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Wealth Management Chief Investment Office
25 November 2022

Weekly Market View

Fade the equity rally, add to income assets

→ The ongoing US and European equity market rallies have likely run their course, with benchmark indices approaching technical resistance levels. This week's weaker-than-expected business confidence indicators (PMIs) imply that the probability of US and Euro area recessions remains high.

→ While investors have cheered a likely slowdown in the pace of Fed rate hikes since October's US inflation data missed expectations, we believe corporate earnings downgrades are a bigger risk to US and Euro area equities as the Fed and the ECB keep tightening financial conditions, albeit at a slower pace.

→ The above backdrop argues for fading the rally in US and Euro area equities and rebalancing into income assets, particularly Developed Market Investment Grade corporate bonds which offer a better risk-reward balance than equities, given decade-high yields on offer. This week's consolidation in Asia ex-Japan equities and Asia USD bonds is another opportunity for those seeking alternatives.

Is consumption strength likely to support US equities?

What are the investment implications of the recent volatility in oil prices?

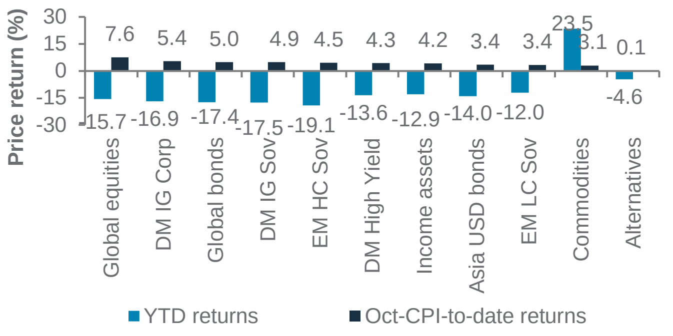
Is it time to add to EUR and CHF loans after the rebound?

Important disclosures can be found in the Disclosures Appendix.

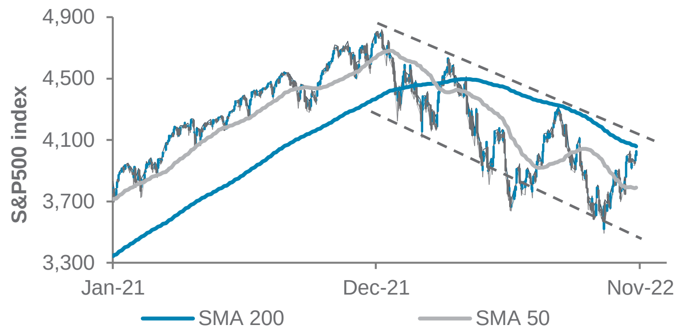
Charts of the week: Time to fade the US equity rally

Most assets have rallied since US data signalled a peak in inflation. However, equities are approaching a major resistance

Asset class performance since US CPI data release* vs YTD



S&P500 index and 50- and 200-day moving averages



Source: Bloomberg, Standard Chartered; *Returns from 9 November close as US CPI inflation data was released on 10 November

Editorial

Fade the equity rally, add to income assets

The ongoing US and European equity market rallies have likely run their course, with benchmark indices approaching technical resistance levels. This week's weaker-than-expected business confidence indicators (PMIs) imply that the probability of US and Euro area recessions remains high. While investors have cheered a likely slowdown in the pace of Fed rate hikes since October's US inflation data missed expectations, we believe corporate earnings downgrades are a bigger risk to US and Euro area equities in the coming year as the Fed and the ECB keep tightening financial conditions, albeit at a slower pace.

On technical charts, the S&P500 is testing the key 200-day moving average from where two earlier rallies this year faded. The Euro Stoxx 50 index is 1.6% away from the April high of 4025. Meanwhile, fundamental data continues to deteriorate. US manufacturing and services PMIs fell below 50 (signalling contraction in underlying activity) for the first time since the peak of the pandemic in 2020, while Euro area composite PMIs remained below 50 for the fifth month. Continuing jobless claims have risen for the sixth week in a row as companies, most prominently in the technology sector, reduce headcount.

