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Wealth Management Chief Investment Office
13 May 2022

Weekly Market View

Beware of negativity bias

- Stocks and bonds are starting to go on sale. Global and US S&P500 equity indices are down 18-19% from January's peak, and our preferred bond markets are offering yields above 5%.
- Our equity market sentiment index is showing fear (usually a contrarian signal), and technical indicators are still searching for a bottom. How should investors navigate such markets?
- The first challenge in such an environment is to overcome what is known as the negativity bias – the tendency to attach a higher weight to negative news. Selling assets after a significant sell-off is never a good idea as it is rare for investors to be able to correctly time their re-entry.
- For longer-term investors with cash in reserve, we believe it is time to gradually drip feed into increasingly undervalued assets.

What are the key equity market technical levels to watch?

Does a likely peak in US inflation offer an opportunity for bond investors?

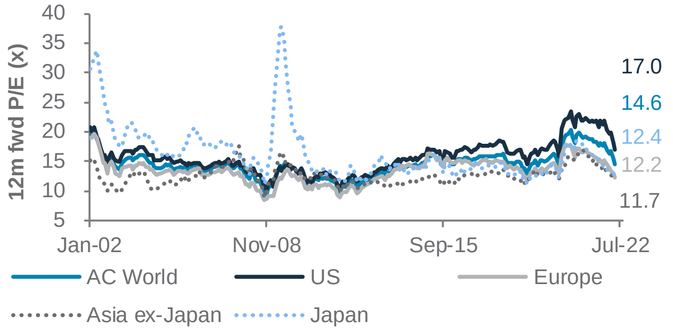
What are the implications of the recent volatility in Crypto stablecoins?

Important disclosures can be found in the Disclosures Appendix.

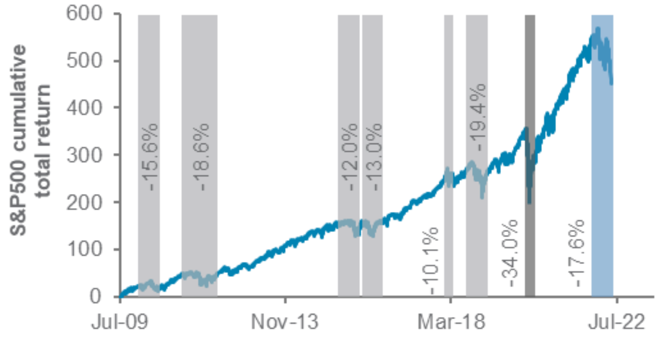
Charts of the week: Markets go on sale

Some equity valuations are attractive after the selloff; the S&P500 index has seen 10-19% pullbacks six times since 2009*

12-month forward P/E ratios of major equity markets



S&P500 total returns index, highlighting 10-19% corrections



Source: Bloomberg, Standard Chartered; *This excludes the 34% drop in March 2020 at the onset of the COVID pandemic

Editorial

Beware of negativity bias

Stocks and bonds are starting to go on sale. Global and US S&P500 equity indices are down 18-19% from January's peak, and our preferred bond markets are offering yields above 5%. Our equity market sentiment index is showing fear (usually a contrarian signal), and technical indicators are still searching for a bottom. How should investors navigate such markets?

The first challenge in such an environment is to overcome what is known as the negativity bias – the tendency to attach a higher weight to negative news. Selling assets after a significant sell-off is never a good idea as it is rare for investors to be able to correctly time their re-entry. History suggests that, after major market dislocations, the best course is to stay invested and rebalance to ensure allocations are adequately diversified. For longer-term investors with cash in reserve, we believe it is time to gradually drip feed into increasingly undervalued assets.

The fundamental backdrop remains reasonably healthy, with the Q1 corporate earnings season in both the US and Europe delivering positive surprises. Our indicators point to a low risk of a US recession in the next 6-12 months. The Russia-Ukraine conflict has not spilled beyond Ukraine's borders. China's latest COVID wave is peaking, with relaxation of lockdowns and further stimulus now likely a matter of time. Credit growth is accelerating as authorities jumpstart infrastructure spending to lift growth (loan rate decision and investment data next week).

