

Easing headwinds

Global Market Outlook (In-brief)

September 2019

Investment strategy

Easing headwinds

- We believe global growth is stabilising, especially in the US. US-China trade tensions are a key risk, and Brexit talks in Europe are reaching a pivotal stage.
- The Global Investment Committee expects equities to 'climb this wall of worry'. Central banks are cutting rates further, supporting income-generating assets.
- Gold is likely to rise as geopolitical risks remain elevated and the USD's rally could run out of steam.

Risks dominate market narrative...

Over the summer months, the macro narrative has been dominated by three concerns: rising risk of a US/global recession; escalating US-China trade tensions; and the risk of the UK heading for a hard (no-deal) Brexit. This narrative has not changed significantly. Fund managers still believe a trade war is the greatest risk facing the world and more expect a global recession in the next 12 months than at any time since the Global Financial Crisis (although they are still in the minority).

... but sentiment improves

On the other hand, price action suggests the sentiment is starting to improve, with equity markets rallying and long-term risk-free yields rebounding from lows. Meanwhile, fund manager cash levels have been trimmed, suggesting investors have become more comfortable in deploying capital into investments.

These moves have been partially supported by facts. US economic indicators have surprised positively, although data in the Euro area and China continued to disappoint. We expect negative pressure on global growth to come to an end soon as central banks worldwide decisively ease policy.

That said, we would caution against extrapolating the recent detente in relations between the US and China. The US President's apparent belief that being tough on China is a vote-winner means tensions are likely to escalate periodically. Meanwhile, in Europe, Brexit talks are likely to be volatile in the coming weeks.

Figure 1

Financial conditions ease, earnings expectations pick up, seasonality a headwind

Factors influencing risk assets over 3-6 months (our assessment) compared to insurance (1995/8) and end-of-cycle (2001/7) rate cutting cycles

Short-term factors	Current signal	Insurance rate cuts (1995/8)	End of cycle rate cuts (2001/7)	Guide
Consensus earnings	↑	↔/↔	↓/↓	Consensus EPS expectations
Business confidence	↔	↓/↓	↓/↓	ISM relative to 50-mark separating expansion and contraction
US financial conditions	↑	↔/↔	↓/↓	Signal (loose/tight) from indices of financial conditions
Event risks	↓	↓/↓	↔/↔	Presence of specific risk event
Seasonality	↓	↓/↓	↑/↑	May-Oct seasonally weak period
Technicals	↔	↔/↔	↓/↔	Technical analysis: our assessment
Market diversity	↔	↓/↔	↔/↔	Our market diversity indicator

Source: Standard Chartered



IMPLICATIONS FOR INVESTORS

Equities and credit are likely to outperform government bonds, cash and alternative assets. We prefer EM USD and Asia USD bonds within fixed income assets

Within global equities, we prefer the US. Within Asia ex-Japan equities, we prefer onshore China and India

A multi-asset income basket remains an attractive alternative to a balanced portfolio. Gold remains a good way to hedge downside risks

What does it all mean?

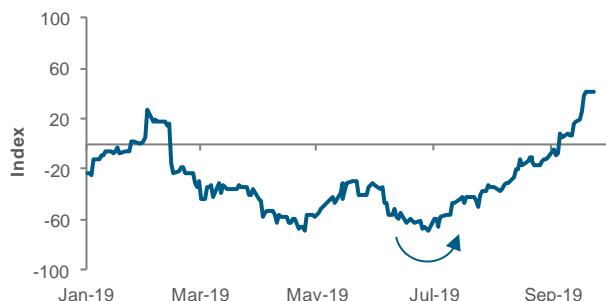
Growth outlook: On balance, we expect global growth to stabilise, rather than recover strongly. While much of the narrative remains on the resilience of the consumer, at least in the US/Europe, it would likely require a pick-up in business investment to drive a growth acceleration. Given heightened geopolitical uncertainty, this looks unlikely to us.

Investment implication: This backdrop is not necessarily bad for investors. A “muddle-through” environment may encourage central banks, and potentially governments, to add more stimulus. We believe this environment is likely to be positive for equities, credit and multi-asset income strategies, although we would also keep a significant allocation to gold against the backdrop of longer-term uncertainties and our view that the momentum behind USD strength is likely to wane.

Figure 2

Data positively surprising in the US

Citigroup economic surprises index for the US



Source: Bloomberg, Standard Chartered

Fundamentals improve marginally

Looking at some of the key factors for risk assets, monetary policy settings have become more accommodative in the US and the Euro area. Together with a muddle-through economic environment/subdued inflationary pressures, we expect further policy easing to be supportive of both global equities and multi-asset income strategies.

The supportive policy backdrop and re-emerging optimism about 2020 earnings outlook lead us to upgrade global equities. That said, the recent rebound in Developed Market (DM) and Emerging Market (EM) equities has pushed them towards key resistance levels. Therefore, we may see a consolidation/pullback before we move higher. Within equities, the US remains our preferred market, given expectations of a strong consumer-driven earnings growth.

From a style perspective, we maintain our preference for ‘Quality’ over ‘Growth’ and ‘Value’ stocks as our core economic scenario of low growth and heightened volatility supports companies with strong balance sheets and high return on earnings. Notwithstanding the recent outperformance of ‘Value’ stocks, ‘Quality’ stocks have outperformed both ‘Value’ and ‘Growth’ since January.

