Wealth Management Chief Investment Office
18 March 2022

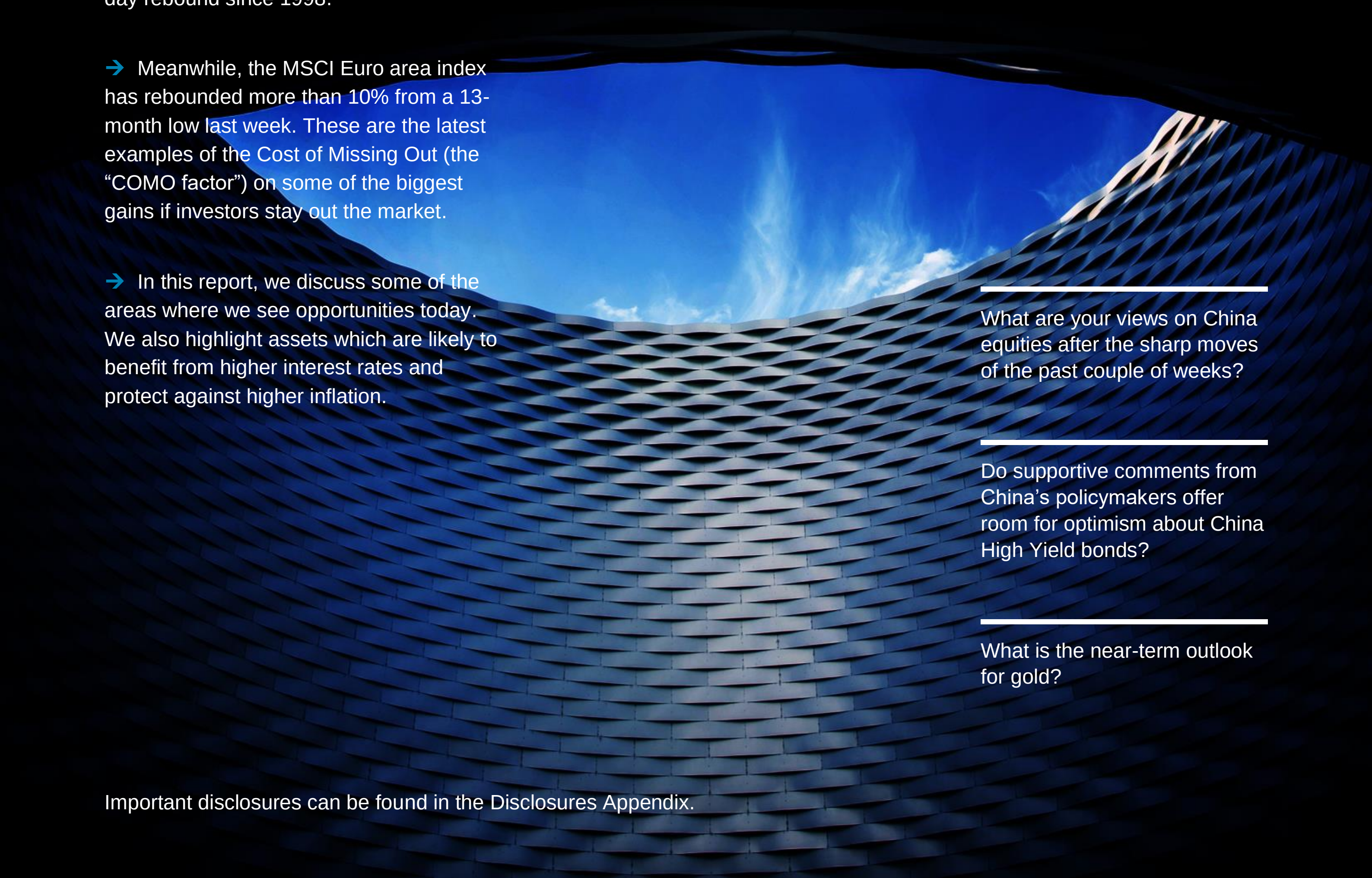
Weekly Market View

The COMO factor
now playing in China

→ After the big rebound in European stocks since last week, it was the turn of China and Hong Kong stocks to bounce back this week. Chinese stocks listed in Hong Kong have rebounded 21% over the past two days, staging their biggest two-day rebound since 1998.

