Standard Chartered
Private Bank

Preparing for volatility

Global Market Outlook
(In-brief)

June 2019

Investment strategy

Preparing for volatility

- Risk assets have pulled back, but looking beyond the next three months, only two of our seven factors influencing risk assets are negative. We would buy any dip in equities or corporate and EM bonds.
- In our Global Investment Committee's assessment, there is an elevated risk of volatility over the summer if a US-China trade deal is delayed, as we expect.
- Within equities, we rebalance away from Asia ex-Japan in favour of the US. We also trim our allocation towards the global technology sector. Within bonds, EM USD government and Asia USD bonds still rank highest in our order of preference, but an increased allocation to Investment Grade (IG) bonds is prudent, in our assessment.

Trade risks escalate again

Over the past month, global equities fell -5.1%. The drop followed a surprise escalation in trade war risks, likely causing markets to reassess the economic outlook. Placing this change in the context of the seven factors we investigated last month (Figure 1), two have worsened as a result of renewed trade tensions, in our assessment, while others are unchanged.

On trade, we see three main scenarios from here. The first is that the US and China still put together a trade deal by the G20 meeting in late June, a positive outcome for risky assets. This was the base case a month ago, but in our Global Investment Committee's assessment, the likelihood of this scenario has now fallen to the least likely of the three possible outcomes

A second outcome is the US and China still reach a deal, eventually, but the process is more prolonged over the next few months. This scenario would point to rising volatility in the short term, but an eventual outperformance of risky assets long term. This is now our baseline scenario that we view as most likely.

Figure 1

Trade, market changes from last month

Factors influencing risk assets – our assessment

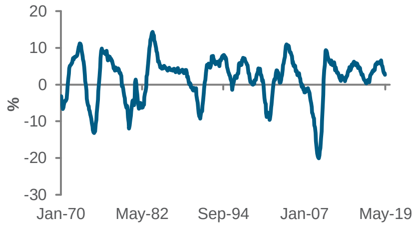
Factor	Signal
Valuations	⇔
Forward-looking market	⇔
Forward-looking economic	⇗
Technicals	⇔
Market diversity	⇔
Event risks	⇘
Seasonality	⇘

Source: Standard Chartered

Figure 2

US lead indicator slowing, but positive

US Lead Economic Indicator YoY



Source: Bloomberg, Standard Chartered

IMPLICATIONS
FOR INVESTORS

Equities likely to outperform other traditional asset classes over the next 12 months, with a preference for the US

We maintain a slight preference for EM USD government bonds and Asia USD bonds within our bond universe.

Macro environment supportive of core allocation to alternative strategies, though trade tensions mean the USD outlook is more balanced than a month ago

A third scenario is another wave of tariffs and no deal, an outcome we rank second amongst the three possible outcomes. This could create a negative feedback loop whereby weak equity and credit markets and a stronger USD tighten financial conditions dramatically, further undermining confidence and the economic outlook. Of course, a rising threat of such an outcome could just as easily encourage US-China policymakers to redouble efforts to reach a deal.

The 'Sell-in-May' seasonality is also a potential negative, as is the signal from falling bond yields. However, other drivers on our checklist remain unchanged. US leading economic indicators and manufacturing PMIs continued to soften, but are above 2013 or 2016 troughs, and services PMIs remain robust. US Q1 earnings surprised positively and earnings revisions in most regions are ticking higher.

Equity technicals (page 27) appear consistent with near-term consolidation, but not significant weakness. Measures of market diversity are also not flashing red (page 28).

In our Global Investment Committee's assessment, thus, this leaves us with the conclusion that, in the short term (ie. 2-3 months), a consolidation or pullback may be likely. Long term (ie. 12 months), though, an avoidance of the no-deal trade scenario means risky assets should still outperform defensive assets. In our view, this means it is important to be prepared to buy any dip in equities and corporate/EM bonds.

Summer volatility

A temporary period of elevated volatility creates several rebalancing opportunities, in our assessment. Within equities, we see opportunities to trim exposure to Asia ex-Japan equities back to a core allocation following strong YTD gains and rebalance towards the US. From a sector perspective, we close our long-standing preference for the US technology sector, moving it back to a core holding (see page 18 for detailed equity sector views). Within bonds, we would consider an incremental rebalancing in favour of higher quality Developed Market investment grade (IG) bonds.

A period of temporarily high volatility would also create derivative opportunities after what has been an extended period of relatively low-to-moderate volatility. Covered call strategies are one example of this, an approach that tends to outperform long-only strategies during periods of moderately high volatility. See page 22 for more.

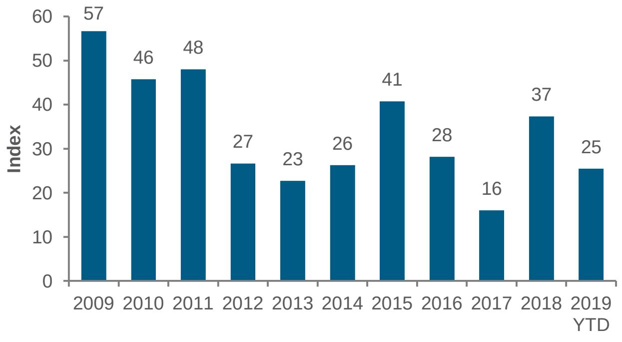
Buy the dip, eventually

Longer-term, though, while it is easy to get carried away by near-term headlines around trade-related event risks, we would be prepared to buy any dip in equities and corporate/EM bonds. Our seven-factor checklist illustrates that only two out of seven factors are negative. Similarly, while the US yield curve (ie. the difference in 10-year and 3-month yields) has once again turned negative, often interpreted as a recession indicator, the lack of confirmation by the leading economic indicator means our assessment of the likelihood of a US recession remains unchanged from last month, at about 30%.