Preference for credit

Within bonds, we expect DM government bond yields to be relatively range-bound, with a surge beyond 2% in the US seen as particularly unlikely. Therefore, while we are comfortable with looking for opportunities to purchase longer maturity (or longer duration) bonds, we still have a preference for credit over duration (DM government bonds).

Within credit, we have a preference for EM over DM. EM USD government bonds remain a preferred asset class from this perspective. While they have high duration (interest rate sensitivity), as discussed, this is becoming less of a concern. Meanwhile, we continue to believe valuations are relatively cheap, especially compared to DM credit. Asian USD bonds are also preferred in the credit space, given their defensive nature (80% Investment Grade [IG], shorter duration, lower volatility and a lower yield than EM USD government bonds).

One-in-three chance of “the tide going out”

Of course, investors should plan for multiple scenarios and not just focus on one ‘most likely’ outcome. Outside of the usual advice of ensuring a diversified allocation across all major asset classes, we believe having a significant allocation to gold makes sense. Predicting the next recession with any precision is incredibly difficult (we attach a 35% probability to a US recession in the next 12 months). Elevated geopolitical risks and our view that the USD may struggle to rise significantly from here suggest that having an approximately 5-7% allocation to gold may make sense.

USD momentum to wane?

We believe the USD may be in the process of peaking. Tight USD liquidity conditions remain a supportive factor for the USD, but a stabilisation (and potentially even an expansion) of the Fed’s balance sheet could reverse this over time. Meanwhile, it will be important to see whether the relative growth outlook improves in favour of the Euro area, potentially due to stabilising growth in China or a domestic fiscal stimulus. In any case, we doubt the USD will go on to make new highs.

Perspectives on key client questions

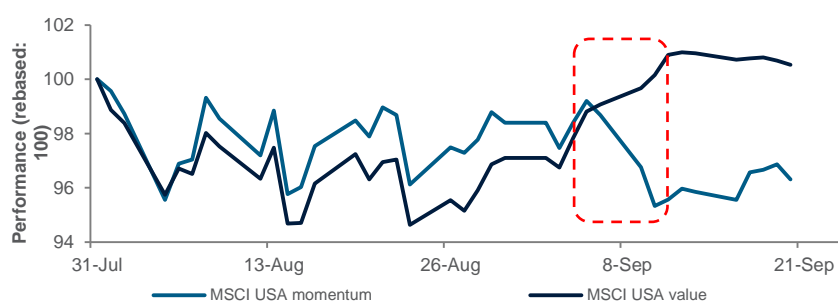
Q Does the recent rally in 'Value' stocks in the US signify a long-term shift in investment style preference globally?

During a two-day stretch between 9 and 10 September, 'Value' stocks significantly outperformed 'Momentum' stocks. By the end of the week, the difference would mark the largest weekly outperformance (4.80%) of Value versus Momentum in the last decade. Among potential causes, we believe that shifts in the sector composition of these style benchmarks may have been a catalyst. Our Global Investment Committee does not consider this as the beginning of a long-term shift and maintains a preference towards 'Quality' stocks both globally and in the US.

Figure 3

Value outperformed Momentum by the largest weekly differential in a decade

Performance of MSCI USA Value and MSCI USA Barra Momentum indices rebased to 100 at 31 July 2019



Source: Refinitiv, Standard Chartered

Factors overview – back to basics

The investment research field has long focused on identifying sources of risk and returns (factors) and the degree of sensitivity to them; beginning with measures of overall market risks, such as 'beta', to more modern concepts, such as factor investing (e.g., 'Momentum', etc.). The advent of technological improvements has made the market structure such that as recent as in 2018, close to 60% of US equity market trading was driven by High-Frequency Traders (HFTs) and Quants (source: FT, Tabb Group); thus, making factor rotation more technical and dynamic in nature. This structural shift increases the likelihood that these abrupt short-term rotations among factors are a reflection of market noise rather than long-term signals.

Additionally, recent studies show that the strength of some of these factors as drivers of equity markets has somewhat waned over time. Some of the factors are better reflected in certain regional equity markets (e.g., a growth premium is more evident in US large-cap stocks, while a value premium is more dominant in non-US equities). For a basic overview of some of the most popular factors, please refer to the table below.

Figure 4

Summary table with description of some of the most common factor groups

Factor Groups	What is it	Description
Value	Relatively inexpensive stocks	Stocks that have low prices relative to their fundamental value
Size (small cap)	Smaller companies	Returns of smaller firms (by market capitalisation) relative to their larger counterparts
Momentum	Rising stocks	Reflects excess returns to stocks with stronger past price performance
Low volatility	Lower risk stocks	Stocks with lower than average volatility, beta, and/or idiosyncratic risk
Growth	Fast growth stocks	Stocks expected to grow faster (either by revenues or cash flows, and by profits) than the rest
Quality	Sound balance sheet stocks	Stocks that are characterised by low debt, stable earnings growth and other "quality" metrics

Source: MSCI, Standard Chartered Bank

What are possible causes of September market action?

