Macro Strategy | 29 February 2020

Standard Chartered
Private Bank

Global Market Outlook

Excessive pessimism?

Our baseline 12-month view on equities and EM bonds remains constructive. However, the COVID-19 spread outside China means it is prudent to consider a range of scenarios.

Within equities, we prefer the US, given ever-lower bond yields and a supportive earnings outlook, and Asia ex-Japan given China's COVID-19 infection rate appears to have peaked.

Within bonds, we maintain our preference for USD-denominated EM bonds given still-reasonable valuations and room to benefit if Treasury yields fall further.

Gold remains a preferred route to hedge against the risk of lower equity prices and lower bond yields.

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
- However, stay on watch for risks to this baseline scenario from COVID-19 and US politics
- Within bonds, we believe USD-denominated Emerging Market bonds remain attractive
- Within equities, we have a preference for US and Asia ex-Japan
- Gold remains a good way to hedge risks

Excessive pessimism?

- Our baseline 12-month view on equities and EM bonds remains constructive. However, the COVID-19 spread outside China means it is prudent to consider a range of scenarios.
- Within equities, we prefer the US, given ever-lower bond yields and a supportive earnings outlook, and Asia ex-Japan given China's COVID-19 infection rate appears to have peaked.
- Within bonds, we maintain our preference for USD-denominated EM bonds given still-reasonable valuations and room to benefit if Treasury yields fall further. Gold remains a preferred route to hedge against the risk of lower equity prices and lower bond yields.

Volatility illustrates value of diversified allocations

As of 27 February, global equities were down -7.5% since the start of 2020 while Corporate and EM bonds returned 1.1% and 1.7% respectively, as lower US Treasury yields led prices higher. Our global moderate balanced and multi-asset income allocations fell a more modest -3.7% and -4.0% respectively, illustrating the value of balanced allocations.

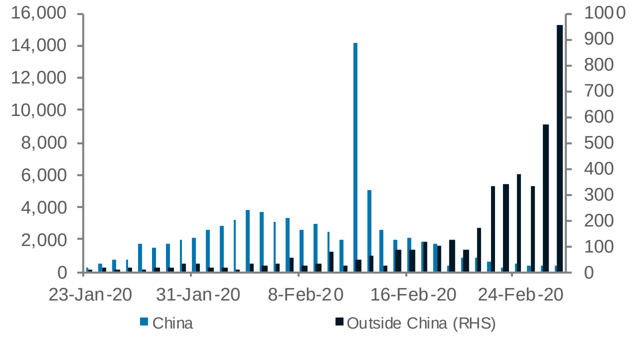
Virus-related restrictions raise questions over growth recovery

Until the recent surge in COVID-19 cases outside China, the market consensus was arguably turning more optimistic. January business confidence data showed signs of rebounding in most major economies and markets were looking for a repeat of a SARS-style V-shaped economic recovery in China after COVID-19. The rise in COVID-19 cases outside China, though, suggests a wider range of scenarios need to be considered:

- A quick rebound in economic activity after a temporary hit to growth remains one reasonable scenario. This would be consistent with a buy-the-dip approach to equities once the current correction shows signs of bottoming.
- However, a more pessimistic scenario would be one where significant economic and trade shutdowns are enforced more widely, resulting in more prolonged weakness in both economic activity and risky asset returns. See page 8 for a more detailed discussion of the COVID-19 outbreak and its likely investment implications.

Fig. 1 **COVID-19 cases outside China are accelerating**

Number of daily COVID-19 cases reported



Source: Worldometer, Standard Chartered

Fig. 2 **A bottoming of key factors could improve risk appetite**

Factors we are watching to judge how risky assets may evolve

Factor	Current status
Pace of new COVID-19 infections in China	⇔
Pace of new COVID-19 infections outside China	↓
Magnitude of monetary/fiscal policy stimulus	↑
Pace of position unwinding	↓
US Democrat Nomination	↓
Technicals	↓

Source: Bloomberg, Standard Chartered

Baseline scenario supports equities long-term

From an investor's perspective, a scenario of a relatively short-lived impact of the virus to economic growth, followed by a rapid recovery boosted by looser monetary and fiscal policies, would likely support equity market outperformance relative to bonds and cash, short-lived pullbacks notwithstanding.

For now, this remains our baseline scenario, which implies that the current equity market correction should prove temporary and may soon offer an attractive buying opportunity. This view is supported by reports that a key contributor of the current selloff has been position unwinding by systematic investors (rule-based algorithmic traders, often cited as a possible cause of amplifying market gains and losses). The rise in progressive candidate Bernie Sanders' prospects in the US Democratic nomination process is also likely a contributor to a repricing of risks. The significant number of fiscal stimulus packages announced, or in the pipeline, across Asia, the US and the UK are likely to help lean against growth weakness.

Within equities, we maintain our preference for the US. We raise our preference for Asia ex-Japan given they have already weakened significantly, policymakers are introducing significant stimulus measures and the pace of new COVID-19 infections in China is showing early signs of slowing.

Within Asia, we remain positive on Chinese equities, raising our preference to span the onshore market as well given it is generally more sensitive to fiscal stimulus. We scale back our view on Indian equities to a core holding. While there are tentative signs of bottoming growth, the case for significant equity outperformance remains challenging, in our view.

Prolonged virus impact scenario more negative

A scenario that involves a more prolonged, and widespread, economic shutdown would be a significant risk to our baseline scenario. Such an outcome could imply a much deeper and longer lasting sell-off in risk assets. In our view, watching (i) how quickly Chinese economic activity resumes and (ii) whether any significant economic shutdowns are imposed outside China are two key factors to watch closely in the coming weeks to validate which of the two scenarios are likely to prevail.

Gold one way to help balance risks

While equities may benefit from relatively more optimistic scenarios, we also prefer gold. Falling bond yields has been one key driver of gold since the start of the current rally, an environment which is unlikely to reverse materially. However, this also means it remains a preferred hedge should one of our more pessimistic COVID-19 scenarios pan out. This leads us to maintain a combined preference for both equities and gold simultaneously.

While our propriety market diversity indicator and positioning data both show gold may be stretched short term, we would be comfortable adding on pullbacks. See page 19 for suggested allocations across various risk buckets.

Emerging Market USD bonds in a sweet spot

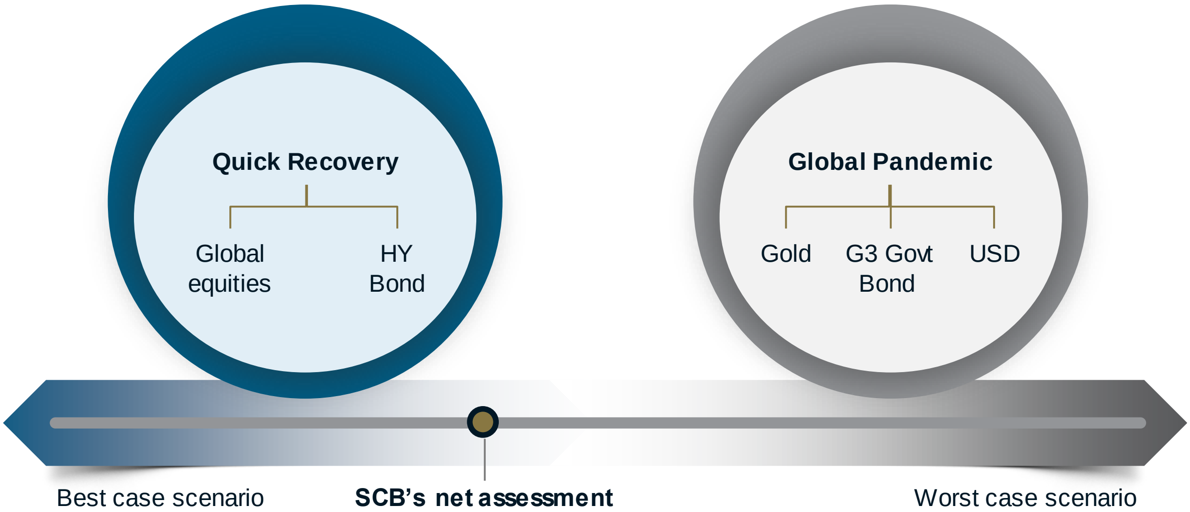
Our two preferred USD-denominated EM bond asset classes – EM USD government bonds and Asia USD bonds – have continued to register positive gains despite the recent sell-off in risky assets.

To understand why this is the case, it may help to think in terms of the two major drivers of returns. Yield premiums over US government bonds (credit spreads) have undoubtedly risen amid the current risky asset sell-off. On its own, this would have lowered bond prices.

