ANALYST WEEKLY

Some insurance for markets

OCTOBER.30.2023

Summary

The supports out there for markets

Storm clouds have regathered over global stock markets, which are flirting again with a 10% correction. But the glass-is-half-full and some supports are rebuilding. Tightening financial conditions is pulling forward interest rate cuts, with ECB near front of the queue. This is market insurance. Q3 ending the US 'earnings recession' and 'biggest buyer' buybacks restarting. Investor sentiment is depressed, a contrarian positive, and seasonality now in your favour. **See Page 4**

S&P 500 falls into -10% correction

S&P 500 fell to -10% correction on combo of high bond yields and oil, and unforgiving to earnings weakness. October set for declines, led by China and small caps. US Q3 GDP surged 4.9%, and China launched more spending. US 10-year yields hit 5%. Gold $2,000. JPY 150. BTC $35,000. GOOG slumped after earnings. MSFT and AMZN rallied. CVX spent $53bn on HES. F made UAW strike deal. See Q4 Markets Outlook **HERE** and at twitter @laidler_ben. **See Page 2**

Worries that things could break

Commercial real estate, high yield bonds, small banks in cross-hairs of US bond yield surge, but are already well known, uncertainty already high, and central bank 'puts' returning. **See Page 2**

Risks to the gold rally

Shows safer haven bona fides, with lack of credit risk, negative risk asset correlation, and long record, but vulnerable to easing geopolitical risks and bond yield relationship rebound. **See Page 2**

Big oil is doubling down on fossil fuels

US majors unleash one of largest takeover waves in history, at some of highest oil prices. A gutsy bet on high-for-longer fossil fuels and widens gulf with derated European peers. **See Page 2**

The rise of fractional share ownership

A driver of rise of younger investors, by boosting accessibility and diversification, with greatest impact US, Swiss, France, Germany. **See Page 2**

Crypto's big breakout

BTC soared to $35,000, taking its 'dominance' of asset class to 50%, extending leading return this year. Driven by combo of optimism on potential SEC spot ETF applications and 'flight to quality' relative safe haven flows. Related assets from MSTR to MARA and especially GBTC have soared. See latest Weekly Crypto Roundup. **See Page 3**

Oil prices lead commodities down

Brent oil fell below $90 as geopolitical tensions did not escalate and big oil consolidation surged with CVX buy of HES, following XOM of PDG. Renewables slump got even worse from SEDG to ENR1n.DE. Uranium and especially orange juice, at twice prior all-time-high, showed small commodities the price standouts. **See Page 3**

The week ahead: Apple, Fed, Jobs, November

1) Peak earnings season from APPL (Thu) to ABNB and SBUX. 80% S&P 500 'beats' so far. 2) Fed (Wed), BoE, BoJ meet, and to keep rates on hold, plus US bond sale plans. 3) Data focus US jobs (Fri) slowdown and EU GDP and inflation fall. 4) End of tough Oct. and Nov. start. **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	-2.14%	-3.25%	-2.20%
SPX500	-2.53%	-3.98%	7.24%
NASDAQ	-2.62%	-4.36%	20.80%
UK100	-1.50%	-4.16%	-2.15%
GER40	-0.75%	-4.54%	5.49%
JPN225	-0.86%	-2.72%	18.77%
HKG50	1.32%	-2.31%	-12.05%

*Data accurate as of 30/10/2023

Market Views

S&P 500 falls into -10% correction

- S&P 500 fell to -10% correction on high bond yields, oil, and unforgiving to earnings. October set for declines, led by China and small caps. US Q3 GDP surged 4.9%. China launched stimulus. US 10-year yields hit 5%. Gold $2,000. JPY 150. BTC $35,000. GOOG slumped after earnings. MSFT and AMZN rallied. CVX spent $53bn on HES. F made UAW strike deal. **See NEW Q4 Outlook HERE**. See Page 6 for resources and videos.

Worries that things could break

- US government bond yields, bedrock of modern finance, had huge surge. Stokes worry 'something will break'. Like UK Sept. 2022 liability driven investment scare, or March 2023' US small banks rout. Usual suspects maturity wall for commercial real estate and high yield corporate debt and squeeze on small banks. Are stressed but known.

