



# Weekly Market View

## The next big catalyst

→ Markets are on the search for the next big catalyst. Global equities have failed to break above February's high. The US 10-year government bond yield is testing 2.75% resistance, after surging more than 100bps since early March. The USD appears overbought and overvalued.

→ The most immediate catalyst on our radar is the US Q1 earnings season. The bar is low for earnings beats, with the consensus expecting 6.1% growth in Q1. Excluding the energy sector, expectations are for flat earnings, despite strong revenue growth. Corporate guidance on profit margins against the backdrop of rising inflation will thus be closely watched.

→ In Europe, the protracted war in Ukraine and ECB's response amid sharply slowing growth and rising inflation are key catalysts to watch.

→ Against this backdrop, the outlook for Asia ex-Japan appears less uncertain. With attractive equity valuations vs. the US and Europe, we would continue to add exposure to Asia ex-Japan equities.



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What is the near-term outlook for US Treasury yields?

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How should equity investors position themselves ahead of the US earnings season?

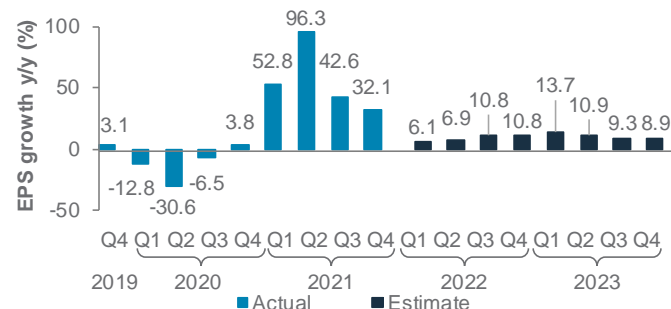
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Is gold heading for new highs?

## Charts of the week: The bar is low for US earnings beats

### US Q1 earnings season is likely to be the next catalyst for markets; consensus estimates are low vs. recent history

US earnings growth and consensus estimates for 2022-23



Source: Refinitiv, Standard Chartered

Sector-wise breakdown of US Q1 2022 earnings estimates



## Editorial

### The next big catalyst

Markets are on the search for the next big catalyst. Global equities have failed to break above February's high, with short-term technical charts pointing to a sideways trend. The US 10-year government bond yield is testing 2.75% resistance, but investor positioning looks stretched after yields surged more than 100bps since early March. The US 10-year vs 2-year yield curve, a key economic growth outlook indicator, has steepened for the second week in a row after causing a recession scare when it briefly inverted earlier this month. The USD index rose above 100 to a two-year high on the back of surging Fed rate hike expectations, but faces strong resistance about 3% higher. Investors are now looking for a new catalyst to drive markets.

The first on our radar is the upcoming US Q1 earnings season. US earnings have consistently beaten market expectations every quarter since Q4 2020, turning into a fundamental driver of the equity bull run through the post-pandemic recovery. This time, the bar is low for earnings beats, with the consensus expecting 6.1% growth in Q1. Excluding the energy sector, which is benefitting from a surge in crude oil prices, expectations are for flat earnings. With the consensus also expecting 11% revenue growth, the market is clearly concerned about rising wages and raw material costs eating into corporate profitability. Thus, we would closely watch forward-looking management guidance on profit margins this year.

Inflation and its various drivers are likely to be critical for profit margins. This week, US data showed headline inflation surged to a new 40-year high of 8.5% y/y, driven by energy and food prices as the Ukraine war had an impact. There is a risk that these prices filter into other sectors, keeping inflation higher-for-longer. However, when we look under the hood, core inflation decelerated to 0.3% m/m, below consensus expectations of a 0.5% m/m rise. The pandemic-driven drivers of goods inflation are starting to fade (eg. prices of used cars and trucks fell 3.8% m/m). Meanwhile, services sector inflation, including for shelter, airline tickets and medical care, is picking up as the economy gradually reopens. The latter is a good sign

– it shows companies are being able to pass on higher costs to consumers. Since the services sector accounts for three-fourths of the US economy, this is likely positive for US corporate profits and, by extension, equities.

The above scenario would of course keep the Fed hawkish – as we heard from Fed speakers this week – before easing inflation in H2 leads to a softening of policy stance. Markets are already pricing 230bps of Fed hikes over the next 12 months, indicating inflation risks have been substantially priced in. For now, staying with bonds of 5-7 years maturity would be prudent.

