Standard Chartered

Weekly Market View

A bluish wave

Clouds have started to clear on several fronts since we published our *Outlook 2021*. In the US, Democrats have resurrected the 'Blue Wave', with Joe Biden now confirmed as the next President and with the party winning a razor-thin majority in the US Senate. We view this as positive for risk assets, giving us confidence to add risk exposure in the event of any near-term technical pullback

Equities: Value sectors, such as financials and industrials, are likely to get a further lift as the 'Blue Wave' and the vaccine rollout boost the economic recovery and corporate earnings

Bonds: We see room for yield premiums on High Yield corporate and Emerging Market bonds to tighten further amid improving risk appetite and capital flows

FX: The USD could see a short-term bounce, given stretched technicals, but we expect the currency to extend its weakness in the medium term

From a charts perspective, is it too late to add exposure to Value stocks?

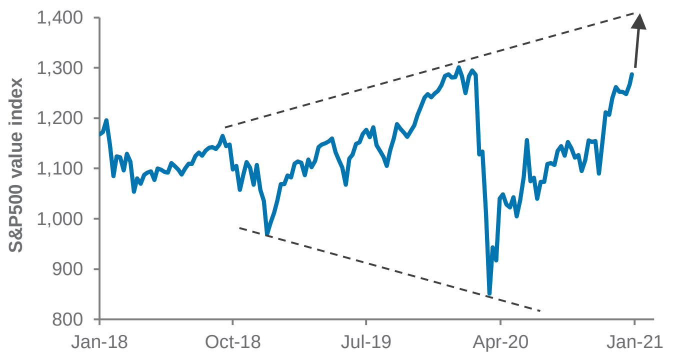
What does the 'Blue Wave' mean for Fed policy and US yields?

What is the implication of the US decision to delist China telecom firms?

Charts of the week: A boost for Value

US Democrat control over both Houses of Congress should support the rotation towards Value equity sectors

S&P500 Value equity index



Source: Bloomberg, Standard Chartered

Sector weights of global Value and Growth equity indices

Sector	Value	Growth	MSCI ACWI*
Technology	10.1	**33.7**	21.9
Healthcare	**12.3**	**11.4**	11.9
Consumer Discr.	7.6	**18.5**	13.0
Consumer Staples	9.4	5.3	7.4
Comm. Services	6.5	12.1	9.3
Financials	**22.5**	4.4	13.5
Industrials	**11.0**	8.3	9.7
Materials	6.0	3.9	4.9
Energy	5.1	0.9	3.0
Utilities	5.5	0.5	3.0
Real Estate	4.0	1.1	2.6

Source: MSCI, Data as of 31 Dec 2020; *MSCI All Country World Index

Editorial

A bluish wave

Clouds have started to clear on several fronts as we start 2021: a) US Democrat Joe Biden *will* take over from incumbent President Trump on 20 January, albeit in a not-so-smooth transition, after the Congress formally certified his election this week, b) the Democrats have finally won the Senate after the Georgia re-elections, though with a razor-thin majority, giving the party control over both Houses of Congress besides the presidency (the "Blue Wave"), and c) in late December, US policymakers passed a USD 900bn stimulus package that includes USD 600 cheques to most Americans.

These major milestones reinforce our 2021 worldview of a gradually reflating global economy, especially as the pace of COVID-19 vaccinations picks up. That is likely to support a strong recovery in corporate earnings, encourage a shift of capital flows towards riskier assets, especially towards EMs, and weaken the USD. They should also fuel a shift within equities towards Value sectors, such as financials, industrials and materials, while still supporting positive returns from Growth equities, including the technology sector (see page 4).

