



Global Market Outlook

Relentless optimism?

Expectations for a global economic and earnings recovery remain relentlessly positive, despite an increasingly tightening policy bias in China and the risk of higher US taxes. We favour equities over bonds.

US equities remain most likely to outperform other regions amid supportive policy, in our view. Asia ex-Japan faces headwinds from China's tightening liquidity and a surge in COVID-19 cases in India and other markets.

Asia and Emerging Market USD bonds continue to offer value and Developed Market High Yield bonds may still have room to outperform. A further inflation rise is likely to push bond yields, net-of-inflation, lower – a positive for gold and negative for the USD.



How should investors be positioned for higher inflation?

Are technical charts pointing to a further rise in US equities and gold?

Where are the opportunities in the electric vehicles sector?



01

02

03

04

Contents

Strategy

Investment strategy: Relentless optimism?	03
Our 12-month tactical asset allocation	05
Perspectives on key client questions	06
Electric vehicles come of age	08

Macro Overview

Summary	10
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Asset Classes

Bonds	11
Equity	12
FX	13
Technicals	14
Tracking market diversity	15

Performance Review

Asset allocation summary	16
Market performance summary	17
2021 key events	18
Our key advisory publications	19
Disclosures	20

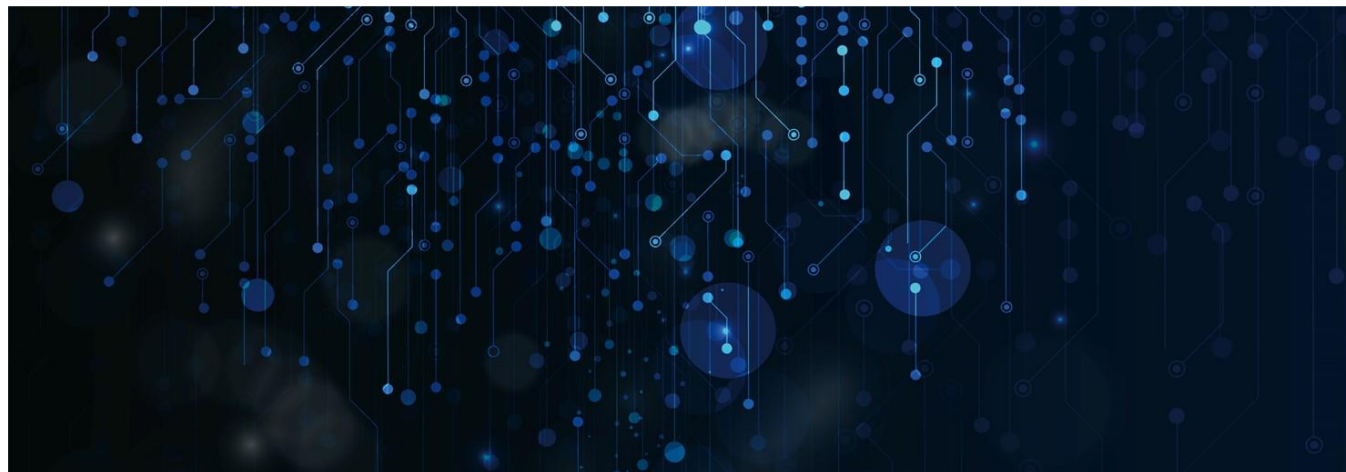
Investment strategy and key themes

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Implications for investors

- Prefer global equities over bonds and cash
- Equities: Prefer the US and the UK
- Bonds: Prefer Asia USD, EM USD and DM HY
- The USD is likely to weaken against the EUR, AUD, GBP and CNY over the next 12 months

Key themes

- Ready, Steady, Rotate
- Race for Income
- USD to slump in 2021
- Golden equity themes for the 2020s
- A time for climate investing
- A world of yield-free risk

Relentless optimism?

- Expectations for a global economic and earnings recovery remain relentlessly positive, despite an increasingly tightening policy bias in China and the risk of higher US taxes. We favour equities over bonds.
- US equities remain most likely to outperform other regions amid supportive policy, in our view. Asia ex-Japan faces headwinds from China's tightening liquidity and a surge in COVID-19 cases in India and other markets.
- Asia and Emerging Market USD bonds continue to offer value and DM High Yield bonds may still have room to outperform. A further inflation rise is likely to push bond yields, net-of-inflation, lower, a positive for gold and negative for the USD.

Markets remain relentlessly optimistic

Markets maintained relentless optimism on economic and corporate earnings forecasts. In the US, for example, S&P500 earnings growth forecasts for 2021 are now 32%, compared with just over 23% at the start of the year.

However, this was balanced by four emerging risks: First, a relatively muted market reaction to some strong earnings raises questions about whether the positivity is priced in. Second, the possibility of higher US taxes entered the narrative. Third, China's central bank signalled its tightening bias was set to extend. Fourth, the market's expectations of US inflation continued to rise towards pre-pandemic highs.

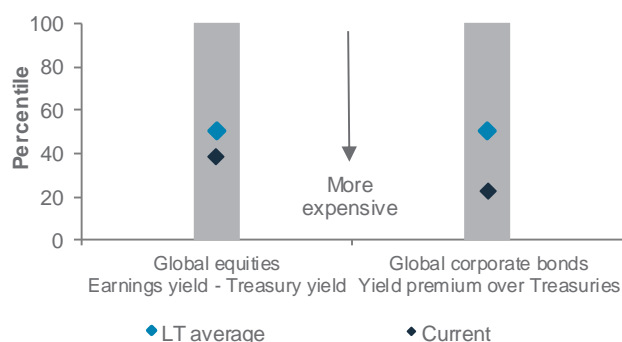
Equities vs corporate bonds

The risk of 'sell-in-May' volatility notwithstanding, we believe risk/reward continues to favour global equities over bonds over a 12-month horizon. Earnings are recovering, valuations (vs bond yields) are more attractive for global equities than global corporate bonds and fiscal and monetary policies remain ultra-supportive.

Within this, rising divergences – between the Fed and the PBoC on policy direction and between Developed Market (DM) and Emerging Market (EM) assets, for example, have been a part of the recent narrative. However, there may be a need to be agile if USD exceptionalism fades and the USD downtrend decisively resumes.

Fig. 1 Relative to bond yields, equity valuations less elevated than corporate bond valuations

Valuations vs US Treasury yields (since 2001):
Global equities and global corporate bonds



Source: FactSet, Bloomberg, Standard Chartered

Bottom-up challenges in Asian equities

Within global equities, our preference for the US and the UK remains unchanged. While the prospect of higher taxes is a risk for the US, most estimates of the impact on earnings remain small (mid-single digits) and it remains far from clear that the tax measures will pass in their current form. This means markets are likely to continue focusing on strong earnings growth data and the US/UK lead in per-capita COVID-19 vaccinations.

In China, though, a tightening policy bias is becoming increasingly evident in credit growth data. In India, the economic and earnings recovery is at risk of a delay amid a new, devastating COVID-19 surge. While we believe Asia ex-Japan should still do well on a 12-month horizon, in line with global equities, the chances of outperforming global equities have fallen, in our opinion.

The risk of a rebound in JPY, amid renewed USD weakness, may pose more of a challenge for Japanese equities. The Euro area continues to rank last in our preference order, though here, we remain on watch for any signs of potential upside surprises if the pace of COVID-19 vaccinations begins to accelerate.

