Standard Chartered
Private Bank

Navigating the recoveries

Global Market Outlook

(In-brief)

July 2020

Investment strategy

IMPLICATIONS FOR INVESTORS

- Global equities, credit and multi-asset income strategies are likely to outperform government bonds and cash over a 12-month horizon
- Gold is likely to perform well amid capped bond yields, especially if inflation, COVID-19 or geopolitical risks rise
- Within bonds, we believe Developed Market High Yield, Emerging Market USD and Asia USD bonds are attractive
- Within equities, we have a preference for US, Asia ex-Japan and Euro area equities
- We expect the USD to weaken. The EUR, AUD and GBP are likely to be biggest beneficiaries

Navigating the recoveries

- The world economy and financial markets are seeing recoveries at various speeds. The gradual end of economic lockdowns in most economies is likely to shift investor focus to the pace and scale of the economic recovery in H2 2020 and beyond. We remain positive on risky assets broadly, with a slight preference for corporate and Emerging Market (EM) bonds over equities.
- We expect Developed Market (DM) High Yield (HY), EM USD government and Asia USD bonds to benefit from a growth rebound and capped yields. US and Asia ex-Japan equities are likely to continue leading the rebound, but Euro area equities could catch up.
- A significant surge in new COVID-19 infections, deterioration in US-China relations and the US election are key risks to the recovery. Adding exposure to gold and equity volatility strategies may be good ways to manage these risks.

An eventful H1 20

The first half of the year was certainly eventful, having seen a pandemic, an economic recession, numerous geopolitical flashpoints and social unrests. Equities and corporate bonds delivered -7.2% and 3.0% returns, respectively, in H1 (to 29 June), but they also experienced -28.3% and -8.8% peak-to-trough declines, respectively, both in Q1 20. Gold was a big gainer, up 15.9% in H1, but the USD gained only 1.2% as the pace of gains slowed.

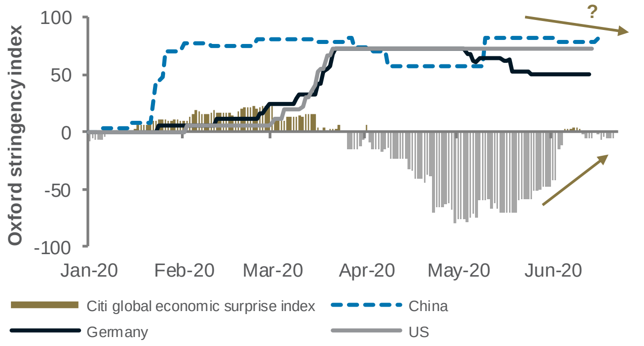
A preference for risky assets

Going into H2 20, we maintain our long-term (12-month) preference for equities, EM bonds, multi-asset income strategies more broadly, and add corporate bonds to the mix. We expect these to outperform cash, government bonds and, to a lesser extent, alternative strategies.

Three key assessments are behind our decision to retain a bullish stance, despite the rapid rebound in risky assets over the past three months. First, equity and credit valuations relative to government bonds look very inexpensive, suggesting they are unlikely to stand in the way of further gains. Second, low bond yields also mean outperformance is likely even if absolute equity and credit returns are somewhat lower than usual. Third, this stance appears consistent with our baseline scenario that future lockdowns are unlikely to be as severe as in H1 20, despite rising new COVID-19 cases in some markets. Meanwhile, improving economic surprises suggest markets have increasingly accounted for the pandemic-induced recession.

Fig. 1 Economic data have stopped disappointing as lockdowns gradually ease

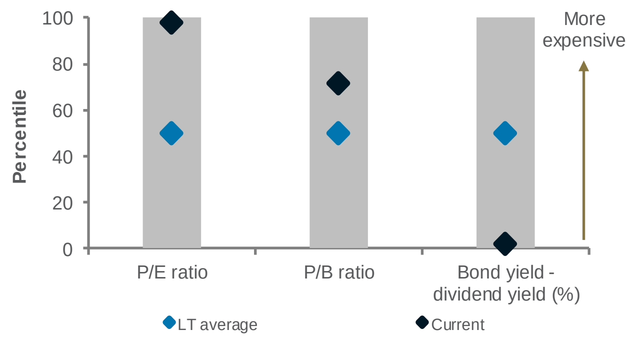
Oxford lockdown stringency index (lines) vs global economic surprise index (bars)



Source: Bloomberg, Standard Chartered

Fig. 2 Equities are not universally expensive; metrics incorporating low bond yields argue equities are cheap

Global equity (MSCI AC World index) valuation metrics; current and median levels as percentile of historical (2002-current) range



Source: Bloomberg, FactSet, Standard Chartered

Equites or credit, or both?

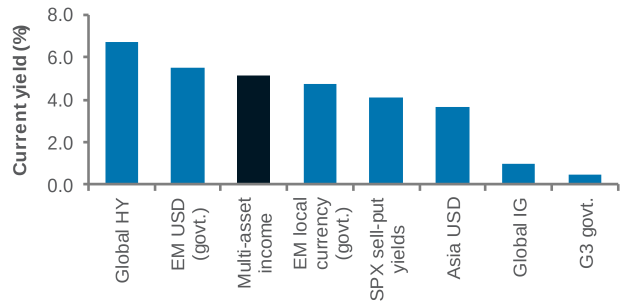
When considering exposure to risky assets, we believe there is merit in having a slight preference for credit over equities.

The Fed's actions to cap Treasury and Investment Grade (IG) bond yields means the gap in their yields with riskier bonds remains wide relative to history. In our view, this is likely to renew the 'search for yield' that has been very supportive of corporate and EM bonds in the past.

Within bonds, we prefer Global HY, EM USD government and Asia USD bonds. We also maintain a preference for multi-asset income strategies which, as the chart illustrates, offer a very competitive yield relative to comparable asset classes.

