

An earnings reality check

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Summary

Fourth quarter earnings been a mixed bag

Mid-way through Q4 earnings and results been mixed. A reminder that rate cuts and earnings improvement are catalysts for 2H. Results beaten lowered forecasts but with high profile misses from TSLA to INTC and EU banks. US revenues improving but earnings growth is less than Q3. Earlier days in Europe but a similar mixed bag. Lessons that Investor hopes high and easily disappointed. Big tech dominates and AI is strong. And depressed energy. Earnings one of two key drivers for markets this year. [See Page 4](#)

Big-tech earnings offsets interest rate caution

Fed meeting push-back and a huge jobs report dampened early US rate cut hopes, trimming a strong January. But was offset by a MSFT, META, AMZN led big-tech +50% Q4 results strength. Judge rejected Musk TSLA pay deal. AAPL Vision Pro launched. NYCB's fall rekindled small bank and real estate concern. See our 2024 Outlook [HERE](#) and twitter [@laidler_ben](#). [See Page 2](#)

Smaller, broader, and back-ended from here

Bull market pillars in place after a strong January. With coming interest rate cuts and reaccelerating earnings. The [February focus](#) is on tech earnings, <3% inflation, and political calendar. [See Page 2](#)

The term premium is driving bond yields

US [10-yr bond yield](#) bedrock of finance and been volatile. As dormant term premium returns, on uncertainty from supply/demand to Fed, and may see stickier than hoped yields. [See Page 2](#)

Time in the market boosts your chances

Markets normally rise and chances of making money [improve over time](#). A 60% chance of gains in a year rises to 90% over 15 years. [See Page 2](#)

'Dry January' a beverage stock opportunity

With profit margins potentially bigger as [no/low alcohol businesses](#) grow scale, with less tax to be paid but with similar price points, helping those from BUD to HEIA.NV and DGE.L. [See Page 2](#)

BTC relief rally stalls

Bitcoin (BTC) rally from <\$40,000 as Grayscale ETF outflows eased, and other inflows rose. Fed rate cut pushback stalled more gains. Ethereum (ETH) to go live with Dencun upgrade testnet (Wed). FTX to repay customers. Celsius emerged from bankruptcy. Bukele won in El Salvador. See the latest [Weekly Crypto Roundup](#). [See Page 3](#)

Oil slump leads commodities down

Broad commodity prices fell on only drip feed China stimulus and the stronger US dollar. Oil slumped after unchanged OPEC+ supply cuts until March, as container rates showed peaked Red sea concern. Cocoa rose again on West Africa harvest shortfalls. SHEL earnings beat and it raised dividend and buyback. [See Page 3](#)

The week ahead: Earnings, US growth, China

1) 100 S&P 500 earnings from MCD, PEP, DIS, LLY plus Europe's AZN, RMS.PA, UBS. 2) US growth focus on rebounding services PMI and SLOOS lending (Mon). 3) China policy stimulus focus with deflation (Thu) and the coming 'Year of Dragon' holiday. 4) The Saudi World Defence Show and building IPO' after recent AS offering. [See Page 3](#)

Our key views: Outlook for a different 2024

We 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	1.43%	3.17%	2.56%
SPX500	1.38%	5.56%	3.96%
NASDAQ	1.12%	7.61%	4.11%
UK100	-0.26%	-0.96%	-1.52%
GER40	-0.25%	1.95%	0.99%
JPN225	1.14%	8.33%	8.05%
HKG50	-2.62%	-6.06%	-8.88%

*Data accurate as of 05/02/2024

Market Views

Big-tech earnings offsets interest rate caution

- Fed meeting push-back and a huge jobs report dampened early US interest rate cut hopes, trimming a strong January for markets. But was offset by MSFT, META, AMZN led big-tech +50% YoY Q4 profits strength. A judge rejected Musk TSLA huge pay deal. AAPL Vision Pro headset launched. NYCB's sharp fall rekindled small bank and real estate concern. See 2024 Outlook [HERE](#). See [Page 6](#) for resources and videos.

Smaller, broader, and back-ended from here

- January got year off [to strong start](#) with tech and US leadership continuing and China lagging. The S&P 500 crowned rebound with first new all-time-high in two years. January's 1.6% return above the long-term average 1.3% and annualises over 20%.
- Bull market pillars are in place. Of lower inflation and coming rate cuts. And economic soft landing and reaccelerating earnings. New highs typically beget new highs. February driven by remaining big tech earnings, potential sub-3% US inflation, and political calendar. See positive year with smaller, broader, back-ended returns. [See Page 2](#)

The 'term premium' is driving bond yields

- The US [10-year bond yield](#) (IEF, ILTB) is a bedrock of modern finance, impacting everything from housing to government finances through to stock market valuations. We have seen a dramatic round trip of these yields from under 4%, all the way up to 5% and back again within a year. By many measures this degree of bond volatility has been greater than even for equities.

