ANALYST WEEKLY

The year of the great rotation

NOVEMBER.20.2023

Summary

Stocks in the Christmas stocking for 2024

We are positive global stocks for 2024 with interest rate cuts and double-digit earnings growth coming. See a soft economic landing with inflation back into rate cutting zone in 1H. The sector and style call will be the most important of the year. Rotating from US and big tech defensive growth winners today to Europe/EM and real estate/small cap cheap rate sensitives later. Risks high but manageable, from elections to data dependent central banks. **See Page 4**

Fear-of-missing-out extends relief rally

A cooler 3.3% US inflation surprise extended the global stocks rally, with US 10-year bond yields falling below 4.5%, oil under $80, and the US dollar weakening. US government shutdown was avoided, and China tensions cooled. Solar, REITS, and small caps led stocks relief. WMT slumped after Q3 results and TGT soared. BABA scrapped its biggest spin off. See Q4 Markets Outlook **HERE** and at twitter @laidler_ben. **See Page 2**

Santa coming early this year, again

Seasonal Santa rally started early, as last year, with November and December typically two of strongest months globally, driven by improving fundamentals and also technicals. **See Page 2**

The Magnificent 7 and AI adoption

Big tech continued to outperform and helped by AI adoption, with half investors now comfortable it managing their portfolios. NVDA's forecast 170% sales growth the last Q3 test. **See Page 2**

Renewable hopes for COP 28

World's biggest climate conference starts Nov. 30th, with another push to accelerate needed 3-6x investments, that may help renewables sector derated stocks out of their funk. **See Page 2**

The coming election traffic-jam

40% world economy go to polls next year, book ended by crucial Taiwan and US elections, with everyone from Russia to EU between. **See Page 2**

Bitcoin hits $37,000 but Solana steals show

BTC touched $37,000, up an asset class leading 120% this year, on continued spot ETF approval optimism. Altcoin SOL led gains, surging again and up 500% this year, with XRP a rare decliner. BLK filed a spot ETH ETF. Tether to mine BTC. Wallets holding over $1m BTC hits 80,000. See latest Weekly Crypto Roundup. **See Page 3**

Brent below $80/bbl. ahead of OPEC meet

Broad commodities fell, taking -10% for year, the worst of all asset classes. Brent crude fell for a 4th week on US inventories surprise rise, ahead of this weekend's OPEC meeting. Silver and Platinum among biggest gainers as US dollar fell. Lithium giant SQM profits halved with lithium prices now -75% in the past year. **See Page 3**

The week ahead: Thanksgiving, NVDA, PMIs

1) US Thanksgiving holiday (Thu) and Christmas spending kick off. 2) Semis giant NVDA leads end of good earnings season, with LOW, DE, NIO. 3) Argentine election reaction, Netherland poll, UK budget. 4) Global flash PMI macro check, FOMC minutes, OPEC meet (Sun) outlook. **See Page 3**

Our key views: Looking to a positive 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	1.94%	5.49%	5.43%
SPX500	2.24%	6.86%	17.57%
NASDAQ	2.37%	8.79%	34.96%
UK100	1.95%	1.38%	0.70%
GER40	4.49%	7.57%	14.33%
JPN225	3.12%	7.44%	28.71%
HKG50	1.46%	1.64%	-11.76%

*Data accurate as of 20/11/2023

Market Views

Fear-of-missing-out extends relief rally

- A downside 3.3% US inflation surprise extended the global stocks rally, with US 10-yr bond yields falling below 4.5%, oil under $80, and the US dollar weakening. A US government shutdown was avoided, and China tensions cooled. Solar, REITS, and small caps led stocks relief. WMT slumped after Q3 results and TGT soared. BABA scrapped its big cloud spin off. **See Q4 Outlook HERE**. See **Page 6** for resources and videos.

Santa coming early this year, again

- Seasonal Santa rally started early, as last year. Gave cautious investors dose of FOMO. The Santa rally effect global and makes Dec. best month of the year, accounting for fifth of returns. This year better fundamentals have met strong technicals.