We have highlighted in recent weeks the need to see a peak in US inflation and interest rate expectations before risk assets bottom. This week saw tentative signs of stabilisation – the US 10-year government bond yield pulled back after hitting 3.20%, just below the major technical resistance of 3.26% (2018 high). The pullback in yields is starting to break this year's unusually high stock-bond correlation – bonds rose this week, while stocks fell – that had made asset diversification challenging.

Also, US inflation data, while higher than consensus estimates, showed tentative signs of peaking, with goods inflation topping out. US headline inflation slowed to 8.3% y/y in April, down from March's 40-year high of 8.5%. Core inflation slowed to 6.2% from 6.5%. Categories in the US consumer inflation basket that accelerated has declined to 60% in April from a high of 85% in February. An indicator of US inflation published by the Cleveland Fed that trims out the extreme numbers to focus on the mean consumer inflation has been moderating since October – it continued to decelerate to a 5.5% annualised rate.

Moreover, oil and gas prices, the main drivers of global inflation this year, have fallen from peaks. It looks increasingly unlikely that the EU will be able to completely ban Russian gas imports. In fact, Hungary is threatening to veto any ban on oil imports, which is less critical for the EU. The pullback in oil and gas prices has resulted in a sharp drop in US 10-year inflation expectations, as derived from inflation-protected securities, to 2.6%, down from a record high of 3.1% in late-April.

Meanwhile, the US labour market remains strong, with job creation in April beating estimates. We expect normalisation of economic activity to accelerate the shift of US consumption from goods to services (watch retail sales data for April next week). High mortgage rates have barely dented the residential construction market, another driver of growth (April housing starts and building permits data are due next week).

Against this fundamentally constructive backdrop, several equity and higher-yielding bond markets look attractive. Developed Market (DM) High Yield (HY) corporate bonds and Emerging Market (EM) and Asia USD bonds are once again offering 5-8% yields. Although short-term equity market technicals remain weak, risk takers have a chance to pick up Asia ex-Japan equities at a 20% P/E discount to global markets. We would gradually scale in investments as the market seeks a technical bottom. In China, we maintain a preference towards sectors that stand to benefit from an infrastructure-driven recovery: industrials and financials. European industrials are also likely to benefit from China's infrastructure spending and from the region's own shift towards green energy. The energy sector remains preferred in China, Europe and the US. For risk-averse investors, the healthcare sector in the US and Europe offers a relatively defensive option.

— Rajat Bhattacharya

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 in the near term.

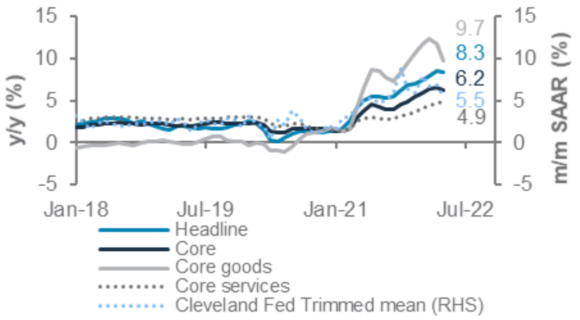
(+) factors: Falling China COVID cases, strong US job creation

(-) factors: Higher-than-expected US inflation; Fed, China risk warning

	Positive for risk assets	Negative for risk assets
COVID	• China new COVID cases continued to fall, with limited community spread • Hong Kong preparing for quarantine-free travel	• China re-affirmed 'zero COVID policy as a study revealed a risk of a surge in cases if the policy is dropped
	Our assessment: Positive – Falling China cases	
Macro data	• US job creation in April was more than forecast • Small Business Optimism index unchanged but higher than estimates • Euro ZEW sentiment rose more than forecast • China exports growth fell less than expected	• US consumer inflation was higher than expected, but fell from March; producer inflation rose more than expected • China consumer and producer inflation rose more than expected • Euro Sentix confidence fell more than forecast
	Our assessment: Neutral – Stronger-than-expected US job creation, business optimism, improving Euro area sentiment versus higher-than-expected US, China inflation	
Policy developments	• Several Fed officials said the US economy can tolerate higher rates • PBoC pledged again to proactively support economy and markets; signalled a more dovish stance on property policies	• Fed flagged more risks in its Financial Stability Report • China's Premier Li warned about a weaker labour market
	Our assessment: Neutral – Fed confidence on economy, PBoC support versus risk warnings	
Other developments	• US House approved aid package for Ukraine; EU reviewing joint debt issuance to fund Ukraine • EU softened its sanctions proposal; Hungary plans to veto EU ban on Russian oil	• No sign of the Ukraine conflict abating • G7 leaders committed to a ban on import of Russia's oil
	Our assessment: Positive – Lower chance of EU oil embargo	

