



Weekly Market View

Peak rate expectations?

→ This week's market volatility is rare – even for a Fed policy week. The sharp moves suggest investors are not convinced that the Fed will manage a soft-landing for the economy.

→ However, the one-day 'relief rally' in US stocks on Wednesday after Fed Chair Powell said 75bps rate hikes were not under consideration suggests Fed policy rate expectations have been significantly baked into asset prices.

→ Benchmark global and US stock indices are testing major support levels. If these supports hold in the coming days, the risk-reward balance favours wading back into markets, taking advantage of the recent sell-off.

We discuss some of our preferred areas to add exposure.

What are the implications of the Fed's policy outlook on equities and bonds?

What can we learn from the US and European Q1 corporate earnings season?

Is the USD likely to peak after the Fed's latest policy decision?

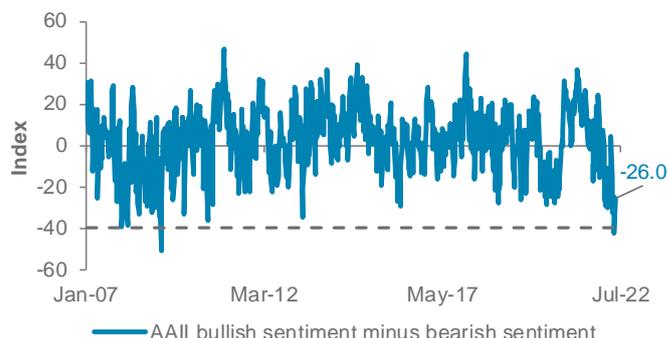
Charts of the week: Peak rate expectations needed to lift sentiment

Market sentiment remains extremely weak. A peak in Fed rate hike expectations is needed to revive sentiment

US 10y government bond yield, inflation expectations*, WTI oil



AAII's** bullish minus bearish investor sentiment index



Source: Bloomberg, Standard Chartered; *Based on 10-year inflation-protected government bonds; American Association of Individual Investors

Editorial

Peak rate expectations?

This week's market volatility is rare – even for a Fed policy week. The S&P500 index's 3.6% drop on Thursday, following the 3% surge on Wednesday after the Fed meeting, suggests investors are not convinced that the Fed will manage a soft-landing for the economy. Although Chair Powell took 75bps rate hikes off the table, concerns remain that the Fed may need to maintain an aggressive policy to tame inflation, raising the risk of tipping the economy into a sharp slowdown (the market is pricing another c.200bps of Fed rate hikes this year). Along with stocks, the USD and US government bond yields did a round trip, with the 10-year bond yield rising above 3% (3.26% is the next resistance). Have US rate hike expectations peaked? Is it time to dip back into equities and other risk assets?

The one-day 'relief rally' in US stocks after Powell said 75bps rate hikes were not under consideration suggests Fed rate expectations have been significantly baked into asset prices. Also, benchmark global and US stock indices are testing major support levels i.e. this year's lows. If these supports hold in the coming days, the risk-reward balance suggests wading back into markets, taking advantage of the recent sell-off. We believe the following sectors offer significant value: (i) energy-based assets, on the back of a prolonged Ukraine conflict; (ii) beaten down Chinese equities and Asia USD bonds, amid promises of more stimulus; and (iii) the US financial sector, on rising rates.

Let us take the energy sector first. The impact of the Ukraine crisis on commodity prices could be long-lasting if western sanctions lead to a significant decline in energy flows from Russia. The EU's proposal to ban Russian oil imports raises the stakes further. For now, Russian oil continues to flow into Asia, alleviating supply concerns. OPEC's decision this week to boost supplies as per a prior plan is unlikely to make a major difference. Oil prices are a key driver of long-term inflation expectations – US 10-year inflation expectations remain close to 3% after surging this year on the back of rising oil prices. We view energy-related assets as an attractive hedge against a further rise in prices. Energy sector equities, in particular, have significant room to catch up with underlying oil and gas prices.