- A surprise more likely to come from left-field, like private credit markets or Europe's periphery. But world got increasingly used to high uncertainty and central bank rate cut 'puts' coming back as insurance with inflation cooling. See Page 2

Risks to the gold rally

- Gold been go-to safe haven in surging geopolitical uncertainty and tall wall-of-worry. Benefitting from lack of credit risk, negative correlation with risk assets, and millennial track record. Its rise toward $2,000 per ounce has outpaced other traditional havens like the US dollar and certainly bonds. This move has further dramatically broken the long-standing correlation of zero-yielding gold with real and nominal US bond yields.

- This introduces some short-term vulnerability to gold if geopolitical risks cool. Though the broader outlook is supported by likelihood of lower bond yields and a weaker dollar in coming months, against a backdrop of continued strong central bank demand. @GoldWorldWide. See Page 2

Big oil is doubling down on fossil fuels

- Exxon (XOM) and Chevron (CVX) doubling down on fossil fuels, widening gap with European peers, and turbocharging industry with some of largest M&A activity, at some of highest oil prices in its history.

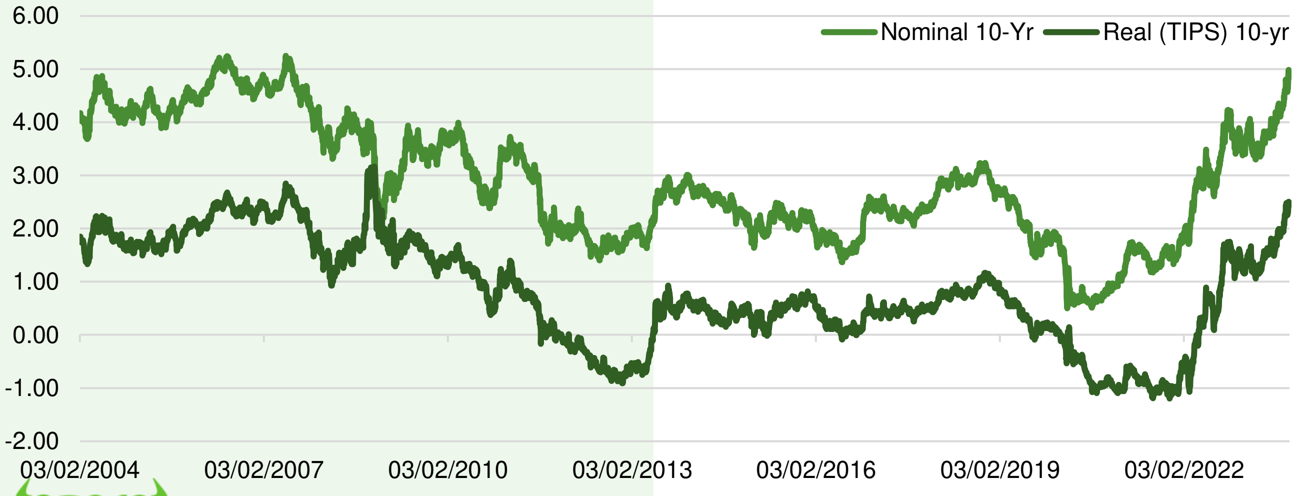
- This reflects 1) a confidence oil prices will stay high-for-longer, justifying mergers and acquisition (M&A) at these unprecedented prices. 2) A preference for buying vs drilling that should contribute to further supply restraint. And 3) a focus on the rare areas of growth exposure, from Permian shale to offshore Guyana. It's a dramatic turnaround as the US leads oil M&A activity off a 17-year low. And similar in pace and scale to the turn of century consolidation wave that created today' oil majors. See Page 2

The rise of fractional share ownership

- Unsung driver of increase in retail investors is the 2019 rollout of fractional share ownership. Made investing more accessible and able to diversify.

- Analysis shows impact is unsurprisingly greater for younger investors and among higher priced stocks. US stock markets, Swiss SMI, France's CAC-40 and Germany's DAX have highest priced individual stock and the priciest median one and would benefit most from its growing popularity. See Page 2

US 10-year bond yield surge, nominal and real (20-years)



Source: Refinitiv. Illustration purposes only

Market Views

Crypto's big breakout

- Crypto assets saw a big price breakout, bucking the sharp sell-off seen across many other asset classes. BTC led, rallying 20% and taking its market capitalisation 'dominance' to 50%.