- Naturally easing vice of 5% ten-yr bond yields and $90 oil met tech-led end of US earnings recession. Came alongside contrarian positive of bearish investors, resuming share buybacks, and strong seasonality. Last year November strong, December weak, January rebounded. **See Page 2**

The Magnificent 7 and AI adoption

- The 'Magnificent 7' big US tech stocks have rallied 11% from Oct. low, double the rest of the S&P 500. Driven by the boost from lower bond yields to their premium valuations. But also with evidence that AI adoption is strong and its impact broadening. To see test this week with NVDA's results, and $16 billion sales forecast (+170% YoY). The '7' are up 70% this year vs the 16% gain for the remaining S&P 493 stocks (see chart).

- AI is the fastest general-purpose tech adoption in history, and now moving from hype to reality as it rises up the adoption chain from suppliers to enablers and to broader end users. Represents big idiosyncratic profit and efficiency driver for markets and economies. @AI-Revolution. **See Page 2**

Renewables hopes for COP 28

- World's biggest climate conference starts Nov. 30, with another push to accelerate carbon transition investments, that may help sectors derated stocks out of funk. 28th UN climate conference starts in Dubai with low expectations but huge needs.

- Focus will be on the five-yearly global stocktake (GST) of progress, funding the 'loss and damage' fund for emerging markets, and hinge on the stance of China and India. A redoubled effort is crucial with the world running behind most targets, 2023 temperatures the highest ever, and needed climate investment 3-6 times current levels. @RenewableEnergy. **See Page 2**

The coming election traffic-jam

- 2024 huge political year with 40% world economy likely going to polls. Bookended by arguably the two most important. Taiwan in Jan. and USA in Nov. And everyone from Russia to India and EU.

- Investors adjusted to this new normal of high uncertainty. But 2023 election surprises from Poland to Argentina a reminder of capacity to move markets and change direction of policy. Elections are one of the big three 2024 drivers alongside recession risks and interest rate cuts. **See Page 2**

Major national election dates of 2024

Date	Country	Comment
Jan. 13	**Taiwan**	An Opposition alliance would likely defeat incumbent DPP
Jan. 15	**USA**	Iowa presidential first primary caucus to choose candidates
Feb. 14	**Indonesia**	Defence minister Subianto leading polls to replace Jokowi
Mar. 05	**USA**	Super Tuesday' largest number of presidential primaries
Mar. 17	**Russia**	Putin to win another 6-yr term, in Ukraine war referendum
Apr. 10	**S. Korea**	Parliament elections with rulling PPP facing opposition gains
Apr. ?	**India**	Prime Minister Modi and ruling BJP looking for 3rd 5-yr term
Jun. 2	**Mexico**	Ruling Morena's Sheinbaum leads to replace AMLO for 6-yr term
Jun. 2 ?	**S. Africa**	Pres. Ramaphosa's ruling ANC risks losing majority for 1st time
Jun. 6-9	**EU**	Parliament election. 1st post Brexit. Risk of right-wing majority
Nov. 5	**USA**	Likely Biden vs Trump President race + all House, 1/3 Senate
Dec. 17	**UK**	Deadline for calling election. Opposition Labour lead polls

Source: Refinitiv. Illustration purposes only

Market Views

Bitcoin hits $37,000 but Solana steals the show

- BTC hit $37,000 taking its rally to 120% this year and stretching its lead versus other asset classes. Optimism driven by impending mid-January deadline for SEC decision on spot BTC ETF that would broaden access to the asset class.
- Altcoin SOL rose 30% on the week, building further on its 500%+ YTD gains,. Whilst XRP was the relative loser, falling 10% on the week.
- Other news saw asset manager giant BLK file a spot ETH ETF, alongside its BTC one. Tether enter the BTC mining business. And the number of BTC addresses holding over $1million hit 80,000. See the latest Weekly Crypto Roundup.

