ANALYST WEEKLY

# Eyes on Christmas spending test

NOVEMBER.13.2023

## Summary

### A resilient but different consumers Christmas

The Christmas consumer spending test is about to start. This spending is the biggest driver of all economies, dominates retailer profits, and likely is staying resilient. US Christmas spending seen growing 3-4% to $875 per family, focused on gift cards and clothing and with electronics and jewellery lagging. Online is the focus, followed by department and dollar stores, with growth surging, penetration low, but consumers more cost conscious, and trading down. **See Page 4**

### Markets rebound showed it had legs

Tech and crypto assets continued markets sharp recovery rally, resilient to a firmer dollar and higher bond yields as Fed's Powell pushed back on extent of the dramatic twin bonds and stocks surge. Australia RBA forced to hike again. China's deflation returned. US actors strike ended. DIS results beat, WE went bankrupt, and LLY weight loss drug approved. See Q4 Markets Outlook **HERE** and at twitter @laidler_ben. **See Page 2**

### Groundhog Day for US government shutdown

Markets become immune to recurring shutdown threat, even as lengthened and politics more divisive, but with a silver lining that it may cool the strong economy and bond yields. **See Page 2**

### Dividends now and forever

2023's high dividend underperformance to end as central banks near rate cuts and slowdowns build. Long term, dividends beaten inflation and driven huge 58% of market returns. **See Page 2**

### Four reasons to focus on Singles Day

China's 11/11 shopping extravaganza gives a key read on economic recovery, world-leading online penetration, discounted local internet retailers and many exposed foreign stocks. **See Page 2**

### Commodities set for a less-bad year

Asset laggard set for slightly better 2024 as China grows, supply tight, US$ eases. See 'breakfast' and 'transition metal' commodities. **See Page 2**

### Crypto rally continues

Rally continued, with BTC now nudging $37,000 on 15th anniversary of Nakamoto white paper and as FTX's SB-F found guilty. Latest gains led by altcoins LINK, ADA, MATIC, as expectations build on SEC spot ETF and Blackrock ETH trust plans. Miner MARA saw 670% Q3 revenue surge. See latest Weekly Crypto Roundup. **See Page 3**

### Oil leads commodity slump

Oil led commodities slump to worst performing asset this year, as geopolitical premium faded, and US demand outlook cut. Precious metals safer haven cooled, and platinum fell <$1,000. Cocoa hit 45-year high on weather disruption, and El Nino seen lasting into mid 2024. Oil major OXY beat and outlined big CCS plans. **See Page 3**

### The week ahead: Inflation, shutdown, WMT

1) US core inflation (Tue) est. <4% as Nov. 17 (Fri) Federal shutdown looms. 2) China focus as Xi and Biden meet at APEC, after giant Singles Day consumer test. 3) US 'big retail' WMT, HD, TGT Q3 earnings and Christmas view. 4) Argentina runoff (Sun) outlook and REITWorld event. **See Page 3**

### Our key views: Stronger Q4 and 2024

See a stronger Q4 and 2024 as summer breather and tall wall-of-worry fades, and investors look ahead to lower inflation and coming rate cuts as growth slows, and earnings outlook firms. Focus defensive growth and long duration assets from healthcare to big tech. Cautious growth exposed cyclicals, commodities, and banks. **See Page 5**

### Top Index Performance

| | 1 Week | 1 Month | YTD |
|---|---|---|---|
| DJ30 | 0.65% | 1.82% | 3.43% |
| SPX500 | 1.31% | 2.02% | 15.00% |
| NASDAQ | 2.37% | 2.92% | 31.83% |
| UK100 | -0.77% | -3.15% | -1.22% |
| GER40 | 0.30% | 0.31% | 9.41% |
| JPN225 | 1.93% | 0.78% | 22.81% |
| HKG50 | -2.61% | -3.43% | -13.03% |

*Data accurate as of 13/11/2023

## Market Views

### Markets rebound showed it had legs

- Tech and crypto assets continued the markets sharp recovery rally, resilient to a firmer dollar and higher bond yields as Fed's Powell pushed back on extent of the dramatic twin bonds and stocks surge. Australia RBA forced to hike again. China's deflation returned. US actors strike ended. DIS results beat, WE went bankrupt, and LLY weight loss drug approved. **See Q4 Outlook HERE**. See **Page 6** for resources and videos.

### Groundhog Day for a US government shutdown

- Nov. 17th latest deadline for US Congress to pass 2024 budget to keep Federal government open. Little progress made since last 45-day extension. Markets ignored so far, with another stop gap resolution base case. And a worst-case of a short shutdown that traditionally not impacted market.

