

Weekly Market View

Looking for a catch-up

- Since a trough in Q2, a turn in Chinese policy towards supporting growth helped Asia ex-Japan equities and Asia USD bonds outperform their global peers.
- This outperformance has, however, reversed in recent weeks. Over the last three weeks, Asia ex-Japan equities have fallen 1.0%, while global equities rose 4.8%. Asian USD bonds similarly lagged global peers, albeit more modestly.
- We believe the recent under-performance of Asian assets is likely to be temporary and is an opportunity to add exposure to these preferred asset classes, as appropriate within diversified allocations.

Deep dive: What is your view on UK Equities?

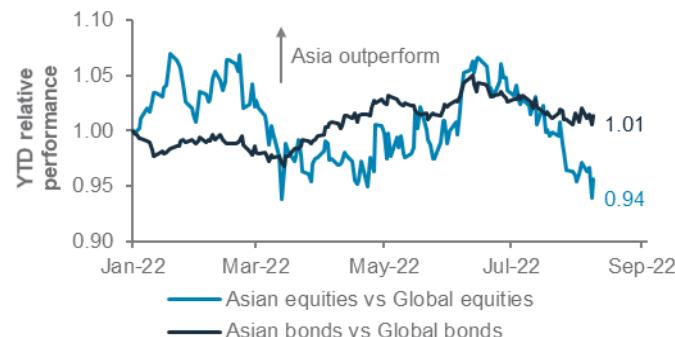
What is the outlook for EM bonds?

Are oil prices expected to continue falling?

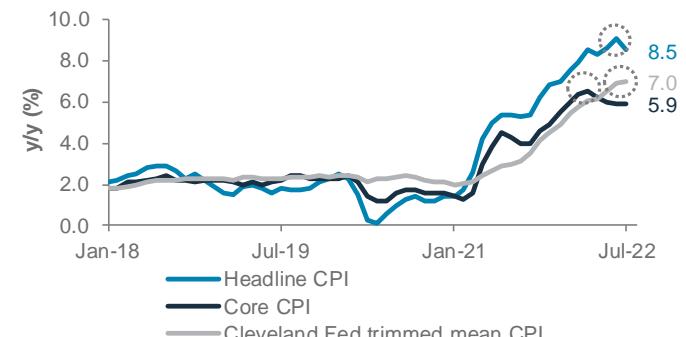
Charts of the week: Asian markets lag, but this is likely temporary

US consumer inflation appears to be peaking, driving a rebound in US asset prices relative to Asian peers

Asia ex-Japan equities and Asian USD bonds vs global peers



US headline, ex-food-and-energy and trimmed-mean* inflation



Source: Bloomberg, Standard Chartered; *Trimmed-mean inflation excludes the most extreme monthly price changes

Editorial

Looking for a catch-up

Since a Q2 trough, a turn in Chinese policy towards supporting growth helped Asia ex-Japan equities and Asia USD bonds outperform their global peers. This outperformance has, however, reversed in recent weeks; over the last three weeks, Asia ex-Japan equities have fallen 1.0%, while global equities rose 4.8%. Asian USD bonds similarly lagged global peers, albeit more modestly.

In our view, there were several factors behind these relative trends. Firstly, a rise in US-China geopolitical tensions combined with extended military exercises weighed on sentiment. Secondly, the flare-up of COVID-19 in some regions in China, together with new lockdowns in several regions, renewed concerns of its potential impact on economic growth. Thirdly, the rise in China's consumer inflation and the PBoC's subsequent statement that it would safeguard the economy against inflation risks by avoiding 'excessive' stimulus raised concerns about whether this could end up limiting how far policymakers were willing to support growth.

These data and events contrasted with a more positive set of data in the US. The strongest US job growth in five months and firmer-than-expected worker pay assuaged recession concerns. Meanwhile, the apparent peaking in US consumer inflation led to a modest easing of market expectations of Fed rates hikes over the rest of this year. This combination of better-than-expected jobs data and softer-than-expected inflation data likely set the stage for US equity and corporate bond outperformance.

