



Market Strategy Outlook

Santa comes early

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Summary: Santa came early this year

Strong market rebound. Resilient to tapering and rising inflation

Year end Santa rally has come early. Limited upside to our S&P 500 4,700 year end target, but more to end-2022 target of 5,050. Equities have been **resilient** to sharp changes to inflation and interest rate expectations

- (-) Inflation rising further and driving earlier interest rate forecasts
- (-) Fed taper started. US debt ceiling and Fed chair decision coming
- (+) Q3 earnings +40% versus last year. Profit margins at highs
- (+) Strongest seasonality of the year. Retail and buy back supports

Remain focused on upside from growth recovery. US Q4 GDP +8%

- Favors reflation assets:** cyclical equities (financials, commodities, industrials), commodities, crypto, small caps, and value
- Cautious on fixed income, USD, and defensive equities

What to watch: eToro Catch 22 Year Ahead and #InvestWithHer

- Five 'Year ahead' webinar series, from equities to crypto
- #InvestWithHer' series focused on female investors

The eToro Markets View

Overview	Goldilocks' scenario of strong growth and continued policy support favors reflation assets: cyclical equities, commodities, crypto, small cap, value. Caution fixed income, USD, defensive 'bond proxy' equities.
Traffic lights*	Equity Market Outlook
United States	Continued earnings surprise to offset high valuations. Cyclicals to rebound, but large Tech sector well-supported.
Europe & UK	Cheaper valuations and cyclical indices to drive outperformance as 2022 re-opening rebound set to continue.
Emerging Markets (EM)	China dominates EM. Tech and growth risks now well-priced. Recovery opportunities in more cyclical EM ex Asia.
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)	Structural stories with good growth, high profitability, and clean balance sheets that justify high valuations.
Defensives (HC, CS, UT, RE)	To underperform with low sensitivity to strong growth recovery and large exposure to higher bond yields.
Cyclicals (CD, ID, EN, MT)	Benefit most from GDP rebound and higher yields, with depressed earnings, cheaper valuations, out-of-favor.
Financials (FN)	Biggest beneficiary of higher bond yield view, and by far cheapest sector. Resumed big dividends and buybacks.
Themes	Value to lead on GDP recovery exposure, lower valuations, under-ownership. ESG and renewables accelerating.
Traffic lights*	Other Assets Outlook
Currencies	USD balanced by stronger overseas growth and a tightening Fed. Benefits EM, Commodities, overseas US sectors.
Fixed Income	Modestly higher US bond yields (lower prices) as Fed moves to tighten policy. Structural trends prevent more.
Commodities	Long term supply/demand 'sweet spot' vs short term demand and property sector concern in no.1 importer China.
Crypto	Strong risk-adjusted returns and low correlation with other asset classes driving gradual institutional adoption.

*Methodology:

Overall positive view, and expected to outperform the asset class on a 12-month view.

Overall neutral view, with elements of strength and weakness on a 12-month view.

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: the fourth quarter rally started

Markets new all-time-highs, regardless of inflation and Fed tapering

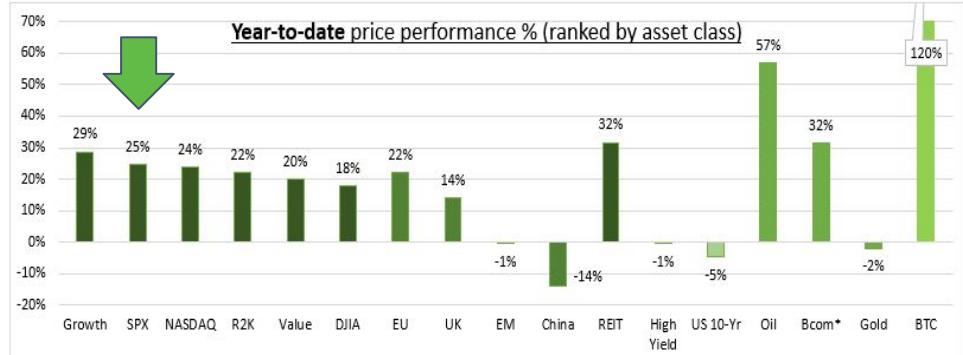
- ❑ S&P 500 +8% from October low, as 'santa rally' starts early
 - ❑ S&P 500 at **65 ATH's this year**. 2nd to record in 1995
 - ❑ Bonds weak as inflation clearly higher-for-longer
 - ❑ Crypto saw new ATH's, partly as growing inflation hedge
 - ❑ Commodities stall (temporarily) on the strong USD

