



# Weekly Market View

## Earnings beats, idiosyncratic risks

→ The past week's global equity market bounce back has helped cut January's losses by almost half. Two key factors explain the rebound: a stronger-than-expected US earnings season, and Fed officials pushing back against runaway rate hike expectations.

→ We believe the two factors serve as timely resets for the extreme pessimism that had dampened investment sentiment in January.

→ In the following pages, we discuss why we believe some of the market concerns are misplaced and lay out potential ways to hedge against idiosyncratic risks, while using the ongoing market volatility to add to our preferred risk assets.

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What were the major surprises from the US earnings season?

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Should investors be concerned about recent underperformance of US High Yield bonds?

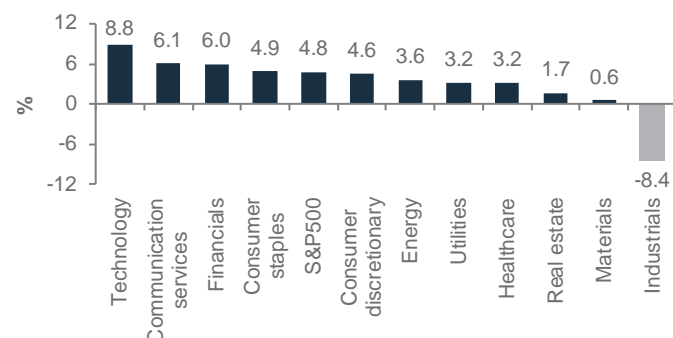
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How will the US dollar respond to recent central bank actions?

## Charts of the week: Another quarter of earnings beats

### Almost all major US sectors delivered Q4 earnings beats, with the technology sector leading the positive surprises

US Q4 2021 sector-wise earnings surprises



Q4 earnings trend for some of Nasdaq index's largest members

Company	Mkt cap (USD bn)	Beats / Misses <sup>1</sup>	Reaction <sup>2</sup>	Sector classification <sup>3</sup> (MSCI / S&P)
Microsoft	2,258	+7.1%	+2.8%	Technology
Apple	2,822	+10.5%	+7.0%	Technology
Alphabet	1,889	+11.7%	+7.5%	Communication services
Meta Platforms	647	-4.3%	-26.4%	Communication services
Amazon.com	1,413	+635.9%	+14.3%	Consumer discretionary

Source: Refinitiv, Standard Chartered; 1. EPS vs. Bloomberg estimates; 2. Price change on day after earnings/post-earnings trading; 3. MSCI, S&P

## Editorial

### Earnings beats, idiosyncratic risks

The past week's global equity market bounce back has helped cut January's losses by almost half. That is despite Facebook parent Meta's 26% plunge on Thursday. Two fundamental factors explain the broader rebound, in our view: a) a stronger-than-expected US Q4 earnings season, led by significant earnings beats in the technology sector (a key driver of the January market pullback); and b) commentary from Fed officials pushing back against runaway Fed rate hike expectations. We believe the two factors serve as timely resets for the extreme pessimism that had dampened investor sentiment in January.

The US technology sector bore the brunt of January's market retrenchment, falling at one point c.17% since the start of the year. The past week's recovery has cut the YTD loss to 8.8%. The main cause of the extreme pessimism was an increasingly hawkish Fed – at one point in January, markets were pricing in almost five rate hikes this year. Since the tech sector's relatively higher current valuations (25x forecast FactSet 2022 earnings) are based on discounting their future earnings with hitherto rock-bottom interest rates, the concern was that a rapid rise in Fed interest rates would drive down the sector's valuations.

We see some misplaced concerns with this argument, which have been countered by data over the past week:

First, we do not believe the Fed is about to embark on a runaway rate hiking cycle. We expect only three rate hikes this year, given our expectations of a moderation in growth and inflation by H2. This is based on easing demand for consumer goods, a significant tightening of fiscal policy and the negative impact of China's slowdown and the USD's strength since last year. Economic data over the past week support our US outlook. US private payrolls surprisingly shrunk in January as Omicron led the services sector to retrench (January's non-farm payrolls due later on Friday are also likely to miss estimates of 125,000 job gains). The slowing jobs data follows weakening

consumer sentiment, retail sales, new orders and wage growth. While the impact from Omicron is likely to be fleeting, the data shows exhaustion of excessive consumer demand as last year's fiscal stimulus run out. Against this backdrop, we are not surprised to see Fed policymakers this week push back against expectations of runaway rate hikes this year. Indeed, we are likely to see a softening of the Fed's tone in the coming months.

