ANALYST WEEKLY

Cash on the side lines support

MARCH. 25. 2024

Summary

Pullbacks will come, but have no fear

Market pullbacks come with the rally territory and shouldn't be feared. Especially now. The S&P 500 averages 2-3 modest pullbacks a year and an average 14% intra-year drop. There is significant cash on the sidelines to buy into any significant pullback, and the twin rally pillars of rate cuts and recovering profits remain firm. Bigger risks are a stumble from the super-sized US and tech or end of immaculate disinflation. See Page 4

Fed drives restart of stocks rally

US stocks rally resumed after two week pause w/ FOMC's 'dovish hold, in a huge week for central banks. JPY weakened even as BoJ raised interest rates for the first time since 2007. Whilst SNB became first major bank to cut. China Jan/Feb growth data positively surprised. AAPL sued by the DoJ. TSLA raised prices. RDDT IPO surged. KER.PA luxe miss likely one-off. See 2024 Outlook HERE and twitter @laidler_ben. See Page 2

Buybacks and dividends coming back to style

2023 underperformance to narrow as profits recover and rate cuts near. Co's biggest buyer of US stocks and dividends driving cash returns in the rest of world. @DividendGrowth. See Page 2

Spin offs return to fashion

Unilever to Holcim look to create value by de-merging, following GE's success, even as spinoffs have mixed record and conglomerates, big tech to private equity, make comeback. See Page 2

Turnarounds are difficult

Charlie Munger complained how hard company turnarounds are, and data backs, despite their popularity with investors. Buying bond 'fallen angels' is more profitable. See Page 2

Winners and losers from cereal's rout

Wheat, corn, soybeans that third of global calorie consumption plunged as harvests rebounded, Is a relief to consumers and inflation, but problem for farmers and their suppliers. See Page 2

Crypto succumbs to profit taking

Bitcoin (BTC) below $70,000 on profit taking after asset-class leading rally. Spot Bitcoin ETF inflow cooled. 30 dys until 4-year Bitcoin supply halving event. SOL driven by Slerf boom. DOGE by COIN plan to list futures. Blackrock (BLK) to launch first tokenised fund on the Ethereum (ETH) network. See latest Weekly Crypto Roundup. See Page 3

Stealth commodities recovery slows

Commodities are up 5% from Feb. low on China stimulus, lower interest rate outlook, and stabler US dollar. Gold rallies on macro relief. Brent oil firm at a 4-month high of $85/bbl. on lower US inventories. Epic cocoa surge breaks $8,500/t, near twice prior high. Uranium a weaker outlier as utilities push back on high prices. See Page 3

The week ahead: PCE, Q1/Q2, Easter

1) Fed-favourite Feb. US PCE inflation (Fri) stall, Fed speakers wk. after FOMC reiterated 3-cuts. 2) Slow earnings week ahead of April 12th Q1 start. HM-B.ST, MKC, FLTR.L, CTAS, PAYX, BYD, ANTA. 3) Fri end of strong March and Q1, and Q2 start. 4) Short week of Fri/Mon Easter holidays in US UK, EU. UPS investor day. ADBE event. 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	1.97%	0.88%	4.74%
SPX500	2.29%	2.86%	9.74%
NASDAQ	2.85%	2.70%	9.44%
UK100	2.63%	2.92%	2.56%
GER40	1.50%	4.52%	8.68%
JPN225	5.63%	4.58%	22.19%
HKG50	-1.23%	-1.35%	-3.21%

*Data accurate as of 25/03/2024

Market Views

Fed drives restart of stocks rally

- US stocks rally resumed after a two week pause after FOMC's 'dovish hold, in a huge week for central banks. JPY weakened even as BoJ raised interest rates for first time since 2007. Whilst SNB became first major bank to cut. China Jan/Feb growth data positively surprised. AAPL sued by the DoJ. TSLA raised prices. RDDT IPO surged. KER.PA luxe miss likely one-off. See 2024 Outlook **HERE** See **Page 6** for resources and videos.

Buybacks and dividends coming back into style

- Dividends and especially stock buybacks coming back into style with investors. With chronic 2023 style underperformance narrowing this year. May continue as profits recover and competition from high interest rates starts to ease.