In Europe, the war in Ukraine is a key catalyst for markets. Russian President Vladimir Putin's vow to continue the war raises the risks of more sanctions from Europe, including on Russia's crucial energy exports. Euro area growth expectations (based on the ZEW Survey) fell this month to their lowest since the depths of the pandemic. This puts the ECB in a tight spot as it meets this week, with inflation surging to a record high. We expect the ECB to continue unwinding its bond purchases as it focusses on subduing inflation, while awaiting more growth data and new forecasts in June. The French presidential election run-off is the other focus, with polls pointing to a tight race. A Macron win against far-right candidate Le Pen should be a positive catalyst for Euro area assets as it would bolster nationwide investment in defence and nuclear/green energy infrastructure as the EU reduces its dependence on Russia.

Against this backdrop, the outlook for Asia ex-Japan appears less uncertain. In China, easing COVID-19 restrictions in Shanghai and some other cities is a positive sign. The credit cycle is turning too, with stronger-than-expected credit growth in March driven by government borrowing to fund infrastructure. This is positive for a sustained growth recovery. With attractive equity valuations compared with the US and Europe, we would continue to add exposure to Asia ex-Japan equities (including in China), rebalancing from US and Euro area equities if those exposures are above benchmark. We would also continue to add gold, energy/commodity-based assets and private real estate, which can help hedge against stagflation risks.

— 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

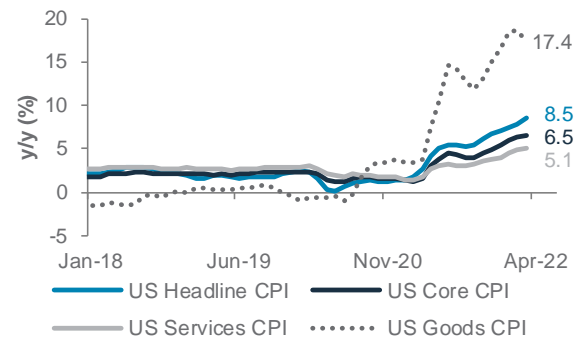
**(+) factors:** China lockdown easing, credit growth; slow US core inflation

**(-) factors:** Accelerating US headline inflation, Ukraine, French election

	Positive for risk assets	Negative for risk assets
COVID-19	<ul style="list-style-type: none"> <li>Shanghai partially eased lockdowns</li> <li>Cases across Asia outside China have fallen sharply</li> </ul>	<ul style="list-style-type: none"> <li>Guangzhou likely target for lockdown after cases spike</li> <li>US evacuated diplomats from Shanghai</li> </ul>
	<b>Our assessment: Neutral</b> – Partial easing of lockdown in Shanghai vs more China cities at the risk of lockdown	
Macro data	<ul style="list-style-type: none"> <li>US core consumer inflation decelerated more than expected to 0.3% m/m</li> <li>China credit growth rose faster than expected</li> </ul>	<ul style="list-style-type: none"> <li>US consumer inflation made 40-year high at 8.5% y/y; producer inflation rose more than forecast (11.2%)</li> <li>China consumer, producer inflation accelerated</li> <li>Euro area economic growth expectations (ZEW) fell to its lowest since March 2020</li> </ul>
	<b>Our assessment: Neutral</b> – Slowing US core inflation, strong China credit growth vs accelerating US, China headline inflation	
Policy developments	<ul style="list-style-type: none"> <li>China's State Council pledged to cut bank reserve requirements to support small businesses</li> <li>China restarted approval of new video games</li> <li>China asked fund houses to limit selling A-shares</li> </ul>	<ul style="list-style-type: none"> <li>Fed's Evans urged debate over a faster pace of hikes</li> <li>Central banks of Canada, New Zealand, South Korea and Singapore tightened monetary policy</li> <li>China Premier Li warned about growth headwinds</li> </ul>
	<b>Our assessment: Neutral</b> – Supportive China authorities vs hawkish Fed talk, tighter monetary policies worldwide	
Other developments	<ul style="list-style-type: none"> <li>Putin vowed to continue with Ukraine offensive, while US officials warned about a protracted war</li> <li>Biden pressed India to take a harder stand on Russia</li> <li>Macron will face far right candidate Le Pen in second round of French election</li> </ul>	
	<b>Our assessment: Negative</b> – Protracted Ukraine conflict continues, tight French presidential election	

**US goods inflation appears to have peaked, while services inflation is rising as the economy reopens. A surge in energy and food prices due to the Ukraine conflict could keep inflation elevated**