→ Meanwhile, the MSCI Euro area index has rebounded more than 10% from a 13-month low last week. These are the latest examples of the Cost of Missing Out (the "COMO factor") on some of the biggest gains if investors stay out the market.

→ In this report, we discuss some of the areas where we see opportunities today. We also highlight assets which are likely to benefit from higher interest rates and protect against higher inflation.



What are your views on China equities after the sharp moves of the past couple of weeks?

Do supportive comments from China's policymakers offer room for optimism about China High Yield bonds?

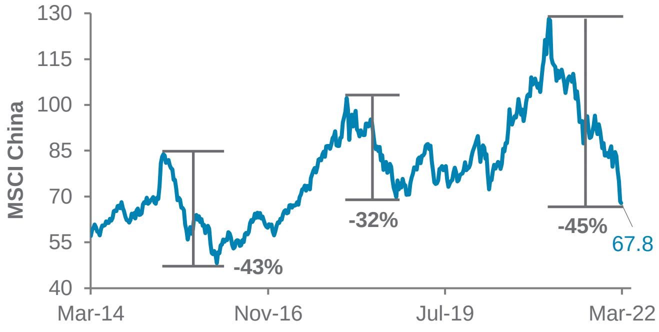
What is the near-term outlook for gold?

Important disclosures can be found in the Disclosures Appendix.

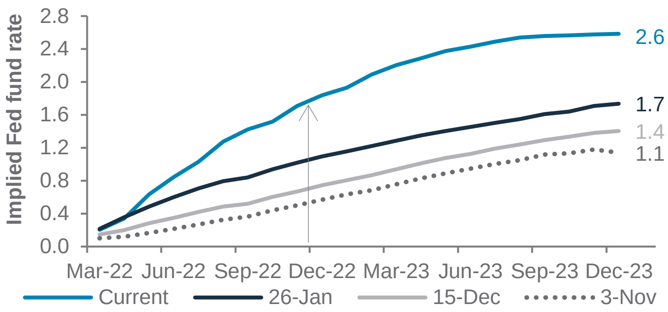
Charts of the week: Turnaround in China?

China's stocks are oversold on several metrics; Beijing's pledge to ease policy contrasts with the Fed's tightening stance

MSCI China stock index



Market expectations of Fed rate after last few Fed meetings, %



Source: Bloomberg, Standard Chartered.

Editorial

The COMO factor – now playing in China

After the big rebound in European stocks since last week, it was the turn of China and Hong Kong stocks to bounce back this week. Chinese stocks listed in Hong Kong (represented by the Hang Seng China Enterprises index) have rebounded 21% over the past two days, staging their biggest two-day rebound since 1998, with the beaten-down consumer discretionary and property sectors among the leading gainers. Meanwhile, the MSCI Euro area index has rebounded more than 10% from a 13-month low last week. These are the latest examples of the Cost of Missing Out (COMO) on some of the biggest gains if investors stay out the market ('the COMO factor').

To recap, 'the COMO factor' is derived from studies of long-term returns; these studies show that those who stay invested through a downturn tend to generate the highest long-term returns as they get to participate in the biggest market rebounds. This is due to two key reasons: First, it is very hard to precisely time market peaks and bottoms. Second, if an investor, after having divested midway into a downturn, fails to get back into the market in time for the recovery, s/he would miss out on the some of the best returns. For instance, our study of S&P500 index return shows that those who stayed invested reaped close to 20-fold returns between 1988 and 2021. In contrast, those who missed the five best trading days generated 13 times returns, while those who missed the 30 best trading days received four-fold returns over the same period.

