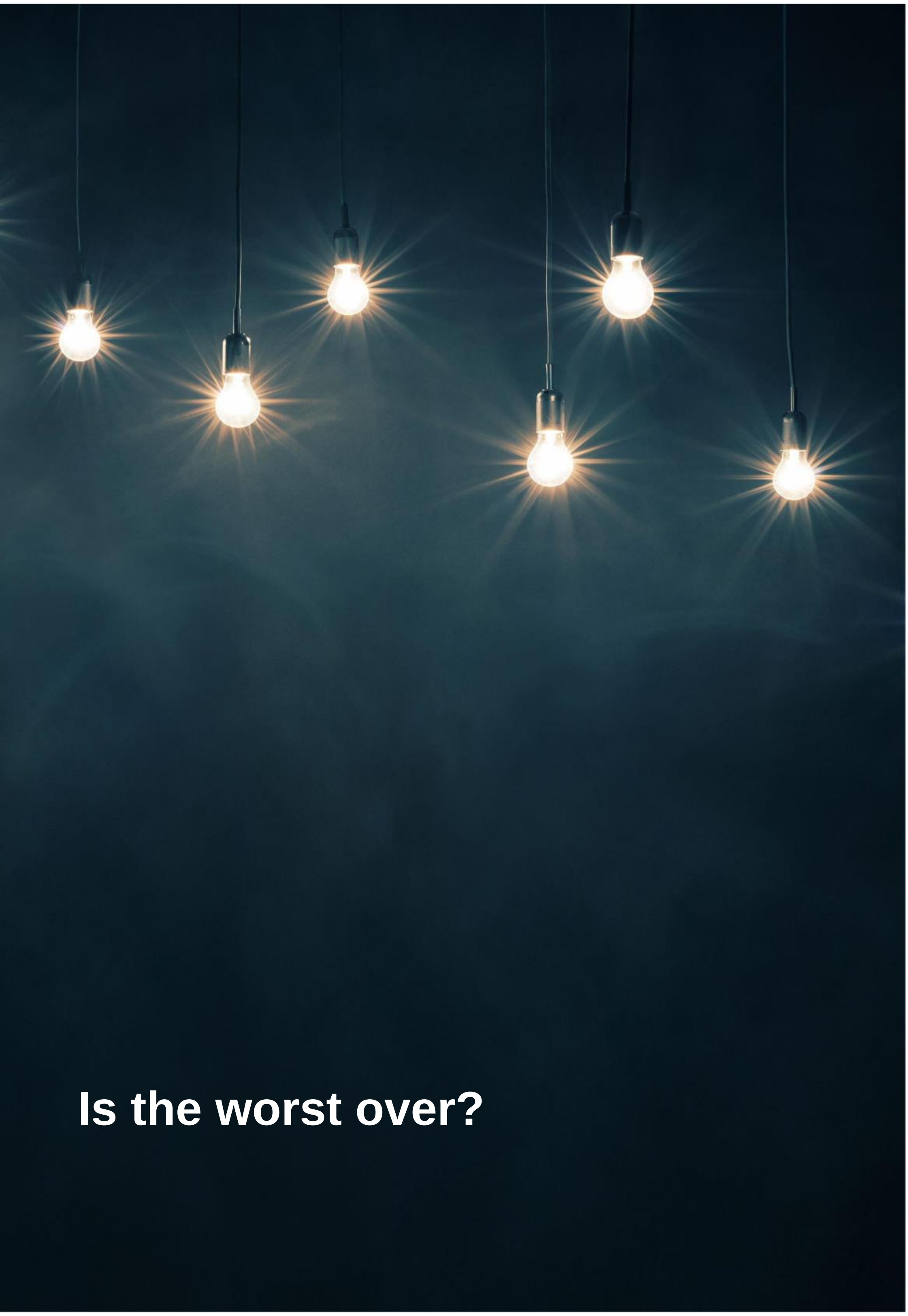
# Weekly Market View




**We are cautiously optimistic about risk assets on assumption the virus outbreak will peak this month. We would prefer to rebuild exposure through US and Euro area equities.**

