



Weekly Market View

SPECIAL EDITION

We had our Global Market Outlook client event last week and collected almost 700 questions from clients, which we grouped into different categories. In this Special Edition of the Weekly Market View, we give our perspective on the top 17 questions. We hope this helps you review your investment plan in the year ahead.



Do not fear the Fed

→ The return of risk-off sentiment this week suggests investors are still digesting the threat from inflation and a hawkish turn in central bank policies.

→ While market volatility is likely to persist this year, we see central bank policy normalisation as a vote of confidence in the economic recovery from the pandemic.

→ In this special edition, we make a case for why most of the policy normalisation expectations have already been baked into markets and lay out the opportunities that the market volatility has presented to investors.

Does using a historical perspective still make sense in a post-pandemic world?

What is the probability of a bear market in 2022?

What is the impact of inflation on various asset classes?

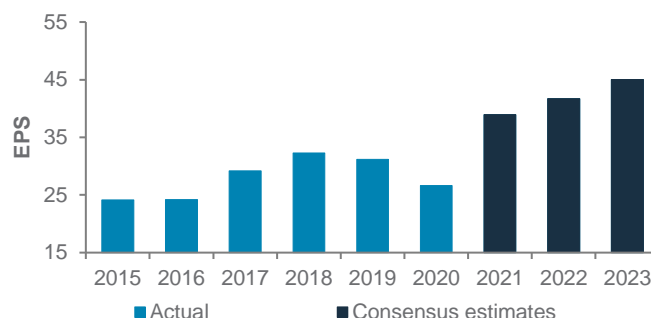
Charts of the week: Equities remain attractive

Global equity dividend yield remains above bond yields despite rising interest rates; earnings expectations remain robust

Yield gap between global equities and bonds*



Earnings per share for MSCI All Country World Index, USD



Source: Bloomberg, FactSet, Standard Chartered; *Global equities = MSCI All Country World Index dividend yield, Global bonds = equity market capitalisation weighted average of bond yields in US, Euro area, UK and Japan

Editorial

Do not fear the Fed

The return of risk-off sentiment this week suggests investors are still digesting the threat from inflation and a hawkish turn in central bank policies. Market volatility is likely to persist this year as central banks normalise policies. Nevertheless, we see the policy normalisation as a vote of confidence on the ongoing global growth recovery; we do not see policy rates turning restrictive enough in the US or Euro area, our two preferred equity markets, to threaten the bull market in risk assets over the next 6-12 months. In fact, we believe most of the policy tightening expectations have already been baked into markets. With the corporate earnings outlook still robust, monetary policies still accommodative and China easing policies, we see opportunities to take advantage of the market volatility to add exposure to our preferred asset classes.

In the next couple of weeks, all eyes will be on the three major central bank meetings (the Fed on 25-26 January and the ECB and BoE on 3 February). We have revised our Fed policy rate expectations in line with the Fed i.e. three rate hikes this year, possibly starting from March. The revision was based on new information since we published our Outlook 2022: a. the Fed's publicly hawkish turn in light of a tighter-than-expected US job market and persistent inflation; b. Omicron prolonging supply bottlenecks and keeping away workers from jobs for longer; and c. rising oil prices. While markets will also look for indications of when and at what pace the Fed plans to reduce its balance sheet, we see a low probability of the Fed tightening policy more than what is already priced in (markets expect close to four rate hikes this year) due to the following factors:

- **Growth to slow in the coming quarters** (but stay above trend) due to the coming US fiscal cliff, ongoing USD strength and China's slowdown. December's weaker-than-expected retail sales and peak in PMIs are early signals.

- **US Treasury yield curve is flattening**, suggesting bond investors are already worried that excessive Fed tightening could hurt growth. The Fed will likely need to dial down its hawkish tone at some point in the coming months.
- **Inflation peaking**: As growth and consumer demand slows, we expect ongoing business restocking and capex to boost supplies and productivity. This should drag down goods inflation. Also, wider vaccinations and COVID pills should enable more workers to return to jobs, easing wage pressures. Market-based long-term inflation expectations remain rangebound, despite the rise in short-term yields.
- **Dovish turn in Fed's membership**: President Biden's nomination of three new members to the 7-member Fed Board arguably turns the Board more dovish and growth-supportive; incoming members have devoted their careers to the development of minorities and poverty alleviation.

Against this constructive policy backdrop, fundamentals and technicals look supportive for some of our preferred risk assets. Consensus 2022 earnings estimates for the US (+8.6%) and Euro area (+5.6%), our two preferred equity markets, suggest the bar is not too high for another year of earnings beats, given expectations of above-trend economic growth. The dividend yield for global equities is still attractive vs. bond yields. The global equity index is 3.1% above a strong technical support level. The US technology-sector has corrected 11% from its recent peak, which we believe already prices in more than three Fed rate hike expectations. Global and European high-dividend equities, preferred within our income generating basket, continue to deliver positive returns, despite the broad market pullback. China's continued policy easing is positive for not just our preferred Asia USD bonds and equity sectors in China (industrials and discretionary), but European equities broadly.

— 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: China policy easing, Euro area confidence, low COVID death

(-) factors: COVID restrictions, weak US retail sales, jobless claims rise

	Positive for risk assets	Negative for risk assets
COVID-19	<ul style="list-style-type: none"> COVID casualties still well below previous peaks in most countries where Omicron cases have surged c.10bn doses of vaccine have been administered across 184 countries UK eased COVID restrictions as new cases continued to decline 	<ul style="list-style-type: none"> Germany records high daily infections (>100k) Hospitalisation rates are closing in on previous peak, putting pressure on healthcare systems State of quasi-emergency in Japan for three weeks to stem the latest wave Beijing Games organisers halted public ticket sales
	Our assessment: Neutral – Persistently high daily cases, rising hospitalisation rates vs low casualty rates	
Macro data	<ul style="list-style-type: none"> China reported faster-than-expected 4% y/y Q4 GDP growth; industrial output, fixed asset investment rose more than expected Europe ZEW expectations rose more than expected US housing starts unexpectedly rose 	<ul style="list-style-type: none"> US retail sales unexpectedly fell, consumer sentiment fell more than forecast; initial jobless claims rose more than expected UK inflation rose more than expected China retail sales fell below expectations
	Our assessment: Neutral – Stronger-than-expected China, Euro area data vs weak US retail sales, rising jobless claims	
Policy developments	<ul style="list-style-type: none"> China cut medium-term lending facility rate and reverse repo rate PBoC pledged to support growth and ease credit Lagarde said ECB not in a hurry to tighten policy 	<ul style="list-style-type: none"> BoJ tweaked its inflation risk assessment to reflect higher risk of an overshoot
	Our assessment: Positive – Broader China policy easing	
Other developments	<ul style="list-style-type: none"> Russian deputy foreign minister said Russia will not strike at Ukraine 	<ul style="list-style-type: none"> President Biden said he expects Russia to invade Ukraine
	Our assessment: Neutral – Ukraine impasse continues	

