

# The support from sentiment

OCTOBER.23.2023

## Summary

### Technicals add to fundamental support

Technical low investor sentiment and seasonality drivers are positive and matter to investors. And add to the still positive fundamental backdrop that should not be forgotten amidst current gloom. All four components of our sentiment indicator have slumped, a contrarian positive. Many investors see technical indicators as important as more traditional fundamentals. Our eToro investor sentiment indicator tracks the VIX, flows, retail sentiment, and put/calls. [See Page 4](#)

### Caught between geopolitics and bond yields

Stocks fell as geopolitical uncertainty and 5% US 10-year bond yield vice tightened. Recession fear eased as China Q3 GDP and US retail sales beat forecasts. Early Q3 results were mixed with TSLA and ASML misses partly offset by NFLX strength. Chip giant NVDA was hit by new curbs on China sales. LULU entered the S&P 500 as ATVI was cut after MSFT deal. See Q4 Markets Outlook [HERE](#) and at twitter [@laidler\\_ben](#). [See Page 2](#)

### The new normal of high uncertainty

[Rising uncertainty](#) saps investor and company confidence at a vulnerable time, But it is increasingly the new normal that markets have begun to successfully adjust to. [See Page 2](#)

### Countering the oil market's worst fears

Geopolitical spike [may self-correct](#) on demand destruction; economies now less oil dependent; few to follow Iran self-destructive supply threats; history on side of modest disruption. [See Page 2](#)

### Stock markets Godzilla versus King Kong

Big tech [magnificent seven](#) set to grow earnings over 30% this Q3, justifying high valuations and supporting market. In contrast to headwinds that financials facing in the real economy. [See Page 2](#)

### Crypto shows its hand to catalysts ahead

Crypto the smallest, youngest, most retail-owned [asset classes](#), and is disproportionately sensitive to any of the many coming catalysts. [See Page 2](#)

### Crypto a rare bright spot

Asset class again bucked downdrafts elsewhere, helped by low interest levels and cross-asset correlation. BTC spiked on wrong spot ETF approval report. SEC decided not to appeal Grayscale case. MS called end to 'crypto winter'. TSLA held unchanged \$185 million BTC position. See latest [Weekly Crypto Roundup](#). [See Page 3](#)

### Geopolitics keeps oil over \$90/bbl.

Oil prices rose as geopolitical risks increased and Iran called for an OPEC oil embargo. Impact was partly offset as US lifted sanctions on Venezuela. US natgas prices fell 10% on higher production and inventories and mild weather. Grain prices were pressured lower by combo of strong harvests and raised crop forecasts. [See Page 3](#)

### The week ahead: Oil, earnings, GDP, elections

1) Bond yield and oil prices focus, with global PMI (Tue) health check due. 2) Big tech Q3 earnings from MSFT, GOOG, AMZN, META. 3) Data focus on ECB 4.5% rate hold (Thu), and US Q3 GDP 4%+ boom. 4) Argentine and Swiss weekend election reaction after Poland's surprise. [See Page 3](#)

### Our key views: Stronger months ahead

See a stronger Q4 and 2024 as summer breather and tall wall-of-worry fades, and investors look ahead to lower inflation and coming rate cuts as growth slows, and earnings outlook firms. Focus 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	-1.61%	-2.46%	-0.06%
SPX500	-2.39%	-2.22%	10.02%
NASDAQ	-3.16%	-1.73%	24.05%
UK100	-2.60%	-3.67%	-0.67%
GER40	-2.56%	-4.88%	6.28%
JPN225	-3.27%	-3.53%	19.79%
HKG50	-3.60%	-4.90%	-13.19%

\*Data accurate as of 23/10/2023

## Market Views

### Caught between geopolitics and bond yields

- Stocks fell as geopolitical and bond yield vice tightened. Whilst recession fears eased as China Q3 GDP and latest US retail sales both beat forecasts. Early Q3 results were mixed with high profile TSLA and ASML misses part offset by NFLX strength. Chip giant NVDA was hit by new curbs on China sales. LULU entered the S&P 500 as ATVI was cut after MSFT deal. **See NEW Q4 Outlook HERE.** See [Page 6](#) for resources and videos.

