



Global Market Outlook

Worried about inflation?

After a decade-long lull, markets have started to price in higher inflation expectations. However, we believe the growth outlook will be a more important driver of equities over the next 12 months as inflation gradually abates. We prefer equities over bonds and cash, but an allocation to gold can help mitigate any inflation surprises along the way.

The growth and earnings outlook remains most constructive in Developed Markets. In the US and Euro area, we prefer both equities and High Yield bonds.

Chinese policy has turned less restrictive in pockets, though monetary policy or regulatory easing is likely needed for the outlook to improve more broadly. We prefer Asia USD, including Asian High Yield, and Emerging Market USD government bonds.



What are the best strategies for a high inflation scenario?

Updates on the long-term structural themes?

What is the technical outlook for China equities?



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Investment strategy and key themes

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Our preferences over a 12m horizon

- Global equities and gold over bonds and cash
- In equities: US, Euro area favoured
- In bonds: Asia USD, DM High Yield, EM USD preferred
- In FX: USD likely to fall against EUR, AUD, NZD

Key themes

- Ready, Steady, Rotate
- Race for Income
- USD to slump in 2021
- Disruptive Innovation
- Climate change
- A world of yield-free risk

Worried about inflation?

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- The growth and earnings outlook remains most constructive in Developed Markets. In the US and Euro area, we prefer both equities and High Yield bonds.
- Chinese policy has turned less restrictive in pockets, though monetary policy or regulatory easing is likely needed for the outlook to improve more broadly. We prefer Asia USD, including Asian High Yield, and Emerging Market USD government bonds.

Growth and inflation

Global equities, after correcting by just over 5% from early September to early October, have rebounded to around their early September's all-time highs. This pattern is consistent with the seasonal September-October weakness ahead of a Q4 rally. In contrast, month-to-date, most bond markets pulled back, gold rose and the USD was little changed.

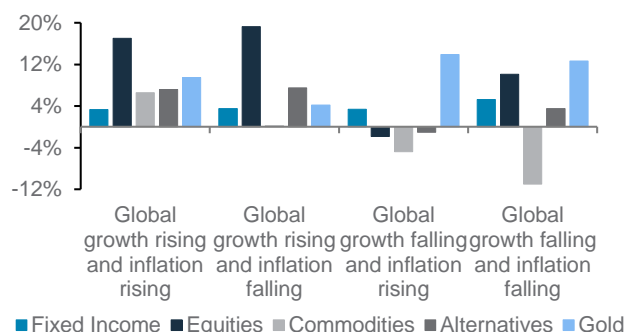
Much of the market's current tug-of-war centres around the outlook for growth and inflation. Growth has been less of a concern, at least in the US and Euro area. While some high frequency indicators fell over the past month, above-trend growth is still expected in 2022, an outlook supported by PMI surveys and the recent earnings season.

The debate over inflation, though, is more polarised. In the US, inflation expectations started rising from late September, while consensus inflation forecasts were also revised sharply upwards (to 4.3% CPI inflation for 2021 and 3.3% for 2022).

For markets, the level of inflation and the policy reaction are key. Above-2% inflation has generally not held back risky assets unless long-term inflation expectations climb significantly. Inflation just above 3% over the coming year, a start to Fed tapering in 2021 and a rate lift-off in 2022 are largely baked into markets, in our view. A disproportionate central bank reaction, though, which leads monetary policy to become tight rather than merely less loose, is a risk to our positive equity market outlook as it would call into question the above-trend growth outlook in 2022 and beyond. The Fed and ECB's views that current inflation is temporary and their focus on reviving growth and employment, though, suggest this is not an imminent risk.

Fig. 1 Growth has historically been more important for equity outperformance than inflation

12m global asset returns across growth/inflation scenarios



Source: Bloomberg, Standard Chartered, data from 2005-2021

Growth key to equities outperformance

Rising growth has been more important historically for equities outperformance than whether inflation was rising or falling. This implies that, outside of a scenario of decelerating growth combined with very high and rising inflation, equities can be expected to outperform while economic and earnings growth remain strong. We expect economic growth to remain above-trend in major Developed Market (DM) economies. Earnings growth may ease to a more sustainable pace next year, but the level is expected to remain robust. Therefore, we remain comfortable with our preference for equities over bonds and cash despite today's inflation debate.

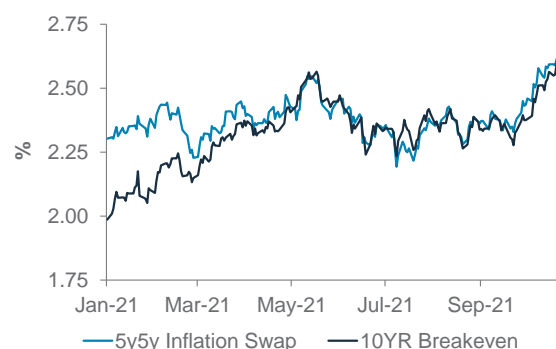
Our preference for US and Euro area equities remains unchanged. However, UK equities face additional headwinds from an increasingly hawkish Bank of England, new Brexit-related disputes and calls for new mobility restrictions amid a resurgence in COVID-19 cases.

In Emerging Market (EM) equities, turnaround factors we are monitoring include the rollout of widespread vaccinations, EMs reversing their recently narrowing growth differential vs DMs, USD weakness and a significant easing of policy in China. While some of these indicators are improving selectively for certain EMs, they remain insufficient for EM equities to outperform DM, in our view.

China policy, in particular, remains key. On the upside, policy is starting to turn a little more accommodative on a selective basis – policymakers said they are confident that property sector woes will remain contained and several mortgage and regional housing policies were eased modestly. While we do not expect a return to the days of massive stimulus, we do expect targeted fiscal stimulus and modest central bank easing to help stabilise growth. This, together with the progress on Evergrande's debt challenges, are likely needed before China's equity market outlook improves more sustainably. However, we continue to like Asia High Yield bonds – while China equities may await more positive growth catalysts, investors in Asian bonds are likely to find confidence in contained default rates that remain well within, or below, current market expectations.

Fig. 2 Long-term inflation expectations have risen sharply, though they remain below 3%

Market-based US long-term inflation expectations



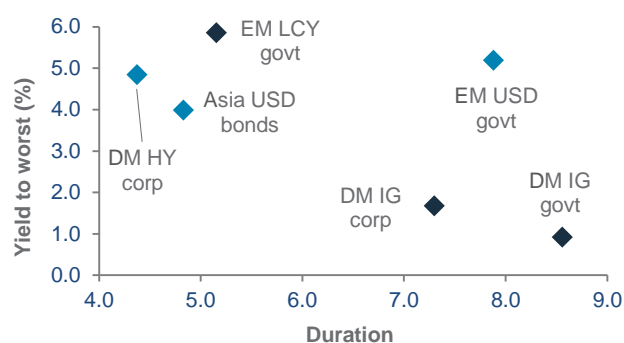
Source: Bloomberg, Standard Chartered

A (gold) penny for your thoughts

Our own views notwithstanding, markets are testing the hypothesis of inflation being largely a transitory phenomenon, and some central banks, such as the Bank of England, appear to be ready to act so that supply disruption-led inflation does not spill over into broader inflation expectations. An allocation to gold, in our view, can offer one route to help mitigate the risk of higher-than-expected inflation. Historically, across growth/inflation scenarios, gold has outperformed non-equity asset classes during periods of rising inflation.

