

Global Market Outlook

Following the USD

A weaker USD would be positive for equities and credit, in our assessment, as has historically been the case. Common European funding for the region's stimulus plan and likely more stimulus in the US are also consistent with continued gains.

Our long-term preference for equities, credit and gold remains in place. We see the risk of a temporary summer pullback as higher than normal, though we would use the opportunity to either add to preferred asset classes or sell volatility to generate a yield.

We maintain our preference for US, Euro area and Asia ex-Japan equities, and DM HY, EM USD and Asia USD bonds. The AUD, GBP and EUR remain our favoured beneficiaries of further USD weakness.

Following the USD

Also find out...

What does life after
COVID-19 look like?

What are the possible
themes in this context?

What is key ahead of the
US Presidential election?

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Investment strategy



IMPLICATIONS FOR INVESTORS

- Global equities, credit and multi-asset income strategies likely to outperform government bonds and cash over a 12-month horizon
- Gold likely to extend gains on falling real yields, while the USD is likely to fall
- Within bonds, we believe DM HY, EM USD and Asia USD bonds are attractive
- Within equities, we have a slight preference for US, Asia ex-Japan and Euro area equities

¹ The US EBMR model (another Outside View) uses economic and market data to determine when the risks of a sharp sell-off in equities and government bonds is likely. At the moment, the model is in Stage 2, a stage usually characterised by low sell-off risk for both asset classes and equities generally outperforming government bonds

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- Our long-term preference for equities, credit and gold remains in place. We see the risk of a temporary summer pullback as higher than normal, though we would use the opportunity to either add to preferred asset classes or sell volatility to generate a yield.
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Another month, another rally

Global equities and bonds rose another 7.1% and 3.5%, respectively, over the past month. The USD (DXY) index fell -4.2% while gold surged 11.2% to a new high of USD 1,944/oz.

How significant is the turn lower in the USD?

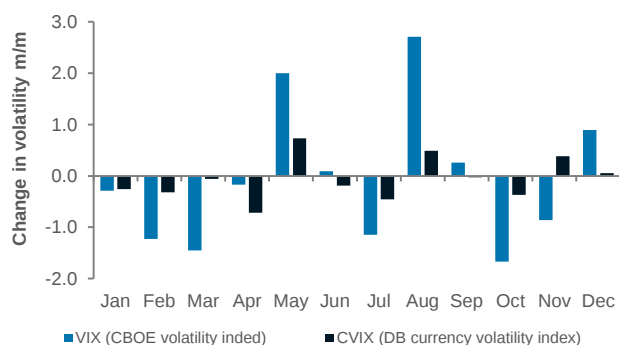
Historical data (an Outside View of the current situation) shows us periods of USD weakness (>5%) have been positive for risk assets on a 12-month horizon:

- Equity, corporate bond, EM bond and gold absolute returns have been strong.
- In relative terms, equities outperformed bonds (which is consistent with the current stance of our US Equity-Bond Market Risk (EBMR) model¹).
- Within equities, Emerging Markets and Euro area led gains, in USD terms.
- In bonds, HY and EM local currency bonds outperformed, though government bonds still outperformed a number of other bond asset classes.
- The EUR and JPY delivered strong returns, though they underperformed EM FX.

Are we set up for a repeat? Broadly, we believe the answer is yes on a 6-12 month horizon. We continue to expect credit and equities to outperform cash and bonds, led by the ongoing economic recovery, significant policy stimulus and low bond yields. While new US stimulus will be important, the European stimulus is arguably the most significant event over the past month because of the agreement to finance the fund via common European Commission debt (as opposed to individual country sovereign debt), a key step towards a more unified fiscal policy. The USD Outside View discussed above only adds to this positive narrative.

Fig. 1 Volatility appears to seasonally rise in August

Average change in m/m volatility over the last 10 years (VIX and CVIX indices show expected volatility for equity and FX markets)



Source: Bloomberg, Standard Chartered; *Net-of-inflation

Having said that, we do expect a few key differences with the historical record today: (i) We are slightly less bullish on EM assets than the historical experience would suggest, given today's COVID-19 and related growth challenges are much greater for most EMs. In our assessment, Asia ex-Japan equities and EM USD government bonds are the two EM assets that offer the best risk/reward trade-off in today's environment; (ii) within equities, we continue to expect US equities to outperform given the strength of policy stimulus and the expected earnings recovery; (iii) within bonds, we are less confident about a continued government bond outperformance. Falling bond yields in the post-2008 environment led to their good performance, but this becomes harder to repeat the lower the bond yields fall.

Fig. 3 USD weakness historically positive for risky assets

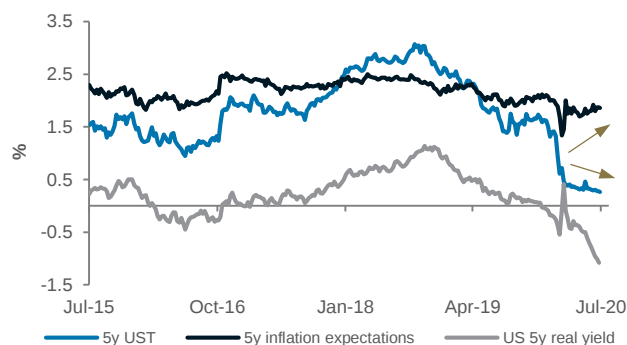
Median 12-month total returns (USD) across USD scenarios

		Median 12m return (%)		
		USD falls > 5%	USD between -5 and 5%	USD rises > 5%
L1	Global Bonds	10.6%	4.3%	-1.2%
	MSCI ACWI	15.9%	12.0%	0.6%
	Gold	18.0%	8.5%	-1.6%
Equities	MSCI US	12.0%	13.7%	6.1%
	MSCI EU	22.8%	11.4%	-7.8%
	MSCI UK	19.7%	11.0%	-4.3%
	MSCI AXJ	22.7%	9.4%	-4.7%
	MSCI EMxAsia	30.8%	4.8%	-12.0%
	USD/CNY	0.0%	0.0%	0.0%
FX	EUR/USD	14.0%	-0.3%	-11.0%
	USD/JPY	-9.0%	-1.0%	4.8%
	GBP/USD	9.3%	-1.2%	-8.1%
	AUD/USD	7.5%	-0.6%	-8.2%
	DM Govt Bond	9.0%	3.7%	-0.9%
FI	DM Corp Bond	8.6%	5.3%	-0.1%
	DM High Yield	10.1%	8.9%	-0.8%
	EM USD	8.2%	8.3%	4.3%
	EM Local	14.5%	5.4%	-3.3%
	Asia HC	6.7%	5.8%	5.5%

Source: Bloomberg, Standard Chartered; Equity returns based on MSCI indices; bond returns based on JPMorgan, Barclays indices; Data since 1981 (FX), 1999 (L1), 2001 (equities), 2005 (FI)

Fig. 2 Inflation expectations could push real yields lower

5y US Treasury yield, inflation expectations, real* bond yields



Summer volatility

This constructive 12-month view notwithstanding, on shorter horizons of three months or less, we remain on watch for an equity market pullback (ie. a rise in equity volatility). From a seasonality point of view, the chart above illustrates that, in recent years, equity volatility has tended to rise in August.

This context comes at a time when US-China relations appear to be deteriorating, following tit-for-tat consulate closures, ahead of the US Presidential election in November. Meanwhile, a sustained peaking of new daily COVID-19 infections appears increasingly unlikely without a drug or vaccine (though we note a number of vaccine candidates are making good progress in phase 2 and 3 human trials). Finally, we are mindful that our proprietary market diversity indicator is starting to look stretched for select bond and FX markets, though not yet for equities (see page 16).

Taking advantage of volatility

We believe economic and market data continue to support our positive 6-12 month view on credit and equities and, more broadly, multi-asset income strategies, particularly if the USD weakness extends. Within equities, we retain a preference for the US, Asia ex-Japan and the Euro area. In credit, DM HY bonds, EM USD government bonds and Asia USD bonds remain our preferred sub-asset classes.

