ANALYST WEEKLY

Getting your investment style right

JANUARY.22. 2024

Summary

30pp gap between best and worst styles

Investing in right investment styles, and sectors, matters a lot, with 30-46pp annual performance gaps. Last year was all about quality growth big tech outperformance. We look for a rotation in 2024. With Value, high dividend yield, small cap making a performance comeback. As the most sensitive to our GDP soft landing and rate cuts base case. Whilst retail investors are hanging onto their Growth and quality winners with high dividend yield a contrarian 3rd. See Page 4

Tech comeback drives a new all-time-high

Tech stocks pushed S&P 500 to first new high in 2-years. As central banks pushed back on early rate cuts, raising bond yields and strengthening dollar. Whilst UK inflation and China growth reports hurt confidence. TSMC semis guidance boosted whole sector. CFR.ZU led a strong start to Europe earnings season. Whilst SAVE plunged as JBLU deal rejected. See our 2024 Outlook HERE and twitter @laidler_ben. See Page 2

Trade disruption not what it seems

Container rates doubled but is not 2021 supply shock that stoked inflation. Now smaller, more localised, specific, with worse demand + supply. Shippers should enjoy whilst lasts. See Page 2

Fed two-step and less Quantitative Tightening

Fed prepping to ease pace of QT and setting up for interest rate cuts, supporting bonds, not overly reducing system liquidity, and opening door for ECB and others to follow. See Page 2

Japan leads and China lags

Japan momentum as exit 30-yrs stagnation and deflation, breaking correlation with China, that's been value trap on triple slowdown risks but offers risky contrarian turnaround. See Page 2

Renewables and EV's glass-half-full

Underperformance back with demand concerns. Is high risk zero-to-hero turnaround opportunity on still very strong demand runway. See Page 2

BTC price pullback after ETF approval

Saw a double-digit BTC price fall since spot ETF approval, with TRX bucking sell off. BlackRock's (BLK) IBIT first ETF to $1 billion of assets. Whilst giant fund Grayscale see's outflows as converts at NAV. Ethereum (ETH) spot ETF process now in spotlight. Whilst COIN vs SEC case is in court. See the latest Weekly Crypto Roundup. See Page 3

Commodities remain under pressure

Squeezed by China growth disappointment and the stronger US dollar. Brent oil struggled to break $80/bbl. despite red sea tension and hiked demand outlook. Natgas price fell despite winter weather, with supply and storage high. Uranium spiked on more Kazakh supply fear and reactor demand. BP continuity on new CEO. See Page 3

The week ahead: Tech earnings, ECB, PMIs

1) Big tech Q4 earnings kick off, after banks, with TSLA, NFLX, ASML, SAP. 2) BoJ and ECB to keep interest rates unchanged as look to Fed (Jan 31). 3) Flash US, EU, UK, JP, and AU PMIs growth and inflation slowdown health-check. 4) The hard data focus on strong est. 2.4% US Q4 GDP and <2.9% 'Fed favourite' PCE inflation. See Page 3

Our key views: Outlook for a different 2024

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	0.72%	1.28%	0.46%
SPX500	1.17%	1.79%	1.47%
NASDAQ	2.26%	2.12%	2.00%
UK100	-2.14%	-3.06%	-3.51%
GER40	-0.89%	-0.90%	-1.17%
JPN225	1.09%	8.42%	7.47%
HKG50	-5.76%	-6.31%	-10.20%

*Data accurate as of 22/01/2024

Market Views

Tech comeback drives a new all-time-high

- Tech stocks pushed S&P 500 to first new high in 2-years. As central banks pushed back on early interest rate cuts, raising bond yields and strengthening the dollar. Whilst UK inflation and China growth reports hurt confidence. TSMC guidance boosted whole sector. CFR.ZU led a strong start to European earnings season. SAVE plunged as JBLU deal rejected. See 2024 Outlook **HERE** . See **Page 6** for resources and videos.

Trade disruption not what it seems

- Memories of 2021 global supply chain breakdown are returning. But wrong. Houthi attacks drove a 70% plunge in Red Sea container shipping, against a backdrop of a drought-driven halving of Panama canal capacity. Seen doubling of global container freight rates, rekindling inflation fears.