The above results mean that those with cash should consider using any market drawdowns to put it to work to benefit from the market rebounds. Where do we see opportunities today? We believe some of the best opportunities are in equities, within a diversified allocation based on individual risk tolerance. Global growth remains above-trend, despite the setback from the Russia-Ukraine conflict, and monetary policies remain accommodative even though major central banks have started to raise interest rates for the first time since the onset of the pandemic to fight inflation. The above-trend economic growth is likely to translate into high single-digit earnings growth.

Meanwhile, with the sharp pullback in equity markets since the start of the year, valuations in most major markets have turned more attractive. The MSCI Asia ex-Japan index, our most preferred equity market, is available for 12.1x 12-month forward earnings estimates (vs 10-year average of 12.6), while MSCI Euro area index is selling for 13.2x 12-month forward earnings (vs 10-year average of 13.9). In contrast, the US S&P500 index is selling for 19x 12-month forward earnings. Also, momentum and other technical indicators point to further near-term upside for China equities, especially with the pledge by Chinese Vice Premier Liu He and other financial regulators this week to stabilise markets and take "substantial and coordinated measures" to boost economic growth (see page 4 for more).

Meanwhile, bond markets are likely to remain under pressure from rising policy rates. This week, the US Federal Reserve embarked on its rate hiking cycle; it expects to deliver a total seven 25bps rate hikes this year, followed by three more hikes in 2023. That is a much more aggressive policy stance than three months ago, which can be explained by the acceleration in US inflation to a 40-year high. While the Fed's new rate forecasts are close to market estimates, the surge in commodity prices since the start of the year due to the impact of the Russia-Ukraine conflict means inflation is likely to remain higher for longer. The Fed cut its US growth forecast for this year and raised its inflation forecasts until 2024. This suggests building inflation hedges in a portfolio would be prudent for investors; the pullback in oil and other energy assets provides an opportunity to do so. Gold, another popular inflation hedge, has performed well this year and remains one of our preferred assets. Meanwhile, higher rates are beneficial for financial sector equities. Investors also have an opportunity to earn income from today's elevated equity market volatility.

— Rajat Bhattacharya

The weekly macro balance sheet

Our weekly net assessment: On balance, we see the past week's data and policy as moderately negative for risk assets in the near term

(+) factors: Strong China activity data, supportive China policies

(-) factors: Ukraine war, China lockdowns/ADR delisting risk, Fed lift-off

	Positive for risk assets	Negative for risk assets
COVID-19	• Japan and New Zealand to reopen borders • Shanghai ruled out a broad lockdown amid rising cases • China halved home isolation for cured patients	• Hong Kong government declined to commit to reopening and lifting flight bans • China locked down Shenzhen and Jilin
	Our assessment: Negative – China tech, auto hubs lockdown	
Macro data	• China's industrial production, fixed-asset investment and retail sales rose more than expected • US housing starts rose more than forecast	• Euro area ZEW Survey expectations for economic growth fell to early-pandemic level • US retail sales grew less than expected
	Our assessment: Neutral – Strong China activity data vs fall in EU investor confidence, slower US retail sales	
Policy developments	• China's Vice Premier Liu He vowed new policies to boost financial markets and spur economic growth • BOE raised rates by 25bps to 0.75% as expected, but flagged risk to growth outlook	• The Fed raised rates 25bps to 0.5% and signalled six more rate hikes this year • China held its one-year MLF rate constant, against expectations of a cut • The US SEC named five Chinese company ADRs for failing to meet listing rules, though reports suggest compromise possible
	Our assessment: Neutral – China's policy support pledge vs start of the Fed rate hiking cycle, Chinese ADR delisting risk	
Other developments	• Russia, Ukraine met for another round of talks as Ukrainian president said Russia was more realistic with its positions • China denied reports about supplying military equipment to Russia	• Ukraine cities continue to be bombarded by Russian troops • Russian President Putin said Ukraine was not serious in talks • Seoul said North Korea missile test "failed"
	Our assessment: Negative – Ukraine conflict continues	

The Fed cut its growth forecast for 2022 and raised its inflation forecasts until 2024; it now expects to hike rates six more times this year