In our assessment, any pullback is likely to be temporary and relatively contained in size (7-12%). This means we would consider using any such pullback to (i) add exposure to our preferred asset classes or (ii) use the rise in volatility to generate a yield, noting that spikes in volatility tend to be quite short-lived.

Gold remains an attractive asset class in this context, in our assessment. An extended economic recovery is likely to mean inflation expectations continue to rise, even as bond yields remain capped. A further fall in this 'real' yield is positive for gold, suggesting new record high prices are sustainable.

Fig. 4 Our tactical asset allocation views (12m) USD

Asset class	Sub-asset class	Relative outlook	Rationale (+ Positive factors – Negative factors)
 Multi-asset Strategies	Multi-asset income	▲	+ Bond yield capped, still-wide credit spreads - Equity volatility 4-5% yield remains achievable via a diversified allocation, in our view
	Multi-asset balanced	◆	+ Diversification benefits - Equity volatility Equity tilt likely to support gains, near-term volatility risk notwithstanding
	Alternatives	◆	+ Diversifier characteristics - Equity, corporate bond volatility Diversifier characteristics help amid volatility
 Equities	US	▲	+ Low bond yields, growth rebound - Geopolitics, COVID-19 Exceptional policy response bearing fruit, but COVID-19 remains a risk
	Asia ex-Japan	▲	+ Low bond yields, weak USD - Geopolitics Low yields, weak USD are positives, but US-China tensions a risk
	Euro area	▲	+ Low bond yields, policy support - Geopolitics The agreement on EU-wide fiscal stimulus is likely a game changer
	Japan	◆	+ Low bond yields, high cash levels - Reduced buybacks High corporate cash a positive, but few catalysts for sustained rally
	Other EM	◆	+ Inexpensive valuations - Deteriorating earnings outlook Global trade uncertainty a key risk
	UK	▼	+ Attractive valuations - Brexit, lagging earnings rebound Valuations remain attractive, but Brexit, GBP rebound are risks
 Bonds	DM HY corporate	▲	+ Attractive yield, attractive value - Credit quality Yields and valuations attractive, but rise in defaults is key risk
	EM government (USD)	▲	+ Attractive yield, attractive value - Sentiment to EMs a risk Higher yields than local currency peers illustrate attractive value
	Asian USD	▲	+ Moderate yield, low volatility - Risk of slower China recovery High credit quality, low volatility are attractive, but China exposure a risk
	EM government (local currency)	◆	+ Moderate yield, weak USD view - FX volatility Supportive policy, weak USD positive, but falling yields have reduced value
	DM IG corporate	▼	+ Moderate yield, policy support - Deteriorating credit quality, value Central banks very supportive, but little value left
	DM IG government	▼	+ High credit quality, policy support - Low yields Rebound in growth, inflation expectations a risk
 Currencies	AUD	▲	+ Policy stimulus, growth rebound - Geopolitics AUD remains good proxy for China growth rebound
	EUR	▲	+ Policy stimulus, growth rebound - Geopolitics EU recovery package agreement is likely a game changer
	GBP	▲	+ Undervaluation, eventual Brexit deal - Brexit uncertainty, deficits Coordinated policy stimulus a positive, but Brexit a key source of uncertainty
	JPY	◆	+ Safe-haven demand, real yields - Japanese foreign asset demand JPY caught between global safe-haven status and outflows seeking returns
	CNY	◆	+ Policy stimulus, growth rebound - Low global demand, geopolitics Policy focus on stability likely to keep CNY range-bound
	USD	▼	+ Safe-haven demand - Rate and growth differentials, Fed liquidity Rising confidence in global recovery likely to reduce demand for USD

Source: Standard Chartered Global Investment Committee

Legend: ▲ Preferred ◆ Core holding ▼ Less preferred

Major brokers' and investors' views

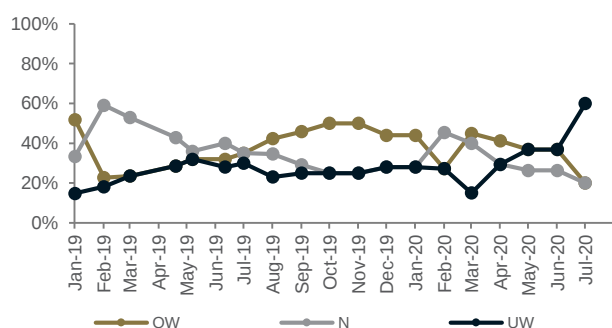
As part of our Investment Philosophy, we strive to achieve diversity of insights by constantly monitoring a wide array of investment views and analysis. This part of our process is what we call the Inside View, where we gather lots of research and analysis, consider the specifics of the situation, and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

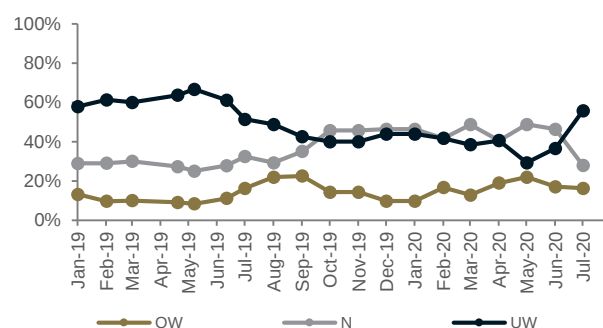
UW



Bonds

OUR VIEW

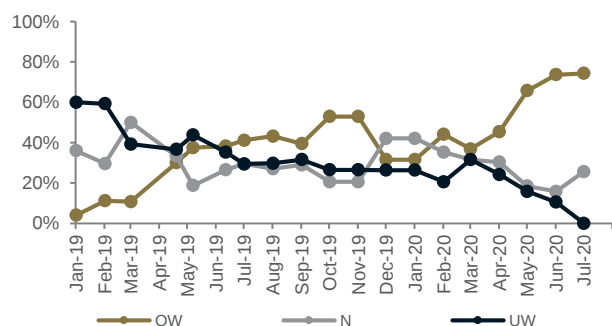
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Credit

OUR VIEW

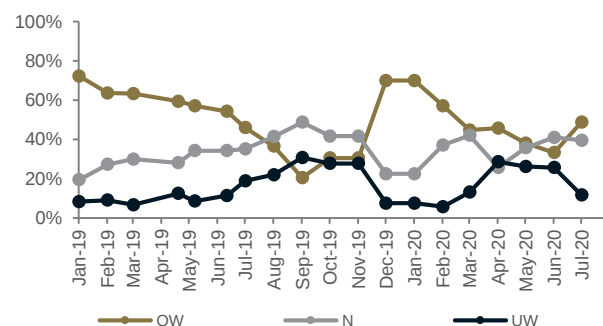
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Equities

OUR VIEW

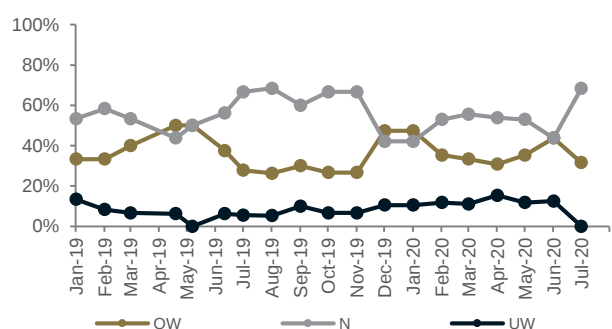
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Alternatives*

OUR VIEW

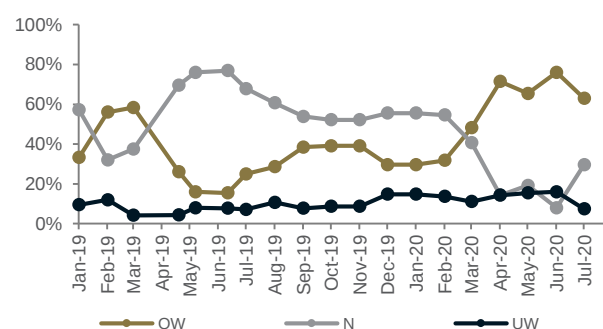
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Gold

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

Q What does life after COVID-19 look like?

