



# Weekly Market View

## Are we in a bubble?

The latest bubble warning from China's regulator coincided with a renewed rise in bond yields, dragging stocks lower. Since it is hard to pin-point or time bubbles, a prudent course, in our view, would be to rebalance investment allocations: for instance, from last year's winners such as Growth equities to relatively inexpensive Value stocks

**Equities:** We expect the recent outperformance of Value over Growth stocks to continue, driven by the rise in bond yields and faster vaccine rollout

**Bonds:** Asian High Yield bonds now offer attractive yield premiums compared with their US counterparts

**FX:** We have turned bullish on the CAD and the NZD and expect USD/CAD to decline towards 1.20 in the coming weeks



What are the implications of the Hang Seng index revamp?

Has momentum stalled for riskier currencies?

Why is gold struggling despite rising inflation expectations?

## Charts of the week: Rebalancing towards Value

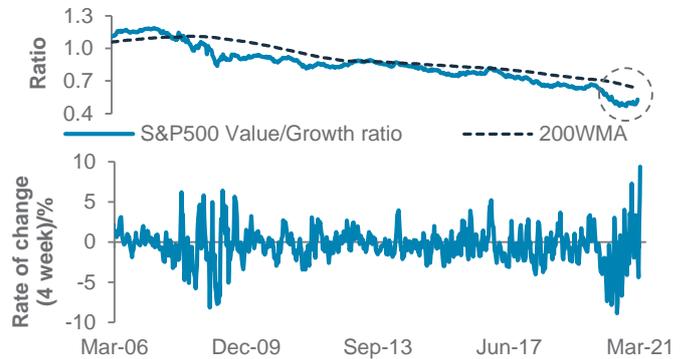
### Rebalancing from Growth to Value sectors is one way to help shield allocations from short-term volatility

Our bubble-o-meter shows 'extreme greed' for only one of the six indicators (see page 6 for indicator definitions)

Indicator	Signal
Market momentum	Greed
Equity strength	<b>Extreme Greed</b>
Market breadth	Greed
Equity vs bonds	Fear
Market volatility	Fear
Put-call ratio	Greed

Source: Bloomberg, Standard Chartered; as of 4 March 2021

The outperformance of Value stocks over Growth stocks has started to gain momentum recently



Source: Bloomberg, Standard Chartered

## Editorial

### Are we in a bubble?

The latest bubble warning from China's financial regulator coincided with a renewed rise in bond yields, impacting risk sentiment. Stocks and commodities fell; the USD rose. Are we in a bubble? Our bubble-o-meter shows only one of the six parameters indicating "extreme greed". We also believe long-term fundamentals point to a sustained rise in risk assets over the next 6-12 months.

Since the depths of the pandemic, we have maintained that three fundamental factors are likely to determine the outlook for stocks, bond yields and the USD over the medium term: 1. How soon the pandemic can be brought under control; 2. How far and how long will policymakers go to support global financial conditions; 3. How quickly will economies and companies recover to pre-pandemic growth trends as a result of the first two factors. So far, all three fundamental drivers have surprised positively.

The launch of the one-shot Johnson & Johnson vaccine, following Pfizer's and Moderna's vaccines, and President Biden's steps to hasten distributions mean all American adults could be vaccinated by this summer, sooner than envisaged a few months ago. A similar trend is emerging in Europe, where accelerated vaccine purchases means we could see significantly faster inoculations in Q2.

The outlook for global financial conditions remains benign. Although China is likely to slow its stimulus (watch the National People's Congress session, scheduled for Mar 5-11), another USD 1.9trn US fiscal stimulus and the rollout of the EU-wide fiscal package are likely to overwhelm China's tightening, especially when

trillions of dollars in pent-up household savings are considered. The potential liquidity boost for markets may be significant. While we will watch the upcoming Fed and ECB meetings, we see few signs of central banks taking away the punch bowl this year, given high jobless rates.

The news on the corporate earnings front remains supportive. Q4 2020 earnings in the US and Europe significantly beat expectations. Analysts now expect S&P500 earnings in 2021 to surpass the record set in 2019. Also, US profit margins are estimated to rise in Q1 '21 to the highest in more than two years. These supportive fundamentals lead us to believe that the strong rebound in risk assets and the recent rise in bond yields are justified and reflect the strong recovery.

