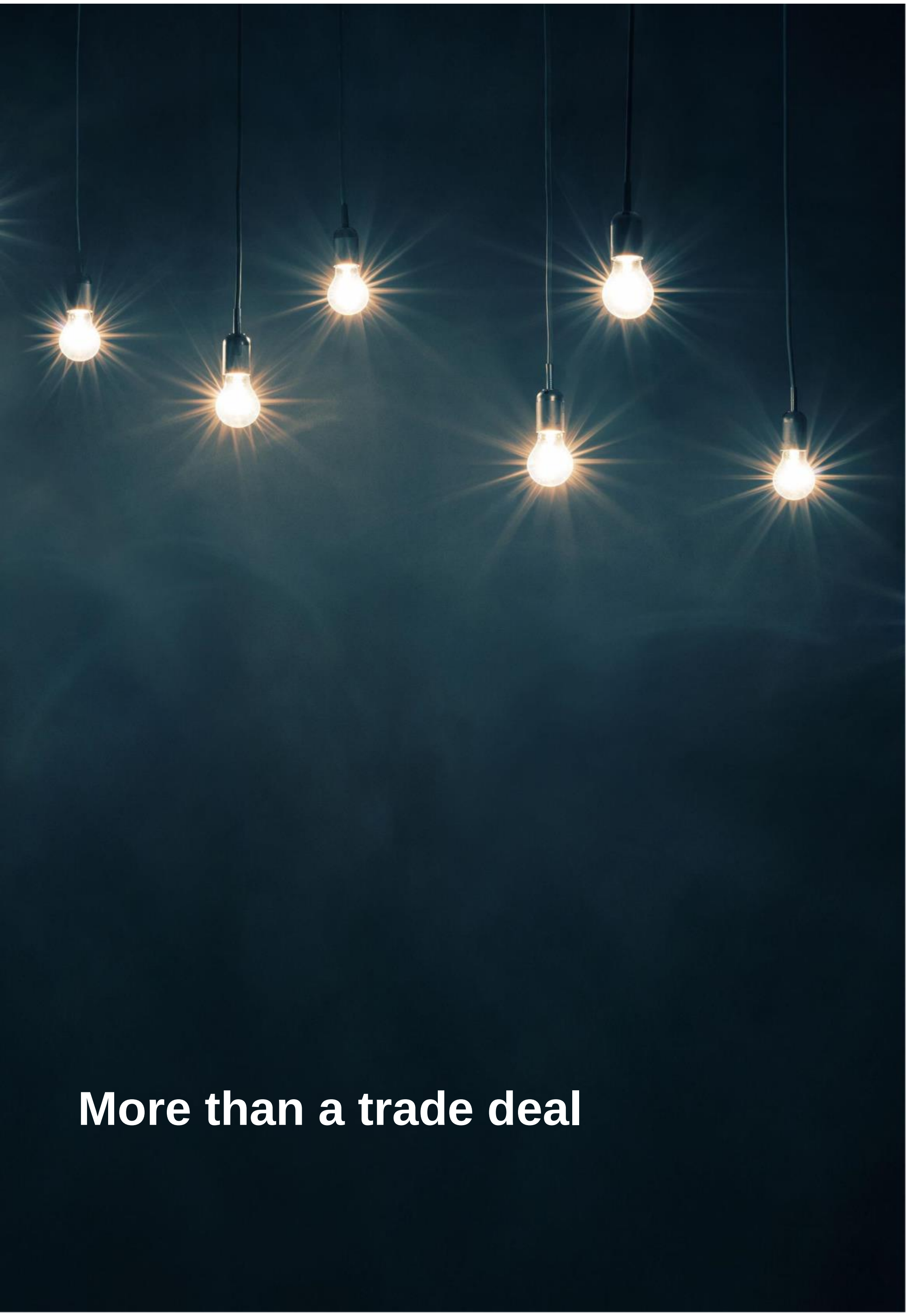
Weekly Market View



More than a trade deal

Signs of recovery in economic data and an impending US-China trade deal explain the broad-based gains in risk assets

Equities: US earnings are expected to recover in the coming quarters after a mild decline in Q3, supporting our positive view on the market

Bonds: Easing trade tensions are supportive for Emerging Market USD bonds, but we would await better entry levels