However, both EM USD government bonds and Asia USD bonds have benefited from lower US government bond yields (ie. higher bond prices). This has outweighed the impact of higher yield premiums. When combined with the still relatively attractive yield on offer, this has meant the asset class remains reasonably attractive.

Fig. 3 **Possible asset class winners under best or worst case COVID-19 scenarios**

Our assessment of asset class winners/losers under various scenarios and our net assessment of which appears more likely

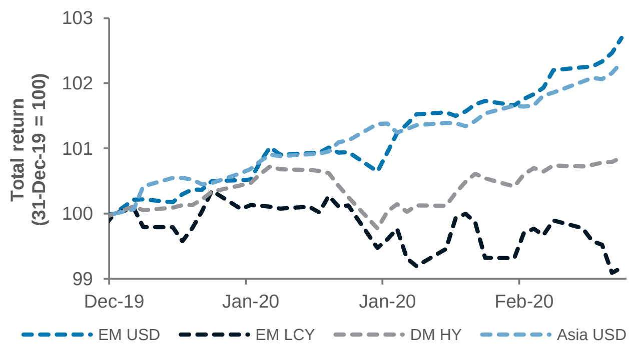


Source: Standard Chartered Bank

Our baseline view is for 10-year US government bond yield to rebound modestly higher within a 1.25%-1.75% range. However, both the USD-denominated bond asset classes stand to benefit even if US bond yields end up moving lower.

Fig. 4 **USD-denominated EM bonds have outperformed YTD, despite risk aversion, even as DM HY bonds have lagged**

Major bonds asset class – total returns (31-Dec-19=100)



Source: Bloomberg, Standard Chartered

Still bearish on the US Dollar long-term

One area where our views have not panned out as expected is on the USD. After nearly breaking lower out of its recent range, the bout of risk aversion meant the USD rebounded.

The two long-term drivers – expectations of narrowing bond yields relative to other major currencies and a renewed rise in Fed liquidity – still argue the case for a weaker USD in the long term. However, in the near term, the dollar is likely to see more volatile range-trading as US political risk comes more sharply into focus and expectations and timing for global monetary and fiscal stimulus foster uncertainty.

This near-term risk of volatility, though, means we have moved Emerging Market Local Currency Bonds back to a core holding given FX returns and volatility are a key contributor to the asset class' returns.

Equity sectors – technology, financials

We retain our preference for the technology sector in the US, while also raising the sector to preferred in the Euro area. At its heart, we believe the rebound in semiconductor demand and growth in cloud computing demand are key drivers for both. In the US, we recognise the sector appears increasingly fully valued and short-term technicals are somewhat stretched. However, we believe a recovery in earnings and return-on-equity support a preferred view, despite any short-term setbacks.

We also maintain our preference for the financial sector across the US and Euro area. Buybacks and exemptions from some negative rates in Europe and post-trade deal investments recovery in the US remain key drivers. In Europe, increasingly positive signals from regulators on potential merger activity could be a new positive.

In the Euro area, we also maintain our preference for the healthcare sector, noting the importance of global drivers such as supportive US policies and what appears to be a still-significant probability of a second Trump presidency.

Finally, in China, we maintain our preference for both consumer staples and consumer discretionary, especially if further stimulus efforts are forthcoming from the government to support demand.

Fig. 5 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	◆	**+ Equities tilt, diversification benefits || - Equity volatility** Equities tilt to help in a late-cycle rally once COVID-19 concerns ebb
	Alternatives	◆	**+ Diversifier characteristics || - Equity, corporate bond volatility** Diversifier characteristics help as risk of volatility rises late cycle
Equities	US	▲	**+ Share buybacks and corporate margins || - Elevated valuations** Elevated valuations supported by margin outlook
	Asia ex-Japan	▲	**+ China stimulus, fair valuations || - COVID-19 risks** Recently announced fiscal stimulus and weak USD are positives
	Euro area	◆	**+ ECB policy support, fair valuations || - Weak domestic demand** Easier regulatory environment for banks, COVID-19 is an earnings growth risk
	UK	◆	**+ Attractive valuations || - UK-EU trade negotiations brinkmanship** Political uncertainty has been reduced, but global growth slowdown is a risk
	Other EM	◆	**+ Modest earnings growth, fair valuations || - Political uncertainty** Weak USD would be supportive, but trade, commodity prices are risks
	Japan	▼	**+ Attractive valuations || - COVID-19 risks** Inexpensive valuations, but COVID-19 is an earnings growth risk
Bonds	EM government (USD)	▲	**+ Attractive yields, attractive value || - High interest rate sensitivity** Geographical diversification, positive correlation to any further yield fall
	Asian USD	▲	**+ Attractive yields, reasonable value || - China concentration** Low volatility and credit quality positives, but shutdowns pose a risk
	EM government (local currency)	◆	**+ Attractive yields, EM central bank policy || - FX volatility** Attractive yields, easing policy are positives, but FX volatility a risk
	DM HY corporate	◆	**+ Attractive yields, moderate valuation || - credit quality** Risk of rising downgrades and defaults, particularly in US energy sector
	DM IG corporate	◆	**+ Moderate value, high credit quality || - Low yields** High credit quality and moderate valuations but ratings downgrade is a risk
	DM IG government	◆	**+ High credit quality, hedge for growth slowdown || - Low yields** Can be a good hedge against escalation of COVID-19 impact
Currencies	GBP	▲	**+ Long-term valuations supportive || - EU-UK trade talks will be tough** PM Johnson's parliamentary mandate supports positive trade talk outcome
	EUR	◆	**+ Carry trade reversal; fiscal stimulus || - global trade; political stress** Reliance of global growth limits upside near term
	CNY	◆	**+ Currency management; fiscal stimulus || - COVID-19 recovery timing** COVID-19 peaking could trigger large stimulus; financial stability key aim
	AUD	◆	**+ China stimulus; domestic housing || - Weak AUD trend; RBA may cut** RBA on hold but ready to cut; Size of China and local stimulus could support
	JPY	◆	**+ Safe-haven inflows and currency hedging || - Need for yield offshore** Bouts of risk-on and -off impact; BoJ policy easing room appears limited
	USD	▼	**+ Carry trade and safe-haven || - Rate cut(s), election risk and outflows** Risk-off may support foreign demand for safe US assets, but these are richly priced and could soon be considered "less-safe" on US political uncertainty

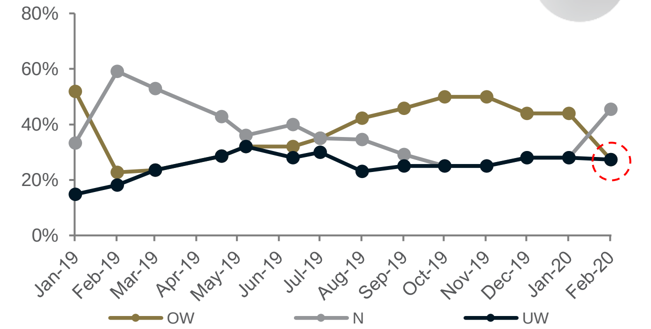
Source: Standard Chartered Global Investment Committee

Legend: ▲ Preferred ◆ Core holding ▼ Less preferred

Investment Views Map

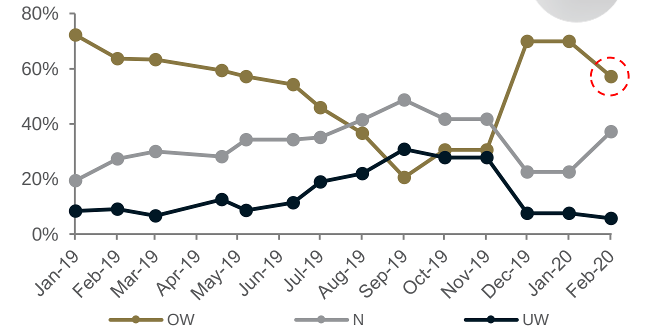
As part of our Investment Philosophy, we strive to achieve diversity of insights by constantly monitoring a wide array of investment views and analysis. This part of our process is what we call the “Inside View”, where we gather lots of research and analysis, consider the specifics of the situation, and combine them to our analysis of historical probabilities - the “Outside View” - to create scenarios for the future. The charts below bucket these views according to their stance (UW/N/OW) and are, in our opinion, a good representation of the markets. The red circles indicate our own stance. For more details on how we integrate these insights into our analysis, we invite our readers to read the rest of the document.