- Company buybacks remain the biggest buyers of US stocks, at $800 billion last year. With the largest buy-backers in the tech sectors and the US. Whilst stickier dividends drive cash returns in the rest of the world, with banks, utilities, real estate among the biggest payers. **See Page 2**

Spin offs return to fashion

- Company spin offs are leading corporate activity. Unilever (ULVR) demerging its ice cream unit incl. Ben & Jerry's. Holcim (HOLN.ZU) its US aggregates business. Lennar (LEN) its land holdings. Cummins (CMI) its filtration business. GE (GE) nearing end of its successful split. Whilst Reddit (RDDT) continues the glacial IPO and M&A re-opening. Yet spinoffs have a mixed performance record. Blamed on passive investing.

- Leaving small spin offs as orphans,. Or on activists, spinning off only weak businesses. And as conglomerates make a stealth comeback, from big tech stocks to the private equity business, and traditional Berkshire Hathaway (BRK.b), the biggest non-tech stock in the US today. **See Page 2**

Turnarounds are difficult

- Charlie Munger of Berkshire Hathaway (BRK.b) said turning around a struggling business was ten-times harder than people think. Yet it is one of the most popular investment strategies for retail investors. There are many in focus today, from Paypal (PYPL) to Boeing (BA). Yet data tends to back up Munger.

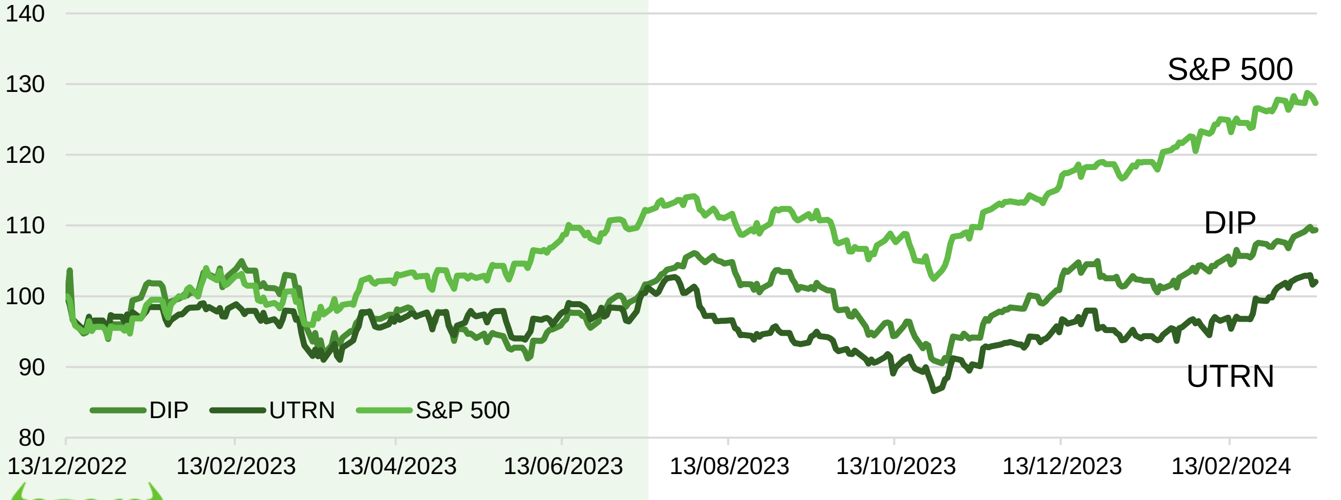
- With stocks generally falling for a very good reason, and turnarounds very tough to quickly execute. ETFs following a stock turnaround strategy have done poorly. More interestingly, the equivalent 'fallen angels' in the corporate bond market have performed much better. **See Page 2**

Winners and losers form the cereals rout

- Cereals prices have halved vs 2022 peak after Russia's invasion of Ukraine. Pressured by dollar rally and supply glut from big South American and Russian harvests. Driven lower food prices across world, where 1/3 global calories. A relief to consumers and inflation-focused policymakers.