FX: USD/CNY, USD/JPY could decline on a trade deal

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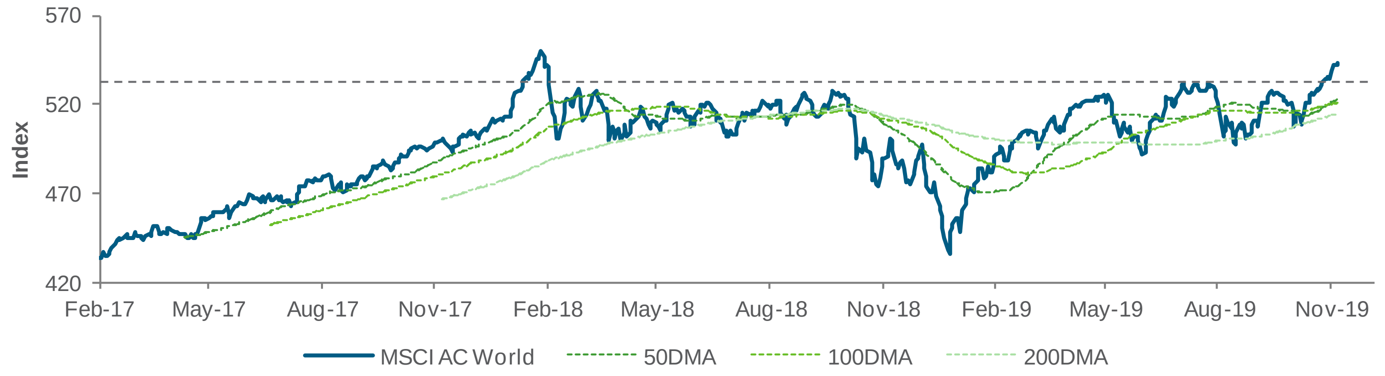
Chart of the week: Global equities broke above key resistance

MSCI All-Country World Index



Source: Bloomberg, Standard Chartered

Editorial

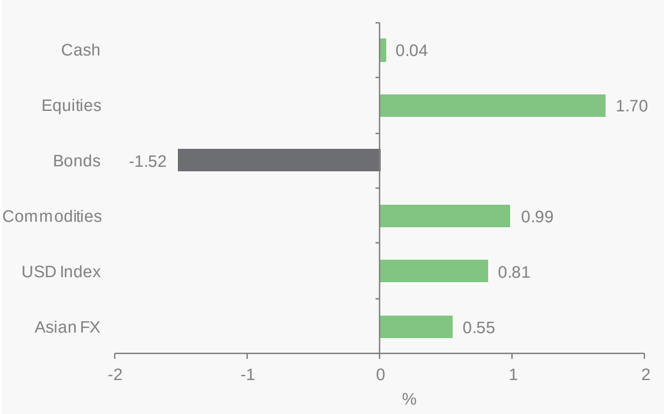
More than a trade deal

There is more to this month-long rally in risk assets than just expectations of a trade truce between the US and China, in our assessment. The Fed has signalled it is in no mood to raise rates until there is a "persistent" and "significant" rise in US inflation, even as data showed economic growth may be recovering. Policymakers in the Euro area and Japan are being encouraged by their central banks to consider more aggressive fiscal stimulus, availing of record low interest rates. The risk of a 'hard Brexit' has also receded, with the general elections, at the very least, likely leading the UK to leave the EU on the terms PM Johnson agreed with the EU.

This constructive global outlook leaves scope for further upside to risk assets, in our view. This supports our growing appetite for raising exposure to the EUR and Euro area equities (on top of US equities) and adding Emerging Market Local Currency bonds (on top of EM USD and Asia USD bonds) to our preferred fixed income basket. Reports that the US and China agreed in-principle to roll-back some existing tariffs is likely to provide fuel to these investment themes.

Global equity markets rallied for the fifth straight week, while bonds declined, as the US and China neared a partial trade agreement and data suggested a recovery in the global economy

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 31 October 2019 to 07 November 2019

Global equities signalling a trade deal is likely

The breakout in global equities in the past two weeks has been particularly driven by markets affected by US-China trade tensions over the past year – Asia and Europe. This suggests that the chances of the so-called 'Phase one' US-China trade agreement may be increasingly priced in. As the two sides decide on a place and time for signing the deal (now looks likely in December), there is scope for further upside following reports that existing tariffs may be partly rolled back.

