

Global Market Outlook

More Greed than Fear

Equities have had a very strong start to 2021. Some short-term equity market indicators look stretched, which risks some temporary weakness, but we would be comfortable buying the dip with a 6-12 month horizon.

The key drivers of our Outlook 2021 are largely unchanged. Vaccine deployment and its efficacy against new virus strains are risks we continue to monitor, though neither appears to pose a long-term risk to markets at this stage.

We continue to prefer equities, corporate and Emerging Market bonds and multi-asset income strategies and believe drivers of our 2021 investment themes remain in place.



What are Biden's immediate priorities?

What does Biden's 'green' agenda mean for markets?

Are charts pointing to further rise in bond yields and equities?

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Investment strategy and key themes



Implications for investors

- Prefer global equities, credit and multi-asset income strategies
- Equities: Prefer Asia ex-Japan, US, Euro area and Japan
- Bonds: Prefer DM HY, EM (USD and local currency) and Asia USD bonds
- The USD is likely to weaken against the EUR, AUD, GBP and CNY

Key Themes

Race for income

Ready, Steady, Rotate

USD to slump in 2021

Gold equity themes for 2020s

Time for climate investing

A world of yield-free risk

More Greed than Fear

- Equities have had a very strong start to 2021. Some short-term equity market indicators look stretched, which risks some temporary weakness, but we would be comfortable buying the dip with a 6-12 month horizon.
- The key drivers of our *Outlook 2021* are largely unchanged. Vaccine deployment and its efficacy against new virus strains are risks we continue to monitor, though neither appears to pose a long-term risk to markets at this stage.
- We continue to prefer equities, corporate and EM bonds and multi-asset income strategies and believe drivers of our 2021 investment themes remain in place.

Starting the year strong

Risky assets have made a strong start to the year. Since we published *Outlook 2021* in mid-December, global equities have gained 4%, led by gains in Asia ex-Japan equities (up 8.8%). Our 2021 investment themes have had a strong start since *Outlook 2021*. They have all delivered strong absolute returns, though Value-style equities (based on our “Ready, Steady, Rotate” theme) and high dividend stocks (a part of our “Race for Income” theme) have underperformed benchmarks slightly.

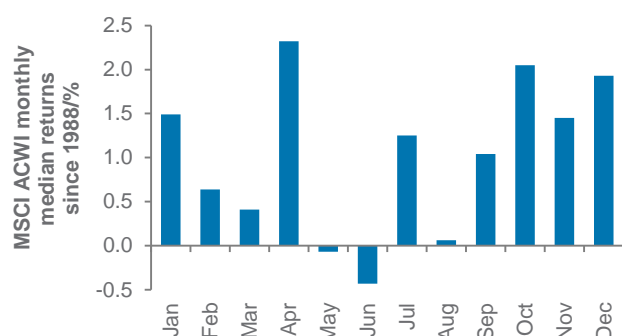
Seasonally, this strong equity market performance is not unusual – data since 1988 shows that the December-January period tends to be characterised by strong equity market returns – though the size of the move has been larger than usual. Interestingly, credit (ie. corporate and EM bonds) returns have been quite subdued during this broadly risk-on period. The rise in US Treasury yields amid fears of a Fed taper have been a factor. However, Powell’s firm rebuttal of an imminent taper and US President Biden’s focus on a fiscal stimulus are likely to allay the market’s concerns.

Stretched too far?

A positive policy backdrop notwithstanding, concerns are rising about whether the equity market gains are sustainable, given the rapid gains in recent times; the ongoing cryptocurrency rally and its comparisons with historical ‘bubbles’; virus mutation worries and slow vaccine rollouts in Emerging Markets and the Euro area.

Fig. 1 Equity market returns have historically been strong in Dec-Jan

MSCI All Country World index, median monthly returns since Jan 1988



Source: Refinitiv, Standard Chartered

Short-term equity market indicators in the table below can help place this debate in context. Two out of six indicators argue equity markets may be stretched. The S&P 500 put-call ratio (the ratio of options purchased by investors, giving them the right to sell or buy the S&P 500 index) stands out to us. Returns in the months following a very low put-call ratio – indicating a very bullish mood in the market – have generally been quite poor. The remaining four factors, though, are significantly less concerning.

Overall, this leaves us with an assessment that a temporary pullback may very well have started, with COVID-19 lockdowns in Europe, virus mutations, vaccine rollout delays, a creep higher in bond yields, a potential return of tax hikes to Biden's agenda or even a lack of 'new' good news being potential triggers.

Fig. 3 Some US equity market indicators pointing to elevated short-term pullback risk

US short-term market sentiment indicators; our assessment relative to rolling three-year range.

Indicator	Signal
Market momentum	Greed
Equity strength	Extreme Greed
Market breadth	Greed
Equity vs bonds	Greed
Market volatility	Fear
Put-call ratio	Extreme Greed

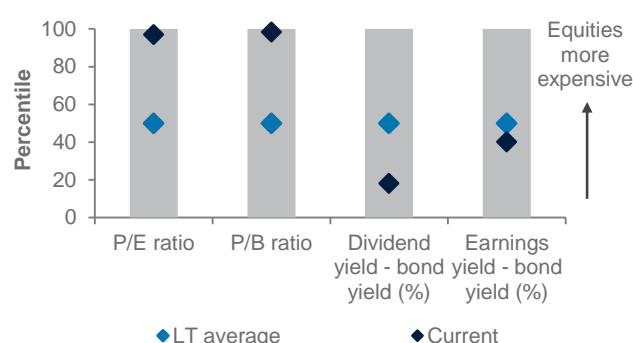
Source: Bloomberg, Standard Chartered; as of 28-Jan

Indicator definitions: Market momentum – 120dma; Equity strength – net new stocks at 52w high; Market breadth – McClellan advance/decline summation; Equity vs Bond – difference in 20d stock & bond returns; Market volatility – VIX Index; Put-Call ratio – proportion of put (sell) and call (buy) options.

Greed/Fear when indicator is above/below the normalised range midpoint; **Extreme Greed/Extreme Fear** when indicator is above/below 80%/20% of its normalised range.

Fig. 2 The valuation conundrum – capped bond yields key to justifying equity valuations

S&P500 index valuation metrics, current vs. last 20 years



Source: Bloomberg, FactSet, Standard Chartered

Outlook 2021 drivers largely unchanged

Outside of the short-term debate, we believe little has changed on the five factors driving our *Outlook 2021*:

- Most governments project vaccinating a significant share of their populations by the end of Q2 or Q3.
Virus mutations remain a risk to vaccine optimism, but, thus far, mutations have not been significant enough to dramatically alter vaccine plans.
- In the interim, both central banks and governments have signalled policies will remain very supportive.
Markets were concerned that the Fed, in particular, could start tapering bond purchases. However, Fed Chair Powell has quelled these concerns for now.
- This means we remain comfortable with our view that US bond yields will remain capped.
- This, in turn, supports our weak-USD view (short-term rebounds notwithstanding).
- Vaccinations and policy support mean the main driver behind our preference for Value-style equities – a global growth recovery – is unchanged.