**Equities:** Strong US earnings, central bank liquidity and expectations of higher shareholder distributions are positive for US and Euro area equities

**Bonds:** We do not expect US 10-year Treasury yields to test 2%, given subdued inflation expectations

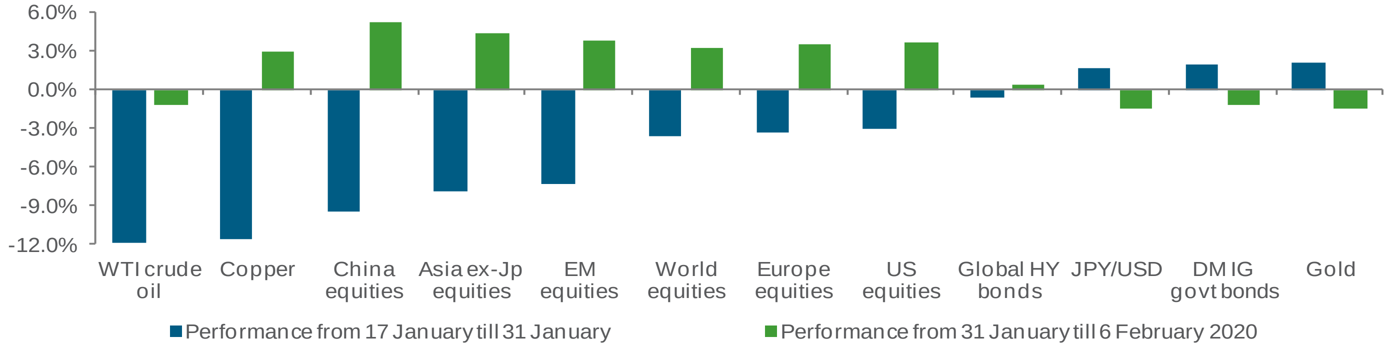
**FX:** JPY and gold weakness imply the virus will peak soon

## Contents



## Chart of the week: Risk assets have bounced back

**Performance of various asset classes from 17-31 January (MSCI AC World index's peak to trough) and from 31 January-06 February**




Source: Bloomberg, Standard Chartered; All equity indices are MSCI indices

## Editorial

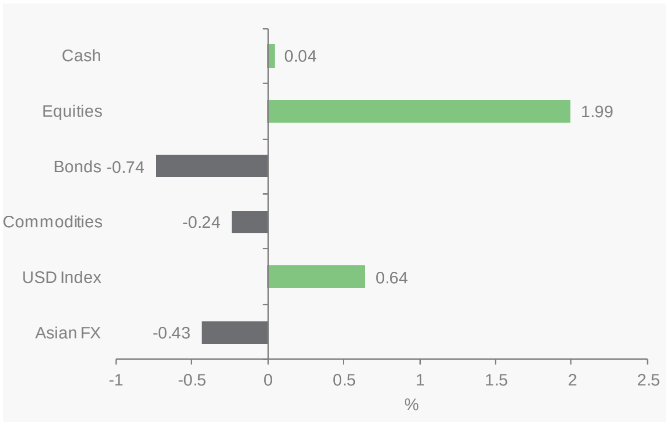
### Is the worst over?

The strong rebound in risk assets, following the brief pullback caused by the coronavirus outbreak, suggests the market impact of the virus may be fading. The recovery has been driven by expectation that the outbreak may peak in February, which would postpone, but not derail, the recovery in the global economy and corporate earnings. The outbreak has so far been largely confined in China, suggesting the global impact, while material given China's size and position in supply chains, could be short-lived. China's faster response and stepped-up stimulus measures may also limit the scale of the impact. If there are ongoing signs that the virus spread is under control (number of daily new cases a critical signpost), risk assets may regain ground. Technical charts also show most risk assets remain above key support levels (see pg. 3).

