



# Global Market Outlook

## The income window reopens

Markets had become too optimistic over the prospects of a peak in Fed rates in early 2023. The market's recent reassessment of the Fed's policy rate path, however, has reopened the window to add to high-quality income assets at attractive levels.

We had anticipated gains in Asia ex-Japan equities and Asia USD bonds, but the pace of the rally exceeded our expectations. We would add on pullbacks, given stretched positioning. Growth, earnings and credit quality are likely to be well-supported.

The pullback in gold offers a rebalancing opportunity given its diversification value. We view the reversal in the USD downtrend as temporary.



Where are the tactical opportunities for investors?

What are the key macro indicators to monitor?

What is the message from your quant models?



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# Investment strategy and key themes

**Steve Brice**

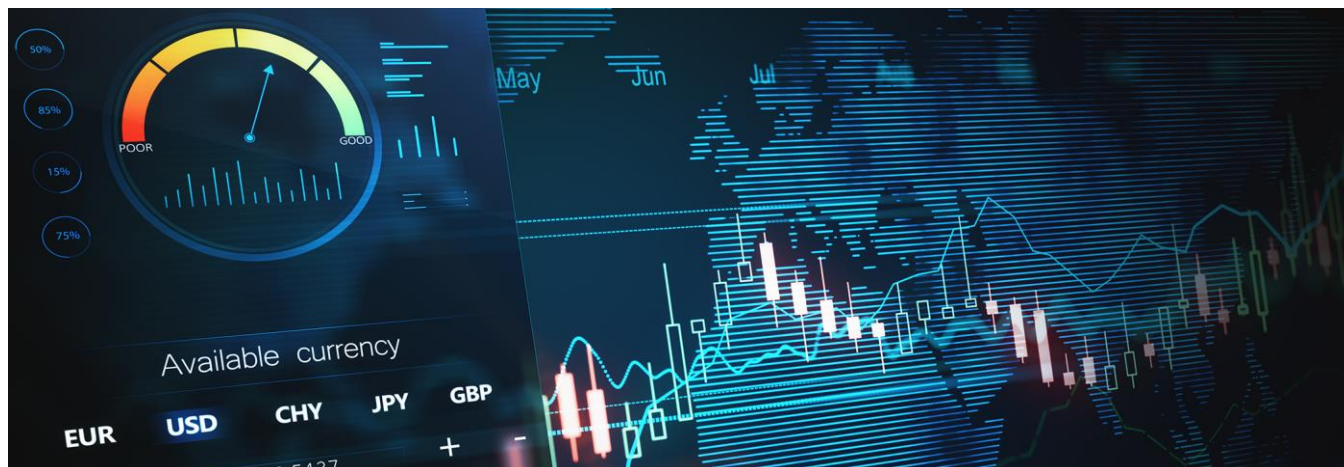
Global Chief Investment Officer

**Manpreet Gill**

Chief Investment Officer, AMEE

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## Our top preferences (12-month outlook)

### Foundation overweights

- Bonds – both government and corporate
- *In equities:* Asia ex-Japan
- *In bonds:* Asia USD

### Sector overweights

- *US:* Healthcare, Staples, Energy
- *Europe:* Energy, Financials
- *China:* Comms. Services, Consumer Discretionary

### FX views

- EUR, JPY top beneficiaries of a weaker USD

### Structural macro trends\*

- A digital tomorrow
- Preparing for an aging world
- From unipolarity to multipolarity
- Investing in a climate-constrained world

\*Individual reports available

## The income window reopens

- Markets had turned too optimistic over the prospects of a peak in Fed rates in early 2023. The market's recent reassessment of the Fed's policy rate path, however, has reopened the window to add to high-quality income assets at attractive levels.
- We had anticipated gains in Asia ex-Japan equities and Asia USD bonds, but the pace of the rally exceeded our expectations. We would add on pullbacks, given stretched positioning. Growth, earnings and credit quality are likely to be well-supported.
- The pullback in gold offers a rebalancing opportunity given its diversification value. We view the reversal in the USD downtrend as temporary.

## Navigating the wide swings in sentiment

Since we published our *Outlook 2023*, risky assets have done well as markets factored in the positive surprises to global growth, especially in Europe and China. Chinese equities led the way, with the MSCI China index surging c.60% from its late-October trough to its late January peak. The S&P500 index is also up c.4.5% YTD. We do not, however, agree with the market's optimism, given hawkish central banks remain a threat to growth.

In China, we believe the optimism is justified, though. A rapid reopening is starting to reflect in economic activity data and has room to extend further, especially with the authorities providing more policy support, given inflation is not a major concern.

In the US, though, economic data is starting to paint a different picture. Economic growth, especially in the services sector, remains surprisingly strong given the extent of policy tightening. However, the rise in shorter-term inflation expectations illustrates how relatively strong data can revive inflation and further Fed tightening concerns.

Having said that, we would read this as illustrating a shift in expectations from an imminent Fed rate pause to a few more hikes. Market expectations are now consistent with our view of the Fed policy rate peaking above 5% and a relatively longer pause thereafter. This gives us confidence that the macro environment remains consistent with our **SAFE** strategy: **S**ecuring your yield, **A**llocating to Asian assets offering long-term value, **F**ortifying against further surprises and **E**xpanding beyond the traditional.



**Fig. 1 US one-year inflation expectations have ticked higher in recent weeks following strong US growth data**

Inflation expectations based on US inflation-protected bonds



Source: Bloomberg, Standard Chartered

## The income window reopens

The turn lower in bond yields in January (the 10-year US government bond yield approached 3.3% last month) was starting to raise concerns that the window to take advantage of attractive bond yields was starting to close. That window now appears to have reopened, with the 10-year yield rebounding above 3.9%, US IG Corp yield above 5% and Asia USD bond yield close to 6.5%.

For investors who were not able to take advantage of the peak in yields in late 2022, we believe markets have created another attractive opportunity to add high-quality income assets. In terms of asset classes, we retain a relative preference for IG bonds. Asia USD bonds top our preference order, though in the short term, we would be patient about adding further until one-sided positioning unwinds.

HY bonds continue to rank last, despite their higher yield, as we believe their relatively higher correlation with equities makes them more vulnerable to a downturn and a rise in default rates should growth slow. Instead, we believe multi-asset income strategies offer a more attractive way of earning a higher yield in return for higher risk, given the wider diversification of underlying income asset classes.

