



# Market Strategy Outlook

Earnings the key support

Ben Laidler  
benla@etoro.com

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# Summary: keeping cool under pressure

## Markets resilient to strong Fed, Ukraine, China pressures

- ❑ **The hits keep coming.** Fed drives bond sell-off and recession repricing. **Ukraine** keeping uncertainty and commodity prices high. **China** lockdowns boosting growth and supply-chain fear.
- ❑ Markets been **resilient**, but with building rotation to defensives
- ❑ See **upside relief** to a 'less bad' Q2, anchored by an upcoming positive earnings season. Traditionally when made most money.
- ❑ **The upside:** Economic and earnings growth is secure; we are near 'peak Fed' fear; Valuations have cheapened; Sentiment is poor

## Focus on deep Value and Defensive 'barbell' to manage higher risks

- ❑ **A new investing world.** Less growth, higher rates, more volatility
- ❑ Favour cheaper + faster growing **cyclicals** (banks, commodities)
- ❑ Plus select **defensives** such as 'big tech', healthcare, dividends

## We also look at....

- ❑ **French election** risks. The last thing Europe needs right now
- ❑ **Unstoppable USD** driving big EUR and especially JPY weakness
- ❑ **Commodity stocks** 'high for longer' as US plays with fire

The eToro Markets View	
Overview	Slowly easing Fed, Ukraine, China uncertainties to take markets higher. Favor an allocation 'barbell' of inflation assets, like Value equities, commodities, and crypto, alongside select 'defensives' like 'big tech' and healthcare.
Traffic lights*	Equity Market Outlook
United States	Continued profits surprise, now lower valuations, well-priced Fed. Value to lead, but large Tech sector well-supported.
Europe & UK	Cheap valuations, cyclical indices, and strong macro 'buffers', from fiscal to FX, to support through Ukraine crisis.
Emerging Markets (EM)	China opportunity in covid lockdowns. Cutting rates, Stability focus, cheap valuations. Helps EM, materials, luxury.
Other (JP, AUS, CN)	Canada and Australia benefit from commodity and financials focus. Japan a value-trap laggard as growth struggles.
Traffic lights*	Equity Sector & Themes Outlook
Tech (IT, CO, CD)	Structurally good growth, high profitability, fortress balance sheets. Justifies premium valuations. Avoid 'disruption'.
Defensives (HC, CS, UT, RE)	Select exposure with market risks raised, and US bond yields already up significantly. Healthcare cheapest/focus.
Cyclicals (CD, ID, EN, MT)	Benefit most from resilient GDP and higher bond yields, with depressed earnings, cheaper valuations, out-of-favor.
Financials (FN)	Biggest beneficiary of higher bond yield view, and 2nd cheapest sector. Resumed big dividends and buybacks.
Themes	Value to lead on resilient GDP exposure, lower valuations, under-ownership. ESG and renewables accelerating.
Traffic lights*	Other Assets Outlook
Currencies	USD benefits as a safer-haven for now. EUR pressured by Ukraine risks and is a key macro buffer for equities.
Fixed Income	Modestly higher US bond yields (lower prices) as Fed moves to tighten policy. Structural headwinds prevent more.
Commodities	Long term supply/demand 'sweet spot' plus China policy action, Russia sanctions. Plus inflation 'hedge' demand.
Crypto	Strong risk-adjusted returns and low correlation drives institutional adoption. Seen 18th average price correction.
*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: CD=Consumer Discretionary. CO=Communications. CS=Consumer Staples. EN=Energy. FN=Financials. HC=Healthcare. ID=Industrials. IT=Information Technology. MT=Materials. RE=Real Estate. UT=Utilities.

Past performance is not an indication of future results.