US headline, core, goods and services inflation



Source: Bloomberg; Standard Chartered

**Euro area economic growth expectations have plunged following the Ukraine conflict**

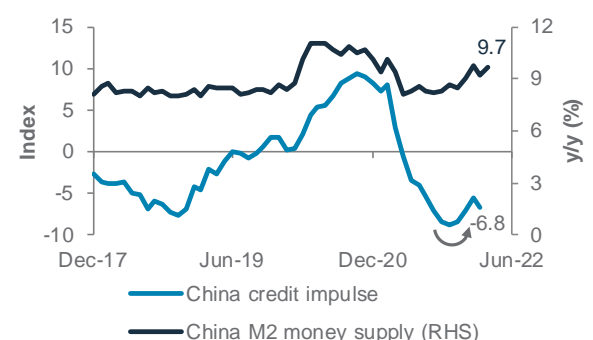
Euro area ZEW expectations of economic growth



Source: Bloomberg; Standard Chartered

**China's money supply growth and credit growth are showing signs of recovery; this should drive growth and local equities in the coming quarters**

China M2 money supply growth and Bloomberg China credit impulse\* index



Source: Bloomberg; Standard Chartered

\*Credit impulse represents the annual change in the flow of new credit

## Top client questions

### Q What is the near-term outlook for US Treasury yields?

The nearly 1 percentage point rise in the 10-year US government bond yield since early March is one of the sharpest upward moves in recent history. Over the next 1-3 months, we believe three key factors are likely to drive the 10-year yield:

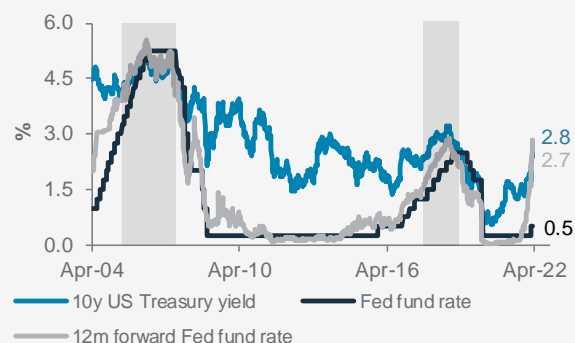
1. **Inflation trajectory** – Markets are likely to keep a hawk-eye on inflation, given that concerns around high inflation have been a key driver for the change in Fed guidance and the sharp rise in yields this year. The decline in yields following the release of decelerating core CPI earlier this week remind us that yields could stabilise, or even turn lower, should inflationary concerns subside from today's elevated levels.
2. **Fed rate hike expectations** – In the last two Fed rate hiking cycles, US 10-year yields have closely tracked market expectations of the Fed Fund rate in 12 months' time. With markets now pricing close to 3% Fed policy rate by mid-2023, we are likely to see an upward pressure on US Treasury yields over the next few months. Any changes in market expectations, especially as we approach Fed policy meetings in May and June, could be a second key driver of bond yields.
3. **Positioning** – The incessant rise in bond yields (and resultant fall in bond prices) over the past few months has resulted in extremely short positioning in US Treasuries, visible in both CFTC data as well as industry surveys. In fact, demand at the 10-year Treasury auction this week was weak, resulting in the largest difference between pre-auction and auction settlement yields since 2011. Hence, lopsided positioning combined with the historical precedents of market behaviour after such sharp upswings in yields mean bond yields could be set for a period of consolidation.

Hence, over the next 1-3 months, the ongoing rise in inflation, hawkish Fed guidance and strong upward momentum (see technical section on page 6) suggest the 10-year US bond yield is likely to test the 3% level. However, overstretched short positioning means a period of consolidation around current levels is likely first before yields can attempt to push higher.

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

### Fed rate hike expectations have been a key driver for 10-year US Treasury yields during the past two rate hiking cycles

US 10-year Treasury yield, Fed Funds rate, market expectation of Fed Funds rate in 12 months' time



Source: Bloomberg, Standard Chartered

Note: Shaded areas show periods when the US 10-year Treasury yield and Fed rate hike expectations were moving in lockstep



## Top client questions (cont'd)

### Q How should equity investors position themselves ahead of the US earnings season?

We believe investors should be increasingly focused on sector selection within equities. Q1 22 y/y earnings in the US are expected to grow 6.1%. However, excluding the energy sector, the earnings growth estimate is only 0.6%. We believe cost pressures are a major driving factor behind this very low earnings estimate. For example, the Q1 22 y/y revenue growth is expected to be 10.9%. Excluding the energy sector, this growth estimate is 8.3%. Another key factor is the concern about stagflation risks that impact sectors such as consumer discretionary and financials. These two sectors have recorded the highest downward revision in earnings expectations since the start of February 2022, leaving their Q1 annualised earnings growth expectations at -12% and -23%, respectively.