## Long-term value meets short-term positioning

Asia ex-Japan equities have rebounded strongly since we published our 2023 Outlook, led by c.15% rise in Chinese equities to their recent peak in late January.

On a 6-12-month horizon, we continue to see value in Asia ex-Japan equities, a view driven by our preference for Chinese equities to a significant extent. China's economic data has continued to improve, consistent with its reopening. Chinese equities are approaching long-term average valuations only now, despite the scale of the bounce. Following the stronger-than-expected January money supply and new loan growth, we are seeing more pro-growth policy signals ahead of the Two Sessions (starting on 5 March), including the injection of over CNY600bn in liquidity via reverse repos in mid-February. Chinese equities' tendency for momentum-led overshoots means we see room for this

**Fig. 2 The USD rebound has triggered a pause in Asian/EM equities and bonds**

USD Index (DXY), JPMorgan Asia Credit Index (inverted)



Source: Bloomberg, Standard Chartered

market rebound to extend. We recommend balanced exposures to offshore and onshore China equities, though the latter is more sensitive to policy support and resilient against geopolitical tensions. The only fly in the ointment is data from fund manager surveys illustrating the optimism could have reached excessive levels. This means a period of consolidation is likely for the extreme positioning to unwind. However, we would add exposure on any pullback, given our positive fundamental view.

We remain less sanguine on US/European equity markets. While the 2023 rally has taken a pause, we remain concerned that earnings remain at risk due to the tightening Fed and ECB policies, particularly if strong economic growth data causes both central banks to extend policy tightening.

## Fortress Gold

Gold tends to have a negative long-term relationship with US bond yields and the USD. Hence, gold has pulled back as both yields and the USD have rebounded in recent weeks.

Having said that, we would view this as an opportunity to moderately add exposure (we are Neutral on gold – see page 13 for suggested allocations) where appropriate for portfolio diversification. Gold's diversification benefits remain attractive, particularly vs the risk of short-term equity market volatility. Such volatility could be triggered by geopolitical risks, given the recent rise in tensions across several fault lines, or earnings growth worries as the US economy slows.

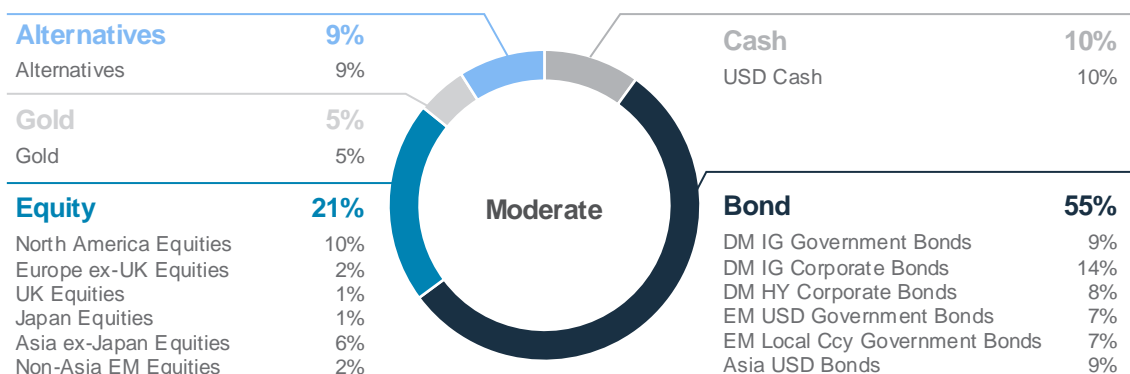
## USD strength likely only a speed breaker

We believe the recent USD strength is only a multi-week breather within an ongoing downtrend. The rebound in bond yields amid a reassessment of Fed policy likely explains the pause. However, we continue to expect the USD to weaken from today's level on both 3- and 12-month horizons.

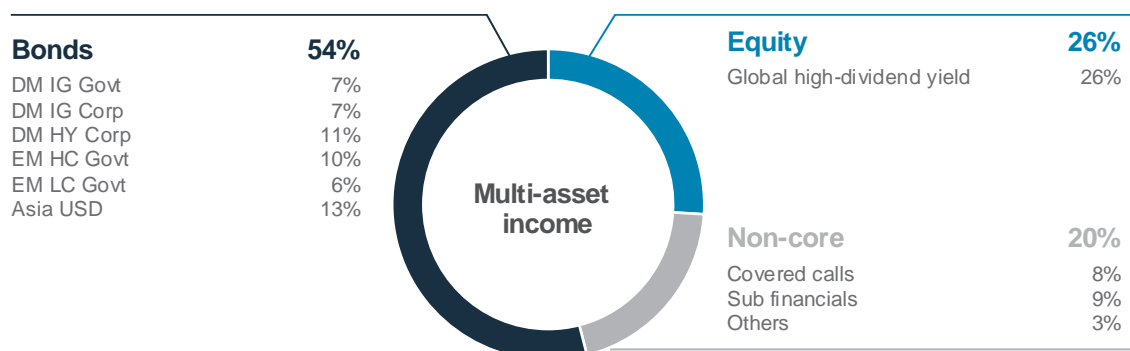
This has two key implications. First, it means major G10 peers are likely to strengthen (see page 9 for our updated 3-month forecasts). Second, it suggests the tailwind for Emerging Market assets is likely to remain in place (a weakening USD generally correlates with stronger EM asset returns).

# Foundation: Our tactical asset allocation

## Global\* allocation for a moderate risk profile



## Multi-asset income allocation for a moderate risk profile



	View	Detail
<b>USD cash</b>	◆	+ Safety, now-positive yields    - Risk of missing higher yields elsewhere
<b>Bonds</b>	▲	
DM Govt	◆	+ High credit quality, moderate yields    - Still-hawkish Fed, elevated inflation
DM IG Corporate	◆	+ High credit quality, moderate yields    - Sensitive to rising US bond yields
DM HY Corporate	▼	+ Attractive yield, low rate sensitivity    - Falling credit quality
EM USD Govt	◆	+ Attractive yield, attractive value    - Sensitive to rising yields, falling EM credit quality
EM Local Ccy Govt	◆	+ Moderate yield    - USD strength, rising policy rates in some EMs
Asia USD	▲	+ Moderate yield, low volatility    - Default contagion risks
<b>Equities</b>	▼	
North America	◆	+ Strong job market boosting consumption    - Sustained Fed tightening, cost pressures
Europe ex-UK	◆	+ Fading energy shortage risks    - Still-elevated inflation, hawkish ECB
UK	◆	+ Attractive valuations, dividend yield    - Tighter policy, Brexit-related uncertainty
Japan	▼	+ China recovery, easy BoJ policy    - Global trade slowdown; recent JPY strength
Asia ex-Japan	▲	+ Earnings rebound, China policy support    - Global trade slowdown
<b>Gold</b>	◆	+ Portfolio hedge    - Higher bond yields, USD rebound
<b>Alternatives</b>	◆	+ Diversifier characteristics    - Equity, corporate bond volatility

