ANALYST WEEKLY

What investors are thinking

JANUARY.15. 2024

Summary

Retail investors more important than ever

They are holding onto US stocks, tech and crypto 2023, but nibbling at last year's laggards, in line with our call for a big performance rotation. Many still worry about the impact of inflation, with younger investors surprisingly focused on cash. Retail investor numbers keep growing fast, don't think a bull market has started yet, and are adding to portfolios. While the proportion open to AI stocks outweighs those already invested, showing further growth potential. See Page 4

A new year comeback and all-time-high

A stronger week, with S&P 500 touching its first new all-time high in two years, and MSFT briefly unseating AAPL as world's largest stock. Banks weak Q4 earnings season start, and US inflation came in warm. SEC approved long-awaited BTC ETF. BA was hit by accident, and 'short reports' hurt GRFS to GDCO. Whilst AI optimism returned with HPE $14bn JNPR deal. See our 2024 Outlook HERE and twitter @laidler_ben. See Page 2

Start of the election roller-coaster

Markets braced for first big 2024 election tests, with semis superpower Taiwan continued status quo, whilst the US's Iowa primary starts an unprecedented presidential race with Trump having an early but narrow lead. See Page 2

Look through the inflation head-fake

US inflation remains most important number in markets, with focus on the further easing of underlying inflation pressure keeping door open to big interest rate cuts this year. See Page 2

AI comes into your living room

AI is dominating Las Vegas CES, as moves from hype to computer, TV, appliance reality, helping profits recovery and tech sector. See Page 2

Decision time for crypto

Long-awaited SEC approval of BTC ETF is first of many catalysts this year to youngest, smallest, most retail dominated asset class. See Page 2

Bitcoin rises after historic ETF approval

The US SEC approved launch of 11 spot ETFs in the world's largest capital market, with very low fees and big $4.6bn in first day volumes. Focus now on next catalysts from an Ethereum spot ETF to the BTC halving. Elsewhere Circle Internet, the USDC manager, filed for an IPO. See the latest Weekly Crypto Roundup. See Page 3

Oil rises on geopolitical tensions

Brent rose toward $80/bbl. as Mid East tensions rose further, and freight rates rose. US Natas prices soared, pulling up heating oil, as the US east coast saw big winter storms. The US shale consolidation continued as CHK pays $7.4bn for SWN. Whilst the IEA forecasts 2.5x growth in renewables capacity by 2030. See Page 3

The week ahead: Politics, earnings, Davos

1) Monday focus on the US MLK holiday and Iowa primary presidential race start. 2) 2nd earnings season week led by banks GS, MS plus BIRK, SLB, PLD. 3) Macro data focus on China's Q4 GDP firming, resilient US Christmas retail sales, and UK inflation ease. 4) WEF meets in Davos hearing from major CEO's and policymakers. See Page 3

Our key views: Outlook for a different 2024

See a stronger but very different 2024. Lower inflation and coming interest rate cuts as growth slows, and the earnings outlook idiosyncratically accelerates. Will drive a investor rotation from 2023 US and big tech winners to rate sensitive losers from Europe to real estate. See Page 5

Top Index Performance

	1 Week	1 Month	YTD
DJ30	0.34%	0.77%	-0.26%
SPX500	1.84%	1.37%	0.29%
NASDAQ	3.09%	1.07%	-0.26%
UK100	-0.84%	0.64%	-1.40%
GER40	0.66%	-0.28%	-0.28%
JPN225	6.59%	7.91%	-6.31%
HKG50	-1.76%	-3.26%	-4.71%

*Data accurate as of 15/01/2024

Market Views

A new year comeback and all-time-high

- A stronger week, with S&P 500 touching first new all-time high in two years, and MSFT briefly unseating AAPL as world's largest stock. Banks started Q4 earnings season weak, and US inflation came in warm. SEC approved long-awaited BTC ETF. BA hit by accident, and 'short reports' hurt GRFS to GDCO. AI optimism back with HPE $14bn JNPR deal. See 2024 Outlook **HERE** . See **Page 6** for resources and videos.

Start of the election roller-coaster

- Markets are set for first big election tests of 2024. The incumbent DPP won a 3rd term in semiconductor superpower Taiwan that maintains status quo cross-strait tensions. Whilst in the US, the Iowa primary unofficially kicks off the race to Nov. 5th with Trump the front-runner.