What to watch into year end, even with market rate hike concerns

- ❑ **Growth** re-accelerating to 8% from weak 2% in Q3 on lower virus
- ❑ **Event risk** from Fed chair decision, and debt ceiling (Dec. 3)
- ❑ November/December **seasonality** is the best of the year
- ❑ Supports from new retail investors and record share buybacks

Energy leads sectors, as semis catches up

- ❑ **Energy** remains the strongest industry, on higher-for-longer \$80/bbl Brent. **Semiconductors** leads tech as the 'new oil' as supply constraints continue. Tesla drives **autos**. Defensive 'bond proxies', such as **telecoms** lag.



Source: Refinitiv. Bcom=Bloomberg Commodity Index



Source: Refinitiv. UT=Autos. BIS=Banks. CAP=Capital Goods. CND=Consumer Durables. 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. SFW=Software. TCH=Tech Hardware. TEC=Information Technology. TEL=Telecoms. TPT=Transport. US=S&P 500. UTE=Utilities.

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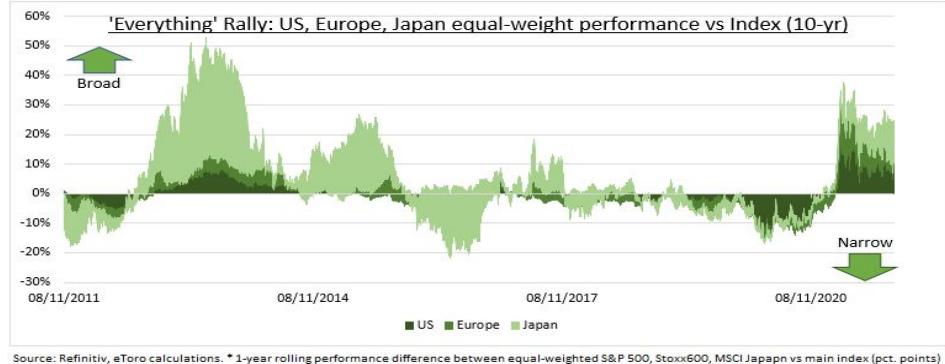
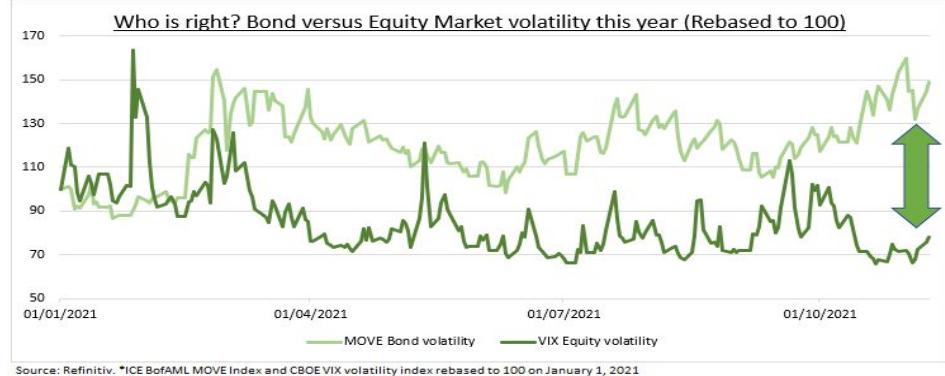
Equities: bond market stand-off, but healthy breadth

Contradictory messages from bond and stock markets. Who is right?

