



Global Market Outlook

Time to rebalance?

Our preference for equities remains unchanged given the improving growth and earnings outlook. However, it is prudent to review portfolios to ensure they have not strayed significantly from your risk tolerance and rebalance, if necessary.

Outside recessions, rising bond yields have been consistent with rising, not falling, equities. We acknowledge that several short-term equity market risk indicators remain stretched. We would add equity exposure on any pullback.

We continue to prefer equities and multi-asset income strategies and believe the recent rise in yields offers an opportunity to add to EM and Asia USD bonds.



Should we be afraid of rising bond yields?

Can rebalancing improve risk-adjusted returns?

Are charts pointing to a further rise in bond yields?

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Investment strategy and key themes



Implications for investors

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

Key themes

- Race for income
- Ready, steady, rotate
- USD to slump in 2021
- Gold equity themes for 2020s
- Time for climate investing
- A world of yield-free risk

Time to rebalance?

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- Outside recessions, rising bond yields have been consistent with rising, not falling, equities. We acknowledge that several short-term equity market risk indicators remain stretched. We would add equity exposure on any pullback.
- We continue to prefer equities and multi-asset income strategies and believe the recent rise in yields offers an opportunity to add to EM and Asia USD bonds.

Risk asset gains slow as bond yields rise

The US 10-year Treasury yield has risen to 1.52%, a 61bps YTD rise. Thus far, this has not been a significant drag on risky assets; YTD, global equities have gained 3.4%, despite recent volatility. Our key themes continued to record gains and are outperforming their benchmarks, except high dividend equities (as a component of multi-asset income strategies) where gains lag global equities.

The wall of worry continues to rise

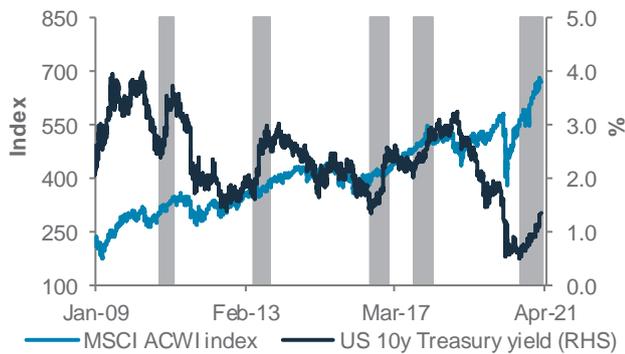
The continued rise in US Treasury bond yields and accompanying inflation fears have added to the list of concerns about whether the rally in equities and corporate bonds is sustainable. However, as discussed last month, the five main drivers of our positive view on risk assets remain largely on course, including our expectation that policy efforts are likely to limit any significant rise in bond yields.

Specifically, most concerns centre around three areas. The first is whether the rise in US Treasury bond yields could derail the equity market by negating the assumption of low yields boosting the value of future cash flows. Risky bond yields, meanwhile, could be more directly affected, as the scope for narrowing yield premiums to offset rising bond yields is gradually exhausted.

However, a glance at the relationship between bond yields and global equities shows that history argues against this view. While equities have experienced brief bouts of volatility when bond yields have risen significantly, rising yields generally

Fig. 1 Since 2010, rising bond yields were generally accompanied by rising equity markets

Global equities and US 10y Treasury yield (shaded areas capture periods when 10y rose >75bps)



Source: Bloomberg, Standard Chartered

have been accompanied by rising equity markets as both react to an improved growth outlook. Higher yields also support our pivot to value-style equities.

A second concern is whether stretched short-term positioning can still lead to a significant drawdown, even if it occurs during long-term uptrends in risky assets.

We update our table of short-term equity market indicators to help place this in context. Over the past month, little has changed – these indicators, combined with technicals and our proprietary quantitative indicators, suggest a temporary pullback remains probable.

Fig. 3 Two indicators still point to an elevated short-term pullback risk

US short-term market sentiment indicators – our assessment relative to a rolling three-year range

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

Source: Bloomberg, Standard Chartered; as of 25-Feb

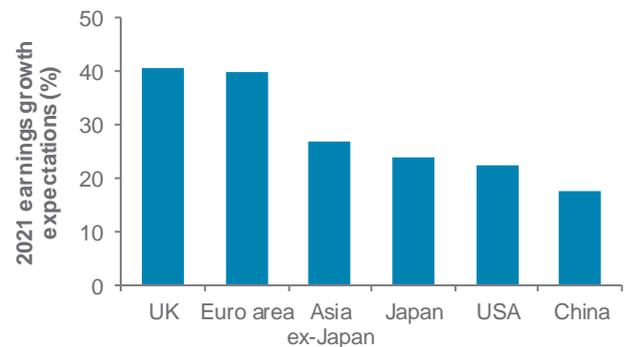
Indicator definitions: Market momentum – 120DMA; equity strength – net new stocks at 52w high; market breadth – McClellan advance/decline summation; equity vs bonds – difference in 20d stock and bond returns; market volatility – VIX index; put-call ratio – proportion of put (sell) and call (buy) options

Greed/fear – when indicator is above/below the normalised range midpoint; *extreme greed/extreme fear* – when indicator is above/below 80%/20% of its normalised range

The third concern is whether long-term fundamentals indeed remain supportive for equities and corporate or Emerging Market (EM) bonds.

Fig. 2 Strong earnings rebound expectations show fundamentals still supportive

2021 EPS growth; consensus expectations



Source: FactSet, Standard Chartered

Here, we continue to believe the answer is yes. Economic growth estimates have largely been revised higher over the past month as vaccinations accelerated in several key regions and policy support was re-emphasised. Earnings expectations for 2021 remain strong (and were revised higher in many cases) and credit defaults remain contained.

Rebalancing an attractive strategy today

We are not ignorant of elevated risks of a near-term pullback in risky assets, but seek to balance this against what are still strong, and arguably improving, fundamentals for a 6-12 month risk asset outlook. Hence, our preferred approach focuses on two areas.

