ANALYST WEEKLY

Looking outside the US

MARCH. 11. 2024

Summary

Looking outside the super-sized US and tech

US markets are super-sized and super-expensive and have outperformed overseas markets for 14-years. This US exceptionalism is unusual but not unprecedented. But it's a clear concentration risk. We see an economic soft landing and lower interest rates driving rotation to cheaper, more cyclical, and unloved overseas markets. Europe's Stoxx50 has already joined Japan's Nikkei 225 in outperforming the S&P 500 this year. **See Page 4**

Tech takes a performance back seat

Friday's strong US jobs report drove profit-taking, even as Fed and ECB kept door open to rate cuts. China fiscal stimulus disappointed. Small cap and Value outperformed. Bond yields fell and dollar had worst week in 3-mths. BTC hit new high, and gold soared. AAPL hurt by China sales slowdown. NVO weight-loss boom made bigger than TSLA. SMCI surge saw join S&P 500. See 2024 Outlook **HERE** and twitter @laidler_ben. **See Page 2**

All-time-highs lead to more highs

With earnings recovery and rate cut pillars and 1-year average returns of 15% and 90% positive hit rate after new high. Average S&P 500 bull market historically five years and 150%. **See Page 2**

Stepping up to the AGM

Annual general meeting key for shareholders to have voices heard. The important retail investor is in the spotlight with only 30% voting but it now becoming increasingly easy to do so. **See Page 2**

Women gaining in markets and business

International Women's Day reminds on rise of female CEOs. Now 10% of US Fortune 500 CEOs. And women investor numbers up 30% past 2-yrs and performance outpacing men. **See Page 2**

The cotton 'fabric of our lives' rally

Cotton prices up as Texas fires hit world's biggest exporter and rising oil makes more attractive versus oil-based substitutes. A concern for fast fashion retail, from ITX.MC to LEVI. **See Page 2**

New Bitcoin high drives broader rally

BTC hit first new all-time-high since 2021 as rally broadens. SHIBxM price more than doubled in a week. Whilst largest stablecoin Tether reached $100bn of assets. Focus ETH's Dencun upgrade, due on Wednesday, to cut gas fees and boost scalability. NYCB bank plunge and $1bn help. See latest Weekly Crypto Roundup. **See Page 3**

Commodities coming in from cold

Boosted by lower bond yields and weaker US dollar. Precious metals, from silver to platinum led, with gold new all-time-high. Cocoa surged to unprecedented $7,000/t on deepening supply shortfall. Natgas rebounds from 25-year low and Brent holds above $80/bbl. Uranium pulls back as sanctions not extended to Russia. **See Page 3**

The week ahead: Inflation, Triple-witch, ADBE

1) US inflation (Tue) the most important number in markets. Feb. est. flat at 3.1%. 2) Also, US retail sales (Fri) est. +0.8% and UK GDP est. -0.1%. 3) Europe earnings focus, with Stoxx 600 profits a less bad -6%. See ITX.MC, ADS.DE, VOW.DE plus US's ADBE, ORCL, LEN. 4) Big volume Friday w/ triple-witching. And Russia election. **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	-0.93%	-0.01%	2.74%
SPX500	-0.26%	2.52%	7.42%
NASDAQ	-1.17%	1.85%	7.15%
UK100	-0.30%	0.85%	-0.95%
GER40	0.45%	5.01%	6.34%
JPN225	-0.56%	7.67%	18.60%
HKG50	-1.42%	2.99%	-4.07%

*Data accurate as of 11/03/2024

Market Views

Tech takes a performance back seat

- Friday's strong US jobs report drove profit-taking, even as Fed and ECB kept door open to rate cuts. China fiscal stimulus disappointed. Small cap and Value outperformed. Bond yields fell and dollar had worst week in 3-mths. BTC hit new high, and gold soared. AAPL hurt by China sales slowdown. NVO weight-loss boom made bigger than TSLA. SMCI surge saw join S&P 500. See 2024 Outlook **HERE** See **Page 6** for resources and videos.