Opportunity to average in

We see some merit in the view that equities and credit could face a near-term pullback. However, we will look to start averaging into our preferred assets since long-term fundamentals remain unchanged. Equities, credit and multi-asset income strategies remain preferred.

In equities, we continue to expect most regions to do well. EM equities are clearly benefiting from USD weakness, while accommodative policies are supporting US equities; but a return of flows to Value-style equities should also benefit Euro area and Japan equities. In bonds, we maintain our preference for EM (both USD and local currency), Asia and HY bonds.

Perspectives on key client questions



What will the Biden administration focus on and what are the potential market implications?

President Biden entered the White House inheriting an economy in one of its worst conditions in recent years. Faced with high unemployment and the COVID-19 pandemic still ravaging many parts of the country, he is under pressure to undertake swift policy actions to tame the pandemic and support the economic recovery.

Biden has laid out an ambitious economic revitalisation plan for his first 100 days in office. This includes another USD 1.9trn fiscal stimulus (The American Rescue Plan), vaccination for 150m people (up from 100m previously) and reversal of several Trump-era rules with an aim to build a more sustainable 'green' economy. We believe reasonable success on these goals would be significantly positive for reflationary the US and global economies, supporting stocks and other risk assets.

Biden's likely priorities

Biden's challenges stretch wide and deep, from immediate issues surrounding the pandemic response and labour markets to structural issues, such as inequality, education and regulatory reforms, climate change and infrastructure, to name a few. A slim majority in the Senate will give Biden's administration some advantages in passing legislations. However, as seen in his first days in office, President Biden will also make use of executive orders to tackle the pandemic and to reverse some of Trump's more controversial policies (Fig. 4).

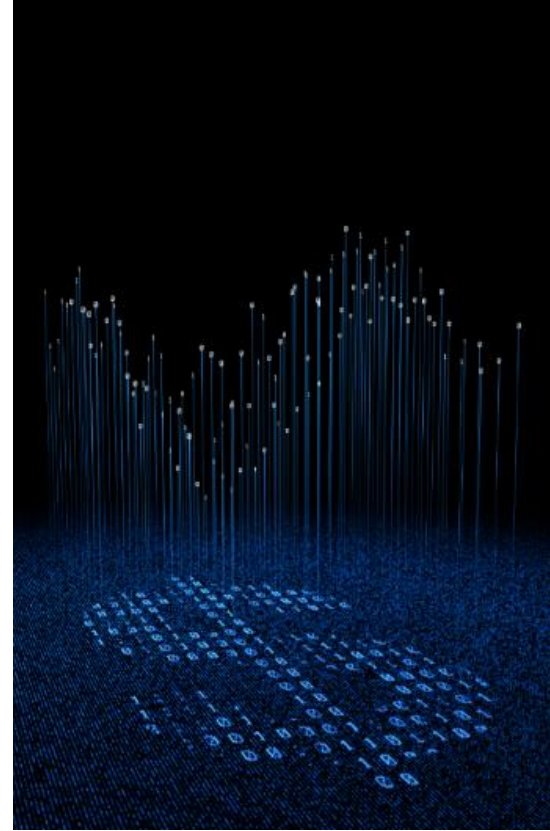
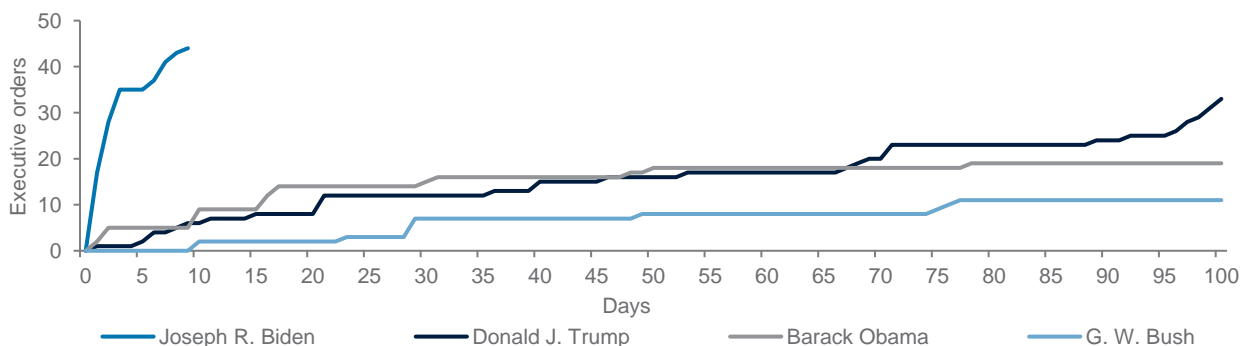


Fig. 4 About half of Biden's executive orders focused on the pandemic response, while nearly one third aimed at reversing his predecessor's policies

Count of executive orders in the first 100 days in office of the most recent US Presidents



Source: The American Presidency Project, Standard Chartered

Biden's immediate priority is the American Rescue Plan. This proposal constitutes a fiscal thrust of c.8.6% of GDP, though it is quite likely that only a reduced version of it may pass through Congress. Assuming a pessimistic scenario of 50% reduction, the plan would still put the overall US response to c.20% of GDP since the beginning of the pandemic. See the table below for details of the plan.

To fund this spending, Biden has proposed to reverse Trump's prior corporate tax cuts and raise income tax on high earners. The filibuster rule maintains that

legislation can be passed upon securing a 60-vote majority in the Senate; this will test whether Biden is able to uphold his promises of uniting the country, starting with collaboration in Congress. Should this fail, Democrats can rely on unique measures, such as the budget reconciliation process (once a year) that only requires a 51-vote majority, though this may increase the risk of tax hikes (potentially over the next one to two years) being brought forward and any subsequent negative market reaction.

Fig. 5 President-elect Biden has released the details of his COVID-19 relief plan, which the transition team estimates to cost USD 1.9trn (8.6% of GDP), over and above the December 2020 USD 950bn package

Categories	Enacted COVID-19 relief bill (Dec. 2020)	Biden proposal (14-Jan-20)	Key items summaries
State fiscal aid	-	370	Provides emergency funding to state, local and territorial governments, to "keep front-line workers on the job and paid"
Education grants	82	170	Expands the Higher Education Emergency Relief Fund and the Hardest Hit Education Fund
Public health	69	160	Expands the public health workforce, nearly tripling the country's community health workforce
Stimulus payments	171	450	Provides additional USD1,400/person in stimulus payments
Unemployment insurance	180	200	Extends the expanded unemployment benefits (through September 2021 and including a USD400/week payment)
Rental/homeowner assistance	25	35	Extends eviction and foreclosure moratoriums; continues forbearance applications on federally guaranteed mortgages
Child care	10	40	Expands childcare access (help to providers, help for parents to return to work, tax credits to cover childcare costs)
Safety net programmes	13	20	Provides expanded paid sick, family and medical leaves. Expands emergency paid leave to include federal workers
Health insurance	-	100	Extends health insurance premium subsidies
Business assistance	350	50	Provides financing to hardest-hit small businesses and helps entrepreneurs, including those in clean energy
Transportation	29	20	Provides relief for the hardest-hit public transit agencies to keep them from laying off transit workers
Air carriers	16	-	
Broadband	7	-	
Farm subsidies	13	-	
Other	-	285	Includes Federal IT infrastructure upgrades and support to the international health and humanitarian response
Total cost	c.950	1,900	USD bn/10 years
Total cost	4.5	8.6	% of 2020 GDP

Source: Congressional Budget Office, Joint Committee on Taxation, Treasury, Biden Administration, Standard Chartered

What are the implications of Biden's 'green agenda' for financial markets?

