

# An improving outlook

## Global Market Outlook (In-brief)

November 2019

# Investment strategy



## IMPLICATIONS FOR INVESTORS

Global equities and multi-asset income strategies likely to outperform bonds and cash

Within bonds, we believe Emerging Market assets are particularly attractive

Within equities, we have a preference for US and Euro area equities

Gold may be a good way to hedge risks

## An improving outlook

- We retain a constructive view on risk assets (equities and credit) and multi-asset income strategies, especially over the next 3-6 months.
- Within equities, we have a preference for Developed Markets. The Euro area joins the US as a preferred equity market. We prefer to gain Emerging Market exposure through bonds, especially EM government and Asian USD corporate.
- Gold is a good way to hedge downside risks, mainly stemming from geopolitical and trade issues.

Global risk appetite appears to be gradually returning. US stocks have broken to new record highs as fears of an imminent US recession recede, amid expectations of an interim US-China trade deal and a 'soft' Brexit.

### Investors reluctant to embrace the rally

While this positive narrative has led to improved sentiment, with global equity markets recovering and credit outperforming government bonds, investors appear reluctant to fully embrace risk assets. Fund managers have actually increased cash holdings, which remain at levels that have historically been associated with the outperformance of global equities in subsequent periods.

### Economic data mixed, US earnings 'surprise' positively

US economic data has been mixed with hard data showing signs of stabilisation, but business sentiment has weakened. Meanwhile, there are early signs, especially in the Euro area, that the weakness in the manufacturing sector may be spreading to the services and consumer sectors. Finally, the IMF's decision to cut its 2020 economic growth for China below 6% merely reinforces the view that China is facing a structural slowdown, not just trade-related weakness.

Having said that, earnings growth expectations are showing tentative signs of bottoming out. Also, the Fed cut rates for the third time this year, enabling other central banks to ease policy. Fiscal policies in China, India and other EMs have also turned supportive, helping in sustaining the economic expansion.

Figure 1

#### Some near-term indicators are showing tentative signs of bottoming

Global equities EPS growth; factors influencing risk assets over 3-6 months – our assessment



Source: Bloomberg, FactSet, Standard Chartered

## What does it all mean?

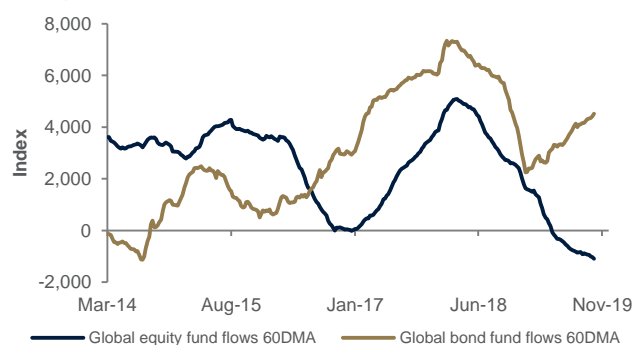
Although global growth has slowed this year, there are some signs the worst may be behind us. For instance, the decline in US bond yields (and mortgage rates) this year is likely to be a positive impulse for the important housing market and the overall economy. A US-China trade truce should also potentially soften and reverse some of the demand destruction caused by the trade policy uncertainty. While US job creation is slowing, the economy is still generating more jobs than entrants to the workforce, supporting consumption. Meanwhile, China's economic slowdown is being supported by targeted fiscal and monetary policy easing measures. This should be positive for Europe's substantial export sector.

Looking forward, policymakers remain focused on managing downside risks. For central banks, the bias remains towards further easing. Governments, especially in Germany and China, are increasingly under pressure to expand fiscal policy. Adding the fact that fund managers are defensively positioned, with elevated cash levels and allocations to defensive assets, we believe risk assets are set to do well from here, particularly in the next 3-6 months.

Figure 2

**Significant outflows in equities and inflows in bonds suggest fund managers are defensively positioned**

Total long-term mutual fund and ETF weekly flows



Source: Bloomberg, ICI, Standard Chartered

## Equities at a critical juncture

From a technical standpoint, equity markets have broken above recent ranges. Global equities appear headed to test all-time highs, while US equities have already set new all-time highs. A short-term pullback cannot be ruled out in case of disappointment around trade developments. However, the recent steepening of the yield curve suggests the current easing cycle is precautionary, and history suggests

precautionary Fed rate cuts are positive for US and global equities. The US remains a preferred market for us.

We have upgraded Euro area equities to a preferred market. While regional data remains negative, we believe much of this is already priced in, with Euro area equities trading at close to 20-year lows relative to global equities. Meanwhile, investor positioning has shifted to more neutral levels. This means any upside surprise in Europe, for instance on the fiscal policy front, could lead to an outsized market reaction.

## Prefer credit and Emerging Market bonds

While we believe the risks are skewed to a slight disappointment when it comes to US monetary policy settings, with markets gradually paring back Fed rate cut expectations for 2020, we believe benign inflation indicators will cap any rise in DM bond yields.

This, together with our outlook for stabilising growth, leads us to continue to prefer corporate and EM USD bonds (credit). Within this, we have a preference for EM bonds – we maintain our preference for EM USD government bonds, but also upgrade EM local currency government bonds as a preferred area within bonds. USD-denominated bonds continue to be well-supported by what we see as reasonable valuations and relatively contained risk from higher Treasury yields. Local currency bonds have always offered a competitive yield, but we now believe the inherent currency risk may be worth taking, given our increasingly bearish view on the USD.

