



Global Market Outlook

A textbook landing?

Q1 24 data suggests a soft landing of the US economy is the most likely outcome. We expect the Fed and the ECB to cut rates in concert starting mid-year, leading to a rangebound USD.

In Foundation allocations, we are Overweight global equities. Globally, we prefer US and Japan markets. In Asia, we are Overweight Korea, India and Taiwan equities.

We still see an attractive opportunity in global bonds, but yields may fall less than previously expected.

In Opportunistic allocations, we introduce a new set of equity and bond Buy ideas.



What are the implications of a second Trump presidency?

What are the drivers of the US soft-landing thesis?

Do you still expect income allocation to sustainably provide a 6% yield?

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Investment strategy and key themes

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Our top preferences

Foundation Allocations

- OW Global equities
- *In equities: US, Japan*

Opportunistic Allocations

Equity BUY ideas

- *US technology sector*
- *US comms. Services sector*
- *US energy sector*
- *India large cap equities*
- *China non-financial divi SOEs*

Bond BUY ideas

- *US inflation-protected bonds*
- *Europe govt. bonds (fx-hedged)*
- *INR local currency bonds*

FX views

- Rangebound USD

A textbook landing?

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- In Opportunistic allocations, we introduce a new set of equity and bond Buy ideas.

Rising policy convergence amid a soft landing

In our Outlook 2024, we argued that the first half of 2024 was likely to resemble a soft landing in the US economy even as hard landing risks lurked in the background. This led us to suggest investors to 'Sail with the Wind' by being overweight equities. Thus far, this view has played out well. US growth data has been relatively resilient, with manufacturing registering an uptick. Labour market data has shown some weakness under the surface but has thus far held up well at the headline level. Inflation has been a little more persistent than expected.

We would not interpret the benign data as the evaporation of hard landing risks – indeed the labour market is one example of macro data which argues that we should remain on the watch for any unexpected deterioration. Nevertheless, hard landing risks have likely reduced, or at least have been delayed. For the Fed, this still argues for rate cuts this year starting in June. However, more-persistent-than-expected inflation means we now expect three rate cuts (75bps) this year as opposed to five (125bps) previously.

This brings our Fed view in line with our ECB rates outlook, which, together with a macro environment of falling FX volatility, argues for an increasingly rangebound USD.

Fig. 1 US equities are likely to keep outperforming amid strong earnings growth in our preferred sectors

S&P500 expected EPS growth vs. ISM mfg new orders



Source: FactSet, Bloomberg, Standard Chartered

Staying the course in equities

For equity markets, relatively little has changed since the start of 2024. The improvement in the earnings outlook makes up for a smaller-than-expected tailwind from lower Fed rates, in our opinion. We remain Overweight global equities relative to bonds and cash. This is partly driven by our preference for the US. As the chart illustrates, the nascent upturn in manufacturing sector new orders is likely to support earnings growth amid still-strong margins. In our view, these positives outweigh the risks from valuations and concentration, leaving us Overweight US equities.

In Japan, the Bank of Japan's policy tightening proved to be less of a short-term headwind than feared. Absent an imminent jump in the JPY, we believe this will allow markets to continue focusing on shareholder-friendly reforms and rising share buybacks, which we believe can help sustain equity gains. We remain Overweight Japanese equities.

In Asia, prefer Korea, India and Taiwan

In Asia, Chinese equities appear to be staging a short-term rebound. Our prior work on momentum suggests gains have room to extend further short term once MSCI China gains cross 10% from their recent trough. Having said that, greater policy support for growth is still likely needed for equity gains to sustain long term. We remain Neutral Chinese equities.

Elsewhere in Asia, we believe Indian equities have room to extend gains amid a US soft-landing environment and likely policy continuity after the upcoming elections. Korean and Taiwan equities should gain from their correlation with resilient US growth data and a potential semi-conductor sector upturn. We are now Overweight Korea, India and Taiwan equities.