Fig. 3 High Yield and Asia USD bonds have relatively low sensitivity to changes in US government bond yield

Major bond asset classes – yield vs duration (ie, sensitivity to changes in US Treasury yields)



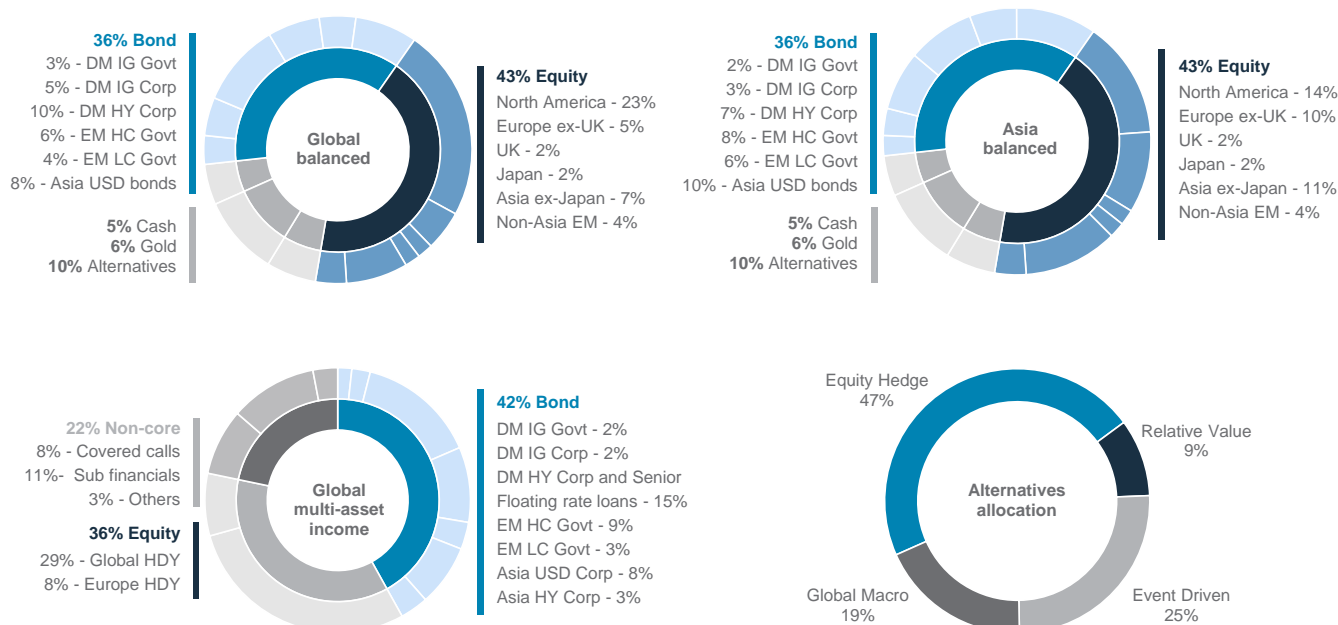
Source: Bloomberg, Standard Chartered

Are rising yields a risk for bonds?

The prospects of higher growth and inflation pose an upside risk to US Treasury bond yields. While this could be a significant headwind for low-yielding Investment Grade bonds, EM USD government bonds are relatively much better placed given they offer a much higher yield and yield premium, which we expect will more than compensate. We see relatively less cause for concern for our preferred US/European HY bonds and Asia USD bonds, both of which remain much more sensitive to changes in credit quality (which remains strong) than to changes in Treasury yields.

Our 12-month tactical asset allocation

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



Summary of our key asset class views


View	Detail
USD cash	▼ + Safety - Close to no yield
Bonds	
DM Govt	▼ + High credit quality - Rising bond yields push bond prices lower
DM IG Corporate	▼ + High credit quality - Very sensitive to rising US government bond yields
DM HY Corporate	▲ + Attractive yield, low rate sensitivity - Elevated valuations
EM USD Govt	▲ + Attractive yield, attractive value - Sensitivity to rising Treasury yields
EM Local Ccy Govt	◆ + Moderate yield, weak USD view - Tightening EM central banks
Asia USD	▲ + Attractive yield, attractive valuations - China property sector policy tightening
Equities	
North America	▲ + Growth, earnings rebound; still-accommodative policy - Fed tapering, potential tax rise
Europe ex-UK	▲ + Earnings revival, Value rotation, easy policy - Slowing China growth
UK	◆ + Attractive valuation, Value rotation - Policy tightening risk, inflation, strong GBP
Japan	◆ + Global economic recovery - China slowdown, structural deflation
Asia ex-Japan	◆ + China likely policy easing, light positioning - Slowing China growth, higher rates
Gold	▲ + Inflation hedge, weak USD view - Higher bond yields
Alternatives	◆ + Diversifier characteristics - Equity, corporate bond volatility

Source: Standard Chartered Global Investment Committee

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

Other themes

We provide below a brief overview of our currently open thematic ideas, coupled with some recent highlights. For further details, please read our Thematic Investing update to be published next week.

 Key themes		
Structural Themes	Disruptive Innovation	<p>Under Disruptive Innovation, we favour 1) Fintech, 2) Electric Vehicles (EVs) and 3) 5G/Internet of Things (IoT).</p> <p>The ongoing labour supply shortage is driving innovation as companies accelerate efforts on automation and digitisation. Semiconductor supply is essential to digitisation, and governments in the US and Europe recently announced plans to invest in a domestic manufacturing supply chain.</p> <p>EV sales continue to surprise positively, with a large order from a global car rental company in October being a key highlight. A recent EIA report forecasts the global conventional vehicles fleet to peak in 2038 (sooner than previously expected).</p> <p>EVs, fintech and IoT continue to see positive earnings upgrades relative to downgrades, thus supporting rich forward valuation multiples (12-month forward P/Es of 22, 32 and 40, respectively).</p>
	Time for climate investing	<p>The backdrop for energy renewables remains constructive. Days before the COP26 summit in Glasgow, Saudi Arabia announced its intention to achieve net zero by 2060, committing over USD 187bn worth of investment into the green economy. While it is likely to remain a leading oil and gas producer, it aims to increase its share of renewables to 50% of the Kingdom's energy mix by 2030. The UAE and Russia also pledged to achieve net zero by 2050 and 2060, respectively.</p> <p>COP26 marks an important event for the over 200 participating countries to showcase their progress so far and their plans going forward, in light of extreme weather events and most recently the energy crisis that has left Asia and Europe scrambling for fossil fuels.</p> <p>While earnings revisions have remained flat recently, long-term demand drivers remain intact and any market weakness offers opportunity for investors to average-in over the coming quarters.</p>
	A world of "Yield-Free" risk	<p>Major DM central banks continue to edge closer to dialling back emergency support, driving global bond yields higher since early August, resulting in negative returns for bonds across the credit spectrum. The path to higher income over the medium to long term is typically through higher yields, which can often come at the detriment of price returns in the short term. Additionally, investors can also consider taking more risk, raising exposure to equities, hybrids or to private assets, though this would likely be accompanied by higher volatility and illiquidity, respectively.</p>
Cyclical Themes	Ready, Steady, Rotate (Value to outperform Growth)	<p>Value-style equities underperformed Growth equities so far this month (4.5% vs 6.2%), possibly due to stagflation worries. While higher yields and inflation are typical tailwinds for Value sectors, concerns about a slowdown in activity tend to benefit Growth-oriented stocks due to their intrinsic growth premium. We believe economic growth concerns are overdone and a passing phase.</p> <p>While Value-style equities' ERI momentum has moderated from high levels, continued vaccination rollouts, fiscal spending plans and the eventual easing of supply disruptions will likely allow economic activities to normalise and thus support Value equities' outperformance.</p>
	USD to slump in 2021	<p>The USD has been stronger than we expected through 2021. The COVID-19 Delta variant, global supply chain issues and a significant regulatory tightening in China have raised fears of slower global growth and higher inflation. The resultant uncertainty has led to strong US asset inflows and a shift in USD positioning from short to long over the year. That said, real interest rate differentials still suggest a weaker USD ahead, and we expect US growth differentials with the rest of the world to narrow and US "exceptionalism" to fade over the next 12 months.</p>
	Race for Income	<p>The search for income continues to be challenging. Yields across most income assets (except for Asia HY bonds) remain lower than pre-pandemic levels. Rising rates have negatively impacted fixed income returns. We continue to tilt towards dividend-paying equities and hybrid assets in our Multi-asset income allocation as they are less sensitive to Fed tapering.</p>