Addressing climate change is also one of Biden's top priorities. He recommitted to the Paris Climate Agreement on day one, revoked construction permits

on the Keystone XL oil pipeline and issued executive orders for federal agencies to review and reinstate more than 100 environmental regulations that were weakened or rolled back by the Trump administration. More climate-related policies are expected as the Biden administration incorporates climate risks across policy making, including foreign policy and national security.

Fig. 6 President Biden's climate and environmental justice proposal during his campaign includes a Federal investment of USD 1.7tn over the next ten years, leveraging additional private sector and state, and local investments of more than USD 5.0tn

Key initiatives	Proposals
The US to achieve 100% clean energy economy and reach zero net carbon emission by 2050; interim target of decarbonising the US power sector by 2035	<ul style="list-style-type: none"> Reduce greenhouse gas emissions from transportation via new fuel economy standards Incentivise 100% clean energy and zero-emission vehicles Establish new appliance- and building-efficiency standards; invest in clean efficiency buildings, including 4m retrofits
Incorporate climate risks into infrastructure investments	<ul style="list-style-type: none"> Invest to create a modern, sustainable infrastructure – from roads and bridges, to energy grids, buildings, power sector and auto industry
Rally the world to mitigate the threat of climate change	<ul style="list-style-type: none"> Get major countries to commit and adhere to climate targets; integrate climate change into trade, foreign policy and national security
Hold polluters accountable	<ul style="list-style-type: none"> Require all public companies to disclose climate-related financial risks and greenhouse gas emissions in their operations and supply chains Propose legislation requiring polluters to bear the cost of their pollution
Make environment justice a priority across all federal agencies	<ul style="list-style-type: none"> Federal agencies to develop solutions for environmental injustices Allocate 40% of clean energy investment to disadvantaged communities
Accelerate the deployment of clean technology throughout the economy	<ul style="list-style-type: none"> Reduce the carbon footprint of the US building stock by 50% by 2035 Create incentives for rapid development of clean energy innovations across the economy Deploy >500,000 new public charging outlets by the end of 2030 Ensure the US agricultural sector is first to achieve net zero emissions

Source: <https://joebiden.com/>

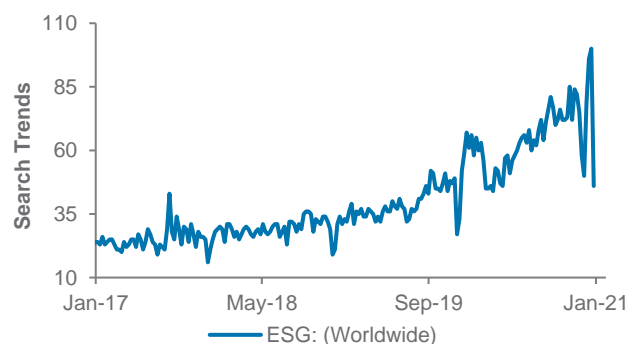
Climate agenda gaining momentum

The climate neutrality goals recently disclosed across Asia as well as in the US are major steps towards the globalisation of net zero emission climate plans. More than 126 governments have made some form of pledge to achieve net zero emission by around the middle of the century. This has continued to attract investor interest and funds into the space.

Among the listed climate-related investments we track, clean energy equity investments delivered the strongest returns, with momentum accelerating post the US elections. As investors continue to gain familiarity with climate investing, flows into climate products may become more nuanced, with energy storage and efficiency, smart grid and clean tech potentially becoming an emerging focus.

Fig. 7 Google search for ESG has surged

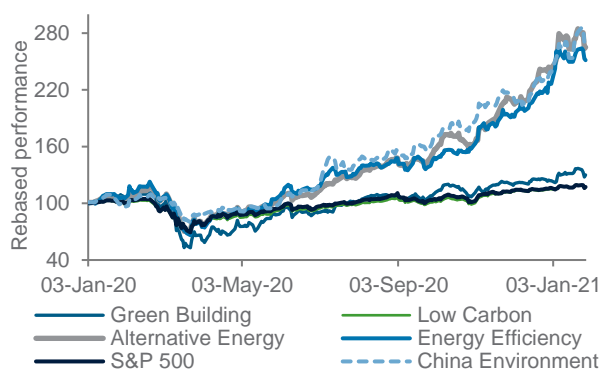
Google search trend for ESG worldwide



Source: Google, Standard Chartered

Fig. 8 Climate-related equity indices have performed strongly in recent months

Climate-related indices' performance rebased to 100



Source: Bloomberg, Standard Chartered, rebase date as of 31-12-2019

Within the US utilities sector, the movement towards clean energy has been boosted by growing demand for renewable energy and state-level mandates that focus on carbon reduction. This has resulted in most major US electric utilities committing to net zero emissions goals by 2050 or earlier. About half of the US states have remained committed to their goals through the bipartisan US Climate Alliance, with an increasing number of states pursuing agenda for 100 percent clean energy sources.

The Biden administration added proponents of climate change to lead its ambitious agenda

- **Janet Yellen** appointed as Treasury Secretary. She has long held the view of climate change as a threat to the financial system. She supported an international climate treaty in the 1990s and backed the idea of taxing carbon emissions while returning proceeds back to its citizens. She will have a crucial role in orchestrating the government's approach to climate risk and resilience. Within her scope, she will be in a position to oversee tax credits, with options to direct incentives towards renewables and carbon capture technologies.
- Former Secretary of State **John Kerry** has been appointed Special Presidential Envoy for Climate, a first cabinet-level climate position with a seat at the table on the National Security Council.
- **Brian Deese**, who will be leading the National Economic Council, was previously the head of BlackRock's Sustainable Investing team that focuses on identifying drivers of long-term returns associated with ESG issues. In his previous role under the Obama administration, he served as the President's senior advisor for climate and energy policy, with notable work centred on negotiating the Paris Climate Agreement.

Beyond the headline climate announcements, the table below summarises the developments to watch out for in the coming quarters as Biden elevates climate change in all facets of policymaking.

Fig. 9 Potential upcoming developments

Quarter	Key developments to watch
Q1	Biden's first 100 days: US rejoins the Paris Climate Accord, sets net zero emissions targets and hosts a climate summit in Washington.
Q2	Yellen to kickstart Treasury's climate initiatives to examine financial system risks arising from climate change and related tax policy incentives. A "very senior-level" official to be appointed to lead climate efforts.
Q3	The SEC ESG regulation agenda. Companies could be required to issue greater ESG disclosures around carbon emissions, diversity and other sustainability metrics.