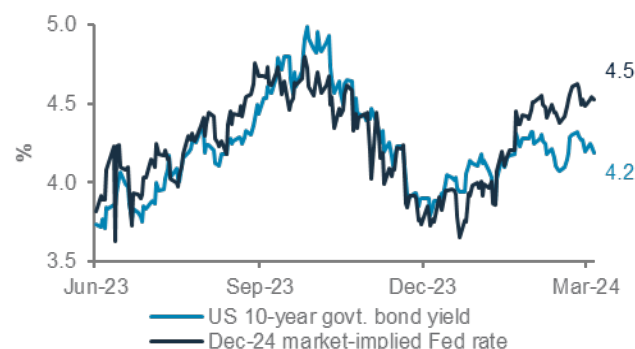
Attractive yields, but muted price gains?

Extended US economic resilience, still-robust inflation and our view that the Fed is likely to cut rates only thrice this year raise the question of whether bonds still face the same magnitude of tailwinds as we expected at the start of the year.

Directionally, our expected path of bond yields remains unchanged. We believe US bond yields are likely near a

Fig. 2 We expect US government bond yields and the USD to fall later this year as the Fed starts cutting rates

10yr US govt. bond yield vs. Dec 2024 Fed expectations



Source: Bloomberg, Standard Chartered

cyclical peak and have room to move lower as the Fed starts cutting rates in June. However, the move in yields is unlikely to be as significant as we anticipated at the beginning of the year. We revise up our 12-month expectation for US 10-year government bond yield to 3.75-4.00% (from 3.25-3.50%).

For investors, this does not take away from our broader view that we would use the current opportunity to lock in attractive yields. It does mean, however, that total returns may be somewhat lower than we previously expected as the fall in yields (rise in bond prices) is more muted. We now have a Neutral allocation to fixed income as we see equity returns outpacing bond returns. Within bonds, we also turn Neutral Developed Market IG bonds based on the same rationale.

Opportunistic allocations: our BUY ideas

While our asset allocation views illustrate our highest convictions within long-term Foundation portfolios, we introduce a new set of Buy ideas, which represent our highest convictions to populate Opportunistic portfolios.

Within equities, we would Buy the technology, communication services and energy sectors in the US. The first two are likely to lead performance of US equities should the rally extend as expected. The energy sector is likely to benefit from increasingly shareholder-friendly efforts of US oil producers against a backdrop of relatively stable oil prices. We would also Buy India large-cap equities, which we believe offer an attractive risk/reward in an ongoing Indian equity rally, and Buy China non-financial high dividend equities of state-owned enterprises (SOEs), for which we expect higher demand amid lower policy rates and yields.

In bonds, we would Buy US inflation-protected bonds, which appear undervalued relative to inflation risks. We would Buy European government bonds (FX-hedged) given they offer exposure to downside growth risks in the region. We would Buy Indian Rupee government bonds given their attractive yield relative to EM peers and ongoing support from flows driven by the global benchmark index inclusion.

See asset class pages for more details on our Buy ideas.

Foundation asset allocation models

The Foundation and Foundation+ models are allocations that you can use as the starting point for building a diversified investment portfolio. The Foundation model showcases a set of allocations focusing on traditional asset classes that are accessible to most investors, while the Foundation+ model includes allocations to private assets that may be accessible to investors in some jurisdictions, but not others.