Second, we believe a few Fed rate hikes, especially against the backdrop of above-trend economic growth, are unlikely to significantly dent the tech sector's valuations as long as the sector continues to deliver revenue growth and earnings beats. The US sector's performance is primarily driven by its strong structural growth outlook. The sector has beaten earnings estimates throughout the pandemic. For Q4 2021, the consensus now estimates a 23% rise in sector earnings, compared with a 16% expectation at the start of the year, on the back of 13% revenue growth. We are also seeing upgrades to the sector's 2022 earnings estimates, which at 8% sets a low bar for beats in the coming quarters, in our view. Hence, we see January's pullback as an opportunity to add to the sector. (Note: the tech sector is often confused with some members of the communications services or consumer discretionary sectors which missed Q4 earnings estimates – see table above.)

More broadly, the US equity market volatility index's (VIX) drop from close to 40 to around 25 is another sign of waning investor pessimism. This is an opportunity for medium-to-long-term investors to add exposure to US equities, one of our preferred equity markets. The Euro area, our other preferred equity market, faces near-term geopolitical risks from the Russia-Ukraine dispute that could potentially escalate. We see gold as a good hedge in the event of an all-out conflict. The ECB did not rule out a rate hike later this year, helping boost European bonds yields and the EUR. A sustained EUR rebound could confirm a peak in the USD and ease global financial conditions.

— 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

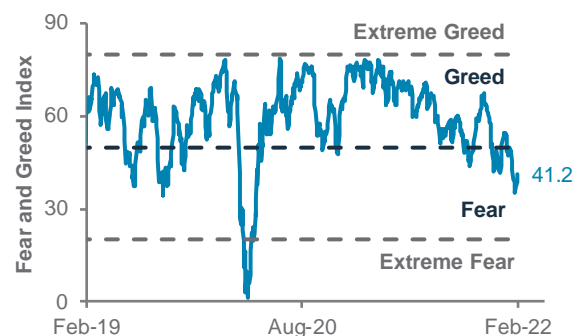
**(+) factors:** Falling US COVID cases, less-hawkish Fed speakers

**(-) factors:** Record COVID in Asia, hawkish ECB, Ukraine tensions

	Positive for risk assets	Negative for risk assets
COVID-19	<ul style="list-style-type: none"> <li>Casualties, hospitalisations remain below previous peaks in most countries where Omicron cases rose</li> <li>US, Australia new cases have declined sharply from recent peak</li> <li>In Europe, new cases appear to have peaked in France, Italy, Spain</li> </ul>	<ul style="list-style-type: none"> <li>Omicron-fuelled new record infection rates in Japan, Korea, Singapore, parts of Southeast Asia and Latam</li> <li>China officials warned that its 'zero-COVID' policy and international travel ban will remain in place for some time to avoid high fatality rates among the vulnerable</li> </ul>
	<b>Our assessment: Neutral</b> – Record new infections in Asia, Latam vs falling cases in US, Europe; relatively low fatalities	
Macro data	<ul style="list-style-type: none"> <li>US private payrolls data (ADP) showed unexpected job losses, consumer sentiment fell more than forecast, personal spending contracted (data likely reduces pressure on Fed to tighten policy too fast)</li> <li>US ISM Services fell less than expected</li> </ul>	<ul style="list-style-type: none"> <li>US ISM Manufacturing New Orders index, factory orders fell more than expected</li> <li>Euro area inflation accelerated more than forecast to 5.1%; composite PMI fell more than expected</li> <li>German GDP contracted more than expected in Q4</li> </ul>
	<b>Our assessment: Neutral</b> – Weaker-than-expected US data likely to tone Fed hawkishness vs rising Euro area inflation	
Policy developments	<ul style="list-style-type: none"> <li>Several Fed speakers urged caution over faster-than-necessary tightening</li> </ul>	<ul style="list-style-type: none"> <li>The ECB did not rule out raising rates this year amid concerns about inflation</li> <li>The BoE raised rates for the second time in two months and was one vote from hiking 50bps</li> </ul>
	<b>Our assessment: Neutral</b> – Dovish Fed vs hawkish ECB	
Other developments	<ul style="list-style-type: none"> <li>UK's Johnson and Russia's Putin agreed on seeking a diplomatic solution to Ukraine crisis</li> </ul>	<ul style="list-style-type: none"> <li>US redeployed troops across NATO allies in Eastern Europe and Russia added troops along Ukraine's borders</li> </ul>
	<b>Our assessment: Negative</b> – Russia-Ukraine stand-off	