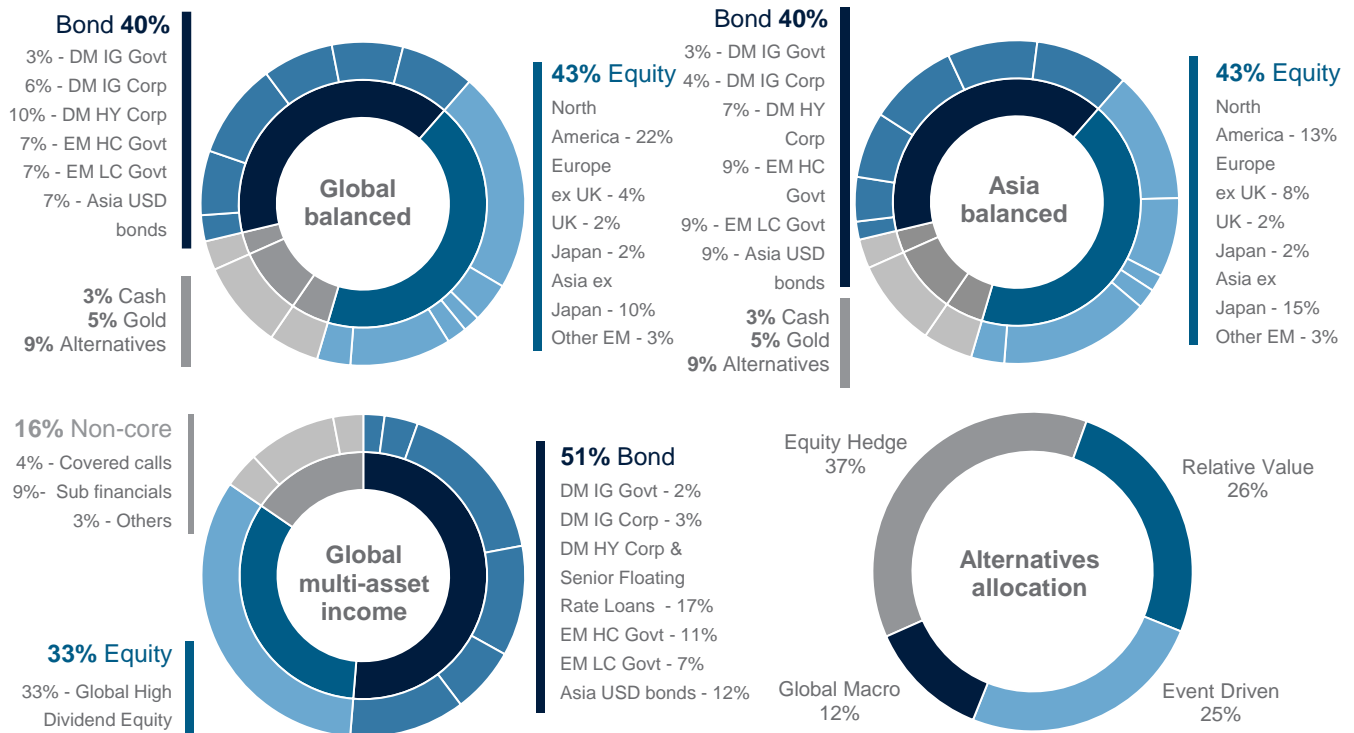
Source: Bloomberg, Financial Times, Standard Chartered

Lastly, our related thematic ideas have benefitted generously since the November election, subsequently boosted further by the Georgia run-off results and a surge in retail trading activity. Particularly, some of the equity indices that we track on the topic of climate and sustainability, as well as innovation technology (e.g. electric vehicles, telemedicine), have strongly outperformed global equities since December 2020.

While we view these themes as important pillars within a diversified multi-asset allocation, in the near term, these could also be susceptible to pullbacks given investor positioning and the hurdles Democrats face in the Senate should they try and pass a "green" infrastructure plan via the normal filibuster process. Nevertheless, long-term investors can consider using pullbacks to average in and increase exposure to these themes.

Our 12-month tactical asset allocation

12-month tactical asset allocations for investors with a moderate risk profile (numbers may not sum to 100% due to rounding)



Summary	View	Detail
USD Cash	▼	+ Safety - Close to no yield
Bonds		
DM Govt	▼	+ High credit quality, policy support - Low yields
DM IG Corporate	▼	+ Policy support - Deteriorating credit quality, value
DM HY Corporate	▲	+ Attractive yield, attractive value - Any unexpected rise in defaults
EM USD Govt	▲	+ Attractive yield, attractive value - Sentiment to EM a risk
EM Local Ccy Govt	▲	+ Moderate yield, weak USD view - Limited room for further fall in yields
Asia USD	▲	+ Moderate yield, low volatility - Risk of slower China recovery
Equities		
North America	▲	+ Low bond yields, growth rebound, policy support - Policy accident, COVID-19
Europe ex-UK	▲	+ Low bond yields, policy support - Geopolitics, policy accident
UK	◆	+ Attractive valuations - Brexit, lagging earnings rebound
Japan	▲	+ Low bond yields, high corporate cash levels - Reduced buybacks
Asia ex-Japan	▲	+ Low bond yields, weak USD - Geopolitics
Gold	◆	+ Weak USD, diversification demand - Risk appetite rebound
Alternatives	◆	+ Diversifier characteristics - Equity, corporate bond volatility

Source: Standard Chartered Global Investment Committee

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

Macro overview – at a glance



Key themes

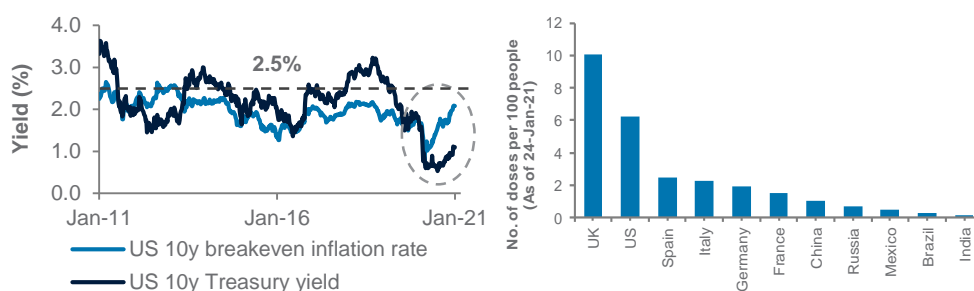
We expect the global economy to recover strongly from last year's recession as ambitious vaccination programmes, especially in the US and Europe, enable major economies to return to normalcy in the latter half of the year. The recent bout of weakness due to the resurgence in the pandemic, especially in Europe, is likely to be temporary as daily new cases appear to have peaked. China, which continues to lead the global recovery, is likely to focus on reviving domestic consumption and ensuring financial stability as its main policy goals. Inflation expectations have risen lately in the US, but we expect high unemployment rates and excess productive capacities to keep long-term inflation subdued. This backdrop should allow the Fed and other major central banks to lean against a further rise in bond yields. Aggressive fiscal policies by the new US administration have the potential to revive long-term growth.