China's equity market remains inexpensive, with the MSCI China index trading at half the P/E multiple of global equities, its deepest discount in 20 years. The index itself is testing a key technical support (see page 6). China's COVID-19 lockdowns remain a dampener on risk sentiment as it is likely to prolong global supply bottlenecks and hurt domestic consumer sentiment. However, the Chinese Communist Party's Politburo has sent a clear message that it plans to roll out more growth-supportive measures, including promoting infrastructure spending and reviewing regulations on the downbeat internet sector. We expect these policies, aimed at boosting China's self-sufficiency in high-end manufacturing and technology, to benefit Chinese stocks, especially in the industrial sector. China and Asian USD bonds are also likely to benefit as policy eases.

We also believe the US financial sector offers significant value. The sector has been beaten down on concerns an aggressive Fed could cause a recession. We believe market worries about an economic slump are excessive and are ignoring the positive impact of rising rates on the financial sector's net interest margins. Data suggests that the underlying US economy remains robust, as seen from the still-strong PMIs for April and record-high US job vacancies (US payrolls data for April is due later today). A robust job market is likely to continue driving consumption and private investment, as we saw in Q1 (a soaring trade deficit due to surging imports hurt US GDP in Q1).

The robust economy is also reflected in US Q1 corporate earnings – over 80% of S&P500 companies have reported earnings and all sectors have beaten consensus estimates. The estimated 10.2% rise in Q1 earnings (aided by an average 7.3% earnings surprise so far) suggests companies have been able to pass on higher costs to consumers. Technical indicators for US equities are still supportive – despite the pullback, US equity indices have not broken below long-term uptrends. The AAIL bull-bear index suggests extremely weak sentiment, which is historically supportive of equity gains over the following months. If the support levels hold, investors under-exposed to US equities may use the April sell-off to rebuild exposure.

— 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

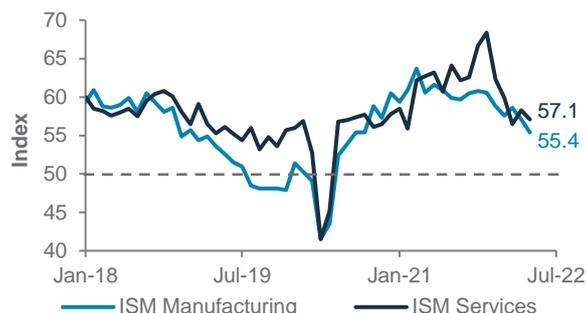
(+) factors: US job vacancies; China policy support, less hawkish Fed

(-) factors: China lockdowns; falling US, China PMIs, rising US wages

	Positive for risk assets	Negative for risk assets
COVID-19	<ul style="list-style-type: none"> Hong Kong brought forward plan to ease social distancing rules Cases in the US, Europe and Asia are steadily declining 	<ul style="list-style-type: none"> Beijing closed schools, metro stations, bus routes Zhengzhou to enforce strict curbs in the coming week Shanghai yet to end its month-long lockdown
	Our assessment: Neutral – Easing HK restrictions, declining global cases vs China lockdowns	
Macro data	<ul style="list-style-type: none"> Record high US job vacancies, beating expectations US factory orders rose more than expected 	<ul style="list-style-type: none"> US ISM Manufacturing and Services PMIs fell unexpectedly US Q1 unit labour costs rose more than expected EU retail sales rose less than expected China manufacturing and non-manufacturing PMIs fell below expectations
	Our assessment: Neutral – Strong US labour market vs slowing US, China PMIs, weaker EU retail sales	
Policy developments	<ul style="list-style-type: none"> China's Politburo pledged more support to achieve 5.5% growth and finish a regulatory review of the technology sector soon; PBOC promised more support for businesses Fed Chair Powell ruled out 75bps rate hikes for now BoJ said it will maintain its ultra-loose monetary policy 	<ul style="list-style-type: none"> Fed hiked by 50bps and signalled more 50bps hikes and cuts to bond holdings BoE hiked rates by 25bps and forecast a contraction in economic output in 2023 RBA hiked rates by higher-than-expected 25bps, the first time in a decade; India and Brazil hiked rates by 40bps and 100bps
	Our assessment: Neutral – Supportive China policies, less hawkish Fed vs Fed, RBA, India, Brazil rate hikes	
Other developments	<ul style="list-style-type: none"> Russia dodged default by paying overseas debts from foreign reserves 	<ul style="list-style-type: none"> The EU proposed new sanctions, including ban on Russian oil by end of 2022
	Our assessment: Negative – Potential EU ban on Russian oil as Russia-Ukraine conflict continued	