We do not expect the Fed to be deterred by initial signs of weakness in the job market. US job openings remain close to their record high – too high for the Fed's comfort as high demand for workers is boosting wages at a time when the supply of labour remains constrained by the departure of a record number of 55+ year old workers from the job market since the pandemic. Next week's job opening (JOLTS) and non-farm payrolls data will be a major focus, with the consensus expecting 200,000 net new jobs created in November. Unless, the jobs data underwhelms by a wide margin, the Fed is likely to keep hiking over the coming months, albeit at a slower pace than the last four 75bps hikes, with an aim to cool the job market and wages. We thus expect the Fed rate to peak around 5% by June next year. Given this, we believe consensus estimates of 5.8% and 1% US and Euro area earnings growth in 2023 are not yet adequately pricing in the coming economic downturn.

Investment conclusions: The above backdrop argues for fading the rally in US and Euro area equities and rebalancing into income assets, particularly Developed Market Investment Grade corporate bonds which offer a better risk-reward balance than equities, given decade-high yields on offer. Our diversified income basket for investors taking moderate risk is yielding close to 7%. We now have a stronger conviction that the US 10-year government bond yield has likely peaked in this cycle. While this does not rule out short-term rebound in yields, it strengthens the case for adding exposure to high quality bonds.

This week's consolidation in Asia ex-Japan equities and Asia USD bonds is another opportunity for investors seeking alternatives after fading the rally in US and Euro area equities. While the resurgence in Mainland China COVID cases have led to mobility curbs, likely delaying further easing to spring next year, authorities continue to ease monetary, fiscal and credit policy to revive growth. We expect China's central bank to cut bank reserve requirements after the State Council signalled such a move this week. This would follow last week's easing of property sector measures and this week's liquidity boost for developers - measures which are likely to put a floor under the depressed sector. China's Central Economic Work Conference in December is likely to deliver a coordinated plan to revive growth. Given China's sustained policy support, Asia ex-Japan equities (at 12x 12-month forward P/E) and Asia USD bonds (yielding above 7%, close to a 13-year high) remain attractive, in our view, especially for investors with a 6-12-month horizon.

What we are watching: US jobs data (JOLTS job openings and payrolls, consensus 200k); US core PCE deflator, consensus 5.0% y/y; Fed Chair Powell's speech, 30 Nov; ISM manufacturing, consensus 49.8, Euro area inflation; China PMI.

— **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.

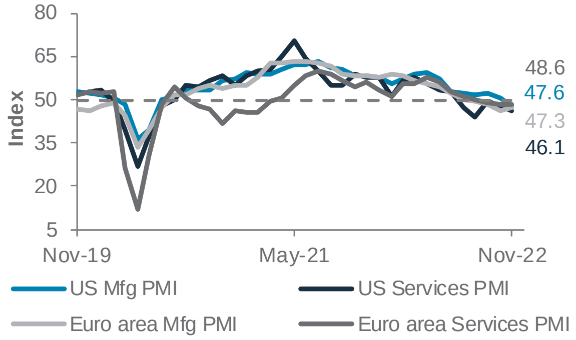
(+) factors: Dovish Fed minutes, likely China RRR cut

(-) factors: Weaker-than-expected US PMI; hawkish Fed, ECB speakers

	Positive for risk assets	Negative for risk assets
Macro data	• Euro area mfg and services PMI were less weak than expected at 47.3 and 48.6 • US durable goods orders rose more than expected • US new home sales rose more than expected • Euro area consumer confidence improved more than expected • German PPI fell for the first time since mid-2020	• US mfg and services PMIs fell below estimates to 47.6 and 46.1 • US initial and continuing jobless claims rose more than expected • Japan inflation higher than expected
	Our assessment: Neutral – Rebounding Euro area consumer confidence and resilient US durable goods orders vs contractionary US PMI and rising jobless claims	
Policy developments	• China's State Council signalled cuts in bank reserve requirements, according to media reports • PBoC and CBIRC asked commercial banks to maintain "stable and orderly" property financing • PBoC governor Yi Gang said property sector critical to a healthy economy • China regulators approved more game titles	• Fed minutes showed most policymakers considering slowing the hiking pace, although, publicly, Fed officials continue to signal more tightening ahead • ECB officials signalled more interest rate hikes and sale of bond holdings; ECB minutes were hawkish • China tightened mobility curbs amid rising infections • RBNZ hiked rates by 75bps
	Our assessment: Neutral – Dovish Fed minutes, accommodative China policies vs hawkish Fed, ECB commentary, renewed mobility restrictions in China	
Other developments	• Saudi and Kuwait denied report of OPEC+ output cut • EU diluted its Russian oil price cap plan by delaying implementation and softening shipping rules	• Europe's proposal to cap gas prices for consumers at higher-than-expected prices disappointed many EU members
	Our assessment: Positive – EU's diluted plan to cap Russian oil price is likely to ease concerns about global oil supply	

