ANALYST WEEKLY

Favourite asset classes for 2024

NOVEMBER.27.2023

Summary

Stocks and crypto vs cash and dollar in 2024

Stocks, crypto, and bonds seem best positioned asset classes for 2024. With cash and US dollar losing ground and commodities still depressed. Crypto and big-tech led rally in 2023, with record 3-year bond losses and commodities the worst. Lower inflation and interest rates to cut cash attraction and boost long duration bonds. Dollar hurt by lower rates and higher risk tolerance, helping others from commodities to JPY. Crypto sensitive to long list of 2024 catalysts. See Page 4

On track for historic November performance

Stocks higher in holiday-shortened Thanksgiving week, on track for one of best month's past 3-years, with 10-yr yields <4.5%, oil $80/bbl., VIX <13. Ignored election quakes from Argentina to Netherlands and Taiwan. EU PMI's stabilised and UK cut taxes. NVDA results surged again, MSFT navigated OpenAI AI turmoil, and crypto Binance' criminal settlement. See Q4 Markets Outlook **HERE** and at twitter @laidler_ben. See Page 2

Nearing the all-time-high

S&P 500 has sights on regaining high from two years ago after one of the longer waits in history. These technicals important to many, and new-highs historically drive new-highs. See Page 2

Emerging Markets better in 2024

This perennial laggard may start to reflect its stronger economic growth and population dominance, as China's economy now stabilizes, interest rates cut, US dollar weakens. See Page 2

The weight-loss stock market bust

GLP-1 drug boom seen more market losers than winners, with our basket underperforming by 30pp this year. Impact overdone as use gradually ramps and as companies adjust. See Page 2

Bracing for peak El Niño

Weather disruption to last into 2024 with impacts from surging cocoa to Panama Canal capacity cuts. See warm winter on energy. See Page 2

ETH plays catch up amidst crypto rally

BTC neared $38,000, with all-time-high hash rate, whilst ETH sees a performance catch up, as Blackrock files spot ETF application. DOGE and SHIBxM the laggards. Binance fined $4.3 billion in criminal settlement and CZ steps down. GBTC discount to NAV hits singles digits and ARK sells. See latest Weekly Crypto Roundup. See Page 3

Smaller commodities shine as oil struggles

Oil prices struggled around $80/bbl. as OPEC disagreements delayed its scheduled meeting. Whilst smaller commodity rally resumed, with Uranium (SRUUF) regaining pre-Fukishima levels, cocoa hitting 46-yr price high, and OJ twice prior all-time-high. Argentine ag exports are paralysed ahead of a feared FX devaluation. See Page 3

The week ahead: Shopping, COP 28, December

1) Data focus Thanksgiving shopping results and EU and US PCE inflation fall. 2) COP 28 climate event starts (Thu) as divided OPEC try to stabilise oil fall. 3) Earnings from CRM, CRWD, INTU, DELL, DLTR. 4) Santa rally may have come early as start seasonally strongest December (Fri). See Page 3

Our key views: Stronger Q4 and 2024

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	1.27%	7.95%	6.77%
SPX500	1.13%	10.20%	18.75%
NASDAQ	0.97%	13.14%	36.16%
UK100	-0.21%	2.70%	0.49%
GER40	0.69%	9.14%	15.12%
JPN225	0.60%	9.88%	28.86%
HKG50	0.60%	0.92%	-11.23%

*Data accurate as of 27/11/2023

Market Views

On track for a historic November performance

- Stocks higher in holiday-shortened Thanksgiving week, on track for one of best month's the past 3-years, with 10-yr yields <4.5%, oil at $80/bbl., VIX <13. Ignored political earthquakes from Argentina to Netherlands and Taiwan. EU PMI's stabilised and the UK cut taxes. NVDA results surged again, MSFT navigated OpenAI AI turmoil, and crypto Binance's criminal settlement. **See Q4 Outlook** **HERE**. See **Page 6** for resources and videos.

Nearing the S&P 500 all-time-high

- S&P 500 index closing on Jan. 2022 all-time-high and its 2-year anniversary with fundamental and technical drivers. This long 476 trading-day wait lags records set by 2000 tech bust and 2008 GFC.