Source: Standard Chartered Global Investment Committee; Green = Upgrade; Red = Downgrade; \*See page 13 for Asia-focused allocations

Legend: ▲ Overweight | ▼ Underweight | ◆ Neutral

# Macro overview – at a glance

Rajat Bhattacharya  
Senior Investment Strategist

Zhong Liang Han, CFA  
Investment Strategist



## Key themes

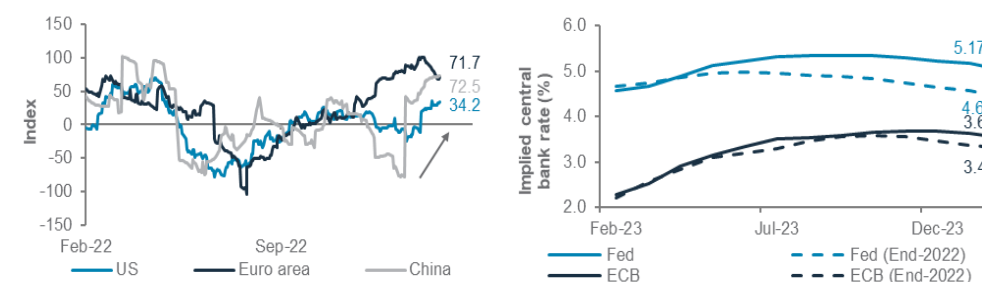
The risk of an imminent global economic recession has receded in recent weeks. In the US, a still-robust job market, substantial household savings and waning inflation pressures have helped revive consumer sentiment and supported services sector activity. In Europe, an unusually warm winter has helped the region avoid widespread energy shortages triggered by the Russia-Ukraine conflict, leading to a rebound in consumer and services business confidence. Meanwhile, in China, the early lifting of COVID-19-related mobility restrictions has led to a faster-than-expected normalisation of economic activity.

However, we see the latest improvements in the US and Europe as temporary. Inflation remains well above central bank targets in both the regions, forcing policymakers to turn increasingly hawkish. As a result, money markets now estimate the Fed funds rate and the ECB deposit rate to peak in the current hiking cycle close to 5.5% and 3.75%, respectively, in Q3 this year. More importantly, and aligned with our own views, markets expect policy rates to stay near the peak for longer, raising the risk of an economic downturn later in the year or early next year. In contrast with the outlook for Developed Markets, we expect China's outlook to keep improving as still-low inflation enables authorities to further ease monetary, credit and fiscal policies to revive domestic consumption and, potentially, the property sector.

## Key chart

*Global economic data has surprised positively in recent weeks, especially in the US, aided by strong services sector consumption in the US, a warm winter in Europe and a faster-than-expected normalisation of economic activity in China*

**Fig. 3 Economic data has positively surprised globally, lifting policy rate estimates**  
Citi economic surprise indices; money market projection of Fed, ECB rates (today vs end-22)



Source: Bloomberg, Standard Chartered

## Macro factors to watch

- 1. US job market, inflation, Fed policy stance:** The outlook for financial markets this year is likely to be determined by whether the Fed manages a soft-landing for the US economy, ie, brings down inflation towards its 2% target without causing a deep recession. The surprisingly strong job market, service sector activity and inflation in January have made the Fed's job harder, in our view, as it would need to keep policy rates higher for longer to induce a slowdown in job creation and subdue wage inflation. Thus, we would closely watch early job market indicators, including initial jobless claims, job openings and the quits-to-layoffs ratio, to assess the pace of slowdown in job creation and as early warning signals for the Fed to pause its rate hikes. Shelter costs and services sector ex-shelter inflation (Fed Chair Powell's preferred measure of wage growth) are other key indicators to watch to assess the stickiness of inflation. We see a rising risk of structural factors keeping inflation above the Fed's target for longer, complicating its monetary policy.
- 2. China's pace of recovery:** China has surprised markets with its rapid pace of normalisation. Domestic Lunar New Year holiday trips surged 74% y/y to 226m, its highest since 2020, according to state media. Although that number was half that of the pre-pandemic level (2019), it shows pent-up demand for leisure travel. Similarly, we expect domestic consumption to receive a boost this year as at least some of the excess savings accumulated during the pandemic are spent. We will monitor the measures the National People's Congress will be taking in March to revive local demand and, potentially, the property sector.
- 3. Euro area inflation, ECB rate hikes.** The Euro area avoided a contraction in Q4 22, thanks to an unusually warm winter. It now needs to see a sustained decline in core inflation to keep the ECB from turning more hawkish, stymieing the recovery. Markets expect the ECB to raise rates to 3.75%, the highest on record. The Euro area job market remains tight despite slowing growth, suggesting structural factors are at play in keeping inflation elevated. Any escalation in the Ukraine conflict is another key risk.

# Bonds – at a glance

Abhilash Narayan  
Senior Investment Strategist

Cedric Lam  
Senior Investment Strategist



## Key themes

US government bond yields rebounded as the recent strength in US macro data made markets reassess their expectations of Fed rate hikes and near-term recession risk. Money markets now expect a higher peak Fed rate and a more extended period of tight policy relative to the start of the year. However, while these expectations now more closely match that of our own, we believe a tight policy will still result in slower growth eventually. This is ultimately likely to result in gradually lower bond yields later in the year. This is also the reason why we view the current levels as an attractive opportunity to lock in high-quality yields.

We remain Overweight Asia USD bonds amid a rebound in regional economic activity after China's reopening. The asset class comprises c.85% Investment Grade bonds, which suggests the over 6% yield offers an attractive risk/reward.

