WM Chief Investment Office | 22 January 2021

Standard Chartered

Weekly Market View

What to expect from Biden

US President Joe Biden's ambitious agenda in his first 100 days should be significantly positive for reflating the US and global economy. This is likely to be supportive of global risk assets, especially in Emerging Markets, any short-term pullbacks notwithstanding

Equities: Rising inflows from Mainland China investors into Hong Kong stocks point to a sustained rally, despite any near-term blips

Bonds: We believe incoming US Treasury Secretary Yellen's call to policymakers to 'act big' on fiscal stimulus is likely to force the Fed to keep rates low for a long time

FX: Long-term cyclical trends suggest the US "strong dollar policy" may be just a myth

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Are China's recent credit tightening moves negative for Asia USD bonds?

Is Yellen moving away from a strong dollar policy?

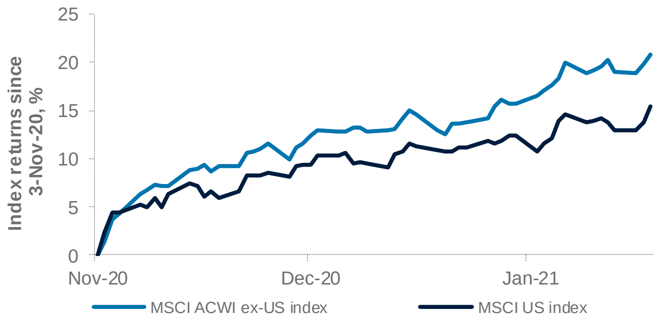
Are COVID-19 trends and macroeconomic data improving?

Important disclosures can be found in the Disclosures Appendix.

Charts of the week: Biden fuels risk appetite

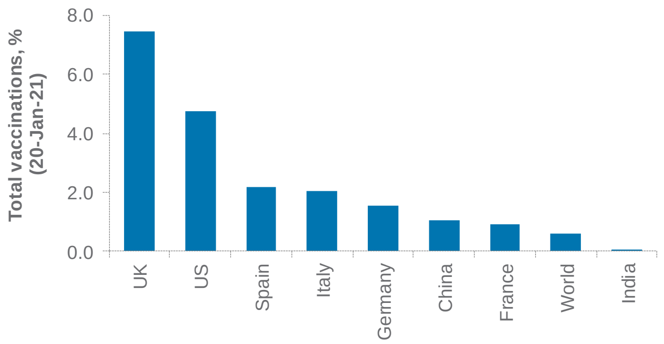
We see the outperformance of non-US stocks as a sign of improving global risk sentiment

Performance of MSCI All Country World ex-US index and MSCI US index since the US presidential election*



Source: Bloomberg, Standard Chartered; *03 November 2020

Share of population that has received at least one dose of a COVID-19 vaccine



Source: Our World in Data, Standard Chartered

Editorial

What to expect from Biden

US President Joe Biden has laid out an ambitious economic revitalisation plan for his first 100 days. This includes another USD 1.9trn fiscal stimulus, vaccination for 100m people and reversal of several Trump era rules with an aim to build a more sustainable 'green' economy. We believe reasonable success on these goals would be significantly positive for reflating the US and global economy, supporting stocks and other risk assets. EM assets, cyclical and Value equities, and currencies such as the AUD are likely to particularly benefit, especially as the USD continues to fall (see page 5). The growing outperformance of non-US equities compared with US stocks over the past month reflects this emerging trend.

We acknowledge that parts of Biden's 100-day agenda, especially contentious bailouts of city and state governments and doubling of minimum wages to USD 15 an hour, appear ambitious given the Democrats' razor-thin 51-50 majority in the Senate. Biden is likely to focus on easy wins in his initial days, focusing on areas where he has bipartisan support. This approach would leave him space to implement his contentious taxation and spending plans (under Senate budget approval process, he has one chance a year to get his spending plans approved by a simple majority, instead of the usual 60%).

We believe the president will be able to get a majority of his initial USD 1.9trn stimulus approved in the first 100 days, including another USD 1,400 in cheques to most Americans, extended unemployment benefits, support for small businesses and funds to reopen schools and for the vaccination drive. The new stimulus, combined with the USD 600 checks approved in December by the previous Congress, should help consumption rebound in the coming quarters, especially as the pandemic fears fade with accelerated vaccinations.