- Difference now that Congress more divided than ever and 2024 election cycle well under way. But silver lining that hard line on spending may cool strong economy and Federal over-spending fear that contributed to rising bond yields. **See Page 2**

### Dividends now and forever

- High dividend yield stocks (like VIG and HDV) have been this year's big investment style losers, underperforming the S&P 500 (SPY) index by 20 points. With unprecedented competition from the Fed's 5.50% risk-free interest rate driving a $1 trillion investor 'dash-for-cash'. High dividend yield is now worth a new look with 1) global central banks at the top of the interest rate cycle, and rate cuts coming onto the horizon in 2024.

- At the same time as 2) economic slowdown builds, potentially driving interest in more defensive strategies. Longer term, dividends have been a strong inflation hedge, and reinvested dividends made up an overwhelming 58% of average total market returns in the past 20 years. **See Page 2**

### Four reasons to focus on Singles Day

- Sunday, Nov. 11th, was China's 'Singles Day', the world's largest shopping event. It gave important read on the economic recovery, online penetration, and local and foreign retail health. The consumer is the third leg of China's struggling economic stool.

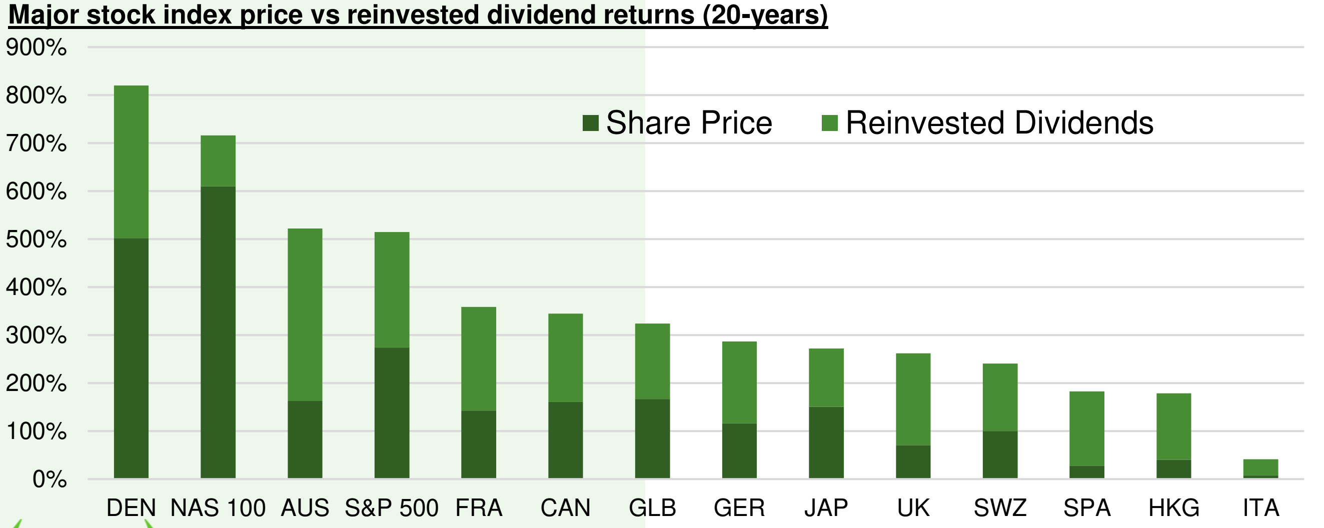
- A decent Singles Day validated pickup in retail sales and complement Government's new infrastructure spend. Shows how high world leading e-commerce penetration can go. Refocus attention on valuation discount on online giants Alibaba (BABA) and JD.COM (JD.US). And give a halo to foreigners from LVMH (LVMH) to Nike (NKE), with a strong China sales exposure. @ShoppingCart. **See Page 2**

### Commodities set for a less-bad year

- Commodities worst performing asset class of 2023, held back by China's sluggish reopening and strong dollar, plus big crashes from natgas to lithium.

- 2024 is set up to be a better, but not great, year. With small triple boost from Chinese demand, tight supply, lower dollar, balancing weaker US economy. Provide diversification, an inflation hedge, and led gains in 2021 and 2022. But longer-term its poor, lower now than 20-yrs ago. Our focus on 'breakfast' and 'carbon transition' commodities. **See Page 2**

**Major stock index price vs reinvested dividend returns (20-years)**




Source: Refinitiv indices except US S&P 500, NASDAQ, and FTSE 100 Illustration purposes only

## Market Views

**Crypto rally continues**

- The broad crypto rally continued, with BTC nudging $37,000. This came the same week as the 15th anniversary of Nakamoto's Bitcoin white paper launching it, and with SB-F found guilty a year after the collapse of the FTX exchange.
- Crypto gains were led up by altcoins LINK, ADA, and MATIC, as asset manager Blackrock (BLK) set out its Ethereum trust plans and on reports the SEC is talking to Grayscale on its spot BTC ETF.
- Other news saw miner MARA post a 670% surge in its Q3 revenues, on the crypto price rebound. See the latest Weekly Crypto Roundup.

