



Global Market Outlook

Policy tailwinds

Policy stimulus, positive earnings surprises and a falling USD suggest the economic recovery is likely to remain intact. However, a potentially stormy campaign ahead of the US Presidential election and rising COVID-19 infections in Europe are risks.

These risks mean a short-term pullback remains a possibility. However, low and falling real bond yields mean we remain comfortable adding equities, credit and gold on dips and selling volatility on spikes to generate income.

Within equities, we prefer the US, Euro area and Asia ex-Japan. In credit, we prefer Developed Market High Yield and USD-denominated bonds in Emerging Markets and Asia. The AUD, GBP and EUR offer the most attractive FX exposure against further USD weakness.

Also find out...

Why are 'real' bond yields important?

Value, growth or quality equities?

What could go wrong?

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Investment strategy



IMPLICATIONS FOR INVESTORS

- Global equities, credit and multi-asset income strategies likely to outperform government bonds and cash over a 12-month horizon
- Gold likely to extend gains on falling real yields, while the USD is likely to fall
- Within bonds, we believe DM HY, EM USD and Asia USD bonds are attractive
- Within equities, we have a slight preference for US, Asia ex-Japan and Euro area equities

Policy tailwinds

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- These risks mean a short-term pullback remains a possibility. However, low and falling real bond yields mean we remain comfortable adding equities, credit and gold on dips and selling volatility on spikes to generate income.
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Equities gain, while gold corrects

Global equities continued their gradual pace of gains, rising 5.6% over the past month, with US equity implied volatility (measured by the VIX index) falling for most of August, despite it usually being a seasonally volatile month. The 10-year US Treasury yield rose above 0.75%, while gold corrected sharply.

Why are 'real' bond yields important?

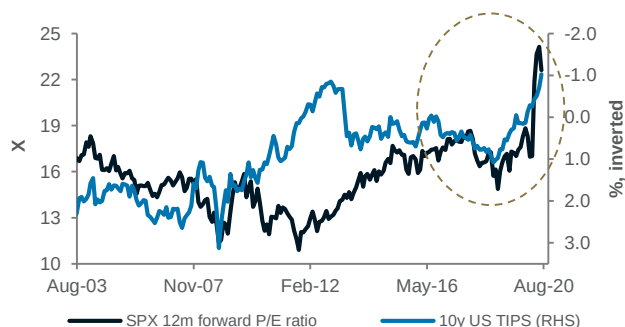
From an investor's point of view, we believe 'real', or net-of-inflation, bond yields are key, both in terms of explaining major asset class behaviour so far this year and in offering an insight into how they are likely to evolve over the next 6-12 months.

For instance, the suppression of real bond yields by central banks this year (i.e. bond yields remained range-bound after March, even as inflation expectations rose) helped drive gold prices and equity valuations higher, in our assessment. The Fed's new average-inflation-target policy means it is likely to tolerate higher inflation, further suppressing real yields.

We see the same drivers supporting higher equity valuations and gold prices in the coming year, since there is a reasonably strong chance of real bond yields grinding lower in the next 6-12 months. On one hand, recent comments from the Fed and other major central banks suggest they are likely to help keep nominal bond yields capped. On the other hand, inflation expectations could continue edging higher if the economic recovery continues, as we expect.

Fig. 1 Falling real bond yields increasingly supportive of equity market valuations

S&P 500 valuations (12m forward price/earnings ratio) vs. US 10y real* government bond yields (proxied by 10y TIPS yield)



Source: Bloomberg, Standard Chartered; *Nominal yield minus expected inflation

Economic data, USD positive for risky assets

A broad cross-section of data and events lead us to believe that the economic recovery remains largely on track:

- Major economic indicators continue to strengthen in most regions. While pockets of weakness in consumer confidence or small business openings remain, major indicators, such as PMIs, continue to indicate expansion.
- The Q2 US earnings season was 'less bad' than initially expected and earnings are expected to recover through the rest of this year and next.
- US policymakers are signalling they may be close to agreeing on a new stimulus package, while Fed minutes show that any rise in policy rates is not on their forecast horizon.
- The USD has continued to weaken. Falling relative US real interest rates and increasingly plentiful USD liquidity continue to support a bearish USD view, but technicals are also turning increasingly bearish.

In our assessment, these four factors, in addition to falling real bond yields, are supportive of our positive view on equities, credit (corporate and EM bonds) and gold.

What could go wrong?

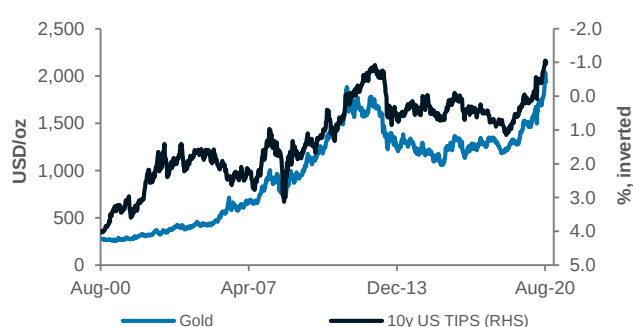
The above-mentioned positive case notwithstanding, what could go wrong? We see three likely candidates.

The first is technicals and positioning, some of which point to the risk of a short-term pullback. US equity markets and the EUR/USD are testing key resistance levels, where a period of consolidation is likely. This comes alongside some relatively stretched positioning indicators – our proprietary market diversity indicator is pointing to heightened pullback risk in select bond and currency markets.

The second candidate is (geo)political risk. Upcoming US elections could raise domestic policy uncertainty (the risk a Biden win revives worries of higher taxes, for example) or

Fig. 2 Lower real yields likely to drive further gains in gold

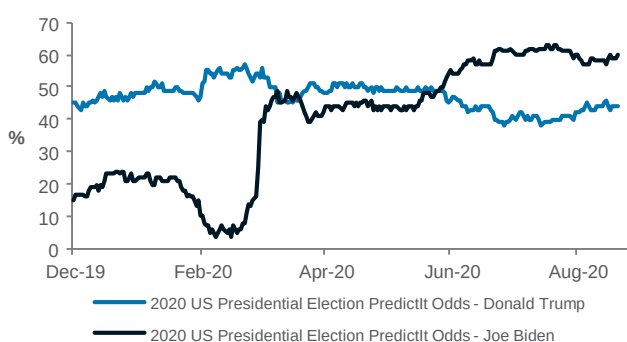
Gold price vs. US 10y real* government bond yields (proxied by 10y TIPS yield)



geopolitical risk (Trump continues to escalate tensions with China to burnish his credentials as a 'war President', for example). In our view, this also has the potential to create short-term pullbacks, particularly if US-China tensions continue to rise and/or there is any uncertainty over the election's outcome.

Fig. 3 Prediction markets currently point to a likely Biden victory in the 2020 Presidential election

2020 US Presidential election PredictIt Odds



Source: PredictIt, Standard Chartered

The third factor is a renewed rise in COVID-19 cases. While the number of new cases in the US appear to have peaked, they are rebounding in Europe and parts of Asia. While we do not expect a repeat of Q2's widespread economic shutdowns, resurgent infections do pose the risk of authorities imposing localised lockdowns, thus slowing the recovery.