- But this is piling pressure on farmers and their suppliers. The bull case is that 'low prices is the solution to low prices' as plantings adjust. And investor sentiment is already the most bearish since 2006. @AgriWorldWide. **See Page 2**

Picking stock turnarounds is easier said than done S&P 500 vs DIP & UTRN (2022-, Relative)



Source: Refinitiv. From DIP inception 13/02/22. UTRN underperformed S&P 500 by 73pp vs 21/09/18 start. For illustration purposes only

Market Views

Crypto succumbs to profit taking

- Bitcoin (BTC) fell below $70,000 as saw profit taking after its asset-class leading rally this year. Spot Bitcoin ETF inflows cooled from $1 billion daily record of the prior week. With 30 days to go until the 4-yearly Bitcoin supply [halving event](). Sell-off was cushioned by FOMC repeating outlook for 3 interest rate cuts this year.

- Altcoins continued to rally. SOL driven by a meme coin sub-sector boom, led by Slerf. DOGE was boosted by COIN plan to list futures on dog coin.

- The world's largest $9 trillion AUM asset manager Blackrock (BLK) is set to launch its first tokenised fund on the Ethereum (ETH) network. See latest [Weekly Crypto Roundup]().

Commodities stealth recovery slows

- The Bloomberg Commodity Index is up 5% from its recent February low. Helped by greater policy stimulus in China, the outlook for lower US interest rates, and a stabilizing US dollar.

- Gold prices set new all-time-highs boosted by the Fed's 'dovish hold' on interest rates. Brent crude prices held at four-month highs around $85/bbl., as US oil inventories dropped. Whilst cocoa prices continued their dramatic rally as near Easter, with prices breaching $8,500/t and near double the prior all-time-high from the 1970's.

- Uranium a rare big faller, down for 6th week from highs, as utilities pushed back against high prices.

US Equity Sectors, Themes, Crypto assets

	1 Week	1 Month	YTD
IT	3.10%	3.30%	13.37%
Healthcare	0.47%	-0.88%	6.40%
C Cyclicals	2.70%	1.44%	5.37%
Small Caps	1.60%	2.89%	2.22%
Value	1.81%	3.29%	6.71%
Bitcoin	-6.52%	23.06%	51.40%
Ethereum	-8.98%	10.41%	44.15%

Source: Refinitiv, MSCI, FTSE Russell

The week ahead: PCE inflation, Q2 start, Easter

1. Fed-favourite **US PCE inflation** (Fri) for Feb. Est. stall from last month 2.4% YoY. Fed **speakers** back the week after FOMC reiterated 3-cut 2024 view. Plus, **BoJ** rate hike meeting minutes (Mon).

2. A slow **earnings** week ahead of April 12th Q1 season start. With fast fashion HM-B.ST, staple MKC, betting FLTR.L, corp. services CTAS, software PAYX and China's BYD, ANTA and Bank of China.

3. Friday marks the **end of March** and a strong Q1, led by crypto, stocks, and volatility. The Q2 focus is ECB and Fed rate cuts, Q1 earnings growth, and elections in EU, India, S. Africa, and Mexico.

4. A short week with US, UK, Europe markets closed across on Fri. 29th and/or Mon. April 1st for **Easter**. Plus, UPS investor day. BofA Global Auto Summit w/ GM, BWA. Adobe Summit Conference w/ ADBE.

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*	-0.49%	3.46%	0.06%
Brent Oil	-0.48%	5.19%	10.02%
Gold Spot	0.33%	5.90%	4.37%
DXY USD	0.96%	0.48%	3.06%
EUR/USD	-0.73%	-0.12%	-2.07%
US 10Y Yld*	-11.60	-4.90	32.11
VIX Vol.	-9.37%	-5.02%	4.90%

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

Focus of Week: Cash on the sidelines

Market pullbacks come with the territory and shouldn't be feared. Especially now

The S&P 500 has rallied near 10% this year. Annualising this puts US stocks on track for the best year since 1954. That was the last year that the S&P 500 gained more than 40% in a year. We are positive but don't see such a dramatic strong performance. Implying the stocks rally will cool at some point from the current pace and may well see pullbacks along the way. This is wholly natural in markets. And we think will be quickly bought this time. With twin fundamental pillars of double-digit earnings growth and interest rate cuts. Alongside a huge $7 trillion in cash on the sidelines in the US, institutional investor cash levels high, and investor sentiment far from extreme levels, implying plenty of room to add to stock market positions.