US inflation is showing tentative signs of peaking; goods inflation appears to have peaked

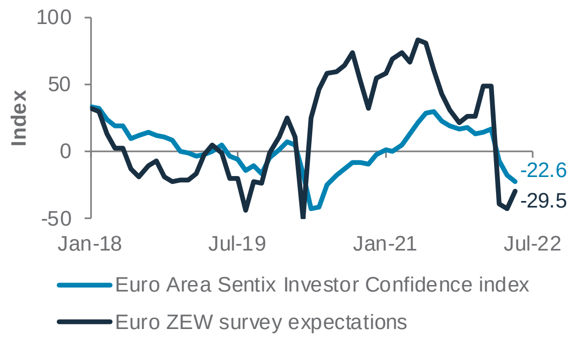
Various measures of US consumer inflation



Source: Bloomberg; Standard Chartered

Euro area sentiment remains weak, making it harder for the ECB to tighten policy significantly

Euro area Sentix Investor Sentiment and ZEW Survey expectations of economic growth



Source: Bloomberg, Standard Chartered

China's credit growth is accelerating as authorities boost infrastructure spending; watch April's fixed investment and credit data in the coming week

China's credit impulse and money supply growth

Source: Bloomberg, Standard Chartered

Top client questions

What should investors be watching out for given your constructive fundamental view but weak technicals in equities?

The falling correlation between bonds and equities this week suggests bonds may be reflecting waning inflation expectations, while equities are focusing on growth concerns. We continue to be constructive on equities on a 6-12 month horizon. Key catalysts that can lead to more positive sentiment in equities include 1) an improvement in China's COVID lockdowns and 2) falling risk of energy supply disruptions due to the Russia/Ukraine crisis, both of which would help relieve supply-side disruptions.

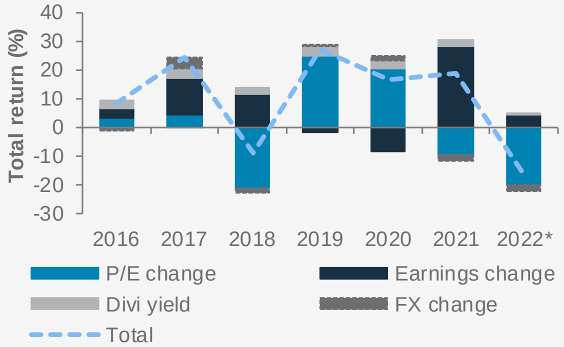
Short-term technical indicators remain soft. The S&P500 broke below an important support at 4,063 while the Hang Seng broke below 19,665. The short-term bias continues to be towards the downside. For the Hang Seng, a retest of the March 2022 lows at 18,200 is likely. For S&P500, we believe there is support every 100 points down from 4,000, all the way to the important support at 3,600.

However, longer-term equity fundamentals remain solid, in our view. For example, US Q1 earnings growth expectations have been revised up to 10.4%, (from 6.4% on 1 April), with all sectors surprising to the upside. Valuations across the key regions are back to 2018 levels, while our preferred Asia ex-Japan region trades at a 20% discount to global equities (vs. 11% historically).

— **Daniel Lam,** *Head, Equity Strategy*

Global equity markets have been dragged down this year primarily by a derating in the price-earnings multiple

Composition of MSCI All Country World index returns



Source: MSCI, FactSet, Standard Chartered
*Year-to-date as of 10 May

Does a likely peak in US inflation offer an entry opportunity for bond investors?

The pullback in the US 10-year government bond yields over the past week and its inability to sustain above 3.00% reaffirms our view that 3.00% and 3.26% remain significant technical resistance levels. However, until we see stronger signals of peaking inflation worries, another push higher in bond yields in the coming months remains a risk, keeping the risk/reward on government bonds relatively unattractive, in our view, despite the material increase in yields.