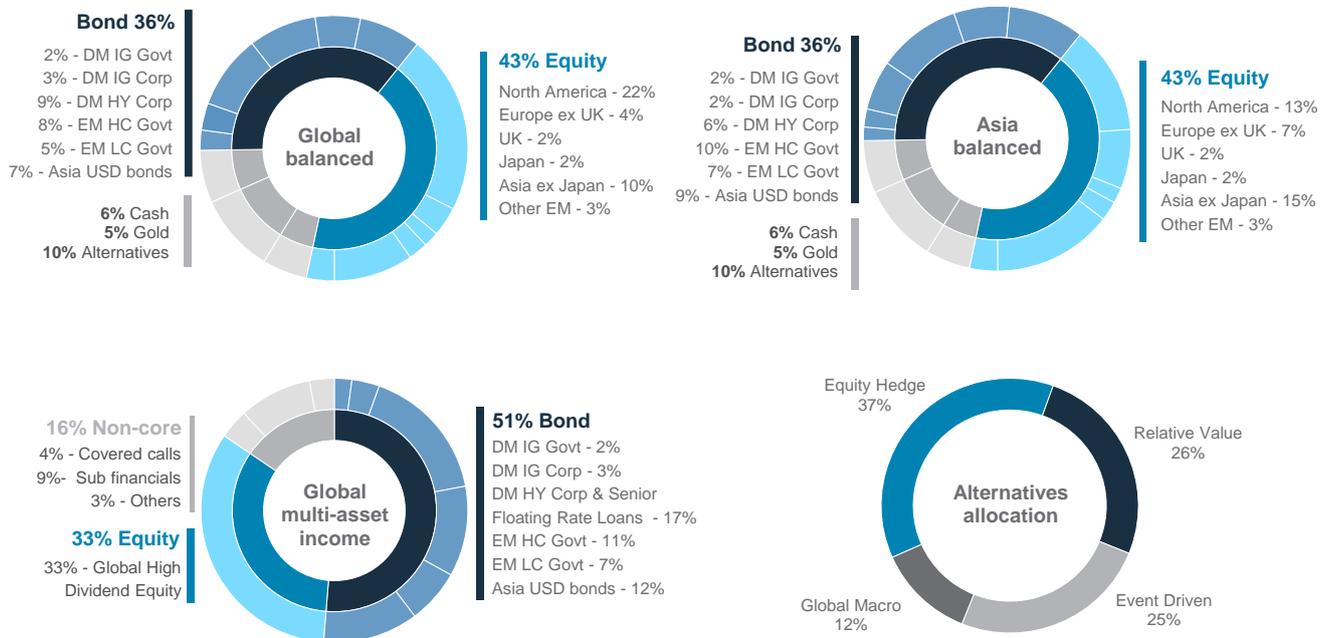
First, we see today's markets as an attractive time to rebalance. As we detail in the *Perspectives* section, the size of any equity position within an investment allocation would have grown significantly over the past year, allowing considerable room to lock in some profits while still maintaining a preferred or overweight allocation.

Second, we would extend this approach by trimming exposure selectively across risky assets. We trim our preference for credit (corporate and EM bonds) and our relative preferences for Euro area equities and EM local currency bonds to neutral.

However, prudence notwithstanding, this still leaves equities as a preferred asset class. Within this, we remain bullish on most regions, noting that Asia ex-Japan and the US continue to rank highest in our preference order while Japan faces improving technicals. Within credit, our preference for EM USD, Asia USD and Developed Market High Yield (DM HY) bonds remains unchanged, though DM HY now ranks third in our relative preference order given how much yield premiums over Treasuries have reduced.

Our 12-month tactical asset allocation

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



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

Source: Standard Chartered Global Investment Committee

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

Perspectives on key client questions

Q Who is afraid of rising yields?

Bond yields have been rising since August 2020 and have accelerated higher since January 2021. This has prompted investor concerns over the risk of another taper tantrum, similar to one seen in May 2013, when then Fed Chair Ben Bernanke hinted the Fed could, in the next few meetings, reduce the pace of asset purchases. US government bond yields and the USD spiked higher, resulting in a sell-off in global equity markets, as markets started to anticipate future rate hikes.

While history may not repeat itself, it often rhymes. The conventional wisdom is a rise in yields is usually negative for investment grade (IG) bonds and tend to weigh on equity prices and valuations. After all, higher bond yields will make investing in bonds more attractive relative to equities, at the margin. A higher discount rate could also lower the value of future earnings and cashflow, hurting stock prices. These factors argue rising bond yields could be a significant negative for stocks.

Periods of higher yields tend to coincide with rising markets

However, this could not be further away from the truth. Since 2000, periods of rising yields have tended to coincide with positive equity market performance. There have only been a handful of times when bond yields and equity prices have had a negative correlation, ie, the bond yield went up and the equity market went down. The most recent episodes occurred during the recessionary periods in the 2008 Global Financial Crisis (GFC) and the 9-18 March 2020 COVID-19/liquidity-driven sell-off.

Even during the 2013 taper tantrum, while Developed Market (DM) IG bonds and EM assets fell, global equities still eked out positive returns during the period of the yield rise despite the negative narrative this episode tends to evoke.

A rise in bond yields could indicate improving growth expectations and abating disinflationary risks as policymakers have largely struggled over the past two decades to meet their inflation targets. After all, yields tend to fall in response to downside risk, which is a negative for stock markets.

US equities and value sectors tend to outperform during periods of higher yields

The US equity market is a standout with the highest probability (over 80%) of positive returns among major regions when bond yields rose by an average of 92bps. Additionally, Value-oriented sectors (energy, financials, industrials and materials) have outperformed Growth-oriented sectors (technology, consumer discretionary and communication services) by 1.5% on average (5.2% vs 3.7%) when US Treasury yields rose, and that includes the December 2008 to March 2009 period when financials fell approximately 47%. (For more on this theme, see our *Ready, Steady, Rotate* report).

Global high dividend equities also fared reasonably, given their tilt towards the more cyclical parts of the market. This is also consistent with our expectations of a shift in the leadership of the market towards the more cyclical and value parts of the economy as vaccination progress and the recovery broadens out. In sum, in this current environment, gradually rising bond yields from very low levels should be a positive for equities, in our view.



Fig. 4 Outside recessionary periods, a rise in the US 10-year government bond yield tends to be positive for risk assets

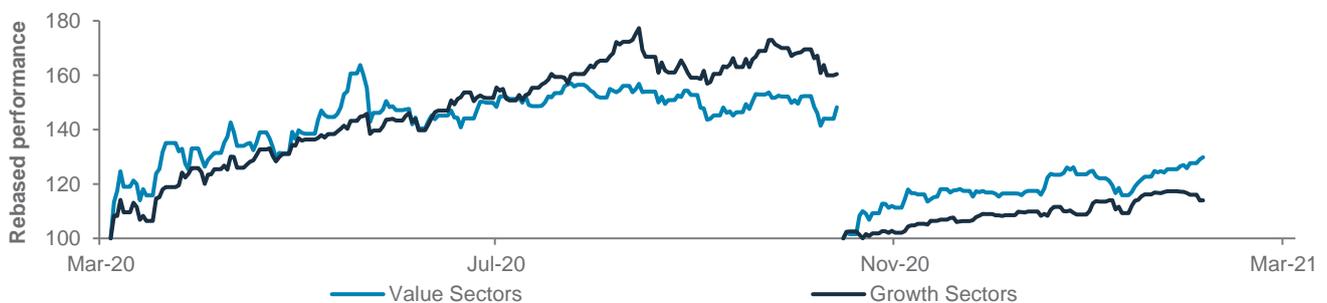
Historical episodes on the impact of higher US 10y Treasury bond yields on equity asset classes

