Wealth Management Chief Investment Office
28 January 2022

Global Market Outlook

A window of opportunity

- Since we published our Outlook 2022, both equities and bonds have faced headwinds as markets adjusted their expectations to price in a more aggressive US interest rate hiking cycle. Gold rose, fulfilling its role as a diversifier.

- Several indicators suggest markets are approaching the end of this Fed repricing process; history shows 10%+ pullbacks in major equity indices within larger bull markets are not uncommon. Hence, we believe the window to buy-the-dip is now open.

- Beyond our preferred equity regions of the US and Euro area, we see an improving outlook for Chinese equities, given the central bank's increasingly supportive stance.

- Within bonds, US/European High Yield bonds are also likely to rise alongside equity markets, while Asia USD bonds should benefit from increasingly supportive monetary policies in China. The AUD, NZD and CAD should benefit from both.

Is it time to bottom fish in equities, especially in the technology sector?

Why the Fed is likely to 'go slow' on interest rate hikes?

Has the US dollar peaked?

Important disclosures can be found in the Disclosures Appendix.

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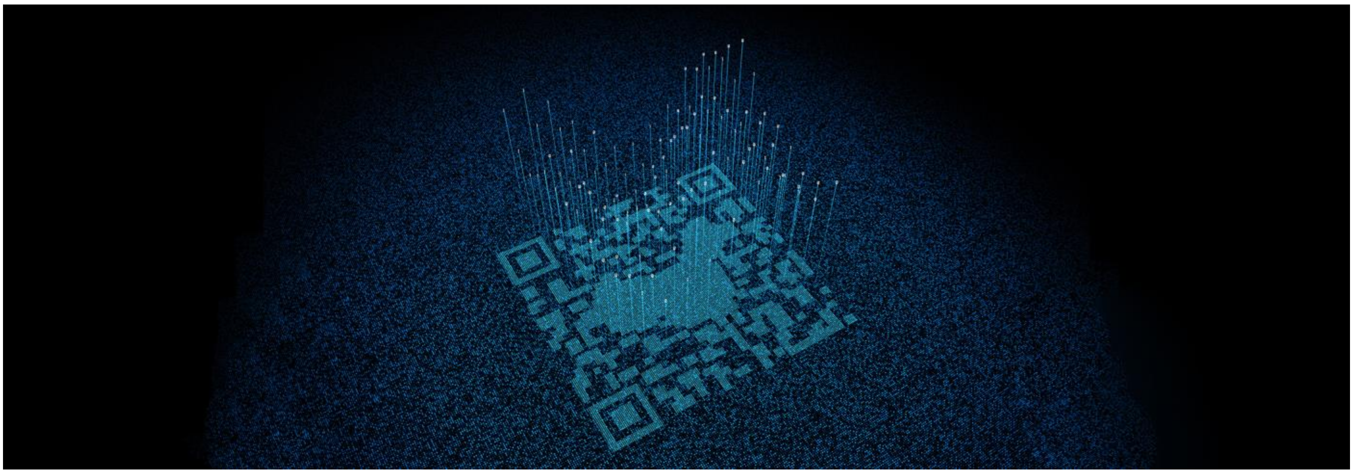
Steve Brice
Chief Investment Officer

Manpreet Gill
Head, FICC Investment Strategy



Our foundational preferences over a 12m horizon

- Prefer Global Equities and Gold
- *In equities:* US and the Euro area
- *In bonds:* DM HY, Asia USD
- *In FX:* Bearish USD bias

Longer-term (3-5-year) themes

- The Winds of Climate Change
- Embracing a Digital Future
- China's 'Common Prosperity'

Sector preferences over a 12-month horizon

- *US:* Technology
- *Euro area:* Industrials, Financials, Technology, Consumer Discretionary
- *China:* Consumer Discretionary, Industrials

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- Several indicators suggest markets are approaching the end of this Fed repricing process; history shows 10%+ pullbacks in major equity indices within larger bull markets are not uncommon. Hence, we believe the window to buy-the-dip is now open.
- Beyond our preferred equity regions of the US and Euro area, we see an improving outlook for Chinese equities, given the central bank's increasingly supportive stance.
- Within bonds, US/European High Yield bonds are also likely to rise alongside equity markets, while Asia USD bonds should benefit from increasingly supportive monetary policies in China. The AUD, NZD and CAD should benefit from both.

A volatile start to 2022

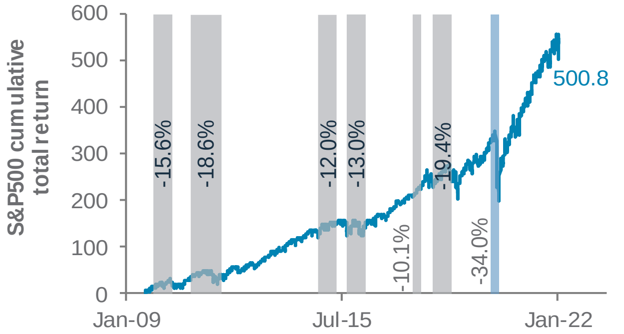
It has been a rough start for investors in 2022, with equites and bonds both suffering amid shifting US monetary policy expectations. Since we published our Outlook 2022, global equities and bonds have declined c.6% and c.3%, respectively. Gold rose as much as 3.5% before paring some gains, fulfilling its diversification role, and the USD is up c.1%. Within equities, Developed Markets have underperformed Emerging Markets as central bank policy expectations diverged; in the US, the market debate has centred around how far the Fed could tighten in 2022, while in China, the debate has focused on how much further the PBoC could ease.

Are 10% equity sell-offs 'normal'?

The rally in global equities and High Yield bonds since March 2020 was punctuated by very few, and shallow, pullbacks. However, history shows us that equity markets are usually more volatile. The S&P500 index witnessed six pullbacks of 10% or more (with one approaching 20%) during the 2009-2020 bull market. A longer history going back to 1930 also shows us that the S&P500 index pulled back by an average of 16% peak-to-trough during US mid-term election years. With the benefit of hindsight, the best decision from each of these pullbacks on a 6-12-month perspective was to stay invested and, if possible, use the volatility to one's advantage by buying on dips or selling the spike in volatility to generate income. Staying in cash out of fear of further losses was usually the worst decision, outside of recessions.

Fig. 1 10%+ equity market sell-offs are not uncommon; there were six in the last bull market, each presenting a buying opportunity

S&P500 Index



Source: Bloomberg, Standard Chartered

Fig. 2 Easing policy in China could be helping Chinese assets create a bottom

Hang Seng Index, Asian High Yield bond total return index

Source: Bloomberg, Standard Chartered

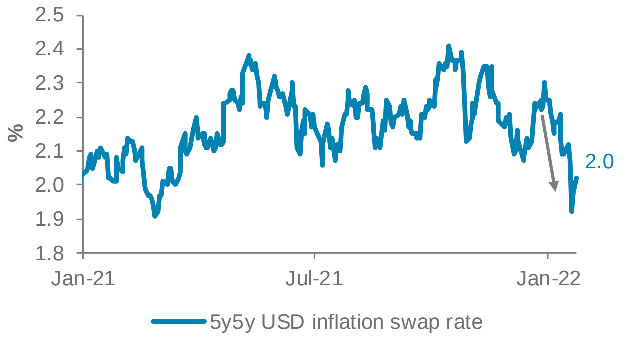
Could the current sell-off be the start of a larger bear market? We believe not. Historically, bear markets (commonly defined as sell-offs of 20% or more) almost always occur alongside an economic recession. Economic growth data, though, remains very strong, and forward-looking recession indicators (like the yield curve) are not signalling a recession.

Have markets bottomed?

Timing the precise bottom in global equities remains difficult. However, we would take comfort from three factors. First, a Fed hiking cycle appears to be well-priced. For 2022, for example, four Fed rate hikes are already priced in and the market narrative is questioning whether more hikes are likely. We think expectations have overshot and expect the Fed to hike only thrice as growth slows towards trend in H2 and inflation and supply chain pressures start to ease.

Fig. 3 Long-term US inflation expectations remain well-capped and are back to around 2%

5-year/5-year forward inflation expectations (market expectations of 5-year inflation in 5-years' time)



Second, despite the ongoing inflation debate, long-term inflation expectations have actually fallen to their lowest level in almost a year. If the Fed's goal was to avoid inflation expectations becoming unhinged, this measure suggests it has been successful, buying it some breathing room should growth falter or equity and corporate bond market weakness become excessive. Third, technical charts argue the uptrend has further to go, albeit at an increasingly gradual pace.

All these factors, when placed against the historical context that temporary volatility around the first hike of a Fed hiking cycle is common, mean we would start averaging in now rather than attempting to time a precise bottom.

Is policy turning in China?

