

The positive Q3 earnings catalyst

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Summary

A positive market Q3 earnings reality check

A Q3 end to the US earnings recession could be a positive 'reality check' for depressed markets. Tech-related sector to lead S&P 500 earnings up, whilst commodities lag. Big tech has seen some of the strongest earnings upgrades, alongside homebuilders and autos. The drivers of the earnings resilience is from tech to profit margins, the economy, and a low base. European earnings set to trough this quarter, with heavy-weight financials sector leading growth. [See Page 4](#)

The global bond rout fixates markets

Soaring global bond yields spook markets, hitting valuations and tightening financial conditions. Uncertainty deepened as US House speaker McCarthy fired with shutdown clock reset to Nov. 17. Oil plunged and JPY hit 150. WMT warned of weight loss drug impact on its business. XOM eyeing huge \$60bn PXD deal. ALO.PA profit warning plunge. See NEW Q4 Markets Outlook [HERE](#) and at twitter [@laidler_ben](#). [See Page 2](#)

Dash-for-cash has further to go

\$1 trillion flowed to [US money markets](#) this year as interest rates risen. Out of bank deposits and stocks. This double headwind will last with cash the most popular asset class. [See Page 2](#)

We don't need oil as much as we used to

OPEC may be overplaying its hand as [high oil prices](#) start to cannibalise demand and further encourage the dramatic 60% improvement in global energy efficiency seen. [See Page 2](#)

Can the autos sweet-spot last?

[Car stocks](#) outperformed with volumes and pricing surprisingly strong, giving the 'big 3' flexibility in the ongoing UAW strike. [See Page 2](#)

Retail investors are human too

Our latest [retail investor survey](#) shows many are using personal experience and emotion in investing and seeing sentiment and technicals as driving the markets. [See Page 2](#)

Crypto bucks the stocks sell off

BTC and ETH gained after Q3 losses, dodging global markets volatility, with correlations low. SOL soared on rising TLV and FTC overhang relief. SEC denied appeal against Ripple lawsuit win. BTC long-term holders hits a record 76%. Van Eck launched first ETH futures ETF. See latest [Weekly Crypto Roundup](#). [See Page 3](#)

Brent oil plunges under \$85/bbl.

Oil prices plunged on signs high prices driving less demand and higher inventories and Russia lifting its diesel export ban, even as OPEC kept its deep supply cuts. Precious metals weaker on bond yield and dollar vice, and palladium on ICE outlook. Uranium rally continued and the hottest ever Sept. driving ag disruption. [See Page 3](#)

The week ahead: Q3 earnings and inflation

1) JPM kicks off Q3 earnings season (Fri). 2) Est. new 4.1% low for core US inflation (Thu). 3) Stressed US bond markets closed (Mon) for Columbus day, plus IMF/WB annual meetings. 4) Also, AMZN Prime Big Deals day and coming NZ and Poland general elections. [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	-0.30%	-3.38%	0.79%
SPX500	0.48%	-3.34%	12.22%
NASDAQ	1.60%	-2.40%	28.33%
UK100	-1.49%	0.22%	0.57%
GER40	-1.02%	-3.24%	9.38%
JPN225	-2.71%	-4.94%	18.78%
HKG50	-1.82%	-3.93%	-11.60%

*Data accurate as of 09/10/2023

Market Views

The global bond rout fixates markets

- Soaring global bond yields spooked stock markets, hitting valuations and tightening financial conditions. Uncertainty deepened as US House speaker McCarthy fired with shutdown clock reset to Nov. 17. Oil plunged and JPY hit 150. WMT warned of weight loss drug impact on its business. XOM eyeing \$60bn PXD deal. ALO.PA profit warning plunge. **See NEW Q4 Outlook HERE.** See [Page 6](#) for resources and videos.

