



# Weekly Market View

## Keeping the taps open

The reflation theme continues to dominate the market narrative after a strong run of economic data and a calming of Fed policy tightening concerns. We continue to believe this combination of broadening growth and central bank intentions to stay very accommodative mean gains in global equities and riskier USD-denominated bonds can extend.

**Equities:** China equity markets, and within that, the technology sector are likely offering a buy-on-dips opportunity.

**Bonds:** The uptrend in the 10-year US Treasury yield may not be over yet, despite the recent retreat

**FX:** A EUR/USD break above 1.20 is likely needed to signal a resumption of the USD downtrend



Are US tax proposals a risk for equities?

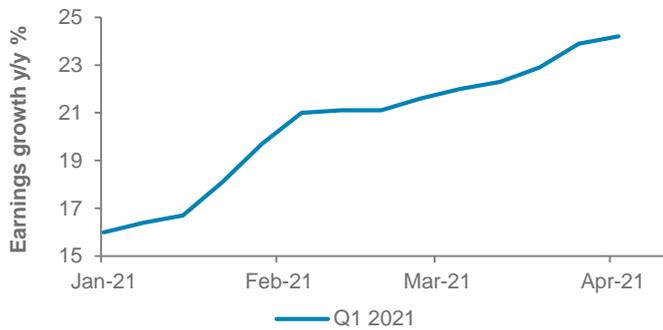
What should we expect from Q1 earnings?

Is USD weakness likely to extend?

## Charts of the week: Reflation amid divergence risks

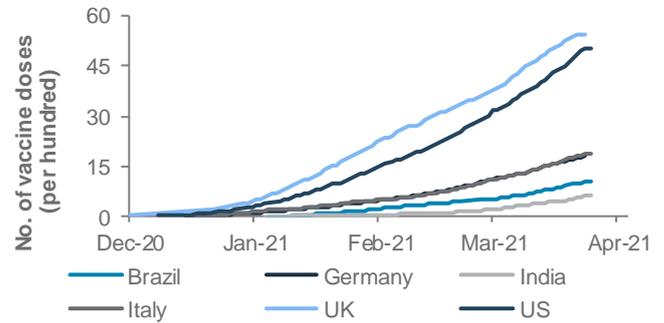
### Reflation narrative remains dominant, but diverging vaccination rates and new COVID-19 waves are risks

Consensus expectations of S&P500 Q1 2021 earnings



Source: Refinitiv, Standard Chartered

COVID-19 vaccine doses administered



Source: Our World in Data, Standard Chartered

## Editorial

### Keeping the taps open

The reflation theme continues to dominate the market narrative. Equities delivered another strong week after a strong run of economic data and a calming of Fed policy tightening concerns. We continue to believe this combination of broadening growth and central bank intentions to stay very accommodative mean gains in global equities – the US, Japan, Asia ex-Japan and the UK being our preferred regions – and riskier USD-denominated bonds can extend.

US economic data led the charge on the positive side. The ISM manufacturing and services indices achieved multi-decade and record highs, respectively, while US jobs data and job openings rose more than expected.

Unsurprisingly, this strong data raised new questions over how long the Fed will maintain its ultra-supportive policy. We continue to believe such concerns are premature. The key message from the Fed minutes released this week was that asset purchases would continue “at least” until substantially more progress was made towards labour market and price stability goals.

In our assessment, this is consistent with further gains in risky assets. The fall in the 10-year US Treasury yield may have been exacerbated by one-sided positioning (page 5), but a scenario of modestly higher yields is unlikely to stand in the way of further gains in our preferred equity and bond markets, especially following what is likely to be another quarter of strong earnings growth in the Q1 earnings season that starts in the US next week. Modestly higher yields are also consistent with further gains in our value-style equities theme.

Against this constructive backdrop, though, we are watching a few sources of risk that could lead to divergent market performance in the short-term.

The first is the diverging pace of COVID-19 vaccinations and new infection waves. While some regions (most notably the US and the UK) have accelerated the pace of vaccinations – key to economic normalisation – the Euro area and many EMs are facing renewed infection waves amid a slower vaccination pace. This poses the risk that the recent outperformance of DM over EM equities could extend temporarily.

