



Global Market Outlook

In-brief

Walking a tightrope

→ Central banks are walking a fine line between controlling inflation and avoiding a recession. We expect inflation to ease only gradually, causing the Fed to maintain its aggressive stance. Investors will also have to gauge the extent to which risks are priced.

→ Within foundation (core) portfolios, we believe (i) raising allocations to bonds at the expense of equities, (ii) adding multi-asset income strategies, and (iii) tilting towards Asia ex-Japan and UK equities are three ways to navigate this tightrope.

Gold, inflation hedges and private assets can help mitigate risks from Fed tightening.

→ Opportunistic ideas include defensive sectors in the US/Europe, cyclical sectors in China, commodity currencies and our longer-term investment themes.

H2 2022

Investment strategy and key themes

Steve Brice
Chief Investment Officer

Manpreet Gill
Head, FICC Investment Strategy



Our preferences (12-month view)

Foundation allocation preferences

- Prefer Gold
- *In equities:* Asia ex-Japan and the UK
- *In bonds:* DM HY, Asia USD
- *In FX:* Bearish USD; bullish EUR, GBP, AUD, NZD, CAD

Sector preferences

- *US:* Energy, Financials, Healthcare
- *Europe:* Energy, Financials, Healthcare
- *China:* Energy, Financials, Industrials, Comms. Services, Materials

Longer-term themes

- The Winds of Climate Change
 - Clean Technology, Electric Vehicles, Water Scarcity, Infrastructure/ Green Capex
- Embracing a Digital Future
 - Cybersecurity
- China's 'Common Prosperity'
 - Hard Tech/Semiconductor, Renewables

Walking a tightrope

- Central banks are walking a fine line between controlling inflation and avoiding a recession. We expect inflation to ease only gradually, causing the Fed to maintain its aggressive stance. Investors will also have to gauge the extent to which risks are priced.
- We believe (i) raising allocations to bonds at the expense of equities, (ii) adding multi-asset income strategies, and (iii) tilting towards Asia ex-Japan and UK equities are three ways to navigate this tightrope. Gold, inflation hedges and private assets can help mitigate risks from Fed tightening.
- Opportunistic ideas include defensive sectors in the US and Europe, cyclical sectors in China, commodity currencies and our longer-term investment themes.

US recession risks are rising sharply, but China is recovering

The second half of 2022 is expected to be dominated by three macroeconomic questions. The first is on US inflation: has it peaked or will it stay elevated/rise even further. The second, and related, question is whether the Fed will tighten policy to the point that it pushes the US economy into a recession within the next 6-12 months. The third is whether China's policy support will help the economy rebound, and thus diverge from the slowing US and European economies.

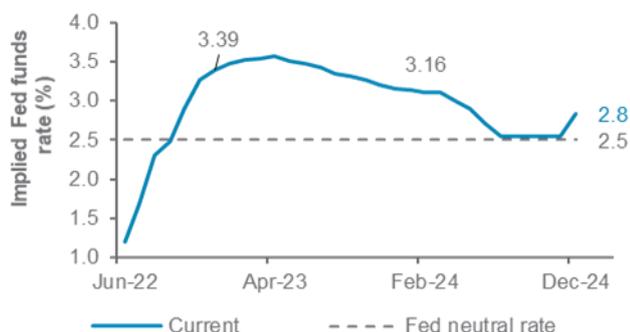
Our view is that US inflation likely peaked in H1. However, the pace of deceleration from here is likely to be slow, with inflation settling above 6% y/y by end-2022 (from 8% in H1) and 4% by Q2 23. While long-term inflation expectations remain capped for now, new supply chain disruptions and another oil price spike could send inflation higher.

This means the Fed, which has committed 'unconditionally' to combating price pressures, is likely to err on the side of tighter policy until it is clear inflation is turning sustainably lower. Thus, we now expect the Fed to raise rates by another 150bps to 3.25% by year-end, taking the rate beyond the Fed's 'neutral' level of 2.5%. As Fed policy turns restrictive, the risk of a US recession in the next 6-12 months will rise significantly. Nevertheless, a recession is not a foregone conclusion, especially given the strong US labour market. The Fed will have to walk a very thin tightrope as it tightens policy to ensure that the economy does not tip over.

China, meanwhile, is on the opposite side of the economic cycle. Chinese policymakers have clearly signalled they are willing to offer a reasonable level of policy support, leading us to believe the economy will gradually recover from the sharp downturn in H1.

Fig. 1 Markets are looking for Fed policy to go above neutral later this year and peak in H1 2023

Market expectations of Fed rates from today to 2024



Source: Bloomberg, Standard Chartered

Is US recession already priced in by markets?

The S&P500 index has already fallen more than 20% since its 3 January 2022 peak. This compares with a median 27% peak-to-trough decline during recessions since the 1950s. Comparing the magnitude of this year's sell-off with the three most recent US recessions suggests markets are currently pricing in about a half-to-two-thirds probability of a recession. As you can see from the table below, there is significant dispersion in equity market selloffs around a recession, with history suggesting the deeper the recession, the bigger the drawdown suffered by risk assets.