We would continue to buy-the-dip

Overall, a number of factors argue the risk of a short-term pullback in Q3 remains elevated, with US elections a key risk. However, low and falling real bond yields (and broadening policy stimulus) create a strong tailwind for equities and corporate/EM bonds over 6-12 months, in our assessment.

Therefore, our preferred strategy remains unchanged. We would continue to use any pullbacks to add to our preferred equity and bond markets and gold, while using any rebound in volatility to generate income.

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

Asset class	Sub-asset class	Relative outlook	Rationale (+ Positive factors – Negative factors)
 Multi-asset Strategies	Multi-asset income	▲	+ Bond yields capped, still-wide credit spreads – Equity volatility 4-5% yield remains achievable via a diversified allocation, in our view
	Multi-asset balanced	◆	+ Diversification benefits – Equity volatility Equity tilt likely to support gains, near-term pullback risk notwithstanding
	Alternatives	◆	+ Diversifier characteristics – Equity, corporate bond volatility Diversifier characteristics help amid volatility
 Equities	US	▲	+ Low bond yields, growth rebound – Geopolitics Exceptional policy response bearing fruit, but US election remains a risk
	Asia ex-Japan	▲	+ Low bond yields, weak USD – Geopolitics Low yields, weak USD are positives, but US-China tensions a risk
	Euro area	▲	+ Low bond yields, policy support – Geopolitics, COVID-19 rebound EU stimulus agreement likely a game changer, but COVID-19 risks persist
	Japan	◆	+ Low bond yields, high cash levels – Reduced buybacks Corporate cash levels positive, but few catalysts for sustained outperformance
	Other EM	◆	+ Inexpensive valuations – Deteriorating earnings outlook, COVID-19 Global trade uncertainty, ongoing COVID-19 outbreak are key risks
	UK	▼	+ Attractive valuations – Brexit, lagging earnings rebound Valuations remain attractive, but Brexit a risk
 Bonds	DM HY corporate	▲	+ Attractive yield, attractive value – Credit quality Yields and valuations still attractive, but rise in defaults is key risk
	EM government (USD)	▲	+ Attractive yield, attractive value – Sentiment to EMs a risk Higher yields than local currency peers illustrate attractive value
	Asian USD	▲	+ Moderate yield, low volatility – Risk of slower China recovery High credit quality, low volatility are attractive, but China concentration a risk
	EM government (local currency)	◆	+ Moderate yield, weak USD view – FX volatility Weak USD a positive, but falling yields, lagging EM FX are risks
	DM IG corporate	▼	+ Moderate yield, policy support – Deteriorating credit quality, valuation Central banks very supportive, but little value left
	DM IG government	▼	+ High credit quality, policy support – Low yields Risk of rebound in growth, inflation expectations leading to capital loss
 Currencies	AUD	▲	+ Policy stimulus, growth rebound – Geopolitics AUD remains good proxy for China growth rebound
	EUR	▲	+ Policy stimulus, growth rebound – COVID-19, Geopolitics USD weakness, game-changing EU stimulus agreement are positives
	GBP	▲	+ Undervaluation, eventual Brexit deal – Brexit uncertainty, deficits Coordinated policy stimulus a positive, but Brexit a key source of uncertainty
	JPY	◆	+ Safe-haven demand, real yields – Japanese foreign asset demand JPY caught between global safe-haven status and outflows seeking returns
	CNY	◆	+ Policy stimulus, growth rebound – Low global demand, geopolitics Policy focus on stability likely to keep CNY range-bound
	USD	▼	+ Safe-haven demand – Rate and growth differentials, Fed liquidity Rising confidence in global recovery likely to reduce demand for USD

Source: Standard Chartered Global Investment Committee

Legend: ▲ Preferred ◆ Core holding ▼ Less preferred

Major brokers' and investors' views

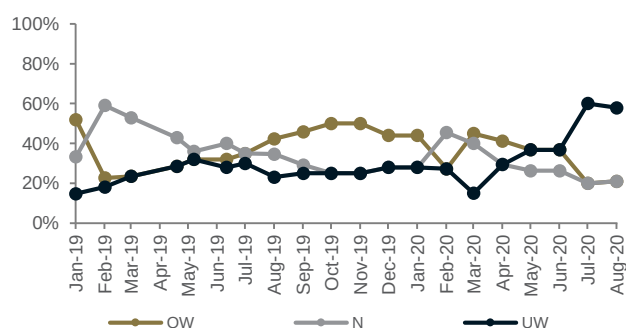
As part of our Investment Philosophy, we strive to achieve diversity of insights by constantly monitoring a wide array of investment views and analysis. This part of our process is what we call the Inside View, where we gather lots of research and analysis, consider the specifics of the situation, and combine them with our analysis of historical probabilities – the Outside View – to create scenarios for the future.

The below charts show the percentage of investment research (broker and independent) houses and asset management companies who are Overweight, Underweight and Neutral on different asset classes.

Cash

OUR VIEW

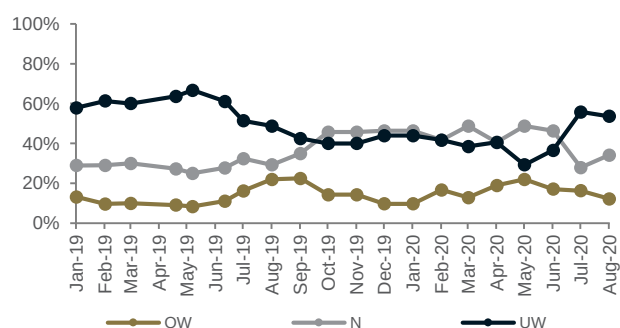
UW



Bonds

OUR VIEW

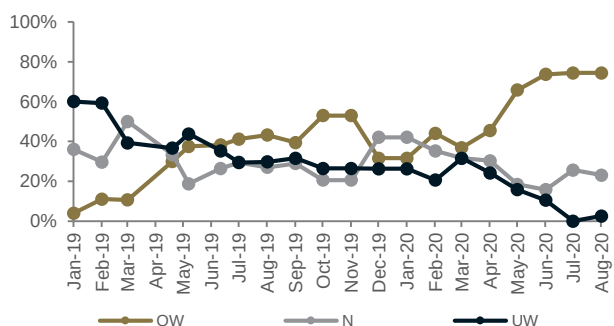
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Credit

OUR VIEW

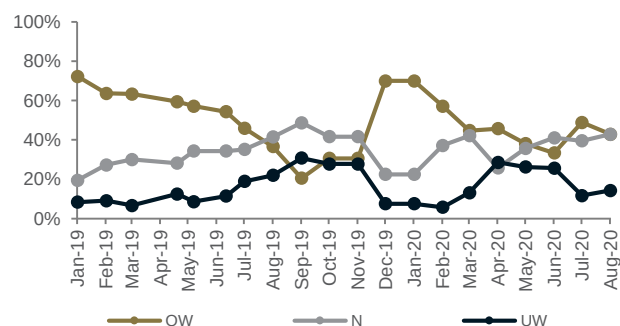
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Equities

