Standard Chartered
Private Bank

Macro Strategy | 30 April 2020

Global Market Outlook

Beyond the lockdowns

Policymakers are putting plans in place to gradually reopen economies. While markets may be disappointed by the pace of reopening, this could eventually help risk assets rebound further, especially when combined with a relentless stream of policy support.

Risky assets may be at risk of renewed short-term weakness if economic reopenings or policy efforts disappoint. However, we would continue to adopt an averaging-in approach on more attractive valuation levels in equities, multi-asset income strategies and gold.

We expect the USD to weaken long term amid an eroding yield advantage, though a break lower will likely have to await a full resolution of USD liquidity concerns. Within bonds, we believe EM USD government and Asia USD bonds offer an attractive risk/reward trade-off.

Also find out...

What is the current situation in the oil market?

What are the implications of lower oil prices on inflation?

What are the implications of lower oil prices on financial markets?

This commentary reflects the views of the Wealth Management Group of Standard Chartered Bank

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Investment strategy

IMPLICATIONS
FOR INVESTORS

- Global equities and multi-asset income strategies likely to outperform bonds and cash over a 12-month horizon
- However, the 1-3 month outlook remains highly uncertain. Gold may be a good way to hedge risks
- Within bonds, we believe Emerging Market (EM) USD and Asia USD bonds are most attractive
- Within equities, we have a preference for Asia ex-Japan and US equities

Beyond the lockdowns

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A positive market backdrop this month

Over the past month, risky assets have rebounded sharply. Global equities are up 13%, while global Investment Grade (IG) and High Yield (HY) bonds rose 1.4% and 4.4%, respectively, led by the US where Fed purchase commitments supported corporate bonds. This positive development for risk assets notwithstanding, gold and USD rose 5.2% and 1.2%, respectively.

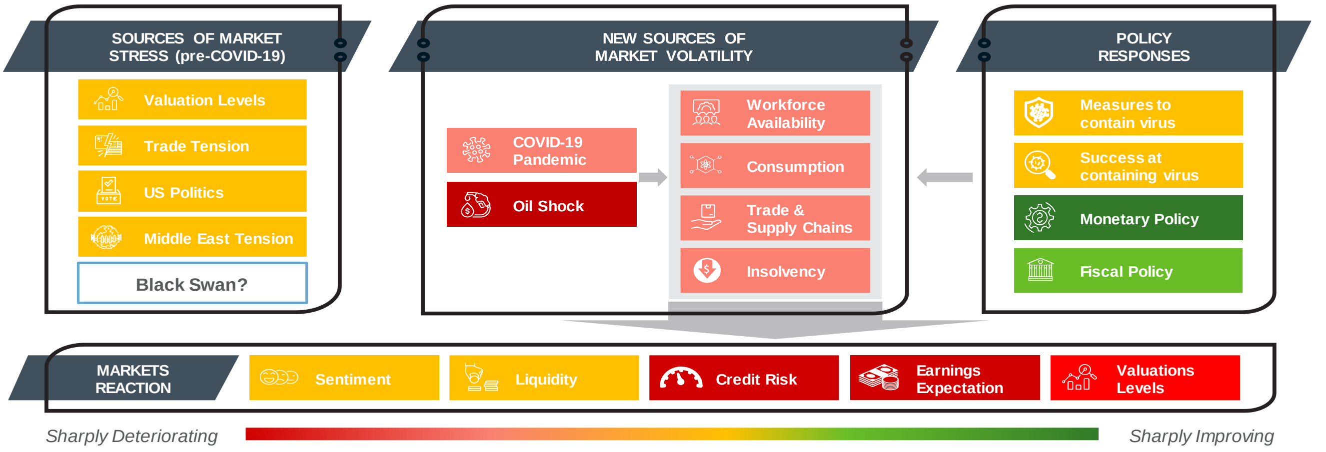
Adding to this positive market backdrop, the US government has put more stimulus in place, including replenishing a small business lending programme where prior funding was exhausted, while promising more. The Fed, among other efforts, put measures in place to avoid 'fallen angels' (ie. IG firms downgraded to HY) from overwhelming the HY bond market. Europe and EMs have been less decisive, but have followed a similar direction of travel.

The bullish and bearish case for risky assets

The bullish case for risky assets going forward rests on three pillars. First, data shows the number of new COVID-19 infections appear to be peaking globally; in China, this marked an equity market bottom. Second, governments and central banks have been willing to do 'whatever it takes' to fill gaps in demand and short-term funding. A steady re-opeing of economies in Europe and selected US states.

The negative case for risky assets, though, argues that a number of disappointments could still occur despite policy efforts at reopening economies. The reopening itself could be

What we are watching: valuations have been through a full circle from expensive, to cheap, to expensive as sentiment initially improved on peaking COVID-19 new cases. Oil's collapse has potentially created a new source of market volatility



Source: Standard Chartered

slower than expected (eg. China) and may not have as positive an economic impact as expected (eg. Sweden). Reopenings could also trigger a second wave of COVID-19 infections, resulting in renewed lockdowns.

In markets, a 'usual' recessionary default cycle in HY bonds and their resulting pressure on banks and non-bank lenders could still occur despite Fed's efforts. Finally, the oil price collapse reinforces deflationary pressure from the sudden stop in demand. Persistent deflation would mean that expectations of further fall in prices make consumers delay purchases, leading to a downward spiral in demand and prices that policymakers have historically struggled to break. See the Perspectives section and our 'Charting possible paths forward' presentation for details on deflation and scenarios.

Have risky assets bottomed?

On this debate, we are relatively cautious short term (1-3 months), but positive long term (12 months) on risky assets.

Our framework of developments to watch helps guide this view. First, valuations appear to have run a complete circle back to fully valued levels, which seem inconsistent with poor earnings expectations, high credit risk and overall uncertainty. Technicals also argue a renewed pullback is likely before markets bottom more convincingly. Second, the oil price collapse has emerged as a new source of market volatility.

This same framework, though, shows some forward-looking optimism. All the factors in the 'policy response' box continue to be on an improving path. Policy is already very supportive and more initiatives are likely forthcoming. The peaking of new COVID-19 infections and an eventual success in reopening economies would be very significant progress.

We would not wait for credit risk and earnings expectations indicators to turn green as history shows that markets tend to bottom well before these indicators turn.

What should investors do now?

We maintain our preference for gold, multi-asset income and equities and are comfortable using the averaging-in approach on more attractive valuation levels. As detailed in our '4 strategies for the current environment' presentation, there are several ways to take advantage of markets today, depending on one's situation. A "prudent averaging-in" approach can be both rewarding and one of the most comfortable, emotionally.

Fig. 1 History tells us, a good approach, and the most comfortable emotionally, is probably to spread our investments

If one starts investing at → Equity market bottom (between t-1 and t+1)

and exits at	t-3	t-2	t-1	t+1	t+2	t+3
t=0	-20.7%	-19.4%	-16.7%			
t=1	-5.0%	-3.7%	-0.4%	0.0%		
t=2	0.6%	1.6%	5.1%	5.5%	0.0%	
t=3	4.2%	5.3%	9.0%	9.3%	3.6%	0.0%
t=6	9.3%	9.8%	13.8%	14.1%	7.6%	3.8%
t=12	25.5%	26.7%	31.1%	31.6%	24.6%	20.2%

Source: Bloomberg, Standard Chartered

Average returns on global equity (MSCI ACWI) if one invested at different points in time (relative to the trough of 2001 and 2008 equity bear markets)

Within equities, we continue to prefer Asia ex-Japan (arguably further along the COVID-19 curve) and the US (strongest policy response). Within bonds, we continue to prefer Asia USD bonds and EM USD government bonds.