US and Euro area business confidence indicators are signalling a heightened risk of a recession

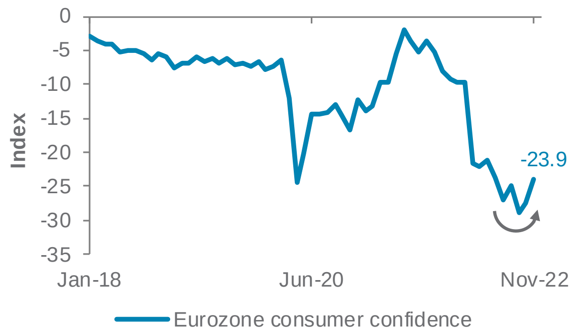
US, Euro area manufacturing and services PMIs



Source: Bloomberg; Standard Chartered

Euro area consumer confidence is recovering from extremely depressed levels

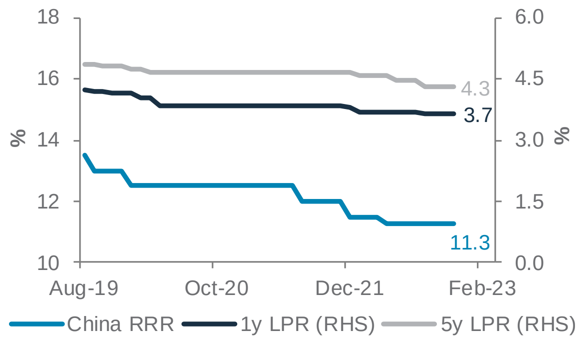
Euro area consumer confidence index



Source: Bloomberg, Standard Chartered

China is likely to cut bank reserve requirements shortly as authorities make a concerted effort to support growth

China's bank reserve requirement ratio (RRR) and central bank 1-year and 5-year loan prime rates



Source: Bloomberg, Standard Chartered

Top client questions

Is US consumption strength likely to support US equities?

While US retail sales have remained strong, selected data is starting to point to a slowdown. For example, auto and credit card delinquencies for subprime consumers began to deteriorate at the start of the year, with lower-income consumers taking up second jobs and burning through their stimulus checks. Meanwhile, Q3'22 corporate earnings calls indicated that consumers are choosing smaller items, value packs or less-expensive brands. Electronics and appliance sales have been falling for six consecutive months, while sales of sporting goods have been falling for the last two months. As borrowing rates continue to rise, we believe US consumption in 2023 is likely to be impacted, resulting in a negative feedback loop to corporate earnings, and ultimately to US equities.

Despite this backdrop, the S&P500 index has broken above the two-month high, post the most recent FOMC minutes. However, it is facing significant technical resistance at the gap level between 4,037 and 4,119; it is also very close to the 200-day moving average at 4,067. This, together with equities' rapid rise since the middle of October 22, causes us to believe a pullback is in the offing. Hence, we believe the current levels offer an opportunity to rotate into our preferred income assets, such as multi-asset income strategies and developed market (DM) investment grade (IG) corporate bonds.

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

The S&P 500 index faces resistance near the 200-day moving average at 4,060, and the gap area between 4,037 and 4,119

S&P 500 index – price and 200-day moving average

Source: Refinitiv, Standard Chartered

Is it time to add to EUR or CHF loans after the rebound?

Popular funding currencies such as the EUR, JPY and CHF have strengthened over the past few weeks following strong economic data and the broad-based decline in the USD. In the near term, we see risks skewed to the upside for EUR/USD as the pair could test resistance at 1.0515, driven by more hawkish comments from ECB members relative to Fed policymakers. Some technical indicators (the 14-day RSI) argue EUR/USD is overbought, but we do not see any catalysts for a short-term reversal for now. USD/CHF has been dragged lower by real interest rate differentials being in favour of the CHF and a hawkish SNB president, who indicated the potential to sell FX reserves to support the CHF. We would consider adding CHF loans should downside momentum stall at the 0.9340 support range. Additionally, we see GBP/USD as being overstretched and would look for opportunities to enter GBP loans as well.