Fig. 3 Foundation asset allocation for a moderately aggressive risk profile

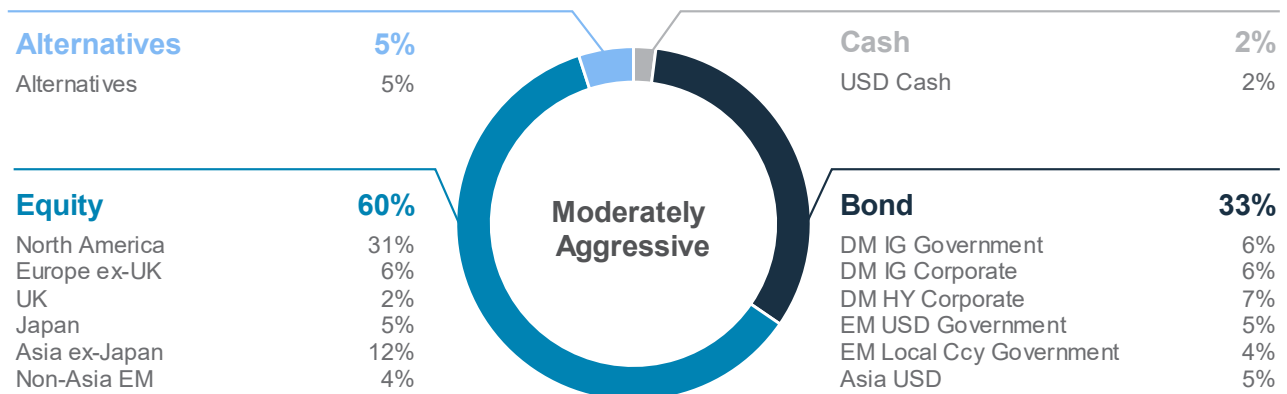


Fig. 4 Foundation+ asset allocation for a moderately aggressive risk profile

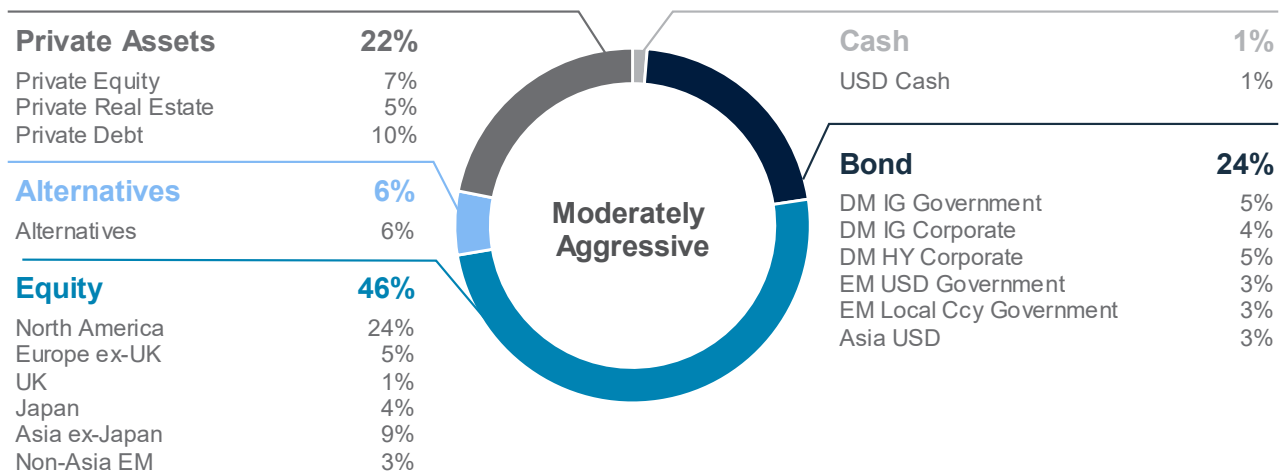
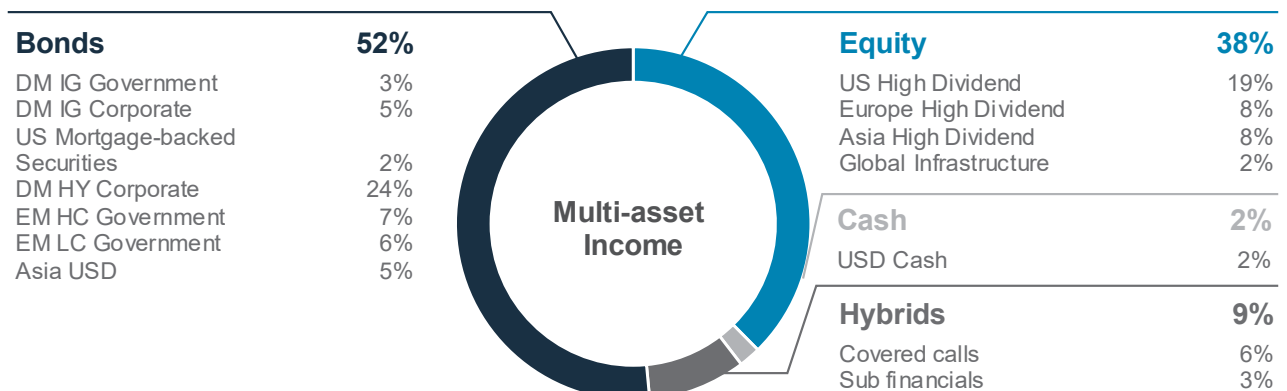