Source: Bloomberg, Standard Chartered

Perspectives on key client questions

Audrey Goh, CFA

Senior Cross Asset Strategist

Marco Iachini, CFA

Cross Asset Strategist

Worried about a global inflation squeeze?

The debate on inflation has just gotten hotter. Slowing economic activity due to the Delta variant in recent months, coupled with an acceleration in US inflation to close to 5% in Q3 2021, has weighed on investor sentiment. There is a building narrative that the world may be shifting from transitory reflation to a permanently higher inflation regime, characterised by supply shocks – driving inflation higher and dampening growth – triggering fears of a repeat of the 1970s.

Input costs for producers have jumped to levels not seen in decades. In many countries, these input costs have started to trickle down to consumers, as evidenced by higher headline inflation. Meanwhile, the US Q3 2021 earnings season thus far has seen a record number of mentions of “supply chain” issues during earnings calls, which could foreshadow potential margin pressures and a hit to revenue growth over the coming months. That said, early commentaries from companies continue to indicate a solid outlook, with US firms, in particular, still generating healthy margins.

The debate is captured well in recent remarks from current US Treasury Secretary Janet Yellen and former Treasury Secretary Larry Summers. Yellen believes supply chain disruptions tend to be transitory and price pressures should fade once bottlenecks are resolved. The extraordinary nature of the recovery has boosted goods demand, while producers are yet to catch up. Summers, meanwhile, is concerned about runaway inflation, with labour market slack not as high as headline figures would suggest. The risk is a structurally tighter labour market, as people exit the workforce and COVID-19 permanently alters how people choose to live and work. This, he believes, could increasingly feed into higher wages and inflation.

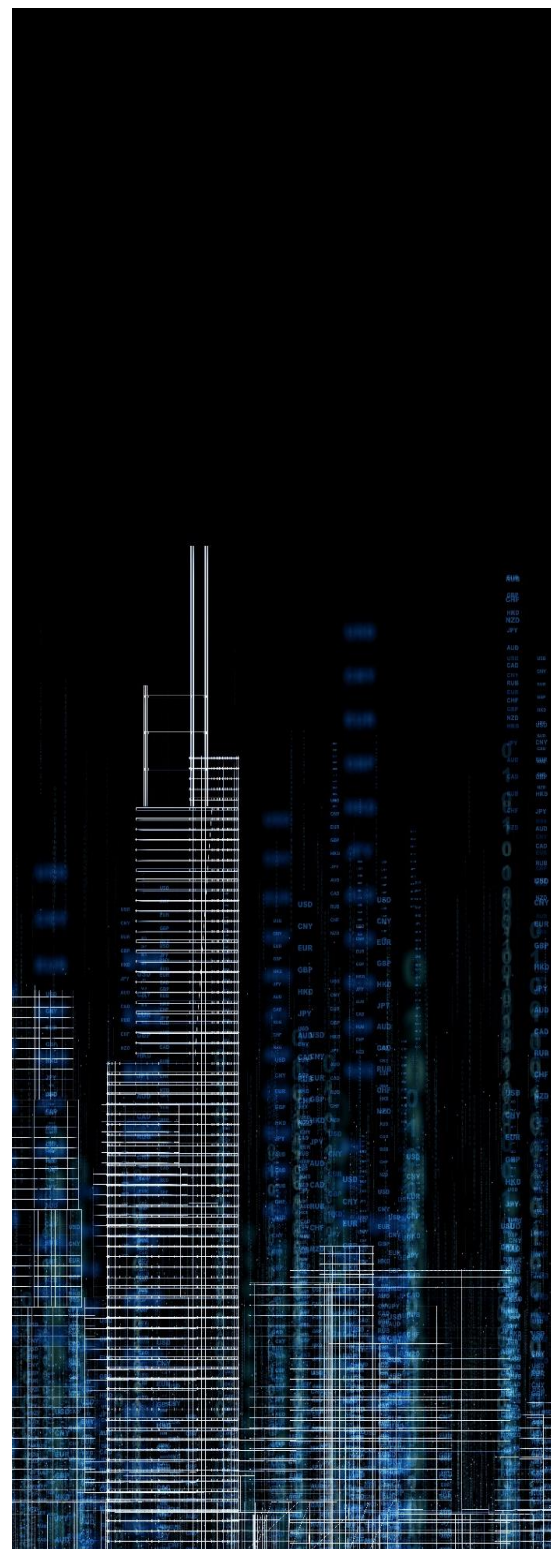
We look to history to answer a simple question: what asset classes or strategies tend to do well or poorly during high inflation environments? While our base case continues to be one of gradually falling inflation from here, this analysis may help investors think about how best to position portfolios in a scenario where inflation continues to rise.

Fig. 4 Private real assets, commodities and gold historically performed well following months of high consumer inflation

Average 12-month forward returns following various inflation levels

	Low	Moderate	High	Very high
Cash	1.4%	2.8%	3.9%	4.0%
Bonds	4.6%	5.3%	3.6%	6.4%
Global equities	10.3%	9.5%	-2.0%	-5.1%
Global dividend equity	8.4%	9.1%	4.9%	-2.7%
Alternatives	3.9%	4.4%	4.5%	-4.3%
Private real estate*	8.8%	9.7%	8.8%	9.2%
Commodities*	2.5%	9.2%	1.9%	9.8%
Gold*	8.5%	12.0%	11.4%	12.4%

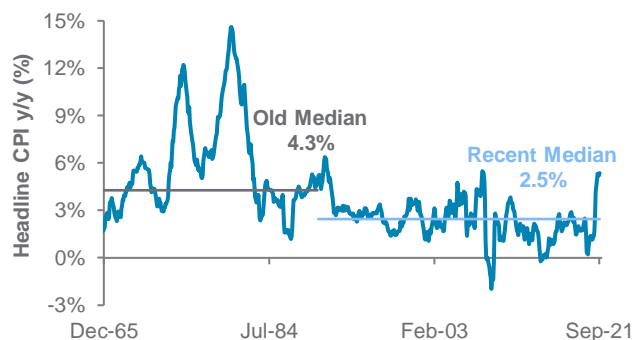
Source: Bloomberg, Standard Chartered. Data from 1998 to 2021. * Series starts on Jan-1977. Inflation level: Low = CPI below 2%; Moderate = CPI between 2-3%; High = CPI between 3-4%; Very High = CPI above 4%



Since the 1990s, US inflation has shifted to a lower range (median 2.5%) versus the previous three decades' median level of 4.3%. Global inflation also displayed much lower volatility in recent decades as more central banks adopted explicit inflation targets. These dynamics allowed investors to achieve nominal positive returns from a wider range of asset classes. High and very high inflation regimes, however, have historically made this task more challenging.