OUR VIEW

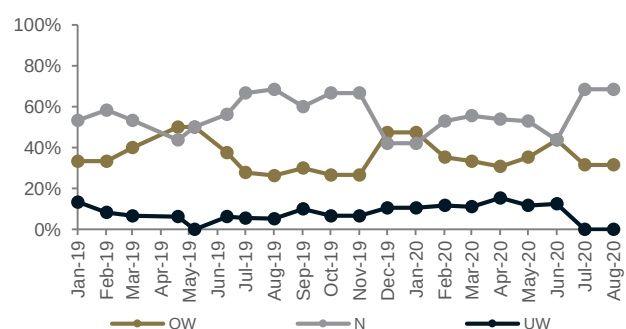
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Alternatives*

OUR VIEW

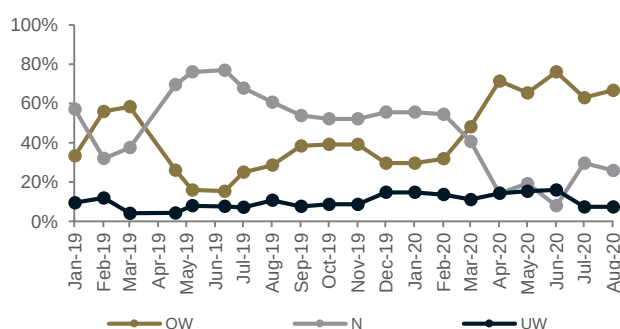
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Gold

OUR VIEW

OW



Source: Standard Chartered Global Investment Committee

*Alternatives represent a combination of views on liquid and private alternative strategies, as well as real estate

Perspectives on key client questions

Is it time to rotate equity exposure into 'Value'-based investment strategies?

Based on our recent re-assessment of the fundamentals underpinning Value-based investment strategies for both US and global equities, we conclude that it is not yet time to rotate into this investment style on a 12-month investment horizon.

We show that, while some of the key drivers for Value-style investing have improved recently, uncertainty around them remains high, suggesting we may need stronger evidence of a sustainable improvement before shifting our preferences.

Fig. 5 In the US, 'Value' strategies have reached their most extreme point of underperformance against 'Growth' strategies in 45 years

MSCI US Value Total Return Index divided by the MSCI US Growth Total Return Index



Source: Datastream, Standard Chartered

Data rebased to 1 as of 31 Dec 1975

Shaded areas indicate US recessions

Growth vs. Value in the post financial crisis era

At its core, 'Value' investing implies buying stocks at relatively low valuations with the goal of achieving high returns over a long time horizon, while trying to minimise exposure to 'value traps' (ie. stocks or sectors that are inexpensive, but fail to revalue higher because of structural challenges). This investment strategy has been at the centre of academic and professional research for over a century as studies have shown Value strategies to outperform benchmark indices over long time periods and has been the fundamental tenet of many legendary investors. However, the performance of Value since the early days of the Global Financial Crisis has significantly lagged Growth- or Quality-style investing.

Value's underperformance has extended under the current pandemic environment, causing researchers to further debate what market factors may be driving this. While some additional catalysts may exist (e.g. the higher weightage of technology stocks in benchmark indices, or accounting measures failing to correctly capture the value of patents and intangibles on firms' balance sheets), Value investing continues to have a high degree of correlation to nominal government bond yields, inflation expectations and valuation metrics, as we explain in more detail below. Valuation metrics clearly point in favour of this strategy both in the US and in global equities given the relative valuation gap versus other strategies. However, the COVID-19 pandemic and the stimulus response to it has increased uncertainty around the first two factors - nominal bond yields and inflation expectations.

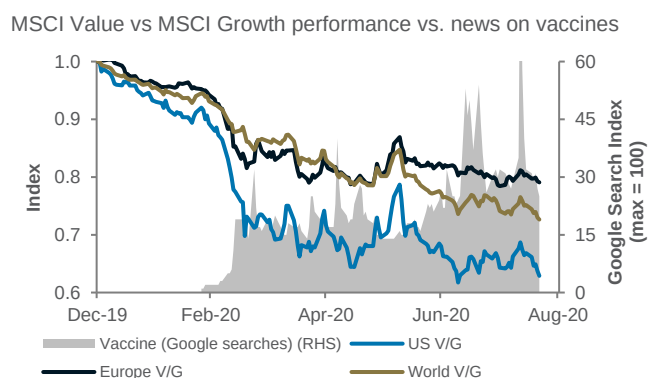


The unclear path ahead doesn't bode well for 'Value' yet

A solid upturn in key drivers is needed for Value to start outperforming Growth. Here are the drivers in more detail:

- **Economic growth:** Value generally outperforms when real economic growth is strong. However, high frequency activity indicators have recently plateaued short of pre-COVID-19 levels, while early business sentiment indicators (PMIs) for August are also showing a slowdown in momentum. Still high rates of infections in EMs and a resurgence of cases in parts of Europe may be primarily responsible for this development. While we believe economic growth will recover, we may not see the typical high rates of growth that accompany rallies in Value stocks.
- **Bond yields:** Historically, Value stocks have a positive correlation with nominal bond yields – i.e. when yields rise, Value-style strategies generally outperform. We believe the Fed and other DM central banks will work to maintain rates lower for longer to stimulate the economic recovery, which is likely to weigh on Value. Moreover, growth stocks remain attractive as they tend to benefit from lower interest (or discount) rates (this is due to the long maturity profile of their expected cash flows). We would need to see a significant jump higher in bond yields for a rotation toward Value to happen.
- **Inflation expectations:** High inflation expectations can benefit Value stocks as they represent a large portion of cyclical sectors of the economy (e.g. Financials, Energy). 10-year inflation expectations have rebounded from March lows (now c. 168 bps in US, c. 160 in Europe) as they tend to move closely with assets, such as oil prices (on which we have a positive view). However, inflation expectations may need to rise sustainably higher, closer to central bank targets, to become a tailwind for Value.

Fig. 6 Recent COVID-19 vaccine discoveries were not enough to propel Value higher against Growth indices globally



Source: Datastream, Google Trends, Standard Chartered as of 21 Aug 2020
Indices rebased to 1.0 as on 31 Dec 2019

- **COVID-19 vaccine/cure:** The prospects of a quick macroeconomic recovery are dependent on the discovery and distribution of a vaccine/cure for COVID-19 which

would, in turn, benefit Value stocks. Recent studies by various research houses indicate that markets are inferring an approximately 25-40% chance of a successful vaccination programme by mid-2021. Therefore, investors may need more credible vaccine developments in order to believe in a faster economic recovery and turn to Value strategies.

- **US election:** Finally, should the US elections in November result in a Democratic sweep, we may witness a rotation out of large-cap technology stocks on fears of stronger antitrust regulation, which would likely benefit Value names. The impact on Value from policy measures under a divided Congress is less clear, however.

On balance, after having considered the above factors, we conclude a rotation toward Value stocks is not justified yet.

What style preference does SCB have for the next 12-months then?

Given our assessment that it is not quite the time to switch into Value-based investment strategies, we maintain our preference for the Quality style (i.e. firms with high return on equity, low earnings volatility and low debt levels) within both US and global equities. In the US, we also prefer Growth style.