Fig. 5 Multi-asset income allocation for a moderate risk profile



Source: Standard Chartered

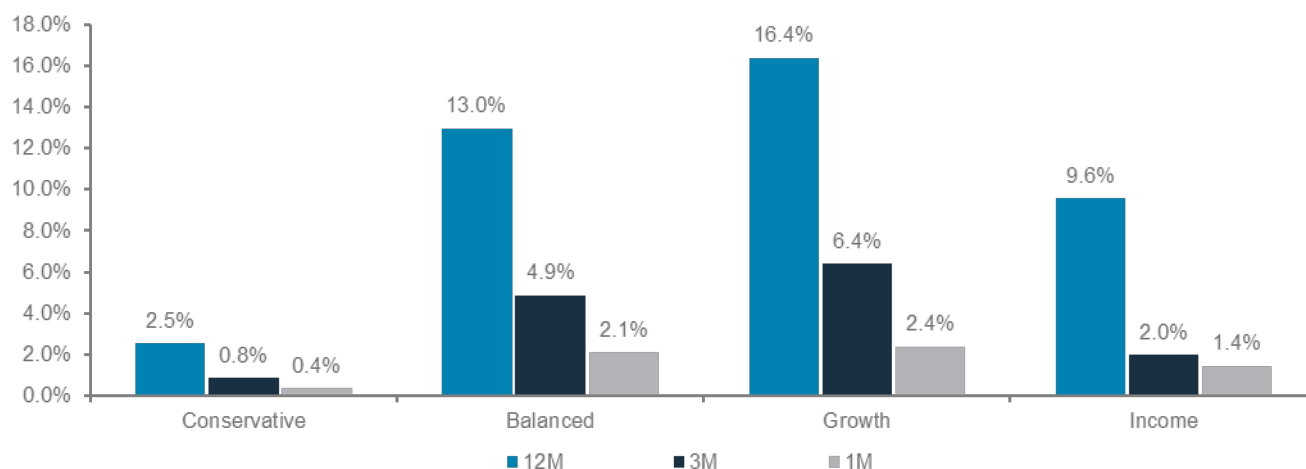
Foundation: Our tactical asset allocation views

	View	Detail
USD cash	▼	+ Safety, real yields - Risk of missing higher returns elsewhere
Bonds	◆	
<i>DM Govt</i>	◆	+ High credit quality, attractive yields - High sensitivity to monetary policy
<i>DM IG Corporate</i>	◆	+ High credit quality, sensitive to falling yields - Elevated valuations
<i>DM HY Corporate</i>	◆	+ Attractive yield, low rate sensitivity - Elevated valuations, sensitive to growth
<i>EM USD Govt</i>	◆	+ Attractive yield, sensitive to US rates - EM credit quality, election/political risks
<i>EM Local Ccy Govt</i>	◆	+ Attractive yield, room for policy rate cuts - USD strength, election/political risks
<i>Asia USD</i>	◆	+ Moderate yield, low volatility - China property contagion risk, elevated IG valuations
Equities	▲	
<i>North America</i>	▲	+ Strong earnings growth amid robust consumption - Impact of high interest rates
<i>Europe ex-UK</i>	▼	+ Inexpensive relative valuations - Still-weak cyclical & structural growth outlook
<i>UK</i>	▼	+ Attractive valuations, dividend yield - Stagflation risks, political uncertainty
<i>Japan</i>	▲	+ Reasonable valuations, rising dividends/share buybacks - Expected JPY strength
<i>Asia ex-Japan</i>	◆	+ Earnings rebound, China policy support - China structural growth concerns
Gold	◆	+ Portfolio hedge, central bank demand, falling real rates - Resilient USD
Liquid Alternatives	◆	+ Diversifier characteristics - Equity, corporate bond volatility

Source: Standard Chartered Global Investment Committee; **Green** = Upgrade; **Red** = Downgrade;

Legends: ▲ Overweight | ▼ Underweight | ◆ Neutral

Fig. 6 Performance of our Foundation Allocations*



Source: Bloomberg, Standard Chartered

*12-month performance data from 27 March 2023 to 27 March 2024, 3-month performance from 27 December 2023 to 27 March 2024, 1-month performance from 27 February 2024 to 27 March 2024.