Nevertheless, there are ways to shield the portfolio from short-term volatility, especially if they have strayed significantly from one's risk tolerance. One way would be to rebalance among asset classes – rightsizing from any over-exposure to equities, after last year's strong run-up, towards bonds, especially in Asia and other EMs, which have taken a hit in the recent pullback. The other would be to right-size exposure among equity sectors – rebalancing from any over-exposure to relatively expensive Growth sectors to the undervalued Value sectors (see page 4). Momentum in Value sectors has picked up recently as bond yields rise and global growth expectations improve (see chart above). So, instead of worrying about bubbles that have historically been hard to pin-point and precisely time, it may be prudent to stay diversified and rebalance portfolios, if necessary, to reduce over-exposure to any asset class or sectors.

## The weekly macro balance sheet

**Our weekly net assessment:** On balance, we see the past week's data and policy as positive for risk assets

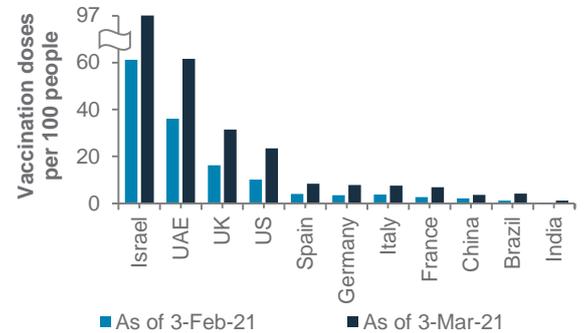
**(+) factor: Rising vaccinations, imminent US fiscal stimulus**

**(-) factor: Slowing China data, stalling COVID-19 decline**

	Positive for risk assets	Negative for risk assets
<b>COVID-19</b>	<ul style="list-style-type: none"> <li>Cases continue to fall in the UK, Spain and Japan</li> <li>Biden said the US will have enough vaccines for all American adults by May</li> </ul>	<ul style="list-style-type: none"> <li>New cases have stopped declining in the US, Germany, France and South Korea; cases are rising again in Italy, India and Brazil</li> </ul>
	<b>Our assessment: Positive – Accelerating pace of US vaccinations partly offset by slowing COVID decline</b>	
<b>Macro data</b>	<ul style="list-style-type: none"> <li>US ISM Manufacturing PMI beat expectations, indicating strongest expansion in factory activity in three years; factory orders climbed more than expected</li> <li>Euro area composite PMI was revised higher, but stayed in contraction</li> <li>Japan's composite PMI revised higher, first manufacturing activity expansion since April '19</li> </ul>	<ul style="list-style-type: none"> <li>US ISM services PMI fell more than expected and consumer sentiment fell to a six-month low</li> <li>China set a lower-than-expected 6% growth target for 2021</li> <li>China's manufacturing and services PMIs fell below market estimates</li> <li>Euro area retail sales fell more than expected</li> <li>Germany's jobless unexpectedly rose</li> </ul>
	<b>Our assessment: Positive – strong manufacturing PMIs worldwide more than offset weaker China data</b>	
<b>Policy developments</b>	<ul style="list-style-type: none"> <li>US House passed USD 1.9trn fiscal stimulus bill; Senate aims to clear it in the coming days</li> <li>Powell said Fed was far from withdrawing stimulus and ECB officials pledged to act against any unwarranted rise in bond yields</li> </ul>	<ul style="list-style-type: none"> <li>China's financial regulator is studying measures to manage capital inflows as it was "very worried" about the rising risk of bubbles globally</li> <li>UK corporate tax to rise to 25% from 2023</li> </ul>
	<b>Our assessment: Positive – imminent US stimulus</b>	
<b>Other developments</b>		<ul style="list-style-type: none"> <li>US top trade nominee Tai said China needed to deliver on the promises it made in its trade pact</li> </ul>
	<b>Our assessment: Negative – US-China tensions</b>	