Although US business confidence indicators have come off from last year's multi-decade highs, they remain at robust levels

US ISM Manufacturing and Services PMIs



Source: Bloomberg; Standard Chartered

Euro area retail sales missed estimates, reflecting weak consumer sentiment, while soaring producer prices are likely to keep regional inflation elevated

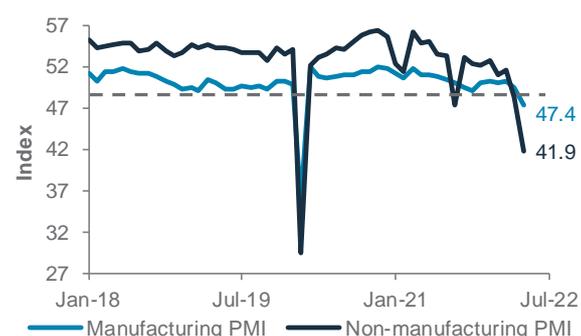
Euro area retail sales and producer price inflation



Source: Bloomberg, Standard Chartered

China's business confidence indicators continued to fall sharply amid widespread COVID lockdowns, increasing the urgency for more policy stimulus

China's manufacturing and non-manufacturing PMIs



Source: Bloomberg, Standard Chartered

Top client questions

Q What are the implications of the Fed's policy outlook on equities and corporate/EM bonds?

The Fed raised interest rates by 50bps as expected and played down expectations of a more aggressive pace of hikes. We believe the normalisation of monetary policy alongside above-trend economic growth supports our preferred view of global equities. The Q1 2022 earnings season in the US and Europe also continues to deliver a reassuring message of positive surprises, supportive of equities and corporate credit quality. We expect earnings growth to be the primary driver for equities gains, though a stabilisation in bonds yields would likely be needed to mitigate fears of further valuation de-rating (because of rising bond yields).

A peak in Fed rate expectations could also trigger a turn lower in the USD (or at least put a pause on recent strength), which historically has been correlated with outperformance of Asia ex-Japan equities. Regionally, we have a preference for Asia ex-Japan equities, where the valuation discount bakes in a lot of negatives at a time when China is planning more stimulus measures.

Sector wise, rising interest rates and above-trend growth support the financial sector, in our view. We believe the oil price-led inflationary environment would also support energy sector equities, which continue to lag the rebound in crude oil prices, offering a “catch-up” opportunity. We have a preferred view of the financial and energy sectors in the US, Europe and China.

For bonds, Powell’s statement that a 75bps hike was not on the table could ease investors’ concern over the impact of a further repricing of Fed policy over the rest of 2022 on credit (corporate and Emerging Market bonds). Relatively robust economic outlook and corporate earnings growth lead us to believe several parts of the credit markets that faced selling pressure recently are now offering an increasingly attractive risk-reward trade-off.

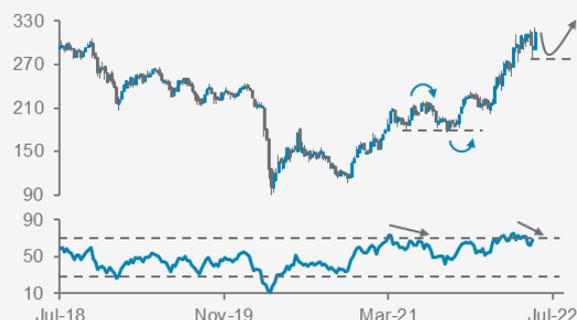
In Developed Markets, we continue to like High Yield (HY) bonds due to still-strong credit quality, evidenced in recent corporate earnings. Elevated energy prices should be positive for US HY bonds, where energy sector bonds have a significant weight. In Europe, where financials are a significant sector within HY bonds, we believe the prospect of a re-pricing higher of ECB policy rates should be advantageous to net interest margins.