Foundation: Multi-asset income

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Head, Asset Allocation

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Portfolio Strategist



Key themes

Income assets trailed as equity markets soared to record highs. Our Multi-Asset Income (MAI) model allocation has delivered just 2.0% since 27 December 2023 till date, modestly better than most fixed income assets, but lagging the strong performance seen in global equities. Our Underweight to dividend equities hurt as equities have outperformed bonds thus far, while the Overweight allocation to fixed income was negatively impacted by the rise in US government bond yields.

Greater probability of a soft landing as economic data continues to surprise on the upside. The recent central bank meetings also suggest DM policymakers are turning more supportive of growth and less concerned about inflation. This suggests a more stable interest rate environment, amid resilient growth, which will likely be positive for both bonds and equity risk assets over the next 6-12 months. For multi-asset income strategies, the reduced risk of an economic downturn can benefit dividend equities and non-core income assets, which have performed well so far into the year.

We close our Overweight to fixed income, turning Neutral between bonds and dividend equities this month. The overall yield on our MAI allocation remains at an attractive c.6%, with MAI strategies likely to benefit from a combination of more resilient economic growth and a less uncertain interest rate environment, given the Fed guidance on policy rate direction for 2024.

Key chart

Equity markets recorded new highs so far in 2024 and dividend equities have benefitted from the rally, though not all regions have seen equal outperformance

Fig. 7 Asia dividend equities have outperformed US and European peers this year

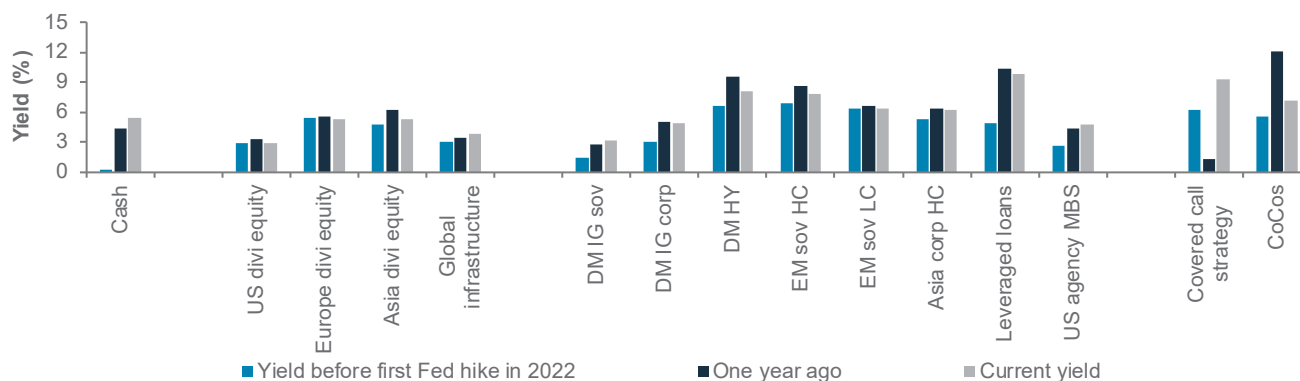
Performance of regional dividend equities relative to global dividend equities



Source: Bloomberg, Standard Chartered

Fig. 8 Bond yields remain high and attractive across the board

Yield to worst/dividend yield (%) since the Fed started hiking interest rates in 2022



Source: Bloomberg, Standard Chartered.

Contingent Convertibles (CoCos) are complex financial instruments. Refer to Important Information on page 31 for further details.