Fig. 3 China's credit growth is slowing

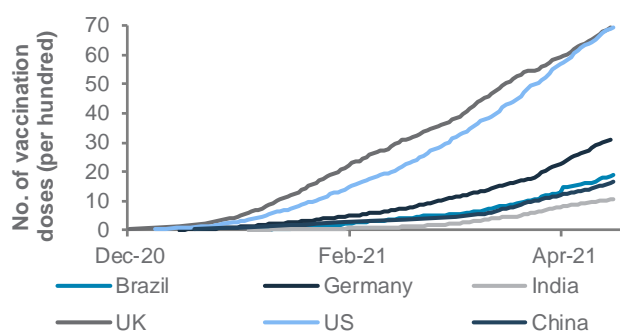
China M2 money supply growth, % y/y



Source: Bloomberg, Standard Chartered

Fig. 2 Some regions vaccinating at a faster pace than others, accelerating economic normalisation

COVID-19 vaccine doses administered, per hundred



Source: Our World in Data, Standard Chartered

A focus on riskier bonds still attractive

Our preference for equities over bonds notwithstanding, we believe riskier bonds (both corporate and EM) that are less sensitive to a renewed rise in US government bond yields remain attractive, including for income investors (see our 'Race for Income' theme).

Asia and EM USD bonds continue to offer attractive value relative to both their own history and DM bonds. The yield gap between Asia and US HY bonds has widened significantly in favour of Asia HY bonds, presenting an attractive opportunity to add exposure. EM USD government bond valuations are also not far from their long-term medians amid an increasingly attractive absolute yield.

The valuations picture looks less attractive for DM HY bonds following their strong rally over the past year. Historically, though, returns from these levels have still tended to be strong on 12-month horizons. This is not surprising as HY bond price behaviour tends to be asymmetric through a cycle – trending higher until a recession causes a disproportionate sell-off.

Rising inflation good for gold, bad for USD

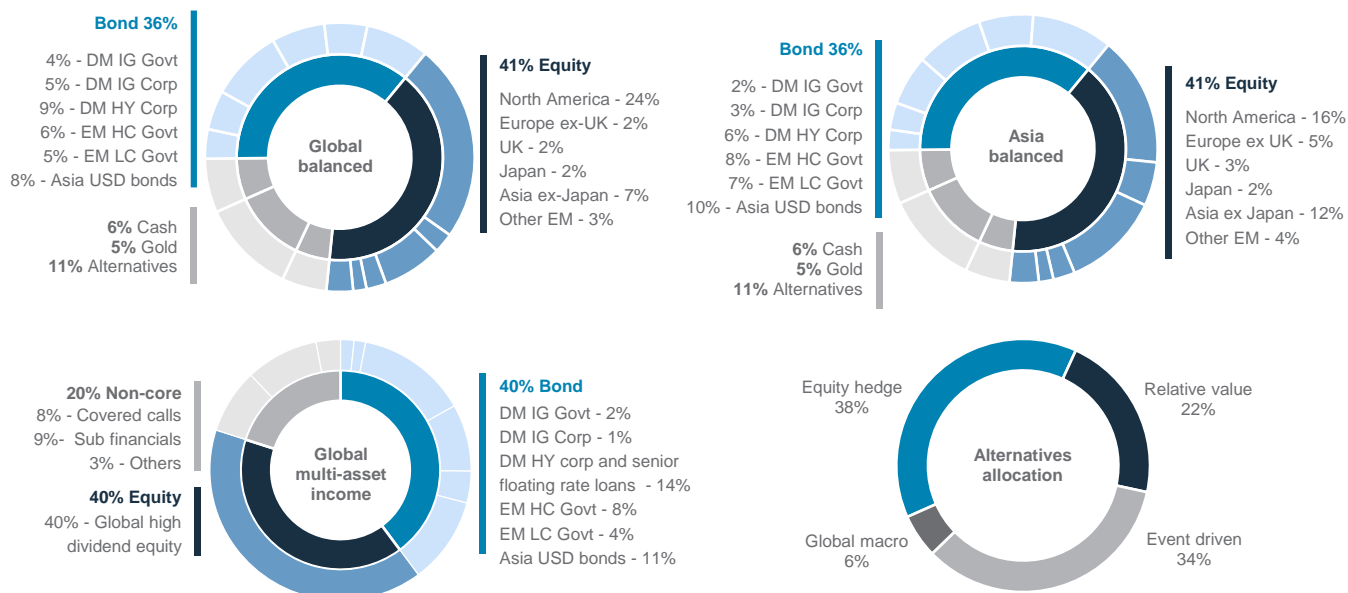
Rising market inflation expectations and an increasingly muted rise in bond yields paint a bearish picture for real (ie, net-of-inflation) bond yields from here.

For gold, this is a positive as lower real yields reduce the opportunity cost of holding the non-yielding metal. We continue to view it as a core holding, though, as gains are unlikely to exceed those on global equities.

For the USD, the prospect of lower real bond yields could provide a catalyst for a resumption of the long-term downtrend (our 'USD to slump in 2021' theme).

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 of our key asset class views

View	detail
USD cash	▼ + Safety - Close to no yield
Bonds	
DM Govt	▼ + High credit quality, policy support - Very sensitive to rising US bond yields
DM IG Corporate	▼ + Policy support - Very sensitive to rising US bond yields
DM HY Corporate	▲ + Attractive yield, low rate sensitivity - Unexpected defaults, valuations
EM USD Govt	▲ + Attractive yield, attractive value - Sensitivity to rising yields, USD rebound
EM Local Ccy Govt	◆ + Moderate yield, weak USD view - Rising policy rates in some EMs
Asia USD	▲ + Moderate yield, low volatility - China policy risk
Equities	
North America	▲ + Growth, earnings rebound, policy support - Early Fed taper, potential tax rise
Europe ex-UK	▼ + Rotation to Value, policy support - Geopolitics, slow vaccination progress
UK	▲ + Attractive valuation, Value rotation, Brexit deal - Policy risk, strong GBP
Japan	◆ + Global economic recovery - JPY strength, China policy tightening
Asia ex-Japan	◆ + Earnings rebound - China policy tightening, COVID-19, USD rebound
Gold	◆ + Weak USD, diversifier benefits - Return of risk appetite, higher real yields
Alternatives	◆ + Diversifier characteristics - Equity, corporate bond volatility

Source: Standard Chartered Global Investment Committee

Legend: ▲ Most preferred | ▼ Least preferred | ◆ Core holding || Green: upgrade from prior view | Red: downgrade from prior view

Perspectives on key client questions

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Q How should investment allocations be positioned for higher inflation?

With the US 10-year government bond yield rising by 73bps YTD on the back of expectations for a strong economic rebound, inflation has quickly become one of the most important considerations in asset allocation for investors. We expect inflation to rise above 2% by year-end, before retracing lower in 2022. For investors concerned about the effects of higher inflation on their investment allocations, the growth and inflation framework below can be a useful starting point.