It is not all blue skies though, particularly after the brief siege by Trump supporters of US Capitol Hill – the seat of the US Houses of Congress – while it was in session to formally approve Biden's election. The US's deep political divisions are unlikely to immediately dissipate, even if the next couple of weeks before Trump hands over power to Biden go relatively smoothly. Meanwhile, medical experts expect COVID-19 cases and hospitalisations to keep rising in the coming weeks, likely forcing authorities in the US and Europe to tighten restrictions further. We take the view that the accelerating pace of vaccinations, along with economic lockdowns in Europe, will subdue the latest wave in the coming months. Global markets, being forward-looking, are likely to benefit from a pro-growth and more internationally engaged US administration, significantly relaxed monetary and fiscal policies, low interest rates and energy prices, and an increasingly weaker USD that eases global financial conditions further (see page 5).

The Democrats' narrow 51-50 Senate majority (thanks to a tie-breaking vote from incoming Vice President Kamala Harris) means they are likely to restrain their aggressive taxation and regulation plans as they seek support from moderates on both sides of the aisle. Nevertheless, there is a chance for Democrats to work with more moderate Republicans to implement their infrastructure spending programme. This plan, focussed on building green energy infrastructure, healthcare and education spending, could potentially lift long-term US growth prospects, given higher growth multipliers. We see a strong case to add risk assets from a medium-term perspective under this scenario, especially if markets face a short-term bump. Market diversity has declined, especially in some Emerging Market assets (see page 9), which raises the risk of a near-term trend reversal.

Things to watch near term: How the Fed reacts to rising bond yields (we expect it to lean against a significant rise), the pace of vaccinations and tightening of social and economic restrictions amid recent virus mutations, and US political transition over the next two weeks.

The weekly macro balance sheet

Our weekly net assessment: On balance, we see the past couple of weeks' data and policy as Neutral

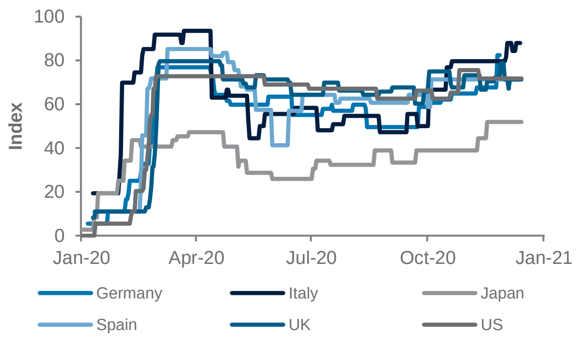
(+) factor: US fiscal stimulus, Democrat Senate majority

(-) factor: Worsening COVID trends in US, UK; US political unrest; weaker-than-expected US, Europe and China data

	Positive for risk assets	Negative for risk assets
COVID-19	• EU approved Moderna's vaccine • New cases appear to have peaked in most parts of EU	• New cases and hospitalisations hit new records in the US, UK, Germany & parts of Asia • UK re-imposed its most-stringent lockdown
	Our assessment: Neutral, with the surge in US and UK hospitalisations offset by cases peaking in EU	
Macro data	• US manufacturing sector business confidence unexpectedly rose • US weekly jobless claims were lower than expected • German retail sales fell less than expected	• US private job creation unexpectedly contracted • China manufacturing sector business confidence fell more than expected and services sector confidence unexpectedly fell • EU business confidence fell more than expected
	Our assessment: Negative, amid US job contraction and surprisingly weak US, Euro area and China data	
Policy developments	• The US approved a USD 900bn stimulus package	
	Our assessment: Positive, as US fiscal stimulus to boost personal savings and consumption	
Other developments	• US Democrats set to regain control over the Senate, following wins in two Georgia Senate re-elections • OPEC and Russia kept their combined output broadly unchanged, although Saudi Arabia later announced 1mbpd unilateral output cut	• Storming of the US Houses of Congress by President Trump's supporters raises domestic political uncertainty • NYSE decided to delist Chinese telecom firms; Reports say US is considering banning Chinese payments apps
	Our assessment: Positive as the Democrat Senate majority would give incoming President Biden more latitude to push through further stimulus measures	

Europe and Japan have tightened mobility restrictions to levels last seen in Q1 2020

