ANALYST WEEKLY

US and UK elections playbook

FEBRUARY.19. 2024

Summary

Investing through the US and UK elections

We look for lessons from Trump' surprise victory in 2016 and the UK's Labour's party landslide win in 1997. Markets did well in both, despite policy differences. Shows election impacts may be overdone, as we overestimate politicians. Biden and Trump face off in replay of 2020 US election, but now better known, with greater constraints. UK investors should see comfort in parallels with Blair' 'New Labour' 1997 victory. Defence, energy, infrastructure are potential winners. See Page 4

Stocks take bad inflation print in stride

US stocks were held back by a worse-than-expected 3% US inflation report. Whilst supported by a good US earnings season, with overall profits +9%. The JPY fell below 150, whilst Bitcoin surged 10%. AI optimism saw ARM surge, and helped drive NVDA to become the US's 3rd largest stock. Buffett's BRKb trimmed its big AAPL holding. See our 2024 Outlook HERE and twitter @laidler_ben. See Page 2

The tail-risk of an inflation comeback

Stocks ignore tail risk of US inflation rebound with economy strong. Bonds and dollar consider. Our prices tracker and 3% Jan. print flash yellow. Lot riding on productivity boom. See Page 2

Still cautious sentiment drives buy-the-dip

Our investor sentiment index still only neutral, a contrarian support to stocks and driver of buy-the-dip market support despite rising interest rate and valuation headwinds. See Page 2

A tale of two housing markets

US builders (PHM to LEN) soared as counter-intuitively benefit from high mortgage rates, whilst UK peers (TW.L to BKGH.L) need them to fall, despite similar markets. See Page 2

Europe's carbon price perfect storm

ETS plunged on recession to lower natgas prices. Yet, many overhangs cyclical, and EU regulatory supply/demand squeeze is coming. See Page 2

Crypto market cap rallies back to $2 trillion

BTC soars over $50,000 with Nov. 21st $66,000 all-time-high in sight. As assets in new spot BTC ETF leaders IBIT and FBTC over $3 billion each, and 'halving' on horizon. ETH over $2,800 with BEN latest to file spot application. Took asset class mkt cap to $2 trillion. COIN results rebound. See latest Weekly Crypto Roundup. See Page 3

Commodity prices continues to struggle

Asset class hurt by the stronger dollar, rate cuts pushback, and China NY holiday. Brent firm over $80/bbl. as a 'reflation hedge', whilst natgas hit new lows, and EU carbon credits plunged. Cocoa and uranium rally continues, and palladium rebounds. Whilst ALB beats estimates despite lithium's 78% YoY collapse. See Page 3

The week ahead: Presidents Day, China, NVDA

1) US Presidents Day (Mon) and China's NY market reopening. 2) Key NVDA (Tue) results, w/ est. $20bn of sales, plus WMT, HD, BKNG, HSBC, GLEN. 3) US, EU, UK, JP, AU flash PMI growth and inflation, with inflation stickier. 4) 2nd anniversary (Sat) of Russia invasion of Ukraine. Big CAGNY consumer event. WMT stock split. 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	-0.11%	2.02%	2.49%
SPX500	-0.42%	3.42%	4.94%
NASDAQ	-1.34%	3.03%	5.09%
UK100	1.84%	3.35%	-0.28%
GER40	1.13%	3.40%	2.18%
JPN225	4.13%	7.02%	15.01%
HKG50	3.77%	6.74%	-4.15%

*Data accurate as of 19/02/2024

Market Views

Stocks take bad inflation print in stride

- US stocks were held back by a worse-than-expected 3% US inflation report. Whilst supported by a better-than-expected US earnings season, with profits +9%. The JPY fell below 150, whilst Bitcoin surged 10%. AI optimism saw ARM surge and helped drive NVDA to become the US's 3rd largest stock. BRKb trimmed its big AAPL holding. See 2024 Outlook **HERE** See **Page 6** for resources and videos.

Tail risk of an inflation comeback

- Inflation comeback risk is potentially under-priced and rising. With the US labour market surprisingly healthy and economic growth strong. The Q1 GDP NOWCast is an above average 3.4%. 10-year bond yields up, Fed rate cut hopes pushed back, and the US dollar the best performer this year.