### Vaccinations continue to progress globally; the US and Euro area likely to pick up in Q2

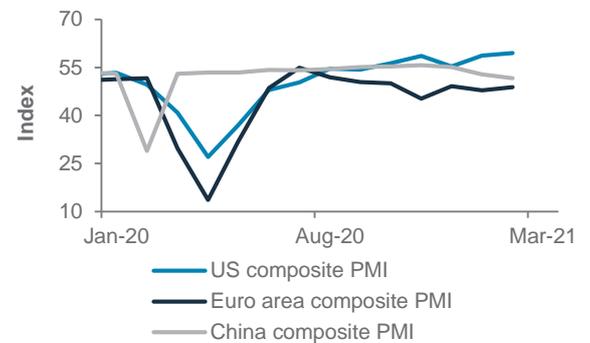
Number of COVID-19 vaccine doses administered per 100 people vs a month ago



Source: Our World in Data, Standard Chartered

### US and Euro area business confidence improved in March, while China's weakened

US, Euro area and China composite PMIs



Source: Bloomberg, Standard Chartered

### China's liquidity growth continues to slow, although short-term rates have normalised

China M2 money supply annual growth and seven-day repo rate



Source: Bloomberg, Standard Chartered

## Top client questions

### Q Is the rotation from Growth to Value gathering steam?

We believe the recent outperformance of Value equities is likely to continue, driven by the rise in bond yields and the vaccine rollout. Two sectors that are key to the Value style are financials and energy; here, the technical picture looks positive, as illustrated in the two charts.

Financials in the US and Europe had good Q4 2020 results, with earnings surprising positively by 27% and 36%, respectively. Easing regulatory restrictions enabled major US banks to restart share buybacks after a pause in 2020. European banks are also now permitted by regulators to reinstate dividends, after suspending them in 2020. The cyclical recovery and higher bond yields should support earnings growth and further buybacks and dividends. We view financials in the US and Europe as preferred.

The energy sector is also benefitting from expectations of a normalisation in oil demand, a restart of share buybacks and rising dividends. However, the sector still faces headwinds from the global pivot towards green energy. We view the energy sector as a core holding in the US and Europe.

### Q What are the implications of the Hang Seng index revamp?

Hang Seng Indexes Company announced on 1 March its proposed changes to the Hang Seng Index (HSI). The revamp includes increasing the number of constituents to 80 by mid-2022 (from 52 currently) and limiting a stock's weighting to 8%. The revamp also shortens the listing history requirement for a company to be included to three months. Implementation of the changes will begin as early as the May index review and continue through mid-2022.

We believe the revamped Hang Seng Index will be a more balanced and diversified representation of the Hong Kong stock market. Consumer and healthcare-related stocks would see their sector weights increase by 4ppts and 3ppts, respectively, at the expense of the financial sector (falling from 40% to 33% of the index). The potential new additions would be dominated by new China stocks that have more robust growth and could lift the earnings growth and valuation of the index. The new constituents could also bring additional inflows to the index from funds tracking the index.

### The US financial sector has led the rally in Value stocks recently as bond yields rose

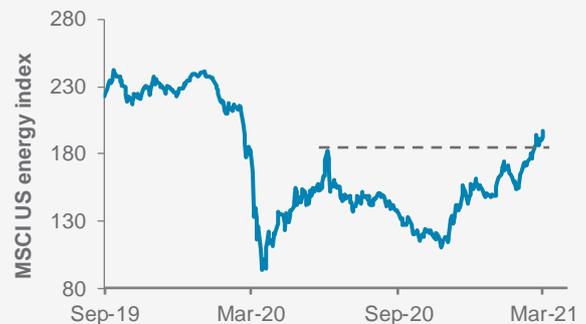
MSCI US financial sector index



Source: Bloomberg, Standard Chartered

### The US energy sector has also recovered on the back of a strong rebound in oil prices

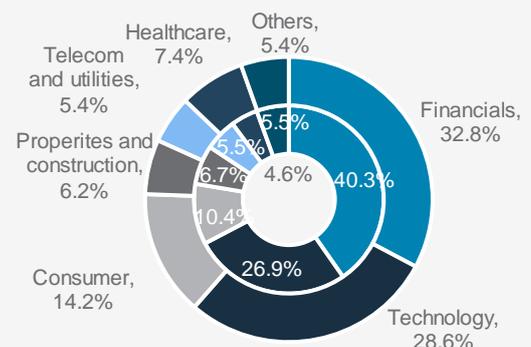
MSCI US energy sector index



Source: Bloomberg, Standard Chartered

### Consumer and healthcare sectors will have bigger shares of the Hang Seng index after the revamp; financial sector's share will fall