- We've come a long way from -25% sell-off that bottomed in Oct., with 21% return in year since well ahead of average. Encouragingly, new highs beget new highs, with markets historically near always positive the following 6 and 12 months. Our research shows that technicals matter as much as fundamentals to many. **See Page 2**

Emerging Markets better in 2024

- Emerging markets (EM) dominate world economy, its growth, and population. Yet been perennial stock market underperformers, with $6 trillion market cap. representing just 11% the global total. They're a poster child for stock markets not being economies. China's market dominates, at 30% of EM stocks. Its economy has grown 13-fold in 25 years but its stock market (MCHI) only 70%. 2023 been another EM underperformance year.

- 2024 should be better. With China' economy stabilizing, global interest rates falling, US dollar easing. With EM stocks unloved and cheap, a little less-bad news could go a long way. Recent Middle East additions to EM have shown big IPO issuance, as asset class keeps broadening. **See Page 2**

The weight-loss stock market bust

- GLP-1 weight-loss drugs is a boon for billions of overweight people globally and the two stocks that dominate the industry. But it's been a bust for the stock market. With investors selling healthcare and consumer staples stocks that seen losing demand.

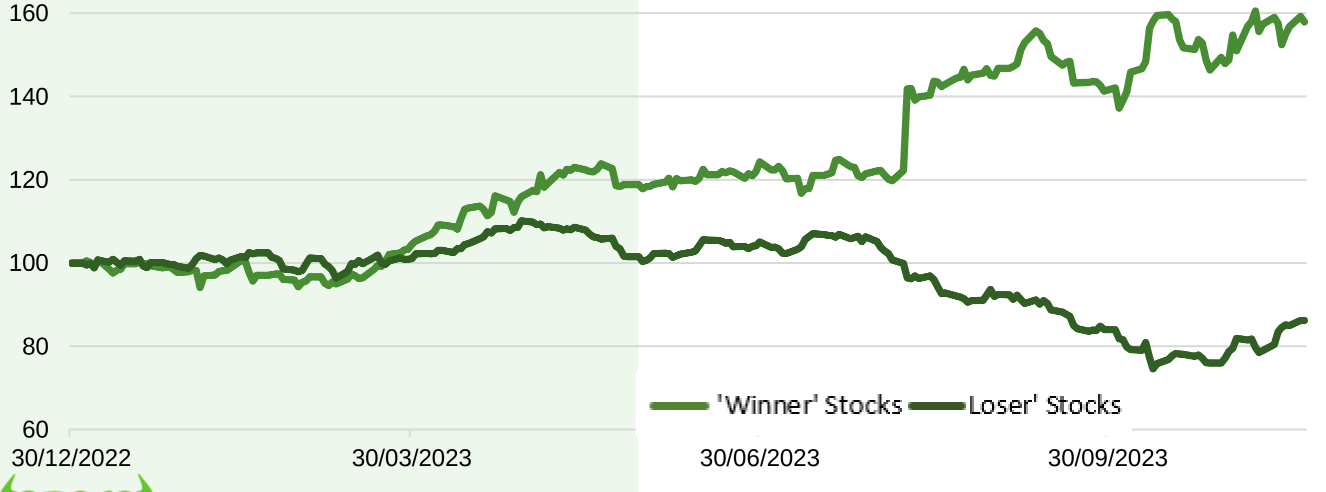
- Has made these traditional defensive sectors some of the worst performers this year. Our 15-stock GLP-1 'loser' basket underperformed the S&P 500 by 30pp (see chart). We see at least five reasons these earnings fears are overdone, from slow GLP-1 adoption to positive company side-effects. The greater risk is of a structural valuation discount as weight loss drug usage inevitably soars. **See Page 2**

Bracing for peak El Niño

- Are in peak El Niño weather disruption until Jan., with impacts across ag, energy, shipping markets and estimates its impact lasts until mid-year. This weather warming phenomena to be one of largest ever and adds to climate trends that made this year world's hottest at 1.3C over pre-industrial levels.