Dash-for-cash has further to go

- Cash yielding most in fifteen years. Has driven [\\$1 trillion inflows](#) to US money market funds YTD. Would otherwise have stayed as bank deposits or found way into stocks. Interest rate hikes have peaked but are set to stay high for a while.
- Whilst history shows this dash-for-cash does not peak until 6 months after the Fed policy peak. Means money market flows for months more, keeping pressure on banks and denying stocks any flow-of-funds support. Cash is the most held asset per our Q3 [Retail Investor Beat](#) survey, and most likely to be increased in US. [See Page 2](#)

We don't need oil as much as used to

- High oil been double headwind for markets. With this year's higher gasoline prices, a \$100 billion extra 'tax' on US consumer and threatening to boost inflation. Demand been resilient, supply tight, and inventories low. But [higher oil is less scary today](#) than in the past. OPEC is squeezing supply but overplaying hand. Demand is sensitive to higher prices and ultimately self-correcting. The solution to high prices is high prices.

- \$90 oil has not tipped the world into recession as in 1970's. The inflation-adjusted oil price is the same as fifty years ago. We have seen the rise of alternatives (wind/solar) and substitutes (natgas). And a 60% fall in the energy intensity of our economies in recent decades. [See Page 2](#)

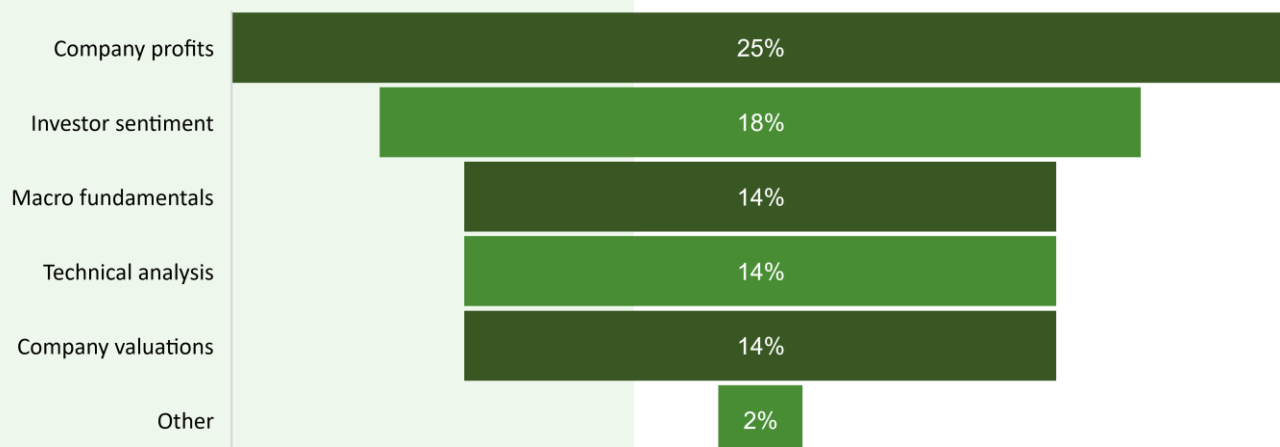
Can the autos sweet-spot last?

- UAW auto strike is slowly escalating but inching toward a 20-30% pay raise deal. Affordable with wages 6% a car's value, profit margins near multi-year highs, and [volumes and prices](#) surprisingly strong. It would still be a relief. With US autos 3% of GDP or a quarter all manufacturing. Fear is what lies ahead. After GDP growth relief driven global auto stocks outperformance YTD.
- Profit margins still single digit and facing double headwinds of a slower economy and EV transition. Investors are cautious, with the 'big 3' General Motors (GM), Ford (F), Chrysler-owner Stellantis (STLAM.MI) on a low average 4.6x P/E ratio and proxies, like palladium, plunged. [See Page 2](#)

Retail investors are human to

- Investors often assumed to be rational and markets efficiently priced everything. [Market reality](#) and rise of behavioral economics argues more complicated. Our retail investor survey shows we are all human.
- With emotions playing a big part in investing. And many see investor sentiment and technicals more important than profits, valuation, macroeconomic 'fundamentals'. The survey also shows investors compensating these impacts. [See Page 2](#)

The most important driver of stock markets?



