ANALYST WEEKLY

The contrarian case for Europe

NOVEMBER.06.2023

Summary

The better outlook for Europe in 2024

The outlook for European markets is not as bad as seems. Growth is low and debt high. But inflation plunged, giving ECB flexibility, alongside FX and fiscal buffers. It's the 'canary in the global coal-mine', as most sensitive to economic and FX outlook. It's cheaper than many, more cyclical, and global. Due a cyclical catch up in 2024 to its chronic long-term US underperformance. Italy is cheap. Switzerland and UK defensive. Germany China focused. @EuropeEconomy. See Page 4

Markets rebound as bond yield angst eases

Stock and bonds soared as the bond yield and oil price vice eased pressure n markets. Central banks held rates steady and US jobs market cooled. Havens from gold to the US dollar fell back. AAPL results beat but Christmas outlook disappointed. NVO and LLY Q3 driven by weight loss boom. Renewables sell-off deepened with ORSTED.CO charge-off. See Q4 Markets Outlook HERE and at twitter @laidler_ben. See Page 2

The political tests of November

Summer's stock 'breather' turned to deeper Oct. 'correction' but we see grounds for contrarian optimism as the bond yield and oil vice eases, earnings turn, technicals support. See Page 2

Mixed messages from strong earnings season

Tech has led the end of the US earnings recession but still nervous investors are treating any 'misses' brutally and are rewarding higher margins less than better revenues. See Page 2

The music industry rises again

Industry booming on combo of recorded and live music generating $52bn sales with streaming growth, post pandemic live music rebound, and mega acts now moving macro data. See Page 2

The orange juice high-wire act

OJ doubled on weather and disease hits, and no quick fix. But market illiquid, investor interest high, drinkers have other options. See Page 2

Crypto holds onto big gains

BTC stayed near $35,000 and up over 100% YTD, on low correlation with other assets and spot ETF outlook. But SOL, ADA, and DOT led the weekly gains. BTC correlation with tech lowest in over 2-years, whilst relationship with safer-haven gold tightened. Seen big CME futures activity pickup. See latest Weekly Crypto Roundup. See Page 3

Agriculture offsets energy

Commodities inch higher with markets rebound and weaker dollar. Ag strength, from sugar to cocoa, offset oil under $90/bbl. as Middle East concerns contained. Gold giant Barrick Q3 beat and raised. Coffee leader Starbucks saw 8% US same store growth. Oil major Shell profits fall by a third but increased its buyback. See Page 3

The week ahead: China, Disney, politics

1) Quieter week focus on China trade inflation, and huge Singles Day shopping. 2) Last big US earnings week, DIS to UBER, plus OpenAi conference. 3) Central bankers speak at IMF, plus UK Kings speech and GDP. 4) Political week from Middle East to US budget talks. 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	5.07%	1.96%	2.76%
SPX500	5.85%	1.16%	13.51%
NASDAQ	6.61%	0.35%	28.78%
UK100	1.73%	-1.03%	-0.46%
GER40	3.42%	-0.27%	9.09%
JPN225	4.41%	2.81%	22.44%
HKG50	1.53%	1.02%	-10.70%

*Data accurate as of 06/11/2023

Market Views

Markets rebound as bond yield angst eases

- Stock and bond prices soared as central banks held rates steady and US jobs market cooled, taking pressure off soaring bond yields and stressed investors. Havens from gold to the US dollar eased. AAPL results beat but Christmas outlook disappointed. NVO and LLY Q3 driven by weight loss boom. Renewables sell-off deepened with ORSTED.CO charge-off. **See Q4 Outlook HERE**. See Page 6 for resources and videos.

The political tests of November

- Summer's stock market 'breather' turned into a deeper October 'correction'. As only gold to bitcoin havens outperformed. But we see grounds for contrarian optimism ahead.

- November' focus is the heavy political calendar, end of a positive earnings season and start of Christmas' consumer test. Look for the bond yield and oil vice to start to ease, giving relief to hard pressed markets. Allowing a refocus on firming earnings, central bank 'puts', and technicals of poor sentiment and good seasonality. **See Page 2**

Mixed messages from strong earnings

- We are over halfway through strong third quarter S&P 500 earnings, but investors takeaways been mixed. Earnings 'recession' ended, and recovery is forecast to build from here. This balances bond yield and oil price vice that has driven the stock market recent 'correction'. This combo has taken P/E valuations to below their 10-year average. The 'tech' sectors that dominate the market have reassuringly taken the earnings season lead.

- But the brutal reaction to profits misses shows expectations are high and investors unforgiving. And they are rewarding a profit margin driven earnings recovery less with revenues sluggish. Near 80% S&P 500 stocks have beaten expectations so far and all sectors ex energy. **See Page 2**

The music industry rises again

- Modern industry existed since 1877 invention of the phonograph. But forced to constantly reinvent itself, from near-death experience of digital piracy to covid shutdown. Streaming rise, live music boom, concentration on mega acts seen industry again rise from ashes. Posting $52 billion sales last year, evenly split between recorded and live music.