Periods	Duration (days)	US Treasury Yield Change (Bps)												US Treasury Yield Change (Bps)										
Apr-00 to May-00	32	-5.9%	-6.2%	-6.9%	-5.2%										-2.9%	-14.8%	-2.2%	-8.4%	-0.1%	8.9%	72.2			
Mar-01 to May-01	64	15.0%	11.0%	11.3%	9.6%	2.2%	11.9%	11.8%	13.7%	17.6%	21.3%	23.8%	12.4%											76.0
Nov-01 to Apr-02	145	3.1%	3.8%	0.7%	-5.1%	34.1%	17.1%	8.3%	-3.8%	4.5%	8.7%	4.7%	11.2%											123.6
Oct-02 to Dec-02	54	21.0%	24.9%	11.3%	5.3%	14.7%	18.1%	15.4%	50.2%	25.6%	21.5%	21.5%	8.0%											65.3
Jun-03 to Sep-03	81	3.7%	-0.7%	-2.9%	19.0%	17.3%	11.3%	0.0%	13.6%	1.5%	6.5%	5.5%	-0.8%											149.1
Mar-04 to Jun-04	90	1.4%	-1.5%	1.7%	1.5%	-10.6%	-7.1%	0.3%	1.7%	-3.3%	1.8%	6.4%	2.3%											118.8
Jun-05 to May-06	319	10.1%	30.6%	24.0%	49.4%	38.4%	69.3%	22.9%	7.0%	12.7%	3.3%	17.3%	23.0%											128.2
Dec-08 to Mar-09	69	-23.0%	-32.1%	-22.7%	-25.1%	-14.3%	-14.2%	-30.2%	-12.8%	-47.2%	-23.6%	-33.7%	-17.6%											79.5
Oct-10 to Feb-11	125	15.0%	8.2%	9.4%	13.2%	3.0%	1.6%	6.3%	18.7%	15.4%	15.1%	17.9%	27.5%											134.5
Apr-13 to Sep-13	144	8.6%	11.1%	6.7%	0.0%	0.8%	-3.1%	2.9%	10.9%	8.8%	12.3%	13.5%	7.6%											118.4
Jan-15 to Jun-15	136	5.4%	3.5%	4.8%	11.7%	2.9%	0.3%	2.1%	6.3%	7.9%	8.8%	3.1%	0.6%											72.0
Nov-16 to Dec-16	46	9.0%	2.6%	4.1%	1.2%	-3.8%	-2.3%	3.8%	5.7%	21.6%	9.1%	11.6%	11.8%											78.5
Dec-17 to Feb-18	56	0.9%	1.7%	-0.7%	1.6%	2.3%	8.8%	-0.1%	4.8%	1.7%	5.0%	1.2%	-7.5%											48.5
Mar-20 (9 to 18)	9	-13.2%	-24.1%	-23.2%	-14.3%	-14.8%	-22.6%	-14.8%	-10.5%	-16.9%	-18.1%	-18.0%	-29.3%											76.0
Jan-21 to Present	49	5.0%	1.8%	4.5%	6.5%	8.8%	-0.1%	3.0%	4.2%	11.9%	3.3%	4.9%	24.2%											45.2
Average	95	3.7%	2.3%	1.5%	4.6%	5.8%	6.4%	1.9%	6.3%	4.0%	4.4%	5.3%	5.5%											92.4
Times positive		80%	67%	67%	73%	71%	57%	73%	73%	73%	80%	80%	73%											
		US Equities	Euro Area Equities	UK Equities	Japan Equities	Asia ex-Japan Equities	EM ex-Asia Equities	Global High Dividend Equity	US Info. Technology	US Financials	US Cons. Discretionary	US Industrials	US Energy											

Source: Bloomberg, Standard Chartered. Light shaded rows refer to recessions; dark shaded row refers to 'Taper Tantrum'

Fig. 5 Value-style equity sectors have outperformed since the US election alongside rising yields

Performance rebased at 23 March 2020 and then again on 4 November 2020



Source: Bloomberg, Standard Chartered Bank

Value = Energy, financials, industrials and materials; Growth = Info. technology, consumer discretionary and communication services

Note: 23 March 2020 marks the trough in US equities while 4 November 2020 was US election day

DM IG bonds, on the other hand, have historically been disproportionately impacted by a rise in yields, with only an 8-15% probability of eking out a positive returns.

With a much lower yield starting point today, high quality bonds are much more sensitive to a significant rise in yields than before.

Fig. 6 Developed Market Investment Grade bonds tend to be negatively impacted by higher yields

Historical episodes on the impact of higher US 10y Treasury bond yields on various asset classes

Periods	Duration (days)												US Treasury Yield Change (Bps)
Apr-00 to May-00	32	-3.0%	-3.1%	-1.9%	-2.0%	-5.5%				4.0%	-2.1%	-3.9%	72.2
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Mar-04 to Jun-04	90	-4.0%	-4.0%	-4.3%	-3.0%	-6.5%	-2.3%		0.0%	1.5%	-4.6%	-1.5%	118.8
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Mar-20 (9 to 18)	9	-9.1%	-8.5%	-11.4%	-13.5%	-14.7%	-10.4%	-6.8%	-2.9%	6.6%	-11.6%	-6.7%	76.0
Jan-21 to Present	49	-2.6%	-2.7%	-2.2%	0.3%	-2.7%	-3.0%	-0.3%	0.6%	0.2%	-6.9%	2.0%	45.2
Average	95	-3.7%	-3.8%	-3.3%	0.5%	-1.9%	-3.5%	-1.7%	-0.2%	2.0%	2.2%	1.3%	92.4
Times positive	13%	7%	13%	47%	33%	18%	33%	33%	73%	47%	80%		
		Global Bonds	DM IG Gov't Bonds	DM IG Corp Bonds	DM HY Corp Bonds	EM USD Govt Bonds	EM Local Currency Bonds	Asia USD Bonds	TIPS	US Dollar Index	Gold Spot	Alternatives	

Source: Bloomberg, Standard Chartered. Shaded columns illustrate Investment Grade bonds, usually more sensitive to yield changes

Yield spikes due to tightening or in growth-challenged periods tend to be negative for risk assets

What about a sudden rise in yields? Our analysis shows when yields rise in excess of 1 standard deviation on 6-week horizons (around 30bps, based on data since 2008), the stock market’s reaction tends to be quite benign outside recessions. Since 2008, there have been 61 episodes where US Treasury bond yields have risen by over 30bps over a six-week period. Of these episodes, SPX was negative 16 times, with an average return of -6.2% (over the next three-month period). A majority of these negative returns occurred during challenging growth periods, including the 2008 GFC,

the 2012 Euro crisis, the 2015-16 China hard landing and 2018, where the combination of trade tensions and a tightening Fed policy dragged equities returns.