Corporate earnings seem to be already emerging from their early 2020 slump, as seen from the latest Q4 '20 US bank sector earnings. Lower loan-loss provisions and better-than-expected capital market income mean the US financial sector earnings are now expected to have risen almost 7% y/y in Q4, compared with a -4.5% contraction anticipated only a week ago. As a result, the financial sector has emerged as the second biggest contributor to US earnings after the technology sector.

Meanwhile, a step change in the US's already dovish economic policy may be in the offing. We see incoming Treasury Secretary Janet Yellen, supported by a Democrat majority in the Congress and a resolutely dovish Fed, as a winning combination for global reflation trades. Yellen's comments this week on the need to "act big" in implementing fiscal stimulus while bond yields are low set the tone for an increasingly relaxed policy stance, in our view. While bond yields and inflation expectations have risen in recent weeks, they remain below levels that would cause concerns for the Fed. We expect the Fed to lean against a further significant rise in yields (see page 5), with next week's policy meeting giving the central bank a chance to clearly reiterate this message.

In the near-term, though, global stocks, especially across EMs, appear stretched, based on crowded investor positioning. Political heat is also likely to rise in the US in the coming weeks as the Senate takes up ex-President Trump's impeachment. While that raises the risk of short-term volatility, the unfolding policy backdrop argues for averaging into any pullback in risk assets, building on themes we have laid out in our 2021 Outlook.

The weekly macro balance sheet

Our weekly net assessment: On balance, we see the past week's data and policy as Neutral

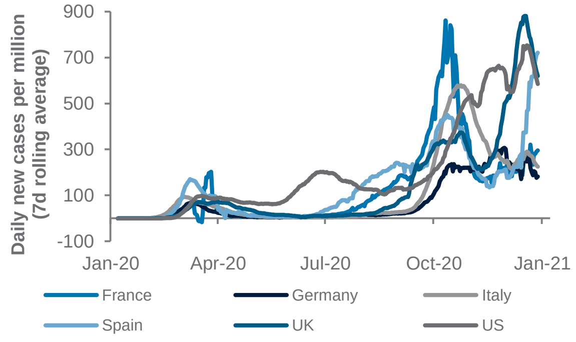
(+) factor: US fiscal stimulus, vaccine plan, US/China data

(-) factor: Weak US, China retail sales, political tensions

	Positive for risk assets	Negative for risk assets
COVID-19	• New cases appear to have peaked in the US, UK, parts of EU, India and South Korea • President Biden plans 100m vaccinations in his first 100 days in office • EU aims to vaccinate 70% of citizens by summer	• Hospitalisations, deaths hit new highs in the US, UK, Germany, Japan • China urged people to avoid travel prior to the Lunar new year holidays • Vaccine efficacy/safety concerns in South Africa, Israel and Norway
	Our assessment: Neutral – US, EU vaccine plans offset by hospitalisations, vaccine efficacy concerns	
Macro data	• US industrial output, housing starts rose more than expected • EU investor sentiment rose more than expected • China Q4 GDP and Dec. industrial output rose more than expected	• US retail sales and consumer sentiment fell more than expected • US small business outlook fell unexpectedly • China retail sales rose less than expected
	Our assessment: Neutral – Strong industry data offset by surprisingly weak retail sales in US and China	
Policy developments	• Biden plans USD 1.9trn stimulus in first 100 days • US nominee Treasury Secretary Yellen urged lawmakers to "act big" on stimulus as rates are low • BoJ upgraded Japan's '21 growth forecast to 3.9%	• ECB's Lagarde said Euro area GDP likely shrank in Q4 20 and could contract again in Q1 21 as the central bank retained its stimulus measures
	Our assessment: Positive – more US fiscal stimulus	
Other developments	• US Democrats took control of the Senate after three members were sworn in	• US Senate to take up impeachment of Trump for the second time • China sanctioned former US officials, including former Secretary of State Pompeo
	Our assessment: Neutral – US Democrat Senate control offset by domestic and geopolitical tensions	

New cases have started to decline in most of Europe and the US; Spain is the one to watch

Daily new cases per million people



Source: Our World in Data, Standard Chartered

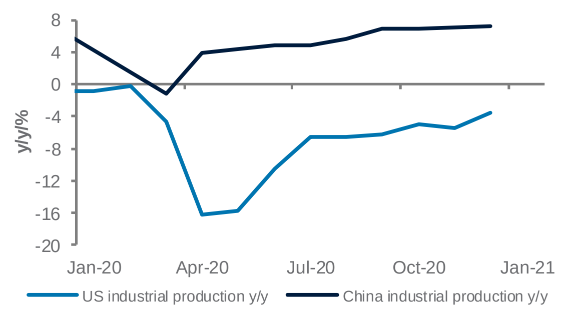
US and China retail sales showed signs of flagging in December…

US and China retail sales growth

Source: Bloomberg, Standard Chartered

…but industrial output in both countries continued to improve

US and China industrial output growth



Source: Bloomberg, Standard Chartered

Top client questions

Is the rally in HK and China stocks sustainable?