Multi-asset income strategies stand to benefit from both pro-risk, via their positive correlation with equities and deflationary risk scenarios. Deflation tends to push bond yields lower, benefiting income-oriented assets.

On the USD, we remain long-term bearish, but recognise it could remain range-bound, or even gain slightly, in the next 1-3 months. This is key for EMs as further strength would continue to hurt all EM asset classes. However, a turn lower in the USD could also end up being one indicator of markets transitioning towards our more positive 12-month scenario.

Fig. 2 **Our tactical asset allocation views (12m) USD**

Asset class	Sub-asset class	Relative outlook	Rationale (+ Positive factors II – Negative factors)
Multi-asset Strategies	Multi-asset income	▲	**+ Contained bond yields, weak USD, diversification || - Equity volatility** 4-5% yield remains achievable, in our view
	Multi-asset balanced	◆	**+ Diversification benefits || - Equity volatility** Equity tilt means near-term volatility a risk, but long-term valuations a help
	Alternatives	◆	**+ Diversifier characteristics || - Equity, corporate bond volatility** Diversifier characteristics help amid volatility
Equities	Asia ex-Japan	▲	**+ Low bond yields || - Fund flows a risk** Asia has held up better amid a more mature COVID-19 infection cycle
	US	▲	**+ Low bond yields, policy stimulus || - Growth shock** Growth a risk, but massive policy stimulus, low yields are positives
	Euro area	◆	**+ ECB policy support, Fiscal policy || - Growth shock** Significant COVID-19-related impact, but policy support a positive
	UK	◆	**+ Broad-based fiscal support || - Brexit, energy sector risks** Valuations have declined significantly, but earnings downgrades a risk
	Japan	◆	**+ Fiscal support || - Fund flows** Inexpensive valuations a support, but growth shock is a key risk
	Other EM	▼	**+ Falling bond yields || - Deteriorating earnings outlook** Commodity price weakness, especially oil, a key risk
Bonds	Asian USD	▲	**+ Attractive yields, contained volatility || - China concentration** Volatility remains lower than peers, but China exposure a risk
	EM USD government	▲	**+ Attractive yields, attractive value || - Sentiment to EMs a risk** Valuations, yield at attractive levels. Oil, sentiment to EM are risks
	DM HY corporate	◆	**+ Attractive yields, valuations || - Credit quality** Risk of rising defaults, but valuations have moved dramatically
	DM IG corporate	◆	**+ Moderate yields, attractive value || - Falling credit quality** Fed support led to reduction in yield premiums; credit quality to deteriorate
	DM IG government	▼	**+ High credit quality, policy support || - Low yields** Easier monetary policy a support, but yields are very low now
	EM local currency government	▼	**+ Attractive yields, weak USD view || - FX volatility** Fund outflows, global USD liquidity stress make risk/reward less attractive
Currencies	GBP	▲	**+ Undervaluation, monetary and fiscal policies || - Pandemic containment** Coordinated monetary and unprecedented fiscal policies a significant support
	EUR	▲	**+ ECB and large fiscal stimulus || - Banks and peripheral EU vulnerability** Removing fiscal stimulus limits and coordinated effort is a EUR game-changer
	AUD	▲	**+ Undervaluation, RBA QE, fiscal stimulus || - Reliance on global trade** QE and large fiscal spending buy time for China import demand to rise
	JPY	◆	**+ Safe-haven demand and real yields || - Japanese foreign asset demand** JPY caught between global safe-haven status and outflows seeking returns
	CNY	▲	**+ Rates, stimulus and stability || - Low global demand and debt risk** Fiscal stimulus for economic and social stability to attract net capital inflows
	USD	▼	**+ Safe-haven "dash for dollars" || - Low rate differentials, Fed liquidity** USD can decline alongside global confidence in the Fed liquidity provision

Source: Standard Chartered Global Investment Committee

Legend: ▲ Preferred ◆ Core holding ▼ Less preferred

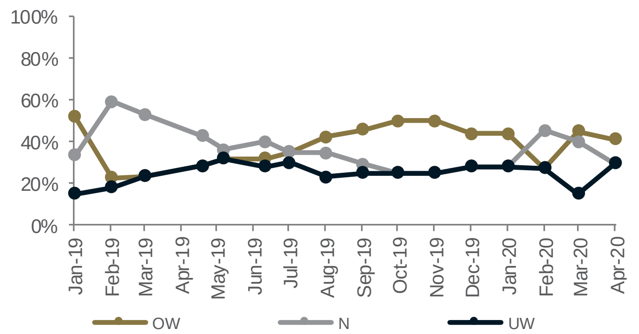
Major brokers' and investors' views

As part of our Investment Philosophy, we strive to achieve diversity of insights by constantly monitoring a wide array of investment views and analysis. This part of our process is what we call the Inside View, where we gather lots of research and analysis, consider the specifics of the situation, and combine them to our analysis of historical probabilities - the Outside View – to create scenarios for the future.

The below charts show the percentage of investment research (broker and independent) houses and asset management companies who are Overweight, Underweight and Neutral on different asset classes.