These short-term views notwithstanding, we would note that market pricing of the terminal Fed funds rate has stopped rising and appears to be peaking around 5%, while the structural tailwind for a stronger USD (and weaker funding currencies) appears to be fading. This creates a fresh set of challenges for carry trades, raising the risk that the benefit of lower funding cost is more than offset by currency appreciation. Hence, we also believe it will be increasingly important for investors to adopt a more nimble and disciplined approach, staggering or averaging loan switches and setting appropriate stop-losses.

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

The EUR/USD faces strong technical resistance around 1.0515

EUR/USD

Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

What is the outlook for NZD and CNH after the recent market volatility?

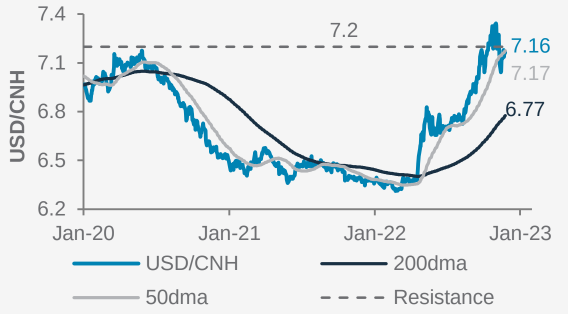
NZD/USD has appreciated sharply since mid-October, driven largely by a hawkish RBNZ and an improved outlook for exports as Chinese growth concerns eased on the margin. In its latest meeting, the RBNZ hiked rates by 75bps and raised its terminal rate expectation, citing elevated wage growth as a key focus. However, the pair's failure to break above the 0.6340 resistance could signal a period of consolidation. Additionally, AUD/NZD appears to be oversold, with the pair extending its recent downtrend below 1.08. With RSI close to 25, we see a high likelihood of a technical reversal in the pair towards 1.0950.

USD/CNH has been relatively volatile in November. The optimism around a potential easing of mobility restrictions in China and support for the property sector announced a few days back led the pair to move lower from the 7.35 levels towards 7.02. However, a partial reversal of this optimism amid a renewed surge in COVID-19 cases in China in the past week has driven the pair back towards the 7.15 level. We continue to expect the pair to edge higher as the interest rate differentials continue to favour further USD/CNH gains. Despite the broad-based USD weakness, we expect the pair to challenge the key 7.20 resistance in the coming weeks.

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

We expect USD/CNH to edge higher and challenge the 7.2 resistance in the near-term amid rate differentials and renewed mobility restrictions

USD/CNH



Source: Bloomberg, Standard Chartered

What are the investment implications from the recent oil-related developments?

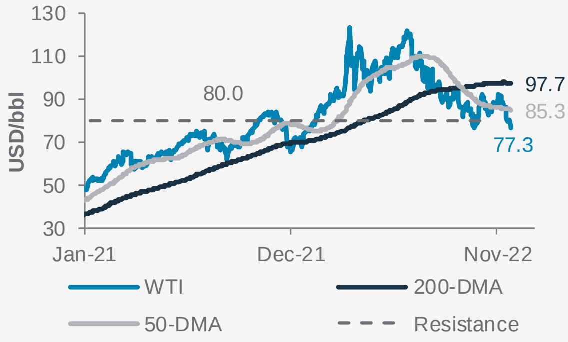
WTI oil fell c.5% over the past week alone amid what has been a volatile week following several material developments. The key one was the watered-down European proposal for price cap on Russian oil exports. Reports suggest the price cap is likely to be set in a USD 65-70/bbl range – higher than the USD 60/bbl that was previously reported and above Russia's breakeven cost. The European Union also proposed adding a 45-day transition period and reducing the restrictions on ships that carried Russian oil above the price cap. An acceptance of such a proposal would mean the flow of Russian oil into the international market will likely continue, making an upside oil price shock less likely. This means markets are likely to increasingly shift focus towards downside risks to global oil demand.

Global crude oil demand is slowing amid renewed mobility restrictions in Mainland China and weaker US consumption. The US EIA's measure of apparent demand plunged by the most in almost two months, consistent with the biggest build-up of US gasoline inventories since July last week. These events notwithstanding, we retain our preferred view on energy sector equities as we still see the sector's performance lagging its strong earnings growth. Producer discipline in capex and cost control also gives us additional comfort to add exposure to this preferred equity sector.