- ❑ VIX 'fear gauge' measures S&P 500 equity volatility, and is near a **post-crisis low**, helped by Q3 earnings and year-end seasonality.
- ❑ MOVE index measures volatility in US treasury market. Has **soared** (see chart) with expectations for Fed raising interest rates earlier and faster next year. Similar seen globally, from Australia to UK.
- ❑ Our **cyclicals** sector focus (like XLE, XLF) provides protection of lower valuations and exposure to a near-term growth pickup.

'Everything' rally shows strong support

- ❑ Take comfort from still-strong **breadth** of the global equity rally (see chart). A key support, and a sharp contrast with last year.
- ❑ Reflects the broad economic strength and re-opening. We think this has **further to go**.
- ❑ But also the continued resilience of the heavy-weighted technology sector.



Valuations & Earnings: not just about US earnings growth

High valuations supported by rising profits, low bond yields, 'big tech'

- Market rebound has kept US equity valuations very high, at around **22x forward P/E ratio**, despite rising earnings
- Falling valuations remains the **biggest market risk**, and why we focus so much on earnings (as the best 'insurance policy')
- Partly **mitigated by** 1) still rising profits, 2) lower-for-longer bond yields, and 3) long term rise of the high profitability tech sector
- Other market segments are significantly cheaper though, such as **international equities** and the **financials** sector

Global earnings even stronger than the US. Estimates to rise more

- European Q3 earnings rose **60% versus last year**, even more than the 41% seen in the S&P 500
- Average company beat earnings **forecasts by over 10%**. Near all sectors beat, led by **financials and tech**.
- Austria, UK, Poland, Netherlands all grew profits over 100%. Relative laggards were Sweden, Germany, and Spain up 'only' 25%-35%.



Source: Refinitiv, eToro calculations



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

Styles: 're-openers' and Small caps benefitting from growth

Re-accelerating growth to particularly benefit themes themes

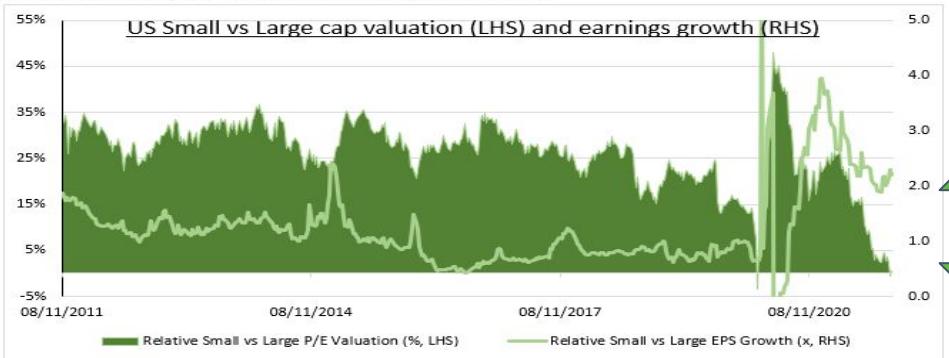
1) Re-opening stocks versus work-from-home (WFH)

- ❑ **Reopeners** are out-of-favour, with **depressed earnings** (65% below pre-pandemic) that are recovering earnings. **Cheap** underlying valuations (< 15x P/E on basis of earnings recovery).
- ❑ Basket from Boeing (BA) to Marriott Hotel (MAR) and Avis (CAR)
- ❑ By **contrast**, **work-from-home** (WFH) basket on 26x, with earnings 40% above pre-crisis. Makes vulnerable to disappointment. See recent Peloton (PTON) and Activision (ATVI).



2) Small Caps preferred versus large caps

- ❑ Exposed to **economic rebound**. Are smaller (less diversified), more domestic (less overseas revenues), more cyclical (less tech).
- ❑ Relative P/E valuations versus large caps have plunged to **decade lows**. Whilst earnings growth is twice that of large cap (see chart).
- ❑ Broad small cap (IWM, IJR) gives the most diversification. Value small cap (IWN, VBR) the most bang. Both have more growth exposure and cheaper valuations than large caps.