Thus we are cautiously optimistic about risk assets. We would prefer to rebuild exposure through equities in the US and Euro area, which are relatively shielded from the outbreak (see page 5) and where monetary policy is easy and data has started to rebound. Bullish investor positioning, a concern we raised before the recent pullback, remains though, explaining our cautious stance.

**Global equities rebounded, while bonds gave up some gains, as concerns about the coronavirus eased and strong US data and corporate earnings lifted sentiment**

Benchmark market performance w/w*




Source: MSCI, JP Morgan, DJ-UBS, Citigroup, Bloomberg, Standard Chartered (Indices used are JP Morgan Cash, MSCI AC World TR, Citi World Big, DJ-UBS Commodity, DXY and ADXY)

*Week of 30 January 2020 to 06 February 2020

## Rebound in US business confidence supporting risk assets

The strong recovery in a US manufacturing sector activity indicator (ISM) to expansion zone suggests the sector may be emerging from last year's downturn caused by the US-China trade war. The indicator for new orders also returned to expansion territory for the first time in six months. The partial trade deal signed in January appears to be reviving business sentiment worldwide, which should help a recovery in investment and global trade which have been dented by the uncertainty (South Korea's exports fell for the 14th straight month in January). The key risk, in our view, is the impact of the coronavirus outbreak. We expect the impact to be short-lived if the contagion peaks in February. This leaves us constructive on risk assets over the medium term.

**US manufacturing sector activity rebounded strongly in January as the partial US-China trade agreement reduces a key risk to the sector**

US ISM manufacturing sector PMI and ISM new orders PMI


Source: Bloomberg, Standard Chartered

## Awaiting better risk-reward for China/Hong Kong equities

MSCI China recovered almost half its 11% drop in late January in the four days after the market reopened on 3 February after China unveiled more stimulus, including further easing bank liquidity, cutting interest rates and asking lenders to postpone calling in overdue debt. China also announced reduced tariffs on USD 75bn worth of US imports. Offshore investors added CNY 18bn to their cumulative position of CNY 1.05trn in onshore equities when the markets reopened on 3 February. The inflow through the northbound Stock Connect was the second largest to date. This suggests foreign investors are starting to see value in mainland equities amid expectations that the virus spread will peak by mid-to-late February and industrial production will resume by end-February. During the SARS epidemic in 2003, China's equity markets rebounded when the number of new cases peaked.

On technical charts, the MSCI China index held above strong converged support - the 200-day moving average and an uptrend line from August – even after its 11% drop since mid-January. On the weekly charts, the index is holding comfortably above the 200-week moving average (the index has rebounded thrice since end-2018 from this support). The hold above longer-term moving averages indicates that the trend remains upward for the index.

Nevertheless, uncertainty around the spread of the virus calls for caution against getting back into China equities for now.

**MSCI China index has held comfortably above the 200DMA technical support, despite the 11% drop since mid-January; this leaves the medium-term uptrend intact**

MSCI China index, with 200-day moving average


Source: Bloomberg, Standard Chartered

## Does India's budget alter your view on local equities, INR?

India's annual budget took small steps to revive growth by cutting income taxes for the middle class, boosting spending on agriculture, education and infrastructure and raising foreign investor limits with an aim to boost private investments. The government also targeted a return to fiscal consolidation path, setting a fiscal deficit target of 3.5% of GDP for the fiscal year ending March 2021, after overshooting the current fiscal year's deficit target (3.8% vs. targeted 3.3%). Equity markets have recovered back to pre-budget levels post the initial disappointment, while bond yields have moved lower.

The RBI maintained its accommodative policy stance following the budget, taking comfort from the government's commitment to fiscal consolidation, given still-subdued economic activity and the recent surge in inflation, which it expects to be transitory. In our view, India's fundamentals are still supportive of local equities and the INR, given the likelihood of a cyclical growth recovery (recent PMI readings for both manufacturing and services have risen to multi-year highs), coordinated policy action by the government and the RBI, a resumption of foreign inflows and consensus expectations of above-20% corporate earnings growth in the next 12 months.