The COVID-19 pandemic has brought about significant changes to the way people work and live. Some of these changes will be permanent, while other habits will likely return to normal as soon as the virus is brought under control, most likely through the discovery of a vaccine or a more effective treatment.

In the latter scenario, social distancing will be temporary, with many behaviours returning to normal, just like post-SARS in 2002-03. In a scenario where social distancing is going to be practiced for an extended period, much of the behavioural changes we see today will likely be enduring and practiced for many years to come.

Alternatively, even if social distancing is not required long term, some behaviours will probably remain – eg. reduced retail foot traffic and increased work from home (WFH) due to their potential efficiency gains. This will likely not be a “either/or” scenario, but one where we may end up somewhere on the spectrum between extremes.

The ultimate result of the interplay of these forces is naturally difficult to forecast. Nevertheless, in the table below, we highlight some potential trends if social distancing is to last for an extended period. Many of these trends, such as digitalisation, are already under way and COVID-19 merely served to accelerate them. Importantly, faced with these forces, investors will need to consider reviewing their investment strategy to ensure their allocation is resilient to any potential structural shift in behaviours.



Fig. 5 Post-pandemic structural shifts that may gain further momentum should social distancing begin to permanently change the way societies conduct everyday life

Broad themes	Potential acceleration in the below trends
Acceleration of digitalisation	- Transformation of demand, technology firms' role shifts from complementary to essential - Upgrade of telecommunication infrastructure (including to 5G) and data storage - Rise in demand for digital health, hygiene, and wellness products and services - Shift to more dynamic business models shaped by the adoption of Artificial intelligence (AI) - Entertainment as a Service (Eaas) and further momentum in e-Sports - Improved financial inclusion and increased adoption of cashless payments - Cloud computing, collaboration software and online work and learning solutions - Cyber security and digital privacy
De-globalisation – China vs the West	- Onshoring and automation of supply chains - Supply chain transparency and resiliency - Rationalisation of product selection and international asset divestitures - Greater government role in personal and business sphere
Government and regulatory transformation	- Fiscal policy role to expand and further complement monetary policy tools - Regulatory uncertainty related to new business models - Second order implications from pricing, competition and consumer protection regulations
Sustainability push (Transport, food, energy and more)	- Even greater focus on renewable energy (also thanks to “Green” fiscal stimulus plans) - Alternative food sources and sustainable farming - Sustainable travel/tourism and public health security - Micro-mobility, smart cities, smart buildings

Source: Various sources, Standard Chartered

What are possible investment themes in this context?

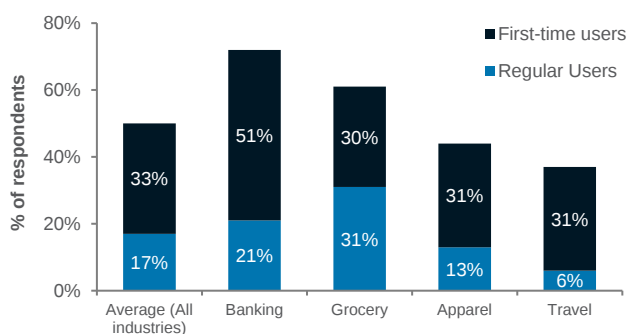
Acceleration of digitalisation

While the above topics highlight some industry and sectoral trends, these are neither happening in a vacuum nor sequentially. Technology solutions will become pivotal enablers of these shifts, sparking a wave of activity in 5G, semiconductors, telecommunication equipment, wearables, cloud computing and a wide array of uses for AI.

The evolution of consumer demand will also shape how technology will respond to (and influence) spending behaviours, with e-commerce taking even more of a prominent role in our lives. The “new consumer” shops online far more, is more willing to switch across brands and is refocusing towards domestic and local experiences. This change will likely also apply to B2B (business-to-business) models.

Fig. 6 Most first-time consumers are satisfied with digital adoption and plan to continue using digital post-COVID-19

Results from a recent McKinsey digital sentiment insights survey



Source: McKinsey & Co, Standard Chartered

Question: which of the following industries have you used digitally in the past six months? Which of these will you continue to use digitally during Covid-19?

In the healthcare space, the focus will clearly be on efficiency and scalability of technological solutions in various key areas of the healthcare value chain (e.g. delivery, diagnosis and drug development). Personal care and wellness will be even more in focus as wearables adoption continues to climb (c. 27% annual growth in the next decade as per various studies).

Flexible working options and online education are also set to be great drivers of the change. As more employees grow comfortable with WFH, a move away from city centres and offices could lead to a reverse of the urbanisation process, with significant implications for real estate and other sectors (e.g. physical retail, public transport, etc.).

Moreover, with increased remote working, companies may face more cyber attacks with employees contacting remote data centres from non-secure personal networks, in contrast to connections previously concentrated in the more secure environment of a central office.

Last, but not least, the growth of online services, including online education, will continue to place high importance on cloud-based solutions, video conferencing and collaboration software, with potentially different ramifications for public education versus higher education or corporate training.

Deglobalisation – China vs the West

Geopolitical tensions, particularly between the US and China, were rising before COVID-19. The pandemic has now further accentuated the threat to cashflows for large international firms. Historically, firms could experience disruptions for two to four weeks in every c.3 years, costing about 45% of one year's operating profits, according to a McKinsey study. In recent years, however, disputes linked to geopolitics and/or trade have increased the frequency and the unpredictability of these disruptions. Firms are thus choosing to increase supply chain resilience via onshoring, transparency and financially resilient business partners, while also divesting assets and rationalising product selection. This transition may prove expensive for both firms and eventually consumers in the short term as resiliency is prioritised over efficiency.

Government and regulatory transformation

Already, the distribution of COVID-19 stimulus packages by governments across the world has surpassed both in terms of size (c.3x compared to the 2008 financial crisis within G20) and speed the previous responses to crises, matching levels only seen during war times. However, we also note, there could be cases where growing political pressure to support struggling firms could add to complexity. We thus envision a high level of regulatory uncertainty stemming from governments' response to COVID-19 and from the acceleration of the above highlighted structural themes of Digitalisation, De-Globalisation and Sustainability.

Great emphasis on Sustainability

Sustainability trends have also shifted to a higher gear, thanks to the pandemic. From an investment point of view, the shift toward sustainability is not just poised to give sustainable assets a potential return advantage, but we also see it altering other return drivers and impacting firms' way of operating altogether (please request a copy of our “Sustainable investing post COVID-19” thematic article for more details).

Lastly, businesses and governments will need to rapidly adapt to these changes, while also navigating the uncertainties arising from inequality and populism, walking a fine line between different ideologies in a multipolar world.

In conclusion, while a lot will depend on the evolution of the virus and how long social distancing measures will remain in place, the key message is the COVID-19 crisis is more likely to accelerate changes that were already under way. Importantly, investors will need to consider reviewing their investment strategy to ensure their allocation are resilient to these potential structural shifts in behaviours.

Q What do investors need to watch out for ahead of the US Presidential elections?

National surveys paint a difficult path ahead for Trump

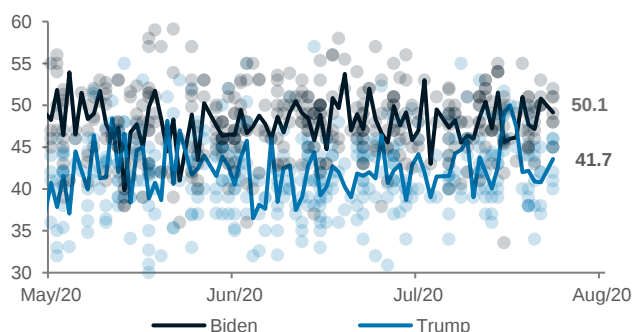
There are now less than 100 days until the US Presidential election on 3 November. Here, we provide an update on what current polls are showing. Second, we discuss the drivers shaping the current race and how they may impact the odds for both presidential candidates (President Trump vs. former Vice President Biden). Finally, we opine on some of the key strategies both candidates may adopt to boost their prospects over the coming months.