**Our 'Fear & Greed' indicator is still in 'Fear' mode, which we believe is a contrarian sign to add to risk exposure, given our overall constructive outlook**

Our proprietary 'Fear & Greed' indicator\*

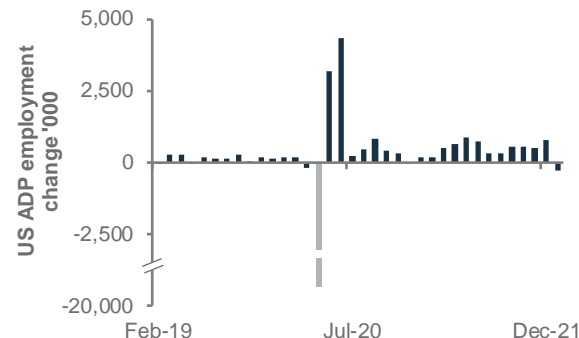


Source: Standard Chartered CIO Office

\*The index is an average of indicators measuring market momentum, equity strength, market breadth, equities vs bonds, market volatility and put-call ratio

**The first month of job losses since Dec 2020, albeit due to Omicron uncertainty, is likely to put pressure on the Fed to dial back its hawkish tone**

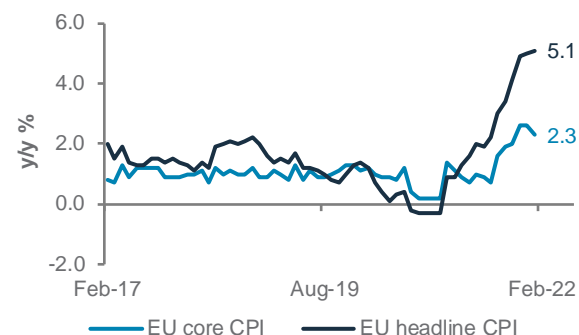
US private sector monthly net job creation



Source: ADP, Bloomberg, Standard Chartered

**We expect the ECB policy to remain accommodative this year, even if it hikes rates, as Euro area core inflation slows**

Euro area headline and core inflation



Source: Bloomberg, Standard Chartered

## Top client questions

### Q What were the surprises from the US earnings season?

The US earnings season is over halfway through as 52% of companies in the S&P500 index have reported results. The results are encouraging so far, as earnings have surprised positively by 4.8%. The earnings surprise has come down from surprises of 10%-23% seen in the last six quarters to the more comparable 5% average earnings surprise seen pre-COVID-19. This is happening as economic growth is normalising and pandemic uncertainties are dissipating slowly as companies also learn to cope.

Consensus expectations are for US Q4 2021 earnings to grow 26.9% now, revised up from 22.3% at the start of the year. Encouragingly, all sectors are delivering positive growth, indicative of broad strength in the US economic expansion. Consensus earnings growth for 2022 has nudged up marginally to 8.5% from 8.4% at the start of the year.

In terms of earnings surprises, the technology sector is leading with a positive 8.8% earnings surprise, while the industrials sector is trailing with a negative 8.4% earnings surprise. Consensus expectations for the tech sector's Q4 earnings growth has moved up to 23.3%, from 15.9% expected at the start of the year. For the full year 2022, the consensus estimate for the tech sector's earnings growth has nudged up to 8.0% from 7.6% at the start of the year. The upward revision to tech sector earnings supports our preferred view of the sector. The growth is structural and robust in our view, being relatively less dependent on COVID-19 uncertainties or cyclical growth factors. The concerns about the tech sector's valuation de-rating from higher interest rates will turn out to be just short-term headwinds in our view as we believe that earnings growth will be the ultimate driver for the sector to outperform on a 6-12 month basis.