Key chart

US 10-year inflation expectations have rarely risen above 2.5% in the past decade. This is a key level to watch as the global economy recovers, reducing job market slack and tightening excess productive capacities

Fig. 10 We expect central banks to cap bond yields even as vaccinations lift global growth and inflation expectations

US 10-year Treasury yield and expected inflation; number of doses* per 100 people



Source: Bloomberg, Standard Chartered; *Doses of COVID-19 vaccines

US	President Biden's aggressive vaccination and fiscal agenda should enable the US recover most of last year's lost output in 2021. The Fed is likely to counter any rise in bond yields	● Growth	● Inflation	○ Monetary policy	○ Fiscal policy
Euro area	We expect the Euro area to recover from a likely double-dip recession as easing of lockdowns, regionwide fiscal stimulus and the ECB's accommodative policies revive domestic consumption in H2, while a global trade rebound lifts exports	● Growth	● Inflation	○ Monetary policy	○ Fiscal policy
China	China, which continues to lead the global recovery, is likely to focus on reviving domestic consumption and ensuring financial stability as its growth rate returns to long-term trend	● Growth	● Inflation	● Monetary policy	○ Fiscal policy
Japan	Japan should benefit from a revival in global trade and PM Suga's fiscal stimulus, although structural deflationary forces are likely to keep growth below other major economies	● Growth	● Inflation	● Monetary policy	○ Fiscal policy
UK	The UK, among the worst pandemic-hit economies, is likely to recover from a double-dip recession by H2, helped by an aggressive vaccination drive and accommodative policies	● Growth	● Inflation	○ Monetary policy	○ Fiscal policy

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

Legend: ○ Easier/lower in 12m | ● Neutral | ● Tighter/higher in 12m

Bonds – at a glance



Key themes

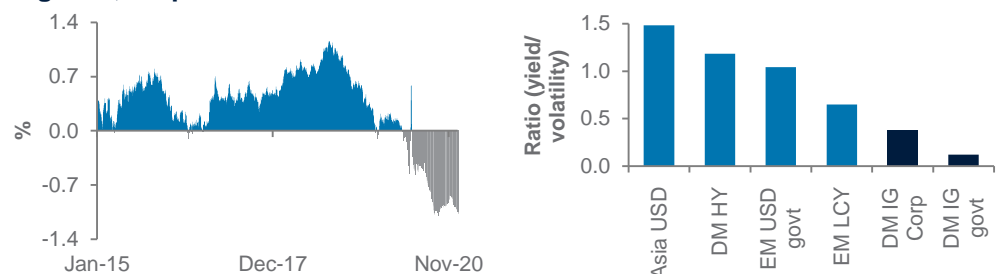
Accommodative Fed policy is likely to keep 10-year US Treasury yields capped around 1.0%-1.25%, despite the economic recovery. We continue to favour credit (corporate and EM bonds) over government bonds, as improving growth should help strengthen corporate balance sheets. Additionally, the reasonable yield premiums on offer and moderate volatility lead them to offer a superior risk-adjusted yield, which should attract income-seeking investors, especially as real* yields are likely to remain negative. An unexpectedly rapid rise in inflation is a risk.

Key chart

Chart (left) – US 10-year real* yield

Chart (right) – Yield per unit of risk (yield/60d volatility) of major bond asset classes

Fig. 11 Capped Treasury yields mean real* yields are likely to remain negative; corporate and EM bonds continue to offer attractive risk-reward



Source: J.P. Morgan, Barclays, Bloomberg, Standard Chartered. *net-of-inflation yield

Preference order	<div>Asia USD</div> <div>▽ ◇ ▲</div>	<p>We view Asia USD bonds as a preferred holding given their relatively high credit quality, moderate yield, attractive relative value and low volatility.</p> <div> <div>● Credit fundamentals</div> <div>● Macro factors</div> <div>● Valuation vs govt bonds</div> </div>
	<div>EM USD government</div> <div>▽ ◇ ▲</div>	<p>EM USD government bonds are a preferred holding, owing to their attractive yield, valuations and our expectation for USD weakness.</p> <div> <div>● Valuation vs govt bonds</div> <div>● Macro factors</div> <div>● Rates policy</div> </div>
	<div>DM HY corporate</div> <div>▽ ◇ ▲</div>	<p>We view DM HY bonds as a preferred holding owing to their attractive yield, somewhat inexpensive valuations and improving corporate fundamentals.</p> <div> <div>● Attractive yield</div> <div>● Valuation vs govt bonds</div> <div>● Credit fundamentals</div> </div>
	<div>EM local currency</div> <div>▽ ◇ ▲</div>	<p>EM local currency bonds are a preferred holding given their reasonable yield, supportive EM central bank policies and our expectation of EM FX strength.</p> <div> <div>● FX outlook</div> <div>● Macro factors</div> <div>● Rates policy</div> </div>
	<div>DM IG corporate</div> <div>▼ ◇ ▲</div>	<p>We view the asset class as less preferred. In our assessment, supportive central bank policies and stabilising credit quality are balanced.</p> <div> <div>○ Valuation vs govt bonds</div> <div>● Credit fundamentals</div> <div>● Macro factors</div> </div>
	<div>DM IG government</div> <div>▼ ◇ ▲</div>	<p>DM IG government bonds are less preferred. Their high credit quality and supportive central bank policy are offset by the low yields they offer.</p> <div> <div>○ Valuations</div> <div>● Macro factors</div> <div>● Rates policy</div> </div>

Source: Standard Chartered

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

Equity – at a glance



Key themes

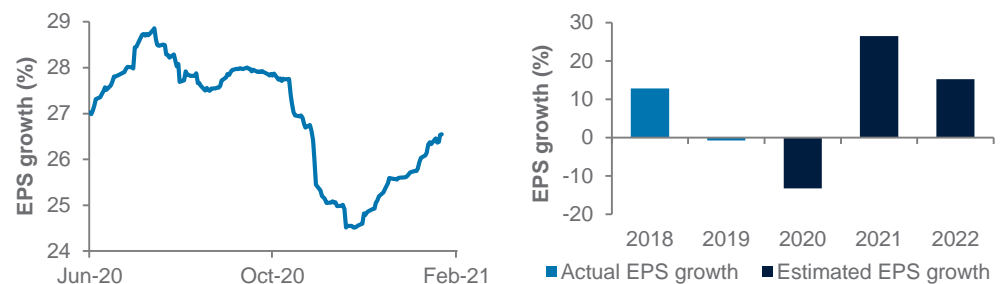
Global equities remain our most-preferred asset class. We expect the market's strength to continue, after a temporary pullback, driven by the vaccine rollout, economic reopening and earnings recovery. Corporate earnings should benefit from the growth recovery as monetary policy continues to stimulate investment and consumption. Potentially greater fiscal stimulus could boost demand further, while equity valuations are supported by low bond yields. A sharp rise in bond yields/the USD and rise in geopolitical tensions are risks to our positive view on equities.

