

# Needing another earnings surprise

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## Summary

### Friday's Q1 earnings season next catalyst

Better earnings growth outlook the single biggest market support right now. Q1 season starts Friday. Profits growth forecasts are reassuring low, and we see another 'beat'. Idiosyncratic recovery driven by tech, profit margins, a low base, and held back by energy. Tech earnings to grow over 20% and lead S&P 500 +5% earnings growth. Europe set for a less-bad -11% quarter, led by heavy-weight financials sector, Denmark, and improved net profit margins. [See Page 4](#)

### Stocks fall after big Q1 gains

S&P500's worst week of year after huge Q1 gains and big US jobs report. Europe cushioned by another downside inflation surprise. US bond yields rose to 4.4% and commodities stealth rally accelerated. TSLA slumped as deliveries shocked. GOOG reported near buying HUBS. DIS saw off activists. GE finished its breakup. And EDR went private. [See our new Q2 2024 Outlook HERE](#) and twitter [@laidler\\_ben](#). [See Page 2](#)

### US valuation risks are building

US [valuations above average](#) and at a record 40% premium to fair-value as bond yields risen. Puts pressure on profits recovery & supports rotation to cheaper 'insurance' assets. [See Page 2](#)

### Big oil makes a comeback

Oil [hit \\$90](#) as OPEC squeeze supply and demand recovers with cheap big oil stocks leading gains. Yet higher Brent will sap OPEC unity and sector earnings hurt by natgas and refining. [See Page 2](#)

### FOMO makes a return to markets

Our contrarian [sentiment indicator](#) surged to the highest in two years as flows have poured into equity funds from the sidelines. [See Page 2](#)

### BEACH stocks are flying high

[Travel stocks](#) outpacing tech as industry see' new normal of demand catchup & supply constrained pricing power, benefitting hotels to airlines and Mexico to Spain. See [@TravelKit](#) [See Page 2](#)

### Meme coins lead crypto down

Bitcoin (BTC) eased back as spot ETF inflows and Fed rate cut expectations both cool. Asset class weakness led by double-digit falls from meme coins DOGE and SHIBxM. Ripple announced plans for a USD stablecoin. Bitcoin halving two weeks away. Etoro adds 12 altcoins to platform. See latest [Weekly Crypto Roundup](#). [See Page 3](#)

### Commodities have their best week of year

Commodities rallied over 3% as stealth catch-up rally broadens, helped by China PMI surprise and weaker US dollar. Brent broke \$90 to a six-month high on OPEC+ supply squeeze and Mid-East tension. China-focused industrial metals, copper to zinc, boosted by its manufacturing PMI hitting 50. Silver led precious metal rally. [See Page 3](#)

### The week ahead: Q1 earnings season, CPI, ECB

1) JPM starts global Q1 earnings season w/ low +5% S&P 500 growth expectations and -11% in Stoxx 600. 2) US inflation (Wed) world's most important number stuck c.3.2%. 3) ECB meeting (Thu) outlook to first June rate cut. 4) IMF World Economic Outlook ahead of Spring meets. INTC Vision and GOOG 3-day cloud events. [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	-2.27%	0.47%	3.22%
SPX500	-0.95%	1.57%	9.11%
NASDAQ	-0.80%	1.02%	8.24%
UK100	-0.52%	3.28%	2.30%
GER40	-1.72%	2.02%	8.50%
JPN225	-3.41%	-1.76%	16.52%
HKG50	1.10%	3.04%	-1.90%

\*Data accurate as of 08/04/2024

## Market Views

### Stocks fall after big Q1 gains

- S&P500's saw worst week of year after huge Q1 gains and a big US jobs report. Europe cushioned by another downside inflation surprise. US bond yields rose to 4.4% and commodities stealth rally accelerated. TSLA slumped as deliveries shocked. GOOG reported near buying HUBS. DIS saw off activists. GE finished its breakup. And EDR went private. **See our new Q2 2024 Outlook [HERE](#)**. See [Page 6](#) for resources and videos.

### US valuation risks are building

- The S&P 500 [price/earnings ratio](#) is now well above long term averages. And rising 10-yr bond yields widened gap to our fair value P/E to record 40%. Stocks have become less sensitive to rising yields in past year, but there is a tipping point.
- US GDP 'exceptionalism' and higher-for-longer interest rates are pressuring up yields. Alongside a return of the 'term premium' of broader uncertainties from fiscal sustainability to election outcomes. This makes a Q1 earnings season recovery crucial and supports our call for a rotation to cheaper 'insurance' assets. [See Page 2](#)

### Oil makes a big comeback

- Brent oil is near a [six-month high](#) \$90/bbl. and the market is slipping into a fundamental deficit. Oil equities (XLE) have started leading all sectors up. OPEC+ is maintaining its big 5.5% of global supply cuts as demand picks up. And geopolitical tensions and investor 'inflation hedge' demand adds to the mix. It's a recipe for a grind higher in prices and in inflation concerns, for now.