Fig. 3 Riskier income assets have room to outperform

Yields across major 'income' asset classes



Source: Bloomberg, Standard Chartered

Of course, an improved economic growth outlook and tentatively bottoming earnings expectations are positives for equities as well. Current valuations should not be a hurdle if history is a guide. As the chart illustrates, the P/E ratio is expensive, but this is not unusual after recessions as earnings get revised down. However, the dividend yield-to-bond yield ratio – incorporating today's low bond yields – appears cheap.

Regionally, we prefer the US, Asia ex-Japan and the Euro area, with the latter offering potential for a catch-up rally if fiscal stimulus in Europe is coordinated and centralised.

A weaker USD

We believe the USD is set to weaken over the coming 12 months. The EUR, AUD and GBP are likely to be the biggest beneficiaries because of relative rate differentials, improved risk appetite and relatively high USD valuations.

Generally, a weaker USD is a positive for EM assets. Within equities, we believe, Asian EM equities are better positioned to benefit from this. In EM bonds, modest currency gains will likely be insufficient for local currency bonds to outperform their USD peers given lower yields.

What could go wrong?

It is possible that the economic recovery is considerably faster than expected. Equities would likely outperform credit in this scenario, but risky assets are likely to broadly do well, especially if bond yields stay low.

Conversely, a slower-than-expected recovery would arguably lead to greater differentiation within risk assets. Higher quality credit would likely still outperform cash and bonds, but assets further up the risk ladder, such as equities and HY bonds, may be at greater risk of underperformance.

In terms of downside risks, the main challenge is any renewed COVID-19 surge in major economies. A rise in cases alone could trigger a temporary pullback, but a return of widespread lockdowns would pose a bigger risk.

Geopolitics remains a constant risk for markets, especially any significant escalation in US-China tensions, such as a break in the trade deal. US elections in November can also be a source of short-term (three-month) volatility.

We would incorporate these risks into our strategy in two ways: first, via gold – we see it as preferred given today's low bond yields, but it has also demonstrated outperformance relative to risk assets during sharp equity drawdowns.

Second, by using any rebound in volatility to generate income. History suggests surges in volatility can be very short-lived and provide attractive opportunities to generate a yield.

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

Asset class	Sub-asset class	Relative outlook	Rationale (+ Positive factors II – Negative factors)
Multi-asset Strategies	Multi-asset income	▲	**+ Bond yield capped, still-wide credit spreads || - Equity volatility** 4-5% yield remains achievable by a diversified allocation, in our view
	Multi-asset balanced	◆	**+ Diversification benefits || - Equity volatility** Equity tilt means near-term volatility a risk, but long-term valuations a help
	Alternatives	◆	**+ Diversifier characteristics || - Equity, corporate bond volatility** Diversifier characteristics help amid volatility
Equities	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 key risk
	Euro area	▲	**+ Low bond yields, policy support || - Geopolitics** An agreement on EU-wide fiscal stimulus would be a positive
	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** Commodity price weakness, global trade uncertainty a key risk
	UK	▼	**+ Attractive valuations || - Brexit, lagging earnings rebound** Valuations remain attractive, but Brexit, falling dividends are headwinds
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** Progress on agreeing EU-wide stimulus would be a positive
	GBP	▲	**+ Undervaluation, eventual Brexit deal || - Brexit deal failure a risk** 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, debt risk** Policy focus on stability likely to keep CNY range-bound
	USD	▼	**+ Safe-haven demand || - Falling rate 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

Sustainable investing post COVID-19

Sustainability in a post-COVID-19 world

The COVID-19 pandemic has taken a hit on our societies and financial markets, and many nations participated in an unprecedented large-scale economic, social and psychological experiment – the lockdown.

The magnitude of the impact and speed of collapse in economic activity that resulted from this pandemic is something unseen in our lifetime. China's economy for example saw a historic slump, with industrial output plunging 13.5% in January and February from a year earlier and retail sales falling 20.5% in the first two months of the year.

With less land and air travel and factories coming to a halt, it is estimated that 2020 will be the year with the largest single year carbon emissions reduction. Carbon emissions in India are estimated to have fallen by 30% in April, and in China, carbon emissions are estimated to have been reduced by 18% between early-February and mid-March.

History tells us that when emissions have fallen sharply in the past, as is typically the case after recessions, there is often a sharp rebound that wipes out any short-term reduction achieved. China's levels of some air pollutants have already risen back to above last year's levels. This rebound is likely driven by increased industrial activity – Chinese industrial output in May grew at its strongest rate since the virus was detected in December.

As countries begin to emerge from lockdowns and economies are restarting, all eyes are on whether there will be a pivot to a sustainable way forward.

The spotlight on sustainability issues

Countries have demonstrated that it is possible to reduce carbon emissions, and many have acknowledged the corresponding positive impact on the environment. It has, however, also shone the spotlight on issues, such as social inequalities and public health, which are being further exacerbated.

The Sustainable Development Goals (SDGs) are a set of goals set by the United Nations – as a universal call to action to end poverty and protect the planet – to be achieved by 2030. Pre-COVID, it was estimated that there was a USD 2.5tn funding gap per year to be filled in order to achieve the goals by 2030. The world was already falling behind in efforts to achieve the SDGs prior to the pandemic. Now, more so than ever, investments are needed from both the public and private sectors to tackle environmental and societal issues in the post-COVID world.

Signs of a sustainable way forward

The slogan "Building Back Better" brings together and engages various parties on how we can rebuild our economy by building a resilient one. What does "Building Back Better" look like practically and what should investors look out for as governments and companies build back better?