All-time-highs lead to more highs

- Bull market has many definitions, from 20% gain off lows to more broadly accepted new all-time-high. The S&P 500 met this on Jan 19th. Markets tend to trend. So new highs beget new highs. And history on your side. With 1-year average returns of 15% and a 90% hit rate after a new high. Whilst the average S&P 500 bull market has historically lasted five years with returns of over 150%.

- Current market due breather but fundamentally supported on the twin foundations of 1) a turning earnings cycle and 2) coming rate cuts. With manageable inflation and tech risk. **See Page 2**

Stepping up to the AGM

- Focus now shifting to shareholder annual general meetings and 'proxy voting' season. This ramps to a May peak and is one of the most important ways investors can influence how a company is run, from pay to policy and dividends. Retail investors now directly own an estimated 31% of US shares. But historically have been chronically under-represented as only 30% actually vote.
- Is starting to change as more brokers encourage. And fund companies offer 'pass-through' voting that allows underlying investors to vote holdings. All industry big-3, Blackrock (BLK), investor-owned Vanguard, and State Street (STT), that collectively vote 25% of US ballots now offer this. **See Page 2**

Women gaining in markets and business

- Friday was International Women's Day (IWD). A reminder of significant progress women made in business and markets. But also, long road ahead.

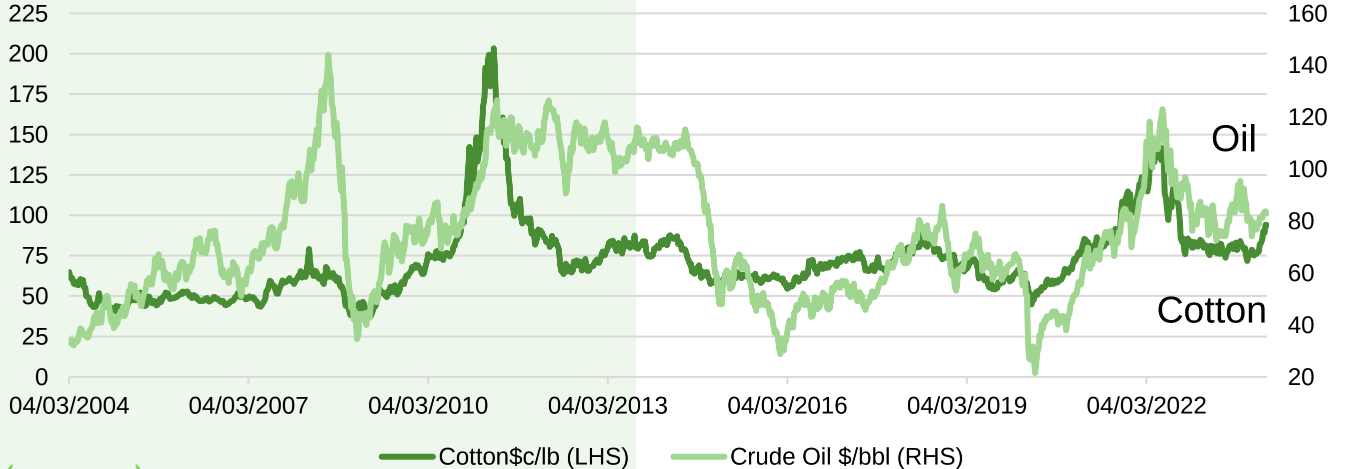
- Women make up a record 10% of Fortune 500 CEOs in the US today. But this still dramatically lags all other areas. With women 28% the US Congress, 34% of Federal judges, 37% of doctors, and 48% the workforce. Whilst the number of female retail investors is booming, up 30% in the last 2-years, and they invest differently and more successfully than men. @FemaleLeadership.**See Page 2**

The cotton 'fabric of our lives' rally

- Struggling commodities finally seeing some relief. With firmer global growth, a stabilising US dollar, and supply-side weather disruptions. Cotton been a leader in this catch up. This 'fabric of our lives' is crucial across clothing, fast fashion, and retail. And stands at the centre of the ESG debate.