In Emerging Markets (EM), we believe a peak in Fed policy rate pricing should encourage a selective return of fund flows. Inexpensive valuations and elevated energy and other commodity prices should be key sources of support for our preferred EM USD government bonds. A peaking of the US Dollar would help as well, of course, though history shows EM USD government bonds have still delivered reasonably strong returns in flat or strong USD environments, unlike other EM asset classes

- **Fook Hien Yap**, Senior Investment Strategist
- **Cedric Lam**, Senior Investment Strategist

US Energy sector equities continued to catch up with crude oil prices, reaching a 7-year high this week

Weekly chart of MSCI US Energy sector index



Source: Refinitiv, Standard Chartered

Some, but not all, Emerging Market asset classes have still done well in a strong USD environment

Average returns under different USD scenarios, % over a 12-month period

	Weak USD	Stable USD	Strong USD
Equity			
Asia ex-Japan	27.6%	10.4%	1.9%
Bonds			
EM USD government	10.4%	7.2%	7.5%
EM local currency government	13.9%	4.9%	1.0%
Asia USD	9.4%	6.5%	7.0%

Source: Bloomberg, Standard Chartered

Average equity returns derived from performance since December 2000 to December 2020; Bond returns are from September 2005 to December 2020.

USD scenarios: 1) weak USD means 5-10% decline; 2) stable USD means a 5% rise to a 5% decline; and 3) strong USD means a 5-10% rise in the USD (DXY index) over 12 months.

Top client questions (cont'd)

Q What can we learn from the US and Europe earnings seasons?

Based on Refinitiv data, 83% of companies in the S&P500 index have reported now, with all sectors delivering a positive earnings surprise. Q1 earnings have surprised by 7.3% so far, with financials, healthcare and materials delivering the biggest surprises. Q1 earnings are now expected to grow by 10.2% y/y, up from 6.4% at the start of April (prior to the start of the earnings season). However, consensus expectations for earnings growth in 2022 and 2023 have remained largely unchanged, at c.9% and c.10% respectively. We have a preferred view of the energy, financial and healthcare sectors in the US over the next 6-12 months.

In Europe, 42% of companies in the Stoxx600 index have reported Q1 results so far. Earnings have surprised by 14.4%, with broad strength from positive surprises in all sectors. Utilities*, energy, financials and industrials delivered the largest positive surprises. Q1 earnings are now expected to grow by 35.4% y/y, revised up from early April's 20.8%. This is a significant feat, in our view, considering the Russia-Ukraine conflict started in end-February, albeit the growth was led by the energy sector. Earnings growth expectations for 2022 have also been raised to 12.0%, from 9.5% at the start of April. We have a preferred view of energy, financial, healthcare and industrial sectors in Europe over the next 6-12 months.

— **Fook Hien Yap**, *Senior Investment Strategist*

Q Is the USD likely to peak after the Fed decision?

On a 6-12-month basis, we believe the Fed's stance that rate hikes are likely to follow current market expectations supports the view that USD strength may soon wane. The USD has thus far been supported by rising US rate differentials vs major trade partners. We, therefore, see a near-term peak in Fed rate expectations as supportive of our bearish 6-12-month view, assuming no new inflation shocks.

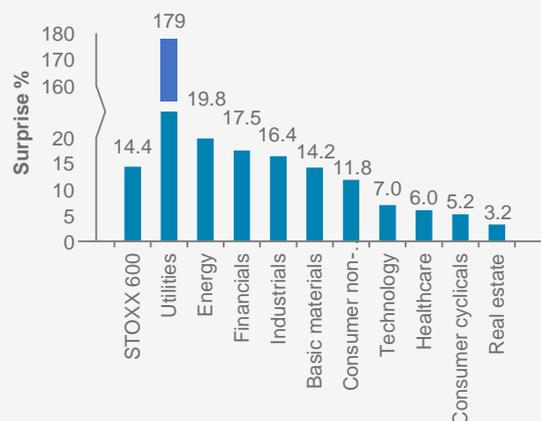
Having said that, in the short term (2-4 weeks), several factors argue USD strength may not have been completely exhausted. Short-term momentum continues to point in favour of the greenback and investor positioning remains long. Geopolitical tensions around the Ukraine war continue to flare and talks of new sanctions by the EU on Russia – including a possible embargo on Russian crude oil – means safe haven demand for the USD may remain in the near-term.