Figure 3

Volatility has been relatively modest in 2019 YTD, but this could change

Peak in VIX by calendar year

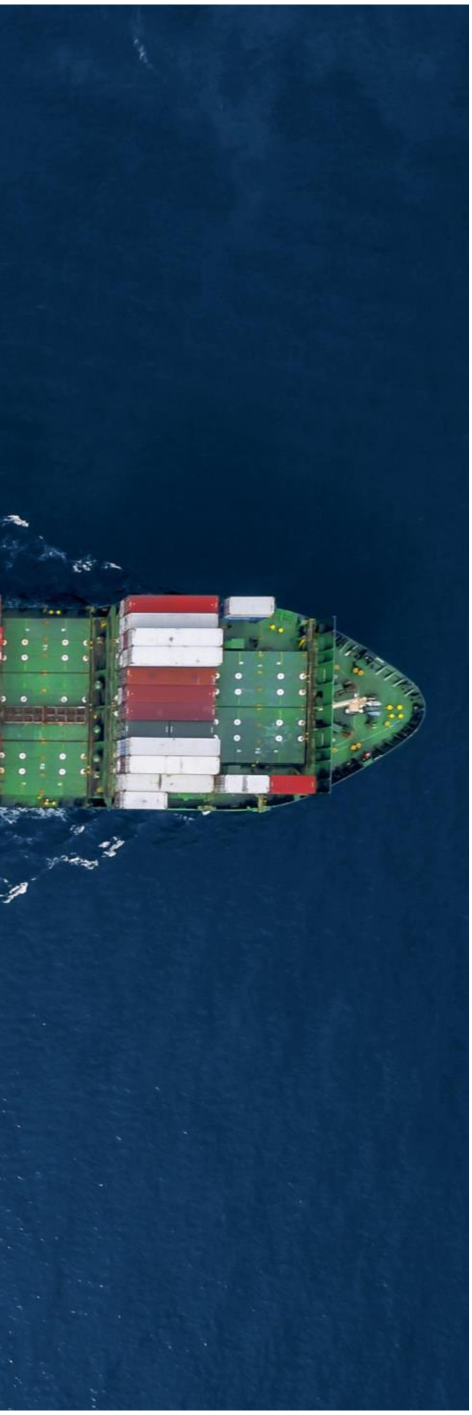


Source: Bloomberg, Standard Chartered

Within equities, we have a preference for the US within an otherwise diversified global equities allocation on a 12-month horizon, given its track record of late-cycle outperformance and continued earnings strength. We also prefer the energy sector, given its ability to benefit from sector-specific drivers. Within bonds, we maintain a slight preference for USD-denominated EM and Asian bonds, given their relative value, mitigation of currency volatility of local currency bonds and the latter's track record of relative stability.

The USD may also face a more balanced outlook as trade risks offset reducing support from bond yields, though we continue to be on watch for signs that the USD is peaking.

Perspectives
on key client questions



What are the implications from a further escalation in US-China trade tensions?

The breakdown in US-China trade talks following the latest round of tariffs in May has reignited the debate surrounding the potential evolution of the conflict between these two global superpowers and the implications for investors.

We see three broad potential outcomes: 1) escalation is temporary, leading to a deal by the G20 meeting in late June (28-29); 2) escalation leads to a standoff which persists for a medium time horizon (3-6 months) before reaching a resolution; 3) no-deal scenario, where the US and China impose 25%+ tariffs on all traded goods.

While our assessment indicates that the odds for a no-deal scenario have increased significantly, our base case points to scenario 2 as the most likely outcome. Hence, we maintain our positive view on risk assets on a 12-month basis, even as our near-term view advocates for a more cautious stance.

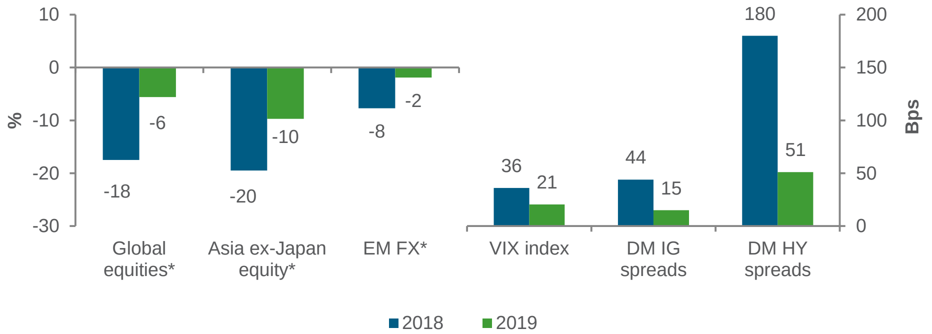
Markets have performed better than during the last episode of rising trade tensions

Looking at the peak-to-trough reaction of different assets after Trump's initial twitter threat on 5 May 2019 and now* and comparing it to the performance of these assets after the USD 50bn tariff implementation announcement in June 2018, the market reaction thus far has been more muted (see Figure 6), likely helped by the support from easier monetary conditions vis-à-vis last year.

Figure 4

Markets reaction so far in 2019 much more muted vs. 2018. Are markets reacting too slowly?

Peak-to-trough performance of select assets' following major tariff announcements in June 2018 and May 2019



Source: Bloomberg, JP Morgan, Standard Chartered
*Data as of 30 May 2019
Drawdown measured in percent points. Numbers rounded to closest integer
Note: 2018 analysis period refers to 15 June to 31 Dec 2018. 2019 refers to 5 May to 24 May 2019

What is the economic impact of an escalation?

The economic impact of actual (and potential) tariffs could have varying repercussions among the various regions of the world. However, ignoring counterbalancing measures, the negative impact to Chinese GDP growth ranges from as low as 0.2% to as high as 1.7% for the worst-case scenario in the ensuing 12 months. For the US, the measurable impact appears to be smaller (around 0.3% to 1.0%).