Governmental green recovery packages

As many countries have put forth, and continue to unveil, new massive stimulus packages to cushion the economic impact of this pandemic, governments are discussing "green recovery packages". An Oxford study conducted in May 2020 compared green stimulus packages with traditional stimulus packages from the 2008 global financial crisis, and evidence suggests that "green projects create more jobs, deliver higher short-term returns per dollar spend and lead to increased long-term cost savings."

According to Bloomberg, 50 of the world's largest economies have committed c.USD 18bn of their pandemic measures to stimulate lowering carbon emissions, such as in energy-efficient buildings and sustainable farming. This amount constitutes less than 0.2% of the stimulus packages put forth in total by these large economies.

Included in the discussions of these stimulus packages are government bailouts, and the EU is strongly recommending that governments attach "green strings" to bailouts, especially when it comes to airlines.

In Asia, we also see that, as part of the Hong Kong government's plan to boost economy, the Green Employment Scheme was launched to create 500 time-limited jobs in electric vehicle popularisation, waste reduction and recycling.

Pivoting and transformative companies

After the 2008 global financial crisis, the US put forth a stimulus package supporting a green energy economy, whereby, for instance, industry-leading, innovative companies were born out of this legislation. The COVID-19 pandemic brings hope for a more vigorous "green energy" economic repeat of the post-2008 success stories on a larger and more global scale.

On the one hand, operational transformations within corporations accelerated during the pandemic as companies have been forced to adjust and invest in technological infrastructure. Mass working-from-home has now become a feasible reality, and conversations continue to evolve from "work from home" to "work from anywhere".

Moreover, some companies have also radically pivoted from their business models, shifting into new market lines (e.g. self-driving cars for food deliveries, fitness companies shifting workouts to online, and many more).

On the other hand, firms are also taking the transformation deep to the core. For example, a large global food producing firm will propose at their upcoming annual general meeting (AGM) to become the first-ever listed company to have "business with a purpose" written in their articles of association. This will oblige the company to focus on long-term objectives in the social, societal and environmental fields.

Continued growing interest in sustainable investing

In our recent "Standard Chartered Sustainable Investing Review 2020" survey, we found that despite recent pandemic disruptions, the interest in sustainable investment continues to grow. Over the next three years, 43% of investors in Asia said they are considering allocating 5-15% of their funds in sustainable investments with 8% looking to place more than 25%.

Conducted during the time of COVID-19, we find that the pandemic has raised awareness of sustainable issues in many ways and the top sustainable investment goals that investors are interested in are those that offer hope of building resilience against future crises.

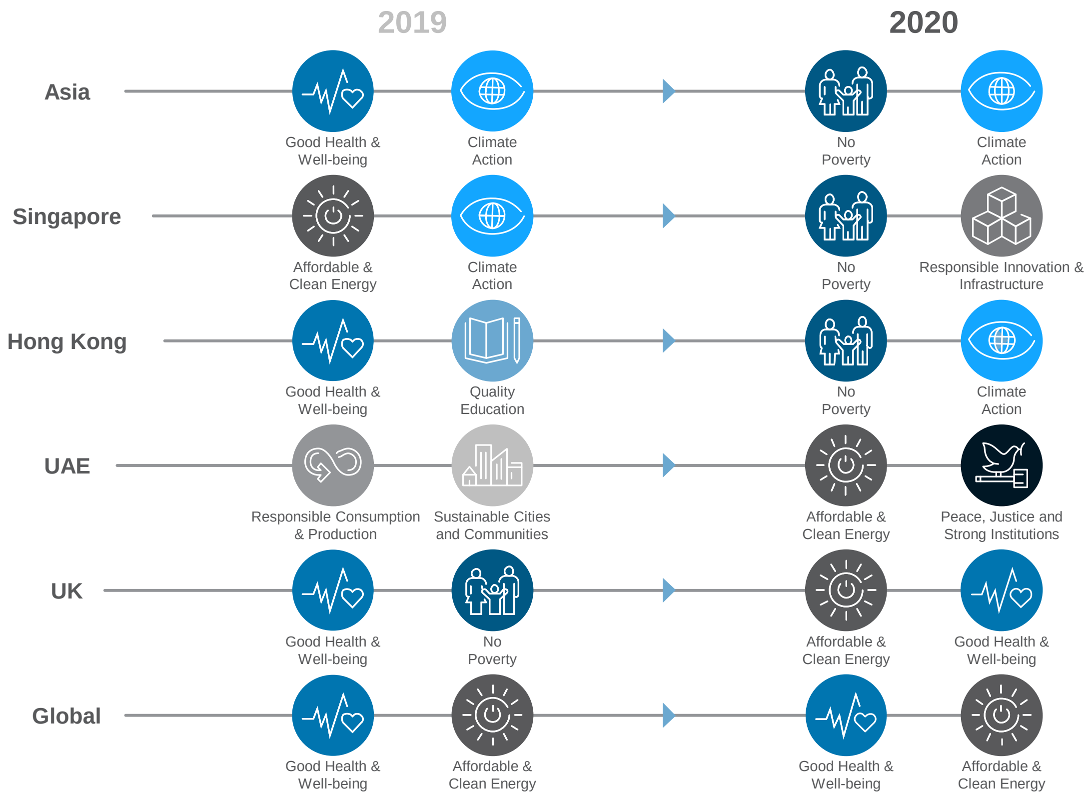
Recent research suggests that the higher correlation between Environmental, Social and Governance (ESG) attributes and traditional attributes, such as quality and low volatility, indicate greater resilience during a downturn.

Driven by both investor interest in sustainability and research indicating the benefit of ESG integration in the investment process, the inflow of assets in sustainable funds in Q1 20 was USD 45.6bn. This is compared to an outflow of USD 384.7bn in the overall fund universe.