Asia USD bonds also remain preferred, with a stabilising (or even improving, based on some data points) Chinese growth outlook likely to offer some support to the riskier High Yield (HY) component.

## Gold a hedge amid a weaker USD

While we hold the view that growth is likely to stabilise, albeit at a relatively weak level for now, we continue to believe a barbell approach remains sensible at this stage in the cycle. Gold may very well face some near-term headwinds if Treasury yields temporarily creep higher, but it remains a way to partially protect against any unexpected shock that could threaten the ongoing expansion.

Meanwhile, we now expect the USD to weaken on a 12-month horizon as its expensive valuation is eroded by Fed rate cuts, rising global USD liquidity and increased risk appetite amid easing global trade tensions. This should favour the EUR and GBP initially.



# Perspectives on key client questions

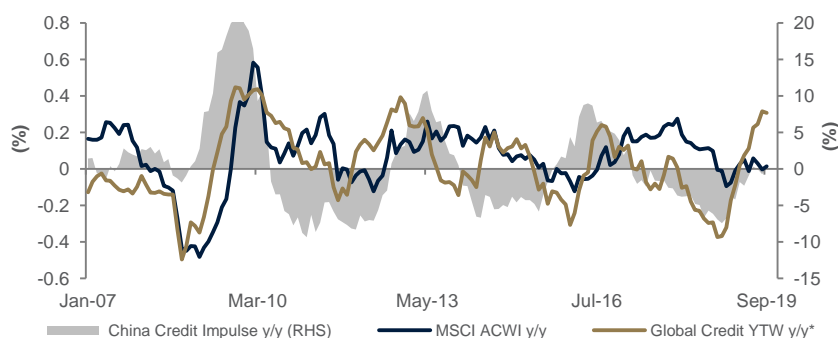
**Q** Your asset allocation preferences indicate a relatively constructive view of the world. Yet, the economic backdrop seems mixed at best. What are the key drivers for this view?

Our Global Investment Committee has a “glass half full” view of the world. While recent economic data may appear mixed, as we note in the investment strategy section, we see tentative signs of stabilisation. Putting this in a longer-term context, we would associate the current economic backdrop with that of modest growth rather than an outright reflationary or recessionary scenario. While we acknowledge the ongoing risks (global trade tensions, Brexit and geopolitics), our analysis indicates that a balanced, pro-risk (equities and credit) asset allocation with a focus on multi-income strategies can continue to perform well in this environment.

**Figure 3**

## Global risk asset prices tend to respond to Chinese stimulus

Yearly change in global equities and global corporate bonds overlayed by the growth in Chinese credit measures (i.e., Credit impulse)



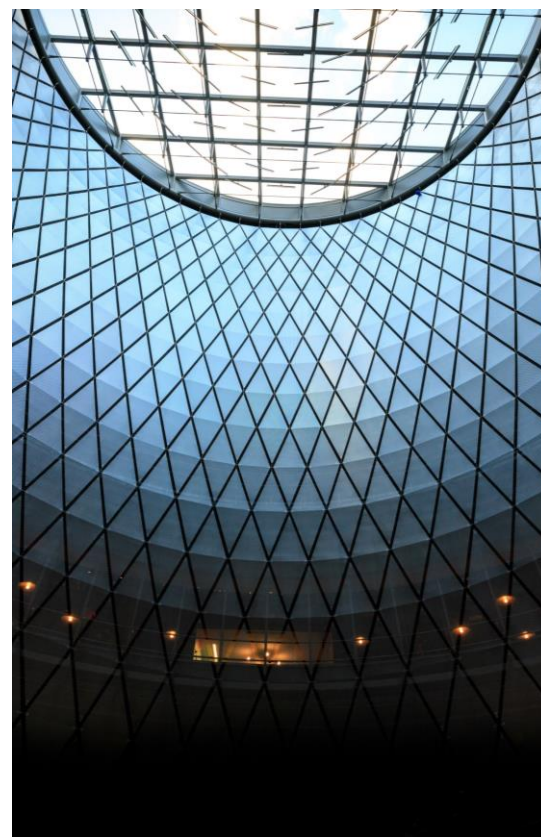
Source: Refinitiv, Standard Chartered

\* Bloomberg Barclays Global Aggregate Bond index Yield-To-Worse (Inverted)

## Central banks have responded to the macroeconomic slowdown

One key aspect of our thesis is the response of central banks around the globe. Not only there has been a decisive U-turn in monetary policy globally in 2019, but in recent months both the Fed and the ECB have also begun injecting liquidity by re-committing to expand their balance sheets (i.e., the Fed's USD 60bn monthly Treasury purchases and the ECB's new bond-buying programme). Additionally, the PBoC has been in an easing mode since June 2018 and its policy has been accompanied by fiscal measures as well; in the past, these have been supportive of risk assets globally (Figure 3).

While monetary stimulus alone can support growth in the short term, the deployment of fiscal stimulus policies is also likely to be important. Our Global Investment Committee sees the probability of fiscal stimulus in both Developed and Emerging Markets rising in the next 12 months. This, in turn, should bode well for risk assets in the long term.



## US still steady, Europe likely turning around

Recently, economic growth concerns have centred on 1) further decreasing trade volumes, 2) whether the manufacturing slowdown may spread to the other parts of the economy.