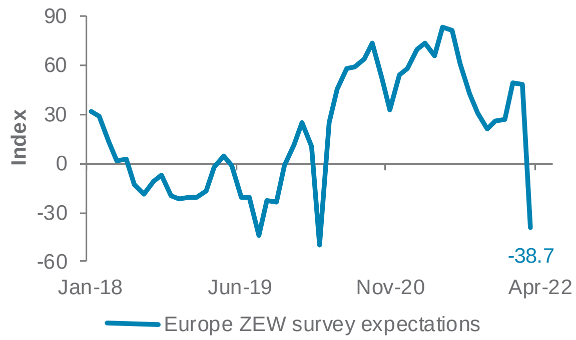
Fed's growth, inflation and rate projections after March (new) and December (old) meetings

	GDP		Unemploy-ment		Core PCE		Rates estimates	
Dates	Old	New	Old	New	Old	New	Old	New
2022	4.0	2.8	3.5	3.5	2.7	4.1	0.9	1.9
2023	2.2	2.2	3.5	3.5	2.3	2.6	1.6	2.8
2024	2.0	2.0	3.5	3.6	2.1	2.3	2.1	2.8
Longer run	1.8	1.8	4.0	4.0			2.5	2.4

Source: Bloomberg; Standard Chartered

Euro area economic growth expectations have slumped following the Russia-Ukraine conflict

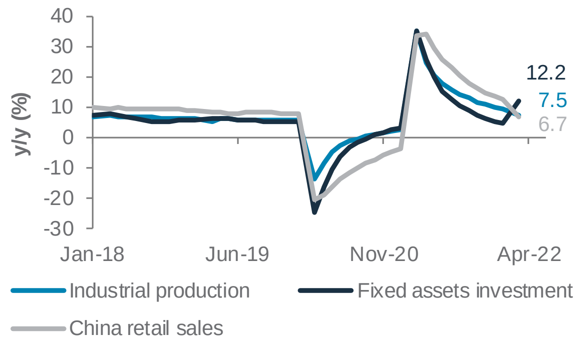
Euro area ZEW Survey of economic growth expectations



Source: Bloomberg, Standard Chartered

China's fixed asset investment growth showed signs of recovery; industrial output and retail sales growth were better than expected

China fixed asset investment, industrial output and retail sales growth



Source: Bloomberg, Standard Chartered

Top client questions

What are your views on China equities after the sharp moves over the past two weeks?

Chinese equities fell sharply after the US Securities and Exchange Commission (SEC) identified five US-listed ADRs of Chinese companies for failing to adhere to the Holding Foreign Companies Accountable Act (HFCAA). However, Chinese Vice-Premier Liu He later said the government will "actively release policies favourable to markets" and ensure any regulation that could have "a significant impact on capital markets" is coordinated with financial management departments in advance, leading to a rapid rebound in Chinese equities. However, in our view, concerns of a potential delisting of Chinese ADRs are likely to persist.

We believe Chinese authorities are likely to "pull out all the stops" to achieve its ambitious 5.5% GDP growth target. We have already seen monetary easing, and we believe infrastructure stimulus is likely to increase, particularly in areas such as green development where China aims to be self-sufficient. Hence, we remain bullish on Chinese equities on a 12-month horizon. Alternatively, those interested in generating income may consider selling volatility on Chinese equities, given a measure of Hang Seng Index volatility (VHSI) is at a 10-year high (excluding the COVID shock).

— **Daniel Lam, CFA,** *Senior Cross-asset Strategist*

Do supportive comments from China's policymakers offer room for greater optimism towards Chinese HY USD bonds?