As the table below illustrates, Quality has offered an attractive risk-reward trade-off. As global central banks provide a backstop by cutting interest rates, flushing markets with liquidity and easing credit conditions in response to the COVID-19 pandemic, they are likely to maintain an environment favourable to fast-growing firms with strong balance sheets as lower discount rates inflate the valuation of future cash flows.

Fig. 7 The Quality style universe appears to offer the best risk-adjusted performance

Performance measures for MSCI Quality, Value and Growth indices

	Measure	Quality	Value	Growth
United States	Annualised Return	12.7%	10.9%	11.6%
	Max drawdown	-40.5%	-54.9%	-68.5%
	Annual volatility	14.9%	14.8%	16.5%
	Sharpe ratio*	0.44	0.33	0.32
World	Annualised return	11.9%	10.6%	9.8%
	Max drawdown	-44.5%	-56.3%	-81.0%
	Annual volatility	14.2%	14.7%	15.4%
	Sharpe ratio*	0.42	0.31	0.24

Source: Datastream, Standard Chartered
Data since 31 Dec 1975

*Sharpe ratio: measures the return of an index per unit of volatility after subtracting a 'risk-free' rate, such as the US 3m Treasury Bills yield

Macro overview – at a glance



Key themes

We expect the global economy to return to growth in H2 20 and continue to expand in 2021 after a lockdown-induced sharp contraction in H1 20. China is leading this recovery, being the first major economy to return to growth in Q2. We expect the US and Europe to follow in Q3 as restrictions on activity are gradually eased. A key risk is a resurgence of COVID-19 in parts of Europe, forcing authorities to slow the pace of economic re-openings, which in turn could slow the recovery. The global recovery so far has been primarily driven by government-led infrastructure investments in China and fiscal stimulus in the US and Europe, while service sectors remain a drag. We expect continued fiscal and monetary stimulus worldwide as authorities focus on reviving growth, given subdued inflation. The Fed, in particular, is likely to tolerate higher inflation under its new policy. The US elections could intensify US-China tensions near-term, as President Trump, trailing in the polls, seeks to revive his electoral prospects.

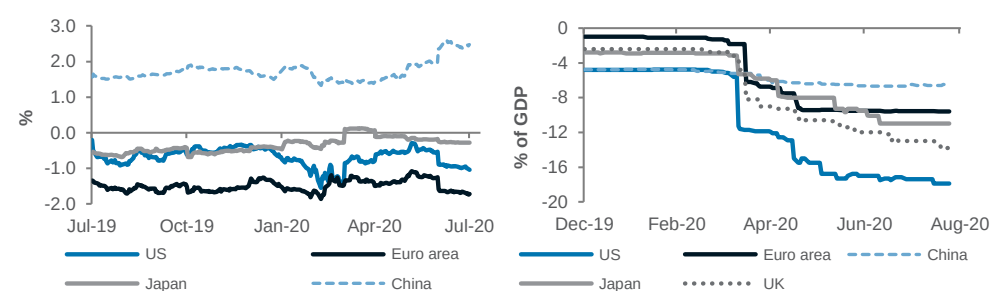


Key chart

Our Global Investment Committee expects the global economy to start growing again in H2 20 and continue to expand in 2021 as economic restrictions are eased and monetary and fiscal stimuli are expanded further.

Fig. 8 Highly accommodative monetary policy, reflected in negative real (inflation-adjusted) bond yields, and growing fiscal stimulus are driving the recovery in global growth

Real (inflation-adjusted) 10y government bond yields; Consensus estimates of 2020 budget deficits



Source: Bloomberg, Standard Chartered

US	The US economy to return to growth in H2 20 after a deep-but-short recession in H1. The Congress is likely to pass another stimulus package in H2 and the Fed appears set to keep monetary policy accommodative for years under its new policy. US-China tensions ahead of November's polls and a third pandemic wave are key risks			
	○ Growth	○ Inflation	○ Benchmark rates	● Fiscal deficit
Euro area	The Euro area to grow again in H2 20, after a deep-but-short recession in H1, as governments and the ECB extend record fiscal and monetary stimulus. We see the EUR 750bn regional recovery fund agreement cementing the economic union, lowering breakaway risk. The revival in COVID-19 cases in parts of Europe is a key risk			
	○ Growth	○ Inflation	○ Benchmark rates	● Fiscal deficit
China	China, which returned to growth in Q2 20, is likely to emerge as the only major economy to report y/y expansion in 2020. Government-led infrastructure investments to lead the recovery, while service sector activity and consumption gradually return to pre-pandemic levels. US-China tensions ahead of the US elections are a key risk			
	○ Growth	○ Inflation	○ Benchmark rates	● Fiscal deficit
Japan	Japan to see a slow recovery from a prolonged contraction following last year's sales tax hike and the pandemic. There is growing expectation of another stimulus amid PM Abe's sliding popularity and weak global trade outlook			
	○ Growth	○ Inflation	○ Benchmark rates	● Fiscal deficit
UK	The UK, the last major economy to ease lockdowns, to return to growth in H2 20 amid record fiscal and monetary stimulus. Proposed withdrawal of UK's job-support programme in H2 and Brexit talks with EU are key risks			
	○ Growth	○ Inflation	○ Benchmark rates	● Fiscal deficit

Source: Standard Chartered Global Investment Committee

Legend: ○ Weaker/lower in 2020 | ● Neutral | ● Stronger/higher in 2020

Bonds – at a glance



Key themes

In our view, credit (defined as corporate and EM bonds) remains attractive. Yields remain attractive relative to the risk, in our assessment, and central bank efforts to keep bond yields capped are likely to be an additional source of support.

DM HY bonds remain a preferred holding as the gradual improvement in US growth, reduced funding stress, lower default expectations and a hunt-for-yield could further attract fund inflows. EM USD government bonds are preferred amid still-attractive valuations, especially as the USD weakens. Asia USD bonds are preferred amid strong investor demand and relatively high credit quality with lower volatility than peers.

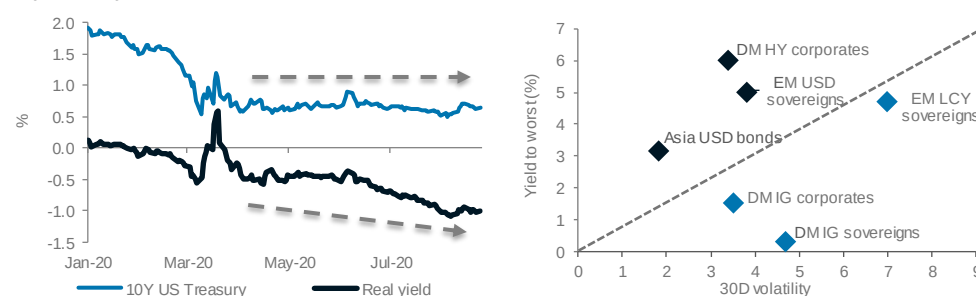


Key chart

The attractive yield premiums on DM HY, EM USD government and Asia USD bonds to remain one of the key factors for outperformance, despite a falling real yield (net-of-inflation yield) scenario.