However, we expect Asia ex-Japan equities and Asia USD bonds to catch up and outperform their global peers. History suggests geopolitical tensions tend to have only a temporary impact on markets while COVID-19 flare-ups have thus far had a relatively limited impact on economic activity. In the US, a

decline in oil prices was a key driver of the lower inflation rate. While this could continue to exert downward pressure in the short term (see page 6), continued inflation pressures in demand-led areas like housing are likely to keep the Fed on a tightening path – with several Fed policymakers emphasising last week that the fight with inflation was far from over.

From a market standpoint, Asia ex-Japan equities appear oversold and valuations remain well below their long-term average. All of these factors cause us to believe the recent underperformance in Asian assets is likely to be temporary and is an opportunity to add exposure to these preferred asset classes, as appropriate within diversified allocations.

Within Developed Market equities, though, we would point out the UK as a preferred market. Similar to the Fed, fighting inflation remains the priority for the BoE as it forecast inflation heading to double-digit levels and the economy falling into a recession. Having said that, we view UK equities as preferred given its high dividend yield, attractive valuation and favourable sector composition (see page 4) – the third factor adding a strong link to global growth as a key driver, as opposed to the domestic economy alone. GBP weakness has been a drag for international investors, though inexpensive valuations, a possible peak in the US Dollar (see page 6) and the upcoming GDP release could offer room for optimism.

Looking ahead, we will be closely watching China retail sales for signs of a consumer rebound. US retail sales next week will also give us a sense of the state of the US consumer. Finally, the release of the Fed FOMC meeting minutes should also offer some clarity on policymaker thinking on the Fed hiking cycle.

— Zhong Liang Han

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 in the near term.

(+ factors: Softer July consumer inflation, more US fiscal support

(- factors: Rising China COVID-19 cases, less China monetary support

	Positive for risk assets	Negative for risk assets
COVID	<ul style="list-style-type: none"> Hong Kong shortened its mandatory hotel quarantine period 	<ul style="list-style-type: none"> China warned of fast COVID-19 spread in some regions
	Our assessment: Neutral – Looser Hong Kong travel restrictions vs rising China COVID-19 cases	
Macro data	<ul style="list-style-type: none"> US payrolls strongly beat consensus expectations US consumer inflation decelerated more than expected; producer prices fell more than expected New York Fed inflation expectations fell across different time horizon Euro area Sentix Investor Confidence improved against expectations China consumer inflation rose, but less than expected; producer prices fell more than consensus 	
	Our assessment: Positive – Softer July consumer inflation	
Policy developments	<ul style="list-style-type: none"> The US Senate passed the Inflation Reduction Act, which focuses on climate, tax and healthcare The Fed's Daly signalled support for a slowdown in rate hikes 	<ul style="list-style-type: none"> Several Fed officials – Bullard, Evans, Kashkari – remained publicly hawkish despite the softer July CPI The PBoC pledged to avoid massive stimulus to limit inflation risks
	Our assessment: Neutral – More US fiscal support vs less China monetary support	
Other developments	<ul style="list-style-type: none"> China ended military drills around Taiwan, but said regular patrols will continue Oil flows from Russia via Ukraine resumed after initial suspension 	<ul style="list-style-type: none"> China enacted sanctions against Pelosi Norway said it was planning export controls on electricity
	Our assessment: Positive – Lower geopolitical tensions	

US job creation in July was the strongest in five months as unemployment rate hit a new low

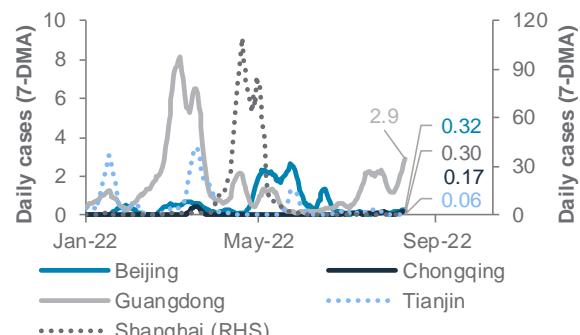
US net new non-farm jobs, unemployment rate