Against this balance of risks, we continue to favour the AUD and CAD since both currencies are supported by their hawkish central banks and elevated commodity prices. AUD/USD's immediate resistance sits at 0.7285, just above the 200-DMA, but a break could push the pair higher towards 0.7350–0.7457. USD/CAD faces support at 1.2657, and a break lower could test 2022 lows of 1.24.

— **Nataniel Tang**, *Investment Strategist*

European energy, financial and industrial sectors delivered some of the most positive earnings surprises. We have a preferred view of these equity sectors

Q1 2022 earnings surprise by sectors in Europe's Stoxx600 index

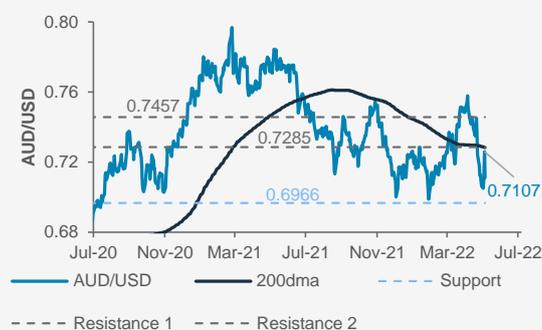


Source: Refinitiv, Standard Chartered.

Note: *Utilities data is only based on 1 company so far.

Any break in AUD/USD above the immediate resistance of 0.7285 could take the pair towards 0.7457

AUD/USD, with technical support and resistance levels



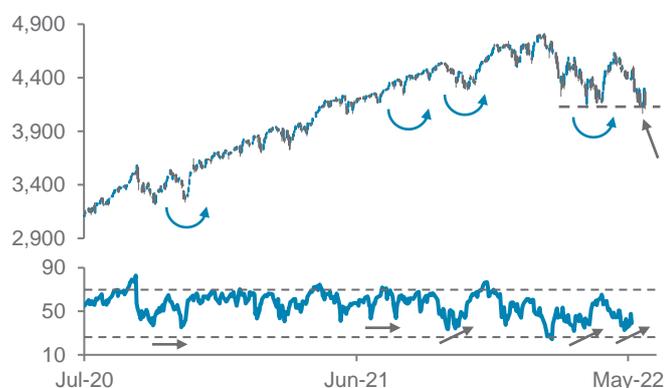
Source: Bloomberg, Standard Chartered.

Technical charts of the week

Manish Jaradi
Senior Investment Strategist

US equities: Holding above key support

S&P500 index daily chart with Relative Strength Index (RSI)



Source: Refinitiv, Standard Chartered

Positive divergence (lower index levels associated with rising momentum) suggests the index's slide is losing steam. Wednesday's rebound raises the element of a sustained rebound, but it may be premature to conclude just yet given the deceleration on longer-term charts. This reinforces the range view we have been highlighting in recent weeks.

China equities: No sign of reversal of the downtrend

MSCI China index monthly chart with 200-MMA

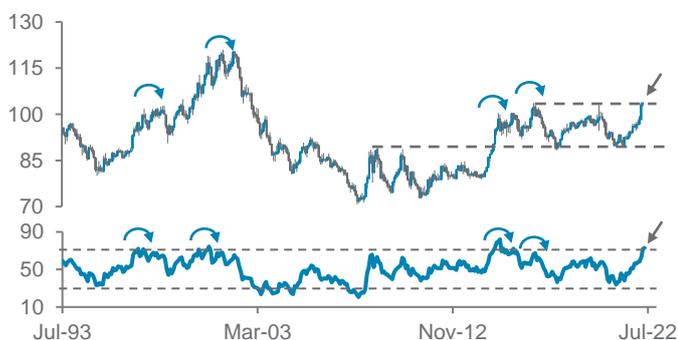


Source: Refinitiv, Standard Chartered

Despite the drop last month, the index failed to close below key converged support at 68 in April. This may not be a bullish sign – indeed the index could close this month below the support. Any break below could pave way towards 48. However, if this is any sign of a floor, at minimum, the index needs to break above the 89-DMA (now at 77).