In fact, what appears to matter more to stock markets than yields are economic growth and central bank policy. When bond yields are rising amid weaker growth and a tighter monetary policy, this tends to negatively impact both stocks and bonds. When financial conditions are loose and fiscal policies supportive, stocks tend to do well. This is not withstanding that any sudden, sharp increase in yields may still negatively impact equity markets, especially if this leads to a tightening in the central bank’s policy stance.

Time to rebalance?

Global equities are up over 80% since the trough in March 2020. A question that increasingly comes to mind is, is it time to trim equity exposure? One approach to help answer this is based on our outlook on the equities market. Another approach is to look at whether our existing equity allocation makes sense in the context of our long-term objectives and risk tolerance.

The long-term benefits of rebalancing – that is, trimming exposure to assets that have outperformed significantly and adding to assets that have underperformed significantly – are clear. If we compare a monthly rebalancing strategy to a buy-and-hold strategy since 2015 on a 60% equity/40% bond allocation, we get the following three key takeaways:

- Rebalancing did not undermine portfolio returns.
- Rebalancing reduced portfolio volatility and maximum drawdowns. This, combined with the above, means risk-adjusted returns were improved under the rebalancing strategy.
- From a behavioural perspective, the reduced level of risk and a structured approach to rebalancing can take the emotion out of investing and reduce the risk of panic selling during periods of market weakness, which is the number one killer of long-term returns.

Figure 8 shows the evolution of an equity allocation since 1999. Investors who do not rebalance have stronger performance during the boom phases, but then find themselves overexposed entering into a recession. At the same time, investors might not be confident during a sell-off to add enough equity exposure to benefit from the subsequent recovery.

Fig. 7 Disciplined rebalancing improved downside protection, enhancing risk-adjusted return

Comparative statistics of the initial hypothetical 60% equity/40% bond portfolio following different rebalancing strategies. Data from Jan 2015-Jan 2021

	No rebalancing	Monthly rebalancing
Returns (annualised)	6.55%	6.54%
Volatility (annualised)	9.60%	9.18%
Max drawdown	-14.40%	-13.29%
Risk adjusted return	0.68	0.71
Equity exposure	63.1%	60.0%

Source: Bloomberg, Standard Chartered

Fig. 8 A rule-based rebalancing discipline can help remove the emotions out of investing

Changes in equity exposure of an initial hypothetical 60% equity/40% bond portfolio vs MSCI ACWI index



Source: Bloomberg, Standard Chartered

Bringing it to today's context (Figure 9), if you have held our global tactical allocation since April 2020, the equity exposure would have risen by about 9 percentage points because of market gains alone. Therefore, it would be prudent to trim the equity exposure slightly and add to bonds which have cheapened somewhat, especially recently.

Fig. 9 While we maintain our long-term preference for equities, rebalancing remains an attractive course of action

	April 2020 TAA	April 2020 TAA today, no rebalancing	Suggested TAA for Mar 2021	Action
Cash	7	5	6	+1
Fixed income	39	33	36	+3
Equity	36	45	43	-2
Gold	8	7	5	-2
Alternatives	10	10	10	0
	100	100	100	0

Source: Standard Chartered

We acknowledge there are other factors that can complicate the rebalancing decision, such as frequency of rebalancing, type of rebalancing, transaction cost, liquidity and taxes. However, we believe that having a consistent rule-based rebalancing discipline in place is likely to benefit investors in their long-term journey to achieve their investment goals.

China's path to net-zero emissions

State of play

More than 110 countries have pledged towards the goal of net zero emissions by 2050. China, currently the world's largest energy consumer and emitter of greenhouse gases at 28% of global carbon emissions, has set its goal for 2060.

Amongst the reasons why China emits such large quantities of greenhouse gases are 1) China's energy-intensive growth model and 2) its carbon-intensive energy supply.

- 1) China consumes around 50% of the world's steel, copper, aluminium and cement; all highly carbon-intensive industries. Nevertheless, progress has been made to improve the energy efficiency of industrial facilities by upgrading to more environment-friendly equipment and machinery, for example.
- 2) China has a substantial amount of domestic coal reserves – around 13% of the world's total – making it a reliable source of energy. The country also accounts for half of the world's coal consumption, which is used by poorer households for both heating and cooking. Moreover, coal-based power was ramped up in 2020 to meet increasing electricity demands and industrial output post-pandemic.

China's large carbon footprint highlights the critical role that "old" energy plays in its economy. At the same time, the country has been working to reduce local air pollution and to improve energy efficiency over the last decade as it hopes to accelerate momentum in these areas. The focus, therefore, rests on whether China will be able to decouple economic growth from harmful energy sources and how quickly it can do so in order to achieve its climate goals.

Fig. 10 CO₂ harmful emissions from fuel combustion

Table depicting the largest emitters of CO₂ emissions (MtCO₂)

Country	Value (in thousands)
China	9,500
US	4,900
India	2,300
Russia	1,600
Japan	1,100
Germany	696
South Korea	606
Iran	580
Canada	565

Source: IEA, Energy Atlas, Standard Chartered Bank

Longer-term commitments – where will the efforts lie?

In China's latest five-year economic plan and 15-year vision, no explicit growth targets were specified. However, President Xi set targets to double GDP by 2035, which would require an annual growth rate of around 4.7%.

China's 14th Five-Year Plan elevates innovation and technology as among the country's top priorities. It also signals a longer-term shift from pure economic growth to social and climate-friendly development, leaving room for carbon emissions to peak before stabilising. It addresses the reduction in greenhouse gas emissions, while meeting other economic goals in a sustainable manner. In order to achieve this, the efforts will shift to low-carbon growth models, focusing on developing digital technology and high-tech industries. China will look to transform its existing power sector, enhance innovations in the clean energy space and ensure that the infrastructure will be sustainable in supporting future energy production.



Higher share of non-fossil fuels in the energy mix



Reduction of CO₂ emissions per unit of GDP



Carbon cap for the power sector



Reduction of fine particle pollution in key cities



Greater forest coverage

Reducing Energy Intensity

A well-founded decarbonisation plan must be accompanied by improvements in energy efficiency across all impacted industries in order to maintain economic development goals while pursuing sustainability.

Broad reforms aimed at rebalancing the economy and encouraging the growth of the services and high-tech sectors will be needed. These reforms can come in the form of better financing for service enterprises and retraining of workers in provinces with heavy industrial operations. Additionally, China may endorse a strong energy efficiency policy by setting a strict standards and regulations around energy efficiency for buildings, appliances and equipment, and scaling up the financing of energy efficiency investment.