Fig. 3 A significant recession probability is priced in, although the extent depends on the depth of a recession

S&P500 index drawdowns during the past US recessions

Recession start	Recession end	S&P500 peak	S&P500 trough	S&P500 peak-trough ^	Decline
Jul-53	Apr-54	Jan-53	Sep-53	8	-11%
Aug-57	Mar-58	Jul-56	Dec-57	17	-17%
Apr-60	Jan-61	Jul-59	Oct-60	15	-10%
Dec-69	Oct-70	Nov-68	May-70	18	-36%
Nov-73	Feb-75	Oct-73	Oct-74	12	-44%
Jan-80	Jun-80	Jan-80	Mar-80	2	-15%
Jul-81	Oct-82	Nov-80	Aug-82	21	-27%
Jul-90	Feb-91	Jul-90	Oct-90	3	-20%
Mar-01	Oct-01	Aug-00	Oct-02	26	-49%
Dec-07	May-09	Oct-07	Mar-09	17	-57%
Feb-20	Aug-20	Feb-20	Mar-20	1	-34%
Median				15	-27%

Source: Bloomberg, Standard Chartered; ^months

How investors can navigate the uncertainty

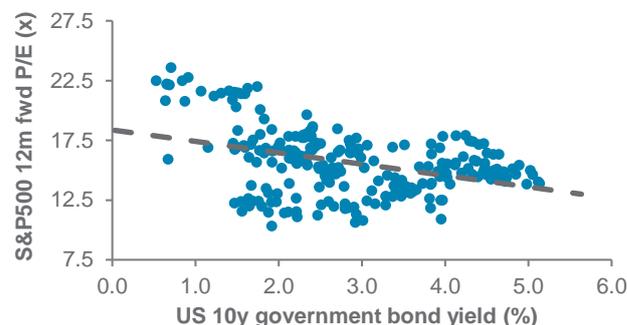
We have three ideas for our foundation portfolio:

I – Add to bonds at the expense of equities

While one can debate the extent to which equities are pricing in a recessionary outlook, what is clearer in our view is that bond yields are looking increasingly attractive. US government bond yields, for example, appear past the 'surge' phase that usually occurs in the early stages of a rise in yields. In a scenario where a recession is avoided, bond returns are

Fig. 2 Fall in P/E valuations is the main risk from rising interest rates and bond yields

S&P500 12m forward P/E vs 10y US bond yield



Source: Bloomberg, FactSet, Standard Chartered

likely to approximate the yield on offer today if the yields either remain rangebound or move only modestly and gradually higher. If a recession does occur, the return generated by the yield is likely to be bolstered by capital gains from rising bond prices (ie, falling yields). In either scenario, the risk/reward of bonds has improved relative to equities, in our view, leading us to upgrade Developed Market Investment Grade bonds to a Core holding. We see a similarly attractive case for US and European HY bonds, where yields have risen because of both higher government bond yields and wider yield premiums. Asian USD bonds also look attractive, especially on the back of increasingly supportive Chinese policy measures to revive growth.

II – Add to income assets

Besides bonds, a range of income asset classes, including high dividend yielding equities and non-traditional income assets, now provide good value (see the multi-asset income section on page 7). The yield on our multi-asset income strategy is now above 6.4%, the highest since 2020. We see this as an attractive level given it is sourced across a well-diversified range of income assets. The income basket has proven more resilient than equities or bonds so far this year.

Within multi-asset income, we retain a preference for floating rate bonds, which can be a good hedge against the risk of a further rise in bond yields. We have, however, closed our preference for subordinated bonds – while we still find the absolute level of yields attractive, the erstwhile inexpensive valuations appear to have normalised.

III – Tilt equity focus to Asia ex-Japan, UK

Within equities, we believe there are two opportunities in today's markets. The first is in Asia ex-Japan equities, which we expect to outperform global equities based on an attractive starting valuation and rising policy support in China. Asian equity exposure also allows some diversification away from a US and Fed-centric view of markets. Within Asia, we prefer Chinese and Indian equities.

The second opportunity is in UK equities, which we expect to benefit from its relatively larger weight towards Value and dividend-yielding sectors as well from a more attractive valuation, compared with the Euro area and the US.

Where are the other opportunities?

In addition to the three ideas for our foundation portfolio, opportunistic investors can benefit from the following strategies:

Focus on value and defensive sectors in the US and EU:

Equity sectors offer investors a way to reflect their macroeconomic views. In Europe and the US, our sector preferences are more defensive and Value-focused. We like financials (supported by rising interest rates and bond yields), energy (which can hedge against further rise in oil and gas prices) and healthcare (which is a defensive sector and offers value amid lower regulatory risks).

China's pro-cyclical sectors as regulatory pressure eases:

In China, our preferences are more pro-cyclical compared with the US and Europe, given our more positive view on the economy and earnings. We upgraded communications services to preferred as regulatory pressures start to ease somewhat amid a more supportive policy backdrop. We also upgraded materials to preferred as it benefits from planned infrastructure spending. We continue to like the industrial sector given it aligns with China's long-term policy priorities. These three sector preferences are in addition to our preference for the energy and financial sectors.

Commodity currencies more resilient to USD strength:

Besides equity sectors, we see opportunities in commodity currencies. While momentum remains in the USD's favour over a 1-3-month horizon, a peak in bond yields is likely to signal a USD top. While timing this turning point is difficult, we maintain a preference for commodity currencies (AUD, CAD

and NZD) – we see them benefitting from (i) a rally to catch up with commodity prices, particularly if Chinese demand rebounds and (ii) a rise in policy rates of respective central banks, especially if the Fed pushes rate expectations higher.

Using volatility to average into longer-term themes:

Finally, this year's drawdown in equities is creating opportunities in our longer-term investment themes. While further volatility cannot be ruled out, particularly if the US economy goes into a recession, we continue to believe that our preferred themes, such as 'Embracing a Digital Future' and 'The Winds of Climate Change', should benefit from faster growth and earnings over a multi-year time horizon. A turning point in China's economy could also brighten the outlook for our 'China's Common Prosperity' theme.