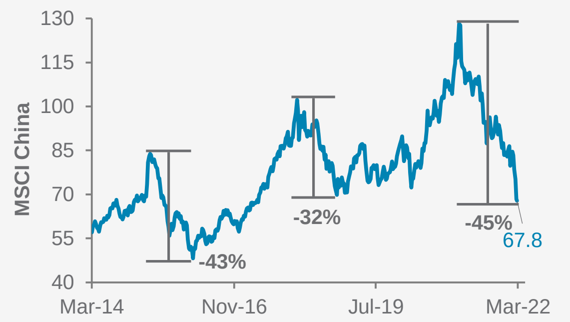
Early this week, Chinese HY USD bonds, led by the real estate sector, extended price falls after reports of more potential developer defaults. However, there were some signs of a turnaround in weak sentiment after Vice Premier Liu He said on Wednesday the government needs to reduce risks in the industry and proposed measures to facilitate a new development model for the sector. A state-owned newswire reported that authorities were committed to "introducing policies that benefit markets". The official statements, while instructive at this stage, has offered some room for optimism that more supportive measures are in the pipeline.

We believe such measures could boost sentiment towards the Chinese HY real estate sector from the currently distressed levels. In our assessment, liquidity remains the key pressure point which, in turn, originates from (1) a prolonged cash collection cycle; (2) a weaker demand-supply outlook; (3) lack of adequate access to refinancing channels; and (4) a ramping up of short-term liabilities. While distressed valuation levels (as illustrated in the chart) arguably point to likely attractive long-term returns, measures to address these liquidity pressures are likely to be key to realising such an outlook and avoiding further waves of debt restructuring.

— **Cedric Lam,** *Senior Investment Strategist*

The latest fall in MSCI China already exceeded the last two major drops (peak to trough) in the index

MSCI China index



Source: MSCI, Bloomberg, Standard Chartered

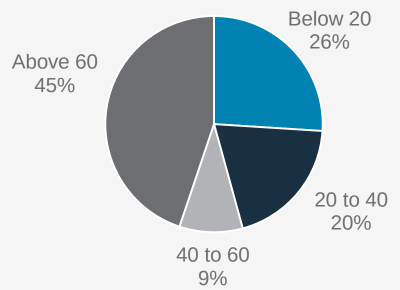
The Hang Seng index's 33% decline is the biggest peak-to-trough drop since 2016

Hang Seng index

Source: MSCI, Bloomberg, Standard Chartered

More than half of the bonds in the China High Yield bond index are trading at a price below 60

JPMorgan Asia credit index



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

What is the near-term outlook for gold?

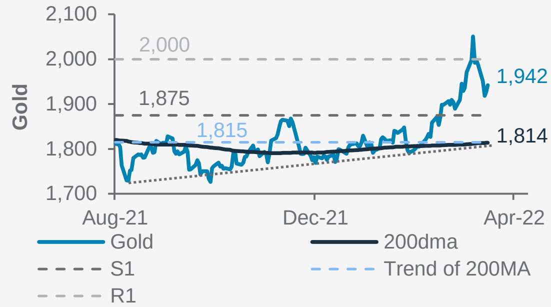
Gold proved to be an effective hedge against geopolitical risk over the past few weeks, though this 'geopolitical risk premium' can also fade quickly. Given today's uncertainties, we believe it remains attractive to add or hold gold as a portfolio hedge based on the balance of headwinds and tailwinds.

Higher interest rates mean that non-yielding gold is more costly to own. The Fed is projecting a total of 10 rate hikes by the end of 2023, but Chair Powell acknowledged considerable uncertainty in these projections. A strong USD is a headwind for gold, and although the US currency has edged higher, we see it peaking soon. Currency bifurcation has become a clear theme, with currencies of energy exporters outperforming those of importers, and this may cap the USD. Inflation, which underpins "real assets" such as gold, should remain stubbornly high over the coming months. Gold is an attractive hedge against global geopolitical risk, and we expect risks to remain elevated even after the current military confrontation in Ukraine ends. Finally, physical demand for gold may rise, as recent financial sanctions against Russia raise questions about the most appropriate asset classes and safe havens for individual and institutional investors and, importantly, central bank reserve managers, to store wealth.