To be fair, recent US data, such as the latest retail sales numbers or University of Michigan sentiment survey, point to a softening on the consumer side. Meanwhile, business confidence surveys highlight the services segment of the economy has also weakened somewhat, causing investors to worry about a potential negative feedback loop.

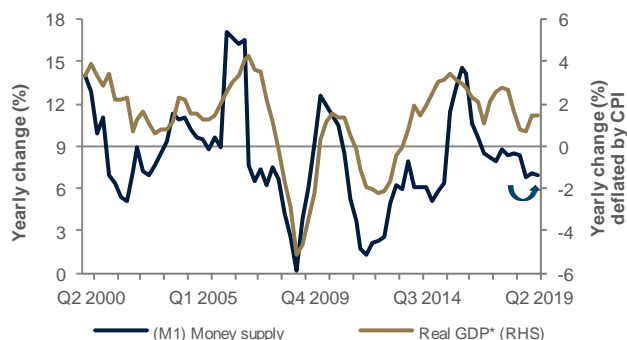
However, the data does not appear consistent with a recessionary scenario and would have to be much more pronounced to suggest a significant downturn or recession as opposed to a slowdown to a more modest level of growth.

There is a risk of US political uncertainty rising in the run-up to the November 2020 presidential elections, especially if Democrat candidate Elizabeth Warren emerges as the main challenger to President Trump. Warren's campaign has focussed on raising taxes for high-income earners, greater regulation of the financial sector and wider health coverage for citizens – policies that are likely to dampen business and investor sentiment. The US Congress is also moving ahead with its impeachment proceedings against the president. Although such a move could pass the Democrat-controlled Congress, we see low chances of it being approved by the Republican-controlled Senate.

Figure 4

### Easy monetary conditions tend to support economic activity in the Euro area

Yearly change in (M1) Money Supply in circulation vs real GDP growth



Source: Bloomberg, Standard Chartered

\* Gross Domestic Product growth deflated by inflation data (CPI)

On the other side of the Atlantic, while Euro area economic growth appears worse at first glance, we are seeing some underlying improvements. What is essential for the turnaround of the regions' fortunes is a coordinated fiscal push. Although this is a longer-term structural measure, recent news flow from Germany makes us more hopeful that a change of stance towards fiscal reforms is being considered. Moreover, Lagarde's appointment at the helm of the ECB could help accelerate this process, in our view.

In the near term, we view the recent ECB decision to embark on a new wave of easing as a positive. Historically, when money supply has increased, economic activity has followed (Figure 4). Moreover, one unique aspect of central bank quantitative easing is that government bond yields tend to rise during periods of balance sheet expansion. Such periods are usually characterised by strong equity market performance, as the gap between equity dividend yield and low bond yields closes.

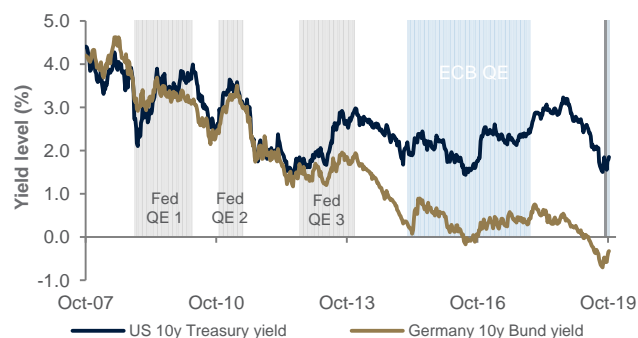
Another positive development for the Euro area centres on foreign investor flows. In fact, flows in both equity and debt instruments have recently rebounded, albeit from low levels, a trend we believe can continue.

The overall shift in sentiment has been reflected recently by market performance – both European equities and investment grade credit have outperformed their global benchmarks by 0.7% and 1.4% respectively over the past month. We see room for this outperformance in equities to continue and, thus, upgrade the region's equities to preferred alongside US equities (see the Euro area equity section for further details).

Figure 5

### Periods of central bank balance sheet expansions have generally tended to experience a rise in government yields

US and German government yields during periods of quantitative easing



Source: Bloomberg, Standard Chartered



## What should investors watch out for?

### The Brexit saga

The ongoing Brexit saga poses one risk to our view. Although UK policymakers appear largely in agreement with an orderly departure from the EU, PM Johnson has failed to secure an exit agreement by the 31 October deadline, resulting in yet another extension. The focus now turns to the general election on 12 December. There are three likely outcomes: a) Johnson's Conservative party wins a clear mandate; b) a mandate to cancel Brexit; c) an opposition coalition that forces a second referendum.

While the election outcome itself is difficult to forecast at this stage, the first two outcomes are likely to be positive for UK assets and the GBP. The former provides a mandate to leave the EU based on Johnson's deal agreed with the EU in October. The second option, which polls suggest is the least likely, would be the best outcome for UK assets. The last scenario, while not necessarily negative, may cause prolonged volatility in UK assets, especially if a Labour-led government pursues less business-friendly policies.

### US-China trade talks

A second risk to our view is a renewed fallout from the US-China trade negotiations. Recent announcements that a 'Phase-1' agreement may be reached later this year is a positive, which suggests risks of a renewed flare-up in the next few months have fallen. However, negotiations have taken many twists and turns over the past year; hence, we would remain on watch for any surprises. For example, the cancellation of the APEC meeting by host country Chile (although for unrelated reasons) adds to the uncertainty regarding a deal-signing meeting timeline.