# Performance: seen rotation to traditional 'defensives'

## Pressure continues from Fed tightening, Ukraine risk, China slowdown

- ❑ **Fed** 2.5% hike this year (3x50bps next meets). \$95bn/m bond sales
- ❑ **Ukraine** and escalating sanctions keeping commodity prices high
- ❑ **China** zero-covid lockdown impacts exacerbating weakness

## Has been nowhere to hide this year. Sell off breadth wide

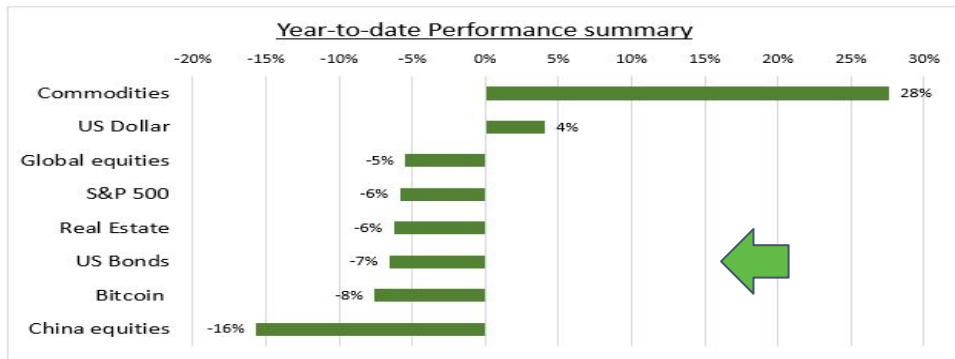
- ❑ Commodities and USD have been the **only gainers**
- ❑ Bonds been weak. Not acting as diversified or a safe haven
- ❑ Seen **rotation** to traditional 'defensives' and out of banks

## But markets also remarkably resilient

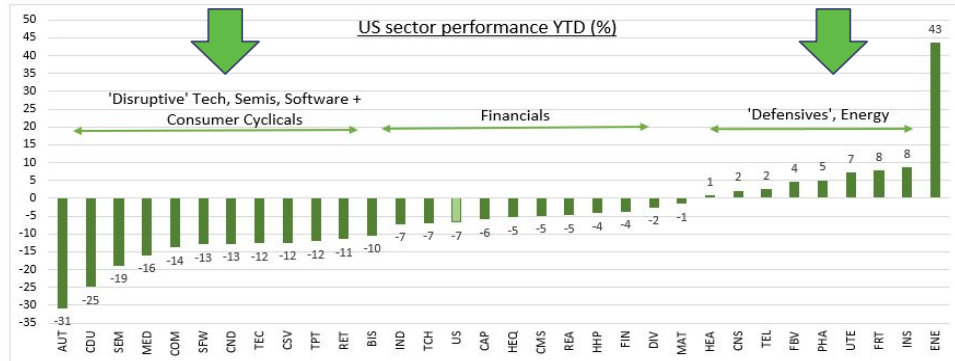
- ❑ Equities **decline less than 10%**. Near half an average 'correction'
- ❑ Despite Fed rate repricing, rising 'stagflation' fears, potential WW3

## We still see a rare fourth year of double-digit equity returns

- ❑ Outlook for **'less bad' news** in Q2, starting with earnings season
- ❑ **Earnings is outlook under-appreciated**. Valuations supported.
- ❑ **Focus is cheaper and faster growing cyclicals**. Also big tech



Source: Refinitiv. Global equities=MSCI ACWI. China equities=MSCI China. Real estate=S&P 500 real estate. USD=DXY US dollar index



Source: Refinitiv. AUT=Autos. BIS=Banks. CAP=Capital Goods. CDU=Consumer Durables. CND=Consumer Discretionary. COM=Communications. CMS=Commercial Services. CNS=Consumer Staples. CSV=Consumer Services. DIV=Diversified Financials. ENE=Energy. FBV=Food & Beverage. FIN=Financials. FRT=Food Retail & Tobacco. HEA=Healthcare. HEQ=Healthcare Equipment. HHP=Household Products. IND=Industrials. INS=Insurance. MAT=Materials. MED=Media. PHA=Pharmaceuticals. REA=Real Estate. RET=Retail. SEM=Semiconductors. SPW=Software. TCH=Tech Hardware. TEC=Information Technology. TEL=Telecoms. TPT=Transport. US=S&P 500. UTE=Utilities.