**We believe fundamentals are still supportive of Indian equities and the INR, despite the initial disappointment with the budget**

MSCI India index and USD/INR


Source: Bloomberg, Standard Chartered

# What does this mean for investors?

## Equities

**Can global equities shake off coronavirus worries?** US equities, which are preferred, have been buoyed by a better-than-expected Q4 2019 earnings season. This has encouraged investors to look beyond the impact of the coronavirus on short-term growth prospects. Relative to expectations of a 1% decline in Q4 2019 earnings growth at the start of the reporting season, the outturn has been 2% growth. US technology, a preferred sector, has led the upside surprise, with 90% of companies reporting earnings beating expectations.

Euro area equities, which are also preferred, had a good start to the year, led by financials, a preferred sector. However, the region is more dependent on China for growth relative to the US. Hence, a likely slowdown in China's consumption and factory output as a result of the virus is likely to act as a drag on the Euro area. We continue to like the European financial sector as the recovery is driven by domestic factors, including a likely increase in payouts to shareholders. For investors looking for diversification opportunities, European healthcare, a preferred sector, could benefit from a pickup in demand for consumer healthcare products that offer protection from the coronavirus.

**How to benefit from the recent moves in equity market volatility?** Volatility in Developed Markets (DM) has been falling as equities rebounded from the correction at the end of January. For example, the US equity market volatility index (VIX) has fallen to 15% after rising from January's low of 12% to a high of 20%. However, VHSI, which measures volatility in the Hang Seng Index, is considerably higher. It went from 12% to a peak at 24%, and is now at 21%. Thus, investors may choose to add DM exposure via US and European equities, while they may use the high volatility in Hong Kong/China equities to generate income.

## Bonds

**Do you expect US Treasury yields to continue rising?** US 10-year Treasury yields have rebounded over the past week, after bottoming around 1.5%, helped by risk-on sentiment and better-than-expected US data. While the yields could continue to rise in the near term as bullish positioning normalises, we believe they are unlikely to test 2.0% in the near term as concerns around slower global growth and inflation (due to lower oil prices) are likely to cap the upside.

## FX

**Is the FX market indicating the coronavirus crisis is over?** Recent currency movements imply that markets are starting to "look through" the virus epidemic and have moved to a "risk-on" stance.

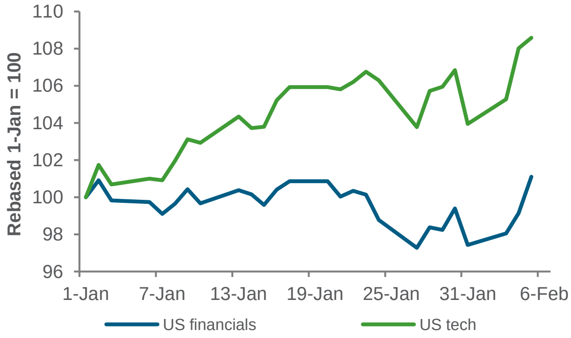
USD/JPY quickly retraced last week's drop, approaching 110 from near 108, anticipating a peak in the epidemic (and news of a potential medical breakthrough) and lifted by strong US data. The safe-haven JPY could remain range-bound between 108 and 110.50 near term.

Gold slipped to 1,550 from above 1,590 as virus concerns waned and equities rebounded. Gold may be vulnerable to a further correction if speculative long positioning is squeezed by stronger "risk-on" sentiment. A break below 1,535 could trigger a move to the 1,505-15 support level, but would not yet invalidate the medium-term uptrend.

AUD/USD bounced as the RBA held rates. China is expected to delay its deleveraging programme in favour of stimulus even as the virus fades. This should be AUD-supportive. Technically, AUD/USD has created a triple-bottom near 0.6665-75, a possible medium-term base. A rally above 0.6830 could set the stage for a rally towards 0.7030.

