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Wealth Management Chief Investment Office
10 December 2021

# Weekly Market View

## Policy road bump?

→ The upcoming week promises to be eventful. As incoming data on the Omicron variant points to less severe illness and enhanced protection through COVID vaccine booster shots, the focus shifts to key central bank meetings that are likely to set the policy direction for 2022.

→ The US, Euro area and UK central banks are due to decide on whether to continue prioritising economic growth in the face of surging inflation.

→ While we expect them to remain growth-supportive, at least for the next 6-12 months, any hint that they are worried about price pressures becoming more entrenched could unsettle markets.

→ The Fed meeting on 14-15 December is probably the most critical, especially against the backdrop of a tightening US job market and inflation running at 30-year highs. ECB and BoE are likely to push back policy tightening decisions amid Europe's ongoing COVID wave.

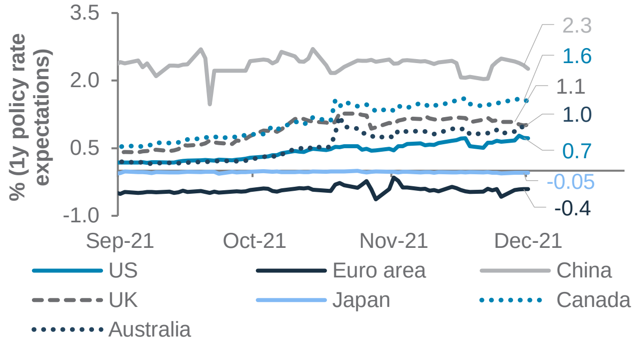
Look out for our Outlook 2022 report, scheduled to be published next week, for our medium-term investment views, including tactical and strategic investment themes

Important disclosures can be found in the Disclosures Appendix.

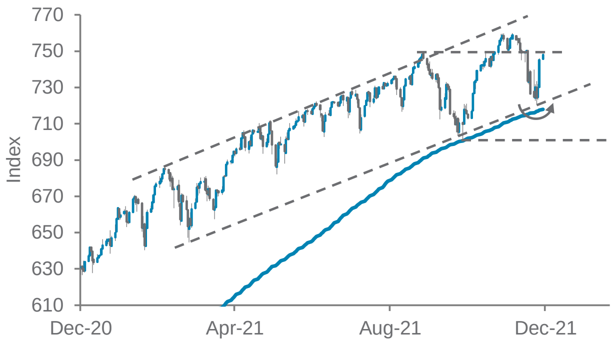
# Charts of the week: Fed meeting in focus

**Waning concerns about Omicron have led to a rebound in equities; focus now shifts to next week's central bank meetings**

Expected central bank policy rates in 12 months (rolling)*




MSCI All Country World index




Source: Bloomberg, Standard Chartered; *Based on interest rate markets

# Editorial

## Policy road bump?

The upcoming week promises to be eventful. As incoming data on the Omicron variant points to less severe illness and enhanced protection through COVID vaccine booster shots, the focus shifts to key central bank meetings that are likely to set the policy direction for 2022. The US, Euro area and UK central banks are due to decide on whether to continue prioritising economic growth in the face of surging inflation. While we expect them to remain growth-supportive, at least for the next 6-12 months, any hint that they are worried about price pressures becoming more entrenched could unsettle markets. The Fed meeting on 14-15 December is probably the most critical, especially as a COVID wave sweeping through Europe pushes back any BoE or ECB policy tightening expectations (markets expect the first BoE rate hike in March; ECB is likely to postpone a decision on ending pandemic bond purchases).

The Fed faces the classic central bankers' dilemma of balancing growth vs inflation objectives – only that its new policy of tolerating above-target inflation for longer, adopted during the depths of the pandemic last year, has perhaps made it more challenging to change course. We expect the Fed to end its bond purchases by Q2 next year and end 2022 with one rate hike, compared with at least two hikes priced by markets. Fed Chair Powell told the Congress recently that policymakers will consider at the December meeting whether to withdraw stimulus at a faster pace as inflation soared to a 30-year high of 6.2% y/y (consensus expects November inflation at 6.8%).

The Fed's decision is likely to revolve around its assessment of how tight the US job market is, given that it believes the ongoing goods inflation, caused by supply bottlenecks and a temporary demand boost, is likely to fade by the middle of next year. While we share this view, the sharp drop in the US jobless rate to 4.2% in November raises the risk that the Fed may be behind the curve in removing stimulus. The first time the Fed began tapering bond purchases after a round of quantitative easing in November 2013, the US jobless rate was 6.9%.