US retail sales growth has likely peaked, but a tight housing market suggests further growth in home construction in the coming quarters

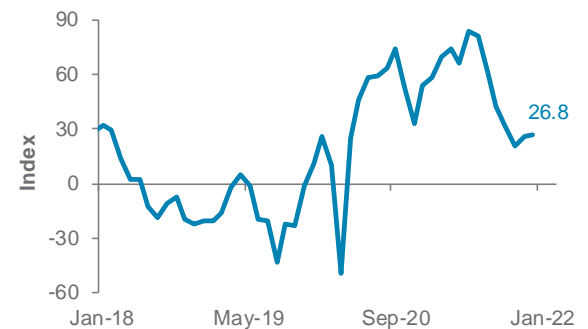
US retail sales growth, housing starts



Source: Bloomberg, Standard Chartered

Euro area expectations for economic growth were above expectations, suggesting Omicron-related restrictions are expected to be short-lived

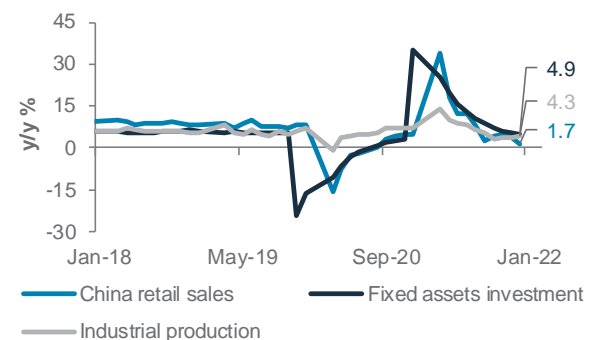
Euro area ZEW Survey expectations of economic growth



Source: Bloomberg, Standard Chartered

Continued slowdown in China retail sales raises the chance of more policy easing

China retail sales, fixed asset investment and industrial production



Source: Bloomberg, Standard Chartered

Top client questions

Q Does using a historical perspective still make sense in a post-pandemic world?

This is a great question and one that we struggle with a lot. Thankfully, our investment process is built to incorporate developments in the post-pandemic environment. Our Investment Committee meets on a monthly basis and the discussion starts with what we call the 'Outside View', where we utilise proprietary quantitative models that examine purely historical experiences through different lenses. Naturally, as these are quantitative in nature, these models may give bad signals when the environment is very different to what we have seen historically. This risk is addressed by the second stage of the process where we look at the qualitative arguments from a range of research houses (investment banks, independent research providers, central banks, academia, asset managers and multilateral organisations). This balanced approach increases the probability that we identify the factors that are likely to drive investment returns in the future.

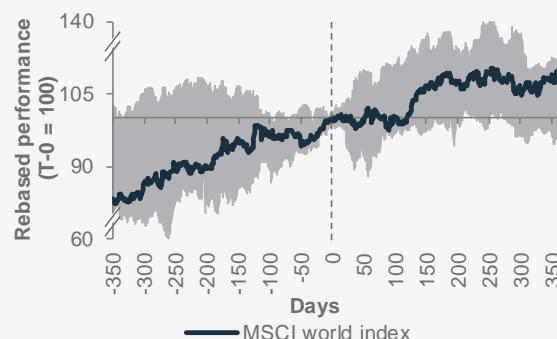
Now, coming to this question, the way I personally approach the topic at this time is by giving a lower weight than normal to the 'Outside View' (please do not tell Francis, our Head of Quantitative Strategy) as I do believe that this is quite an unusual time. That said, we should not throw out that lens altogether; there is a reason for markets to follow certain patterns as they relate to the economic cycle. Therefore, while there are good arguments for why this economic cycle may be shorter than usual, we still see monetary policies as very supportive. Policy is likely to be tightened somewhat in the US, in our judgement; this will still leave interest rates a long way away from any measure of 'neutral' by the end of 2022 – akin to the US central bank taking its foot off the accelerator rather than tapping the brakes. Therefore, we believe the economy will continue to grow strongly this year, although growth is likely to slow over time.

Against this backdrop, we believe risk assets – such as equities and bonds with lower credit quality – will continue to do well. Of course, with current valuations, bouts of weakness, such as the one we are seeing at the moment, are to be expected as markets adjust to less loose policy settings. However, we believe these bouts of weakness are a buying opportunity for those who have significant cash still to deploy.

— **Steve Brice**, Chief Investment Officer

Equities have historically performed well in the lead-up to the first rate hike of a Fed hiking cycle

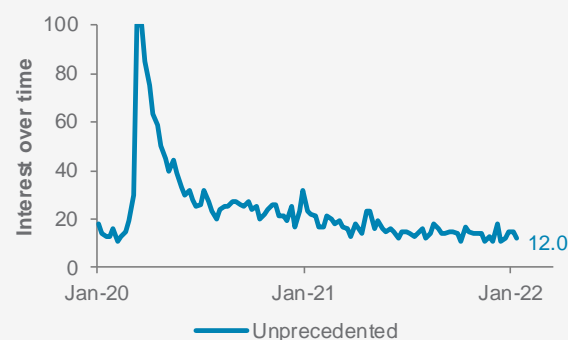
12m MSCI World index (Developed Market equities) returns before/after the first hike of a Fed hiking cycle



Source: Bloomberg, Standard Chartered; Data since 1980; grey area shows minimum/maximum performance over different Fed cycles

Interest in the word 'unprecedented' appears to be slowing over time

How often the word 'unprecedented' is searched on the internet



Source: Google Trends, Standard Chartered

*Numbers represent search interest relative to the highest point on the chart for the given region and time. A value of 100 is the peak popularity for the term. A value of 50 means that the term is half as popular.

Top client questions (cont'd)

Q Why do you expect equities to outperform despite numerous headwinds from Fed hikes, balance sheet reduction, elevated valuations and new virus variant uncertainty?

We expect equities to outperform because of two main reasons:

1. Above-trend economic growth in most regions should support earnings growth. This is similar to past cycles where multiple expansion, in anticipation of higher earnings, drives the initial recovery rally, while actual earnings growth helps sustain it.
2. Historically, the first Fed rate hike of a hiking cycle has not stood in the way of equity market outperformance. Intuitively, this makes sense because a Fed hiking cycle usually starts because the economy is doing well. Equity markets start to underperform when policy reaches an outright 'tight' level, but we believe the economy is far from that point.