Fig. 9 DM HY, EM USD government and Asia USD bonds continue to offer attractive yields and value amid a continued tailwind from falling real bond yields

10Y US government bond yields and real (inflation-adjusted) yields; Current Yield-to-Worst and last 30-day volatility for various bond asset classes



Source: Citigroup, J.P. Morgan, Barclays, HSBC, Bloomberg, Standard Chartered. As of 25 Aug 2020

Preference order	DM HY corporate	We view DM HY bonds as a preferred holding as their attractive yield and somewhat cheap valuations should help them outperform. Higher-than-expected defaults is a key risk.	Attractive yield	Valuation vs govt bonds	Credit fundamentals
	EM USD government	EM USD government bonds are a preferred holding , owing to their attractive yield and valuations. A sharp deterioration in sentiment towards EMs is a risk.	Valuation vs govt bonds	Macro factors	Rates policy
	Asia USD	We view Asia USD bonds as a preferred holding given their relatively high credit quality, moderate yield and defensive characteristics. A slower-than-expected recovery in China is a risk.	Credit fundamentals	Macro factors	Valuation vs govt bonds
	EM local currency	EM local currency bonds are a core holding as their reasonable yield, supportive EM central bank policies and our expectation of USD weakness are balanced by higher volatility and unattractive valuations.	FX outlook	Macro factors	Rates policy
	DM IG corporate	We view the asset class as less preferred . In our assessment, supportive central bank policies and reasonable valuations are offset by the deterioration in credit fundamentals and lack of value.	Valuation vs govt bonds	Credit fundamentals	Macro factors
	DM IG government	DM IG government bonds are less preferred . Their high credit quality and supportive central bank policy are offset by the low yields they offer. A renewed growth slowdown is an upside risk for this asset class.	Rates policy	Macro factors	Valuation

Source: Standard Chartered

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

Equity – at a glance



Key themes

Global equities remain a preferred asset class. Investors are focusing on the 2021 earnings recovery and the US Presidential election in November. On the earnings front, we are seeing an uptick in forecasts and the historical performance of US equities, after a trough in earnings, is reassuring. As far as the election is concerned, investors are trying to weigh the potential implications of different outcomes. From a pure market perspective, an outcome in which neither party has control of all three branches of government – the Presidency, Senate and House of Representatives – is probably seen as the most benign outcome as this would reduce the President's ability to make sweeping policy changes.

Valuations in global equity markets remain elevated, with MSCI All Country World trading at a P/E ratio of 20x 12-month ahead earnings forecasts. However, valuation metrics that incorporate bond yields, including the yield gap that compares the yield on government bonds with dividend yields, indicate equities are attractively valued.

US, Asia ex-Japan and Euro area equities are all ranked as preferred. Within Asia ex-Japan, we prefer China equities.

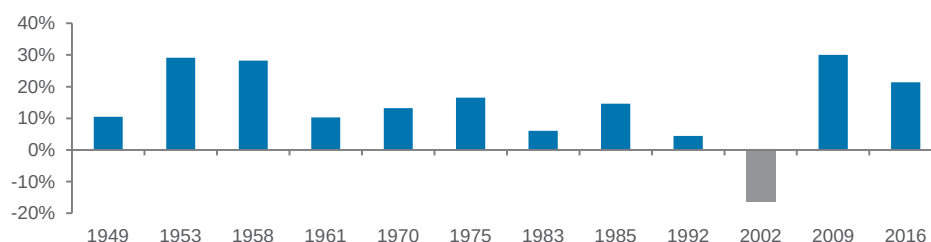


Key chart

S&P500's average gain 12m after a major trough in earnings is 14%. We expect earnings to contract by 20% in 2020, which will be a major trough. We expect earnings to rise 25% in 2021.

Fig. 10 US equities (which have a 58% weight in the MSCI All Country World index) have historically done well 12 months after a major trough in earnings

S&P500 performance 12 months after a major trough in earnings



Source: Macrotrends, Standard Chartered; as of 25 Aug 2020

Preference order	US equities	US is a preferred holding. Continued policy support and improving expectations for future earnings are supportive of the market. We expect earnings to rebound around 25% in 2021.	● Bond yields	● Fund flows	○ Geopolitics
	Asia ex-Japan equities	Asia ex-Japan is also a preferred holding. Low bond yields and USD weakness should support growth in the region. Both China onshore and offshore are preferred within Asia ex-Japan.	● Bond yields	● Fund flows	○ Geopolitics
	Euro area equities	Euro area is also a preferred holding. The recently announced deal on a EUR 750bn COVID-19 fund is positive for sentiment, investments and a recovery in earnings in 2021. A second wave of COVID-19 is risk.	● Bond yields	● Fund flows	● Geopolitics
	Japan equities	Japan is a core holding. Cash levels among corporates are the second highest across the six regions/countries in our universe. The BoJ's plans to increase purchases of equities is supportive of the market.	● Bond yields	● Fund flows	● Geopolitics
	EM ex-Asia equities	EM ex-Asia is a core holding. A recovery in precious and base metal prices should boost the commodity-heavy EM-ex Asia index. Bonds yields are supportive, but we continue to monitor COVID-19 infections.	● Bond yields	● Fund flows	● Geopolitics
	UK equities	UK is less preferred. UK equities have significantly underperformed global equities YTD. A recovery in base metal prices should support the index. Brexit negotiations are a risk.	● Bond yields	● Fund flows	○ Geopolitics

Source: Standard Chartered Global Investment Committee

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

FX – at a glance



Key themes

The USD's decline extended further during the first half of August, with our preferred currencies, the EUR, GBP and AUD, making new YTD highs. A brief USD rebound is likely under way, which should relieve short-term oversold technical conditions. In our view, the USD downtrend will continue over the next 3- and 12-month periods. We expect EUR/USD to rise towards 1.25.

Our base case is that real interest rates and growth differentials will work against the USD, with the rising US twin deficits adding to investor concerns. We expect this to prompt outflows of long-term foreign investments from the USD and reduce USD reserve allocations. The US election process and results could trigger uncertainty and increase USD volatility.



Key chart

Real rate differentials suggest the USD has further to fall in the medium term. Peaking US COVID-19 data and rising Euro area cases may support a brief USD rally as shown in the PMI data chart, but we see ample Fed liquidity and US political risk weighing on the USD.

Fig. 11 Real interest rate differentials, a key driver of USD weakness

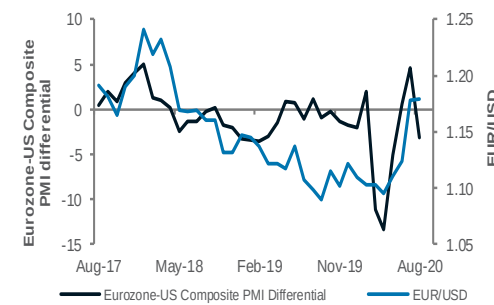
DXY Index, DXY-weighted real rate differentials