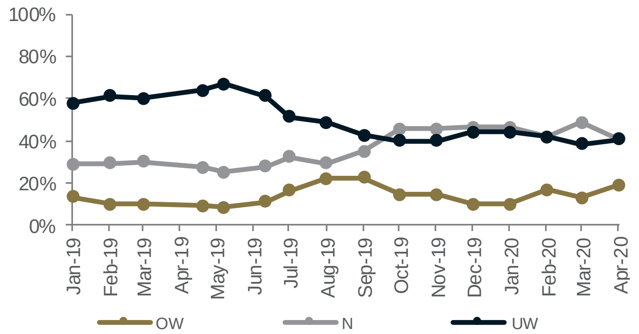
Cash

OUR VIEW
UW



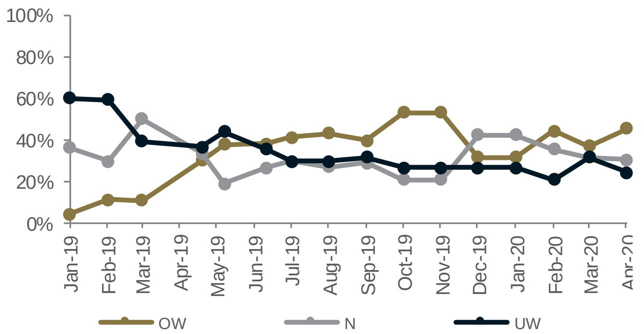
Bonds

OUR VIEW
UW



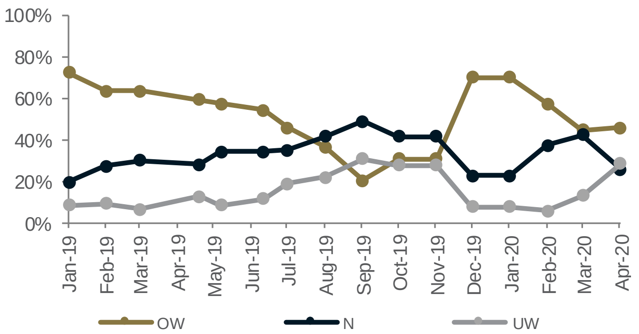
Credit

OUR VIEW
N



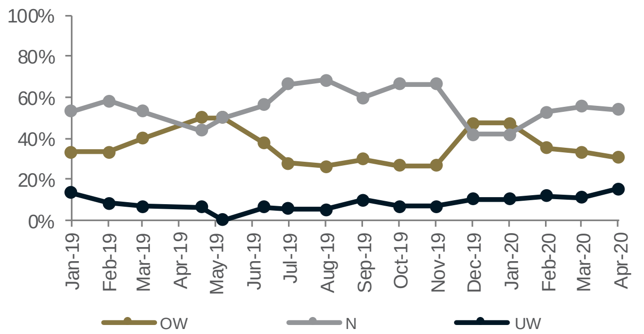
Equities

OUR VIEW
OW



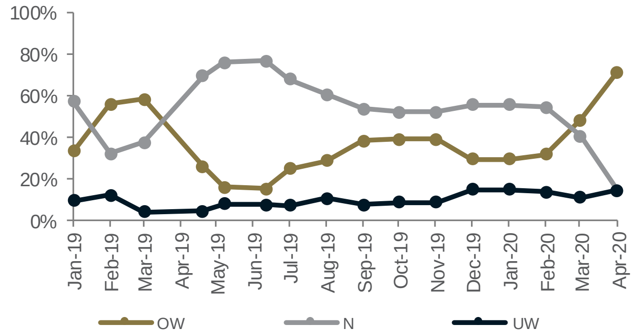
Alternatives*

OUR VIEW
N



Gold

OUR VIEW
OW



Source: Standard Chartered Global Investment Committee

*Alternatives represent a combination of views on liquid and private alternative strategies, as well as real estate

Perspectives on key client questions

What is the current situation in the oil market?

The WTI crude oil price (May future contract) plunged into negative territory on 20 April 2020 for the first time in history. At -$37.63/barrel, sellers were effectively paying buyers to take oil off their hands before the WTI May future contract expired. Below, we outline the reasons for the unprecedented sell-off in oil and implications for inflation and financial markets.

How did oil fall below zero?

An investor holding a long position in an active futures oil contract will need to either take actual delivery of oil at the end of the month or roll over the expiring active contract into a contract for a later date. Without diving into too many technicalities, we believe there were two reasons that contributed to oil prices temporarily falling below zero: 1) a collapse in oil demand from global economic shutdowns due to COVID-19, and 2) exorbitant storage costs with storage capacity hitting potential limits, which reduced the ability for traders to take delivery of crude oil in May.

Fig. 3 Downward pressure on oil likely to persist amid the negative impact of investors rolling long position to later months at higher costs

Long-term WTI oil prices adjusted for inflation (beginning 1984). Dashed line represents the period average inflation-adjusted price.

Source: Refinitiv Eikon, Standard Chartered

Where do oil prices go from here?

The oil market's situation of reduced demand and oversupply will likely continue to exert downward pressure on oil prices in the near term. Oil demand has plunged almost a third by 30m bbl/d in April. The bulk of the demand hit is expected to be felt in Q2, with over 40% of the world's population under lockdown orders, filling up oil storage capacity close to their limits. OPEC and Russia have announced production cuts of 9.7m bbl/day starting in May and various producers in the US have also announced cuts and shutdowns, which will allow for a gradual recovery in oil prices once economies restart progressively.

We expect oil prices to stabilise over the next three months, helped by the start of demand recovery as economies gradually return to work in May. There is strong support for WTI crude at the 1986 low of USD9.75/bbl, which, on a weekly basis, continues to hold.

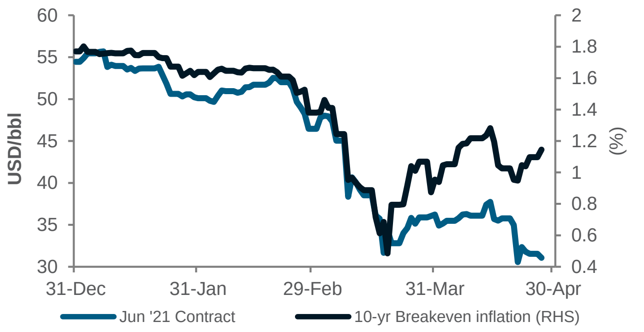
What are the implications of lower oil prices on inflation?

The economic shock from the sharp drop in crude oil demand will put downward pressure on oil prices and in turn inflation expectations. Policymakers were already fretting over anaemic inflation even before the pandemic struck. A further decline in inflation would keep real yields (nominal yields adjusted for inflation) higher with Developed Markets' (DMs) interest rates already close to or below the zero bound. Any new and sustained fall in oil prices would also reinforce the market's negative bias towards future inflation (see Figure 4).

Even after considering the prospects of a recovery in the latter half of the year, it will likely take a long time for inflation to recover meaningfully, some short-term spike notwithstanding. The Fed's quantitative easing (QE) in 2008-2009 did not quite trigger the runaway inflation that pundits had feared. If history is anything to go by, monetary policy would likely remain accommodative for an extended period.

Fig. 4 The plunge in crude oil prices have lowered long-term inflation expectations significantly

Crude oil prices (measured by price for delivery in 12 months) and US 10-year inflation expectations



Source: Bloomberg, Standard Chartered

What are the implications of lower oil prices on financial markets?

For all the headlines around oil prices, the recent market impact on equity, bond or currency markets have been fairly contained. However, each asset class offers a slightly different perspective:

• **Oil-linked FX:** USD/CAD – sensitive to oil prices given crude oil is a key Canadian export – could retrace lower in the near term if headlines around crude oil prices turn around, as we expect over the next 3-12 months. Immediate resistance is seen at 1.4260.

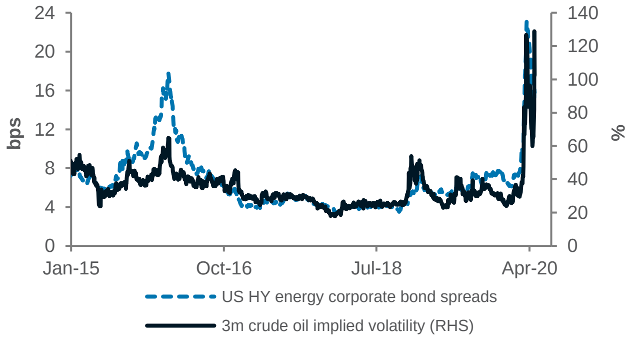
• **US HY corporate bonds:** Despite nominally attractive yields, we see further stress within the HY energy sector as oil prices remain depressed, affecting the solvency of all but the strongest private producers, and would caution against adding exposure as the risk-reward remains unattractive.

• **Energy sector equities:** Since the February high for global equities, the sector has been the worst performer, down 28%. The sector currently offers a dividend yield of 6.5%. The outlook for dividends among major oil companies in the US companies is secure, in our opinion. Historically, US oil majors have maintained dividends, even during the prior price collapse in 2008. For European oil majors, there is however a risk of dividend cuts. European oil majors have historically adjusted dividends to reflect the oil price environment, cutting dividends in 2010 following the 2008 price collapse. Energy is a less preferred sector in the US, Europe and China.

• **EM USD government bonds:** The ongoing global growth slowdown, reduction in trade and decline in commodity prices have negatively impacted EM USD government bonds. In our view, the cheaper valuation now tips the scales in favour of the asset class. Yield premiums are closer to their historical recessionary peaks than most corporate bond markets. Additionally, in 2008, the default rate for EM issuers was lower than that of US HY bonds. Thus, while the risk of defaults has increased, we still believe that EM USD government bonds offer an attractive risk-reward. The USD could remain range-bound or gain slightly in the near term on funding concerns. Hence, EM USD government bonds would be our preferred route within the EM space.