Brent falls below $80/bbl. ahead of OPEC meet

- Broad commodity prices fell back, taking there YTD losses to 10%, the worst of all asset classes. Brent crude led, falling below $80/bbl. as US inventories rose sharply implying lower demand, alongside continued China demand fears. Comes ahead of next weekend's OPEC meeting.
- Precious metals Silver and Platinum were among the largest price gainers, helped by the fall in US 10-year bond yields and the US dollar. This makes US$-denominated assets cheaper for the biggest Indian and Chinese buyers.
- Lithium giant SQM saw profits fall 56% YoY, hit by the 75% plunge in lithium prices the past year on building supply and EV demand fears.

US Equity Sectors, Themes, Crypto assets

	1 Week	1 Month	YTD
IT	1.96%	7.60%	47.40%
Healthcare	2.05%	-1.13%	-4.84%
C Cyclicals	3.69%	6.22%	25.97%
Small Caps	5.42%	3.99%	2.07%
Value	2.51%	2.59%	-0.61%
Bitcoin	-2.11%	28.76%	120.29%
Ethereum	-6.70%	24.29%	62.85%

Source: Refinitiv, MSCI, FTSE Russell

The week ahead: Thanksgiving, NVDA, PMIs

1. Short week in the US with **Thanksgiving** holiday (Thu) and the 'Black Friday and 'Cyber Monday' traditional Christmas shopping season start. Sales seen resilient +3-4% to $970 billion or $875/family.
2. Q3 US **earnings** end with a bang w/ AI and Semis giant NVDA plus retailer LOW, China EV NIO, ag DE, ZM, and MANU. Results better-than-expected so far with 80% above forecast, and EPS +7%.
3. Spotlight on **politics** with the 1) Aftermath of the Argentine presidential run-off (Sun). 2) Netherland general election (Wed), with new centrist party in poll lead. 30 UK's autumn Budget (Wed).
4. Macro focus on Fed FOMC (Tue) and ECB **minutes** as market prices early rate cuts. Global flash PMI slowdown health check on GDP and inflation. Coming weekend **OPEC** meet with Brent <$80/bbl.

Our key views: Looking to a positive 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.

Fixed Income, Commodities, Currencies

	1 Week	1 Month	YTD
Commod*	0.31%	-3.68%	-9.65%
Brent Oil	-1.32%	-12.85%	-6.25%
Gold Spot	2.10%	-0.48%	8.38%
DXY USD	-1.93%	-2.21%	0.28%
EUR/USD	2.19%	3.06%	2.03%
US 10Y Yld*	-20.46	-48.72	56.08
VIX Vol.	-2.61%	-36.43%	-36.32%

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

Focus of Week: 2024 the year of the great rotation

Positive outlook for 2024 on interest rate cuts and double-digit earnings

We see next year as a positive one for stocks. With inflation falling, central banks cutting interest rates, stabilising GDP growth and return to 10% profits growth. This argues for defensive growth, like tech and US, for now as the economic slowdown builds and rate cuts are still on the far horizon. But a more aggressive rotation to cheaper and more interest rate sensitive markets like Europe and EM and segments like real estate and small caps later. Per our RIB survey, investors are focused on tech but with a healthy dose of depressed rate sensitives like financials and real estate (see below). Likewise, the US is the country focus, but with a healthy contrarian allocation to more cyclical Europe and Emerging Markets.

Soft economic landing with inflation coming back into rate cutting zone

Global GDP growth will likely slow through the first half of 2024 under the lagged weight of this year's dramatic interest rate tightening. This will anchor the final move lower in inflation toward 29%. Resilient labour markets and real wages will support a soft GDP landing. Whilst central bank "puts' would cushion a worse recession, if we are wrong. Structural headwinds of high debt and poor demographics will make growth sluggish for most. The start of US, EU, and UK interest rate cuts has been pulled forward toward mid-year. Europe is the canary in the coalmine, with the weakest economy today and likely first to feel an upturn. China is stabilising, with growing policy support. Whilst the US is now only starting to slow.