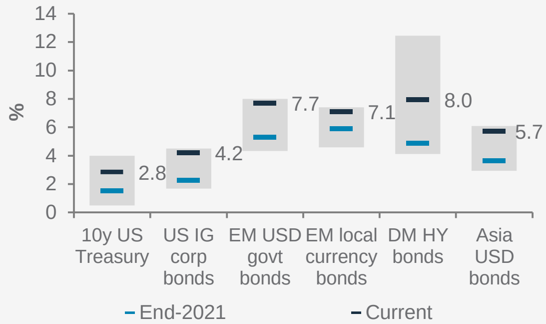
However, we are starting to see increasingly attractive value emerge broadly in corporate/EM bonds. Over the past few weeks, we have seen credit spreads widen due to (i) the broad risk-off sentiment, and (ii) worries of slowing global growth and its potential impact on corporate earnings and debt repayment abilities.

We believe these concerns are overdone. In fact, a number of corporate bond markets are now offering close to their highest yields since 2010 (and that includes COVID-related selloffs in March 2020 when uncertainty was substantially higher). Hence, current valuations and our base no-recession scenario mean we would consider adding exposure to our preferred corporate/EM bonds – DM HY bonds, Asian USD bonds and EM USD government bonds.

— **Abhilash Narayan,** *Senior Investment Strategist*

Our preferred bond markets are now offering 5-8% yields, close to their highest since 2010

Yield range for major bond markets in 2010-22 period



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Do you see further GBP downside in the short term?

The Bank of England (BoE) continues to face a dilemma between curtailing rising inflation and supporting growth. Just last week, the BoE raised rates by 25bps to 1%, but warned the UK economy may slide into a recession this year, causing the GBP to slump on growth concerns. Short-term, GBP/USD remains on a downtrend, and we believe the pair has room to fall further over the next 2-4 weeks.

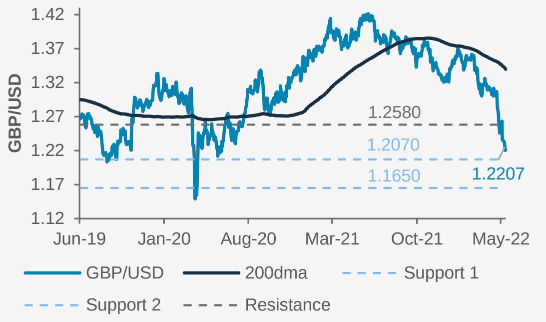
Inflationary pressures have been exacerbated by elevated energy prices as a result of the Russia-Ukraine conflict and disruptions due to renewed COVID lockdowns in China (UK inflation data due next week). On the growth side, data indicated the UK economy shrank in March. One key downside risk is the UK's rejection of the EU's proposal for a post-Brexit treaty for Northern Ireland, stating it would not shy away from taking direct action. This could result in EU retaliation and, in the worst case, a possible trade war. Finally, USD strength is likely to continue to be a headwind in the short term, posing a headwind for GBP/USD.

On technicals, we see resistance at 1.258. The pair may find initial support at the Q2 20 lows of around 1.207. However, a break lower could accelerate the decline towards 1.165.

— **Nataniel Tang,** *Investment Strategist*

GBP/USD appears likely to continue the downtrend; a break of 1.207 could see a decline towards 1.165

GBP/USD, with key technical levels



Source: Refinitiv, Standard Chartered.

What are the implications of the recent volatility in Crypto 'stablecoins'?

Several cryptocurrencies are facing significant volatility. TerraUSD (UST), a 'stablecoin' (a crypto coin pegged to traditional assets like the USD) that uses an algorithm to alter supply to maintain its value vs. the USD, fell sharply below its 1-to-1 peg with the US dollar. Luna, the sister cryptocurrency of UST which is used to maintain the peg of UST to the dollar has collapsed from an all-time high of $116 just last month, to virtually $0.

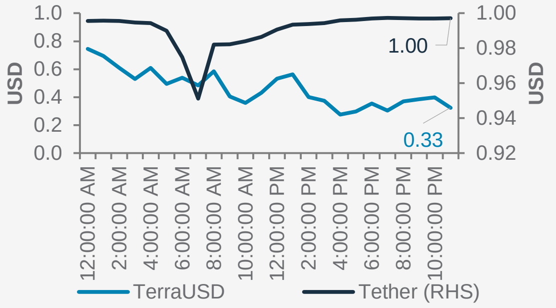
We see two key implications for cryptocurrencies at a general level. First, it re-emphasises the point that volatility here can be extreme, so any allocations should still be handled with a great degree of care. Second, it makes it increasingly likely that regulation will be key to shaping the future of cryptocurrencies, something recent events could accelerate given this could be viewed as a catalyst for a move towards greater investor protection.