Transforming the energy sector

Electrification is essential for China's to achieve its net zero emissions target. The electricity sector currently stands as the largest single contributor of China's carbon emissions, but it is also the sector most ripe for transformation. Renewable power generation sources have grown in recent years, but will likely need to advance more rapidly to achieve the 2060 net zero goal.

China has started to implement market reforms such as developing a market for companies to trade carbon credits in an attempt to clamp down on emissions. Carbon markets put a price on industrial emissions and force companies to offset those emissions by investing in projects that would remove an equivalent portion of greenhouse gases from the atmosphere. The emissions trading system currently covers China's power industry

and roughly 2,000 energy generation facilities. This sector represents 30% of the nation's total emissions and over time the trading system will include industrial sectors, such as cement, steel, aluminium, chemicals and oil and gas, according to China Dialogue.

Policy support and long-term guidance by means of market reforms will be necessary to accelerate innovations and development to help China meet its carbon targets.

Develop the infrastructure for clean energy

The development of a clean energy infrastructure also plays a critical role in ensuring the transition and success of future energy usage. China will have to overcome geographical challenges of resources, while balancing the needs of its rural and urban population. The ongoing rollout of high voltage electricity transmission will be important, in addition to the development of new pipeline systems for hydrogen and CO₂.

As electrification will be important in transforming the road transportation, electric vehicle charging stations will have to be rolled out and integrated digitally and connected to a reinforced distribution grid.

Opportunities for investors

We believe China's transition to a zero-carbon society offers enormous opportunities for investors running into trillions of dollars. A wide swathe of industries – from renewable power generation and efficient transmission systems to carbon capture and energy storage technologies – will be involved. We believe the government's latest five-year plan sets this process on the right track.

Macro overview – at a glance



Key themes

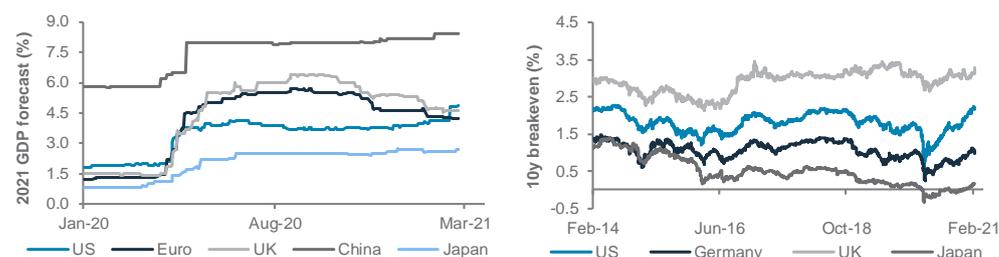
We expect the rising pace of vaccinations worldwide to lift global growth and inflation expectations as economies return towards normalcy by H2 21. The US is likely to lead the upturn (especially with another giant fiscal stimulus expected in March), as China gradually tightens policies to stabilise the economy after achieving pre-pandemic trend growth. In Europe, the UK is leading in vaccinations, which should help the economy return to normalcy faster than the Euro area, where vaccine distribution and other supply constraints are hampering the recovery. Trade-dependent economies, such as Asia including Japan, are likely to benefit from the strong pick-up in global trade. While improving global growth has lifted inflation expectations, we see limited scope for a persistent rise in price pressures this year, given high jobless rates and significant surplus productive capacities worldwide. As such, we expect central banks, except in China, to sustain their accommodative monetary policies.

Key chart

The US' less stringent lockdowns and faster pace of vaccinations partly explain the divergence in its growth and inflation expectations versus other major economies this year

Fig. 11 US has led growth and inflation expectation upgrades this year

Consensus 2021 GDP growth estimates; 10y inflation breakeven rates



Source: Bloomberg, Standard Chartered

US	A faster pace of vaccinations and at least USD 1trn in likely fiscal stimulus in March should help the economy return to pre-pandemic trend growth this year, but high unemployment is likely to keep long-term inflation expectations in check and Fed monetary policy easy <ul style="list-style-type: none"> ● Growth ● Inflation ● Monetary policy ○ Fiscal policy
Euro area	The Euro area has lagged in the global upturn so far, but we expect it to recover from a likely double-dip recession on the back of a region-wide fiscal stimulus, national job support plans, the ECB's accommodative policies and a continued recovery in global trade <ul style="list-style-type: none"> ● Growth ● Inflation ● Monetary policy ○ Fiscal policy
China	China's return to pre-pandemic growth trend before others means it is likely to shift focus towards stabilising the pace of expansion. We still expect it to lead global growth in 2021 <ul style="list-style-type: none"> ● Growth ● Inflation ● Monetary policy ● Fiscal policy
Japan	Japan is benefitting from a strong pick-up in global trade and PM Suga's fiscal stimulus, though structural deflationary forces mean the BoJ is likely to stay accommodative <ul style="list-style-type: none"> ● Growth ● Inflation ● Monetary policy ○ Fiscal policy
UK	The UK has led the pace of vaccinations globally, which raises the prospect of a positive growth surprise in H2 21, though post-Brexit uncertainty remains a drag on the outlook <ul style="list-style-type: none"> ● Growth ● Inflation ● Monetary policy ○ Fiscal policy

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

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

Bonds – at a glance



Key themes

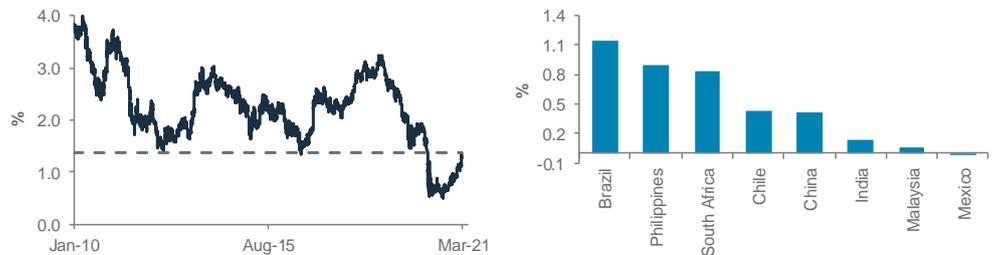
Improvement in global growth and inflation expectations have led us to now expect US 10-year Treasury yields in about a 1.25%-1.50% range, higher than our previous estimates. Nonetheless, improving fundamentals are supportive of credit (corporate and EM bonds), and we continue to favour EM USD government, Asian USD and DM HY corporate bonds, as we expect yield premiums to decline modestly. However, the rising risk of less supportive central bank policies in many EM countries leads us to trim our view on EM local currency bonds to a core holding.

