Wealth Management Chief Investment Office
10 March 2023

Weekly Market View

China's 'conservative' boost

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→ Against the backdrop of rising recession risks in the US and Europe, this is likely to drive China's, and by extension Asia ex-Japan's, equity market outperformance over the next 6-12 months. Hence, we would use the recent consolidation in China equities and Asian USD bonds to add exposure, by rebalancing from more expensive US and European equity markets.

We also reiterate our preference for investment grade bonds and other income assets over equities amid elevated bond yields and rising risk of a recession in the US and Europe.

Are Investment Grade corporate bonds still attractive after Fed Chair Powell's testimony lifted short rates?

What is the right strategy for investors with exposure to the US technology sector?

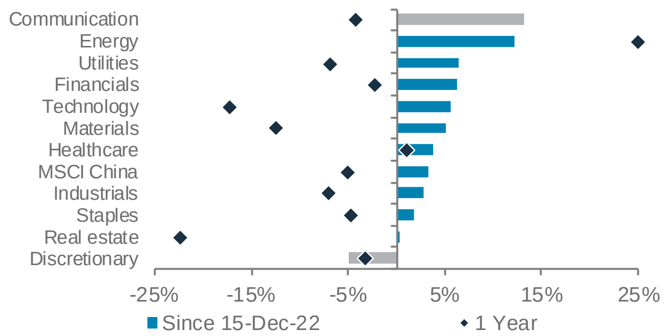
What is the view on the USD, AUD and CAD after the latest central bank guidance?

Charts of the week: China's boost to domestic consumption

China's onshore equities are likely to catch up with offshore peers as they are more exposed to domestic consumption

Relative performance of China's onshore and offshore equities

Performance of China's equity sectors



Source: Bloomberg, Standard Chartered

Editorial

China's 'conservative' boost

China's growth and budget targets for this year, unveiled at the National People's Congress, have underwhelmed investors who were hoping for a policy 'bazooka'. Nevertheless, we see a high probability of growth exceeding the 'conservative' 5% target, aided by a modest fiscal stimulus, supporting a corporate earnings recovery in targeted sectors. Against the backdrop of rising recession risks in the US and Europe, this is likely to drive China's, and by extension Asia ex-Japan's, equity market outperformance over the next 6-12 months. Hence, we would use the recent consolidation in China equities and Asian USD bonds to add exposure, by rebalancing from more expensive US and European equity markets.

China's 5% economic growth target is the lowest in decades if we exclude the pandemic year (2020). This is backed by a modest rise in the headline budget deficit target to 3% of GDP, from 2.8%. However, if we include carryover and fiscal stabilisation funds as deficit financing items, the broad deficit will rise almost 1.6ppt to 7.5% of GDP in 2023 from 5.9% last year. The potential fiscal impulse means the bar is low for China to exceed its modest economic growth estimates this year.

The budget and other policy proposals also signal a break from the past in terms of China's strategic objectives. Instead of a historical focus on infrastructure investment (particularly construction), the proposed plan is geared towards stimulating domestic consumption and advanced technology, aimed at building China's resilience against potential shocks. The targeted measures bode well for the earnings growth outlook of select industries, including consumer discretionary (EV and large-ticket appliances), technology (semiconductors), and industrials (automation and defence). Given the policy beneficiaries are mostly listed in the onshore equity market (A shares), we expect the earnings outlook of A shares to be around 20% this year, surpassing that of offshore China equities (in the low-teen range).

Investment implications: a) China's consumption-driven growth recovery supports our preference for Asia ex-Japan equities (and within that China equities) and Asia USD bonds.

b) Within China, it raises the probability of outperformance of A shares vs. offshore equities in the near term. Over 90% of A shares are traded by Mainland investors, making them less prone to any global fund outflow due to geopolitical tensions or global recession concerns. Meanwhile, offshore shares have consolidated after the run-up since November. Some of the Internet giants now trade at reasonable valuations and could re-rate, should there be any clear reversal of policy stance, given their ability to drive innovation and increase youth employment. Technically, we see strong support for the Hang Seng Index around 19,300. In particular, we are overweight on communication services and consumer discretionary sectors, which should benefit from a consumption-driven rebound.

c) We expect the modest fiscal boost and still subdued inflation pressures to allow the central bank to keep monetary policy accommodative. The absence of a traditional fiscal stimulus focussed on infrastructure and construction also reduces the risk of stoking global commodity prices and inflation. Thus, it reduces the risk of a potential upside to global bond yields.

d) USD/CNH jumped in a knee-jerk reaction to the more modest GDP growth target, breaking above the 200DMA. We expect authorities to dampen currency volatility as the pair approaches the psychologically important level of 7.0. However, downside for the pair is likely to be limited by elevated US yields.