Balance sheet reduction and future virus waves are risks. On the first, though, equities continued to outperform when quantitative tightening was last started in 2017. On the second, recent experience shows the impact of successive waves on economic activity is likely to be increasingly small and temporary. While regional and sector picks are expected to be important to successfully navigating 2022, we believe these factors will be sufficient for equities to outperform bonds and cash.

— **Manpreet Gill**, Head, FICC Investment Strategy

Q What is the probability of a market crash/bear market in 2022?

'Bear markets' (loosely defined as a >20% correction) almost always tend to occur near US economic recessions. While predicting a recession is far from simple, we believe one is unlikely this year. Economic growth is slowing only from extraordinarily high levels, policy remains at very loose levels and 'traditional' recession indicators like the US yield curve are not flashing red.

What is more likely in 2022, though, are relatively large pullbacks. As an illustration, since 2009, the S&P500 index witnessed six pullbacks of greater than 10%. With the benefit of hindsight, the best decision in each of these cases would have been to stay invested or buy the dip. Smaller pullbacks of about 5% have been more common.

Equities have been unusually stable since March 2020, but a return to greater normality in 2022 means we should now expect gains to be accompanied by greater volatility. The key is to be prepared, either to stay invested or to take advantage of volatility by buying on dips or generating an income.

— **Manpreet Gill**, Head, FICC Investment Strategy

US consumption could slow, but remains well above its long-term trend

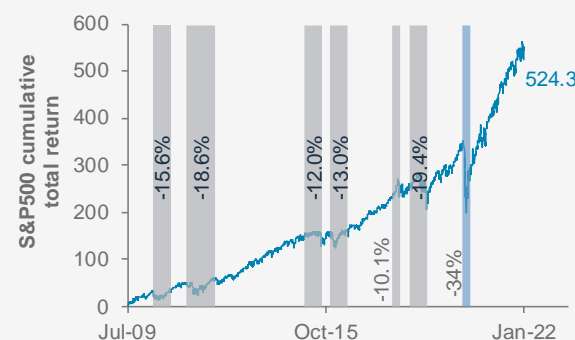
US retail sales



Source: Bloomberg, Standard Chartered

Significant pullbacks within a long-term equity uptrend are not uncommon; the S&P500 faced six 10% pullbacks since 2009

S&P 500 index total returns; Grey shaded bars show >10% pullbacks while blue shaded bars show early 2020 recession



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q How should investors position themselves if they expect a recession in 2022?

Predicting and timing recessions is incredibly difficult. Therefore, a prudent approach would be to prepare for it by shifting incrementally towards safer assets if one's conviction in an imminent recession becomes stronger. Diversification is paramount in time of crises as it provides investors with more "holding power" (better risk tolerance) and downside protection to absorb our emotions.

With this in mind, for a 'recession allocation', we would dial back risk from our balanced allocation by reducing equities in favour of bonds, gold and cash. Historically, recessions are typically accompanied by large drawdowns (40% on average) in global equities. Among equity regions, US equities have been generally most defensive. Within fixed income, we would prefer higher quality Developed Market bonds over lower quality credit and Emerging Market bonds. Developed Market Investment Grade government bonds have historically been resilient during recessions, generating positive average returns greater than 4%. Finally, both cash and gold have also been effective hedges during recessions, with the latter returning around 9% on average.

— Trang Nguyen, *Portfolio Strategist*

Q Do you see the risk of stagflation in any major economy?

Among the major economies, we see stagflation risk (ie, persistently high inflation and slowing growth) as being highest in the UK. Several Emerging Markets, such as Brazil, Russia and Turkey, may already be undergoing some degree of stagflation after they raised interest rates sharply last year. In other major developed economies, including the US, we see a relatively low risk of stagflation.

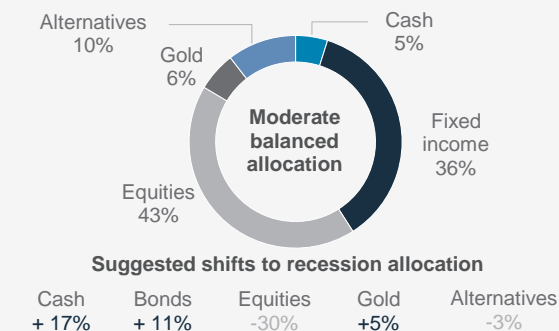
The UK faces structurally high wage and consumer inflation primarily because of the disruptions to its job market and goods imports caused by new post-Brexit rules. The UK's departure from the European Union resulted in many EU workers leaving the UK job market. The pandemic has tightened the job market further and worsened supply bottlenecks.

UK growth remains robust for now, with the consensus projecting 4.5% expansion in 2022. However, the market expects at least four rate hikes this year to tamp down inflation, which risks a sharp growth slowdown by next year. This explains why the UK remains our least preferred major equity market. However, we see the GBP as one of the major beneficiaries of the USD's expected weakness over a 12-month horizon due to the UK's rising interest rate advantage.

— Rajat Bhattacharya, *Senior Investment Strategist*

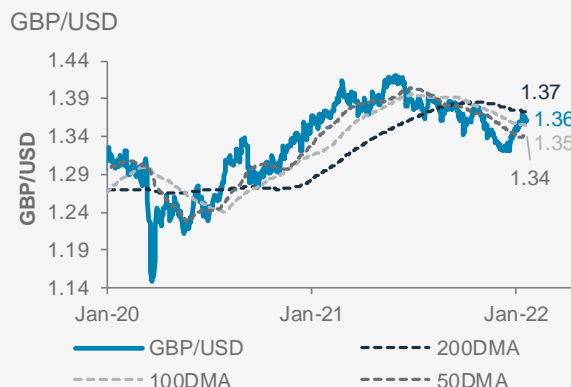
While we do not expect a recession in 2022, a shift to a 'recession allocation' would mean raising bonds, gold and cash exposure

Our current global moderate balanced allocation and suggested shifts to a 'recession allocation'



Source: Standard Chartered

GBP could be a key beneficiary of USD weakness over 6-12 months due to its interest rate advantage



Source: Refinitiv, Standard Chartered

Top client questions (cont'd)

Q What is the impact of inflation on various asset classes? How can investors hedge against the risk of high inflation?