Fig. 5 Since the 1990s, median US CPI shifted to a lower range

US headline CPI YoY change and median levels



Source: Bloomberg, Standard Chartered

Strategies for investors

Below, we examine the behaviour of various asset classes during periods of rising inflation. We also discuss strategies investors can consider following periods of 'high' and 'very high' inflation (see Fig. 4 for detailed historical returns).

Equities: The relative performance of equities after a rise in inflation depends partly on the starting point. Equities tend to outperform other asset classes when inflation rises from a low starting level (CPI below 2%). However, if the rise in inflation comes from a starting point where inflation is already above the historical median, equity performance tends to suffer (Figure 6). Moreover, when inflation is already high/very-high (CPI above 3%), equity returns in the following 12-month tend to, unsurprisingly, significantly underperform inflation and other assets.

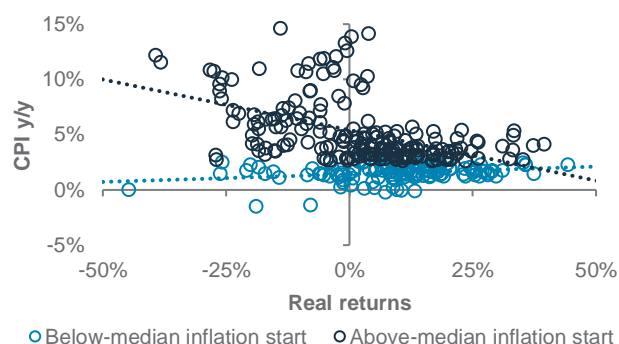
For one, higher and more volatile inflation may result in greater uncertainty around companies' ability to invest, grow and plan their businesses. While companies with strong pricing power can pass on increasing costs to their customers, other companies can only partially do so, leading to a compression in profit margins. Higher-than-expected inflation may also push discount rates higher, negatively impacting bonds and equities prices. Central banks may also over-tighten in response to higher inflation, thereby inducing recessions – hurting corporate revenue and earnings growth.

Within equities, energy and defensive sectors, such as healthcare, are good examples of sectors that benefitted, or at least avoided significant damage, from inflation. Conversely, consumer staples and utilities historically were

two of the worst performing sectors as they found it hard to hike prices sufficiently to mitigate cost pressures.

Fig. 6 Historically, equities suffered predominantly when inflation rose from already high levels

US equity real (net-of-inflation) yearly returns vs CPI Year-on-Year changes



Source: Bloomberg, Standard Chartered

Bonds: Somewhat counterintuitively, bonds outperformed equities in 12-month periods following high inflation months, while average total returns were in line with inflation. Higher yield levels could explain this performance, as bond yields would have adjusted higher to compensate for rising inflation.

The journey during these periods of rising inflation has usually not been a smooth one. Rising yields would initially hurt bond prices before the positive effects of higher yields started adding to 12-month total returns. Thus, until inflation reached a peaking point, reducing bonds allocations and decreasing one's portfolio duration (ie. maturity profile) would have historically been an attractive strategy.

Hard assets (private real estate, gold, and broad commodities). The underlying monthly data shows a wide distribution of returns. However, historically, these assets have proven resilient (generating positive real returns) during periods of rising inflation and in the 12-months following high inflationary periods, on average. This is particularly true before the 2000s. That said, it is worth noting that gold, which tends to be viewed as a good inflation hedge, has underperformed at times when central banks turned too hawkish and caused a spike in real yields, as evident during the taper tantrum episode of 2013.

Structural differences of today's world

As shown in Figure 5, high inflation has been somewhat of a missing phenomenon over the last three decades. Thus, some caution is warranted when extrapolating and applying data from past inflationary periods to today's environment.

Historically, central banks hiked interest rates in anticipation of rising price pressures triggered by robust demand. In the current environment, it is possible that they may respond differently given their belief that the current bout of inflation is transitory and caused by supply disruptions.

Macro overview – at a glance

Rajat Bhattacharya
Senior Investment Strategist



Key themes

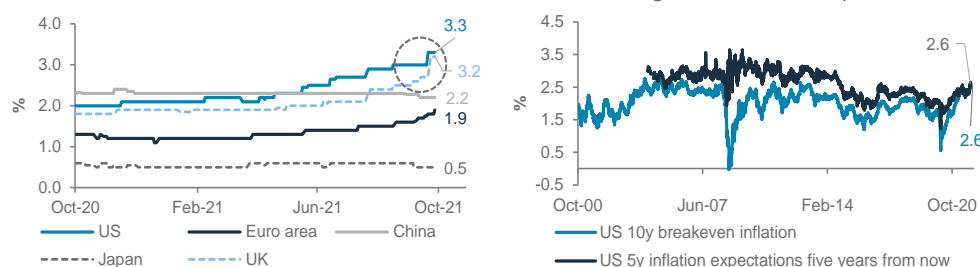
As the global economy starts to “live with COVID” as a result of vaccinations, investors face three key questions: a. will the rest of the world catch up with the US and Europe in the next 6-12 months?; b. will inflation keep rising, ending a decade-long deflation regime?; and c. will major central banks continue to tolerate higher inflation? China’s outlook, following this year’s policy-led slowdown, is key to answering the first question. We expect China’s growth to stabilise just above 5% in the coming year as authorities revive credit growth and provide targeted fiscal stimulus, while local governments resume infrastructure spending. Among the major economies, inflation is a critical issue in the US and UK. We see signs of more persistent inflation in these markets due to supply bottlenecks in shipping, semiconductors and housing, and increasingly due to tighter labour markets. Hence, inflation in these two markets is likely to stay well above their central banks’ 2% target in the next 6-12 months. Nevertheless, we expect the Fed to tolerate above-target inflation under its new policy regime, enabling it hold off rate hikes until end-2022 to maximise job creation under our assumption that long-term inflation expectations stay within decade-long range. The ECB and BoJ are likely to stay accommodative amid subdued inflation. The BoE may need to act against inflation sooner.