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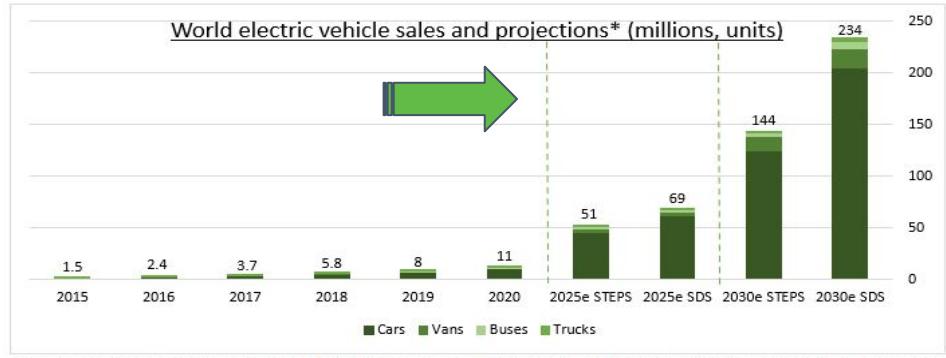
Sectors: positive EV and online sector catalysts

Huge Rivian (RIVN) IPO a sign of booming EV demand outlook

- ❑ EV market is **booming** (see chart) and broadening, to SUV's and vans. Not just cars like Tesla. This is driving big valuations.
- ❑ Attracting **big backers**. Amazon (AMZN) 22% stake and 100,000 van order. Ford (F) 14% stake, and fund manager T Rowe Price 19% stake. We see more legacy auto and tech cross-overs in future.
- ❑ Customers and **retail investors** accessed IPO at the same time as institutional investors, reflecting their increasing importance.
- ❑ See 30-stock @Driverless global exposure as well as the EV **supply chain** from lithium (ALB, SQM) to charging (CHPT, BLNK).

China Singles Day a broad online retail catalyst

- ❑ China's 13th annual **Singles Day** world's **largest** shopping event, led by Alibaba (BABA) and JD.com (JD US).
- ❑ **Reassured** on strength of Chinese consumer (been weak), and no ceiling to e-commerce penetration (50% twice global average).
- ❑ Also could **refocus attention** on lagging China and global online sector. Hurt by China woes, the bricks-and-mortar reopening, and supply chain and cost pressures. See @ShoppingCart of 30 global online stocks, and @ChinaTech of 30 local leaders.



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Themes: the six 2022 'picks', from renewables to China

Six themes in focus: from renewables and EV's to re-opening and China

See over 45 eToro [Smart Portfolios](#)

The carbon transition. Renewables investment needs 3x current, and boosted by higher carbon cost, and investor preferences. See @Renewables.

Electric vehicles. 1% of installed global vehicle fleet electric today. Adoption sharply accelerating, and direction of travel clear. See @Driverless.

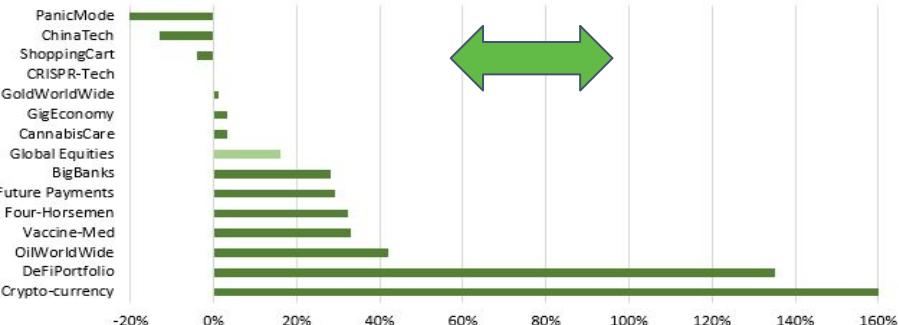
Crypto assets. Adoption by \$250 trillion liquid institutional investments starting. Some regulation helps. See @Crypto-currency and @DeFiPortfolio.

Metaverse. We are seeing huge new investments from Facebook (FB) and other big tech names like Apple (AAPL). This may drive a focus on the early-adopters in the gaming industry. See @InTheGame.

Re-opening. Sectors from travel to hotels benefit as vaccine rates pick up and economies re-open. Benefit from lowered cost bases. See @Travelkit.