Value stocks have been at the centre of debate following the Great Financial Crisis (GFC) of 2008-09. As the US business cycle extends and reaches new lengths (10 years and 3 months), their underperformance, especially relative to Growth stocks, is testing fundamental investment beliefs across Value-oriented practitioners (i.e., that over the long run, Value investing outperforms).

The stronger arguments come from the US equity markets, where, on the one hand, the long-term underperformance of Value versus Growth-oriented stocks has reached lows last seen during the Tech Bubble of early 2000 (Figure 5). This development could potentially argue for a contrarian rebound. Additionally, studies show that Value tends to perform well following yield curve inversions. Lastly, studies also show that Value strongly outperforms other factors in slowdown periods on a risk-adjusted basis.

On the other hand, the recent outperformance could be in part attributed to recent shifts in the sector composition of other style indexes. Following the most recent rebalancing in June, the Momentum benchmark displays a higher weight in defensive sectors (utilities, staples and real estate). These sectors underperformed as expectations of easier monetary policy re-ignited some risk-on sentiment. Meanwhile, the financial sector - the largest sector in the Value index - outperformed the broader market as the US Treasury curve became less inverted.

Figure 5

Last time Value had underperformed Growth this much was at the height of the Tech Bubble of the early 2000s

Ratio of the MSCI USA Value index divided by the MSCI USA Growth index



Source: Bloomberg, Standard Chartered

Retain a tilt towards 'Quality'

In recent months, we have argued in favour of the increasing possibility of a scenario of prolonged low growth and

continued heightened volatility due to geopolitical risks rather than an outright recessionary outlook for the US. Recent economic data surprises seem to support this view for now.

Combining this scenario with an in-depth analysis of recent factor performance, our Global Investment Committee does not believe there is a case for Value to outperform other styles in the next 12 months. In fact, recent price action is likely a reflection of the dynamism of factor rotation due to algorithmic trading and of sector shifts in the composition of some of these style benchmarks.

On the contrary, we believe investors would be better off maintaining a tilt towards the 'Quality' style of equity investing in the US (as well as in global equities).

Quality stocks display strong balance sheets and high return on equity (ROE) allowing them to outperform other styles during the late stages of a business cycle. We have argued in favour of this approach in January 2019 and retain this view for the next 12-month horizon.

What are the market implications following the recent attacks on Saudi Arabia's facilities?

The drone attacks on 14 September on Saudi Arabia oil facilities have caused renewed concerns on the political stability of the Middle-East region and its effects on oil markets. The strike caused an outage of about 5.7 mb/d (million barrel-per-day), which roughly equates to 5% of world supply (~45% of Saudi production)

Figure 6

A sizeable loss for the Kingdom's oil production

The 10 largest oil¹ producers and share of total world oil production² in 2018³

Country	Million barrels per day	Share of world total
United States	17.87	18%
Saudi Arabia	12.42	12%
Russia	11.40	11%
Canada	5.27	5%
China	4.82	5%
Iraq	4.62	5%
Iran	4.47	4%
UAE	3.79	4%
Brazil	3.43	3%
Kuwait	2.87	3%
Total top 10	70.96	70%

Source: EIA, Standard Chartered

1. Oil includes crude oil, all other petroleum liquids, and biofuels.

2. Production includes domestic production of crude oil, all other petroleum liquids, biofuels, and refinery processing gain.

3. Most recent year for which data are available when this FAQ was updated.

Determining the full implications on the future path of oil prices will be challenging until more clarity surfaces regarding 1) outage duration, 2) inventory depletion, and 3) regional tensions. On the demand side, the situation has not changed; slower global growth implies moderate demand for oil consumption.

Based on the information currently available, our Global Investment Committee expects oil prices to be in the USD 60-65 range (benchmark: WTI) in the medium term, as investors place a greater risk premium linked to rising geopolitical tensions following the attacks on Saudi facilities.

Large production disruption, but capped upside

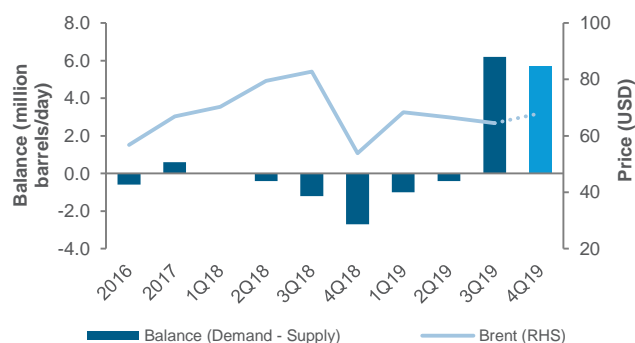
In spite of the large initial disruption, the Kingdom's latest guidance is that production should recover to nearly full capacity by the end of September, bringing some clarity regarding point 1 above. Whether it can actually fulfil this promise or not, inventory destocking should act to limit the impact on export volumes.

Second, even if the outage proves more prolonged than projected, the global oil market should have enough resources to balance the lost Saudi barrels without a release from the Strategic Petroleum Reserves (SPR) of OECD countries for a few more months.