While linkages between cryptocurrencies and more traditional asset classes are arguably not significant as yet, contagion within cryptocurrencies is a risk, with the Fed's financial stability report warning that 'stablecoins' are vulnerable to investor runs because they are backed by assets that can lose value or become illiquid during periods of market stress. This, together with investor protection efforts, likely mean greater regulatory involvement ahead.

— **Manpreet Gill,** *Head, FICC strategy*

Cryptocurrency volatility has risen lately, with TerraUSD, a stablecoin, losing most of its value over the past week

TerraUSD and Tether prices in last two days



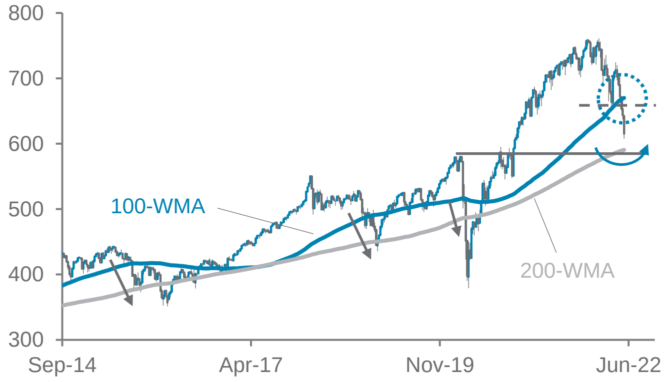
Source: Refinitiv, Standard Chartered.

Technical charts of the week

Manish Jaradi
Senior Investment Strategist

Global equities: In search of a bottom

MSCI All Country World index weekly chart with 100WMA and 200WMA

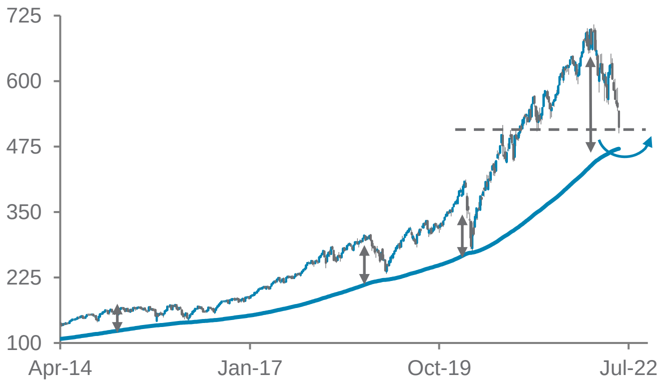


Source: Refinitiv, Standard Chartered

In the past, the break of the 100WMA has often paved the way towards the 200WMA (currently at 590, 4% from Thursday's close). While not a done deal, even if it falls towards 570, it would still be a 50% retracement of the 2020-22 rise. A retreat of 38.2%-50.0% is considered reasonable and not necessarily the end of an uptrend.

US technology: Mean reversion

MSCI US Technology index weekly chart with 200WMA

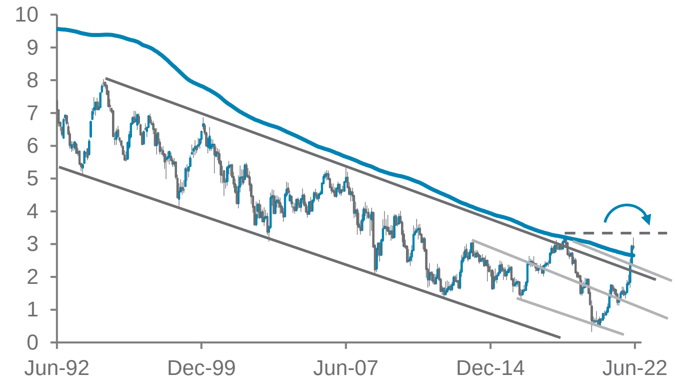


Source: Refinitiv, Standard Chartered

The 30% fall from January is an unwinding of the excessive optimism. Prices typically oscillate around the long-term averages (in the current context, the 200WMA is a guide to the four-year trend). Extreme overshoots are often corrected by a fall towards the long-term average, as it has done so in the past. This time may not be different.