The debate in China is the polar opposite to that in the US. Despite several easing measures, PBoC Governor Liu Guoqiang said the central bank would roll out more measures to stabilise the economy. For Greater China equity markets, we believe the shift in policy direction and increasingly supportive technicals point at least to a short-term rebound in indices like the Hang Seng. Longer term, we also favour the industrials and consumer discretionary sectors.

In Asian High Yield bonds, default expectations seem excessive, with market pricing pointing to default rates at the high end of analyst expectations. We continue to see a change in policy direction as a key catalyst – this has started at a macro level in the form of interest rate cuts, but reports suggest more specific measures to support real estate sector liquidity could be in the offing as well.

Has the USD peaked?

The USD index's break to a new trend high on the back of rising Fed rate hike expectations strengthens the case for some further gains on a 1-3 month horizon. However, it does not impact our long-term view that the USD is likely to peak once rate hike expectations are fully priced. We would watch for a break below 94 on the USD index (DXY) as one signal that the USD has peaked. We favour the AUD, NZD and CAD on a 6-12-month horizon because of favourable interest rate differentials and their tendency to be correlated with continued global growth and gains in riskier assets.

Foundation tactical asset allocations

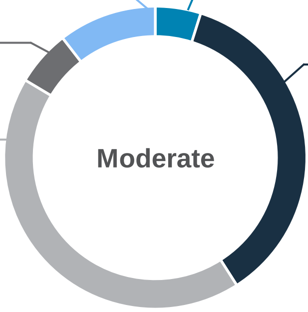
Global* allocation for a moderate risk profile

Alternatives 10%
Alternatives 10%

Gold 6%
Gold 6%

Equity 43%

North America Equities	25%
Europe ex-UK Equities	4%
UK Equities	1%
Japan Equities	2%
Asia ex-Japan Equities	7%
Non-Asia EM Equities	4%



Cash 5%
USD Cash 5%

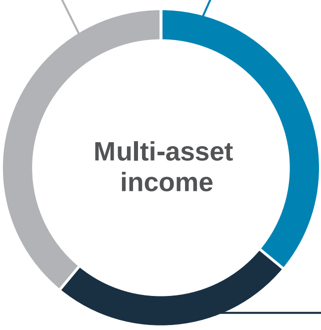
Bonds 36%

DM Government Bonds	2%
DM IG Corporate Bonds	5%
DM HY Corporate Bonds	11%
EM USD Government Bonds	5%
EM Local Ccy Government Bonds	4%
Asia USD Bonds	9%

Multi-asset income allocation for a moderate risk profile

Bonds 39%

DM IG Govt	2%
DM IG Corp	2%
DM HY Corp	10%
EM HC Govt	7%
EM LC Govt	3%
Asia USD	8%
Asia HY Corp	4%
Leveraged loans	3%



Equity 36%
Global high-divi 30%
Europe high-divi 6%

Non-core 25%

Covered calls	12%
Preferred equity	5%
CoCo's	5%
Real estate	3%

	View	Detail
USD cash	▼	+ Safety || - Close to no yield
Bonds		
DM Govt	▼	+ High credit quality, policy support || - Very sensitive to rising US bond yields
DM IG Corporate	▼	+ Policy support || - Very sensitive to rising US bond yields
DM HY Corporate	▲	+ Attractive yield, low rate sensitivity || - Valuations, falling credit quality
EM USD Govt	◆	+ Attractive yield, attractive value || - Sensitive to rising yields, near-term USD strength
EM Local Ccy Govt	▼	+ Moderate yield, USD weakness over 6-12 months || - Rising policy rates in some EMs
Asia USD	▲	+ Moderate yield, low volatility || - Default contagion risks
Equities		
North America	▲	+ Growth, earnings rebound || - Faster Fed tightening, potential tax rise
Europe ex-UK	▲	+ Vaccinations, policy support || - Renewed COVID-19 wave
UK	▼	+ Attractive valuation || - Policy tightening risk, Brexit-related uncertainty
Japan	◆	+ Global economic recovery || - China slowdown, structural deflation
Asia ex-Japan	◆	+ Earnings rebound, China policy support || - COVID-19 risk, USD rebound
Gold	▲	+ Weak USD, equity volume hedge || - Return of risk appetite, short-lived inflation
Alternatives	◆	+ Diversifier characteristics || - Equity, corporate bond volatility

Source: Standard Chartered Global Investment Committee; *See page 17 for our Asia-focused allocations

Legend: ▲ Most preferred | ▼ Least preferred | ◆ Core holding

Themes

Below we provide a brief overview of our currently open thematic ideas, coupled with some recent highlights.

Key themes	
Embracing a digital future	It has been a difficult month as many high growth equities and technology stocks sold off on the back of higher bond yields. While valuations have come off, most of our sub-themes continue to trade at a premium to global equities, with the exception of CoinShares Blockchain Global Equity Index, which at 12.9x 12-month forward PE, is at a discount to global equities at 16.5x. Earnings revisions remain largely positive across the board, with strong earnings upgrades seen in cybersecurity, while fintech has now dipped slightly into the negative territory. As a result, we have seen a larger YTD pullback in fintech vs cybersecurity, blockchain and IoT, given a lacklustre near-term earnings outlook from key companies in the fintech space. While the outlook on our digital themes may be weighed down temporarily by economic normalisation and the moderating pace of earnings revisions, we remain bullish over a longer-term horizon. International Data Corporation (IDC) expects spending on cloud infrastructure to see a compound annual growth rate of 12.4% between 2020 and 2025, reaching USD 118.8bn by 2025. Private sector competition and a need to secure the digital environment should further support growth in technology-related fields. On a long-term basis, the sector's correlation with rising bond yields is weaker as earnings growth tends to dominate, and while higher yields could be a short-term headwind, we believe the long-term drivers for digitalisation and innovation remain. Any significant pull backs represent opportunities for longer-term investors. Valuations on fintech, cybersecurity and IoT have corrected lower to 25.4x, 34x and 29.3x, respectively, in the last month.
The winds of climate change	The performance of this theme has declined since publishing our 2022 outlook and this is likely due to the rising yields since renewable energy projects tend to rely on future profits. While yield volatility and greenwashing look to derail the outlook for the theme, we believe the climate momentum persists with strong government commitments and an underlying shift in the normalisation of climate investing. Earnings revisions seem to have stalled, and valuations have dipped slightly (12-month forward P/Es of electric vehicles, water and green infrastructure at 15.9x, 24.8x and 19.2x, respectively), but long-term demand drivers for the theme remain intact in our view. The EU's proposal for an effective ban on the sale of fossil fuel cars from 2035 and the implementation of a carbon border adjustment mechanism appear supportive of Europe's goal of transitioning towards net zero by 2050. Banking regulators in the US and Europe are also looking at implementing climate risks tests, with new requirements on how banks report environmental risks and carbon targets, to improve transparency to investors. This could further push for more green investments in the financial sector to aid banks in aligning their activities to become greener. We thus believe that any market weakness can be an opportunity for investors to average-in over the coming quarters.
China's 'Common Prosperity'	During the recent World Economic Forum, China has made it clear that the 'Common Prosperity' policy remains a top priority as it is aimed at narrowing the widening wealth gap. Although technology, education and entertainment firms have been hit hard due to crackdowns and short-term regulatory headwinds remain, we believe this could eventually lead to a realignment of company strategies as they transition to a new norm. While earnings revisions remain in the red, we are beginning to see valuations for high-tech manufacturing, green energy and China internet coming down slightly, becoming comparable to that of Chinese equities (12-month forward P/Es of 22.3x, 14.2x and 32.2x, respectively, vs 11.6x). An existing government programme looks to support local start-ups and develop a technology industry comparable to their counterparts in the west. We view this renewed interest in the initiative as a signal of strategic importance that these 'little giants' (as coined by the programme) will play in promoting China's competitiveness and reaching the 'Common Prosperity' goal. We are therefore confident that our theme will benefit from the Chinese government's policy shift and retain our conviction.

Source: Bloomberg, Standard Chartered

Perspectives on key client questions

Audrey Goh, CFA
Senior Cross Asset Strategist

Is it time to bottom fish in equities, especially in tech sector?

Risky assets have had a wobbly start to the year. Since we published our Outlook 2022, global equities have declined c.6%, led by a sell-off in the technology (-13.6%) and consumer discretionary (-12.2%) sectors. The Nasdaq tumbled 13.4%, breaking below its 200-day moving average, while US and German government bond yields rose to their highest levels since the pandemic, reflecting higher inflation-adjusted yields and fears of overtightening by the Fed.

Higher yields usually do not deter equity markets

Historically, equities have been able to digest the impact of higher yields, albeit with higher volatility, if the yields were rising due to better growth expectations. This is especially true for tech equities, which have been resilient amid rising yields (Fig.4). While hawkish central bank rhetoric could temporarily increase volatility and cause the occasional correction, it should not undermine the case for equities to outperform bonds over the next 12 months, in our view. Any temporary volatility around the first Fed hiking cycle is normally an opportunity for investors to add risk exposure.