- El Niño's effects are broad and global. Already see Panama Canal shipping disruption and soaring cocoa, to name just two. A warmer winter could ease heating oil and natural gas prices. **See Page 2**

Weight loss stocks versus 'losers' basket (Relative, YTD



Source: Refinitiv. 'Winner' Stocks Basket: NVO, LLY. 'Loser' Stocks Basket: PODD, TNDM, DXCM, SYK, SN., ZBH, PEP, HSY, MDLZ, MCD, DPZ, YUM, RMD, INSP, MDGL. Illustration purposes only

Market Views

ETH plays catch up amidst crypto rally

- The BTC rally ground higher toward $38,000, and with reports its hash-rate hit an all-time-high. Whilst second-largest crypto asset ETH saw some performance catch up, after Blackrock (BLK) filed its spot ETF application with the SEC. DOGE and SHIBxM were the week's big price laggards.
- Leading crypto exchange Binance was fined $4.3 billion in a US criminal settlement, with CEO 'CZ' stepping down, and BNB seeing modest losses.
- Tech investor ARK reportedly reduced position in GBTC Grayscale Bitcoin Trust, as NAV discount hit single digits. See latest Weekly Crypto Roundup.

Smaller commodities shine as oil struggles

- Commodities eked out a small gain as rallying small commodities offset oil's struggles. OPEC's meeting was delayed into this week on quota disagreements as the cartel struggles to agree on a response to slumping $80/bbl. Brent oil prices.
- The strong rally among smaller commodities resumed. Uranium (SRUUF) regained its pre-Fukishima disaster level of $80/lb. Whilst cocoa prices hit a 46-year high on West Africa supply disruption. And OJ's rally restarted, with prices now more than double previous all-time-high.
- Self-described anarcho-capitalist Milei's election victory in Argentina has paralysed exports from the wheat and soybean agricultural powerhouse ahead of an expected large currency devaluation.

The week ahead: Shopping, COP 28, December

1. First read on key Christmas shopping season with Black Friday and **Cyber Monday** sales results. Data focus on **inflation** falls, with Thursday's EU inflation <3% and the US Fed-favourite PCE.
2. Largest annual climate **COP 28** event starts (Thu) in Dubai, with low expectations but big needs. Whilst delayed **OPEC** meet (Thu) as it struggles to agree on cuts needed to stabilise $80 oil prices.
3. Tail-end of Q3 **earnings** season with tech stocks CRM, CRWD, INTU, DELL, SNOW plus DLTR. 82% of S&P 500 stocks have beaten estimates, rising by 7.1%. Europe's Stoxx 600 earnings at trough -11%.
4. Nov. stock market returns set to be some of the strongest of past 3-yrs as 'Santa rally' came early. **December** (Fri) seasonality typically the strongest of the year as investors look to the year ahead.

Our key views Stronger Q4 and 2024

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

US Equity Sectors, Themes, Crypto assets

	1 Week	1 Month	YTD
IT	0.90%	9.23%	48.72%
Healthcare	2.16%	2.75%	-2.79%
C Cyclicals	0.93%	10.05%	27.14%
Small Caps	0.54%	7.62%	2.63%
Value	0.88%	5.64%	0.27%
Bitcoin	3.84%	11.97%	128.75%
Ethereum	7.17%	17.46%	74.53%

Source: Refinitiv, MSCI, FTSE Russell

Fixed Income, Commodities, Currencies

	1 Week	1 Month	YTD
Commod*	-0.36%	-3.04%	-10.09%
Brent Oil	-0.58%	-10.12%	-6.79%
Gold Spot	1.02%	-0.62%	9.49%
DXY USD	-0.48%	-2.95%	-0.10%
EUR/USD	0.28%	3.64%	2.29%
US 10Y Yld*	3.11	-36.95	59.19
VIX Vol.	-12.99%	-39.75%	-43.50%

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

eToro

Focus of Week: Who is in pole positions for 2024?

Stocks, crypto, bonds best positioned asset classes for 2024, with cash, dollar, commodities laggards

We see a 2024 with an economic soft landing, interest rate cuts, and continued markets relief. Stocks are best placed, with a potential big rotation from Growth to Value. Crypto stands out with its long list of 2024 catalysts. Bonds are set for modest gains with lower inflation and after an unprecedented three down years. The US dollar will ease, taking pressure off the most depressed currencies like the Yen. Whilst commodities should have a less-bad but not banner year. Cash will slowly lose its lustre as rate cuts begin.