Despite Trump's promises of China paying for the tariffs, studies indicate that the next tariffs on USD 325bn of imports may hit US consumers more than in the previous rounds (for more details, refer to macro section pages 10-12).

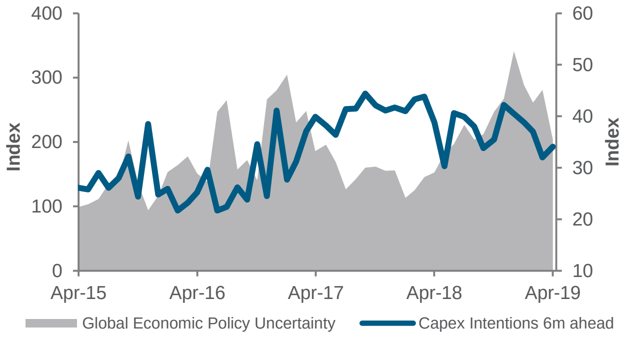
More concerning to investors will be the potential for negative feedback loops from the trade war on business confidence and financial markets, which is less easily quantifiable. It is widely believed additional tariffs will lead to higher inflation in both the US and China. However, prior episodes of trade tariff implementation have shown the impact to be disinflationary rather than inflationary. Trade tensions increase economic policy uncertainty and can undermine business confidence and investment, undermining overall economic activity and inflation expectations.

In recent times, this pattern can be seen in declining import volumes, not only for the US and China, but also for Europe where threats of higher auto tariffs have been delayed by another six months. Notwithstanding some regional winners from the trade disruption, it is estimated that global growth could be negatively impacted by 0.3-0.5%.

Figure 5

Global economic policy uncertainty (grey area) remains elevated, leading to a deceleration in capital expenditures in the months ahead

The blue line: Philadelphia Fed survey of expectations for higher capital expenditures in the coming 6 months. A lower reading implies firms are less likely to increase capital expenditures.



Source: Bloomberg, Philadelphia Federal Reserve, Standard Chartered

What is the impact on financial markets from trade escalation?

Currencies are likely to be the most immediate transmission vehicle, starting with the CNY. Often mentioned as a key part of a possible trade deal, a stable CNY is essential for the sustainability of capital flows (both for equity and bond markets) into China. Weakness in the currency could potentially counter some of the impact from Trump's tariffs. However, in our base scenario, we believe China's government is committed to defending the 7.0 level in the near term, higher volatility notwithstanding. Meanwhile, the JPY would likely benefit from any sustained risk-off environment.

In terms of equity market implications, China equities (especially the Chinese exporters to the US) could be the most directly hit. Any heightened concerns over the CNY may result in capital outflows, tightening domestic monetary conditions and investors' willingness to hold Chinese assets. Sectors with sizeable exposure to USD-denominated debt (e.g. Property) could be more significantly impacted from any CNY weakness. Though we acknowledge these risks, we assign a lower probability than our base scenario.

The US equity market tends to be more resilient during flare ups in US-China trade tensions (Figure 8). We are watching key technical levels of 2720 and 2650 on the S&P 500 index as medium-term support. At the sector level, the US technology sector could be at a greater risk from Chinese retaliatory measures (post the recent ban by the US on Huawei's access to US supply chains). (See page 21 for Equity sector views)

Figure 6

US equities have displayed more resilience relative to Emerging Markets after flare-ups in US-China trade tensions

Relative cumulative price return of select asset classes/benchmarks

Source: Bloomberg, Standard Chartered
Red lines show major trade announcements in Mar 2018, Jun 2018 & May 2019

Markets are concerned about the impact of trade on Asia USD bonds, given 60% of the issuers are from Hong Kong and China. However, we see limited negative impact on Asian USD bonds, given the still stable local demand and limited US exposure (c.2% of issuers).

Rising risk of a hard Brexit?

Prime Minister May's resignation has clearly opened the door to additional uncertainties from now until the 31 October deadline. Rather than attempting to predict the exact outcome of Brexit, a more effective approach is to focus on the question of how a no-deal Brexit could actually occur.

The consensus view is that May's resignation increases the likelihood of either 1) a hard-line Brexiteer becoming Prime Minister and leading the UK towards a "no-deal" exit from the European Union (EU), or 2) a general election that paves the way for a potentially less market-friendly Labour government.

In the near term, the selection process of a new Prime Minister is likely to be the main focus. With Boris Johnson the leading candidate to take over from PM May, we remain cautious on the near-term GBP outlook. Beyond this, the focus is likely to shift back to Brexit scenarios.

What would it take for a no-deal Brexit to happen?

We believe there are four ways this could happen:

- The new PM calls for a general election or a referendum and, after securing a no-deal majority, lets the current 31 October deadline expire **(Prob: VERY LOW)**
- Parliament fails to approve a deal, which eventually leads to the default outcome of no-deal exit on 31 October **(Prob: LOW)**
- The UK could request an extension, which is then refused. The EU has previously demonstrated aversion to a no-deal scenario **(Prob: LOW)**
- The new PM may pursue a hard Brexit, despite opposition from Parliament. This outcome would be a high-stakes political gamble **(Prob: VERY LOW)**

Why does it matter?

In our opinion, a hard Brexit outcome is likely to threaten our bullish GBP outlook. While the Conservative Party leadership contest may lead to an increase in hard Brexit rhetoric, the new premier will face the same obstacles as PM May – especially Parliament's opposition to a no-deal Brexit.

Moreover, with a fragmented political environment and the latest polls suggesting no clear majority (Figure 10), it is hard to envisage the new PM would risk calling a general election avoiding the 2nd key risk to the GBP of a Labour government.

Figure 7

GBP correction reflects rising risk of a hard Brexit scenario. We believe this risk may be overstated.

GBP/USD exchange rate

Source: Bloomberg, Standard Chartered

What does it mean for investors?