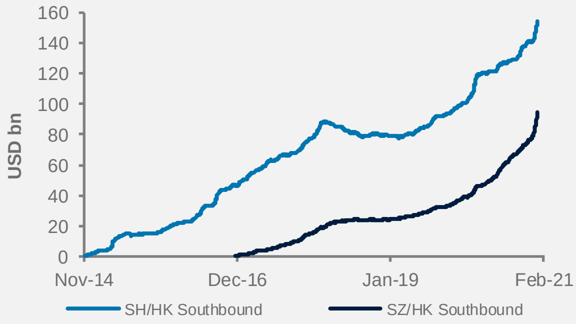
From the beginning of the year to 19 January, southbound fund inflow from China-based investors via Stock Connect to Hong Kong equities have reached USD 24bn (c. 28% of last year's total). The MSCI China Index now looks stretched on technical indicators, including our proprietary market diversity indicator, and the valuation discount to MSCI All Country World is slightly below its long-term average at 15%.

However, we believe favourable factors remain in play, which means any pullback could be short lived. A strong CNY vs USD has induced outbound investment from Mainland China amid supportive government policies. The relatively lower valuation of Hong Kong stocks to their China A-share counterparts has attracted buying from Mainland investors.

Looking ahead, a strong IPO pipeline could lead to more quality 'New Economy' stock listings in Hong Kong. A record start of onshore mutual fund issuance, with a growing number of mandates to include Hong Kong-listed stocks, is also likely to support southbound inflow. Given institutional funds in China usually take two to three months to build meaningful positions, we believe a short-term pullback would offer an attractive opportunity to buy on dips.

Southbound fund flows from Mainland China to Hong Kong (HK) has accelerated this year

Shanghai-HK, Shenzhen-HK cumulative flows



Source: Bloomberg, Standard Chartered

Are the recent credit tightening measures in China negative for Asian USD bonds?

In recent months, Chinese authorities have been increasing their focus on debt sustainability. This has resulted in a number of regulatory measures being announced since late last year, including the "three red lines" policy for property developers and a slew of fines and suspensions of rating agencies, auditors and banks involved in debt issuance of recent defaulters.

We expect default rate in the onshore bond market to remain elevated in 2021. However, as in the past, it is likely Chinese authorities will avoid defaults spiking to a level where they threaten broader market stability.

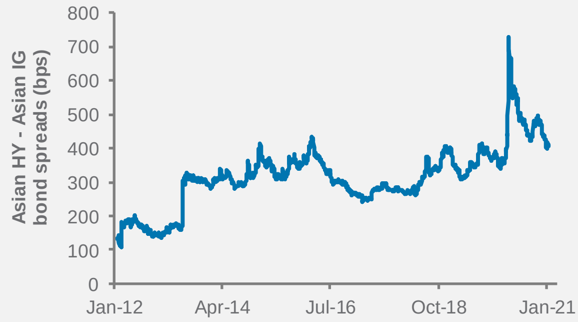
We see two major implications for Asia USD bonds:

1. Greater differentiation between weak and strong borrowers as onshore refinancing risk for the former rises.
2. Shift in issuance from onshore to offshore market, potentially increasing Asian USD bond market supply.

While temporary volatility in Asian USD bonds is possible as a result of onshore policy, we believe the impact is likely to be contained. Hence, we continue to favour Asian USD bonds, especially High Yield (HY) bonds, on a 6-12-month horizon.

Asian HY bonds continue to offer attractive yields vs. Investment Grade (IG) bonds

Yield premium on Asian HY bonds over IG bonds



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

What are the implications of Yellen's testimony on US bond yields?

In our assessment, Yellen's testimony to the Senate Finance Committee earlier this week has raised expectations that the Fed will cap bond yields at relatively low levels.