The pandemic has left nobody unscathed. Economic uncertainty and disruptions will be on the rise. The post-COVID-19 world will be shaped by how governments, companies and investors choose to respond, and whether we choose to invest in a better future. The amount of investments needed to address world environmental and social issues is rather large, and investors, now more than ever, have an opportunity to play a meaningful role in using their capital to contribute towards sustainable development.

Fig. 5 Key changes in SDGs that sustainable investors find most motivating

HNW and affluent investors in Asia, who have made a sustainable investment, have redirected their priorities – with "no poverty and "climate action" ranking high in 2020



Source: Standard Chartered, "Standard Chartered Sustainable Investing Review 2020" survey

Macro overview – at a glance

Key themes

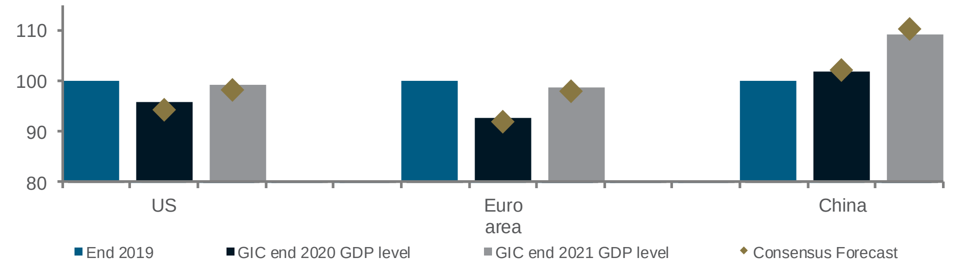
Our Global Investment Committee (GIC) expects the world economy to return to growth in Q3 20 after a short-but-deep contraction in H1 20. Governments are under pressure to reduce near-record unemployment, leading them to ease lockdowns even as new COVID-19 cases continue to rise in some regions. We expect unprecedented monetary and fiscal stimulus to support the recovery. China, the first to emerge from lockdowns, is likely to return to its pre-pandemic output levels by H2 20, while the US and Euro area are likely to recover lost output by end-2021 or early 2022. We expect high unemployment and growing disinflation pressure to lead policymakers to expand fiscal and monetary stimulus. The key risks to this outlook are a resurgence of the pandemic and increased US-China tensions in the run-up to a closely-fought US Presidential election.

Key chart

Growing pressure on governments to ease lockdowns and the unprecedented scale and pace of fiscal/monetary stimulus lead us to believe that the global economy will bounce back in H2 20 and expand further in 2021

Fig. 6 We expect China GDP to return to pre-crisis level this year; US, Euro area to take longer

GIC's expectations for GDP levels in US, Euro area & China vs consensus; Index: 100 = end-2019 GDP



Source: Standard Chartered Wealth Management Global Investment Committee (GIC); Bloomberg

US	US to return to growth in Q3 20 after a deep-but-short recession in H1 20 amid unprecedented stimulus measures; Fed likely to keep rates at record low for at least a year; policy uncertainty before November elections is a key risk	● Growth	○ Inflation	○ Benchmark rates	● Fiscal deficit
Euro area	Euro area to bounce back to growth in Q3 20 after a deep-but-short recession in H1 20 as governments end years of austerity to implement fiscal stimulus and the ECB plans unlimited debt purchases. We expect more stimulus to support growth; a planned regional fiscal stimulus package funded by shared debt would be a positive surprise	● Growth	○ Inflation	○ Benchmark rates	● Fiscal deficit
China	China, the first major economy to ease lockdowns, returned to growth in Q2 20 after a rare contraction in Q1 20. We expect growing credit stimulus and targeted policies to further boost infrastructure spending and consumption	● Growth	○ Inflation	○ Benchmark rates	● Fiscal deficit
Japan	Japan 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 to dampen outlook, although record fiscal stimulus is likely to limit damage	◐ Growth	○ Inflation	○ Benchmark rates	● Fiscal deficit
UK	UK, the last of the major economies to ease lockdowns, to return to growth in H2 20 amid record low interest rates and significant fiscal stimulus; uncertainty over post-Brexit trade talks to undermine business investment outlook	● Growth	○ Inflation	○ Benchmark rates	● Fiscal deficit

Source: Standard Chartered Global Investment Committee views over the next 12 months (12m)

Legend: ○ Weaker/easier in 12m | ◐ Neutral | ● Stronger/higher in 12m

Bonds – at a glance

Key themes

We view Credit (ie. bonds that offer a yield premium over government bonds) as a preferred holding, despite the stellar returns seen over the past three months. While the pace of gains are likely to be slow, historically, Credit has delivered superior risk-adjusted returns in recovery phases of the business cycle owing to falling volatility and improving credit fundamentals following more bondholder-friendly actions. Rates (ie. government bonds) are less preferred given the low yields on offer, especially in DMs.

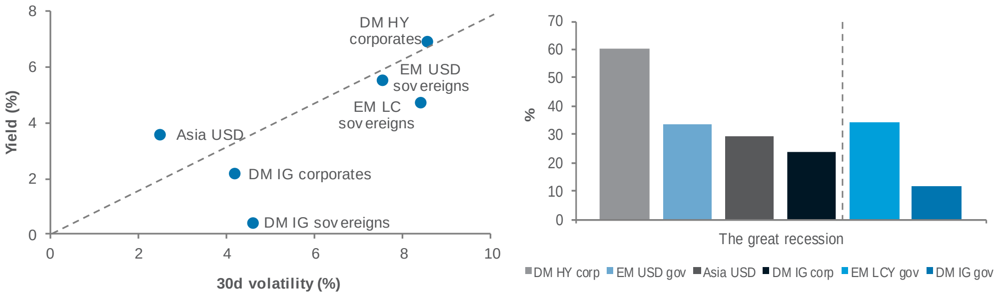
DM HY bonds are a preferred holding as the increase in oil prices and the attractive yield on offer should help them outperform over the next 12 months. EM USD government and Asia USD bonds remain preferred holdings as we continue to like their attractive yields and diversification value, and high credit quality and superior volatility-adjusted returns, respectively.