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

WTI crude oil broke below the key psychological level of 80, paving the way for a test of the September low at 76.71

WTI crude oil



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Would the easing of property sector measures have any meaningful impact on China HY bonds and property developer stocks?

Over the last few weeks, several policy measures were released in support of Mainland China's real estate sector. We would broadly categorise them under three areas. First is to ensure the timely deliveries of pre-sold homes, with financial institutions asked to facilitate project loans to developers for house constructions. Second is to provide organised financing channels to the sector, helping quality developers, homebuyers and construction companies access capital market funding or bank loans. The third is to focus on risk management of distressed developers, with financial institutions and asset managers encouraged to provide M&A loans to quality developers and proactively assist in asset disposals and debt restructurings.

Overall, we believe these support measures should improve the sentiment towards the real estate sector in the near term. Beyond this, however, "houses are for living, not speculation" is likely to remain a core policy, with a strong rebound in home prices unlikely. This suggests demand is likely to remain lacklustre as homebuyers stay away amid falling property prices and mobility restrictions. However, a gradual expansion of the 'qualified benchmark developers' list is more likely, in our view, given the measures appear to be aimed at supporting higher quality developers.

We retain a cautious view on China HY developer sector bonds. Many HY developers are likely to proactively seek bond restructuring amid liquidity challenges and limited funding channels, keeping a lid on the bond sector. Thus, we would use the recent rebound in bond prices to rotate exposure to higher quality bonds, where appropriate.

Property sector equities also rallied following the announcement of this 16-point package, as investors expected initiatives such as property financing and easing mortgage repayment policies to stabilise near-term demand and provide short-term rehabilitation to the real estate sector. That said, we believe headwinds remain for a fundamental turnaround in this sector – continued tightening of housing measures remained largely intact, alongside official reiteration that houses are not for speculation. Structural factors, including prolonged mobility restrictions and slowing population growth, are also expected to dampen property demand and hence hinder a sustained sector recovery.

— **Cedric Lam,** *Senior Investment Strategist*

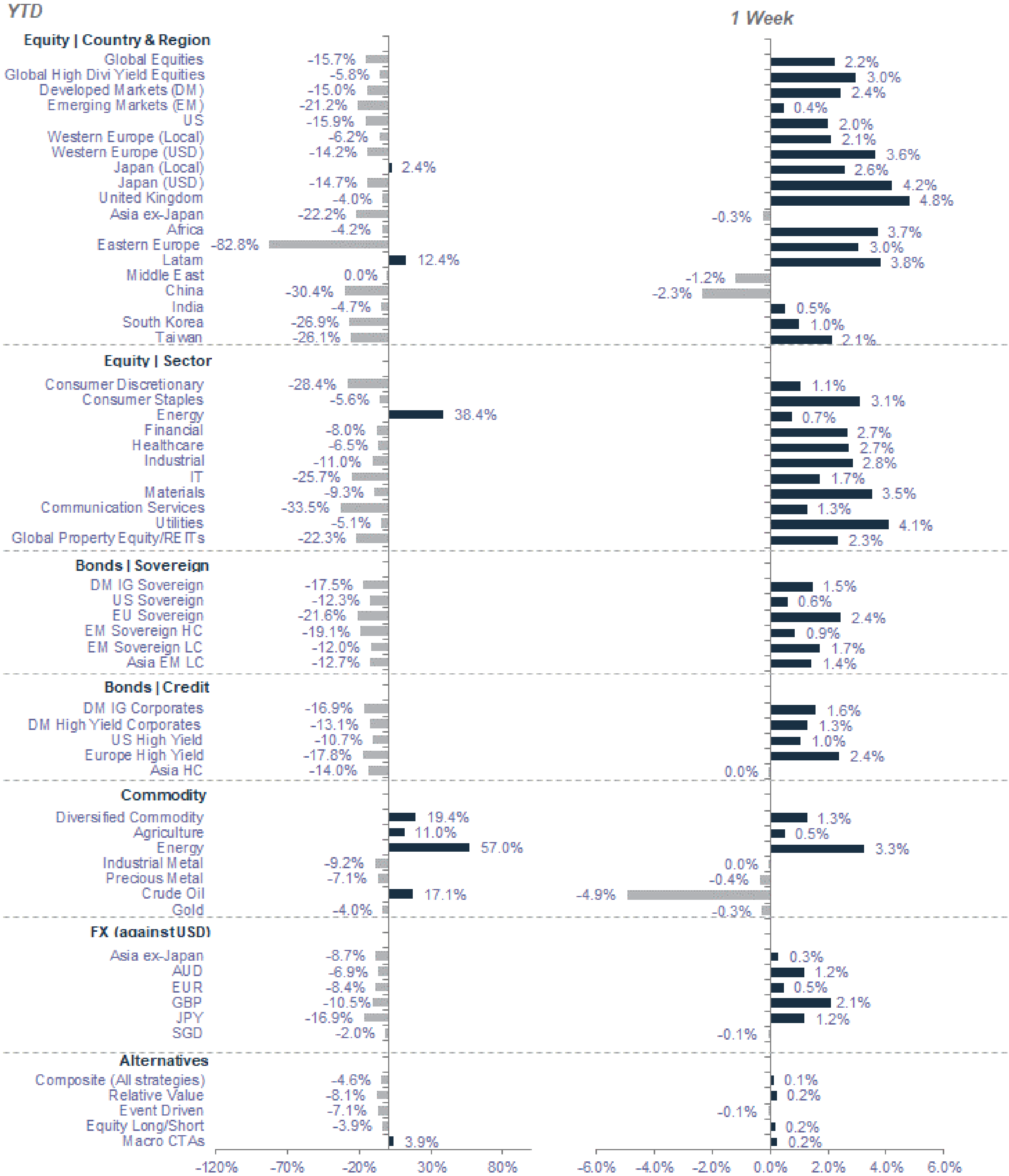
— **Michelle Kam,** *Investment Strategist*