Higher inflation is generally not a drag on equity returns when growth expectations improve

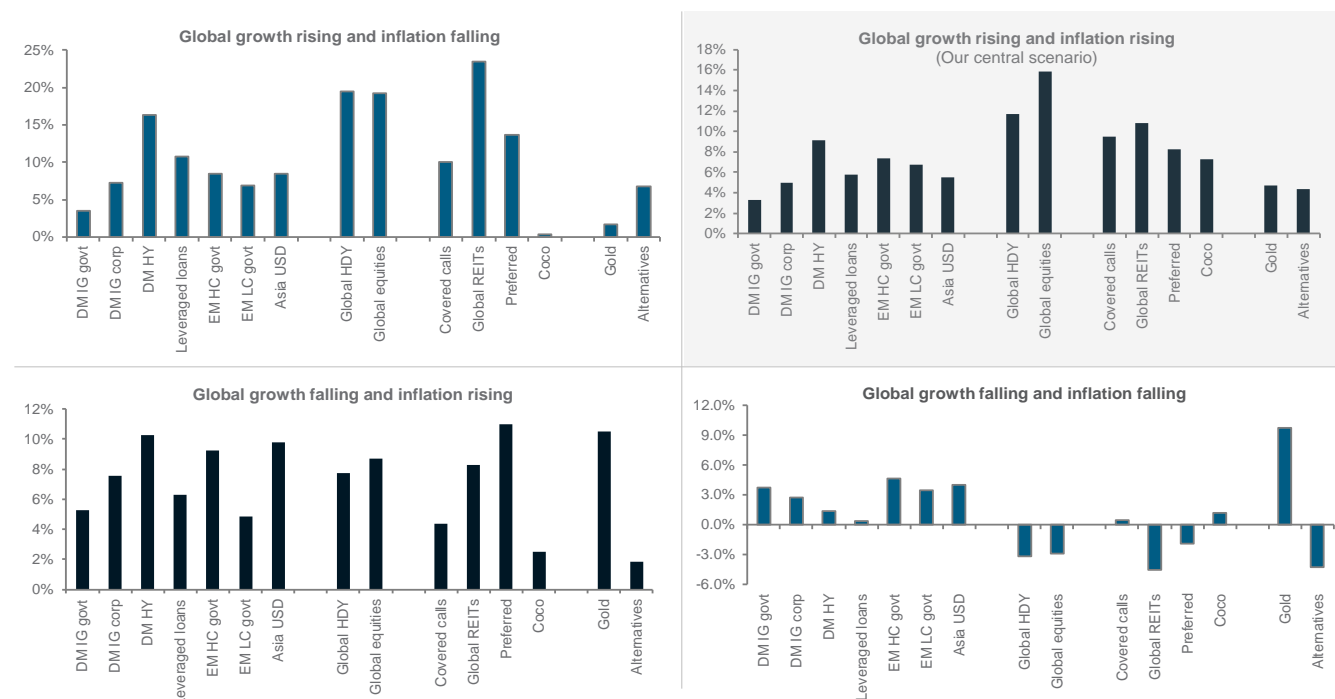
Higher inflation expectations can have a mixed impact on asset prices via two factors – expected cash flows and discount rates. Higher inflation expectations may boost nominal cashflows, especially if companies are able to pass on price increases to end users. However, if higher inflation leads to higher interest rates, the present value of future cash flows may decline as the interest rates used to ‘discount’ these flows goes up.

Expectations of a global economic rebound and a modest rise in inflation are supportive of a view to allocate a higher weight to equities. Historically, an environment of rising growth and higher inflation (our central scenario) is a very supportive backdrop for equity assets, as shown in figure 4 below.



Fig. 4 Strong economic rebound supports the case for higher equity allocation even if inflation rises

Average 12m returns of various asset classes in different economic regimes (Oct 2005 to Feb 2021)



Source: Bloomberg, Standard Chartered. Economic scenarios are identified by BCA research data across business cycles. Refer to Explanatory notes related to Contingent Convertibles at the end of this document

Tilt toward less rate-sensitive assets within a bond allocation

'Duration' is a measure of the sensitivity of the price of a bond to a change in the yield. Figure 6 shows the simulated returns of various fixed income components in the event of a shift in US government bond yields by +/- 50, 100 and 150bps.

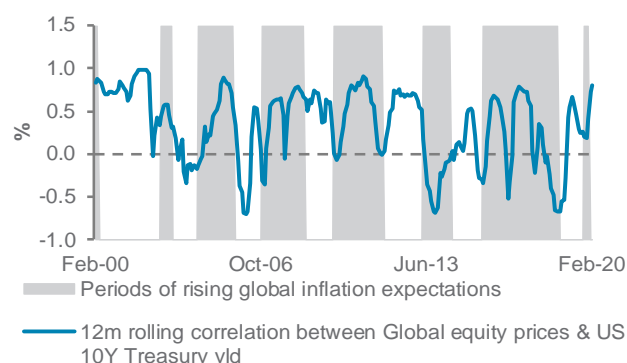
As bond yields continue rising on the back of improving growth (as we have seen YTD) and higher inflation expectations, we would look for opportunities to gradually reduce an investment allocation's 'duration' by moving towards less interest-rate-sensitive assets. That said, in the current low-yield environment, the yields on offer from short-term bonds are likely insufficient to buffer for the effects of higher inflation.

Intuitively, investors can increase protection against inflation by having some exposure to Treasury Inflation-Protected Bonds (TIPS). However, most of these assets are already trading at negative real yields. US TIPS currently yield 0.10%, well below inflation, and already-elevated inflation expectations suggest limited room for further capital gains.

An alternative solution is tilting the bond allocation towards 'credit' (corporate and EM bond) assets that still offer relatively decent income with shorter durations, such as DM HY bonds, contingent convertibles and Asia USD bonds. These credit components tend to be sensitive to changes in growth expectations and should do well in an environment of improving growth (figure 4).

Fig. 5 Global equities and bond yields tend to rise together in periods of higher inflation expectations

12m rolling correlation between global equity prices and US 10y Treasury yield



Source: Bloomberg, Standard Chartered

Having exposure to equities becomes increasingly important during rising inflation

We also look at cross-asset correlation for more insights on how to better prepare investment allocations for higher inflation. As figure 5 illustrates, history suggests that correlation between the equity market and bond yields (as proxied by the 12-month rolling correlation between global equity prices and US 10-year Treasury yield since 2000) tends to rise in the early phase of rising inflation expectation.

While this relationship may not be stable across all periods of rising inflation, it does argue the case to consider having exposure to equities to benefit from rising prices that tend to translate into higher margins and profitability for companies in the early phase of a pickup in inflation.

Fig. 6 Total return of fixed income assets assuming different shifts in bond yields

Yield to worst and duration for fixed income asset as of 29 April 2021

		DM IG corp	EM USD gov't	DM IG gov't	EM LCY gov't	Asia USD	DM HY	Coco	TIPS
Yield to worst		2.19%	5.04%	1.14%	5.29%	3.45%	4.39%	3.44%	0.10%
Duration		8.44	7.88	7.39	5.29	4.60	4.27	3.91	2.78
Change in yield*	-1.5%	14.9%	16.9%	12.2%	13.2%	10.4%	10.8%	9.3%	4.3%
	-1.0%	10.6%	12.9%	8.5%	10.6%	8.1%	8.7%	7.3%	2.9%
	-0.5%	6.4%	9.0%	4.8%	7.9%	5.8%	6.5%	5.4%	1.5%
	0.0%	2.2%	5.0%	1.1%	5.3%	3.5%	4.4%	3.4%	0.1%
	0.5%	-2.0%	1.1%	-2.6%	2.6%	1.2%	2.3%	1.5%	-1.3%
	1.0%	-6.3%	-2.8%	-6.3%	0.0%	-1.2%	0.1%	-0.5%	-2.7%
	1.5%	-10.5%	-6.8%	-9.9%	-2.6%	-3.5%	-2.0%	-2.4%	-4.1%

Source: Bloomberg, Standard Chartered. Simulated returns are calculated assuming a parallel shift across the whole yield curve. Refer to Explanatory notes related to Contingent Convertibles at the end of this document.

Electric vehicles come of age

Q Where are the investment opportunities in the electric vehicles sector?