# Outlook: our roadmap for 'less bad' Q2 relief



## To perform better on 'less bad' outlook

- ❑ Were **few places to hide in Q1**, with commodities the only asset class in the green. Nevertheless, equities and crypto have seen a sharp rebound out of 'correction' territory in recent weeks and have been impressively resilient in the face of surging inflation, a hawkish Fed pivot, war in Europe, and China weakness.
- ❑ With markets now pricing a dramatic 2.5% of Fed hikes this year, valuations lower, and both economic and earnings growth still resilient, we see **markets primed to perform better** with the 'less bad' outlook we see in the second quarter.

## French election next event test - we don't need more to worry about

- ❑ Markets repricing electoral odds in tightening **French election** 2nd round str for **April 24**. Market outperformed European peers since pro-business Macron's 2017 electoral surprise.
- ❑ A still **consensus Macron win** could see efforts to address rising consumer costs, the number one voter concern, with more restrictions on power prices and introduction of food vouchers. Defence stocks gained from support by all.

## Key events to watch in second quarter 2022

Date	Country	Event
April 13	Global	JP Morgan (JPM) kicks off Q1 corporate earnings season
April 14	Europe	European Central Bank (ECB) meeting. No rate hike expected
April 24	Europe	2nd round French Presidential election. Macron leads polls
April 28	US	Q1 GDP report. NOWCast currently +1.5% slowdown from Q4 +6.9%
May 03	US	Fed monetary policy meeting. Futures say hike by 0.5%
May 05	Global	OPEC+ meeting with group under pressure to pump more
May 09	Asia	Philippine Presidential election. Conservative Marcos leads polls
May 21	Asia	Australia Federal election deadline. Opposition Labor lead polls
May 29	LatAm	Colombian Presidential election. Leftist Petro leads polls
June 07 & 28	US	Busiest days for US primaries ahead of Nov. 8 Midterm elections
June 09	Europe	European Central Bank (ECB) meeting. No rate hike expected
June 14	US	Fed monetary policy meeting. Futures say hike by 0.5%

Source: Refinitiv, eToro



Source: PredictIt. Other candidates latest: Zemmour 1.0, Pécresse 1.0, Melenchon 1.0, Taubira 1.0

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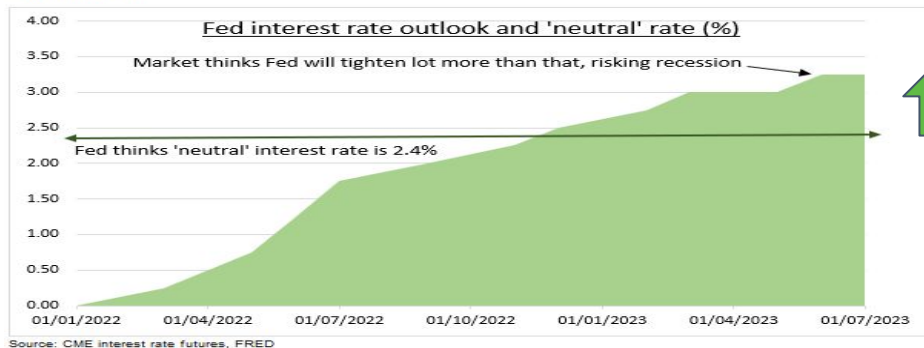
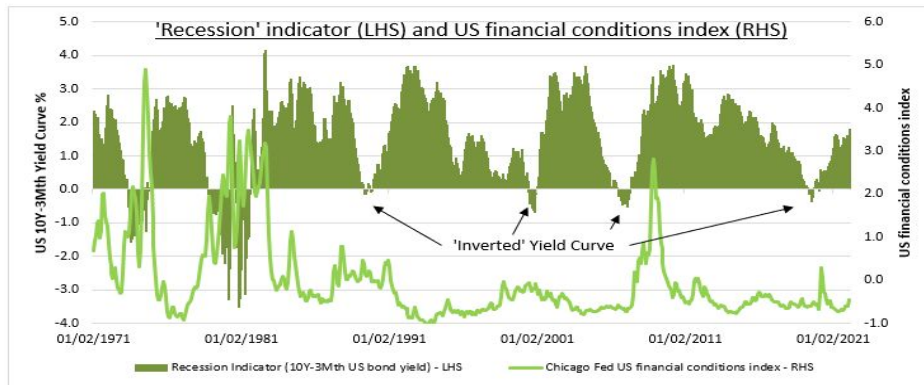
# Fed: we are likely nearing 'peak Fed' fears