**Oil leads commodity slump**

- Oil prices led commodities slump with asset class worst performing this year. Brent crude touched $80/bbl. as geopolitical risk premium faded and forecasts show US oil demand to fall this year.
- Precious metals prices fell back on less safe haven demand, led by gold and platinum. Palladium fell under $1,000/oz, the lowest since 2018, on ICE catalytic converter demand fears.
- Cocoa prices hit 45-year high on further weather disruption. As forecasts showed building El Nino weather disruption to last through mid-2024.
- Oil major OXY Q3 beat results expectations and announced big carbon capture (CCS) plans ahead of big month-end COP 28 UN climate event.

**US Equity Sectors, Themes, Crypto assets**

| | 1 Week | 1 Month | YTD |
|---|---|---|---|
| IT | 3.86% | 3.84% | 44.57% |
| Healthcare | -1.40% | -4.47% | -6.75% |
| C Cyclicals | 0.49% | 0.41% | 21.49% |
| Small Caps | -3.15% | -3.98% | -3.18% |
| Value | -0.76% | -0.46% | -3.04% |
| Bitcoin | 7.49% | 35.89% | 125.03% |
| Ethereum | 14.08% | 33.28% | 74.55% |

Source: Refinitiv, MSCI, FTSE Russell

**The week ahead: US inflation, shutdown, China**

1. Focus Oct. US **inflation** with core prices to fall <4% for first time and potentially help to restrain bond yields. Federal government also faces a Nov. 17th **shutdown** unless divided Congress acts fast.
2. President's Xi and Biden set for rare meet at APEC event in San Francisco in bid to ease tension. Comes soon after **China'** huge 'Singles Day' (Sat) consumer event that's barometer for its recovery.
3. It's 'big retail' **earnings** week at tail end of S&P 500 Q3 reporting season, with WMT, HD, TGT, TJX, and focus on the key Christmas spending outlook. Plus CSCO, AMAT, TSN, and China's BABA, JD.US.
4. **Politics** continues in spotlight with the tight Argentina runoff election (Sun). US **real estate** industry, a big share price laggard this year, meets at the Nareit REITWorld annual conference.

**Our key views Stronger Q4 and 2024**

- See a stronger Q4 and 2024 performance as the seasonal summer markets breather and current 'wall-of-worry' from oil to bond yields, strikes and shutdowns, fades. And as investors look ahead to the lower inflation and coming interest rate cuts as economic growth slows, and with the gradually firming tech-led US earnings outlook.
- Focus on defensive growth and long duration assets, from healthcare to big tech, and bonds to crypto. More cautious on the assets most exposed to the slowing economic growth and recession risk, like cyclicals, small caps, and commodities.

**Fixed Income, Commodities, Currencies**

| | 1 Week | 1 Month | YTD |
|---|---|---|---|
| Commod* | -3.44% | -3.49% | -9.93% |
| Brent Oil | -4.14% | -10.02% | -4.99% |
| Gold Spot | -2.86% | -0.16% | 6.15% |
| DXY USD | 0.74% | -0.79% | 2.20% |
| EUR/USD | -0.43% | 1.67% | -0.16% |
| US 10Y Yld* | 12.61 | 1.80 | 76.54 |
| VIX Vol. | -4.96% | -26.66% | -34.61% |

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

# Focus of Week: All eyes on the Christmas spending test

**The key Christmas consumer spending test is about to start, and looking positive**

The resilience of the US consumer has been the biggest positive surprise of the year, and single handedly squashed near-term recession talk. We are now entering the strongest spending period of the year when retailers make most of their profits. At a time when pressures on the consumer have been mounting. The economy is cooling not collapsing. Consumers estimated to spend an average $875 on Christmas, up a solid 3-4% on last year, but more focused on sales and promotions and cutting back elsewhere. That's good enough for now. Gift cards and online the Christmas winners. @ShoppingCart, @FashionPortfolio.

**Consumer spending is the biggest driver of the economy, and staying resilient**

Private consumption is the biggest driver of the economy. Accounting for 68% of US GDP, 60% in UK, 53% in Japan, 51% in Germany, with China the global laggard. The combo of tight labour markets, now falling inflation, and residual pandemic savings has kept them firmer-for-longer. Even as headwinds mount, from creaking labour markets to resetting mortgages and student loan repayments. The recent 12% fall in US gasoline prices has come at the right time, equal to an annualised $60 billions of consumer savings.