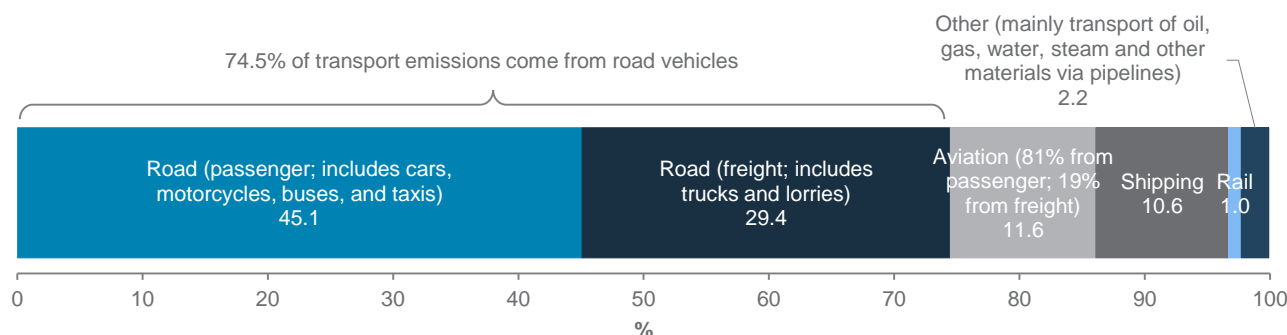
Electric vehicles (EVs) have been in investors' spotlight over the past year and featured as an important component of the transition towards a 'net zero' carbon emission world powered by sustainable energy. We believe increased government support,

declining costs and evolving consumer demand are converging to begin a golden age for electric cars.

The World Resource Institute's data shows transport accounts for around one-fifth of global carbon dioxide (CO₂) emissions. As more and more governments set ambitious targets to reduce carbon emissions, the focus has accelerated on the electrification of transport.

Fig. 7 Road transport vehicles account for the largest share of global CO₂ emissions

Breakdown of global CO₂ emissions from various forms of transportation in 2018. Transport accounts for 24% of CO₂ emissions from energy.



Source: Our World in Data, Standard Chartered

EV growth across key markets

Europe, China and the US were the top markets in terms of EV sales in 2020.

EV sales in Western Europe are expected to exceed 1m for the first time this year, according to Schmidt Automotive Research. While this increase, driven by government subsidies, is expected to weaken when subsidies run out, demand is expected to accelerate again in 2025 as a result of the next European Union CO₂ emissions hurdle and a continued fall in EV costs.

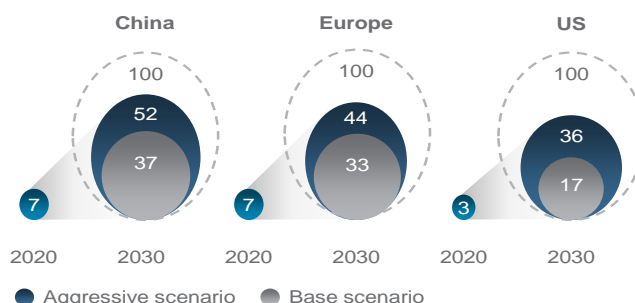
China is also likely to consolidate its position as the fastest growing EV market in 2021, with a 40% sales increase forecast by the China Association of Automobile Manufacturers. According to research firm Canalys, China represented 41% of global EV sales last year (1.3m units), just behind Europe at 42%. The US sold just a quarter of EVs sold by China (328,000 units).

There remains significant potential in the EV market in both the US and China. Despite current growth rates, EV sales accounted for just 2.4% of overall auto sales in the US and 6.3% of all passenger cars sold in China

last year. This proportion is likely to increase substantially over the next decade.

Fig. 8 Projected EV share in light vehicle market

Current (light blue) and forecasted EV share of total light-vehicle market, %



Source: McKinsey Centre for Future Mobility, Standard Chartered

Battle for EV leadership to support global growth

President Joe Biden has said that the US must significantly increase its production of EVs. Biden has proposed a USD 174bn spending package aimed

at driving consumer demand. The plan includes providing USD 100bn in consumer rebates and developing supporting infrastructure, such as more EV charging stations.

China, meanwhile, had a head start in driving EV adoption, having provided more than CNY 52bn (USD 8bn) in subsidies. It is now focused on building infrastructure such as EV charging stations and battery swapping and recycling facilities. According to Bloomberg, China rolled out 112,000 public EV charging points in December 2020 alone, more than the entire US public charging network.

Declining costs to fuel long-term growth

Cost competitiveness relative to fossil fuel-powered vehicles is key to unlocking momentum in EV vehicles, especially as governments eventually remove consumer subsidies.

While consumers are increasingly concerned about environmental issues, they remain price sensitive when it comes to vehicle purchase and fuel costs. For example, China saw its EV sales slow as it started cutting back on subsidies in 2019, resulting in an extension of subsidies until 2022.

The battery is the most valuable part and the most expensive single component of an EV. Advancements in battery technology – making them better and cheaper – are therefore critical to watch. Lithium-ion battery pack

prices have fallen significantly in real terms since 2010 – from above USD 1,100 per kilowatt-hour to USD 137/kWh in 2020. By 2023, Bloomberg estimates that average prices will be close to USD 100/kWh, a level at which automakers should be able to price mass market EVs at the same price (and margin) as internal combustion vehicles in some markets.

ESG risks to consider in EVs

As the EV market continues to grow, it makes sense to be mindful of ESG risks, especially relating to battery production.

There are various social and environmental factors to consider throughout the supply chain – from extracting raw materials through to disposal and recycling of batteries. For example, the mining of lithium and cobalt is often concentrated in countries with weaker social and environmental standards, raising reputational risks.

Another area is supply chain risks – China is a dominant supplier along the EV supply chain, raising the sector's vulnerability to any further rise in geopolitical tensions between the US and China.

However, the trend of electrification of transportation should accelerate, creating opportunities for investors in industrial sectors that support the supply chain and related businesses. This could potentially address some of the above-mentioned risks.

Macro overview – at a glance

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Key themes

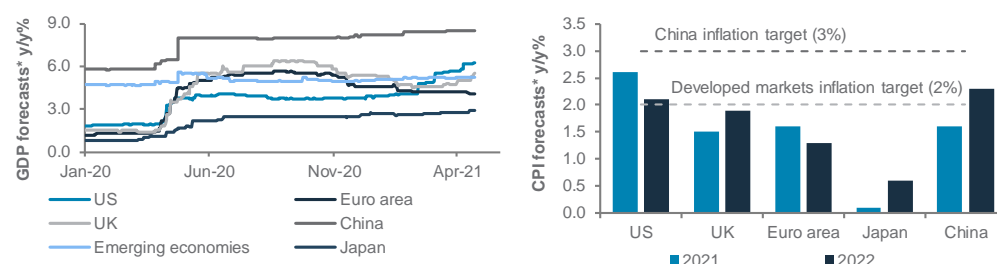
The global economy continues to see divergence in growth and inflation amid a varied pace of vaccinations. The US and UK are likely to achieve herd immunity (70% people fully vaccinated) by Q3, enabling economic activity to normalise faster. The Euro area, which is in a double-dip recession, and Japan are likely to take longer to recover amid renewed lockdowns and slower pace of vaccinations. The divergent economic outlook, high jobless rates and excess productive capacities are likely to contain global inflation pressures, even in the US where prices should settle down by 2022 after a jump this year caused by supply bottlenecks and statistical effects from last's year's plunge. Against this backdrop, we expect major central banks to maintain their accommodative policies. There is a risk the Fed could signal tapering of bond purchases in H2 if the job market heals faster than expected. US tax hikes to fund President Biden's infrastructure plan is another risk. China, in contrast, is likely to continue tightening credit as it targets moderate growth, having subdued the pandemic and returned to pre-pandemic levels of overall activity.

