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WM Chief Investment Office
1 April 2021

Weekly Market View

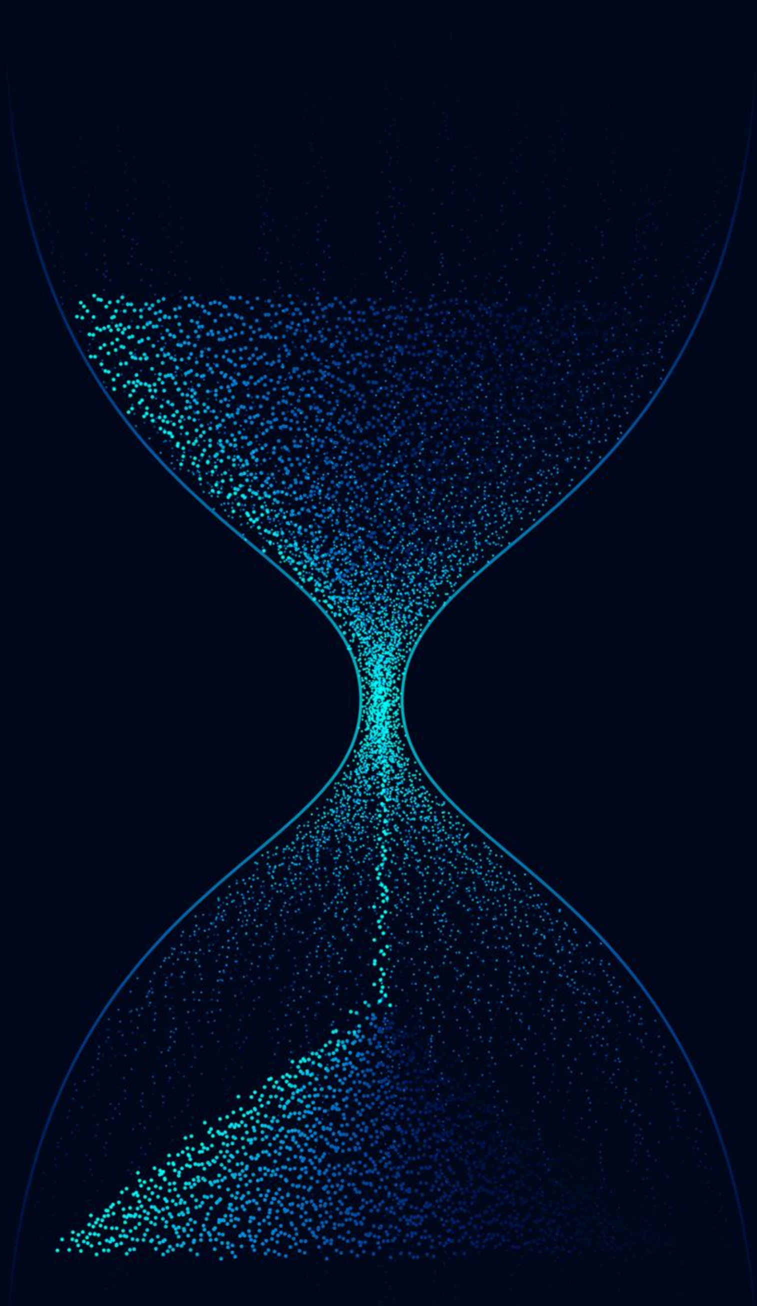
Time for reckoning

April has historically been a strong month for equities. This year, it is likely to be stress-tested by investors after a strong Q1 performance. We expect the data and policy in the coming weeks to support the evolving global reflation theme, sustaining the equity market rotation from Growth to Value sectors. Our structural investment themes on new and cleaner technologies are also likely to benefit

Equities: The US and European financial sector has been barely impacted by the recent hedge-fund unwinding. We remain constructive on the sector

Bonds: We retain our preference for Asian High Yield USD bonds. We believe the sector is well prepared for China's liquidity tightening measures. Valuations are also attractive vs. US High Yield debt

FX: USD/JPY is approaching key technical resistance. We expect the rally in the pair to soon peak and possibly reverse in the coming weeks



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What are the signposts to watch in the evolution of the global reflation theme?