Hedging against more pessimistic scenarios

Financial markets have demonstrated several times over recent decades that a 'perfect hedge' that offers protection against all types of risk-off events does not exist.

Nevertheless, we believe it is prudent to add some protection against scenarios where inflation stays high or where Fed tightening creates unexpected 'accidents'. Gold remains an attractive hedge against such risks, especially given how it has held up in the face of a strong USD and rising bond yields this year. However, we would also consider more direct inflation hedges, including private assets. Meanwhile, our upgrade to Developed Market government bonds should help provide a hedge against further equity market risks as central banks walk the tightrope towards an economic soft-landing.

Fig. 4 H2 2022 Outlook – Key views across Foundation and Opportunistic allocations



Source: Standard Chartered Group Investment Committee

Multi-asset income at a glance

Audrey Goh

Head, Asset allocation & Thematic strategy

Hannah Chew

Portfolio Strategist



Key highlights

- The first half of 2022 has been rough for income investors. The US 10-year government bond yields soared, breaking above its 3.3% highs, hurting fixed income returns. The good news is that the yield on our multi-asset income allocation has risen to 6.4%, the highest since March 2020. With growth moderating and risks of inflation staying elevated for the rest of the year, central banks are likely to remain hawkish, keeping asset volatility elevated. We expect multi-asset income strategies to outperform a balanced allocation over the next 12 months. The high level of yield on offer, well-diversified sources of income and regular cash pay-outs are likely to be favoured by investors in an elevated inflation environment.
- For fixed income assets, the environment has shifted from TINA (there is no alternative) to TARA (there are relevant alternatives). We increased bond allocations in our multi-asset income portfolio this month, given the surge in the US 10-year government bond yield and much higher credit spreads across most bond assets YTD. We added exposure to most bond segments, notably in Developed Markets quality bonds, Emerging Markets/Asia USD bonds and leveraged loans.
- This month, we also closed our relative preference for European high dividend paying equities vs global dividend equities and for sub-financials vs High Yield bonds.



Key chart

We are bullish on income strategies given more attractive yield on offer. Yields across most income assets are near multi-year highs

Fig. 5 Yields on our multi-asset income allocation hit 2020 pandemic highs

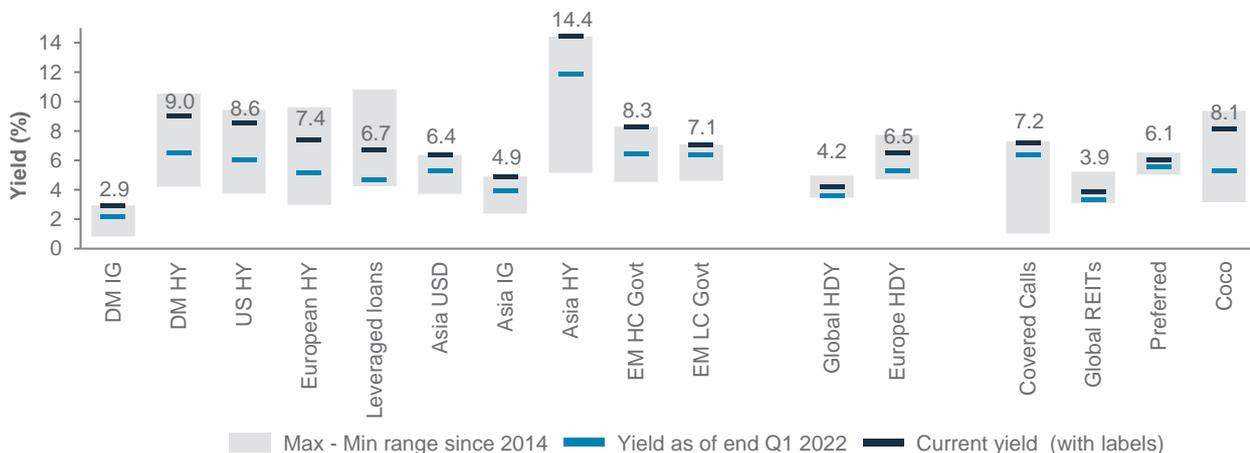
Yield to worst/dividend yield (%) on our multi-asset income allocation



Source: Bloomberg, Standard Chartered. Data as of 23 June 2022

Fig. 6 Yields across most income assets are near multi-year highs. We continue to favour less rate-sensitive floating rates loans and high dividend paying equities

Yield to worst/dividend yield (%)



Source: Bloomberg, Standard Chartered. Data as of 23 June 2022

#1 - Income to outshine balanced strategies

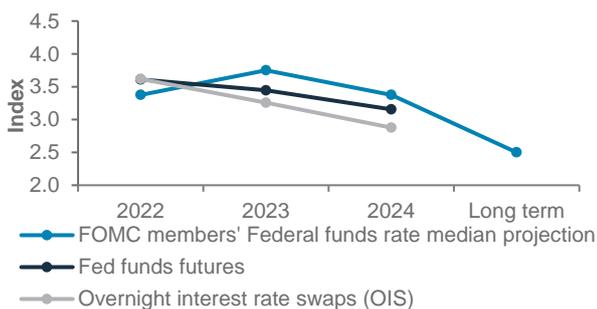
Risk assets and income strategies have had a very difficult start to the year against the backdrop of elevated inflation, moderating growth and rising risk of a recession. Still, our multi-asset income allocation returned -11.6% since publishing our 2022 outlook, outperforming a balanced allocation by c.2% as investors sought real cash flow and more defensive investing strategies.