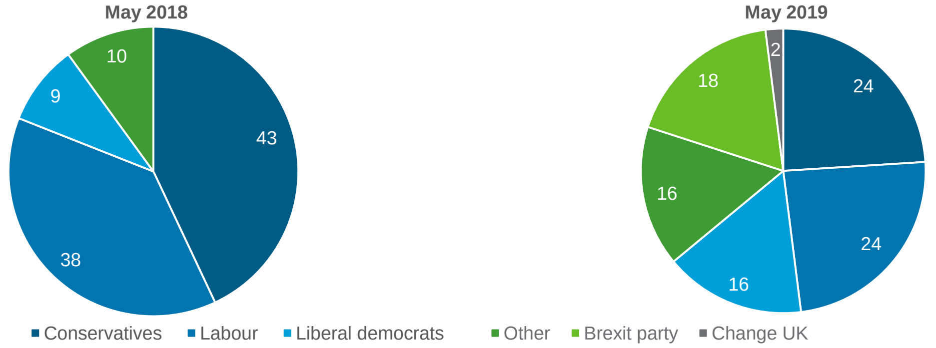
The GBP has fallen 4.3% against the USD in the last 4 weeks. While headlines may be dramatic, short of a shift in the UK's public opinion, which alters the Parliament's composition, a majority vote for a no-deal Brexit remains unlikely.

Given current GBP valuations, we believe almost every major Brexit scenario – except for a 'No Deal' – is bullish. Hence, we retain our bullish 12-month view on the GBP.

Figure 8

UK general election voting intentions has become even more fragmented

Figures indicate the UK voters' preference (%)



Source: UK YouGov, Standard Chartered as of 30 May 2019

Macro overview

Trade risks cloud 'Goldilocks' drift

- **Core scenario:** Our Global Investment Committee expects global growth to stabilise at a moderate pace, suppressed by renewed trade uncertainty, which we now believe may persist into Q3. Inflation is likely to stay subdued, despite the rebound in oil prices.
- **Policy outlook:** Moderating growth and below-target inflation are likely to allow the Fed, ECB and BoJ to stay on hold. China's central bank is likely to ease policy further to support growth.
- **Key risks:** Prolonged trade uncertainty and geopolitics are the biggest downside risks to global growth. Further stimulus in China and Fed rate cuts can potentially deliver the biggest upside risk to the outlook.

IMPLICATIONS
FOR INVESTORS

The Fed to hold rates for rest of 2019

The ECB and BoJ to maintain their highly accommodative monetary policies

China to progressively ease fiscal and monetary policies to support domestic-driven growth

Core scenario

Our Global Investment Committee maintains its assessment that global growth is likely to stabilise at a more moderate and sustainable pace over the next 12 months, despite the revival of US-China tensions. While the trade uncertainty could drag on for a few more months, financial conditions have eased significantly in the US since the start of the year and China is likely to keep gradually relaxing its fiscal and credit policies to support growth. Meanwhile, inflation remains below central bank targets globally. This 'Goldilocks' combination should allow the Fed, ECB and BoJ to stay accommodative, at least for the rest of 2019. An all-out trade war (not our base case) is the biggest risk to this constructive outlook.

Figure 9

The US and China remain growth leaders, although trade tensions cloud outlook

Region	Growth	Inflation	Benchmark rates	Fiscal policy	Comments
US	●	◐	◐	●	Growth/inflation easing to a sustainable trend, enabling the Fed to hold rates through 2019. Fed review of policy objectives under focus
Euro area	◐	●	●	◐	Growth expectations appear to be stabilising, although external risks cloud outlook; ECB to stay accommodative; policy for banks in focus
UK	◐	◐	◐	◐	New Premier unlikely to realise 'Hard Brexit', given parliament's opposition; BoE on hold
Japan	○	●	●	◐	Mounting risks due to trade uncertainty, October sales tax hike. BoJ to stay easy
Asia ex-Japan	●	◐	◐	●	China likely to revive stimulus measures amid renewed external risks. Low inflation to allow rest of Asia to cut rates to support growth
EM ex-Asia	◐	◐	◐	◐	China's recovery, dovish central banks positive for EMs; differentiation remains key

Source: Standard Chartered

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

Bonds

Trimming EM bond exposure

- We view bonds as a core holding, as the recent market volatility and geopolitical uncertainty reinforce their value as a hedge and an important source of income. Elevated trade uncertainty is likely to weigh on growth expectations, keeping yields capped. We lower our US 10-year Treasury yield expectation to the 2.25-2.50% range over the next 12 months, acknowledging the risk that yields could move higher should the global growth trajectory turn upwards.
- Emerging Market (EM) USD government bonds and Asian USD bonds still rank highest in our preference order within bonds, with around a 65% probability of outperforming global bonds, but we prefer to trim our exposure slightly and lock in some profits. Our base case of extended escalation of trade tensions implies a high likelihood of higher yield premiums for EM bonds in the short term.
- Increased growth and geopolitical risks lead to modestly higher exposure to high quality Developed Market (DM) Investment Grade (IG) government and corporate bonds as a hedge against market volatility.
- Given the low differential between short-term (2-year) and long-term (10-year) US bond yields, we continue to favour a maturity profile centred around 5-7 years. We also prefer to hedge currency risk for DM IG bonds in order to reduce the overall volatility of bonds allocation.