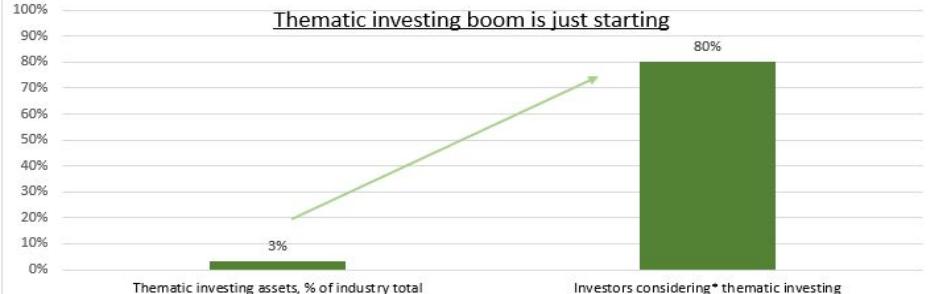
China. We see the tech regulation and economic growth risks as now better priced. The country remains a leader in many emerging technologies, from 5G to drones. See @ChinaTech and @ChinaCar.

Select best and worst-performing themes* this year (%)



Source: eToro *Smart Portfolios

Thematic investing boom is just starting



Source: Morningstar, eToro. *Q2 Retail Investor Beat Survey

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Commodities: 'green commodities' to be as big as oil

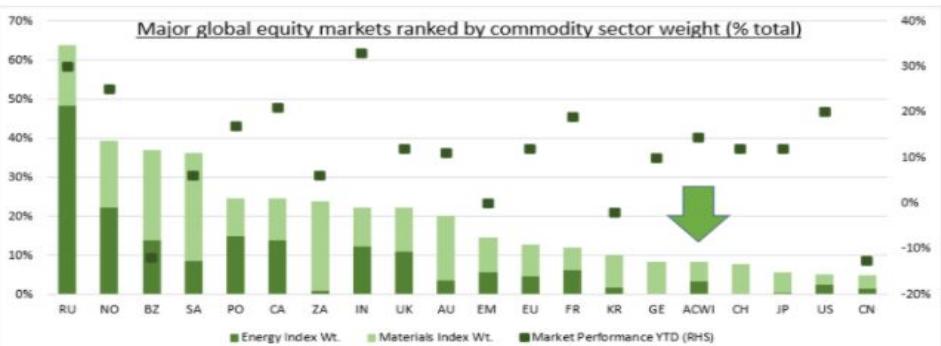
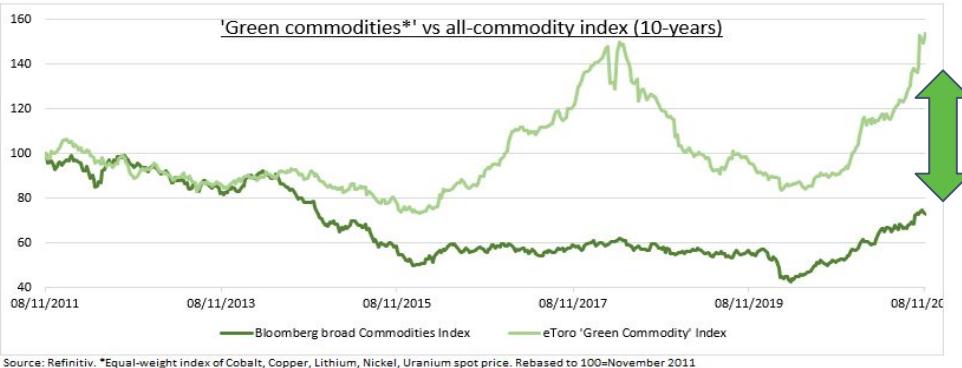
The 'green commodities' boom

- ❑ An accelerating carbon-transition is supporting **higher-for-longer commodity prices**.
- ❑ Demand for '**green metals**', from cobalt and lithium, to copper and nickel, is forecast to surge four-fold, and ultimately rival the size of the oil market.
- ❑ See **uranium**. China is to build 150 reactors as part of its net-zero plan, but world mine supply is 25% below demand today.
- ❑ Exposure via physical commodities. **COPPER** and **NICKEL** on platform. Related equities from Cameco (CCJ) to Albemarle (ALB). Or broad @RenewableEnergy and ETF's like QCLN, and LIT

Commodities are in a rare 'sweet spot'

- ❑ After 10-year underperformance, in **sweet spot** of rebounding demand, tight supply, and higher investment demand (inflation)

See related **smart portfolios** @OilWorldWide and @GoldenEnergy. Also especially exposed (see chart), like Russia, Norway, Brazil.