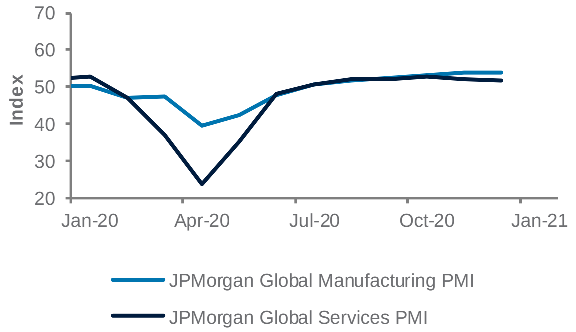
Oxford stringency (of restrictions) index



Source: Our World in Data, Standard Chartered

Manufacturing sector remains resilient, but services activity has started to flag

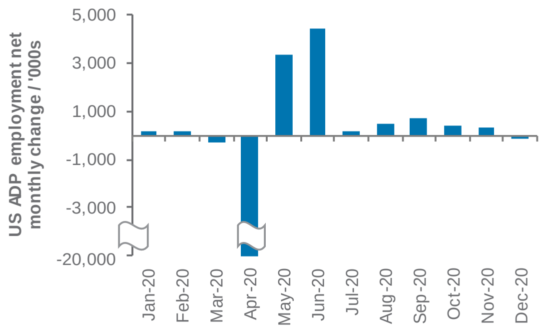
Global Manufacturing and services sector business confidence indices (PMIs)



Source: Bloomberg, Standard Chartered

US private job market contracted for the first time since April

US monthly private sector job creation



Source: ADP, Bloomberg, Standard Chartered

Top client questions

Which sectors are likely to benefit from a rotation towards Value-style equities?

In our *Outlook 2021*, we highlighted that the outperformance of the financials, industrials and healthcare sectors would be key for Value-style equities to outperform. As the table alongside illustrates, these sectors have the highest weights in the global Value style index.

In the US and Europe, our Global Investment Committee sees financial and industrial sectors as preferred and the healthcare sector as a core holding over a 6-12-month horizon. Although healthcare could also benefit from a shift to Value, greater drug price regulations are a risk in the US.

US and Euro area Financials should benefit from economic recovery optimism and the vaccine rollout. As discussed in page 2, recent events have improved the outlook on global growth, which is positive for bank net interest margins amid rising bond yields and, potentially, easing of loan-loss provision concerns. US banks should also benefit from the Fed's decision to allow limited buybacks in Q1 2021.

US and Euro area industrials should also benefit from a vaccine-led growth rebound, potential rise in US infrastructure spending and European Recovery Fund spending.

Value sectors such as Financials, Industrials are likely to gain from the 'Blue Wave'

Global Value and Growth indices' sector weights

Sector	Value	Growth	MSCI ACWI*
Technology	10.1	**33.7**	21.9
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Source: MSCI, Data as of 31 Dec 2020; *MSCI All Country World Index

From a technical perspective, is it too late to add exposure to Value-style equities?

No, it is not too late, in our view. As the chart illustrates, the S&P Value index is showing a potential to rise towards the upper edge of a broadening triangle from 2018 (now at about 1400; around 8% from Thursday's close). Any break above the channel high would create room for further upside.

There are a few reasons why we view the technical picture as bullish. First, on longer-term charts (weekly and monthly), the moving average convergence divergence indicator, a measure of trend direction and strength, indicates the big picture is bullish. Second, despite the COVID-19-related sell-off, the index did not break below major support at the 2007 high of 838. Lastly, the extent and pace of the subsequent recovery (the index has nearly recouped its 2020 losses) indicate the 2020 downtrend was only a correction within the broader uptrend.

Having said that, there is interim resistance at the 2020 high of 1302. A minor pause around this resistance is possible given the recent sharp rise. There is initial support at the June 2020 high of 1178, followed by stronger support on the 200-day moving average (now at 1119; 14% from Thursday's close).