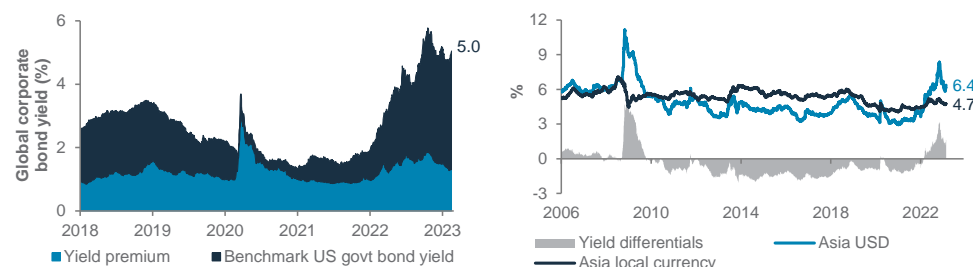
We remain Underweight Developed Market (DM) High Yield bonds. We expect their positive performance YTD to reverse as risks of economic downturn and credit quality deterioration come through. We are Neutral on other major bond asset classes. For DM corporate IG bonds, the surge in bond yields, driven by higher government bonds, has offered a better entry point; however, market expectation of a higher-for-longer monetary tightening cycle could drive bond price volatility higher due to their higher sensitivity towards interest rate changes. For Emerging Market (EM) bonds, we believe the USD's strength in recent weeks is likely to drag short-term performance. However, our long-term 12-month view of a modestly weaker USD should support EM assets going forward.

## Key chart

*Higher government bond yields offer an attractive entry point to bonds; Asia USD bonds should continue to attract regional demand given positive yield differential over local currency bonds*

**Fig. 4 Recent surge in bond yields is driven by government bond yields; Asia USD bonds remain attractive despite their recent rally**

Global corporate bond yield components; Asia corporate bond yields (USD, local currency)



Source: Bloomberg, Standard Chartered.

## What is your latest view on Asia USD bonds?

We are Overweight **Asia USD bonds**. Although both nominal yields and the yield premium over US government bonds have fallen to their long-term average levels, we continue to favour this bond asset class for four main reasons:

1. **China recovery:** We believe current valuations still offer room for China USD bonds to outperform. As China's new central committee members are expected to release their new strategic plan in March, we would closely monitor the sectors of focus.
2. **Regional demand:** We continue to expect local demand to be a strong supporting factor, given the USD asset class continues to offer an attractive yield pick-up, compared with local currency bonds.
3. **High quality:** Asia USD bonds remain largely dominated by Investment Grade bonds. We believe their strong credit fundamentals and lower historical return volatility vs DM IG corporate bonds should offer relatively defensive exposure against the backdrop of rising risk of a global growth downturn later this year.
4. **Peaking default risk:** Default risk has been a big concern for Asia USD bond investors in 2022, which was led by tightening financing channels and higher policy scrutiny in the Chinese property sector. In late 2022, though, we witnessed several rounds of supportive policy measures. We believe default risks have likely peaked, with residential property prices showing preliminary signs of moderation and quality developers gradually regaining access to on/offshore capital markets.

# Equity – at a glance

**Daniel Lam, CFA**  
Head, Equity Strategy

**Fook Hien Yap**  
Senior Investment Strategist

**Michelle Kam**  
Investment Strategist



## Key themes

We remain Underweight on global equities. Major central banks are likely to maintain their tight monetary stance following surprisingly strong economic data, thus hurting equities' valuation and earnings growth this year.

We are Neutral on US equities. Tight Fed policy and a potential US recession, likely later this year or early next year, would dampen corporate earnings at a time when valuations remain relatively expensive. We are also Neutral on the Euro area and UK equities. While a milder winter in the region has reduced the likelihood of an energy crisis, expected earnings growth in both regions has been downgraded to the negative territory this year amid tighter monetary conditions. We are Underweight on Japan equities in view of the risk of a significant strengthening of the JPY, which could hurt earnings growth from exports.

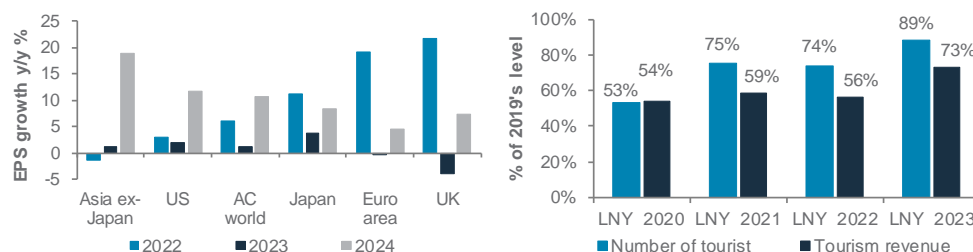
We remain Overweight on Asia ex-Japan equities. Our view is led by China, where we remain Overweight within the region, with the economic reopening likely adding significant support to earnings growth from a consumption rebound. This comes in addition to the support from China's policy stimulus, amid still-attractive valuations. This Lunar New Year witnessed a rebound in tourism revenue, with further potential upside still to come. We also expect a weaker USD to support fund inflows to Emerging Markets in 2023. We remain Neutral on Indian equities given the trade-off between strong earnings growth and elevated valuations.

## Key chart

*Subdued earnings growth in 2023 will likely be followed by a recovery in 2024, led by Asia ex-Japan. We expect China's economic rebound to support China and Asia ex-Japan equities*

**Fig. 5 Global earnings growth will likely be subdued globally for 2023, with Asia ex-Japan leading in 2024. China tourism revenue recovered to 73% of 2019 levels, with potential for further recovery**

Consensus earnings growth for various regional MSCI equity indices. Number of tourists and tourism revenue in China during Lunar New Year, as a percentage of 2019's level.



Source: MSCI, FactSet, China Ministry of Culture and Tourism, Standard Chartered

## Higher-for-longer rates to hurt earnings

Recent data suggest resilient economic growth in the US and Europe. In our view, this is likely to keep interest rates higher for longer as the Fed and ECB remain focused on slowing growth to contain inflation. We believe this will act as an important headwind for global equities, particularly in the US and Europe. We remain Underweight on global equities for the next 6-12 months.

US equities rallied this year, helped in part by expectations of a reversal of the Fed's monetary tightening. However, we believe this is premature. Q4 2022 earnings have delivered positive surprises but against lowered expectations. 2023 earnings growth expectations have also been revised down to just 2%. In the Euro area, Q4 2022 earnings surprises have also been positive so far. Coupled with a warmer winter and a rebound in China supporting a better exports outlook, Euro

area equities have done well this year. However, we remain cautious on the growth outlook from here as restrictive interest rates work through the economy. We remain Neutral on US and Euro area equities relative to global equities.