Predicting the outcome of a US election is not an easy task. In recent history, polling data and betting markets have been on the wrong side of the eventual outcome(s); nevertheless, it would not be wise to completely ignore these signals. President Trump is aware of the current data and presumably understands that the road to a second term will not be smooth.

Average polling data currently gives the Democratic candidate, former Vice President Joe Biden, c. 8pt lead over the incumbent, President Trump – this is the largest disadvantage any incumbent President has ever faced at this point in the race. Betting markets – which, one may argue, have historically been slightly more accurate measures of candidates' performance – are also giving Biden a substantial probability of victory (c. 60%) over President Trump. Moreover, these polls also currently indicate the most likely scenario in November would see the Democrats claiming a full sweep of Congress with c. 60% likelihood.

Fig. 7 Poll averages continue to show Biden as the leading nominee for the Presidential election

Real Clear Politics Average National Polls: Trump vs. Biden for 2020 US Presidential Election



Source: FiveThirtyEight, National Polls Aggregates, Standard Chartered

Key drivers: Economy, COVID-19 and foreign policy

To bring a historical perspective, we borrow from Allan Lichtman's book, *The Keys to the White House*, which outlines a prediction model based on 13 statements to determine the likelihood of victory for the incumbent party based on the

popular vote. These include the incumbent party's mandate, contest for the incumbent party's nomination, third-party campaigns, short- and long-term economic trajectories, policy innovation, social unrest/scandals, outcome of foreign policies/military campaigns, as well as candidate charisma.

In March, Lichtman said Trump was more likely to lose. However, there are three complications. First, the presidential election winner is determined by the electoral college not the popular vote. Second, some of these factors require subjective assessment. Third, the assessment itself could change as we approach the election. Therefore, while we believe this laundry list provides an important starting point when assessing President Trump's odds of re-election, assessing today's context is still important.

Fig. 8 Biden's lead gaining momentum in swing States

Battleground States most recent polls data: Trump vs. Biden

State	Electoral Votes	2016 D-R Margin	Biden – Trump lead
Arizona	11	-3.8	+4.0
Florida	29	-1.2	+7.8
Georgia	16	-5.3	-2.7
Michigan	16	-0.2	+8.4
Minnesota	10	1.7	+11.4
North Carolina	15	-3.8	+2.0
Ohio	18	-8.5	+1.5
Pennsylvania	20	-0.8	+7.4
Texas	38	-9.4	-0.2
Virginia	13	5.7	+11.0
Wisconsin	10	-0.8	+6.4

Source: RealClearPolitics, Standard Chartered Bank

Former Vice President Biden and President Trump are perceived differently on major issues, such as the economy, healthcare, COVID-19 response as well as foreign policy. We use this as the starting point of our analysis and conclude (i) the COVID-19 trajectory and response and (ii) the state of the economy could make or break Trump's re-election. This is because poor economic conditions have historically weighed against the incumbent's odds. The second wave of COVID-19 poses a challenge to the nascent economic recovery. Therefore, whether the latest softening in high frequency data is temporary or not will likely be an important near-term catalyst as it has a direct implication to how Trump acts next.

For Trump's odds to improve, we would likely need to see a stabilisation in the economic recovery's trajectory and an improvement in his approval ratings. The latter has largely continued to fall and remained far below the average president's trajectory at this point in the first term. As such, we believe Trump will try to walk a fine line between adopting a more aggressive international policy stance without undermining the domestic economy and financial markets.

Campaign strategies: What to watch out for

August brings some key events that will increase market focus on the electoral process. In early August, both contenders are expected to announce their Vice-Presidential running mates. The choices are likely to be closely scrutinised given Trump and Biden are both in their mid-70s and, whoever is elected in November, is not likely (or not permitted) to run in 2024. The Vice President nominees are also likely to be indicative of the campaign strategies and key message for both parties. Biden has already stated he intends to select a woman, and it is not yet clear if Trump will continue with current Vice President Mike Pence. This is followed by the two national conventions – 17–20 August for the Democrats, and 24–27 August for the Republicans. These are likely to be largely “virtual” due to the pandemic but will confirm the candidates and provide them with their first opportunity to outline their manifesto for voters and address the key themes of this election.

The table below provides our thoughts of the likely themes, and what strategy each candidate might take. The impact of the election result on markets will likely be increasingly anticipated by investors as polling results adjust closer to 3 November. In this respect, it is the Democratic platform that could generate a stronger reaction, based on whatever proposed changes to tax and regulation they lay out in August, particularly across the digital, environmental and healthcare sectors. Markets may react more cautiously if the current Democratic polling lead continues or widens in the weeks ahead.

Current polling suggests that Biden holds a relatively strong advantage so close to the election day and that the presidency could be “Biden’s to lose”. However, we do not expect a defensive campaign from the challenger. It is likely to be fiercely fought and tactics may well be “opportunistic” given that voters’ greatest concern is something that both candidates can perhaps only influence, but not control.

We believe the evolution of the COVID-19 pandemic across the US is likely, directly or indirectly, to be a key driver of the election outcome. A decline in the number of cases, or fast-track approvals and availability of a vaccine, would likely boost voter confidence in their safety and their economic prospects as sentiment could shift quickly to a positive “back-to-new normal”.

Trump is a likely beneficiary in this scenario, but timing is the critical variable. If Trump does not see a positive change quickly enough, we believe he may opt to shift greater focus to relations with China where he has more scope to act without recourse to Congress. A dramatic elevation of US-China tension could have an immediate impact across markets and could remain an overhanging risk.

This election process suggests uncertainty for markets that is likely to continue up to, and possibly beyond, 3 November. We will monitor and analyse ongoing developments based on the table of key strategies and drivers below.

Fig. 9 What strategies might Trump and Biden deploy to win the presidency?

Key drivers	TRUMP	BIDEN
COVID-19	Focus on the origin of the virus and await better data showing a decline in new cases and/or distribution of a vaccine under his watch; claim credit for the response to provide individuals and businesses with grants and loans quickly after the initial strong economic impact	Aim to portray Trump and his actions as the main reason why the US COVID-19 impact was so severe; use Trump's own words to showcase his inability to manage information and deploy others' expertise; promote the benefits of Obamacare
Economy	Claim credit for the strong economy pre-COVID-19 and strong equity markets - driven by his tax policy, interest rate “advice” and aggressive tariff strategy; shift the blame for the economic downturn to external parties/factors	Shift the narrative to wealth inequality and the need to change tax policy and regulation to address the issues; focus on poor economic data and the decline in the well-being of the average worker
Foreign Policy	Likely aim to shift China relations as a central key narrative for the campaign; promote the necessity for a firm US leadership and a new approach; rally around the flag	Maintain a balance between adopting a tough approach on China approach, but also offer solutions that are inclusive of historical allies and leverage/restore the power of international institutions
Others	Personalised attacks to argue that Biden is a “frail” candidate and represents a return to an outdated style of leadership; create doubts around his opponent; focus on law and order, returning jobs to the US and global leadership recognition in a changed world order	Environment and climate policies and agreements that Trump abandoned; the failure of the US to behave as a global leader; the need for continued healthcare progress; a return to trust, values, strong teams and decency

Source: Standard Chartered

Macro overview – at a glance



Key themes

Our Global Investment Committee expects the global economy to return to growth in Q3 20 after a sharp contraction in H1 20. Most economies are starting Q3 with increased domestic activity and improving sentiment on the back of policy easing and a gradual easing of lockdowns and mobility restrictions, although this is in part due to low base effects. China, the first to emerge from lockdowns, has surpassed expectations and returned to pre-pandemic output levels in Q2, although services have lagged. The US and Euro area are likely to recover lost output by end-2021 or early 2022. However, we have some concerns about the sustainability of the economic recovery, especially in the US, given the resurgence in COVID-19 cases, a levelling off in high-frequency indicators and renewed US-China tensions. Policymakers will likely need to step up efforts to mitigate downside risks.