Key chart

Left chart: Current yield and 30-day volatility

Right chart: Total returns of various bond asset classes 12 months after equity market bottom during GFC

Fig. 7 Credit offer an attractive risk-reward trade-off and generally outperforms rates during an economic recovery phase



Source: Citigroup, J.P. Morgan, Barclays, Bloomberg, Standard Chartered. As of 23 June 2020.

Preference order

Asset class	Preference	View	Drivers		
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 the 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 risk 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, the 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 have moved swiftly back into bull market territory with global equities up almost 40% from the March low. Optimism that the policy response will ensure a sharp, short recession has driven expectations that global earnings will recover swiftly into 2021. The current consensus forecast is for -19% growth in global earnings.

Investors are concerned over expensive valuations in global equity markets, which are trading on a 2020 P/E ratio of 21x. While these concerns are understandable, we note that high valuations reflect the collapse in 2020 earnings expectations. Based on the recovery in 2021 earnings, market valuations are 17x. Relative to government bonds, equities still look cheap.

US, Asia ex-Japan and Euro area equities are all ranked as preferred, with little to distinguish their relative performance outlook, in our opinion. Earnings forecasts and lead indicators for growth are recovering sharply in all three regions.

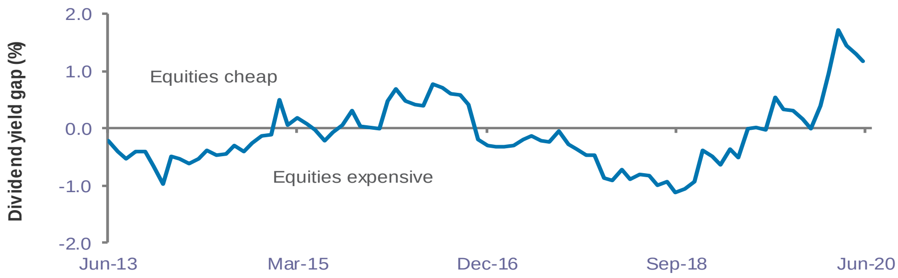
Key chart

Global equities are expensive on an earnings basis, but are attractively valued relative to bonds

Global equity dividend yield has increased while global weighted average benchmark bond yields have fallen. This has made equities more attractive relative to bonds

Fig. 8 **Global equities are attractively valued relative to government bonds**

MSCI All-Country World dividend yield less global weighted average benchmark bond yields



Source: MSCI, Bloomberg, Standard Chartered; as of 23 June 2020

Preference order

Equities	Preference	View	Bond yields	Fund flows	Geopolitics
US equities	▽ ◇ ▲	US is a preferred holding. Low bond yields are supportive of growth and lead indicators are already starting to react to the exceptional policy response. Earnings are expected to rebound 30% in 2021, in our view.	● Bond yields (key driver)	◐ Fund flows	○ Geopolitics
Asia ex-Japan equities	▽ ◇ ▲	Asia ex-Japan is also a preferred holding. Lower bond yields, in combination with a weaker USD, should support the region in H2 20. Both China onshore and offshore are preferred within the region.	● Bond yields (key driver)	● Fund flows	○ Geopolitics
Euro area equities	▽ ◇ ▲	Euro area is also a preferred holding. Measures implemented by the ECB are starting to have a positive effect on loan growth in the region. This is supportive of investment and, eventually, a recovery in earnings.	● Bond yields (key driver)	● 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 exchange-traded funds is supportive.	● Bond yields (key driver)	◐ Fund flows	◐ Geopolitics
EM ex-Asia equities	▽ ◆ △	EM ex-Asia is a core holding. A recovery in global growth in 2021 should help support the commodity-heavy EM-ex Asia index. Bonds yields are supportive, but we are monitoring COVID-19 infection rates.	● Bond yields (key driver)	◐ Fund flows	◐ Geopolitics
UK equities	▼ ◇ △	UK is less preferred. UK equities have dramatically underperformed global equities YTD. While the market is emerging from the downturn, Brexit negotiation uncertainty looms large on investors' radar.	◐ Bond yields (key driver)	◐ Fund flows	○ Geopolitics

Source: Standard Chartered Global Investment Committee

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

Equity sector strategy

Healthcare remains preferred in US, Euro area and China

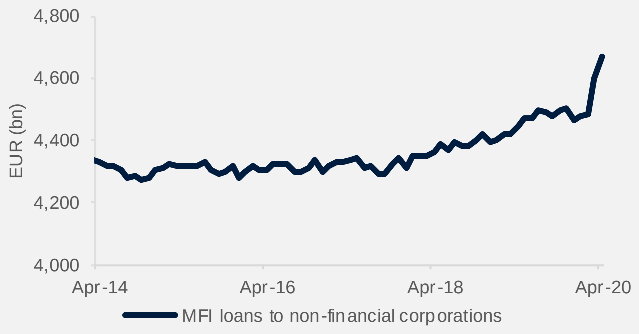
US equity sector

Healthcare – preferred holding

The US healthcare sector remains a preferred holding. The rise in healthcare demand since the COVID-19 pandemic should continue to support the sector, which has been reflected by a jump in pricing power. A low interest rate environment also typically favours the healthcare sector. The 12-month forward P/E ratio of 18x is above the long-term average of 15x. The 7.3% consensus earnings growth forecast for the next 12 months is slightly below the long-term 8.0% average.

