



Weekly Market View

Rotation gets a booster shot

President Biden's just-approved USD 1.9tn fiscal stimulus is likely to turbo-charge growth, setting the stage for positive corporate earnings surprises, especially in old-economy sectors. Meanwhile, central banks are likely to restrain bond yields. We believe this backdrop sets the stage for further rotation from Growth to the relatively inexpensive Value equity sectors in the coming months

Equities: The technology sector has started to underperform Value sectors lately, but we believe long-term structural trends are likely to support the tech sector's earnings potential and returns

Bonds: We retain our conviction for higher yielding corporate and Emerging Market bonds where absolute yields have risen amid the rise in Treasury yields

FX: We have a bullish bias towards riskier currencies such as CAD, GBP, NZD, AUD and CNH



Do you expect US Treasury yields to rise further?

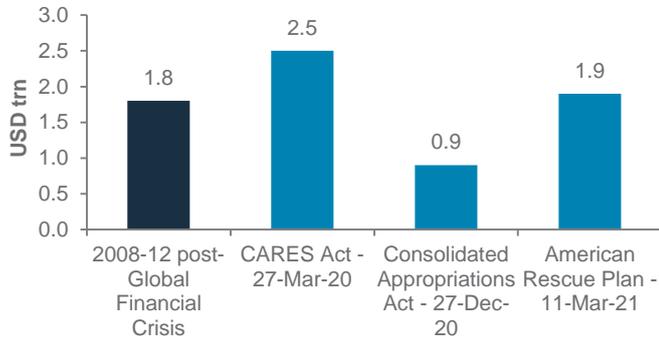
Can China equities outperform amid tighter policy and shift to Value?

Do you see opportunities in cross-currency FX pairs?

Charts of the week: A boost for Value

The new US fiscal stimulus is likely to turbo-charge growth and corporate earnings, lifting Value stocks

The three rounds of US pandemic stimulus far outstrip the package delivered during the 2008 financial crisis



Source: Committee for a Responsible Federal Budget

Value stocks' outperformance vs Growth peers has widened in recent weeks



Source: Bloomberg, Standard Chartered

Editorial

Rotation gets a booster shot

The USD 1.9trn fiscal stimulus just approved by the US Congress is bigger than what was expected even a month ago. The latest package, equivalent to around 9% of GDP, comes after the December stimulus (over 4% of GDP) and is likely to turbo-charge the economic recovery. The stimulus comes alongside the government sealing enough vaccination contracts to inoculate all US adults by this summer. This should help the hardest hit parts of the services sector, such as leisure and travel, to return towards normalcy in H2. Vaccinations are also picking up in Europe as countries boost supplies. We believe these steps lay the foundation for more positive economic growth and corporate earnings surprises, especially in the old-economy sectors, later this year. There is already talk of another USD 2-4trn infrastructure stimulus from President Biden by the end of the year.

The question is – will the improving economic outlook and rising fiscal deficits drive bond yields significantly higher, challenging risk assets? Our Global Investment Committee explored this topic at length recently. We are less concerned for three primary reasons.

1. Our view of resolutely dovish central banks: A sub-par recovery in the job market globally (jobs are growing slower than the overall economy) means the Fed and other major central banks are likely to remain resolutely dovish at least over the coming year. It will probably take several quarters of continued job gains (especially in the depressed services sector) to trigger a sustained rise in wages and for core inflation to rise sustainably above the central banks' 2% target.

2. Central banks have the means and the willingness to control bond yields if they need to, as we heard from the ECB on 11 March (it plans to boost bond purchases) and will probably hear after the 17 March Fed meeting.

3. Stable auctions of US 10- and 30-year bonds showed there is sufficient demand for US government debt at current yields from local and overseas investors (given negative yields in Europe and Japan). This should enable the US to finance its rising fiscal deficits without 2013-like tantrums in the bond markets (see page 4).