- It seems like a US 2020 rerun, but it's not. The candidates are better known, macro constraints greater, and market implications bigger. It's one of the busiest ever years, with 40 races from UK to India. We already saw election surprises last year, from Poland to Argentina. **See Page 2**

Look through the inflation head-fake

- US inflation remains most important number in global markets. And top worry amongst investors, ahead of recession or geopolitics. Its further decline is driving the outlook for an aggressive six US interest rate cuts this year. Which also pushing a rotation from the defensive growth big-tech stock winners of last year to rate sensitive and cheaper laggards, from financials to real estate.

- Interest rate cuts, next to the earnings pick up it supports, are pillars of our bullish-but-different 2024 outlook. December' inflation print was a head fake. With well-flagged base-effect driven headline rise, masking welcome drop in underlying core inflation below 4% for the first time. **See Page 2**

AI comes into your living room

- The gargantuan Las Vegas consumer electronics trade show (CES) was showcase for the accelerated adoption of artificial intelligence (AI). This is helping drive an idiosyncratic earnings recovery cycle, despite a slowing economy. And keeping the tech sector supported, even as performance leadership broadens to cheaper and more cyclical areas.

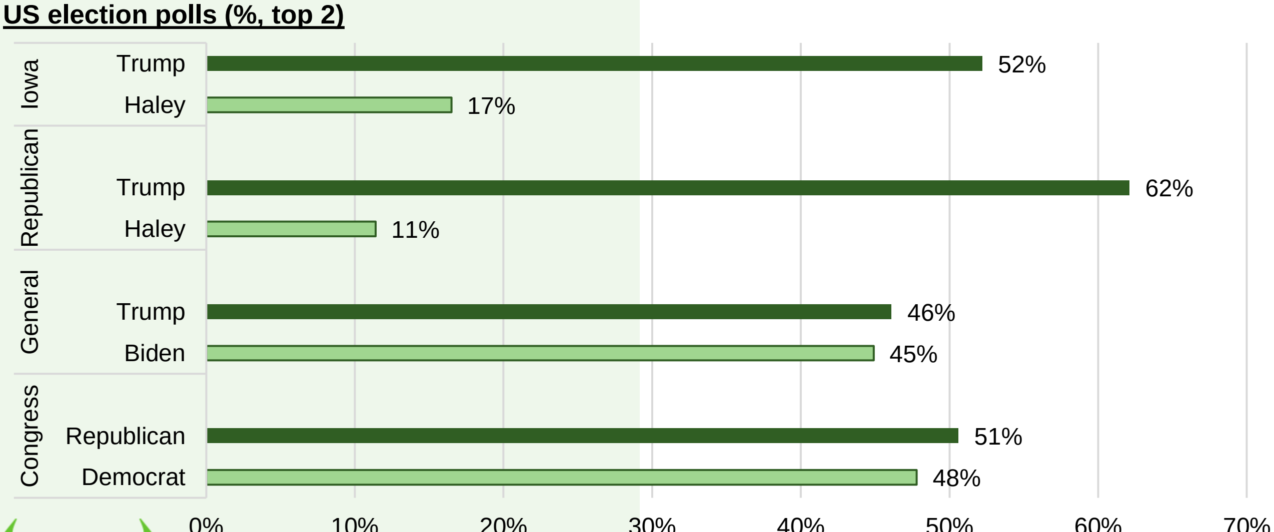
- 35% of global retail investors plan to own AI stocks, more than the 26% who already do, and versus the 30% who say they have no interest. **See Page 2**

Decision time for crypto

- SEC' long-awaited approval of a spot ETF matched justifiably high investor expectations, proxied by a huge narrowing of Grayscale Bitcoin Trust (GBTC) discount to net asset value. 12 ETFs launched in the world's largest capital market, with very low fees, and trading a large $4.6 billion in their first day.

- Focus now changes to the long list of coming crypto asset catalysts this year, from a spot Ethereum ETF approval, to April's Bitcoin halving, mid-year Fed interest rate cuts, and coming accounting and regulatory changes. Any one of which is significant for such a small ($1.6 trillion), young (16 years), and retail-dominated asset class. **See Page 2**

US election polls (%, top 2)



Source: RealClearPolling.com. Illustration purposes only

Market Views

BTC rises after historic spot ETF approval

- After a long ten year wait the US SEC approved 3-2 the launch of spot Bitcoin ETF's, with GBTC first to start trading the new product, and Bitcoin prices rising after the news. 12 ETFs now trade, with unprecedentedly low fees, and large $4.6 billion first day volumes. Widely seen as a landmark decision for the development of the asset class in the world's largest capital market.

