RETAIL INVESTOR BEAT

January 2023

FOREWORD

If 2020 really was the ‘rise of the retail investor’, then 2022 could arguably be described as their initiation test, with almost every major financial asset on the planet performing dismally in the face of sky high inflation, rising interest rates and a weakening global economy.

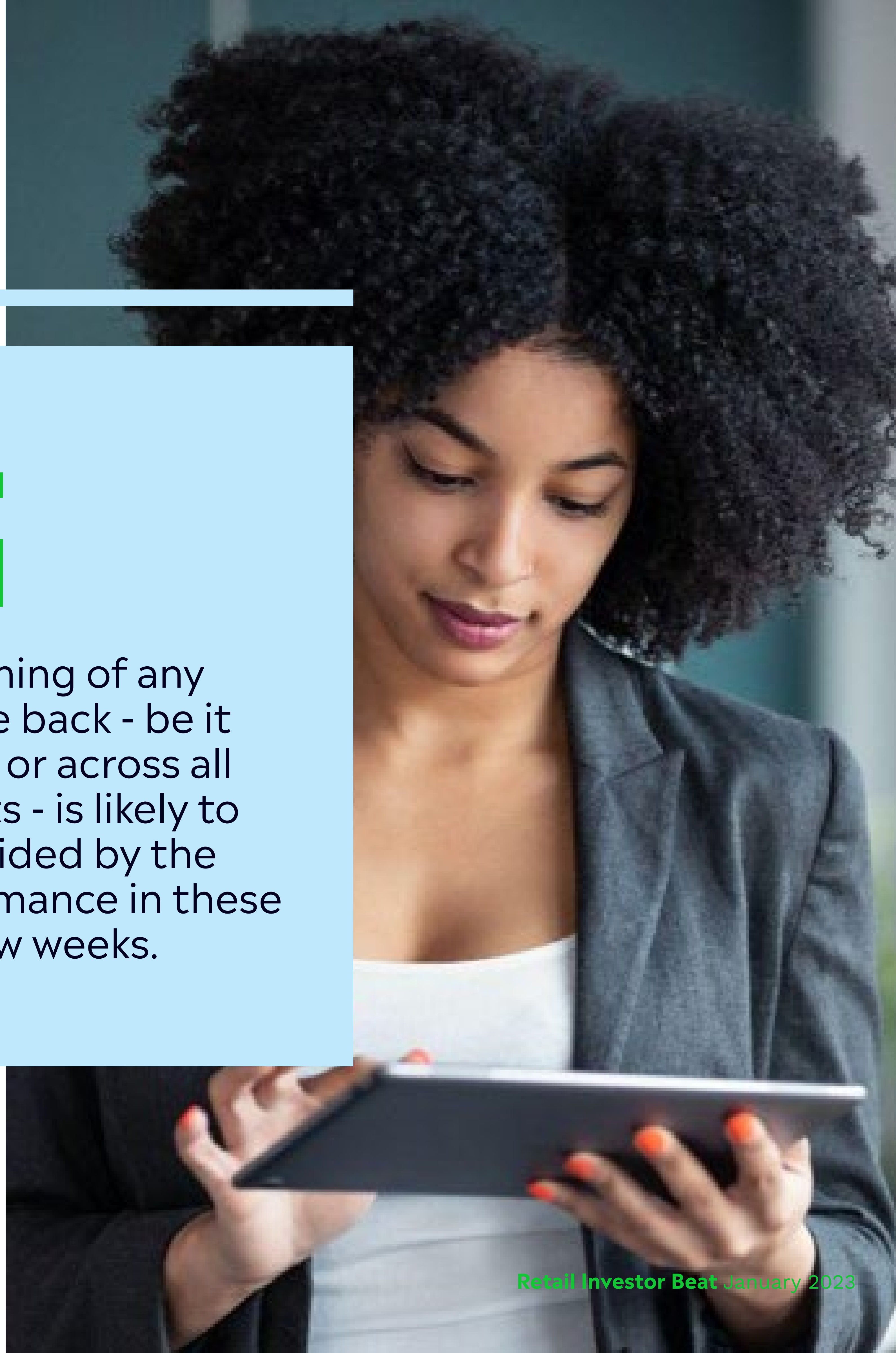
Yet after four quarters of bear territory - representing the worst year for markets since the 2008 financial crisis - remarkably, most retail investors are still feeling optimistic. This is particularly the case with younger investors, who, despite the popular FOMO, short-term narrative, are more likely than their older counterparts to see 2022 as an opportunity to learn and to buy the dip, with long term gains in mind.