Key chart

Chart (left): Consensus expectations for 2021 earnings growth for global equities

Chart (right): Actual and consensus estimate of annual earnings growth for global equities

Fig. 12 Expectations for an earnings rebound in 2021 continue to strengthen, as consensus growth estimates have been rising since November



Source: MSCI, FactSet, Standard Chartered

Preference order	Asia ex-Japan equities ▽ ◇ ▲	Asia ex-Japan is a preferred holding. A weaker USD, low bond yields and earnings growth should support the region in 2021. Rise in bond yields and USD strength are risks.	● Fund flows	● Bond yields	● Geopolitics
	China equities ▽ ◇ ▲	China is a preferred holding, both onshore and offshore. Rising institutional and retail investment should boost fund inflows. Tech sector regulation and geopolitics are risks.	● Fund flows	● Bond yields	● Geopolitics
	US equities ▽ ◇ ▲	US is preferred. A recovery in earnings, driven by the vaccine rollout, and potential fiscal stimulus are supportive. Rise in bond yields and elevated valuation are risks.	● Earnings	● Bond yields	● Geopolitics
	Euro area equities ▽ ◇ ▲	Euro area is preferred. An earnings recovery driven by the vaccine rollout and dividend resumption by banks should be supportive. Policy accident and geopolitics are risks.	● Earnings	● Bond yields	● Geopolitics
	Japan equities ▽ ◇ ▲	Japan is preferred. The market is leveraged to a global economic recovery, especially the demand for autos and industrial goods. JPY strength is a risk to our view.	● Fund flows	● Bond yields	● Geopolitics
	UK equities ▽ ◆ ◇	UK is a core holding. The EU-UK Brexit deal, global cyclical recovery and dividend resumption by banks should be supportive. Regulations affecting the banks are risks.	● Fund flows	● Bond yields	● Geopolitics

Source: Standard Chartered Global Investment Committee

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

FX – at a glance

USD to fall another 5% in 2021; risk of short-term USD bounce



Key themes

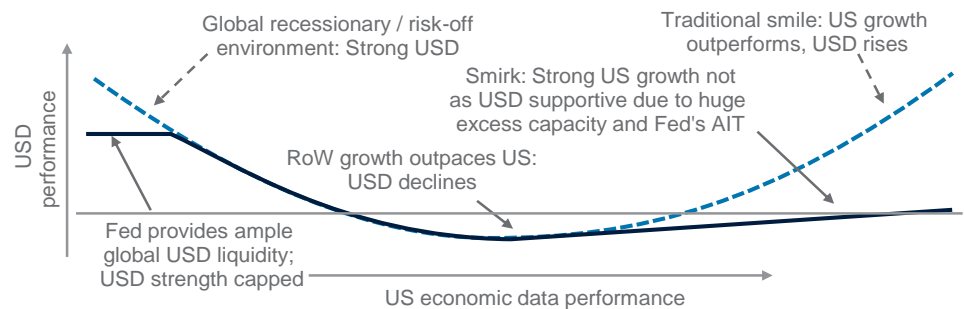
Our 12-month USD bearish view is driven by a mix of the Fed's Average Inflation Targeting (AIT) policy and aggressive US fiscal stimulus. Combined with an effective and broad vaccine deployment, this should power global growth and lead to larger US budget and trade deficits. Likely US tax and regulation policies later this year may also weigh on the USD as global flows look outside the US for better returns. We see the risk of a brief USD corrective rally if near-term sentiment shifts to "risk-off". A meaningful equity market correction could mean this USD bounce is quite sharp, potentially offering more attractive entry levels to position for a medium-term USD decline.

Key chart

The USD turned weaker than usual as the Fed supplied ample global USD liquidity. We see USD weakness in 2021 as global growth returns and outpaces the US. The Fed's AIT policy suggests the USD will also be weaker than usual when the cycle turns US-positive.

Fig. 13 Fed policy suggests that USD weakness could last for some time

USD cyclical frameworks – Traditional USD "smile" vs modern "smirk"



Source: T.S Lombard, Standard Chartered

USD (DXY) ▼	Rising global growth; Fed AIT policy and USD liquidity provision; US twin deficits ○ Rel. interest rates ○ Rel. growth rates ○ Flows & sentiment	USD/CNY ▼	Global and regional trade; rising capital flows seeking returns; domestic economy ● Rel. interest rates ● Rel. growth rates ● Flows & sentiment
EUR/USD ▲	Key USD alternative; global growth & trade rebound; mutualised debt plan; fiscal policy ● Rel. interest rates ● Rel. growth rates ● Flows & sentiment	USD/SGD ▼	Global & regional growth; vaccines boost trade and travel; sound economic policies ● Rel. interest rates ● Rel. growth rates ● Flows & sentiment
GBP/USD ▲	Aggressive fiscal & monetary stimulus post-Brexit; rapid vaccine deployment ● Rel. interest rates ● Rel. growth rates ● Flows & sentiment	USD/MYR ▼	Exports expected to improve; commodities supportive; China & regional trade pacts ● Rel. interest rates ● Rel. growth rates ● Flows & sentiment
AUD/USD ▲	RBA policy and fiscal stimulus; global trade & regional agreements; commodities rally ● Rel. interest rates ● Rel. growth rates ● Flows & sentiment	USD/INR ▼	Pro-risk sentiment supportive of inflows; equity & bond returns; geopolitical factors ● Rel. interest rates ● Rel. growth rates ● Flows & sentiment
USD/JPY ◆	Real interest rates; exports and regional trade deals, safe-haven status ● Rel. interest rates ● Rel. growth rates ● Flows & sentiment	USD/KRW ▼	Tech manufacturing; global trade and growth; key China-Japan-Korea pact ● Rel. interest rates ● Rel. growth rates ● Flows & sentiment

Source: Standard Chartered

Legend: ▲ Bullish view | ▼ Bearish view | ◆ Range view | ○ Not supportive | ● Neutral | ● Supportive | □ Key driver | "Rel." = Relative

Technicals

US 10-year Treasury yield: gradual rise

Two developments on the charts of the US 10-year Treasury yield suggest the medium-term yield trajectory could be turning up. From a sideways trend in Q2-2020 and Q3-2020, the yield has been drifting higher in a slightly-upward sloping channel. Second, the psychological and technical 1% barrier, which served as strong resistance most of last year, has now been broken along with the 200-day moving average (for the first time since 2018). Higher-tops-higher-bottoms (channel) and the 're-rating' to a new level (the break of 1%) suggest that the trend is turning up in the interim.

However, to be fair, given that the yield has been guided well in the channel, the rise could turn out to be gradual – the recent retreat from the top end of the channel is an indication of this. Only a break below the lower edge of the channel (now at 0.92%) could indicate that the upward pressure on yields had faded. On the upside, the March 2020 high of 1.283% could prove to be secondary resistance (the channel top being the first). The above perspective adds to what we stated in our annual *outlook 2021* that, in April 2020, the 14-month Relative Strength Index (RSI) fell to 24 and historically when the RSI has fallen below 25, the yield has been higher 75%, 100% and 100% of the time in the subsequent 12 months, 18 months and 24 months, respectively.

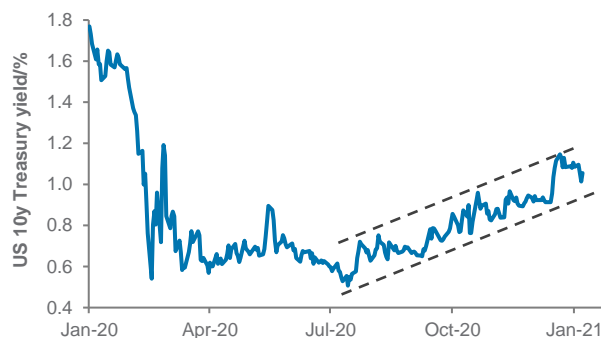
S&P 500: seasonality is supportive

The S&P 500 index's break above the upper edge of key resistance on a rising trendline from 2018 confirms that the index's rally has switched to a higher gear. While this may not necessarily imply faster gains, a new cycle high coupled with strong momentum breakout paint a bullish picture.

