



Weekly Market View

A promising start

→ Last week, we flagged five main near-term catalysts for markets: the US Q1 earnings season, US Treasury yields, the Ukraine war, French elections and China's COVID-19 lockdowns and policy stimulus. Of these, the US earnings season has made a promising start, while the seven-week long rally in US Treasury yields and the USD appears to have paused.

→ These developments are all potentially positive triggers for risk assets. Nevertheless, the Ukraine war remains a drag on sentiment and China underwhelmed with its policy easing.

→ The French presidential run-off this weekend is the next catalyst, with markets largely pricing in a win by incumbent Emmanuel Macron.

In the following pages, we review what the above drivers mean for investors in the near term.

What is your view on the US financial sector, given the Q1 earnings thus far?

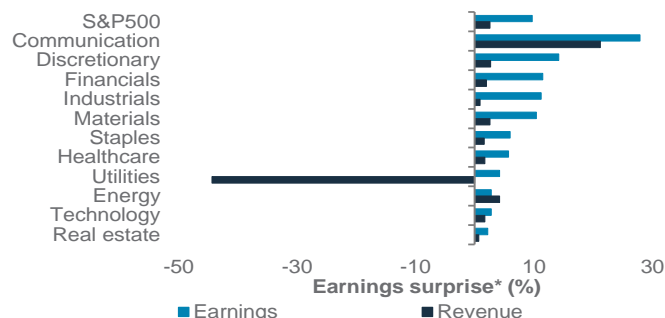
What is the likely impact of the Fed's quantitative tightening on bond markets?

Is the Swiss Franc a preferred funding currency?

Charts of the week: Strong start to US earnings season

Most US sectors have delivered strong earnings beats; US Treasury yields may need to peak for a sustained equity rally

US S&P500 index Q1 earnings surprises, by sector



US 10-year government bond yield



Source: Refinitiv, Bloomberg, Standard Chartered; *Earnings surprise factor is the difference between reported earnings and consensus estimates

Editorial

A promising start

Last week, we flagged five main near-term catalysts for markets: the US Q1 earnings season, US Treasury yields, the Ukraine war, French elections and China's COVID-19 lockdowns and policy stimulus. Of these, the US earnings season has made a promising start, while the seven-week long rally in US Treasury yields and the USD appears to have paused. These developments are all potentially positive triggers for risk assets. Nevertheless, the Ukraine war remains a drag on sentiment and China underwhelmed with its policy easing. The French presidential run-off this weekend is the next catalyst, with markets largely pricing in a win by incumbent Emmanuel Macron. In this column, and in the following pages, we review what this means for investors in the near term.

US earnings: While these are still early days (a fifth of the S&P500 members have reported so far), US earnings have started to deliver broad-based earnings beats. The financial sector (where over 40% of the companies have already reported) have delivered among the strongest positive surprises. Earnings have, of course, declined y/y, but this was expected primarily because most banks saw earnings boosted last year after reversing earlier provisions against bad loans as pandemic concerns receded. Leaving aside those provisioning effects, the strong bank lending growth reported so far paints a picture of a still-robust underlying economy.

US financial sector equities have been underperforming the broader market in recent weeks, partly due to economic growth concerns. The strong earnings beats and loan growth should allay those concerns. Although short-term technical indicators for the financial sector remain lacklustre, we believe investors with a 6-12 month horizon may want to average in, as earnings in the coming quarters are likely to benefit from rising bond yields and strong loan growth (see page 4 for details).

US Treasury yields: A peak in US government yield and the USD may be needed for a sustained recovery in equities and other risk assets, since a surge in both has been one of the biggest dampeners for risk sentiment this year. The US 10-year

Treasury yield has failed to break above 3% so far after a sharp run-up since early March. This is also helping the USD index take a pause around 100. Positioning on short US Treasuries remains stretched and investor diversity one-sided, raising the chance of a near-term pullback in the yield towards the 2.56% support. Nevertheless, Fed policymakers remain hawkish, with Bullard this week suggesting a 75bps hike in May should be considered (vs consensus of 50bps hikes in both May and June). Any further rise in the Treasury yield on the hawkish talk is likely to meet with a strong technical resistance near 3.26%.