Fig. 9 **Europe loans from monetary financial institutions (MFIs) to companies jumped**

Cut in TLTRO and deposit rate is expected to support lending flows



Source: FactSet, Standard Chartered

Europe equity sector

Financials – preferred holding

We have upgraded the Europe financial sector to a preferred holding. With the recent cut in the targeted longer-term refinancing operations (TLTRO) rate to -100bps and deposit rate to -50bps, the ECB is effectively giving banks 50bps on every euro borrowed. This should increase bank profits and encourage lending flows (see Figure 1). The 12-month forward P/B ratio of 0.7x and the 4.7% dividend yield over the next 12 months are in line with their long-term averages.

Healthcare – preferred holding

The Europe healthcare sector remains a preferred holding. The sector is defensive and tends to outperform in a low-yield environment. Valuations have re-rated with 12-month ahead P/E at 18x, above the long-term average of 15x. The 6.3% consensus earnings growth forecast over the next 12 months is in line with the long-term average of 6.0%.

China equity sector

Healthcare – preferred holding

The China healthcare sector remains a preferred holding. While the sector's valuation is elevated, improved health awareness and the rise in healthcare spending since the COVID-19 crisis should continue to support the sector's future earnings growth. The 12-month ahead P/E is at 41x versus the long-term average of 20x, while the 27% consensus earnings growth forecast in the next 12 months is above the long-term average of 20%.

Information technology – preferred holding

The China information technology sector remains a preferred holding. While growth concerns could dent demand over the near term, its prospects remain much more attractive than the broader market, in our opinion. The adoption of technology during the COVID-19 crisis should reinforce the long-term structural demand for cloud services, 5G equipment and big data analysis. The 12-month ahead P/E ratio of 25x is slightly above the long-term average of 23x, while expected earnings growth of 22% in the coming 12 months is below the long-term average of 30%.

Fig. 10 **Our sector views and changes since March 2020**

US	Euro area	China
Technology	Healthcare	Cons. discretionary
Healthcare	Utilities	Technology
Industrials	Financials (+)	Healthcare
Cons. discretionary	Industrials	Cons. staples (-)
Cons. staples	Cons. discretionary	Utilities
Financials	Cons. staples	Materials
Utilities	Energy (+)	Industrials
Real estate	Real estate	Comm. services
Materials (+)	Materials	Real estate
Energy (+)	Technology (-)	Energy (+)
Comm. services (-)	Comm. services (-)	Financials

Source: Standard Chartered; +/- sign indicates change since March 2020

Legend: Preferred | Core holding | Less preferred

FX – at a glance

Key themes

The longer-term cyclical USD uptrend that began in 2008 has likely peaked, with its downtrend expected to gain momentum over the coming year as the global economy rebounds and US exceptionalism fades.

We expect some bumps in the road for the USD downtrend, particularly in the near term. These are likely to be driven by US political and policy uncertainty ahead of the November election, broader geopolitical risks and the evolution of the pandemic. We would consider such events as opportunities for medium-term investors to sell USD rallies.

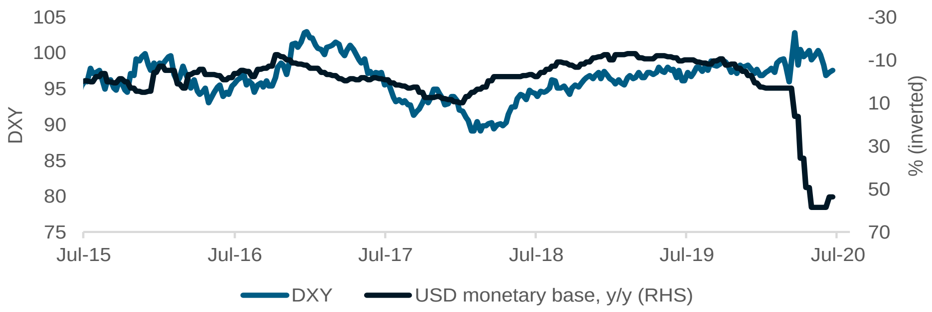
We expect a 5-7% USD decline over the next 12 months, with the EUR, AUD and GBP being the primary beneficiaries. There may be a more difficult passage for EM currencies that are sensitive to an uneven global recovery and idiosyncratic risks.

Key chart

The Fed's unprecedented policy response to supply the US and the world with massive USD liquidity is one key driver of our bearish USD view in the medium term

Fig. 11 Massive USD liquidity provision should facilitate the longer-term USD bearish trend reversal

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



Source: Bloomberg, Standard Chartered

Currency	View	Outlook		
USD (DXY)	▼ ◇ △	Narrow rate differentials, USD liquidity, twin deficits and political uncertainty tilting to a long-term USD downtrend.		
		○ Relative interest rates	◐ Relative growth rates	○ Flows & sentiment
EUR/USD	▽ ◇ ▲	An improved structural political foundation and rising growth/real interest rate tailwinds should strengthen the EUR.		
		● Relative interest rates	◐ Relative growth rates	● Flows & sentiment
GBP/USD	▽ ◇ ▲	Brexit is a strong GBP driver. We expect an eventual deal that will allow the undervalued GBP/USD to rally.		
		◐ Relative interest rates	◐ Relative growth rates	● Flows & sentiment
USD/CNY	▽ ◆ △	Domestic fiscal stimulus and pandemic management likely to cap USD/CNY. Geopolitical tensions an upside risk.		
		○ Relative interest rates	◐ Relative growth rates	○ Flows & sentiment
USD/JPY	▽ ◆ △	USD/JPY likely to be range-bound as real rates support hedging dollar assets while institutional demand for international assets is robust.		
		○ Relative interest rates	◐ Relative growth rates	◐ Flows & sentiment
AUD/USD	▽ ◇ ▲	RBA policy and fiscal stimulus and a positive outlook for commodities support AUD/USD, despite geopolitical risks.		
		● Relative interest rates	◐ Relative growth rates	● Flows & sentiment

Source: Standard Chartered

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

Multi-asset allocation – at a glance

Key themes

Much has happened since our last review three months ago. As multiple countries around the globe have gone from complete economic lockdown to a gradual reopening, asset prices have experienced an almost V-shaped recovery from crisis levels. This is reflected in the returns (simulated) of our Asia-focused balanced and global multi-asset income allocations, which added 19.2% and 20.0% respectively since March lows and -2.3% and -5.9% respectively since 2020 annual outlook publication.

