Views

Crypto benefits being out of sight and mind

- Crypto assets again side-stepped the sharp pick up in volatility and price weakness across other asset classes, from stocks to bonds. This has been a silver lining of cryptos lower trading volumes and fallen correlation with stocks and allowed it to hold on to its strong YTD returns.

- ETH and LINK were among the most resilient of the major coins, with ATOM one of the few majors seeing a significant price fall.

- Broader news saw MSTR buy a further $147 million worth of BTC. Whilst exchange Binance exited Russia, and Kraken set to launch US stock trading. See the latest [Weekly Crypto Roundup](#).

Oil prices hit $95./bbl. as supply tightens

- Oil prices remained in focus across the commodity complex as Brent crude prices hit a year-to-date high of $95/bbl. Driven by surprisingly low US inventories, impact of Russia's fuel exports ban, and low expectations for big supply changes at this week's OPEC meet.

- Smaller commodities also saw further specific gains, led by uranium, a new addition to the eToro platform, benefitting from a chronic mine supply deficit and increased reactor demand. Also, with orange juice hitting a new price record.

- The precious metals slump was the outlier, under impact of the stronger US dollar and higher bond yields, with gold now at a six-month price low.

US Equity Sectors, Themes, Crypto assets

	1 Week	1 Month	YTD
IT	0.02%	-4.73%	34.54%
Healthcare	-1.01%	-4.61%	-5.03%
C Cyclicals	-0.05%	-5.14%	20.14%
Small Caps	0.48%	-5.83%	1.35%
Value	-1.15%	-4.01%	-2.59%
Bitcoin	1.21%	-3.61%	62.86%
Ethereum	4.31%	-4.15%	39.32%

Source: Refinitiv, MSCI, FTSE Russell

The week ahead: Gov. shutdown, OPEC, and jobs

1. Oct. 1 US Federal government **shutdown**, temporarily averted for 45 days, whilst US student loan repayment restart for 28 million. And Jobs report (Fri) see's est. further slowdown to 150k.

2. OPEC meets (Wed.) with Brent crude surging to $95/bbl., stoking consumer spending and inflation worries. **OPEC+** supply is 2.2mbpd lower than a year ago, and Russia now curbing fuel exports.

3. With under two weeks until the Oct. 13th 'start' of crucial Q3 **earnings** season, see profit reports from brewer STZ, food staple MKC, jeans LEVI, UK supermarket TSCO.L, and marijuana leader TLRAY.

4. China '**golden week**' holiday, major travel event of year. October and **fourth quarte**r started, looking to better seasonality, heavy election calendar, big spend retail quarter, and central banks 'on hold'.

Our key views Stronger months ahead

- See a stronger Q4 and 2024 performance as the seasonal summer markets breather and current 'wall-of-worry' from oil to bond yields, strikes and shutdowns, fades. And as investors look ahead to the lower inflation and coming interest rate cuts as economic growth slows, and with the gradually firming tech-led earnings outlook.

- Focus on defensive growth and long duration assets, from healthcare to big tec, and bonds to crypto. More cautious on the assets most exposed to slowing economic growth and recession risk, like cyclicals, small caps, and commodities.

Fixed Income, Commodities, Currencies

	1 Week	1 Month	YTD
Commod*	-1.30%	-1.77%	-5.96%
Brent Oil	-1.83%	3.51%	7.12%
Gold Spot	-4.13%	-5.17%	1.89%
DXY USD	0.56%	1.86%	2.56%
EUR/USD	-0.69%	-1.89%	-1.21%
US 10Y Yld*	13.95	39.36	69.98
VIX Vol.	1.86%	33.84%	-19.15%

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

Focus of Week: Retail investors more numerous and important

Retail investors worried on recession, but less about markets

We spotlight five takeaways from our [quarterly survey of 10,000 self-directed investors] across 13 markets around the world. They are worried about recession, yet more upbeat about markets than six months ago. They are focused on the US and tech stocks, and contrarian positive on crypto, banks and China. The number of new investors is expanding quickly, led by women, and they are more important to markets.