This is validated by the price action in January. Since 1971, when the return in the first five days of January is up, return for the month of January tends to be positive. Also, when the first five days of January are higher, then the year tends to close on a bullish note, that is, calendar year returns tend to be positive. In addition, when it comes to seasonality, the first four months of the year generally tend to be up. January tends to start on a strong note followed by softer February and March, with upward momentum again picking up in April.

Fig. 14 US 10-year Treasury yield: gradual rise

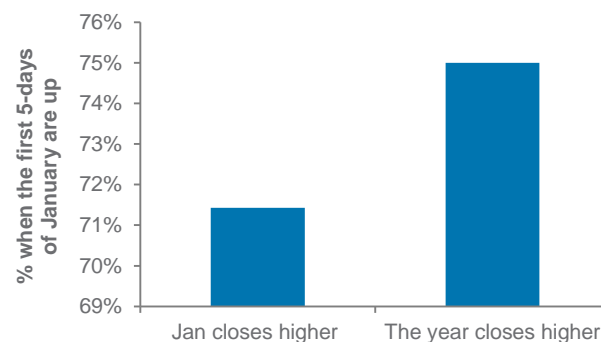
US 10-year Treasury yield daily chart



Source: Bloomberg, Standard Chartered

Fig. 15 S&P 500: seasonality is supportive

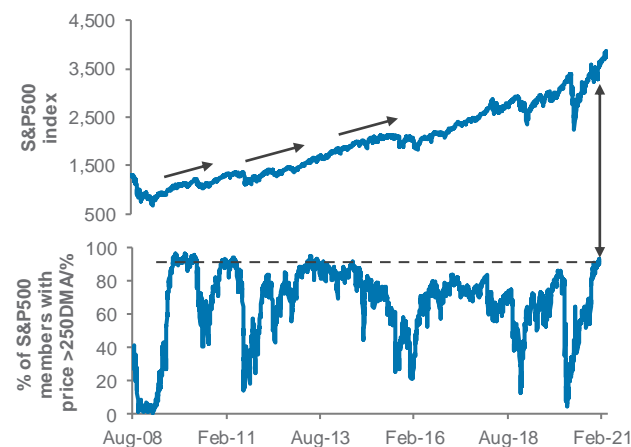
Count of positive (i) January, (ii) annual returns when index return over first five days of January is positive



Source: Bloomberg, Standard Chartered

Fig. 16 S&P 500: broadening rally

S&P 500 index, with the percentage of S&P 500 members with price greater than 250-DMA



Source: Bloomberg, Standard Chartered

Tracking market diversity

About our market diversity indicators

Our market diversity indicators help to identify potential change in short-term trends due to a fall in market breadth across equities, credit, FX and commodities. When market diversity falls, it implies either buyers or sellers are dominating, leading to a rapid rise or fall in asset prices. This is usually unsustainable and is likely to be followed by a slowdown or a reversal. Our diversity indicator is based on a statistical index called fractal dimension – a value below 1.25 implies prices are rising or falling too fast over the short term.

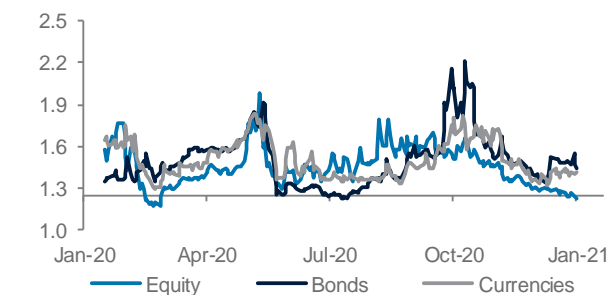
Where is diversity falling or rising this month?

Market diversity across bond, equity and FX markets has deteriorated since November 2020. This is especially visible for risky assets such as equities, following their strong rally on the back of improving sentiment. Our market diversity indicator has fallen to below 1.25 for several risky assets, indicating a heightened risk of a reversal.

For equities, all major markets we track have low diversity (see Figure 8). These markets have recently delivered good returns, but some cracks are starting to emerge, with YTD returns for the US and EM ex-Asia entering negative territory for the first time since the start of 2021. EM and European equities look relatively more vulnerable from a diversity point of view.

Fig. 17 Average market diversity score across equities, bonds and FX

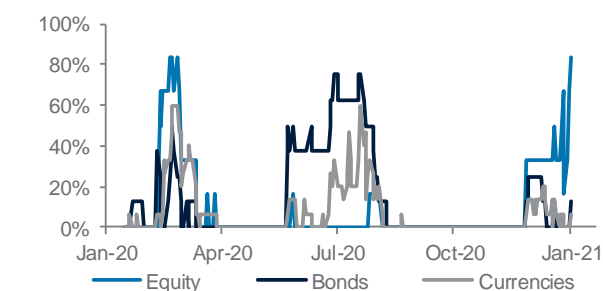
Market diversity for equities worsened



Source: Standard Chartered

Fig. 18 % of assets with diversity score < 1.25

More equity markets with very low diversity



Source: Bloomberg, Standard Chartered

Meanwhile, the diversity of FX markets has also narrowed, but is still generally healthier than equities. The fall in diversity has coincided with the strong performance in EM equities and USD weakness. For now, our indicator is only showing a red flag for AUD/USD, alongside WTI.

Similarly, diversity in bond markets is also generally healthier as their performance has been more mixed. The riskier global HY bonds are the ones to keep an eye on, as, like other risky assets, their diversity score has fallen below our 1.25 threshold.

Fig. 19 Assets to watch out for a pullback

Level 1	Market diversity	30-day diversity trend
MSCI All Country World Index	○	↓
HFRX Global Hedge Fund Index	○	→
Equity		
MSCI USA Index	●	↓
MSCI Europe Index	○	↓
MSCI UK Index	○	↓
MSCI Japan Index	○	↓
MSCI AC Asia ex-Japan Index	○	→
MSCI EM ex-Asia Index	○	→
Currency		
AUD/USD	○	↓
Bond		
Barclays Global High Yield	○	↓
Commodity		
WTI	○	↓