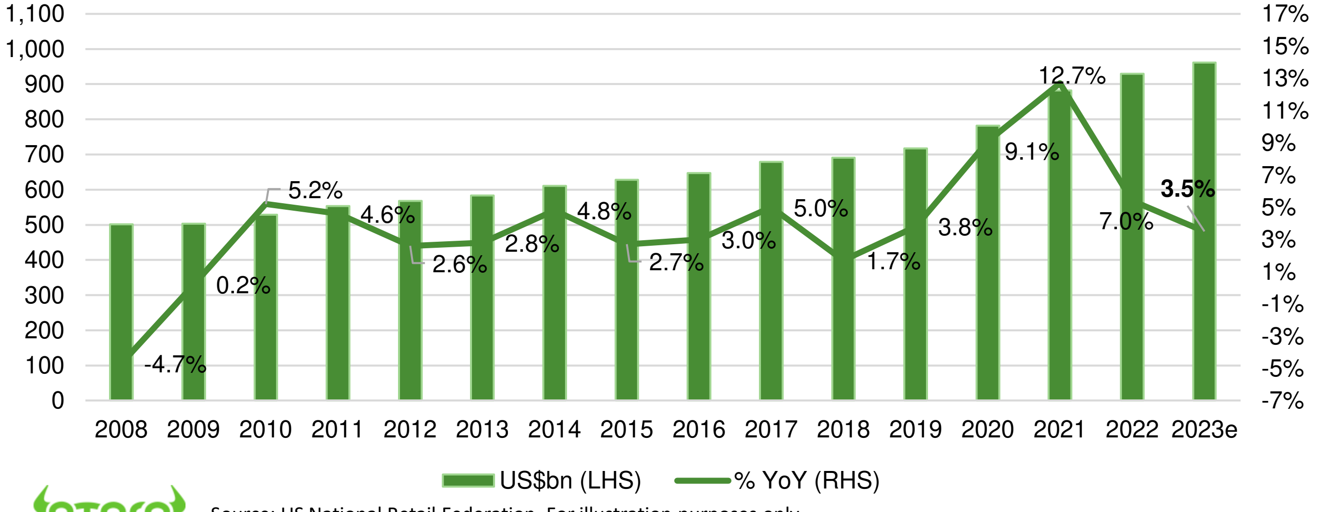
**Christmas spending focused on gift cards and clothing, totalling $875 each in US**

The US National Retail Federation see's Christmas season spending growth easing to 3-4%. This is slightly below the long-term average 4.9% rate. US shoppers are starting early, but the long Nov. 23rd Thanksgiving weekend is the traditional kick off, where 200 million shopped last year. An estimated 70% of Christmas spending is on presents. This is surprisingly led by gift cards, with 55% aiming to buy. This will be music to the ears of many retailers, with history showing around 10% are never cashed. Whilst card processors like Fiserv (FI), PayPal (PYPL), and Square (SQ) may benefit. Next most popular presents are clothes/accessories (49%), books/media (28%), and then personal care (25%). Electronics ranks a surprisingly low 5th, jewellery 7th, and sporting goods 8th. The remaining 30% of spending is on festive decorations, candy, and food.

**Online is leading growth, with penetration low and consumers becoming more cost conscious**

The most popular Christmas spending venues is online (58%), where spending is seen growing double the Christmas average, and US penetration remains a third the level of China, This is followed by department store (49%), and discount stores (49%). All a potential tailwind for segment leaders like Amazon (AMZN), Macys (M), and Dollar General (DG). Consumers are prioritising Christmas spending but showing signs of pulling back. 62% are now focused on sales and promotions this year, and 36% plan on cutting back in other areas to compensate. This is consistent with recent retail sales trends showing more price sensitive and down trading consumers. Pulling back from many bigger ticket and credit sensitive buys. Though still prepared to splurge where needed, like we have been from travel to music concerts.

**US Christmas holiday retail sales (US$ billion and % versus prior year)**




Source: US National Retail Federation. For illustration purposes only.