The challenge comes when the driver of higher bond yields and a hawkish monetary policy is surging inflation. Such a scenario raises the probability of a combined sell-off in bonds and equities, as we saw in late 2018. While near-term US inflation remains at multi-decade highs, we expect it to peak soon and moderate by H2 as a vaccine-driven normalisation in activities eases supply bottlenecks and encourages workers to return to jobs, cooling wage pressures. This should allow the Fed to tone down its hawkish bias, enabling equities to deliver positive returns this year.

Fig. 4 Most equity markets can do well even during periods of rising yields

Performance of asset classes during periods of rising US 10-year government bond yield

Date (Start - End)		Yield Move (bps)	Global Bonds	Global Equities	Gold Spot	US	Euro	AxJ	EM ex-Asia	China Offshore	Global HYD	Nasdaq
Apr-00	May-00	74.1	-3.0%	-6.2%	-2.1%	-5.9%	-6.2%			11.8%	-2.9%	-15.7%
Mar-01	May-01	75.5	-1.9%	12.8%	6.0%	15.0%	11.0%	2.2%	11.9%	21.6%	11.8%	18.6%
Nov-01	Apr-02	124.8	-5.2%	3.9%	8.0%	3.1%	3.8%	34.1%	17.1%	7.2%	8.3%	1.4%
Jun-03	Sep-03	148.7	-7.8%	4.1%	4.3%	3.7%	-0.7%	17.3%	11.3%	16.6%	0.0%	13.2%
Mar-04	Jun-04	119.0	-4.0%	0.3%	-4.6%	1.4%	-1.5%	-10.6%	-7.1%	-11.8%	0.3%	1.4%
Jun-05	May-06	129.2	0.2%	23.5%	62.5%	10.1%	30.6%	38.4%	69.3%	53.1%	22.9%	9.7%
Dec-08	Jun-09	182.1	-3.0%	10.9%	8.9%	6.9%	0.4%	37.3%	39.2%	37.9%	8.6%	18.8%
Oct-10	Feb-11	134.0	-3.7%	10.9%	1.1%	15.0%	8.2%	3.0%	1.6%	-2.9%	6.3%	17.5%
Apr-13	Sep-13	118.4	-2.2%	6.2%	-10.4%	8.6%	11.1%	0.8%	-3.1%	6.9%	2.9%	14.2%
Jan-15	Jun-15	71.5	-3.5%	5.3%	-7.6%	5.4%	3.5%	2.9%	0.3%	15.1%	2.1%	8.5%
Nov-16	Dec-16	78.2	-6.7%	5.3%	-13.2%	9.0%	2.6%	-3.8%	-2.3%	-4.8%	3.8%	8.7%
Dec-17	Feb-18	49.0	0.8%	1.1%	2.9%	0.9%	1.7%	2.3%	8.8%	6.6%	-0.1%	3.7%
Jan-21	Mar-21	82.7	-5.4%	5.1%	-12.1%	6.9%	3.4%	1.5%	2.0%	-0.7%	6.1%	4.3%
Dec-21	Present	46.1	-2.1%	0.3%	3.1%	-1.8%	5.0%	2.1%	6.2%	1.3%	6.4%	-6.2%
Average		**74.3**	**-3.4%**	**6.0%**	**3.3%**	**5.6%**	**5.2%**	**9.8%**	**11.9%**	**11.3%**	**5.5%**	**7.0%**
Median		**74.9**	**-3.2%**	**5.2%**	**2.0%**	**6.2%**	**3.5%**	**2.3%**	**6.2%**	**7.1%**	**4.9%**	**8.6%**
Hit Ratio			**14%**	**93%**	**57%**	**86%**	**79%**	**85%**	**77%**	**71%**	**86%**	**86%**

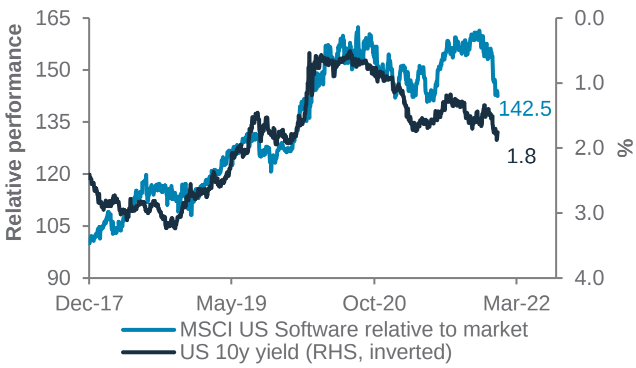
Source: Bloomberg, Standard Chartered
Note: Shaded cells refer positive (blue) and negative (grey) returns during each period when yields are rising
Hit ratio refers to the proportion of time an asset class delivers positive return during past episodes of a rise in yields

Non-profitable tech sector among the hardest hit from a hawkish Fed and higher yields

The Nasdaq has declined almost 16% over the past month, but this has masked an even bigger correction seen among many smaller tech firms, with some declining as much as 60% from their highs. Less profitable tech companies have suffered the most because rising interest rates sharply reduce the present value of their future cash flows, given that a greater proportion of their cash flows is derived far out into the future.

Fig. 5 Higher bond yields have disproportionately impacted areas such as software, which are valued for cash flows far out into the future

MSCI US Software index vs US 10-year treasury yield

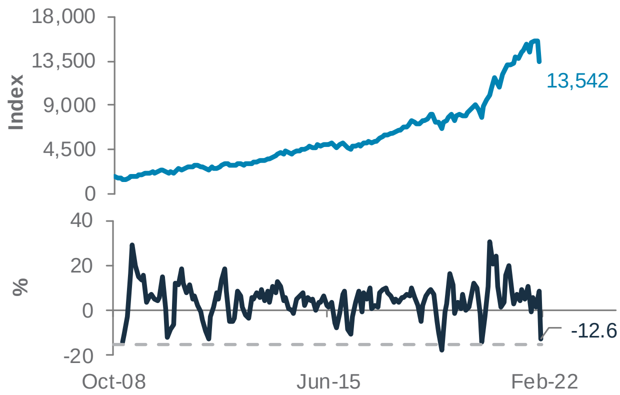


Source: Bloomberg, Standard Chartered

Since 2009, the Nasdaq has witnessed six episodes where the index has declined by close to 15% over a three-month period. Such episodes tend to be rare, and with the benefit of hindsight, the best decision during each of these pullbacks would have been to stay invested and even buy on dips.

Fig. 6 The past six episodes of a +15% sell-off represented good buy-on-dip opportunities

The Nasdaq Index and 3-month rate of change (lower panel)

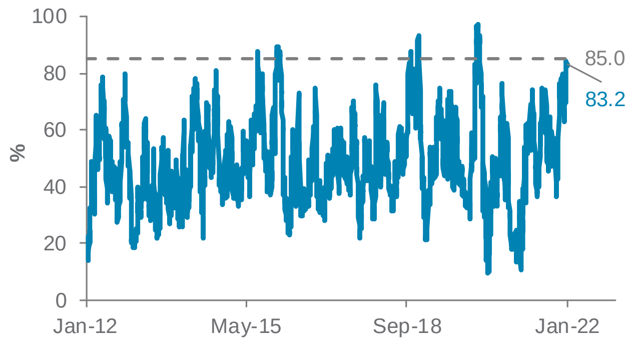


Source: Bloomberg, Standard Chartered

Also, investor sentiment is extremely negative, suggesting a bounce may be due. The AAII US Investor Sentiment Bullish index – an indicator that measures individual equity investor sentiment – fell to around 20%, among the most pessimistic readings over the past 20 years. More than 80% of Nasdaq stocks now trade below their 50-week moving average.

Fig. 7 Historically, a market breadth reading over 80 tends to signal very oversold conditions

The Nasdaq Composite index vs percentage of stocks below their than 50-week moving average



Source: Bloomberg, Standard Chartered

Some investors are drawing comparisons with how the Nasdaq bubble burst in 2000-2002. We believe the current Nasdaq index is fundamentally different from those days.

- The Nasdaq nearly doubled in five months during late 1999 after four consecutive years of over 20% returns (1998 and 1995 each registered 39% returns!), creating the tech dot-com bubble. There is no such run up this time, with the Nasdaq only 39% higher than its pre-pandemic February 2020 levels
- Unlike in 2000, the Nasdaq is now dominated mostly by profitable global leaders in their industries. This was not the case in 2000. The market consensus expects Nasdaq EPS to grow c.13% in the next 12 months, which is vastly different from the sharp decline in profit growth seen from 2000.
- Valuations, while still elevated, have eased to 26x forward P/E, from 33x in August 2020, nowhere close to the over 50x forward P/E at its peak in March 2000.

How earnings evolve will be key for tech stocks

Earnings growth remains an important driver of performance. The past decade of enduring growth and profit margins have enabled technology stocks to perform even in a rising rate environment. This year, while the sector has underperformed, MSCI Tech earnings growth estimates have remained largely unchanged at 10.2% over the next 12 months vs a month ago, compared with 8% growth estimated for broader US equities. The pace of earnings revisions has slowed recently, but they remain firmly positive, ie, we have seen more earnings upgrades than downgrades.