**The US technology sector has led gains in US equities YTD on the back of strong Q4 earnings; the financial sector has been dragged by a decline in bond yields**

Relative performance of the US technology and financial sectors YTD




Source: FactSet, Standard Chartered

**Developed Market equity technicals remain positive**

Technical levels of key markets as of 06 February 2020

| Index | Spot | 1st support | 1st resistance | Short-term trend |
|---|---|---|---|---|
| S&P 500 | 3,346 | 3,290 | 3,390 | ↑ |
| STOXX 50 | 3,806 | 3,670 | 3,846 | ↑ |
| FTSE 100 | 7,505 | 7,270 | 7,730 | ↗ |
| Nikkei 225 | 23,874 | 22,860 | 24,400 | ↑ |
| Shanghai Comp | 2,867 | 2,761 | 2,976 | → |
| Hang Seng | 27,494 | 26,070 | 27,550 | ↓ |
| MSCI Asia ex-Japan | 673 | 653 | 716 | ↑ |
| MSCI EM | 1,089 | 1,033 | 1,108 | ↓ |
| Brent (ICE) | 55 | 50 | 61 | ↓ |
| Gold | 1,568 | 1,540 | 1,595 | → |
| UST 10Y Yield | 1.63 | 1.50 | 1.82 | ↓ |

Source: Trading Central, Standard Chartered

Note: Arrows represent short-term trend opinions

**Gold is likely to get support around 1,535; a break below could trigger a move towards 1,505, but would not invalidate the medium-term uptrend**

Gold spot price


Source: Bloomberg, Standard Chartered

# Top client questions

### Is it time to get back into equities?

Investors have been faced with a barrage of negative headlines on the impact of the coronavirus on the global economy. Nevertheless, global equity markets, led by the US, remain resilient and government bond markets are benefiting from liquidity injections by central banks.

Chinese equities have suffered disproportionately as investors discount the negative impact of the virus on economic and earnings growth. Nevertheless, the lessons from SARS in 2003 are that while the human cost can be significant, the long-term impact on corporate profits is modest and output lost in a quarter can be recovered subsequently.

We highlight four reasons why investors in our preferred equity markets, the US and the Euro area, are taking a glass half-full approach:

**Earnings:** Q4 2019 corporate earnings in the US are beating expectations by a wide margin. Relative to expectations of a 1% decline in earnings, the consensus has since been revised up to a 2% gain. The US technology sector is leading the charge higher, with 90% of companies exceeding earning expectations. Stocks in the semiconductor and hardware sectors and those with exposure to cloud services are performing the best.

**Liquidity:** The Fed continues with its balance sheet expansion started in October 2019, buying USD60bn of treasury bills a month. While some dispute the impact of these injections and whether they increase outstanding liquidity in the system, Dallas Fed Governor Kaplan has described these injections as a “derivative of Quantitative Easing”. Putting the academic debate to one side, the purpose of these asset purchases by the Fed is to improve liquidity in the financial system. This is having a positive impact on asset prices in the same way that liquidity injections by the PBoC on 3 February, ahead of the re-opening of China’s markets following the Lunar New Year holidays, helped to prevent a liquidity squeeze and supported asset prices following the initial slide.

**Return of capital:** European bank regulators in December 2019 announced banks had accumulated sufficient capital to meet Basel 4 and the Capital Requirements Directive. This signalled that European banks can start to return excess capital to shareholders in the same way that US banks started a similar process in 2018.