## Bond market tantrum and recession risks

- ❑ The **US 10-year bond yield**, which helps price everything from mortgage rates to company bond issues, has **soared to 2.7%** given more hawkish Fed rhetoric. Is contributing to a tightening of US financial conditions and **increase in recession risks**.
- ❑ This is the key, but overdone, investor risk. Cheaper sectors, with higher near-term growth, like commodities and financials are **investment antidote to higher yields**. Whilst tech, especially long duration 'disruptive' tech, and 'bond proxies' most pressured.

## Surviving the more aggressive Fed

- ❑ Markets seeing a **double headwind** from the US Federal Reserve, with 1) ever higher interest rate and 2) bigger bond sale 'quantitative tightening' expectations. We are still constructive, think a recession can be avoided, and we are near 'peak Fed' fear.
- ❑ Despite its hawkish pivot this **interest rate cycle will likely be of average length and magnitude**. Equities have been resilient. Cheaper sectors, like financials and energy, provide protection from lower valuations. Whilst 'hedges', like commodities and crypto, protect from a high-for-longer inflation outlook.



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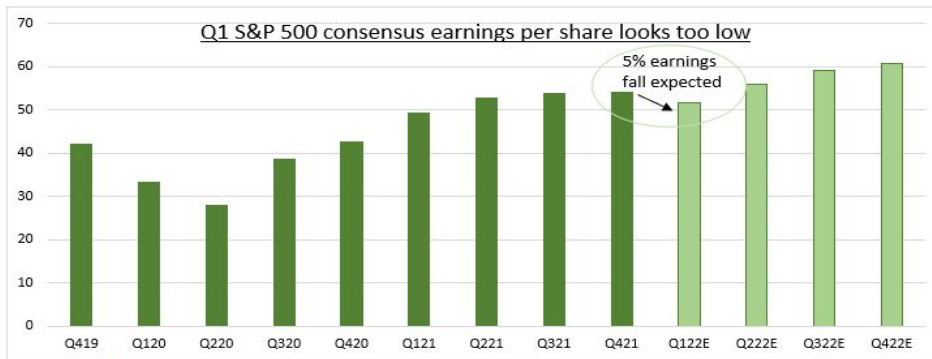
# Earnings: the key market support test is starting now

## A low bar for first quarter earnings season

- Global first quarter earnings season unofficially starts Wednesday, April 13, with JPM leading US bank reports. Consensus has set a **low bar for S&P 500**, forecasting only 5% earnings growth, despite 10% revenue growth, with inflation and supply chain pressures seen eating into near record 12% net profit margins.
- European forecasts are stronger**, with Stoxx600 revenue and earnings seen up over 20%. Italy/France lead. Germany lags.
- Earnings growth to be led by our favoured '**cyclicals**' like energy and materials. '**Barbell**' **defensives** tech and healthcare also positing decent growth. Financials better than looks as lap 2021 provision reversals

## Earnings beats needed to support the market

- Beating forecasts is harder with every quarter, but we see **room for more**. Earnings expectations have been cut into the quarter. Companies have shown the ability to pass on cost pressures. Whilst many benefit from reopening economies.
- This **good earnings season is a needed support** to pressured equity markets and offset to high valuations.