The above factors should keep US government bond yields restrained. There is a near-term risk that the Fed underwhelms in its response to the rise in bond yields. Nevertheless, our diversity indicator (page 8) and investor positioning data suggest the market is already quite bearish on US government bonds, reducing the likelihood of a significant and sustained rise in yields.

All taken together, we believe this backdrop of improving growth and corporate earnings outlook and supportive policymakers is likely to fuel the ongoing rotation from Growth to Value sectors, helping the latter close the valuation gap with Growth peers. Although Growth stocks, such as those in the technology sector, are likely to be supported by longer-term structural trends, investors who are overexposed to the sector could look at rebalancing towards the less expensive Value sectors such as financials, industrials and materials, which are likely to benefit from improving global growth over the coming months (see page 5 for details).

— Rajat Bhattacharya, Senior Investment Strategist

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

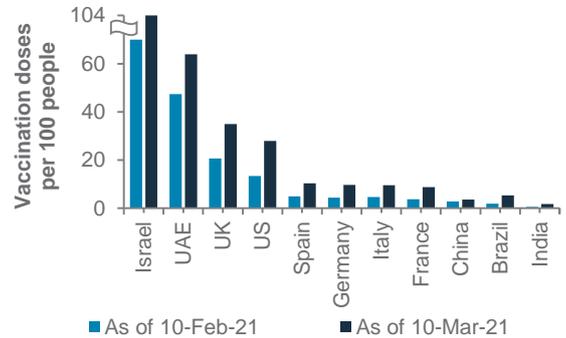
(+) factor: US fiscal stimulus, rising vaccinations

(-) factor: Renewed rise in COVID-19 cases, China inflation

	Positive for risk assets	Negative for risk assets
COVID-19	<ul style="list-style-type: none"> Cases continue to fall in the UK and Spain The US plans to double the order for Johnson & Johnson's single-shot vaccine, giving it enough to vaccinate all adults by this summer EU regulators approved the single-shot vaccine 	<ul style="list-style-type: none"> New cases have stopped falling in the US, France and Japan; cases are rising again in Germany, Italy, India and Brazil Germany's Merkel warned of many more "tough months" before vaccines make an impact
	Our assessment: Positive – sufficient US vaccine supplies partly offset by renewed rise in global cases	
Macro data	<ul style="list-style-type: none"> US new jobs rose more than expected, core consumer inflation rose less than expected China exports and imports rose more than expected, new loans fell less than expected Euro area Sentix investor confidence rose more than expected 	<ul style="list-style-type: none"> US small business optimism (NFIB) rose less than expected China's consumer and producer price inflation rose more than expected German industrial output fell more than expected, but factory orders rose more than expected
	Our assessment: Positive – stronger-than-expected US job market, China exports offset China inflation	
Policy developments	<ul style="list-style-type: none"> US President Biden approved a USD 1.9trn fiscal stimulus bill Yellen said the US job market could get back on track by early 2022 with vaccinations ECB plans to boost pace of bond buying to stop 'unwarranted' yield rise 	<ul style="list-style-type: none"> BoE's Bailey said risks to the economy remained on the downside and joblessness is likely to rise over the next year
	Our assessment: Positive – imminent US stimulus	
Other developments		<ul style="list-style-type: none"> China's Wang Yi called on the US to end sanctions
	Our assessment: Negative – US-China tensions	

Vaccinations in the US and Euro area have picked up in recent weeks

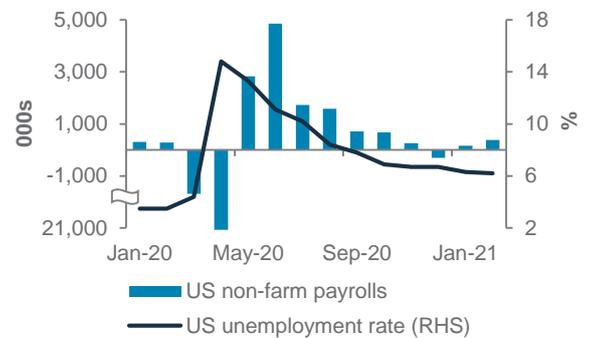
Number of COVID-19 vaccine doses administered per 100 people vs a month ago