All in, we may be closer to a short-term bounce in tech equities, considering how oversold technicals are and the widespread pessimism. While the sector may remain under pressure due to tighter monetary policy and valuations, longer term, the sector is at the heart of digital transformation, which we expect to continue to propel economic and earnings growth and productivity, especially in a post-pandemic era.

Macro overview at a glance

Rajat Bhattacharya
Senior Investment Strategist

Key themes

- Our Global Investment Committee has raised its Fed rate expectations to three hikes in 2022, from one. The revision is based on three key factors that have changed since we published our Outlook 2022: a) the Fed has publicly turned more hawkish in light of a tighter-than-expected US job market; b) Omicron has delayed the return of workers to the job market and the normalisation of supply bottlenecks, likely prolonging wage and inflation pressures; and c) Oil prices have risen another 20%, raising business costs and sustaining inflation. Our rate call remains below market estimates of over four rate hikes this year.
- We still expect the global economic recovery from the pandemic to extend, with the US and Europe growing above their pre-pandemic trend amid still-accommodative monetary policies, offsetting a policy-driven slowdown in China. Nevertheless, a moderation in growth – as pandemic-related government spending ends – and easing supply bottlenecks amid widespread vaccinations should drag down inflation by H2. Hence, we expect the Fed to tone down its hawkish rhetoric later this year (see below for more on this). We also expect the ECB and BoJ to stay highly accommodative, even if the ECB continues to reduce asset purchases. China is likely to continue easing fiscal and credit policies to stabilise growth around 5%.

Fig. 8 **Signposts to watch for Fed policy tightening**

CIO View	Favours rate hikes?
The US job market tightened more than expected; jobless rate fell below Fed's 4.0% long-term goal.	✓
Omicron prolonging supply bottlenecks and labour shortages, sustaining inflation pressures.	✓
Rising oil, high producer prices, China's 'zero-COVID' stance to sustain near-term inflation pressures.	✓
Sharp drop in government spending to slow US growth by H2.	✗
China's slowdown likely to be a drag on global demand and inflation.	✗
Booster shots, pills to enable workers to return to jobs, ease wage pressures by H2.	✗
US long-term inflation expectations remain rangebound and have fallen sharply recently.	✗
Inventory restocking, just as demand slows, to turn into a drag on inflation by H2.	✗
USD's strength since last year likely to be a powerful deflationary force.	✗
Three new members to the seven-member Fed board arguably turn it dovish and pro-growth.	✗

Source: Standard Chartered Wealth Management Global Investment Committee

Why the Fed is likely 'go slow' on rate hikes

January's market moves suggest investors are worried that the Fed's policy may turn restrictive – the markets are pricing over four rate hikes this year.

In the table above, we flag the factors that, on balance, lead us to believe that the market is overpricing Fed hawkishness. The overall message is we expect inflation pressures to subside by H2, albeit remaining above the Fed's 2% average target for the rest of the year. As inflation peaks, the Fed is likely to tone down its hawkish rhetoric later this year. Several indicators this month support our relatively sanguine view:

1. **US retail sales and new orders PMI data slowing:** The surprising contraction in retail sales in the peak Christmas shopping month of December is an early sign of the exhaustion of the above-trend consumer demand as pandemic stimulus paycheques have mostly been spent. Slowing new orders PMIs for both manufacturing and services also point to slowing goods inflation by H2.
2. **Omicron showing early signs of peaking:** The UK, which had the Omicron wave a few weeks before the US, is already seeing a sharp drop in new cases, leading the authorities to relax restrictions. We expect the US to follow the same trend, enabling workers to return to jobs.
3. **Bond markets are more worried about growth than inflation:** The flattening of the Treasury yield curve this month (long rates rising less than short rates) suggests bond investors are getting concerned that the Fed could overtighten policy and hurt growth. The fall in long-term inflation expectations this month is another sign investors believe the current bout of high inflation is unlikely to last.
4. **Dovish shift in Fed membership:** President Biden's three nominations to the seven-member Fed Board, if confirmed by the Senate, are likely to turn the Fed's voting membership more pro-growth, given the new members have spent their academic careers promoting minorities' development and poverty alleviation.

Bonds at a glance

Abhilash Narayan
Senior Investment Strategist

Cedric Lam
Senior Investment Strategist

Key themes

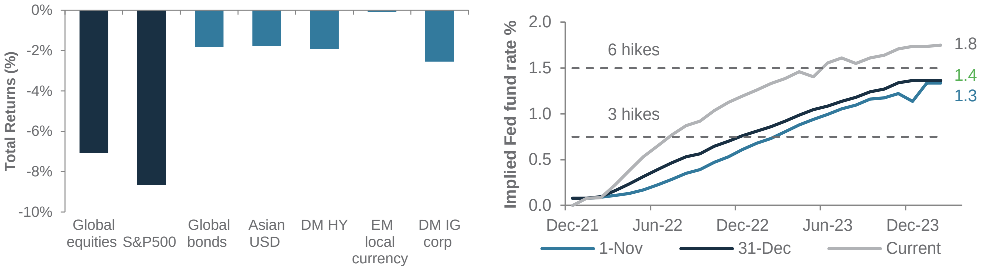
- Recent outperformance of bonds relative to equities serves as a timely reminder of their value as a portfolio hedge against risk-off environment. While higher yields have led to losses in bonds, the drawdown has been shallower compared to equities.
- The timing and pace of Fed rate hikes, balance sheet reduction, and US growth and inflation trajectory will likely be the key drivers for bond returns. Despite the recent hawkish shift in market expectations, we retain our view that the 10-year US government bond yield is likely to end the year around the 1.75%-2.0% range, as we expect the Fed to hike rates thrice in 2022, less than what is currently priced in by financial markets.
- Notwithstanding the rocky start to the year, we continue to favour Developed Market (DM) High Yield (HY) and Asian USD bonds as the recent shift in Chinese policy to a more supportive stance should benefit the latter.

Key chart

YTD returns of various equity and bond asset classes highlight diversification value of bonds. The Fed is likely to hike three times in 2022, less than the four times currently priced in by the market

Fig. 9 **Bonds remind investors of their diversification and hedging value**

YTD returns of various asset classes; Fed Fund Futures implied US Interest rate



Note: As of 26 January 2022. Source: Bloomberg, Standard Chartered.

Does the latest FOMC meeting alter your bond allocation views?

At a broad level, the latest FOMC meeting was more hawkish than market expectations as the Fed laid the foundation to potentially start rate hike cycle in March and commence balance sheet reduction in H2. Additionally, Fed Chair Powell indicated that every FOMC meeting was “live”, which can be interpreted as Fed being open to more than four hikes in 2022.

Indeed, markets reacted by pricing in the possibility of more than 4 rate hikes this year as 10-year US Treasury yields spiked higher after the meeting. Our base case for US growth and inflation slowdown in the second half of the year means that Fed is likely to hike rates only thrice this year. Hence, the bar for further hawkish surprises is fairly high.

We continue to favour short-maturity and higher yielding parts of the bond market – DM HY and Asian USD bonds. In our view, the improving corporate fundamentals and upward ratings bias justify the modestly expensive valuations for DM HY bonds.

Asian USD bonds have endured a more volatile than usual start to the year, predominantly due to investor uncertainty around the Chinese real estate sector. We have seen a shift in Chinese policy direction, with announcements of rate cuts and easier access to liquidity for developers. However, the sector is not out of the woods yet and we would look for improvement in contracted sales and restoration of onshore/offshore funding access for developers over the next few months.

High interest rate sensitivity, the low absolute yield on offer and the upside risk to our 10-year US government bond yield forecast should markets price in even more rate hikes in 2023-24 mean that we continue to view Developed Market Investment Grade government and corporate bonds as unattractive.

Emerging Market (EM) USD and local currency government bonds have been resilient over the past few months. However, the risk of near-term USD strength and outflows due to the commencement of Fed rate hikes is high in our assessment. A decisive break lower in the USD, resumption of EM growth leadership and markedly easier policy in China are required for us to turn more bullish on EM bonds during 2022, which continue to offer attractive yields of over 5%.