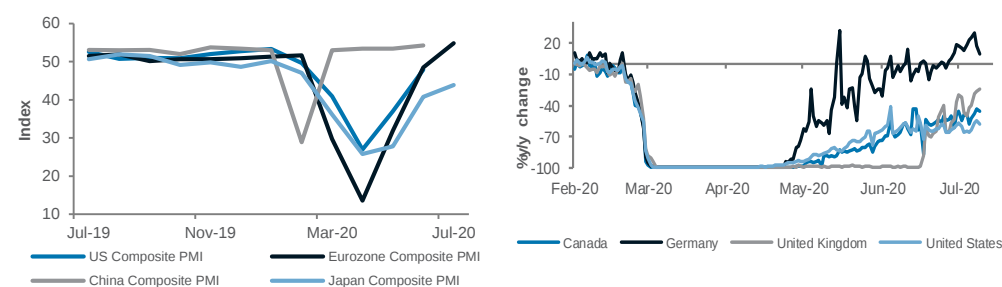


Key chart

The economic recovery continued at a solid pace at the start of Q3, in part due to low base effects. Our Global Investment Committee expects growth to recover in H2, but further policy support may be crucial.

Fig. 10 Signs of slowing economic recovery in US relative to other regions could prompt greater policy support

Composite PMIs for major economies; y/y % change in seated diners at restaurants



Source: Bloomberg, OpenTable, Standard Chartered

US	US is likely to return to growth in Q3 20 after a deep-but-short recession in H1 20, supported by unprecedented stimulus measures; pace of growth at risk of slowing in the near term, but ongoing discussions over a new stimulus proposal in Congress are key. Rising US-China tensions ahead of November's elections is a key risk.	○ Growth	○ Inflation	○ Benchmark rates	● Fiscal deficit
Euro area	Euro area likely to bounce back to growth in Q3 20 after a deep-but-short recession in H1 20 as governments implement fiscal stimulus and the ECB plans unlimited debt purchases. We see the EUR 750bn recovery fund as a major positive, particularly as funding via EU debt is a key step to more unified fiscal policy.	○ Growth	○ Inflation	○ Benchmark rates	● Fiscal deficit
China	China, the first major economy to ease lockdowns, staged a strong recovery in Q2 20. We expect growing credit stimulus and targeted policies to further boost infrastructure spending and consumption. Service sector activity is now 10-20% below pre-pandemic levels, while industrial activity is at or close to pre-pandemic levels.	○ Growth	○ Inflation	○ Benchmark rates	● Fiscal deficit
Japan	Japan likely to see a gradual recovery in H2 20 after a prolonged contraction following last year's sales tax hike and this year's pandemic. Weak global trade is likely to dampen the outlook, although record fiscal and monetary stimulus is likely to limit damage.	○ Growth	○ Inflation	○ Benchmark rates	● Fiscal deficit
UK	UK, the last of the major economies to ease lockdowns, likely to return to growth in H2 20 amid record low interest rates and significant fiscal stimulus; uncertainty over post-Brexit trade talks could undermine the business investment outlook.	○ 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

Credit (defined as corporate and EM bonds) remains a preferred holding as the gradual growth recovery, increased corporate focus on balance sheet health and relatively attractive yields should help them outperform government bonds. The Fed and ECB's commitment to maintaining accommodative monetary policy settings is likely to keep government bond yields low, intensifying the search-for-yield.

DM HY bonds remain a preferred holding as the gradual improvement in US growth, reduction in funding stress and slower pace of rating downgrades should support further reduction in credit spreads. Our bearish USD view should result in higher flows in EM assets and reduce EM vulnerability, which, combined with attractive valuations, should help drive credit spreads lower for EM USD government and Asian USD bonds, helping them outperform the broader market.

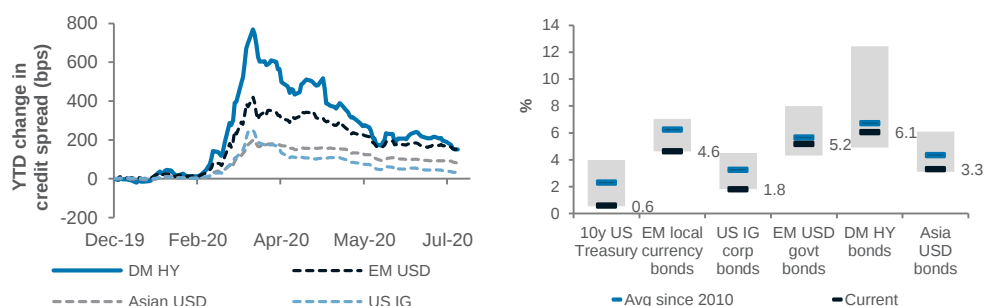


Key chart

Left chart: EM USD and DM HY bond credit spreads are c.150bps higher than at the start of the year.

Right chart: Apart from DM HY and EM USD bonds, yield offered by other bonds is close to their 10-year lows.

Fig. 11 DM HY and EM USD government bonds continue to offer attractive yield and value
YTD change in credit spreads and current yield versus the min-max and average yield since 2010



Source: Citigroup, J.P. Morgan, Barclays, Bloomberg, Standard Chartered. As of 27 July 2020.

Preference order	DM HY corporate	We view DM HY bonds as a preferred holding as their attractive yield and somewhat cheap valuations should help them outperform. Higher-than-expected defaults is a key risk.	Attractive yield	Valuation vs govt bonds	Credit fundamentals
	EM USD government	EM USD government bonds are a preferred holding , owing to their attractive yield and valuations. A sharp deterioration in EM sentiment is a risk for EM bonds.	Valuation vs govt bonds	Macro factors	Rates policy
	Asia USD	We view Asia USD bonds as a preferred holding given their relatively high credit quality, moderate yield and defensive characteristics. A slower-than-expected recovery in China is a risk.	Credit fundamentals	Macro factors	Valuation vs govt bonds
	EM local currency	EM local currency bonds are a core holding as their reasonable yield, supportive EM central bank policies and our expectation of EM FX strength are balanced by higher volatility and less attractive valuations.	FX outlook	Macro factors	Rates policy
	DM IG corporate	We view the asset class as less preferred . In our assessment, supportive central bank policies and reasonable valuations are offset by the deterioration in credit fundamentals and better value elsewhere.	Valuation vs govt bonds	Credit fundamentals	Macro factors
	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

Global equities remain a preferred asset class. Factors driving our optimism include: COVID-19 vaccines entering phase 3 trials, re-assessment of the implications of Joe Biden as US President and a stabilisation in earnings forecasts. Investors are beginning to consider the implications of these factors for out-of-favour sectors, such as industrials, materials and energy. These “value sectors” have recently witnessed an improvement in performance, but it is yet to develop into a fully-fledged trend.

Investors remain concerned about expensive valuations in global equity markets that have risen to a P/E ratio of 20x 12-month ahead earnings forecasts. Growth sectors continue to attract a valuation premium, whereas value sectors trade on low valuations. Growth sectors, including healthcare, remain preferred in the US, Euro area and China.

US, Asia ex-Japan and Euro area rank as preferred. Historically, a weaker USD has favoured Euro area and EM equities in USD terms. In our opinion, they will do well in the current weak USD environment, though US equities will do best.



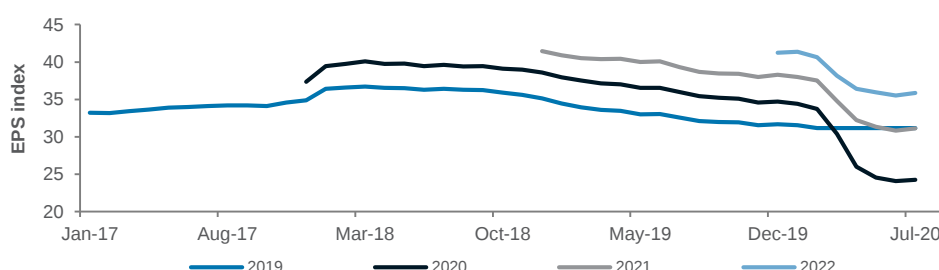
Key chart

Consensus global earnings forecasts are showing clear signs of bottoming.