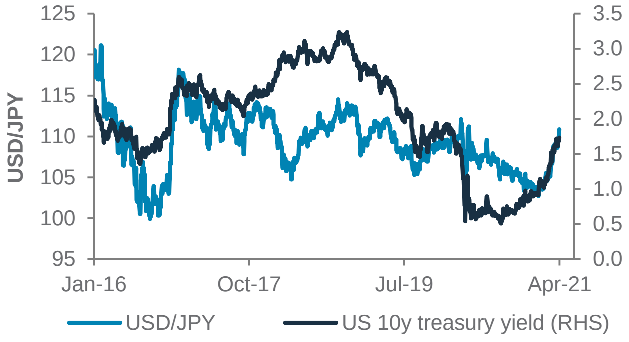
Are recent economic data and policy supportive for risk assets?

What areas within the US technology sector should investors focus on?

Charts of the week: Tracking the reflation theme

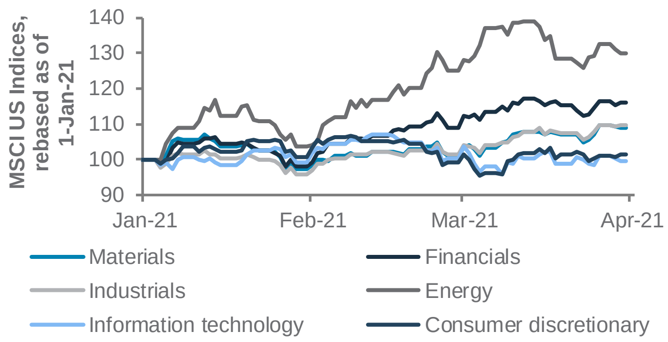
The rise in US bond yields and USD and outperformance of Value equity sectors reflect the US reflation theme

The rebound in the USD has tracked the rise in US 10-year Treasury yields this year



Source: Bloomberg, Standard Chartered

US Value equity sectors, such as energy, financials and industrials, have outperformed Growth sectors this year



Source: Bloomberg, Standard Chartered

Editorial

Time for reckoning

April has historically been a strong month for equities and other risk assets. This year, it is likely to be stress-tested by investors after a strong Q1 as the global economic recovery from the pandemic evolves into what we believe will be a gradual reflation over the coming year. We are tracking key policy moves and indicators in the near term that are likely to determine the course of this narrative.

First, US President Biden's USD 2.2trn infrastructure spending package – initially focussed on rebuilding and 'greening' US transportation, telecom, housing and water infrastructure and reviving manufacturing. It has the potential to upgrade US productivity and long-term growth expectations. A stronger growth path would, in turn, help ease concerns about higher taxes to fund the package. While Biden's plan supports our structural investment themes (eg. new and cleaner technologies), the immediate question is: will such a plan ignite inflation expectations, driving bond yields higher and testing the Fed's tolerance? The Fed has been sanguine so far as it believes rising yields reflect improving growth outlook, but any tightening of financial conditions (through equity or credit market pullback) could force it to intervene.

The health of the US job market is next on the list. Expectations for job creation in March are already high. The key is to watch the services sectors most hit by last year's lockdowns, ie. retail, travel and leisure sectors. A bumper number here, against the backdrop of strong consumer and business sentiment indicators and liquidity boost from Biden's recent USD 1.9tn stimulus, is likely to re-ignite the economic re-opening story. This would help sustain the recent outperformance of Value sectors, such as energy, materials and industrials, over Growth peers.

The sharp rise in the US 10-year Treasury yield and the USD this year are key market indicators tracking the US reflation theme. Both face technical resistance in the near-term, with 'short US Treasuries' a crowded trade. While we do not expect a significant rise in Treasury yields, the widening gap between long-term yields versus short-term rates is likely to lift bank lending margins this year, providing further support to financial sector equities which have recently been impacted by hedge fund unwinding (see page 4). Meanwhile, sustaining the USD's near-term bounce depends on the US's continued outperformance vs other major economies. However, a broadening of reflation beyond US shores, to the rest of the global economy, is a critical factor behind our 12-month view of a weaker USD (see page 5). The revival of the pandemic in the Euro area and major EMs, including India and Brazil, needs to be watched closely.

Finally, the OPEC members' meeting on 1 April is significant against the backdrop of the recent pullback in oil prices. There is talk of Saudi Arabia and Russia relaxing some output restrictions to regain market share. While we see oil prices rising over USD 70/bbl in the next 12 months on increasing demand, a near-term pause in prices would be supportive for risk assets as it could temper fears of a sharp rise in inflation. Subdued inflation expectations should help cap the near-term rise in bond yields, which is critical to the sustainability of the rally in risk assets in the coming weeks.