USD: Chance of a pause in the rally

DXY index monthly chart with RSI

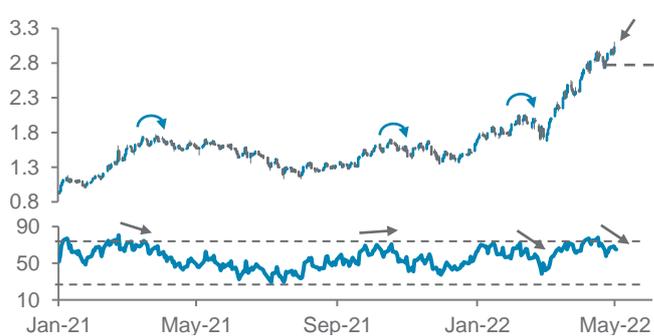


Source: Refinitiv, Standard Chartered

Overbought conditions on the monthly chart raise the likelihood of at least a short-term pause in the multi-month USD rally. In the past three decades, the index has often retreated when the RSI has been above 70 (currently at 73). Still, the index needs to break below 99-100 to signal that upward pressure has faded.

US government bond yield: Signs of rally fatigue

US Treasury 10-year bond yield daily chart with RSI



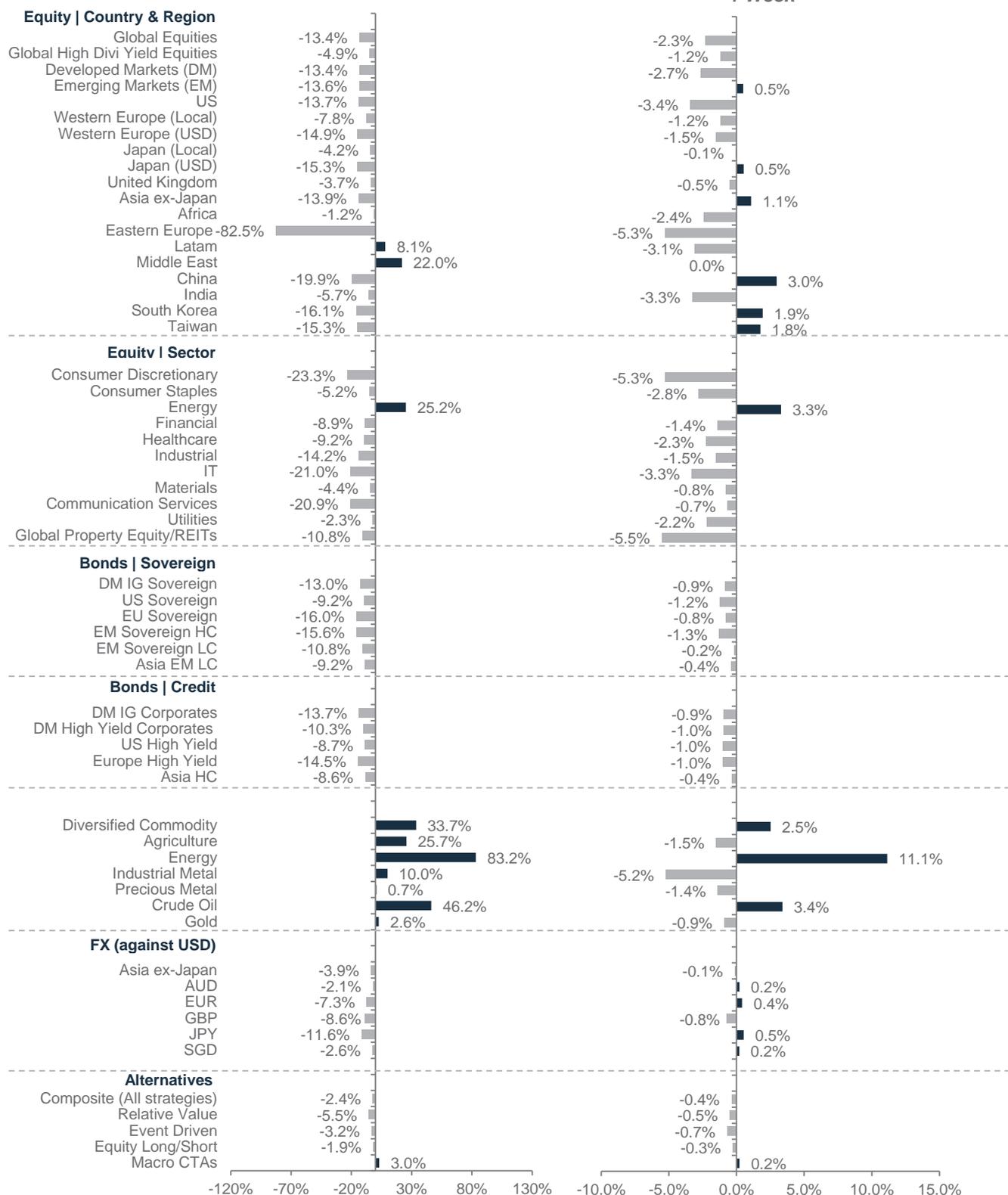
Source: Refinitiv, Standard Chartered

Negative divergence (rising yields associated with declining momentum) on the daily chart is a signal that the yield rally is showing signs of fatigue as it approaches tough resistance at the 2018 high of 3.26%. Any break below the 27 April low of 2.71% would confirm that the upward pressure has eased. Still, there is quite strong support around 2.30%.

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 05 May 2022; 1-week period: 28 April 2022 to 05 May 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

S&P500's next support is 1.5% below current level

Technical indicators for key markets as on 5 May 2022

Index	Spot	1st support	1st resistance
S&P 500	4,147	4,086	4,254
STOXX 50	3,697	3,661	3,767
FTSE 100	7,503	7,477	7,545