Technical charts remain lacklustre for US equities. Meanwhile, oil has pulled back, but it remains on an uptrend. With high inflation and supply chain disruptions still being the key macro focus, we continue to prefer the energy sector and would look for opportunities to add exposure to this sector. Other sectors that may benefit under this environment include the defensive healthcare sector (one of our preferred US sectors), and materials, which has also been showing strong technical support following the rise in commodity prices.

— Daniel Lam, Head, Equity Strategy

### Q Is gold heading for new highs?

We believe that the balance of fundamental and technical indicators suggest further upside for gold lies ahead and that a push towards a new high is increasingly likely.

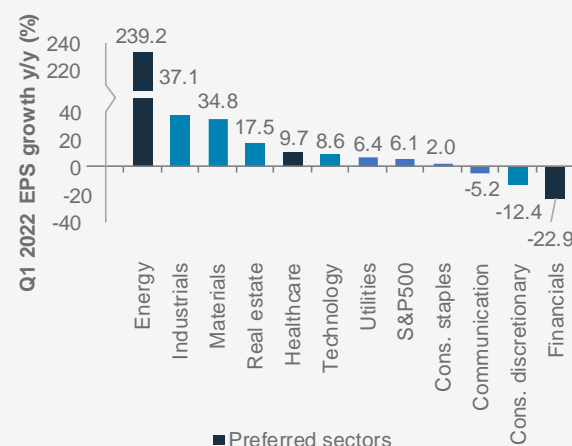
The recent sharp rise in both nominal and real (inflation-adjusted) US bond yields is usually a headwind for gold, but the fact that the Fed is still viewed as behind the inflationary cycle mean this is proving to be less of a concern. Geopolitical unrest, driven by the likely escalation of the Ukraine war and a possibility of increasing tensions in Iran and the Middle East, is a strong tailwind, but subdued demand for physical gold from the key India and China markets is a headwind.

We expect a USD peak in the coming weeks as the USD index (DXY) creeps towards strong medium-term resistance around 103. The USD is also overbought and overvalued on various effective exchange rate measures at a time when the talk of de-dollarisation of trade along with diversification out of the USD is rising, while US political risk may begin to rise ahead of the mid-term elections in November. A weaker USD would be a strong tailwind for gold.

Finally, technicals argue that the recent break above the 1,965 high should see gold move towards resistance around 2,000, provided support at 1,920 holds. A clear break above 2,000 would increase the probability of a new all-time high above 2,070.

### The US energy, industrials and materials sectors are likely to carry the bulk of the earnings growth in Q1

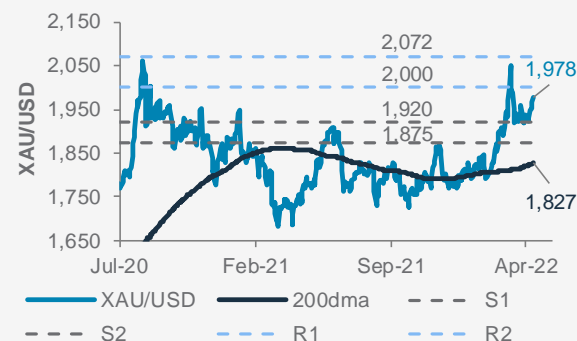
Consensus Q1 22 y/y earnings growth expectations for S&P500 sectors



Source: Refinitiv, Standard Chartered.

### As gold holds the 1,920 support level, we expect a break of resistance around 2,000 to trigger a run to a new all-time high

Gold price, with technical indicators



Source: Bloomberg, Standard Chartered.

## Technical charts of the week

**Manish Jaradi**  
Senior Investment Strategist

### US equities: Path of least resistance is sideways

S&P500 index daily chart



Source: Refinitiv, Standard Chartered

The recent move raises the prospect of a reverse head & shoulders formation (the pattern is still unfolding). However, decelerating momentum on monthly charts (as highlighted in recent updates) raises the bar for a sustained move higher. Indeed, the path of least resistance remains sideways in the near term, with 4,100-4,800 as the immediate range.