- Cotton prices are being driven by drought and fire in Texas, the largest producer in the largest exporter. And the tight correlation with rising oil that drives competing polyester and synthetic fibers, that dominates clothing industry. This makes cotton an interesting oil price proxy. **See Page 2**

Cotton versus Brent crude prices (20-years)



Source: Refinitiv. For illustration purposes only

Market Views

Bitcoin new high drives broader rally

- Bitcoin (BTC) briefly touched the $69,000 all-time-high from 2021. Whilst its 60% surge this year has also seen the rally broaden across the asset class. Most notably 10th largest market cap. coin Shiba Inu (SHIBxM) more than doubled in price last week alone. Whilst the largest stablecoin Tether hit the $100 billion asset mark for the first time.
- Focus on Ethereum (ETH) Dencun upgrade (Wed), that set to slash gas fees and boost scalability, efficiency, and security. This comes ahead of May's first final SEC spot ETF decision deadline.
- Crypto-friendly Signature Bank buyer New York Community Bank (NYCB) plunged before saw $1 billion help. See latest Weekly Crypto Roundup.

Commodities coming in from the cold

- Commodities prices had a strong week as the macro headwinds eased, with bond yields falling and the US dollar weakening. Precious metals surged, from silver to platinum, and gold rose to a new all-time-high above $2,100/oz.
- Cocoa prices, the best performing commodity this year, rose over an unprecedented $7,000/t with production set to fall 11% this year and the market now facing a fourth yearly supply deficit.
- Brent held over $82/bbl. on positive commodity optimism, and natural gas prices rose toward $2.0/MMBtu after touched 25-year low. Uranium sold off as US sanctions not extended to Russia.

US Equity Sectors, Themes, Crypto assets

	1 Week	1 Month	YTD
IT	-1.03%	1.75%	10.36%
Healthcare	-0.09%	1.72%	6.93%
C Cyclicals	-2.23%	1.48%	3.61%
Small Caps	0.30%	5.20%	2.74%
Value	0.68%	3.47%	4.99%
Bitcoin	10.80%	52.30%	64.44%
Ethereum	14.82%	62.33%	70.64%

Source: Refinitiv, MSCI, FTSE Russell

The week ahead: Inflation, Adobe, Triple-witching

1. US **inflation** most important number in markets. Driving interest rate outlook and recession risks. February report (Tue) est. to stay sticky around 3% YoY and 0.4% MoM, on rising gasoline price.
2. Macro focus on US **retail sales** (Fri) after January's slowdown in the key anchor for the economy, up under 1% YoY. Whilst UK GDP (Wed) will confirm a modest -0.3% three-monthly recessionary pace.
3. Tail end of the better-than-expected Q4 **earnings season.** Focus shifts to Europe, where Stoxx 600 earnings a less-bad -6%. See heavyweights ITX.MC, ADS.DE, VOW.DE. And US, ADBE, ORCL, LEN, DLTR.
4. Friday quarterly **Triple Witching** future & options expiry, and one of the top volume days of year. It's also the **Russian election**, with result not in doubt, but a quasi-referendum on Ukraine war.

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 these 2023 US and big tech winners to the interest rate sensitive 'losers' from Europe to real estate in 2H.

Fixed Income, Commodities, Currencies

	1 Week	1 Month	YTD
Commod*	0.81%	1.09%	-0.65%
Brent Oil	-1.69%	0.23%	6.45%
Gold Spot	4.68%	7.61%	5.89%
DXY USD	-1.08%	-1.32%	1.39%
EUR/USD	0.92%	1.46%	-0.88%
US 10Y Yld*	-10.50	-8.75	19.91
VIX Vol.	12.43%	14.00%	18.39%

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

Focus of Week: Time for cyclical Rest of World vs structural US

US capital markets are super-sized and super-expensive versus the rest of the world

US stocks outperformed rest of the world for unprecedented 15 years (see chart). US stocks account for over 60% global market cap. Whilst its valuation is at a record P/E valuation ratio premium of over 50% versus the rest of the world. The economic cycle and mean reversion are on the side of laggards catching up. Europe's Stoxx 50 (EUSTX50) and Japan are leading the S&P 500 YTD. From cyclical Europe to less-correlated China. And interest-rate sensitive real estate to growth-sensitive small caps. These cheap assets the disproportionate winners from an economic soft landing and lower interest rates. But long term may be with the US and big tech, with its tech innovation, vibrant capital markets, and strong demographics.