Hang Seng index sector breakdown



Inner ring: Existing HSI, Outer ring: HSI 80 after revamp  
 Source: Hang Seng Indexes, Standard Chartered

## Top client questions (cont'd)

### Q Are Asian HY bonds looking more attractive than Developed Market (DM) HY bonds?

Both Developed Market (DM) HY and Asian HY bonds are preferred areas. Our view is based on the attractive yield on offer and expectation that credit fundamentals should improve with global growth, helped by vaccine rollouts and easy monetary policies. However, the regions differ in two ways:

- Looking at valuations, Asian HY bonds offer nearly a 275bps pickup in yield premium over US HY bonds – close to the highest differential in the last five years. This argues in favour of Asian HY bonds.
- US HY bonds arguably offer more attractive sector exposure. US HY bonds have a significant sector weight in oil producers, who are likely to benefit from higher oil prices. On the other hand, Asian HY bonds have significant exposure to the Chinese property sector, which despite strong revenues, is facing tighter policy and greater regulatory scrutiny.

Thus, while Asian HY bonds clearly offer an attractive pick-up over US HY bonds, they are exposed to somewhat greater sector risk. Hence, a balanced allocation to both is likely to be the best way to manage the risk/reward trade-off. In a global moderate risk appetite allocation, for example, this would translate to a 9% and 2% allocation to DM HY and Asian HY bonds respectively.

### Q Has momentum stalled for riskier currencies?

The USD has responded to higher US Treasury yields with a corrective bounce and currencies have corrected within the bounds of our expectations thus far. Further USD strength could be seen if bond yields edge higher, but we continue to suggest averaging into short USD positions. Fed speakers have indicated the Fed is committed to its Average Inflation Targeting policy and will give markets ample notice of any tapering of bond buying. Fed Chair Powell stressed that tighter policy was still some way off. Provided we have no further pandemic setback, the counter-cyclical USD should fall and currencies such as the AUD, NZD and CAD should continue to appreciate. There may be more pressure on currencies such as the ZAR, though, where capital inflows may require higher potential returns via a cheaper currency.

We have recently published bullish NZD and CAD ideas against the USD. With the expected US recovery package and anticipated infrastructure bill thereafter, the US-centric Canadian economy should outperform as it concurrently ramps up its domestic vaccination programme. This should be a catalyst for the USD/CAD downtrend to continue towards 1.2000 in the coming weeks, while technical resistance around 1.2880 likely caps any short-term bounce.

### Asian High Yield bonds now offer attractive yields premiums compared with their US counterparts

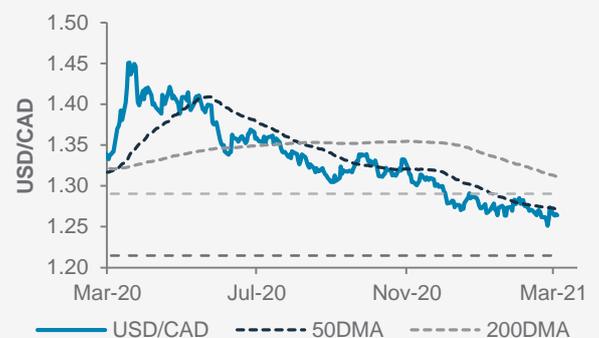
Difference between US and Asian High Yield bond yield premiums over US Treasuries



Source: Bloomberg, Standard Chartered

### We expect the USD/CAD downtrend to continue towards 1.20 over the coming weeks

USD/CAD



Source: Bloomberg, Standard Chartered

## Top client questions (cont'd)

### Q Why is gold struggling despite inflation expectations moving higher?

Gold has broken below a key technical support level at 1,765 over the past week on the back of the recent surge in US Treasury yields and USD resilience. This may seem puzzling in light of rising inflation concerns, but in our assessment, gold has an inconsistent relationship with inflation and inflation expectations (see chart).