Ukraine: The war remains a drag on risk sentiment. Russia opened a new front in eastern Ukraine this week and tested an intercontinental ballistic missile. These actions could cement Europe's resolve to levy more sanctions, including on Russian energy exports. On the positive side, there is a chance of Russia announcing a ceasefire once it achieves its immediate objective of taking control over parts of eastern Ukraine. Any ceasefire is a potential trigger for a strong rally in risk assets.

French election: Polls suggest incumbent Emmanuel Macron is leading against far-right challenger Le Pen, with a lead of between 3-13ppts. This is a significantly narrower lead than the last election when Macron won by a 66-34 margin. Although Le Pen has dropped her 'Frexit' call, a win could jolt European assets because such an outcome is under-priced. Meanwhile, the EUR/USD could see a relief rally on a Macron win, but it could be brief if the win margin is small.

China: Beijing has started to ease some COVID-19 restrictions and unveiled a raft of policy easing measures. However, around 45 cities remain under some form of lockdown, dampening sentiment. The key to a sustained recovery in Chinese assets depends on how soon the lockdowns end. We believe it is only a matter of time, given the experience in other countries. The restart of Shanghai factory production is a positive sign. China equities (and Asia ex-Japan, broadly) are cheap, with the MSCI China index trading at 10.2 times 12-month forward earnings, compared with 19x for US S&P500 index. We see this as an attractive opportunity for medium-term investors to average in.

— Rajat Bhattacharya

The weekly macro balance sheet

Our weekly net assessment: On balance, we see the past week's data and policy as neutral for risk assets in the near term

(+) factors: Shanghai factory restart, strong China GDP, easing policies

(-) factors: Weak China retail sales, hawkish Fed, Ukraine crisis

	Positive for risk assets	Negative for risk assets
COVID-19	<ul style="list-style-type: none"> Easing China port congestion; restart of factories in Shanghai Hong Kong to ease restrictions as cases fall; US, Singapore, others ease 	<ul style="list-style-type: none"> At least 45 Chinese cities maintain strict restrictions as new cases still elevated
	Our assessment: Positive – Easing China, HK restrictions	
Macro data	<ul style="list-style-type: none"> China Q1 GDP higher than expected at 4.8% y/y China industrial production, fixed assets investment rose more than expected US Michigan consumer sentiment, housing starts rose higher than expected Euro area consumer confidence unexpectedly rose 	<ul style="list-style-type: none"> China retail sales fell more than consensus US existing home sales fell more than expected IMF cut 2022 global growth forecast by 0.8ppt to 3.6%; World Bank cut by 0.9ppt Japan exports rose less than expected Euro area inflation accelerated to 2.4% m/m
	Our assessment: Neutral – Surprisingly strong China GDP, fixed investment, robust US housing vs weak China retail sales	
Policy developments	<ul style="list-style-type: none"> China released 23 support measures to revive growth 	<ul style="list-style-type: none"> Fed's Powell and Williams hinted at a 50bps rate hike in May; Bullard said 75bps rate hike is an option China cut bank reserve requirement by less than expected 25bps and held a key rate unchanged vs expectations of a 5bps cut
	Our assessment: Neutral – Easing China policy measures vs rate cut disappointment, more hawkish Fed comments	
Other developments		<ul style="list-style-type: none"> Russia tested intercontinental ballistic missiles, expanded the war into eastern Ukraine, taking control of Mariupol
	Our assessment: Negative – Russia's long-range missile test; new phase of war in eastern Ukraine	

IMF cut its growth forecast for Europe significantly, citing the fallout of the Ukraine war, but major developed economies still expected to deliver above-trend growth this year

IMF April (new) vs Jan (old) 2022 growth estimates

IMF GDP growth forecasts	2022		2023	
	Old	New	Old	New
Countries				
US	4.0	3.7	2.6	2.3
Euro Area	3.9	2.8	2.5	2.3
China	4.8	4.4	5.2	5.1
UK	4.7	3.7	2.3	1.2
Japan	3.3	2.4	1.8	2.3

