ANALYST WEEKLY

Change is the only constant

eToro

JANUARY.29. 2024

Summary

Beware of big tech crowding

An investment style rotation and the lessons of history warn against the current near record 28% S&P 500 crowding by big tech stocks. Change is the only constant among world's largest stocks. Average time a stock stays in S&P 500 has near halved as disruption rises. Whilst none of the 1990's global top-10 stocks are still their today. Tech is in the driving seat for now, but we see rotation this year on rate cuts and soft-landing, and inevitable threats further out. See Page 4

Goldilocks economics drives all-time-highs

US stocks set new all-time-highs and are set for a strong January, following a 'goldilocks' strong Q4 GDP growth but low 2% inflation data. Also saw dovish ECB interest rate hold and China RRR policy stimulus. Q4 earnings are beating lowered expectations, from NFLX to LVMH, but with TSLA and INTC notable misses. BTC falls below $40,000 on spot ETF rally hangover. See our 2024 Outlook HERE and twitter @laidler_ben. See Page 2

The widening services vs industry gap

A resilient consumer supports a services-led US economy, whilst industry-heavy Germany and China are in doldrums. This gap is widening but also hastening a policy response. See Page 2

Semiconductors are leading again

Chip stocks best performers this year, as last, as AI demand adds to smartphone turnaround and purged inventories. Valuations have rerated but buoyed by NVDA-led profits growth. See Page 2

Europe the earnings recovery guide

Europe's earnings more depressed and cyclical vs US and will be first place to see the profits rebound we expect to drive markets. See Page 2

Enjoy the low gasoline prices, for now

Lower oil and refining spreads have given a welcome boost to the US consumer and inflation forecasts. But the outlook for higher oil prices later this year is now starting to firm. See Page 2

BTC falls back below $40,000

The Bitcoin spot ETF sell-the-news price reaction continued, making it the worst asset-class this year. IBIT and FBTC lead inflows at $1.7 billion+ with GBTC the $4 billion loser. ETH's Dencun upgrade on track for end February. Crypto assets saw est. 150 million new holders last year. See the latest Weekly Crypto Roundup. See Page 3

Oil and China help commodities rise

Asset class helped by the twin drivers of China RRR cut economic stimulus, and hope for more, alongside strong US oil demand and rising geopolitical risks taking Brent crude price over $80/bbl. Uranium rally continued, on Kazakh supply fear and reactor demand view, and sugar rose on India drought concern. See Page 3

The week ahead: Tech profits, Fed, Month end

1) Biggest week of S&P 500 earnings w/ tech's AAPL, MSFT, GOOGL, META. 2) Fed (5.50%) and BoE (5.25%) to keep rates unchanged w/ focus on rate cuts outlook. 3) Macro focus on weak EU Q4 GDP, low <3% inflation, and easing est. 160k US payrolls (Fri). 4) Markets set for positive January, setting up well for rest of year. 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 an 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	0.65%	1.11%	1.11%
SPX500	1.06%	2.54%	2.54%
NASDAQ	0.94%	2.96%	2.96%
UK100	2.32%	-1.27%	-1.27%
GER40	2.45%	1.25%	1.25%
JPN225	-0.59%	6.83%	6.83%
HKG50	4.20%	-6.42%	-6.42%

*Data accurate as of 29/01/2024

Market Views

Goldilocks economics drives new all-time-highs

- US stocks set new all-time-highs and are set for a strong January, following 'goldilocks' strong Q4 GDP growth but low 2% inflation data. Also saw dovish ECB interest rate hold and China RRR policy stimulus. Q4 earnings are beating lowered expectations, from NFLX to LVMH, but with TSLA and INTC notable misses. BTC falls below $40,000 on spot ETF rally hangover. See 2024 Outlook HERE . See Page 6 for resources and videos.

The widening services vs industry gap

- Understanding how different economies are structured matters. The consumer dominates the US, UK, and French economies. Whilst industrial sectors are much more important in China and Germany. Global growth is heading for a soft-landing. But the gap between improving services and the manufacturing recession is widening.

- This is reassuring for US and its super-sized stock market. Whilst keeping pressure on German (DAX) and Chinese (MCHI) assets. But is also accelerating a likely policy response, and a possibly big cyclical profits rebound. See Page 2

Semiconductors are leading again

- Semiconductor stocks have continued to soar, leading all industries higher, as in 2023. US chip stocks are up 10% this year, led by NVIDIA's 20% surge. Spreading AI adoption is just the icing on the cake of a recovering chips industry. From AI dominating the CES trade show. To Hewlett' (HPE) $14 billion AI-driven buy of Juniper (JNPR). And retail investors keen to buy more AI stocks.