Market Views

Crypto bucks the stocks sell off

- Crypto assets have again side-stepped the sharp pick up in volatility and price weakness across other asset classes, from stocks to bonds. BTC and ETH posted gains after their Q3 losses.
- SOL soared over 20% on the week leading gains as its total value locked (TVL) continued to recover. And fears of the FTC bankruptcy overhang eased, even as SB-F's trial started in NY.
- Other news saw the SEC denied the ability to appeal its recent Ripple case loss. Whilst BTC long term holders reached a record 76% of total. And Van Eck launched an ETH futures ETF. See the latest [Weekly Crypto Roundup](#).

Oil plunges as high prices hit demand

- A difficult week as soaring global bond yields stoked growth fears. High-flying Brent oil prices plunged under \$90/bbl. as US data showed easing gasoline demand and building inventory levels. Weakness came even as OPEC maintained its big supply cuts to try and keep prices high.
- Weakness continued in precious metals, led by silver, in a vice between the strong dollar and higher bond yields. Palladium prices hit new lows reflecting concerns on outlook for ICE cars in a weakening economy and EV transition underway.
- Uranium rare bright spot, up 25% in past month. September was the hottest on record, continuing to disrupt many agricultural markets.

US Equity Sectors, Themes, Crypto assets

	1 Week	1 Month	YTD
IT	2.64%	-2.72%	38.09%
Healthcare	1.91%	-0.56%	-3.22%
C Cyclical	-0.68%	-4.80%	19.33%
Small Caps	-2.22%	-6.87%	-0.89%
Value	-1.43%	-4.24%	-3.98%
Bitcoin	3.86%	9.03%	69.14%
Ethereum	-0.92%	1.30%	38.04%

Source: Refinitiv, MSCI, FTSE Russell

The week ahead: Q3 earnings start, Inflation, IMF

1. JP Morgan (JPM) and US banks kick off Q3 **earnings** season (Fri) with est. +1% S&P 500 EPS growth, ending its three-quarter profits recession. Europe's Stoxx 600 profits est. troughing -11%.
2. US macro focus on mixed message from Sept. **inflation** (Thu), with key core rate easing to a new 4.1% low, even as oil prices drive headline higher. Also see the latest FOMC meeting minutes (Wed).
3. Global macro focus policymakers attending **World Bank/IMF** annual meetings from Marrakech, alongside their latest global economic outlook. US bond markets closed for **Columbus Day** (Mon).
4. Also watch the Amazon (AMZN) **Prime Big Deals Day** (Wed). And the weekend's general **elections** in New Zealand and Poland and referendum in Australia.

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*	-2.16%	-3.31%	-9.07%
Brent Oil	-8.34%	-6.65%	-1.81%
Gold Spot	-0.94%	-4.92%	0.92%
DXY USD	-0.12%	0.96%	2.49%
EUR/USD	0.16%	-1.06%	-1.06%
US 10Y Yld*	22.47	53.30	92.45
VIX Vol.	-0.40%	26.08%	-19.47%

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

Focus of Week: The positive earnings catalyst

An end to the US earnings recession could be a positive 'reality check' for depressed markets

JP Morgan (JPM) and US banks kick off global third quarter earnings season on Friday. It's more important than ever. A welcome end to the nine-month S&P 500 'earnings recession' should be a [salve to stressed markets](#). Tech's sector growth leadership a validator to its leading performance this year. And the steadily building earnings recovery set to take over from higher valuations as the driver of the market's recovery.

Tech-related sector to lead S&P 500 earnings up, whilst commodities lag

Consensus is for S&P 500 earnings to improve and be flat year-over-year, or up 5% excluding the energy sector. Bottom-up positives abound. Earnings expectations have not been cut as much as normal ahead of the start of earnings season. More companies are issuing profits guidance, reflecting better visibility, led by the tech sector. 12-month forward earnings expectations have been slowly rising for the last three months.