The S&P 500 averages 2-3 modest pullbacks a year and an average 14% intra-year drop

US stocks have seen average annual returns of 10% over the long term, and stocks historically rise much more than they fall. But periodic market sell-offs come with the territory, and there is no investment reward without risk. The S&P 500 index has seen an average of between two and three modest 5%+ 'pullbacks' a year. Whilst the average intra-year S&P 500 index drop has been a sizeable 14%. Last year for example saw a 10% intra-year S&P 500 correction but was ended up 24% for the calendar year. 2020 saw a much worse 34% intra-year plunge yet still ended up 16% for the calendar year.

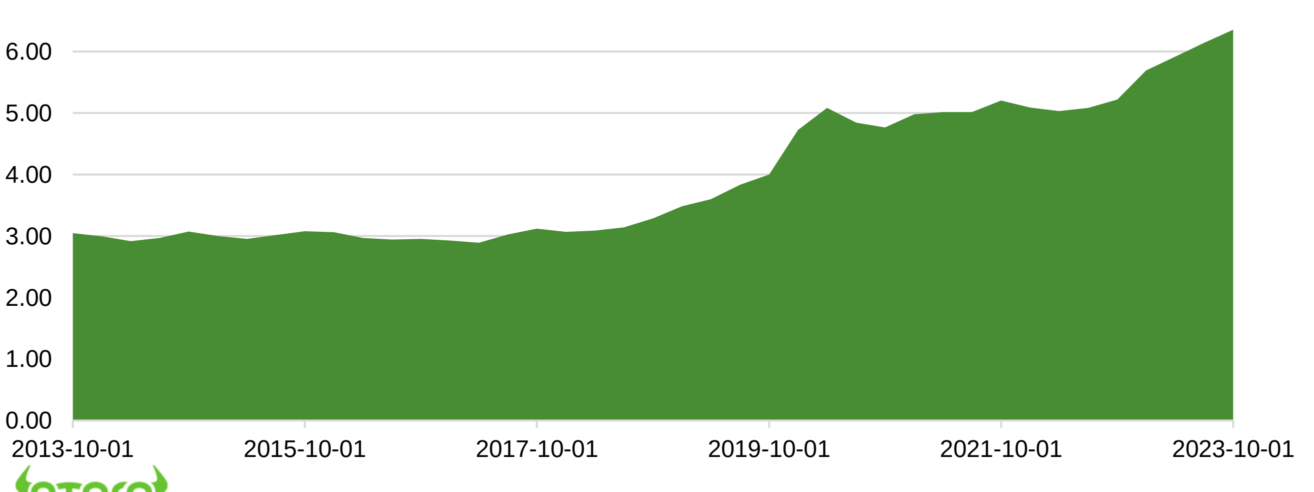
There is significant cash on the sidelines to buy into any significant pullback

We think any pullback will be bought by investors and may therefore be modest. With fundamentals secure, sentiment not overly bullish, and plenty of available cash on the sidelines. **1)** Our investor sentiment index still shows investor sentiment broadly average. And far from exuberant levels. This is a contrarian indicator, and signals many people still left to buy the market. Similarly, **2)** the $6.4 trillion in US money market funds is at a record (see chart). Enjoying the 5.5% interest rates being paid by the Fed. But facing a future of lower interest rates and watching the FOMO (Fear Of Missing Out) of the S&P 500's 25% rally in the past six months. Our analysis shows it returns to stocks with a lag to rate cuts. **3)** Whilst the latest BAML institutional investor survey also shows cash levels rising and high at 4.4%.

Risks to watch are a stumble from super-sized US and tech or end of immaculate disinflation

Pullbacks can be driven by anything. And should be ignored as long as the twin earnings recovery and rate cut pillars are in place. A deeper move would likely need to see. **1)** US assets are super-sized. With US stocks over 60% of total global market capitalisation. And Magnificent 7 near 30% of the S&P 500. These high concentration levels mean any significant stumble from either would reverberate globally, with few places to hide. **2)** An undermining of the second pillar of interest rate cuts. Inflation is sticky but rate cuts still coming. The US is enjoying a productivity boom and immaculate disinflation. Any change here is a risk.

Total assets in US money market funds, in US$ Trillions (Last 10 years)



Source: FRED. 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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