ANALYST WEEKLY

The Bitcoin vs Gold divide

MARCH. 18. 2024

Summary

Gold vs Bitcoin generational divide increasing

Generational change to increasingly undermine long term demand for gold, with younger investors strongly preferring Bitcoin vs older investor commodity and gold preference. Gold rally being driven by outlook for weaker dollar and lower bond yields, but with little validation from silver or gold stocks. Bitcoin driven by classic supply-and-demand squeeze and a pipeline of multiple catalysts ahead. See Page 4

Stocks struggle with inflation stubborn

Stocks struggled as US inflation stayed stubborn, pushing up bond yields and the US dollar. With EUR retreating from a 1.10 test. Europe's Stoxx50 (US$) now leads the S&P 500 this year. BTC broke $70,000 and equity proxies from MSTR onward soared. The semiconductor SOX index fell back. ORCL climbed on strong AI results. LUV plunged on BA deepening problems. See 2024 Outlook HERE and twitter @laidler_ben. See Page 2

US inflation and investor rotation

Inflation most important number in markets, and again disappointed, at 3.2%. But our tracker see's disinflation and rate cuts. Catalysts for a second-half rotation away from big tech. See Page 2

The currency 'carry trade' is down not out

Carry trade been a big driver of FX returns, from MXN to USD. But now faces vice of US-led rate cuts and higher rates in Japan. But opportunities remain as carry trade changes. See Page 2

Peaks and valleys of global debt mountain

A rising investor concern but mixed blessing, with $300trn global debt but debt/GDP falling. Households and co's are deleveraging, helping consumption and credit spreads. See Page 2

The widening gap in earnings quality

Earnings the most important stock price driver, and accounting is the 'language of business'. But rising non-GAAP earnings measures and their gulf with official numbers a concern. See Page 2

Bitcoin breaks $70,000

Bitcoin broke to new high above $70,000 as spot ETF inflows hit record $1bn daily, with 35 days until four yearly halving event. ETH Dencun upgrade slashed fees and boosted scalability. MSTR bought 12,000 more BTC, and trades at big SOTP premium. ARKK took some profits in COIN. See latest Weekly Crypto Roundup. See Page 3

Higher oil offsets commodity struggles

Brent hit four-month high $85/bbl. on Russia refinery attack and lower US gasoline inventories. Broader commodities hurt by stronger dollar and higher bond yields, and lagging only bonds this year. Copper rose to $4.00/lb on China smelters cutbacks. Cocoa up 25% in month to $7,500/t. See Page 3

The week ahead: Central Banks, China, NKE

1) Central bank focus w/ Fed (Wed) dot plot risk, possible BoJ surprise hike (Tue) and SNB cut (Thu), w/ BoE pat (Thu). 2) Data deluge from flash PMI w/ EU est. exiting downturn, UK CPI and China Jan/Feb data. 3) Earnings NKE, FDX, MU, BMW, Tencent. 4) NVDA developer event. CERA Energy Week. TikTok US Senate vote. 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	-0.02%	0.22%	2.72%
SPX500	-0.13%	2.23%	7.28%
NASDAQ	-0.70%	1.25%	6.41%
UK100	0.88%	0.20%	-0.08%
GER40	0.69%	4.79%	7.07%
JPN225	-2.47%	0.57%	15.67%
HKG50	2.25%	2.33%	-1.92%

*Data accurate as of 18/03/2024

Market Views

Stocks struggle with inflation stubborn

- Stocks struggled as US inflation stayed stubborn, pushing up bond yields and the US dollar. With EUR retreating from a 1.10 test. Europe's Stoxx50 (US$) now leads the S&P 500 this year. BTC broke $70,000 and equity proxies from MSTR onward soared. The semiconductor SOX index fell back. ORCL climbed after strong AI results. LUV plunged on BA deepening problems. See 2024 Outlook HERE See Page 6 for resources and videos.

US inflation and investor rotation

- US inflation most important number in markets. And February came in 'hot' again, at 3.2%, driven by shelter and gasoline. After January's upside surprise. This boosted the dollar and bond yields.