Source: Our World in Data, Standard Chartered

US job market has recovered at a slower pace than the underlying economy

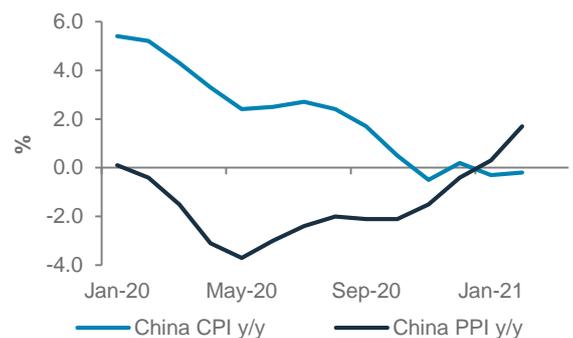
US net new monthly jobs, unemployment rate



Source: Bloomberg, Standard Chartered

China's consumer inflation remains subdued, but producer prices have been rising lately

China's consumer and producer price inflation



Source: Bloomberg, Standard Chartered

Top client questions

Q Do you expect US Treasury yields to rise further?

US 10-year Treasury yields have risen nearly 60bps in 2021, faster than anticipated. While the initial leg higher was led by higher inflation expectations, the sharp rise over the past two weeks is primarily driven by better growth expectations. In our view, there are two potential paths for 10-year yields:

1. **Yields stabilise** – Near term, momentum could push yields modestly higher towards 1.61-1.65%. However, as rising yields lead to tighter financial conditions and economic surprises either normalise or potentially disappoint exuberant expectations, investors may push back the timing of the Fed rate hikes, bringing yields closer to our expectation of around 1.5% by end-2021.
2. **Yields continue to march higher** - If US economic growth continues to surprise on the upside and we see demand-driven inflation, it could bring forward the timeline for the Fed rate hike and exert upward pressure on yields. If yields manage to break past 1.7%, then the next technical resistance lies close to 2.0%.

The Fed’s meeting next week is key as it will release revised inflation, growth and rate hike expectations. We will then reassess our view on US 10-year Treasury yields.

— **Abhilash Narayan**, *Senior Investment Strategist*

Q What does rising US government bond yields mean for other bonds?

The rise in bond yields has hurt bond investors as yield premiums have either risen modestly in certain areas of the corporate and Emerging Market (EM) bond markets or their decline has been insufficient to offset the impact of higher US Treasury yields. Nevertheless, we retain our conviction towards corporate and EM bonds for two reasons:

1. The rise in yields is driven by higher inflation expectations (led by higher commodity prices) and an improvement in economic growth. Once Treasury yields stabilise, the stronger economic outlook would argue for a further reduction in yield premiums, driving positive returns.
2. The absolute yield offered by corporate and EM bonds has risen, which means investors can gain exposure at more attractive levels. Historically, DM HY, EM USD and Asian USD bonds – our preferred sub-asset classes - have offered relatively healthy gains in the six months following episodes of a rise in yields.

— **Abhilash Narayan**, *Senior Investment Strategist*

US inflation-adjusted yields have been relatively subdued while nominal yields rose

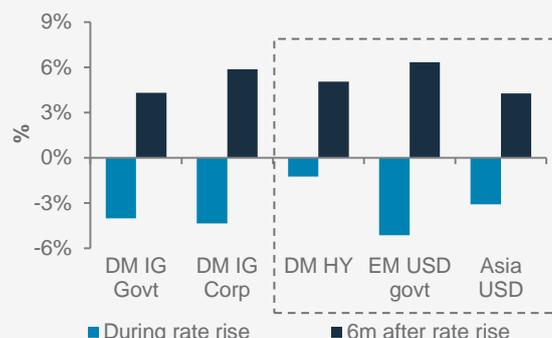
US 10y Treasury yields and real (net-of-inflation) yields



Source: Bloomberg, Standard Chartered

EM and HY corporate bonds typically recoup losses from periods of rising yields in the subsequent months

Average returns during periods of sharp* yield increases and after 6 months (since 1 Jan 2010)



Source: Bloomberg, Standard Chartered

*We use six instances of more than 40bps rise in 10Y Treasury yields over a 4-6-week period from 1 Jan 2010 to end-2020

Top client questions (cont'd)

Q With the ongoing rotation into Value stocks, what are your views on the technology sector?