This validates our view that earnings will be impacted this year, but recover sharply thereafter.

Fig. 12 Global 12 month ahead consensus profit forecasts are bottoming

MSCI All-Country World profits expressed as an index over time



Source: MSCI, Standard Chartered; as of 27 July 2020

Preference order	US equities	US is a preferred holding. Continued policy support and stabilising expectation for future earnings are supportive of the market. Earnings are expected to rebound 25% in 2021, in our view.	Bond yields	Fund flows	Geopolitics
	▽ ◆ ▲				
	Asia ex-Japan equities	Asia ex-Japan is also a preferred holding. Low bond yields and USD weakness should support growth in the region. Both China onshore and offshore are preferred within Asia ex-Japan.	Bond yields	Fund flows	Geopolitics
	▽ ◆ ▲				
	Euro area equities	Euro area is also a preferred holding. The recently announced deal on a EUR 750bn COVID-19 fund is positive for sentiment, investment and a recovery in earnings in 2021. Bond yields remain supportive.	Bond yields	Fund flows	Geopolitics
	▽ ◆ ▲				
	Japan equities	Japan is a core holding. Cash levels among corporates are the second highest across the five regions in our universe. The BoJ's plans to increase purchases of equities is supportive of the market.	Bond yields	Fund flows	Geopolitics
	▽ ◆ ▲				
	EM ex-Asia equities	EM ex-Asia is a core holding. A recovery in precious and base metal prices should boost the commodity-heavy EM-ex Asia index. Bonds yields are supportive; we continue to monitor COVID-19 infections.	Bond yields	Fund flows	Geopolitics
	▽ ◆ ▲				
	UK equities	The UK is less preferred. UK equities have significantly underperformed global equities YTD. USD weakness and a recovery in base metal prices should support the index. Brexit negotiations are a risk.	Bond yields	Fund flows	Geopolitics
	▽ ◆ ▲				

Source: Standard Chartered Global Investment Committee

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

FX – at a glance



Key themes

The USD has continued to decline, with the EUR and AUD being the primary beneficiaries. Although a USD technical rebound is likely in our view, the near- and longer-term USD trend remains down. We expect a broad decline of around 6-7% over the coming 12 months. We also anticipate periods of higher volatility, possibly linked to the ebb and flow of the US election process.

We see the EU recovery fund agreement in July as a EUR game changer, lifting market confidence in the longer-term viability of the EU. The USD has already lost much of its relative advantage in interest rates and growth. Investors may see non-US assets offering relatively more attractive returns, with long-term investor and reserve manager net USD outflows a key driver.



Key chart

The agreed EU recovery plan has improved the outlook for a unified EU, narrower yield spreads and a stronger EUR. In response, the USD index (DXY) is breaking below the technical support. We expect the USD (DXY) index to fall towards 88.00 over 12 months.

Fig. 13 EU recovery plan supports EUR by starting to reduce European periphery risk

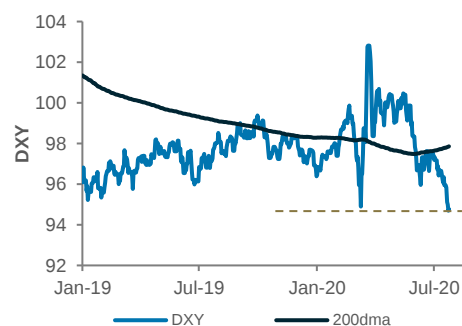
EUR/USD vs. 10y Italian bond yield premium over German Bunds



Source: Bloomberg, Standard Chartered

Fig. 14 Stronger EUR is driving USD below support level

USD index (DXY) vs. 200-day moving average and technical support



Source: Bloomberg, Standard Chartered

USD (DXY) 	Core medium-term USD supports have faded, and momentum for the USD downtrend should be persistent Relative interest rates Relative growth rates Flows & sentiment
EUR/USD 	The EU recovery plan is a game changer for fiscal unity, and we expect EUR/USD to reach 1.24 over 12 months Relative interest rates Relative growth rates Flows & sentiment
GBP/USD 	Brexit deal uncertainty may keep the GBP steady near term, but we expect a deal and a rally to 1.35 medium term Relative interest rates Relative growth rates Flows & sentiment
USD/CNY 	Chinese stimulus and currency management should see stable USD/CNY despite rising US-China tension Relative interest rates Relative growth rates Flows & sentiment
USD/JPY 	Monetary, fiscal stimulus and safe-haven flows will balance yield-seeking outflows, keeping USD/JPY range-bound Relative interest rates Relative growth rates Flows & sentiment
AUD/USD 	Global economic recovery from the pandemic shock should support an AUD/USD rally towards 0.75 medium term 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

CSI 300: Scope to rise further

The recent retreat in China A-shares appears to be a pause rather than the start of a reversal of the uptrend. There are two reasons why the benchmark CSI 300 index has scope for further rise once the pause is over.

Despite the multi-year deleveraging, prolonged economic uncertainty and the recent COVID-19 crisis, the index has broadly held above its 89-month* moving average (see chart). This is a reaffirmation that the long-term uptrend remains intact. Second, the index's rise this month above major resistance at the 2018 high of 4,403 has triggered a major double-bottom pattern (the 2016 and 2019 lows), implying a potential rise toward the 2007 high of 5,892.

The risk to the above view is a break below key support on the 200-day moving average (now close to 4,010; around 14% below Wednesday's close).

EUR/USD: Medium-term outlook is improving

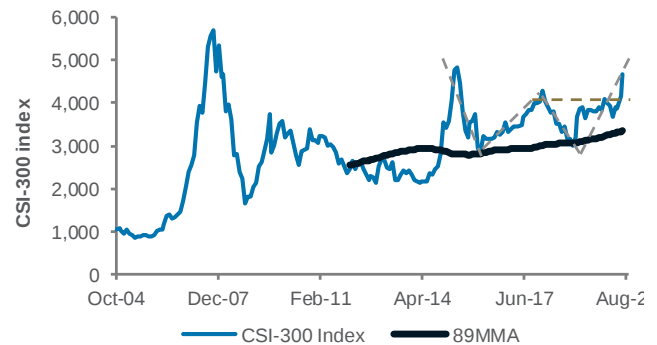
After remaining in a range for months, EUR/USD's medium-term outlook is beginning to improve. This year, the single currency has held above strong 2015-2017 support area at 1.0350-1.0450. This month, it has broken above key converged resistance on the 200-week moving average and the March 2020 high. EUR/USD is nearing resistance at the September 2018 high of 1.1820. The next barrier lies at 1.2100, with stiff resistance at the 2018 high of 1.2550. On the downside, unless it breaks below the June low of 1.1167, the outlook remains bullish.

Gold: Rally could pause after new highs

A potential negative divergence on the weekly charts – rising price associated with declining 14-week relative strength index (RSI) – is a sign that the multi-month rally may be close to a near-term correction, following the break of the 2011 high at 1,920 and approaching the 2,000 level. The yellow metal is also overbought on the monthly charts (the 14-month RSI is above 80). Given the almost 70% rise since late 2018, gold could find it tough to push far beyond 2,000 without some correction. However, even in the event of a meaningful pause, the long-term uptrend is likely to remain intact while it holds above the 200-day moving average (now around 1,627), close to 17% below Wednesday's close).