Figure 10
Bond sub-asset classes in order of preference

Bond asset class	View	Rates policy	Macro factors	Valua-tions	FX	Comments
EM USD government	Core Holding	Neutral	Neutral	Supportive	NA	Attractive yields, relative value balanced by geopolitical risks
Asian USD	Core Holding	Neutral	Neutral	Neutral	NA	High credit quality, low volatility is positive. Influenced by China risk sentiment
DM IG corporate	Core Holding	Neutral	Neutral	Neutral	Neutral	High credit quality and reasonable valuations balanced by deteriorating corporate health
DM HY corporate	Core Holding	Neutral	Neutral	Neutral	Neutral	Attractive yield, short maturity profile; risk of higher yield premiums if volatility increases
EM local currency	Core Holding	Supportive	Neutral	Neutral	Neutral	Attractive yield, more supportive EM central bank policy; FX volatility a risk
DM IG government	Core Holding	Neutral	Neutral	NA	Neutral	Relatively low yield; easier monetary policy. Hedge FX risk

Source: Standard Chartered Global Investment Committee

Legend: ● Supportive ◐ Neutral ○ Not Supportive ▲ Preferred ▼ Less Preferred ◆ Core Holding

IMPLICATIONS
FOR INVESTORS

Emerging Market USD government and Asian USD bonds remain top ranked, but conviction has reduced modestly

Increase allocation to high quality Developed Market Investment Grade government and corporate bonds

Maintain a 5-7 year average maturity profile for USD-denominated bonds.

Figure 11
Where markets are today

Bonds	Yield	1m return#
DM IG government (unhedged)	1.40%*	1.0%
EM USD government	6.01%	0.5%
DM IG corporates (unhedged)	2.67%*	0.3%
DM HY corporates	6.47%	-0.8%
Asia USD	4.30%	0.8%
EM local currency government	6.12%	0.0%

Source: Bloomberg, JPMorgan, Barclays, FTSE, Standard Chartered
30 April to 30 May 2019
As of 30 April 2019

Equities

Equities – waiting for the dip

- Global equities remain our preferred asset class, with a 75% probability that they will outperform other asset classes in the next 6-12 months. We believe there is a heightened risk of short-term weakness and volatility, but we are looking to seize the opportunity and buy the dip.
- US equities rank highest in our order of market preference and are preferred. US equities have less exposure to trade compared to peers: 31% of revenue is sourced from overseas.
- The Euro area ranks second in our order of preference. There are signs that the ECB may be set to take action to support the banks, which have been a key factor the Euro area's recent underperformance.
- Asia ex-Japan equities, along with China equities, are reduced to core holdings from being 'preferred' previously amid trade tensions.
- The US technology sector, with 61% exposure to overseas revenue, is also reduced to a core holding following the escalation in trade tensions.
- Risks to our equity views: USD strength, a prolonged US-China trade dispute and weakening Chinese growth.

Figure 12

Equity market drivers and our assessment of their outlook

	View	Valuations	Earnings	Corporate Margins	Economic Data	Bond yields	Fund Flows	Geo Politics	Context
US	▲	○	●	◐	◐	◐	◐	○	Solid earnings are supportive of elevated valuations. Market less exposed to trade war compared to peers.
Euro area	◆	◐	◐	◐	◐	●	◐	◐	Core view reflects potential changes to ECB rates on bank excess reserves as well as supportive bond yields.
Asia ex-Japan	◆	◐	◐	◐	◐	◐	◐	○	Potential for China stimulus offsetting some of the trade war risks. Recent USD strength a drag on liquidity.
EM ex-Asia	◆	◐	◐	◐	◐	◐	◐	○	Core view reflects fair valuations with potential catalysts from elevated commodity prices. Trade war a risk.
UK	◆	◐	◐	◐	◐	◐	◐	○	Soft Brexit base case in combination with attractive valuations and supportive bond yields. Risk is hard Brexit
Japan	▼	●	◐	◐	◐	◐	◐	◐	Uncertainty over tax and wage growth outlook outweighs attractive valuations and rising RoE

Source: Standard Chartered

Legend: ○ Not Supportive ◐ Neutral ● Supportive ▲ Preferred ▼ Less Preferred ◆ Core Holding

IMPLICATIONS
FOR INVESTORS

Global equities are preferred over other asset classes. US equities rank highest.

Asia ex-Japan is reduced to core holding, as is US Technology. Concerns over trade war impact drive the change.

Euro area equities are core holding. China stimulus may offset the risk to overseas revenue from trade uncertainty.

Figure 13

Where markets are today

Market P/E ratio	P/B	EPS	Index level
US (S&P 500)			
16x	3.0x	7%	**2,789**
Euro area (Stoxx 50)			
13x	1.4x	9%	**3,318**
Japan (Nikkei 225)			
12x	1.1x	2%	**20,943**
UK (FTSE 100)			
12x	1.6x	6%	**7,218**
MSCI Asia ex-Japan			
13x	1.4x	8%	**615**
MSCI EM ex-Asia			
10x	1.4x	9%	**1,367**

Source: FactSet, MSCI, Standard Chartered. Note: valuation and earnings data refer to 12-month forward data for MSCI indices, as of 30 May 2019

Alternative strategies

Alternatives as a core holding

- We maintain alternatives as a core holding
- Global Macro remains an attractive "diversifier", given its historical low correlation to traditional assets, especially during sustained pullbacks
- We move Event Driven to less preferred, as Sino-US trade tensions may deter M&A activity and credit spreads are expected to widen

Performance review of alternatives strategies

We maintain alternatives as a core holding as late-cycle dynamics persist.

In May, our alternatives allocation declined -0.6%, weighed down by negative returns in Equity Hedge, Global Macro and Event Driven. These strategies may have been wrong-footed by the unexpected intensification of Sino-US trade tensions since early May.

This month, we move Event Driven to less preferred. We retain a positive 12-month view on equities. That said, it is conceivable that the uncertainty generated by Sino-US trade tensions may deter longer-term corporate commitments, such as M&A transactions. In addition, credit spreads are expected to widen, which could raise funding costs for M&A activities.

In our view, Global Macro remains an attractive diversifier. Our analysis shows that since 2003 (when weekly data began), Global Macro has delivered positive returns in 62% of the weeks when the VIX has been high and rising.

We adjust our alternatives allocation to: Equity Hedge 31% (from 32%), Relative Value 29% (from 25%), Event Driven 19% (from 25%) and Global Macro 21% (from 18%). For more information on the allocation, please refer to *Outlook 2019*.