Source: Bloomberg, Standard Chartered

Fig. 12 COVID-19 and PMI data can give brief USD respite

EUR/USD, Euro area-US Composite PMI



Source: Bloomberg, Standard Chartered

USD (DXY) ▼ ◇ ▲	Core medium-term USD supports have faded, and momentum for the USD downtrend should be persistent ○ Relative interest rates ● Relative growth rates ○ Flows & sentiment
EUR/USD ▼ ◇ ▲	The EU recovery plan is a game-changer for fiscal unity; we expect EUR/USD to reach 1.25 over 12 months ● Relative interest rates ● Relative growth rates ● Flows & sentiment
GBP/USD ▼ ◇ ▲	Brexit deal uncertainty may keep GBP steady near term; we expect a deal and a GBP rally to 1.37 medium-term ● Relative interest rates ● Relative growth rates ● Flows & sentiment
USD/CNY ▼ ◆ ▲	Chinese stimulus and currency management should see stable USD/CNY despite rising US-China tensions ○ Relative interest rates ○ Relative growth rates ● Flows & sentiment
USD/JPY ▼ ◆ ▲	Monetary, fiscal stimulus and safe-haven flows will balance yield-seeking outflows, likely keeping USD/JPY range-bound ○ Relative interest rates ● Relative growth rates ● Flows & sentiment
AUD/USD ▼ ◇ ▲	Global economic recovery from the pandemic shock should support an AUD/USD rally towards 0.73 medium term ● Relative interest rates ● Relative growth rates ● Flows & sentiment

Source: Standard Chartered Global Investment Committee

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

Technicals

S&P 500: Approaches key resistance

A negative divergence on the weekly charts of the S&P 500 index suggests that the US benchmark is showing signs of fatigue as it approaches key resistance: an uptrend line from 2018 (now at about 3,520), slightly above the February high of 3,394. Negative divergence occurs when price makes higher highs, but momentum (14-week Relative Strength Index in this case) makes a lower high.

Moreover, market sentiment and breadth indicators paint a similar picture. The American Association of Individual Investors Bullish Sentiment Index is around its lows, suggesting investors are less bullish as the index hits fresh highs. Normally, high levels of the index tend to be associated with greater investor optimism, but that does not seem to be the case this time around. On its own, this could mean that there is room for investors to turn more bullish, pushing the index higher. But when viewed holistically, the divergence theme stands out. This is reinforced by breadth market indicators. The number of stocks in the index that hit a 52-week high is well below the early-2020 levels (54 vs 235), indicating reduced participation by the broader index members. Widening breadth, i.e. greater stock participation in the rally, increases the odds of the sustainability of a rally.

However, there is no sign of a reversal in the index. In this regard, key support is at 3,200-3,250. Any break below the support could indicate a pause in the rally.

US 10y yield: Could retest upper end of range

The US Treasury 10-year yield appears to have made a good base around 0.5% this year (notwithstanding the intra-day dip to 0.32% early March). The yield tried to flex its muscles in June, but the rise ran out of steam below the psychological 1%. This month, it appears to be making another attempt to rebound, and it is possible that it could rise towards the upper end of the recent 0.5%-1.00% range for two reasons:

First, on longer-term charts, the yield is deeply oversold, with oscillators/momentum showing signs of turning up, albeit benignly. Second, unlike the previous attempt in June when the yield retraced all of its gains after hitting 0.96%, the yield this time has found support at 0.64% (the 50% retracement of the August rise). The implication is that the early-August uptrend may not be over, and another leg higher is possible. However, 0.96%-1.00% is likely to pose stiff resistance.

Fig. 13 S&P 500: Approaches key resistance area

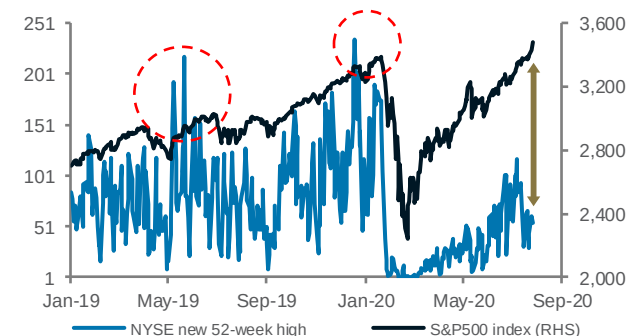
S&P 500 index, weekly chart



Source: Bloomberg, Standard Chartered

Fig. 14 S&P 500: Narrowing breadth

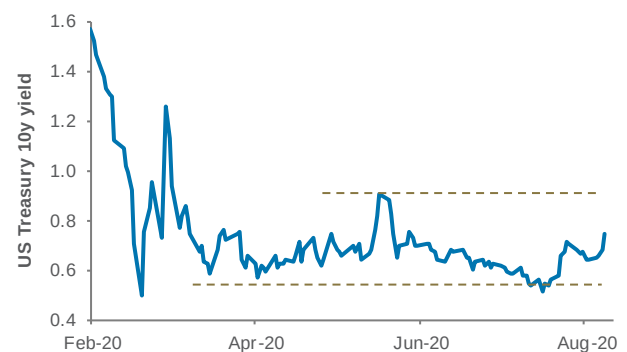
S&P 500 daily chart, with number of NYSE new 52-week high stocks



Source: Refinitiv Eikon, Standard Chartered

Fig. 15 US Treasury 10-year yield: Could retest upper end of range

US Treasury 10-year yield, daily chart



Source: Refinitiv Eikon, Standard Chartered

Tracking market diversity

About our market diversity indicators

Our market diversity indicators help to identify areas where shorter-term market trends could break or reverse due to a reduction in the breadth of market participant types at any given time. Effectively, the indicator tries to quantify to what extent a tug-of-war is going on between different types of investors with different objectives and/or time horizons. When market diversity declines, it means that one type of investor is generally dominating price movements. This can create an environment whereby something happens to reduce the 'dominant' investors' ability or appetite to continue buying or selling, and this leads to a sharp reversal in the recent trend.

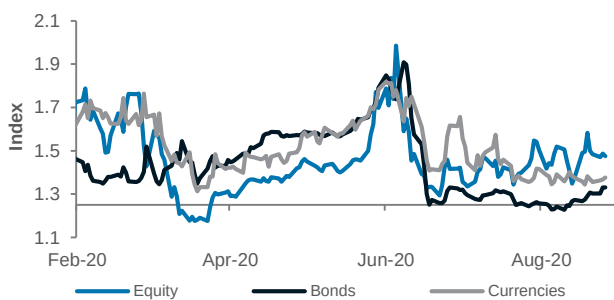
Where is diversity falling or rising this month?

Average market diversity for bonds has broadly rebounded since early August. This has coincided with a pause in the rally across several bond markets that previously have had very low market diversity.

Within bonds, Asia credit and DM credits remain the two bond markets with very stretched levels of market diversity. The former shows a clear sign of a pause in its recent rally, but its diversity remains very low, suggesting a higher likelihood of further weakness. EM bonds and EM credits have recently exited the list of red flags as their diversity levels recovered to above 1.25.

Fig. 16 Average fractal dimension within each asset class on 26-Aug-20

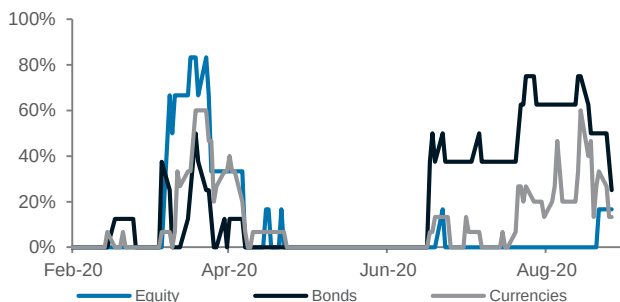
Market diversity across asset classes improved



Source: Standard Chartered

Fig. 17 % of assets with fractal dimension <1.25 for each asset class on 26 Aug 2020

Number of assets with very low market diversity broadly declined



Source: Standard Chartered

In equities, diversity levels remain broadly healthy despite their continued gains since the COVID-19-led corrections in March. However, Asia ex-Japan equities are now the exception as cracks have emerged from a market diversity point of view. The other major equity markets are still tracking well with diversity comfortably above the lower bound.