US government bond yield: Ripe for a retreat

US 10-year Treasury bond monthly chart with 200MMA

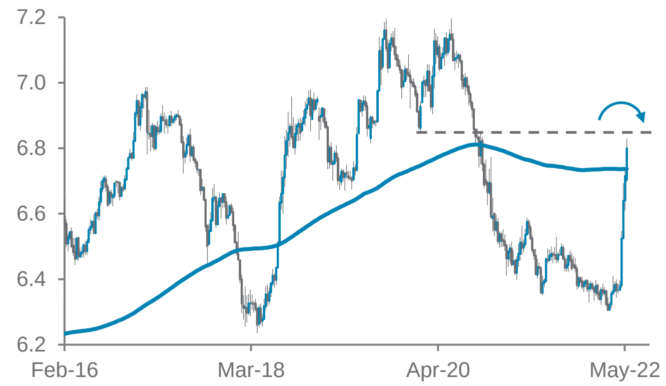


Source: Refinitiv, Standard Chartered

The minor retreat this week is a sign that the yield rally is beginning to falter at major resistance at 3.26%. This follows negative divergence (rising yields associated with declining momentum) on the daily chart, which was pointed out last week. Any break below the 27 April low of 2.71% would confirm that the upward pressure has faded.

USD/CNH: Correction, not a reversal of downtrend

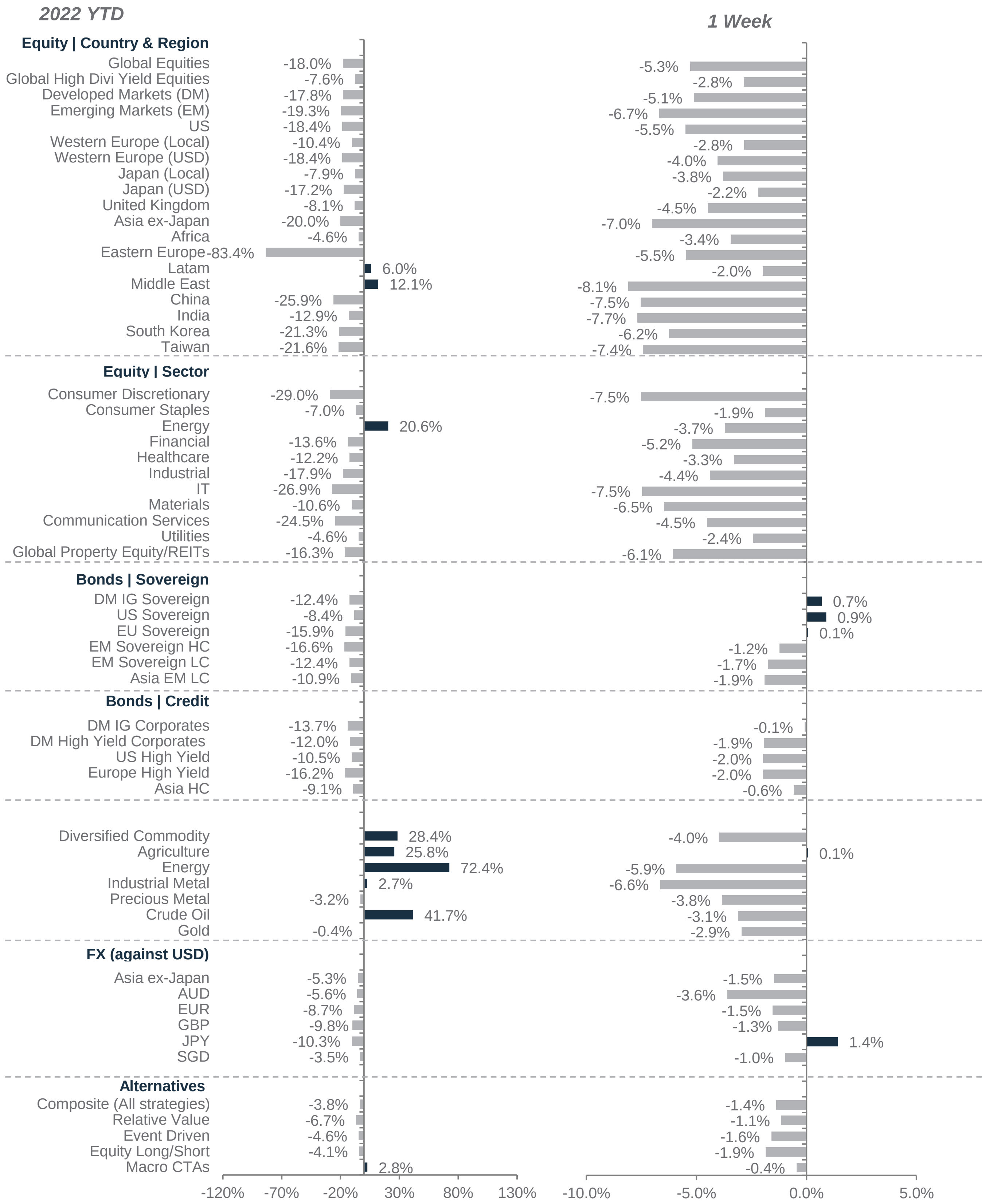
USD/CNH weekly chart with 200WMA



Source: Refinitiv, Standard Chartered

The stellar rise in recent weeks raises the question of whether it is a reversal of the downtrend. Corrective rallies sometimes appear to be reversals, especially when previous rebounds have been shallow/short-lived (as was the case since the slide began in 2020). Moreover, the 200WMA is no longer rising, indicating that the broader trend is not up.

Market performance summary *



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 12 May 2022; 1-week period: 05 May 2022 to 12 May 2022

Our 12-month asset class views at a glance

Asset class			
Equities	▲	**Alternatives**	◆
Euro area	◆	Equity hedge	▲
US	◆	Event-driven	◆
UK	◆	Relative value	▼
Asia ex-Japan	▲	Global macro	◆
Japan	▼		
Other EM	◆	**Cash**	◆
		USD	▼
Bonds (Credit)	◆	EUR	▲
Asia USD	▲	GBP	▲
Corp DM HY	▲	CNY	▲
Govt EM USD	▲	JPY	◆
Corp DM IG	▼	AUD	▲
		NZD	▲
Bonds (Govt)	▼	CAD	▲
Govt EM Local	◆		