Equity at a glance

Daniel Lam, CFA
Senior Cross-asset Strategist

Fook Hien Yap
Senior Investment Strategist

Key themes

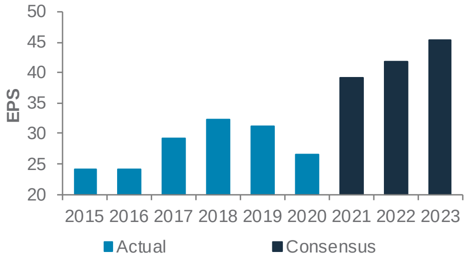
- Global equities remain a preferred asset class on a 12-month horizon. After a strong rebound in 2021, earnings growth is likely to normalise in 2022, but still remain robust, supporting a continuation of equities' uptrend.
- The US remains a preferred market. Rate hikes and the inflation narrative are hurting growth-tilted US equities. However, we expect the inflation narrative to tone down in the latter part of this year. Earnings growth is likely to drive US equities higher, supported by consumer services spending and infrastructure stimulus. Over a longer-term horizon, the US technology sector has low correlation to bond yields and is driven by earnings growth instead, supporting our preferred view of the sector.
- The Euro area is another preferred region. We see continued easy monetary policy from the ECB as well as potential fiscal stimulus in Germany as being supportive.

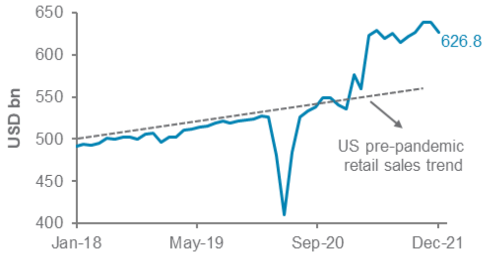
Key chart

2021 and 2022 earnings for global equities are likely to exceed pre-pandemic levels. US continues to be supported by factors such as consumer spending

Fig. 10 **Consensus 2021 and 2022 earnings for global equities are likely to recover to above pre-pandemic levels; US consumer services spending expected to be key driver**

Consensus earnings per share estimates for MSCI AC World index; US retail sales





Source: MSCI, FactSet, Standard Chartered

Is the US still preferred?

We continue to prefer US equities and expect it to outperform global equities on a 6-12-month horizon.

A large part of the US market is technology companies billed as "growth" stocks that have been hurt by higher bond yields and the prospects for higher short-term interest rates. Higher yields are a headwind for equity valuations, especially for stocks with high P/E multiples, such as "growth" stocks. Such stocks typically derive most of their value from their long-term earnings potential, and higher yields discount these future earnings more heavily. US equities have a higher P/E multiple than other regions so the argument follows that it would be punished harder in a rising yield environment. The Fed's hawkish tilt and tightening monetary conditions are all pushing towards higher yields, setting up headwinds for US equities.

However, we see rate hikes and higher yields as indicative of an ongoing global growth recovery and part of a normalisation process. After a strong post-pandemic rebound, we expect US earnings growth to moderate, but still be supportive of an uptrend in US equities. There are cyclical elements to the earnings growth, such as ongoing normalisation in activities from COVID-19, US consumer services spending and infrastructure stimulus from the Biden administration. Furthermore, there are structural growth factors for the technology sector, such as cloud computing, remote working and learning, rising use of semiconductors, 5G, internet-of-things and fintech. Many companies have strong pricing power and we see US companies leading with an "innovation premium". US equities generate a higher return on equity than other regions, justifying its premium valuation, in our view.

Our net assessment is US equities are likely to outperform global equities over the next 6-12 months, driven ultimately by their robust earnings growth. Within the US, we prefer the technology sector. The risks to our view are lacklustre earnings growth and US equities derating more than we expect.

We also have a preferred view for Euro area equities; loose monetary policy continues to be supportive while there continues to be potential for further fiscal stimulus. Asia ex-Japan and China equities are benefitting from monetary easing, supportive comments from policymakers and unwinding of "long US, short China" positions. However, although regulatory uncertainties are moderating, they still remain, and we view Asia ex-Japan and China as core holdings that are likely to perform in line with global equities.

FX at a glance

Manpreet Gill
Head, FICC Investment Strategy

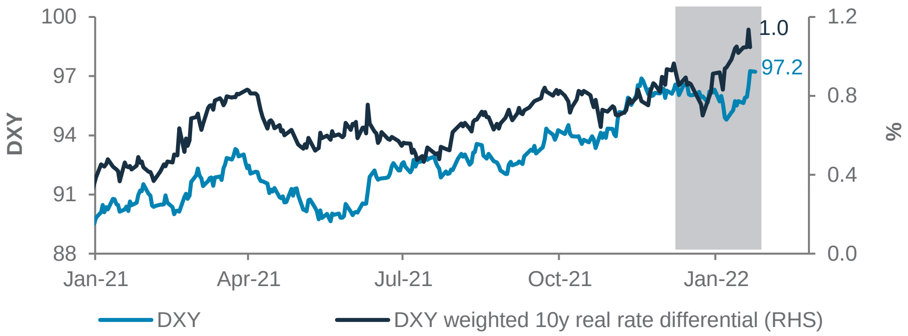
Key themes

- The Fed's hawkish turn in mid-December has been reasserted by Fed Chair Powell in January. US yields have spiked with the 2-year US bond yield now at technical resistance around 1.2%. After a brief delay, the USD (DXY) index has finally pushed to new trend highs and EUR/USD has broken lower. Monetary policy divergence supports the USD in the near-term, especially against currencies with more neutral central banks. The USD uptrend continues for now, but we look to technical indicators to signal when the USD uptrend may finally expire.
- Over a 6-12-month horizon, our USD view is rangebound with a bearish bias. We expect the USD peaking process to last until the USD encounters headwinds as a) hawkish expectations for the Fed peak, b) other central banks accelerate monetary policy normalisation, c) relative growth expectations shift in favour of non-US markets, d) capital flows start to rotate away from the US, e) US political polarisation rises ahead of mid-term elections, f) foreign investors focus more closely on the large twin US deficits, and g) China stimulates more aggressively. Our top currency selections in the medium-term remain the AUD, CAD and NZD, supported by a cocktail of growth, commodities exports and more hawkish central banks.

Key chart

The Fed pivoted to a more hawkish stance in December and again in January towards faster tapering of bond purchases, more potential rate hikes and possible Quantitative Tightening. The USD has finally responded as the DXY index broke higher, with an initial target around 98.

Fig. 11 **USD at new trend highs as Powell increases hawkish policy expectations**
The USD Index (DXY) vs DXY-weighted real 10-year yield differentials



Source: Bloomberg, Standard Chartered

Has the USD peaked?

As we suspected, the broad USD uptrend has begun another leg higher as Fed Chair Powell has suggested a wider range of hawkish policy options may be deployed if inflation expectations remain high. Markets may become increasingly volatile and the USD could make further gains ahead of the March Fed meeting. Key questions are how close markets are to pricing in peak Fed hawkishness, and if the three new Fed board members will impact the hawk/dove voting balance, especially if equity markets face further pressure.

We expect the BOE, BOC and RBNZ to be at least as hawkish as the Fed, with the RBA likely catching up soon. There are also signs that the more dovish ECB and BoJ may also begin to grasp the outer edges of the Fed's coattails. At the same time, China has begun to ease credit policy, but the US-China policy divergence has thus far seen only a limited bounce in USD/CNY.

Geopolitical risks are rising, with a focus on Ukraine and a wary eye on Iran nuclear talks that have thus far made little reported progress. Biden's approval ratings have plummeted, the French elections are looming (in April) and there is a chance that Italy will need to replace Draghi as prime minister should he be elected president, opening up the risks of a breakdown in party alliances and early elections. Overall, this suggests that EUR strength may take more time to develop.

We are positive towards the AUD, CAD and NZD and these currencies may attract investor interest now, but the broad USD peak will likely be delayed until the EUR strengthens. Technical charts may help signal a USD trend change. A break back above 1.1385 in EUR/USD would turn the outlook more neutral, but only a rally above strong resistance at 1.1480 – 1.1525 might signal a rising probability that the USD uptrend has finally peaked. Until that signal flashes, there is still a good chance that the DXY index will test 98 and EUR/USD could probe next key support at 1.10 to 1.1040.

Gold, crude oil at a glance

Manpreet Gill
Head, FICC Investment Strategy

Key themes

- Gold remains a preferred asset within a multi-asset investment allocation. The precious metal has fulfilled its role as a portfolio diversifier with its recent outperformance amid subdued risk appetite.
- Although inflation-adjusted yields have moved higher, we would argue that gold prices have already priced in several macro headwinds. A weaker-to-stable USD later this year would benefit gold prices as it would aid a recovery in physical markets.
- Oil prices could remain well-supported over the next 1-3 months, though the bar for further significant gains is relatively high.
- Demand destruction from higher oil prices, or a renewed rise in US shale output, could put a lid on oil prices. Supply-side dynamics and geopolitical tensions are under focus for now as still-low inventories reduce the buffer against supply shocks. Key risks include Ukraine-Russia conflict and Iran nuclear issues, which could potentially deliver short-term supply shocks.