Fig. 6 Cash



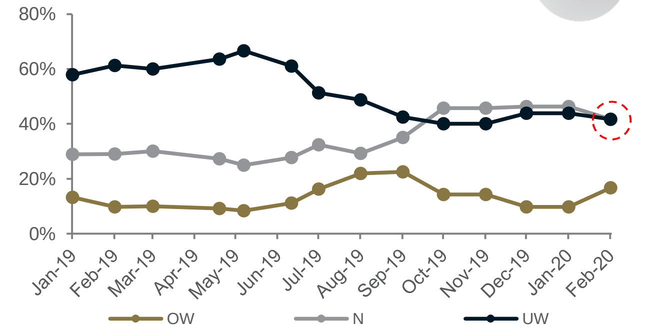
Source: Standard Chartered Global Investment Committee

Fig. 7 Equities



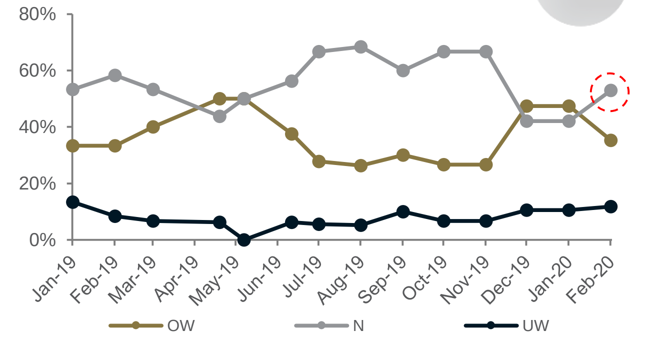
Source: Standard Chartered Global Investment Committee

Fig. 8 Rates/duration



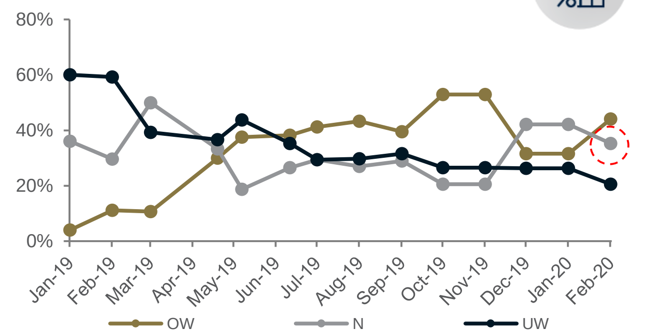
Source: Standard Chartered Global Investment Committee

Fig. 9 Alternatives*



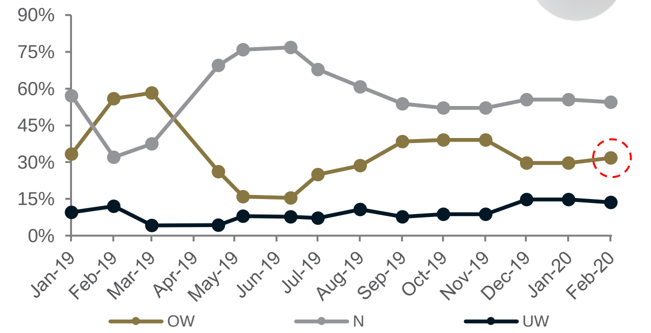
Source: Standard Chartered Global Investment Committee

Fig. 10 Credit



Source: Standard Chartered Global Investment Committee

Fig. 11 Commodities (Gold)

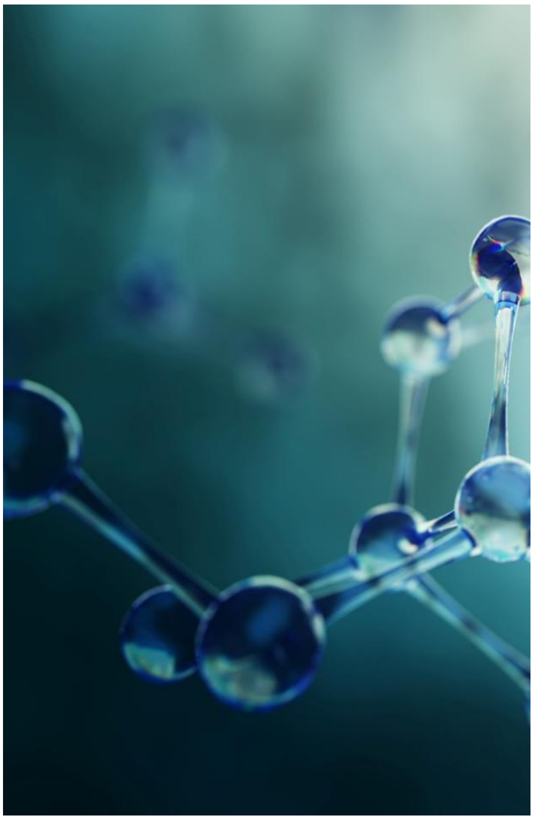


Source: Standard Chartered Global Investment Committee

The latest dots represent 3rd parties’ investment views going into the month of February
Red circle: Standard Chartered Global Investment Committee (GIC) investment view
*Alternatives represent a combination of views on liquid and private alternative strategies, as well as real estate
**Commodities represent views on gold

Perspectives on key client questions

What are the implications from the spread of Covid-19 onto the world economy and asset classes over the next 12 months?



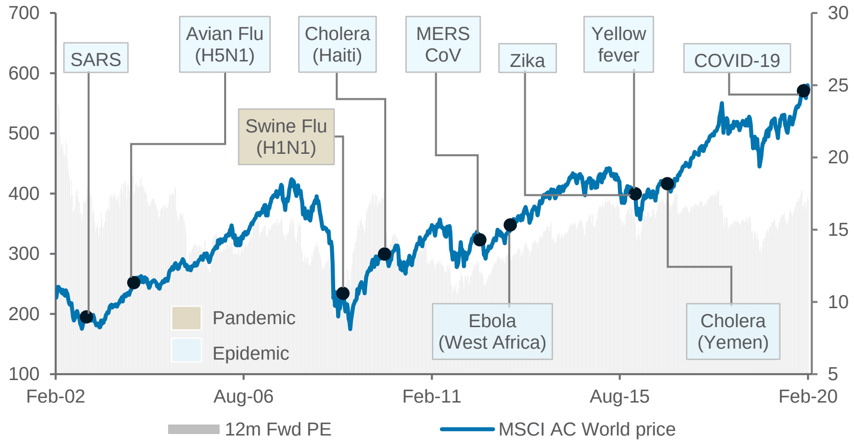
The spread of Covid-19 has gathered pace outside of China in recent weeks, particularly after a jump in cases in South Korea and Italy. Meanwhile data shows that newly reported daily cases in China have slowed down. Fears of global contagion have sent risky assets lower and safe-havens (i.e. gold and US Treasuries) higher.

Downside risks clearly point to potentially extended disruptions to global supply chains, while on the upside, fiscal and monetary responses may cushion the shock to global growth. Upcoming economic data releases will shed more light on the impact of the virus. In the near term, however, uncertainty remains high.

While we take the potential short-term downside risks seriously, our Global Investment Committee's 12-month outlook remains constructive. We continue to prefer equities over bonds, albeit our view on sovereign bonds has improved marginally as yields may take longer before rebounding. Gold remains our preferred hedge against the more pessimistic global pandemic scenario.

Fig. 12 Markets tend to disregard epidemic outbreaks in the long-run

MSCI All Country Wolrd Index and respective 12-month forward P/E ratio



Source: Refinitiv, Standard Chartered

How does the novel coronavirus compare to the regular flu and other similar viruses?

Covid-19 has killed more than 2,700 people so far. In comparison, the common flu kills an estimated 300,000-650,000 people worldwide annually (source: US Center for Disease Control and Prevention). In Europe, evidence from the past eight outbreaks shows that it takes approximately 4-13 weeks to reach peak infection rate, while the epidemic generally last 19-25 weeks.

The recent Covid-19 outbreak has necessitated a strong response from the Chinese government due to its faster infection rate vis-à-vis the common flu and previous epidemics. This has led to widespread containment efforts and longer quarantine periods. Covid-19 appears to have a lower fatality rate (2%) than SARS (10%), but a much higher than the H1N1 Swine Flu and the common flu virus. Additionally, only around 20% of infected people become severely ill, with the rest only exhibiting milder symptoms.

What are potential scenarios for the coming months?

It is difficult to precisely estimate the impact of the virus; therefore, we look at some potential scenarios, for an answer to these key questions: 1) How long will the economic impact last? 2) How quick will the recovery be? 3) What would be the impact to financial markets?