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Currencies: dollar rally accelerated on rate hike forecasts

Repricing of interest rate and inflation expectations boosted USD

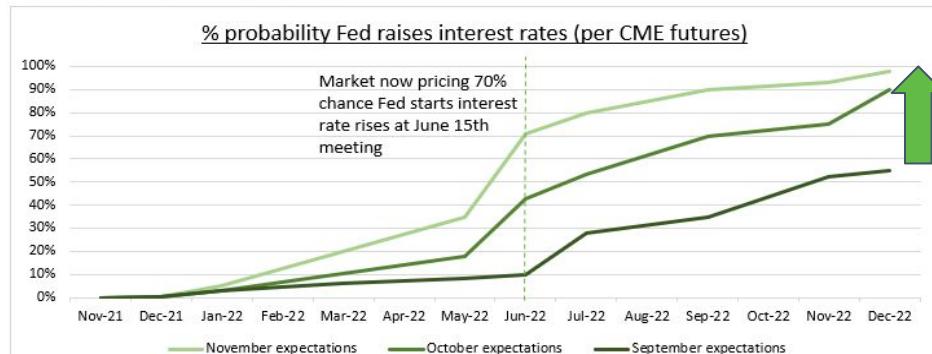
- USD rising as inflation forces market to price at least two rate hikes next year. GBP and CAD in similar position. NOK and NZD are the only two G-10 central banks to have raised already
- Whilst those seen as to only raise interest rate later, such as EUR, CHF, and JPY, remain under relative pressure

Stronger USD hurts EM, commodities, and tech

- A stronger USD hurts emerging markets (EEM), by increasing USD financing and debt pressures
- Also commodities (DJP), which are priced in USD and become more expensive for buyers (as well as related assets like Australia)
- US sectors, like IT (XLK), with 57% of sales from overseas

Equity market exposure to local currency moves vary dramatically

- Stronger local currencies would hurt global and lower margin European (EZU) companies. Over 50% UK and European corporate sales are from abroad. Switzerland, Sweden, Netherlands **most**.
- Largest economies: US, China, Japan **among the least** impacted



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Crypto: asset class closing in on US\$ 3 trillion

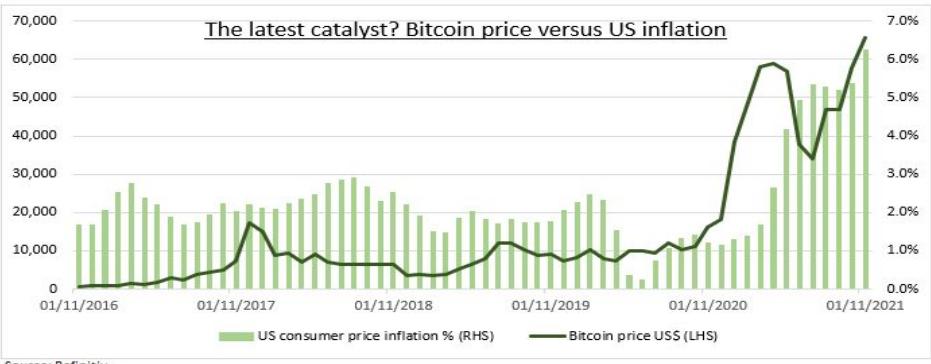
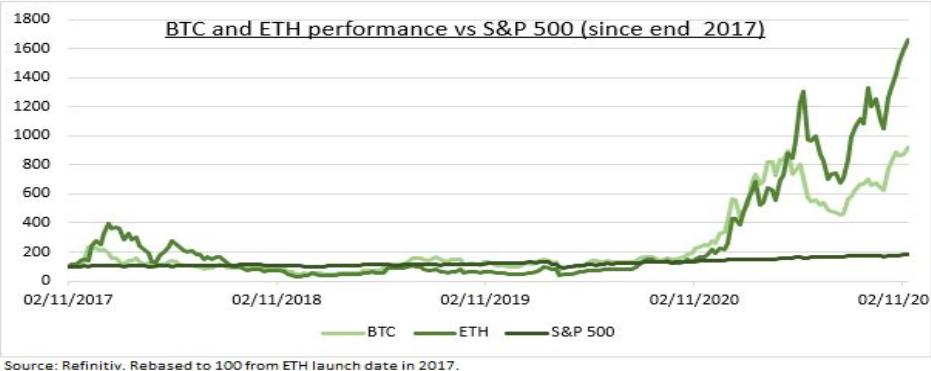
New high for bitcoin in seasonal strong Q4. Asset class nears \$3 trillion:

- ❑ November '**taproot**' upgrade. First in 4 years. Will boost both efficiency (lower fees and better smart contract functionality) and privacy, and likely broaden its market.
- ❑ BTC as **inflation hedge**. Rallied as inflation expectations spiked, Latest with 6.2% US October inflation shock. See chart. Investor demand for gold fell 7% last quarter
- ❑ Launch, and strong fundraising, of **bitcoin futures** ETFs
- ❑ Driving interest in small number of '**equity-proxies**' (see chart)
- ❑ **New tokens**, taking to 40. 1) automated market maker SushiSwap (SUSHI). 2) sports/entertainment Chiliz (\$CHZ), 3) video game Axie Infinity (AXS). 4) blockchain operating system Quant (QNT).

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

1. By far **highest risk-adjusted returns of any asset**. Adjusting for huge volatility crypto-assets still outpace equities near 5x
2. **Correlation with other assets very low**. Can be added to a diversified portfolio and reduces risk, despite volatility

See related **smart portfolios**: @CryptoPortfolio, @DeFiPortfolio



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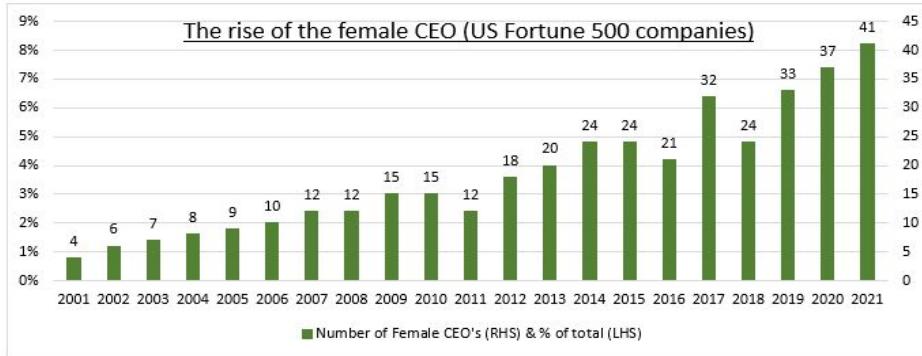
Events: Catch-22 year ahead and #InvestWithHer

'Catch 22' Investment Outlook for 2022

- Join our **Year ahead 2022 outlook** on equities, crypto, international, themes, and multi-asset with eToro experts
 - November 17: Equities
 - November 18: Crypto
 - November 24: International
 - November 25: Themes
 - December 1: Multi-asset
 - Early December: *Local market* Year Ahead webinars
- Register [here](#)**

Female investors, and company CEO's. are growing

- The number of female investors is **growing faster** than men. They invest differently, and often do better.
- Same is true for [female CEO's](#). Percent of large US stocks run by women up from 1% two decades ago to over 8% today (see chart).
- Whilst a clear improvement, this is **still very low**. Female CEOs lead GM (GM) and Citigroup (C), to GSK (GSK.L), and Merck (MRK)
- 18% of senior managers globally are women. China leads at 38%.



Source: Catalyst, Historical List of Women CEOs of the Fortune Lists: 1972-2021 (June 2021)

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