Figure 14

Traffic light framework alternatives strategies

		Description	View	Drivers for strategies to perform	
Substitutes	Equity Hedge	In essence, buying undervalued stocks and selling overvalued stocks	◆	• Positively trending equity markets	●
				• Rising equity market dispersion	◐
	Relative Value	Looking to take advantage of differences in pricing of related financial instruments	◆	• Falling interest rates/cost of funding	●
				• Narrowing credit spreads	○
	Event Driven	Taking positions based on an event such as a merger or acquisition	▼	• Positively trending equity markets	●
				• Rising mergers and acquisitions	○
				• Narrowing credit spreads	○
Diversifier	Global Macro	Looking to exploit themes, trends and asset class relationships (correlations) at a global level, generally with leverage	◆	• Rising volatility and credit spreads	●
				• Increasing cross asset dispersion	◐
				• Clear market trends (up/down)	◐

Source: Standard Chartered

Legend: ● Supportive ◐ Neutral ○ Not Supportive ▲ Preferred ▼ Less Preferred ◆ Neutral

IMPLICATIONS
FOR INVESTORS

Diversified alternatives allocation preferred, given our outlook on volatility and late-cycle dynamics

Global Macro remains an attractive diversifier

Event Driven moved to less preferred

Figure 15

Where markets are today

Alternatives	YTD	1m return
Equity Hedge	4.9%	-1.5%
Relative Value	3.0%	0.2%
Event Driven	0.7%	-0.2%
Global Macro	0.1%	-0.1%
Alternatives Allocation	2.6%	-0.5%

Source: Bloomberg, Standard Chartered

Note: YTD refers to 31 December 2018 to 30 May 2019; 1m return refers 25 April 2019 to 30 May 2019

FX

USD uptrend fading

- Yield differentials continue to turn gradually against the USD amid ongoing growth concerns. However, trade-related safe-haven demand and relatively high absolute yields mean the USD may be range-bound.
- The CNY is likely to remain stable ahead of the G20 meeting in late-June, with subsequent moves likely linked to how trade tensions evolve. The INR is likely to consolidate the recent post-election gains.
- We remain bullish on the GBP medium term despite the near-term Brexit uncertainty. The EUR downtrend appears tired amid a lack of drivers.

Figure 16

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	Growth and rate differentials to narrow
EUR	◆	◆	◐	◐	NA	◐	Growth to bottom; rates cannot fall far
JPY	◆	◆	◐	●	NA	◐	No BoJ policy shift; new fiscal stimulus
GBP	◆	▲	◐	●	NA	◐	Brexit risk fades; undervalued
AUD	◆	◆	○	◐	◐	◐	Support from China; better terms of trade
CNY	◆	◆	○	◐	◐	◐	Stimulus and data support; trade deal dependency

Source: Bloomberg, Standard Chartered Global Investment Committee

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

USD – Range trading expected

The escalation of global trade tensions has clouded the outlook for both the global economy and the USD. Positive US yields remain attractive in the renewed zero- or negative-rate environment in other Developed Markets (DM), but relative rate differentials are likely to continue to gradually narrow as relative growth and inflation expectations reduce. Future trade talks remain key, both from a risk appetite perspective and given the potential for implicit or explicit currency agreements designed to limit USD strength. The USD (DXY) index hit a marginal new two-year high at 98.37, and resistance up to 100.15 is likely to prove difficult to break. We expect the March 2019 low at 95.74 to be key support as the USD trades sideways, with break of either extreme being an indicator of the medium-term trend.

IMPLICATIONS
FOR INVESTORS

We believe the USD uptrend is fading, but a reversal may not begin while trade tensions escalate

The EUR is likely to find support near current levels and consolidate against the USD

Despite near-term risks, we remain bullish on the GBP based on our view of an eventual avoidance of a hard-Brexit

Figure 17

Where markets are today

FX (against USD)	Current level	1m change#
Asia ex-Japan	104.01	-1.7%
AUD	0.69	-1.9%
EUR	1.11	-0.8%
GBP	1.26	-3.3%
JPY	109.62	-1.6%
SGD	1.38	1.3%

Source: Bloomberg, Standard Chartered
30 April to 30 May 2019

Multi-asset income

Resilience in volatile markets

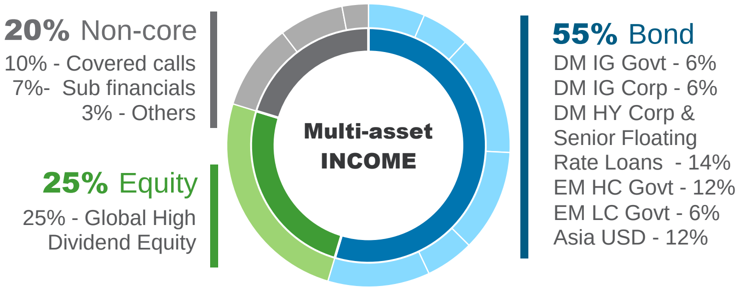
- With a base case of US-China escalation to persist for a medium time horizon (3-4 months) before reaching a resolution, we believe macroeconomic environment remains supportive for an income-oriented strategy.
- We advocate for a more cautious approach within our multi-asset income allocation. A yield goal of 4-5% remains achievable for income-focused investors without taking excessive risks.
- Historical analysis shows that a diversified income allocation consistently delivered positive total returns across different ranges of high volatility.

Key drivers supportive of multi-asset income in 2019

Our multi-asset income allocation has proved resilient on the back of rising US-China trade tensions, reporting a total return of 6.7% YTD, of which 2.0% was from income. Despite the recent pullbacks in risky assets, global high dividend equity, Developed Market (DM) High Yield (HY) bonds, and Emerging Market (EM) bonds, up 7.4%, 6.4%, 7.8% YTD, respectively, remained the key contributors to the strong YTD performance of our multi-asset allocation.