Nikkei 225	26,819	26,521	26,982
Shanghai Comp	3,068	3,054	3,075
Hang Seng	20,793	20,691	20,999
MSCI Asia ex-Japan	677	674	683
MSCI EM	1,059	1,053	1,070
Brent (ICE)	110.9	106.9	112.9
Gold	1,877	1,861	1,895
UST 10y Yield	3.04	2.97	3.07

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	EC	Sentix Investor Confidence	May	-	-18.0
	CH	Trade Balance	Apr	\$49.80b	\$47.38b
	CH	New Yuan Loans CNY	Apr	1530.0b	3130.0b
	CH	Money Supply M2 y/y	Apr	9.90%	9.70%
TUE	EC	ZEW Survey Expectations	May	-	-43.0
WED	CH	PPI y/y	Apr	7.8%	8.3%
	CH	CPI y/y	Apr	1.8%	1.5%
	US	CPI y/y	Apr	8.1%	8.5%
	US	CPI Ex Food and Energy y/y	Apr	6.1%	6.5%
THUR	UK	GDP y/y	1Q P	-	6.6%
	US	PPI Final Demand y/y	Apr	-	11.2%
	US	Initial Jobless Claims	7-May-22	-	-
	US	Continuing Claims	30-Apr-22	-	-
FRI/SAT	US	U. of Mich. Sentiment	May P	63.8	65.2

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 remains low in global bonds

Our proprietary market diversity indicators as of 4 May

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	○	→	1.18
Global Equities	●	→	1.47
Gold	●	→	1.57
Equity			
MSCI US	●	→	1.58
MSCI Europe	●	↓	1.36
MSCI AC AXJ	●	↓	1.42
Fixed Income			
DM Corp Bond	○	→	1.24
DM High Yield	●	→	1.40
EM USD	●	→	1.36
EM Local	●	↓	1.35
Asia USD	●	→	1.43
Currencies			
EUR/USD	●	↓	1.27

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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