While we expect inflation to peak soon, upside risks remain. As such, strategies with 'real' cash flows, such as multi-asset income and dividend equities, are being favoured over a balanced, purely growth-focussed, allocation.

With ongoing macro uncertainties, income will be an important source of returns from a total return perspective. Higher and more diversified sources of income, relative to a more growth-oriented allocation, usually offer the benefit of reduced sensitivity to interest rates, mitigating valuation compression.

Fig. 7 Market expectations for Fed rates have converged below Fed's own projections, suggesting the sharp increase in bond yields is likely behind us

Market implied Fed fund rate and Fed's forecast



Source: Bloomberg, Standard Chartered

#2 - Increased our allocation to fixed income

We are much more comfortable raising the weight of fixed income within our multi-asset income allocation to neutral after this year's repricing in bond yields. Market expectations of US Fed fund rates have converged to the Fed's, signalling the worst of the bond yield increases is likely behind us.

We see rising value in bonds, with yields on DM Investment Grade bonds highest since 2010. US 10-year inflation-adjusted yields have also risen sharply to positive territory. With markets likely to incrementally focus on downside risks to growth, we see a more benign outlook for quality bonds.

Asia USD bonds continue to look attractive, given their high yields on offer and wider credit premium relative to US government bonds. We expect China to continue easing monetary policy, providing a more supportive macro backdrop relative to US and Europe, which are tightening policies.

We continue to prefer Floating Rate Notes (FRNs), given upside risks to inflation. However, we closed our preference for subordinated bonds – while we still find the absolute level of yields attractive, the unusual value they offered relative to more senior bonds has narrowed significantly.

Global Market Brief

#3 - Equity income still attractive long term

While the gap between equity dividend yield and nominal US 10-year government bond yield has narrowed in recent months, dividend-paying equities still offer a premium against inflation-adjusted bond yields. Furthermore, high dividend yielding equities have historically outperformed traditional equities during high inflation regimes (Figure 9).

Our equity allocation raises the potential of large drawdowns in the event of a recession. However, for equities, the risk of poor inflation-adjusted returns declines over the investment horizon. With cash and bonds, however, the risk of losing value in inflation-adjusted terms over the long run is higher. Hence, we maintain an Overweight to dividend-paying equities. For investors who worry about further valuation compression due to higher interest rates, but remain confident about earnings growth, dividend equities offer a middle ground. Valuations for dividend equities also remain attractive, given a 21% discount to global equities.

Fig. 8 Equity income still offers a decent cushion over inflation-adjusted bond yields

Spreads between S&P500 24m forward dividend yield, US Treasury 10y nominal yield and US 10y real (TIPs*) yield



Fig. 9 Table: Equity performance during periods when inflation exceeded 3%

12-month returns when US CPI>3%	Equities	Europe divi equity	Global divi equity
Average return	-2.1%	-1.4%	3.6%
Median return	-1.9%	-0.2%	6.7%
Hit rate	48.5%	50.0%	60.6%
% of history	24%	24%	24%

Source: Bloomberg, Standard Chartered; *Inflation-protected bonds

Total return approach to income

While it is debatable whether risk assets have bottomed, the opportunity set within income strategies is clearly looking attractive after this year's rise in interest rates, widening credit spreads and spiking volatility. We believe a diversified approach to income generation – using a combination of income, growth and non-core assets – will help mitigate risks of higher yields or an economic recession, while focussing on a total return approach to generating income.

Our thematic ideas

Hannah Chew
Portfolio Strategist

Key themes

Below we provide a brief overview of our open thematic ideas, coupled with some recent highlights. For further details, please read our [Thematic Investing H2 2022 Update](#).

The winds of climate change

Climate-related themes have suffered alongside the sell-off in broad equity markets this year. Among our sub-themes, clean technology, including renewables, has outperformed global equities by c.5% since the start of June. Valuations are looking increasingly attractive, with 12-month forward P/E ranging between 16.0x to 29.6x vs 13.8x for global equities despite mixed earnings revisions. The ongoing shift to net-zero targets globally should help this theme in the long run.

Production bottlenecks, chip shortages and the sharp rise in battery costs have impacted EV margins and sales, driving downwards earnings revisions within the EV segment.

Clean technology and Green Capex are likely to see a boost in demand in the coming months given the rising threat of a complete severance of Russian gas exports to EU leading up to winter, in line with the International Energy Agency's warning. European Commission President Ursula von der Leyen also reiterated a need to focus on investments on renewables, warning EU countries not to backtrack on their commitments. We remain convicted on our climate related themes, given this push towards an accelerated green transition and increased investments into cleaner forms of energy.

Embracing a digital future

Rising inflationary pressures and interest rates and growing risks of a recession have weighed on global technology stocks and the cybersecurity sector has not been spared. The cybersecurity sub-index has registered 24.5% loss YTD but has fared favourably on a relative basis against the broader Nasdaq Composite index. In the near term, the Fed's rate hike trajectory and the US inflation and growth outlook will remain dominant influences on the sector's performance.

We, however, remain optimistic on the sector over the coming 6-12 months, given the relative resilience of cybersecurity spending in an economic downturn. The pandemic and growing tensions with Russia have accelerated many cybersecurity trends and contributed to a strong spending environment. The newly proposed SEC rules on cyberattack disclosure would also discourage public companies from cutting security budgets. On the valuation front, 12-month forward P/E has fallen notably over the last few months to 32x. The rising risk of a recession in the US could see this fall further and offer attractive buying opportunities for investors.