Key chart

Chart (left): US 10y Treasury yield

Chart (right): YTD change in expected policy rate in 12 months' time in major EM countries

Fig. 12 US Treasury yields approach key resistance; rising rate expectations dampen outlook for EM local currency bonds



Source: J.P. Morgan, Barclays, Bloomberg, Standard Chartered; as of 23 February 2021

Preference order	Asset Class	View	Key Drivers
▲	EM USD government	EM USD government bonds are a preferred holding , owing to their attractive yield, valuations and our expectation for USD weakness	<input checked="" type="checkbox"/> Valuation vs govt bonds <input checked="" type="checkbox"/> Macro factors <input checked="" type="checkbox"/> Rates policy
▲	Asia USD	We view Asia USD bonds as a preferred holding , given their relatively high credit quality, moderate yield, attractive relative value and defensive characteristics	<input checked="" type="checkbox"/> Credit fundamentals <input checked="" type="checkbox"/> Macro factors <input checked="" type="checkbox"/> Valuation vs govt bonds
▲	DM HY corporate	We view DM HY bonds as a preferred holding , owing to their reasonable yield, low interest rate sensitivity and improving corporate fundamentals	<input checked="" type="checkbox"/> Attractive yield <input type="checkbox"/> Valuation vs govt bonds <input checked="" type="checkbox"/> Credit fundamentals
◆	EM local currency	EM local currency bonds are a core holding . While attractive yield and expected EM FX strength are supportive, less supportive EM central bank policies is a key risk	<input checked="" type="checkbox"/> FX outlook <input checked="" type="checkbox"/> Macro factors <input type="checkbox"/> Rates policy
△	DM IG corporate	We view the asset class as less preferred . In our assessment, supportive central bank policies and stabilising credit quality are balanced	<input type="checkbox"/> Valuation vs govt bonds <input checked="" type="checkbox"/> Credit fundamentals <input checked="" type="checkbox"/> 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	<input type="checkbox"/> Valuations <input checked="" type="checkbox"/> Macro factors <input checked="" type="checkbox"/> Rates policy

Source: Standard Chartered

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

Equity – at a glance



Key themes

Global equities remain our most-preferred asset class, driven by a global cyclical recovery. Such an environment lends a tailwind to cyclical markets, such as Japan. It will also likely be beneficial to other preferred markets, such as Asia ex-Japan and the US. The rise in bond yields may lead to concerns of inflation and, thus, earlier-than-expected potential tapering. Ultimately, however, corporate earnings appear to be benefitting from the growth recovery as monetary policy supports investment and consumption, while fiscal stimulus could boost demand further. A further sharp rise in bond yields and geopolitical tensions are risks to our positive view on equities.

Key chart

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

Chart (right): Re-expansion of industrial activities lend tailwind in cyclical markets such as Japan

Fig. 13 Expectations for earnings rebound in 2021 continue to strengthen, while cyclical markets such as Japan may benefit



Source: MSCI, FactSet, Standard Chartered
 *ERI = Earnings Revision Index. 3-month average of (number of upwards earnings revisions/number of downward earnings revisions) - 1

Region	Preference order	Key drivers	Risks
Asia ex-Japan equities	▽ ◊ ▲	● Fund flows	● Bond yields, ● Geopolitics
China equities	▽ ◊ ▲	● Fund flows	● Bond yields, ● Geopolitics
Japan equities	▽ ◊ ▲	● Fund flows	● Bond yields, ● Geopolitics
US equities	▽ ◊ ▲	● Earnings	● Bond yields, ● Geopolitics
UK equities	▽ ◆ ◊	● Fund flows	● Bond yields, ● Geopolitics
Euro area equities	▽ ◆ △	● Earnings	● Bond yields, ● Geopolitics

Source: Standard Chartered Global Investment Committee

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

FX – at a glance



Key themes

In the near term, we see a risk of a USD bounce on higher US bond yields and as the equity rally shows signs of fatigue. Our 12-month USD view remains bearish, driven by an easy money, loose fiscal policy cocktail in the US. Expected higher US twin deficits may also cause investors to allocate capital outside the US. We expect the pandemic’s economic impact to fade, and rising global growth suggests a weaker counter-cyclical USD. A key risk to our 12-month view would be a dislocation or desynchronisation of anticipated global growth.

Key chart

The recent bounce in relative US yields may trigger a short-term USD rebound, but we believe the Fed’s policy stance will contain yields. As global growth improves and relative real US rates peak, the USD can fall by around 5% over 12 months

Fig. 14 Higher US real rates may lead to USD bounce before the fall resumes
USD Index (DXY) and index-weighted real (net-of-inflation) yield differentials



Source: Refinitiv, Standard Chartered

<p>USD (DXY)</p> <p>▼</p> <p>Rising global growth; Fed & fiscal policy; plentiful USD liquidity; US twin deficits</p> <ul style="list-style-type: none"> ○ Rel. interest rates ○ Rel. growth rates ○ Flows & sentiment 	<p>USD/CNY</p> <p>▼</p> <p>Global & regional trade; capital inflows into bonds; slower stimulus in H2 may weigh</p> <ul style="list-style-type: none"> ● Rel. interest rates ○ Rel. growth rates ● Flows & sentiment
<p>EUR/USD</p> <p>▲</p> <p>Key USD alternative; vaccination rate rise; mutualised debt plan; fiscal policy support</p> <ul style="list-style-type: none"> ● Rel. interest rates ● Rel. growth rates ● Flows & sentiment 	<p>USD/SGD</p> <p>▼</p> <p>Global growth rebound; slow recovery of travel & tourism; little debt monetisation</p> <ul style="list-style-type: none"> ○ Rel. interest rates ● Rel. growth rates ● Flows & sentiment
<p>GBP/USD</p> <p>▲</p> <p>First-mover vaccine deployment & fiscal stimulus; post-Brexit challenges may weigh</p> <ul style="list-style-type: none"> ● Rel. interest rates ● Rel. growth rates ● Flows & sentiment 	<p>USD/MYR</p> <p>▼</p> <p>Exports likely to improve; commodities supportive; monitor H2 21 China growth</p> <ul style="list-style-type: none"> ○ Rel. interest rates ● Rel. growth rates ● Flows & sentiment
<p>AUD/USD</p> <p>▲</p> <p>RBA policy & fiscal stimulus; global trade & commodities rally; broad risk appetite</p> <ul style="list-style-type: none"> ● Rel. interest rates ● Rel. growth rates ● Flows & sentiment 	<p>USD/INR</p> <p>▼</p> <p>Pro-risk sentiment inflows; asset returns; aggressive budget; oil price may weigh</p> <ul style="list-style-type: none"> ● Rel. interest rates ● Rel. growth rates ○ Flows & sentiment
<p>USD/JPY</p> <p>◆</p> <p>Real interest rates; exports & regional trade deals, safe-haven status</p> <ul style="list-style-type: none"> ● Rel. interest rates ○ Rel. growth rates ○ Flows & sentiment 	<p>USD/KRW</p> <p>▼</p> <p>Tech manufacturing demand; global trade & growth; key China-Japan-Korea pact</p> <ul style="list-style-type: none"> ○ Rel. interest rates ● Rel. growth rates ● Flows & sentiment