Fig. 5 US energy sector HY bond yield premiums have surged as oil price volatility increased and prices fell

US energy sector HY corporate bond premiums over US Treasuries; 3-month crude oil price implied volatility



Source: Bloomberg, Standard Chartered

Macro Overview – at a glance

Key themes

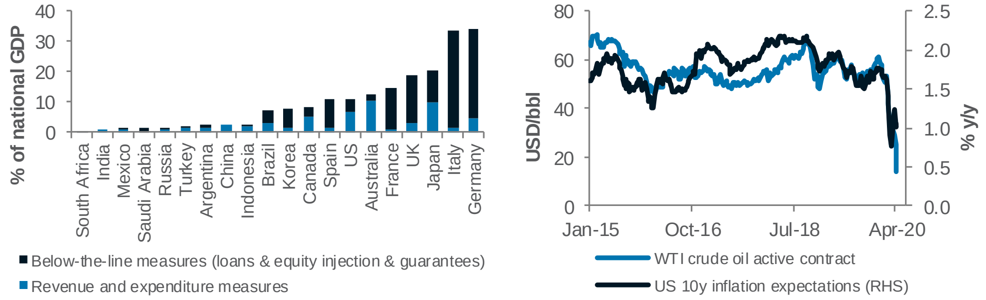
As the COVID-19 pandemic peaks, our Global Investment Committee (GIC) expects major economies to reopen by the end of Q2. China, the first on the recovery path, is likely to return to modest growth in Q2. However, its gradual pace of recovery portends a slower-than-expected resumption of economic activity in other major economies. Given this, our core scenario has the US and Euro area returning to growth in H2 after a sharp-but-short recession in H1, supported by unprecedented fiscal and monetary policies. There is still an elevated risk of a second wave of COVID-19, leading to renewed economic lockdowns later this year.

Key chart

Lower oil prices have cut inflation expectations, which should keep interest rates low, enabling governments to inexpensively finance record fiscal spending

Fig. 6 Record policy easing is likely to offset the deflationary impact of lockdowns & oil slump

G20 fiscal response to COVID-19; oil price (active contract) & US 10-year inflation expectations



Source: Bloomberg, Standard Chartered; G20 fiscal stimuli are IMF estimates of budgetary & non-budgetary measures

US	We expect c. 15% and 10% q/q SAAR growth in Q3 and Q4, after c. 35% q/q SAAR contraction in Q2, aided by record fiscal and monetary stimulus. The oil price plunge should support consumption and keep inflation subdued, enabling the government to finance its spending inexpensively, although it is negative for the shale energy sector	○ Growth	○ Inflation	○ Benchmark rates	● Fiscal deficit
Euro area	We expect c. 15% and 5% q/q SAAR growth in Q3 and Q4, after c. 30% contraction in Q2, on the back of record monetary and fiscal stimulus, low oil price and weak EUR. EU policymakers plan more stimulus. Convincing Germany and the Netherlands to share the debt burden would be a big win, driving long-term growth prospects	○ Growth	○ Inflation	○ Benchmark rates	● Fiscal deficit
China	China is the first major economy to recover from the pandemic; we expect it to turn in c. 2% y/y growth in Q2 and c. 5% y/y in H2. The pace of recovery has been slower-than-expected, partly due to the slump in global demand hurting exports. Accelerating credit growth and infrastructure spending should partly offset weak exports	○ Growth	○ Inflation	○ Benchmark rates	● Fiscal deficit
Japan	Slower-than-expected global recovery, weak prospects for travel and tourism and cancellation of the summer Olympics are key negatives. The government's record stimulus and more BoJ easing should limit the downside	○ Growth	○ Inflation	○ Benchmark rates	● Fiscal deficit
UK	Record fiscal and monetary stimulus – with promise to do more – is likely to limit the growth impact of prolonged lockdowns. However, uncertainty around a post-Brexit trade deal, with the UK resisting EU calls for extending the current transition phase by another two years, risks aggravating the COVID-19-led economic downturn	○ Growth	○ Inflation	○ Benchmark rates	● Fiscal deficit

Source: Standard Chartered Global Investment Committee

Legend: ○ Weaker/easier in 2020 | ◐ Neutral | ● Stronger/higher in 2020

Bonds – at a glance

Key themes

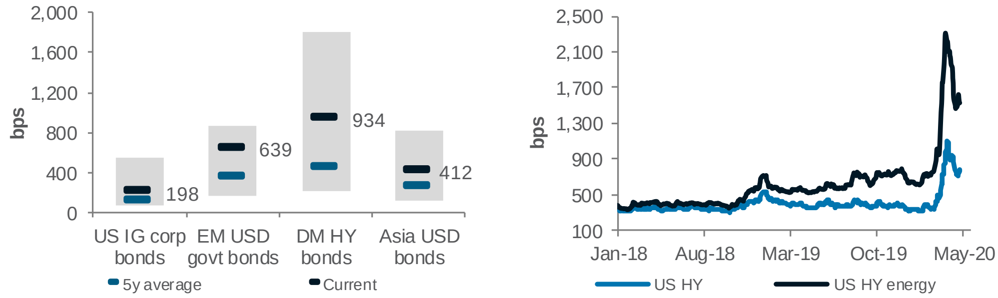
Global bonds rallied over the past month as improved risk sentiment and Fed's announcement of additional bond purchases resulted in lower yield premiums across most major markets. However, yield premiums still remain well above their historical averages, indicating reasonable value on offer, despite the risk of potential rise in defaults.

Asian USD bonds are a preferred holding as we like their high credit quality, defensive characteristics (as witnessed during the recent bear market) and attractive yield premium, especially over US IG corporate bonds,. EM USD government bonds are preferred too, despite the rising risk of defaults, as valuations remain cheap and based on our view that sovereigns have more levers available to avoid defaults as compared to corporates. We think, the recent rally in DM HY bonds may underestimate potential defaults, especially in the energy sector, and thus view them as a core holding despite the attractive yield they offer.

Key chart

Yield premiums for various corporate bonds (grey bars indicate minimum and maximum values since 2000); US HY and US HY energy yield premiums have declined sharply despite lower oil prices

Fig. 7 Yield premiums across most markets remain attractive. However, recent rally in US HY energy sector bonds may indicate complacency about potential default rates



Source: Citigroup, J.P. Morgan, Barclays, Bloomberg, Standard Chartered. As of 24 April 2020.

Preference order

Asset class	Rating	View	Drivers		
Asia USD	▽ ◇ ▲	We view Asia USD bonds as a ***preferred*** holding given their relatively high credit quality, attractive pickup over US IG corp bonds and defensive characteristics. A slower-than-expected recovery in China is a risk.	● Credit fundamentals	◐ Macro factors	● Valuation vs govt bonds
EM USD government	▽ ◇ ▲	EM USD government bonds are ***preferred,*** owing to their attractive yield and valuations. A sharp deterioration in EM risk sentiment and spike in defaults are risks.	● Valuation vs govt bonds	◐ Macro factors	◐ Rates policy
DM HY corporate	▽ ◆ △	We view DM HY bonds as a ***core holding*** as their attractive yield and valuations are balanced by the risk of higher defaults and rating downgrades.	● Attractive yield	● Valuation vs govt bonds	○ Credit fundamentals
DM IG corporate	▽ ◆ △	We view the asset class as a ***core holding***. In our assessment, the attractive yield premiums and high credit quality are balanced by expectations of a deterioration in credit fundamentals.	● Valuation vs govt bonds	○ Credit fundamentals	○ Macro factors
EM local currency	▼ ◇ △	EM local currency bonds are ***less preferred*** as their reasonable yield and supportive EM central bank policies are offset by high currency volatility, our short-term bullish USD bias and risk of fund outflows.	○ FX outlook	◐ Macro factors	◐ Rates policy
DM IG government	▼ ◇ △	DM IG government bonds are ***less preferred***. Their high credit quality and supportive central bank policy are offset by the low yields they offer. A renewed growth slowdown is an upside risk for this asset class.	● Rates policy	○ Macro factors	○ Valuation

Source: Standard Chartered

Legend: ▲ Most preferred | ▼ Less preferred | ◆ Core holding | ○ Not supportive | ◐ Neutral | ● Supportive | ▭ Key driver

Equity – at a glance

Key themes

The outlook for global equities is uncertain in the near term. However, looking 12 months ahead, the outlook is more positive, in our opinion. Our GIC expects earnings growth to contract by 20% and 25% in the US and Euro area, respectively, in 2020. Nevertheless, we anticipate a rebound in 2021, with growth recovering 18% and 15%, respectively. There remains a high degree of uncertainty over these forecasts, but the magnitude and direction are broadly correct.