Figure 7

Although the Kingdom's supply has been disrupted, global inventory destocking should fill the imbalances temporarily

EIA estimates/forecasts of global oil production and supply balances, including 4Q19



Source: EIA, OPEC, Standard Chartered

Estimates of reserves across the globe show, in fact, that inventory destocking could quickly fill the temporary oil market deficit and could last up to 2-3 months by some measures. Moreover, other OPEC countries could possibly increase production to avoid any further disruption.

The attack, however, could signal the return of the 'geopolitical risk premium' (i.e., in this case, a return of Iran tensions). In our assessment, this latest development will see the market focus turn back to supply, especially if we see some form of retaliation.

What's the impact on other asset classes?

Impact on bonds:

EM USD government bond yield premiums were relatively resilient in the aftermath of the attack on Saudi oil infrastructure. Yield premiums for Saudi Arabia and GCC sovereign bonds rose by nearly 15-20bps as markets priced in increased geopolitical risks. Investors could start demanding an even higher risk premium for bonds from the Middle East. Any impact on Emerging Market oil exporters and importers outside the Middle East should largely offset each other. Hence, we continue to view EM USD bonds as a preferred asset class.

The rise in oil prices also supported a rally in US High Yield (HY) corporate bonds. While higher oil prices are generally supportive of the energy sector, which forms almost 15% of the US HY bond market, we remain cautious of the gradual deterioration in fundamentals (due to slowing global demand for oil), which could lead to higher default rates over the next 12 months. Thus, we retain US HY bonds as a core holding.

Impact on equities:

In equities, the jump in oil price led the energy sector to significantly outperform the broader market in the immediate aftermath of the drone strikes, before subsequently abating following the Kingdom's production guidance. Upstream oil producers would directly benefit from higher oil prices, while oil services providers could also benefit if the elevated oil price is sustained.

The energy sector in Europe is a preferred sector for us given its attractive dividend yield is supported by strong cashflows. Other sectors such as airlines would feel the direct impact of higher fuel costs, but a wider impact on companies' profit margins will only be visible if oil price gains are sustained.

Macro overview

Setting the stage for global stimulus

- **Core scenario:** The Global Investment Committee believes slowing growth, subdued inflation and elevated geopolitical risks have raised the prospects of more monetary and fiscal stimulus worldwide, especially in Developed Markets. This should help stabilise global growth and extend the economic cycle.
- **Policy outlook:** The Fed is likely to cut rates once more in 2019, with increased probability of 1-2 more cuts in 2020. The PBoC is likely to follow the ECB in easing policy further and the BoJ has hinted at doing the same.
- **Key risks:** Geopolitical uncertainty and trade tensions remain the biggest sources of downside risk. While Euro area tensions have subsided, US political uncertainty is rising ahead of the 2020 US presidential election.

Core scenario

Global growth remains under pressure, partly due to US-China trade uncertainty. This is reflected mostly in the slowing economies of Europe, China and the other manufacturing- and export-based economies of Asia. While job markets remain healthy worldwide, supporting consumption-driven growth (notably in the US), recent data suggest the manufacturing slump may be spilling over into the services sector. Central banks have responded to this slowdown, led by the Fed's second rate cut in this decade-long economic cycle, the ECB's restart of bond purchases and China's cuts in bank reserve requirements. We see scope for further monetary policy easing and also believe there is an increasing probability of governments worldwide (especially those with the capacity, i.e., Germany) boosting fiscal spending. A global burst of fiscal and monetary easing, aided by still-subdued inflation, is likely to stabilise growth and extend the record-long economic cycle.

Figure 8

Central banks worldwide have turned decisively dovish

Region	Growth	Inflation	Benchmark rates	Fiscal policy	Comments
US	●	●	●	●	The Fed is likely to cut rates further in 2019 and 2020 to insure against the impact from trade war. We do not expect a recession in next 12 months
Euro area	○	●	●	●	After ECB's renewed rate cuts and bond purchases, there are increased chances of fiscal easing in Europe (especially in Germany)
UK	○	●	●	●	The UK parliament has taken control over the Brexit process, reducing the risk of a 'hard' Brexit
Japan	○	●	●	●	The BoJ hinted at easing policy further to offset external risks and impending consumption tax hike
Asia ex-Japan	●	●	●	●	Asian central banks, including the PBoC, are likely to ease monetary policy further; India's corporate tax cut is likely to revive investment and growth
EM ex-Asia	●	●	●	●	Emerging Markets have room to cut rates further; Mexico seen cutting rates most in Latam

Source: Bloomberg, Standard Chartered

Legend: ● Supportive of risk assets ● Neutral ○ Not supportive of risk assets



IMPLICATIONS FOR INVESTORS

The Fed to cut rates once more in 2019, with growing prospects for 1-2 more cuts in 2020

The PBoC is likely to follow the ECB in easing monetary policy further; the BoJ has hinted at further easing

Governments across the world, and especially in Europe, are increasingly considering fiscal stimulus to complement monetary policy easing; this should stabilise global growth