Old - January projections, New - April projections

Source: IMF; Standard Chartered

US housing starts rose to their highest since 2006, but rising mortgage rates are likely to slow home demand in the coming quarters

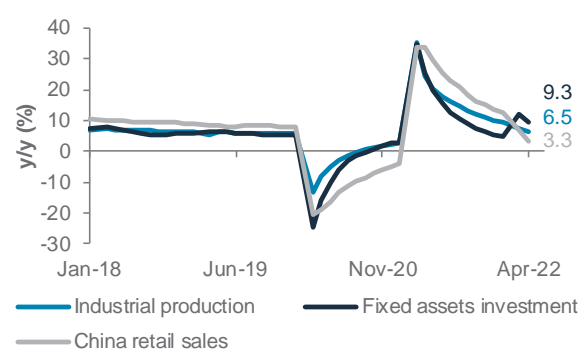
US housing starts and building permits



Source: Bloomberg, Standard Chartered

China's industrial production and fixed asset investment rose more than expected in March, but retail sales disappointed amid COVID lockdowns

China industrial production, fixed asset investment and retail sales



Source: Bloomberg, Standard Chartered

Top client questions

Q What is your view of the US financial sector, given the ongoing Q1 earnings season?

According to Refinitiv data, a fifth of the companies in the S&P500 index have reported so far and earnings have surprised positively by 9.7%. Around 40% of companies in the financials sector have reported, delivering a 11.5% positive earnings surprise, the third best among all sectors. Financial sector earnings are expected to fall by 19.6% in Q1 as income from one-off provision releases in 2021 (following the post-COVID-19 recovery) is not repeated in 2022. Instead, banks are raising provisions now, driven by Russia-related risks and higher credit quality tail risks as interest rates rise. As a positive offset, banks would earn higher interest income from rising interest rates. Share buybacks in the sector may slow down until there is more clarity on the rates trajectory and risks.

On a relative basis, financials' performance peaked in February before underperforming in March. As the Q1 earnings season gets underway, the sector has been gradually outperforming in April. We expect continued economic expansion in the US and higher interest rates to support US financials' outperformance over the next 6-12 months; we have a preferred view on the financial sector.

— **Fook Hien Yap**, Senior Investment Strategist

Q What is the likely impact of the Fed's quantitative tightening on key bond yields?

Quantitative tightening (QT) refers to a central bank reducing the holdings of securities accumulated on its balance sheet during quantitative easing. The Fed is likely to begin QT as early as May, with the expected "run-off" at USD 95bn per month almost double compared with the Fed's previous QT in 2017. While US 10-year bond yields fell after the 2017 episode of QT, the upcoming QT has raised concerns bond yields could rise. We note several factors are different this time which should limit the fallout on bond markets.

1. **A bigger Fed balance sheet as cushion.** The Fed balance sheet, at c.USD 9.0trn, is almost double that in 2017. This should provide some cushion as the run-off is absorbed by markets.
2. **The QT run-off will be largely organic,** meaning the Fed intends to largely allow securities to mature instead of actively selling. We believe this should help limit the impact on bond markets.
3. **Bond volatility is already high.** The MOVE index, which measures Treasury bond volatility, has remained much higher than during the last QT. This suggests many concerns are already priced and that a further rise in bond volatility from here is unlikely.
4. **Investment Grade corporate bond yield premiums were largely unchanged over the last QT period,** suggesting the recent widening of yield premiums could be temporary.

— **Cedric Lam**, Senior Investment Strategist

The US financial sector has started to outperform the broad market in April on the back of strong earnings beats; we expect this to continue in the coming quarters

Relative performance of US financial sector equities vs MSCI US equity index; Index: 100 = 21 Oct 2021



Source: Bloomberg, Standard Chartered

The upcoming Fed Quantitative Tightening comes against a different backdrop compared with past episodes; this is likely to contain bond yield gains

A comparison between the last Fed Quantitative Tightening episode and the upcoming QT

	QT (2017-2019)	QT (2022-?)
Announcement	Sep-17	Mar-22
Beginning	Oct-17	-
Peak Fed balance sheet (USD)	4.5trn	9trn
Peak run-off speed (USD per month)	30bn Treasuries & 20bn MBS	60bn Treasuries & 35bn MBS
IG yield premium move	+3bps	-
HY yield premium move	+67bps	-
10Y Treasury rate	-0.25bps	-

Source: Bloomberg, Standard Chartered
Yield premiums and Treasury move measured between announcement dates

Top client questions (cont'd)

Q Why did Chinese equities and bonds pull back this week despite policy easing measures?