- Focus quickly turned to the catalyst calendar of a coming spot Ethereum ETF, the impact of April's Bitcoin halving, and the mid-year US Fed interest rate cuts on the asset class. Elsewhere, Circle Internet, the manager of the second largest stablecoin, USDC, filed for an IPO later this year. See latest Weekly Crypto Roundup.

Oil rises along with geopolitical tensions

- Brent crude prices continued to move up towards $80/bbl. as middle east tensions built, red sea concerns pushed up shipping rates, and Libyan protests threatened supply there.

- US natural gas prices rose near double-digits, also pulling up heating oil prices, as winter storms buffeted the US east coast, after what has been a mild start to the winter heating season.

- Company news saw US shale consolidation continue, as CHK offered $7.4 billion for SWN.

- The IEA forecast that renewables capacity, like wind and solar, would rise 2.5 times by 2030.

US Equity Sectors, Themes, Crypto assets

	1 Week	1 Month	YTD
IT	4.36%	3.13%	0.75%
Healthcare	0.93%	5.74%	2.56%
C Cyclicals	1.42%	1.71%	-1.88%
Small Caps	-0.01%	3.70%	-3.75%
Value	-0.07%	3.12%	-0.33%
Bitcoin	-0.44%	6.13%	3.85%
Ethereum	15.28%	18.60%	12.05%

Source: Refinitiv, MSCI, FTSE Russell

The week ahead: Politics, earnings season, Davos

1. US focus on Monday's Martin Luther kind day holiday and **Iowa** primary that unofficially kicks off the 2024 election race, with likely republican candidate Donald Trump holding slight poll lead.

2. US big banks MS and GS continue global Q4 **earnings season** start. Banks expectations are for sharp profit declines vs modest consecutive gain for S&P 500. Elsewhere BIRK, SLB, PLD report.

3. Macro focus on stabilising **China** Q4 GDP growth, over 5%, and interest rate cuts, resilient US Christmas retail sales growth at 4% YoY, and further fall in UK's inflation rate, below last 3.9%.

4. World Economic Forum (WEF) meets in **Davos**, with attendance from top CEO's and policy makers. Whilst **SMSN.L** hold's 'Galaxy Unpacked' event (Wed) and MNST an investor meeting.

Our positive key views for 2024

- See a stronger 2024 performance as investors look ahead to the final <3% hard inflation yards, a slowing but not recessionary US economy, and coming mid-year interest rate cuts on both sides of the Atlantic. This is set to come alongside an idiosyncratic and broadening AI and profit margin led 10% US earnings growth acceleration.

- Early focus on defensive growth and long duration assets, from healthcare to big tech, and bonds to crypto. With coming big rotation away from the 2023 US and big tech winners to the interest rate sensitive 'losers' from Europe to real estate.

Fixed Income, Commodities, Currencies

	1 Week	1 Month	YTD
Commod*	-0.68%	-0.95%	-0.70%
Brent Oil	-0.74%	1.78%	1.61%
Gold Spot	0.04%	0.97%	-0.88%
DXY USD	0.03%	-0.11%	1.09%
EUR/USD	0.10%	0.51%	-0.79%
US 10Y Yld*	-10.20	2.99	6.28
VIX Vol.	-4.87%	3.42%	2.01%

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

Focus of Week: What retail investors are thinking

Five highlights from Q4 2023 survey: Rotation, AI, cash, inflation risk, and growth

We spotlight five key takeaways from our quarterly survey of global retail investors. They are holding on to US stocks, tech firms and crypto winners from 2023, but also beginning to nibble at last year's laggards, in line with our call for a big performance rotation this year. Many are still worried about the impact of inflation, with younger investors surprisingly focused on cash. Retail investors generally don't think a bull market has started yet, and many are adding funds to their portfolio, while the proportion open to AI stocks outweighs those already invested, highlighting the further growth potential in this area.

1. **Investors nibbling at the big investment rotation.** US stays the favoured market, by 24% of investors, followed by a healthy contrarian focus on Europe (18%) and emerging markets (11%). Similarly, Tech is the top pick (14%) but closely followed by cheaper and out-of-favour financials (11%) and REITS (9%),. Both will benefit from hoped-for economic soft landing along with lower interest rates.