— **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

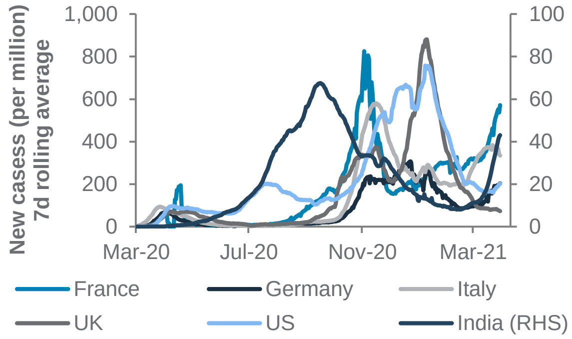
(+) factor: US vaccinations, stimulus, consumer confidence

(-) factor: Renewed rise in COVID-19 cases in the Euro area

	Positive for risk assets	Negative for risk assets
COVID-19	• Cases appear to have peaked in Italy and continue to fall in the UK • President Biden said 90% of US adults will be eligible for vaccinations by April • PM Johnson said UK on track to lift restrictions in three months	• New cases are rising again in the US, Germany, France, Japan, India and Brazil; • Germany to restrict use of AstraZeneca vaccine for people under 60 • France and Italy extended lockdown restrictions
	Our assessment: Neutral – US, UK relative vaccine success vs renewed rise in cases in EU, EMs	
Macro data	• US consumer confidence rose more than expected to a one-year high • China's economic activity (PMI) beat expectations • China's industrial profits almost tripled in Jan-Feb • Euro area economic sentiment index rose more than expected to its highest since Feb '20	• US real personal spending fell more than expected • Japan industrial production fell more than expected • Euro area inflation unexpectedly slowed to 0.9% y/y in March, highlighting sustained disinflationary pressures
	Our assessment: Positive – Strong US, China data	
Policy developments	• President Biden unveiled a USD 2.2tn spending plan over 8 years to rebuild US infrastructure • ECB's Lane called for more fiscal stimulus to sustain the recovery	• Biden proposed to raise corporate taxes to 28% from 21% to fund the new stimulus • Fed said banks will have to wait until 30 June to resume share buybacks and issue dividends
	Our assessment: Positive – US infrastructure stimulus	
Other developments	• A large ship stuck in Suez Canal has been freed • The UK and EU reached an agreement on financial services	• US trade official says not ready to lift China tariffs • The US intensified its stance on human rights in China
	Our assessment: Positive – Suez crisis resolved, UK-EU deal on financial services	

COVID-19 cases have started to rise again in the Euro area and some EMs

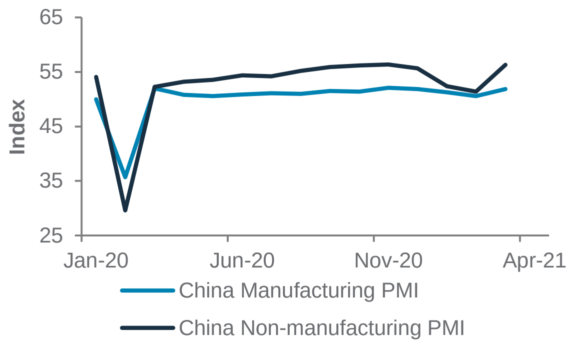
Daily new COVID-19 cases per million people



Source: Our World in Data, Standard Chartered
As of 30 March 2021

China's economic recovery is broadening, with service sector activity rising strongly in March

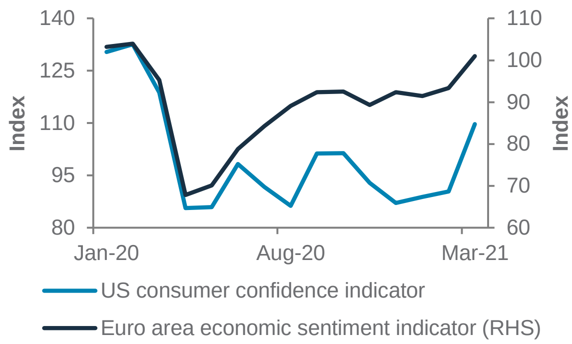
China manufacturing and services sector PMI



Source: Bloomberg, Standard Chartered

US consumer sentiment and Euro area economic sentiment are improving

US consumer confidence index and Euro area economic sentiment indicator



Source: Bloomberg, Standard Chartered

Top client questions

How does the recent hedge fund positions unwinding impact financial stocks?

US and European financial sector majors are counterparties to Archegos Capital, a family office that took large, concentrated positions in companies. There has been a plunge in one of their key positions, leading to forced unwind from its prime brokers.