The second is policy. While most central banks remain highly accommodative, China’s monetary policy stance continues to gradually shift in a somewhat less accommodative direction. This is not surprising given China’s economy has weathered the past year better than most others from a growth perspective. Such shifts in policy direction have often been accompanied by a pullback in equity markets, though we believe Chinese equities now offer a buy-on-dips opportunity (page 4).

Finally, US efforts towards a more unified approach to global corporate taxation brings the risk of higher taxes back on the table. The earnings impact of higher taxes remains open to debate for the time being, given specifics are likely to take time to negotiate. For now, we believe the rebound in earnings growth is likely to dominate the narrative, though tax-related concerns could become a source of volatility later in the year.

— Manpreet Gill, Head FICC Investment Strategy

## The weekly macro balance sheet

**Our weekly net assessment:** On balance, we see the past week's data and policy as positive for risk assets

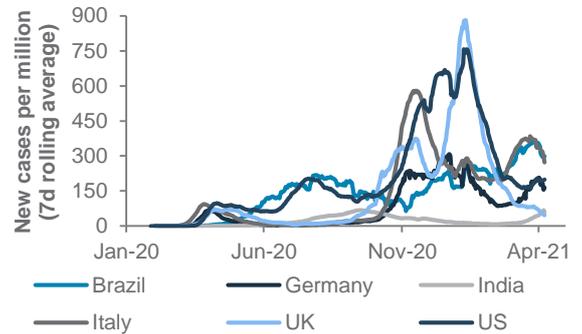
**(+) factor: US jobs data, strong PMI data**

**(-) factor: Renewed COVID-19 waves**

	Positive for risk assets	Negative for risk assets
COVID-19	<ul style="list-style-type: none"> <li>Cases appear to have peaked in Italy, Germany</li> <li>Biden has set 19 April as the deadline for all adults eligible for vaccination</li> <li>UK PM Johnson said restrictions may ease further from 12 April</li> </ul>	<ul style="list-style-type: none"> <li>Cases are rising again in the US, France, Japan, India and Brazil</li> <li>European Medicines Agency found a possible link between a vaccine and rare blood clotting</li> </ul>
	<b>Our assessment: Neutral</b> – US, UK relative vaccine success vs renewed rise in cases	
Macro data	<ul style="list-style-type: none"> <li>US ISM services rose to an all-time high and employment and job openings rose more than expected in March</li> <li>Euro area investor confidence survey rose more than expected</li> <li>China's private sector services PMI rose more than expected in March</li> </ul>	<ul style="list-style-type: none"> <li>US jobless claims unexpectedly rose</li> <li>Euro area unemployment rate rose more than expected in April</li> <li>Japan household spending growth fell more than expected y/y in February</li> </ul>
	<b>Our assessment: Positive</b> – Stronger-than-expected US jobs data and improving business sentiment	
Policy developments	<ul style="list-style-type: none"> <li>The Fed's March meeting minutes showed policymakers await 'substantial' progress on policy goals before considering changes</li> </ul>	<ul style="list-style-type: none"> <li>The PBoC called for China's major lenders to keep loan growth at roughly the same level as last year</li> </ul>
	<b>Our assessment: Positive</b> – Still-supportive Fed	
Other developments	<ul style="list-style-type: none"> <li>The IMF upgraded its global growth forecast to 6% for 2021 (vs 5.5% in January)</li> </ul>	<ul style="list-style-type: none"> <li>US Treasury Secretary Yellen called for a global minimum corporate tax rate. President Biden proposed MNCs pay national levies based on local sales</li> </ul>
	<b>Our assessment: Neutral</b> – Forecast upgrades vs. risk of higher taxes	