The US technology (tech) sector outperformed strongly in 2020, but has shown signs of technical weakness so far in 2021, amid investor rotation from Growth to Value stocks.

The tech sector is a key component of the Growth investment style. It saw earnings rise 12% in 2020 and is expected to see growth of 15% again in 2021. While tech earnings outperformed in 2020 (earnings for the S&P500 index fell 12%), it will likely lag the cyclical rebound of 2021 (24% growth expected for S&P500). The rise in bond yields has also been a headwind for tech stock valuations. A tech company's value is typically derived mostly from its long-term earnings potential, and higher bond yields would discount the future cash flows more heavily, impacting stock valuations.

However, through the pandemic-induced recession, the tech sector provided strong consistent earnings growth, underpinned by structural trends like digitalisation and the shift to cloud. The robust earnings growth is significant for the sector's long-term performance, in our view, and a key reason why we have held a preferred view of the tech sector for some time. We continue to evaluate this view as the market digests higher bond yields and investor rotation.

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

Q Can China equities outperform amid the rotation to Value and China's tightening policies?

China equities have underperformed the global index over the last month amid the rotation towards Value and concerns over tighter policy settings.

China's offshore market has a heavy tech weighting of around 52% while China's onshore equity market has only a 11% exposure. Therefore, the rotation to value has hurt the offshore market more than China onshore equities.

In addition to the rotation theme, concerns of monetary policy tightening in China have weighed on China equities. We believe the concern is overdone and view policy tightening to be gradual and cautious, as supported by the messages from the National People's Congress.

Our preferred view for China equities over the next 6-12 months remains intact, with onshore equities to face less headwinds than offshore equities in the near term.

— **Belle Chan**, Senior Investment Strategist

The US technology sector has seen technical weakness lately, after a strong outperformance in 2020

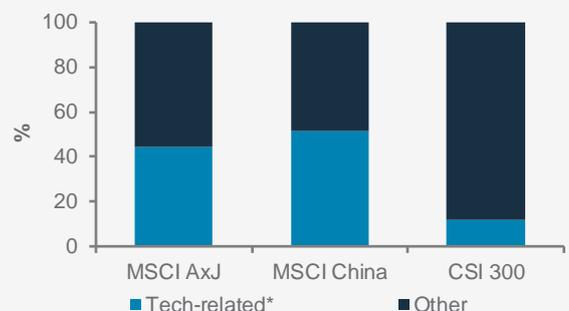
Relative performance of MSCI US technology sector vs MSCI US index; 100 = 1 Jan 2020



Source: MSCI, FactSet, Standard Chartered

Technology-related stocks have a bigger share in the MSCI China and Asia ex-Japan equity indices than the China A-shares index

Share of tech-related stocks in MSCI China and Asia ex-Japan indices and CSI300 index



Source: MSCI, FactSet, Standard Chartered

*Includes information technology, media and entertainment, internet and direct market retail

Top client questions (cont'd)

Q Do you see opportunities in cross-currency FX pairs?

The USD remains caught in a crossfire. Higher rates, larger stimulus and faster vaccinations are currently USD positives. An expected catching-up of global vaccinations and growth, paired with the blowout US twin deficits are expected USD negatives. The length of time until the latter drivers overtake the former will likely determine the strength and length of the current USD rally.