Key chart

Faster vaccinations in the US and UK have boosted growth and inflation expectations. Still, the consensus is for US inflation to return towards the Fed's target by 2022, while inflation in other markets remains subdued

Fig. 9 Vaccination leaders (US, UK) have seen growth forecast upgrades

Consensus growth (2021) and inflation (2021-22) estimates for major economies



Source: Bloomberg, Standard Chartered, *Bloomberg consensus estimates

Macro outlook positive for risk assets		Macro outlook negative for risk assets	
US ▽ ◆ △	+ Infrastructure plans follow pandemic aid + Faster vaccinations; herd immunity by Q3 + Savings, jobs rebound lifting consumption + Fed signals no rate hikes at least till 2023	– Tax hikes proposed to fund infrastructure – COVID cases still elevated; mutation risks – Goods demand to slow; precaution saving – Weak credit demand; Fed tapering of QE	
Euro area ▼ ◇ △	+ Rising vaccinations, vaccine passports + Industrial rebound; Q2 consumption lift + ECB to lift bond buying; Recovery Fund	– Vaccine supply delay, German lockdown – Industry supply shortages; weak services – Delays in Recovery Fund implementation	
China ▽ ◇ ▲	+ Easing restrictions to revive consumption + Policy to boost domestic consumption + Robust manufacturing and exports	– Global goods-to-service shift to hit exports – Credit, regulatory tightening; rising costs – Precautionary savings; geopolitical risk	
Japan ▽ ◆ △	+ Strong export growth, pent-up demand + More fiscal stimulus likely amid lockdowns + Vaccination rates to improve in H2	– Global goods-to-service shift to hit exports – COVID-19 cases rising, new restrictions – Structural deflationary forces	
UK ▽ ◆ △	+ Easing restrictions; longer pandemic aid + Vaccines to lead to herd immunity by Q3 + Infrastructure spending boost	– Brexit-related supply chain disruptions – Vaccine supply and safety setbacks – Tighter monetary policy risk amid inflation	

Source: Standard Chartered Global Investment Committee

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

Bonds – at a glance

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Key themes

The 10-year US government bond yield stabilised over the past month, after the sharp rise in early 2021. Given a global resurgence in virus cases, we expect the yields to be range-bound between 1.50% and 1.75% over the next 6-12 months. Despite the resurgence of virus risks in EMs, we retain our preference for Asian USD and EM USD government bonds as we believe attractive relative valuations compared to DM bonds and the resumption of USD weakness should help support their performance. We continue to favour DM HY corporate bonds due to the reasonable yield on offer and tailwinds from strong vaccination progress in the US, and despite increasingly expensive valuations.

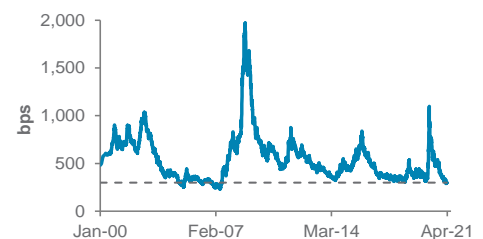
Key chart

EM bonds still offer attractive yield premiums that balance the risk of resurgence in COVID-19 cases. Despite expensive valuation relative to history, DM HY bonds resemble the 2005-2007 episode when yield premiums had been consistently rich.

Fig. 10 EM bonds still offer relatively attractive yield premiums

Spread percentiles for various markets (since 2000); US HY bond yield premiums

	Current spread	Min	Max	Percentile
US IG Corp	85	70	545	9%
US HY	291	233	1,971	4%
DM HY	359	221	1,804	16%
EM USD	341	157	906	47%
Asia USD	216	153	472	39%



Source: Bloomberg, Standard Chartered; as of 23 April 2021

* Credit spread = yield premium over US Treasuries. Percentile is an indicator of historic relative valuation, where a lower number means an asset is more expensive compared to history, and vice versa.

	The bullish case	The bearish case
Asia USD ▽ ◇ ▲	+ Strong credit fundamentals + Increasing foreign demand + Attractive valuations relative to the US	– Reduction in government support could lead to higher defaults in China – Lower yields vs other EM bonds
DM HY corporate ▽ ◇ ▲	+ Balance sheet improvement in 2021 + Default rates to decline + Low interest rate sensitivity	– Expensive valuations – Increase in supply
EM USD government ▽ ◇ ▲	+ Higher commodity prices + Cheaper valuations vs US IG/HY bonds + Relatively attractive yield	– Resurgence in virus cases – High interest rate sensitivity
EM local currency ▽ ◆ △	+ Higher commodity prices + Improvement in EM FX reserves + Relatively attractive yield	– Resurgence in virus cases – Tighter EM monetary policy – Stretched investor positioning
DM IG corporate ▼ ◇ △	+ Strong credit fundamentals + Attractive hedged yield for non-USD investors	– Expensive valuations – High interest rate sensitivity – Low absolute yield
DM IG government ▼ ◇ △	+ High credit quality + Fed, ECB to remain accommodative	– Improvement in growth and/or inflation – Large net issuance increase

Source: Standard Chartered Global Investment Committee

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

Equity – at a glance

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Key themes

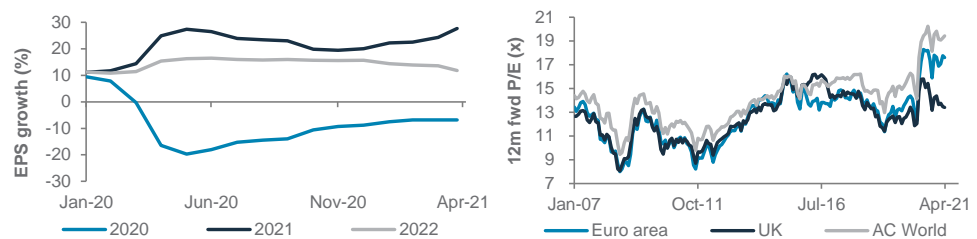
Global equity remains our most preferred asset class, driven by a cyclical economic recovery. Corporate earnings appear to be benefitting from the growth rebound as monetary policies support investment and consumption, while fiscal stimulus lifts demand further. Our most preferred market continues to be the US, given expectations of infrastructure stimulus and the extremely accommodative Fed. The UK is also a preferred market, given the country's faster pace of vaccinations compared with other regions. The UK is also attractively valued compared with other markets, with its Value-bias benefitting from the recovery in the pandemic-impacted sectors. Meanwhile, we have downgraded Japan and Asia ex-Japan to core holding due to: 1) resurgence of COVID-19 cases, 2) valuation being no longer cheap, and 3) continued tightening in liquidity in China when compared with the rest of the world.