Source: Bloomberg; Standard Chartered

COVID-19 cases in China spiked this week, but remained below April high

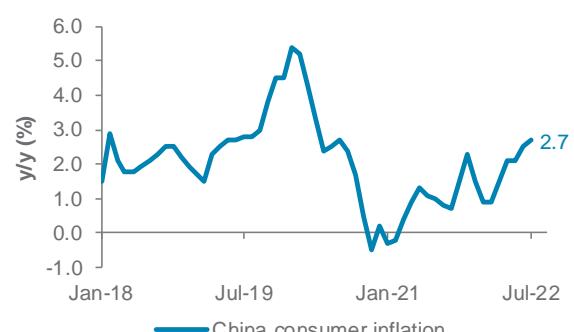
COVID-19 new cases in major China cities, 7d moving average



Source: Bloomberg, Standard Chartered

China consumer inflation prices climbed, but remained below recent years' highs

China consumer inflation



Source: Bloomberg, Standard Chartered

Top client questions

Q What is the outlook on UK equities?

We view UK equities as preferred. First of all, its valuation remains attractive. On an absolute basis, 12-month forward P/E for MSCI UK is at 9.8x, which is around a 20-year low. It also compares favourably vs global equities (MSCI All-country world index), where the UK's relative valuation has contracted from an 8% premium in 2016 to a discount of 35% today – its deepest discount in 20 years. This is likely due to a combination of political uncertainty, including Brexit, as well as the outperformance of growth stocks in a low-yield environment in recent years.

A glance at the composition of the MSCI UK index shows that the three "old economy" sectors – financials, energy and materials – comprise c.40% of the index, while the three sectors comprise less than 25% in the MSCI All-country world index. As inflation returns and yields are no longer at the ultra-low levels that we have witnessed in recent years, the broad tailwind that growth stocks used to enjoy is no more, which bodes well for UK stocks in relative terms.

In our H2 Outlook, we highlighted the importance of the balance between growth and income in the current environment. Here, UK equities compare favourably from a dividend yield perspective. For example, MSCI UK has a 12-month dividend yield of 4.2% – towering well above the 2.3% dividend yield of the MSCI All-country world index.

We believe today's markets offer an attractive opportunity to add to UK equities (which comprise about 1-4% of foundation allocations – see our *Global Market Outlook* for more). The transition in political leadership has led to uncertainties, but a resolution would be a positive catalyst as it introduces greater policy clarity. Another key factor to watch is oil prices. These have been weak lately amid an unexpected rise in US crude inventories, a rise in OPEC production and fears of recessionary demand destruction. However, growth data globally has so far been resilient, and an improvement in sentiment should act as a positive catalyst for the energy sector, which is the third-largest sector in MSCI UK. Finally, more contained inflation and growth concerns may lead to a steepening in the yield curve (ie, a widening of the gap between long- and short-term yields), lending support to the financial sector, the second-largest sector in UK equities.

— Daniel Lam, Head Equity Strategy

UK equities are trading at their deepest discount to global equities in 20 years

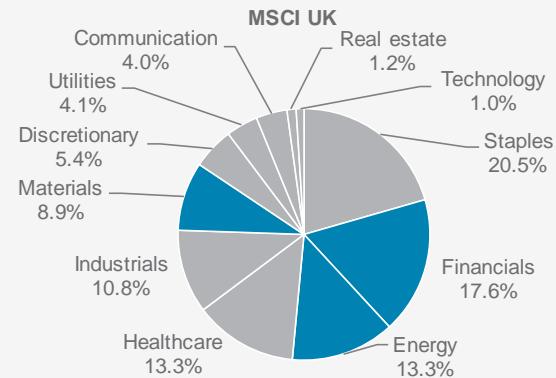
Relative 12-month forward P/E of MSCI UK index vs. MSCI All-country world index