With the expectation of a base case scenario of US-China trade deal to be reached within a medium-time horizon (3-6 months), we believe the macroeconomic backdrop continues to be supportive for an income-oriented strategy over the next 12 months for three reasons: (1) we expect a dovish asymmetry to remain for major central banks to keep global bond yields low. In this context, an income-focussed strategy will be supported by higher demand in the search for yield; (2) we expect the USD to stay range-bound, which is generally supportive for high yielding assets like EM bonds; (3) we expect global growth to stabilise, which should be positive for the outlook of risky assets and capital appreciation potential of income assets.

Figure 18
Breakdown of our proposed multi-asset income allocation



Source: Standard Chartered. Note: *Allocation figures may not sum to 100% due to rounding*

IMPLICATIONS
FOR INVESTORS

Yield target of 4-5% is achievable for income-oriented investors

We advocate for a more cautious approach within our multi-asset income allocation in current volatile markets

Multi-asset income allocation as a core component of a diversified investment allocation

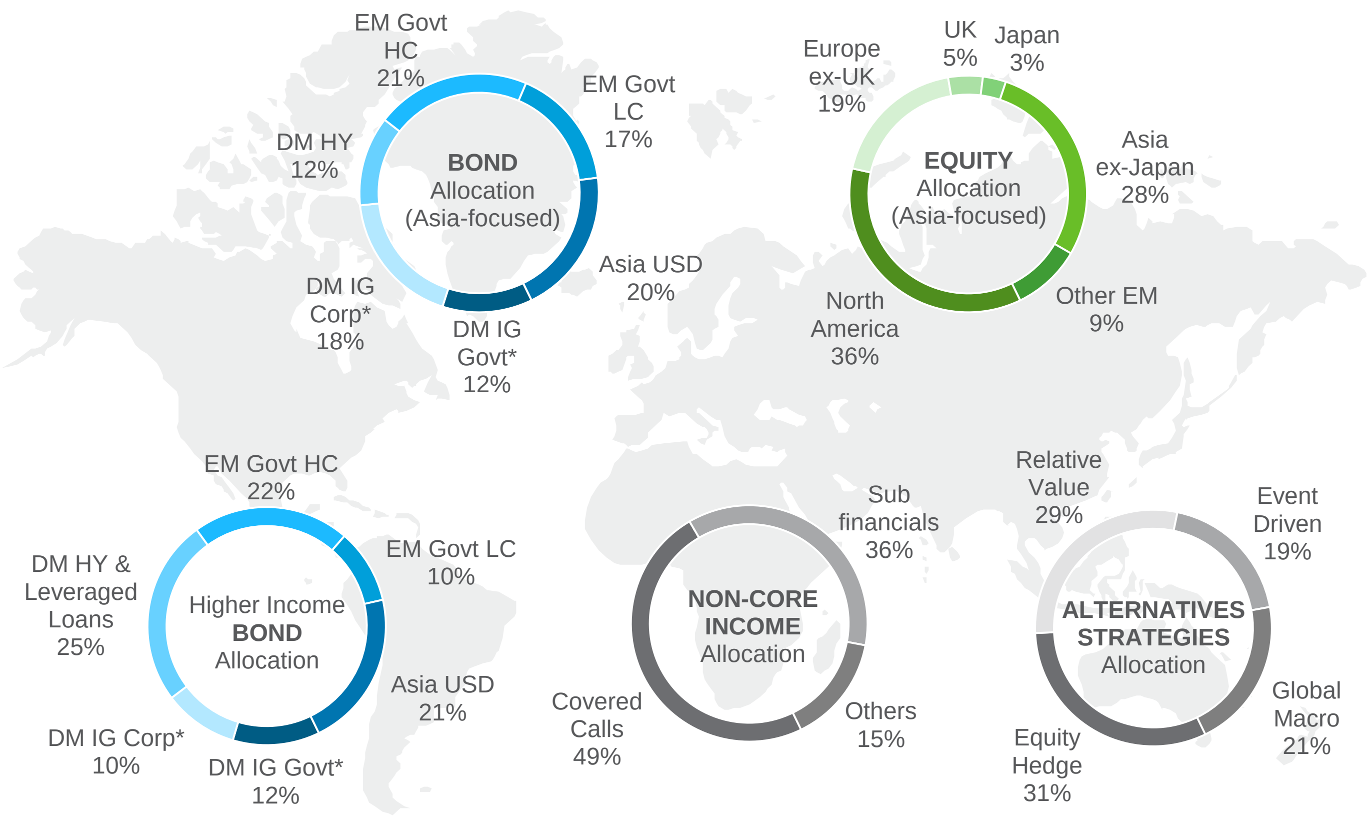
Figure 19
Allocation performance

Allocation performance	YTD	1m return*
Multi-asset income	6.7%	-0.7%

Source: Bloomberg, Standard Chartered
As of 30 May 2019

Our recommended allocations

Asset class sleeves



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

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

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

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

Asset allocation summary

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

		ASIA FOCUSED				GLOBAL FOCUSED			
Summary	**View**	**Conservative**	**Moderate**	**Moderately Aggressive**	**Aggressive**	**Conservative**	**Moderate**	**Moderately Aggressive**	**Aggressive**
Cash	◆	19	9	4	0	19	9	4	0
Fixed Income	◆	62	41	30	8	62	41	30	8
Equity	▲	19	36	52	83	19	36	52	83
Alternative Strategies	◆	0	14	13	8	0	14	13	8