Moves in US stocks also indicate optimism that a partial trade deal is near. The S&P500 broke out to a new record high and is up 23% so far this year, a sharp reversal from its 2018 decline. Analysing the sector performance in recent weeks highlights two trends: a rebound in trade-sensitive sectors, including industrials, and a recovery in domestic economy-driven, interest rate-sensitive sectors such as financials. The industrials sector is particularly sensitive to trade and had suffered in 1H 2019 as the US-China trade war weighed on companies in the transportation and capital goods industries. As expectations for a trade deal rise, the sector has rebounded, rallying 27% YTD. For now, we prefer the financial and technology sectors in the US.

Outside the US, we believe Euro area equities offer an opportunity as the region would likely benefit from easing trade uncertainty. In bonds, EM bonds (both local currency and USD-denominated) and Asia USD bonds are likely to do well if a trade deal is agreed.

Bond yields rise on signs of stabilisation in economic data

Better-than-expected US job creation numbers for October and the upward revision in employment data for prior months have helped ease concerns about the primary driver of the US economy, ie. a robust job market supporting consumption. Meanwhile, a business confidence indicator (PMI) for the US non-manufacturing sector also rebounded from a three-year low, helped by a broad-based pick-up in business activity, hiring and, importantly, new orders. This suggests that the downturn in the US manufacturing sector has not spilled over to the services sector, which accounts for almost 80% of the economy.

In Europe, the Sentix investor confidence indicator rebounded from six-year lows, while the region's retail sales growth accelerated to 3.1% y/y, its strongest growth in two years. The latter suggests domestic consumption, the main driver of the region over the past year, remains healthy. Any breakthrough in US-China trade tensions is likely to provide a lift to business sentiment, especially among the region's exporters. Meanwhile, China's manufacturing and services sector confidence indicators (PMIs) remained stable, albeit soft.

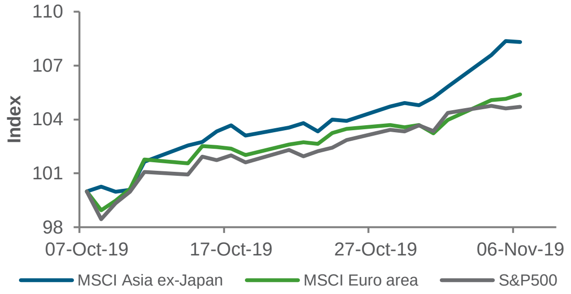
The economic data paint a picture of stabilisation in global growth after a year of slowing data, which is supportive of risk sentiment. This is reflected in a rebound in major government bond yields and steeper yield curves (long-term yields rising faster than short-term ones).

Favouring the consumer sector in China

In China, our medium-to-long-term focus remains on the investment implications of the country's shift from an investment-and-export-led growth model to consumption-led growth. The government's progressive and targeted fiscal and monetary stimulus over the past year have been directed at accelerating domestic consumption. We believe China's consumer staples and consumer discretionary sectors are likely to be the biggest beneficiaries from this shift.

Asia ex-Japan and Euro area equities have outperformed US equities over the past month amid expectations of a partial trade deal between the US and China

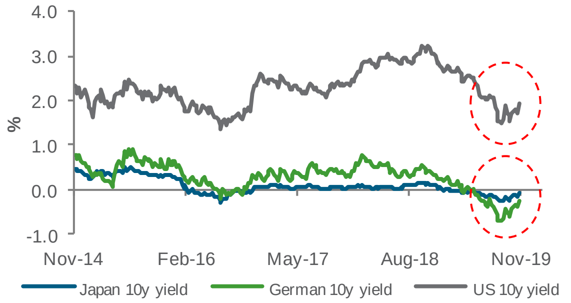
Relative performance of MSCI Asia ex-Japan, MSCI Euro area and S&P500 indices (Rebased to 100 = 07 October 2019)



Source: Bloomberg, Standard Chartered

Major government bond yields, especially of longer tenures, have rebounded over the past couple of months, reflecting stabilisation in global economic data

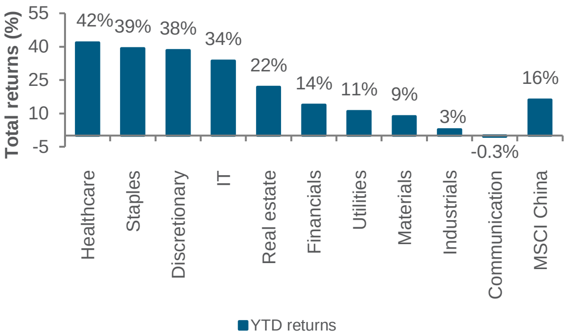
10-year government bond yields for the US, Japan and Germany



Source: Bloomberg, Standard Chartered

China's consumer staples and consumer discretionary sectors have been among the top performers YTD

Sector-based YTD performance of MSCI China sub-indices, as of 06 November, 2019



Source: Bloomberg, Standard Chartered

What does this mean for investors?