Historical studies suggest that risky assets (equities and high yielding bonds) tend to do well in an environment of low to moderate inflation (<3%) as these instances tend to coincide with periods of a recovering global economy. However, asset market performance during high or very high inflationary periods (>3%) has been mixed. For investors anticipating higher inflation (from here), we would suggest the following strategies:

1. Diversify into gold, commodities, and real estate for inflation protection. Historically, in very high inflation periods, these assets delivered some of the best returns.
2. Maintain an adequate exposure to equity. Historically, equities tend to deliver positive returns in a supportive growth environment despite rising inflation expectations. Our historical analysis showed that defensive sectors, such as consumer staples and healthcare, fared better compared with cyclical sectors in high inflation scenarios.
3. Stay invested. One of the most effective ways to protect one's purchasing power is to put the excess cash to work, most preferably in a diversified portfolio that fits your financial goals and time horizon.

— Trang Nguyen, *Portfolio Strategist*

Q How should bond investors position themselves for tightening monetary policy?

There are understandably concerns about whether the impending Fed rate hikes will hurt bond returns. Analysing bond returns across prior Fed hiking cycles paints an interesting picture. While rising yields generally resulted in negative returns for bonds in the run-up to the first Fed rate hike, on average, most bond asset classes delivered positive returns in the months following the initial Fed hike.

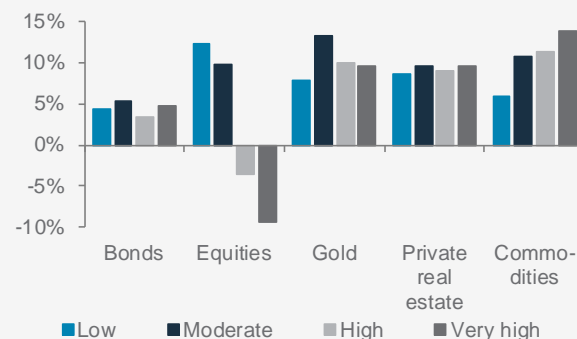
In most instances, markets priced in rate hikes for the next few years prior to the first rate hike of each cycle. This reduced the drag on bond returns after the first hike actually took place. Recent trends paint a similar picture: within six months, markets have sharply repriced from expecting less than one rate hike in 2022 to over four rate hikes. We believe it is unlikely the Fed hikes more than four times in 2022, thereby reducing the chances of a further hawkish surprise.

In our assessment, positioning in short-maturity and higher yielding bond asset classes offers the best way to manage potential downside risk over the next few months while still generating a reasonable yield. This fits well with our preference for Developed Market High Yield and Asian USD bonds.

— Abhilash Narayan, *Senior Investment Strategist*

Private real estate, commodities and gold historically outperformed in higher inflation regimes

Average 12m returns in different inflation regimes (since inception to 2021)



Source: Bloomberg, Standard Chartered. Low, moderate, high and very high inflation regimes are categorised by periods with CPI less than 2%, between 2% and 3%, between 3% and 4%, and above 4%, respectively.

Money markets are now expecting more than four Fed rate hikes this year

Market implied Fed rate hike expectations for 2022



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q What is your outlook for China property sector equities and bonds? When can we expect regulatory tightening to end?

We do not expect the current regulatory tightening in the China property sector to end any time soon.

Stability in property prices has long been a crucial goal for Chinese policymakers, a goal that was reaffirmed during the National People's Congress in early 2021. Since 2H 2021, default risk for heavily leveraged developers has risen as policy measures tightened access to liquidity and funding channels. On the demand side, property sales remain weak.

The long-term policy goal notwithstanding, Chinese authorities have gradually eased specific policies since late 2021 to avoid the risk of individual defaults snowballing into a broader crisis. We see room for this modest softening in stance to extend, albeit within a still-tight regulatory framework. In our assessment, liquidity conditions for the sector remain tight as we approach another intense debt repayment window in H1 2022, increasing the importance of reopening access to funding channels.

We highlight some factors below that we are currently watching to assess the sector outlook:

1. Signals of further monetary policy easing or a further softening of restrictive measures that improve access to funding
2. Bail-ins from state-owned entities
3. An improvement in corporate fundamentals

In equities, we maintain our least preferred view on the China property sector. While policy easing may prevent the sector's equity prices from falling sharply further from here, we do not expect a significant rebound ahead. It is difficult to see property demand and housing prices broadly picking up in momentum. Under the "Common Prosperity" theme, the Chinese authorities are de-emphasising investments in the property sector, and instead, emphasising initiatives aimed at boosting domestic consumption, production efficiency and self-sufficiency in the technology space.

In bonds, despite our view that regulatory tightening is unlikely to end completely, current valuations arguably price in an excessive level of default risk, in our view. We expect state-backed and quality private-owned developers to muddle through with their stronger balance sheets, prudent liabilities management and ample financing channels. We continue to view Asia High Yield bonds as preferred, of which the property sector remains a significant component.

— **Cedric Lam**, Senior Investment Strategist

Ongoing regulations in the China property sector may hinder long-term sector performance

MSCI China real estate index



Source: Bloomberg, Standard Chartered

China High Yield bonds showed early signs of recovery

JACI China credit spread (bps)



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q What is your return outlook for Chinese stocks in 2022, following the sharp pullback last year?

Our return expectations are relatively more optimistic on a 1-3 month horizon, but our 6-12 month expectations remain muted for now, unless policy shifts further.

In the short term, Chinese stocks are benefitting from a relatively positive narrative, compared with the US. The unexpected rate cut on policy loans this week shows the authorities' determination to stabilise money supply and the economy. This is in contrast to the US, where worries about US inflation are leading to increasingly hawkish expectations of how much the Fed could tighten. Long US growth stock positioning has been scaled back, while short Chinese stocks positioning is being unwound.

Technically, Hang Seng Index has been making "higher highs" and "higher lows" ever since it held key support at 22,600 earlier this month. It broke above a key pivot at 24,386 and may head towards 25,800 in the near term.

However, over a longer 6-12 month horizon, we retain a core holding view on Chinese equities. While the regulatory narrative has been moderating lately, we would await greater clarity on whether this directional shift in policy is likely to extend before considering a more long-term constructive stance on Chinese equities in general.

— **Daniel Lam**, Senior Cross-asset Strategist

Q Why do you think the US technology sector can continue to outperform?

The US technology sector has outperformed over the last two years although it had a few quarters of rangebound performance from Q4 2020. In Q4 2021, the sector started to outperform again and we upgraded our view as we expected this trend to continue.