### Fed policy

The Fed cut its key interest rate for the third time this year, while omitting some key language in its statement. Previously Fed officials stated they would "act as appropriate" to sustain the record-long US economic expansion. The intentional omission may imply a pause to rate cuts. Chairman Powell views rates as being close to appropriate levels and noted that the committee's members "are not thinking about raising rates right now." The central bank may now wait for more information on trade negotiations and the global economic situation before signalling future intentions. We view the willingness to keep

rates unchanged as a positive for markets, though we remain on watch for any changes in this stance.

### Stay invested; stay diversified

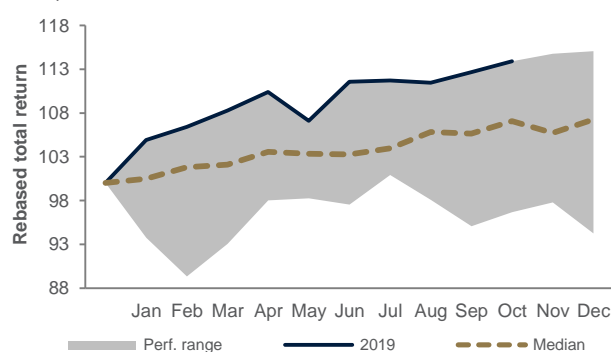
Thus far in 2019, financial assets have weathered difficult economic and geopolitical conditions. Market volatility has stabilised near 10-year average levels (bond volatility is slightly higher, while equity volatility has receded from 2018 levels). Many analysts have also highlighted the rise in equity-bond correlations to unfavourable levels for investors (i.e., should correlations stay at today's levels, bonds may provide less of a hedge during a downturn phase).

Nonetheless, we note that the performance of a 'traditionally' balanced 60/40 equity-bond allocation in 2019 has been strongest in the past 10 years. The average yearly total median return for the period stands at 7.25%. The main conclusion we draw is that investors can benefit from staying invested and staying diversified for the long term, even in the most basic sense. In a year like 2019, where the narrative has been remarkably negative at times, staying on the sidelines would have meant missing a period of fairly strong performance.

Figure 6

#### 2019 has been a favourable year for 60/40 portfolios

Range of performance for the past 10 years of 60/40 global equities/global bonds portfolios



Source: Bloomberg, Standard Chartered

Global equities: MSCI All Country World Index Total Return

Global Bonds: Bloomberg Barclays Global Aggregate Bond Index Total Return

# Macro overview

## Global stimulus to sustain growth

- **Core scenario:** The Fed's three rate cuts this year, which enabled other major central banks to ease monetary policies, and fiscal stimulus in China, India and other Emerging Markets (EMs), are likely to stabilise global growth in the coming quarters, in our assessment. A weaker USD is likely to support this trend.
- **Policy outlook:** The Fed is likely to cut rates further in 2020 to sustain the record expansion, while the ECB and the BoJ are likely to maintain their ultra-easy policy stance. We assign the highest probability of a fiscal stimulus in Europe and China in 2020.
- **Key risks:** US political uncertainty ahead of 2020 US presidential elections has emerged as a major source of downside risk. Easing US-China trade tensions and fiscal stimulus in Europe can potentially improve risk sentiment.

### Core scenario

Global growth and inflation expectations remain subdued, with business confidence in trade-dependent Europe, Japan and EMs sapped by the on-again-off-again US-China trade uncertainty. However, consumption and service sectors remain relatively resilient on the back of strong job markets. On balance, we believe the significantly dovish turn in monetary policies worldwide over the past year, led by the Fed's three rate cuts, is likely to put a floor under global growth and help sustain the expansion. Fiscal policies have also become easier in China, India and other Emerging Markets (EMs) lately, even as the impact of previous tax cuts in the US fades. The focus now turns to a possible thaw in US-China trade relations, with a partial agreement expected before year-end. A breakthrough here and growing expectations of fiscal stimulus in Europe have the potential to support global economic and business sentiment, in our view.

Figure 7

Central banks worldwide have turned decisively dovish

Region	Growth	Inflation	Benchmark rates	Fiscal policy	Comments
US	●	●	●	●	The Fed is likely to cut rates further in 2020 to sustain the record economic expansion. We see waning chances of a recession in next 12 months
Euro area	○	●	●	●	Thaw in US-China rift to soften growth slump, but EU fiscal stimulus needed for sustained recovery. Expect new ECB chief Lagarde to push for this
UK	○	●	●	●	The UK's focus turns to another general election on 12 December to break the Brexit deadlock
Japan	○	●	●	●	The BoJ likely to ease policy further to offset external risk and impact of consumption tax hike
Asia ex-Japan	●	●	●	●	Asian central banks, including the PBoC, are likely to ease monetary policy further; China and India's fiscal easing are also growth-supportive
EM ex-Asia	●	●	●	●	Brazilian Senate's approval of pension reforms is a major step forward in its fiscal restructuring

Source: Bloomberg, Standard Chartered

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



## IMPLICATIONS FOR INVESTORS

The Fed is likely to ease further in 2020, with at least one more rate cut expected

The BoJ and the ECB are likely to maintain their loose monetary policy stance, while the PBoC eases policy further