Source: Factset, Refinitiv



Source: Factset, Refinitiv. CD=Consumer Discretionary, CS=Consumer Staples, CO=Communications, EN=Energy, FN=Financials, HC=Healthcare, ID=Industrials, IT=Technology, RE=Real Estate, UT=Utilities

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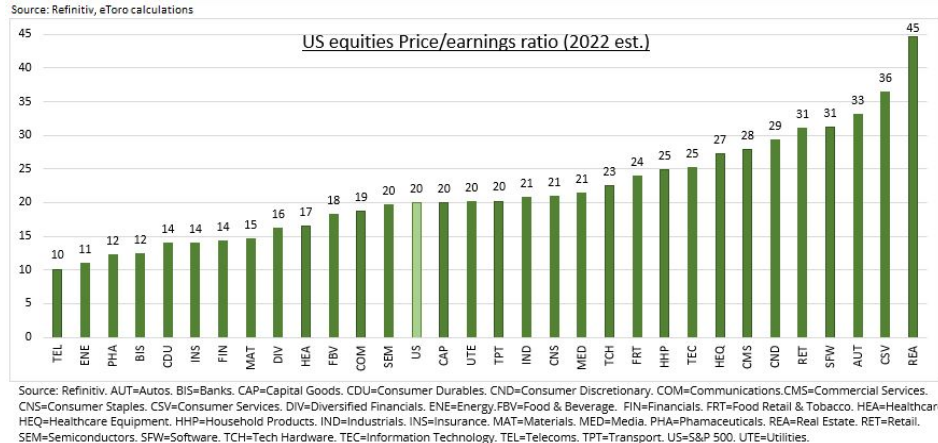
# Valuation: the big risk is now lower but not gone away

## US valuations fallen but are still high overall at 20x Price/Earnings

- ❑ Valuation **risks have eased but not gone away**, as valuation multiples have fallen and bond yields risen.
- ❑ Likely to **stay under some pressure** as bond yields keep rising
  - ❑ Though bond yields already risen a long way, very quickly
  - ❑ And are plenty of structural reasons will slow rise
  - ❑ ...bad demographics, high debt, low foreign yields
- ❑ P/E's are still well above the ten-year (16.7x) averages, **as they should be**. Company profitability is near records and bond yields still relatively low versus history.

## Double benefit to owning cheaper assets

- ❑ Cheaper assets give an **'insurance'** to continued pressure from uncertainty and Fed and earnings risks, and greater **room to rise** for valuations in a bullish scenario
- ❑ International equity markets on a **c25% discount** to the US
- ❑ Financials, commodities, and healthcare are the **cheapest sectors** (see chart). Big tech has de-rated toward 'Value' territory.
- ❑ **Software** valuations still high. **'Reopeners'** look high, but is really still very depressed earnings.



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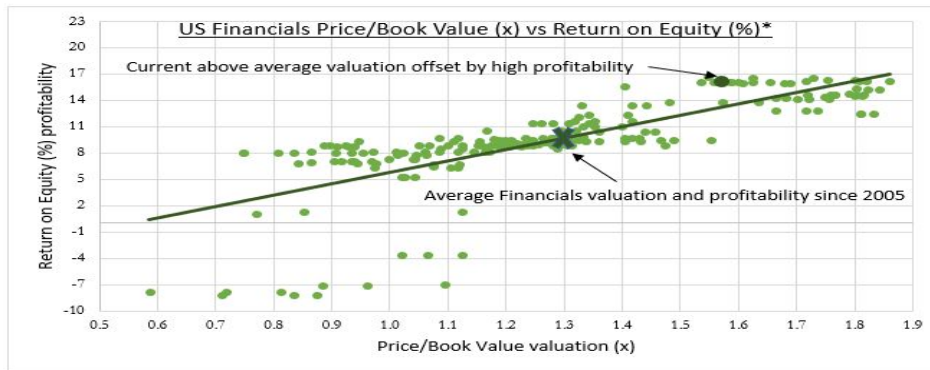
# Cyclicals: tale of two segments, financials and LatAm