Key chart

US earnings likely to be boosted by infrastructure stimulus, while UK equities remain cheap relative to the rest of the world

Fig. 11 US boosted by infrastructure stimulus; UK valuations inexpensive

Consensus US EPS growth; consensus 12-month forward P/E ratio for MSCI Euro area, UK and AC World



Source: MSCI, FactSet, Standard Chartered

	The bullish case	The bearish case
<div>Preference order</div> <div> <div>US equities</div> <div>▽ ◆ ▲</div> </div>	+ Fiscal, infrastructure stimulus + Reopening; leader in vaccine rollout + Most positive earnings guidance	– Expensive valuations – Rising real yields – Spectre of capital gains tax hike
<div>UK equities</div> <div>▽ ◆ ▲</div>	+ Reopening; leader in vaccine rollout + Rotation to value + Inexpensive valuations + Return of dividends	– Stronger GBP holding back gains – Household savings increased, but lagging other regions
<div>Asia ex-Japan equities</div> <div>▽ ◆ ▲</div>	+ Global trade recovery + USD weakness	– Tightening liquidity in China – Regulatory risks for Growth stocks – Geopolitical risks – Resurgence in COVID-19
<div>Japan equities</div> <div>▽ ◆ ▲</div>	+ Cyclical heavy + Attractive valuations + Global trade recovery	– Potentially stronger JPY – Resurgence in COVID-19 – Stretched investor positioning
<div>Euro area equities</div> <div>▼ ◆ ▲</div>	+ Rotation to Value + Higher bond yields benefit Euro area the most	– Laggard in vaccine inoculation – Earnings revision weaker than other regions

Source: Standard Chartered Global Investment Committee

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

FX – at a glance

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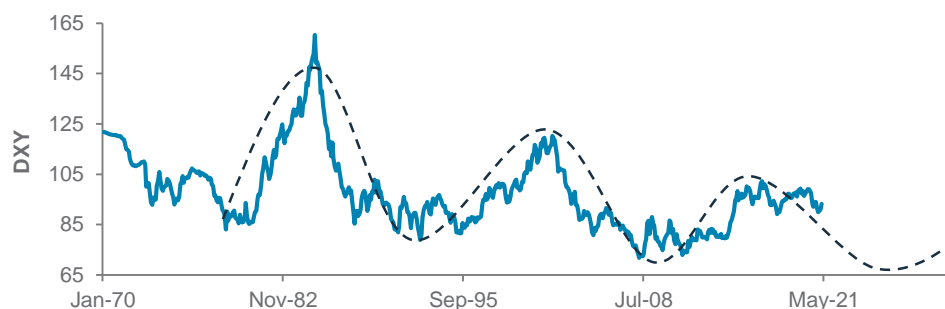
Key themes

We expect a range-bound USD over the next 1-3 months as near-term relative US growth and real bond yield outperformance likely fade. Our 12-month view remains USD bearish as the longer-term cyclical USD decline resumes. We expect faster global vaccinations to revive non-US growth and yields. The Fed is expected to keep policy accommodative, slowing the rise in nominal bond yields. USD risk appetite may decline if US budget and trade deficits surge. We prefer high-beta currencies such as the GBP and AUD, as well as EUR, over the JPY. Prolonged global growth dislocation, possibly driven by the pandemic or geopolitics, is a key risk to our view.

Key chart

The counter-cyclical USD has tended to follow a long 6- to 9-year cycle. We believe that the longer-term down cycle will resume once near-term consolidation ends. A rise in global economic growth and rising US twin deficits are likely weak-USD drivers

Fig. 12 The counter-cyclical USD is likely to resume its longer-term decline
USD Index (DXY) monthly chart with stylistic representation of long-term cycles



Source: Bloomberg, Standard Chartered

12-month outlook	The bullish case	The bearish case	12-month outlook	The bullish case	The bearish case
USD (DXY) ▼	+ Rising nominal and real yields + Greater fiscal stimulus boost	– Fed policy and ample USD supply – US twin deficits and global growth	USD/CNY ▼	+ Possible slowing credit impulse + Fading relative rate differentials	– Rising global trade and exports – Domestic growth recovery extends
EUR/USD ▲	+ Better vaccination & growth recovery + A stronger shift to fiscal stimulus	– Pandemic issues continue to weigh – Failure to deploy fiscal stimulus	USD/SGD ◆	+ Slow global travel & leisure rebound + Slower China growth and trade	– Non-monetisation of fiscal stimulus – Rising global growth and trade
GBP/USD ▲	+ Vaccination-led growth recovery + Interest rates unlikely to fall	– Brexit deal impact on services – Threat of move to fiscal austerity	USD/MYR ▼	+ Longer lasting pandemic impact + Slower China growth and trade	– Strong commodity price correlation – Rising global growth and trade
AUD/USD ▲	+ Global growth and commodity prices + Stronger domestic demand	– RBA may lean against AUD rise – China impulse may weaken	USD/INR ◆	+ Higher oil prices and RBI policy + Pandemic impact may derail growth	– Policy support likely to continue – Rising inflows for bonds & equities
USD/JPY ◆	+ Rising nominal US Treasury yields + Weak safe-haven demand for JPY	– Narrowing real yield differentials – Currency hedging offshore assets	USD/KRW ▼	+ Slower China growth and trade + Geopolitical tensions	– Expected inflows for investments – Strong tech sector exports

Source: Standard Chartered Global Investment Committee

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

Technicals

Manish Jaradi

Senior Investment Strategist

S&P500: Where is it headed?

Fibonacci projections and price channels often provide a guide when markets are at record highs. For the S&P500 index, the 78% projection of the March 2020–September 2020 price move works out to roughly 4300 (about 2% above the April 29 close). The top end of an extended pitchfork channel is currently around 4450 (+5.7%).

The ‘outside view’ (based on historical trends) tends to support the case for further rise in the index. For the first time at least since 1996, 97% of members within the S&P500 index were above their respective 200-DMA. In the past, there have been two occasions when 95% of the members have been above the average. The index was up 100% of the times in the subsequent one year in both instances.

Gold: Downward pressure is abating

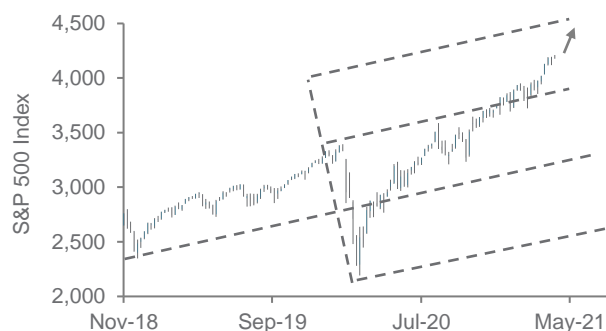
A minor double-bottom pattern (the March lows) triggered this month is a sign that the seven-month long downward pressure on the yellow metal is abating. The price objective of the pattern points to a rise towards 1,835. To be fair, this doesn’t mean that the downtrend is reversing – it could be, but to confirm this, gold would need to break above immediate resistance on the 200-DMA (now at about 1,856), roughly coinciding with the upper edge of a declining channel from August.

US 10-year Treasury yield: Upward pressure eases

In last month’s Global Market Outlook, we highlighted the increased chances of an imminent pause in the US 10-year Treasury yield’s rally. The yield’s break below a minor uptrend line from January confirms the upward pressure has eased somewhat. We believe a break below the 55-DMA, which has broadly defined the uptrend since late 2020 (see chart), would be a confirmation that the retreat has further to run. Such a break could pave the way towards quite strong support on the 100-DMA (now at 1.32%). On the upside, the March high of 1.776% remains a tough resistance level.