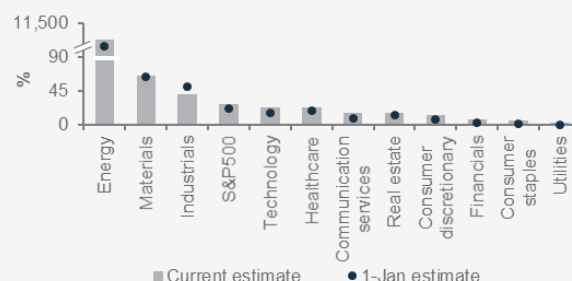
Even as 2022 growth estimates are being revised up for the tech sector's hardware, software and semiconductor companies, other sectors are seeing 2022 growth being revised lower compared with the start of the year, such as for communication services (from 6.9% to 4.2%) and industrials (from 37.7% to 36.9%). Communication services is dominated by internet platform companies (such as Alphabet and Meta), where elevated growth expectations have been guided down by company management. Industrial companies are seeing mixed abilities to cope with supply chain and inflationary bottlenecks, with some more equipped to pass on costs than others. We expect both communication services and industrials to perform in line with the broader market over the next 6-12 months.

Overall, we continue to track US earnings closely, but the broad US strength supports our preferred view of US equities and the positive earnings in the US tech sector supports our preferred view of the sector.

— Fook Hien Yap, Senior Investment Strategist

**All US sectors have delivered positive Q4 earnings growth, indicative of broad economic expansion; the tech sector has seen the biggest upward revision to Q4 earnings since the start of the year**

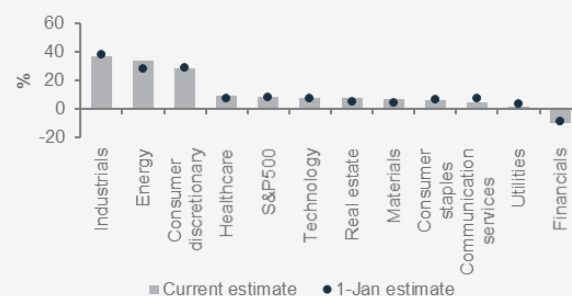
Consensus Q4 2021 earnings growth for US sectors and the S&P500 index



Source: Refinitiv, Standard Chartered

**US cyclical sectors continue to have the highest 2022 earnings growth expectations; growth expectations have been raised for the energy sector and lowered for communication services**

Consensus 2022 earnings growth for US sectors and the S&P500 index



Source: Refinitiv, Standard Chartered

## Top client questions (cont'd)

### Should investors be concerned about the recent underperformance in US High Yield bonds?

Higher bond yields owing to expectations of tighter Fed policy and the broad-based sell-off in risky assets have been a drag on US High Yield bonds. In fact, US High Yield bonds have had the worst January in over 30 years. However, we believe the recent sell-off has led to more attractive valuations for US High Yield bonds. Based on fundamentals, we see little reason for the sell-off to extend much further:

1. US High Yield corporate bond default rates are currently below 0.5% and are expected to rise only modestly to around 1% in 2022, well below their long-term average of over 3% as US economic growth remains above-trend.
2. Corporate credit rating upgrades outweigh downgrades by a factor of over 1.5 times, indicating aggregate improvement in corporate balance sheets – again a reflection of the strong underlying economy.

Though it is difficult to accurately predict the end of the current bout of weakness in US High Yield bonds and credit spreads are still lower than historical averages, we believe the 5%+ yield on offer from the bonds, along with improving fundamentals, argue for using the current market weakness to add further exposure to the asset class.

— **Abhilash Narayan**, Senior Investment Strategist

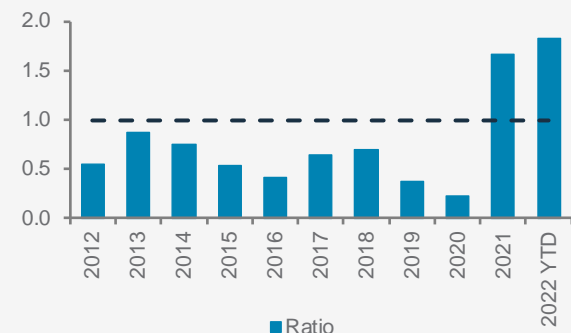
### How will the USD respond to recent central bank actions?