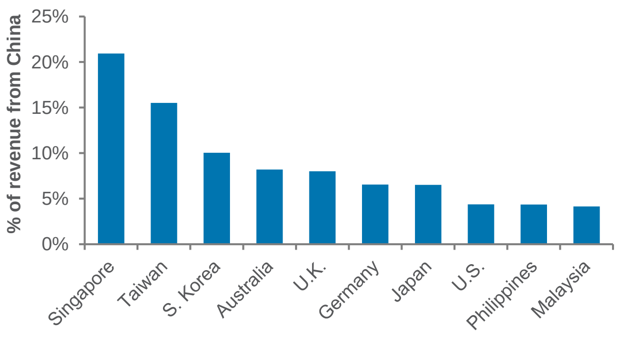
Base scenario: V-shaped recovery starting in Q2. In the more benign scenario, we would see the viral outbreak being largely contained within Q1 2020 followed by a V-shaped recovery.

Policymakers have already started to support growth via targeted monetary easing and fiscal stimulus, particularly in regions most affected by trade and supply-chain links with China. Corporate earnings calls in the US suggest that while some individual companies reported supply-chain problems, rising bottlenecks is not an industry-wide phenomena (for now). Additionally, surveys of Small-Medium Enterprises (SMEs) in China indicate that these firms have enough surplus cash to keep operations going for another 3-4 months on average. Lastly, high-frequency data (e.g. traffic congestion, electricity consumption) in major Chinese cities has started showing signs of a recovery – albeit gradually.

Such a scenario would suggest that the current equity market sell-off could be short-lived with both Developed and Emerging Markets stabilising before resuming their recovery. In this case, equities would outperform bonds, while the USD may peak and finally head lower; yield curves would begin steepening again and commodity-linked assets would likely recover.

Fig. 13 **Asian countries are more dependent on China**

Select MSCI country indexes percent of revenues from China



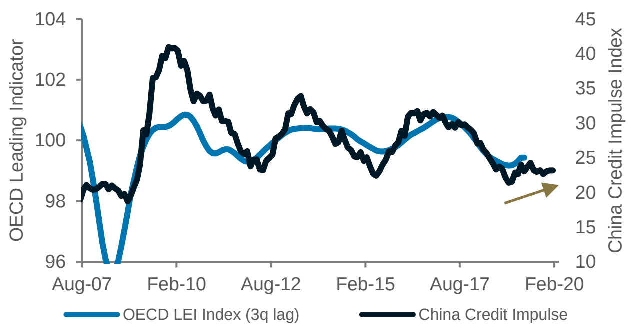
Source: Factset, Standard Chartered

Risk scenario A: Prolonged disruption followed by a V-shaped recovery. A more prolonged (and widespread) economic shutdown would imply a deeper sell-off in risk assets. This scenario is good for gold, US Treasuries and the USD.

The response of countries outside China is important. The World Health Organisation (WHO) has recently demanded even more urgency in the fight against this virus. In China, it took roughly 2-3 weeks for quarantining efforts to result in a peak in daily new cases. While other countries have had more time to prepare for a potential outbreak than China, they may struggle to quarantine their citizens on a similar scale, which means there is a chance that a global outbreak may take longer to contain. This could ultimately impact global supply chains and hurt the demand side of goods and services as well.

Fig. 14 **China's credit impulse can benefit the global economy**

Chart of China credit impulse and OECD Leading Indicator Index lagged by 3 quarters



Source: Bloomberg, Standard Chartered

A stronger stimulus by China could mitigate this outcome, although its willingness to stimulate the economy may be reduced given already high debt levels in the country. China's stimulus has historically led economic activity worldwide; in this scenario, a global co-ordinated monetary and fiscal boost may ultimately result in a rapid recovery, despite the prolonged impact to economic activity.

Risk scenario B: Prolonged disruption with subsequent U-shaped (slow) recovery. The most pessimistic global pandemic scenario would see global growth more severely impacted, followed by an extended and weak recovery period (U-shape) due to inadequate or ineffective counter measures.

This is a scenario in which safe-havens such as gold and US Treasuries (at first) would outperform while equities and corporate bonds would sell off sharply.

The weakness in industrial activity in countries such as Germany and Italy, even before reports of the viral outbreak, adds to these risks. In Italy, northern regions are being placed under quarantine to contain the largest virus cluster outside of Asia. These regions account for nearly 50% of Italy's GDP, increasing the likelihood of another recession.

For the US, dependence on China and Asia for intermediary goods, suggests that supply chain disruptions may weigh significantly on its activity.

As disruption continues into the second half of the year, global growth would likely take longer to rebound (U-shaped recovery). The extended disruption would increase the risk of damage to corporate profitability and a rise in corporate credit risks pushing markets mood into a negative feedback loop.

Lastly, under this more pessimistic scenario, the construction and the manufacturing sectors in China would be disrupted due to their high reliance on migrant workers. Retailers would also be impacted by weak demand as consumers stay home and cut spending.

However, after careful consideration of these scenarios, our base case would see global efforts result in containment of the virus by end of Q1. We expect a rapid recovery to ensue as stimulus measures start filtering through the global economy. High-frequency data indicates that China is already showing signs of increased activity; while at least 16 provinces lowered their threat level. Policymakers efforts would cushion the disruption to supply chains, and thus allow the recent nascent recovery in Europe and Emerging Markets to resume its path.

Fig. 15 Taking clues from Chinese indexes performance – the country hardest hit by the virus – we may be approaching key trough levels. As previous epidemics have shown reaching peak daily new cases usually results in a turning point in performance

Select countries data as of 27-Feb-2020 with related economic and market performance data

Country	% of world GDP (PPP)[1]	Total reported cases	Daily new cases peak[3]	2020 equity market peak[2]	Drawdown (from 2020 market peak)[4]	Recovery from trough	MSCI Index (in USD)
Asia ex. Japan	**30.0+%**			**17-01-20**	**-8.4%**	**0.0%**	**Asia ex. Japan**
China	19.30%	78,818	04-02-20	13-01-20	-9.6%	3.1%	China offshore
				20-01-20	-13.4%	12.1%	China onshore
South Korea	1.60%	1,766	?	20-01-20	-13.5%	0.0%	South Korea
Japan	4.10%	214	?	03-01-20	-9.4%	0.0%	Japan
Eurozone*	**16.05%**	**765**		**19-02-20**	**-9.4%**	**0.0%**	**EMU**
Germany*	3.10%	48	?	19-02-20	-10.3%	0.0%	Germany
France*	2.20%	38	?	19-02-20	-9.7%	0.0%	France
Italy*	1.70%	655	?	19-02-20	-9.9%	0.0%	Italy
UK	2.20%	16	?	02-01-20	-12.9%	0.0%	UK
US	15.10%	60	?	19-02-20	-12.1%	0.0%	US

Source: IMF, WHO, MSCI, Bloomberg, Standard Chartered

1 Proportion of real GDP to the rest of the world adjusted for inflation

2 Date of Year-To-Date (YTD) market high

3 Date of peak for daily new reported cases (12-Feb China's cases saw a spike due to a change in the classification of the virus) but new cases had started slowing before then

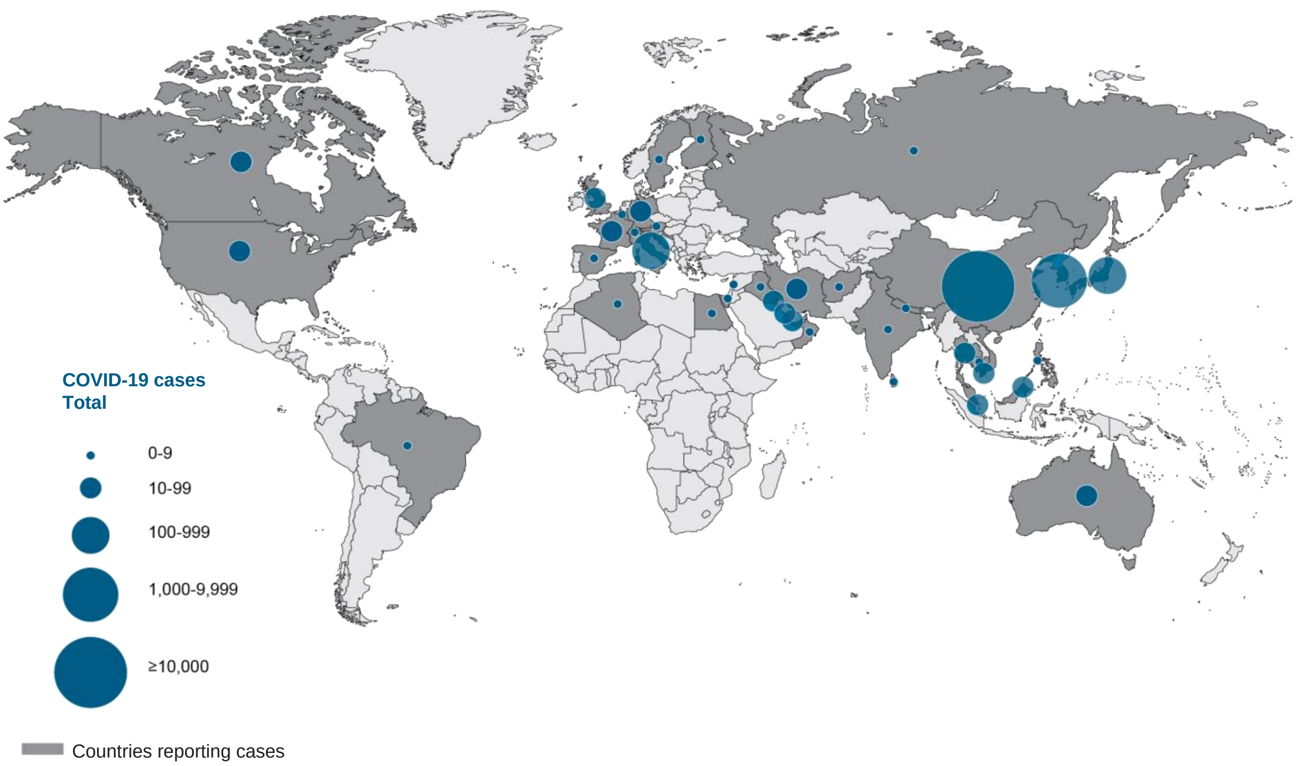
4 Percent decrease from date of market high to the most recent market low