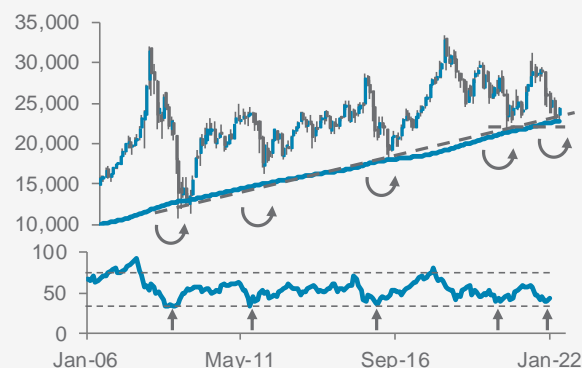
This has not worked so far in 2022 as much of the Q4 2021 outperformance has reversed, with the narrative mostly citing risks from the expected rise in interest rates and bond yields. Higher yields are a headwind for equity valuations, especially for stocks with high P/E multiples such as the technology sector. Such stocks typically derive most of their value from their long-term earnings potential, and higher yields would discount these future earnings more heavily.

However, we believe this headwind stalls the tech sector only in the short term; in the longer term, yields have a relatively weak correlation with the technology sector, which has outperformed in the past despite periods of surging yields. We believe earnings growth tends to be the ultimate performance driver for the sector. Therefore, on a 6-12 month horizon, we continue to prefer the US technology sector given we see support from strong structural earnings growth.

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

HSI broke above key pivot at 24,386, and may head towards 25,800 in the near future

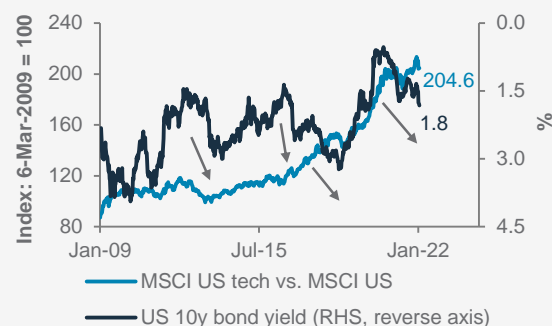
Hang Seng index monthly chart with 200-MMA and RSI



Source: Bloomberg, Standard Chartered

Over the long term, the relative performance of the US technology sector has a low correlation with bond yields

Performance of MSCI US Technology relative to MSCI US index; and US treasury 10-year bonds yields



Source: FactSet, Standard Chartered

Top client questions (cont'd)

What is the basis for your out-of-consensus bullish gold forecast?

Gold remains one of our preferred assets within a multi-asset context as we like the precious metal's portfolio diversification and inflation hedge characteristics. Historically, gold tends to do well in a regime with lower inflation-adjusted yields and a weaker USD.

Inflation-adjusted yields (ie, the opportunity costs of owning gold) are unlikely to rise significantly, in our view, given the market expectations for Fed rate hikes are already very elevated and long-term inflation expectations have remained capped. Investor positioning for gold is also not a constraint at this time.

A weaker-to-stable USD would also be a tailwind for the precious metal. This would aid a recovery in physical markets, especially in Emerging Markets, which has previously provided a floor for gold prices.

What is the likely path of the USD in H1 2022?

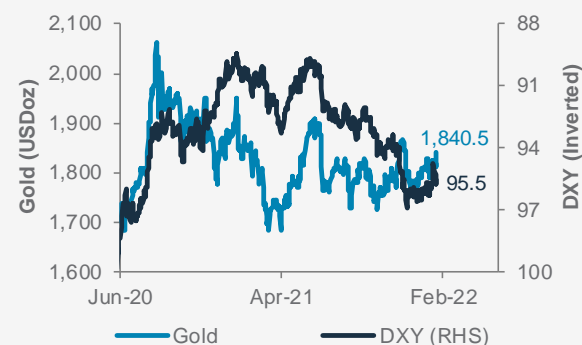
The Fed has turned increasingly hawkish and markets now expect four rate hikes and possible quantitative tightening (QT) in 2022. Despite this dramatic shift, the USD has not broken higher.

We expect the USD will peak when foreign investment flows into US asset markets slow meaningfully as non-US assets become increasingly attractive. Once this shift in flows and expectations starts to favour Europe, possibly the "last shoe to drop" from a central bank tightening perspective, the USD could begin a period of extended decline. In the meantime, the CAD, AUD and NZD remain our preferred non-USD currencies.

Technical charts may help identify a trend reversal. The USD index (DXY) faces resistance at just below 97 and around 98. However, the key support level lies at 94.50, which survived its first test about a week ago. A sustained break below here would increase the probability that the USD trend has turned. For EUR/USD, we believe the upside breakout level is around 1.1525. Until that occurs, we may yet see a decline through the November low at 1.1185 to the next technical support around 1.1040.

A weaker-to-stable USD is a boon for gold

Gold (USD/oz) vs. DXY (Inverted)



Source: Bloomberg, Standard Chartered

A break below 94.5 in the USD index (DXY) would be a key signal for the USD peaking process

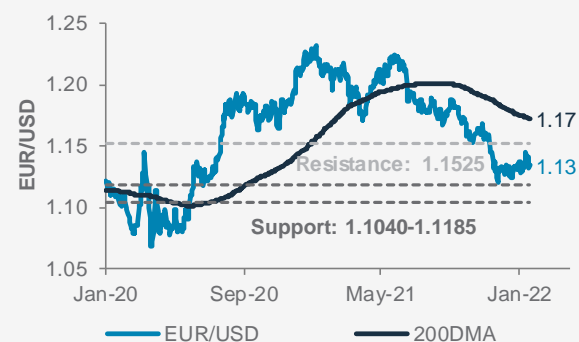
USD (DXY) Index



Source: Bloomberg, Standard Chartered

The EUR may be "the last shoe to drop", but a break above 1.1525 may confirm the dollar downtrend

EUR/USD



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q How should investors balance their investments between USD-denominated and local currency assets?

Domestic investors often look to international markets to take advantage of higher yields or returns and to diversify their allocation. However, this raises the question whether investors should hedge their currency exposure.

Factors such as risk appetite, currency outlook and overall portfolio compositions should play a role in this decision, but the underlying asset class itself is key. As a rule of thumb, we would consider hedging currency risks on bonds, but leaving equities unhedged.

Unhedged bonds do offer some diversification benefits. However, due to the relatively low expected returns from bonds compared with equities, currency moves can have a significant impact on the overall returns. Hence, we would hedge most or all of the currency risk.

For equities, currency hedging can cut both ways. As the chart illustrates, investors aiming to reduce the uncertainty of their returns may benefit from hedging the currency risk. A volatile asset, such as equities, will likely derive a greater proportion of its overall return and risk from the underlying asset rather than the currency. Hence, we believe it is appropriate to leave foreign stock exposure unhedged.

— Audrey Goh, Senior Cross Asset Strategist

Q Is “Embracing a digital future” overhyped and overvalued? Do you expect the theme to outperform in 2022 despite rising interest rates?