# Key Views

## The eToro Market Strategy View

| | |
|---|---|
| **Global Overview** | 'High wall-of-worry from geopolitics and high oil to surging bond yields continuing summer breather. But oil and bond yields self-correcting as GDP growth slows, easing market 'vice', whilst fundamentals of peaked interest rates, resilient growth, turning earnings, supportive low sentiment and better seasonality. **See NEW Q4 Outlook HERE**. |

| Traffic lights* | Equity Market Outlook |
|---|---|
| **United States** | World's largest equity market (60% of total) seeing slowing but resilient GDP and earnings growth. Valuations led the rebound this year and are supported high company profitability and peaked bond yields. Focus on cash-flows defensives, like healthcare and high dividend. And Big-tech supported by defensive growth, cost cutting, and AI. See gradual 'U-shaped' rebound as inflation slowly falls and de-risks market and boosts tech and crypto appetite. |
| **Europe & UK** | Favour defensive and cheap UK ('Economies not stock-markets') and continental European equities. Recession risk easing with lower natgas prices and reopening China with high 'buffers' of rising fiscal spending (defence and refugees) and weak Euro (50%+ sales overseas). Even as ECB hikes aggressively. Equities cushioned by lack of big tech sector and 30% cheaper valuations vs US. Banks better capitalised and regulated but loans/GDP much higher. |
| **Emerging Markets (EM)** | China, Korea, Taiwan dominate EM (60% wt.), and more tech-centric than US. Positive China as economy reopens, supports property sector, eases tech regulation pressure. Valuations 30% cheaper than US and markets out of favour. Recovery helps global sectors from luxury to materials. EM needs weaker USD and peak US rates catalyst. |
| **Other International (JP, AUS, CN)** | Canada and Australia have benefitted from strong equity market weight in commodities and financials, as global growth resilient and bond yields risen. Now could be becoming headwinds. Japanese equities among worlds cheapest with own and China-proxy growth and governance improving but threats of tighter monetary policy and stronger Yen. |

| Traffic lights* | Equity Sector & Themes Outlook |
|---|---|
| **Tech** | 'Tech' sectors of IT, communications, consumer discretionary (Amazon, Tesla), dominate US and China. Expect better performance as 1) lower bond yields take pressure off valuations and 2) high profit margins and fortress balance sheets make defensive to recession risks. 2) Cost cuts and AI add to growth. 'Disruptive' tech much more vulnerable. |
| **Defensives** | More attractive as recession risks rising and bond yields have peaked. Consumer staples, utilities, (some) real estate attractive with defensive cash flows, less exposed to rising economic growth risks, and with robust dividends. Healthcare is the most attractive, with cheaper valuations, more growth, some rising cost protection. |
| **Cyclicals** | High risk cyclical sectors - like discretionary (autos, apparel, restaurants), industrials, energy, materials, and small caps - have cheap valuations, many with depressed earnings, and have been out-of-favour for many years. But they are significantly exposed to rising recession risks. Some especially cheap (energy) or see growth recovery (airlines). |
| **Financials** | Current stresses likely individual not systemic. Post GFC reforms boosted capital and size/speed of authority's response. But outlook for 1) less GDP growth, 2) lower bond yields and interest rates, and 3) valuation sensitivity after recent surprises, worsens outlook. Insurance and Diversifieds (like Berkshire Hathaway) more defensive. |
| **Themes** | Dividends and buyback themes attractive with resilient cash flows, rising pay-outs, and investor search for defensives. Power of compounding dividends under-estimated, at up to 1/2 of total long-term return. Small caps pressured by rising recession risk. Secular growth of Renewables and Disruptive Tech investment themes. |

| Traffic lights* | Other Assets |
|---|---|
| **Currencies** | USD 'wrecking ball' driven by Fed interest rates and 'safer-haven' bid. DM currencies hurt by still low interest rates and struggling growth. Strong USD hurt EM, commodities, US foreign earners like tech. But helps big EU and Japan exporters. See a stabler USD outlook in 2023 as near top of the Fed cycle and global risks remain high. |
| **Fixed Income** | US 10-yr bond yields supported around 4% by higher Fed rate hike and stickier inflation expectations. Set to ease as recession risks slowly build and inflation expectations gradually fall. US has widespread to other market bond yields, and headwinds of high debt, poor demographics, and low productivity. 5% bill yields an attractive cash alternative. |
| **Commodities** | Strong USD and rising recession fears hit commodities. But still above average prices helped by GDP growth, 'green' industry demand, supply under-investment, recovering China, Russia supply crisis. Oil helped by slow return of OPEC+. But commodities not to repeat their 2021 and 2022 performance leadership. Gold benefits from safer haven demand. |
| **Crypto** | Potential 'surpsise' after dramatic and early asset class sell-off and later specific risk events from Luna to FTX. See long term asset class development with small size $1 trillion, correlations low, regulation growing, development/catalysts continuing – Ethereum merge to proof-of-stake and coming BTC halving. |

| *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

## Analyst Team

| Global Analyst Team | | | |
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