Equities

US earnings declined in Q3; is that a cause for concern? Although US earnings have declined marginally y/y in Q3, they beat expectations yet again. Earnings are expected to rebound over the coming year, supporting our positive view on the market.

More than 85% of companies in the S&P500 index have reported Q3 earnings. Relative to expectations of a 2.2% decline at the start of October, the out-turn at this stage of the season is -0.6%. The improvement, relative to earlier expectations, has been led by technology and healthcare sectors, which are now expected to see earnings changes of -2.4% and 9.4%, respectively, compared to -7.5% and 2.4% at the start of October.

The US equity market is clearly looking beyond the weak 2019 picture to a recovery to 10% earnings growth in 2020. Increasing likelihood of a trade deal, a reduction in the Fed Funds rate and an improvement in the outlook for growth have acted as catalysts for the improved earnings outlook. US equities are a preferred area among global equities, with technology and financials as our preferred sectors**.**

What are the key takeaways from Q3 results for Chinese stocks? All MSCI China onshore companies have announced their Q3 earnings, while 61% of MSCI China offshore companies (by index weight) have reported so far. Consumer discretionary, staples, energy, financials and real estate sectors beat earnings expectations. Since the announcement of the results, stocks with earnings beats have outperformed those with earnings misses, both onshore and offshore. We continue to prefer domestic-driven consumer sectors that are likely to benefit from supportive government measures.

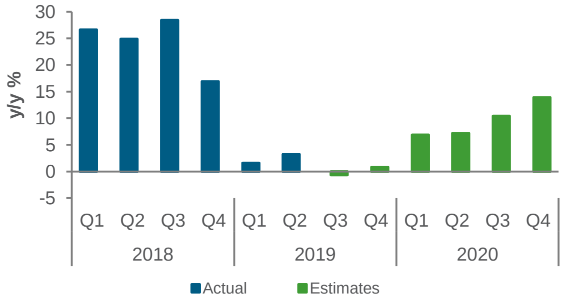
Bonds

Are you concerned by the recent rise in bond yields? 10-year US Treasury yields rose sharply this week, driven by strong US economic data and reduced Fed rate cut expectations for 2020. Rate cut expectations have been a key driver of yields this year. We still expect the Fed to cut rates once in 2020, which leads us to believe that 10-year US Treasuries have a low likelihood of rising significantly above 2.0%. That said, we still prefer to a short maturity profile (around 3-5 years) on USD bond allocations given rising Treasury volatility and still-low compensation for buying longer maturity bonds.

Can the Emerging Market (EM) bond outperformance continue? EM USD government bonds saw a sharp reduction in yield premiums, led by a strong rally in High Yield (HY) bonds. While we continue to like the attractive yield and geographical diversification on offer, we note that valuations have been rising. The asset class remains preferred, but it may be prudent to await a pullback before adding further. EM Local currency bonds outperformed USD bonds over the past week, primarily due to positive currency returns, a key driver of our bullish stance. Our bearish USD stance, bullish INR view and expectation of modest CNY strength lead us to believe that they can continue to outperform global bonds, especially since Indian and Chinese bonds account for about 20% of the asset class.

US earnings are expected to rebound in the coming quarters after a slowdown this year