Govt DM IG	▼	**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	CH	Industrial Production y/y	Apr	0.5%	5.0%
	CH	Retail Sales y/y	Apr	-6.2%	-3.5%
	CH	Fixed Assets Ex Rural YTD y/y	Apr	7.0%	9.3%
	CH	Property Investment YTD y/y	Apr	-1.5%	0.7%
	US	Empire Manufacturing	May	15.0	24.6
TUE	UK	ILO Unemployment Rate 3Mths	Mar	–	3.8%
	US	Retail Sales Ex Auto and Gas	Apr	0.8%	0.2%
	US	Industrial Production m/m	Apr	0.4%	0.9%
WED	UK	CPI y/y	Apr	–	7.0%
	US	Housing Starts	Apr	1763k	1793k
THUR	US	Existing Home Sales	Apr	5.65m	5.77m
	US	Leading Index	Apr	0.0%	0.3%
FRI/SAT	EC	Consumer Confidence	May A	–	-22.0

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 has next support at 2.76%

Technical indicators for key markets as on 12 May 2022

Index	Spot	1st support	1st resistance
S&P 500	3,930	3,866	4,059
STOXX 50	3,613	3,544	3,665
FTSE 100	7,233	7,171	7,342
Nikkei 225	25,749	25,330	26,585
Shanghai Comp	3,055	3,018	3,075
Hang Seng	19,380	19,173	19,795
MSCI Asia ex-Japan	629	620	648
MSCI EM	988	973	1,017
Brent (ICE)	107.5	102.5	112.4
Gold	1,820	1,798	1,862
UST 10y Yield	2.85	2.76	3.03

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 11 May

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	○	→	1.20
Global Equities	◐	→	1.33
Gold	●	↓	1.89
Equity			
MSCI US	◐	↓	1.38
MSCI Europe	◐	↓	1.31
MSCI AC AXJ	◐	↓	1.31
Fixed Income			
DM Corp Bond	◐	→	1.26
DM High Yield	◐	↓	1.31
EM USD	◐	→	1.29
EM Local	○	↓	1.21
Asia USD	◐	→	1.38
Currencies			
EUR/USD	○	↓	1.24

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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