Asia ex-Japan remains a preferred market. Here, we see further upside in China's economic recovery, supported by the easing of mobility restrictions, border reopening and pro-growth policies. This will likely lead to improving earnings growth. Although China equities have rebounded strongly since October 2022, valuation remains attractive, with the benchmark trading at an 18% discount to Asia ex-Japan. We are Overweight on China and Asia ex-Japan equities. We are Neutral on India within Asia ex-Japan as valuation remains elevated despite the superior earnings growth. India's 12m forward PE is at a 55% premium to Asia ex-Japan, above the historical average premium of 38%.



# FX – at a glance

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Chief Investment Officer, AMEE



## Key themes

A reset in market expectations of Fed rates in 2023 towards a higher peak and a longer pause than before is likely to trigger a short-lived bounce higher in the US Dollar on the back of higher US bond yields. However, we do not expect this to be long lasting and believe the USD downtrend is likely to resume within a three-month window. This is because (i) much of the adjustment in recent weeks has been on US yields alone and non-US yields are likely to catch up and (ii) US bond yields are likely to be ultimately capped by prospects of slowing growth.

The EUR has seen some support from stronger-than-expected regional economic growth data and a relatively hawkish ECB. However, the rebound in the USD has been a more dominant factor in February, pushing the EUR modestly lower. We expect the EUR/USD weakness to be temporary, though, given our view that the USD rebound is likely to be fleeting and Euro area growth and policy drivers remain positive. On a three-month horizon, we believe a return to 1.08-1.09 is likely.

The JPY has been much more in focus lately than the EUR given the speculation over the longevity of the BoJ's yield curve control (YCC) policy. We believe an eventual modification of the YCC policy is probable, though any change could be delayed till at least the April BoJ meeting after current Governor Kuroda departs. While this means USD/JPY could be relatively rangebound between 128 and 132 in the coming months, longer term, we expect the JPY to strengthen on lower rate differentials.

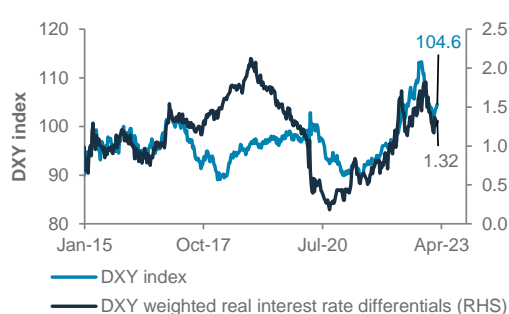
Commodity currencies are likely to see continued support from China's economic reopening and the resulting boost to demand for commodities. The AUD has added support from a renewed hawkish turn in the RBA's monetary policy.

On a longer 6-12-month horizon, we continue to expect a weaker USD as the tug of war between higher Fed rate expectations (pushing US bond yields higher) and slower growth prospects (pushing yields lower) are ultimately dominated by slower growth expectations. The USD's expensive valuation backdrop coincides with the gradual softening of US inflation, narrowing the currency's rate differentials vs other major currencies. Increased capital flows towards non-US markets and easing geopolitical uncertainty are other USD negatives. We expect the AUD and JPY to be the key outperformers on a 6-12-month horizon.

## Key chart

*Our updated three-month forecasts reflect our view that the USD's ongoing bounce higher is likely to prove temporary*

**Fig. 6 Higher US rate expectations were likely behind the USD's short-term bounce**  
USD Index (DXY) and DXY-weighted real interest rate differential; Table of forecasts



Source: Bloomberg, Standard Chartered

Currency	3m forecast	12m forecast
USD (DXY)	102	100.2
EUR/USD	1.09	1.12
GBP/USD	1.20	1.25
USD/JPY	130	127
AUD/USD	0.70	0.73
NZD/USD	0.64	0.66
USD/CAD	1.33	1.28
USD/CNY	6.80	6.90
USD/CHF	0.92	0.92

## What drove the recent change to three-month forecasts?

A key debate at our Global Investment Committee was the likely longevity of the recent rebound in the USD.

The US Dollar index (DXY) fell over 10% since its late-October 2022 peak, with a narrower downtrend channel developing from November. While the USD did pause briefly in January, financial market variables rarely move in a straight line.

Relative interest rate differentials remain one of the most important drivers, in our view. This explains the recent rebound following the rise in US bond yields, a move that could extend briefly in the coming weeks.

However, we believe this move is likely to be temporary as any rise in US bond yields is capped by worsening US growth expectations. Hence, we remain USD bears over the full year and expect the downtrend to resume within three months.

# Gold, crude oil – at a glance

Zhong Liang Han, CFA  
Investment Strategist



## Key themes

We remain Neutral on gold vs other major asset classes, with a three-month forecast of USD 1,875, and see it as a portfolio ballast. Gold prices have been trending downwards after testing the 1,950 level in January. Higher real yields and USD strength, on the back of rebounding bond yields, are weighing on gold as the Fed stays on its hiking cycle. Physical demand is weakening, with ETF flows turning negative again. However, central bank purchases are likely to continue, putting a floor under gold prices. Furthermore, the recent flare-up of geopolitical tensions is likely to drive safe haven flows to gold. On a 12-month horizon, our base scenario of an eventual pullback of real bond yields and the USD would remove key headwinds against the precious metal, allowing it to move even higher than our three-month forecast.

We remain positive on oil prices in the next three months as China's demand continues to recover on higher consumption and improving economic activity. Receding global economic recession risks in the near term could also buoy investor sentiment. Supply remains tight and uncertain, with the EU embargo on Russian oil, evolving Russia-Ukraine conflict and gradually depleting global oil inventories. In the long run, we see a deteriorating global economy slowing oil demand, while OPEC+ responds with output cuts to ensure a balanced demand-supply dynamic in oil markets. This is likely to stabilise oil prices at c.USD 75/bbl.