* Eurozone Indices performance in Euro

Fig. 16 Geographic distribution of COVID-19 cases in Asia

Source: European Centre for Disease Prevention and Control (ECDC), Standard Chartered

Fig. 17 Geographic distribution of COVID-19 cases worldwide, as of 26 February 2020



Source: European Centre for Disease Prevention and Control (ECDC), Standard Chartered

Macro Overview – at a glance

Key themes

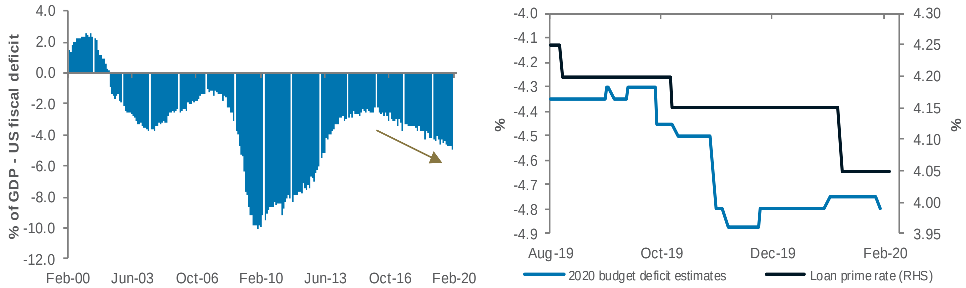
Our Global Investment Committee will closely monitor developments around the coronavirus, but we expect the epidemic to moderately impact global growth in 2020, with most of the slowdown expected in H1. Under our core scenario, China is likely to recover most of the lost output when activity returns to normal in H2, helped by further monetary and fiscal stimulus and easing trade tensions. US and Euro area growth is likely to keep slowing to somewhat below their long-term trend, with increasingly accommodative fiscal and monetary policies providing significant support. The main risk to this outlook is political uncertainty ahead of the US presidential election and/or an acceleration in spread of the virus.

Key chart

Continued fiscal stimulus and accommodative monetary policy in the US and further monetary and fiscal policy easing in China support our constructive outlook for global economies in H2 2020

Fig. 18 Easy fiscal and monetary policies are likely to help offset the impact of coronavirus

US fiscal deficit; China's consensus budget deficit estimates for 2020 and PBoC's Loan Prime Rate



Source: Bloomberg, Standard Chartered

US	Easier financial conditions following Fed's rate cuts last year and ongoing fiscal spending should stabilise growth just below long-term trend; strong job market will sustain consumption; We expect 1-2 Fed rate cuts in 2020	○ Growth	◐ Inflation	○ Benchmark rates	◐ Fiscal deficit
Euro area	Increasingly accommodative monetary policy, backed by below-target inflation, should support growth just below long-term trend; German fiscal easing is a potential game-changer for growth; spread of coronavirus is a risk	○ Growth	◐ Inflation	○ Benchmark rates	● Fiscal deficit
China	We expect growth to recover from the impact of coronavirus by H2, aided by significant fiscal and monetary easing; partial US trade deal is a tailwind; PBoC likely to overlook temporary food price inflation in easing policy	○ Growth	● Inflation	○ Benchmark rates	● Fiscal deficit
Japan	Growth outlook under increasing pressure from the impact of coronavirus on exports and tourism; Summer Olympics has potential to revive activity in H2; BoJ under increasing pressure to ease further as growth falters	○ Growth	◐ Inflation	○ Benchmark rates	● Fiscal deficit
UK	Growth outlook clouded by uncertainty around a trade deal with the EU; Proposed fiscal stimulus could potentially revive business confidence; BoE on hold for now, but likely biased towards easing amid trade, global growth risks	○ Growth	◐ Inflation	◐ Benchmark rates	● Fiscal deficit
Emerging Markets ex-China	Slowing global trade, weak commodity prices and impact of coronavirus likely to cloud Emerging Market growth outlook; lower oil prices likely to keep inflation in check, enabling easier monetary policies	○ Growth	◐ Inflation	○ Benchmark rates	● Fiscal deficit

Source: Standard Chartered Global Investment Committee

Legend: ○ Deceleration in 2020 | ◐ Neutral | ● Acceleration in 2020

Bonds – at a glance

Key themes

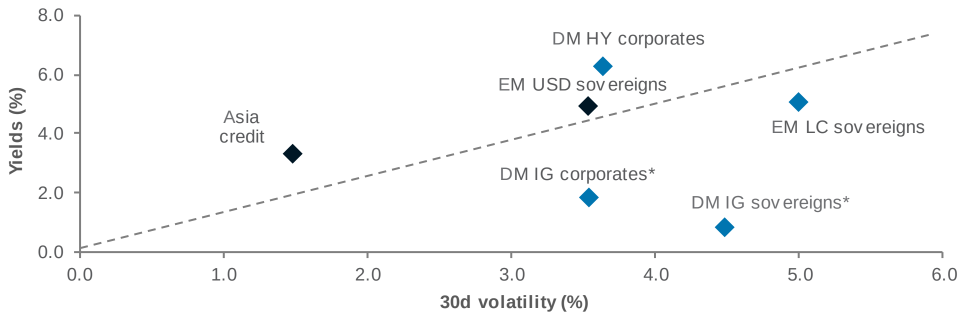
Bonds are a core holding as we view them as a hedge against greater downside risks. Our expectation of further Fed rate cuts and slower global growth means that yields could sustain around current levels.

We continue to prefer EM USD government and Asian USD bonds, owing to reasonable valuations and relative imperviousness to virus concerns. Risk of higher near-term currency volatility leads us to downgrade EM local currency bonds to a core holding. We hedge our exposure to risky assets and EM bonds by upgrading DM IG government and corporate bonds to a core holding, as they could buffer the overall investment allocation, should virus-related growth concerns intensify.

Key chart

EM USD government and Asian USD bonds still offer best risk-reward in our assessment. Risk of rising defaults temper our enthusiasm for DM HY bonds.

Fig. 19 **EM USD government and Asian USD bonds offer the best balance of attractive yields, reasonable valuations, stable credit quality and risk (volatility), in our opinion**



*Yields as of 31 January 2020. Source: Bloomberg, Standard Chartered. As of 28 February 2020.