Recession risks trump inflation even as investor confidence bounces back

Local recession risks surged to become the greatest perceived threat, now cited by 22% of those polled. Conversely, inflation, the top risk six months ago, has fallen to only the fourth. Geopolitical risks are now down to fifth. But 78% are confident on the investment outlook, higher than recent quarters.

US stocks, the tech sector and disruptive tech themes are most popular

Retail investors are most bullish on the US market, the world's largest. This is followed by Europe and then emerging markets and China, despite their strong underperformance. Whilst the world's best performer, Japan, remains a 'forgotten market'. The tech sector is the long-time investor favourite, but their contrarian streak is on show with banks and real estate seen as the second and third most popular sectors.

Crypto edges out cash and stocks as most attractive asset class

Crypto was seen as the best asset class looking ahead in a tight race. This was followed by cash, supported by the 5% interest rates available in some markets, and domestic stocks after their big rally this year.

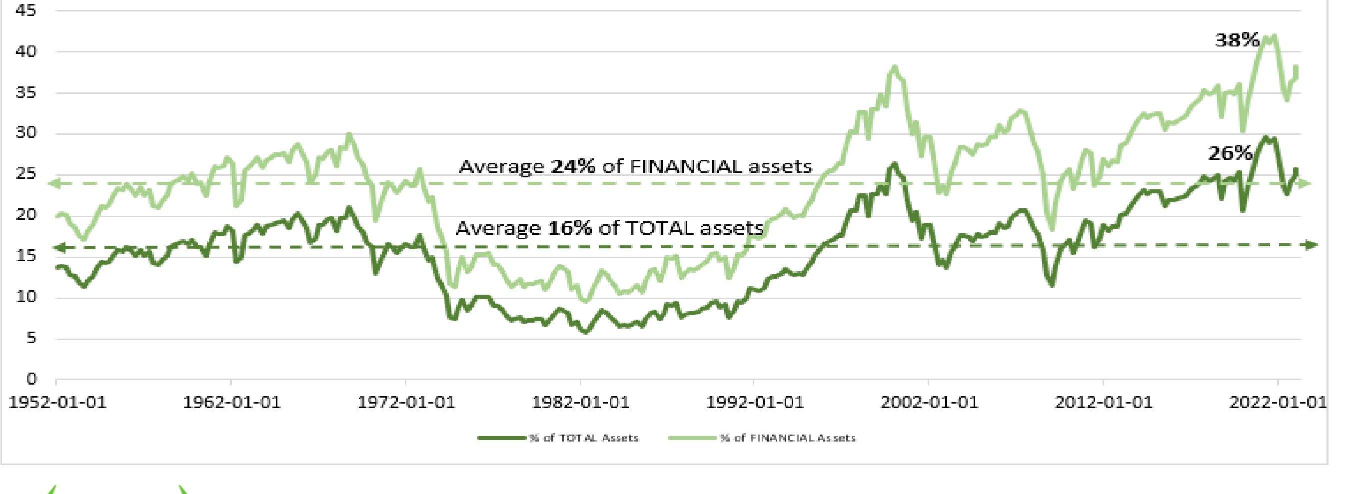
Retail investors growing fast, focused on company earnings, and their experiences

Throughout the market ups and downs the number of retail investors has continued to grow strongly, driven by the structural drivers of increased ease of investing, lower cost, and younger generations taking more control over their financial lives. 24% only started investing in the past two years, led by growth in eastern Europe, and by women. A look at the US (see chart) shows them more important now than ever.

Female investors are growing and do things differently

The number of female investors has grown 28% in the two years, versus an only 20% increase for men. They invest differently, with women more focused on diversified passive investments like ETFs and targeting lower returns (taking less risk) than men. Yet this often does not equate to investment performance. With numerous academic studies indicating that that women often outperform men.

The rising proportion of US household assets in stocks (% of total)



Source: US Federal Reserve System (FRED), eToro calculations. 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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