## Key chart

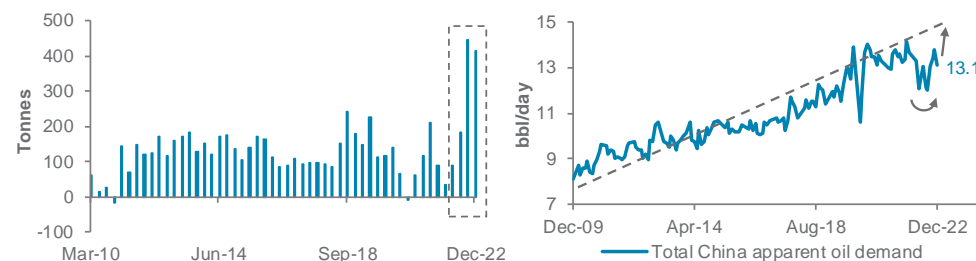
*Central banks continue to buy gold, supporting the case for higher prices in the near term*

*There is still more room for China oil demand to recover on higher consumption*

**Fig. 7 Global central banks purchased a record volume of gold in 2022; China oil demand remained sluggish on still-depressed mobility**

LHS chart: Quarterly central bank gold purchases (tonnes)

RHS chart: Total China apparent oil demand (bbl/d)



Source: World Gold Council, Bloomberg, Standard Chartered

### Central banks go on a gold-buying spree

Central banks purchased 1,136 tonnes of gold in 2022, the highest on records dating back to 1950, according to the World Gold Council. Within this, China, historically a large buyer of gold, is the most notable, as it resumed purchases for the first time since September 2019. Turkey was the largest buyer in 2022, with its gold reserves almost quadrupling. The Middle East was also an active gold buyer.

The strong official sector demand can be attributed to geopolitical uncertainty, which has led many central banks to diversify their holdings away from major currencies such as the USD and EUR. We expect central banks to remain net gold purchasers for a while amid elevated geopolitical risks, offsetting weaker demand in physical and ETF markets. The recent escalation in US-China and Russia-Ukraine tensions also enhances gold's appeal as a hedge against short-term volatility.

### Slowly but surely

After China removed its zero-COVID measures abruptly at the end of 2022, the consensus was expecting a swift recovery in China's crude oil consumption. However, the recovery seems to be taking longer than expected. China's apparent oil demand, an aggregate of oil processing volume and net import of oil, fell m/m in December, after a short-lived rebound. The surge in infections after the full reopening continued to keep mobility depressed, limiting the pickup in fuel demand.

However, the slowdown in demand is likely to be temporary. Recent infection figures and high frequency indicators are suggesting that a lift-off in China's oil demand is due. China refiners are also buying crude oil cargoes and stocking up in anticipation of a recovery. We expect the government to stimulate domestic consumption, which would likely accelerate oil demand recovery. We see the surge in demand, amid tight global supplies, boosting oil prices in the near term.

# Quant perspective

## US market risk model remains bearish

**Francis Lim**  
Senior Quantitative Strategist

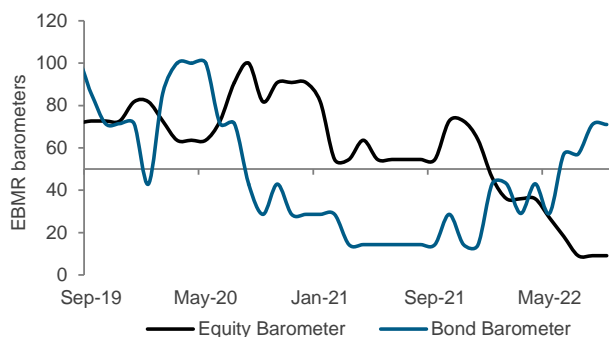
### Bearish equity but bullish bond market risks

Our US Equity-Bond Market Risk (EBMR) model estimates the downside risks to US equities and 10-year government bonds. It uses 11 economic and market factors to create equity and bond risk barometers. If the value of a barometer falls below 50, it signals higher downside risks and vice versa.

The model continues to indicate that the US financial market cycle remains in Stage 1. Thus, there remains significant downside risk to US equities, suggesting investors should fade the rally in the S&P500 index. Meanwhile, the model views US government bonds favourably in a Stage 1 environment as the risk of a big yield spike is considered low. The model's equity barometer has captured -15% downside in the S&P 500 since it turned bearish in Jan-22, while the bond barometer has reacted early by turning bullish on US government bond in Jun-22 after capturing a 2.2% rise in US the 10-year Treasury yield previously (Aug-21 to May-22).

**Fig. 8 EBMR bearish on equity and bond market risks**

US equity and bond market risk barometers



Source: Standard Chartered

The equity barometer consists of 11 equity indicators. In February, the barometer improved from 9 to 27 but it is primarily supported by equity market momentum; fundamental factors remained unsupportive. Rising interest rates, still-high inflation, slowing housing starts and contracting monetary base remain the bearish factors for equities. While the 12% rebound in the S&P500 index since mid-Oct begs the question if the worst is over, we learned from a similar rally between June and Aug-22 (+17% in S&P500) that it could also quickly turn sour.

Meanwhile, our bond barometer, which tracks six bond indicators, has remained bullish since Jun-22 and is currently sitting at a score of 71. The key drivers behind the bullish bond barometer are the slowdown in economic growth as defensive assets tend to be more favourable. This is indicated by the US ISM Manufacturing PMI that has fallen below 50, indicating a contraction of factory activity for the first time since Jun-20, and US housing starts, which has fallen by 27%. Stronger equity market momentum and low US jobless claims are the only negative factors for the bond barometer.

Our model currently projects that the US will remain in Stage 1 until May-23. For bonds, we have continually cautioned against taking excessive duration risks despite the model's view due to the monetary policy uncertainty.

### Implications on global assets

Data since 1999 suggest gold and bonds are the most preferred in Stage 1. The model's preference for the assets is based on its long-term relationship with the market cycle, which favours defensive assets in Stage 1.

**Fig. 9 Scenarios over the coming months till May 2023 vs September 2022 projections**

Probability of the evolution of financial market risk cycle from the current Stage 1 and preferred assets

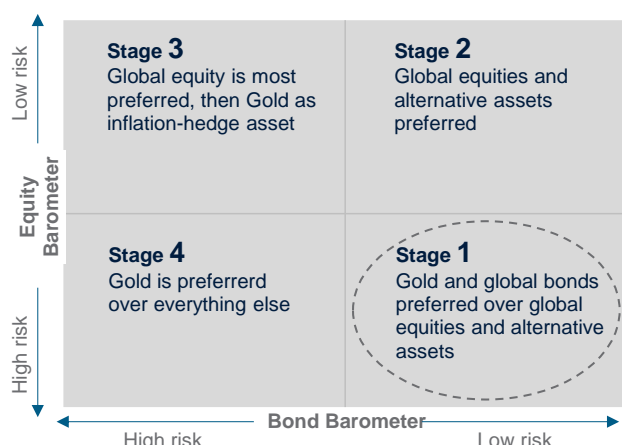
Model's estimated probabilities in September 2022

Stage	Sep-22	Oct-22	Nov-22	Dec-22
1	100%	100%	98%	85%
2	0%	0%	1%	15%
3	0%	0%	0%	0%
4	0%	0%	1%	0%

Model's estimated probabilities in January 2023

Stage	Feb-23	Mar-23	Apr-23	May-23
1	100%	97%	96%	68%
2	0%	0%	3%	27%
3	0%	0%	0%	3%
4	0%	2%	1%	3%

Source: 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.