Key chart

Consensus 2022 inflation estimates have risen the most for the US and UK, primarily due to persistent supply constraints, while inflation forecasts for other major economies remain below their central bank targets

Fig. 7 US 2022 inflation estimates have risen, but long-term expectation is still in range

Consensus inflation estimates for 2022; US market-based long-term inflation expectations



Source: Bloomberg, Standard Chartered

Monetary Policy	Macro factors positive for risk assets	Macro factors negative for risk assets
US ▽ ◇ ▲	+ Above-trend growth; 58% fully vaccinated + Job gains, savings to lift demand for services + Business restocking, infrastructure boost + Fed rates on hold; still-high fiscal support	– Proposed tax hikes, fiscal drag from 2022 – Lower job participation; precautionary savings – Slowing goods demand; supply bottlenecks – Faster Fed tightening risk due to high inflation
Euro area ▽ ◇ ▲	+ Above-trend growth; 65% fully vaccinated + Excess savings; Recovery Fund pay-out + Low ECB rates; likely German fiscal easing	– COVID revival in Germany; vaccinations slow – Precautionary savings; supply, energy crunch – ECB tapering; German coalition delay
China ▼ ◇ △	+ 72% fully vaccinated to lift consumption + Strong exports; likely infrastructure boost + PBoC's likely targeted policy easing	– COVID revival/zero-tolerance; power crunch – Global goods-to-service shift to hit exports – Regulatory tightening, property tax; geopolitics
Japan ▽ ◆ △	+ Strong exports, pent-up global auto demand + 71% fully vaccinated to lift local consumption + New government likely to boost fiscal stimulus	– Global goods-to-service shift to slow exports – COVID uncertainty, precautionary savings – Structural deflationary forces
UK ▽ ◇ ▲	+ Above-trend growth; 68% fully vaccinated + 'Living with COVID' strategy to lift consumption + Infrastructure boost; strong foreign investment	– COVID revival; precautionary savings – Brexit-led disruption to job market, supplies – Tighter monetary policy risk due to inflation

Source: Standard Chartered Global Investment Committee

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

Bonds – at a glance

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Key themes

Bond yields edged higher this month ahead of the November FOMC meeting, though rising inflation expectations kept real (net-of-inflation) yields negative. Our baseline expectation for the 10-year US government bond yield has risen slightly to the 1.75-2.0% range over the coming 12 months, driven by the possibility of higher-than-expected inflation, a hawkish Fed and, more near-term, year-end seasonality in favour of higher yields.

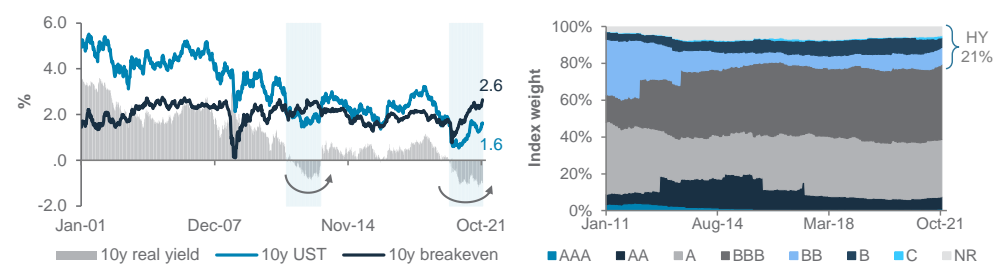
We still believe DM HY and Asia USD bonds offer the most attractive risk/reward given their low interest rate sensitivity and elevated yield. Within Asia, we retain a preference for HY given their yield premium is close to decade highs. As a reference, since 2011, when DM HY bonds yield premiums were similarly wide in percentile terms, they delivered median 12-month returns of approximately 25%. We also raise our view on EM local currency bonds to a core holding as believe the USD is close to peaking and EMs have already implemented significant rate hikes.

Key chart

We see upside risks to 10-year US Treasury yields as negative real yields start to turn around amid a more hawkish Fed

Fig. 8 A turnaround in real yields would pose upside risks to nominal yields

10-year US government bond yield (nominal and inflation-adjusted) and the market's inflation expectations (the 'breakeven'); break-down of Asian USD bonds by ratings



Source: Bloomberg, Standard Chartered

	The bullish case	The bearish case
<div>Preference order ↑</div> <div>Asia USD</div> <div>▽ ◇ ▲</div>	+ Strong credit fundamentals + Structurally increasing foreign demand + Attractive valuations relative to the US	– Risk of higher defaults in China – Lower yields vs other EM bonds
<div>DM HY corporate</div> <div>▽ ◇ ▲</div>	+ Balance sheet improvement in 2021 + Default rates have declined sharply + Low interest rate sensitivity	– Expensive valuations – Increase in supply
<div>EM USD government</div> <div>▽ ◇ ▲</div>	+ Higher commodity prices + Cheaper valuations vs US IG/HY bonds	– High interest rate sensitivity – Low vaccination rate. Risk of renewed lockdowns
<div>EM local currency</div> <div>▽ ◆ ◇</div>	+ Higher commodity prices + Improvement in EM FX reserves + Moderately attractive yield	– Further monetary policy tightening – Risk of outflows due to Fed tapering – Higher volatility due to FX exposure
<div>DM IG corporate</div> <div>▼ ◇ ▲</div>	+ Strong credit fundamentals + Attractive hedged yield for foreign investors	– Expensive valuations – High interest rate sensitivity – Low absolute yield
<div>DM IG government</div> <div>▼ ◇ ▲</div>	+ High credit quality + Fed, ECB unlikely to hike rates at least in the next 12 months	– Improvement in growth and/or inflation – Large net issuance increase – Fed likely to begin tapering in Q1 22

Source: Standard Chartered Global Investment Committee

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

Equity – at a glance

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Key themes

Global equities remain a preferred asset class as we expect the global recovery to extend and global policy settings to remain supportive. The latest US/Europe corporate earnings releases have reassured those worried about declining profit margins. The Euro area market is preferred amid expectations of more fiscal stimulus in Germany, a relatively dovish ECB and a likely further rotation into Value sectors. The US market is also preferred as earnings continue to surprise positively, offsetting fears that tapering could upset the bull market. A likely infrastructure stimulus and above-trend growth in 2022 are other positives.

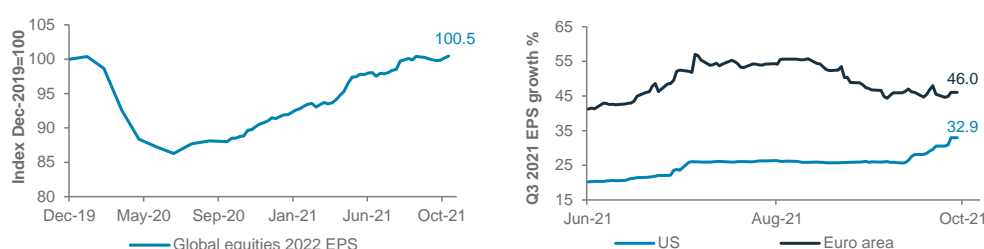
We have upgraded Asia ex-Japan to a core holding this month. There are signs that while the regulatory clampdown in China is broadening, its severity is moderating somewhat, and the government may be ring-fencing the property sector to a certain degree.

Key chart

2022 earnings for global equities have recovered to pre-pandemic levels. The US and Euro area continue to see positive revision to earnings.