Key chart

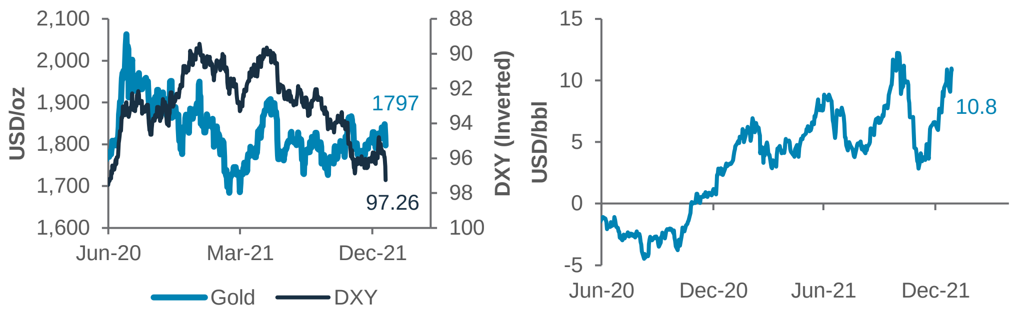
A stable-to-weaker USD would aid a recovery in physical markets, especially in Emerging Markets that have historically provided a floor for gold prices

We see the risk for oil prices skewed upwards; lower inventories and geopolitical tensions are key areas of focus.

Fig. 12 **Gold likely to attract support as the USD peaks; Higher near-term crude oil demand has led to the current tightness in oil markets**

LHS: Gold (USD/oz) vs DXY (Inverted)

RHS: WTI calendar spread (USD/bbl; Spread between first and thirteenth month contracts*)



Source: Bloomberg, Standard Chartered

**A higher calendar spread indicates a greater demand for oil barrels in the near term*

Why does gold remain a preferred asset?

Gold benefitted from risk-off flows as equities and bond markets both faced headwinds in recent weeks. Historically, gold tends to do well in a regime with lower inflation-adjusted yields (ie, opportunity costs of owning gold) and a weaker USD.

Fed rate hike expectations are largely reflected in rate markets and market-implied expectations appear to have overshot in the near term. However, as we expect the Fed to be less hawkish-than-expected, this factor is unlikely stand in the way of modest gains in gold prices.

Renewed USD weakness could be a tailwind for the precious metal via denomination effects and its linkage to the physical market (especially in Emerging Markets). Positioning is also no longer a constraint. Central bank buying remains resilient, while investment demand (proxied by ETF flows) are also starting to stabilise. Lastly, we also continue to favour gold for its portfolio diversification benefits and safe-haven properties.

Can oil prices push higher?

The recovery in global oil demand continues to play out on expectations of a resumption in international air travel as vaccines and antiviral treatment pave the way forward. The tightness in oil markets is illustrated by a relatively elevated calendar spread (see chart). However, while prices could remain well-supported over the next 1-3 months, we expect oil prices to subsequently peak as further long-lasting gains will be harder to come by without a significant improvement in global oil demand.

A normalisation in international jet travel has not fully materialised. Higher oil prices (higher than about USD 85/bbl) could also result in demand destruction and trigger a renewed rise in US shale oil output, starting a feedback loop that pushes prices lower. Geopolitics (Ukraine, Iran) are upside risks to monitor in the near term as lower inventories reduce the buffer for a supply shock. Having said that, our base scenario is for oil prices to gradually move lower over the next 6-12 months.

Quant perspective

US market risk model – prefer equities over bonds

Francis Lim
Senior Quantitative Strategist

Bullish on risky assets

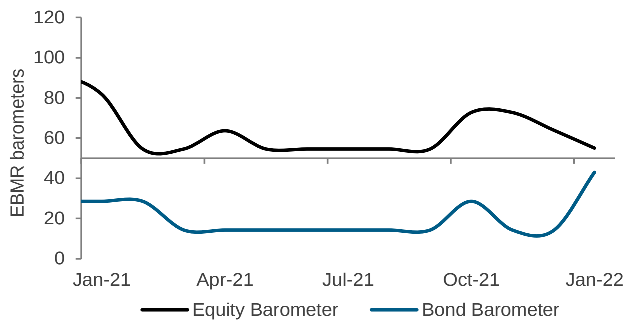
Our US Equity-Bond Market Risk (EBMR) models the downside risks in US equities and the 10-year US government bond. It uses 11 economic and market factors to create equity and bond risk barometers. If the value of a barometer falls below 50, it signals higher downside risks and vice versa.

The model remains in Stage 3, which favours taking on equity market risk and opposes taking on bond market risk. This is indicated in Figure 13, where the equity and bond barometers are above and below 50, respectively.

Since August 2020, the equity barometer has remained persistently bullish, even though it was only slightly above 50 through some of the months. Looking back, the S&P500 index has risen 24% since August 2020, while the US 10-year government bond yield has gained c.110bps, leading to significant bond price declines.

Fig. 13 EBMR still pro equity market risk and bearish government bond market risks

US equity and bond market risk barometers



Source: Standard Chartered

Amid the recent market volatility, the equity barometer has deteriorated from 73 to 55 in January 2022. This has been driven by our short-term equity momentum factor that has turned bearish. Rising interest rates and inflation are negative factors for the barometer, but they are negated by other still-positive fundamental factors such as the Conference Board Lagging indicator, housing starts and money supply. Continued deterioration in these positive factors could see the equity barometer fall below 50 and turn bearish.

Meanwhile, the bond barometer improved from 14 to 43 in January 2022. This is also caused by the deterioration in equity momentum, as a bearish signal in equity market tends to favour defensive assets such as government bonds. However, this is not sufficient to push the bond barometer into the low risk territory as other factors, such as commodity prices, and PMI are still pointing towards higher rates.

Looking ahead, our model's projections still place high probabilities on the cycle remaining in Stage 3 over the next four months. This means US equities are still preferable, while US government bonds are less preferred.

Implications on global assets

Assets outside of the US can also be significantly differentiated based on the US EBMR model. Data since 1999 suggests global equities are most preferred in Stage 3, followed by gold. Gold had a lacklustre 2021 as the asset decoupled from its traditional correlation to real yields. However, the model's preference for the asset is based on its long-term relationship to the market cycle, which favours gold as an inflation-hedge as inflation is expected to rise under Stage 3.

Fig. 14 Scenarios over the coming months till May 2022

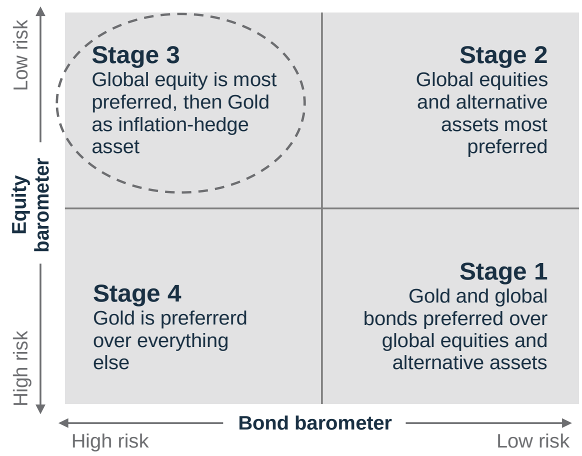
Probability of the evolution of financial market risk cycle from the current Stage 3 and preferred assets

Model's estimated probabilities in October 2021

Stage	Nov-21	Dec-21	Jan-22	Feb-22
1	0%	0%	0%	0%
2	0%	0%	0%	0%
3	**100%**	**100%**	**100%**	**100%**
4	0%	0%	0%	0%

Model's estimated probabilities in January 2022

Stage	Feb-22	Mar-22	Apr-22	May-22
1	0%	0%	0%	0%
2	1%	1%	2%	4%
3	**98%**	**98%**	**98%**	**96%**
4	1%	0%	0%	0%

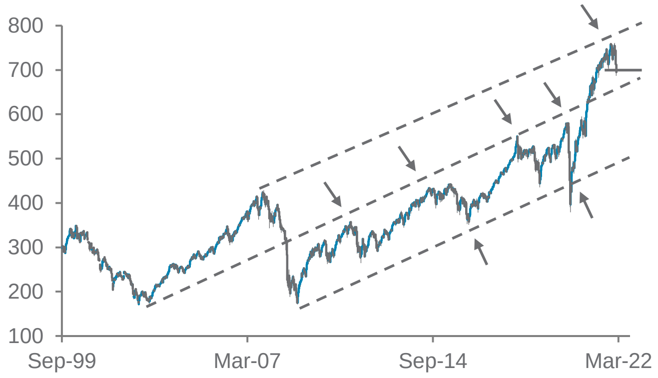


Source: Standard Chartered

Technicals

Manish Jaradi
Senior Investment Strategist

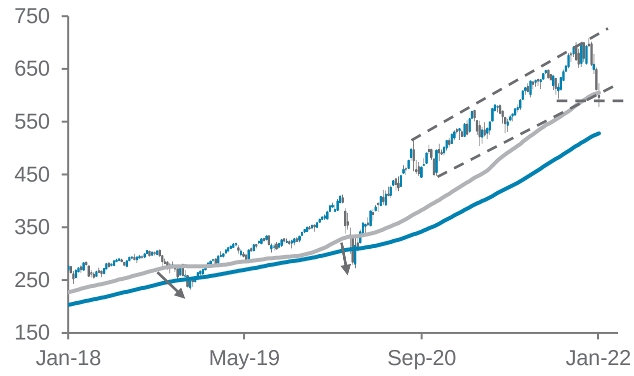
Fig. 15 Global equities: Sooner-than-expected pause
MSCI All Country World index monthly chart



Source: Refinitiv, Standard Chartered

A bit sooner than anticipated, the index has retreated from stiff resistance on the upper edge of the channel from 2003 (now around 775) – a possibility that we highlighted in the Outlook 2022 in December. The break below key support at 702 confirms that the multi-month rally has paused, opening the way toward 640 (8% below Thursday's close).