Besides easing US-China trade tensions, fiscal stimulus in Europe and China have the biggest potential to deliver upside surprise to global risk sentiment

# Bonds

## EM bonds to outperform

- We retain our preference for credit-driven bonds (USD bonds offering a yield premium over Treasuries) over rates-driven bonds (local currency government bonds) as the yield premiums on offer and the continued demand for income-generating assets should help them outperform.
- In **Credit**, we continue to favour Emerging Market (EM) USD government bonds and Asia USD bonds. In our assessment, the attractive yield of over 5%, cheap valuations and improved EM risk sentiment, owing to progress in US-China trade talks, should help EM USD government bonds outperform global bonds. We like the high credit quality, moderate yield and low volatility of Asian USD bonds. Within Asia, we now prefer High Yield (HY) bonds over Investment Grade (IG) bonds.
- Developed Market (DM) IG and DM HY corporate bonds are a core holding as the yield premiums appear fair given the increased concerns about deterioration in corporate balance sheets.
- Within **Rates**, we upgrade EM local currency bonds to a preferred holding on expectations for a weaker USD, continued policy easing and a potential uptick in EM growth in 2020.
- DM IG government bonds are least preferred as we believe the risks are skewed towards modestly higher yields, which could lead to negative returns, given the already low coupons on offer. Following the rate cut in October, we expect the Fed to cut rates only once in 2020, which should keep the 10-year US Treasury yields anchored around 1.75%, close to current levels.

Figure 8

### Bond sub-asset classes in order of preference

Bond asset class	View	Rates policy	Macro factors	Valuations	FX	Comments
EM USD government	▲	●	●	●	NA	Attractive yields, cheap valuations; geopolitics a risk
Asian USD	▲	●	●	●	NA	High credit quality, low volatility is positive; risk of sharp China slowdown
EM local currency	▲	●	●	●	●	Attractive yields, easier EM central bank policy, bearish USD outlook; higher volatility due to FX exposure
DM HY corporate	◆	●	●	●	●	Attractive yields, short maturity profile; risk of higher default rates and further rating downgrades
DM IG corporate	◆	●	●	●	●	High credit quality and reasonable yield premium; balanced by low yield and high interest rate sensitivity
DM IG government	▼	●	●	NA	●	Easier monetary policy balanced by low absolute yields on offer

Source: Standard Chartered Global Investment Committee

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



## IMPLICATIONS FOR INVESTORS

Prefer credit (bonds offering yield premiums) over local currency government bonds

In credit, EM USD and Asian USD bonds are likely to outperform

Upgrade EM local currency bonds, as a likely bearish USD could lead to positive currency returns

Figure 9

### Where markets are today

Bonds	Yield	1m return <sup>#</sup>
DM IG government (unhedged)	0.94%*	-0.1%
EM USD government	5.10%	0.3%
DM IG corporates (unhedged)	2.15%*	0.7%
DM HY corporates	6.16%	0.8%
Asia USD	3.78%	0.5%
EM local currency government	5.27%	2.6%

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

# 30 September to 31 October 2019

\*As of 25 October 2019



# Equities

## Equities: Upgrade Euro area equities

- Global equities remain a preferred asset class. The increasing likelihood of a partial trade deal between the US and China and further policy stimulus have boosted global equities. Risks remain, but the outlook has improved relative to the uncertainty that prevailed during the summer.
- The US remains a preferred market and is joined by Euro area equities, which have been upgraded this month. Asia ex-Japan, UK and Emerging Markets (EM) ex-Asia are core holdings. Japan remains less preferred.
- Our US equity preferred view reflects signs of stabilisation in the outlook for economic and earnings growth in 2020, as reflected in the recent rise in US Treasury bond yields. While valuations remain elevated, they are supported by equally elevated corporate margins and return on equity.
- Euro area equities are upgraded to 'preferred' this month. Changes to ECB deposit rates for banks have boosted the outlook for the industry group, which is the largest in the market. This has raised earnings growth prospects.
- Asia ex-Japan is a core holding. An increasing likelihood of a partial US-China trade deal and a weaker USD have improved the outlook for markets in Asia, which are attractively valued.
- EM ex-Asia is a core holding. Fiscal policy developments in Brazil are positive, but elsewhere lower oil prices have impacted investor confidence and the outlook for growth.
- Risks to our equity views: US and China not signing a partial trade deal, Chinese economic growth falling below 6% and significant USD strength.

Figure 10

### Equity market drivers and our assessment of their outlook

	View	Valuations	Earnings	Corporate margins	Economic data	Bond yields	Fund flows	Geo-politics	Context
US	▲	●	●	●	●	●	●	●	Preferred view driven by resilient outlook for earnings, which are supportive of elevated valuations. Market less exposed to trade war compared to peers
Euro area	▲	●	●	●	●	●	●	●	Preferred view reflects changes to ECB deposit rates for banks, improved outlook for trade and supportive valuations
Asia ex-Japan	◆	●	●	●	●	●	●	●	Core view reflects selective stimulus measures in China. Trade war risks remain, albeit reduced, and reflected in attractive valuations
UK	◆	●	●	●	●	●	●	●	Core view reflects attractive valuations and potential for Brexit deal, albeit dependent on election outcome
EM ex-Asia	◆	●	●	●	●	●	●	●	Core view reflects fair valuations and relative insulation from trade war. Lower commodity prices a risk
Japan	▼	●	●	●	●	●	●	●	Less preferred view reflects uncertainty over tax and wage growth outlook. Growth likely to weaken post consumption tax hike