Crypto and big-tech led performance in 2023, with bonds and commodities the losers

2023 has been a year of high interest rate hikes, resilient economies, and lower inflation. Crypto led all asset classes with its 120% 'winter' comeback. Stocks saw a concentrated rally, dominated by big-tech's Magnificent 7. We saw a dramatic dash-for-cash as interest rates hit 5%. The US dollar saw a wrecking-ball rally. Bonds set for their first ever 3-year sell-off. Commodities flip-flopped from best to worst performer.

Lower inflation and interest rates to cut attraction of cash but boost long duration bonds

The $1 trillion US dash-for-cash and strong demand for short-term bonds likely to slowly ease as the Fed and ECB interest rate cuts start mid-year. Though history shows cash inflows are very sticky with up to a six-month lag for rate cuts to matter to investors. Lower inflation should support longer duration bonds, which have never seen a fourth straight year of price declines. Bond coupons are set to fall but be more than offset by stronger prices. Slowing but positive GDP growth will be a support for corporate bonds.

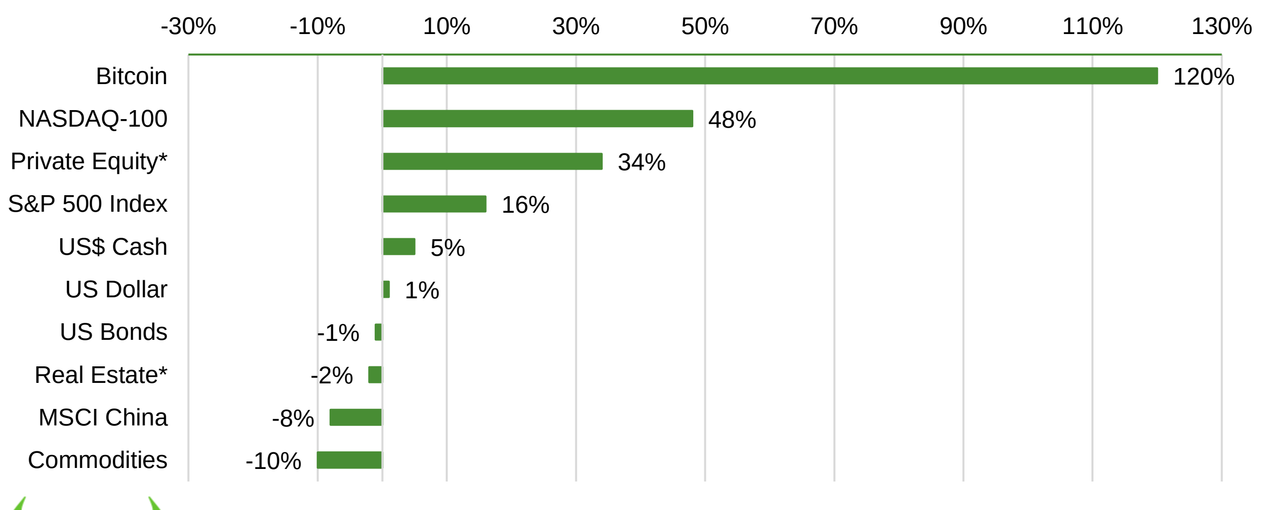
US dollar likely hurt by lower rates and higher risk tolerance, but a help to commodities

A combination of lower Fed interest rates, risk-on markets, and its high valuation should combine to see a lower US dollar. This would give relief to the most hard-pressed and undervalued currencies like the JPY, TRY, and ILS and potentially pause the rally of the most expensive LatAm and CEE currencies. A weaker dollar, along with lower interest rates and a stabilising Chinese demand also sets up commodities for a less-bad year, and balances the building US economic slowdown. We look to 'breakfast commodities' on tight supply and El Nino disruption, and 'transition metals' on net zero momentum and stable China.

Crypto asset class particularly sensitive to the long list of catalysts ahead

Crypto is the smallest, youngest, and most retail focused asset class. Making is disproportionately sensitive to the long list of potential 2024 catalysts including the full implementation of Europe's MiCA regulations and the SEC's Bitcoin ETF decision deadline (January), the Bitcoin 'halving' (April), and the potential Fed interest rate cuts (May), and new US accounting rules making it easier to hold crypto assets (December).

Major assets performance (YTD, 2023)



Source: Refinitiv. *Listed private equity and listed real estate. 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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