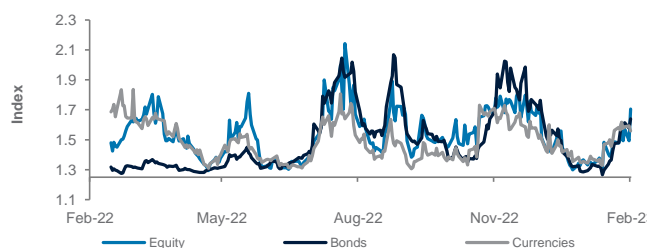
## Where is diversity falling or rising this month?

General market diversity has improved significantly over the past few weeks as reversals took place in some equity, bond and currency markets. This can be seen in Fig. 10 and 11 where average diversity within each asset class has risen significantly above 1.25, and the percentage of assets by asset class with diversity below 1.25 fell to 0. These changes came on the back of the recent risk-off environment.

In equities, Asia ex-Japan and European equities have the lowest diversity due to their strong rebound since Oct-22. Our indicators flagged the risk of a reversal or slowdown in both markets in early February. This has worked well for the MSCI Asia ex Japan Index as there was a correction (-4.5% MTD), but not yet for the MSCI Europe Index (+2.1% MTD). Meanwhile, the US and Japan have the highest market diversity currently. This is partly due to the recent reversal in US equities (-1.6% MTD for S&P 500), and the lack of clear trends in Japan equities (in USD terms).

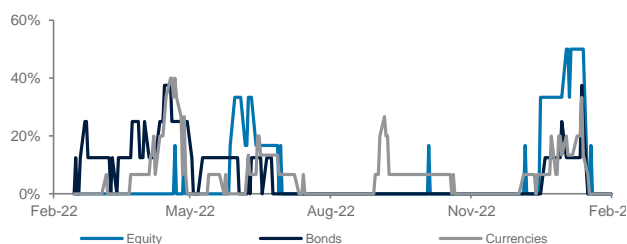
**Fig. 10 Average market diversity score by asset class**

General diversity has risen post reversals



**Fig. 11 Percentage of assets with diversity score <1.25**

No assets are currently flagged



Source: Bloomberg, Standard Chartered

For bonds, we are seeing a similar rise in market diversity due to their recent price reversals. Many of these bond markets were flagged by our market diversity indicator, some as early as mid-January. These include DM IG credit, global High Yield, EM USD credit and government bond and Asia USD credits. The reversals in these bond markets have coincided with a surge in the US 10-year government bond yield (+37bps MTD) as markets do not expect Fed rate hikes to pause anytime soon following strong US job market data and inflation slowing less than expected.

For currencies, the USD decline paused at the same time as markets turned risk-off in February. The DXY has regained 3.3% after an 11% drawdown since Sept-22. Our diversity indicator missed flagging the turn in the DXY slightly, but it successfully raised a red flag for EUR/USD in early February. The pair has fallen by 3.6% from its peak in February.

**Fig. 12 Diversity across key assets**

	Market diversity	30-day diversity trend
<b>Equities</b>		
MSCI US	●	↑
MSCI Europe	●	↑
MSCI UK	●	↑
MSCI Japan	●	↑
MSCI Asia ex Japan	●	↑
<b>Fixed Income</b>		
DM Government Bonds	●	↑
DM IG Corporate Bonds	●	↑
Global High Yield Bonds	●	↑
EM USD Bonds	●	↑
Asia Credit	●	→
<b>Currencies</b>		
EUR/USD	●	↑