US exceptionalism is unusual but not unprecedented looking back in history

US stocks dominate global markets today, at over 60%of market capitalisation. With the other 45 major global developed and emerging markets making up the rest. A look at history puts this concentration risk in perspective. The UK was the dominant equity market coming into the 20th century at 25% of total market cap. Whilst Japan (EWJ) was 45% of global market cap at its 1989 peak. But it's also not unprecedented. With the US maintaining similar or higher market cap concentration throughout the 1950's and 1960's. Similarly, the levels of tech sector concentration today was dwarfed by the railway stocks of the early 20th century.

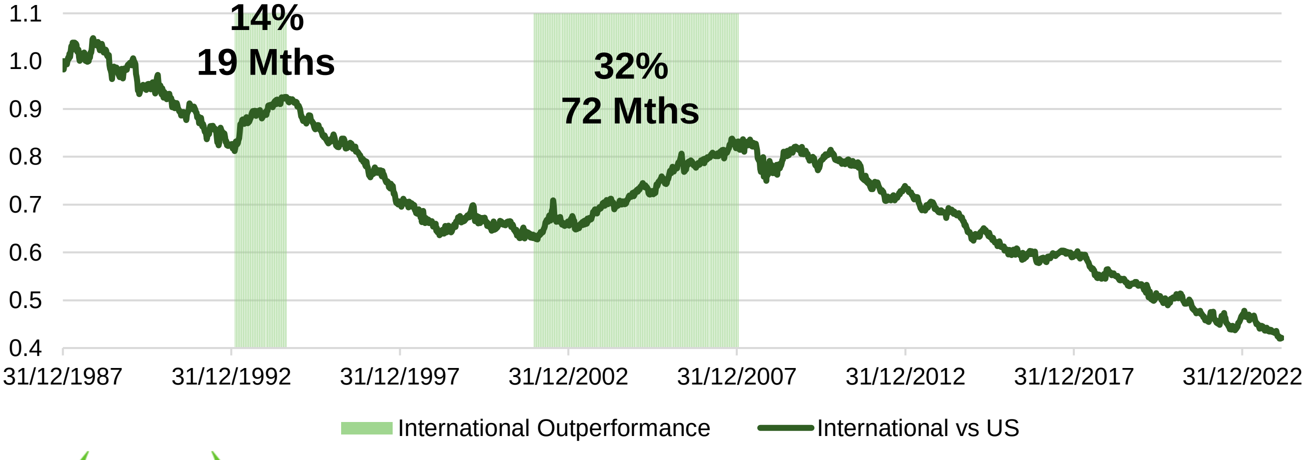
The two coming changes that could drive rotation to international markets

This US exceptionalism had two drivers. Both may be set to cyclically change. **1)** US economic divergence with the rest of the world is unprecedented and set to narrow. With Europe teetering with recession and China a structural slowdown. With poor sentiment, lower valuations, cyclical stock markets, and policy support coming into view. And the US economy growing above trend with 5.5% policy rates. The rest of the world has well-discounted economic problems that should respond to interest rate cuts, a rebound of depressed earnings, with already low valuations. **2)** Non-tech stocks to lead cyclical recovery. The tech sector is near 40% of US markets. It's benefited from a rare combination of strong growth and defensive businesses. Whilst rest of world has lower profit margins, more debt, less growth, and cheaper valuations.

Time to broaden investment view, diversify globally, and look for uncorrelated assets

The US and tech stocks are in a good place. But near as-good-as it can get. With above average valuations and profit margins. Big tech earnings just grew over 60% in Q4, and the US economy is likely to slow. Other assets are more sensitive to the economic soft landing and lower interest rates ahead. This argues for an investment broadening and rotation to the rest of the world, like Europe, emerging Markets (EEM), and areas like real estate (VNQ), and small caps (RTY). A little money reallocating from tech would go a very long way in these smaller areas. The risk is the sheer size of tech and the US. A sneeze could easily turn into a cold for everyone. Favouring those assets least correlated and most out of favour, like China (MCHI).

International versus US equities performance (since 1987), with focus on two times International outperformed



eToro

Source: Refinitiv, MSCI All Country World Index vs MSCI All Country World ex US Index since inception. 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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