		ASIA FOCUSED				GLOBAL FOCUSED			
Asset class	**View**	**Conservative**	**Moderate**	**Moderately Aggressive**	**Aggressive**	**Conservative**	**Moderate**	**Moderately Aggressive**	**Aggressive**
USD Cash	◆	19	9	4	0	19	9	4	0
DM Government Bonds*	◆	8	5	4	1	10	7	5	1
DM IG Corporate Bonds*	◆	11	8	6	2	15	10	8	2
DM HY Corporate Bonds	◆	8	5	4	1	10	7	5	1
EM USD Government Bonds	◆	13	9	6	2	10	6	5	1
EM Local Ccy Government Bonds	◆	10	7	5	1	8	5	4	1
Asia USD Bonds	◆	12	8	6	2	9	6	4	1
North America	▲	7	13	19	30	11	21	30	47
Europe ex-UK	◆	4	7	10	16	2	3	5	7
UK	◆	1	2	2	4	1	2	2	4
Japan	▼	1	1	2	3	1	1	2	3
Asia ex-Japan	◆	5	10	15	24	3	7	9	15
Non-Asia EM	◆	2	3	5	8	2	3	5	7
Alternatives	◆	0	14	13	8	0	14	13	8
		100	**100**	**100**	**100**	**100**	**100**	**100**	**100**

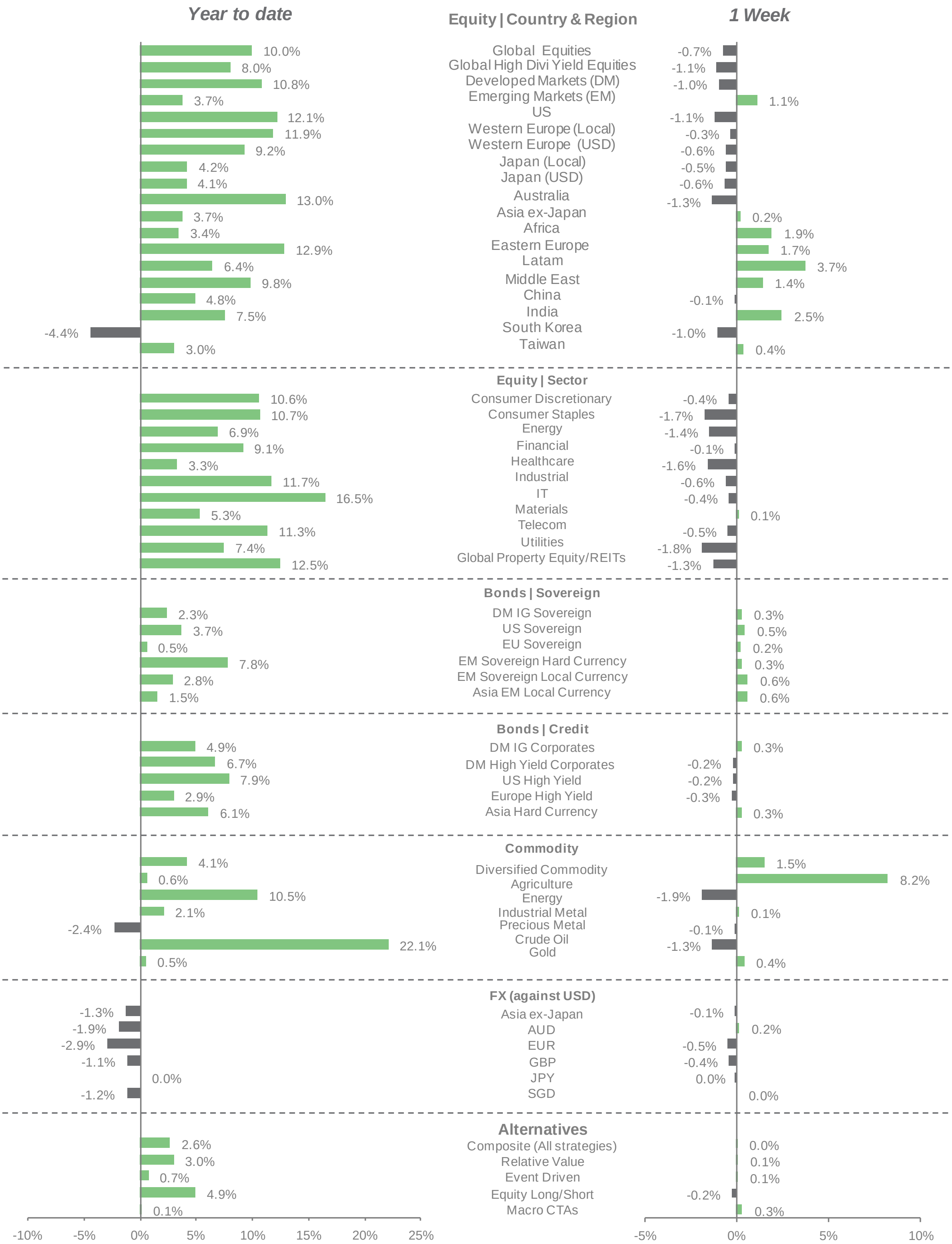
Source: Bloomberg, Standard Chartered

For illustrative purposes only. Please refer to the disclosure appendix at the end of the document. * FX-hedged

Note: 1. For small allocation we recommend investors to implement through global equity/global bond product 2. Allocation figures may not add up to 100 due to rounding.

Legend: ▼ Least preferred ◆ Core holding ▲ Most preferred

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 30 May 2019 and 1-week performance from 23 May 2019 to 30 May 2019

Events calendar

june

04	RBA policy decision
06	ECB policy decision
20	BoE policy decision
20	FOMC policy decision
20	BoJ policy decision
28-29	G20 Leaders' summit

july

X	China Politburo meeting on economic policy
01	Japan Upper House election
02	RBA policy decision
25	ECB policy decision
30	BoJ policy decision

august

01	FOMC policy decision
01	BoE policy decision
06	RBA policy decision

september

03	RBA policy decision
12	ECB policy decision
19	FOMC policy decision
19	BoJ policy decision
19	BoE policy decision

october

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

november

X	Japan's Constitutional referendum
X	APEC summit
05	RBA policy decision
07	BoE policy decision

december

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