There is a rising probability that markets have just experienced peak Fed hawkishness as well as the top of a 13-month USD uptrend. Fed Chair Powell's hawkish press conference triggered a flurry of predictions for five to seven rate hikes in 2022. The USD index (DXY) popped to a new high and EUR/USD broke technical support at 1.1185. Fed speakers have since dialled back on the hawkish outlook, suggesting policy flexibility is their aim and economic data their guide. EUR/USD rebounded sharply after hitting a new low at 1.1120. This week, the Bank of England hiked and may hike again in March or May. The key policy pivot came from ECB President Lagarde who said there was universal member concern over inflation and refused to rule out an ECB hike in 2022. Some central banks have stayed relatively dovish, but their currencies have rebounded as investors may now see policy normalisation as a matter of timing.

Volatility may rise as policy and geopolitical uncertainties remain. But we believe investors may consider the recent USD peak as an attractive risk-reward barrier, with a preference to sell the USD on corrective rallies. We therefore expect buying interest to support AUD/USD below 0.71, NZD/USD below 0.66, GBP/USD below 1.35 and EUR/USD below 1.1250 and selling interest in USD/CAD above 1.28. A sustained DXY break below 94.50 and EUR/USD rally above 1.1525 could be the long-awaited signal for a new USD downtrend.

### Rating upgrades are meaningfully outpacing downgrades for US High Yield bonds

Ratio of cumulative ratings upgrades vs downgrades by S&P, Moody's and Fitch



Source: Bloomberg, Standard Chartered

### The EUR/USD's latest rebound may indicate a peaking USD; A sustained break above 1.1525 would add further conviction

EUR/USD daily chart; 200-day moving average and key support and resistance levels



Source: Bloomberg, Standard Chartered

## Top client questions (cont'd)

### Q Is gold an effective hedge against Russia-Ukraine tensions?

Most investors choose to ignore geopolitical tensions or “ride out the storm” because its impact may be binary, difficult to evaluate and usually fades harmlessly away. However, current tensions on the Ukraine border with Russia suggest that buying gold as a hedge may be a “win-win”. Russia provides around 25% and 40% of Europe’s oil and gas imports, respectively. Both fuels are expensive, and a geopolitical trigger could be strongly negative for European growth and the EUR. Gold should be a major safe-haven beneficiary of military escalation, especially if tighter financial sanctions are deployed. A geopolitical flashpoint could also impact asset markets and drive US yields lower, at least temporarily, which would also be a positive driver for holding gold.

However, a negotiated diplomatic resolution could include bringing online the Nordstream 2 gas pipeline from Russia. More dependable energy imports from Russia, potentially invoiced in EUR rather than in USD, could strongly support European and global growth and improve risk sentiment. This in turn could accelerate the USD peaking process, which we believe is already under way. As the USD weakens, we expect gold to appreciate, suggesting, overall, that gold holds more upside potential than downside potential now. Technicals suggest good support at 1,750-1,775, and a break above 1,855 opens a window to test 1,875 and 1,910-1,920.

### Q What is the implication of India's budget on financial assets?

India’s annual budget maintained the growth focus with a) significant step-up in capital expenditure, b) increased spending towards infrastructure and support for the manufacturing sector, and c) policy continuity and transparency on budget assumptions. However, the current financial year fiscal deficit was revised higher to 6.9% of GDP (vs a targeted 6.8%) and the next financial year’s deficit is targeted at 6.4% of GDP, both ahead of market expectations. The market reaction was mixed as equity markets rallied following the budget, while bonds slumped.

In our view, the budget is supportive for Indian equities. We expect economic growth to remain well above its long-term trend, supporting a robust above-20% earnings growth in the next 12 months. Consensus GDP growth and earnings estimates are ahead of other major markets, with the increasing likelihood of upgrades. The government’s investment-based growth focus is likely to a) support our positive structural view on India’s manufacturing sector and infrastructure themes and b) broaden the Value-style rotation towards Industrials and Financials, and public sector enterprises – our most preferred sectors in India.