### The new normal of high uncertainty

- Hamas's terrorist attack on Israel and risk of escalation has stoked economic and [geopolitical uncertainty](#). This risks sapping both investor and company confidence at a vulnerable time. With economic, interest rate, and earnings cycles all in process of turning. Geopolitical fears had eased from spike around Russia's invasion of Ukraine.
- But replaced by higher, entrenched, and global, uncertainties. Yet markets had become used to this 'new normal'. Whilst history of geopolitical shocks is they usually, but not always, have limited and short-lived market impact. [See Page 2](#)

### Countering the oil market's worst fears

- Oil has started to price a small geopolitical risk premium taking Brent above \$90, but still below Sept. highs. [Rising oil prices](#) are a double threat: a growing consumer tax and hit to the lower inflation narrative. The oil outlook is highly uncertain, but we see four offsets to price spike fears. 1) The solution to high prices is high prices. Demand has been quick to react to prices above \$90, making them ultimately self-correcting.

- 2) It's not 1970's. Economies are now less energy dependent and OPEC less relevant. 3) No OPEC (see chart) peer seems willing to join Iran's supply threat. Swing producer Saudi Arabia may pump more. 4) 2006 Lebanon War, 2008 Gaza War, 2014 Gaza War saw short-lived oil impacts. [See Page 2](#)

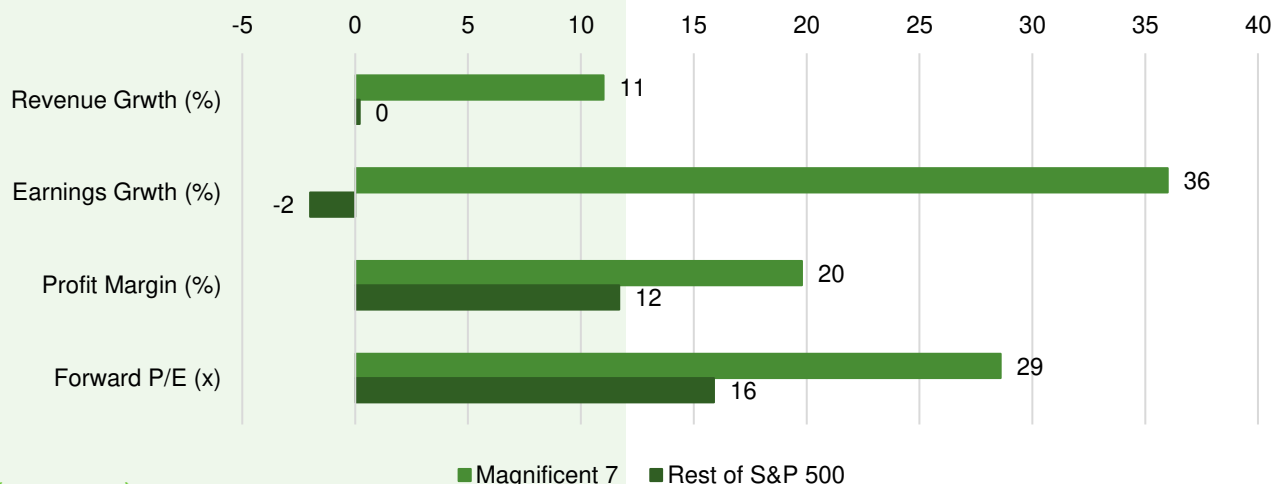
### Stock markets Godzilla versus King Kong

- This is a pivotal earnings season. With US stocks to end earnings recession and profits taking over from rerated valuations as market driver. This help is needed more than ever. Tech is [the market Godzilla](#), as the biggest and best-performing sector with the strongest growth as the 'magnificent seven' lead the earnings recovery.
- With their Q3 profits seen up over 30% vs -2% for the remaining 'S&P 493'. Justifying their premium valuation and lifting the whole market. Whilst banks are the proverbial King Kong. These key real economy intermediaries face deposit outflow and slowdown headwinds, with lagging stock prices and markets near lowest valuations. [See Page 2](#)