Preference order

Asset class	Less preferred	Core holding	Most preferred	View	Key driver	Driver	Driver
EM USD government	▽	◇	▲	Emerging Market (EM) USD government bonds are ***preferred*** owing to geographical diversification, the attractive yield and reasonable valuations. A sharp rebound in Treasury yields is a risk for EM bonds.	● Macro factors	◐ Valuation vs govt bonds	● Rates policy
Asia USD	▽	◇	▲	We view Asia USD bonds as a ***preferred*** holding given their relatively high credit quality, defensive nature and low sensitivity to virus impact. A sharper than expected growth slowdown in China is a risk.	● Macro factors	◐ Valuation vs govt bonds	● Rates policy
DM HY corporate	▽	◆	△	DM High Yield bonds are a ***core holding*** as their attractive yield, reasonable valuations and low interest rate sensitivity are balanced by the risk of rising defaults, especially in the Energy sector.	● Attractive yield	◐ Valuation vs govt bonds	○ Credit fundamentals
EM local currency	▽	◆	△	Expectation of higher FX volatility leads us to reduce EM local currency bonds to a ***core holding***, despite attractive yield and supportive central bank policies. Higher volatility due to currency fluctuations is a risk.	◐ FX Outlook	● Macro factors	◐ Rates policy
DM IG corporate	▽	◆	△	We view the asset class as a ***core holding***. The high credit quality, moderate valuations and defensive characteristics are balanced by low yield, high interest rate sensitivity and increasing corporate leverage.	◐ Valuation vs govt bonds	○ Credit fundamentals	◐ Macro factors
DM IG government	▽	◆	△	DM Investment Grade government bonds are a ***core holding***. Despite the low yield (<1%) on offer, we view them as a hedge against sharper than expected growth slowdown.	● 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 less certain compared to the start of 2020 due to the spread of COVID-19 beyond China. Nevertheless, swift responses from policymakers should underpin mid-single-digit earnings growth this year. Equities remain a preferred asset class, driven by falling bond yields, which are increasing the attractiveness of equities on a relative basis.

US equities are preferred. Companies in the travel, leisure and payment processing industries have trimmed Q1 earnings guidance, but remain upbeat that there will be a recovery over the remainder of the year as consumer spending rebounds. Asia ex-Japan is upgraded to preferred. Significant policy easing across the region increases the probability of a rebound in growth and earnings after a sharp Q1 slowdown related to COVID-19. A weaker USD is also supportive of a pick-up in fund inflows to the region. Euro area equities are reduced to a core holding on concern over the impact of the spread of COVID-19.

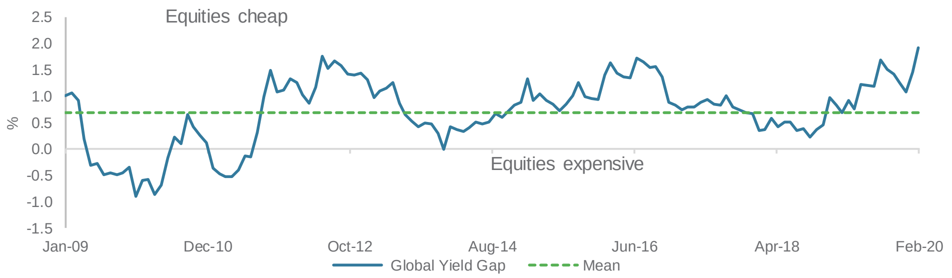
Key chart

The yield gap compares the markets dividend yield to the bond yield.

Global dividend yields have increased and global bond yields have fallen, making equities more attractive / cheaper relative to bonds.

Fig. 20 Global equities remain attractive relative to bonds following drop in US Treasury yields

MSCI All Country World index dividend yield less the 10-year US government bond yield



Source: MSCI, Bloomberg, Standard Chartered. As of 28 February 2020.

Preference order

US equities	▽ ◇ ▲	US equities are ***preferred***. Low bond yields keep the cost of debt low, providing cheap funding for share buybacks and investment. Earnings are expected to recover after the CODIV-19 related 1Q dip.	● Bond yields (key driver) / ● Earnings / ● Economic data
Asia ex-Japan equities	▽ ◇ ▲	Asia ex-Japan is upgraded to ***preferred*** holding. Easier fiscal policy across the region should limit the downside risk from COVID-19. A weaker USD increases the probability of a pick-up in fund flows into the region. China, onshore and offshore is our most preferred market.	
Euro area equities	▽ ◆ △	Euro area equities are reduced to ***core holding***. An improved regulatory environment for banks and fiscal stimulus remain catalysts, but uncertainty relating to COVID-19 risks diluting their impact.	● Bond yields (key driver) / ● Valuations / ● Fund flows
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 as political uncertainty is reduced.	● Valuations (key driver) / ◐ Bond yields / ◐ Fund flows
EM ex-Asia equities	▽ ◆ △	EM ex-Asia is a ***core holding***. Valuations are attractive relative to history and peers. Earnings growth in 2020 is forecast to be 15%. Lower bond yields will lower the cost of debt funding for corporates.	● Valuations (key driver) / ◐ Bond yields / ◐ Earnings
Japan equities	▼ ◇ △	Japan is ***less preferred***. While valuations are attractive relative to history, the risks to global growth are likely to be felt swiftly in Japan and policy makers have limited fiscal room to manoeuvre.	● Valuations (key driver) / ◐ Bond yields / ○ Economic data

Source: Standard Chartered

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

FX – at a glance

Key themes

Fear of a deeper global economic impact from the Covid-19 outbreak has triggered heightened risk aversion. Our expectation of global growth supporting a broad-based USD downtrend may be delayed if virus containment fails. EUR/USD is expected to push higher to 1.12 in H2 2020. The undervalued GBP should strengthen towards 1.38 with expected fiscal stimulus and hard-fought UK-EU trade progress.

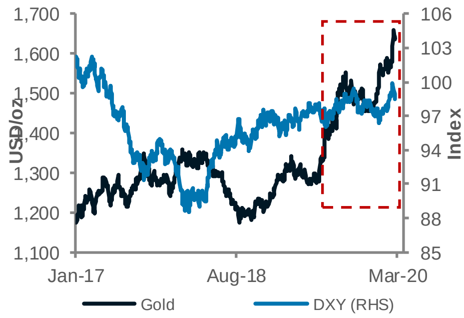
Near-term, we expect more range-trading FX markets with rising volatility. Safe-haven and yield seeking investors could yet see the USD at new trend highs. However, rising US political uncertainty and heightened expectations of Fed rate cuts could weigh on the dollar, as could the unwinding of significant "long USD carry trades" against the EUR and JPY.

Key chart

The USD and gold have rallied simultaneously in January. This is unusual and demonstrates rising risk aversion. Despite rising global USD liquidity, the USD has not yet declined as expected.

Fig. 21 Rising USD and Gold suggest risk aversion

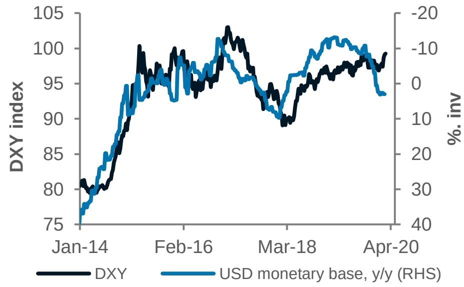
Gold, USD index (DXY) (RHS)



Source: Bloomberg, Standard Chartered

Fig. 22 The USD rose despite rising dollar liquidity

USD index (DXY), USD monetary base (RHS)



Source: Bloomberg, Standard Chartered

USD (DXY) ▼ ◇ △	Safe-haven and yield-seeking flows have supported the USD carry trade; US political uncertainty may limit gains		
	◐ Flows and Sentiment	◐ Relative growth rates	○ Relative interest rates
EUR/USD ▽ ◆ △	Political uncertainty in Germany, Ireland and Italy may delay fiscal stimulus; global growth rebound would support		
	● Relative interest rates	◐ Relative growth rates	◐ Flows & sentiment
GBP/USD ▽ ◇ ▲	Optimistic UK-EU trade deal strategy could support outperformance of undervalued UK assets and the GBP		
	● Flows and sentiment	● Relative interest rates	◐ Relative growth rates
USD/CNY ▽ ◆ △	Expected broad monetary and fiscal stimulus, firm currency management to stabilise growth and asset markets		
	◐ Relative interest rates	◐ Flows and sentiment	◐ Relative growth rates
USD/JPY ▽ ◆ △	The JPY will likely be caught between bouts of safe-haven inflows and Japanese investors' return-seeking outflows		
	○ Relative interest rates	◐ Relative growth rates	◐ Flows & sentiment
AUD/USD ▽ ◆ △	Signs of domestic recovery and stable monetary policy, but AUD is dependent upon a Chinese economic recovery		
	◐ Relative interest rates	◐ Relative growth rates	◐ Flows & sentiment

Source: Standard Chartered

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

Technical perspectives

EUR/USD: Deeply oversold

Developments on the daily and weekly charts indicate that EUR/USD is deeply oversold and could stage a minor rebound in the near term. On the weekly charts, there is a positive momentum divergence of the 14-week Relative Strength Index (RSI) and the price. This comes as EUR/USD tests fairly strong support (on daily charts, not shown) on the lower edge of a declining channel. Furthermore, the 14-day RSI fell to 21 - on the previous three occasions when the 14-day RSI was 21 or below (in 2018, 2016 and 2015), EUR/USD was higher in subsequent weeks. On the upside, EUR/USD faces strong resistance on the 200-day moving average (DMA; now at 1.1100), slightly below the upper edge of the channel. The single currency would need to rise above this long-term average for the medium-term downward pressure to fade.