Bonds

Upgrade Asian USD bonds

- We prefer credit-driven bonds (bonds offering a yield premium over US Treasuries) over rates-driven bonds (local currency government bonds), as the reasonable yield premiums on offer and demand for income-generating assets should help them outperform in the current low interest rate environment.
- Within **Credit**, Emerging Market (EM) USD government bonds remain a preferred area, as we continue to like the attractive yield on offer and cheap valuations, and expect limited impact from tensions in the Middle East and limited scope for further short-term downside for Argentina's bonds.
- We upgrade Asian USD bonds to a preferred holding as we like their high credit quality, low volatility and improving credit fundamentals.
- DM IG and DM HY corporate bonds are a core holding as the reasonable yield premiums on offer are balanced by increased concerns about credit quality.
- In the **Rates** bucket, we continue to view Developed Market (DM) Investment Grade (IG) government bonds as least preferred due to the low yield on offer. Despite the recent Fed guidance, we expect one more rate cut in 2019 with the 10-year US Treasury yield likely to remain anchored around 1.75% for now.
- We view EM local currency bonds as a core holding since our near-term outlook for a stable USD could mean that they could offer moderate positive returns, but with much higher volatility.
- We favour hedging FX exposure for DM IG bonds to reduce currency volatility. Given our expectation of broadly stable yields, we now favour adding some exposure to long-dated bonds (>10 year maturity) to increase income generation.

Figure 9

Bond sub-asset classes in order of preference

Bond asset class	View	Rates policy	Macro factors	Valuations	FX	Comments
EM USD government	▲	●	●	●	NA	Attractive yields, cheap valuations; escalation in geopolitical tensions is a risk
Asian USD	▲	●	●	●	NA	High credit quality, low volatility is positive. Risks stemming from US-China trade tensions
EM local currency	◆	●	●	●	●	Attractive yields, easier EM central bank policy; FX volatility a risk
DM HY corporate	◆	●	●	●	●	Attractive yields, short maturity profile; risk of higher default rates and further rating downgrades
DM IG corporate	◆	●	●	●	●	High credit quality and improving rating trajectory balanced by low yield and high interest rate sensitivity
DM IG government	▼	●	●	NA	●	Easier monetary policy balanced by recent decline in yields

Source: Standard Chartered Global Investment Committee

Legend: ● Supportive ○ Neutral ○ Not supportive ▲ Preferred ▼ Less preferred ◆ Core holding



IMPLICATIONS FOR INVESTORS

EM USD government bonds and Asian USD bonds are most likely to outperform global bonds

US 10-year Treasury yields likely to remain anchored around 1.75% over the next 6-12 months

Favour adding exposure to long maturity bonds to increase income generation

Figure 10

Where markets are today

Bonds	Yield	1m return [#]
DM IG government (unhedged)	0.82%*	-1.0%
EM USD government	5.27%	0.1%
DM IG corporates (unhedged)	2.11%*	-1.0%
DM HY corporates	6.14%	0.3%
Asia USD	3.83%	0.0%
EM local currency government	5.33%	51.0%

Source: Bloomberg, JPMorgan, Barclays, FTSE, Standard Chartered

26 August to 26 September 2019

*As of 24 September 2019

Equities

Equities: raised to preferred holding

- We have raised global equities back to a preferred asset class on an upturn in US leading indicators and 2020 earnings optimism.
- The **US** remains our **preferred market**, followed by Euro area and Asia ex-Japan. The UK is upgraded to a core holding, Emerging Markets (EM) ex-Asia remains core, and Japan remains less preferred.
- The relative preference for US equities reflects optimism over the consumer spending outlook. Consensus expectation for consumer sector earnings in 2020 is 12%, a substantial rebound from 2019. The US Consumer sector is a **core holding**.
- Euro area equities** remain a **core holding**. Investor reaction to the recently announced measures by the ECB to alleviate pressure on the region's banks has been positive and we have raised the sector outlook to a core holding.
- Asia ex-Japan is a core holding. Trade war uncertainty remains, partly countering easier financial conditions and fiscal stimulus in China and India.
- EM ex-Asia is a core holding. It may benefit from increased Chinese imports of agricultural goods given the US-China trade war. Equity performance has been impacted as investors reduced exposure to EMs.
- Risks to our equity views: prolonged US-China trade war, weakening Chinese growth and significant USD strength.

Figure 11

Equity market drivers and our assessment of their outlook

	View	Valuations	Earnings	Corporate margins	Economic data	Bond yields	Fund flows	Geo-politics	Context
US	▲	●	●	●	●	●	●	●	Preferred view driven by resilient outlook for earnings due to healthy consumer spending, which is supportive of elevated valuations. Market less exposed to trade war compared to peers
Euro area	◆	●	●	●	●	●	●	●	Core view reflects revised ECB stance on bank excess reserves and potential for "green" fiscal stimulus as well as supportive bond yields and valuations
Asia ex-Japan	◆	●	●	●	●	●	●	○	Core view reflects ongoing selective stimulus in China offsetting part of the trade war risks. Easier US monetary policy implies easier Asian financial conditions
UK	◆	●	●	●	●	●	●	○	Core view reflects attractive valuations, potential for Brexit deal and signs of mini budget fiscal stimulus in October. Political outlook increasingly uncertain
EM ex-Asia	◆	●	●	●	●	●	●	●	Core view reflects fair valuations and relative insulation from trade war. Lower commodity prices a risk
Japan	▼	●	●	●	●	●	●	●	Less preferred view reflects uncertainty over tax and wage growth outlook, despite supportive valuations and low bond yields