Asia ex-Japan equities are preferred. In China, interest rates and reserve requirement have been cut, which should stimulate credit and limit the negative effect on bank profitability. US equities are also preferred as swift monetary and fiscal easing have reduced the risk of a liquidity crunch in the corporate sector. Euro area equities are a core holding. Investors are looking to the reopening of the region's economies to identify the survivors of the COVID-19 downturn.

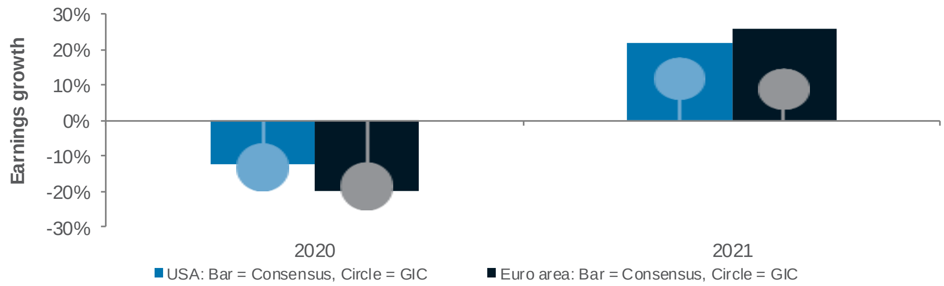
Key chart

US and Euro area earnings will contract sharply in 2020, but rebound in 2021

GIC views a sharper-than-consensus contraction in 2020 and a shallower rebound in 2021

Fig. 8 US and Euro area earnings will rebound in 2021 after a sharp contraction in 2020

MSCI US and Euro area earnings growth forecasts



Source: MSCI, Refinitiv Eikon, Standard Chartered. As of 21 April 2020.

Equities	View	Commentary	Key drivers		
Asia ex-Japan equities	▽ ◇ ▲	Asia ex-Japan is ***preferred,*** as is China onshore and offshore. Easier fiscal policy across the region should create the right environment for a rebound from the COVID-19 earnings contraction. USD strength is a risk.	● Bond yields	● Valuations	○ Economic data
US equities	▽ ◇ ▲	US is ***preferred***. Falling bond yields are lowering the discount rate used to value future profits, boosting market valuation. Earnings are expected to rebound by 18% in 2021. Earnings disappointment is a risk.	● Bond yields	● Valuations	◐ Fund Flows
Euro area equities	▽ ◆ △	Euro area is a ***core holding***. Earnings are forecast to contract by 25% in 2020 and rebound 15% in 2021, with dividends also recovering. Slower than expected earnings rebound from COVID-19 is a risk.	● Bond yields	● Valuations	○ Economic data
UK equities	▽ ◆ △	UK is a ***core holding***. Dividends and valuations are attractive, relative to peers. Low bond yields and prior underperformance signal the potential for a recovery in fund flows. Political uncertainty a risk.	● Bond yields	● Valuations	○ Economic data
Japan equities	▽ ◆ △	Japan is a ***core holding***. While valuations are attractive relative to history, the downturn in global growth will be acutely felt in Japan. Increase in deflation a risk to corporate profit margins.	● Bond yields	● Valuations	○ Economic data
EM ex-Asia equities	▼ ◇ △	EM ex-Asia is ***less preferred***. Earnings growth will suffer from the COVID-19-related downturn in oil demand and prices. USD strength is a risk.	● Bond yields	◐ Valuations	○ Economic data

Source: Standard Chartered

Legend: ▲ Most preferred | ▼ Less preferred | ◆ Core holding | ○ Not supportive | ◐ Neutral | ● Supportive | ▭ Key driver

FX – at a glance

Key themes

Our medium-term expectation for a broad USD decline remains unchanged, with EUR/USD expected to touch 1.15. In the near term, the USD is likely to remain range-bound, keeping EUR/USD between 1.06 and 1.12. Risk aversion may weigh on EM currencies, while undervalued currencies, such as the GBP, AUD and NZD, should outperform as the global economy recovers.

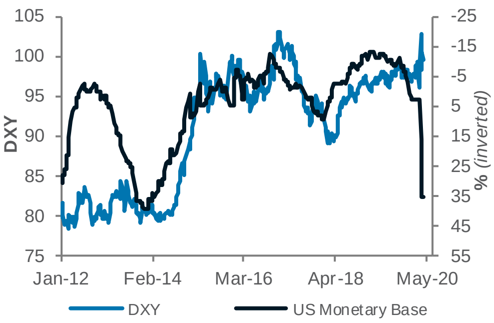
The Fed's massive global liquidity injection should cap the USD. Uncertainty for the EU recovery package has kept the EUR weak, but there are signs that an EU agreement over joint funding, loans and/or grants is closer, which would be EUR-supportive. Asian currencies hit by COVID-19 and global trade are expected to recover more slowly, despite attractive valuations.

Key chart

The USD is expected to trade in a range near term with massive dollar liquidity supporting major currencies. Exposed EM FX will likely remain relatively weak. Political and geopolitical risks are also rising, which may spur bouts of higher volatility

Fig. 9 Global USD liquidity to cap the USD

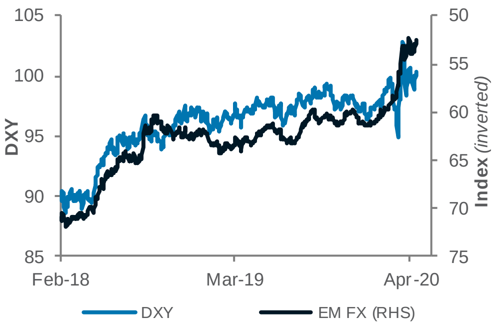
DXY, USD monetary base, y/y (RHS, inverted)



Source: Bloomberg, Standard Chartered

Fig. 10 Weak EMFX as risk aversion continues

DXY, JP Morgan EM currency index (RHS, inverted)



Source: Bloomberg, Standard Chartered

Pair	View	Outlook	Relative interest rates	Relative growth rates	Flows & sentiment
USD (DXY)	▼ ◇ △	Narrowing rate differentials and dollar liquidity will weigh on the USD as the US twin deficits also loom	○ Relative interest rates	◐ Relative growth rates	○ Flows & sentiment
EUR/USD	▽ ◇ ▲	Expected easing of EU policy uncertainty should provide stronger EUR support	● Relative interest rates	◐ Relative growth rates	● Flows & sentiment
GBP/USD	▽ ◇ ▲	COVID-19 has impacted the UK severely, but strong fiscal measures and cheap valuations should aid the GBP	◐ Relative interest rates	◐ Relative growth rates	● Flows & sentiment
USD/CNY	▼ ◇ △	Ongoing increments of Chinese monetary and fiscal stimulus and currency management should cap USD/CNY	○ Relative interest rates	◐ Relative growth rates	○ Flows & sentiment
USD/JPY	▽ ◆ △	Japan's weakening economy suggests additional BoJ and fiscal stimulus will keep USD/JPY within a range	○ Relative interest rates	◐ Relative growth rates	◐ Flows & sentiment
AUD/USD	▽ ◇ ▲	The AUD/USD recovery from a rapid decline should continue as the local economy stabilises and China stimulates	◐ Relative interest rates	◐ Relative growth rates	● Flows & sentiment