For currencies, the slowdown in the weakness of the USD has been followed by an improvement in the diversity of the EUR, which is no longer below the lower bound. The SGD, however, has now emerged as having very low market diversity against the USD. This puts the SGD alongside AUD as the only currencies with higher likelihood of a trend break or reversal against the USD.

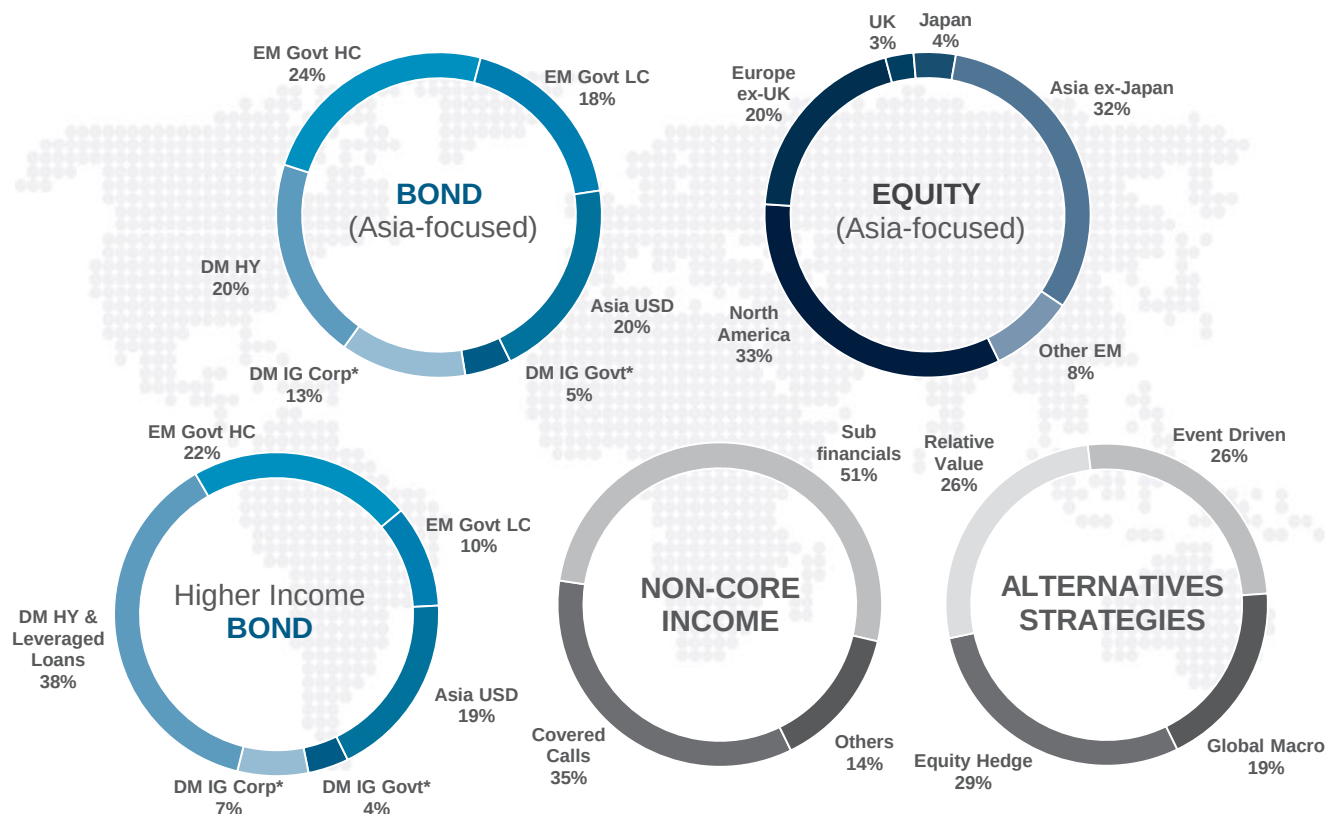
Fig. 18 Assets with market diversity below the cut-off level of 1.25

Level 1	Diversity	Direction since July
HFRX Global Hedge Fund	○	→
FTSE World Broad IG Bond ex-MBS Index	○	→
Equity		
MSCI AC Asia ex-Japan Index	○	→
Bond		
FTSE DM IG Corporate Bond Index	○	→
JPM Asia Credit Index	○	→
Currencies		
AUD/USD	○	→
USD/SGD	○	→

Source: Bloomberg, Standard Chartered; Data as on 27 Aug 2020

Legend: ○ Very low ● Low ● Moderate/high

Our recommended allocations



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

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 equity markets 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 Includes both “substitute” and “diversifying” strategies

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

Asset allocation summary

12-month view		ASIA FOCUSED				GLOBAL FOCUSED			
Summary	View	Conservative	Moderate	Moderately aggressive	Aggressive	Conservative	Moderate	Moderately aggressive	Aggressive
Cash	▼	10	3	1	0	10	3	1	0
Fixed Income	▲	71	47	35	10	71	47	35	10
Equity	▲	19	36	50	81	19	36	50	81
Gold	▲	0	6	6	5	0	6	6	5
Alternatives	◆	0	8	8	4	0	8	8	4
Asset class									
USD Cash	▼	10	3	1	0	10	3	1	0
DM Government Bonds*	▼	3	2	2	0	5	3	2	1
DM IG Corporate Bonds*	▼	9	6	4	1	13	8	6	2
DM HY Corporate Bonds	▲	14	9	7	2	20	13	10	3
EM USD Government Bonds	▲	17	11	8	2	13	9	6	2
EM Local Ccy Government Bonds	◆	13	9	6	2	10	7	5	1
Asia USD Bonds	▲	14	10	7	2	11	7	5	1
North America Equities	▲	6	12	17	27	10	19	27	44
Europe ex-UK Equities	▲	4	7	10	16	2	3	5	8
UK Equities	▼	1	1	1	2	1	1	1	2
Japan Equities	◆	1	1	2	3	1	1	2	3
Asia ex-Japan Equities	▲	6	11	16	26	4	7	10	17
Non-Asia EM Equities	◆	2	3	4	7	2	3	4	7
Gold	▲	0	6	6	5	0	6	6	5
Alternatives	◆	0	8	8	4	0	8	8	4