Fig. 15 CSI 300: Scope to rise further

CSI 300 index, monthly chart with the 89-month* moving average



Source: Bloomberg, Standard Chartered

*89 months chosen because (i) it is a Fibonacci number and (ii) it is the longest-possible relevant monthly average given relatively limited index history

Fig. 16 EUR/USD: Medium-term outlook is improving

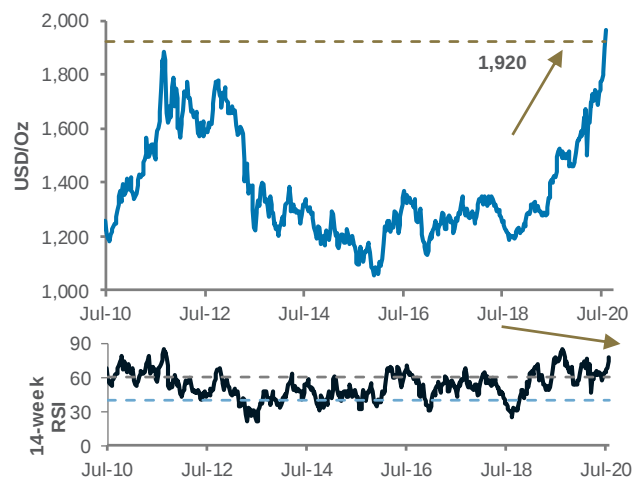
EUR/USD, weekly chart with the 200-week moving average



Source: Bloomberg, Standard Chartered

Fig. 17 Gold: Rally may pause after reaching an all-time high

XAU/USD, weekly chart with 14-week RSI



Source: Bloomberg, 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.

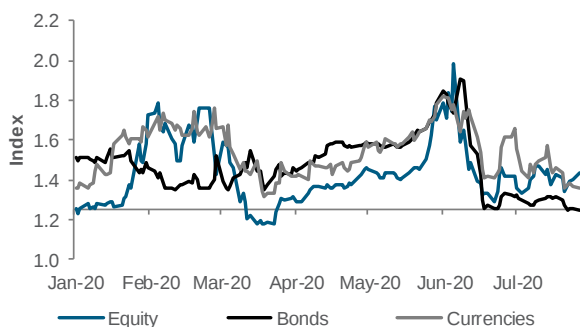
Where is diversity falling or rising this month?

Market diversity across asset classes has broadly trended flat or lower since June. Among the three broad asset classes, bonds are currently trading with the lowest market diversity on average, underpinned by their rally that pushes liquidity conditions tighter. Meanwhile, diversity of equity markets has largely flat-lined, while diversity across currencies narrowed due to continued weakness in the USD.

All in all, the average market diversity indicators (their "fractal dimension") within the equity and currency markets remain comfortably above the 1.25 cut-off, while the average diversity in the bond markets has fallen below the cut-off.

Fig. 18 Average fractal dimension within each asset class on 25 July 2020

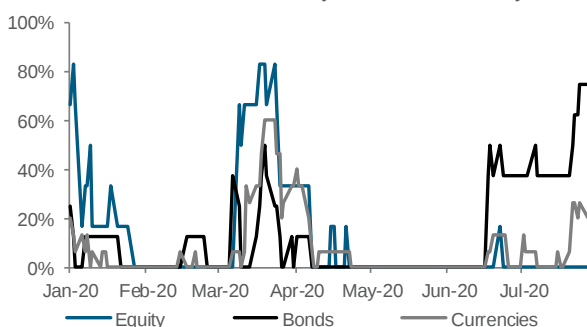
Market diversity across asset classes continues to improve



Source: Standard Chartered

Fig. 19 % of assets with fractal dimension <1.25 for each asset class on 25 July 2020

None of the assets tracked show very low market diversity



Source: Standard Chartered

Within bonds, Global HY is the only bond index with diversity not sitting below the 1.25 cut-off. It is important to note, however, that the low volatility of bond markets compared to equity markets has typically resulted in market diversity staying low for longer before a trend break occurs.

For equities, our indicator suggests none of the major markets we track are currently at a high risk of a downward reversal. Asia ex-Japan and EM ex-Asia equities have the lowest diversity, but are still looking comfortable. Meanwhile, the lower diversity across currencies has coincided with a weaker USD and risky assets rally. However, the EUR is the only currency currently with diversity below the 1.25 cut-off as its continued appreciations against the USD looks overdone.

Other assets with diversity close to or below the 1.25 cut-off are also given in Fig. 20.

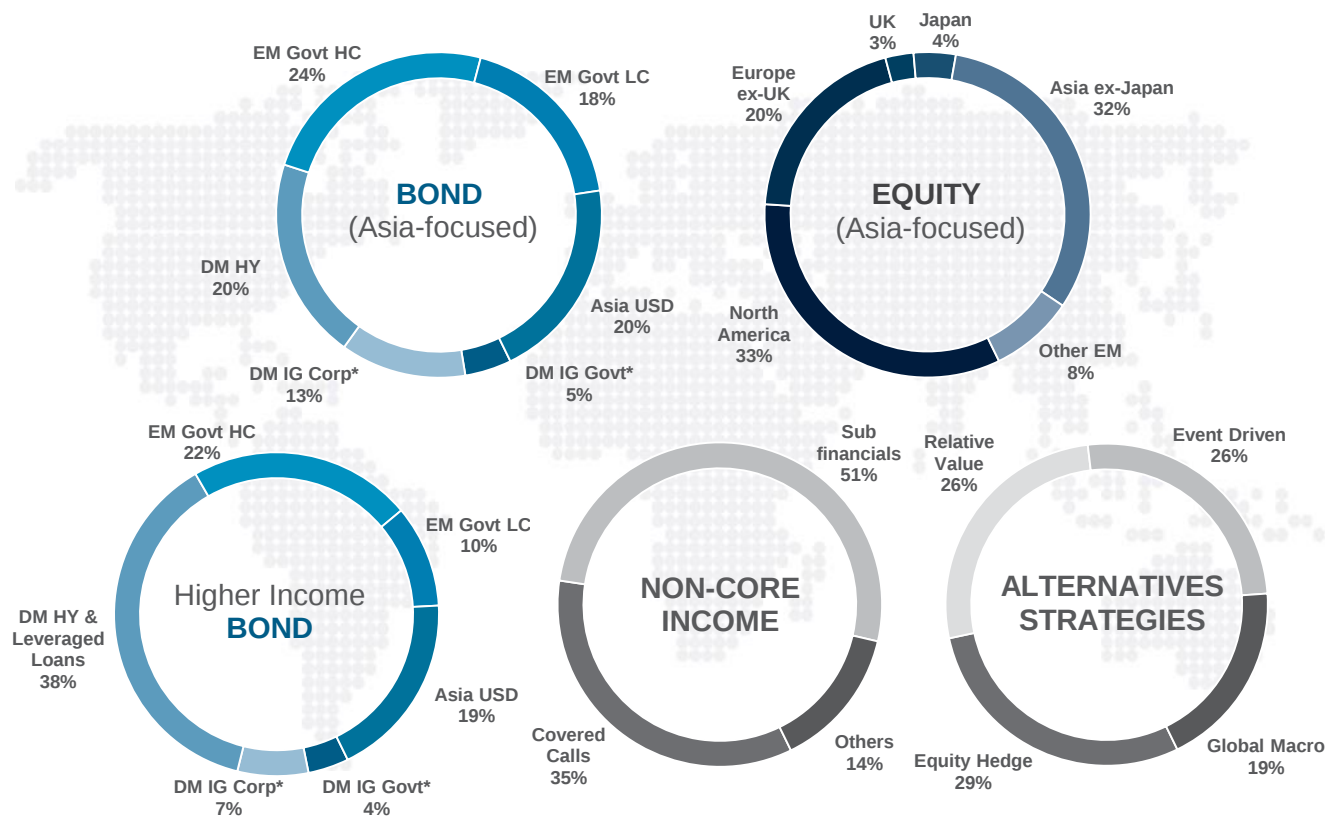
Fig. 20 Assets with market diversity very close to or below cut-off level of 1.25