- But we see at least five big differences now. It's much smaller, more localized (Europe), more specific (Containers), with much weaker demand, and greater supply. Container shippers, from Maersk (MAERSKB.CO) to Hapag-Lloyd (HLAG.DE), should enjoy gains whilst they can. **See Page 2**

Fed two-step and less Quantitative Tightening

- US Fed setting to start easing pace of quantitative tightening (QT) policy that has been shrinking its gargantuan $7 trillion balance sheet. This is the logical second-step of the monetary policy pivot flagged in December. **1)** A slowdown in Treasury and Mortgage bonds rolling off its balance sheet is consistent with a nearing of interest rate cuts. **2)** Would support those bond markets.

- **3)** Would calm investor fears of a repeat of the disorderly end to Fed's first QT programme when it drained too much liquidity from the financial system. **4)** And would open the door to others, from the ECB to BoE, to follow easing QT paces as their own rate cuts also loom. **See Page 2**

Japan leads and China lags

- Seen breakdown in historically strong correlation between world's 2nd and 3rd largest stock markets. Japan (EWJ) kept rallying and been best performer this year. As the 'worlds forgotten market' puts 3 decades of deflation and stagnation behind.

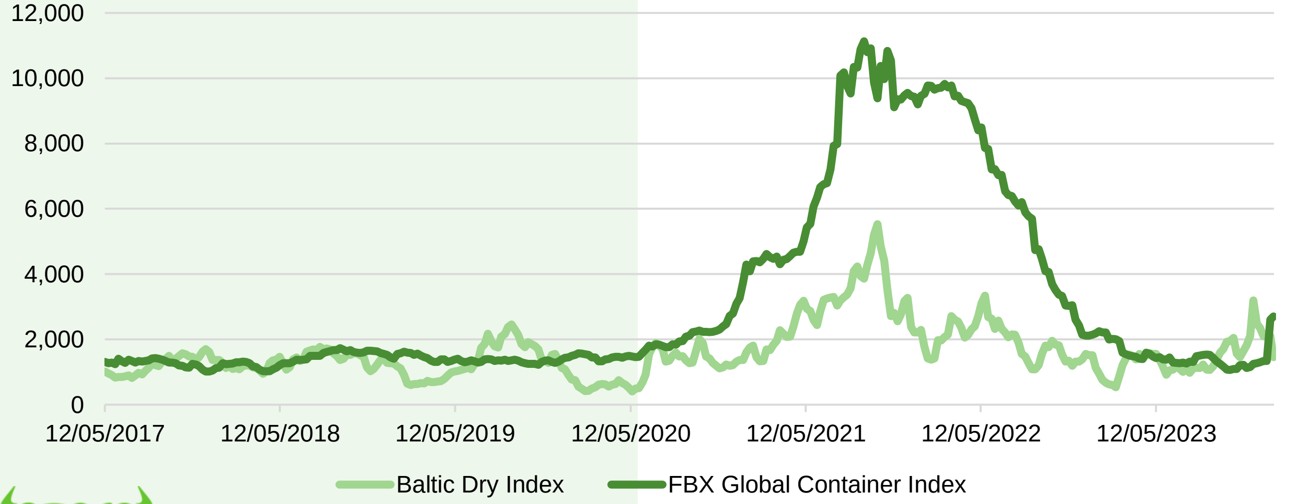
- Whilst Chinese (MCHI) stocks have had the worst start. Navigating triple consumer, property, export challenge. It's been value trap with no policy visibility but has many contrarian drivers for the brave and should not be ignored. **See Page 2**

Renewables and EV's glass-half-full

- The Q4 boost to renewable and EV stocks was short-lived, after the COP28 climate summit and recent investor 'pivot party'. Underperformance has resumed with demand concerns and high interest rates, alongside some new self-inflicted wounds. Tesla, the most held stock by retail investors, has got off to the worst start to the year of all autos.