Fig. 9 Consensus 2022 earnings for global equities have recovered to pre-pandemic levels; US and Euro area's Q3 earnings growth estimates are being revised higher, supporting equity market outperformance

Consensus 2022 earnings for global equities; Q3 2021 consensus earnings growth



Source: MSCI, FactSet, Standard Chartered

		The bullish case	The bearish case	
Preference order ↑	Euro area equities ▽ ◇ ▲	+ ECB dovish + Fiscal upside in Germany + Vaccination leader	– Lower RoE vs peers – Need global growth to sustain in order to outperform the US	
	US equities ▽ ◇ ▲	+ Fiscal, infrastructure stimulus + Strong earnings + Innovative premium	– Valuation expensive – Tax reform – Non-US regions tilted more to cyclical/Value	
	Asia ex-Japan equities ▽ ◆ △	+ Less intense regulatory clampdown in China/selective credit easing + Light positioning + Growth differentials converge vs DM	– China uncertainties – Geopolitics	
	Within AXJ	India equities ▲	South Korea equities ◆	China equities ◆
	Japan equities ▽ ◆ △	+ Light positioning + Attractive valuation + Cyclical heavy	– BoJ expected to reduce ETF purchases – LDP election result not so pro-reform	
	UK equities ▽ ◆ △	+ Attractive valuation + Value heavy + ESG inflow	– Relatively weaker 2022 earnings growth – Post-Brexit trade uncertainties – Household savings rise, but lag other regions	

Source: Standard Chartered Global Investment Committee

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

FX – at a glance

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Head, FICC Investment Strategy

DJ Cheong, CFA

Investment Strategist



Key themes

The USD has been stronger than we expected through 2021. The new Delta variant amid slow vaccination rates in H1 and global supply chain issues alongside a significant policy shift in China during H2 have raised fears of slower global growth and higher inflation. The impact has seen strong US asset inflows and a shift in USD positioning from short to long over the year. That said, real interest rate differentials suggest a weaker USD ahead, and we expect US growth differentials with the rest of the world to narrow and US “exceptionalism” to fade over the next 12 months. We remain USD bears.

Our view is predicated on the Fed continuing its policy of tolerating slightly higher inflation (Average Inflation Targeting policy), a steady relaxation of supply-side constraints, and robust Euro area and Chinese fiscal stimulus. Growth rotation away from the US and low real interest rates should drive USD outflows to more attractive global assets and long-USD position unwinding could add momentum. We are less bullish towards the GBP as the post-Brexit UK economy may be vulnerable to supply-side inflation. A hawkish Bank of England may weigh on the growth recovery, especially if fiscal policy also turns more austere.

Key chart

Real interest rate differentials still infer a USD decline as the Fed continues to tolerate higher inflation

As global growth uncertainty recedes, the unwinding of long USD positions may accelerate the USD decline as capital moves out of the US

Fig. 10 Inflation-adjusted rate differentials still infer a weaker USD

USD (DXY index) and 10-year inflation-adjusted rate differentials (RHS)



Source: Bloomberg, Standard Chartered; *10-year government bonds deflated by CPI indices

Fig. 11 Unwinding of long-USD positions may hasten an expected USD decline

Sum of USD CFTC positions vs. EUR, GBP, JPY, CHF, CAD, AUD, and NZD

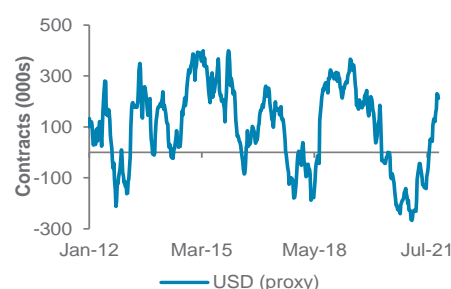


Fig. 12 Summary of major currency drivers

12-month outlook	The bullish case	The bearish case	12-month outlook	The bullish case	The bearish case
USD (DXY) ▼	+ US yields/growth exceptionalism + Safe-haven status	– Global growth and rate differentials – High twin deficits	USD/JPY ◆	+ Rising nominal US Treasury yields + Policy rigor mortis	– Favourable real yield differentials – Short JPY positioning
EUR/USD ▲	+ Fiscal spending drives EA growth + Strong exports	– Dovish ECB policy continues – China slowdown	USD/CNY ◆	+ Policy shift away from growth focus + Reduced stimulus	– Global trade and strong exports – Investment inflows
GBP/USD ◆	+ Strong capital inflows from Asia + Hawkish BOE	– Post-Brexit risk of “stagflation” – High Covid cases	USD/CAD ◆	+ Commodity price vulnerability + Positives priced in	– Global/US growth & trade; oil price – Hawkish BoC
AUD/USD ▲	+ Commodity prices & Terms of Trade + Border opening	– China demand for commodities falls – Dovish RBA policy	NZD/USD ▲	+ RBNZ has begun rate hiking cycle + Terms of Trade	– Global risk-off sentiment – Border restrictions

Source: Standard Chartered Global Investment Committee

Legend: ▲ Bullish | ▼ Bearish | ◆ Rangebound

Gold, crude oil – at a glance

DJ Cheong, CFA

Investment Strategist



Key themes

Rising inflation is a boon for gold. We are raising our view on gold to a preferred asset class given its portfolio diversification and inflation hedge qualities. While an imminent announcement of the Fed tapering bond purchases is unlikely to surprise markets, investors will likely grapple with when inflation is likely to peak, and the risk of central banks over-reacting. Even though we expect inflation to gradually ease next year, gold can offer a hedge in the event that inflation temporarily surprises on the upside. Longer term, our expectation of a weaker USD should also add a leg of support for the precious metal.

Oil prices expected to stay supported in the near term. Oil prices have surged over the past few weeks, encouraged by a shortage of natural gas that has spilled over to other energy markets. There are several reasons for the crunch in natural gas supply, including an early onset of winter weather in Northern Europe unexpectedly drawing down inventories and unplanned LNG plant maintenance. Oil's link to gas occurs via gas-to-oil switching for both power generation and industrial demand. We believe oil prices will stay supported on weather-related factors in the near term. Over the next 6-12 months, however, we see a more nuanced outlook for oil. OPEC+ will likely continue to prop up the market as US shale supply gradually recovers, while tighter coal and natural gas markets could impact demand growth to some extent.

Key chart

Real (inflation-adjusted) yields are likely to remain contained as the Fed holds off rate hikes until end-2022 to maximise employment. A weaker USD is also a tailwind.

Oil markets will likely remain tight throughout winter as OPEC+ errs in the direction of higher oil prices

Fig. 13 Gold will likely benefit from a lower USD amid stable inflation-adjusted yields

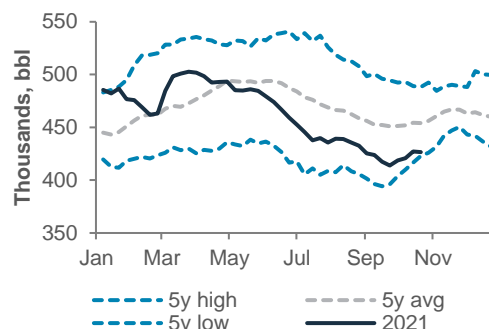
Gold (USD/oz), USD (DXY inverted; RHS)



Source: Bloomberg, Standard Chartered

Fig. 14 Weather-related factors are exacerbating the drawdown in inventories

US commercial crude oil inventories (thousands, bbl) relative to its five-year high, low, and average



	The bullish case	The bearish case		The bullish case	The bearish case
Gold	<ul style="list-style-type: none"> + Broad USD weakness (denomination effect) + Recovery in physical markets (jewellery) + Portfolio/fiat currency debasement/inflation hedge qualities + Improving technical backdrop 	<ul style="list-style-type: none"> – Inflation expectations are well-anchored – A hawkish repricing of US rate hikes – Speculative disinvestment could pressure gold – Cryptocurrencies are competing for flows with gold 			
12m TAA			Crude oil	<ul style="list-style-type: none"> + A recovery in global oil demand/trade + Capex discipline among shale oil operators + OPEC+ to prop up the market + Weather-related factors + Middle Eastern geopolitics 	<ul style="list-style-type: none"> – Waning OPEC+ compliance – Rising drilling activity could result in higher supply – Still fragile recovery in oil demand – Markets may not be able to absorb the return of Iranian oil
Absolute			Absolute		

Source: Standard Chartered Global Investment Committee

Legend: ▲ Bullish / Preferred | ▼ Less preferred / Bearish | ◆ Core holding / Range-bound

Technicals

Manish Jaradi

Senior Investment Strategist

Global equities: More upside

The MSCI All Country World Index has rebounded from vital support on the 200-DMA. Furthermore, the break above minor resistance at the September 23 high of 733 has confirmed that the short-term downward pressure has faded. Overall, the trend remains up and the next upside level for the index is 775 (4% above the 28 October close), although it is yet to breach the September's all-time high of 749.