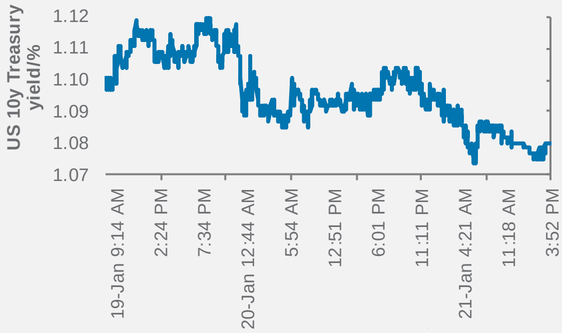
Yellen indicated her support for further government spending to help the economic recovery. For bond markets, this raises the prospect of high bond issuance that could exert upward pressure on bond yields.

However, Yellen also highlighted that debt servicing cost is a key metric to monitor and crucial for a sustainable Federal budget. Market participants have largely viewed this as implicitly aimed at the Fed, soliciting their help to maintain low yields to help the economic recovery.

The focus now shifts to the Fed meeting on 26-27 January. Investors are likely to look to Fed Chair Powell to reaffirm the Fed's commitment to its new average inflation targeting policy, which would imply that interest rates would remain low for the foreseeable future. Any comments on a possible shift in bond purchases towards longer maturity bonds to cap the recent rise in yields are likely to be closely watched as well.

US 10-year Treasury yield has declined after Yellen's testimony

US 10-year Treasury yield



Source: Bloomberg, Standard Chartered

Is Yellen moving away from a strong USD policy?

US currency policy is the remit of the US Treasury. Treasury Secretary Rubin promoted a "strong USD policy" - his intervention in 1995 enabled the USD to soar about 50% by 2001. However, since then, the currency has fallen and rallied by around 40% in large cyclical swings over the past two decades. More recently, outgoing Treasury Secretary Mnuchin spoke of the trade benefits of a weaker USD in 2018.

Treasury Secretary Nominee Yellen said this week that markets should determine FX rates and manipulation of FX rates for a trade advantage is unacceptable. What might markets imply from Yellen's testimony?

The Biden-Yellen-Powell triumvirate has the potential to deploy a very large fiscal stimulus, while containing funding costs. In the short term, this could support the USD as markets anticipate US economic outperformance.

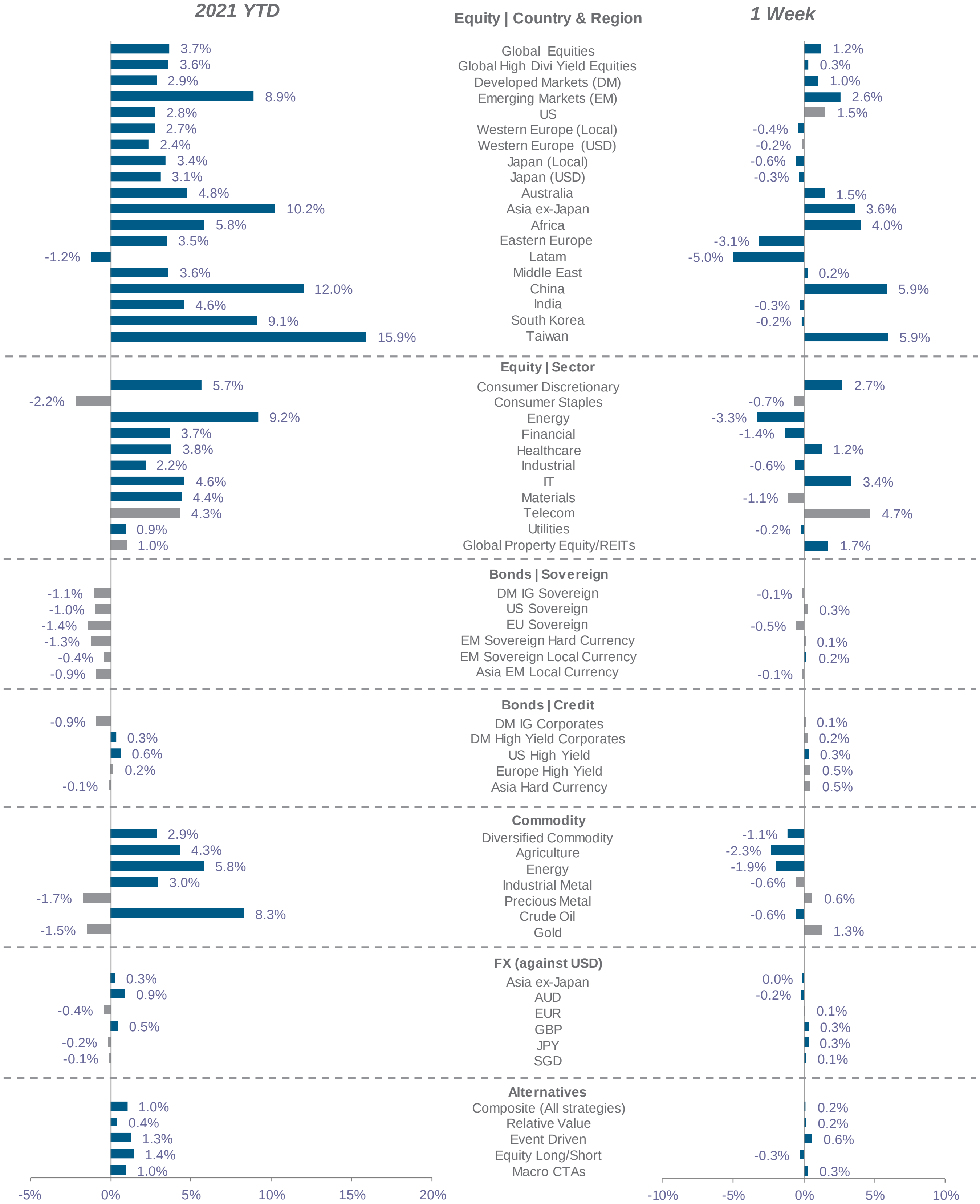
Longer-term, though, we see Yellen's comments as a strong tailwind for our weak USD 12-month view. Low US interest rates, rising deficits and a recovering global economy suggest a cyclical USD decline could be a natural market outcome of supercharged US policies. We continue to prefer selling into any USD rallies in the coming weeks, noting the detailed levels we outlined last week remain valid.