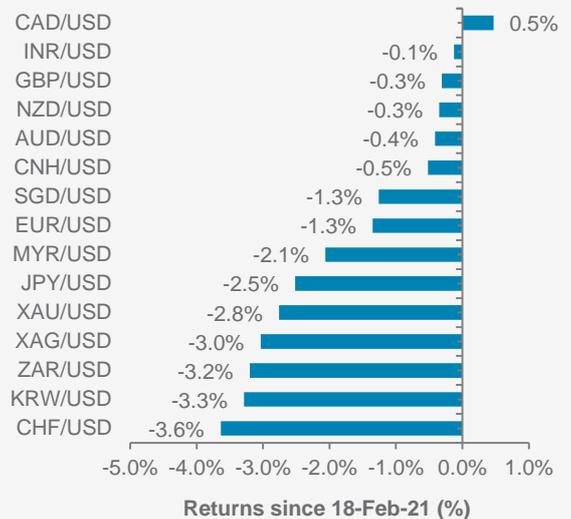
We see potential for more upside in the near term if the DXY (USD index) breaks nearby trend resistance and its 200-day moving average (about 1.4% above current levels) and US real yields rise further. In the meantime, there may be attractive cross-currency opportunities to reduce USD exposure.

The exhibit on the right shows the relative currency winners and losers versus the USD since 18 February, when the 10-year US TIPS (a proxy for the US 10-year real yield) broke above its 200-day moving average. We have a bearish bias towards a diversified group of funding currencies such as the CHF, JPY and EUR, and a bullish bias towards the CAD, GBP, NZD, AUD and CNH in the next few weeks. The table also suggests further weakness for Gold (XAU), Silver (XAG) and the South African rand (ZAR) as the current financial environment continues. Medium-term, we expect US real yields to stabilise and the bearish dollar trend to reassert.

— **Manpreet Gill**, Head, FICC Investment Strategy

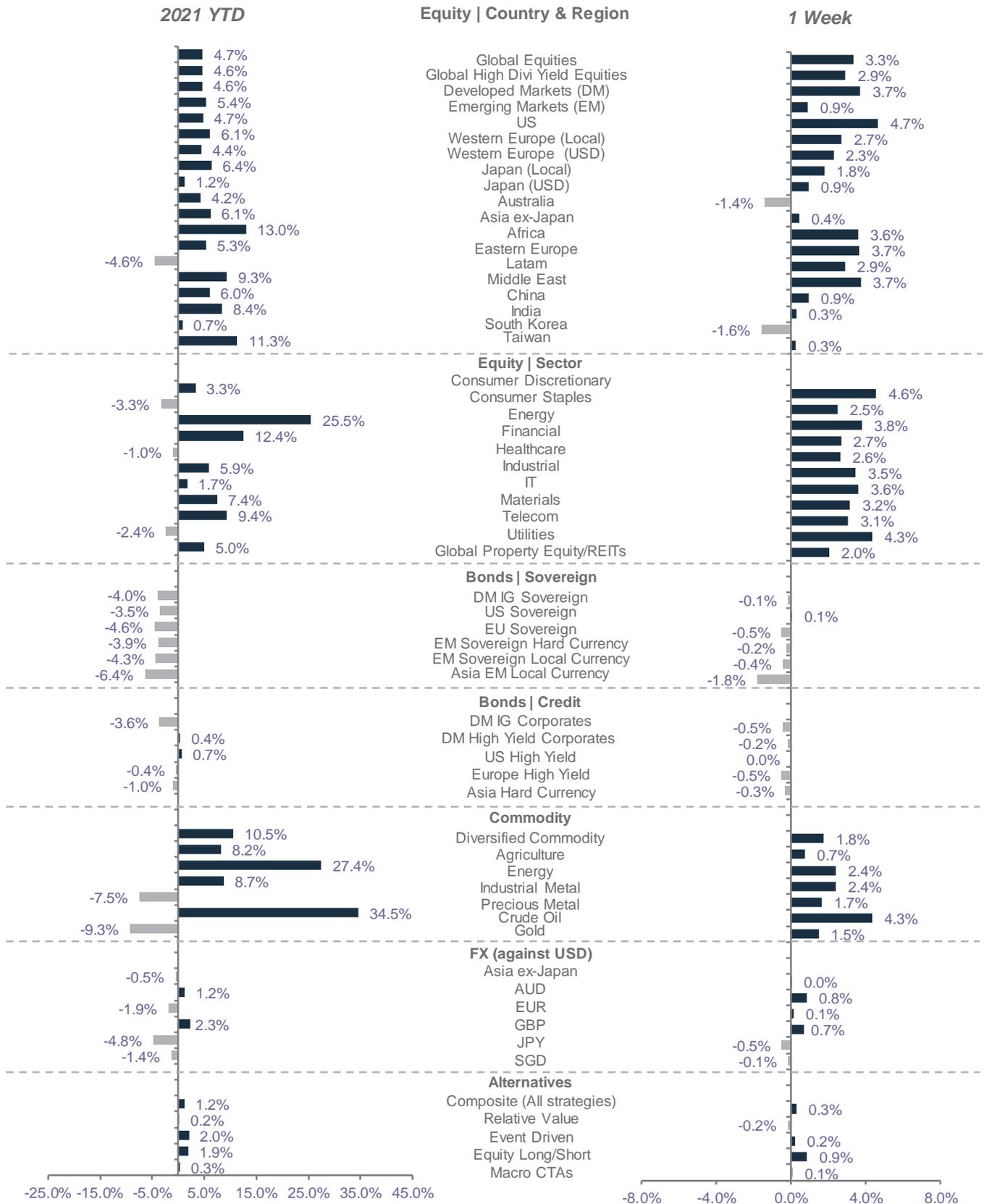
We have a bullish bias towards riskier currencies that fund through so-called safe-haven currencies