## The continued case for financials, after the flattening yield curve

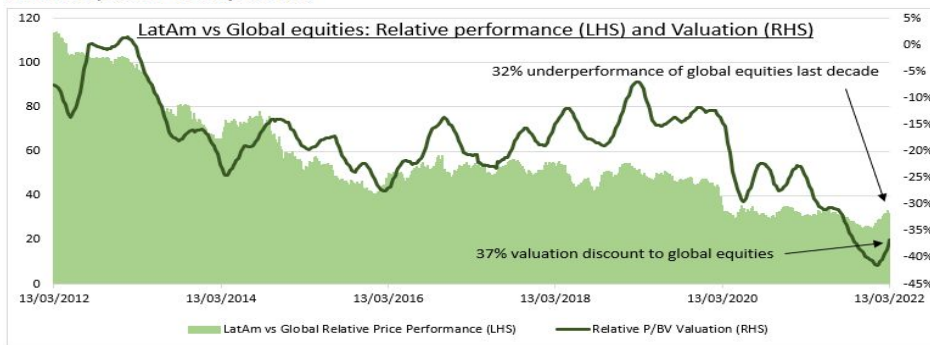
- Sticky inflation and **higher long term bond yields** are relative positives for financials, the **largest Value sector**. See recovering loan volumes and being able to charge more for them. This offsets cooling capital market activity that investors never valued highly.
- They are supported by some of S&P 500's best cash returns and **cheapest valuations**, strong capital positions, and still low recession risks. See ETFs for US financials (XLF), banks (KBE), or regional banks (KRE) and smart portfolio @TheBigBanks.

## LatAm out of the wilderness after a decade, with commodity boost

- Spent decade in investment wilderness, shrinking to 1% global equities. But is **world's top performer this year**, with 15% BRL rally. Soaring commodities (35% its equity markets), central banks hiking to combat inflation and boost FX, a long way from Ukraine, and valuations at 40% discount. See @LatAmEconomy.
- With high-for-longer commodities and Brazil world's 2nd cheapest P/E, the **rally may last** despite Colombia and Brazil election risks.
- LatAm a **cheap hedge** against higher commodities and geopolitics.



Source: MSCI, Refinitiv. \* Monthly since 2005



Source: MSCI, Refinitiv

# Defensives: 'big tech', dividends, healthcare options

## Big Tech strong getting stronger

- ❑ The silver lining to tech sell-off is that big tech 'strong are getting stronger'. The cooling of tech IPO and M&A boom is cutting disruption risk and boosting big tech acquisition opportunities. Disruption, not regulation, is biggest threat to today's tech' titans.
- ❑ This year seen healthy valuation and expectations reset, and refocus on protection offered by tech incumbents. See @BigTech.

## Compounding dividends and record buybacks

- ❑ Compounding dividends and share buybacks, are big and two overlooked '**make money while you sleep**' drivers of returns.
- ❑ Dividends are **40% of long term US returns**, and more elsewhere. Buybacks the single largest US equity buyer. Both are at record levels and set to grow more.
- ❑ See @DividendGrowth and @Utilities and ETF' like HDV or IAPD.L. These compounding investments are an **attractive complement** to our bullish cyclical and value focus.

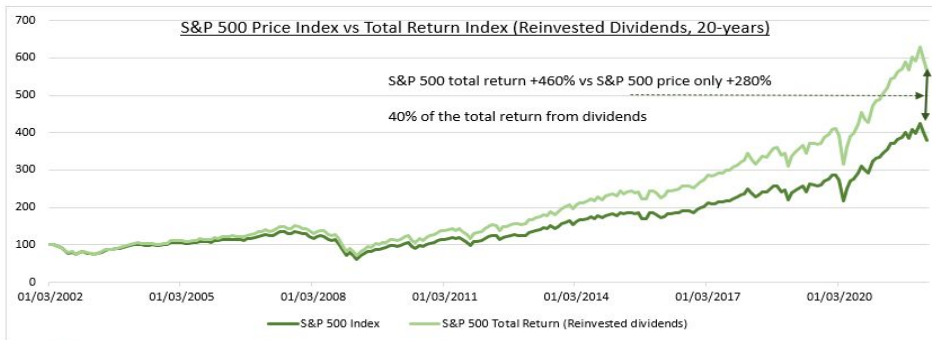
## Healthcare a traditional defensive sector, with offence characteristics

- ❑ With **combination** of cheapest valuations and strongest earnings growth along with least bond yield sensitivity and upside catalysts