Fig. 13 S&P500: Next levels to watch

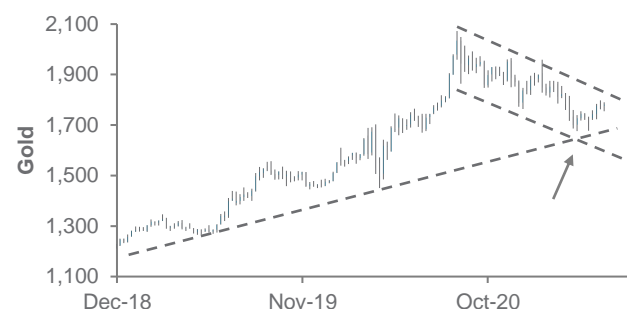
S&P500 index weekly chart



Source: Refinitiv, Standard Chartered

Fig. 14 Gold: Downward pressure is abating

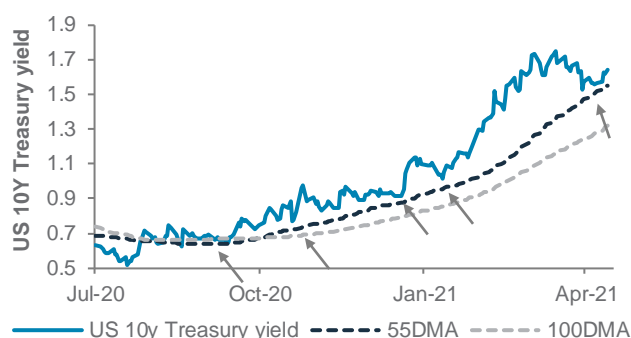
XAU/USD weekly chart



Source: Refinitiv, Standard Chartered

Fig. 15 US 10-year Treasury yield: Support at the 55-DMA

UST 10y yield daily chart with 55-DMA & 100-DMA



Source: Refinitiv, Standard Chartered

Tracking market diversity

Francis Lim

Senior Quantitative Strategist

About our market diversity indicators

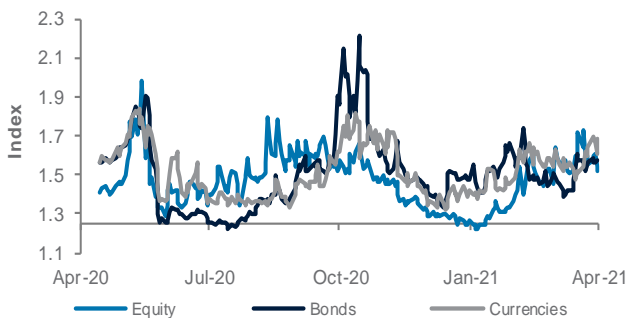
Our market diversity indicators help to identify a potential change in short-term trends due to a fall in market breadth across equities, credit, FX and commodities. When market diversity falls, it implies either buyers or sellers are dominating, leading to a rapid rise or fall in asset prices. This 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 serves as a guideline that prices are rising or falling too fast.

Where is diversity falling or rising this month?

Global equities have been the best performing asset class after rising 10% so far into 2021. This is despite several setbacks along the way due to fears of the ongoing pandemic, impact of higher interest rates and rich equity valuation. While these factors will continue to evolve, our market diversity indicator has yet to show signs of fatigue in equities since early February. On the contrary, we find market diversity at current level is often a supportive signal for a trend continuation.

Fig. 16 Average market diversity score across equities, bonds and FX

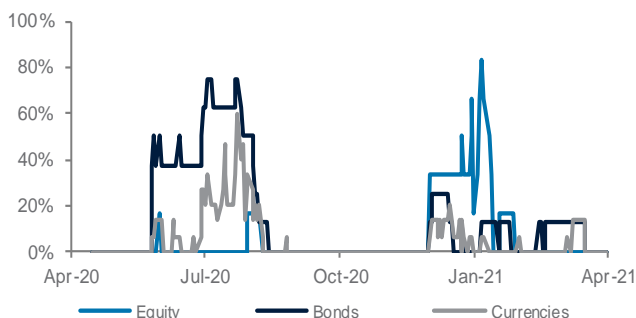
Market diversity are broadly healthy



Source: Bloomberg, Standard Chartered

Fig. 17 % of assets with diversity score < 1.25

Number of low diversity assets remains low



Source: Bloomberg, Standard Chartered

Another key change is in the US 10-year government bond yield, which our indicator had previously flagged for low diversity – this has improved after the recent pullback in the yield. The short-term change in yield was accompanied by a temporary reversal in gold. The diversity of the commodity remains a touch above our standard minimum threshold.

In debt markets, diversity of DM IG government bonds and corporate bonds have also improved. This is not surprising given the higher duration of these assets (ie. sensitivity to changes in interest rate levels) and the recent pullback in the US 10-year yield.

Fig. 18 Diversity of equities remains healthy and that for DM bonds has improved

Level 1	Market diversity	30-day diversity trend
Gold Spot	●	↑
Bond		
DM IG Sovereign Bond Index	●	↑
DM IG Corporate Bond Index	●	↑
Equity		
MSCI USA Index	●	↓
MSCI Europe Index	●	→
MSCI AC Asia ex-Japan Index	●	↓
Rates		
US 10-year Govt. Bond Yield	●	→

Source: Bloomberg, Standard Chartered; data as on 29 April 2021

Legend: ○ Very low ● Low/moderate ● High

Asset allocation summary

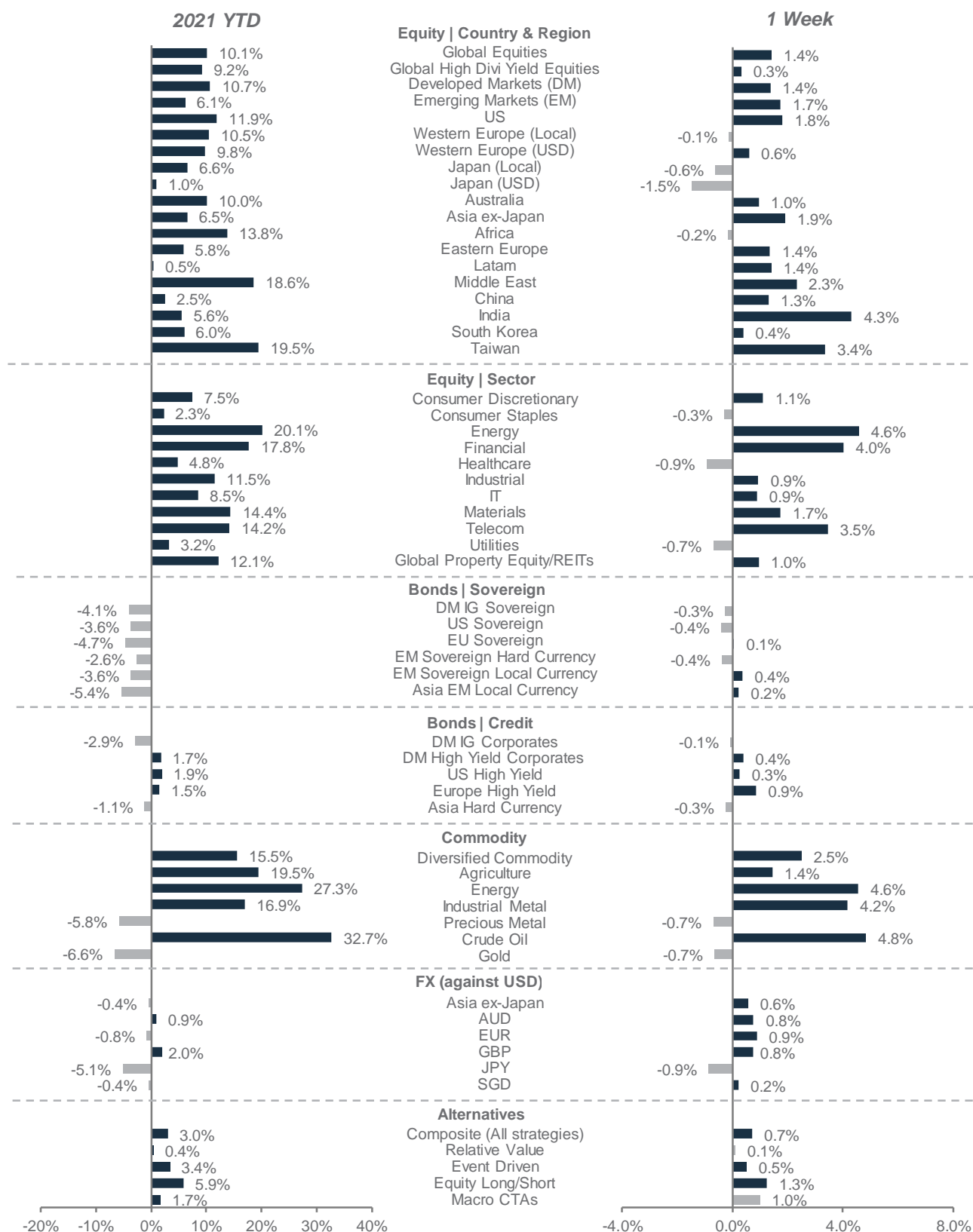
Summary	View	ASIA FOCUSED				GLOBAL FOCUSED			
		Conservative	Moderate	Moderately Aggressive	Aggressive	Conservative	Moderate	Moderately Aggressive	Aggressive
Cash	▼	14	6	3	0	14	6	3	0
Fixed Income	▼	63	36	24	6	63	36	24	6
Equity	▲	23	41	57	85	23	41	57	85
Gold	◆	0	5	5	4	0	5	5	4
Alternatives	◆	0	11	11	5	0	11	11	5
Asset class									
USD Cash	▼	14	6	3	0	14	6	3	0
DM Government Bonds	▼	4	2	2	0	6	4	2	1
DM IG Corporate Bonds	▼	6	3	2	1	8	5	3	1
DM HY Corporate Bonds	▲	10	6	4	1	15	9	6	1
EM USD Government Bonds	▲	14	8	5	1	11	6	4	1
EM Local Ccy Government Bonds	◆	11	7	4	1	9	5	3	1
Asia USD Bonds	▲	17	10	7	2	13	8	5	1
North America Equities	▲	9	16	22	33	13	24	34	50
Europe ex-UK Equities	▼	3	5	7	11	1	2	3	5
UK Equities	▲	1	3	4	5	1	2	3	5
Japan Equities	◆	1	2	2	4	1	2	2	3
Asia ex-Japan Equities	◆	7	12	17	25	4	7	10	15
Non-Asia EM Equities	◆	2	4	5	7	2	3	4	7
Gold	◆	0	5	5	4	0	5	5	4
Alternatives	◆	0	11	11	5	0	11	11	5