- But uniquely among commodities, oil may self-adjust. As OPEC+ unity frays and supply cuts relax. Whilst oil stocks may need a broader turnup in their profits outlook. Macro worries are lessened by falling energy intensity and still low inflation-adjusted prices. @OilWorldWide. [See Page 2](#)

### FOMO makes a return to markets

- Investor sentiment has recently [seen a sharp increase](#), according to our proprietary indicator. It's now at the highest levels in near two years and a flashing yellow warning. It's the first sign of investor FOMO or Fear Of Missing Out, driven by large performance-chasing ETF fund inflows.
- Markets are due a breather or 5% pullback, and this sentiment surge adds to our conviction. But with fundamentals strong and significant cash on the sidelines it shouldn't be feared. [See Page 2](#)

### BEACH stocks are flying high

- Summer holidays are on the horizon and [travel & tourism stocks](#) soaring. Our baskets of booking sites, entertainment, airline, cruise, and hotel (BEACH) stocks are beating even high-flying tech.
- The industry is enjoying a 'new normal'. Volumes have regained pre-pandemic levels but now lag a global economy a quarter bigger. Whilst limited new capacity keeps pricing power high. From chronic Boeing (BA) plane and RTX (RTX) engine backlogs. To high interest rates curbing new hotel build and rising restrictions hitting short-term rental supply. Whilst 5% cruise capacity growth still lags pre-covid levels. [See Page 2](#)

### Fair value S&P 500 price/earnings ratio vs market (10-years)



## Market Views

### Meme coins lead crypto weakness

- Bitcoin (BTC) and Ethereum (ETH) eased back from their recent highs as inflows into the Bitcoin spot ETFs cooled and Fed interest rate cut outlook remained subdued. Asset class weakness was led by the meme coins DOGE and SHIBxM which saw double-digit percent losses.
- The next significant asset class event, the four-yearly Bitcoin halving is now only a little over two-weeks away. Sector news saw Ripple announce plans to launch a US dollar stablecoin.
- Etoro announced [the addition](#) of 12 new altcoins to its trading platform, from NEAR to OSMO and SEI. See latest [Weekly Crypto Roundup](#).

### Best week of the year for commodities

- Commodities rallied over 3% in their best week of the year, as their catch-up stealth rally broadens. With twin drivers of China's stronger than expected manufacturing PMI, touching 50, alongside a two-week low for the US dollar DXY.
- China-focused metals like copper and zinc led the rally on the better activity outlook. And precious metals were also strong, on the weaker US dollar and outlook for a Fed June rate cut. Strength was led by silver, and as gold hit a new all-time-high.
- Brent crude prices neared a six-month high at \$90/bbl. as the two-monthly OPEC+ monitoring meeting made no changes to its big supply cuts.

### The week ahead: Inflation, ECB, earnings, politics

- Global Q1 **earnings season** starts (Fri) w/ JPM and big US banks. Q4's earnings surprise was driver of the YTD market strength. Q1 ests. are reassuringly low 5% in for S&P 500 and -11% for the Stoxx 600.
- US **inflation** (Wed) for March data event of the week. An est. modest easing vs prior 3.2% needed to keep door open to a Fed June rate cut start. Wed. also see's release of latest **FOMC** minutes.
- Europe's **ECB** meeting (Thu), its press release and press conference will be scanned for likelihood of a first June rate cut, coming after latest 2.4% downside surprise to the continent's inflation rate.
- Publication of **IMF**' latest World Economic Outlook ahead of the WB/IMF Spring meetings. Slovakia president and Poland local **election results**. INTC Vision and GOOGL three-day Cloud Next events.

### 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	-0.33%	1.68%	11.82%
Healthcare	-3.08%	-1.76%	4.84%
Cyclicals	-2.13%	0.63%	4.29%
Small Caps	-2.87%	-0.22%	1.80%
Value	-1.57%	1.94%	6.71%
Bitcoin	-4.09%	0.97%	61.18%
Ethereum	-6.27%	-14.07%	44.54%

### Fixed Income, Commodities, Currencies

	1 Week	1 Month	YTD
Commod*	3.42%	4.99%	4.31%
Brent Oil	4.44%	10.74%	17.88%
Gold Spot	4.18%	7.45%	13.38%
DXY USD	-0.25%	1.53%	2.92%
EUR/USD	0.49%	-0.82%	-1.69%
US 10Y Yld*	20.10	32.60	52.51
VIX Vol.	23.21%	8.75%	28.76%

Source: Refinitiv, MSCI, FTSE Russell

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

# Focus of Week: Looking for another earnings surprise

## Better earnings growth the biggest market support right now. Q1 starts Friday

JP Morgan (JPM) and the biggest US banks kick off first quarter earnings season on Friday. Earnings growth is [more important than ever](#). As one of the two pillars of this bull market. And with the second pillar, or imminent interest rate cuts, looking shakier by the day. The good news is that expectations are low, with 5% growth from the S&P 500 and -11% decline from Europe's Stoxx 600, but recovery in sight.