China delivered another round of policy easing over the past week, but the tepid market reaction suggests that these measures fell short of market expectations. On 15 April, the PBoC announced a 25bps cut in required reserve ratio (RRR) versus expectations of a 50bps cut. Markets were also expecting a 5bps loan prime rate (LPR) which did not materialise. However, on 18 April, the PBoC and SAFE did jointly unveil 23 measures to strengthen financial support for industries affected by recent COVID-19 shutdowns.

The market reaction to these announcements was negative – the Hang Seng was down 4.4%, Chinese USD bonds fell 0.9% and the CNH weakened 1.4% between 14-21 April. In our view, this captures the market's disappointment relative to expectations ahead of the policy announcements.

Going forward, we believe the key factor to watch will be the extent of any easing of mobility restrictions across cities, as this remains a key concern given its negative impact on economic growth. For this to occur, what is likely needed is either a fall in Covid cases, or a shift in policy approach.

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

Q Is the CHF a preferred funding currency?

We believe the CHF is increasingly attractive as a funding currency, especially versus the USD and SGD. Assuming the French presidential vote on Sunday does not result in a surprise victory for Marine Le Pen, we expect the EUR may see more support in the weeks ahead. EUR/CHF can, therefore, make further gains, as it appears to be in the early stages of a strong recovery from a short-lived tryst with parity in March.

The SNB continues to regard the CHF as expensive and is expected to maintain negative rates for some time, while inflation stays less problematic than elsewhere. We are also watching for signs that investors may avoid negative rates on "safe-haven" CHF deposits following the targeted execution of US/EU sanctions on Russian account holders. Technicals support a higher USD/CHF following the break above 0.9470. Support at 0.93-0.94 should hold as the pair tests 0.9670 initially and the 0.99-1.00 resistance.

We also expect the SGD to witness greater support now that political continuity is confirmed, the country and its economy continue to open up from earlier Covid measures and the Monetary Authority of Singapore keeps its focus on countering inflation via a firm currency policy. As the 1.47 resistance holds, CHF/SGD may find support around 1.42 but a break would add momentum to the decline towards 1.40 and possibly 1.36 over time.

A bottoming of Chinese equities likely depends on the how soon the COVID restrictions ease. However, the market is attractively priced

MSCI China index



Source: Refinitiv, Standard Chartered.

Technical support for USD/CHF is likely to hold at 0.93 as the pair pushes through 0.9670 towards 0.99

USD/CHF, with technical indicators



Source: Bloomberg, Standard Chartered.

CHF/SGD looks set to challenge 1.42 support; a break lower could trigger a deeper decline towards 1.40 and 1.36

CHF/SGD, with technical indicators



Source: Bloomberg, Standard Chartered.