### New COVID-19 cases rising in some regions

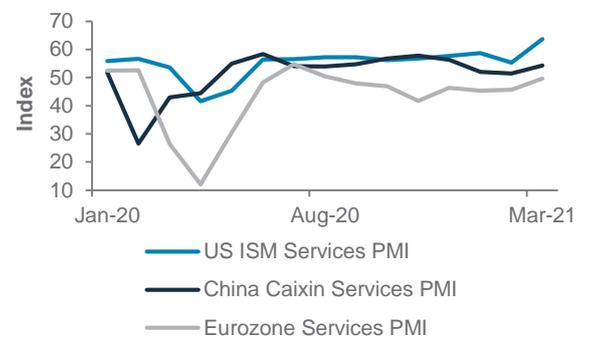
New COVID-19 cases per million (7d average)



Source: Our World in Data, Standard Chartered

### Rise in services PMI across major regions point to broadening economic recovery

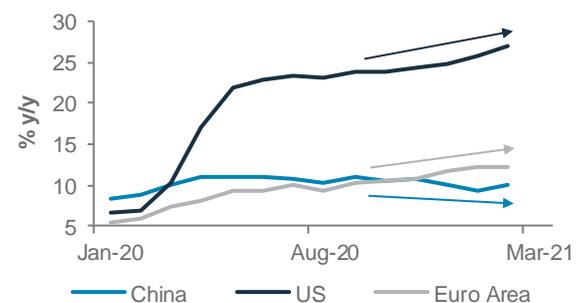
Services PMIs



Source: Bloomberg, Standard Chartered

### China policy tilt increasingly divergent from most other regions

M2 money supply growth



Source: Bloomberg, Standard Chartered

## Top client questions

### Q Is this a good time to start averaging into Chinese equity markets?

Chinese equities have fallen sharply since mid-February as markets have started to price in a less accommodative monetary policy and increased regulations targeting the real estate, banking and technology sectors. While these present a risk to the earnings growth outlook, the extent of negative sentiment causes us to believe Chinese equities may be offering a 'buy-on-dip' opportunity.

First, although the PBoC continues to drain liquidity in the interbank system, we believe an aggressive policy tightening campaign appears unlikely as policymakers balance limiting excesses while still supporting growth. Second, while a resilient USD has been a headwind to Chinese equities, we do expect this to reverse over the next 6-12 months. Lastly, we believe technical indicators argue the pullback in Chinese equities is likely done for now (see chart).

We continue to view China equities as a core holding, expecting them to perform in line with Asia ex-Japan equities. Within China, we have a preference for onshore equities.

— **DJ Cheong, CFA**, *Investment Strategist*

### Q Should investors be adding to China technology sector equities now?

We believe it is attractive to consider adding to Chinese technology sector equities at current levels.

The Hang Seng Technology Index has fallen sharply over the last six weeks. However, the index has been showing signs of bottoming, in our assessment, holding the key 8,000 support level on a closing basis. It has also held the important 200-day moving average. The fall in share prices has also helped alleviated high valuation concerns.

The risks in this sector are well known, i.e, regulatory uncertainties for the internet sub-sector and slowing Chinese credit growth. However, sub-sectors such as technology hardware should benefit from the global demand recovery, for e.g, in smartphones and auto segments. The online consumption sub-sector should also benefit from the government's dual-circulation policy.

— **Daniel Lam, CFA**, *Senior Cross-Asset Strategist*

### Technicals for China equities imply the pullback may be done for now

China CSI 300 Index



Source: Bloomberg, Standard Chartered

### China technology sector showing signs of bottoming

Hang Seng Tech Index



Source: Bloomberg, Standard Chartered

## Top client questions (cont'd)

### Q Will US Treasury yields retreat further from here?

The US 10-year Treasury yield fell from 1.72% at the end of last week to 1.62%. We believe the retracement was positioning-driven, likely led by (1) a reversal of stretched bearish positions on US government bonds and (2) seasonal quarter-end buying.

A strong rebound in US economic activity and well-supported inflation expectations argue the case that the yield uptrend may not yet be over. The latest Fed meeting minutes also noted that Fed policymakers viewed the rise in yields as consistent with the economic outlook and that financial conditions remained “highly accommodative”.