S&P500 quarterly earnings growth, % y/y



Source: Refinitiv, Standard Chartered

Most equity market technicals have turned positive

Technical levels of key markets as of 07 November 2019

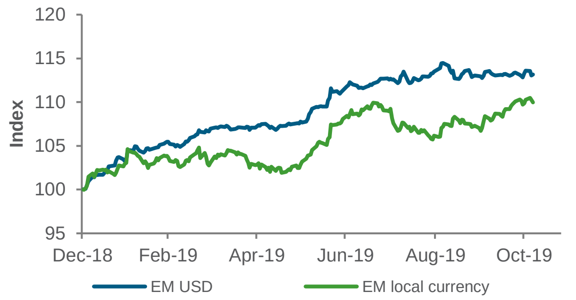
Index	Spot	1st support	1st resistance	Short-term trend
S&P 500	3,085	3,023	3,140	↑
STOXX 50	3,707	3,600	3,760	↗
FTSE 100	7,406	7,240	7,460	↘
Nikkei 225	23,330	22,650	23,750	↑
Shanghai Comp	2,979	2,890	3,045	↗
Hang Seng	27,847	26,900	28,000	↗
MSCI Asia ex-Japan	667	637	687	↑
MSCI EM	1,074	1,038	1,097	↑
Brent (ICE)	62	59	67	→
Gold	1,469	1,449	1,515	↘
UST 10Y Yield	1.92	1.51	2.15	↗

Source: Trading Central, Standard Chartered

Note: Arrows represent short-term trend opinions

EM local currency bonds have started to catch up with the performance of EM USD government bonds in recent weeks as EM currencies recover

Relative YTD total returns from EM USD government bonds and EM local currency bonds (Rebased to 100 = 31 December 2018)



Source: Bloomberg, Standard Chartered

Top client question

What are the implications of a 'Phase one' US-China trade deal on asset markets?

The expected 'Phase one' US-China trade deal could be pivotal in determining global risk sentiment in the near and medium term. China appears to be moving towards addressing some key US demands, including purchasing of agricultural products, protecting intellectual property rights, easing conditions for financial firms to enter the Chinese market and publicly cracking down on fentanyl smuggling – all of which have been key Trump demands – while recent reports suggest existing US tariffs could be partly rolled back – a key Chinese demand. Here, we assess the implications of such a deal on various asset markets:

Equities: As discussed in more detail earlier in the publication, confirmation of a 'Phase One' deal would likely boost risk sentiment and improve the outlook for equities, especially in the Euro area and China. The US trade-sensitive industrials sector can be expected to strengthen further. In addition, the US technology sector, which has significant overseas exposure, would also benefit from a trade deal.

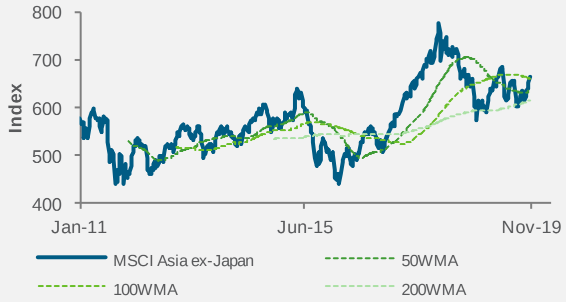
Bonds: A currency agreement and CNY stability (or modest strength) would be positive for EM bonds as well as Asian USD bonds, in our assessment. The positive impact is likely to flow to EM bonds through two channels: (1) supporting risk sentiment and flows, (2) currency gains, following likely modest CNY strength. Chinese bonds account for nearly 10% of the EM local currency index, and even modest CNY gains are likely to boost returns. Asian USD bonds may also benefit from expectations of better debt servicing ability by Chinese issuers given support for the currency, which could lead to reduced yield premiums.

FX: A currency agreement to keep the CNY 'basically stable' is seen as a key element of a 'Phase one' deal for currency markets. The CNY could be a beneficiary. USD/CNY has fallen from above 7.15 to below the important headline level at 7.00. From a technical perspective, the next key support level sits around 6.90. This coincides with the USD/CNY trading level on 1 August this year when Trump announced the September tariffs. A rollback of these tariffs could open the next leg lower (though a failure to do so could result in USD/CNY returning initially towards the 7.15–7.20 level).

We have also turned short-term bearish towards USD/JPY from 109.00, taking advantage of a "risk-on" environment to enter. If a US-China 'Phase one' trade deal is agreed, we expect most major and Asian currencies to follow USD/CNY lower, including USD/JPY, amid broad USD weakness. On the other hand, USD/JPY could still move lower in a scenario where the expected trade deal fails amid a broader "risk-off" stance, and here we would expect the safe-haven JPY to strengthen. Technically, USD/JPY has strong resistance at 109.35 and then 110.50, which should hold. A clear break below 108 would target 106.50, and then our target objective just above 105.