Source: Standard Chartered

Legend: ○ Not supportive ● Somewhat supportive ● Balanced ● Supportive ● Very supportive ▲ Preferred ▼ Less preferred ◆ Core holding



IMPLICATIONS FOR INVESTORS

Global equities are preferred, with a preference for US equities

Euro area, Asia ex-Japan, UK and EM ex-Asia are core holdings. Japan is less preferred

Prefer Chinese onshore equities and India in Asia ex-Japan

Figure 12

Where markets are today

Market	P/E ratio	P/B	EPSg	Index level
US (S&P 500)				
17x	3.1x	8%		2,978
Euro area (Stoxx 50)				
13x	1.5x	9%		3,532
Japan (Nikkei 225)				
13x	1.2x	2%		22,048
UK (FTSE 100)				
12x	1.6x	6%		7,351
MSCI Asia ex-Japan				
13x	1.4x	10%		622
MSCI EM ex-Asia				
11x	1.4x	8%		1,355

Source: FactSet, MSCI, Standard Chartered. Note: valuation and earnings data refer to 12-month forward data for MSCI indices, as of 26 Sep 2019



Further USD gains unlikely; eyes on fiscal policy

- Fiscal policy will have to do the heavy lifting from now on; we turn more constructive on the EUR as pro-growth fiscal policy comes into play.
- We expect a range-bound JPY as the BoJ looks to ease policy.
- Risk/reward in the GBP remains attractive, in our view, on receding no-deal Brexit risks.

Figure 13

Foreign exchange: key driving factors and outlook

Currency	3m View	12m View	Real interest rate differentials	Risk sentiment	Commodity prices	Broad USD strength	Comments
USD	◆	◆	●	●	NA	NA	Growth and rate differentials to narrow
EUR	◆	▲	●	●	NA	●	Growth to bottom on introduction of pro-growth fiscal policies
JPY	◆	◆	●	●	NA	●	BoJ to ease; Safe-haven flows supportive
GBP	▲	▲	●	●	NA	●	Brexit risk fades; Still undervalued
AUD	◆	◆	●	●	●	●	Easing bias for RBA remains; Cyclical catalysts missing
CNY	◆	◆	●	●	●	●	Stimulus and data support; trade deal dependency

Source: Bloomberg, Standard Chartered Global Investment Committee

Legend: ● Supportive ○ Neutral ○ Not supportive ▲ Bullish ▼ Bearish ◆ Range

USD – The peak is nearing

We remain neutral on the USD albeit with a slight negative bias as the uptrend appears to be coming to an end. However, we believe conditions for a reversal are not yet in place. The USD has remained relatively resilient on the back of the US's strong cyclical story relative to the rest of the world. Additionally, tight USD liquidity and capital flows have remained USD-supportive and could persist. The higher US yield structure means that any US flows to the rest of the world will likely be hedged while flows into the US will likely be unhedged – which could prop the USD up in the near term. Further upside risks include an intensifying trade war, continued decelerating global activity and a disorderly Brexit.

Given the gains we have already seen, the likelihood of further USD strength is gradually decreasing. The USD could see the rally of the past year plateau or reverse if fiscal policy outside the US spurs a stabilisation in growth and interest rate expectations. While the USD continues to grind along its upward-sloping trend channel, we see resistance for the USD (DXY) index at the early September high of 99.37 – stronger resistance sits at around 100.15.



IMPLICATIONS FOR INVESTORS

The USD could plateau and ease marginally as ex-US growth stabilises

We turn more constructive on the EUR as we expect an increased likelihood of fiscal stimulus to aid in the growth recovery