Technology stocks sold off as bond yields moved higher because valuations tend to be based on future profit growth. Higher bond yields would reduce the present value of those expected earnings. As a result, the sector and our theme have weakened recently.

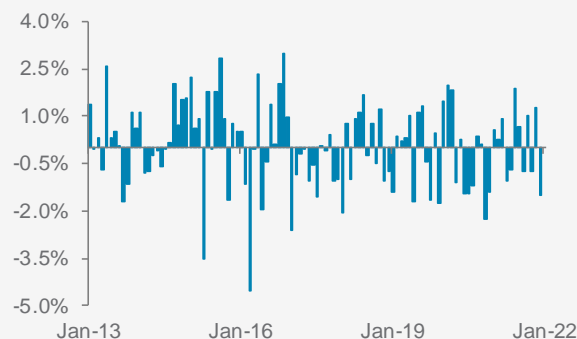
However, one point we have highlighted in recent weeks is that rising bond yields tend to create only short-term headwinds for the technology sector. On a long-term basis, the sector's correlation with rising bond yields is much weaker as earnings growth tends to dominate. This suggests the current drop has created a buying opportunity for long-term investors.

We do not believe the earnings expectations themselves are ‘overhyped’. Although COVID-19 accelerated the need for innovation, we believe the underlying drivers of this acceleration will persist in 2022 and beyond. Public spending and private sector competition should further support growth in technology-related fields. This gives us confidence that while volatility can be a near-term headwind, the case for our structural investment theme, specifically in Internet of Things, FinTech, blockchain solutions and cybersecurity, remains intact over a multi-year horizon.

— Hannah Chew, Portfolio Strategist

The impact of currency on global equity returns from the perspective of a SGD-based investor

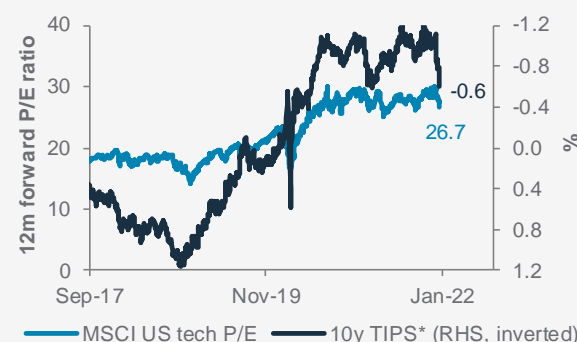
Difference between FX-hedged and unhedged global equity returns



Source: Bloomberg, Standard Chartered

We believe that rising yields are only a short-term headwind and we focus on the long-term key drivers for the theme ‘Embracing a digital future’

12m forward P/E ratio of the US technology sector



Source: Bloomberg, Standard Chartered; *Real (net of inflation) bond yields are proxied by 10-year US Treasury Inflation Protected Securities (TIPS)

Top client questions (cont'd)

Q What are your views on Cryptocurrencies? Should they be part of an investment portfolio?

Cryptocurrencies trade similarly to risky assets (ie, equities) as opposed to currencies. We also find little evidence of them functioning as safe-havens, but they do offer potential diversification benefits. Given their much higher volatility relative to other assets, we would cap any exposure to below 5%.

Pros	<ul style="list-style-type: none"> + Diversification benefits in a multi-asset portfolio + Greater regulatory clarity down the road bodes well for cryptocurrencies and digital assets + Rising institutional and retail investor demand
Cons	<ul style="list-style-type: none"> - Safe-haven properties are overstated; - Do not provide much of a hedge against inflation - Conflicts with global climate change ambitions - Central banks' push towards digital currencies could diminish cryptocurrencies' appeal - Potential legislation to limit use of cryptoassets

Investors with higher risk appetites may be interested in adding exposure to crypto-related assets. However, we would treat any such exposure as an option with significant upside potential, but also matched by the risk of a complete destruction of capital.

Q What are the opportunities relating to the metaverse?

'Metaverse' represents a persistent, virtual world offering immersive experiences to meet, interact and play across a universe of linked virtual worlds and physical places.

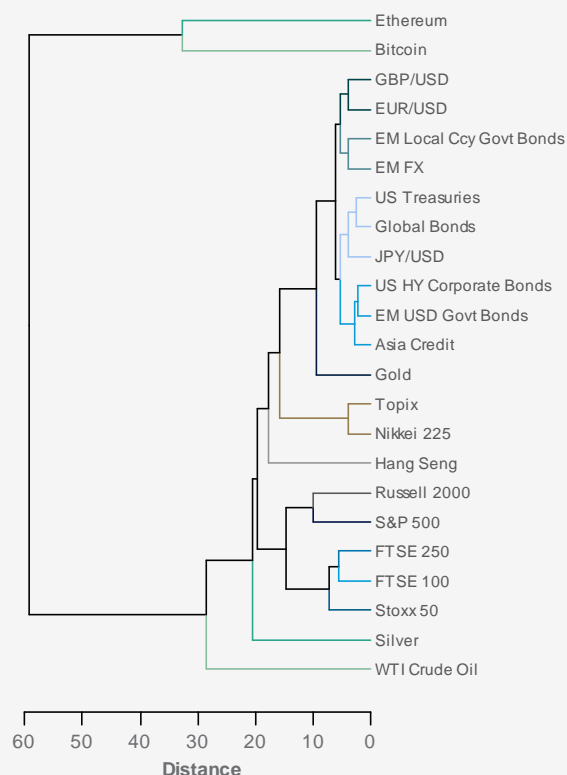
We see the opportunity in the Metaverse as linked to the opportunities offered by 'Web 3.0'. Unlike Web 1.0 and Web 2.0, which connected information and people, giving rise to the internet and social media, Web 3.0 is expected to connect people, space and assets by creating networks of community-owned virtual worlds powered by blockchain infrastructure.

Estimates of the size of the opportunity range from USD 800bn to a trillion dollars in revenue potential across areas such as advertising, ecommerce, software, hardware, games and content creation/monetisation. A number of new technologies will be needed for this to occur, from the hardware needed to build and operate virtual communities to populating the metaverse with content. Advanced chips, high speed broadband and Virtual/Augmented Reality (VR/AR) are some of the hardware likely needed for a seamless virtual experience. Demand for 3D content and digital assets is also set to rise, creating a fast-growing virtual economy.