On its own, the 4.2% jobless rate, when measured against the Fed's own 4% estimate for longer-run US unemployment rate, suggests we are getting close to full employment. A tightening job market leads to more wage pressures. However, we believe enough slack is still left in the job market; millions of workers have not returned to work, despite near-record job vacancies, because of the pandemic. We expect them to return as vaccines reduce the risk of severe illness and lower-income households exhaust their savings. The signal from the bond market (where the long- and short-term yields gap has narrowed) suggests markets are less worried about inflation, but more worried about the Fed withdrawing stimulus too early.

The Fed's hawkish stance stands in contrast to the PBoC's, which this week cut its reserve requirement ratio for banks for the second time this year, sending a clear message that it wants to stabilise growth after expansion stalled in Q3. The PBoC's move was also probably aimed at stabilising consumer and business sentiment after Chinese property developer Evergrande announced plans to restructure its debt.

Where does this leave us as investors? We believe any equity volatility would offer a buying opportunity, especially in the US and Euro area, given our positive view of corporate earnings and supportive monetary policies. The muted market response to China's policy easing reinforces our view that it may be too early to broadly increase exposure to China equities. Rather, we prefer sectors that are likely to benefit from policy priorities. The USD has consolidated since its November peak, oil has bounced from key support levels, while gold has stabilised after November's pullback. USD's near-term outlook remains bullish, especially if the Fed stays hawkish. A dovish turn could provide tailwind for gold, while waning Omicron concerns could lift oil.

— **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

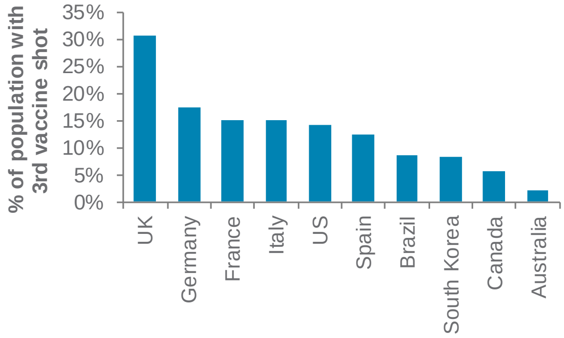
**(+) factors:** Positive COVID vaccine results, US services, China easing

**(-) factors:** Omicron restrictions, tight US job market, Evergrande debt

| | Positive for risk assets | Negative for risk assets |
|---|---|---|
| COVID-19 | • Pfizer said lab tests showed the third vaccine dose neutralises Omicron; GlaxoSmithKline said its antibody treatment was effective against Omicron<br>• South Africa said Omicron is causing mild illness; hospitalisations well below levels seen in Delta wave<br>• New cases in most of Asia, Australia, New Zealand, Russia, Austria and Latin America continued to fall | • New Omicron variant found in almost 60 countries; more countries imposed travel restrictions<br>• Euro area cases continued to rise, leading to widening restrictions; Germany and Netherlands cases still near record highs; Netherlands, Austria hospitalisations close to last winter's peak<br>• US cases rising; South Korea cases hit new record |
| | **Our assessment: Neutral** – Spreading Omicron variant, rising Euro area mobility restrictions vs positive vaccine test results | |
| Macro data | • US initial jobless claims fell to 52-year low; Services PMI unexpectedly rose<br>• Euro area GDP expanded more than expected in Q3<br>• German industrial output rose more than expected<br>• China, Germany exports rose more than expected | • US payrolls rose less than forecast; jobless rate fell more than forecast to 4.2%<br>• German factory orders fell more than expected<br>• Japan's GDP unexpectedly contracted 0.9% q/q in Q3<br>• China's Evergrande said it plans to restructure debt |
| | **Our assessment: Neutral –** Strong US services PMI, China exports vs tightening US job market, Evergrande debt worries | |
| Policy developments | • China cut bank reserve requirements<br>• Olaf Scholz sworn in as German Chancellor<br>• RBA held rates, "prepared to be patient" | |
| | **Our assessment: Positive –** China policy easing | |
| Other developments | | • US, UK, Canada, Australia announced diplomatic boycott of Beijing Olympics |
| | **Our assessment: Negative –** Increased geopolitical tension | |