- We are calmer. Our inflation tracker is more dovish. Rate cut forecasts now in-line with Fed. Inflation break-evens already up. And investors looking at rotation to come as we get nearer rate cuts. Markets priced for 3 cuts starting Jun 12th. Fed is in blackout ahead of its March 20th meet with new dot plot forecasts due. See Page 2

Currency 'carry trade' down not out

- The 'carry trade' was a huge driver of currency returns in 2023. And this has continued in 2024. With high yielders from the GBP to MXN the world's top performers. But this now faces twin headwinds. Of interest rate cuts in developed market G-10 and emerging market high-yielders, from US to Brazil. At the same time as the preferred low-yield funding currency, the JPY, readies for its first interest rate hike since 2007.

- But the carry trade is down, not out. A push back in early interest rate cut expectations alongside 2-year lows in currency volatility has given a respite (see chart). Whilst many carry rates remain attractive and other funding currencies, like the CHF, are coming into view as SNB readies to cut. See Page 2

Peaks and valleys of the global debt mountain

- World's rising debt mountain a worry but with silver-linings. Bad news that grew to over $300 trillion last year. Equal to $39,000/person. As gov. debt rose, with fiscal deficits stuck above pre-pandemic levels and election timetable heavy.

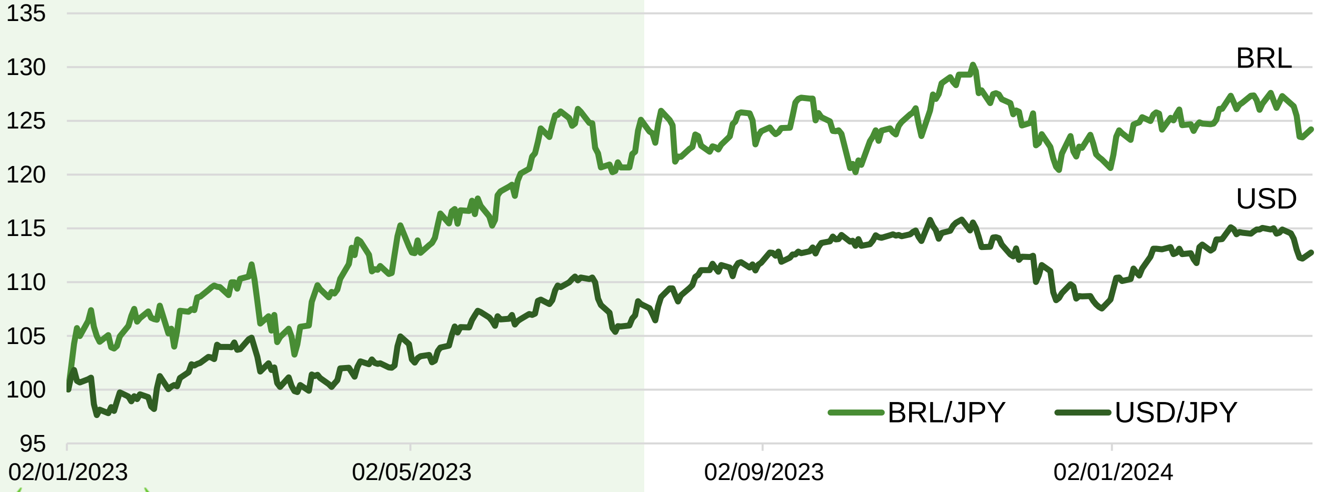
- More positively, global debt-to-GDP ratio fell for 3rd year. As inflation driven nominal growth more than offset gov. debt build. And co's and households deleveraged. Reflected in resilient consumption and narrowed corporate credit spreads. The wide differences in global debt levels tell us a lot about the policy stakes ahead. See Page 2

The widening gap in earnings quality

- Company earnings are the most important stock price driver. And accounting is the 'language of business'. All must report earnings in line with 'generally accepted accounting principles' (GAAP). But they may also report non-GAAP earnings.