Technicals suggest the gold may be forming a near-term base between 1,875 and 1,915 after the recent correction. As long as the 1,875 support holds, we expect another rally to once again test the 2,000 level. Stronger medium-term support sits either side of 1,800, and a sustained break above 2,000 would suggest another test of the 2,070-2,072 double-top is likely.

The technical chart suggests the gold may be forming a base between 1875 and 1915 after the latest correction

Gold price



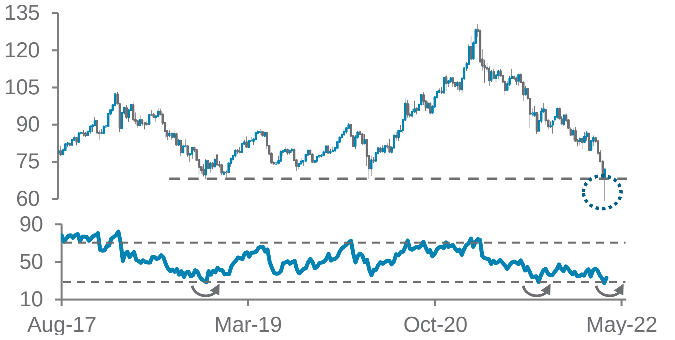
Source: Bloomberg, Standard Chartered

Technical charts of the week

Manish Jaradi
Senior Investment Strategist

China equities: A potential reversal?

MSCI China index weekly chart with RSI

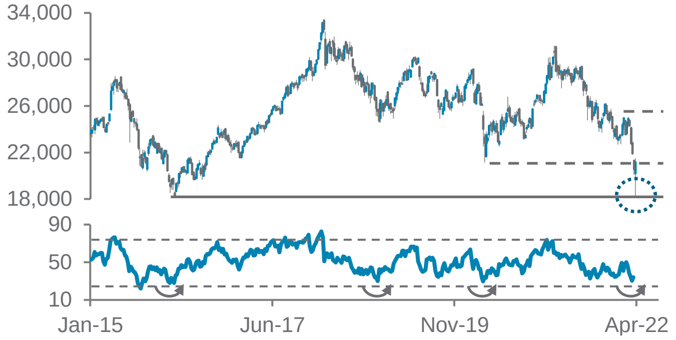


Source: Refinitiv, Standard Chartered

> The sharp reversal from near fairly strong support – a possibility that we highlighted last week – raises the odds that the broader uptrend in Chinese equities is not over yet. In this regard, continued gains in the coming weeks associated with the strong upward momentum would raise the odds that the worst is over for the MSCI China index.

Hong Kong equities: Is this the bottom?

Hang Seng index weekly chart with RSI

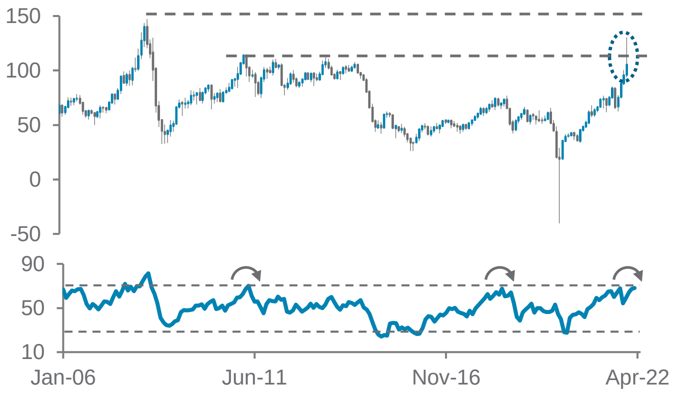


Source: Refinitiv, Standard Chartered

> The index is headed for a strong bullish candle on the weekly chart; in the past, such weekly reversals have been associated with meaningful/multi-week rebounds. This follows a hold above key support at the 2016 low of 18,279. Still, a decisive break above the March 2020 low of 21,140 is needed for the downward pressure to begin fading.