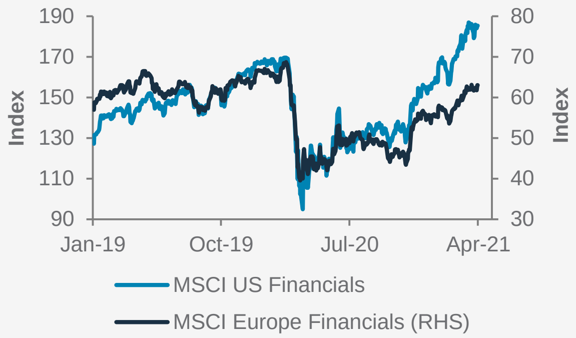
US and European financials remain our preferred sectors. Investors should consider averaging into stocks that have been impacted by this unwinding. Although there is a fear of further blow-ups in other hedge funds, the banks involved are, in general, well capitalised. We believe the long-term fundamental factors, i.e. 1) economic recovery, 2) steeper yield curve (wider gap between long-term and short-term yields) favourable for interest income, and 3) valuation discount remain intact. Share buybacks and dividends are other positive factors, although losses related to Archegos Capital may reduce the ability of the exposed banks to return money to shareholders near-term.

For the broader market, however, banks may eventually offer less leverage for hedge funds, leading to less liquidity in the market. This is a development we will need to monitor.

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

The hedge fund unwind has had a limited impact on financial sector equities so far

MSCI US and Europe financial sector indices



Source: MSCI, FactSet, Standard Chartered

What are some segments within US technology that investors should be focusing on?

Over the past few weeks, we have seen an increase in bond yields alongside an outperformance in global Value stocks compared with their Growth counterparts. While US equities continue to be preferred, the US technology sector (which makes up the bulk of Growth stocks) are now a core holding – meaning they will likely perform in line with the US equity benchmark over the next 12 months. This is because we see lesser room for significant upside, given the sector's higher sensitivity to shifts in longer-term interest rates.

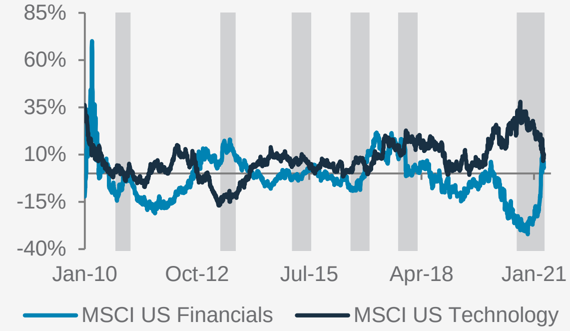
While large technology leaders remain underpinned by structural tailwinds, they will face challenging year-on-year earnings comparisons this year. Investors are also increasingly wary of their valuations relative to Value peers.

Viewing the technology sector using a thematic and/or sub-sector lens may be more appropriate, in our view. However, a selective approach is warranted. COVID-19 has helped accelerate innovation across businesses. Specific themes, such as internet-of-things (IoT), would be an area of the technology sector where investors may consider adding exposure. (see Emerging Theme titled: *"Golden equity themes for 2020s"*).

— **DJ Cheong, CFA,** *Investment Strategist*

Rising bond yields are a headwind for the US technology sector, given rich valuations

Relative performance of sectors in periods of rising yields***



Source: Bloomberg, FactSet, MSCI, Standard Chartered

** 12-month rolling performance (%) relative to MSCI USA;*
***Shaded regions indicate periods of rising yields*

Top client questions (cont'd)

Is China's policy tightening a negative for Asian HY bonds?

Bonds from Chinese issuers account for over 50% of Asian HY bonds and, as such, any policy measures impacting Chinese HY issuers are important. However, we believe the impact of the recent Chinese policy tightening is likely to be limited. There are two potential channels through which Chinese policy tightening can spill over to Asian HY:

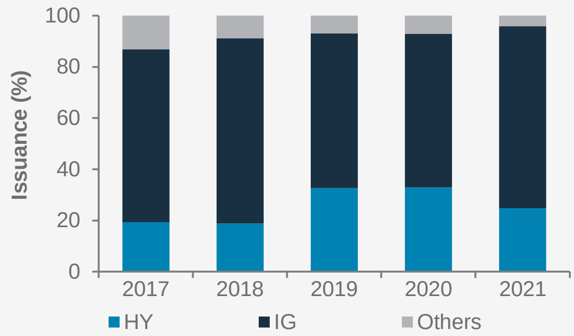
1) policy tightening may undermine the credit quality of Chinese issuers as they face funding challenges or higher borrowing costs. However, the recent policy measures were well flagged, giving companies time to adapt to these changes – eg. many Chinese property developers have strengthened their balance sheets in recent months.
2) increased issuance in the USD-denominated bond market, to offset any onshore funding challenges. However, in Q1 FY21, the HY issuance, as a proportion of total issuance in Asian USD bond market, has actually declined vs the last two years.