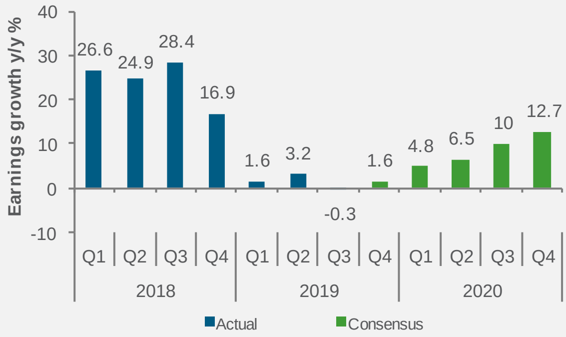
**Easing trade uncertainty:** The phase one US-China agreement puts to rest concerns about further escalation of the trade war that has hurt global manufacturing and dampened business investment plans. The uncertainty has been a drag on export-driven economies in Europe, especially Germany, and Asia. With a key risk abating, global business confidence indicators, notably in the manufacturing sector, have started to recover in recent months.

Our constructive medium-term notwithstanding, we should monitor following risks related to the coronavirus:

1) **The impact of the inevitable Q1 China slowdown on Europe’s economic and earnings recovery.** European equities received a fillip from the signing of phase one US-China trade deal, but the slowdown in demand related to the coronavirus spread could reverse the positive impact of the trade deal.

**The consensus expects US earnings growth to rebound in 2020**

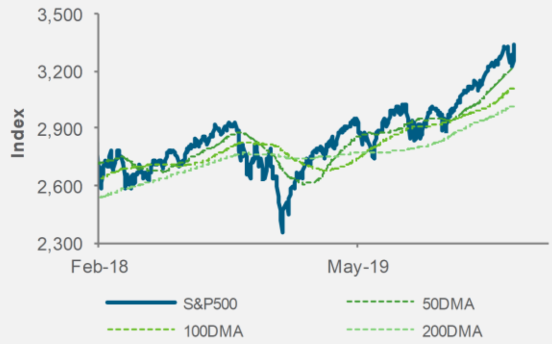
Consensus expectations of US earnings growth in the coming quarters




Source: Bloomberg, Standard Chartered

**US equities have held above key support levels after the recent pullback, implying the medium-term uptrend remains intact**