A review of MAI so far this year

Equity markets recorded new highs so far in 2024, while income assets trailed in performance. As such, our MAI allocations recorded a healthy, but modest, 2.0% return since 27 December 2023. There were broad-based gains in dividend equities, with Asia dividend equities being the strongest contributor. Credit assets such as Developed Market high yield bonds and leveraged loans also added to the performance given still-strong corporate earnings and support for the latter from higher rates. Covered calls also performed strongly, up over 7%. However, our allocations into DM Investment Grade government bonds were negatively impacted by the rise in US government bond yields.

Looking forward, we believe that yields are likely to remain elevated given still high policy interest rates. We believe the Fed will follow through on its guidance for three rate cuts in 2024 after leaving policy rates unchanged at the latest March meeting. As such, we expect the yield on MAI assets to remain high relative to history.

Turning Neutral between stocks and bonds

In this quarter, we are moving to a Neutral allocation for both bonds and dividend equities within our MAI portfolio. While we like high quality fixed income assets for their better downside protection, equity components such as dividend equities and covered calls (a broad S&P500-linked option strategy common in income strategies) have been benefitting from still optimistic market data and the AI rally that seems to have extended to the broader markets.

We are closing our preference for covered calls over high dividend equities, allocating more into the latter. The performance of Asian dividend equities has been outstanding, with companies offering relatively high dividends. We have also seen rising dividends across a broad range of countries and sectors. While covered calls have benefitted from the market rally in S&P500, we see it as opportune to dial down exposure into laggard dividend equities.

We still prefer DM High Yield (HY) bonds relative to leveraged loans (LLs). DM HY has held up much better in terms of credit quality and we see default rates rising at a slower pace than that for LLs, which are seeing an increase in default rates given the generally lower quality of borrowers who are under pressure from the still high policy rates.

Furthermore, there has been an increasing shift towards private credit to bridge the funding gap, which has reduced demand for both DM HY and LL, as a result.

We also prefer sub-financials over DM HY. From a valuation perspective, CoCos spreads tightened on demand for yields and quality as markets anticipated lower policy rates. Bank fundamentals also remain strong, and we are confident that banks will stick to the first call dates, reducing the risk of extension, which is a situation where borrowers might defer payments.

Rate cuts potentially to follow

The Fed's revised projections lend support to our view that it is ready to cut interest rates several times well before inflation falls below its 2% target. Given this, our expectation is for three rate cuts this year, with the first rate cut to occur in June (please refer to the macro section on page 11 for a detailed read on our macroeconomic view). With these possible rate cuts lined up, it should ease monetary and liquidity conditions, benefitting equity assets.

Looking back at the past three rate cutting cycles (when most income assets in our universe started trading), we observe that **fixed income assets tend to perform better than equity income assets**. During these rate cutting cycles, the 10-year US government bond yield also fell sharply in response. When yields fall, bond prices rise and this lends support to the outperformance of fixed income assets, particularly in the most rate-sensitive assets.

Intuitively, one would assume that interest rate cuts should also bode well for equity investments since the borrowing costs for companies would decline. **However, the last three rate cutting cycles were also accompanied by a recession.** Investors during recessions are more likely to move into safe-haven assets such as DM government bonds, while avoiding riskier assets such as equities.

Thus, while history offers a guide, it is important to consider rate cuts in light of the state of the current economy as well.

Fig. 9 Fixed income broadly outperformed equity income assets after the Fed's first rate cut in a cycle

Asset class returns 12 months after the first rate cut (%)

Rate cut cycle	2001-2003	2007-2008	2019 - 2020	Average
DM IG Govt	-1.7	8.3	7.7	4.8
DM IG Corp	4.6	-2.1	10.2	4.2
EM USD Govt	10.5	-0.2	3.0	4.4
Asia USD*		0.6	7.1	3.9
DM HY	2.7	-5.3	2.0	-0.2
US high divi equity	-3.3	-18.7	-1.4	-7.8
Europe high divi equity	-9.5	-30.4	-7.7	-15.9
Asia high divi equity	0.8	-19.7	-5.5	-8.1
Global high divi equity	-6.6	-25.0	-1.8	-11.2

Source: Bloomberg, Standard Chartered

*Asia USD bond index started in September 2005

Given our increased probability of a soft-landing scenario (50%) for the US economy over the next 6-12 months, we expect both fixed income and dividend equities to benefit. **This will likely benefit income strategies, with resilient growth positive for equity risk and a stable interest rate environment positive for bond and credit risk within our income allocation.**

Perspectives on key client questions

Audrey Goh, CFA
Head, Asset Allocation

Tay Qi Xiu
Investment Strategist

Q What are the implications of a second Trump presidency?