- Adds to recovering smartphone market and end of a post-pandemic inventory glut. Industry forecasts are for rebounding 13% sales growth this year, with foundry TSMC (TSM) seeing up to 25%. The industry valuation premium is high, but sustainable if earnings can keep rebounding. See Page 2

Europe the earnings recovery guide

- European earnings among world's most depressed, and most sensitive to any less-bad news. Europe's earnings growth likely troughed last quarter and history shows will lead a global recovery. Europe's economy is already weak, its stock markets cyclical, and stocks with low margins, high debt, globalised.

- Driven relative profit growth to depressed levels vs US. But with hope for a rebound as PMIs stabilise and ECB cuts begin. Q4 earnings a good start, from Richemont (CFR.ZU) to ASML (ASML). See Page 2

Enjoy the low gasoline prices, for now

- Brent crude prices have risen over $80/bbl., giving some relief to hard-pressed oil stocks (XLF). But Brent is still down 5% the past year and is 15% off its recent highs. This has given a small, $50 billion or 0.7% of retail sales, but welcome' 'tax cut' to an easing US consumer where gas prices loom large, with low taxes, high mileage and low efficiency.

- The current oil rally may be a false-dawn now but is better later. Focused on China's ability to boost its economy, firmer demand as rate cuts start in US and Europe, and that this weakens the dollar. Consumers in the driving seat for now, but change may be coming. @OilWorldWide. See Page 2

Change in US consumer gasoline cost (US$ billions, annualised)

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Source: FRED, IEA, Etoro. Assumes steady 8.9mbpd US gasoline demand. Illustration purposes only

Market Views

BTC falls back below $40,000

- The Bitcoin (BTC) price pulled deepened with a sell-the-news reaction to the much-anticipated spot ETF approval. This took it under $40,000, close to the key technical 100-DMA level, and making worst asset-class performance of 2024.
- Spot Bitcoin ETF flows have seen Blackrock' (BLK) IBIT inflows take the early lead near $2 billion, with Fidelity's FBTC second at over $1.7 billion. Balanced by over $4 billion outflows from GBTC as it converted to an ETF at net asset value.
- Ethereum's (ETHs) important Dencun upgrade seems on track for the end of February. And reports 2023 saw 150 million new crypto holders globally. See latest Weekly Crypto Roundup.

Oil and China hope leads commodities higher

- Commodity prices had a better week. Helped by the twin drivers of China policy stimulus to support its economic growth. Alongside strong US demand and continued geopolitical tensions driving brent crude prices over $80/bbl..
- China-centric industrial commodities, copper to aluminium and nickel, boosted by a bigger-than-forecast 0.5% cut to banks' reserve requirements ratio's, injecting $180 billion liquidity to economy, with reports of coming big stock market support measures to support consumer confidence.
- Uranium's record price rally continued, on Kazakh supply fear, and sugar on India's drought.

US Equity Sectors, Themes, Crypto assets

	1 Week	1 Month	YTD
IT	1.57%	5.56%	5.89%
Healthcare	-0.03%	1.77%	1.69%
C Cyclicals	-0.85%	-3.14%	-2.18%
Small Caps	1.75%	-4.25%	-2.40%
Value	1.02%	0.51%	0.68%
Bitcoin	0.21%	-3.02%	-0.11%
Ethereum	-9.45%	-4.03%	-2.19%

Source: Refinitiv, MSCI, FTSE Russell

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The week ahead: Tech earnings, Fed, Month end

1. The biggest week of S&P 500 **earnings** with big tech AAPL, MSFT, GOOGL, and META, as overall earnings are +4.5% with over 80% of stocks beating analyst earnings estimates.
2. The **Fed** (5.50%) meets Weds. and UK' **BoE** (5.25%) Thurs., with both set to keep interest rates unchanged at the top of this rate cycle,. Focus on potential push back vs market rate cut forecasts.
3. Macro data focus on Europe's likely weak Q4 **GDP** growth (0%), but also falling inflation (<3%). US looks for cooling to est. 170,000 non-farm payrolls (Fri), and China to latest forward-looking PMIs.
4. Global markets seem set for an end to a positive **January** (Wed), on outlook for interest rate cuts and better earnings. January is typically the 3rd best month of year and leads to a positive year.