### US 10Y government bond yield: Strong upward momentum

US 10-year Treasury yield weekly chart

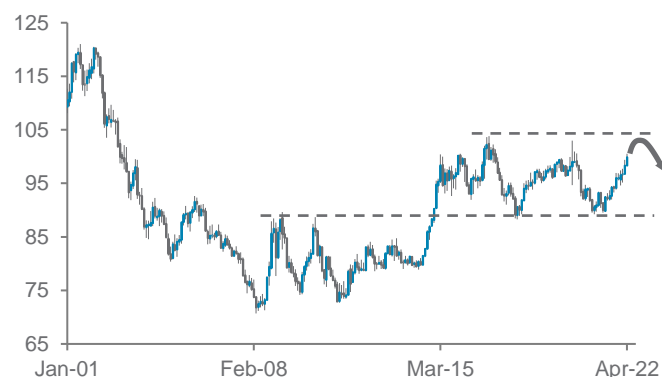


Source: Refinitiv, Standard Chartered

Repeated and effortless breaks above key resistance levels reflect how strong the momentum has been in recent weeks. As a result, a move towards the 2018 high of 3.26% cannot be ruled out, as highlighted last week. However, it would be tough to break 3.26%, at least in the first attempt, raising the risk of a reversal/retreat from around the resistance.

### USD: Keeping sight of the big picture

DXY monthly chart



Source: Refinitiv, Standard Chartered

While there is no sign of a reversal of the uptrend, at minimum a retreat is possible around the upper edge of the channel around 103. That is because, from a big-picture perspective, DXV remains in a range at best, even though shorter timeframes may portray an unambiguously bullish phase.