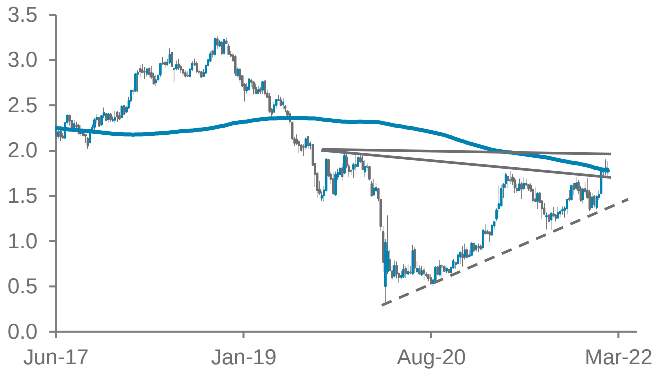
Fig. 16 US technology: Upward pressure easing
MSCI US Technology weekly chart with 55-WMA, 100-WMA



Source: Refinitiv, Standard Chartered

The index is testing support at the October low of 594, coinciding with the 55-WMA. This support is crucial - in the past, a break below the 55-WMA has opened the way towards the 100-week moving average. The longer-term moving average currently stands at 530 (11% below Thursday's close).

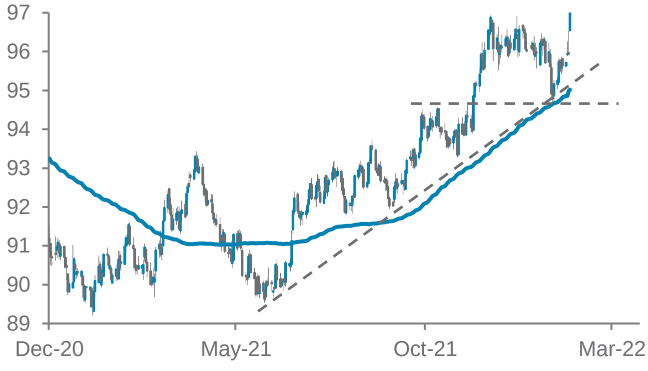
Fig. 17 US 10-year government bond yield: At a major crossroads
US 10-year Treasury yield weekly chart with 200-WMA



Source: Refinitiv, Standard Chartered

The yield is testing a crucial resistance area – as the Outlook 2022 pointed out, the possibility of a major reverse head and shoulders pattern remains alive (price objective of 3.0%). However, since this involves a cluster of resistance, it would make sense to wait for a break above the upper edge at 1.98% to conclude a valid break.

Fig. 18 USD: Cracks in the rally?
DXY index daily chart with 100-DMA



Source: Refinitiv, Standard Chartered

The index's break below immediate support at the November-December lows of 95.50 raises the possibility of cracks in the rally. However, the index continues to hold above the uptrend line from mid-2021 and the 100-DMA, suggesting it may be premature to assume that the uptrend had reversed.

Tracking market diversity

Francis Lim
Senior Quantitative Strategist

About our market diversity indicators

Our market diversity indicators help to identify a potential change in short-term trends due to a fall in market breadth across equities, credit, FX and commodities. When market diversity falls, it implies either buyers or sellers are dominating, leading to a rapid rise or fall in asset prices. This is usually unsustainable and is likely to be followed by a slowdown or a reversal. Our diversity indicator is based on a statistical index called fractal dimension; a value below 1.25 serves as a guideline that prices are rising or falling too fast.

Where is diversity falling or rising this month?

Despite the recent market volatility, our proprietary diversity indicator did not show strong sign of reversals in most markets we tracked. The average values of our diversity indicators within the equity, bond and currency space remain well above the cut-off of 1.25, a level that flags heightened risk of reversal from a lack of market diversity.

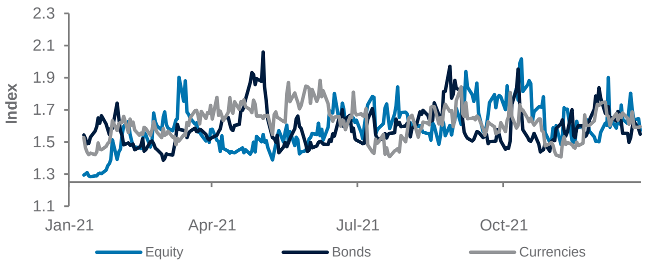
For equities, Developed Markets have performed poorly since the start of the year. With our diversity indicator for these markets still remaining above the 1.25 level, there are yet to be strong signs of a reversal to these downtrends in the near term.

Bonds, in general, also have not fared well due to worries over the pace and number of US rate hikes this year. Despite the continued weakness in bonds since August 2021, our diversity indicators have not shown signs of reversal to these downtrends. Any near-term changes will depend on market expectations vs actual Fed hikes. Fed fund futures is now signalling a market expectation of four rate hikes in 2022.

At the sector level, we find similar observations where none of our diversity indicators signal a near-term reversal. This includes the hardest hit and interest rate sensitive sectors, such as information technology and consumer discretionary, and the best performing energy sector.

Fig. 19 Average market diversity score across equities, bonds and FX

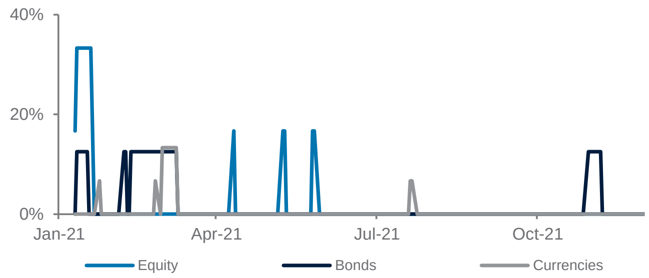
Market diversity is generally balanced



Source: Standard Chartered

Fig. 20 % of assets with diversity score <1.25

No red flags across key markets



Source: Bloomberg, Standard Chartered

Fig. 21 Diversity across asset classes remains high

Level 1	Market diversity	30-day diversity trend
FTSE World Broad IG Bond	◐	→
MSCI All Country World	◐	↓
US Sectors		
Information Technology	●	→
Consumer Discretionary	◐	↓
Energy	◐	↑
EU Sectors		
Information Technology	◐	↓
Consumer Discretionary	◐	↓
Energy	●	↑
China Sectors		
Information Technology	◐	↓
Consumer Discretionary	◐	→
Energy	●	↑