What we're watching: US non-farm payrolls and inflation data for February ('hot' reports would likely lead to a 50bps Fed rate hike on 22 March); ECB policy decision (50bps hike expected; forward guidance in focus); China activity data for February (retail sales, industrial production, fixed asset investment); market concerns about US banks seeing deposit outflows and marking down their bond security holdings due to higher rates and the potential channels of contagion to the broader sector.

The weekly macro balance sheet

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

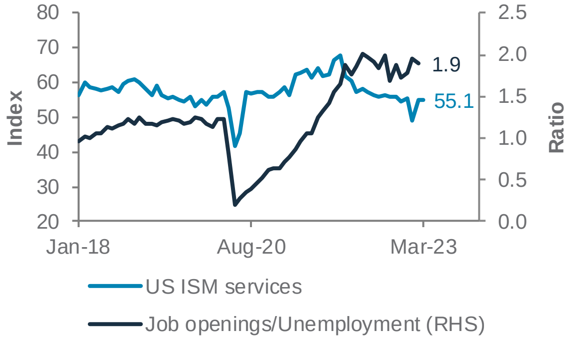
(+) factors: Robust US services ISM, resilient China exports

(-) factors: Hawkish DM central banks, strong US job market, US-China tensions

	Positive for risk assets	Negative for risk assets
Macro data	• US ISM services PMI fell less than expected to 55.2 • US factory orders fell less than expected by 1.6% y/y • China exports fell less than expected by 6.7% y/y • China inflation slowed more than expected to 1.0% y/y; producer inflation fell more than expected by 1.4% y/y	• US private sector job creation (ADP) was more than expected in February; job openings fell less than expected • Euro area Sentix investor confidence fell surprisingly • Euro area retail sales fell more than expected by 2.3% y/y
	Our assessment: Neutral – Robust US services business confidence, resilient China exports vs stronger-than-expected job market (raising the risk of a more hawkish policy), receding Euro area investor confidence	
Policy developments	• Fed Beige Book cited stronger-than-expected economic activities and robust labour market • BoC held rates as expected, pausing a series of rate hikes for the first time in nine meetings • BoJ maintained its accommodative policy as expected in Kuroda's last meeting as governor • China proposed a modest boost to its budget deficit target to 3% of GDP, from 2.8%	• Fed's Powell warned of the possibility of accelerating the pace of rate hikes and a higher peak rate in view of the recent strong data • China announced a conservative growth target of c.5.0%; Premier Li said the govt. would prevent unregulated expansion of property market • China created a new financial and data watchdog to centralise power now held by multiple regulators • ECB's Largarde said more hikes were needed to tackle the inflation "monster"
	Our assessment: Negative – Hawkish DM central banks	
Other developments		• China's foreign minister said relations with the US have left a "rational path" • Concerns about deposit flight from small US banks
	Our assessment: Negative – US-China tension, US banks	

US job market remains tight due to robust services sector activity, raising the risk of higher for longer Fed rates

US job openings (JOLTS) to unemployment ratio and ISM Services PMI



Source: Bloomberg; Standard Chartered

Euro area investor confidence fell unexpectedly, and retail sales fell more than expected, raising doubts about the ECB's sustained hawkish stance

Euro area Sentix Investor Confidence and retail sales

Source: Bloomberg, Standard Chartered

China set a modest 5% growth target for 2023 and raised the budget deficit target marginally to 3%

China's key economic targets unveiled at the annual National People's Congress

Year	Growth target	CPI	Fiscal deficit	Local govt. special bond quota (RMB trn)
2019	6.0 - 6.5%	3.0%	2.80%	2.15
2020	None	3.5%	3.60%	3.75
2021	Above 6%	3.0%	3.20%	3.65
2022	Around 5.5%	3.0%	2.80%	3.65
2023	**Around 5%**	**3.0%**	**3.00%**	**3.80**

Source: Bloomberg, Standard Chartered

Top client questions

Are Investment Grade corporate bonds still attractive after Fed Chair Powell's testimony lifted short-term rates?