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 29 April 2021 and 1 week-performance from 22 April 2021 to 29 April 2021

2021 key events

MAY 2021

06 BoE policy decision

06 Scottish parliament elections

JUNE 2021

10 ECB policy decision

16 FOMC policy decision

18 BoJ policy decision

18 Iran presidential elections

24 BoE policy decision

JULY 2021

01 100th anniversary of the Chinese Communist Party

16 BoJ policy decision

22 ECB policy decision

28 FOMC policy decision

AUGUST 2021

05 BoE policy decision

17 World Economic Forum annual meeting in Singapore

SEPTEMBER 2021

9 ECB policy decision

22 FOMC policy decision

22 BoJ policy decision

23 BoE policy decision

26 Federal elections in Germany

OCTOBER 2021

22 Deadline for Japan General Elections

28 BoJ policy decision

28 ECB policy decision

NOVEMBER 2021

03 FOMC policy decision

04 BoE policy decision

DECEMBER 2021

15 FOMC policy decision

16 BoE policy decision

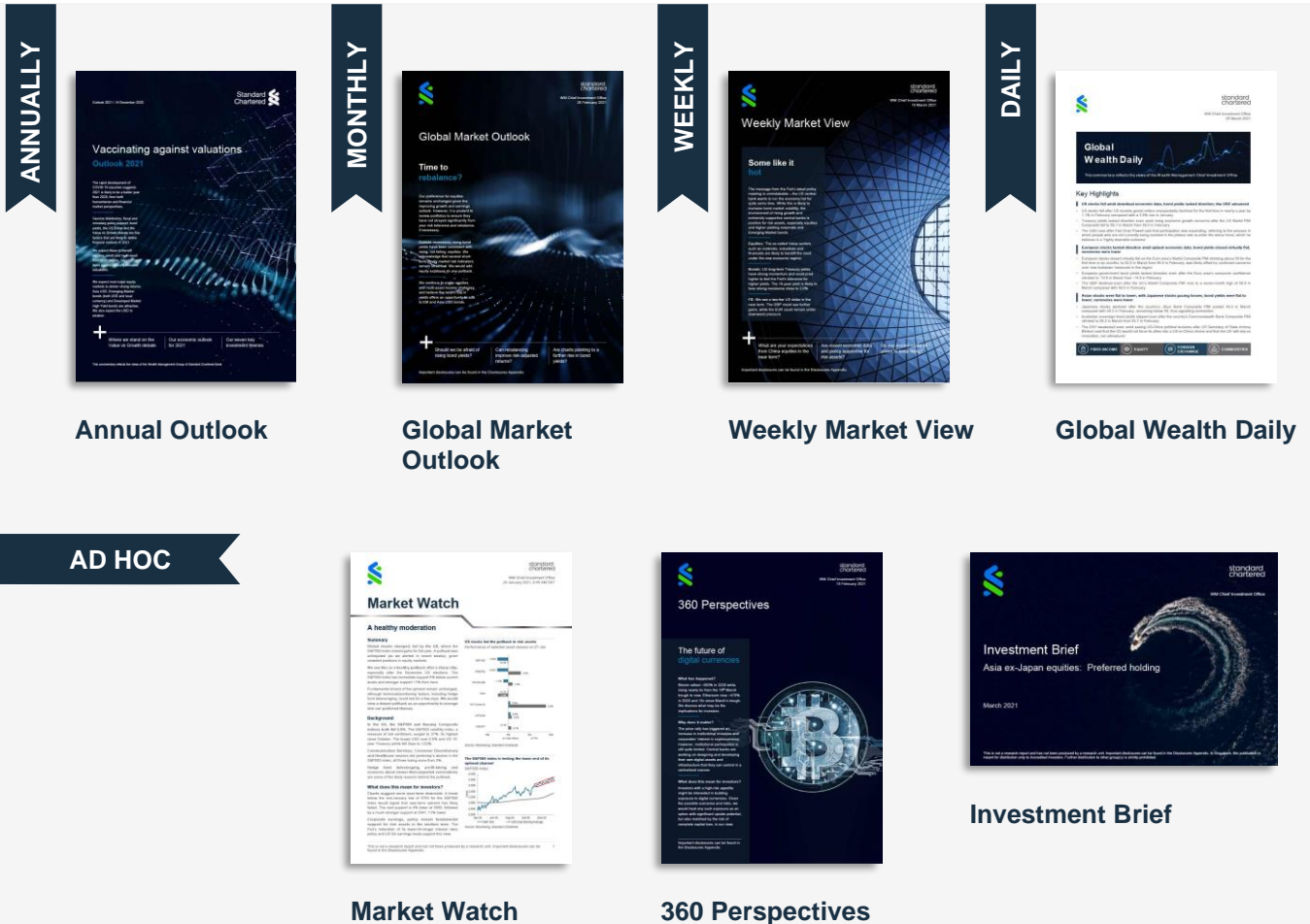
16 ECB policy decision

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



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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