Nevertheless, a higher-than-expected fiscal deficit and elevated supply of government bonds amid expectations of monetary policy

### Gold is rangebound but geopolitical tensions and a peaking USD provide more upside potential; rising interest rates are a possible headwind

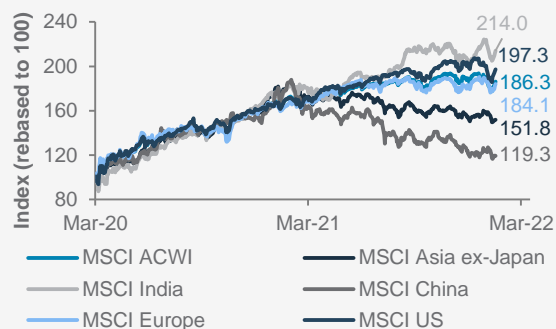
XAU/USD daily chart; 200-day moving average and key support and resistance levels



Source: Bloomberg, Standard Chartered

### Indian equities have outperformed other major markets since the depth of the pandemic

Relative performance of major world equity markets since March 2020 low in the MSCI All Country World Index (Index: 100 = March 2020 low)



Source: Bloomberg, Standard Chartered

normalisation by the RBI are likely to exert upward pressures on bond yields. Furthermore, the absence of measures to facilitate Indian bonds' inclusion into global bond indices is likely to worsen the bond demand-supply imbalance. A growth-supportive fiscal policy has increased downside risks for the INR, given prospects of wider fiscal and current account deficits amid higher oil prices as valuations remain expensive.

— **Vinay Joseph**, *Chief Investment Strategist, India*

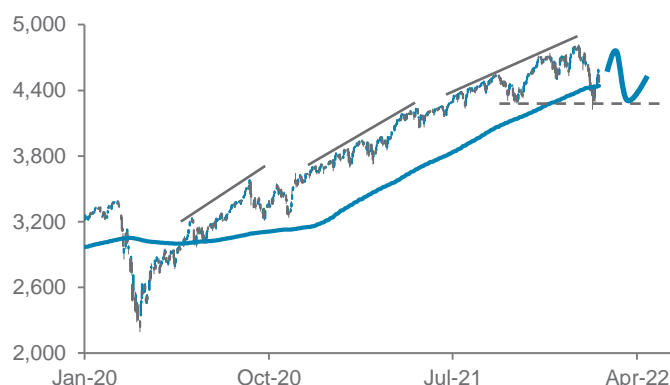
## Technical charts of the week

**Manish Jaradi**

Senior Investment Strategist

### S&P500: A maturing cyclical uptrend

S&P500 daily chart with 200-DMA

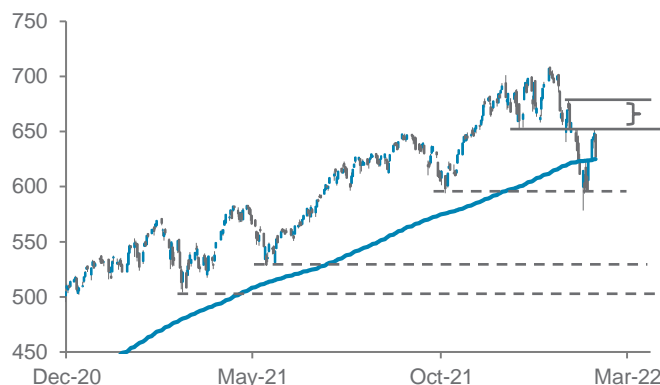


Source: Bloomberg, Standard Chartered

Flattening uptrend lines are a sign that the cyclical uptrend from the 2020 low in US equities is maturing. This does not necessarily imply bearishness, but the index may need to settle in a range before it resumes the broader uptrend (akin to pausing for a breadth after running a marathon). Key support is around 4,250 (5% below Thursday's close).

### US Technology: Upside could be capped for now

MSCI US Information Technology daily chart with 200-DMA

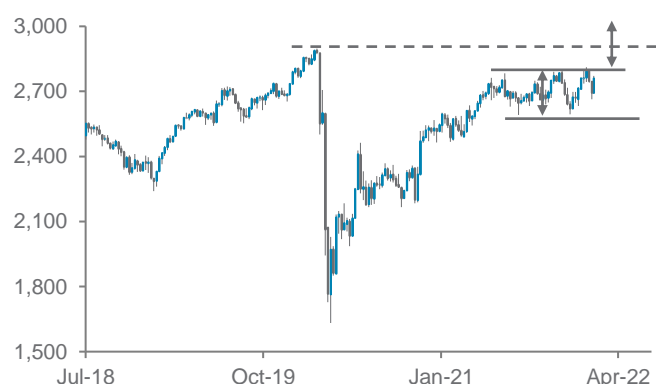


Source: Bloomberg, Standard Chartered

The failure to break below key support at 594 is an encouraging sign for bulls. For this reason, last month's decline does not alter the uptrend. However, the index is now running into stiff resistance around 650-680. The chance of another leg lower cannot be ruled out, and any break below 578-594 would turn the short-term outlook to bearish.