- And high and rising 80% of Dow Jones Industrials (DJIA), for example, do. And these exceed GAAP numbers by huge 33%. Often giving a clearer view of underlying performance. But it can be misused. Signalling weaker earnings quality. And is the no.1 source of SEC company comments. See Page 2

Popular 'carry trade' currency performance (2023-, rebased)



Source: Refinitiv. For illustration purposes only

Market Views

Bitcoin breaks through $70,000

- The Bitcoin (BTC) rally extended, breaching $70,000. As net daily spot ETF inflows hit $1 billion for the first time. And with only 35 days to go until the 4-yearly Bitcoin supply halving event.
- Ethereum (ETH) benefitted from the long-awaited Dencun upgrade, that slashed transaction fees and boosted scalability. That comes ahead of May's first final SEC spot ETF decision deadline.
- Other news saw MSTR buy a further 12,000 Bitcoin, taking its total holdings to 205,000, with the stock trading at a significant premium to its sum-of-the-parts. Whilst the ARK Innovation ETF (ARKK) took some profits in its Coinbase (COIN) position. See latest Weekly Crypto Roundup.

Higher oil offsets commodity struggles

- Higher oil prices offset generally weaker commodity prices as the US dollar stabilized and bond yields rose. The overall asset class is now flat YTD, ahead of bonds, but behind all others.
- Brent crude touched $85/bbl. and a four-month high, after Ukraine attacks on a major Russian refinery and as the US Energy Information Agency reported declining gasoline inventories.
- Copper prices rose to a 7-month high over $4.00/lb after Chinese smelters agreed to cut production to stabilise prices and boost profits.
- Cocoa rally extended, +25% in month, to $7,500/t

US Equity Sectors, Themes, Crypto assets

	1 Week	1 Month	YTD
IT	-0.36%	2.01%	9.97%
Healthcare	-0.97%	-0.46%	5.90%
C Cyclicals	-0.97%	0.02%	2.60%
Small Caps	-2.08%	0.32%	0.60%
Value	-0.16%	2.70%	4.81%
Bitcoin	-1.51%	31.49%	61.96%
Ethereum	-7.20%	31.79%	58.36%

Source: Refinitiv, MSCI, FTSE Russell

The week ahead: Central Banks, China, NKE, FDX

1. Big **central banks** week, led by US Fed (Wed) with risk they reduce dot plot rate cut outlook. Outside chance Japan' BoJ (Tue) raises and Switzerland's SNB (Thu) cuts. Laggard UK BoE also meets (Thu).
2. Significant data with global flash **PMI** (Thu) health check est. showing EU recovering above break-even 50. Whilst **China** (Mon) combined Jan/Feb macro data est. weaker. UK CPI stubbornly high.
3. Off-cycle US **earnings** from global giants, consumer NKE and trade FDX, alongside MU, CAN, BMW.DE, and China's Tencent and Xiaomi. First quarter US earnings start in a month on April 12^{th}.
4. **NVDA** 4-day GTC global developer event from San Fran, w/ focus new chip and AI announcements. **CERAWeek** energy conference from Houston. Senate vote to confirm US shutdown of **TikTok**.

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*	1.21%	3.05%	0.55%
Brent Oil	4.02%	2.12%	10.73%
Gold Spot	-1.23%	6.62%	4.23%
DXY USD	0.71%	-0.81%	2.09%
EUR/USD	-0.46%	1.04%	-1.33%
US 10Y Yld*	23.80	3.39	43.71
VIX Vol.	-2.24%	1.19%	15.74%

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

Focus of Week: The generational divide between bitcoin and gold

Digital gold increasingly preferred compared to the long-standing gold real deal

Both gold and 'digital gold', or Bitcoin (BTC), have hit new highs this year. With Bitcoin over $70,000 and up 70% this year. Whilst gold is nudging $2,200/oz and up 5%. Bitcoin is being driven by classic supply-and-demand and is favoured with further catalysts ahead. Whilst the macro-economic outlook is driving gold, but with limited validation so far from other precious metals or gold stocks. Both are valuable diversifiers in a portfolio, with there often low correlations to other assets. Bitcoin is a one-legged stool of strong retail investor demand, but with hope for growing institutional demand longer term. Whilst gold has more diverse demand drivers, from jewellery, to central banks, and investors, and a much longer track record. Yet it faces a growing demographic divide that may hold back performance. As younger investors favour the digital gold alternative (see chart) and have time on their side as they earn and accumulate more.