Source: Bloomberg, Standard Chartered

UK equities have a significantly larger weight in 'old economy' sectors (financials, materials, energy) relative to global equities

Sector composition of MSCI UK index



Source: MSCI, FactSet, Standard Chartered

UK equities offer an attractive dividend yield

12-month forward dividend yield in MSCI UK and MSCI All-country world indices



Source: MSCI, FactSet, Standard Chartered

Top client questions (cont'd)

Q What is the outlook for Emerging Market bonds?

Emerging Market (EM) bonds have rebounded strongly in recent weeks, with the EM USD and local currency (LCY) government bond indices surging 7.8% and 7.5%, respectively, since their mid-July trough. We attribute the strong reversal to four reasons: (i) an easing of global recession concerns amid stronger-than-expected US job data and China's reopening; (ii) a reduction in idiosyncratic risk as several countries facing stress on external balances edged closer to a deal with the IMF; and (iii) a possibly USD peak.

Looking ahead, we retain a balance view on EM bonds and view them as core holdings. On the positive side, valuations remain inexpensive and a possible peak in US inflation could signal a peak in the US Dollar – a weakening USD cycle has historically been supportive for EM assets. A US Dollar peak and improving global trade should alleviate recent pressure on EM external balances and the contribution to any one country to the EM bond index remains capped. Having said that, default worries remain elevated for some individual EMs and the EM USD bond asset class remains sensitive to any rebounds in US government bond yields.

— **Cedric Lam, Senior Investment Strategist**

Q Where does the USD go from here?

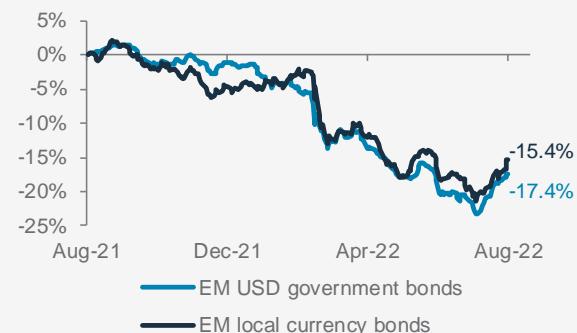
In our view, the USD index (DXY) peaking process is playing out. Since falling from a high of 109.29 in mid-July, the USD has been hovering around key support of 105.70. It subsequently broke below this key technical support after Wednesday's lower-than-expected US CPI. As US inflation moves gradually lower and over-extended USD positioning unwinds, we believe that the USD could face further downward pressure. Initial resistance is at 106.4, and as long as the USD stays below 107.4, we would be short-term bearish on the USD. The index is likely to test the next key support at 103.85.

We see commodity currencies as an attractive route to implement a weak USD view. The AUD has been underpinned by improving risk sentiment, a weaker USD, a hawkish RBA and improving fundamentals amid strong commodity prices and a healthy Terms of Trade. Renewed Fed hawkishness or an escalation of geopolitical tensions are risks to our near-term bearish view on the USD.

— **Nataniel Tang, Investment Strategist**

Emerging Market (EM) bonds have rebounded strongly in recent weeks

EM USD government bonds, local currency government bonds, Total Returns



Source: Bloomberg, Standard Chartered

The near-term outlook for the USD remains bearish as long as the DXY Index stays below key resistance of 107.4

DXY with technicals



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q Are oil prices likely to fall further?

Recent data and events have been relatively bearish for oil. On the supply front, a resumption of the Druzhba pipeline, which supplies oil from Russia to central Europe, weighed on oil prices. OPEC+ agreed last week to increase oil production by 100kbpd from September. In the US, oil inventories surprised to the upside, rising by 2.2m barrels last week vs an expected drop, likely owing to greater supply and fears of recessionary demand destruction. All these helped partially ease worries of a tight demand-supply balance in oil markets.