S&P 500: A short-term pause

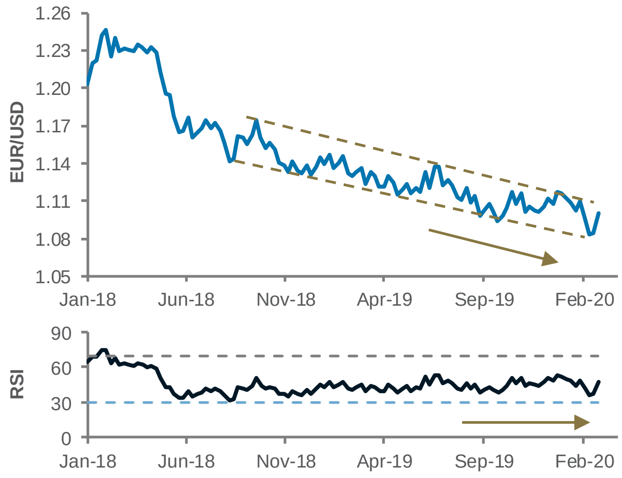
The S&P 500 index's break below the lower edge of a rising channel from October, coinciding with a fall below the end-January low of 3215 and the 200-day moving average confirms that the short-term upward pressure has eased. This follows a negative divergence of the 14-day and the 14-week RSI (not shown) indicating fatigue following the strong rally in recent months. The index has immediate support at 2870 (the 50% retracement of the December 2018- February 2020 rise; 2.8% from Friday's close), followed by the mid-2019 low of 2729 (7.6%). We view this week's retreat as a short-term pause. Indeed, the medium-, to long-term trend remains up while the index holds above the 200-week moving average (at about 2632; 10.9% from Friday's close) – the last time the index was below this support was in 2011.

Gold: Capped for now

Gold is attempting to break below the lower edge of the channel. Such a break would indicate an extended pause in the short term given the yellow metal has been overbought on the daily and weekly charts. Immediate support is at the early-February low of 1547 (2.4% below Friday's close) followed by the 200-DMA (now at 1482; 6.5% below Friday's close). Strong support is at the November low of 1445 (8.8%). Gold's medium-term trend remains up while it holds above 1445.

Fig. 23 EUR/USD: Deeply oversold

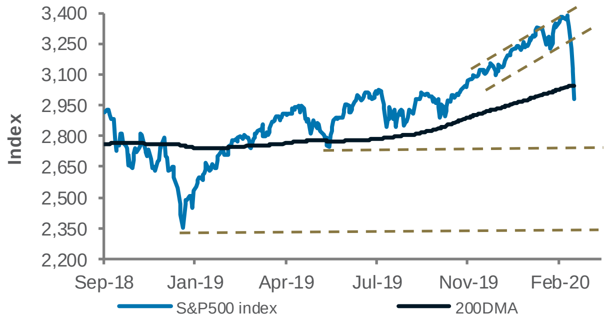
EUR/USD, weekly chart with the 14-week Relative Strength Index



Source: Bloomberg, Standard Chartered

Fig. 24 S&P 500 index: A short-term pause

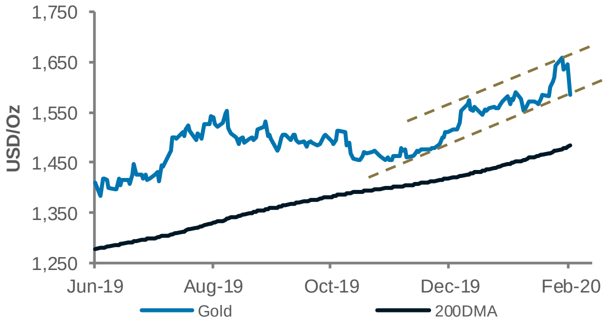
S&P 500 index, daily chart with the 200-day moving average



Source: Refinitiv Eikon, Standard Chartered

Fig. 25 Gold: Capped for now

XAU/USD, daily chart with the 200-day moving average



Source: Refinitiv Eikon, Standard Chartered

Tracking market diversity

Where has diversity been falling or rising?

Investors preference has clearly shifted towards defensive assets this month as concerns mount on wider-than-expected economic impact of COVID-19. Following recent rise in market volatility, our market diversity indicator signals an improving liquidity conditions across major equity markets except UK, and a narrowing liquidity conditions in defensive assets such as Gold and dollar-denominated bonds.

For dollar-denominated bonds such as Developed Market credits, Emerging Market bonds and Asian dollar credit, our market diversity indicator has yet to reach a low level that signals a significant increase in reversal risks. However, our indicator suggests it may not be wise to chase the rally in Gold as liquidity conditions are looking very stretched.

Fractal dimension as a measure of the market's structural diversity

Diversity plays a crucial role in our investment process, particularly the idea of structural diversity in a market at any point in time. This idea is closely related to the Fractal Market Hypothesis (FMH). Under the FMH, there are two distinct market regimes;

1. A stable market where investors with different investment horizons come together and balance each other out, thus creating ample liquidity and structural diversity.
2. An unstable market where different investors converge to a short-term investment view, leading to a market trend that is too linear, as liquidity and structural diversity dry up.

One implication of the FMH is that diversity can be used to identify which one of these two states any market is in. This would enable us to identify market trends that are more likely to persist, and those where the risk of a short-term reversal is more likely.

Fractal dimension is a way to estimate a market's structural diversity and takes on a minimum value of 1 – a diversity value of a straight line. Asset prices rarely move in straight lines, but they become more linear when structural diversity drops due to rising supply and demand imbalances. Much like a rubber band that stretches too far and breaks, the critical point of 1.25 is an estimated value of the fractal dimension when the reversal risk of an asset class rises significantly.

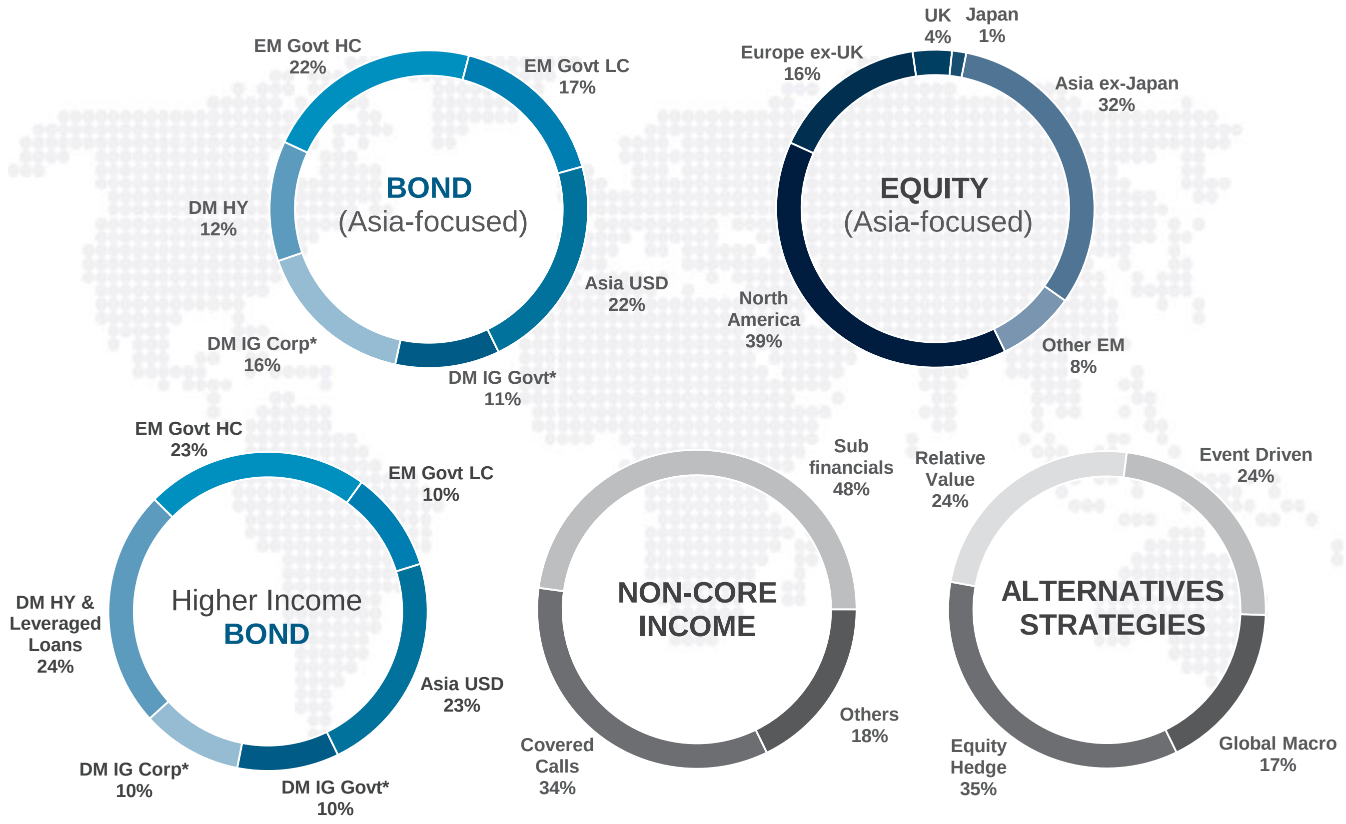
Fig. 26 Asset with low and high market diversity

