ANALYST WEEKLY

Poor seasonality coming early

APRIL.15. 2024

Summary

'Sell in May' weaker seasonality coming early

Markets had a great first quarter and now face US inflation reset headwinds, pulling forward overdue volatility and 'Sell in May' typical weak seasonality. This is a breather, and we remain in early bull market innings. Average global mid-year six-month returns are 0.1% monthly vs 1.2% rest of year, of 15 major markets the past 50 years. With weaker performance outside the US. With three seasonal constant drivers. **See Page 4**

Hot inflation drives a rate cut rethink

US stocks worst week in six months. 3rd straight hot inflation report cut 2024 rate cut outlook to just two. Bond yields and dollar rose, and rate sensitive real estate slumped. Geopolitical fears rose. ECB goes-alone with June cut plans, hitting EUR. BA saw new whistleblower. BX bid for AIRC. SHEL.L considers leaving London. TSMC reported a sales rise. **See our new Q2 2024 Outlook** **HERE** and twitter @laidler_ben. **See Page 2**

A third US inflation surprise

US inflation most important number in markets rose to 3.5%, on shelter and gasoline, pushing back Fed rate cuts to Sept. and to just two this year, boosting bond yields and dollar. **See Page 2**

US banks kick off earnings. Europe the focus

US banks start Q1 earnings and were weak, with focus on guidance. Europe's banks are relatively bigger, more macro important, and now more profitable and a lot cheaper. **See Page 2**

Commodities coming in from cold

Rallies as see slow-burn supply/demand squeeze and investors now looking for inflation hedge and allocations low after big underperformance. It's a better but not great outlook. **See Page 2**

Messages from crypto and its proxies

Is best performing, smallest, youngest, and most retail asset class with key halving and Ethereum ETF catalysts looming. Bitcoin led but Ethereum is the contrarian catch-up play. **See Page 2**

Bitcoin weak ahead of halving week

Bitcoin (BTC) & Ethereum (ETH) ease vs $70,000 and $3,500 highs. Uniswap (UNI) fell on SEC case. April 20th Bitcoin halving to cut supply growth for remaining 6% of BTC. Cumulative net spot BTC ETF inflows hit $12 billion. Blackrock (BLK) adds GS, UBS, C as participants for leading IBIT ETF. See latest Weekly Crypto Roundup. **See Page 3**

Commodity rally takes a breather

Commodities blistering catch-up rally paused as the US dollar soared and bond yields rose, ahead of key China economic data. Brent held near $90/bbl. on geopolitics. Platinum and silver led the precious rally, and gold hit a new all-time high. Cocoa also hit a new high at $10,600/t, and sugar fell on healthy Brazil harvest. **See Page 3**

The week ahead: Q1 earnings, Halving, China

1) 1st week of Q1 earnings w/ banks BAC, GS, healthcare JNJ, PG, and tech NFLX, TSM, ASML. 2) Four-year Bitcoin halving (Sat) slowing supply growth for remaining 6% of BTC. 3) China Q1 5% GDP growth stall (Tue). 4) IMF/World Bank spring meetings and new macro forecasts. US 'tax day' filing deadline stock overhang (Mon). **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 soft landing losers from Europe to cyclicals. **See Page 5**

Top Index Performance

	1 Week	1 Month	YTD
DJ30	-2.37%	-1.89%	0.78%
SPX500	-1.55%	0.12%	7.41%
NASDAQ	-0.45%	1.26%	7.75%
UK100	1.07%	3.47%	3.39%
GER40	-1.35%	-0.04%	7.04%
JPN225	1.36%	2.11%	18.11%
HKG50	-0.01%	0.00%	-1.91%

*Data accurate as of 15/04/2024

Market Views

Hot inflation drives a rate cut rethink

- US stocks worst week in six months. 3rd straight hot inflation report cut 2024 rate cut outlook to just two. Bond yields and dollar rose, and rate sensitive real estate slumped. Geopolitical fears rose. ECB goes-alone with June cut plans, hitting EUR. BA saw new whistleblower. BX bid for AIRC. SHEL.L considers leaving London. TSMC reported a sales rise. **See our new Q2 2024 Outlook HERE**. See **Page 6** for resources and videos.

A third inflation surprise

- US inflation is the most important number in markets. The latest March report rose to 3.5% and was a 3rd straight upside surprise. Higher shelter and gasoline costs accounted for over half the monthly increase. Core inflation was steady at 3.8%, but also worse than expected. Whilst producer price rose a lower than feared 2.1%.

- Stickier inflation drove a further reset in market expectations for the start of Fed rate cuts. Pushing back to September, and with now only 2 cuts seen for the year. Whilst US 10-year bond yields broke over 4.5% and DXY rose. **See Page 2**

US banks starts earnings, but Europe the focus

- US banks kick off Q1 earnings season. That's a shame, as they'll be weak. With focus on management guidance to support their rally this year. The 2nd biggest US sector is a classic value play with P/E half broad S&P 500 and earnings outlook improving as capital markets recovers and margin pressure troughs. Yet Europe's banks remain possibly the bigger opportunity.