In Q4 we also saw a soft rebound in sentiment. This may well be a result of the tentatively improving outlook for inflation, long perceived as the number one threat by retail investors in our quarterly global survey. That said, this cohort is still taking precautions with a global recession looming and in Q4 we saw a significant dash for cash assets such as savings accounts, whilst a number of defensive sectors from healthcare and utilities to energy rose in popularity.

The latest survey also shows that the class of 2022 is not ready to give up on tech, despite its accolade as the worst performing sector last year. By the end of Q1, it’s projected to be the most widely owned sector, overtaking financial services, suggesting that retail investors expect a bounce back at some point.

As we settle into 2023, history tells us that the timing of any bounce back - be it in tech or across all markets - is likely to be decided by the performance in these first few weeks. For retail investors though, rather than timing the markets, the focus as ever should be on a consistent approach - ignoring the short term noise with longer term goals in mind.

Ben Laidler
Global Markets Strategist at eToro



“

The timing of any bounce back - be it in tech or across all markets - is likely to be decided by the performance in these first few weeks.

YOUNGER INVESTORS SEE THE **BRIGHT** SIDE

For many younger investors, 2022 would have been their first bear market, yet it is older investors with shorter retirement time horizons who felt the strain most as financial markets nosedived last year.

One in three (33%) retail investors say last year's bear market reduced their appetite for investing, with 8% of this group going as far as to say it turned them off investing completely. This is perhaps unsurprising after the worst year for global markets since the 2008 global financial crisis.

However, the remaining 67% were either ambivalent or positive about 2022 and its impact on their investing mindset. One in five (20%) believe the challenges forced them to improve their approach to investing, 16% saw 2022 as an opportunity to buy the dip, whilst 15% say the bear market actually increased their appetite for investing..

This sentiment varies dramatically across age groups. Almost one in four (23%) 18-34-year-olds say 2022 increased their investing appetite whilst just 6% of over-55s share this view. Similarly, whilst 27% of 18-34-year-olds say the bear market diminished their appetite to some degree, this jumps to 40% for over-55s. Retirement time horizons are clearly playing a part in this sentiment, with younger investors having the luxury of decades to see their portfolios recover and prosper.

For the two thirds of people who have in no way lost appetite for investing, the most common explanation for this position was the recognition that markets are cyclical (34%). A similar proportion (33%) said they were unconcerned about short term volatility, while 24% feel markets will perform better in 2023.

> Two thirds of investors were either ambivalent or positive about 2022 and its impact on their investing mindset.

67
percent of retail investors positive or ambivalent about bear market

23
percent of 18-34-year-olds say 2022 increased investing appetite

40
percent of retail investors aged over 55 say appetite has been dented

How the bear market impacted investors of different ages

Ben Laidler: *"The fact that two thirds of retail investors feel indifferent, or even more positive, after the worst year for markets in a generation might seem odd. But it's important to remember that the majority of this cohort think in years and decades, despite the common misperception that they are motivated by short term gains. For those with these horizons, the back end of 2022 has offered a chance to buy companies at lower valuations, improving the outlook for long term returns."*

CONFIDENCE BEGINS TO **REBOUND**

Despite the gloomy economic outlook for 2023, retail investor confidence rebounded sharply in Q4 with many appearing to take reassurance from the gradually improving inflation picture.