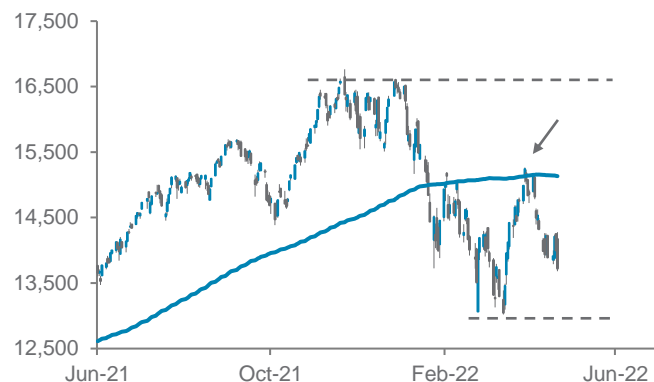
Technical charts of the week

Manish Jaradi

Senior Investment Strategist

US technology: Soft bias in the near term

Nasdaq-100 index daily chart with 200-DMA

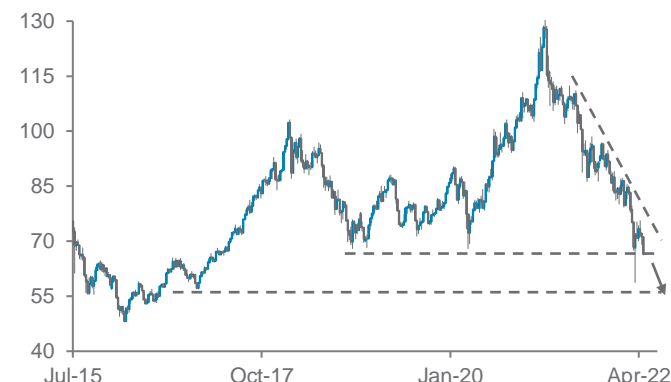


Source: Bloomberg, Standard Chartered

The retreat from stiff resistance coupled with decelerating momentum (highlighted two weeks ago) suggest that the balance of risks remain tilted towards the downside. Still, 13020 could provide initial cushion, followed by 12208. Importantly, the bull trend in US technology is not over yet even though short-term technicals may look a bit weak.

China equities: Looking vulnerable....again

MSCI China index weekly chart

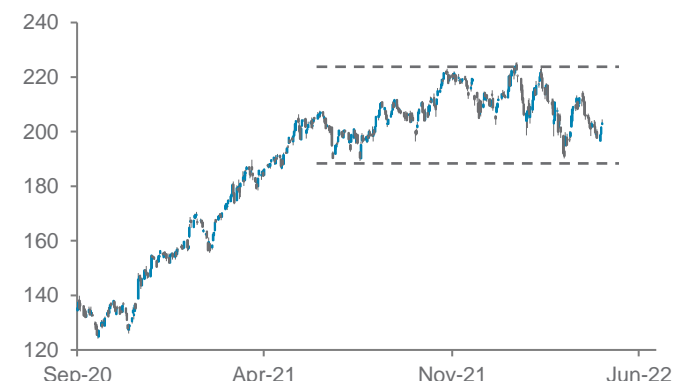


Source: Refinitiv, Standard Chartered

The index failed to extend gains following the sharp rebound last month. The 18 March update highlighted that the mid-March rebound could be a potential reversal of the downtrend, provided the index manages to extend gains. The lack of follow-through upward momentum raises the risk of a retest of the March low.

US financials: Consolidating after sharp gains since 2020

MSCI USA Financial sector index daily chart

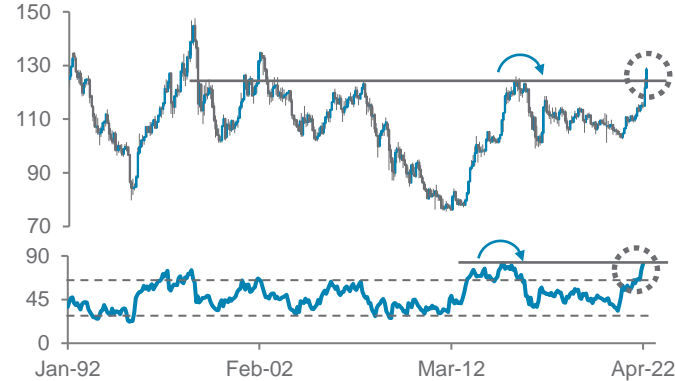


Source: Bloomberg, Standard Chartered

The sector index is now around the same level it was a year ago, suggesting that the trend has been sideways (and not down) from up previously. Indeed, the shallow nature of dips in the past one year coupled with the hold above the quite strong horizontal trendline support at 190 keeps alive the possibility of a retest of the January high, possibly higher.