- Financials are the biggest European stock market sector. And the source for 80% of the continent's financing, which is the opposite situation of the US. European banks growth and profitability is uniquely above US peers whilst valuations a third cheaper. @BigBanks and @EuropeEconomy. **See Page 2**

Commodities coming in from the cold

- The commodities rebound broadened, after a bad 2023. With oil breaking $90/bbl.. New gold highs. And 'Dr. Copper' surging. Demand been under-estimated. Supply structurally tight. And technicals important. With sentiment depressed, demand for inflation hedges, and geopolitical risks rising.

- It's a better but not great outlook. With US dollar resilient, US bond yields high, and China demand half-hearted. And natgas and cereals over-supplied. Commodities has the worst record of all assets and 'solution to high prices is high prices'. **See Page 2**

Messages from crypto and its proxies

- Crypto is by-far the best performing asset class this year. Its $2.7 trillion market cap is the smallest, youngest, and most retail of all assets. Bitcoin set pace and optimism is high. With a classic squeeze of ETF inflows and the imminent BTC halving.

- Ethereum (ETH) lagged and is depressed, with next month' spot ETF decision a possible opportunity. Crypto also has longer term catalysts of Fed rate cuts and company accounting and bank regs changes. Whilst ecosystem venture capital inflows were up by a third last quarter and institutional tokenisation projects are building. **See Page 2**

Tech (NDQ-100) vs Commodities (BCom) extreme outperformance (since 1991)

Source: Refinitiv, NASDAQ-100 performance dividend by Bloomberg Spot Commodity Index since inception. Illustration purposes only

Market Views

Bitcoin halving happening this week

- Bitcoin (BTC) and Ethereum (ETH) respectively rose back to $70,000 and $3,500, resilient to broader stock and bond market volatility. Whilst Uniswap (UNI) was among biggest losers after SEC filed a Wells notice of impending action.

- This Saturday 20th's estimated four-yearly Bitcoin halving is the highlight, further slowing the coin's supply growth. Whilst net inflows into the Bitcoin spot ETF's has now reached a cumulative $12 billion since there mid-January launch.

- Blackrock (BLK) announced GS, C, and UBS as authorised participants to supports its IBIT spot ETF. Repayments to FTX creditors set to start by year end. See latest Weekly Crypto Roundup.

Commodity rally takes a breather

- Commodities blistering catch-up rally took a breather as US bond yields surged and the US dollar had a record surge. Whilst investors looked ahead to a key week of China economic data.

- Brent crude held at a six-month high $90/bbl. as geopolitical risks remained elevated. Whilst Platinum and silver led the broad precious metals rally, and gold hit a new all-time-high.

- Agricultural prices were more mixed. As cocoa hit a new all-time-high at $10,600/t, twice prior high levels, on a continued West Africa supply squeeze. Whilst sugar prices eased further on the outlook for an improved Brazil crop.

US Equity Sectors, Themes, Crypto assets

	1 Week	1 Month	YTD
IT	-0.44%	-0.74%	11.33%
Healthcare	-3.04%	-5.15%	1.65%
C Cyclicals	-1.09%	-0.99%	3.16%
Small Caps	-2.92%	-3.02%	-1.18%
Value	-2.80%	-1.81%	3.72%
Bitcoin	-1.59%	-6.16%	58.61%
Ethereum	-3.44%	-18.64%	39.56%

Source: Refinitiv, MSCI, FTSE Russell

eToro

The week ahead: Q1 earnings, Halving, China, IMF

1. First full Q1 **earnings season** week w/ major banks BAC, GS, MS, healthcare JNJ, PG, UNH, and tech NFLX, TSMC, ASML. With reassuringly low 5% growth ests. for S&P 500 and -11% for Stoxx 600.

2. Saturday 20th is the est. date for the fourth 4-yr **Bitcoin halving** cutting Bitcoin's mining reward from 6.250 to 3.125 BTC and slowing the issuance speed for the remaining 6% of 21 million coins.

3. Focus on **China** as world's no.2 economy reports Q1 GDP growth (Tue) around 5%, but likely cooling of March retail sales and industrial production, and with its currency weakening to a 5-month low.

4. The **IMF/World Bank** Spring meetings with new macro forecasts. US **tax day** filling deadline (Mon) with potential stock selling to fund. Elections start (Fri) in **India**, the world's largest democracy.

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 soft landing sensitive 'losers' from Europe to cyclicals.