Charts suggest room for US Value stocks to rise further

S&P500 Value index

Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

What does the US Blue Wave mean for Fed policy and US bond yields?

Markets have already begun to respond to the light "Blue Wave" in terms of rising Treasury yields, amid expectations of more fiscal stimulus, and this seems likely to continue ahead of the next Fed policy meeting on 26-27 January.

By that time, we expect Fed Chair Powell will be pressed to re-commit to the Fed's new Average Inflation Targeting (AIT) policy. AIT requires an increase in inflationary expectations and an extended period of actual inflation that is "moderately" above 2%. Investors may also need some comfort that bond yields will not rise too much, too quickly. This suggests markets will be watching for possible yield curve control measures – whether explicit or implied – that could help contain benchmark bond yields.

While we see scope for the 10-year US Treasury yield to rise in the near term, we expect initial technical resistance at 1.13% and then a stronger barrier around 1.28-1.33%. Rising inflation expectations mean any rise in real (net-of-inflation) yields should be more contained than nominal yields.

We expect the Fed to lean against a significant rise in US government bond yields

US 10-year Treasury yield

Source: Refinitiv, Standard Chartered

Does the US Blue Wave mean USD weakness extends? Can the CNH extend recent gains?

The USD index (DXY) has fallen over 13% since March 2020, and we expect a further 5% fall over the next 12-months. In the short-term, though, we remain on watch for any signals of a corrective USD bounce.

Short USD positioning remains elevated and our proprietary market diversity indicator shows low market diversity. These are conditions that favour a reversal, albeit once a catalyst occurs. EUR/USD could extend gains, but faces strong resistance around 1.2550. AUD/USD has breached 0.78 and could face headwinds ahead of 0.80. The post-Brexit GBP has slowed its ascent around resistance at 1.37.

USD/CNH may be the one to watch. Having fallen almost 11% since the May 2020 peak, we expect strong technical support levels around 6.38-6.40. We also believe Chinese authorities may be cautious in allowing continued currency strength for now as they prepare to engage with the Biden administration. We recently published a short-term bullish USD/CNH idea, targeting a rebound towards 6.65, and are waiting for broader USD reversal signals.

The 26-27 January Fed meeting and any comments from incoming Treasury Secretary Yellen on the US's long-standing "strong USD policy" are two events we would focus on in the coming weeks.

We expect strong technical support for USD/CNH around 6.38-6.40

USD/CNH

Source: Refinitiv, Standard Chartered

Top client questions (cont'd)

What are the implications of the US Democrat majority in Congress on corporate and EM bonds?

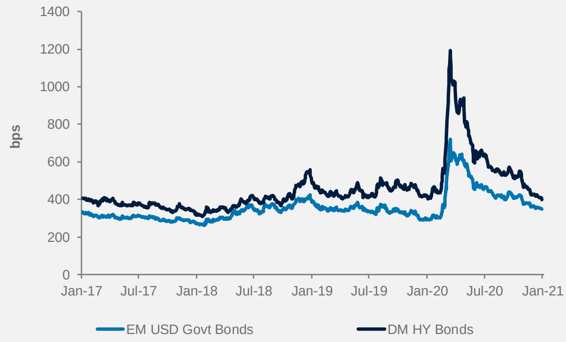
We believe the light "Blue Wave" should be largely positive for corporate and EM bonds over the next 6-12 months and could act as a catalyst for a further decline in yield premiums.

Expectations of US fiscal stimulus and infrastructure spending could lead to lower yield premiums for Developed Market Investment Grade (IG) and High Yield (HY) bonds over the next 6-12 months. However, the relatively expensive valuations and potential for a moderate increase in US Treasury yields could limit gains in IG corporate bonds. In the longer term, concerns of tax hikes by the Biden administration could persist, which may end up acting as a drag for DM corporate bonds in the later part of the year. We prefer DM HY bonds on a 12-month horizon.