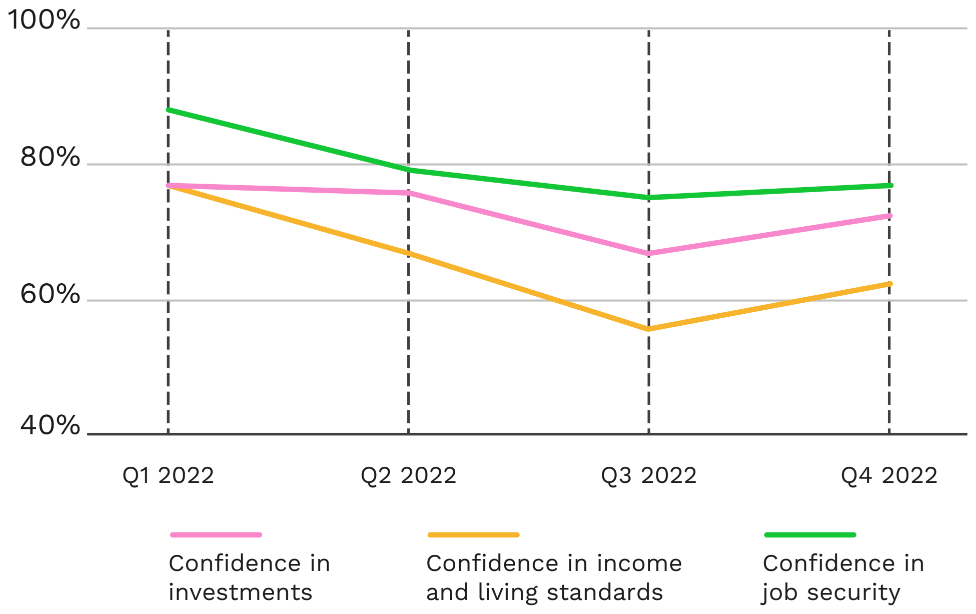
More than two thirds (69%) of retail investors felt confident about their portfolios at the end of Q4 - a 5 percentage point increase from the previous quarter. When asked about their expected returns for 2023, the most popular answer - selected by 29% - was between 0-10%.

The improved sentiment was mirrored across other areas of life - with confidence in income and living standards rising from 54% to 60% quarter-on-quarter, and confidence in the global economy rising from a paltry 30% in Q3 to 37% in Q4.

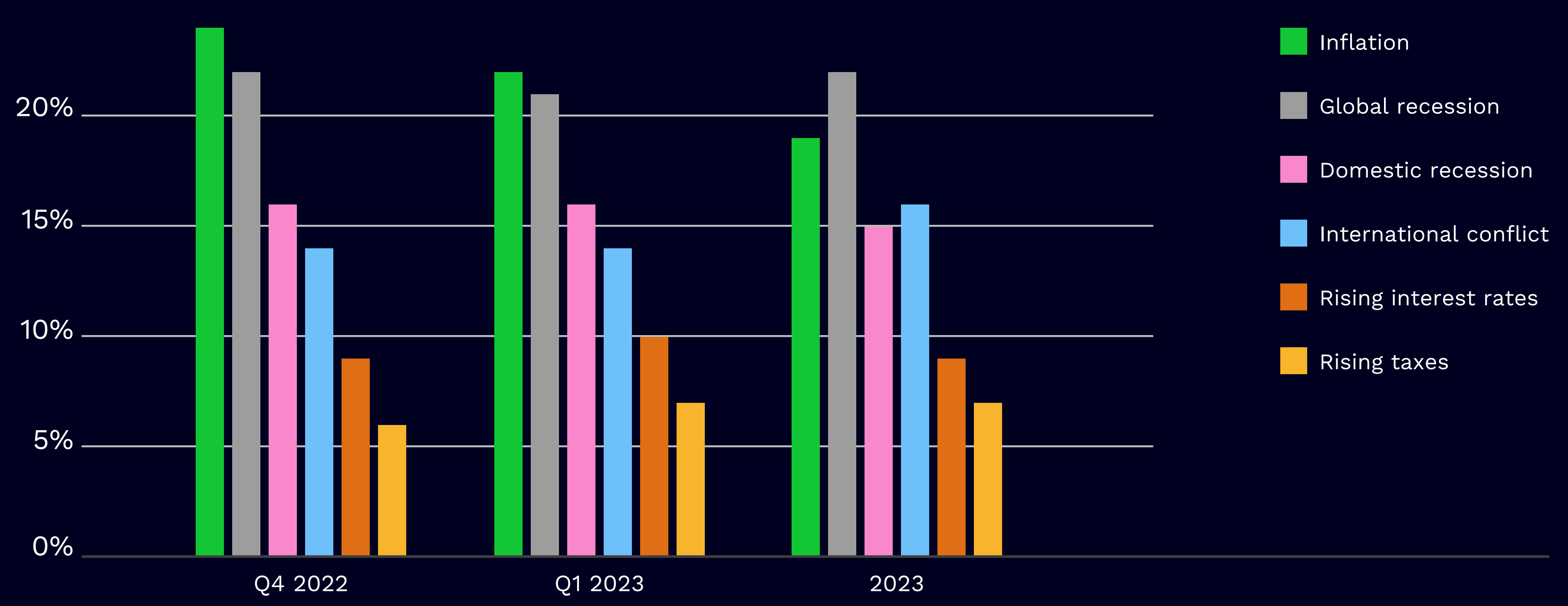
One potential reason for this upward trend is that the perceived threat of inflation - considered the biggest investment risk in six of the previous seven quarterly surveys - is gradually diminishing. In Q3, one in four (24%) saw inflation as the biggest risk to their portfolio over a three-month period. Today, inflation still tops the risk table, but the figure has fallen to 22%, whilst rising taxes have gained ground. Furthermore when asked about the biggest threat to investments over the next 12 months, inflation was chosen by just 19%, with a global recession considered the biggest risk by more people (22%).