Fixed Income, Commodities, Currencies

	1 Week	1 Month	YTD
Commod*	0.03%	3.77%	4.34%
Brent Oil	-0.78%	5.62%	16.96%
Gold Spot	0.47%	9.30%	13.92%
DXY USD	1.64%	2.50%	4.62%
EUR/USD	-1.83%	-2.28%	-3.59%
US 10Y Yld*	12.60	21.40	65.11
VIX Vol.	7.99%	20.12%	39.04%

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

Focus of Week: Poor seasonality coming early

Mid-year weaker seasonality may come early this year

Poor seasonality may be coming early this year. With US stock markets suffering a further sharp reset in early interest rate cut expectations. And technically overdue a pullback or correction anyway. After inexorably strong gains in the past six months. 'Sell in May and go away' is one of the most famous adages in finance. This weak stock market seasonality is well-supported by the data (see chart). And even bigger globally than in the US. None of the 15 indices analysed did better in these mid-year six months than in the prior six. This is driven by the calendar of Q1 company guidance and Q4 investors year-ahead repositioning. We see this as a needed pause-for-breath in the early innings of a new bull market. Supported by 10%+ earnings growth, ultimately lower interest rates, and significant cash on the sidelines.

But the bull market fundamentals remain supportive

The fundamentals remain more important than the technicals. This is a mid-cycle environment. Of strong economic growth and high-for-longer interest rates. This is supporting company earnings. And largely offsetting continued delays in the lower interest rate outlook. The US's productivity boom is squaring the circle of strong growth but a still lower inflation outlook. Whilst in the rest of the world, economic growth and inflation pressures, as well as valuations, are lower. And interest rate cuts have either started or are imminent. Technically, significant cash sits on the sidelines, and we think buys an overdue pullback. We see a rotation away from 'teddy bear' big tech and US outperformers towards smaller and the cheaper sectors and non-US regions, from financials to Europe, more sensitive to a soft GDP landing and lower rates.

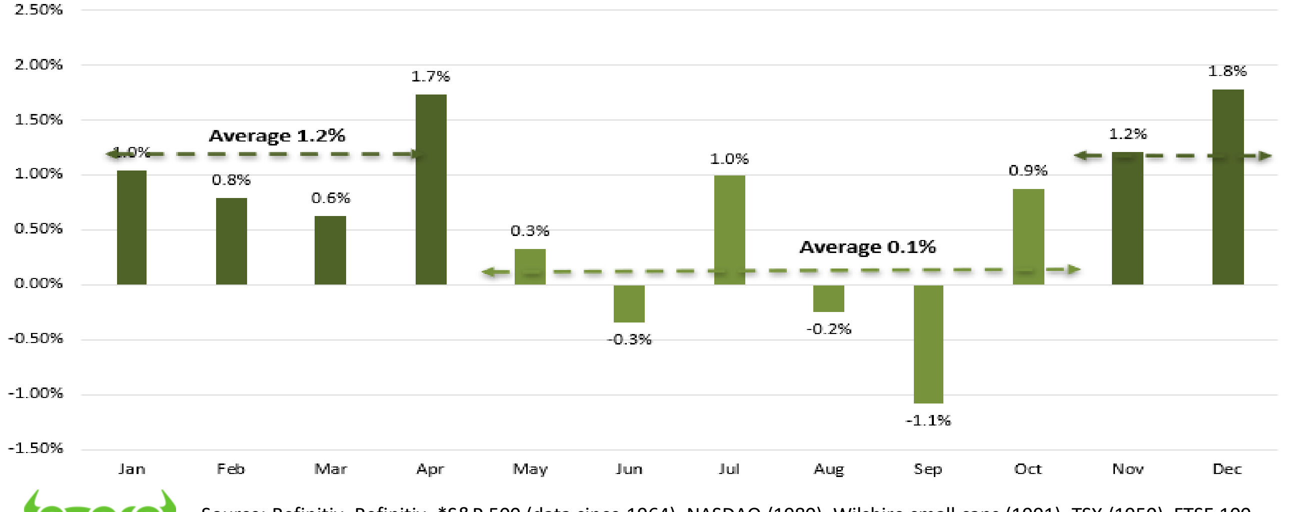
The three drivers of market seasonality

This resilient seasonality factor has 3 drivers. 1) The usually positive company guidance on the full year outlook seen in first quarter. 2) Q4's typical investor repositioning for the year-ahead and ahead of the well-known January price effect. 3) Summer months lack of these positives, alongside there typically lower-volumes. This seasonality is seen even in the southern hemisphere Australia. This likely reflects the rise of international investors' importance and increased correlations across the global equity markets.

Our analysis of seasonality in 15 markets going back 50 years

We analysed monthly price returns for 15 of the world's largest stock indices going back on average over fifty years. The monthly average November to April price return is 1.2%, with no negative months. This compares to only a 0.1% monthly return from May to October, and with three losing months. This seasonality difference is seen in all 15 markets. No one see's stronger returns over the summer months. The greatest price seasonality is in the higher beta assets and markets like the small cap UK FTSE 250 and Italian FTSE MIB. US seasonality is below the average across S&P 500, NASDAQ, and Wilshire small caps.

'Global-15 Markets' historic average monthly returns (%)



Source: Refinitiv. Refinitiv. *S&P 500 (data since 1964), NASDAQ (1980), Wilshire small caps (1991), TSX (1950), FTSE 100 (1984), FTSE 250 (1986), DAX (1965), CAC (1970), SMI (1998), Summer returns average 0.1% monthly vs 1.2% rest of year. 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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