An incoming Biden administration could also help reduce the geopolitical risk premium for EMs, supporting investor sentiment and fund inflows towards EM bonds. Our expectation of further USD weakness over the next 12 months under a "Blue Wave" should also lead to a favourable technical backdrop for both USD- and local currency-denominated EM bonds. We prefer both USD- and local currency-denominated EM bonds as well as Asia USD bonds.

High Yield corporate and Emerging Market bonds are likely benefit from the 'Blue Wave'

Yield premiums on global High Yield and Emerging Market USD bonds over Treasuries



Source: Bloomberg, Standard Chartered

What are the implications of recent cryptocurrency gains on gold and other asset classes?

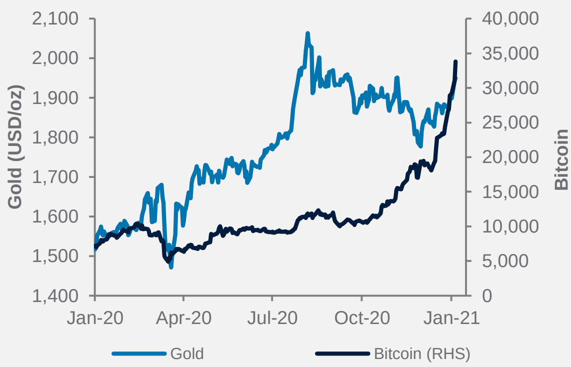
The almost parabolic rally in some cryptocurrencies has largely been attributed to either fiat currency debasement fears, USD weakness or increased optimism of adoption by the investment community. While limited institutional demand may also have had a part to play, reports suggest retail investor demand remains a key driver behind price action.

Correlations between gold and cryptocurrencies are weak. If the cryptocurrencies rally continues amid further USD weakness and supportive investor sentiment, we believe gold can rise, assuming real (net of inflation) bond yields remain supportive. Conversely, if the cryptocurrency rally reverses on the back of weaker risk sentiment, gold could still benefit given its long proven safe-haven properties – unless the reversal is accompanied by significant USD strength.

Beyond gold, easy access to leverage and funding (given low short-term rates) and a 'risk-taking' environment (lower equity risk premiums) are key variables, in our assessment. Hence, a broad pullback in risky assets and cryptocurrencies could be more significantly correlated.

Correlations between gold and bitcoin are weak

Gold (USD/oz), Bitcoin (RHS)



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

What are the implications of the NYSE's decision to delist Chinese telecom companies?

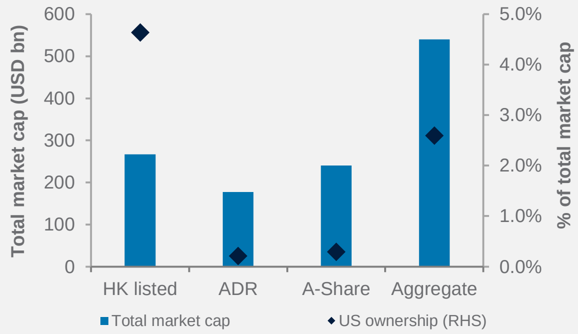
The New York Stock Exchange announced plans to delist three Chinese telecom companies (telcos) on 11 January, based on guidance from the US Treasury. This follows the Trump administration's executive order that prohibits US investors from buying shares of 31 Chinese companies with military ties.

We believe the delisting is likely to raise concerns that other companies on the executive order list could also be delisted. Potential removal from indices such as MSCI and FTSE could also lead to technical selling of these Chinese stocks from global passive and indexed funds.

Although the ban may affect US investment fund flows into the specified China equities, the impact is likely to be contained over the long term, in our view. There are 42 listed companies that are affected by the executive order which gives investors till 11 November to fully divest ownership. In aggregate, we estimate that US ownership represents around 2.6% of the total listed market cap of the 42 companies and, hence, the impact of the disposal is unlikely to be significant. The sell-off near term, however, could see bargain hunting opportunities for non-US investors. Compared to China offshore equities, the impact of the executive order on China onshore markets is likely to be relatively muted as US investor holdings represent only 0.3% of the total impacted listed market cap. China equities, both onshore and offshore, remain preferred markets.