Source: Standard Chartered Global Investment Committee

Legend: ▲ Bullish view | ▼ Bearish view | ◆ Range view | ○ Not supportive | ◐ Neutral | ● Supportive | ▭ Key driver

Technicals

S&P 500: A potential range scenario

After the dramatic sell-off, the S&P 500 index now seems likely to be settling in a range. The lower end of the range is the early-April low of 2,447, while the upper end of the range is 3140 (the 78.6% retracement of the February-March fall), around the March 4 high of 3,131. As highlighted last month, the index's hold above key support at the December 2018 low of 2,347 on a monthly basis indicates that the broader uptrend remains intact.

While momentum, as reflected by the 14-day Relative Strength Index, at 59, understates the actual rebound in the index (partly a consequence of extreme oversold in March), breadth market indicators offer some guidance. Towards the end of March, 90% of the stocks were above the 10-day moving average. Since 2010, when 90% of the stocks in the S&P 500 index have been above the 10-day moving average after a sharp decline, on an average, the index has been higher in the following six months. Two inferences that one could draw from this: 1) the March low was probably the worst in the current correction, 2) the index should be on the higher side of the range than lower in coming months.

AUD/USD: Easing downward pressure

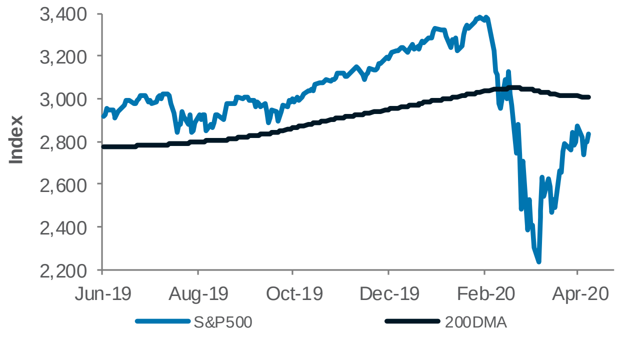
AUD/USD's failure in March to decisively break below its Global Financial Crisis low of 0.6004 on monthly charts is an encouraging sign for bulls. The subsequent rebound has been sharp, and if AUD/USD were to rise to the March high of 0.6685, roughly coinciding with the 200-day moving average, it would be an early sign of easing of the two-year long downward pressure. Subsequent resistance is at the December high of 0.7031, which could contain the upside for now.

US Treasury 10Y yield: 0.79% is key hurdle

The US Treasury 10-year yield has been holding above a key psychological and technical support at 0.5%. A positive 14-week RSI divergence with the 10Y yield (ascending RSI level associated with lower yields) on the weekly charts indicates that the slide is losing steam. However, for the short-term downward pressure to ease, at minimum, the yield needs to rise above immediate resistance at the early-April high of 0.79%.

Fig. 11 S&P 500: approaching resistance on the 200-DMA

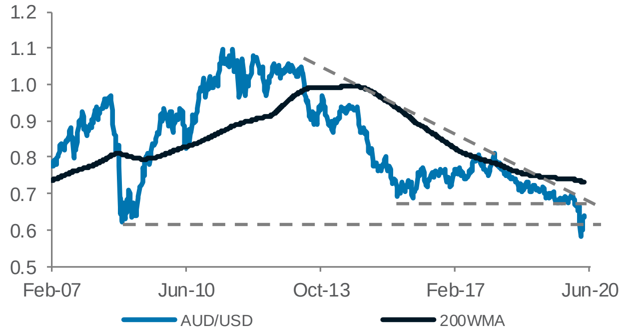
S&P 500, daily chart with the 200-day moving average



Source: Refinitiv Eikon, Standard Chartered

Fig. 12 AUD/USD: easing downward pressure

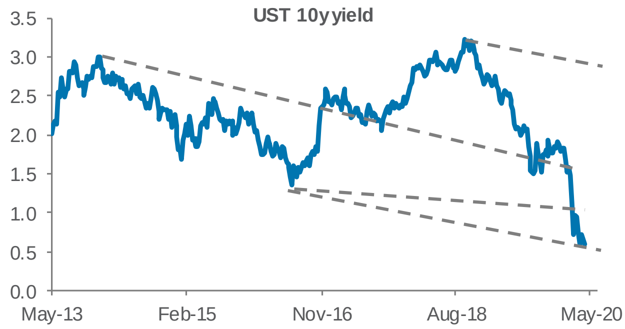
AUD/USD, weekly chart with the 200-week moving average



Source: Refinitiv Eikon, Standard Chartered

Fig. 13 US Treasury 10-year yield: holding above 0.5%

US Treasury 10-year yield, daily chart



Source: Refinitiv Eikon, Standard Chartered

Tracking market diversity

About our market diversity indicators

Our market diversity indicators help to identify areas where shorter-term market trends could break or reverse due to a reduction in the breadth of market participant types at any given time. Effectively, the indicator tries to quantify to what extent a tug-of-war is going on between different types of investors with different objectives and/or time horizons. When market diversity declines, it means that one type of investor is generally dominating price movements. This can create an environment whereby something happens to reduce the 'dominant' investors' ability or appetite to continue buying or selling, and this leads to a sharp reversal in the recent trend.

Where is diversity falling or rising this month?

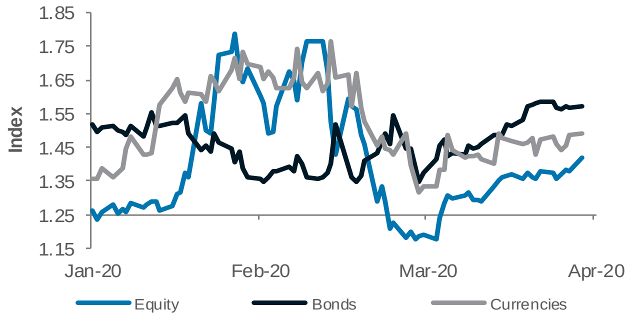
Market diversity has continued a broad-based recovery since its collapse in March. This can be seen from the average of our market diversity indicator (fractal dimension) within each asset class as they rose above 1.25 – the cut-off in the indicator to signal increased likelihood of a trend reversal or break point.

In equities, the UK, Japan and more recently, UK and EM ex-Asia, have all seen an improvement in their market diversity. With this change, none of the major equity markets we track are seen to have an elevated risk of a short-term reversal.

We are also seeing similar developments in the bond and currency markets. EM local currency government bonds is the most recent bond market with its diversity indicator rising above 1.25, while many USD pairs such as AUD, NZD and CAD have also recovered similarly at the same time.