Source: Standard Chartered

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

Technicals

US 10-year Treasury yield: Tough hurdle

Upward momentum in the US 10-year Treasury yield has accelerated recently. The yield is now above resistance at the 2016 low of 1.38%, and around stiff resistance on the median line of a pitchfork channel (now at 1.52%). The 1.38%-1.52% resistance area is strong and a sustained break above is by no means imminent, especially given overbought conditions. Hence, a retreat is possible. Still, the 1.0%-mark could provide a solid floor. Importantly, given that the yield is comfortably above the 200-day moving average (DMA) and the Moving Average Convergence Divergence indicator on the daily and weekly charts (a measure of trend and trend strength) turning positive, a retest of this month's high at some point can't be ruled out. A sustained break above the resistance could open way toward 1.95%-1.97%.

Gold: Holding its ground

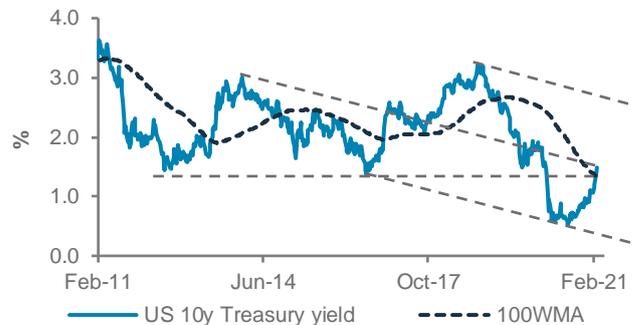
Gold is retesting crucial support at the end-2020 low of USD 1,765/oz. Weakening momentum on short-term charts makes gold vulnerable. However, it would be premature to conclude that a break is imminent for two reasons. Gold remains comfortably above the 200-week moving average – a sign that the long-term uptrend remains intact. Hence, in this context, the weakness since August can be interpreted as a shift to a lower range (see chart). However, to resume its shine, at minimum, gold would need to break above the immediate resistance at the end-January high of USD 1,875/oz. A failure to do so would heighten the risks of a break below USD 1,765/oz, which could trigger a fall below USD 1,700/oz.

MSCI World index: Time for a pause?

After rising over 20% since October, the MSCI All Country World index is now showing tentative signs of fatigue. Negative divergence of the 14-day Relative Strength Index (RSI; a measure of momentum) with the index (rising index vs lower highs in RSI) is a sign that the five-month rally in equities is losing steam. To be sure, the stalling of momentum does not necessarily imply a correction/reversal of the uptrend. The index needs to break below immediate support at the end-January low of 640 for the upward pressure to fade. However, the strong support at the 200-DMA (now at 590; 12% from Thursday's close) could limit any downside.

Fig. 15 US 10-year Treasury yield: Tough hurdle

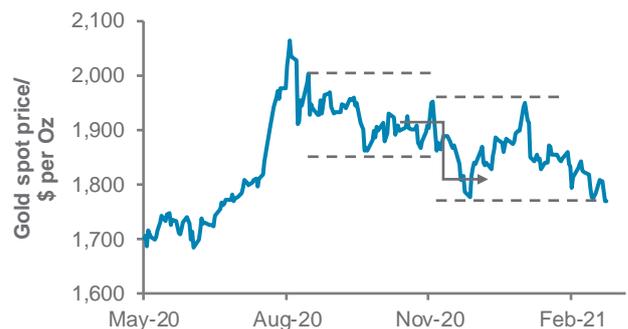
US 10-year Treasury yield daily chart



Source: Bloomberg, Standard Chartered

Fig. 16 Gold: Holding its ground

XAU/USD daily chart



Source: Bloomberg, Standard Chartered

Fig. 17 MSCI World index: Time for a pause?

MSCI All Country World index daily chart



Source: Bloomberg, Standard Chartered

Tracking market diversity

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 implies prices are rising or falling too fast over the short term.

Where is diversity falling or rising this month?

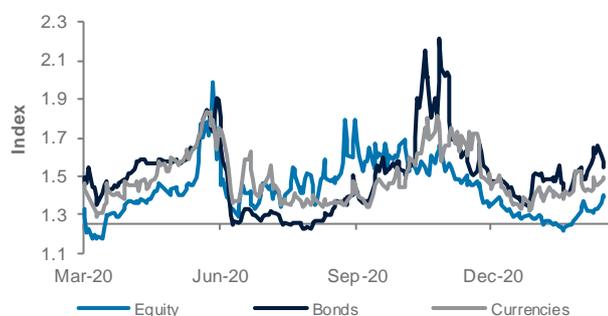
Market diversity has broadly improved across the assets we tracked in February. The improvement was primarily driven by the recent pullback in risky assets, as rising bond yields sparked concerns. Most of these risky assets are equity markets that had been flagged by our indicator to have higher risk of reversal last month. These included global equities and key regional/country equity markets.

Looking ahead, there are not many assets with diversity levels below the threshold that would warrant an immediate concern for a reversal. Assets that are currently stretched from a diversity standpoint are commodities, such as WTI crude oil and copper. Both have increased steeply by 31% and 24%, respectively, this year.

Note that our indicator often signals a red flag when market diversity is at extremely low levels, but it does not offer a guide on the length or depth of a reversal. Our fundamental views remain bullish on equities due to improving growth and earnings fundamentals.

Fig. 18 Average market diversity score across equities, bonds and FX

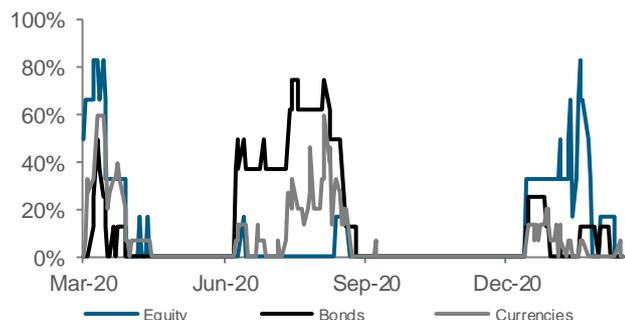
Market diversity for equities improving



Source: Standard Chartered

Fig. 19 % of assets with diversity score < 1.25

Number of low diversity assets has fallen



Source: Bloomberg, Standard Chartered

Fig. 20 Assets with lower market diversity

Level 1	Market diversity	30-day diversity trend
HFRX Global Hedge Fund Index	●	→
Equity		
MSCI AC Asia ex-Japan Index	●	→
Currency		
AUD/USD	●	→
GBP/USD	●	→
Bond		
Barclays Global High Yield	●	→
Commodity		
WTI	○	↓
Copper	○	→