- We may be under-pricing tail-risk of an inflation upside surprise. It's the most important number in markets, inflation the biggest investor risk, and our inflation tracker and January's 3% report both flashing yellow. The saviour is the productivity boom driven 'immaculate disinflation'. **See Page 2**

Still cautious sentiment drives buy-the-dip

- US stocks had strong start to year. And powered through some mounting headwinds with interest rate cuts pushed back and valuations above 20x P/E. Better-than-expected Q4 earnings have been a fundamental driver. Whilst relatively cautious investor sentiment has remained a big technical support. Our investor survey shows technicals often as important as fundamentals for many.

- And this has helped drive buy-the-dip behaviour by the many still overly cautious investors. Our investor sentiment index is only at 'neutral', held back by fund outflows and still average retail sentiment and put/call levels. **See Page 2**

A tale of two housing markets

- US homebuilders outperformed even NASDAQ in past year, as limited inventory drove new home sales despite high interest rates. UK builders made a recent comeback, with mortgage rates peaked and valuations low, after hugely underperforming.

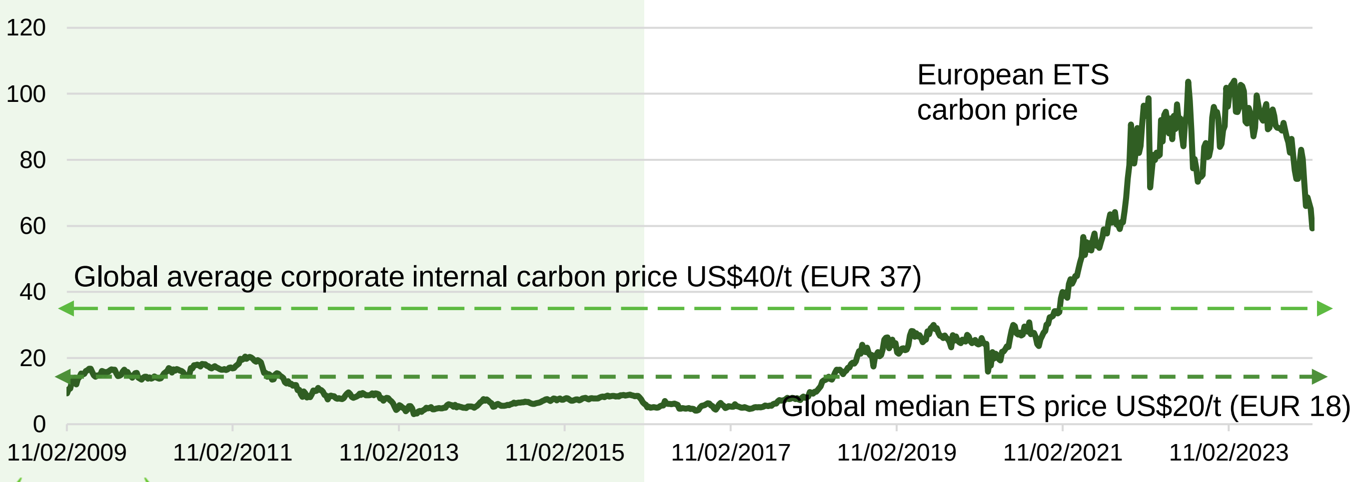
- US builders counter-intuitively benefit from higher mortgage rates, whilst UK builders need them to fall. This divergence is despite the two's similarities. Of high home ownership and house prices, with chronic deficits. Housing is the largest expenditure and debt for most consumers, and also their biggest source of wealth. **See Page 2**

Europe's carbon price perfect storm

- The price of European ETS carbon permits has been plunging. With a perfect storm of weak demand and higher supply. Demand is being hit by Europe' industrial recession, mild weather, lower natgas prices, and higher renewables capacity. Whilst the EU's 244 millions of fundraising permit auctions planned is a supply overhang.

- This is a setback to EU decarbonisation incentives and only adds to sector gloom from Tesla (TSLA) to renewables stocks (ICLN). Yet most overhangs are cyclical. And an EU regulatory squeeze on ETS supply-demand is coming. **See Page 2**

European ETS carbon price (EUR/tCO2) vs global average carbon prices



Source: Average carbon prices from World Bank 'State and trends of carbon pricing 2023'.. Illustration purposes only

Market Views

Crypto market cap hits $2 trn as rally extends

- Bitcoin (BTC) rose above $50,000, up over 10% on the week, and getting line-of-sight on its November 2021 all-time-high of $66,000.