China's 'Common Prosperity'

The increasing probability of a recovery in China has allowed us to turn more optimistic on China-related themes. Technology and new economy infrastructure investments are expected to accelerate in H2 2022 as the use of cheap green loans expand, while fiscal and credit policies also turn more supportive. This will benefit sectors, such as smart grids, wind and solar power, in our renewables sub-theme. The semiconductor industry, meanwhile, continues to benefit from substantial government support amid the ongoing US sanctions. The output is slowly recovering after disruptions to manufacturing activities in March and will continue to rise once COVID-19-related lockdowns subside.

Fig. 10 China 'Common Prosperity' themes have performed on par with global equities and MSCI China

Performance of China 'Common Prosperity' themes relative to global equities and MSCI China (Rebased Dec-2021=100)



Source: Bloomberg, Standard Chartered

China's renewables sector has been able to regain ground on a relative basis against the broader Chinese and global equity markets and valuation is fast approaching the previous high of 20x. In the near term, Chinese demand for NEVs, which is a substantial component of our renewables sub-theme, could soften after strong y/y growth in the first half of 2022 as purchase tax cuts boost sales of small-engine combustion cars at the expense of NEVs. The possible extension of NEV subsidies into 2023 would also put a damper on front-loaded demand that has supported sales growth this year. We, however, remain positive on China's NEVs, given the expected acceleration in infrastructure investments, but will look to buy into the sector at a better entry price point.

While the valuation multiple of the semiconductor sector has similarly risen in recent months, it remains at a depressed level when compared over a longer horizon. Ongoing government subsidies, procurement preferences and other preferential policies mean the semiconductor industry is well-positioned to capitalise on the rebound in consumer demand when economic recovery gains traction in China.

Macro overview at a glance

Rajat Bhattacharya
Senior Investment Strategist

Zhong Liang Han
Investment Strategist



Key highlights

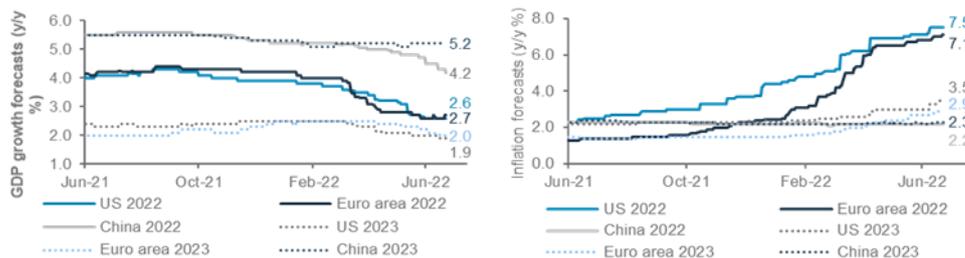
- Surprisingly strong US inflation data for May and the Fed's refusal to flinch in the face of growing signs of economic weakness have led us to sharply raise our projection for US interest rates. The Fed appears to have a singular aim of curbing demand even at the risk of causing a recession. We now expect the policy rate to end the year at c.3.25%. Our Fed rate call is slightly below the Fed's projections and market estimates as we still believe the Fed will be forced to pivot towards supporting growth at some point, but this is clearly going to happen later than we initially thought. We have also raised our ECB rate expectations and now see the deposit rate ending the year in the 0.50-0.75% range.
- The combination of high and rising inflation and increasingly hawkish central banks worldwide has raised the probability of a sharp growth slowdown. We now see a 40%-50% probability of a US recession and c.40% probability of a Euro area recession in the next 12 months. China, meanwhile, is nearing the end of its downturn. In fact, we see increased chances of a recovery as China's fiscal and credit policies turn more supportive and business regulations ease. The gradual relaxation of lockdowns in major Chinese cities as COVID-19 infections wane should help the recovery. The Russia-Ukraine conflict remains the biggest source of uncertainty for the global economic outlook because of its impact on global energy, food and other commodity prices.



Key chart

US and European growth estimates are likely to be downgraded further as their central banks tighten policy. China's growth and inflation estimates remain relatively stable, especially for 2023

Fig. 11 Growth forecasts continue to be downgraded and inflation estimates upgraded
Consensus estimates for 2022-23 GDP growth and inflation in the US, Euro area and China



Source: Bloomberg, Standard Chartered

Monetary policy	Macro factors positive for risk assets	Macro factors negative for risk assets
US ▼ ◊ ▲	+ Growth near long-term trend; low Ukraine risk + Strong job market, savings to sustain demand + Robust business investment, services rotation + Benign credit cycle, cash-rich corporate sector	– Fiscal drag, low chance of another fiscal boost – Rising oil/food prices; depressed sentiment – Ukraine crisis to prolong supply bottlenecks – Inflation, Fed policy error, mid-term polls
Euro area ▼ ◊ ▲	+ Growth near long-term trend; services rotation + Strong job market, savings to sustain demand + Still-strong fiscal support; ECB backstop tool	– Ukraine crisis weakening sentiment – Energy and food supply shortage; inflation – ECB rates lift-off, oil ban, peripheral stress
China ▼ ◊ ▲	+ Easing COVID controls; reopening economy + Credit growth rebound, easier monetary policy + Growth priority; front-loaded policy support	– New outbreak could lead to more lockdowns – Global economic slowdown to drag exports – Property sector weakness; geopolitical risks
Japan ▼ ◊ ▲	+ Weaker JPY a tailwind for exports + Domestic economic activity recovering + Ultra-dovish BoJ policy; more govt stimulus	– Global economic slowdown to drag exports – Cautious consumption due to rising prices – Rapid JPY depreciation; risk of BoJ tightening
UK ▼ ◊ ▲	+ Relatively less exposed to Ukraine vs EU + Strong job market supports spending + Further fiscal policy easing; potential tax cuts	– Higher inflation to restrain domestic demand – Political instability; Brexit-led disruption – Hawkish BoE to tame elevated inflation

