



# Market Watch

## Fed policy drags markets

### Summary

**US equities fell sharply on Friday following renewed inflation and Fed reaction worries.** The S&P500 fell 2.8% and the Nasdaq fell 2.6%, while the USD index rose 0.6%.

**Fed Chair Powell said a 50bps rate hike was “on the table”**, while ECB Vice-Chair Guindos said a rate hike was “possible” from July. Market expectations for long-term US inflation rose above 3%.

**Market technicals, US earnings are next key factors to watch.** 180 S&P500 companies due to report earnings this week, including some of the largest by market capitalisation.

**In Europe**, incumbent President Macron’s win in the second round of the presidential election removes one uncertainty. A ceasefire in the Ukraine conflict could lift sentiment further.

### Background

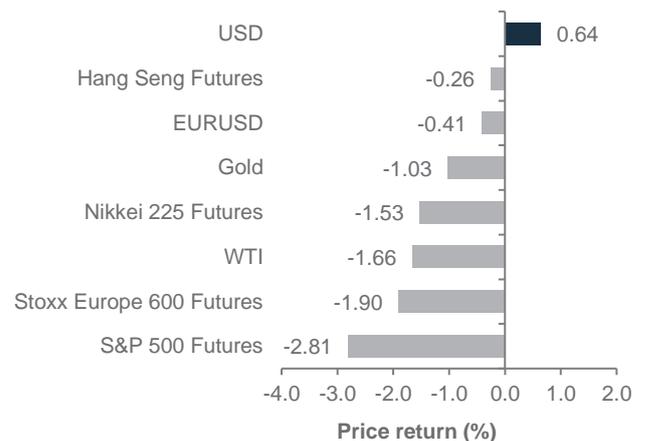
**US equities fell sharply on Friday following renewed concerns over the pace of Fed tightening.** The S&P500 fell 2.8%, led by Materials and Healthcare sectors, while the Nasdaq index fell 2.6%. In Europe, the Stoxx 600 fell 1.9%, while, in China, the Shanghai Composite rose 0.2% as regulators asked domestic banks and insurers to support equity markets.

**Fed Chair Powell’s comments at IMF meetings were likely a main factor behind Friday’s drop in equities.** Powell said that (i) a 50bps rate hike was “on the table” for the next policy meeting, (ii) that investors were “reacting appropriately” by anticipating several 50bps rate hikes and (iii) that the Fed’s goal was to address the inflation challenge “without a slowdown that amounts to a recession”, while noting that doing so would be “very challenging”.

**Rising inflation expectations and ECB policymaker comments likely added further pressure.** In the US, 10-year inflation expectations rose to 3.04%, the highest since 25 March, while in Europe, 10-year inflation expectations rose to 2.4%. While a lot of the focus was on Powell and likely Fed policy, a comment by ECB Vice-President Guindos that a rate hike was “possible” after July stood out, though President Lagarde remained more ambivalent.

### Friday’s weakness was led by US equities, while the USD strengthened

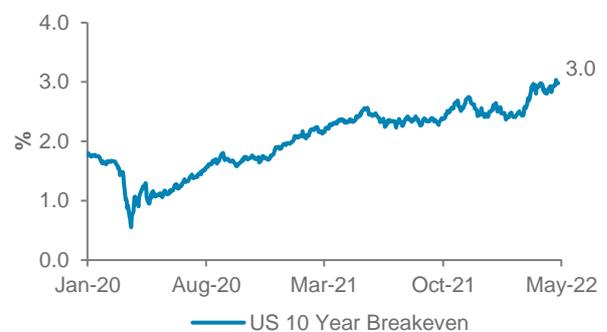
1-day price return (%) on April 22



Source: Bloomberg, Standard Chartered

### Market expectations of US inflation have continued to rise recently

US 10-year inflation expectations, as measured by inflation breakevens on Treasury inflation-protected securities



Source: Bloomberg, Standard Chartered

## What does this mean for investors?

Markets are likely to remain sensitive to any shifts in interest rate expectations, especially in sectors such as technology which tend to be more sensitive to changes in bond yields in the short term. However, with a fairly aggressive rate hiking cycle now priced in the US, the room for further upside surprise looks limited unless a new energy price shock or intensifying supply chain disruptions lead to a further rise in the market's inflation expectations. Instead, we would be on watch for upside surprises in Europe or Japan where expectations of monetary policy tightening remain far more muted.

**Earnings this week are likely to be crucial.** As we pointed out in the *Weekly Market View (A promising start, 22 April)*, Q1 earnings are likely to be the next key catalyst. So far, the picture has been positive, with about 77% of company earnings surprising positively (vs. the long-term average of 66%). However, about 180 companies are due to report this week, including some with the largest market capitalisations. We would keep a close watch on the earnings surprise ratio as well as any indications of how profit margins are evolving.

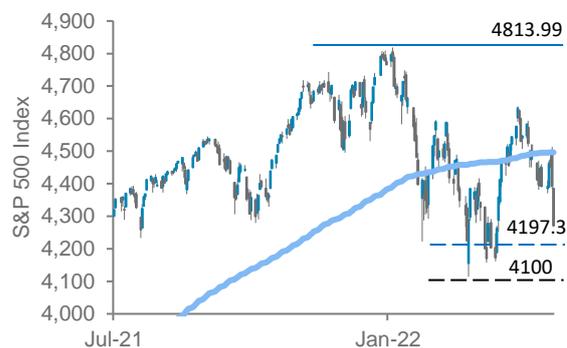
**US equity market technicals remain mixed.** Even after Friday's drop, S&P500 technicals remain consistent with a rangebound outlook in the near term, with the next key supports near 4200 and 4100. For the US 10-year government bond yield, which is a key indicator for Fed policy and inflation expectations, 3% and 3.26% remain key technical resistance levels.

— **Manpreet Gill**, *Head FICC Investment Strategy*

— **Zhong Liang Han**, *Investment Strategist*

## S&P500 technicals continue to offer a rangebound outlook for now, with the next key support 4.0% below Friday's close

S&P500 index and key technical levels



Source: Bloomberg, Standard Chartered

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