China's real estate equity sector rebounded following the release of various support measures

iBoxx USD China real estate bond index and MSCI China real estate equity index

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, 2022 YTD performance from 31 December 2021 to 24 November 2022; 1-week period: 17 November 2022 to 24 November 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	EC	M3 Money Supply y/y	Oct	–	6.3%
TUE	US	Conf. Board Consumer Confidence	Nov	100.0	102.5
WED	CH	Manufacturing PMI	Nov	48.9	49.2
	CH	Non-manufacturing PMI	Nov	48.0	48.7
	EC	CPI Estimate y/y	Nov	–	10.7%
	EC	CPI Core y/y	Nov P	–	5.0%
	US	MNI Chicago PMI	Nov	47	45.2
	US	JOLTS Job Openings	Oct	10325k	10717k
THU	CH	Caixin China PMI Mfg	Nov	–	49.2
	EC	Unemployment Rate	Oct	–	6.6%
	US	PCE Deflator y/y	Oct	6.0%	6.2%
	US	PCE Core Deflator y/y	Oct	5.0%	5.1%
	US	ISM Manufacturing	Nov	49.8	50.2
FRI/SAT	EC	PPI y/y	Oct	–	41.9%
	US	Change in Nonfarm Payrolls	Nov	200k	261k
	US	Unemployment Rate	Nov	3.7%	3.7%

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

The S&P500 index is less than 1% away from its next technical resistance

Technical indicators for key markets as of 24 November close

Index	Spot	1st support	1st resistance
S&P 500	4,027	3,976	4,053
STOXX 50	3,962	3,927	3,980
FTSE 100	7,467	7,407	7,497
Nikkei 225	28,344	28,035	28,518
Shanghai Comp	3,088	3,083	3,095
Hang Seng	17,480	17,272	17,840
MSCI Asia ex-Japan	601	594	605
MSCI EM	946	933	952
WTI (Spot)	85.4	84.3	87.4
Gold	1,757	1,744	1,763
UST 10y Yield	3.67	3.62	3.78

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 has improved for gold in the past month

Our proprietary market diversity indicators as of 24 November

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↑	1.82
Global Equities	●	↑	1.87
Gold	●	↑	2.46
Equity			
MSCI US	●	→	1.80
MSCI Europe	●	↑	1.60
MSCI AC AXJ	●	↑	1.61
Fixed Income			
DM Corp Bond	●	↑	1.92
DM High Yield	●	→	3.11
EM USD	●	→	1.86
EM Local	●	↑	1.91
Asia USD	●	→	1.58
Currencies			
EUR/USD	◐	→	1.50

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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