2. **AI adoption has further to go**. AI stocks like NVIDIA and Meta were the juggernauts of 2023, leading the tech revival and propelling S&P 500 into bull market. 27% retail investors now hold AI-stocks, led by 18-34 demographic. We see benefits of AI's rapid adoption broadening across market and economy as it moves from hype to reality. Investors agree, with a further 35% saying they plan to invest in AI.

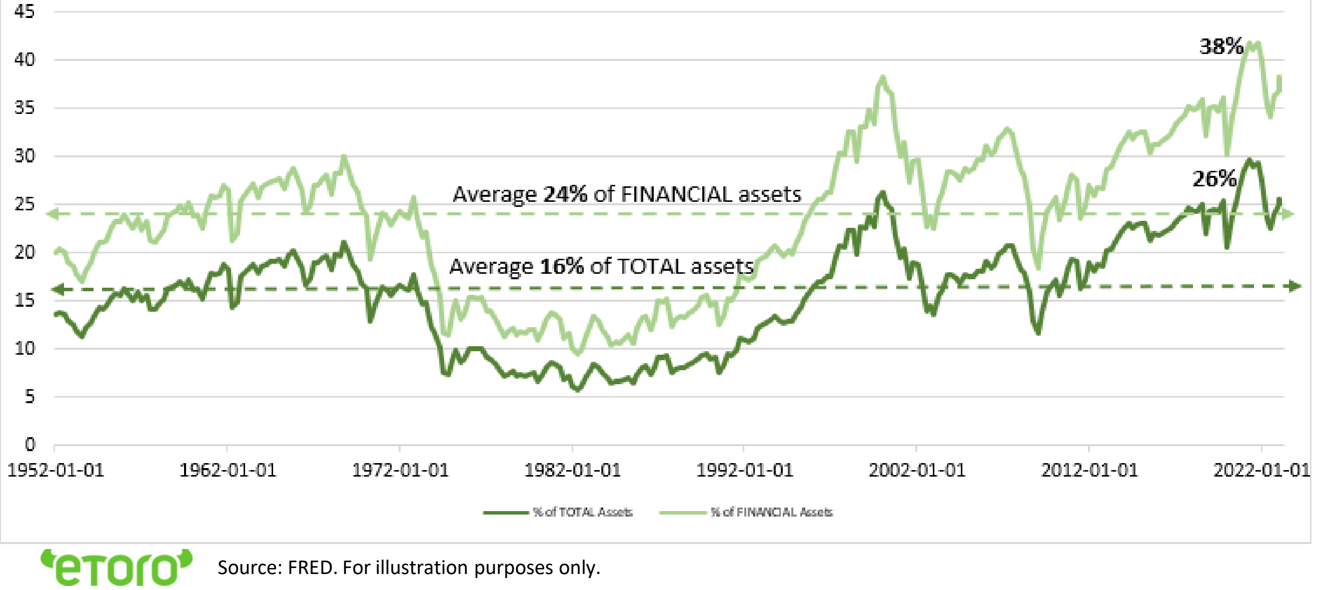
3. **Younger investors feel squeeze and raise cash**. A surprising 65% young investors raised cash vs just 32% over 55s. This flies in face of conventional wisdom, as young investors now prioritise liquidity with the cost-of-living squeeze. 29% are focusing on household expenses, 17% on higher mortgages or rent, and 19% save to buy home. This leaves significant cash on sidelines as inflation and interest rates fall.

4. **Inflation top risk and geopolitics under-appreciated.** Inflation still seen as greatest investment risk (by 24%), even as rates have plunged, with investors worried over the last hard yards. The 2nd and 3rd highest risks are global (19%) or home market (15%) recessions. Whilst risk of international conflict (14%) only 4th, surprisingly low with Ukraine war, Middle East tension and huge election calendar.

5. **Investors adding funds and growing in number**. Only 11% of think a new bull market has started and many are looking to invest more. Running at four times those looking to cut investments. The number of retail investors continues to grow, with 7% new to markets in the past year. This is a seeming structural trend showing consistent growth, led by younger and female investors

The Retail Investor Beat was based on a survey of 10,000 retail investors across 13 countries. UK, US, Germany, France, Australia, Italy, Spain, Netherlands, Denmark, Norway, Poland, Romania, Czech Republic.

US Household allocation to equities as a % of financial and total assets



Source: FRED. For illustration purposes only.