Source: Standard Chartered Global Investment Committee

Legend: ▲ Tighter policy | ▼ Easier policy | ◊ Neutral policy

Bonds at a glance

Abhilash Narayan
Senior Investment Strategist

Cedric Lam
Senior Investment Strategist



Key highlights

- 2022 is poised to go down in history as the year with the worst H1 for bond markets in the past few decades. While the key drivers for the drawdown – elevated inflation and a severe hawkish turn in central bank policy – remain in place, we believe markets are likely to incrementally focus on the downside risks to growth over the next 12 months, leading to a more benign environment for higher quality bonds. Hence, we now expect 10-year US government bond yields to trade close to 3.25% over the next 12 months, although we acknowledge the potential for significant volatility around our base case expectation.
- Given rising recession risks, we view Developed Markets (DM) Investment Grade (IG) government bonds as a hedge and upgrade them to a Core holding. In our view, the recent rise in US and European government bond yields has priced in majority of the Fed and ECB rate hikes and they now offer attractive yields relative to their own history. Asian USD bonds remain preferred given their high aggregate credit quality and signs of policy support from China. While the anticipated growth slowdown could negatively impact the credit quality of DM High Yield (HY) bonds, yield premiums have priced in an elevated default rate at present. We downgrade EM USD government bonds to a Core holding as higher energy and food prices may result in an uptick in default rates in some Emerging Markets.

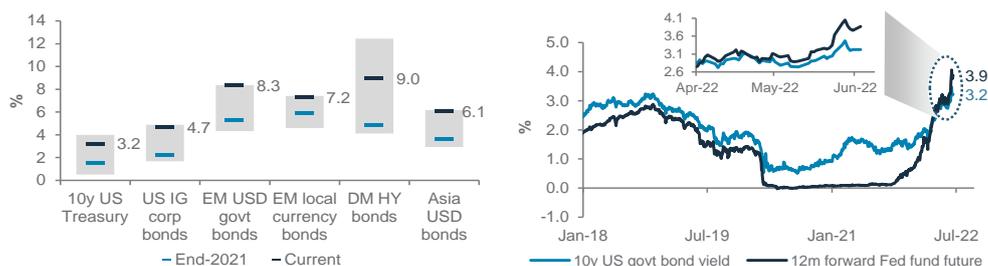


Key chart

The sharp repricing of bonds has led to much better value on offer; 12m forward implied Fed rates have risen above 10-year US government bond yields for the first time since 2018, indicating potential growth slowdown risks

Fig. 12 Most bond asset classes are now offering close to highest yield since 2010

Current yields of bond asset classes vs end-2021; 10y US yield vs 12m forward implied rates



Grey bars indicate yield range since 2010. As of 17 June 2022. Source: Bloomberg, Standard Chartered.

The bullish case

The bearish case

	The bullish case	The bearish case
Asia USD	<ul style="list-style-type: none"> + Strong aggregate credit quality (BBB+) + Signs of policy easing in China + Attractive yield relative to onshore markets 	<ul style="list-style-type: none"> - Likelihood of elevated defaults in China - Lower yields vs other EM bonds
DM HY corporate	<ul style="list-style-type: none"> + Improvement in corporate credit quality + Relatively low interest rate sensitivity + Attractive valuations 	<ul style="list-style-type: none"> - Unexpected slowdown in US growth - Default rates could rise from current lows
EM USD government	<ul style="list-style-type: none"> + Higher energy and metal prices + Cheaper valuations vs US IG/HY bonds + Attractive yield of c.8% 	<ul style="list-style-type: none"> - High sensitivity to rising yields - Risk of outflows due to Fed rate hikes - Rising risks from high food inflation
EM local currency	<ul style="list-style-type: none"> + Attractive yield of nearly 7.5% + Expectation of EM growth rebound + Higher commodity prices 	<ul style="list-style-type: none"> - Further monetary policy tightening - Risk of outflows due to Fed rate hikes - Near-term USD strength
DM IG government	<ul style="list-style-type: none"> + High credit quality + Role of portfolio hedge in a risk-off scenario + Positive inflation-adjusted yield in the US 	<ul style="list-style-type: none"> - Low absolute yields - Fed and ECB projected to hike rates - Unfavourable demand-supply balance
DM IG corporate	<ul style="list-style-type: none"> + Strong credit fundamentals + Attractive hedged yield for foreign investors 	<ul style="list-style-type: none"> - High sensitivity to rising yields - Low absolute and inflation-adjusted yield - Unfavourable demand-supply balance

Source: Standard Chartered Global Investment Committee

Legend: ▲ Most preferred | ▼ Less preferred | ◆ Core holding

Equity at a glance

Daniel Lam, CFA
Head, Equity Strategy

Fook Hien Yap
Senior Investment Strategist



Key highlights

- Strong inflation prints across the globe have forced many central banks to tighten monetary policies, which is likely to lead to slower growth, undermining the corporate earnings outlook. We are trimming our global equity allocation to a Core holding, while adding exposure to bond markets.
- China is at a different point in the economic cycle, compared with the West, with the government implementing monetary and fiscal policy stimulus. Regulatory tightening fears also appear to be subsiding. As such, Asia ex-Japan remains a preferred region. Within Asia, we prefer China and India.
- We have also upgraded UK equities to 'preferred' on the back of its heavy exposure to sectors that may benefit from high inflation, such as energy, mining and financials.