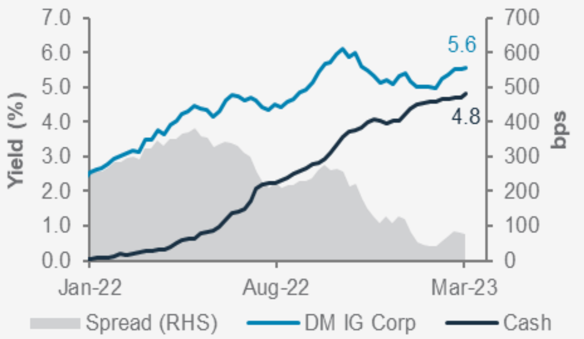
At his Congressional testimony, Powell highlighted the need to quicken the pace of rate hikes towards a higher terminal rate should data justify doing so. The bond market reactions included (1) a yield spike in shorter-maturity bonds, with the 2-year yield breaching the 5% mark for the first time since 2007 and (2) an intensification of yield curve inversion, with the 10y2y spread falling below -100bps.

We see two questions emanating from these market reactions. The 1st question is on the risk/reward of cash vs. longer-term credit given the yield spike at the front end. We believe longer-term bonds still offer value because: (1) DM IG corporate bonds still pay a yield premium over cash; (2) their higher sensitivity to changes in yields (duration) offers better upside in the event of a Fed policy reversal; and (3) longer maturity profiles help reduce reinvestment risk relative to cash. The second is whether we can draw any conclusions from the size of the yield curve inversion. We see the yield curve as a binary recession indicator, with little to support a view of a deeper inversion implying a deeper recession. We would, though, note that there have been only 4 occurrences of the 10y2y spread closing below -100bps since 1976. In all 4 episodes, there was already a recession, or a recession occurred within the next 8 months.

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

DM IG corporate bonds still pay a premium over cash

DM IG corporate bond vs. cash yield



Source: Bloomberg, Standard Chartered

What is the right strategy for investors with exposure to the US technology sector?

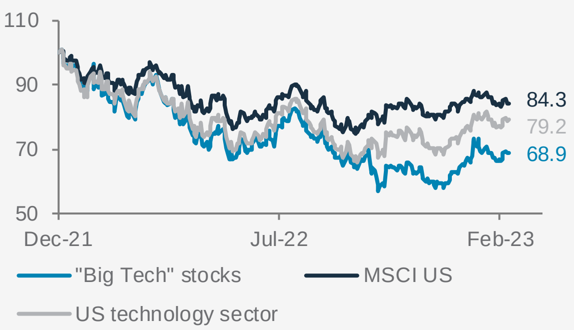
The US technology sector has outperformed the broader market YTD. While the sector saw a valuation derating in 2022 amid higher bond yields, it has benefitted from resilient US growth data and cost-control measures. In the face of cost inflation, technology companies have laid off employees and have become cautious on investments, as they adjust their cost base. Tech companies are relatively less affected by raw material and input cost rises impacting other sectors.

However, over the next 6-12 months, we believe investors should rotate towards our preferred equity markets in Asia ex-Japan and China, which are more attractively valued. In particular, we are Overweight on the communication services and consumer discretionary sectors in China, which we expect will benefit from a consumption rebound and pro-growth policies. Although US tech sector valuations are off their highs, they remain elevated; the 12-month forward P/E for the sector is at 23x, above the historic average of 20x, while consensus expectation is for only 0.4% earnings growth in 2023. For investors who wish to remain in the US tech sector, we highlight areas such as cybersecurity and semiconductors linked to artificial intelligence (AI) that are seeing attractive tailwinds now.

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

US tech sector valuations remain elevated despite price performance since end-2021

Performance of "Big Tech" stocks (average for Microsoft, Apple, Meta, Amazon and Alphabet), MSCI US and MSCI US Technology sector (rebased 100=31-Dec-2021)



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

What is your view on the USD, CAD and AUD after the recent central bank guidance?