Having said that, the rebound this month has been associated with sluggish momentum. This typically is a sign of fatigue given that it has nearly doubled since March 2020. This would not necessarily mean that the index will fall, but it may need to settle in a range in the interim before it regains its long-term uptrend.

Gold: And now the tough part

In a way, the easy part for Gold is done. That is, the rebound from the crucial support at 1,675-1,685. While a rebound from the support is not surprising, it is not a sufficient condition to ensure that the worst is over. The yellow metal needs to break above a tough resistance on a horizontal trendline from July at 1835.

Until then, it would be premature to conclude that the yellow metal is out of the woods. Any break above the resistance would trigger a reverse head and shoulders pattern (the left shoulder at the June low of 1,749, the head at the August low of 1,684 and the right shoulder at the September low of 1,720), implying a possible rise towards the June high of 1,916, possibly the January high of 1,951.

China equities: Testing key barrier

China onshore equities started the year on a positive note and look set to end the year on optimism if it breaks above the 5,043-5,125 resistance range. On a YTD basis, the CSI 300 index has been down (around 6%), but there are tentative signs that the upward momentum is picking up.

The index has established a solid base around 4,700, and any break above 5,043-5,128 could open way initially towards the May high of 5,378 and potentially the February high of 5,931. Moreover, from a big-picture perspective, the decline from February is around 38.2% retracement of the 2019-2021 rise, which is a reasonable retracement following a long uptrend and not necessarily a reversal. A failure to break above 5043-5125 could expose downside risks towards 4700, possibly the September 2020 low of 4555. We continue to favour onshore China equities to the offshore market.

Fig. 15 Global equities: More upside

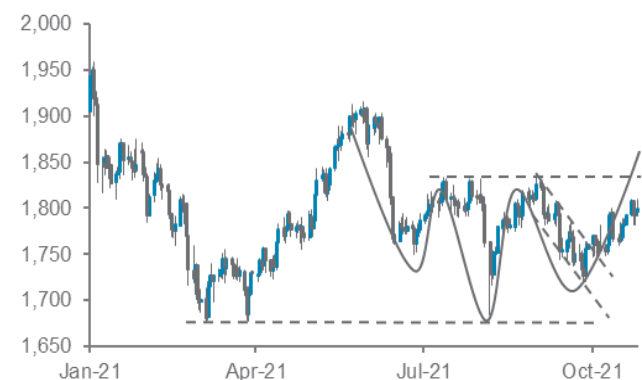
MSCI All Country World index weekly chart with RSI



Source: Refinitiv, Standard Chartered

Fig. 16 Gold: And now the tough part

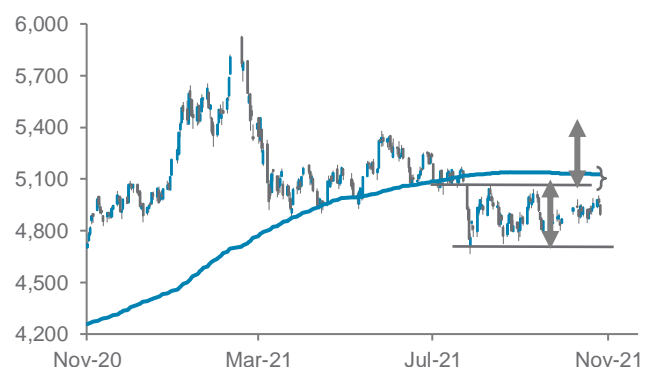
XAU/USD daily chart



Source: Refinitiv, Standard Chartered

Fig. 17 China equities: Recovering slowly, but surely

CSI 300 index daily chart with 200-DMA



Source: Refinitiv, Standard Chartered

Tracking market diversity

Steve Brice

Chief Investment Officer

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?

Our proprietary diversity indicator shows a broad improvement in market diversity in October and none of the assets we track are showing significant crowding. This includes natural gas, which we previously flagged for reversal risk. The correction in early October has helped to balance out the market diversity of the commodity.

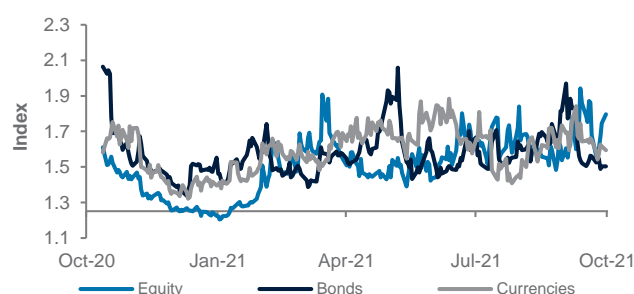
For equities, market diversity has remained healthy throughout the market pullback in September and the recovery in October. This indicates no visible crowding in these markets, which include our overweight calls on US (22% YTD) and European equities (14% YTD).

Overall, the diversity in the bond markets remains healthy, but is lower compared with other asset classes such as equities. This is mainly driven by the lower diversity in DM government bonds, which have suffered from rising concerns about the outlook for the Fed policy. At this juncture, however, our diversity indicator has yet to flag a high chance of a positive reversal in this space.

At the sector level, our diversity indicator no longer shows a reversal risk in China's tech and property-related sectors. Most of these sectors have delivered positive performance in October, with the discretionary and communication sectors rebounding as much as 15% and 10%, respectively.

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

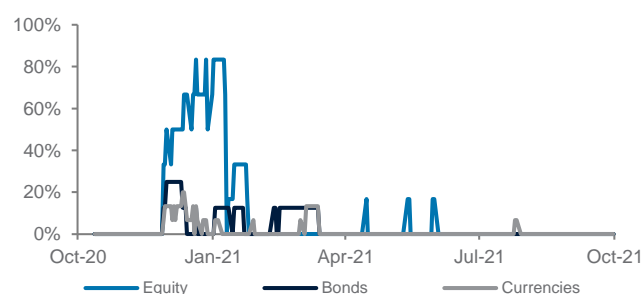
Market diversity is generally healthy



Source: Standard Chartered

Fig. 19 Percentage of assets with diversity score <1.25

No red flags across key markets



Source: Bloomberg, Standard Chartered

Fig. 20 Diversity across asset classes has broadly improved

Level 1	Market diversity	30-day diversity trend
FTSE World Broad IG Bond	○	↓
MSCI All Country World	●	→
Gold	●	↑
HFRX Global Hedge Fund Index	●	↓
Fixed Income		
FTSE DM IG Sovereign Bond	○	↓
China Sectors		
Communication Services	●	↑
Consumer Discretionary	●	↑
Real Estate	●	→
Commodities		
Natural Gas	○	↑