- The driver of this has been a return of the so-called bond yield term premium. This has been dormant for a decade, but maybe now returning as bond market supply/demand and Fed intervention questions rise. This may keep 10-year bond yields stickier than the bulls would like. [See Page 2](#)

Time in the market boosts your chances

- Markets normally rise, and your chances of making money improve over time. It's '[time in the market](#), not timing the market'. Your chances of making money in one year are at least 60% and can rise to over 90% if held for longer, as analyze US and UK.
- Whilst under-performance cycles are now shorter, as are the length and depth of recessions. The S&P 500 has seen 3 back-to-back annual price falls since 1950 vs 7 the prior 75 years. With economies less cyclical, central bankers more capable, companies more profitable, and more tech-driven. [See Page 2](#)

'Dry January' a beverage stock opportunity

- 'Dry January' become popular. Driven by younger drinkers, secular wellness trend, and cost-of-living pressures. But is more an [opportunity than a threat](#) for struggling brewer and spirits stocks. With little impact on volumes so far, but potential to grow significant no/low-alcohol brands.
- And to capture higher margins over time. With similar pricing but no-alcohol drinks paying no tax duty. In UK this is £21/alcohol litre for beer and up to £31.6 for spirits. The bigger threats are down-trading consumers, limits to premiumisation strategies and weight-loss drugs. [See Page 2](#)

Key events to watch in February 2024

Date	Country	Event
Feb. 01	USA	Big tech stocks AAPL, AMZN, META report Q4 earnings
Feb. 01	Global	OPEC+ monitoring meet with oil rising and large voluntary cuts
Feb. 03	USA	Defacto 1st Democratic Presidential primary , in South Carolina
Feb. 10	China	Chinese New Year holiday, starting the Year of Dragon
Feb. 13	USA	Jan. headline inflation may fall to <3% from prior 3.4% for 1st time
Feb. 14	Indonesia	Def. minister Subianto leads to replace Jokowi in 3rd lgst democracy
Feb. 14	Global	Valentine's Day a top-5 spend event of year and next consumer test
Feb. 19	USA	President's Day Federal holiday. Financial markets closed
Feb. 21	USA	AI and Semis giant NVIDIA earnings. Sales seen rising to \$20bn
Feb. 24	Europe	2nd anniversary of Russia's invasion of Ukraine
Feb. 29	Global	Biannual WTO conference focus on reform w/ trade depressed

Market Views

BTC relief rally stalls

- Bitcoin (BTC) saw a relief rally from <\$40,000 as outflows from Grayscale spot Bitcoin ETF eased, and the 9 approved ETF's saw net \$1.3bn inflows.
- This relief rally was stalled as the US Federal Reserve pushed back on market expectations for an interest rate cut as early as March. This would have benefitted crypto, by boosting risk assets and lowering competition with Fed interest rates.
- ETH goes live with final Dencun upgrade testnet (Wed). Other news saw bankrupt FTX say it would likely be able to fully repay customers. Whilst Celsius emerged from bankruptcy. El Salvador President, at early BTC adopter, Bukele win re-election. See latest [Weekly Crypto Roundup](#).

Oil leads commodities down

- Broad commodity prices fell back, with broader market volatility, China stimulus disappointment, and stronger dollar. Oil slumped after OPEC+ monitoring meeting would not reconsider current deep and largely voluntary supply cuts before March. Whilst container shipping rates showed signs of peaking Red sea tensions.
- Other news saw cocoa prices surge again as the two dominant producers Ivory Coast and Ghana poor harvests increased the likelihood of a significant supply deficit this year.
- Shell (SHEL) earnings beat forecasts and it increased both its dividend and share buyback.

The week ahead: Earnings, US growth, and China

- Q4 **earnings** season has been a bit disappointing so far, after tech and financials-heavy reports, in both US and Europe. See MCD, PEP, DIS, LLY, CAT to Europe's AZN, RMS.PA, OR.PA, UBS, VWS.CO.
- US **growth** focus with Services ISM (Mon) leading indicator set to rebound to est. 52, whilst Senior Loan Officer Survey (SLOOS) may show tighter conditions, as smaller bank pressures grow again.
- Economic policy stimulus in **China** been slowly increasing as growth has struggled and as price deflation (Thu) returned, whilst the long 'Year of the Dragon' new year holiday starts this weekend.
- The defence sector, from LMT and GD to BA and AIR.PA, to be in focus at the Saudi World **Defence** Show. Plus see expected **IPO's** from AHR and TBBB following AS's positive debut last week.

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.