The commonly held view on gold being a good inflation hedge was likely formed as a result of what happened in the 1970s – a period of high and rising inflation, which coincided with a sharp rally in gold prices. However, the most consistent relationship remains with real (net of inflation) bond yields, which represents the opportunity cost of owning gold. As the chart shows, gold has an inverse relationship with real bond yields.

Although inflation expectations have rebounded over the past few months, it has not been able to offset the move higher in nominal US Treasury yields. As a result, real bond yields have risen lately, driving down gold prices. The USD, another key driver, has also held up recently. As we have highlighted previously, investor conviction and technicals have been weak, both of which have exacerbated recent price movements.

We continue to view gold as a core holding and retain our bullish bias on a 6-12 month horizon, underpinned by our expectation of a weaker USD and range-bound real yields. Moving forward, inflation will likely creep higher as the global economy recovers, but we expect nominal bond yields will be capped by the Fed. This means real yields are unlikely to rise significantly, while the USD should gradually resume its downtrend. A key support zone is expected at around 1,660-1,690.

### Historically, gold has had an inconsistent relationship with inflation

Gold price; US 10y inflation breakeven rate



Source: Bloomberg, Standard Chartered

### Real (net of inflation) bond yields are more powerful drivers of gold prices

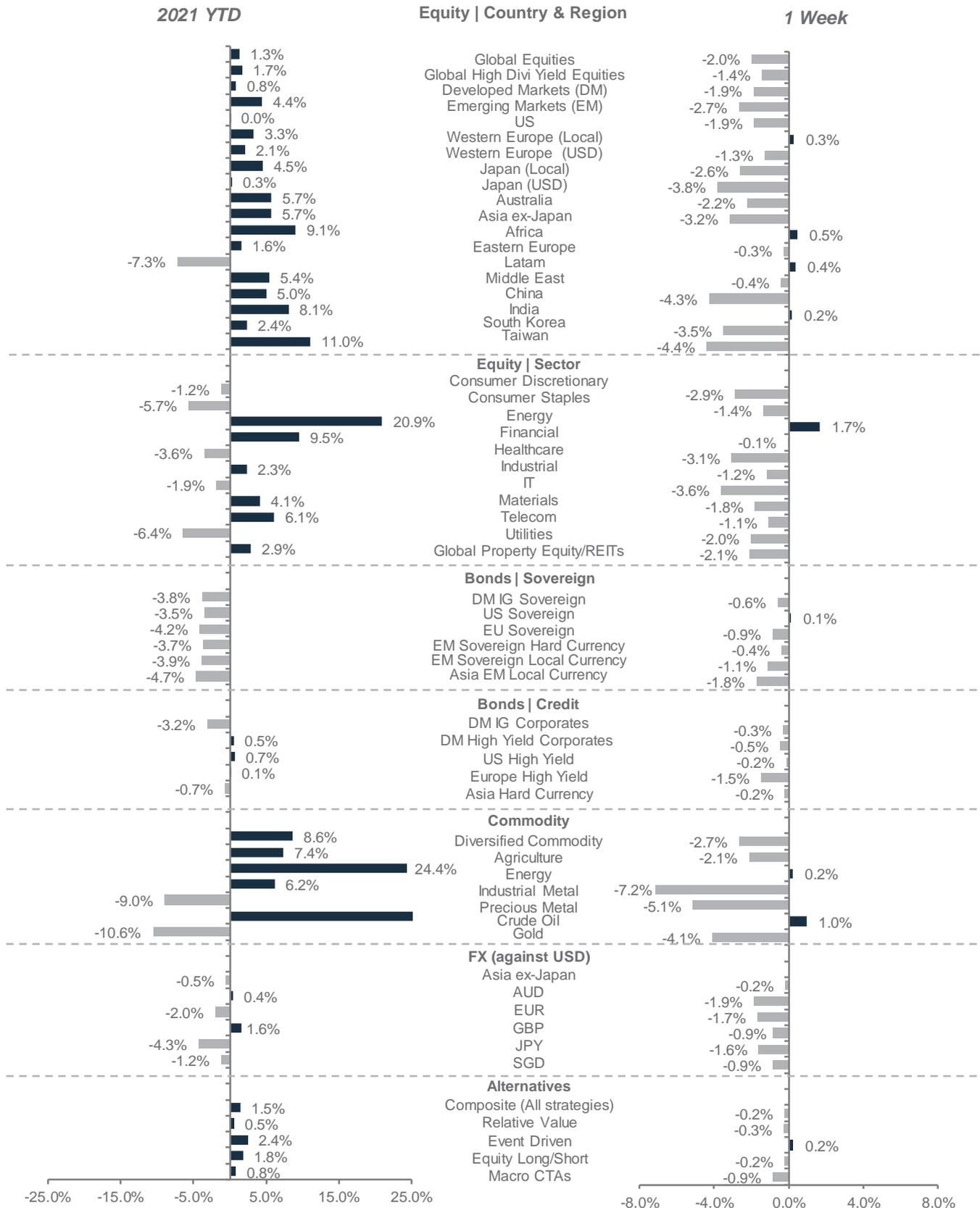
Gold price; US real (net of inflation) bond yield