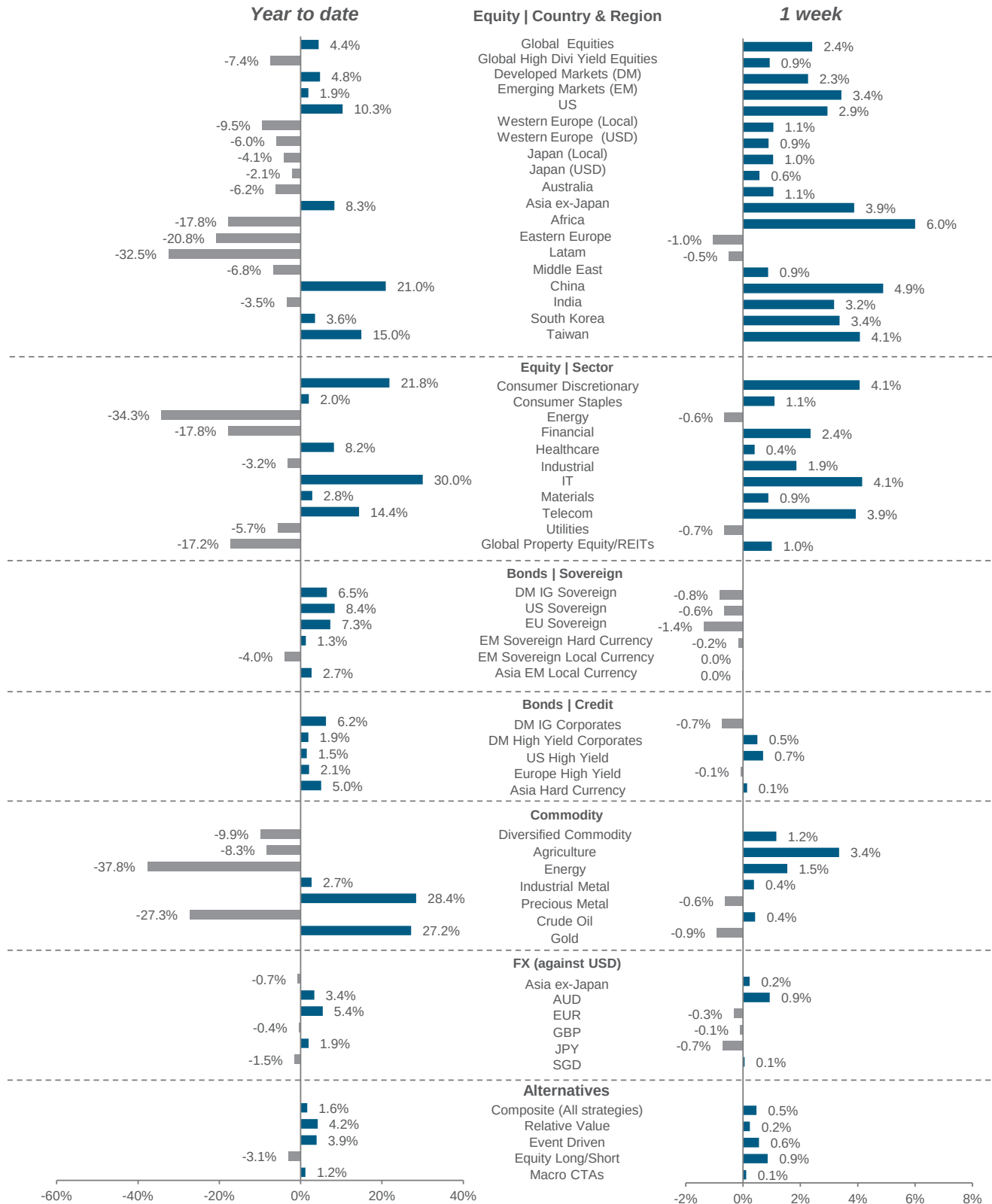
All figures in %. Source: Standard Chartered.

Note: (i) For small allocations we recommend investors to allocate through broader global equity/global bond solutions; (ii) Allocation figures may not sum to 100% due to rounding effects.

*FX-hedged

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

Market performance summary*



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

*All performance shown in USD terms, unless otherwise stated

*YTD performance data from 31 December 2019 to 27 August 2020 and 1-week performance from 20 August 2020 to 27 August 2020

Events calendar

SEPTEMBER 2020

10	ECB policy decision
16	FOMC policy decision
15-22	UN General Assembly in New York
17	BoJ policy decision
17	BoE policy decision
29	First US presidential election debate

OCTOBER 2020

15	Second US presidential election debate
15-16	G20 finance ministers and central bankers meet
22	Third US presidential election debate
29	BoJ policy decision
29	ECB policy decision

NOVEMBER 2020

03	US presidential and congressional elections
05	FOMC policy decision
05	BoE policy decision
08-12	APEC Summit in Malaysia
21-22	G20 Summit in Saudi Arabia

DECEMBER 2020

10	ECB policy decision
16	FOMC policy decision
17	BoE policy decision
18	BoJ policy decision
31	End of Brexit transition period

JANUARY 2021

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

FEBRUARY 2021

04	BoE policy decision
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MARCH 2021

11	ECB policy decision
18	BoE policy decision

APRIL 2021

22	ECB policy decision
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MAY 2021

06	BoE policy decision
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JUNE 2021

10	ECB policy decision
24	BoE policy decision

X – Date not confirmed | ECB – European Central Bank | FOMC – Federal Open Market Committee (US) | BoJ – Bank of Japan | BoE – Bank of England

Wealth management



ANNUAL OUTLOOK

annually

The Annual Outlook highlights our key investment themes for the year, the asset classes we expect to outperform and the likely scenarios as we move through the year.



GLOBAL MARKET OUTLOOK

monthly

Our monthly publication which presents the key investment themes and asset allocation views of the Global Investment Committee for the next 6-12 months.



WEEKLY MARKET VIEW

weekly

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



GLOBAL WEALTH DAILY

daily

Global Wealth Daily is an early morning update of major economic and political events and their day-to-day impact on various assets classes the previous day.



MARKET WATCH

ad hoc

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



360 PERSPECTIVES

ad hoc

360 Perspectives provides a balanced assessment of the outlook for an asset class. It presents both the positives and negatives of the asset class, as well as the major drivers, instead of offering a specific view.



INVESTMENT BRIEF

ad hoc

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

The team

Our experience and expertise help you navigate markets and provide actionable insights to reach your investment goals.

Alexis Calla

Chief Investment Officer
Chair of the Global Investment
Committee

Manish Jaradi

Senior Investment Strategist

Francis Lim

Senior Investment Strategist

Ajay Saratchandran

Senior Portfolio Manager

Steve Brice

Chief Investment Strategist

Audrey Goh, CFA

Senior Cross-asset Strategist

Fook Hien Yap

Senior Investment Strategist

Samuel Seah, CFA

Senior Portfolio Manager

Christian Abuide

Head
Discretionary Portfolio
Management

Daniel Lam, CFA

Senior Cross-asset Strategist

Abhilash Narayan

Senior Investment Strategist

Thursten Cheok, CFA

Senior Portfolio Strategist

Clive McDonnell

Head
Equity Investment Strategy

Rajat Bhattacharya

Senior Investment Strategist

Cedric Lam

Investment Strategist

Trang Nguyen

Portfolio Strategist

Manpreet Gill

Head
FICC Investment Strategy

Belle Chan

Senior Investment Strategist

DJ Cheong, CFA

Investment Strategist

Marco Iachini, CFA

Cross-asset Strategist

Sean Pang

Investment Strategist



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