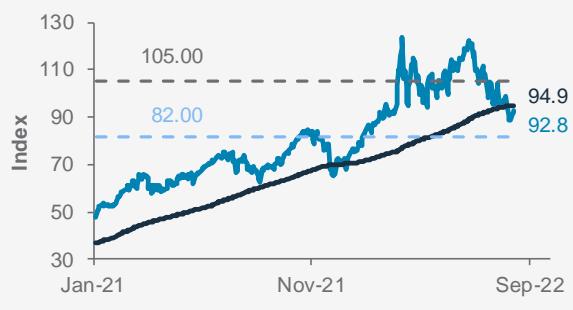
From a technical standpoint, oil has fallen below our previously highlighted support of USD 93/bbl. When combined with recent data, this arguably raises the risk of prices falling further in the short term. Key support is at 82, which we expect to hold, while a break above 105 is likely needed for the near-term downtrend to fade.

On a longer 6-12-month horizon, though, we remain constructive on oil due to chronic underinvestment in the sector, limited spare capacity and a high geopolitical risk premium.

— **Nataniel Tang, Investment Strategist**

Waning demand and increasing supply could see WTI oil test key support at 82

WTI with technicals

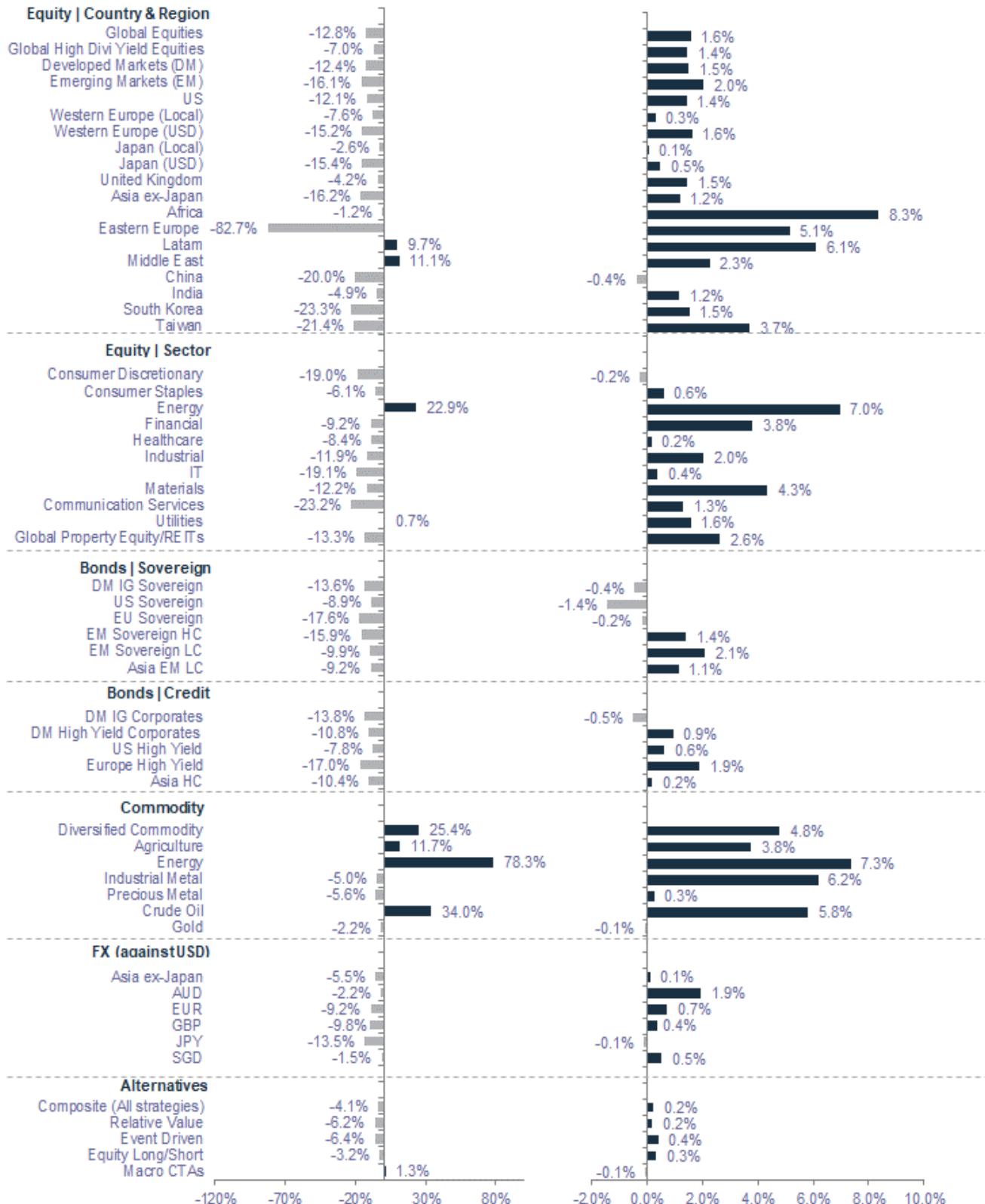


Source: Bloomberg, Standard Chartered

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 11 August 2022; 1-week period: 4 August 2022 to 11 August 2022

Our 12-month asset class views at a glance

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

Source: Standard Chartered Global Investment Committee

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

S&P 500 index is close to its next resistance

Technical indicators for key markets as on 12 August

Index	Spot	1st support	1st resistance
S&P 500	4,207	4,150	4,238
STOXX 50	3,757	3,729	3,771
FTSE 100	7,466	7,435	7,502
Nikkei 225	28,421	28,020	28,622
Shanghai Comp	3,282	3,245	3,300
Hang Seng	20,082	19,728	20,319