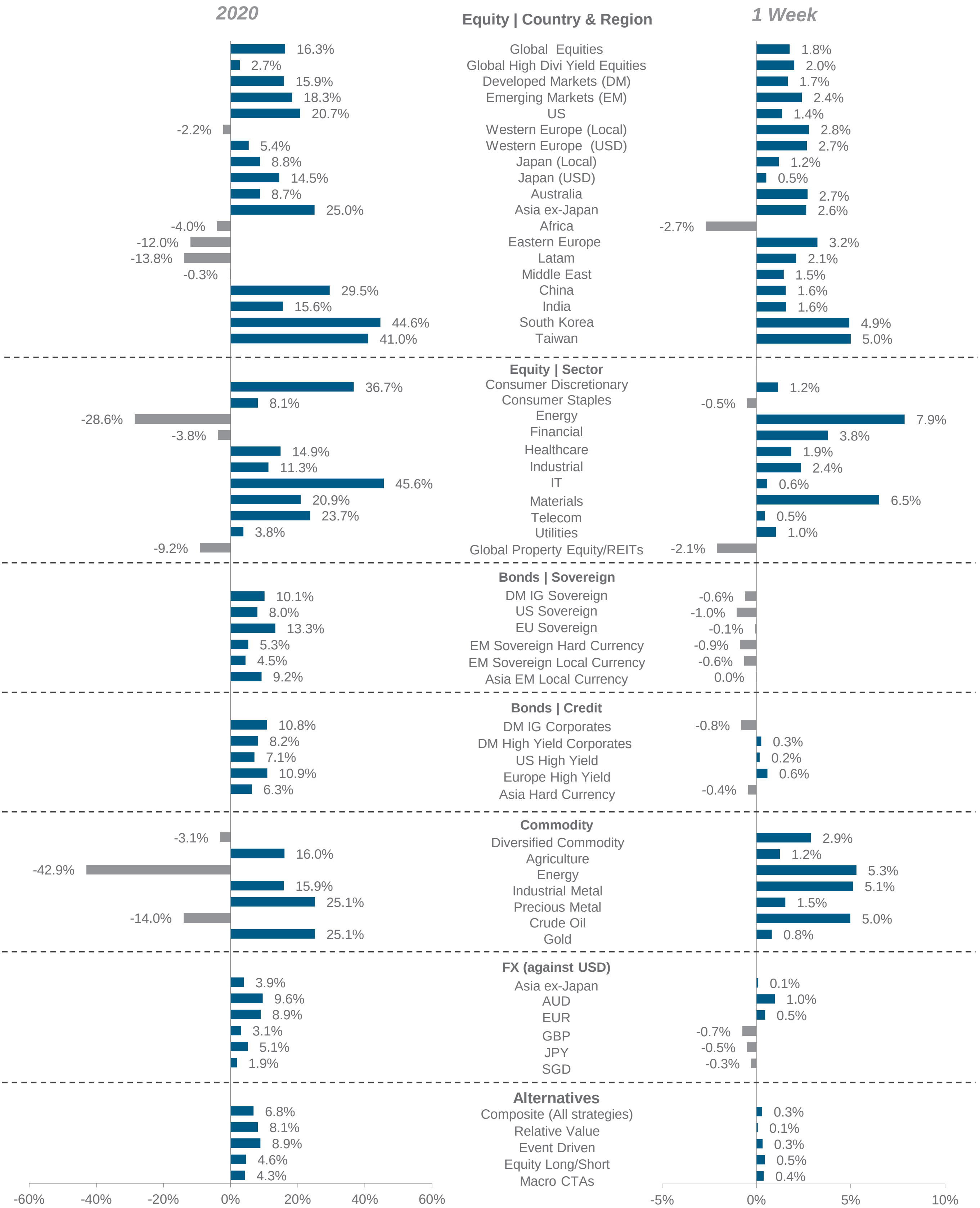
US ownership of China equities impacted by the US executive order is less than 3%