## Changing history of the largest US listed companies ('Tech' in Green)

Rank	2020	2015	2010	2005	2000	1995
1	Microsoft	Apple	Exxon	Exxon	Microsoft	GE
2	Apple	Alphabet	Microsoft	GE	Cisco	Exxon
3	Amazon	Berkshire H	Apple	Microsoft	GE	AT&T
4	Alphabet	Exxon	Wal-Mart	Citigroup	Intel	Coca-Cola
5	Facebook	Microsoft	Berkshire H	Wal-Mart	Exxon	Wal-Mart
6	Berkshire H	Wells Fargo	GE	J&J	AT&T	Altria
7	J&J	J&J	P&G	Pfizer	Oracle	Merck
8	Wal-Mart	Wal-Mart	BofA	BofA	Lucent	IBM

Source: Americanbusinesshistory.org, eToro calculations



Source: Refinitiv, eToro calculations

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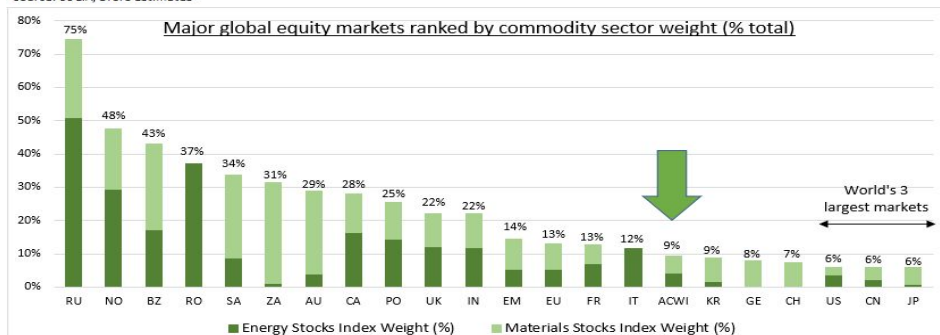
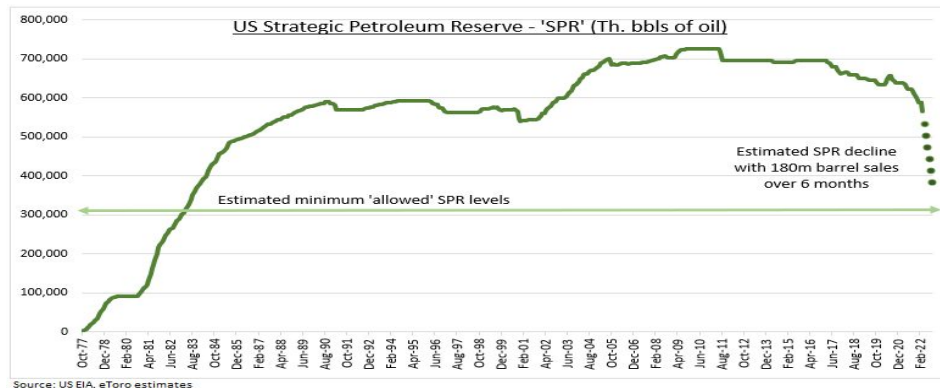
# Commodities: US oil sales could dramatically backfire

## US and allies are playing with oil market fire

- ❑ US and allies **dramatic plans to sell oil** from emergency 'strategic petroleum reserves' (SPR) to contain \$100+ oil prices. US targeting 1.0m barrels daily sales, equal to 1% global supply, for six months.
- ❑ This is easing prices today, but is **risky and could easily backfire**. Is insufficient to offset c3.0m barrel lower Russian production, will leave US reserves perilously near 'minimum' levels (see chart), and plan to buy back sold barrels will boost medium term prices.
- ❑ This supports our view of '**high-for-longer**' oil prices, with equities (XLE and @OilWorldWide) especially attractive.