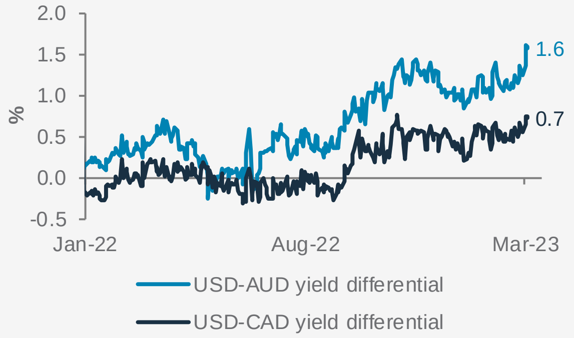
The past week was marked by signs of potentially rising divergence in the monetary policies of major Developed Market central banks over the next few months. The BoC chose to leave interest rates unchanged for the first time in nine meetings, pushing USD/CAD above 1.38, its highest level since October 2022. Although BoC Governor Macklem is of the view that future rate hikes are possible, most indicators point to a prolonged pause, which could push USD/CAD to test the 2022 high of 1.3977 over the next few weeks. In Australia, the RBA hiked rates by 25bps, but RBA Governor Lowe sounded dovish in his forward guidance, which led the markets to sharply adjust their rate hike expectations lower. Tactically, the AUD/USD sell-off appears somewhat overdone, but barring a modest rebound, AUD/USD could trade in the 0.66-0.68 range, as the growing interest rate differentials could offset any potential benefit from China's growth rebound.

In contrast to the BoC and RBA, Fed Chair Powell sounded more hawkish in his Senate testimony, highlighting data dependence and the possibility of faster rate hikes and a higher rate peak, should data warrant either outcome. As a result, the USD index (DXY) bounced above the 104.7 resistance level to reach its highest level since 6 January. Another strong set of job market data could push the index towards the 107.10 resistance level, but we struggle to see catalysts for strength beyond that. We would look to use any USD bounce as a chance to sell the USD and go long EUR/USD.

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

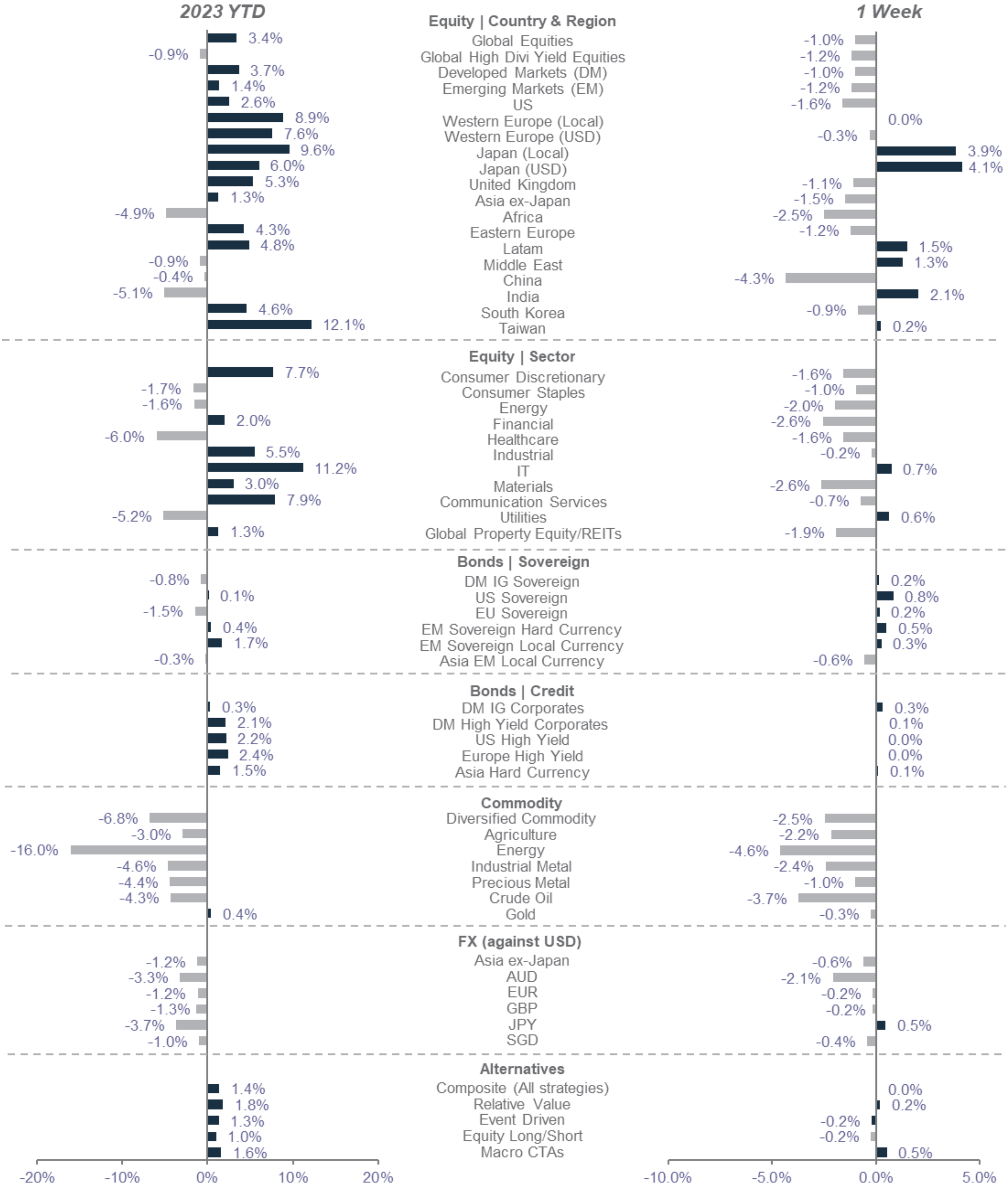
Growing signs of monetary policy divergence between US and other major central banks have led to higher interest rate differentials, supporting the USD