Given the more positive sentiment, it is perhaps no surprise that investors were far more bullish in Q4 when it came to their investment contributions. Two in five (40%) said they upped contributions to their portfolio compared to normal, whilst only 17% reduced them. This is in stark contrast to the previous quarter, when the figures stood at 14% and 41% respectively, and this trend is set to continue. Over the next three months, 41% expect to further increase contributions, whilst just 14% expect to scale back.

Retail investor confidence in 2022



Biggest risk to investment portfolios



Ben Laidler: *"Investors endured a torrid 2022 but sentiment has turned upwards with many feeling more reassured by the inflation signals they're receiving. US headline inflation has fallen for five straight months, whilst EU and UK inflation has likely just peaked. If we look at previous market cycles, history is on the side of investors. The S&P 500 has seen nine prior 'corrections' of 10% or more over the past 75 years and seven have seen subsequent positive years, averaging an 18% gain."*

DASH FOR CASH AND SHIFT TO **DEFENSIVE**

With a global recession widely expected, largely thanks to central banks' rate-hiking, retail investors around the world continued their shift to defensive sectors and asset classes in Q4.

Retail investors made further defensive adjustments in Q4 and the most dramatic example of this was seen with cash allocation (e.g. savings accounts). The proportion of global investors holding cash jumped from 46% in Q3 to 69% at the end of Q4. One year earlier (Q4 2021) - when interest rates were close to rock bottom - this figure stood at just 26%. However in the last three months of 2022, as banks passed on rate hikes to savers, many investors apparently saw value in moving money into more stable cash assets.

The defensive shift also continued across sector allocation. Two traditional defensive sectors - healthcare and utilities - both saw a 4 percentage point rise in those invested in them. Meanwhile other defensive plays in the current climate - staple consumer goods and energy - saw a 3 percentage point rise.

Investors were also asked about their intentions over the next three months and the proportion who plan to be invested in energy is projected to rise by another 3 percentage points to 54%, unsurprising given this was 2022's best performing sector. Despite banks benefitting from rising interest rates, financial services is still considered a cyclical sector exposed to rising recession risks, and the proportion of investors owning financial services assets is projected to fall 7 percentage points to 58%.

Whilst there has been a clear defensive shift, just like in Q3, in Q4 we also saw investors simultaneously looking for opportunities in better performing asset classes. The proportion invested in currencies rose to 30%, more than triple the 9% of retail investors with FX exposure in Q4 2021. Meanwhile those with commodities exposure rose 3 percentage points to 41% in Q4, compared to 15% in Q4 2021. The US dollar and commodities were the only two major assets to finish 2022 in positive territory.