### Global Infrastructure: Uptrend is not over just yet

S&P Global Infrastructure index weekly chart

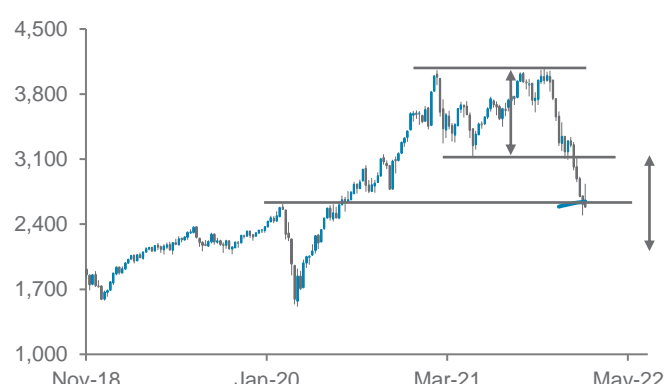


Source: Bloomberg, Standard Chartered

The infrastructure benchmark has shown remarkable resilience even as some of its thematic peers experience sustained weakness. Despite the sideways price action in recent months, the bias remains up for the index. Any break above the upper end of the range could open way towards 2,975 (the price objective of the pattern).

### Global Fintech: Trend remains down for now

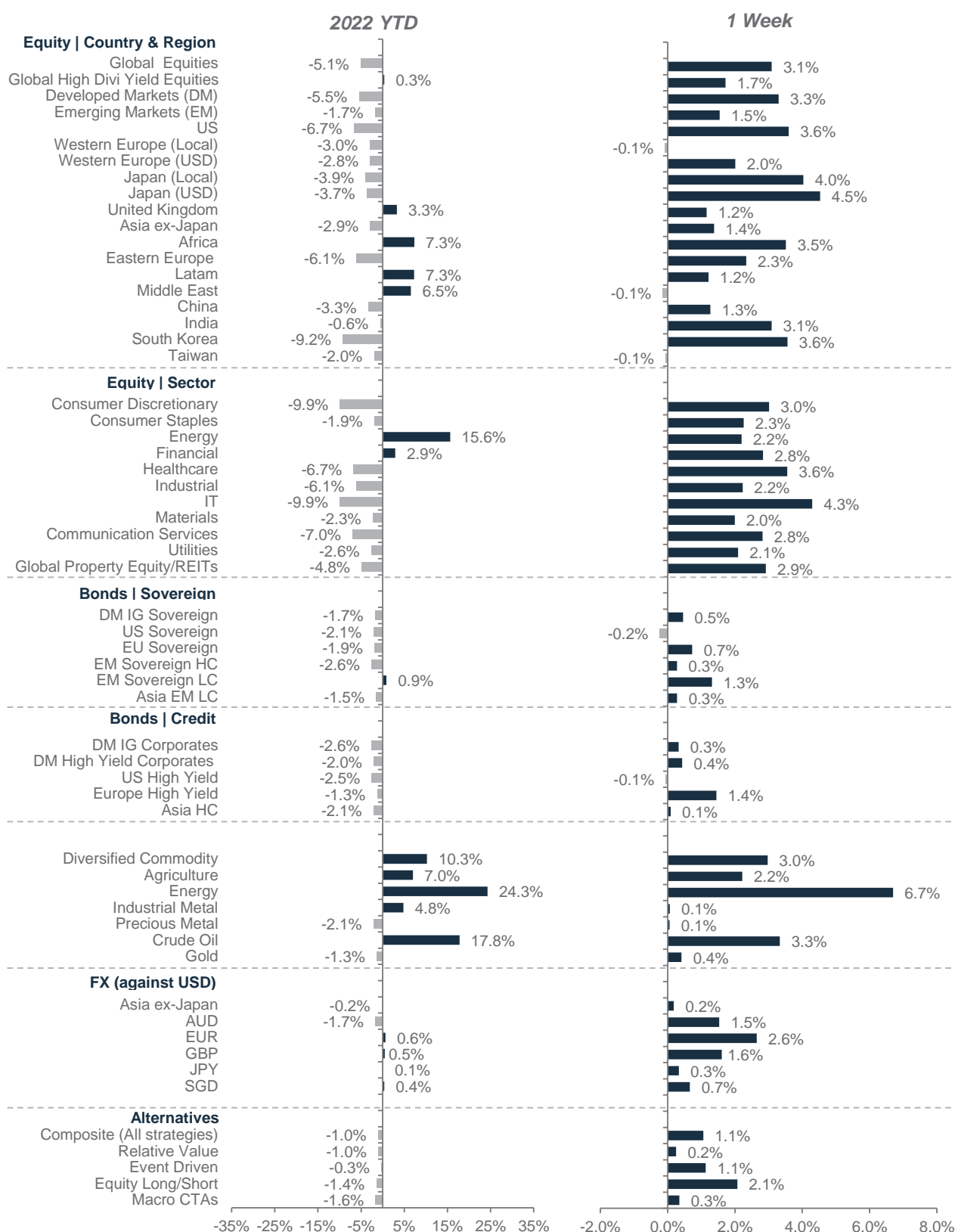
Indxx Global Fintech Thematic Index weekly chart and 200-WMA