Source: Standard Chartered

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



## IMPLICATIONS FOR INVESTORS

Global equities are preferred, with a preference for US and Euro area equities

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

Prefer Chinese onshore equities, Korea and India in Asia ex-Japan

Figure 11

### Where markets are today

Market	P/E ratio	P/B	EPS	Index level
<b>US (S&amp;P 500)</b>				
18x	3.2x	9%		<b>3,038</b>
<b>Euro area (Stoxx 50)</b>				
14x	1.5x	9%		<b>3,604</b>
<b>Japan (Nikkei 225)</b>				
14x	1.2x	3%		<b>22,927</b>
<b>UK (FTSE 100)</b>				
13x	1.6x	6%		<b>7,248</b>
<b>MSCI Asia ex-Japan</b>				
13x	1.4x	11%		<b>646</b>
<b>MSCI EM ex-Asia</b>				
11x	1.5x	10%		<b>1,383</b>

Source: FactSet, MSCI, Standard Chartered. Note: valuation and earnings data refer to 12-month forward data for MSCI indices, as of 31 Oct 2019



## USD peaking process continues

- Fed easing, and the provision of plentiful USD global liquidity can help the dollar gain momentum in its peaking process; focus may shift towards domestic politics and twin deficits.
- UK election further reduces hard Brexit risks, supporting the EUR and the GBP as USD alternatives; global fiscal stimulus could promote risk-on; a trade deal could nudge USD/CNY lower.

Figure 12

### Foreign exchange: key driving factors and outlook

Currency	3m View	12m View	Real interest rate differentials	Risk sentiment	Commodity prices	Broad USD strength	Comments
USD	◆	▼	○	○	NA	NA	Differentials for growth, rates to narrow; Fed to add large USD liquidity
EUR	◆	▲	●	●	NA	●	ECB out of rate tools; fiscal policy to rescue growth; trade relief
JPY	◆	◆	◐	◐	NA	◐	Sensitive to risk sentiment; BoJ easing limited; Asset hedging key
GBP	▲	▲	●	●	NA	●	Still undervalued; No deal Brexit risk over; election result key
AUD	◆	◆	◐	●	◐	●	Domestic slowdown, global trade fears bottoming
CNY	◆	◆	◐	●	◐	●	Stimulus and data support; trade deal dependency is key

Source: Bloomberg, Standard Chartered Global Investment Committee

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

### USD – Bearish; dollar peaking process to gain traction

We have turned bearish on the USD, looking for around 5% weakness over a 12-month time horizon. Over a 3-month period, we anticipate the current slow peaking process to continue. We believe the USD's expensive valuation will be eroded as the Fed cuts rates and significantly boosts global USD liquidity through its balance sheet and technical operations. Combined with easing trade tensions, lower global funding costs and likely rising fiscal stimulus, global growth and trade could improve. Reduced US economic exceptionalism could trigger capital outflows and hedging from US asset markets to better risk-reward opportunities, initially via DM currencies and then select EM ones. The process may be cautious at first, but should gain traction early next year.

Technicals suggest strong resistance for the USD (DXY) index between 99.25 and 100.15 should continue to hold. Near-term support between 97.00-97.40 should break to open a test of the 95.74 level. We eventually expect the DXY to test 93.95 and 92.60, being key retracement levels of the entire rally that began in early 2018.



## IMPLICATIONS FOR INVESTORS

USD interest rate and growth exceptionalism could continue to fade. USD weakness could extend as rotation and hedging away from US assets increase

Fiscal stimulus and low rates should eventually stabilise Euro growth, helped by a Brexit finale and easing trade tensions. The EUR will begin to assume the role of the “anti-dollar”

The GBP will likely continue to revert towards long-term valuation as Brexit risks recede and capital investment returns

Easing trade tensions could help USD/CNY edge lower. AUD and EM currencies could follow the direction as global trade improves