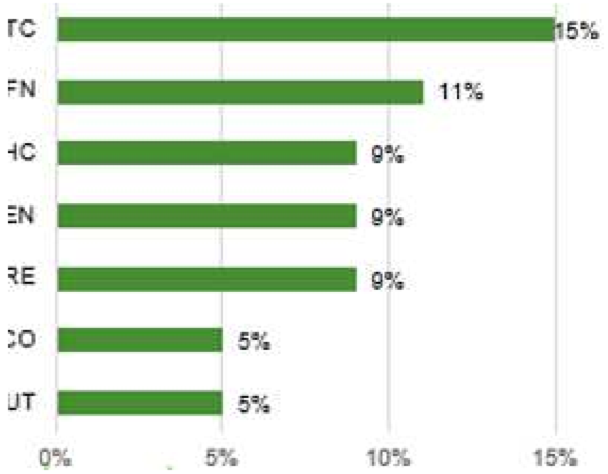
The sector and style call will be the most important of the year

The sector and style call will be biggest of year. When to rotate from 'teddy bear' big tech and US stocks that drove 2023 performance and earnings growth and have comfort of big profit margins and fortress balance sheets. It's too early now, with the growth slowdown building and interest rate cuts six months away. But at some point, in 1H the market will rotate to depressed interest rate sensitives like renewables and real estate and look again at depressed cyclicals like small cap. This also has a geographic component. Favouring cheaper, more open, and cyclical markets like Europe and Emerging Markets. We saw a small and violent prelude to this rotation in the past week's performance after the October inflation surprise.

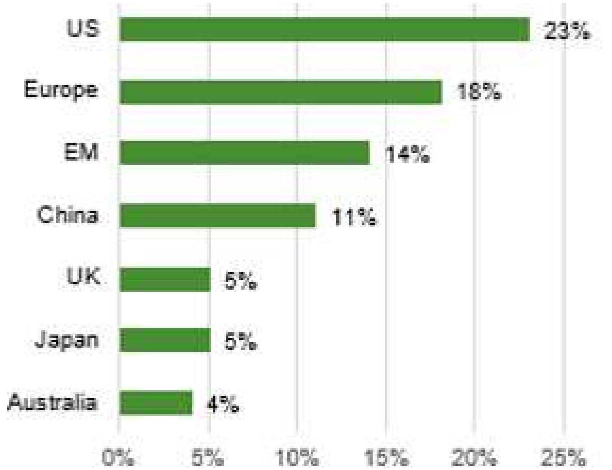
Risks are high but manageable, from elections to data dependent central banks

Risks in 2024 remain uncomfortably high, requiring diversification and risk management. 2024 is full of elections, from Taiwan in January to US in November. Data dependent central banks add volatility to the underlying race between recession and interest rate relief. Commercial real estate, private markets credit, and small banks remain big risks, but well-known ones. The tech rally this year has been a reminder stock markets often differ from economies, in their composition and their time horizons.

Favoured sector long term (survey)



Favoured countries/regions long term (survey



Source: Etoro Q3 Retail Investor Beat survey. TC=Technology. FN=Financials. HC=Healthcare. EN=Energy. RE=Real Estate. CO=Communications. UT=Utilities. 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

Analyst Team

Global Analyst Team			
CIO	Gil Shapira	**Italy**	Gabriel Debach
Global Markets	Ben Laidler	**Holland**	Jean-Paul van Oudheusden
United States	Callie Cox Bret Kenwell	**Iberia/LatAm**	Javier Molina
		Nordics	Jakob Westh Christensen
United Kingdom	Adam Vettese Mark Crouch Simon Peters	**Poland**	Pawel Majtkowski
		Romania	Bogdan Maioreanu
Germany	Maximilian Wienke	**Australia**	Josh Gilbert Farhan Badami
France	Antoine Fraysse Soulier		

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Research Library

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