Level 1	Diversity	Direction since June
HFRX Global Hedge Fund	○	→
FTSE World Broad IG Bond ex-MBS	○	↓
Gold Spot	●	↓
Bond		
FTSE DM IG Sovereign Bond	○	↓
FTSE DM IG Corporate Bond	○	→
Bloomberg Barclays Global High Yield	●	→
JPM EM Global Diversified Bond	○	↓
JPM EM Government Local Bond	○	↓
JPM Asia Credit	○	→
Currencies		
EUR/USD	○	↓
AUD/USD	●	→

Source: Bloomberg, Standard Chartered; Data as on 25 July 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	▼	10	3	1	0	10	3	1	0
Fixed Income	▲	71	47	35	10	71	47	35	10
Equity	▲	19	36	50	81	19	36	50	81
Gold	▲	0	6	6	5	0	6	6	5
Alternatives	◆	0	8	8	4	0	8	8	4
Asset class									
USD Cash	▼	10	3	1	0	10	3	1	0
DM Government Bonds*	▼	3	2	2	0	5	3	2	1
DM IG Corporate Bonds*	▼	9	6	4	1	13	8	6	2
DM HY Corporate Bonds	▲	14	9	7	2	20	13	10	3
EM USD Government Bonds	▲	17	11	8	2	13	9	6	2
EM Local Ccy Government Bonds	◆	13	9	6	2	10	7	5	1
Asia USD Bonds	▲	14	10	7	2	11	7	5	1
North America Equities	▲	6	12	17	27	10	19	27	44
Europe ex-UK Equities	▲	4	7	10	16	2	3	5	8
UK Equities	▼	1	1	1	2	1	1	1	2
Japan Equities	◆	1	1	2	3	1	1	2	3
Asia ex-Japan Equities	▲	6	11	16	26	4	7	10	17
Non-Asia EM Equities	◆	2	3	4	7	2	3	4	7
Gold	▲	0	6	6	5	0	6	6	5
Alternatives	◆	0	8	8	4	0	8	8	4

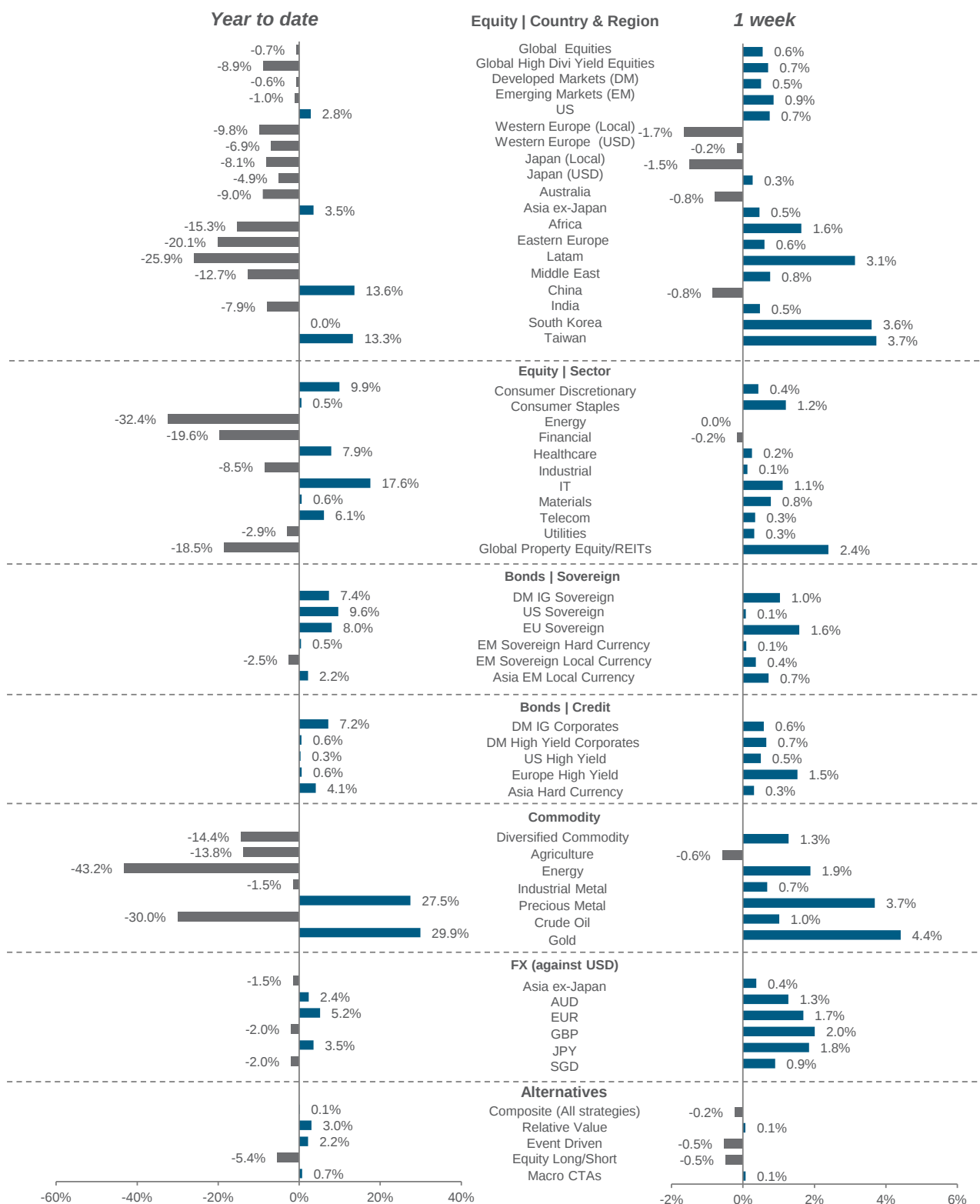
All figures in %. Source: Standard Chartered.

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 data from 31 December 2019 to 29 July 2020 and 1-week performance from 23 July 2020 to 29 July 2020

Events calendar

AUGUST 2020

05	ECB to submit rationale behind QE programme to German court
06	BoE policy decision
17-20	Democratic National Convention
24-27	Republican National Convention

SEPTEMBER 2020

X	G7 meet in Washington DC, US
X	China's President Xi visits Germany for summit with EU state leaders
10	ECB policy decision
16	FOMC policy decision
15-22	UN General Assembly in New York
17	BoJ policy decision
17	BoE policy decision
29	First US presidential election debate

OCTOBER 2020

15	Second US presidential election debate
15-16	G20 Finance Ministers and central bankers' meet
22	3 rd US presidential election debate
29	BoJ policy decision
29	ECB policy decision

NOVEMBER 2020

03	US presidential and Congressional elections
05	FOMC policy decision
05	BoE policy decision
08-12	APEC Summit in Malaysia
21-22	G20 Summit in Saudi Arabia

DECEMBER 2020

10	ECB policy decision
16	FOMC policy decision
17	BoE policy decision
18	BoJ policy decision
31	End of Brexit transition period

JANUARY 2021

20	US presidential inauguration day
21	ECB policy decision
27	FOMC policy decision

FEBRUARY 2021

04	BoE policy decision
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MARCH 2021

11	ECB policy decision
18	BoE policy decision

APRIL 2021

22	ECB policy decision
----	---------------------

MAY 2021

06	BoE policy decision
----	---------------------

JUNE 2021

10	ECB policy decision
24	BoE policy decision

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

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

Manish Jaradi

Senior Investment Strategist

Francis Lim

Senior Investment Strategist

Ajay Saratchandran

Senior Portfolio Manager

Steve Brice

Chief Investment Strategist

Audrey Goh, CFA

Senior Cross-asset Strategist

Fook Hien Yap

Senior Investment Strategist

Samuel Seah, CFA

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Discretionary Portfolio
Management

Daniel Lam, CFA

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Senior Portfolio Strategist

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Head
Equity Investment Strategy

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Senior Investment Strategist

Cedric Lam

Investment Strategist

Trang Nguyen

Portfolio Strategist

Manpreet Gill

Head
FICC Investment Strategy

Belle Chan

Senior Investment Strategist

DJ Cheong, CFA

Investment Strategist

Marco Iachini, CFA

Cross-asset Strategist

Sean Pang

Investment Strategist



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