- This is broadening investment options, from labels (like UMG) to venues (LYV) and moving the macro data. Taylor Swift is now a billionaire, the best-selling artist in world, and 53 'Eras' US tour dates added over $4 billion to GDP. Whilst Beyonce's Renaissance tour even moved the inflation numbers from Sweden to the UK. **See Page 2**

The orange juice high-wire act

- Smaller commodities the standouts this year, from cocoa (+60%) to sugar (+45%) and uranium (+35%). But none near orange juice (+100%) rally that taken into uncharted territory double prior all-time highs.

- Propelled by supply disruption and with no quick fix with inventories low and trees taking 4-15 years to mature. But it's a high-wire act with thin trading, already high investor interest, and consumers with substitute breakfast options. **See Page 2**

Key events to watch in November 2023

Date	Country	Event
Nov. 01	US	Fed FOMC policy meeting. Futures show 90%+ on hold at 5.25%
Nov. 11	China	Singles Day world's largest shopping day. Alibaba @ $85bn in 2022
Nov. 13	Asia	US host's Asian APEC Summit. Possible rare Xi-Biden meeting.
Nov. 14	US	Inflation divergence with headline rise and new 'core' low <4.1%
Nov. 17	US	2024 budget deadline risks a potential Federal Gov. shutdown
Nov. 19	LatAm	Argentina election 2nd round after surprising Peronist 1st win
Nov. 21	US	AI-leader NVIDIA reports Q3 results after back-to-back surprises
Nov. 22	Europe	Early Dutch general election after government fell on immigration
Nov. 23	US	Key Thanksgiving Holiday Christmas sales season kick-off
Nov. 26	Global	OPEC full minister and joint ministerial monitoring meeting
Nov. 30 -	Global	Two week COP28 UN Convention on Climate Change from Dubai

Source: Refinitiv. Illustration purposes only

Market Views

Crypto's holds on to its big gains

- Bitcoin (BTX) held on to its recent dramatic gains, and is up over 100% this year, leading all asset classes. Benefitting from spot ETF outlook and slow correlation safe-haven flows. Came same week as SBF found guilty after collapse of FTX. SOL led price gains, followed by ADA and DOT.
- BTC correlation with tech-laden NASDAQ hit the lowest since August 2021. Whilst its correlation with safer-haven gold rose to new highs.
- Signs of a pickup in institutional BTC adoption came from CME futures activity, often favoured by TradFi investor, saw its highest volumes in a year. See the latest Weekly Crypto Roundup.

Agriculture offsets energy

- Commodity prices inched up, with rebounding global markets, lower GDP slowdown risks, and a weaker dollar. Ag prices, led. This balanced Brent crude holding under $90/bbl. as Middle East tensions remained more contained than feared.
- Protein and ag prices were best performers on week, with sugar, cocoa, hogs, and live cattle all higher with supplies tight. Orange juice fell back after setting new all-time-record $4.00/lb.
- Company news saw major gold producer Barrick beat Q3 results expectations and raise guidance. Similarly big coffee user Starbucks, that saw US same-store-sales surge 8%. Whilst oil major Shell saw profits fall 34%, whilst it raised its buybacks.

US Equity Sectors, Themes, Crypto assets

	1 Week	1 Month	YTD
IT	6.78%	4.12%	39.20%
Healthcare	3.75%	-0.39%	-5.42%
C Cyclicals	7.12%	3.03%	20.89%
Small Caps	7.56%	1.94%	-0.03%
Value	5.32%	2.32%	-2.30%
Bitcoin	2.84%	26.66%	109.36%
Ethereum	3.31%	10.74%	53.00%

Source: Refinitiv, MSCI, FTSE Russell

The week ahead: China, earnings, UK, and politics

1. Quieter week with focus on a stabilizing **China** economy with est. of less-bad trade data (Tue), borderline deflation (Thu), and run up to Singles Day (Sun), biggest shopping day of year anywhere.
2. Last big week of better-than-expected US Q3 **earnings** led by media giant DIS, UBER, OXY, and overseas AZN, SONY, ADS.DE, VWS.CO, AIR.PA. Plus, the first **OpenAI** DevDay from San Francisco.
3. Macro focus on **Powell**, Lagarde, Ueda, Bailey speaking at IMF, plus US SLOOS bank loan data. **UK** annual opening of parliament (Tue), plus GDP (Fri) with economy narrowly avoiding recession.
4. **Politics** key with ongoing Middle East tension, the run up to rare Biden-Xi APEC meeting (13th), the latest US government budget shutdown deadline (17th), plus three US governor elections (Tue).