### Crude oil: Consolidation, not a reversal

Crude oil continuous contract daily chart with 100-DMA and 200-DMA



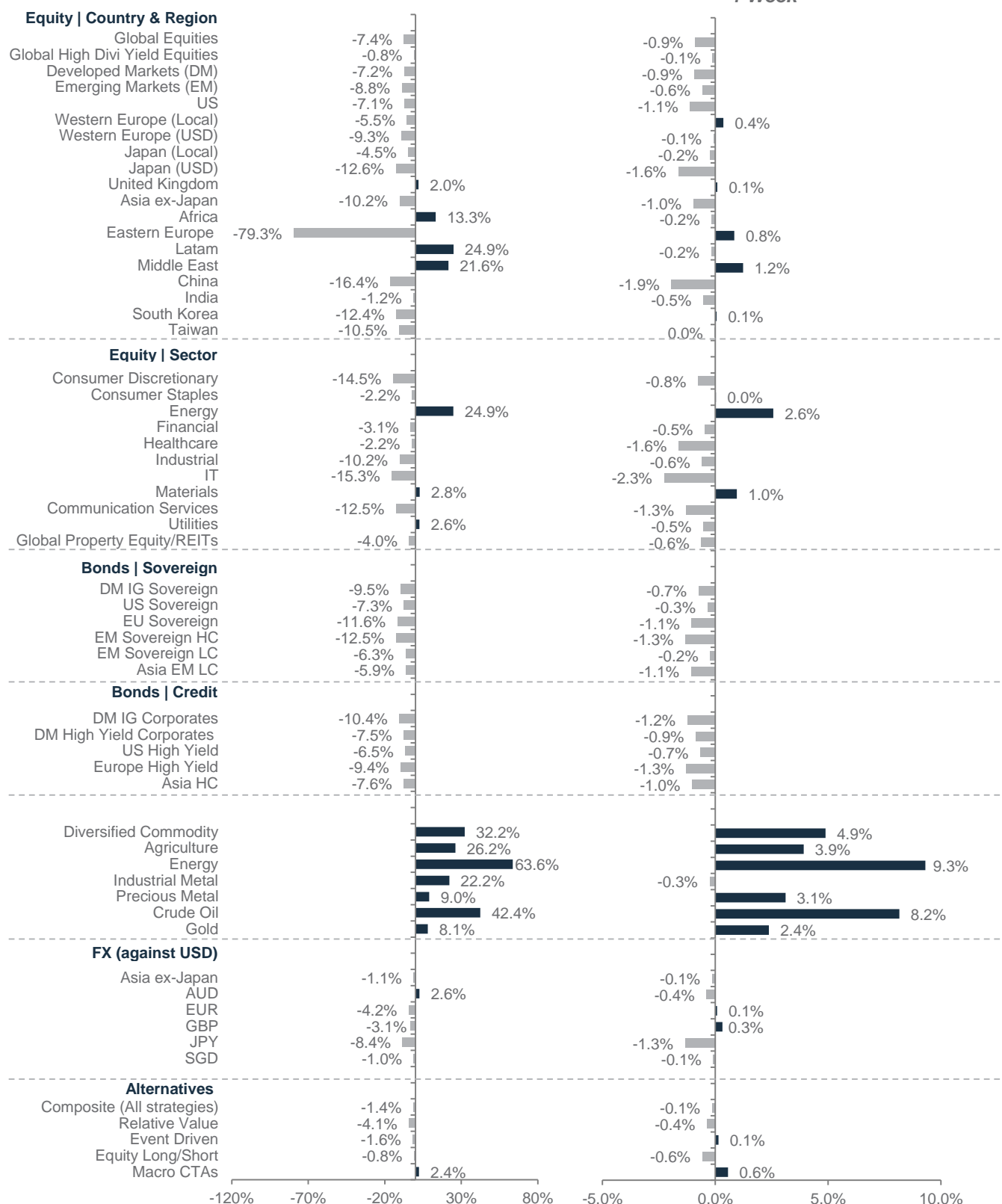
Source: Refinitiv, Standard Chartered

Crude oil has been behaving as per the template highlighted in the Global Market Outlook published end of March. The short-term range scenario remains intact. Immediate support is around 93.00-93.50. Even if oil were to briefly slip below, there is plenty of support on the downside, which could prevent a sustained move lower.

## 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 13 April 2022; 1-week period: 07 April 2022 to 13 April 2022

### Our 12-month asset class views at a glance

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

Source: Standard Chartered Global Investment Committee

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

### Economic and market calendar

	Event	Next week	Period	Expected	Prior
MON	CH	Industrial Production y/y	Mar	4.3%	4.3%
	CH	GDP y/y	1Q	4.3%	4.0%
	CH	Retail Sales y/y	Mar	-2.5%	1.7%
	CH	Fixed Assets Ex Rural YTD y/y	Mar	8.4%	12.2%
	CH	Property Investment YTD y/y	Mar	2.0%	3.7%
TUE	US	Housing Starts	Mar	1738k	1769k
WED	US	Existing Home Sales	Mar	5.73m	6.02m
THUR	US	Philadelphia Fed Business Outlook	Apr	21.0	27.4
	EC	Consumer Confidence	Apr A	–	-18.7
FRI/SAT	UK	Retail Sales Ex Auto Fuel y/y	Mar	–	4.6%
	EC	S&P Global Eurozone Manufacturing PMI	Apr P	–	56.5
	EC	S&P Global Eurozone Services PMI	Apr P	–	55.6
	UK	S&P Global/CIPS UK Manufacturing PMI	Apr P	–	55.2
	UK	S&P Global/CIPS UK Services PMI	Apr P	–	62.6
	US	S&P Global US Manufacturing PMI	Apr P	–	58.8
	US	S&P Global US Services PMI	Apr P	–	58.0

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 10-year Treasury yield has is testing 2.75% resistance

Technical indicators for key markets as on 13 April 2022

Index	Spot	1st support	1st resistance
S&P 500	4,447	4,396	4,499
STOXX 50	3,828	3,801	3,857
FTSE 100	7,581	7,532	7,650
Nikkei 225	27,143	26,603	27,414
Shanghai Comp	3,210	3,168	3,252
Hang Seng	21,454	21,151	21,814
MSCI Asia ex-Japan	707	699	715
MSCI EM	1,119	1,111	1,128
Brent (ICE)	108.5	101.7	112.0
Gold	1,974	1,945	1,991
UST 10y Yield	2.67	2.62	2.75

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 13 April

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	○	→	1.22
Global Equities	●	↓	1.50
Gold	●	→	1.40
<b>Equity</b>			
MSCI US	●	↓	1.54
MSCI Europe	●	→	1.48
MSCI AC AXJ	●	→	1.42
<b>Fixed Income</b>			
DM Corp Bond	●	→	1.27
DM High Yield	●	→	1.39
EM USD	●	→	1.36
EM Local	●	→	1.38
Asia USD	●	→	1.40
<b>Currencies</b>			
EUR/USD	●	↓	1.37

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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