### Crypto shows it hand to catalysts ahead

- Bitcoin spiked on report a spot ETF approved. Was premature but shows sensitivity to any good news. Should give investors heart with long list of [catalysts coming](#). From SEC spot ETF deadline to 'halving', global bank and US corporate accounting regs, to a potential central bank holding bitcoin.
- It's the smallest, youngest, and most retail-owned of all asset classes, and disproportionately sensitive to any sign of market development. [See Page 2](#)

### The 'Magnificent 7' big tech stocks vs rest of S&P 500 (Q323e)



## Market Views

### Crypto strength bucks' other assets

- Crypto moved higher and bucked weakness and volatility in other assets, from stocks to bonds. This is a silver-lining of crypto's now lower levels of trading volumes and cross-asset correlation.
- BTC spiked 10% during the week, reacting to a wrong report that BlackRock's (BLK) spot bitcoin application had been approved by the SEC. The final SEC decision deadline is mid-January.
- Other news saw the SEC decide not to appeal against its loss in the Grayscale lawsuit. Morgan Stanley (MS) call and end to the 'crypto winter'. TSLA Q3 results showed unchanged \$185m BTC stake. See the latest [Weekly Crypto Roundup](#).

### Geopolitical risks keep oil over \$90/bbl.

- Commodities were driven higher by a surge in Brent crude prices back over \$90/bbl. As major producer Iran called for an OPEC oil embargo amidst fears of a spreading middle east crisis. Prices were held back from going higher by US easing sanctions on Venezuela, boosting outlook for a gradual oil production recovery.
- US natural gas prices fell 10% last week under weight of increased production, rising inventories, and mild weather. Prices have risen sharply from \$2.00/MMBtu April lows but have still halved in the past year.
- Grains prices were under pressure with harvests were strong, and crop forecasts being raised.

### US Equity Sectors, Themes, Crypto assets

	1 Week	1 Month	YTD
IT	-2.59%	0.05%	34.35%
Healthcare	-1.71%	-1.31%	-5.12%
C Cyclical	-3.73%	-5.54%	14.45%
Small Caps	-2.26%	-5.67%	-4.57%
Value	-1.83%	-3.91%	-5.04%
Bitcoin	10.20%	10.88%	78.32%
Ethereum	4.02%	1.03%	34.36%

Source: Refinitiv, MSCI, FTSE Russell

### The week ahead: Oil, tech earnings, ECB, elections

1. Global macro focus, with middle east and oil **geopolitical** tension and rising bonds yields near 5% in US and 3% in Germany. Flash October PMI (Tue) to be a growth and inflation health check.
2. Big Q3 **earnings** week with big tech's MSFT, GOOG, AMZN, and META forecast to lead the end of the S&P 500 nine-month 'earnings recession'. Plus, results from V, MA, KO, XOM, CVX.
3. Data focus **ECB** interest rate decision (Thu), seen on hold at a peak 4.5%. Whilst US releases **Q3 GDP**, est. at over 4%, and likely as good as it gets. Plus, another fall in 'Fed-favourite' PCE inflation.
4. Reaction to Argentine and Swiss (Sun) **elections**. After last weekend' Poland election surprise drove markets higher. Also see big hedge fund managers speaking at **Robin Hood** conference.

### 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*	0.50%	-0.39%	-6.20%
Brent Oil	1.88%	-1.41%	7.58%
Gold Spot	2.43%	2.48%	8.91%
DXY USD	-0.45%	0.55%	2.55%
EUR/USD	0.81%	-0.47%	-1.00%
US 10Y Yld*	30.06	48.77	104.80
VIX Vol.	12.37%	26.22%	0.18%

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

## Focus of Week: Sentiment is a support

### Technical investor sentiment and seasonality drivers are positive and matter to investors

Poor investor sentiment and improving seasonality are two important technical supports for markets in this time of high uncertainty. Our investor sentiment index (see below) shows most now bearish. This means a little less-bad news goes a long way, and many have room to buy. Whilst Q4 stock market seasonality is the best of the year as investors position for the year ahead. These technical drivers are also nearly as important as traditional 'fundamentals', according to our latest retail investor beat survey.

### And add to the still positive fundamental backdrop that should not be forgotten.

Even amidst the current '[wall-of-worry concerns](#)', from middle east and oil to inflation and bond yields, we believe the fundamental outlook is positive. The interest rate hikes are ending, the central banks 'put' is back with inflation falling, economic growth has been resilient, and the earnings cycle is now improving.