USD/JPY: Bullish break - not a done deal yet

USD/JPY monthly chart with Relative Strength Index (RSI)



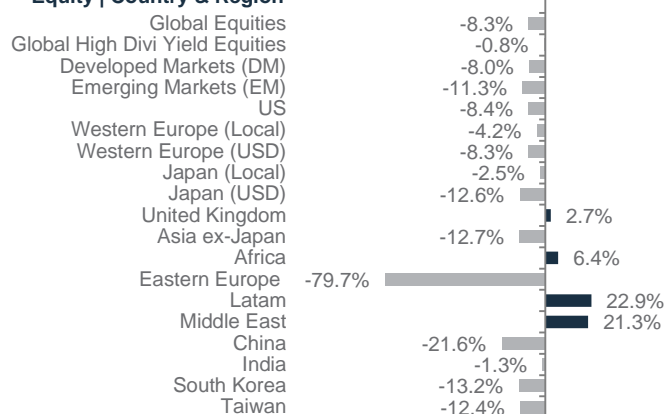
Source: Refinitiv, Standard Chartered

Granted that USD/JPY is now above crucial horizontal trendline resistance around 126. However, given the significance of the resistance, the number of times it has been tested in the past two decades, and deeply overbought conditions, it might be prudent to wait for at least one monthly close above the resistance before concluding a valid break.

Market performance summary *

YTD

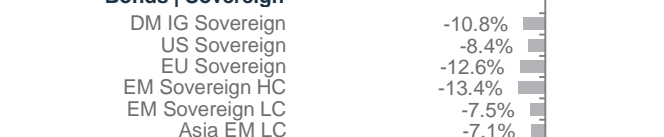
Equity | Country & Region



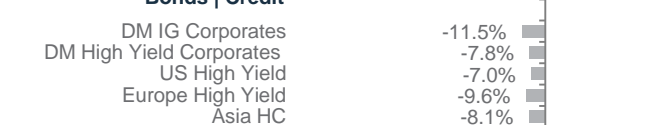
Equity | Sector



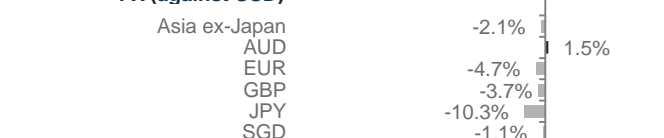
Bonds | Sovereign



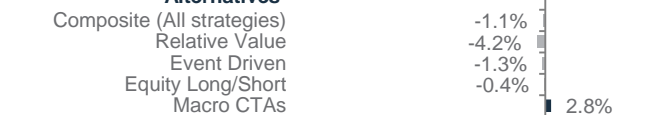
Bonds | Credit



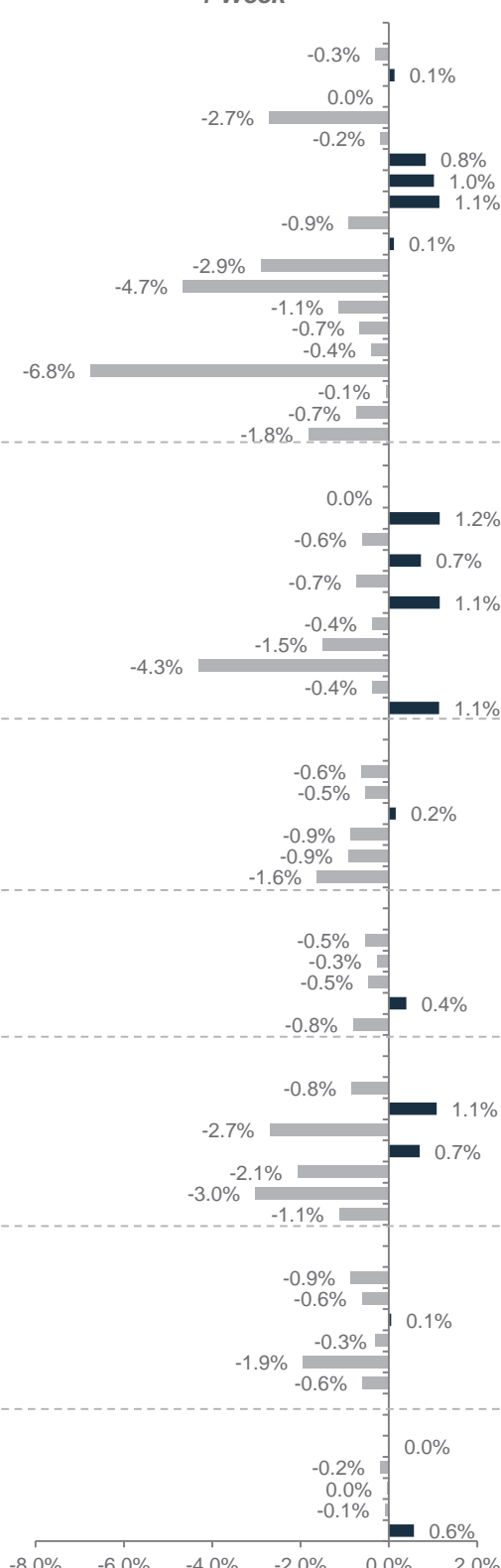
FX (against USD)