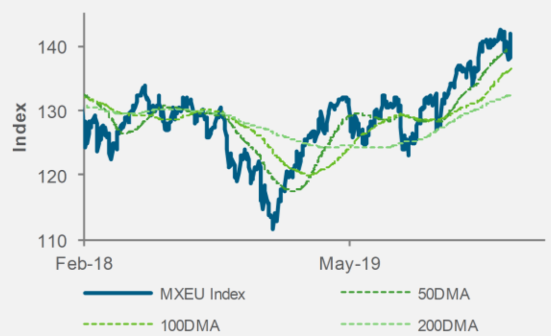
S&P500 index




Source: Bloomberg, Standard Chartered

**Europe stocks have rebounded from key support levels, likely sustaining the uptrend**

MSCI Europe index

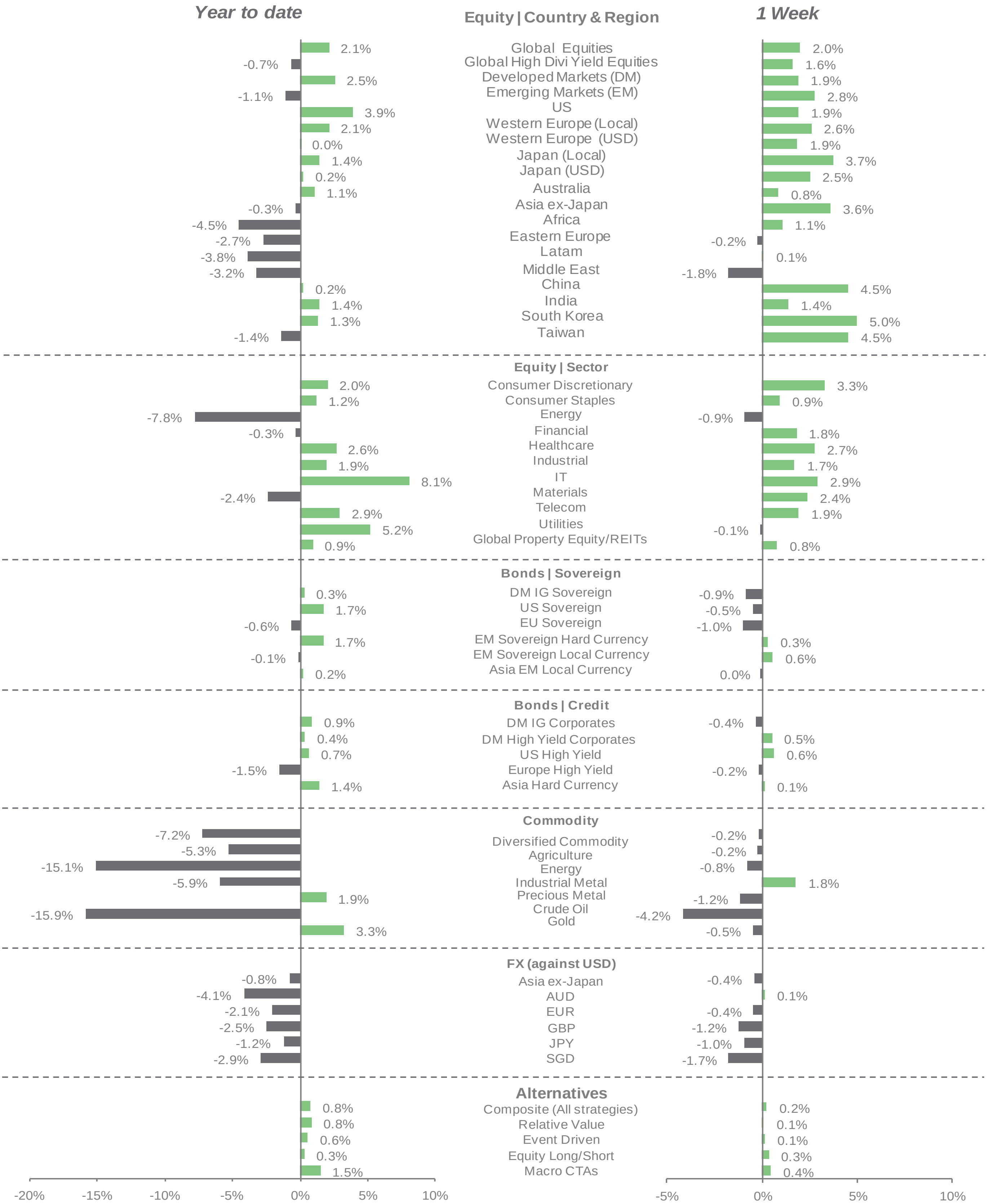



Source: Bloomberg, Standard Chartered

2) **Expectations of a February peak in new daily case of the coronavirus could prove to be overly optimistic,** leading to a reversal of the glass-half full narrative that investors are focused on.
3) **Extended factory shutdown in China and the impact on global supply chains.** Companies in China are guiding that they plan to recall workers from mid-February. If this recall is delayed, the impact on global supply chains and, in turn, corporate earnings could be greater than currently expected.
4) **Stretched investor positioning and narrow market diversity.** Investor positioning remains extreme, despite the brief pullback, while investor views lack diversity (i.e. quite bullish), albeit not at extreme levels seen in early January.

While the coronavirus outbreak has dominated the headlines lately and is a key risk to the outlook, we remain focused on a diverse range of inputs to arrive at our asset allocation decisions. In our assessment, the fundamental factors underpinning the US bull market - double-digit corporate margins, central bank liquidity boost, massive corporate share buybacks in the US and expectations of payouts from European banks and easing global trade tensions - remain supportive and contribute to our decision to remain Overweight global equities, with a preference for US and Euro area markets.