Source: Bloomberg, Standard Chartered; data as on 26 January 2022

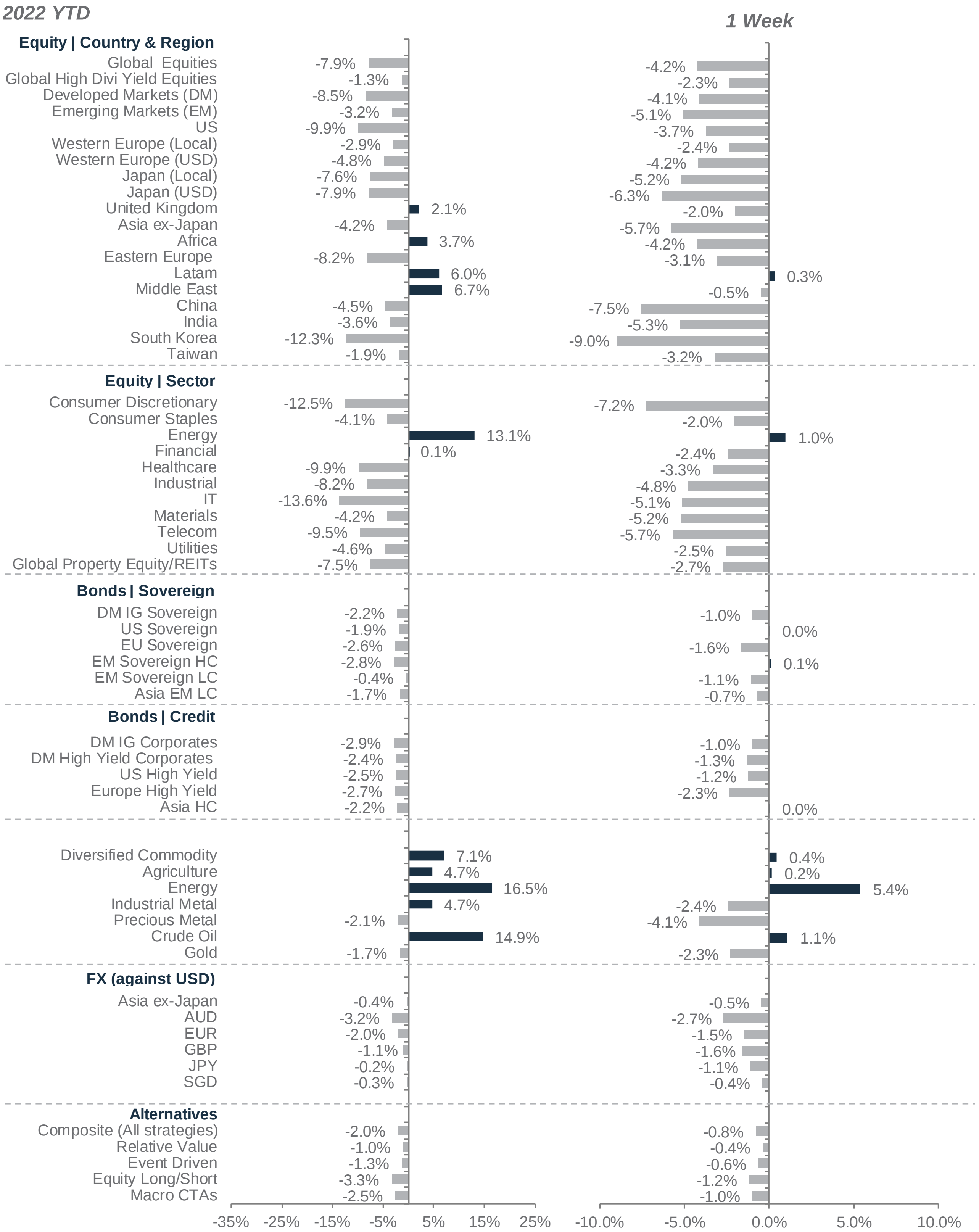
Legend: ○ Very low ◐ Low/moderate ● High

Asset allocation summary

Summary	View	ASIA FOCUSED Conservative	ASIA FOCUSED Moderate	ASIA FOCUSED Moderately Aggressive	ASIA FOCUSED Aggressive	GLOBAL FOCUSED Conservative	GLOBAL FOCUSED Moderate	GLOBAL FOCUSED Moderately Aggressive	GLOBAL FOCUSED Aggressive
Cash	▼	12	5	2	0	12	5	2	0
Fixed Income	◆	63	36	26	7	63	36	26	7
Equity	▲	26	43	57	83	26	43	57	83
Gold	▲	0	6	5	5	0	6	5	5
Alternatives	◆	0	10	10	5	0	10	10	5
Asset class									
USD Cash	▼	12	5	2	0	12	5	2	0
*DM IG Government Bonds**	▼	3	2	1	0	4	2	2	0
*DM IG Corporate Bonds**	▼	6	3	2	1	8	5	3	1
DM HY Corporate Bonds	▲	13	8	5	1	19	11	8	2
EM USD Government Bonds	◆	12	7	5	1	9	5	4	1
EM Local Ccy Government Bonds	▼	9	5	4	1	7	4	3	1
Asia USD Bonds	▲	20	11	8	2	15	9	6	2
North America Equities	▲	10	16	21	30	15	25	33	48
Europe ex-UK Equities	▲	5	9	12	18	3	4	6	9
UK Equities	▼	1	1	1	2	1	1	1	2
Japan Equities	◆	1	2	2	4	1	2	2	3
Asia ex-Japan Equities	◆	7	11	15	22	4	7	10	14
Non-Asia EM Equities	◆	2	4	5	7	2	4	5	7
Gold	▲	0	6	5	5	0	6	5	5
Alternatives	◆	0	10	10	5	0	10	10	5

Source: Standard Chartered; *FX-hedged
All figures in %; Allocation figures may not add up to 100 due to rounding
Legend: ▲ Most preferred | ▼ Least preferred | ◆ Core holding

Market performance summary*



Source: MSCI, JPMorgan, Barclays, Citigroup, Dow Jones, HFRX, FTSE, Bloomberg, Standard Chartered
*All performance shown in USD terms, unless otherwise stated
*YTD performance data from 31 December 2021 to 27 January 2022 and 1 week-performance from 20 January 2022 to 27 January 2022

Key events

2022

FEB
- 03 Feb > BoE policy decision
- 03 Feb > ECB policy decision

MAR
- China National People's Congress session
- 09 Mar > South Korea Presidential election
- 10 Mar > ECB policy decision
- 16 Mar > FOMC policy decision
- 17 Mar > BoE policy decision
- 18 Mar > BoJ policy decision
- 27 Mar > Hong Kong Chief Executive election

APR
- France Presidential elections
- 14 Apr > ECB policy decision
- 28 Apr > BoJ policy decision

MAY
- 04 May > FOMC policy decision
- 05 May > BoE policy decision

JUN
- 09 Jun > ECB policy decision
- 15 Jun > FOMC policy decision
- 16 Jun > BoE policy decision
- 17 Jun > BoJ policy decision

JUL
- 20 Jul > BoJ policy decision
- 21 Jul > ECB policy decision
- 27 Jul > FOMC policy decision

AUG
- 04 Aug > BoE policy decision

SEP
- 08 Sep > ECB policy decision
- 15 Sep > BoE policy decision
- 21 Sep > FOMC policy decision
- 22 Sep > BoJ policy decision

OCT
- 27 Oct > ECB policy decision
- 28 Oct > BoJ policy decision

NOV
- 02 Nov > FOMC policy decision
- 03 Nov > BoE policy decision
- 08 Nov > US House/Senate elections

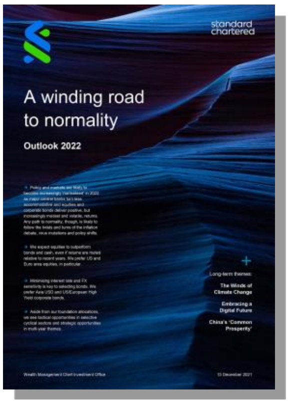
DEC
- 14 Dec > FOMC policy decision
- 15 Dec > ECB policy decision
- 15 Dec > BoE policy decision
- 20 Dec > BoJ policy decision

Central bank policy | Geopolitics | EU politics

X – Date not confirmed | ECB – European Central Bank | FOMC – Federal Open Market Committee (US) | BoJ – Bank of Japan | BoE – Bank of England | RBA – Reserve Bank of Australia

Our key advisory publications

ANNUALLY



Annual Outlook – The Annual Outlook highlights our key investment themes for the year, the asset classes we expect to outperform and the likely scenarios as we move through the year.

MONTHLY

Global Market Outlook – Our monthly publication which presents the key investment themes and asset allocation views of the Global Investment Committee for the next 6-12 months.

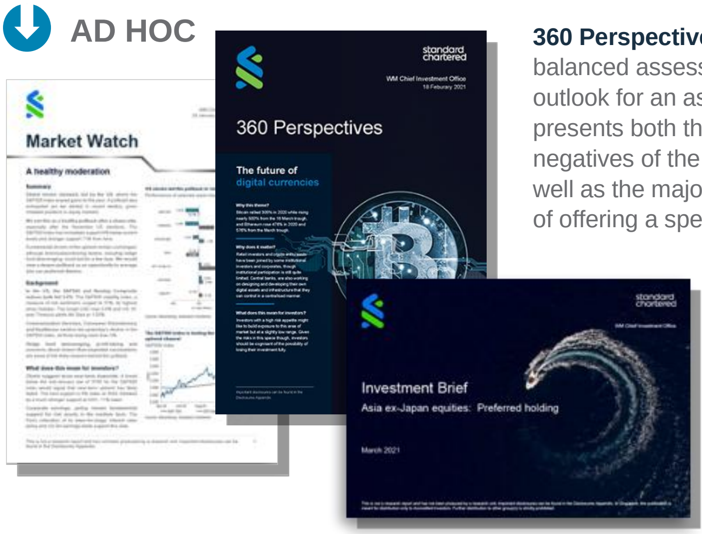
WEEKLY

Weekly Market View – Our weekly publication which provides an update on recent developments in global financial markets and their implications for our investment views.

DAILY

Global Wealth Daily is an early morning update of major economic and political events and their day-today impact on various assets classes the previous day.

AD HOC



360 Perspectives provides a balanced assessment of the outlook for an asset class. It presents both the positives and negatives of the asset class, as well as the major drivers, instead of offering a specific view.

Market Watch focuses on major events or market developments and their likely impact on our investment views.

Investment Brief explains the rationale behind our views on an asset class, incorporating the fundamental and technical drivers.

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