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*	-0.38%	2.59%	-6.72%
Brent Oil	-4.42%	0.95%	-0.88%
Gold Spot	-0.81%	8.28%	9.28%
DXY USD	-1.40%	-0.92%	1.49%
EUR/USD	1.59%	1.34%	0.27%
US 10Y Yld*	-32.21	-28.52	63.93
VIX Vol.	-29.90%	-14.86%	-31.20%

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

Focus of Week: The contrarian outlook for Europe

The outlook for European markets not as bad as it seems as look into 2024

The old continent has been having a tough time in recent months. Leading the world economic growth slowdown and with its stocks continuing to see an earnings recession and without benefit of a big listed tech sector. This stands in stark contrast to the US GDP and stock market 'exceptionalism'. But underneath lies the seeds of Europe's recovery in 2024. With inflation falling fast. ECB rate cut expectations being pulled forward. The weak Euro a competitiveness buffer. Manufacturing already long in recession, and Europe's big trade partner China stabilising. And valuations at the biggest discounts seen in years. Europe was first to feel the economic slowdown but will also be first to see recovery in 2024. @EuropeEconomy.

Europe is the 'canary in the global coal-mine', as most sensitive to the economic and FX outlook

GDP growth last quarter in the European Union fell 0.3%, in stark contrast to the huge 4.9% gain in the US. The continents largest economy, Germany, has been in recession near all year. This has helped push the latest EU inflation to only 2.9%, and nearly a point lower than in the US. This combination has turned around ECB interest rate expectations. Markets expect cuts to start mid next year. The earnings story is also lagging, with the continent's earnings set to fall 9% this quarter, vs end of the profit's recession in the US. But this will likely be trough earnings for the continent and excluding the 50% energy earnings plunge underlying profits are up 3%. This is led by Switzerland, Italy, and Spain, with UK, France, and Netherlands the laggards. Europe's more rate sensitive economy has reacted to the medicine quicker than the US.

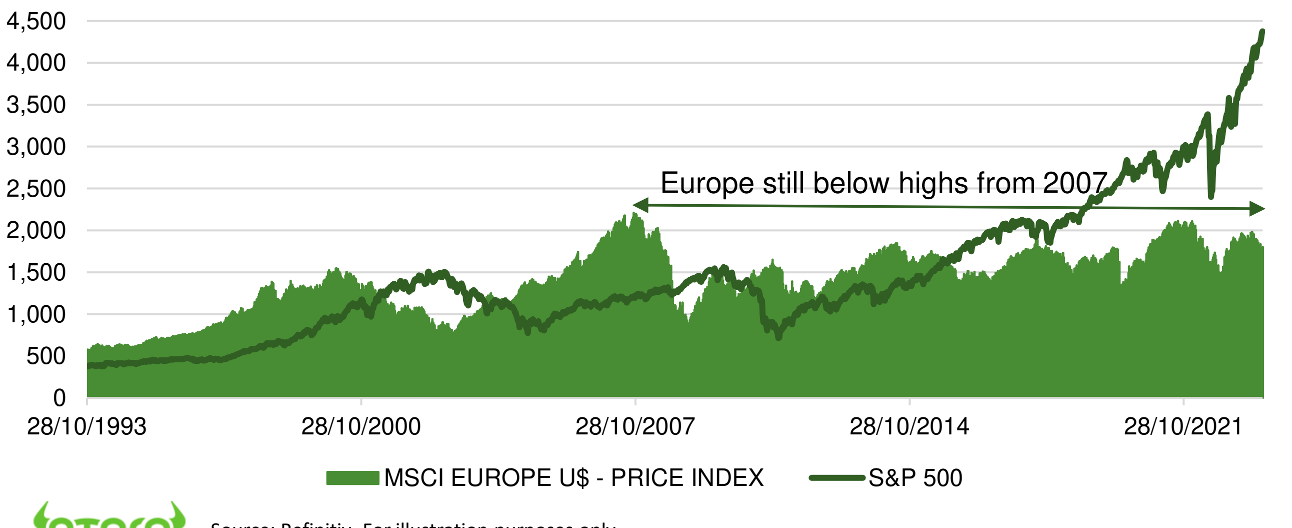
It's different from the rest – it's cheaper than many, more cyclical, and more global

The regions diverse markets share three characteristics. **Cheaper:** On 12x prospective P/E, a 30% discount to US. This reflects the lack of tech stocks but also more challenged growth. **Cyclical:** GDP growth is lower than US and more globally dependent. Its stock index composition is more cyclical, and companies have lower profit margins. **Global:** 50% of European revenues come from abroad, making it a global barometer, and sensitive to FX trends. By comparison US and Chinese sales abroad are only 30% and 10% respectively.

It's a varied continent that is due at least a cyclical catch up to the US

The continent's stock markets have chronically lagged the US (see chart), with less growth and smaller tech sector. But valuations reflect this and the continent sensitive to less bad news. Italy is among world's best performers this year. Benefitting from its bank-led profit's recovery and near world's cheapest valuations. UK has lagged after a world beating 2022 performance and benefits from defensive sector mix and strong dividend yield, like Switzerland. France has suffered from the recent pullback in its heavyweight luxury sector. whilst Germany and Sweden are the two with the largest manufacturing bases and with a high exposure to China. Denmark driven by the weight loss boom, offsetting the renewables and shipping rout.

Plenty of room for a catch-up. Europe vs US equity performance (30-yrs)



Source: Refinitiv. 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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