Asia ex-Japan equities have rebounded lately on optimism about a US-China trade truce

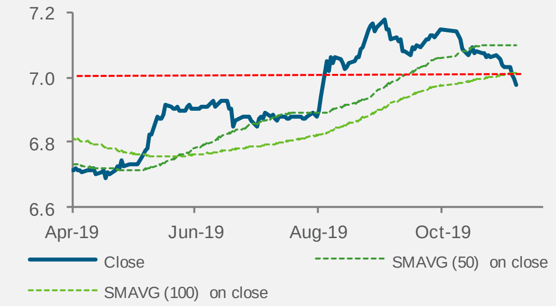
MSCI Asia ex-Japan index



Source: Bloomberg, Standard Chartered

USD/CNY is testing the key psychological support threshold of 7.0 amid easing trade tensions

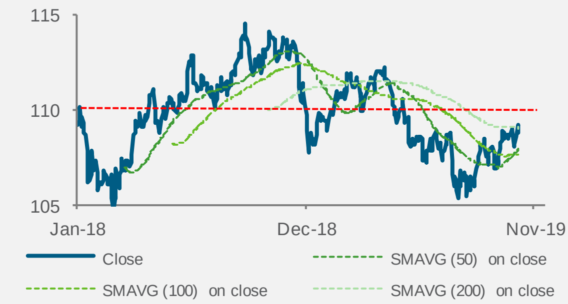
USD/CNY



Source: Bloomberg, Standard Chartered

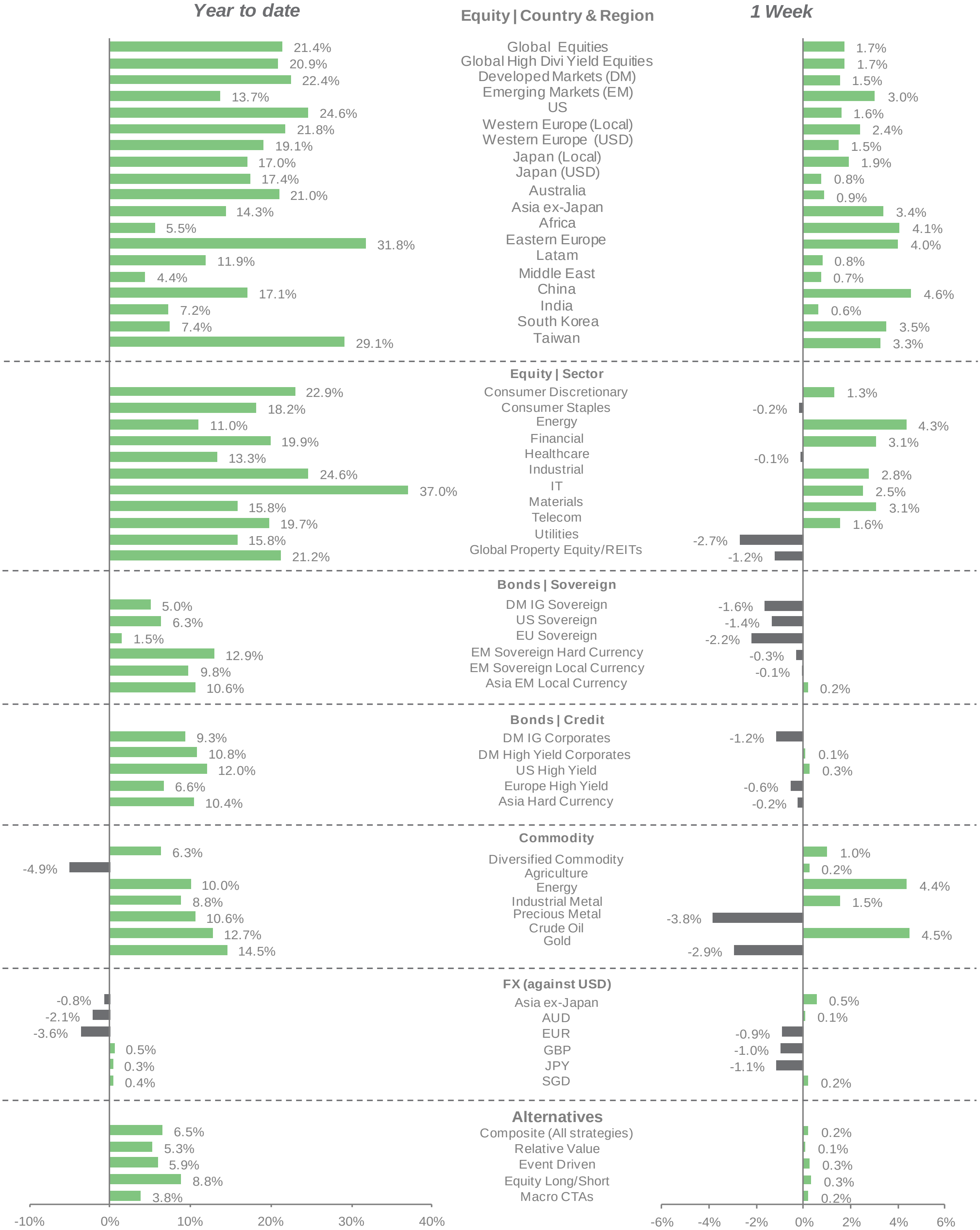
USD/JPY has gained as renewed risk appetite eases demand for safe-havens such as the JPY, although the pair faces a strong resistance around 110