**Among the major economies, European countries are likely the best prepared for Omicron, given the relatively high rates of third vaccine doses**

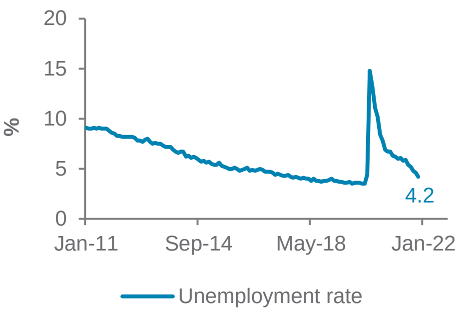
Percentage of population having received their third vaccine shot in some of the world's largest economies




Source: Our World in Data, Standard Chartered

**The US jobless rate has declined close to the Fed's estimate of long-run unemployment rate (4%), implying tightening of the job market**

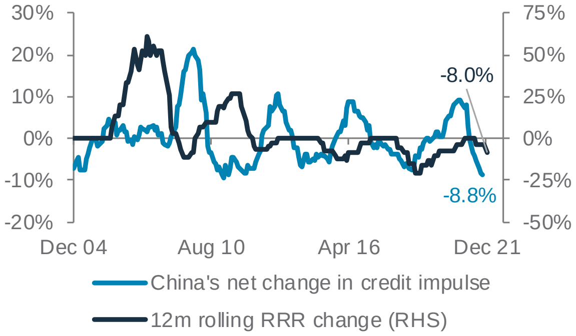
US unemployment rate




Source: Bloomberg, Standard Chartered

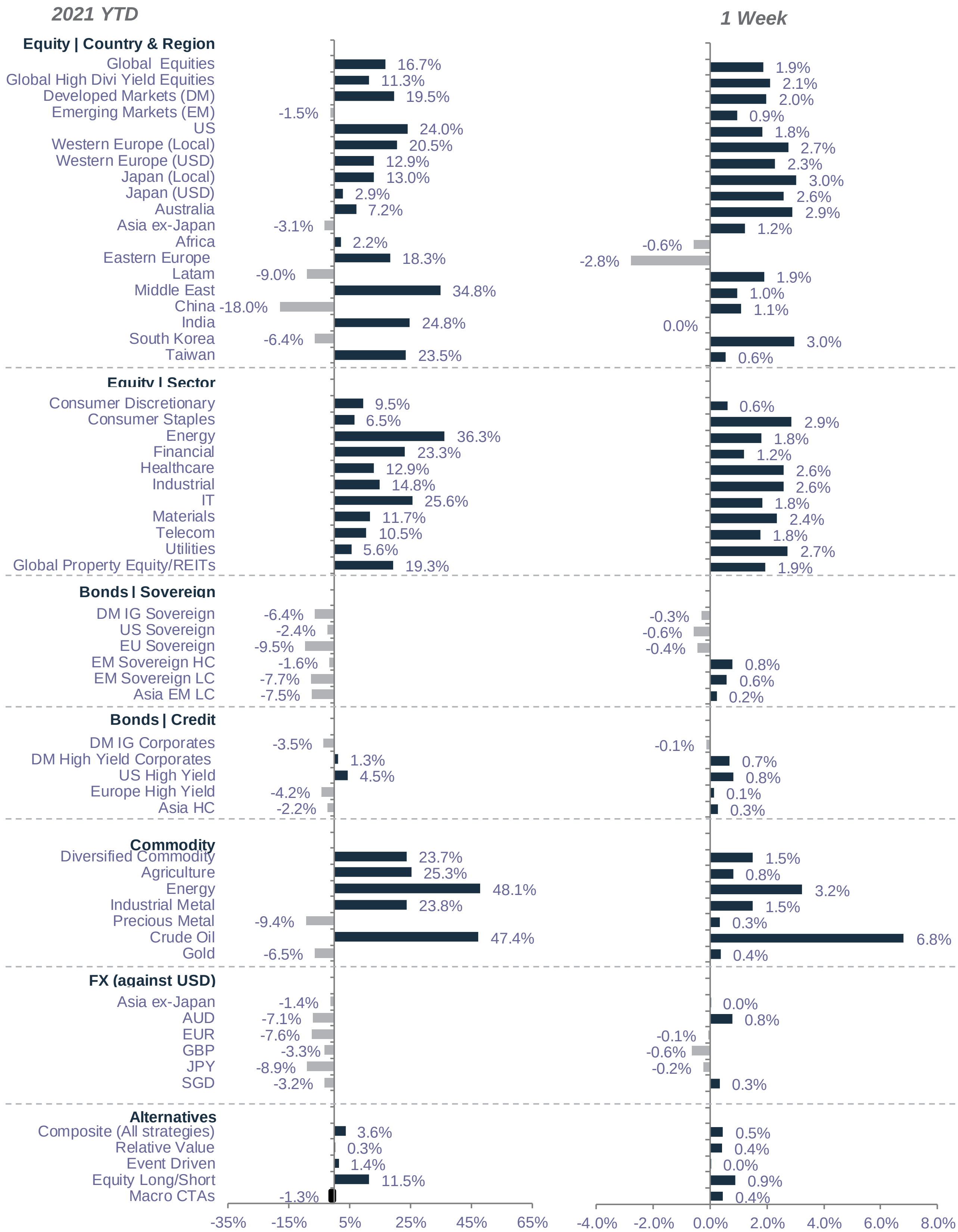
**China's bank reserve requirement ratio cuts have historically presaged a rebound in credit growth**