Looking forward, while potential headwinds from slower economic growth, earnings disappointment and rising trade and geopolitical tensions remain concerns, risk assets (both income-generating and total-return-focussed) are likely to be supported by the coordination of monetary and fiscal easing, a weaker USD and a recovery of commodity prices. Our proposed multi-asset income allocation currently yields an indicative 4.8%, well within our 4.0-5.0% income target.

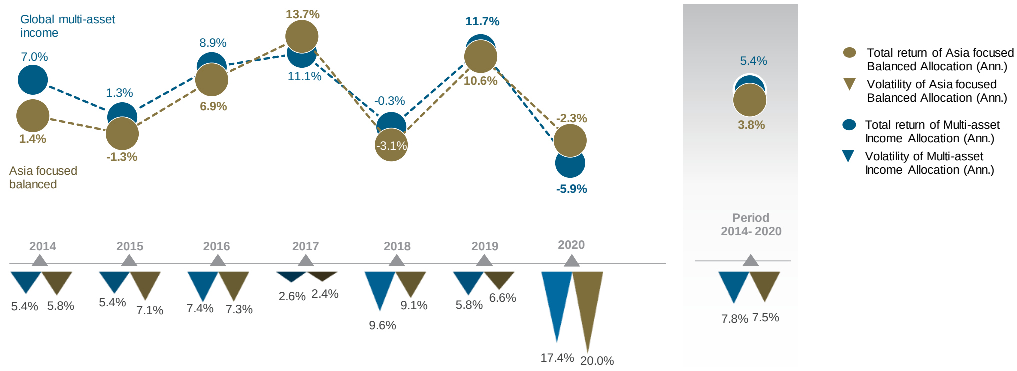
In the near term, we are selectively adding risk to our global/Asia-focused balanced and global multi-asset income allocations by tilting the bond exposure toward credit while reducing the equity exposure only marginally. Within rates, we favour a moderate average maturity profile (5-7 years). Gold remains key for downside protection. A well-diversified allocation remains the prudent approach to navigate this period, in our assessment.

Key chart

A diversified allocation remains the prudent investing approach in this period

Fig. 12 Performance comparison of Asia-focused balanced and multi-asset income allocations

Total returns (ann.) and volatility (ann.) between 2014 and 2020 as of 29 June 2020



Source: Bloomberg, Standard Chartered.

The table below summarises our asset class preferences and historical average 12-month returns for global and Asia-focused balanced and global multi-asset income allocations under different economic regimes (October 2005-May 2020).

	Global growth rising and inflation falling	Global growth rising and inflation rising	Global growth falling and inflation rising	Global growth falling and inflation falling
Balanced	**Most preferred:** Equity | Credit | Rates **Global:** 13.4% **Asia-focused:** 13.3%	**Most preferred:** Equity | Credit | Alternatives **Global:** 10.2% **Asia-focused:** 10.2%	**Most preferred:** Gold | Credit | Cash **Global:** 1.7% **Asia-focused:** 1.4%	**Most preferred:** Credit | Rates | Gold **Global:** 7.4% **Asia-focused:** 7.4%
Global Multi-asset Income	**Key driver of total return:** High positive price return **Most preferred:** REITs | Dividend equities | DM High yield | EM HC Govt **Global MAI:** 15.6%	**Key driver of total return:** Moderately positive price return **Most preferred:** REITs | Sub-financials | Dividend equities | EM HC Govt **Global MAI:** 9.3%	**Key driver of total return:** Income **Most preferred:** REITs | Asia USD bond | Dividend equities | DM IG Corp **Global MAI:** 0.6%	**Key driver of total return:** Income **Most preferred:** EM HC Govt | DM High yield | Dividend equities | EM LC Govt **Global MAI:** 8.0%

Source: Bloomberg, Standard Chartered Global Investment Committee.