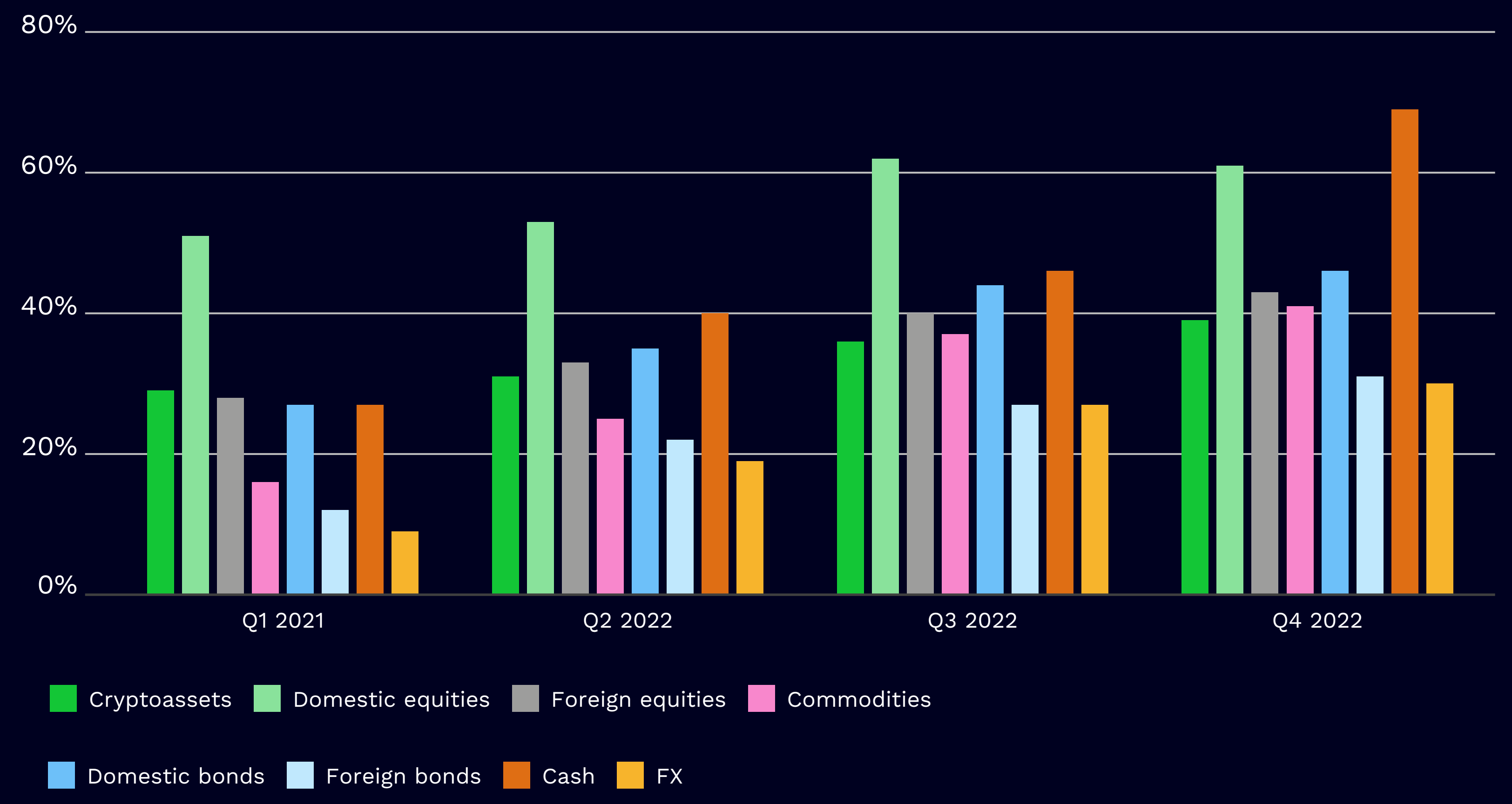
> "More investors are allocating money to 2022's top performing asset class - commodities.

46
percentage point increase in investors holding cash vs Q4 2021

4
percentage point rise in investors holding healthcare and utilities stocks

41
percent of retail investors with commodities exposure in Q4

Retail investor asset class ownership 2022



Ben Laidler: *"There is little doubt that a recession is on the way in many countries, and while it may well be a mild one, retail investors continue to reposition portfolios accordingly, with more looking into defensive stocks and others making adjustments based on 2022 performance. There was also a significant dash for cash in the final quarter as banks around the world continued to pass on better rates to savers, albeit slowly, and investors kept some powder dry for market opportunities ahead."*

TAKING THE **LONG** VIEW ON TECH

Tech companies saw their share prices plummet in 2022, yet the data shows that retail investors are holding a longer term view, not only on this embattled sector, but on their investment approach more generally.

At the end of Q4, technology was the second most widely owned sector amongst retail investors, with 60% holding tech assets. By the end of Q1 2023, if retail investors follow through on their stated intentions it will take the top spot, overtaking financial services, which 7% are planning to ditch. So what explains this contrarian approach?