Fig. 14 Average fractal dimension within each asset class on 27-Apr-20

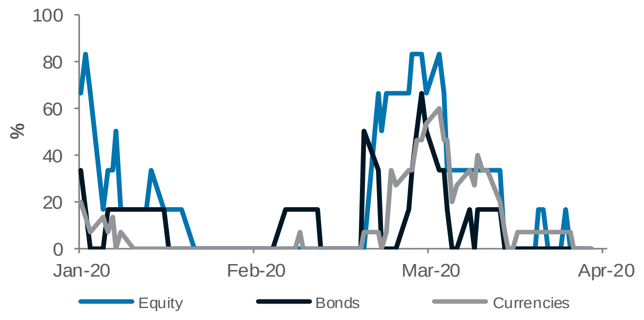
Market diversity across asset class improved



Source: Standard Chartered

Fig. 15 % of assets with fractal dimension < 1.25 for each asset class on 27-Apr-20

None of the assets tracked show very low market diversity



Source: Standard Chartered

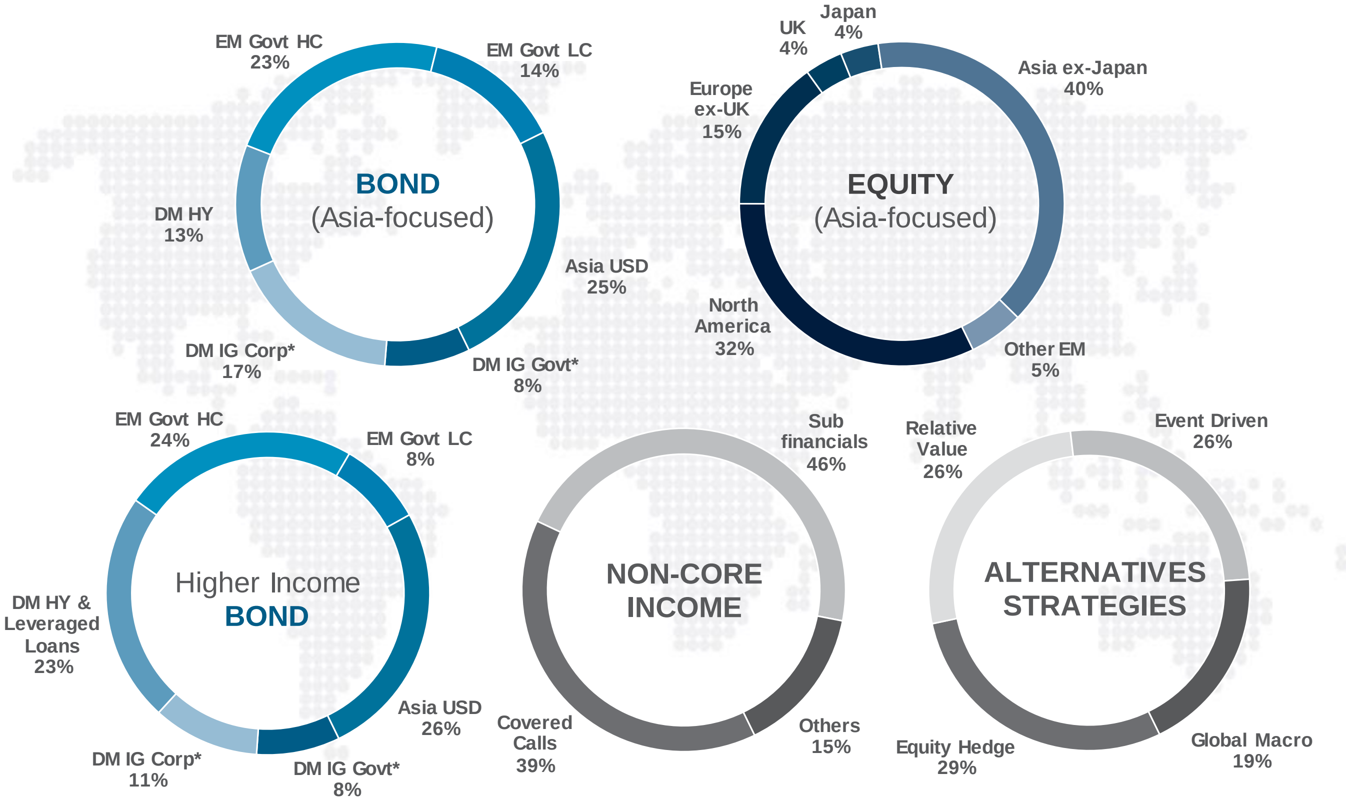
Fig. 16 Assets with lower market diversity, but not stretched

Level 1	Diversity	Direction since March
HFRX Global Hedge Fund	◐	→
Equity		
MSCI Europe	◐	→
MSCI UK	◐	→
MSCI Japan	◐	↑
MSCI Asia ex Japan	◐	↑
MSCI EM ex Asia	◐	→
Fixed Income		
Bloomberg Barclays Global High Yield	◐	↑
JPM EM Global Diversified Bond Index	◐	→
JPM EM Govt. Local Currency Bond	◐	→
Currencies		
USD/NZD	◐	↑
USD/CAD	◐	↑
USD/NOK	◐	→
USD/SGD	◐	↑
USD/MYR	◐	→
USD/IDR	◐	↑
USD/INR	◐	→

Source: Bloomberg, Standard Chartered; Data as on 27 April 2020

Legend: ○ Very low ◐ Low ● Moderate/high

Our recommended allocations



Allocation figures may not add up to 100 due to rounding. *FX-hedged

Tailoring a multi-asset allocation to suit an individual's return expectations and appetite for risk

- We have come up with several asset class “sleeves” across major asset classes, driven by our investment views
- Our modular allocations can be used as building blocks to put together a complete multi-asset allocation
- These multi-asset allocations can be tailored to fit an individual’s unique return expectations and risk appetite
- We illustrate allocation examples for both Global and Asia-focused investors, across risk profiles

BOND Allocation (Asia-focused)	Higher Income BOND Allocation	EQUITY Allocation (Asia-focused)	NON-CORE INCOME Allocation	ALTERNATIVES STRATEGIES Allocation
For investors who want a diversified allocation across major fixed income sectors and regions Asia-focused allocation	For investors who prefer a higher income component to capital returns from their fixed income exposure Includes exposures to Senior Floating Rate bonds	For investors who want a diversified allocation across major equity markets and regions Asia-focused allocation	For investors who want to diversify exposure from traditional fixed income and equity into “hybrid” assets Hybrid assets have characteristics of both fixed income and equity Examples include Covered Calls, REITs, and sub-financials (Preferred Shares and CoCo bonds)	For investors who want to increase diversification within their allocation Include both “substitute” and “diversifying” strategies

Note: Allocation figures may not add up to 100% due to rounding. *FX-hedged

Asset allocation summary

12-month view		ASIA FOCUSED				GLOBAL FOCUSED			
Summary	**View**	**Conservative**	**Moderate**	**Moderately Aggressive**	**Aggressive**	**Conservative**	**Moderate**	**Moderately Aggressive**	**Aggressive**
Cash	▼	15	7	3	0	15	7	3	0
Fixed Income	◆	64	39	29	7	64	39	29	w7
Equity	▲	20	36	51	81	20	36	51	81
Gold	▲	0	8	8	7	0	8	8	7
Alternatives	◆	0	10	9	4	0	10	9	4
Asset class									
USD Cash	▼	15	7	3	0	15	7	3	0
*DM Government Bonds**	▼	5	3	2	1	8	5	3	1
*DM IG Corporate Bonds**	◆	11	7	5	1	15	9	7	2
DM HY Corporate Bonds	◆	8	5	4	1	11	7	5	1
EM USD Government Bonds	▲	15	9	7	2	11	7	5	1
EM Local Ccy Government Bonds	▼	9	5	4	1	7	4	3	1
Asia USD Bonds	▲	16	10	7	2	12	7	5	1
North America Equities	▲	7	12	16	26	11	19	27	43
Europe ex-UK Equities	◆	3	5	8	12	2	3	4	6
UK Equities	◆	1	1	2	3	1	1	2	3
Japan Equities	◆	1	1	2	3	1	1	2	3
Asia ex-Japan Equities	▲	8	14	20	32	5	9	13	21
Non-Asia EM Equities	▼	1	2	3	4	1	2	3	4
Gold	▲	0	8	8	7	0	8	8	7
Alternatives	◆	0	10	9	4	0	10	9	4