Key Views

The eToro Market Strategy View

Global Overview	We see a stronger but very different 2024 rally than in 2023. With lower inflation and coming interest rate cuts as growth slows, and the earnings outlook idiosyncratically accelerates. This should drive an investor rotation from 2023 US and big tech winners to interest rate sensitive losers from Europe to real estate. See our 2024 Outlook **HERE** .

Traffic lights*	Equity Market Outlook
United States	World's largest equity market (60% of total) seeing strong but slowing GDP growth and <4% inflation, opening door to 4+ rate cuts starting mid-year. Earnings growth accelerating back to 10% with idiosyncratic AI and profit margin drivers. But Valuations already full and dominant big tech performed well. See rotation and leadership change.
Europe & UK	First into the 2023 economic slowdown, with Germany firmly in recession, and inflation plunged to 3%, setting ECB up for 4+ rate cuts this year, starting by mid-year. Against backdrop of already heavily discounted valuations and much more cyclical market, led by financials, and with earnings depressed and set to rebound later in 2024.
Emerging Markets (EM)	China, Korea, Taiwan dominate EM (60% wt), and more tech-centric than US. China a contrarian call with growth stabilising and policy easing, with valuations and sentiment very depressed. Rest of EM to benefit from similarly depressed valuations and poor sentiment, alongside benefits of lower interest rates and a weaker US dollar.
Other International (JP, AUS, CN)	Japan remains in focus with JPY rallying off world's most depressed levels as BoJ moves to slowly tighten policy, and equity performance in world's no3 market rotates from exporters to domestic sectors, alongside stronger growth. Australia and Canada held back by their commodity and financials heavy markets with little tech.

Traffic lights*	Equity Sector & Themes Outlook
Tech	'Tech' sectors of IT, communications, consumer discretionary (Amazon, Tesla), dominate US and China. Expect more subdued performance after huge 2023 outperformance, with earnings already growing strongly and valuations full. But are structural stories with good growth, high margins, fortress balance sheets, and AI tailwinds.
Defensives	In focus as economic growth slows along with interest rates and bond yields. Consumer staples, utilities, real estate attractive defensive cash flows, Healthcare most attractive, with cheaper valuations, more growth, and misspriced weight loss drug risks. Real Estate the most leveregaed sector and biggest rate cut beneficiary.
Cyclicals	We expect cyclicals - consumer discretionary (autos, apparel, restaurants), industrials, energy, and materials - to be the most positively benefitted by our base case macro view of a 2024 economic soft landing and significant interest rate cuts. Valuations are cheap, and earnings depressed and set to pick up significantly.
Financials	Similarly sensitive to base case of soft landing and rate cuts. Reduces loan loss risks and boost capital markets activity. Lower interest rates boost bond portfolios but trim net interest margins. One of the cheapest sectors, with significant dividend yield. Is biggest sector in Europe and much of EM.
Themes	A better year for high dividend yield, after huge 2023 underperformance, as interest rate competition eases. And for lagging and sensitive small cap, as economic growth bottoms and turns up, and valuation discount to large caps near record. Overweight Value rotation and recovery in 2024 vs Growth.

Traffic lights*	Other Assets
Currencies	USD to gradually be undermined by outlook for 4-6 Fed interest rate cuts during 2024, providing support to other currencies, commodities, EM, and US tech. JPY to benefit from slowly tightening BoJ policy and world's cheapest major FX valuation. EUR to see stronger 2H as leads 2024 growth recovery after ECB starts cutting rates.
Fixed Income	Prices to benefit from outlook for steadily easing inflation and policy rate cuts, after unprecedented three years of poor returns, focused on longer duration assets. Returns moderated by big pull forward of gains with Q4 2023 rally. Credit to benefit from economic soft landing.
Commodities	A better year after leading 2023 asset class losses. As Chinese growth stabilises as policy response builds, the USD weakens modestly as Fed cuts interest rates, and remains heavily under-invested on supply side with carbon transition demand picking up further. But held back by weaker US economic growth and demand.
Crypto	Supported by many 2024 catalysts, from spot ETF's for BTC and ET; the April BTC halving; mid-year Fed interest rate cuts; US accounting and Global bank reg changes to encourage ownership; and eventual central banks BTC ownership. All significant in context of still very small, very young, and very retail dominated asset class.

*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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Find our twice monthly global markets presentation on the multi-asset investment outlook.

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