## Commodities remain in a rare 'sweet spot'

- ❑ After 10-year underperformance, in **sweet spot** of rebounding demand, tight supply, and higher investment demand (inflation)
- ❑ Longer term view puts commodity performance in perspective. See our recent [10-chart Commodity Playbook](#)
- ❑ Equities offer **better risk/reward than physical** at these high price levels. Some markets have very high commodity weights (see chart)



Source: MSCI, Refinitiv, 1/03/22. ACWI=World, AU=Australia, BZ=Brazil, CA=Canada, CH=Switzerland, CN=China, GE=Germany, EM=Emerging Mkts, EU=Europe, FR=France, IN=India, IT=Italy, JP=Japan, KR=Korea, NO=Norway, PO=Poland, RO=Romania, RU=Russia, SA=Saudi Arabia, UK=United Kingdom, US=United States, ZA=South Africa.

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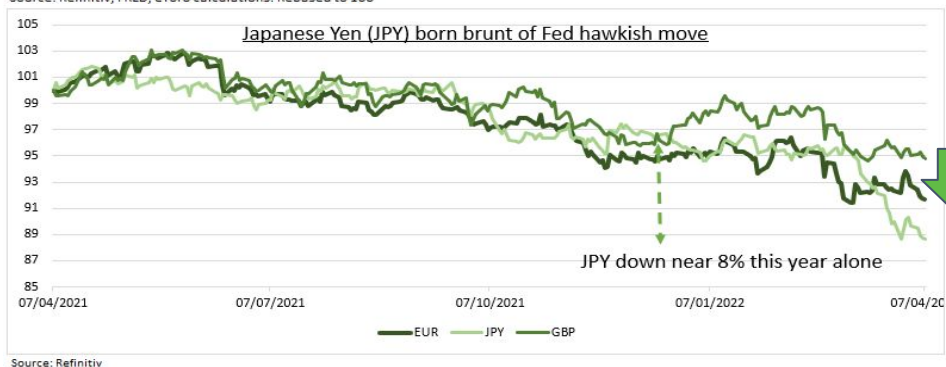
# Currencies: unstoppable USD with DXY at a two-year high

## The USD rally gains steam

- ❑ The **USD rally has gained steam**, with the EUR-heavy DXY index reaching 100 level for first time in two years. As 1) the Fed has turned ever more aggressive and 2) global risk-aversion has stayed high.
- ❑ Plunging **JPY has taken over from EUR weakness** as the market focus. BoJ is the most dovish of major global Central Banks, with little inflation. As ECB begins slow move towards raising rates latest this year.
  - ❑ FX key growth and competition '**insurance policy**' for both regions export-heavy economies and corporates.
  - ❑ **JPY even worse than RUB** and Ukrainian Hryvnia!

## Commodity currencies only ones to lead the USD

- ❑ **Commodity currencies**, from Brazil (BRL) to Australia (AUD), and New Zealand (NZD) benefited. Upto 20% appreciation YTD vs USD
- ❑ **Stronger USD** Is traditionally a headwind for emerging markets, the US tech sector, and commodities. Has clearly held back the first two, and commodities may have done even better without.



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# Crypto: resilient to Fed risks and risk-off markets

## Crypto surviving Fed hawkishness. Down in-line with other assets

- ❑ Bitcoin (BTC) resilient to **US Fed rate** expectations and broader volatility. Helped by structural 'buys' and inflation hedge demand
- ❑ Latest [data](#) shows 19% of the Bitcoin **hash-rate** is now from listed miners, like RIOT and MARA, as more go public and invest more
- ❑ Launch of [eToro.art](#), supporting NFT collections and new creators.

## Big bitcoin buyers continuing

- ❑ Bitcoin (BTC) helped by **Luna Foundation** raising holding to \$1.6 billion, of its \$10 billion target, to back its Terra USD stablecoin.
- ❑ **MicroStrategy** (MSTR) bought \$200 million, taking to \$6 billion.

## Institutional crypto adoption barely started. To be led by two drivers:

1. By far **highest risk-adjusted returns** of any asset
2. Still **low** (but rising) **correlation** with other assets

See related **smart portfolios**: @CryptoPortfolio, @DeFiPortfolio. Many considering '[equity-proxies](#)' like SI, RIOT, MARA, and MSTR