- Optimism was stoked by stock market strength, inflows into leading IBIT and FBTC new ETFs that now received over $3 billion, alongside outlook for the four-yearly Bitcoin halving in April. The overall crypto market. cap is back to $2 trillion.

- Second largest crypto Ethereum (ETH) broke $2,800 for first time since April 2022. With BEN latest to file an application with US SEC to launch a spot ETH ETF, joining 8 others who have already applied. Exchange COIN results surge on trading rebound. See latest Weekly Crypto Roundup.

Commodity prices continue to struggle

- Commodities eased with China closed for New Year, a stronger US dollar, and interest rate cut hopes being pushed back. Brent oil held firm at $82/bbl., as a 'reflation hedge' to signs of sticky US inflation and strong GDP. Whilst natgas kept plunging on high supply and weak demand, even as some producers started to cut growth plans.

- Elsewhere, cocoa prices hit a new all-time-high, and the uranium rally continued. Palladium bounced off recent lows on bargain hunting. Whilst EU carbon emission credit prices plunged.

- Largest producer ALB Q4 beat forecasts on cost cuts, despite -78% YoY lower lithium prices.

US Equity Sectors, Themes, Crypto assets

	1 Week	1 Month	YTD
IT	-1.90%	7.41%	7.80%
Healthcare	1.14%	4.66%	6.39%
C Cyclicals	-0.33%	5.62%	2.58%
Small Caps	1.13%	6.25%	0.28%
Value	0.58%	3.73%	2.06%
Bitcoin	8.91%	21.47%	23.17%
Ethereum	11.35%	9.34%	20.16%

Source: Refinitiv, MSCI, FTSE Russell

The week ahead: Presidents Day, China, NVIDIA,

1. US markets are closed for **Presidents Day** (Mon), honouring birthdays of George Washington and Abraham Lincoln. Whilst Chinese markets reopen after their long 'Year of Dragon' new year holiday.

2. Semis and AI giant **NVDA** (Tue) the earnings highlight, with sales est. over $20bn vs YoY $6bn. Also see WMT, HD, BKNG, HSBC, and GLEN. S&P 500 Q4 earnings growth +9% vs Stoxx 600 -5%.

3. Monthly forward-looking **PMIs** (Thu), from US, EU, UK, JP, AU a focus with GDP outlook strengthening but price pressures also starting to rise again. EU the laggard with PMI <48 with UK and US at 52.

4. Second anniversary (Sat) of Russia's 2022 invasion of **Ukraine**. Big **CAGNY** annual consumer conference, with KO and PEP to KHC and MDLZ, in Florida. **WMT** 3-for-1 stock split goes effective (Fri).

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*	-0.72%	-0.56%	-2.43%
Brent Oil	2.10%	6.30%	8.43%
Gold Spot	-0.65%	-0.31%	-2.24%
DXY USD	0.16%	0.96%	2.90%
EUR/USD	-0.06%	-1.10%	-2.36%
US 10Y Yld*	11.66	15.29	40.32
VIX Vol.	10.13%	7.07%	14.38%

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

eToro

Focus of Week: What to expect from the US and UK elections

Election impacts may be overdone as we overestimate politicians

Elections are often overdone by investors. They are only one of many drivers. Economic growth, interest rates, geopolitics, company profits, valuations, technological change, and industry dynamics. We can also overestimate a politician's ability to effect change. With often limited legislative majorities and legal constraints. Markets typically weaken just before elections before strengthening after on certainty. This US election will be different to 2016 or 2020. With Trump better-known, leading polls, but with less policy room. There are strong UK parallels with 1997. An opposition centrist Labour party with a big poll lead.