Alternatives



1 Week



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

*Performance in USD terms unless otherwise stated, 2022 YTD performance from 31 December 2021 to 21 April 2022; 1-week period: 14 April 2022 to 21 April 2022

Our 12-month asset class views at a glance

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

Source: Standard Chartered Global Investment Committee

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

Economic and market calendar

	Event	Next week	Period Expected	Prior
MON	US	Chicago Fed Nat Activity Index	Mar	– 0.5
	US	Durable Goods Orders	Mar P	1.0% -2.1%
TUE	US	Conf. Board Consumer Confidence	Apr	106.0 107.2
	US	New Home Sales	Mar	775k 772k
WED				
THUR	US	GDP Annualized q/q	1Q A	1.0% 6.9%
	US	Personal Consumption	1Q A	3.4% 2.5%
	US	Core PCE q/q	1Q A	– 5.0%
FRI/SAT	CH	Caixin China PMI Mfg	Apr	– 48.1
	EC	M3 Money Supply y/y	Mar	– 6.3%
	EC	CPI Estimate y/y	Apr	– 7.5%
	EC	CPI Core y/y	Apr P	– –
	US	Employment Cost Index q/q	1Q	1.1% 1.0%
	US	Personal Income	Mar	0.4% 0.5%
	US	PCE Deflator y/y	Mar	– 6.4%
	US	PCE Core Deflator y/y	Mar	5.3% 5.4%

Source: Bloomberg, Standard Chartered

Prior data are for the preceding period unless otherwise indicated. Data are % change on previous period unless otherwise indicated
P - preliminary data, F - final data, sa - seasonally adjusted, y/y - year-on-year, m/m - month-on-month

The US 10-year Treasury yield's next resistance is at 2.95%

Technical indicators for key markets as on 21 April 2022

Index	Spot	1st support	1st resistance
S&P 500	4,394	4,369	4,440
STOXX 50	3,928	3,863	3,960
FTSE 100	7,628	7,610	7,638
Nikkei 225	27,553	27,051	27,804
Shanghai Comp	3,080	3,036	3,167
Hang Seng	20,682	20,567	20,913
MSCI Asia ex-Japan	687	681	698
MSCI EM	1,087	1,078	1,104
Brent (ICE)	108.3	105.7	112.1
Gold	1,952	1,942	1,971
UST 10y Yield	2.91	2.85	2.95

Source: Bloomberg, Standard Chartered

Note: These short-term technical levels are based on models and may differ from a more qualitative analysis provided in other pages

Investor diversity remains low in global bonds

Our proprietary market diversity indicators as of 20 April

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	○	↓	1.21
Global Equities	●	→	1.63
Gold	●	↑	1.45
Equity			
MSCI US	●	→	1.88
MSCI Europe	●	→	1.48
MSCI AC AXJ	●	↓	1.40
Fixed Income			
DM Corp Bond	●	→	1.27
DM High Yield	●	→	1.40
EM USD	●	→	1.36
EM Local	●	↓	1.35
Asia USD	●	→	1.43
Currencies			
EUR/USD	●	↓	1.40

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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