Source: Bloomberg, Standard Chartered

A rebound is possible as the index tests crucial support on the 200-WMA and the early-2020 high. However, for a sustained rebound, the index needs to break resistance at the mid-2021 low of 3,174. A failure to do so would expose downside risks towards 2,230 (the price objective of the double top pattern; 14% below Thursday's close).

## 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 03 February 2022; 1-week period: 27 January 2022 to 03 February 2022

### Our 12-month asset class views at a glance

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

Source: Standard Chartered Global Investment Committee

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

### Economic and market calendar

	Event	Next week	Period	Expected	Prior
MON	GE	Industrial Production WDA y/y	Dec	–	-2.4%
	EC	Sentix Investor Confidence	Feb	–	14.9
	CH	Foreign Reserves	Jan	\$3260.0b	\$3250.2b
TUE	US	Consumer Credit	Dec	\$21.60b	\$39.99b
	JN	BoP Current Account Adjusted	Dec	¥1094.2b	¥1369.5b
WED	GE	Exports SA m/m	Dec	–	1.8%
THUR	US	CPI Ex Food and Energy y/y	Jan	5.9%	5.5%
FRI/SAT	UK	GDP y/y	4Q P	–	6.8%
	IN	Industrial Production y/y	Dec	–	1.4%
	US	U. of Mich. Sentiment	Feb P	67.5	67.2

Source: Bloomberg, Standard Chartered

Prior data are for the preceding period unless otherwise indicated. Data are % change on previous period unless otherwise indicated

P - preliminary data, F - final data, sa - seasonally adjusted, y/y - year-on-year, m/m - month-on-month

### The US 10-year Treasury yield's next resistance is 1.85%

Technical indicators for key markets as on 03 February 2022

Index	Spot	1st support	1st resistance
S&P500	4,477	4,410	4,567
STOXX 50	4,141	4,110	4,198
FTSE 100	7,529	7,468	7,586
Nikkei 225	27,241	26,795	27,611
Shanghai Comp	3,361	3,307	3,470
Hang Seng	23,802	23,634	23,886
MSCI Asia ex-Japan	767	759	771
MSCI EM	1,210	1,196	1,219
Brent (ICE)	91.1	89.8	91.8
Gold	1,806	1,796	1,812
UST 10Y Yield	1.83	1.79	1.85

Source: Bloomberg, Standard Chartered

### Investor diversity remains normal across major assets

Our proprietary market diversity indicators as of 02 February

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↓	1.41
Global Equities	●	↑	1.61
Gold	●	↓	1.64
<b>Equity</b>			
MSCI US	●	↑	1.81
MSCI Europe	●	↑	1.67
MSCI AC AXJ	●	↑	1.50
<b>Fixed Income</b>			
DM Corp Bond	●	→	1.42
DM High Yield	●	↑	1.57
EM USD	●	→	1.54
EM Local	●	↑	2.07
Asia USD	●	↑	1.55
<b>Currencies</b>			
EUR/USD	●	↑	1.46

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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