US ownership of impacted China equities in various markets



Source: Bloomberg, Standard Chartered

Market performance summary*



Sources: MSCI, JP Morgan, Barclays Capital, Citigroup, Dow Jones, HFRX, FTSE, Bloomberg, Standard Chartered

*Performance in USD terms unless otherwise stated, 2020 performance from 31 December 2019 to 31 December 2020, 1 week period: 31 December 2020 to 7 January 2021

Our asset class views at a glance

Asset Class			
Equities	▲	**Alternatives**	◆
Asia ex-Japan	▲	Equity hedge	▲
US	▲	Event-driven	◆
Euro Area	▲	Relative value	◆
Japan	▲	Global macro	▼
Other EM	◆		
UK	◆	**Cash**	▼
		USD	▼
Bonds (Credit)	▲	EUR	▲
Asia USD	▲	GBP	▲
Govt EM USD	▲	AUD	▲
Corp DM HY	▲	CNY	▲
Corp DM IG	▼	JPY	◆
Bonds (Govt)	▼	**Gold**	◆
Govt DM IG	▼		
Govt EM Local	▲		

Source: Standard Chartered Global Investment Committee

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

Economic and market calendar

	Event	Next Week	Period	Prior
MON	EC	Sentix Investor Confidence	Jan	-2.7
TUE	US	JOLTS Job Openings	Nov	6652
WED	US	CPI Ex Food and Energy y/y	Dec	1.6%
	US	Real Avg Weekly Earnings y/y	Dec	4.7%
THUR	US	U.S. Federal Reserve Releases Beige Book		
	JN	Core Machine Orders y/y	Nov	2.8%
	CH	Exports y/y	Dec	21.1%
FRI/SAT	US	Retail Sales Ex Auto and Gas	Dec	-0.8%
	US	Capacity Utilization	Dec	73.3%
	US	U. of Mich. Current Conditions	Jan	90

Source: Bloomberg, Standard Chartered

Prior data are for the preceding period unless otherwise indicated. Data are % change on previous period unless otherwise indicated

y/y - year-on-year, m/m - month-on-month

S&P500 has resistance 0.9% above current level

Technical indicators for key markets as on 07 Jan. 2021

Index	Spot	1st support	1st resistance
S&P500	3,804	3,735	3,838
STOXX 50	3,622	3,573	3,647
FTSE 100	6,857	6,667	6,952
Nikkei 225	27,490	27,201	27,635
Shanghai Comp	3,576	3,527	3,601
Hang Seng	27,549	27,450	27,670
MSCI Asia ex-Japan	865	850	873
MSCI EM	1,322	1,302	1,332
Brent (ICE)	54.4	52.2	55.5
Gold	1,916	1,893	1,945
UST 10Y Yield	1.08	0.97	1.13

Source: Bloomberg, Standard Chartered

Risk of a near-term trend reversal in some markets

Our proprietary market diversity indicators as of 06 Jan.

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	◐	↓	1.29
Global Equities	◐	↓	1.28
Gold	◐	↑	1.78
Equity			
MSCI US	◐	↓	1.36
MSCI Europe	◐	↓	1.32
MSCI AC AXJ	○	↓	1.22
Fixed Income			
DM Corp Bond	◐	↓	1.29
DM High Yield	◐	↓	1.25
EM USD	◐	↓	1.38
EM Local Ccy	○	↓	1.21
Asia USD	◐	↓	1.43
Currencies			
EUR/USD	◐	↓	1.30

Source: Bloomberg, Standard Chartered; **Fractal dimensions below 1.25 indicate extremely low market diversity/high risk of a reversal**

Legend: ● High | ◐ Low to mid | ○ Critically low

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