MSCI Asia ex-Japan	650	642	654
MSCI EM	1,014	1,003	1,020
Brent (ICE)	99.2	96.2	100.9
Gold	1,788	1,778	1,796
UST 10y Yield	2.88	2.80	2.93

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

Economic and market calendar

	Event	Next week	Period	Expected	Prior
MON	CH	Industrial Production y/y	Jul	4.5%	3.9%
	CH	Retail Sales y/y	Jul	5.0%	3.1%
	CH	Fixed Assets Ex Rural YTD y/y	Jul	6.3%	6.1%
TUE	US	Empire Manufacturing	Aug	5.0	11.1
	UK	ILO Unemployment Rate 3Mths	Jun	3.8%	3.8%
	EC	ZEW Survey Expectations	Aug	–	-51.1
WED	US	Housing Starts	Jul	1530k	1559k
	UK	CPI y/y	Jul	9.9%	9.4%
	UK	CPI Core y/y	Jul	–	5.8%
THUR	US	Retail Sales Ex Auto and Gas	Jul	0.3%	0.7%
	US	Business Inventories	Jun	1.4%	1.4%
	US	Philadelphia Fed Business Outlook	Aug	-6.0	-12.3
FRI/SAT	US	Leading Index	Jul	-0.5%	-0.8%
	US	FOMC Meeting Minutes	Jul		
	UK	Retail Sales Ex Auto Fuel y/y	Jul	–	-5.9%

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 has widened across the board

Our proprietary market diversity indicators as of 11 August

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↑	2.08
Global Equities	●	→	1.63
Gold	●	↓	1.57
Equity			
MSCI US	●	↑	1.56
MSCI Europe	●	→	2.00
MSCI AC AXJ	●	↓	1.96
Fixed Income			
DM Corp Bond	●	↑	2.30
DM High Yield	●	→	2.75
EM USD	●	→	2.19
EM Local	●	→	1.59
Asia USD	●	→	1.66
Currencies			
EUR/USD	●	→	1.85

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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