Crude oil: Poor price action at stiff resistance

WTI Crude oil continuous contract monthly chart with RSI

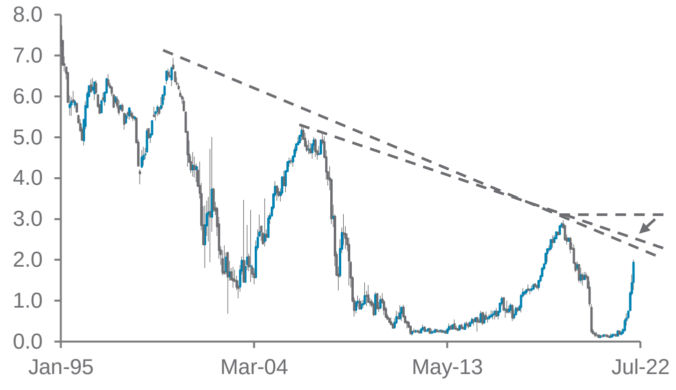


Source: Refinitiv, Standard Chartered

> Oil has failed so far to decisively break above the crucial resistance at 110-115. A potentially bearish candle on the monthly chart ('potential' because the pattern will be complete at the end of the month) suggests that the multi-week rally is fizzling. To be sure, the medium-term uptrend remains intact. Only a break below 62 would change the trend.