Source: Bloomberg, Standard Chartered; as on 21 February 2023

**Legend:** ○ Very low ● Low/moderate ● High



# Foundation: Asset allocation summary

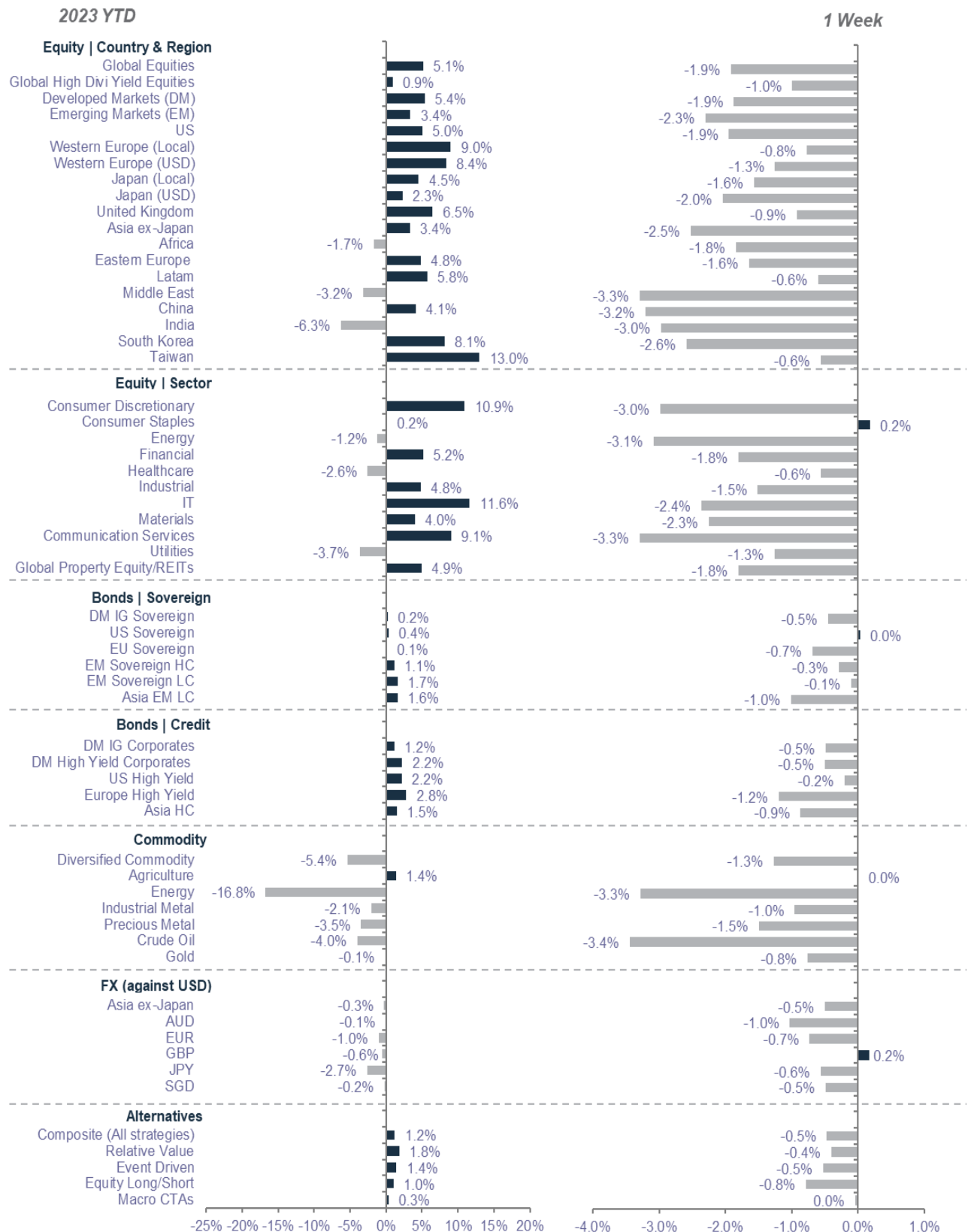
Summary	View	ASIA FOCUSED				GLOBAL FOCUSED			
		Conservative	Moderate	Moderately Aggressive	Aggressive	Conservative	Moderate	Moderately Aggressive	Aggressive
Cash	◆	19	10	5	0	19	10	5	0
Fixed Income	▲	71	55	46	15	71	55	46	15
Equity	▼	10	21	34	73	10	21	34	73
Gold	◆	0	5	5	6	0	5	5	6
Alternatives	◆	0	9	10	6	0	9	10	6
<b>Asset class</b>									
USD Cash	◆	19	10	5	0	19	10	5	0
DM Government Bonds	◆	9	7	6	2	12	9	8	3
DM IG Corporate Bonds	◆	14	10	9	3	18	14	12	4
DM HY Corporate Bonds	▼	8	6	5	2	10	8	7	2
EM USD Government Bonds	◆	12	9	8	3	9	7	6	2
EM Local Ccy Government Bonds	◆	12	9	8	3	9	7	6	2
Asia USD Bonds	▲	16	12	10	3	12	9	8	3
North America Equities	◆	3	6	9	20	5	10	16	34
Europe ex-UK Equities	◆	2	4	6	13	1	2	3	7
UK Equities	◆	0	1	2	3	0	1	2	3
Japan Equities	▼	0	1	1	3	0	1	1	3
Asia ex-Japan Equities	▲	4	8	13	28	3	6	9	19
Non-Asia EM Equities	◆	1	2	3	7	1	2	3	7
Gold	◆	0	5	5	6	0	5	5	6
Alternatives	◆	0	9	10	6	0	9	10	6

Source: Standard Chartered; \*FX-hedged

All figures in %; Allocation figures may not add up to 100 due to rounding.

**Legend:** ▲ Overweight | ▼ Underweight | ◆ Neutral

# Market performance summary\*



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

\*All performance shown in USD terms, unless otherwise stated

\*YTD performance data from 31 December 2022 to 23 February 2023 and 1 week-performance from 16 February 2023 to 23 February 2023

# Key events

**2023**

**MAR**

- 4-11 Mar > China: National People's Congress
- 9-10 Mar > Japan: Bank of Japan policy meeting
- 16 Mar > EU: ECB policy meeting
- 21-22 Mar > US: Federal Reserve policy meeting
- 23 Mar > UK: Bank of England policy meeting
- 23 Mar > EU: European Council meeting

**APR**

- 8 Apr > Japan: End of Term for BoJ Governor Kuroda
- 21-23 Apr > US: World Bank spring meeting
- 27-28 Apr > Japan: Bank of Japan policy meeting
- Late Apr > China: Politburo meeting

**MAY**

- 2-3 May > US: Federal Reserve policy meeting
- 4 May > EU: ECB policy meeting
- 11 May > UK: Bank of England policy meeting
- 19-21 May > Japan: 49th G7 summit

**JUN**

- 4 Jun > Singapore: Shangri-La Dialogue (Asia's defence summit)
- 13-14 Jun > US: Federal Reserve policy meeting
- 15-16 Jun > Japan: Bank of Japan policy meeting
- 15 Jun > EU: ECB policy meeting
- 22 Jun > UK: Bank of England policy meeting
- 29 Jun > EU: European council meeting
- Late Jun > US: Federal Reserve semi-annual monetary policy report to Congress

**JUL**

- Q3 > US: Debt ceiling reached
- 25-26 Jul > US: Federal Reserve policy meeting
- 27 Jul > EU: ECB policy meeting
- 27-28 Jul > Japan: Bank of Japan policy meeting
- Late Jul > China: Politburo meeting

**AUG**

- 3 Aug > UK: Bank of England meeting
- Late Aug > US: Federal Reserve Jackson Hole Economic Symposium

**SEP**

- 9-10 Sep > India: 18th G20 summit
- 12 Sep > US: UN General Assembly
- 14 Sep > EU: ECB policy meeting
- 21 Sep > UK: Bank of England policy meeting
- 19-20 Sep > US: Federal Reserve policy meeting
- 19-20 Sep > US: UN Sustainable Development Goal Summit
- 21-22 Sep > Japan: Bank of Japan policy meeting

**OCT**

- 13-15 Oct > Morocco: World Bank annual meeting
- 26 Oct > EU: ECB policy meeting
- 30-31 Oct > Japan: Bank of Japan monetary policy meeting
- 31 Oct – 1 Nov > US: Federal Reserve policy meeting
- Late Oct > China: Politburo meeting
- Late Oct > China: Communist Party's 3rd Plenum

**NOV**

- 2 Nov > UK: Bank of England policy meeting
- 30 Nov-12 Dec > UAE: UN Climate Change Conference 2023 (UNFCCC COP 28)

**DEC**

- Early Dec > China: Politburo meeting
- 12-13 Dec > US: Federal Reserve policy meeting
- 14 Dec > EU: ECB policy meeting
- 14 Dec > UK: Bank of England policy meeting
- Mid Dec > China: Central economic work conference
- 18-19 Dec > Japan: Bank of Japan policy meeting

■ Central bank policy | ■ Geopolitics |

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

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