- These segments still have potential to be high risk zero-to-hero winners of the year. Valuations have been transformed by price plunges in recent months. Demand is still growing fast, with a long and visible runway. Whilst interest rate cuts are coming this year. @RenewableEnergy. **See Page 2**

Global Container & Dry Bulk freight rate index (2017-)



Source: Refinitiv. Illustration purposes only

Market Views

BTC price pullback after ETF approval

- The Bitcoin (BTC) price pulled back near double-digits to under $42,000 after the January 11th spot ETF approval, with much priced in after dramatic 50%+ Q4 rally. TRX bucked the crypto weakness.
- Blackrock's (BLK) IBIT spot ETF took an early inflows lead, hitting $1 billion assets under management first. Whilst the $27 billion Grayscale Bitcoin Trust saw fund outflows after converting to an ETF at net asset value.
- Other news saw Blackrock CEO seeing value in approval of an Ethereum spot ETF, reinforcing its dominance in DeFi and NFTs. Whilst Coinbase (COIN) lawsuit versus SEC went to court in New York. See latest Weekly Crypto Roundup.

Commodities remain under pressure

- Commodity prices continue under pressure, after their big 2023 losses. They are being squeezed in a vice of weaker-than-hoped Chinese economic growth alongside further gains for the US dollar.
- Brent oil prices struggling to break $80/bbl., despite rising red sea geopolitical tensions and IEA upgrades to oil demand growth. Whilst US and EU natgas prices fell sharply, with inventories and storage high, despite cold winter weather.
- Uranium (SRUUF) prices hit new highs on Kazakh supply shortage fears as nuclear reactor demand outlook improves. Elsewhere, oil major BP names insider as new CEO, signalling strategy continuity.

The week ahead: Tech earnings, ECB, and PMIs

1. Q4 big tech earnings kick off, with world's largest stock TSLA, NFLX plus ASML, SAP. Hoping to put weak start to **earnings season** from banks behind and look to consecutive growth recovery.
2. Central banks in action, and currently in blackout periods with meets from BoJ (Mon), **ECB (Wed),** and to Fed (Jan. 31) to keep rates unchanged, with focus for most on cutting timeline and QT easing.
3. December's **flash PMI** global macro health check across the US, EU, UK, Japan, Australia showing degree of growth and inflation slowdown. Focus on weakest EU with PMI's a contractionary 47.
4. The hard data focus is on **US Q4 GDP** growth with NOW Cast for another upside surprise to 2.4% (though slower than last quarter). Also 'Fed-favourite' PCE inflation slowdown below last 2.6%.

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	3.47%	4.30%	4.25%
Healthcare	-0.83%	3.02%	1.72%
C Cyclicals	0.55%	-2.59%	-1.34%
Small Caps	-0.34%	-1.94%	-4.08%
Value	-0.01%	-0.07%	-0.34%
Bitcoin	-4.01%	-0.67%	-0.32%
Ethereum	-3.60%	14.75%	8.02%

Source: Refinitiv, MSCI, FTSE Russell

Fixed Income, Commodities, Currencies

	1 Week	1 Month	YTD
Commod*	-1.18%	-2.57%	-1.87%
Brent Oil	0.40%	-0.33%	2.07%
Gold Spot	-1.06%	-1.58%	-1.93%
DXY USD	0.82%	1.50%	1.88%
EUR/USD	-0.48%	-1.05%	-1.27%
US 10Y Yld*	18.75	23.44	25.03
VIX Vol.	4.72%	2.07%	6.83%

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

Focus of Week: Getting your style right for 2024

Investing in the correct investment styles, and sector, can matter a lot

2023 was another year with an above average gap between the best and worst performing investment styles, as well as between sectors (see chart). Getting these choices right can really matter. With the average investment style divergence running at 30 percentage points annually, and between sectors at an even greater 46%. We see this year as one of a big rotation of style and sector performance. With this call potentially even bigger than the overall market direction. We see a comeback for Value, small caps and high dividend yield, as most benefitted by our economic soft landing and lower interest rates base case

Last year was all about quality growth big tech outperformance. Look for a big rotation in 2024

Growth and quality were the main investment styles to outperform the S&P 500 last year. Propelled by the Magnificent Seven combination of rebounding AI-led growth, fortress balance sheets and big profit margin moats. At the other extreme high dividend was among the worst performers, unable to compete with the 5% risk-free interest rates offered by central banks. With Value and small caps not far behind as investors fretted about their greater cyclical exposure to slowing economies, or worse, a recession.