We expect the 10-year Treasury yield to be in the 1.50%-1.75% range over a 12-month horizon, but would not be surprised if yields overshoot over the coming months amid improving economic data.

On technical charts, the rally in the US 10-year Treasury yield stalled just ahead of stiff resistance on the 200-week moving average (about 1.95%-1.97%). On the weekly chart, the 14-week Relative Strength Index (a measure of momentum) has pulled back from highly overbought conditions. Immediate support is at the mid-March low of 1.58%. A break below the support would likely be needed to imply that the upward pressure had eased.

— Cedric Lam, Senior Investment Strategist;  
Manish Jaradi, Senior Investment Strategist

### Q Is USD weakness likely to extend?

We believe the USD is in an upside correction within a long-term downtrend. Historically, similar corrections were capped at around 4-6%.

The EUR/USD remains one key lens on the USD. This pair fell by over 5% in Q1. A sustained break above 1.2000 resistance would signal a stronger EUR/USD rally. However, we would likely need to see a unified and rapid acceleration in Euro area vaccinations before bond yields and expected growth rate differentials can reverse to support this. Without these signals, a range-bound Dollar or a EUR/USD retest of 1.1600 support appear more probable short-term.

Against the USD, beyond the EUR, ‘risk-on’ currencies (such as GBP, AUD, NZD, CAD and CNH) remain strong relative to 200-day moving averages while safe haven/low yielders (such as JPY, CHF and Gold) are weaker. In our view, this is reflective of the “risk-on” environment. However, if the USD remains range-bound, these two groups could partially reverse recent moves on profit-taking.

### Rise in US bond yields thus far consistent with signals from economic indicators

US 10-year Treasury yield vs. ISM manufacturing index



Source: Bloomberg, Standard Chartered

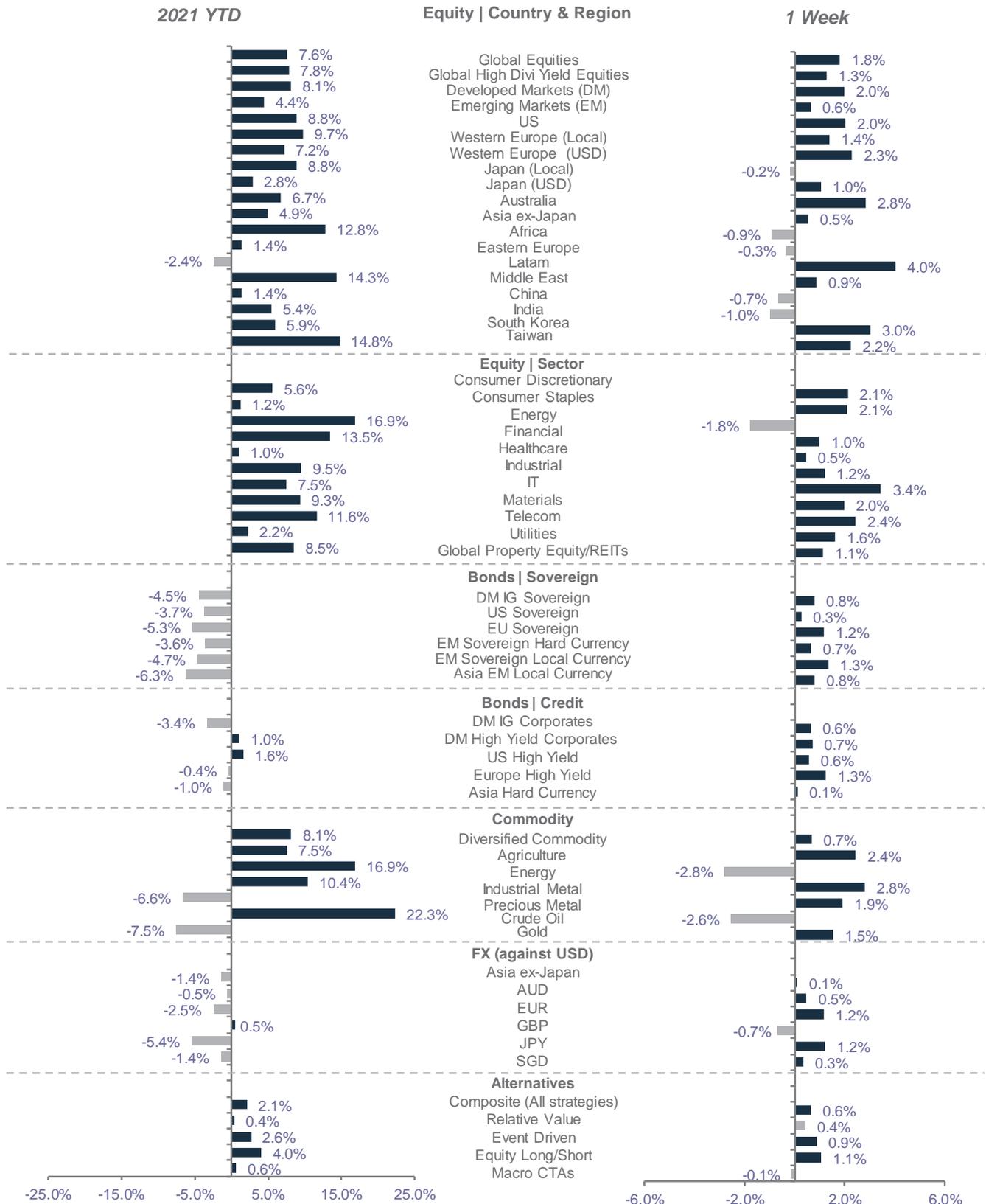
### A break above 1.20 in EUR/USD would likely signal a resumption of the USD downtrend