Against this backdrop, and the attractive pick-up offered by Asian HY bonds over US HY bonds, we continue to view them as a preferred holding.

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

Share of Asian HY bond issuance declined in Q1 compared with last two years

Share of HY and IG bond issuance in Asia USD bond market (2021 is YTD as of 30 March)



Source: Bloomberg, Standard Chartered

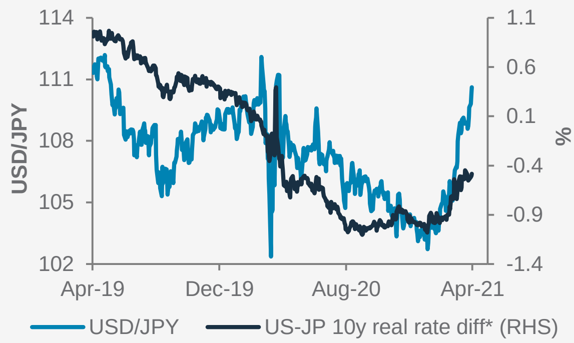
What is your near-term outlook for USD/JPY?

The USD has risen broadly as US COVID-19 vaccinations, growth expectations and bond yields have all risen faster than elsewhere. Low-yielding currencies, such as the EUR, CHF and JPY, have all underperformed as risk sentiment improved. USD/JPY is particularly sensitive to longer-term yield differentials and has risen around 8% since early January. This move was accentuated by a liquidation of long-JPY exposure and an accumulation of short-JPY positions. The break above 110 this week has also triggered bullish technical signals that target resistance around 111.70 to 112.20 as potential "next stops".

We believe this significant rally may soon peak and possibly reverse. Although USD/JPY has a tendency to "extend", the market is signalling "overbought" conditions. A new Japanese financial year is just beginning, and this could attract Japanese institutional investors to the market to buy the JPY to hedge their currency exposure. We expect that current upside potential is limited to 111.70–112.20 until there is, at the least, some price consolidation. This could mean a decline into the 108.30–109.30 technical support band, followed by a period of sideways trading that pivots around 110.