Source: Bloomberg, Standard Chartered; \* 10-year US inflation protected Treasury securities, which are a proxy of real (net-of-inflation) bond yields

#Our Bubble-o-meter indicator definitions: Market momentum – 120DMA; equity strength – net new stocks at 52w high; market breadth – McClellan advance/ decline summation; equity vs bonds – difference in 20d stock and bond returns; market volatility – VIX index; put-call ratio – proportion of put (sell) and call (buy) options  
 Greed/fear – when indicator is above/below the normalised range midpoint; extreme greed/extreme fear – when indicator is above/below 80%/20% of its normalised range

# Market performance summary\*



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

\*Performance in USD terms unless otherwise stated, 2021 YTD performance from 31 December 2020 to 04 March 2021; 1-week period: 25 February 2021 to 04 March 2021

## Our asset class views at a glance

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

Source: Standard Chartered Global Investment Committee

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

## S&amp;P500 has support 1.2% below current level

Technical indicators for key markets as on 04 Mar 2021

Index	Spot	1st support	1st resistance
S&P500	3,768	3,724	3,857
STOXX 50	3,705	3,657	3,733
FTSE 100	6,651	6,531	6,723
Nikkei 225	28,930	28,686	29,419
Shanghai Comp	3,503	3,479	3,552
Hang Seng	29,237	28,851	29,751
MSCI Asia ex-Japan	890	880	907
MSCI EM	1,346	1,331	1,370
Brent (ICE)	66.7	64.0	68.1
Gold	1,694	1,679	1,724
UST 10Y Yield	1.56	1.45	1.62

Source: Bloomberg, Standard Chartered

## Economic and market calendar

	Event	Next Week	Period	Prior
MON	EC	Sentix Investor Confidence	Mar	-0.2
TUE	JN	Household Spending y/y	Jan	-0.6%
	CH	New Yuan Loans CNY	Feb	3580.0b
	CH	Money Supply M1 y/y	Feb	14.7%
WED	US	CPI Ex Food and Energy y/y	Feb	1.4%
	US	Real Avg Weekly Earnings y/y	Feb	6.1%
THUR	EC	ECB Deposit Facility Rate	11-Mar	-0.5%
	US	JOLTS Job Openings	Jan	6646
FRI/SAT	US	PPI Ex Food and Energy y/y	Feb	2.0%
	US	U. of Mich. Sentiment	Mar P	76.8

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

## All major markets show healthy investor diversity

Our proprietary market diversity indicators as of 03 Mar

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	○	→	1.42
Global Equities	○	↓	1.44
Gold	○	↑	1.43
<b>Equity</b>			
MSCI US	●	↓	1.54
MSCI Europe	○	↓	1.43
MSCI AC AXJ	○	↓	1.35
<b>Fixed Income</b>			
DM Corp Bond	●	→	1.52
DM High Yield	○	→	1.46
EM USD	●	↓	1.57
EM Local	●	→	1.60
Asia USD	●	↓	2.21
<b>Currencies</b>			
EUR/USD	●	→	1.84

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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