US 2-year Treasury yield: Approaching a key hurdle

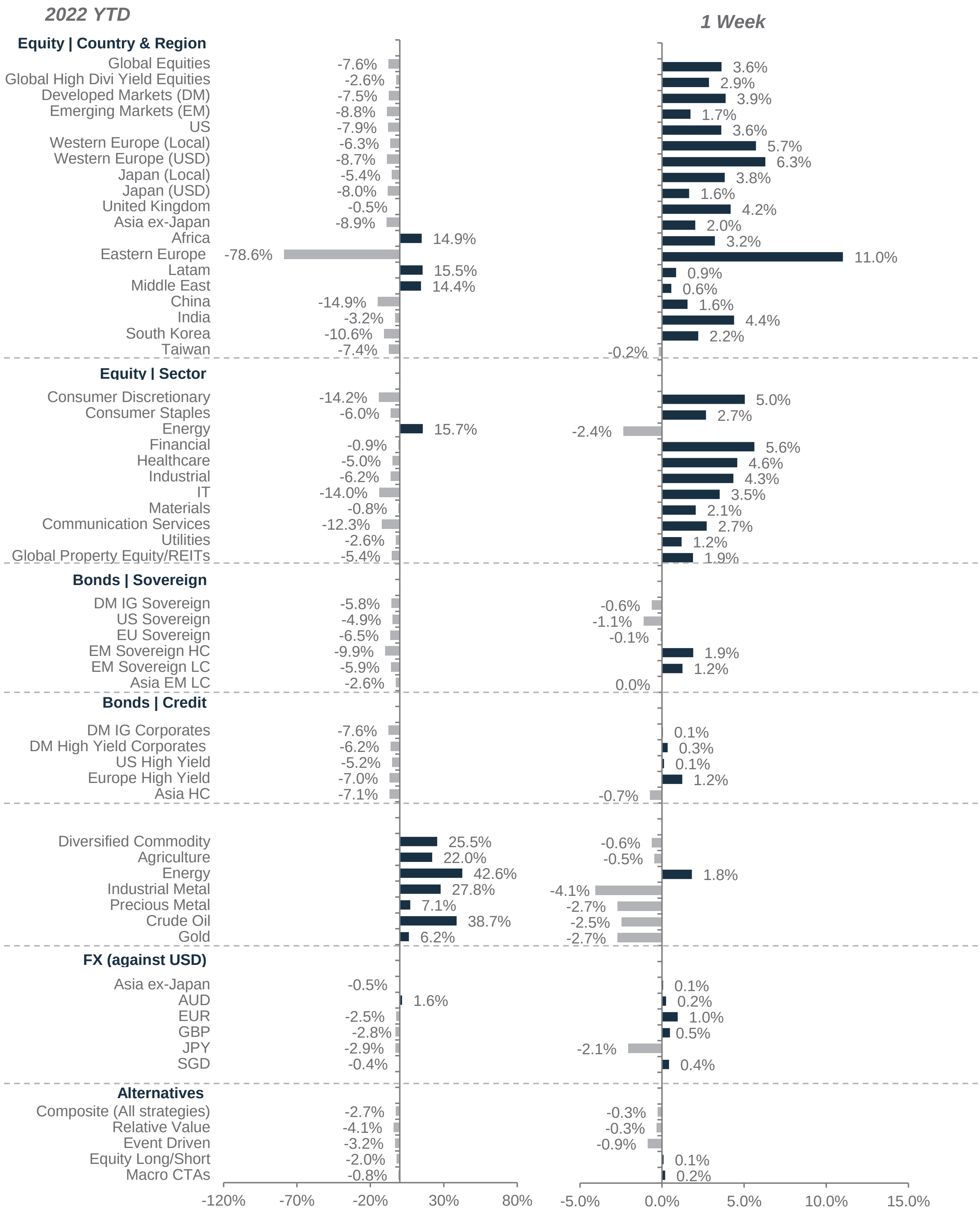
US 2-year Treasury yield monthly chart



Source: Refinitiv, Standard Chartered

> Extreme overbought conditions and negative divergence (higher yield levels associated with softening momentum) on the daily and weekly charts are a sign that the yield rally is losing steam as it approaches key converged resistance at 2.30%-2.35%. However, for the upward trajectory to reverse, the yield would, at minimum, need to fall below 1.26%.

Market performance summary *



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 17 March 2022; 1-week period: 10 March 2022 to 17 March 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

Economic and market calendar

	Event	Next week	Period	Expected	Prior
MON	US	Chicago Fed Nat Activity Index	Feb	–	0.69
TUE					
WED	UK	CPI y/y	Feb	–	5.5%
	US	New Home Sales	Feb	814k	801k
	EC	Consumer Confidence	Mar A	–	-8.8
THUR	EC	Markit Eurozone Manufacturing PMI	Mar P	–	58.2
	EC	Markit Eurozone Services PMI	Mar P	–	55.5
	UK	Markit/CIPS UK Services PMI	Mar P	–	60.5
	UK	Markit UK PMI Manufacturing SA	Mar P	–	58.0
	US	Current Account Balance	4Q	-$217.6b	-$214.8b
	US	Durable Goods Orders	Feb P	-0.5%	1.6%
	US	Markit US Manufacturing PMI	Mar P	55.0	57.3
	US	Markit US Services PMI	Mar P	–	56.5
FRI/SAT	UK	Retail Sales Ex Auto Fuel y/y	Feb	–	7.2%

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

S&P500 index's next resistance is 1.8% above current level

Technical indicators for key markets as on 17 March 2022

Index	Spot	1st support	1st resistance
S&P500	4,412	4,253	4,491
STOXX 50	3,885	3,752	3,954
FTSE 100	7,385	7,232	7,462
Nikkei 225	26,653	25,659	27,150
Shanghai Comp	3,215	3,083	3,329
Hang Seng	21,501	19,444	22,530
MSCI Asia ex-Japan	718	673	740
MSCI EM	1,121	1,058	1,152
Brent (ICE)	106.6	98.9	113.5
Gold	1,942	1,910	1,981
UST 10Y Yield	2.17	2.05	2.24

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

Investor diversity remains low in global bonds

Our proprietary market diversity indicators as of 16 March

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	○	↓	1.22
Global Equities	◐	→	1.47
Gold	◐	↓	1.38
Equity			
MSCI US	◐	→	1.50
MSCI Europe	●	→	1.56
MSCI AC AXJ	◐	→	1.39
Fixed Income			
DM Corp Bond	◐	↓	1.25
DM High Yield	◐	↓	1.37
EM USD	◐	↓	1.32
EM Local	◐	↓	1.42
Asia USD	◐	↓	1.25
Currencies			
EUR/USD	●	↓	1.54

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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