Level 1	Diversity	Direction since Oct 2019
FTSE World Broad IG Bond ex-MBS Index	◐	→
MSCI All Country World Index	●	↑
Gold Spot	○	↓
HFRX Global Hedge Fund Index	◐	→
Equity		
MSCI USA Index	●	↑
MSCI Europe Index	●	↑
MSCI UK Index	◐	↓
MSCI Japan Index	●	↑
MSCI AC Asia ex-Japan Index	●	↑
MSCI EM ex-Asia Index	●	↑
Fixed Income		
FTSE DM IG Sovereign Bond Index	◐	↓
FTSE DM IG Corporate Bond Index	◐	→
Bloomberg Barclays Global High Yield Index	◐	→
JPM EM Global Diversified Bond Index	○	↓
JPM EM Government Local Currency Bond Index	◐	↓
JPM Asia Credit Index	◐	↓
Currencies		
USD/CNY	●	↑
USD/EUR	◐	↓
USD/JPY	●	↓
USD/GBP	●	↑
USD/AUD	◐	→
USD/SGD	◐	↓
USD/MYR	●	↑
USD/IDR	●	↑
USD/INR	●	↑
US Treasury Yields		
US 10-year Treasury Yield	◐	↓

Source: Bloomberg, Standard Chartered; data as on 24 December 2019.

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

		ASIA FOCUSED				GLOBAL FOCUSED			
Summary	**View**	**Conservative**	**Moderate**	**Moderately Aggressive**	**Aggressive**	**Conservative**	**Moderate**	**Moderately Aggressive**	**Aggressive**
Cash	▼	10	3	1	0	10	3	1	0
Fixed Income	◆	65	39	29	8	65	39	29	8
Equity	▲	25	43	55	81	25	43	55	81
Gold	▲	0	7	7	7	0	7	7	7
Alternative Strategies	◆	0	8	8	4	0	8	8	4
Asset class									
USD Cash	▼	10	3	1	0	10	3	1	0
*DM Government Bonds**	◆	6	4	3	1	10	6	4	1
*DM IG Corporate Bonds**	◆	7	6	5	1	15	9	7	2
DM HY Corporate Bonds	◆	8	5	4	1	11	7	5	1
EM USD Government Bonds	▲	16	9	6	2	11	7	5	1
EM Local Ccy Government Bonds	◆	11	7	5	1	8	5	4	1
Asia USD Bonds	▲	16	9	6	2	11	7	5	1
North America equities	▲	12	17	21	32	15	26	33	49
Europe ex-UK equities	◆	4	7	9	13	2	3	4	6
UK equities	◆	1	2	2	3	1	2	2	3
Japan equities	▼	1	1	1	1	0	1	1	1
Asia ex-Japan equities	▲	7	14	17	26	5	8	11	16
Non-Asia EM equities	◆	0	3	4	6	2	3	4	6
Gold	▲	0	7	7	7	0	7	7	7
Alternatives	◆	0	8	8	4	0	8	8	4

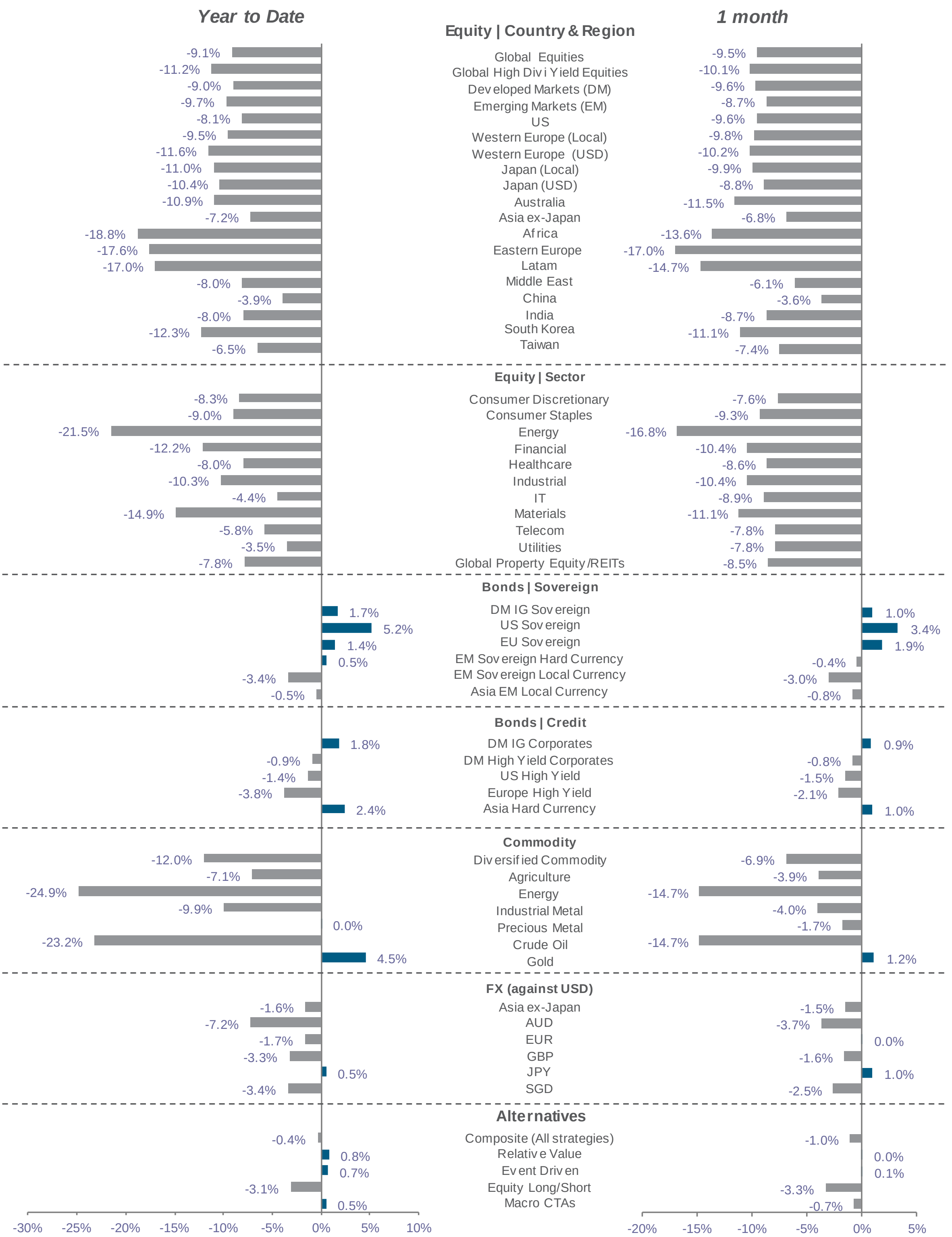
All figures in %. Source: Standard Chartered.

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: 31 December 2019 to 28 February 2020; 1-month performance: 28 January 2020 to 28 February 2020 [27 February 2020 for some FI markets]

Events calendar

JANUARY

11	Taiwan general election
23	ECB policy decision
30	FOMC policy decision
30	BoE policy decision
31	Brexit deadline

FEBRUARY

N.A

MARCH

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

30	FOMC policy decision
30	ECB policy decision

MAY

07	BoE policy decision

JUNE

04	ECB policy decision
10-12	G7 summit in the US
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

GLOBAL MARKET OUTLOOK
monthly

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.

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

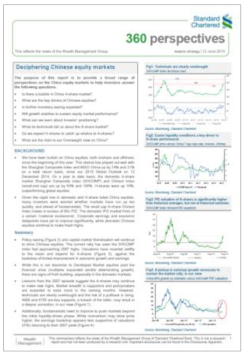
GLOBAL WEALTH DAILY
daily

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

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

360 PERSPECTIVES
ad hoc



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

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.

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Chair of the Global Investment Committee

Manish Jaradi
Senior Investment Strategist

Francis Lim
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Senior Portfolio Manager

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