Long-term cyclical trends suggest the US "strong USD policy" may be just a myth

Broad USD (DXY) index

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; year-to-date performance from 31 December 2020 to 21 January 2021, 1 week period: 14 January 2021 to 21 January 2021

Our asset class views at a glance

Asset Class			
Equities	▲	**Alternatives**	◆
Asia ex-Japan	▲	Equity hedge	▲
US	▲	Event-driven	◆
Euro Area	▲	Relative value	◆
Japan	▲	Global macro	▼
Other EM	◆		
UK	◆	**Cash**	▼
		USD	▼
Bonds (Credit)	▲	EUR	▲
Asia USD	▲	GBP	▲
Govt EM USD	▲	AUD	▲
Corp DM HY	▲	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	EC	ECB's Lagarde Gives Keynote	Jan	
	GE	IFO Current Assessment	Jan	91.3
TUE	US	Conf. Board Consumer Confidence	Jan	88.6
WED	CH	Industrial Profits y/y	Dec	15.5%
	US	Cap Goods Orders Nondef Ex Air	Dec P	0.5%
	GE	Retail Sales NSA y/y	Dec	5.0%
THUR	US	FOMC Rate Decision (Upper Bound)	27-Jan	0.3%
	US	GDP Annualized q/q	4Q A	33.4%
	US	Personal Consumption	4Q A	41.0%
FRI/SAT	JN	Industrial Production y/y	Dec P	-3.9%

Source: Bloomberg, Standard Chartered
Prior data are for the preceding period unless otherwise indicated. Data are % change on previous period unless otherwise indicated
y/y - year-on-year, m/m - month-on-month

S&P500 has resistance 0.7% above current level

Technical indicators for key markets as on 21 Jan. 2021

Index	Spot	1st support	1st resistance
S&P500	3,853	3,797	3,881
STOXX 50	3,618	3,601	3,630
FTSE 100	6,715	6,705	6,733
Nikkei 225	28,757	28,414	28,928
Shanghai Comp	3,621	3,585	3,640
Hang Seng	29,928	29,014	30,402
MSCI Asia ex-Japan	929	903	942
MSCI EM	1,406	1,374	1,422
Brent (ICE)	56.1	55.2	56.5
Gold	1,871	1,842	1,886
UST 10Y Yield	1.11	1.09	1.11

Source: Bloomberg, Standard Chartered

Risk of a near-term trend reversal in some markets

Our proprietary market diversity indicators as of 20 Jan.

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↑	1.51
Global Equities	○	↓	1.24
Gold	●	↑	1.67
Equity			
MSCI US	◐	→	1.31
MSCI Europe	◐	↓	1.26
MSCI AC AXJ	○	→	1.18
Fixed Income			
DM Corp Bond	◐	→	1.42
DM High Yield	◐	↓	1.27
EM USD	◐	↓	1.43
EM Local	◐	→	1.27
Asia USD	◐	↓	1.49
Currencies			
EUR/USD	◐	→	1.50

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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