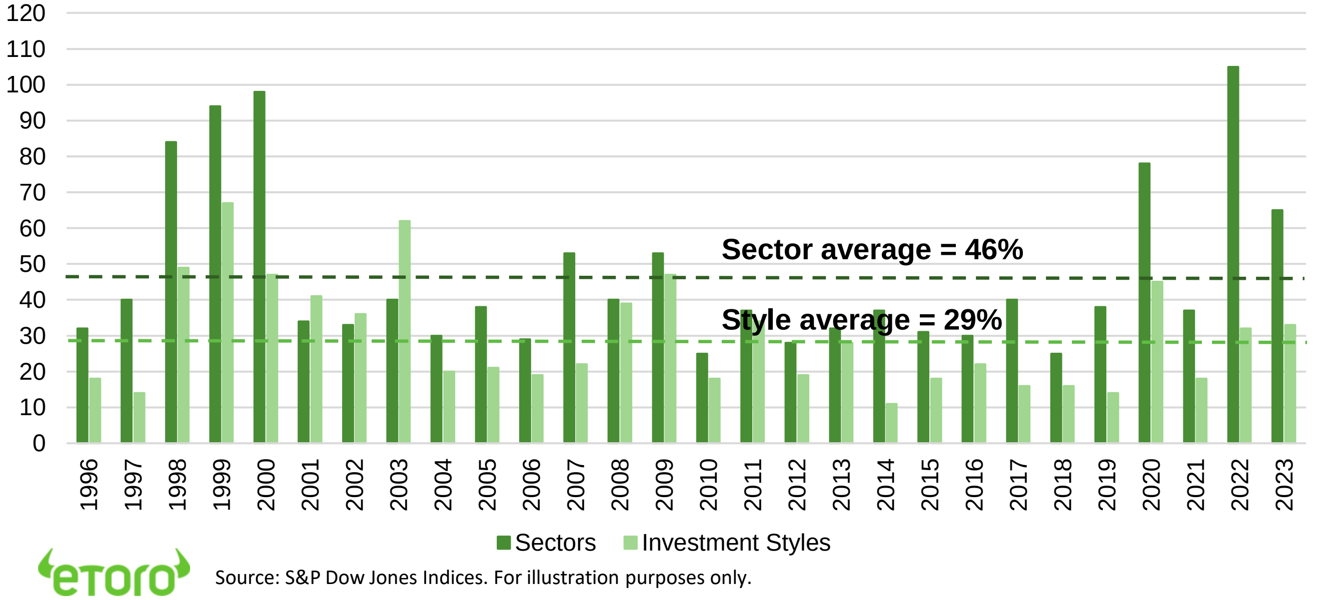
Investors are hanging onto the Growth and quality winners, with high dividend a contrarian 3rd

Our latest global retail investor survey, of 10,000 DIY investors in 13 countries shows investors holding onto the winners of 2023. With a strong preference for quality (top ranked by 30%) followed by Growth (chosen by 18%). This is in-line with the broader preference for US and tech stocks. Whilst lagging high dividend (18%) stocks was a contrarian third choice, and especially favoured in Spain, Denmark, Norway and by 35-44 olds. This was followed, in 4th, by Value (by 12%). With small caps the outlier (preferred by just 7%), with France, Italy, Poland and younger 18-34 old investors, the most enthusiastic.

We see Value and high dividend yield making a performance comeback

We think tech-led Growth (VUG) stocks will continue to do fine. But feel they are unlikely to lead performance to the degree they did last year when US tech stocks rose 55% on average, double the S&P 500 return. They also already have double digit earnings growth and rerated valuations, alongside high profit margins, and fortress balance sheets. Whilst Value (VTV) stocks, from healthcare to financials, are much cheaper and out-of-favour and more sensitive to our 2024 base case of an economic soft landing and interest rate cuts. This macro backdrop should also help deeply out-of-favour and relatively cheap small caps (RTY) later in the year. Whilst high dividend yield (HDV) stocks would benefit from less competition from high interest rates as they are cut on both sides of the Atlantic from mid-year.

Gap between best- and worst- S&P 500 sectors and investment styles (%)



Source: S&P Dow Jones Indices. 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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