- The rally was driven by a combination of 1) optimism on the potential SEC approval of the first spot bitcoin ETF. And 2) Bitcoin being seen as an uncorrelated and relative haven asset. BLK's Larry Fink called it a 'flight to quality'.

- Crypto related asset saw sharp price catchups, including investor MSTR and miners like MARA. The GBTC Grayscale Bitcoin Trust is up 220% this year. See the latest Weekly Crypto Roundup.

Oil prices lead commodities down

- Commodities fell back as Brent oil retreated under $90/bbl. as the geopolitical risk premium eased with middle east tensions remaining relatively contained. The oil market did see CVX follow competitor XOM's buy of PDG in announcing its own $53 billion takeover of HES.

- Renewables stocks went from bad to worse with US solar SEDG slumping after a new profit warning, whilst German wind giant ENR1n.DE plunged as sought a government bailout.

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- Smaller commodities the standout performers with uranium hitting highest since 2011 on utility demand and low mine supply. Whilst orange juice is now near twice its prior all-time high.

US Equity Sectors, Themes, Crypto assets

	1 Week	1 Month	YTD
IT	-2.97%	-2.17%	30.36%
Healthcare	-3.92%	-4.32%	-8.84%
C Cyclicals	-1.39%	-4.74%	12.86%
Small Caps	-2.61%	-7.98%	-7.06%
Value	-2.31%	-4.83%	-7.23%
Bitcoin	14.17%	28.20%	103.59%
Ethereum	10.23%	10.85%	48.10%

Source: Refinitiv, MSCI, FTSE Russell

The week ahead: Apple, Fed, jobs, November

1. Peak global **earnings** season with world's biggest stock APPL (Thu), plus AMD, QCOM, MCD, ABNB, SBUX and overseas HSBC, NVO. S&P 500 'beats' are near 80%, and all sectors except real estate.

2. It's a big **central bank** week in US, UK, and Japan. The Fed (Wed) is seen on hold at 5.5% and UK's BoE (Thu) at 5.25%. Japan's BoJ is first up Tuesday with rates at -0.1% but JPY recently breaking 150.

3. Data focus US **jobs report** (Fri) with est. fall to a 'goldilocks' 172,000 with 3.8% unemployment and 4.2% wage growth. Big EU week with Q3 GDP likely negative and latest inflation falling sharply.

4. Tuesday marks Halloween and the end of a down October, led by small caps and China stocks. **November** see's China singles day, the US Thanksgiving big consumer holiday, and COP 28.

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*	-0.18%	0.75%	-6.36%
Brent Oil	-3.61%	-3.19%	3.70%
Gold Spot	1.16%	8.14%	10.17%
DXY USD	0.39%	0.34%	2.95%
EUR/USD	-0.30%	-0.09%	-1.30%
US 10Y Yld*	-8.66	26.16	96.14
VIX Vol.	-2.03%	21.40%	-1.85%

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

Focus of Week: Insurance policies for markets

Storm clouds have reformed over global markets, but the glass is half full

Stock markets have continued to sell off after their summer breather. Squeezed by the vice of surging bond yields and high oil prices and overlaid with rising geopolitical risks. There have been few places to hide with both stocks and bonds weak, with gold and 'digital gold' one of the very few havens. We see this vice naturally easing over time as it hastens the economic slowdown. We are starting to see this now as central bank insurance interest rate cuts creep onto the horizon. The fundamentals as secure, with interest rates peaked and growth less-bad than feared. Other supports come from the turning earnings cycle, restarting share buybacks, poor sentiment, and better seasonality. This keeps us invested, focused on defensive and long duration assets from big tech to crypto. And cautious cyclicals to commodities.