Currency returns vs USD since 18 February 2021



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 11 March 2021; 1-week period: 04 March 2021 to 11 March 2021

Our asset class views at a glance

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

Source: Standard Chartered Global Investment Committee

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

S&P500 has resistance 1% above current level

Technical indicators for key markets as on 11 Mar 2021

Index	Spot	1st support	1st resistance
S&P500	3,939	3,861	3,979
STOXX 50	3,846	3,728	3,904
FTSE 100	6,737	6,666	6,772
Nikkei 225	29,212	28,899	29,368
Shanghai Comp	3,437	3,362	3,507
Hang Seng	29,386	28,822	29,667
MSCI Asia ex-Japan	893	873	903
MSCI EM	1,358	1,325	1,374
Brent (ICE)	69.6	68.2	70.3
Gold	1,723	1,696	1,739
UST 10Y Yield	1.54	1.51	1.58

Source: Bloomberg, Standard Chartered

Economic and market calendar

	Event	Next week	Period	Prior
MON				
	EC	ZEW Survey Expectations	Mar	69.6
TUE	US	Retail Sales Ex Auto and Gas	Feb	6.1%
	US	Industrial Production m/m	Feb	0.9%
	US	Capacity Utilization	Feb	75.6%
WED	JN	Exports y/y	Feb	6.4%
	US	Building Permits	Feb	1886k
THUR	US	FOMC Rate Decision (Lower Bound)	17-Mar	0.0%
	UK	Bank of England Bank Rate	18-Mar	0.1%
FRI/SAT	JN	Natl CPI Ex Fresh Food, Energy y/y	Feb	0.1%
	JN	BOJ Policy Balance Rate	19-Mar	-0.1%

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 Treasury bond market has low investor diversity

Our proprietary market diversity indicators as of 10 Mar

Level 1	Diversity	1-month trend	Fractal dimension
US 10-year yield	○	↓	1.25
Global Equities	●	↑	1.47
Gold	●	↓	1.45
Equity			
MSCI US	●	↑	1.48
MSCI Europe	●	↑	1.39
MSCI AC AXJ	●	↑	1.54
Fixed Income			
DM Corp Bond	●	→	1.35
DM High Yield	●	↑	1.98
EM USD	●	→	1.43
EM Local	●	↑	1.39
Asia USD	●	↑	1.67
Currencies			
EUR/USD	●	↑	1.61

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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