US Equity Sectors, Themes, Crypto assets

	1 Week	1 Month	YTD
IT	1.12%	9.53%	7.08%
Healthcare	1.81%	1.94%	3.53%
C Cyclicals	3.31%	1.92%	1.06%
Small Caps	-0.79%	-2.49%	-3.17%
Value	0.61%	0.81%	1.29%
Bitcoin	2.32%	2.21%	2.21%
Ethereum	1.87%	-0.36%	-0.36%

Source: Refinitiv, MSCI, FTSE Russell



Fixed Income, Commodities, Currencies

	1 Week	1 Month	YTD
Commod*	-2.14%	-1.99%	-2.00%
Brent Oil	-6.44%	-1.56%	0.77%
Gold Spot	1.93%	0.22%	-0.71%
DXY USD	0.51%	1.51%	2.59%
EUR/USD	-0.62%	-1.39%	-2.27%
US 10Y Yld*	-12.04	-2.30	14.18
VIX Vol.	4.45%	3.75%	11.24%

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

Focus of Week: Earnings reality check

A reminder that rate cuts and earnings improvement are for the second half

Our bullish case for 2024 has two pillars, lower interest rates and recovering earnings. Both have seen some not-unexpected headwinds recently. As the Fed and BoE pushed back against early rate cuts. And Q4 earnings have come in a little weaker overall than hoped so far and driven a stalling of forecast earnings improvement (see chart). It's a timely reminder that both are [more 2H than 1H catalysts](#). By then central banks will be cutting, and earnings back at double-digit growth levels. Until then its hope over reality.

US revenues improving but earnings rebound less than last quarter

In the US near half of S&P 500 stocks have reported earnings. Over 70% of these have beaten analysts (significantly lowered) profit forecasts. And every sector has also beaten these forecasts, led by energy and healthcare stocks. Revenues have seen 3% growth whilst earnings are up 6%. This earnings growth rises to 10% ex the lagging energy sector. As of now this is [disappointingly less than Q3](#) and with big misses from Tesla (TSLA) to Intel (INTC) offsetting upsides from Meta (META) to Amazon (AMZN) and Netflix (NFLX).

Earlier days in Europe but a similar mixed bag

In Europe beats are typically lower than the US, as fewer companies give guidance. These are running a little below average at 50%. Whilst profits have been poorer, alongside the weaker economy and backdrop of higher debt and lower profit margins. Overall, sales -3% and earnings -9%. The earnings loss is under 3% ex the energy sector. Heavyweights such as LVMH (MC.PA) and ASML (ASML) have been among strong performers. Whilst big losers have included the financials, from BNP Paribas (BNP.PA) to ING (ING.NV).

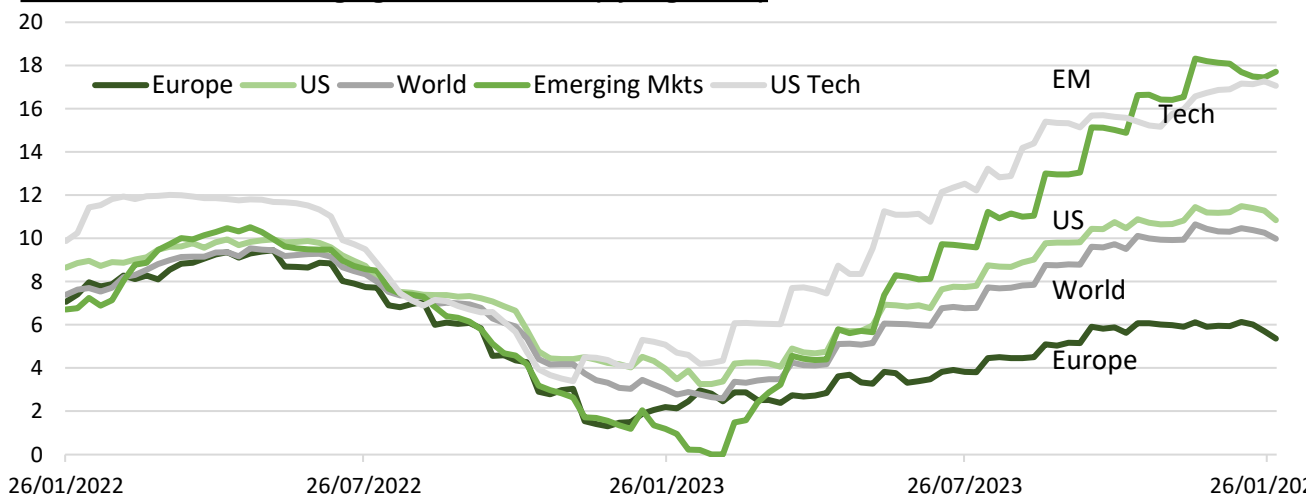
Early takeaways on high investor expectations, importance of tech, and depressed energy

Good earnings has not been enough. With Alphabet (GOOGL) to especially Microsoft (MSFT) post-results reactions showing investor expectations high. *Tech has been in the driving seat.* With Magnificent Seven earnings up over 50% vs the S&P '493' down 10% and spreading AI growth benefits. *Energy been the big drag.* With the sector reporting the largest earnings decline of all sectors. Yet set to look up from here as oil prices rise over \$80 and natgas approaches long term historic trough levels of \$2/MMBTU.

Earnings remains one of the two key drivers for markets this year

A broader earnings recovery is a pillar for our bullish market outlook. Alongside interest rate cuts. Helped by an economic soft-landing in US and recovery in Europe. As well as broadening AI adoption trends. Lower inflation providing profit margin relief. And a low base of last year's US 'earnings recession'. European earnings are the most depressed and cyclical and should [rebound the strongest](#).

12-month forward earnings growth forecasts (by region, %)



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 leveraged 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.

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