Source: Bloomberg, Standard Chartered; data as on 24 February 2021

Legend: ○ Very low ● Low/moderate ● High

Asset allocation summary

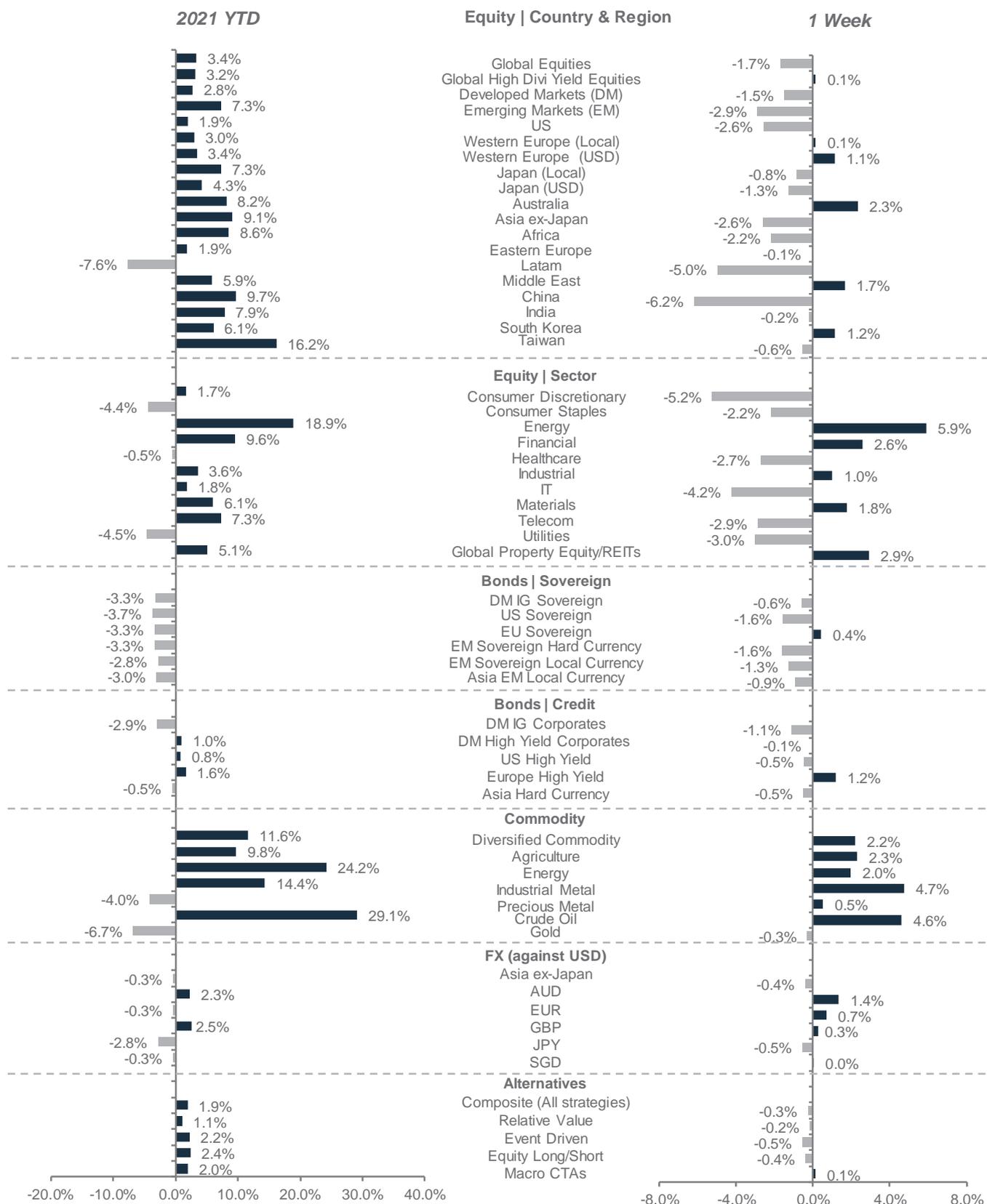
Summary	View	ASIA FOCUSED				GLOBAL FOCUSED			
		Conservative	Moderate	Moderately Aggressive	Aggressive	Conservative	Moderate	Moderately Aggressive	Aggressive
Cash	▼	15	6	3	0	15	6	3	0
Fixed Income	◆	61	36	26	7	61	36	26	7
Equity	▲	25	43	57	84	25	43	57	84
Gold	◆	0	5	5	5	0	5	5	5
Alternatives	◆	0	10	9	4	0	10	9	4
Asset class									
USD Cash	▼	15	6	3	0	15	6	3	0
DM Government Bonds	▼	3	2	1	0	4	2	2	0
DM IG Corporate Bonds	▼	4	2	2	0	6	3	2	1
DM HY Corporate Bonds	▲	9	6	4	1	15	9	6	2
EM USD Government Bonds	▲	17	10	7	2	14	8	6	2
EM Local Ccy Government Bonds	◆	11	7	5	1	9	5	4	1
Asia USD Bonds	▲	16	9	7	2	13	7	5	1
North America Equities	▲	10	13	18	26	13	22	29	43
Europe ex-UK Equities	◆	4	7	10	14	2	4	5	7
UK Equities	◆	1	2	3	4	1	2	2	4
Japan Equities	▲	2	2	3	5	1	2	3	5
Asia ex-Japan Equities	▲	8	15	20	29	5	10	13	19
Non-Asia EM Equities	◆	1	3	5	7	2	3	5	7
Gold	◆	0	5	5	5	0	5	5	5
Alternatives	◆	0	10	9	4	0	10	9	4

All figures in %. Source: Standard Chartered.

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

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

Market performance summary*



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

*All performance shown in USD terms, unless otherwise stated

*YTD performance data from 31 December 2020 to 25 February 2021 and 1 week-performance from 18 February 2021 to 25 February 2021

2021 key events

MARCH 2021

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

APRIL 2021

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

MAY 2021

06	BoE policy decision
-----------	---------------------

JUNE 2021

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

JULY 2021

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

AUGUST 2021

5	BoE policy decision
29	Federal elections in Germany
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

OCTOBER 2021

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

NOVEMBER 2021

3	FOMC policy decision
4	BoE policy decision

DECEMBER 2021

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

■ Central bank policy | ■ Geopolitics | ■ EU politics

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

Our key advisory publications

ANNUALLY



Annual Outlook

MONTHLY



Global Market Outlook

WEEKLY



Weekly Market View

DAILY



Global Wealth Daily

AD HOC



Market Watch



360 Perspectives



Investment Brief

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

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

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

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

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

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

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

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