Market Watch

US falters, China rebounds

Summary

US stocks fell sharply on Friday following disappointing Amazon earnings and record-high US employment costs. The S&P500 fell 3.6% and the Nasdaq fell 4.2%.

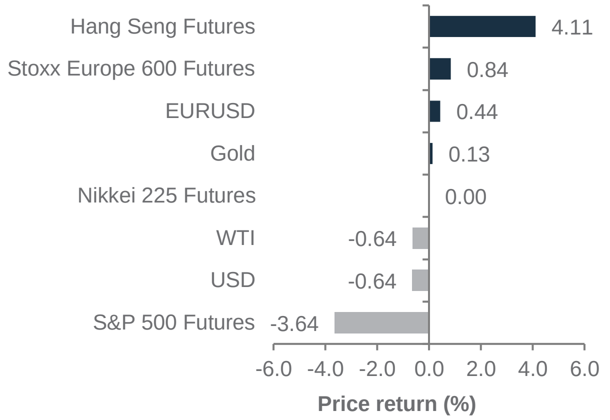
Chinese equities jumped after the Politburo statement revealed more policy commitments. The Hang Seng rallied 4.1% while the Shanghai Composite rose 2.4%.

US Technology, Consumer discretionary expected to perform in line with broader US market going forward. We expect Financials and Energy to outperform.

More signs of a turnaround in Chinese equities. A stronger case to stay invested in Chinese equities from more supportive government policies.

Friday's weakness was led by US equities, while the Europe and Chinese equities gained

1-day price return (%) on April 29



Source: Bloomberg, Standard Chartered

Background

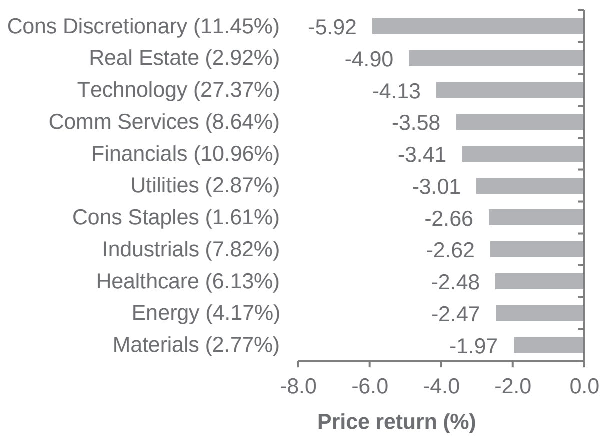
US equities closed out a terrible month with a huge slump on Friday. Renewed concerns over the Fed tightening cycle and disappointing guidance from big tech and consumer discretionary companies hit stocks hard. The S&P500 closed down 3.6%, led by Consumer Discretionary, Real Estate and Information Technology sectors. The Nasdaq index fell 4.2%, which capped off its worst month (fell 13.3% in April) since 2008. In Europe, the Stoxx 600 rose 0.8%, while, in China, the Shanghai Composite rose 2.4% after the Politburo vowed more economic stimulus.

The collapse of Amazon shares was a significant contributor behind Friday's decline in equities. The stock sank 14% in its biggest one-day drop since July 2006 following a disappointing Q1 earnings. It lost money during the first quarter when most analysts were expecting USD 6.72bn profits. The management also guided for a slowdown of e-commerce sales growth and another loss-making quarter. The sell-off erased USD 206.2bn off Amazon's market cap, the second biggest single-day decline in market value in history. Google also continued the decline on Friday after its earnings miss last Tuesday.

The other market event was the big jump in US employment costs. The employment cost index came in above expectations at 1.4% q/q, which was the largest advance since its inception in 1996. The data release will

Amazon drove the huge decline of Consumer Discretionary; Google led the drop in Technology

S&P 500 sectors 1-day price return (%) on April 29*



Source: Bloomberg, Standard Chartered
*Sector weightage in round bracket

increase inflation concerns and Fed funds futures climbed; the market is now pricing in more than 250bps additional rate hikes by end of the year. Since this is the Fed-preferred wage gauge, the risk is for an even more hawkish Fed.

Things are looking better over in China as the Politburo came out and committed more efforts to meet the 5.5% growth target and support the tech platform companies. The Hang Seng Tech Index is up as much as 11% after the statement.

What does this mean for investors?

Markets to remain focused on US Q1 earnings. Earnings are likely to be crucial to the near-term outlook for stocks. Interestingly, there was actually an uptick in companies reporting positive earnings surprises last week, with about 81% of company earnings surprising positively (vs 71% the week before). In the weeks ahead, we will keep a watchful eye on the remaining 239 companies in the S&P 500 yet to report earnings.

Technology to perform in line with the broader US market. We downgraded our view of US Technology to a core holding (from preferred previously) back in February as investors remain sensitive to the sector's elevated valuation, limiting outperformance in our view, but Tech has actually lagged the broader market since then. We maintain our view and expect elevated bond yields to be a headwind in the near term. We prefer Financials which will benefit from the rise in bond yields. Energy is also a preferred sector as high oil prices support strong earnings.

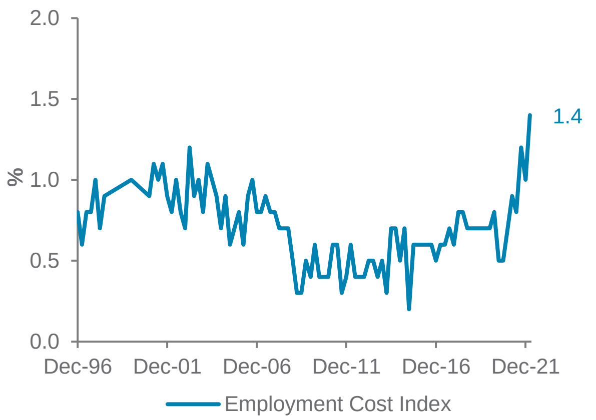
75 basis points is the new 50 basis points. With a 50bps rate hike at next week Fed's meeting priced in, market participants are turning their focus to June meeting where a 75bps rate increase is now priced in by the markets (vs a 50bps rate increase expected a month ago). Markets are likely to stay volatile to any shifts in interest rate expectations as we inch closer to the upcoming FOMC meetings.

We see more signs of a turnaround in Chinese equities. Firstly, the Politburo promised to complete the special rectification of the platform economy soon, which suggests policymakers are feeling the urge to end the regulatory crackdown to ease the economic growth slowdown. Secondly, the release of the statement in the middle of the trading day was unusual, which looks like a deliberate move by Beijing to prop up the markets ahead of a five-day break for onshore markets. We believe a China stock recovery will ultimately drive Asia ex-Japan performance after a prolonged period of underperformance.

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

US employment costs rise at the fastest rate since 1996; broad-based increases across industries

US employment cost index, & q/q



Source: Bloomberg, Standard Chartered

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