Further JPY strength unlikely with the BoJ looking to ease monetary policy

Risk-reward in the GBP remains attractive as odds of a 'no-deal' Brexit recede

Figure 14

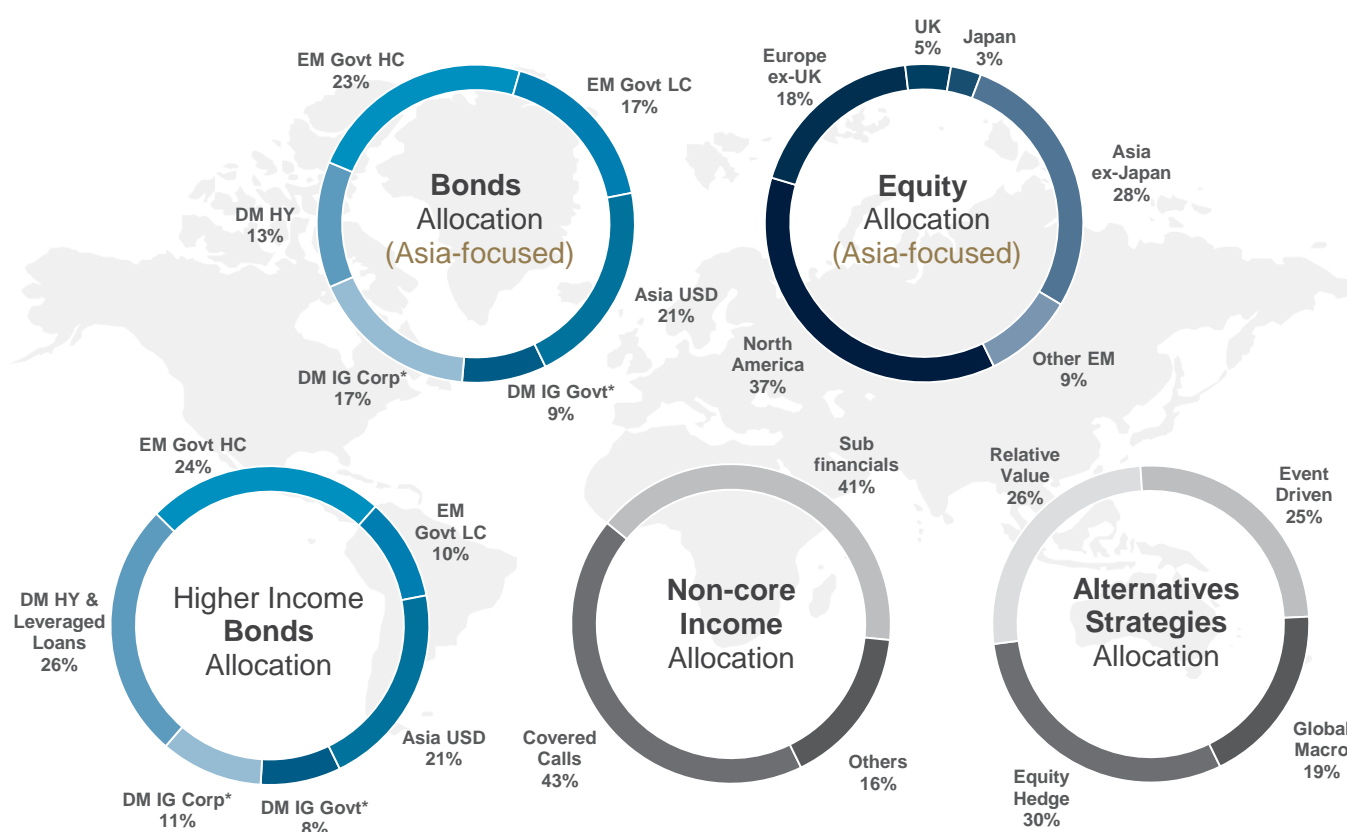
Where markets are today

FX (against USD)	Current level	1m change [#]
Asia ex-Japan	103.12	0.9%
AUD	0.67	-0.4%
EUR	1.09	-1.6%
GBP	1.23	0.9%
JPY	107.83	1.6%
SGD	1.38	-0.5%

Source: Bloomberg, Standard Chartered

26 August to 26 September 2019

Our recommended allocations



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

Bonds 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 fixed income sectors 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

Tactical Asset Allocation - (12m). All figures are in percentages.

Summary	View	ASIA FOCUSED				GLOBAL FOCUSED			
		Conservative	Moderate	Moderately Aggressive	Aggressive	Conservative	Moderate	Moderately Aggressive	Aggressive
Cash	▼	10	5	2	0	10	5	2	0
Fixed Income	◆	70	45	33	9	70	45	33	9
Equity	▲	20	37	52	83	20	37	52	83
Gold	▲	0	6	6	5	0	6	6	5
Alternatives	▼	0	7	7	3	0	7	7	3
Asset class									
USD Cash	▼	10	5	2	0	10	5	2	0
DM Government Bonds*	▼	6	4	3	1	8	5	4	1
DM IG Corporate Bonds*	◆	12	8	6	2	17	11	8	2
DM HY Corporate Bonds	◆	9	6	4	1	12	8	6	2
EM USD Government Bonds	▲	16	10	8	2	12	8	6	2
EM Local Ccy Government Bonds	◆	12	8	6	2	9	6	4	1
Asia USD Bonds	▲	15	9	7	2	11	7	5	1
North America	▲	7	14	19	30	12	21	30	48
Europe ex-UK	◆	4	7	10	15	2	3	5	7
UK	◆	1	2	2	4	1	2	2	4
Japan	▼	1	1	2	3	1	1	2	2
Asia ex-Japan	◆	6	10	14	23	3	6	9	14
Non-Asia EM	◆	2	3	5	8	2	3	5	7
Gold	▲	0	6	6	5	0	6	6	5
Alternatives	▼	0	7	7	3	0	7	7	3
		100	100	100	100	100	100	100	100