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*	2.05%	0.14%	0.14%
Brent Oil	5.58%	7.71%	7.71%
Gold Spot	-0.67%	-2.59%	-2.59%
DXY USD	0.18%	2.11%	2.11%
EUR/USD	-0.29%	-1.56%	-1.56%
US 10Y Yld*	4.80	31.00	31.00
VIX Vol.	-0.30%	6.51%	6.51%

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

Focus of Week: Change is the only constant

An investor style rotation and the lessons of history warn against this big crowding of tech

The big tech 'magnificent seven' big tech stocks (AAPL to NVDA) continue to dominate investor returns, leaving the other 493 in the S&P 500 in the dust. Their combined market cap is a record 28% of the index. This is likely secure for now. With their strong earnings growth, broadening AI, and macro worries. But Tesla (TSLA) post-results self-off ahead of the biggest tech names reporting this week, is a timely reminder of the need for diversification. 1) We expect some rotation to cheaper and more cyclical parts of the market later this year. Given their greater sensitivity to an economic soft landing and interest rate cuts. 2) History shows the biggest don't stay there for ever, with average length of S&P 500 incumbency falling.

Change is still the only constant among the world's largest stocks

Looking back over prior decades is a reminder that the biggest global stocks change significantly. The current level of concentration among the top 10 global stocks was only ever higher in late 1970's. Whilst near all the top 10 then either no longer exist or are a fraction of their then selves. IBM (IBM) and GE (GE), much smaller. AT&T (T) broken up by regulators. Atlantic Richfield bought in the big oil consolidation wave. Kodak and Sears bankrupted by technological and consumer change. Whilst Japan' 1990's stock dominance has seen a 34-year reset. Exxon (XOM) has been the most successful but is now 17th largest in the US.

The average level of time a stock stays in the S&P 500 has nearly halved as disruption rises

Consultants Foster and Kaplan in their 2004 book 'Creative Destruction', showed even the best run and most admired companies often struggled to sustain outperformance for more than 10-15 years. Similarly, the average longevity of a stock in the S&P 500 has near halved in recent decades, due to takeovers or disruption. This has worsened with the speed of the tech transition and 'winner-takes-most' economics.

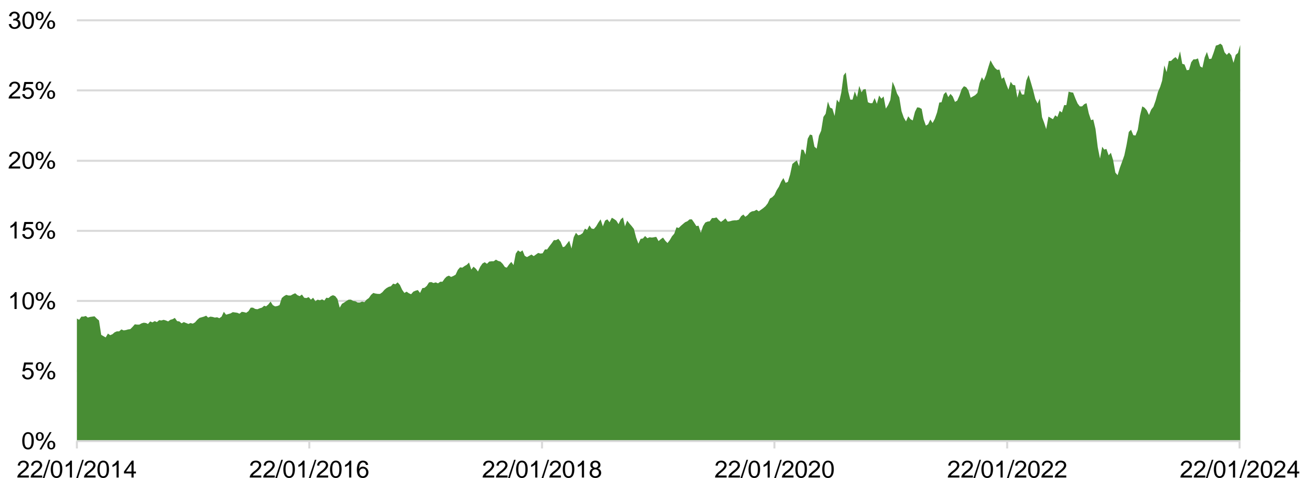
Tech in driving seat for now, but see rotation this year, and inevitable threats further out

Big tech is in the driving seat for now. With an combination of secular, AI, and cost-cutting fuelled growth. In an environment where few others have. Alongside profit margins double average and often net cash balance sheets. This makes them reassuringly defensive to a slowing economy. Retail investors expect this to continue and remain focused on the US and tech according to our latest global retail investor survey.

Competitive threats are two-sided, and we see a rotation coming

High interest rates have put a curb on VC financing and valuations that could incubate the next tech titans. But mainstreaming AI is potentially disruptive. We also see cheaper, more cyclical, and lagging segments from real estate to Europe being more sensitive to the economic soft landing and interest rate cuts.

'Magnificent Seven' as % of S&P 500 Market Cap (10-yrs)



Source: Refinitiv. 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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