Figure 13

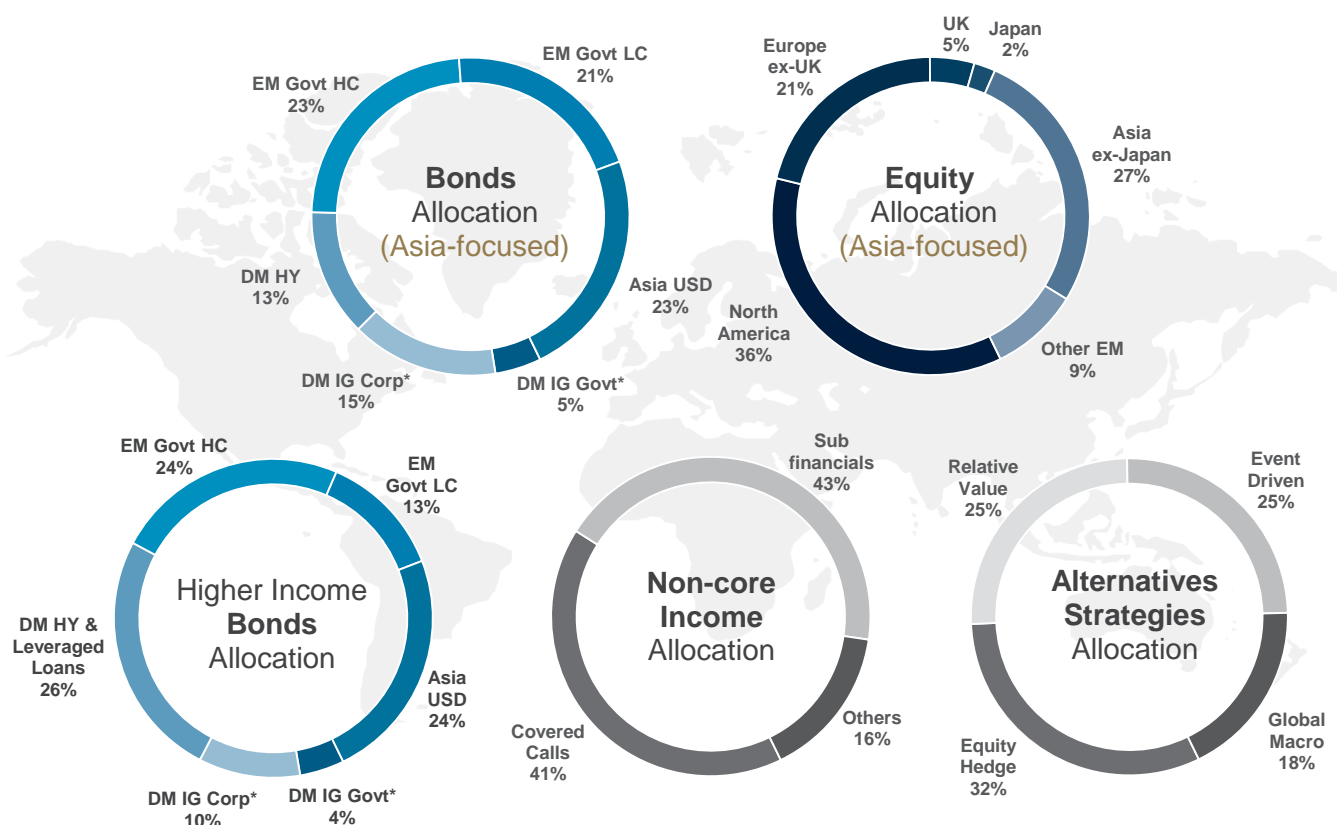
### Where markets are today

FX (against USD)	Current level	1m change <sup>#</sup>
Asia ex-Japan	104.02	0.9%
AUD	0.69	2.1%
EUR	1.12	2.3%
GBP	1.29	5.3%
JPY	108.03	0.0%
SGD	1.36	-1.6%

Source: Bloomberg, Standard Chartered

# 30 September to 31 October 2019

# Our recommended allocations



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

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

Bonds Allocation (Asia-focused)	Higher Income Bond Allocation	Equity Allocation (Asia-focused)	Non-core Income Allocation	Alternatives Strategies Allocation
For investors who want a diversified allocation across major fixed income sectors and regions	For investors who prefer a higher income component to capital returns from their fixed income exposure	For investors who want a diversified allocation across major fixed income sectors and regions	For investors who want to diversify exposure from traditional fixed income and equity into "hybrid" assets	For investors who want to increase diversification within their allocation
Asia-focused allocation	Includes exposures to Senior Floating Rate bonds	Asia-focused allocation	Hybrid assets have characteristics of both fixed income and equity	Include both "substitute" and "diversifying" strategies
			Examples include Covered Calls, REITs, and sub-financials (Preferred Shares and CoCo bonds)	

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

# Asset allocation summary

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

Summary	View	ASIA FOCUSED				GLOBAL FOCUSED			
		Conservative	Moderate	Moderately Aggressive	Aggressive	Conservative	Moderate	Moderately Aggressive	Aggressive
Cash	▼	10	3	2	0	10	3	2	0
Fixed Income	◆	69	43	31	8	69	43	31	8
Equity	▲	21	38	53	82	21	38	53	82
Gold	▲	0	6	6	5	0	6	6	5
Alternatives	◆	0	9	9	4	0	9	9	4
Asset class									
USD Cash	▼	10	3	2	0	10	3	2	0
DM Government Bonds*	▼	3	2	1	0	5	3	2	1
DM IG Corporate Bonds*	◆	10	6	5	1	15	9	7	2
DM HY Corporate Bonds	◆	9	6	4	1	13	8	6	2
EM USD Government Bonds	▲	16	10	7	2	13	8	6	2
EM Local Ccy Government Bonds	▲	14	9	6	2	11	7	5	1
Asia USD Bonds	▲	16	10	7	2	13	8	6	2
North America	▲	7	14	19	30	12	22	30	47
Europe ex-UK	▲	4	8	11	17	2	4	5	8
UK	◆	1	2	2	4	1	2	2	4
Japan	▼	0	1	1	2	0	1	1	2
Asia ex-Japan	◆	6	10	14	22	4	7	9	14
Non-Asia EM	◆	2	3	5	7	2	3	5	7
Gold	▲	0	6	6	5	0	6	6	5
Alternatives	◆	0	9	9	4	0	9	9	4
		100	100	100	100	100	100	100	100