# Market performance summary*




Sources: MSCI, JP Morgan, Barclays Capital, Citigroup, Dow Jones, HFRX, FTSE, Bloomberg, Standard Chartered

*Performance in USD terms unless otherwise stated, 2019 performance from 31 December 2019 to 06 February 2020, 1 week period: 30 January 2020 to 06 February 2020

# Economic and market calendar

| | Event | Next Week | Date | Period | Expected | Prior |
|---|---|---|---|---|---|---|
| MON | JN | BoP Current Account Adjusted | 10-Feb-20 | Dec | ¥1660.3b | ¥1794.9b |
| | CH | PPI y/y | 10-Feb-20 | Jan | 0.0% | -0.5% |
| | CH | CPI y/y | 10-Feb-20 | Jan | 4.9% | 4.5% |
| | EC | Sentix Investor Confidence | 10-Feb-20 | Feb | – | 7.6 |
| | CH | Money Supply M2 y/y | 10-Feb-20 | Jan | 8.6% | 8.7% |
| TUE | UK | GDP y/y | 11-Feb-20 | 4Q P | – | 1.1% |
| | UK | Industrial Production y/y | 11-Feb-20 | Dec | – | -1.6% |
| | US | NFIB Small Business Optimism | 11-Feb-20 | Jan | – | 102.7 |
| WED | JN | Machine Tool Orders y/y | 12-Feb-20 | Jan P | – | -33.5% |
| | IN | CPI y/y | 12-Feb-20 | Jan | 7.4% | 7.4% |
| | IN | Industrial Production y/y | 12-Feb-20 | Dec | 0.7% | 1.8% |
| | IN | Exports y/y | 12-Feb-20 | Jan | – | -1.8% |
| THUR | JN | PPI y/y | 13-Feb-20 | Jan | 1.5% | 0.9% |
| FRI/SAT | US | Retail Sales Ex Auto and Gas | 14-Feb-20 | Jan | – | 0.5% |
| | US | Industrial Production MoM | 14-Feb-20 | Jan | -0.3% | -0.3% |
| | US | U. of Mich. Sentiment | 14-Feb-20 | Feb P | – | 99.8 |

| | Event | This Week | Date | Period | Actual | Prior |
|---|---|---|---|---|---|---|
| MON | SK | Markit South Korea PMI Mfg | 03-Feb-20 | Jan | 49.8 | 50.1 |
| | CH | Industrial Profits y/y | 03-Feb-20 | Dec | -6.3% | 5.4% |
| | US | ISM Manufacturing | 03-Feb-20 | Jan | 50.9 | 47.8 |
| TUE | AU | RBA Cash Rate Target | 04-Feb-20 | 4-Feb | 0.75% | 0.75% |
| | EC | PPI y/y | 04-Feb-20 | Dec | -0.7% | -1.4% |
| WED | CH | Caixin China PMI Composite | 05-Feb-20 | Jan | 51.9 | 52.6 |
| | IN | Markit India PMI Composite | 05-Feb-20 | Jan | 56.3 | 53.7 |
| | EC | Retail Sales y/y | 05-Feb-20 | Dec | 1.3% | 2.3% |
| | US | Trade Balance | 05-Feb-20 | Dec | -$48.9b | -$43.7b |
| | US | ISM Non-Manufacturing Index | 05-Feb-20 | Jan | 55.5 | 54.9 |
| THUR | GE | Factory Orders WDA y/y | 06-Feb-20 | Dec | -8.7% | -6.0% |
| FRI/SAT | GE | Exports SA MoM | 07-Feb-20 | Dec | – | -2.3% |
| | GE | Industrial Production WDA y/y | 07-Feb-20 | Dec | – | -2.6% |
| | US | Unemployment Rate | 07-Feb-20 | Jan | – | 3.5% |
| | US | Average Hourly Earnings y/y | 07-Feb-20 | Jan | – | 2.9% |
| | CH | Exports y/y | 07-Feb-20 | Jan | – | 7.9% |

Source: Bloomberg, Standard Chartered; key indicators highlighted in blue
Previous 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

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