## Earnings growth expectations are reassuring low ahead of the quarter start

Consensus is looking for only 5% earnings growth from S&P 500 this quarter, half Q4's rate. Earnings have been trimmed 3pp this year, as they typically are pre-results. The exception's been the three 'tech' sectors: Communications, IT, and discretionary' which all rose. By contrast the biggest cuts were in the commodity materials and energy. Those with the biggest recent increases in Q1 forecasts include cruises NCL, CCL, tech MU, WDC, and REITs UDR, KIM. Biggest downgrades in aerospace LUV, BA and dollar stores DLTR, DG.

## Idiosyncratic recovery driven by tech, profit margins, a low base, and held back by energy

We are in the early stages of an idiosyncratic and unbalanced profits recovery, with top-line sales growth weak. Earnings growth is driven by 1) AI-led hype-to-profits reality growth from tech sectors as adoption spreads. 2) Further profit margin expansion as inflation pressures ease. With net margins to expand in Europe to 9.3% and flat line at a high 12.2% in US. 3) Growth rates will be flattered by depressed levels a year ago in US. 4) Underlying growth is 3-4pp better on both sides of the Atlantic [excluding energy](#).

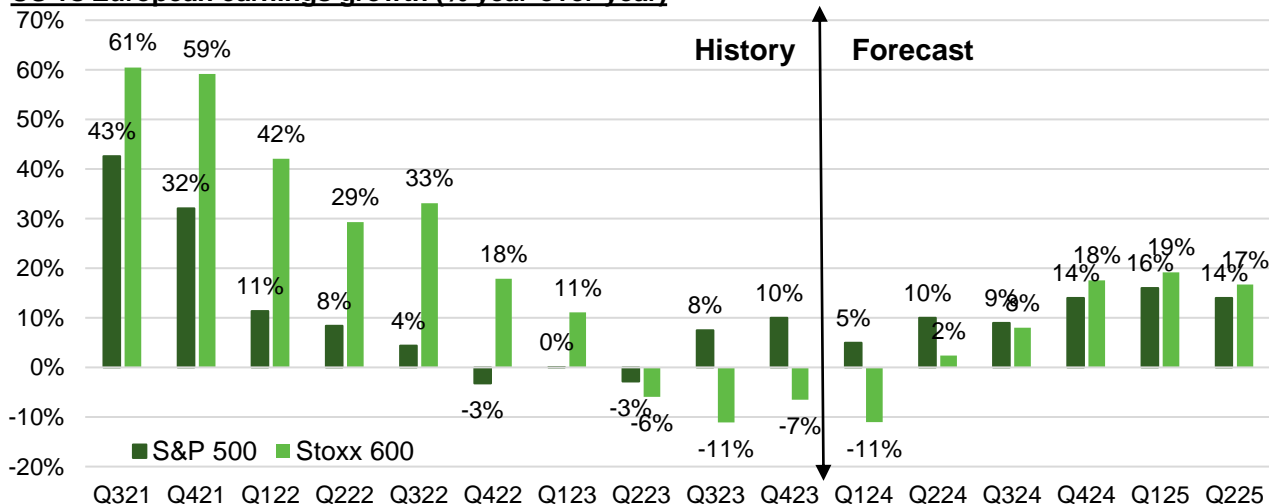
## Tech earnings to grow over 20% and lead S&P 500 earnings growth

S&P 500 estimates are reassuringly low, with profits seen 4% lower than Q4 and growth rates halving to 5% and revenue growth easing 0.5% to 3.3%. Communications, technology, and discretionary are set to grow earnings an average of 22% in Q1. And this set to lead the S&P 500 again. Though slowing from the 38% surge last quarter. At the other extreme, energy and materials commodity sectors are set to see over 20% profits declines. Financials who are kicking off earnings season are set to see slowing growth to 5%.

## Europe set for a less-bad quarter, led by Denmark, financials, and improved profit margins

Europe's [Stoxx 600 is forecast](#) to see sales fall 6% and earnings decline 11% (8% excl. energy). As it struggles with stagnant economic growth and the global manufacturing recession. Earnings declines are to be led by utilities and commodities, with staples, healthcare and heavy-weight financials sector least-bad. Novo Nordisk (NVO) driven Denmark is the only market est. to see growth, followed by Italy, Switzerland and Spain. With Germany, Netherlands, and France set for double-digit declines. Profit margins are seen....

### US vs European earnings growth (% year-over-year)



Source: Refinitiv. 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

<b>United States</b>	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.
<b>Europe &amp; UK</b>	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.
<b>Emerging Markets (EM)</b>	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.
<b>Other International (JP, AUS, CN)</b>	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

<b>Tech</b>	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.
<b>Defensives</b>	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.
<b>Cyclicals</b>	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.
<b>Financials</b>	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.
<b>Themes</b>	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

<b>Currencies</b>	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.
<b>Fixed Income</b>	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.
<b>Commodities</b>	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.
<b>Crypto</b>	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.

# Analyst Team

## Global Analyst Team

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## Research Resources

### Research Library

[eToro Plus](#): In-Depth Analysis. Dive deeper into market insights: Read daily, weekly and quarterly summaries, catch up on the latest market trends and get the most recent, in-depth overview of markets.

### Presentation

Find our twice monthly global markets presentation on the multi-asset investment outlook.

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