Economic outlook is diverging, pushing ECB towards front of 2024 rate cutting queue

The global economy has diverged. US GDP growth was an astounding 4.9% last quarter, one of the highest levels in 40 years. This is driving higher bond yields and is the economic high-water mark. But it also helps avoids recession as it naturally slows, when combined with still resilient labour markets. Whilst China's reopening recovery struggles, forcing it to become increasingly aggressive at providing support. Now with extra fiscal spending and Hong Kong property measures. Whilst in Europe PMI lead indicators are plumbing new contractionary depths whilst inflation pressures plunge. This increasingly puts the ECB at the front of the rate cutting queue in 2024, despite its official rhetoric..

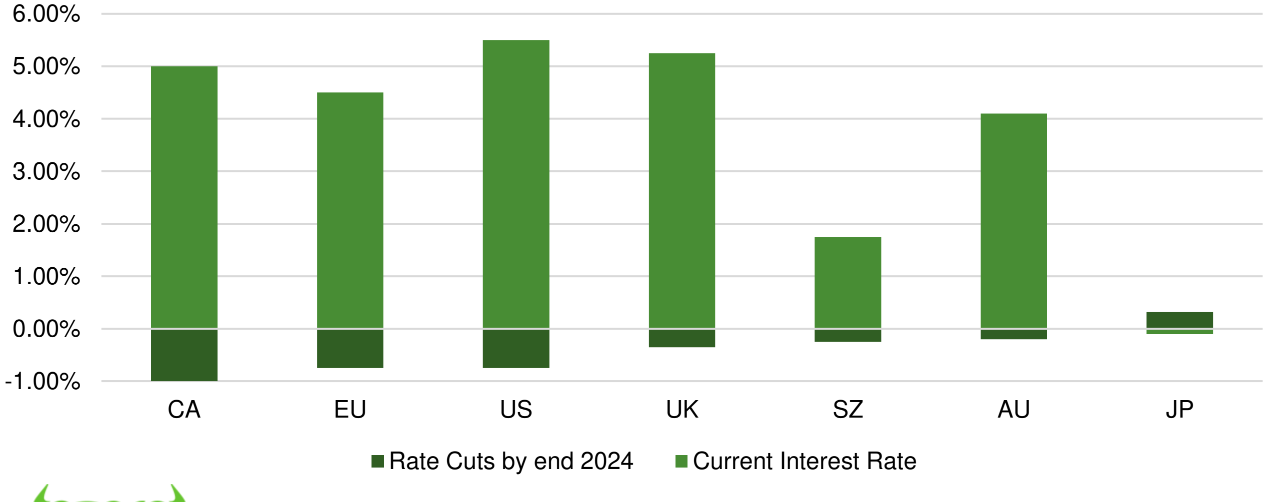
This has transformed the interest rate outlook, pulling cuts forward

Europe is the canary in the coalmine of global growth. With Germany already in recession. High debt loads. Low potential growth. And more globally exposed economies and stock markets. The European Central Bank (ECB) stayed on hold at 4.5% last week. But markets expect rate cuts to start mid 2024 with 75bps of reductions by year end. Canada is seen leading the major central bank easing cycle. But the ECB now expected to cut as much as the Fed by the end of next year. A sharper economic slowdown or 'something breaking' would accelerate these cuts and - unlike even six months ago – be warranted by the degree of inflation falls we have seen so far. Even the current stagflationary UK is seen starting cuts next year.

Other supports, from earnings to buybacks, sentiment, and seasonality

We also see other supports. 1) The earning outlook is improving, despite GDP slowdown. With idiosyncratic tech drivers, like AI, lower inflation supporting profit margins, and lapping of prior weakness. 2) US stock buybacks will restart as companies exit Q3 earnings closed periods. They are the biggest buyers of US equities. 3) Investor sentiment is well below average, a contrarian support, and 4) the seasonality tailwind is building as we get closer to year-end repositioning.

Global policy interest rate expectations: now vs end 2024 (consensus)



Source: Bloomberg. CA=Canada. SZ=Switzerland. AU=Australia. JP=Japan. For illustration purposes only.

Key Views

The eToro Market Strategy View

Global Overview	'High wall-of-worry from geopolitics and high oil to surging bond yields continuing summer breather. But oil and bond yields self-correcting as GDP growth slows, easing market 'vice', whilst fundamentals of peaked interest rates, resilient growth, turning earnings, supportive low sentiment and better seasonality. **See NEW Q4 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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