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

Glossary

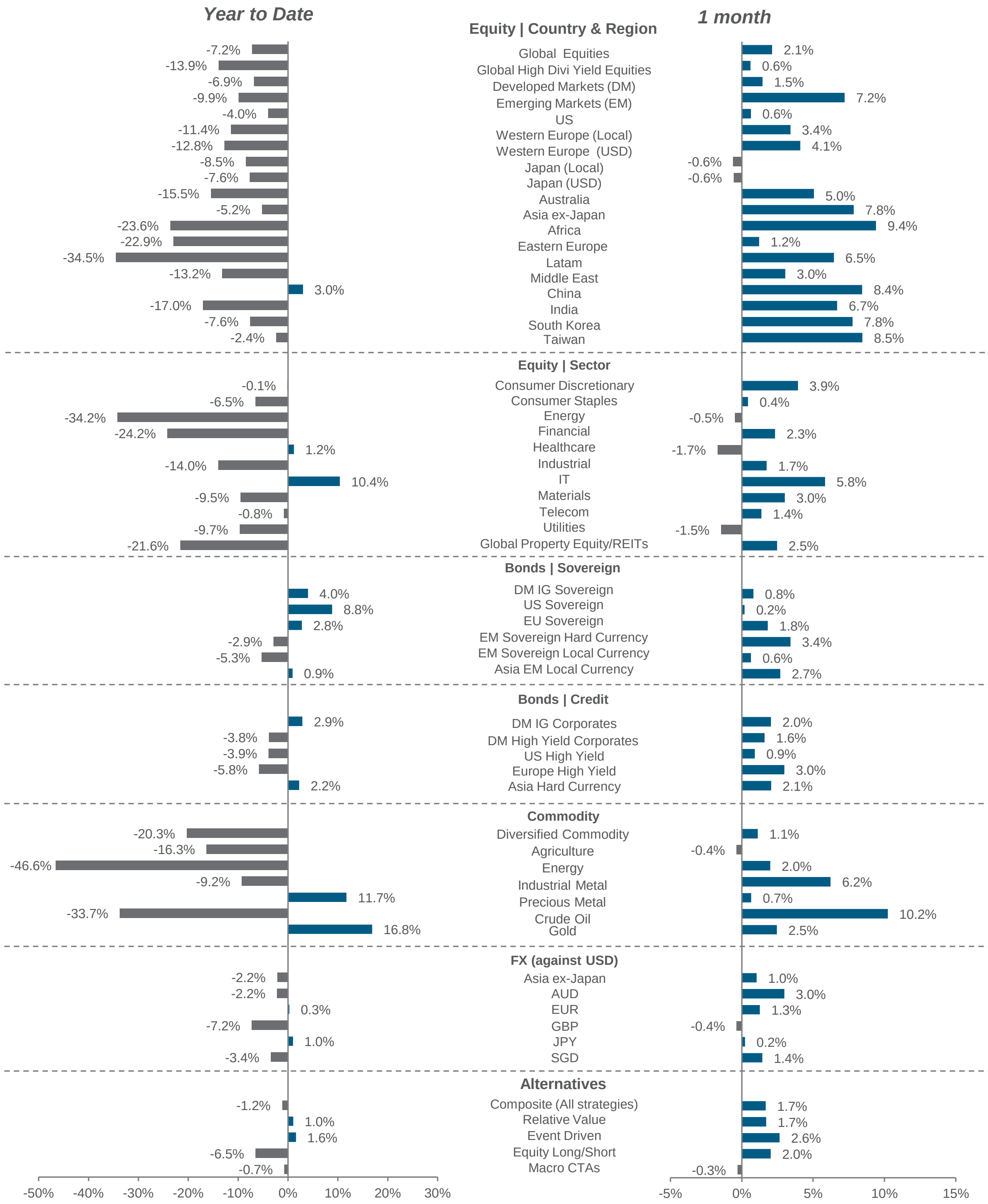
Term	Definition/Explanation
AUD	Australian dollar
AxJ	Asia ex-Japan
bbl	barrels
bn	billion
BoE	Bank of England
BoJ	Bank of Japan
bps	basis point; 0.01%
CNY	Chinese yuan (onshore)
CoCos	Contingent Convertibles
DM	Developed Market
dMA	x-day moving average
DXY	US dollar index
EBITDA	Earnings before interest, tax, depreciation and amortization
ECB	European Central Bank
EM	Emerging Market
EUR	European Central Bank
FOMC	Federal Open Market Committee
FX	Foreign Exchange
GBP	British pound sterling
GICS	The Global Industry Classification Standard for equities
HC	Hard currency
HDY	High dividend yield
HY	High Yield
IG	Investment Grade
INR	Indian rupee
JPY	Japanese yen
LCY	Local currency
LTV	Loan-to-value
M&A	Mergers and acquisitions
m/m	month-on-month
Mark-to-Market	Measure of the fair value of a particular asset; Reflection of current market levels

Term	Definition/Explanation
mMA	x-month moving average
mn	million
Neutral rate	Fed's estimated benchmark interest rate at which real US GDP is expected to grow at its trend rate and inflation is expected to remain stable
OPEC	Organization of the Petroleum Exporting Countries
Outside view	A learning based on data from a class of roughly similar previous cases
oz	ounces
P/E	Price-earnings
PMI	Purchasing Managers' Index
q/q	quarter-on-quarter
RBA	Reserve Bank of Australia
RSI	Relative Strength Index
Senior floating rate loans	A debt financing obligation issued by a bank or similar financial institution to a company or individual that holds legal claim to the borrower's assets above all other debt obligations. Yields may vary based on changes in benchmark interest rates
SGD	Singaporean dollar
Terms of trade (TOT)	The ratio of an index of a country's export prices to an index of its import prices
trn	trillion
USD	US dollar
VIX	CBOE Volatility Index
wMA	x-week moving average
y/y	year-on-year
YTD	Year-to-date

Understanding the terminology on our asset class preferences

Preferred	Assets which the Global Investment Committee expects to outperform the asset class benchmark index in the next 12 months
Core	Assets which the Global Investment Committee expects to perform in line with the asset class benchmark index in the next 12 months
Less Preferred	Assets which the Global Investment Committee expects to underperform the asset class benchmark index in the next 12 months

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 June 2020 and 1-month performance from 29 May 2020 to 29 June 2020

Events calendar

JULY 2020

X	US fiscal stimulus package
X	EU Recovery Fund negotiations
01	USMCA enters into force
15	BoJ policy decision
16	ECB policy decision
18-19	G20 Finance Ministers and central bankers' meet
29	FOMC policy decision

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	1st US presidential election debate

OCTOBER 2020

15	2nd US presidential election debate
15-16	G20 Finance Ministers and central bankers' meet
22	3rd 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

MARCH 2021

11	ECB policy decision
18	BoE policy decision

APRIL 2021

22	ECB policy decision

MAY 2021

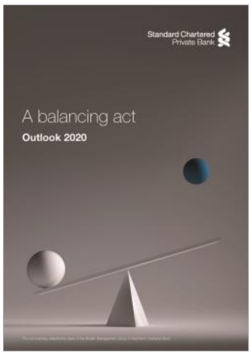
06	BoE policy decision

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.

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