### All four components of our sentiment indicator have slumped, a contrarian positive

Our proprietary investor sentiment indicator is now back well below average levels. This contrarian indicator shows expectations are low, and many have room to increase their allocations to stocks. The VIX S&P 500 volatility index has surged over 50% from its lows. A dramatic move, even though it's still below its long-term average level. [Global stock ETFs and mutual funds](#) have seen five weeks of outflows. Demand for equity put downside protection has exceeded calls, which is a rare event. Whilst individual investor sentiment has fallen back below average levels and is finely balanced with 34% bullish and 34% bearish.

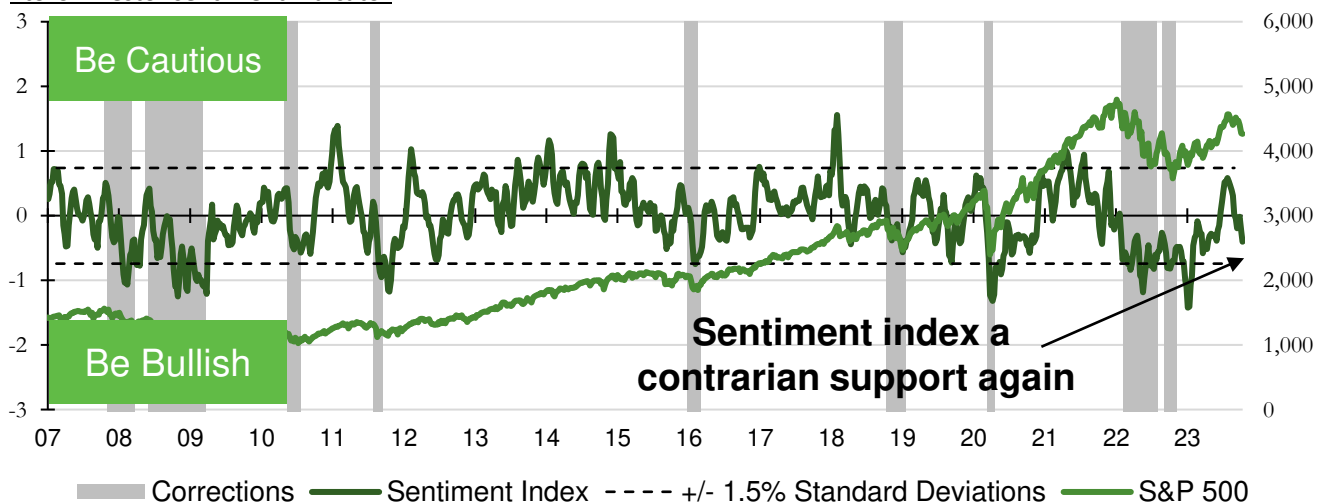
### Many investors see technical indicators as important as traditional fundamentals

Our [retail investor beat](#) survey shows 'technical' are often as important as 'fundamentals' for many investors. Company profits was the firm survey favourite as the biggest market driver, at 25%. Together with top-down macroeconomics (chosen by 14%) and company valuations (14%), a majority see these fundamentals as driving markets. But it was a narrow beat. Investor sentiment was seen as the second biggest driver (18%) of markets, with technical analysis not far behind (14%). French investors saw sentiment as the most important driver, whilst Italian investors ranked technical analysis as top.

### Our eToro investor sentiment indicator tracks the VIX, flows, retail sentiment, and put/calls

Our proprietary sentiment indicator is made up of 1) equity mutual fund and ETF flows. 2) The American Association of Individual Investors (AAII) sentiment survey. 3) VIX index of expected 30-day S&P 500 volatility. 4) S&P 500 put/call ratio, proportion of put buying (option to sell) vs calls (to buy). A low number is contrarian bullish, with more investors left to turn positive the market. It's a better buy than sell signal.

#### Etoro investor sentiment indicator



Source: ICI, AAIL, eToro calculations. \*Average of VIX volatility index, CBOE put/call ratio, AAIL individual investor sentiment, and equity ETF and mutual fund flows. 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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		<b>Australia</b>	Josh Gilbert Farhan Badami

## 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

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