Key chart

Fig. 13 Global earnings may start to come under pressure from slower growth and rising cost pressures, but we see potential upside for Chinese equities on the back of higher credit impulse

China credit impulse vs MSCI China index; S&P500 index vs 12m forward EPS

Tighter monetary policies may slow global growth and impact earnings. China remains a bright spot due to government support and less regulatory overhang



Source: MSCI, FactSet, Standard Chartered

	The bullish case	The bearish case
Preference order ↑	Asia ex-Japan equities ▼ ◊ ▲ Within AxJ India equities ▲ South Korea equities ◊ China equities* ▲	+ China fiscal and monetary stimulus + Improving Chinese credit impulse + Improving fund inflows - Chinese ADR delisting risk - Ongoing zero-COVID policy in China - Weak EPS revision
	UK equities ▼ ◊ ▲	+ Attractive valuations + High exposure to commodities + Strong earnings growth expectations - Uncertainty over post-Brexit regulations - Tightening monetary conditions - Geopolitical risks from Russia-Ukraine war
	US equities ▼ ◊ ▲	+ Above-trend earnings growth + Innovation premium + Recession risk significantly priced in - Potential excessive monetary tightening - High exposure to growth stocks - Inflation concerns
	Euro area equities ▼ ◊ ▲	+ Reopening of economies + Inexpensive valuation + China reopening to lift exports - High energy prices hindering growth - Inflation concerns - Potential monetary tightening
	Japan equities ▼ ◊ ▲	+ Attractive valuation + Weaker JPY to boost export profit + Light investor positioning - Supply chain disruption hurts production - Weakening consumption momentum - New government focuses on redistribution

Source: Standard Chartered Global Investment Committee

Legend: ▲ Most preferred | ▼ Less preferred | ◊ Core holding

*We prefer China onshore vs offshore equities.

FX at a glance

Manpreet Gill
Head, FICC Strategy

Nataniel Tang
Investment Strategist



Key highlights

- Our 6-12-month USD view is bearish. We expect the USD to peak in H2 as i) hawkish Fed policy expectations fade as inflation moderates; ii) global central banks continue to tighten monetary policy to avert currency weakness that amplifies inflation; iii) capital flows rotate away from the US towards more attractively valued assets; iv) steady de-dollarisation continues; and v) uncertainty rises around US politics and future policy direction. The USD has already priced in aggressive Fed hikes, slower global growth and considerable safe-haven risk. The timing of the USD reversal will likely be driven by the speed of policy convergence, China's economic stimulus as it exits zero-COVID policies and some form of resolution in the Ukraine war.
- Near term, we are broadly neutral towards the USD. Potential drivers of further USD strength are: i) sticky US inflation data that keeps the Fed singularly focused on policy tightening; ii) economic and financial market constraints for global central banks to tighten policy aggressively, and iii) increased risk-off sentiment driven by the Ukraine war and other geopolitical tensions.
- The USD index (DXY) pushed to a new trend high near 105.80 in June and could yet rise towards next key resistance around 109. A sustained break below 101 would add confidence that the USD uptrend is reversing. USD/JPY has rallied by over 18% YTD, and technicals are stretched, implying a possible sharp correction ahead. AUD/USD can find strong support around 0.65 and USD/CAD is likely to encounter strong resistance near 1.33, with both currencies supported by firm commodity prices.



Key chart

Global central banks are following the Fed with tighter policy, aiming to avoid much weaker currencies and even higher inflation. This should ultimately weigh on the USD. Near term, the Fed may still appear most hawkish and geopolitical risks may extend USD safe-haven demand

Fig. 14 Central bank policy convergence has been offset by safe-haven USD demand
USD index (DXY), DXY-weighted real 10y yield differentials vs US



Source: Bloomberg, Standard Chartered

Fig. 15 Summary of major currency drivers

12-month outlook	The bullish case	The bearish case	12-month outlook	The bullish case	The bearish case
USD (DXY) ▼	+ Hawkish Fed policy divergence vs G3 + US exceptionalism	- Global growth rotation ex-US - Policy convergence	USD/JPY ▼	+ Interest rate policy divergence + Energy import costs	- Potential for the BoJ to tighten policy - Cheap oversold JPY
EUR/USD ▲	+ ECB moves to tighten policy + Capital inflows	- Energy dependency - Fragmentation of member bond yields	USD/CNY ▼	+ China's zero-COVID policy extends + Policy uncertainty	- China fiscal stimulus - Light foreign positioning reversal
GBP/USD ▲	+ Strong growth and employment + Hawkish BoE	- Vulnerable to stagflation pressure - Geopolitical risk	USD/CAD ▼	+ BoC less hawkish, property market risk + Peak in oil prices	- CAD cheap vs rates growth & oil prices - Hawkish BoC
AUD/USD ▲	+ Cheap vs Terms of Trade; RBA hawkish + China boosts growth	- China commodity demand slows - Risk-off sentiment	NZD/USD ▲	+ Hawkish RBNZ + China dairy demand and rising tourism	- Global risk-off - RBNZ hiking cycle may end earliest