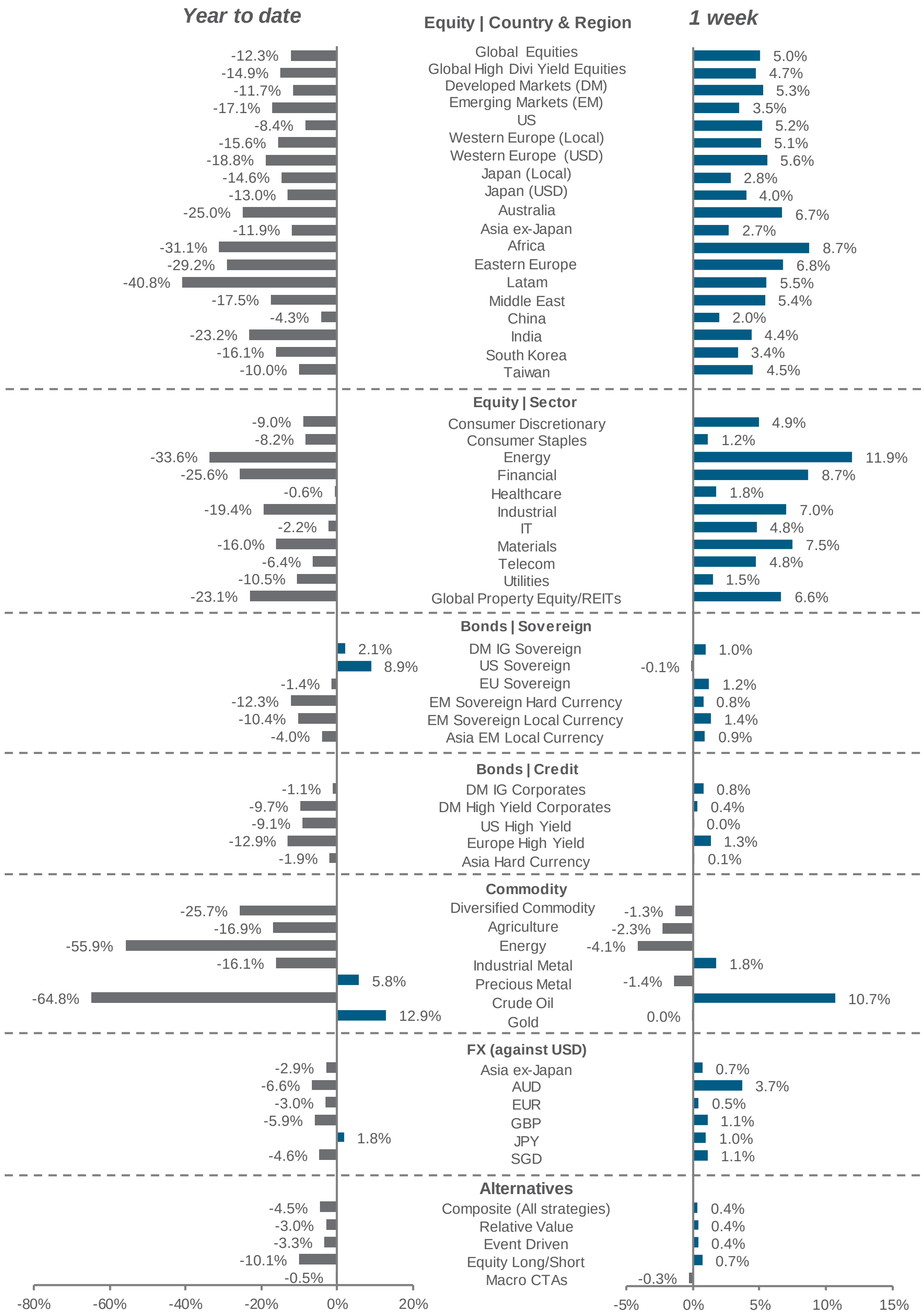
All figures in %. Source: Standard Chartered.

Note: (i) For small allocations we recommend investors to allocate through broader global equity/global bond solutions; (ii) Allocation figures may not sum to 100% due to rounding effects.

*FX-hedged

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 2019 to 29 April 2020 and 1-week performance from 22 April 2020 to 29 April 2020

Events calendar

MAY

07	BoE policy decision

JUNE

04	ECB policy decision
10-12	G7 summit
11	FOMC policy decision
18	BoE policy decision

JULY

30	FOMC policy decision
30	ECB policy decision

AUGUST

07	BoE policy decision

SEPTEMBER

x	China's President Xi visits Germany for summit with EU state leaders
04	ECB policy decision
11	FOMC policy decision
18	BoE policy decision
29	1st US presidential debate

OCTOBER

15	2nd US presidential debate
22	3rd US presidential debate
29	ECB policy decision
29	BoJ policy decision

NOVEMBER

03	US presidential election
05	BoE policy decision
06	FOMC policy decision
21-22	G20 Summit in Saudi Arabia

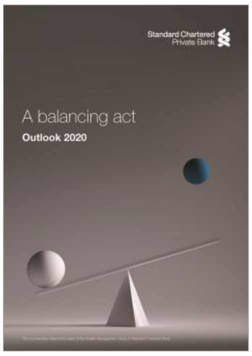
DECEMBER

10	ECB policy decision
17	FOMC policy decision
17	BoE policy decision
18	BoE policy decision
31	Deadline for Brexit transition period

Central bank policy | Geopolitics | EU politics

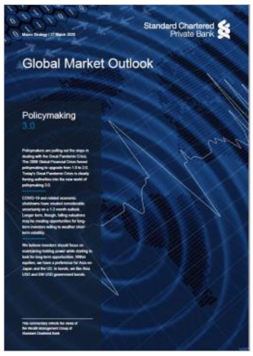
X – Date not confirmed | ECB – European Central Bank | FOMC – Federal Open Market Committee (US) | BoJ – Bank of Japan | BoE – Bank of England | RBA – Reserve Bank of Australia

Wealth management



ANNUAL OUTLOOK
annually

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.



GLOBAL MARKET OUTLOOK
monthly

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 MARKET VIEW
weekly

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

GLOBAL WEALTH DAILY
daily

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

MARKET WATCH
ad hoc

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

360 PERSPECTIVES
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.

INVESTMENT BRIEF
ad hoc

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

The team

Our experience and expertise help you navigate markets and provide actionable insights to reach your investment goals.

Alexis Calla
Chief Investment Officer
Chair of the Global Investment Committee

Steve Brice
Chief Investment Strategist

Christian Abuide
Head
Discretionary Portfolio Management

Clive McDonnell
Head
Equity Investment Strategy

Manpreet Gill
Head
FICC Investment Strategy

Manish Jaradi
Senior Investment Strategist

Belle Chan
Senior Investment Strategist

Daniel Lam, CFA
Senior Cross-asset Strategist

Rajat Bhattacharya
Senior Investment Strategist

Audrey Goh, CFA
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Francis Lim
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DJ Cheong, CFA
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Ajay Saratchandran
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Samuel Seah, CFA
Senior Portfolio Manager

Thursten Cheok, CFA
Senior Portfolio Strategist

Trang Nguyen
Portfolio Strategist

Marco Iachini, CFA
Cross-asset Strategist

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