USD/JPY



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, YTD period from 31 December 2018 to 07 November 2019, 1 week period: 31 October 2019 to 07 November 2019

Economic and market calendar

	Event	Next Week	Date	Period	Expected	Prior
MON	JN	Core Machine Orders y/y	11-Nov-19	Sep	9.8%	-14.5%
	UK	GDP q/q	11-Nov-19	3Q P	0.4%	-0.2%
TUE	GE	ZEW Survey Expectations	12-Nov-19	Nov	–	-22.8
	EC	ZEW Survey Expectations	12-Nov-19	Nov	–	-23.5
	US	NFIB Small Business Optimism	12-Nov-19	Oct	102.0	101.8
WED	JN	PPI y/y	13-Nov-19	Oct	-0.1%	-1.1%
	UK	CPI Core y/y	13-Nov-19	Oct	–	1.7%
	US	CPI Ex Food and Energy y/y	13-Nov-19	Oct	2.4%	2.4%
THUR	JN	GDP Annualized SA q/q	14-Nov-19	3Q P	0.9%	1.3%
	CH	Fixed Assets Ex Rural YTD y/y	14-Nov-19	Oct	5.4%	5.4%
	CH	Industrial Production y/y	14-Nov-19	Oct	5.4%	5.8%
	CH	Retail Sales y/y	14-Nov-19	Oct	7.8%	7.8%
	UK	Retail Sales Ex Auto Fuel y/y	14-Nov-19	Oct	–	3.0%
	US	PPI Ex Food and Energy y/y	14-Nov-19	Oct	–	2.0%
FRI/SAT	MX	Overnight Rate	15-Nov-19	14-Nov	7.5%	7.8%
	US	Retail Sales Ex Auto and Gas	15-Nov-19	Oct	–	0.0%
	US	Industrial Production m/m	15-Nov-19	Oct	-0.3%	-0.4%

	Event	This Week	Date	Period	Actual	Prior
MON	EC	Sentix Investor Confidence	04-Nov-19	Nov	-4.5	-16.8
TUE	CH	Caixin China PMI Composite	05-Nov-19	Oct	52.0	51.9
	CH	Caixin China PMI Services	05-Nov-19	Oct	51.1	51.3
	AU	RBA Cash Rate Target	05-Nov-19	5-Nov	0.75%	0.75%
	UK	Markit/CIPS UK Composite PMI	05-Nov-19	Oct	50.0	49.3
	EC	PPI y/y	05-Nov-19	Sep	-1.2%	-0.8%
	US	Trade Balance	05-Nov-19	Sep	-$52.5b	-$55.0b
	US	ISM Non-Manufacturing Index	05-Nov-19	Oct	54.7	52.6
WED	GE	Factory Orders WDA y/y	06-Nov-19	Sep	-5.4%	-6.5%
	EC	Retail Sales y/y	06-Nov-19	Sep	3.1%	2.7%
	US	Unit Labour Costs	06-Nov-19	3Q P	3.6%	2.4%
THUR	GE	Industrial Production WDA y/y	07-Nov-19	Sep	-4.3%	-3.9%
	UK	Bank of England Bank Rate	07-Nov-19	7-Nov	0.75%	0.75%
FRI/SAT	GE	Exports SA m/m	08-Nov-19	Sep	–	-1.5%
	US	U. of Mich. Sentiment	08-Nov-19	Nov P	–	95.5
	CH	Exports y/y	08-Nov-19	Oct	-0.9%	-3.2%

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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