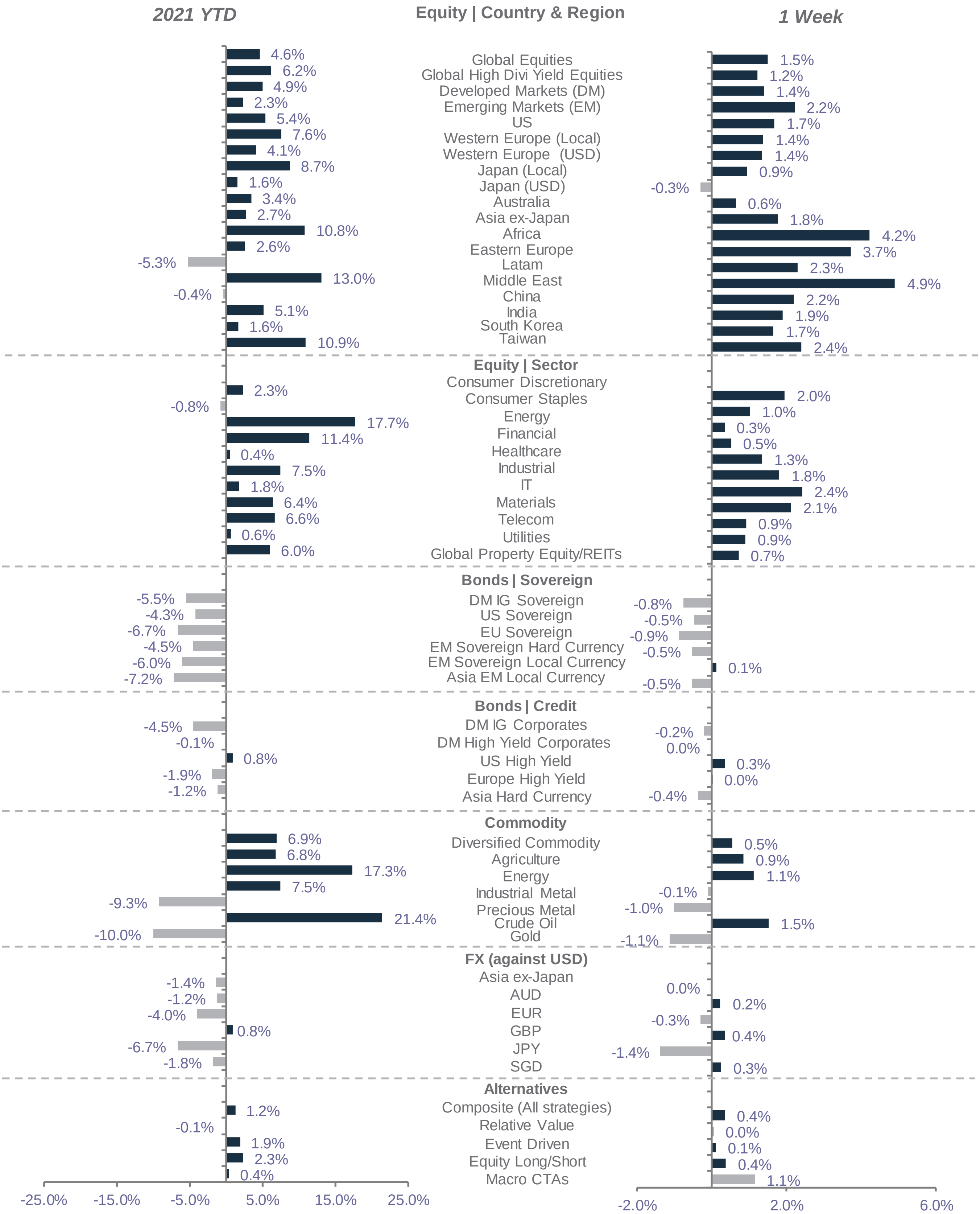
USD/JPY has outrun the US's relative rise in rate differentials

USD/JPY and US-Japan inflation-adjusted* rate differentials



Source: Bloomberg, Standard Chartered
*Derived using 10-year inflation-linked government bonds

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 31 March 2021; 1-week period: 25 March 2021 to 31 March 2021

Our asset class views at a glance

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

Source: Standard Chartered Global Investment Committee

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

Economic and market calendar

	Event	Next week	Period	Prior
MON	US	ISM Services Index	Mar	55.3
TUE	CH	Caixin China PMI Composite	Mar	51.7
	EC	Sentix Investor Confidence	Apr	5.0
	EC	Unemployment Rate	Feb	8.1%
WED				
THUR	EC	PPI y/y	Feb	0.0%
FRI/SAT	CH	CPI y/y	Mar	-0.2%
	US	PPI Ex Food & Energy y/y	Mar	2.5%
	CH	New Yuan Loans CNY	Mar	1360.0b
	CH	Money Supply M2 y/y	Mar	10.1%
	US	Powell Takes Part in IMF Panel on Global Economy		

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 has resistance 0.6% above current level

Technical indicators for key markets as on 31 Mar 2021

Index	Spot	1st support	1st resistance
S&P500	3,973	3,930	3,995
STOXX 50	3,919	3,859	3,953
FTSE 100	6,714	6,668	6,766
Nikkei 225	29,179	28,795	29,498
Shanghai Comp	3,442	3,385	3,478
Hang Seng	28,378	27,993	28,671
MSCI Asia ex-Japan	864	852	872
MSCI EM	1,316	1,297	1,328
Brent (ICE)	62.7	61.5	64.5
Gold	1,708	1,684	1,732
UST 10Y Yield	1.74	1.67	1.78

Source: Bloomberg, Standard Chartered

US 10-year Treasuries have low investor diversity

Our proprietary market diversity indicators as of 30 Mar

Level 1	Diversity	1-month trend	Fractal dimension
US 10-year yield	○	↓	1.21
Global Equities	●	↑	1.53
Gold	◐	↓	1.33
Equity			
MSCI US	●	↑	1.53
MSCI Europe	◐	→	1.35
MSCI AC AXJ	●	↑	1.59
Fixed Income			
DM Corp Bond	◐	↓	1.27
DM High Yield	●	↑	1.68
EM USD	◐	↓	1.39
EM Local	◐	↓	1.30
Asia USD	●	→	1.61
Currencies			
EUR/USD	◐	↓	1.34

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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