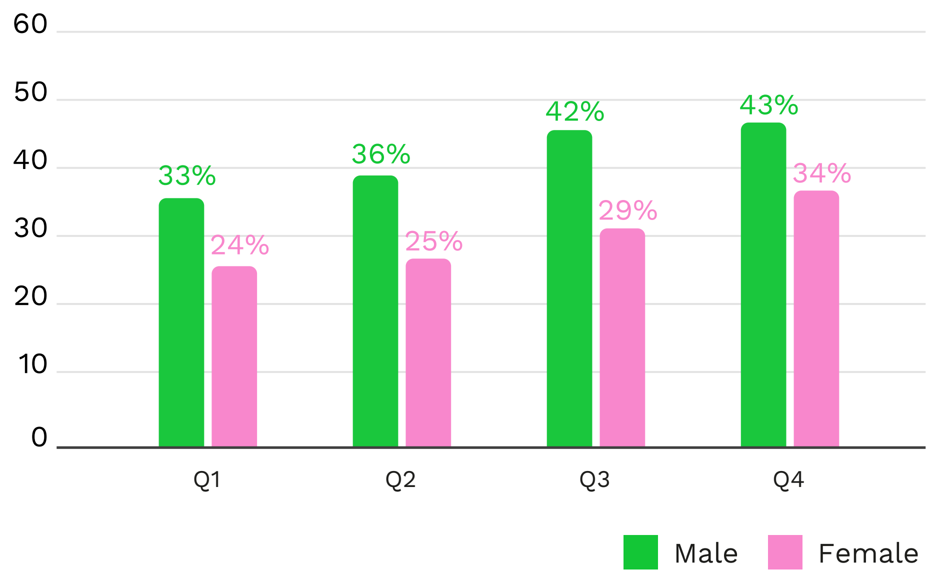
It's important to emphasise that retail investors are overwhelmingly long-term, with 63% holding onto investments for years or decades and just 4% holding them for days. Time is on their side in most cases and for many, the brutal tech valuation and expectations reset may set up for better returns ahead. Younger investors in particular - with more risk tolerance - are storing more faith in tech with 73% of 18-34-year-olds currently invested in the sector versus 48% of over-55s.

And it's not just tech that investors seem to be taking a contrarian view on, with the proportion of retail investors owning crypto rising from 36% to 39% quarter-on-quarter despite it being last year's worst performing asset class. This was in part driven by a slightly older cohort of investors seemingly looking to buy the dip. In Q4 2022, the proportion of retail investors aged 35-44 and 45-54 holding crypto rose by 5 percentage points apiece, to 53% and 36% respectively.

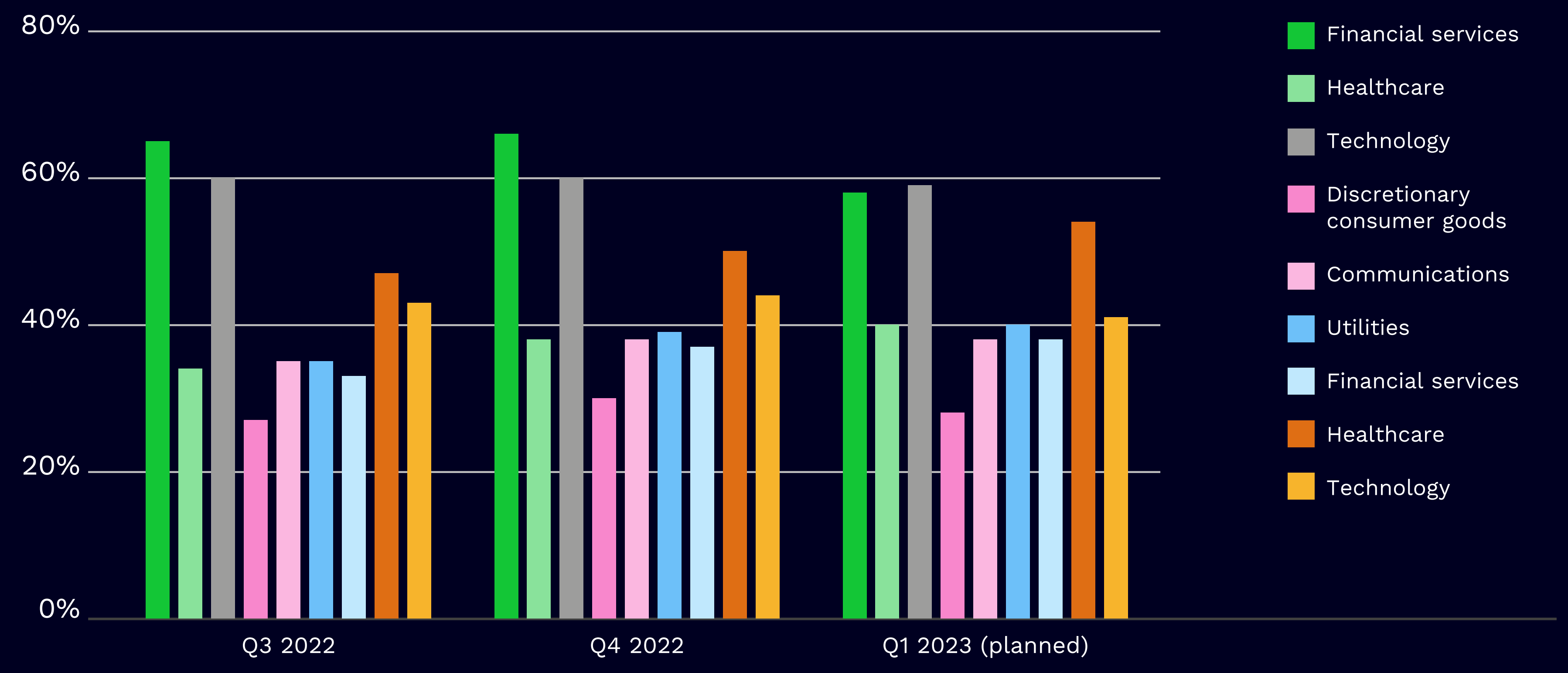
The trend was also driven by a significant rise in female ownership of crypto - jumping from 29% in Q3 to 34% in Q4, whilst men saw only a 1 percentage point rise from 42% to 43%.