Source: Standard Chartered Global Investment Committee

Legend: ▲ Bullish | ▼ Bearish | ◆ Rangebound

Foundation: Asset allocation summary

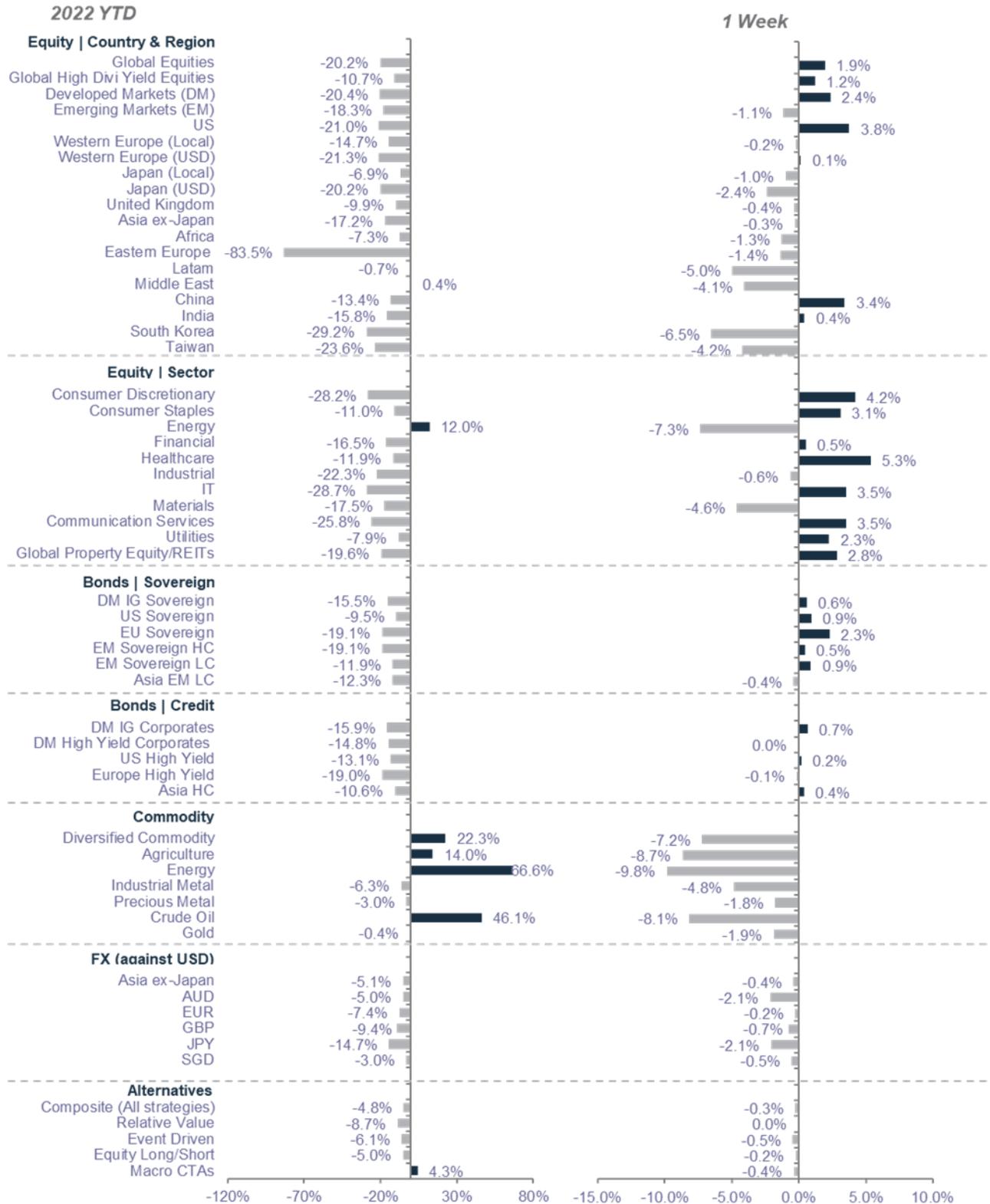
Summary	View	ASIA FOCUSED				GLOBAL FOCUSED			
		Conservative	Moderate	Moderately Aggressive	Aggressive	Conservative	Moderate	Moderately Aggressive	Aggressive
Cash	◆	20	10	5	0	20	10	5	0
Fixed Income	◆	65	44	35	10	65	44	35	10
Equity	◆	15	30	44	79	15	30	44	79
Gold	▲	0	6	6	6	0	6	6	6
Alternatives	◆	0	10	10	5	0	10	10	5
Asset class									
USD Cash	◆	20	10	5	0	20	10	5	0
DM Government Bonds	◆	8	5	4	1	11	8	6	2
DM IG Corporate Bonds	▼	8	5	4	1	10	7	6	2
DM HY Corporate Bonds	▲	10	7	6	2	14	10	8	2
EM USD Government Bonds	◆	11	7	6	2	8	6	4	1
EM Local Ccy Government Bonds	◆	11	7	6	2	8	6	4	1
Asia USD Bonds	▲	17	12	9	3	13	9	7	2
North America Equities	◆	4	8	12	21	7	13	20	36
Europe ex-UK Equities	◆	3	5	8	15	1	3	4	8
UK Equities	▲	1	2	2	4	1	2	3	4
Japan Equities	◆	1	1	2	4	1	1	2	4
Asia ex-Japan Equities	▲	5	11	16	28	4	7	11	20
Non-Asia EM Equities	◆	1	3	4	7	1	3	4	8
Gold	▲	0	6	6	6	0	6	6	6
Alternatives	◆	0	10	10	5	0	10	10	5

Source: Standard Chartered; *FX-hedged

(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.

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 2021 to 23 June 2022 and 1 week-performance from 16 June 2022 to 23 June 2022

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