— Audrey Goh, Senior Cross Asset Strategist

Cryptocurrencies such as Ethereum and Bitcoin are in a separate cluster on their own

Hierarchical clustering analysis* of various assets (daily returns) since end-June 2021

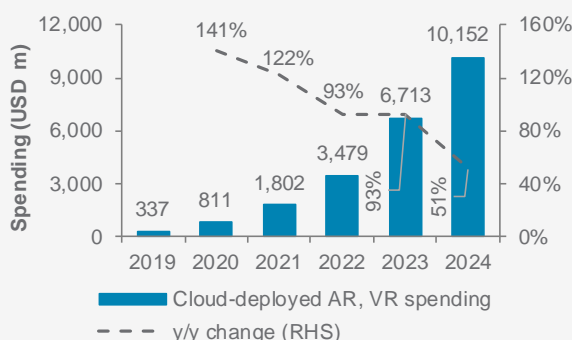


Source: Bloomberg, Standard Chartered

*Clustering is a non-supervised machine-learning statistical tool. It is a technique that groups similar data such that points in the same group (ie, cluster) are more similar to each other than points in other groups.

Augmented Reality and Virtual Reality are becoming new growth drivers for cloud demand

Cloud-deployed Augmented Reality and Virtual Reality spending forecast



Source: IDC, Bloomberg, Standard Chartered

Top client questions (cont'd)

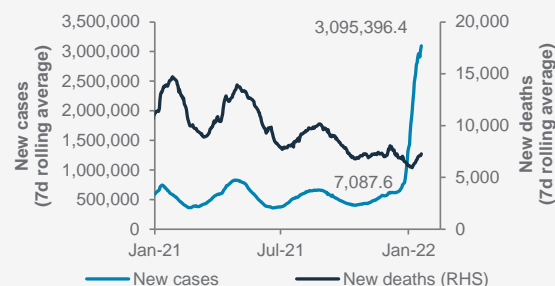
What are the key risks to watch out for?

The main set of risks we are watching closely is the possibility of various types of policy “failures”:

- Failure to effectively deal with any new and more threatening COVID-19 mutations that could threaten global health, growth, trade and collaboration
- Failure of monetary and/or fiscal policy by a major nation that impacts global liquidity or triggers extreme market volatility
- Failure to diplomatically resolve the current Ukraine-Russia border and the Iran nuclear issues that could trigger severe oil and gas supply shocks and their knock-on effects
- Failure to address critical domestic and cross-border wealth and welfare gap issues that could trigger the rise of extreme populism and/or nationalism, leading to dramatic shifts in policy
- Failure to secure key government and corporate data and services against cyberattacks, which could have a severe adverse impact on the sectors involved.

COVID remains the biggest risk to the global outlook, although the Omicron wave indicates casualties continue to fall with successive waves

Global daily cases and deaths, 7-day rolling average



Source: Our World in Data, Standard Chartered

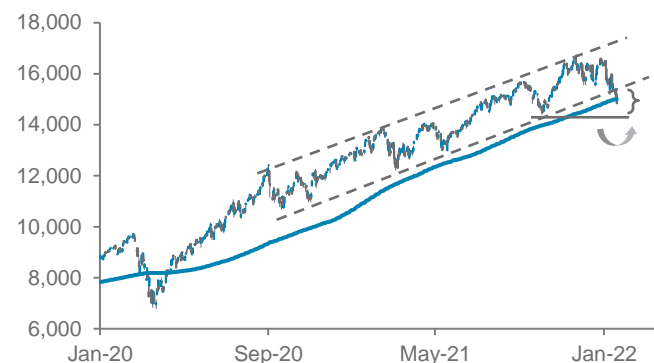
Technical charts of the week

Manish Jaradi

Senior Investment Strategist

Nasdaq: Easing of short-term upward pressure

Nasdaq 100 daily chart with 200-DMA

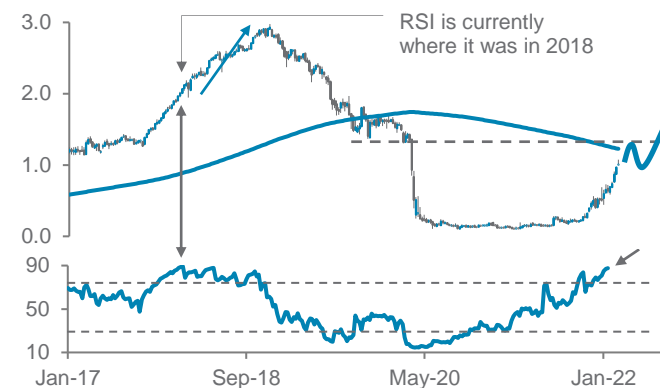


Source: Bloomberg, Standard Chartered

The slide in US technology shares has raised concerns that the uptrend has reversed. While the upward pressure has faded - i.e. the uptrend channel from 2020 is broken – the index remains in a range, at least so far. Only a break below the October low of 14385 (3% below Thursday's close) would indicate that the trend had turned *short-term* bearish.

US two-year Treasury yield: Room to rise further

US 2y Treasury yield weekly chart with 200-WMA and RSI



Source: Refinitiv, Standard Chartered

The two-year yield is looking very overbought as it approaches crucial resistance zone. A minor pause/retreat cannot be ruled out. However, the yield could rebound subsequently, as it did in 2018 – extreme RSI readings do raise the prospect of a pause/retreat, but generally are not enough to derail an uptrend.

Global Energy: Uptrend gathers steam

MSCI World Energy weekly chart with 200-WMA

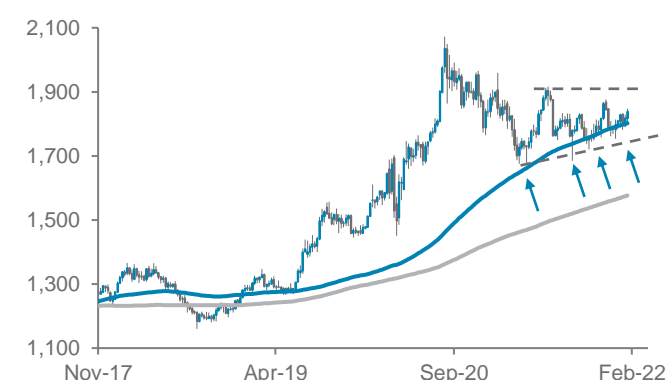


Source: Refinitiv, Standard Chartered

After a hesitant start, the recovery is solidifying. The index's break above converged resistance (200-WMA), coinciding with 2018-2019 lows, points to further gains, potentially towards the 2018 high of 244 (23% from Thursday's close). However, there is resistance on the way – at 201, 205, 216.