Source: Bloomberg, Standard Chartered; Data as on 27 January 2021

Legend: ○ Very low ● Low/moderate ● High

Asset allocation summary

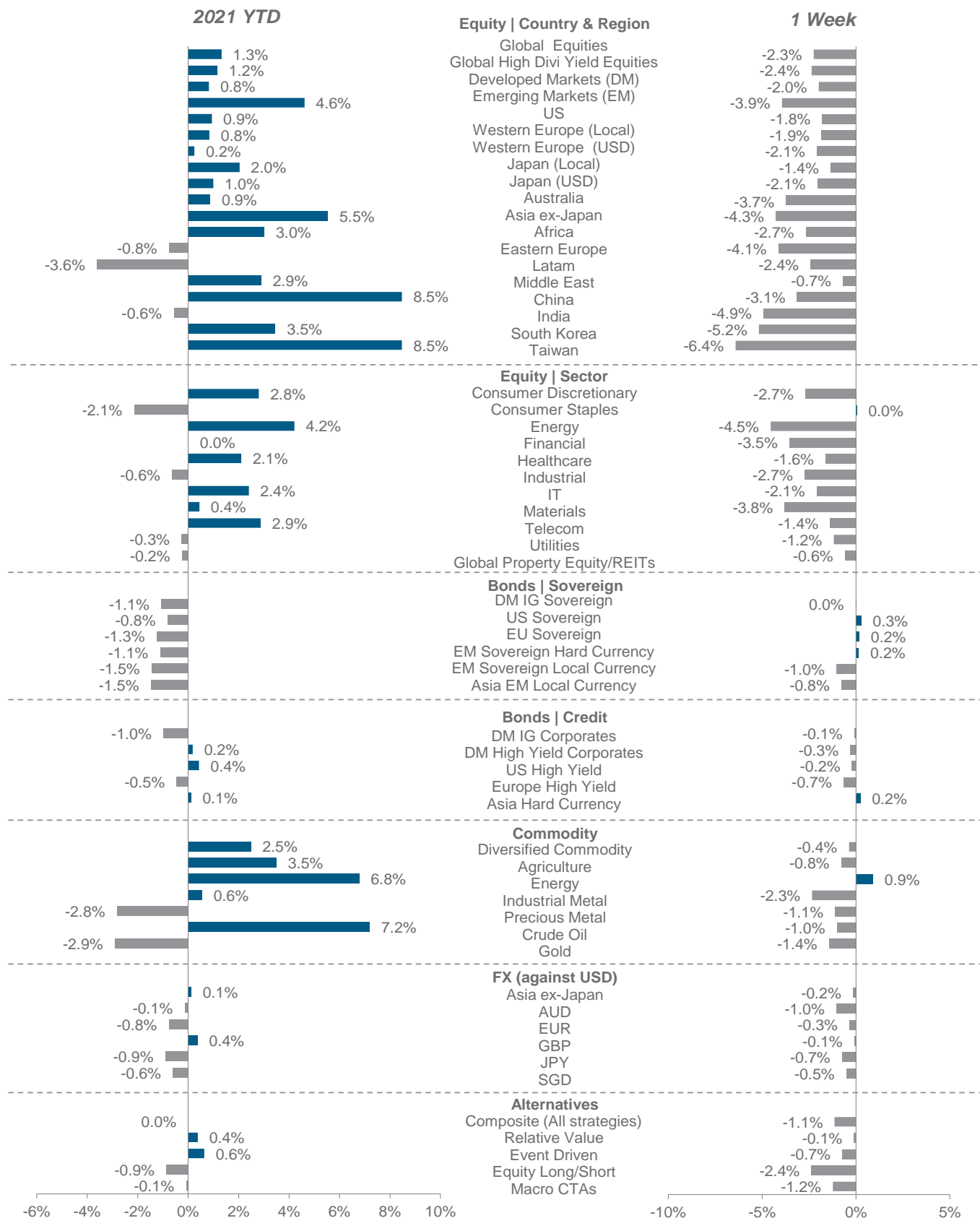
Summary	View	ASIA FOCUSED				GLOBAL FOCUSED			
		Conservative	Moderate	Moderately Aggressive	Aggressive	Conservative	Moderate	Moderately Aggressive	Aggressive
Cash	▼	10	3	1	0	10	3	1	0
Fixed Income	▲	66	40	30	8	66	40	30	8
Equity	▲	24	43	55	83	24	43	55	83
Gold	◆	0	5	5	5	0	5	5	5
Alternatives	◆	0	9	8	4	0	9	8	4
Asset class									
USD Cash	▼	10	3	1	0	10	3	1	0
DM Government Bonds	▼	3	2	1	0	4	3	2	1
DM IG Corporate Bonds	▼	7	4	3	1	11	6	5	1
DM HY Corporate Bonds	▲	7	7	5	1	14	10	7	2
EM USD Government Bonds	▲	15	9	7	2	12	7	5	1
EM Local Ccy Government Bonds	▲	15	9	7	2	12	7	5	1
Asia USD Bonds	▲	19	9	7	2	13	7	6	2
North America Equities	▲	14	13	17	25	16	22	28	42
Europe ex-UK Equities	▲	3	8	10	15	2	4	5	8
UK Equities	◆	0	2	2	3	1	2	2	3
Japan Equities	▲	1	2	3	4	1	2	3	4
Asia ex-Japan Equities	▲	6	15	19	29	5	10	13	19
Non-Asia EM Equities	◆	0	3	4	6	0	3	4	6
Gold	◆	0	5	5	5	0	5	5	5
Alternatives	◆	0	9	8	4	0	9	8	4

All figures in %. Source: Standard Chartered.

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

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 2020 to 28 January 2021 and 1 week-performance from 21 January 2021 to 28 January 2021

2021 key events

JANUARY 2021

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

FEBRUARY 2021

X	US State of the Union address
04	BoE policy decision

MARCH 2021

X	China's National People's Congress Meeting
11	ECB policy decision
17	FOMC policy decision
17	Dutch General Elections
18	BoE policy decision
19	BoJ policy decision

APRIL 2021

22	ECB policy decision
27	BoJ policy decision
28	FOMC policy decision

MAY 2021

06	BoE policy decision
13	World Economic Forum annual meeting in Singapore

JUNE 2021

10	ECB policy decision
16	FOMC policy decision
18	BoJ policy decision
24	BoE policy decision

JULY 2021

16	BoJ policy decision
22	ECB policy decision
28	FOMC policy decision

AUGUST 2021

5	BoE policy decision
29	Federal elections in Germany

SEPTEMBER 2021

9	ECB policy decision
22	FOMC policy decision
22	BoJ policy decision
23	BoE policy decision

OCTOBER 2021

22	Deadline for Japan General Elections
28	BoJ policy decision
28	ECB policy decision

NOVEMBER 2021

3	FOMC policy decision
4	BoE policy decision

DECEMBER 2021

15	FOMC policy decision
16	BoE policy decision
16	ECB policy decision
17	BoJ policy decision

■ Central bank policy | ■ Geopolitics | ■ EU politics

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

Our key advisory publications

ANNUALLY



Annual Outlook

MONTHLY



Global Market Outlook

WEEKLY



Weekly Market View

DAILY



Global Wealth Daily

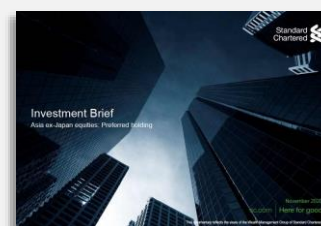
AD HOC



Market Watch



360 Perspectives



Investment Brief

Annual Outlook – 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 – 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 – Our weekly publication which provides an update on recent developments in global financial markets and their implications for our investment views.

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 focuses on major events or market developments and their likely impact on our investment views.

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 explains the rationale behind our views on an asset class, incorporating the fundamental and technical drivers.

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To visit our Market views on-the-go page

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