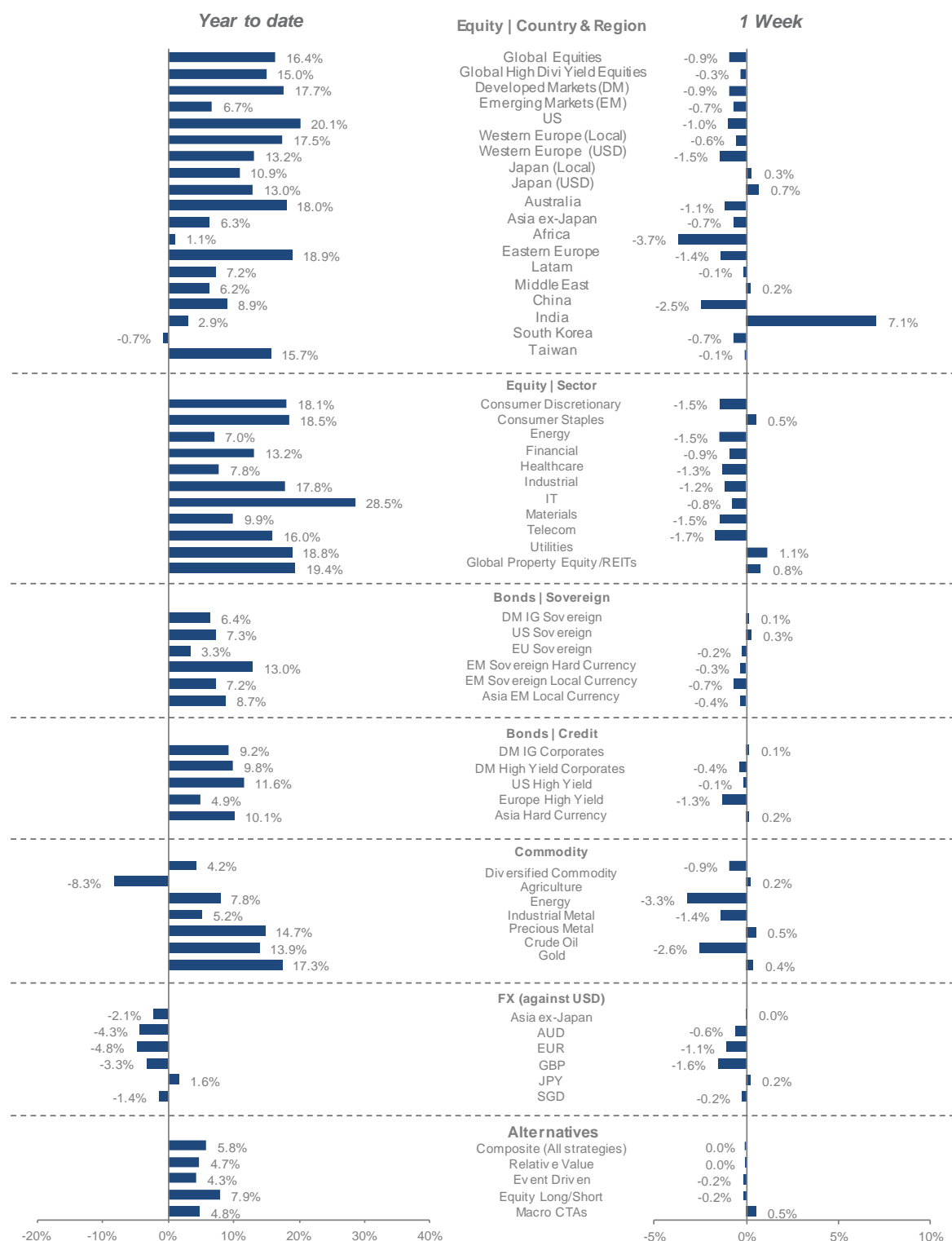
Source: Bloomberg, Standard Chartered. *FX-hedged

For illustrative purposes only. Please refer to the disclosure appendix at the end of the document.

Note: (i) For small allocation we recommend investors to implement through global equity/global bond product; (ii) Allocation figures may not add up to 100 due to rounding. *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 2018 to 26 September 2019 and 1-week performance from 19 September 2019 to 26 September 2019

Events calendar

october 2019

X	Japan's consumption tax hike scheduled
X	China Politburo meeting on economic policy
01	RBA policy decision
24	ECB policy decision
31	Last day of ECB President Mario Draghi's 8-year term
31	FOMC policy decision
31	BoJ policy decision
31	UK Brexit deadline
X	US-China trade talks

november 2019

X	Japan's Constitutional referendum
X	APEC summit
05	RBA policy decision
07	BoE policy decision
14	US auto tariff decision due

december 2019

X	China Central Economic Conference
X	China Politburo meeting on economic policy
03	RBA policy decision
12	FOMC policy decision
12	ECB policy decision
19	BoJ policy decision
19	BoE policy decision

january 2020

23	ECB policy decision
30	FOMC policy decision
30	BoE policy decision

february 2020

NA

march 2020

03	US Super Tuesday (Democratic presidential primaries)
10	More US Democratic presidential primaries
12	ECB policy decision
19	FOMC policy decision
26	BoE policy decision

april 2020

30	FOMC policy decision
30	ECB policy decision

may 2020

07	BoE policy decision
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june 2020

04	ECB policy decision
11	FOMC policy decision
18	BoE policy decision

july 2020

30	FOMC policy decision
30	ECB policy decision

august 2020

07	BoE policy decision
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september 2020

04	ECB policy decision
11	FOMC policy decision
18	BoE policy decision

october 2020

29	ECB policy decision
29	BoJ policy decision

november 2020

03	US presidential election
05	BoE policy decision
06	FOMC policy decision

december 2020

10	ECB policy decision
17	FOMC policy decision
17	BoE policy decision
18	BoJ policy decision

Legend: 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

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