Big tech seen some of strongest earnings upgrades, alongside homebuilders and autos

Tech-heavy communications and discretionary sectors lead growth expectations, led by Amazon (AMZN), Meta (META), Alphabet (GOOG), and home builders and [big auto](#). IT is not far behind, with earnings upgrades from NVIDIA (NVDA) to Intel (INTC). Commodities lead earnings declines, with Q3 oil prices down 10% vs last year. Banks are first to report, with consensus looking for healthy profit gains on higher interest rates. But the market worried about deposit outflows, lower bond valuations, and the coming slowdown.

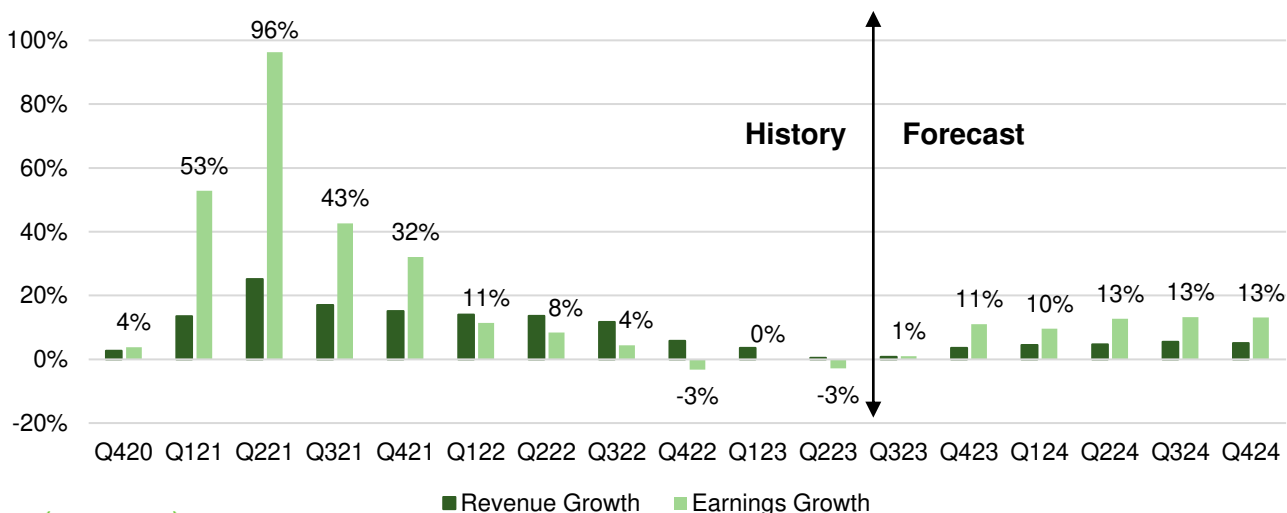
The drivers of the earnings resilience from tech to profit margins, the economy, and a low base

The upturn has [triple drivers](#). 1) Tech leadership, with sector first to feel the post-pandemic hangover, to cut costs, and benefit from AI. 2) Net profit margins inching to 11.7%, above the 5-year average, as inflation pressure eases. 3) Economy more resilient than feared, led by consumer, as earnings lap YoY weakness.

European earnings set to trough this quarter, with heavy-weight financials sector leading growth

European earnings will not be so positive, as the region flirts with recession. The Stoxx 600 is set for a 11% earnings fall. Commodity earnings are set to halve, whilst Europe's biggest sector, financials, leads with 20% growth helped by higher ECB interest rates. But this may be the earnings trough. Switzerland and Italy are the growth standouts, with earnings up over 10%. Whilst Netherlands, France, UK all down over 20%.

S&P 500 index revenue and earnings growth (% year-over-year)



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 '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.

Analyst Team

Global Analyst Team

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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.

Videos

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