Source: Bloomberg, Standard Chartered. \*FX-hedged

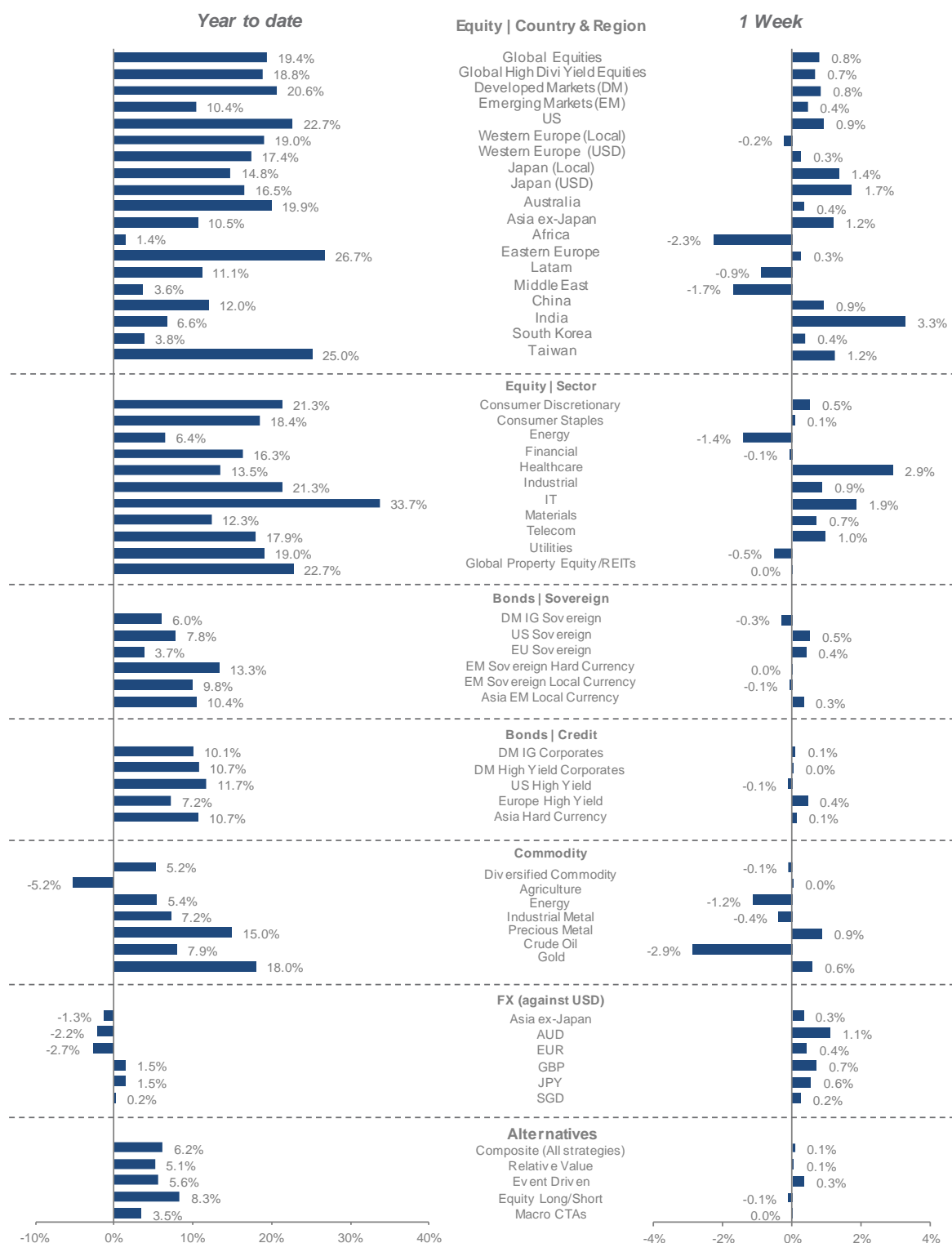
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Note: (i) For small allocation we recommend investors to implement through global equity/global bond product; (ii) Allocation figures may not add up to 100 due to rounding. \*FX-hedged

Legend: ▲ Most preferred ▼ Least preferred ◆ Core holding



# Market performance summary\*



Source: MSCI, JPMorgan, Barclays, Citigroup, Dow Jones, HFRX, FTSE, Bloomberg, Standard Chartered

\*All performance shown in USD terms, unless otherwise stated

\*YTD performance data from 31 December 2018 to 31 October 2019 and 1-week performance from 24 October 2019 to 31 October 2019

# Events calendar

## october 2019

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

## november 2019

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

## december 2019

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

## january 2020

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

## february 2020

NA

## march 2020

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

## april 2020

30	FOMC policy decision
30	ECB policy decision

## may 2020

07	BoE policy decision
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## june 2020

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

## july 2020

30	FOMC policy decision
30	ECB policy decision

## august 2020

07	BoE policy decision
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## september 2020

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

## october 2020

29	ECB policy decision
29	BoJ policy decision

## november 2020

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

## december 2020

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

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

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Chief Investment Officer  
Chair of the Global Investment Committee

## Steve Brice

Chief Investment Strategist

## Christian Abuide

Head  
Discretionary Portfolio Management

## Clive McDonnell

Head  
Equity Investment Strategy

## Manpreet Gill

Head  
FICC Investment Strategy

## Manish Jaradi

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## Belle Chan

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## Daniel Lam, CFA

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## Rajat Bhattacharya

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## Samuel Seah, CFA

Senior Portfolio Manager

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## Trang Nguyen

Portfolio Strategist

## Marco Iachini, CFA

Cross-asset Strategist





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