For those who invest in crypto, the main reason for doing so is the opportunity to make high returns (37%), though many also believe in the power of blockchain (34%) and think crypto is a transformative asset class (34%). For the majority (61%) who still avoid crypto, the biggest factor in this decision is perceived risk (50%), whilst a lack of robust regulation - something which could soon change - is also a common explanation for not investing in the asset class (30%).

Retail investors who owned crypto in 2022



The sectors retail investors are invested in



Ben Laidler: *"From what we can see, a lot of retail investors are taking a 'wait and see' position when it comes to tech and crypto. When it comes to the Silicon Valley tech titans - Apple, Microsoft, Meta, Alphabet - we are talking about giants with fortress balance sheets, structural growth outlooks and now cheaper valuations, which could have encouraged more to buy in. Certainly companies which still deserve a place within a diversified portfolio."*

FIVE KEY NUMBERS

50%

more retail investors had cash assets in Q4 vs Q3

69% of retail investors had money allocated to cash assets (e.g. savings account) at the end of Q4, compared with 46% at the end of Q3, a product of volatile markets and improving savings rates.

69%

of retail investors are confident about their investments

More than two thirds of retail investors felt positive about their portfolios at the end of Q4; whilst still relatively low compared to previous Retail Investor Beats, it's a sharp 5 percentage point increase vs Q3.

40%

of retail investors increased investment contributions in Q4

Two in five investors felt confident enough to up their portfolio contributions in the final quarter of 2022 whilst 17% went the other way, reducing the amount they invest.

33%

of retail investors say bear market reduced their appetite

The remaining 67% were either ambivalent or positive about 2022 and its impact on their investing mindset, with one in five believing 2022's turmoil turned them into better investors.

59%

of investors plan to own tech assets in three months

If retail investors follow through on their plans, tech will become the most widely invested sector by the end of Q1, overtaking financial services.

ABOUT THIS REPORT

The Retail Investor Beat was based on a survey of 10,000 retail investors across 13 countries and 3 continents. The following countries had 1,000 respondents: UK, US, Germany, France, Australia, Italy and Spain. The following countries had 500 respondents: Netherlands, Denmark, Norway, Poland, Romania, and the Czech Republic.

The survey was conducted from 14th - 24th December 2022 and carried out by research company Appinio. Prior to Q2, previous waves of this survey were conducted quarterly in conjunction with Opinium.

Retail investors were defined as self-directed or advised and had to hold at least one investment product including shares, bonds, funds, investment ISAs or equivalent. They did not need to be eToro users.

Get in touch

If you would like to speak with Ben Laidler or to find out more about eToro's Retail Investor Beat you can contact eToro's PR team on **pr@etoro.com.**