Source: Bloomberg, Standard Chartered; data as on 25 October 2021

Legend: ○ Very low ● Low/moderate ● High

Asset allocation summary

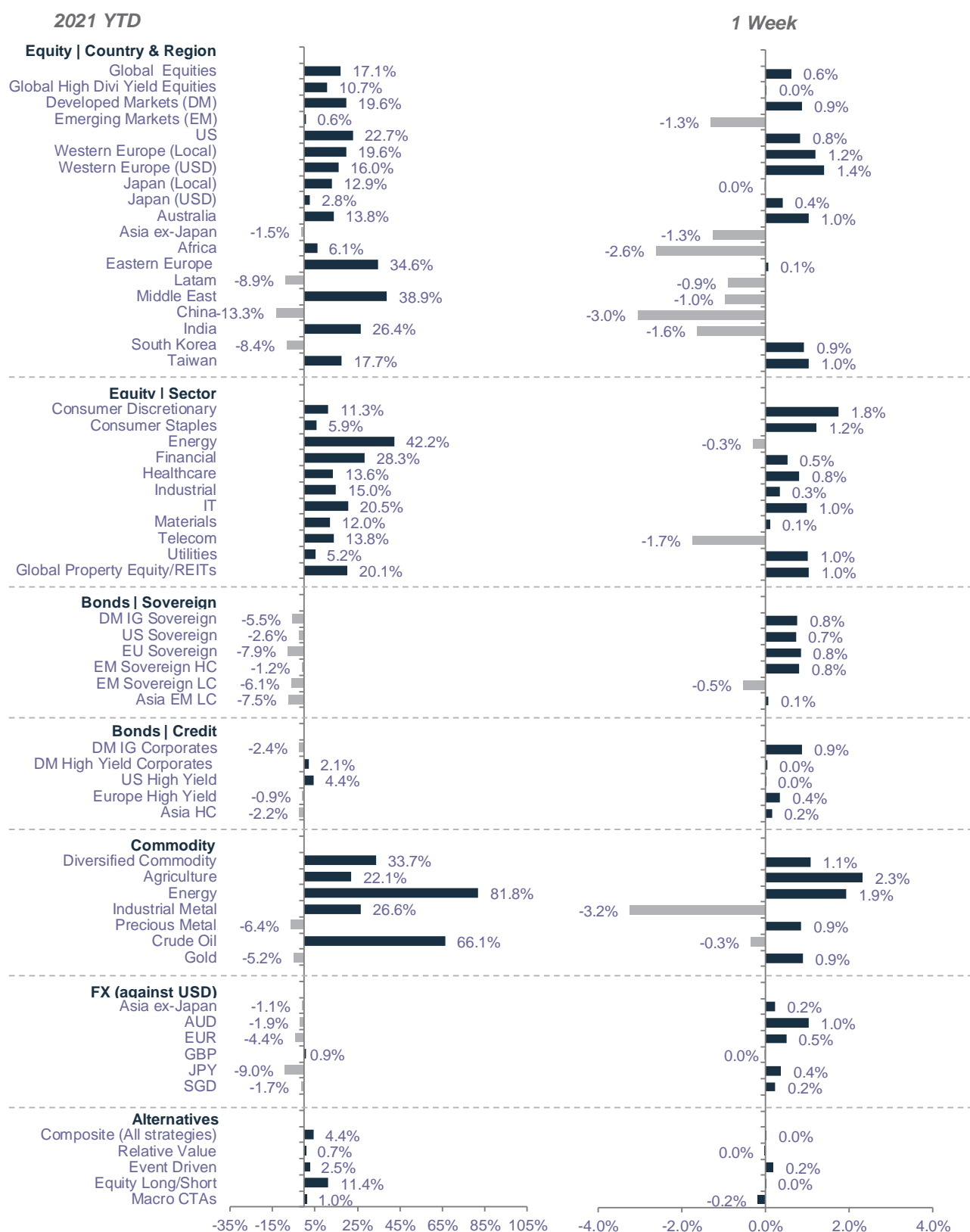
Summary	View	ASIA FOCUSED				GLOBAL FOCUSED			
		Conservative	Moderate	Moderately Aggressive	Aggressive	Conservative	Moderate	Moderately Aggressive	Aggressive
Cash	▼	12	5	2	0	12	5	2	0
Fixed Income	◆	63	36	26	7	63	36	26	7
Equity	▲	26	43	57	84	26	43	57	84
Gold	▲	0	6	6	5	0	6	6	5
Alternatives	◆	0	10	9	4	0	10	9	4
Asset class									
USD Cash	▼	12	5	2	0	12	5	2	0
DM Government Bonds	▼	4	2	2	0	6	3	2	1
DM IG Corporate Bonds	▼	6	3	2	1	8	5	3	1
DM HY Corporate Bonds	▲	10	7	5	1	16	10	7	2
EM USD Government Bonds	▲	15	8	6	2	12	6	4	1
EM Local Ccy Government Bonds	◆	10	6	4	1	8	4	3	1
Asia USD Bonds	▲	18	10	7	2	14	8	5	1
North America Equities	▲	13	14	19	28	17	23	31	45
Europe ex-UK Equities	▲	5	10	13	19	2	5	6	9
UK Equities	◆	1	2	3	4	1	2	2	4
Japan Equities	◆	1	2	3	4	1	2	2	4
Asia ex-Japan Equities	◆	5	11	15	22	4	7	10	14
Non-Asia EM Equities	◆	0	4	5	7	1	4	5	7
Gold	▲	0	6	6	5	0	6	6	5
Alternatives	◆	0	10	9	4	0	10	9	4

All figures in %. Source: Standard Chartered

Note: Allocation figures may not add up to 100 due to rounding

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

Market performance summary*



2021 key events

OCTOBER 2021

31 Japan General Elections

NOVEMBER 2021

1-12 UN Climate Change Conference in Glasgow

DECEMBER 2021

Dec China Annual Economic Work Conference
16 ECB policy decision
17 BoJ policy decision
31 Iran's deadline for the US to end sanctions

JANUARY 2022

18 BoJ policy decision
26 FOMC policy decision

FEBRUARY 2022

3 BoE policy decision
3 ECB policy decision
5 Fed Chair Powell's term expires

MARCH 2022

Mar China National People's Congress session
9 South Korea Presidential election
10 ECB policy decision
16 FOMC policy decision
17 BoE policy decision
18 BoJ policy decision
27 Hong Kong Chief Executive election

APRIL 2022

Apr France Presidential elections
14 ECB policy decision
28 BoJ policy decision

MAY 2022

4 FOMC policy decision
5 BoE policy decision

JUNE 2022

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

JULY 2022

20 BoJ policy decision
21 ECB policy decision
27 FOMC policy decision

AUGUST 2022

4 BoE policy decision

SEPTEMBER 2022

8 ECB policy decision
15 BoE policy decision
21 FOMC policy decision
22 BoJ policy decision

OCTOBER 2022

27 ECB policy decision
28 BoJ policy decision

NOVEMBER 2022

2 FOMC policy decision
3 BoE policy decision
8 US House/Senate elections

DECEMBER 2022

14 FOMC policy decision
15 ECB policy decision
15 BoE policy decision
20 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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Explanatory notes

1. The figures on page 5 show allocations for a moderate risk profile only – different risk profiles may produce significantly different asset allocation results. Page 5 is only an example, provided for general information only and they do not constitute investment advice, an offer, recommendation or solicitation. They do not take into account the specific investment objectives, needs or risk tolerances of a particular person or class of persons and they have not been prepared for any particular person or class of persons.

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