2-year nominal interest rate differentials between US and Australia, and US and Canada



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, 2023 YTD performance from 31 December 2022 to 9 March 2023; 1-week period: 2 March 2023 to 9 March 2023

Our 12-month asset class views at a glance

Asset class			
Equities	▼	**Preferred Sectors**	
Euro area	◆	US Energy	▲
US	◆	US Staples	▲
UK	◆	US Healthcare	▲
Asia ex-Japan	▲	Europe Energy	▲
Japan	▼	Europe Financials	▲
Other EM	◆	China Comm. Services	▲
		China Discretionary	▲
Bonds (Credit)	▲		
Asia USD	▲	**Alternatives**	◆
Corp DM HY	▼		
Govt EM USD	◆	**Gold**	◆
Corp DM IG	◆		
Bonds (Govt)	▲		
Govt EM Local	◆		
Govt DM IG	◆		

Source: Standard Chartered Global Investment Committee

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

Economic and market calendar

		Event Next week	Period	Expected	Prior
MON					
TUE	UK	Average Weekly Earnings 3m/y/y	Jan	–	5.9%
	UK	ILO Unemployment Rate 3Mths	Jan	–	3.7%
	US	NFIB Small Business Optimism	Feb	–	90.3
	US	CPI y/y	Feb	6.0%	6.4%
	US	CPI Ex Food & Energy y/y	Feb	5.4%	5.6%
WED	CH	Industrial Production y/y	Feb	2.6%	1.3%
	CH	Retail Sales y/y	Feb	3.5%	-1.8%
	CH	Fixed Assets Ex Rural YTD y/y	Feb	4.5%	5.1%
	US	PPI Final Demand y/y	Feb	5.4%	6.0%
	US	PPI Ex Food & Energy y/y	Feb	–	5.4%
	US	Empire Manufacturing	Mar	-7.4	-5.8
	US	Retail Sales Ex Auto & Gas	Feb	–	2.6%
THU	US	Housing Starts	Feb	1310k	1309k
	EC	ECB Deposit Facility Rate	3/16/2023	–	2.5%
FRI/SAT	US	Industrial Production m/m	Feb	0.5%	0.0%
	US	Leading Index	Feb	-0.2%	-0.3%
	US	U. of Mich. Sentiment	Mar P	67.0	67.0

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

Next support for US 10-year govt. bond yield is at 3.85%

Technical indicators for key markets as of 09 March close

Index	Spot	1st support	1st resistance
S&P 500	3,918	3,875	4,005
STOXX 50	4,286	4,247	4,320
FTSE 100	7,880	7,858	7,925
Nikkei 225	28,623	27,874	28,998
Shanghai Comp	3,276	3,259	3,311
Hang Seng	19,926	19,700	20,377
MSCI Asia ex-Japan	626	620	638
MSCI EM	968	960	985
WTI (Spot)	76	74	79
Gold	1,831	1,811	1,854
UST 10y Yield	3.90	3.85	4.00

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 healthy across asset classes

Our proprietary market diversity indicators as of 09 March

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↑	1.53
Global Equities	●	↑	1.67
Gold	●	↑	1.74
Equity			
MSCI US	●	↑	1.83
MSCI Europe	◐	↑	1.47
MSCI AC AXJ	●	↑	1.72
Fixed Income			
DM Corp Bond	●	↑	1.66
DM High Yield	●	↑	1.74
EM USD	●	↑	2.32
EM Local	●	↑	1.54
Asia USD	●	→	1.70
Currencies			
EUR/USD	●	↑	2.25

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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