EUR/USD and key technical levels



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, 2021 YTD performance from 31 December 2020 to 8 April 2021; 1-week period: 1 April 2021 to 8 April 2021

## Our asset class views at a glance

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

Source: Standard Chartered Global Investment Committee

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

## S&amp;P500 has resistance 0.6% above current level

Technical indicators for key markets as on 8 April 2021

Index	Spot	1st support	1st resistance
S&P500	4,097	4,082	4,105
STOXX 50	3,978	3,964	3,985
FTSE 100	6,942	6,863	6,982
Nikkei 225	29,709	29,574	29,967
Shanghai Comp	3,483	3,480	3,485
Hang Seng	29,008	28,786	29,119
MSCI Asia ex-Japan	882	879	885
MSCI EM	1,343	1,339	1,347
Brent (ICE)	63.2	62.5	63.5
Gold	1,755	1,737	1,764
UST 10Y Yield	1.62	1.59	1.69

Source: Bloomberg, Standard Chartered

## Economic and market calendar

	Event	Next week	Period	Prior
MON	EC	Retail Sales y/y	Feb	-6.4%
TUE	CH	Exports y/y	Mar	18.1%
	EC	ZEW Survey Expectations	Apr	74
	US	CPI Ex Food & Energy y/y	Mar	1.3%
WED				
THUR	US	Powell Speaks to the Economic Club of Washington		
	US	U.S. Federal Reserve Releases Beige Book		
	US	Retail Sales Ex Auto & Gas	Mar	-3.3%
FR/SAT	CH	Fixed Assets Ex Rural YTD y/y	Mar	35.0%
	CH	GDP y/y	1Q	6.5%
	US	Building Permits	Mar	1720k

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

## US 10-year Treasuries have low investor diversity

Our proprietary market diversity indicators as of 7 April

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	○	↓	1.26
Global Equities	●	↑	1.46
Gold	◐	↓	1.34
<b>Equity</b>			
MSCI US	●	↑	1.43
MSCI Europe	◐	→	1.36
MSCI AC AXJ	●	↑	1.82
<b>Fixed Income</b>			
DM Corp Bond	◐	↓	1.38
DM High Yield	●	↑	2.19
EM USD	◐	↓	1.49
EM Local	◐	↓	1.38
Asia USD	●	→	1.72
<b>Currencies</b>			
EUR/USD	◐	↓	1.37

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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