China's 12m rolling change in bank reserve requirement rate and net change in credit impulse




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 09 December 2021; 1-week period: 02 December 2021 to 09 December 2021

### 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

### Economic and market calendar

| | Event | Next week | Period | Prior |
|---|---|---|---|---|
| MON | | | | |
| TUE | | | | |
| WED | CH | Retail Sales y/y | Nov | 4.9% |
| | CH | Industrial Production y/y | Nov | 3.5% |
| | UK | CPI y/y | Nov | 4.2% |
| | US | Retail Sales Ex Auto and Gas | Nov | 1.4% |
| THUR | US | FOMC Rate Decision (Upper Bound) | Dec | 0.3% |
| | EC | Markit Eurozone Manufacturing PMI | Dec P | 58.4 |
| | UK | Bank of England Bank Rate | Dec | 0.1% |
| | EC | ECB Main Refinancing Rate | Dec | 0.0% |
| | US | Housing Starts | Nov | 1520k |
| | US | Industrial Production m/m | Nov | 1.6% |
| FRI/ SAT | | | | |

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; Days are based on Hong Kong time

### S&P500 index has support 2% below current level

Technical indicators for key markets as on 09 December 2021

| Index | Spot | 1st support | 1st resistance |
|---|---|---|---|
| S&P500 | 4,667 | 4,570 | 4,733 |
| STOXX 50 | 4,208 | 4,100 | 4,296 |
| FTSE 100 | 7,321 | 7,182 | 7,400 |
| Nikkei 225 | 28,725 | 28,148 | 29,082 |
| Shanghai Comp | 3,673 | 3,617 | 3,701 |
| Hang Seng | 24,255 | 23,651 | 24,557 |
| MSCI Asia ex-Japan | 804 | 786 | 812 |
| MSCI EM | 1,248 | 1,225 | 1,259 |
| Brent (ICE) | 74.4 | 70.9 | 76.9 |
| Gold | 1,776 | 1,773 | 1,782 |
| UST 10Y Yield | 1.50 | 1.39 | 1.57 |

Source: Bloomberg, Standard Chartered

### Investor diversity remains normal across major assets

Our proprietary market diversity indicators as of 08 December

| Level 1 | Diversity | 1-month trend | Fractal dimension |
|---|---|---|---|
| Global Bonds | ◐ | → | 1.43 |
| Global Equities | ● | ↑ | 1.92 |
| Gold | ● | ↑ | 2.08 |
| **Equity** | | | |
| MSCI US | ● | → | 1.59 |
| MSCI Europe | ● | ↓ | 1.73 |
| MSCI AC AXJ | ◐ | ↓ | 1.46 |
| **Fixed Income** | | | |
| DM Corp Bond | ● | → | 1.52 |
| DM High Yield | ◐ | ↓ | 1.47 |
| EM USD | ● | ↓ | 1.53 |
| EM Local | ◐ | → | 1.32 |
| Asia USD | ● | → | 1.56 |
| **Currencies** | | | |
| EUR/USD | ◐ | ↓ | 1.32 |

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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