Generational change may undermine the long-term demand for gold

We believe we are seeing a fundamental shift in demand for gold. With a generational split between younger investors who prefer investing in digital gold. And older investors who are more focused on commodities and gold. This was clear in our latest global retail investor survey results (see chart). And in the more recent ETF flows. As Bitcoin spot ETF inflows were accompanied by gold ETF outflows that now stand at nine months. This is not a terminal headwind for gold. With investment demand only around half of gold demand. And ETF's a tiny fraction of total gold holdings. But it does incrementally undermine the gold investment case and put time on the side of Bitcoin as younger investors accumulate assets.

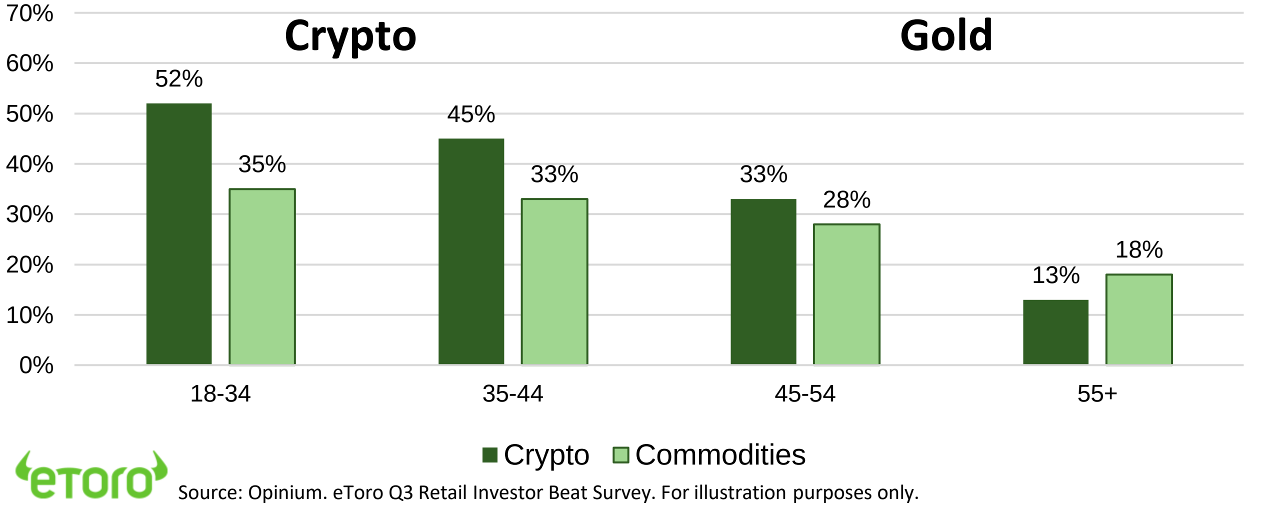
Gold driven by outlook for weaker dollar and lower bond yields, but with little validation

Gold is being driven higher by twin macro supports. Of a weaker US dollar, that makes it cheaper for the largest Indian and Chinese buyers. And the outlook for lower US interest rates, that makes non-yielding assets like gold (and Bitcoin) comparatively more attractive. Whilst safe-haven geopolitical drivers and central bank buying remain in place. Yet we have seen limited follow through from other related assets. With the silver price lagging compared to its typical relative price beta of around two to gold. Or from gold stocks (GDX) that have also significantly lagged the physical price. @GoldWorldWide.

Bitcoin driven by classic supply-and-demand and a pipeline of multiple catalysts

As the new Bitcoin ETF's have seen one of the strongest launches ever, and already accounts for 4% of total Bitcoin. Whilst the supply outlook is set to be further squeezed by the imminent four-yearly Bitcoin halving. With broader catalysts also coming from the Fed lowering interest rates, boosting liquidity and lessening interest rates competition. And from US accounting and global regulatory changes making it easier for companies and banks to own crypto. Ethereum (ETH) saw last week's Dencun upgrade, cutting fee's and boosting scalability, and with May' first final SEC spot ETF decision deadline looming. @BitcoinWorldWide.

Proportion of global retail investors owning Bitcoin and Gold, by age group



Source: Opinium. eToro Q3 Retail Investor Beat Survey. 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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