Presidents Biden and Trump face off in a replay of the 2020 US election

The next US election is 5th Nov. with Republican and ex-President Trump holding an early and narrow lead over Democratic President Biden. The obvious comparison is Trump's surprise 2016 victory, where he trailed Clinton by 3% into the vote, after a late nomination in May. Then his promise of big tax cuts and deregulation boosted stocks. Now the candidates are arguably the best-known ever. And the trump policy focus on plans for a 10% import tax and permanence of his 2017 tax cuts. With a likely deadlocked Congress result making bigger impacts in foreign policy.

UK investors comfort from the parallels with Blair's 'New Labour' victory in 1997

The UK election is likely Oct. or Nov., before the 28th Jan. 2025 deadline. The opposition centre-left Labour party, under Keir Starmer, currently has a commanding 20% poll lead. The nearest comparison is the 1st May 1997 'New Labour' landslide under Tony Blair. This ended 18-yrs of Conservative governance and was first of Blair's record 3 wins. Labour held a similar longstanding and big 20% poll lead. And moved to the centre to same degree as Starmer since Corbyn leadership. Blair's surprise granting of BoE independence helped a post-election rally partly undermined by decision to end pension funds dividend tax credit.

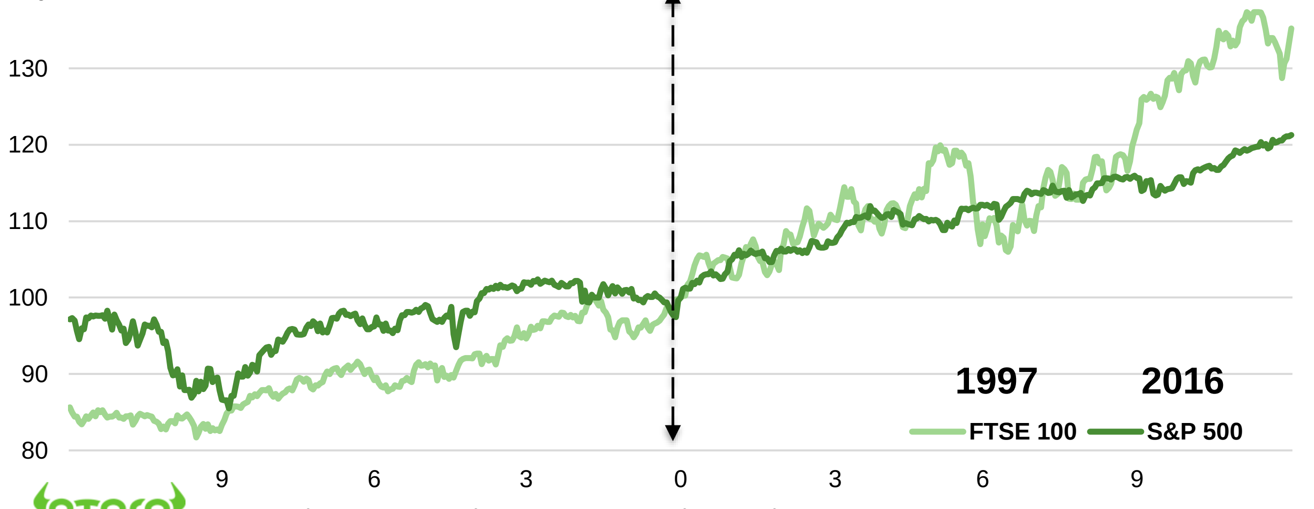
Thoughts on stock market sector winners and losers

A Trump victory may help the energy sector (XLE) with his deregulation and sceptical renewable's view. And be a relief to healthcare (IYH) stocks, facing tougher pricing regs. A Biden victory would support renewables (ICLN). Both may help manufacturing, with import-substitution under a Trump import tax, and Biden manufacturing-revival policies. A UK Labour victory may help renewables and infrastructure stocks with its investment plans, and potentially domestically-focused small caps (MIDD.L) with its productivity agenda.

Comparing Trump's surprise victory in 2016 with Labour's expected 1997 landslide

This shows US stocks flat into the election, with continuity candidate Clinton leading polls. Before rallying on the policy shock of the Trump win. Whilst UK stocks saw less volatility given Labour's big poll lead.

UK and US stock market performance around key past elections (+/- 12Mths)



Source: Refinitiv. S&P 500 performance 12 months before and after Nov. 8, 2016 election. FTSE 100 around May 1, 1997 election. 100=election day. 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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