Gold: Appears to be regaining its shine

XAU/USD weekly chart with 100-WMA and 200-WMA



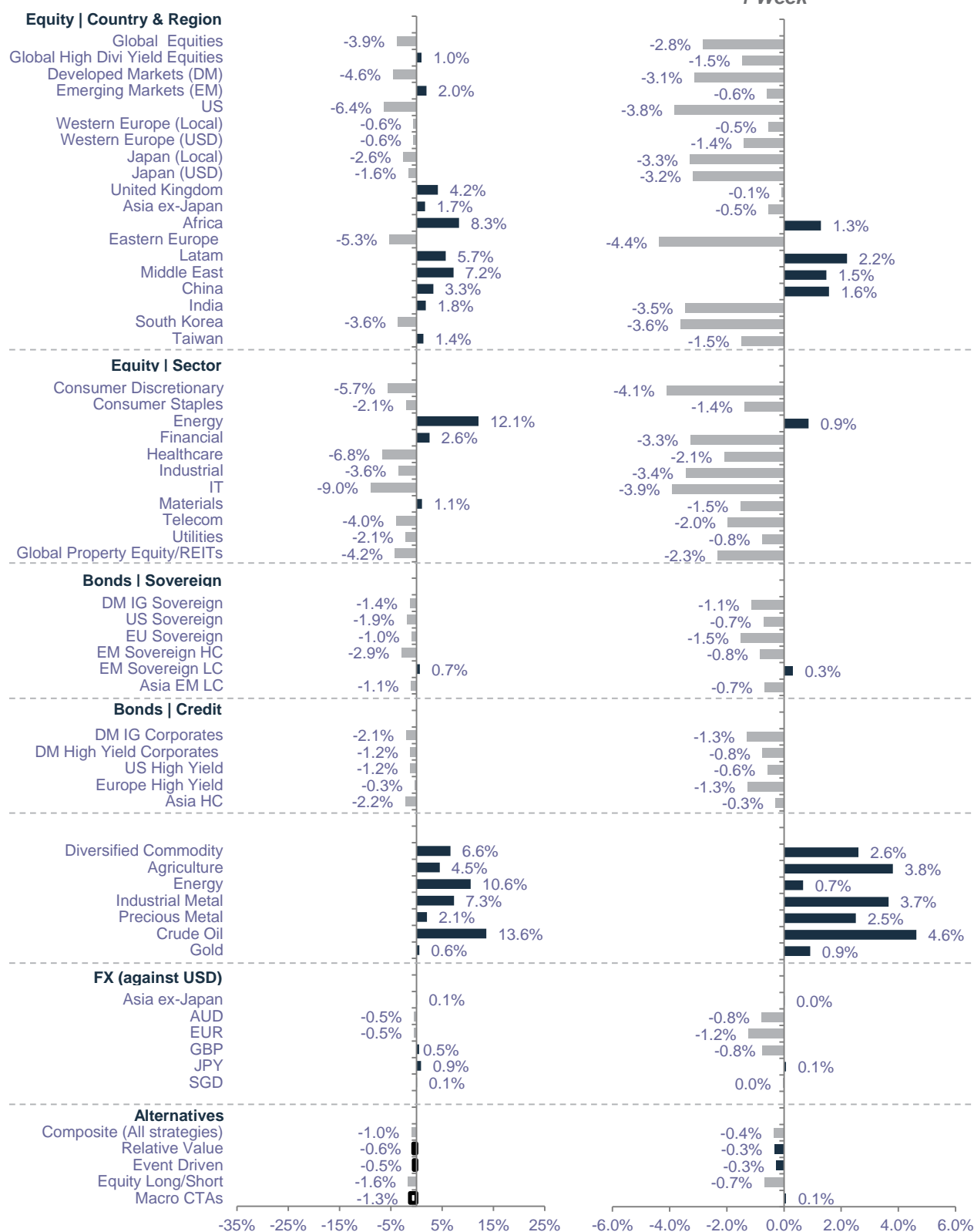
Source: Refinitiv, Standard Chartered

Upward momentum in gold is picking up. The repeated hold above the 100-WMA since last year is an encouraging sign. The sequence of higher-highs-higher-lows raises the chance of test of key resistance at 1,916. As we noted before, this resistance needs to be broken to sustain a material uptrend.

Market performance summary *

2022 YTD

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 20 January 2022; 1-week period: 13 January 2022 to 20 January 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

The US 10-year Treasury yield is 6bps away from its next key resistance at 1.86%

Technical indicators for key markets as on 20 January 2022

Index	Spot	1st support	1st resistance
S&P500	4,483	4,423	4,603
STOXX 50	4,300	4,271	4,315
FTSE 100	7,585	7,548	7,617
Nikkei 225	27,773	27,382	28,249
Shanghai Comp	3,555	3,528	3,576
Hang Seng	24,952	24,393	25,232
MSCI Asia ex-Japan	802	794	807
MSCI EM	1,256	1,245	1,262
Brent (ICE)	88.4	86.8	89.2
Gold	1,839	1,821	1,848
UST 10Y Yield	1.80	1.77	1.86

Source: Bloomberg, Standard Chartered

Economic and market calendar

	Event	Next week	Period	Expected	Prior
MON	EC	Markit Eurozone Manufacturing PMI	Jan P	58.2	58.0
	EC	Markit Eurozone Services PMI	Jan P	52.5	53.1
	UK	Markit/CIPS UK Services PMI	Jan P	–	53.6
	UK	Markit UK PMI Manufacturing SA	Jan P	–	57.9
	US	Markit US Manufacturing PMI	Jan P	57.0	57.7
	US	Markit US Services PMI	Jan P	–	57.6
TUE	US	Conf. Board Consumer Confidence	Jan	112	115.8
WED					
THUR	US	FOMC Rate Decision (Upper Bound), %	Jan	0.25	0.25
	US	GDP Annualized q/q	4Q A	6.0%	2.3%
FRI/SAT	EC	M3 Money Supply y/y	Dec	–	7.3%
	US	Personal Income	Dec	0.5%	0.4%
	US	PCE Deflator y/y	Dec	5.8%	5.7%
	US	PCE Core Deflator y/y	Dec	4.8%	4.7%

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

Investor diversity remains normal across major assets

Our proprietary market diversity indicators as of 19 January

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	→	1.50
Global Equities	●	→	1.90
Gold	●	↓	1.60
Equity			
MSCI US	●	↑	1.82
MSCI Europe	●	↑	2.18
MSCI AC AXJ	●	→	1.54
Fixed Income			
DM Corp Bond	●	→	1.52
DM High Yield	●	→	1.51
EM USD	○	↓	1.42
EM Local	○	↑	1.48
Asia USD	○	↓	1.42
Currencies			
EUR/USD	○	↑	1.45

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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