Former President Donald Trump is heading towards a likely election rematch with President Joe Biden in November. However, this time, Trump is also juggling campaigning with 91 felony charges. Despite that, Trump's continued resilience as a candidate remains on display, with the latest surveys showing Trump leading Biden in opinion polls. In this report, we examine the odds of a Trump re-election and the potential implications on financial markets. In summary:

- A Trump victory is far from an assured outcome, but his chances in the White House will improve if the US descends into a recession in the coming months
- Trump's proposed policies are inflationary, but election outcomes for Congress will determine what he can and cannot do and the sequencing of his policies
- Equities tend to perform well during an election year. After the elections, whether stocks continue to perform well will depend on several factors

2024 election odds: nothing is certain at this stage

A sitting president is re-elected 75% of the time if there is no recession during an election year. But if a recession occurs, the odds of a sitting president winning re-election fall to around 15%. These odds underscore the importance of economic conditions as a factor in election outcomes. It also suggests that if the US avoids a recession in the coming months, Biden could enjoy some incumbent advantage. This is crucial for Biden, given his weak approval ratings, as no incumbent president since Nixon has won a re-election with an approval rating below 50% by the election day.

Notably, while Trump also suffers from poor favourability ratings, he currently leads President Biden in the polls. There is also no sign that Trump's legal troubles have dented his polling numbers. However, a Trump victory is far from an assured outcome, regardless of the current polling. Trump's legal challenges have introduced substantial uncertainty into his re-election odds, given the possibility of convictions and the removal from the ballot in certain states. At this stage, it is thus too soon to tell which candidate has the upper hand. For the remainder of this report, we will assume that Trump is successful in his re-election bid and focus on the implications of his proposed policies.

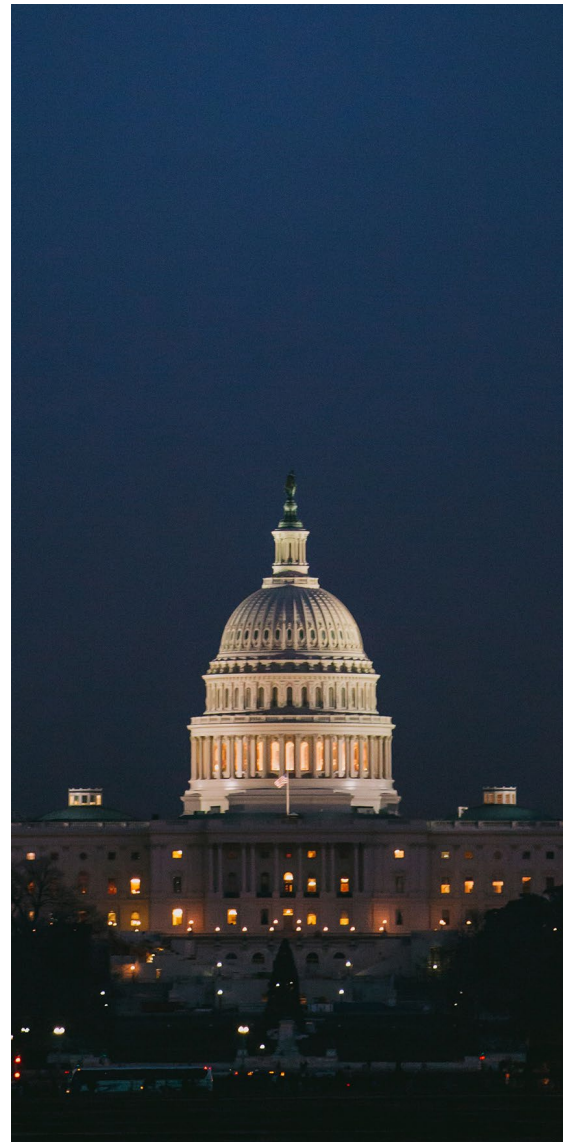
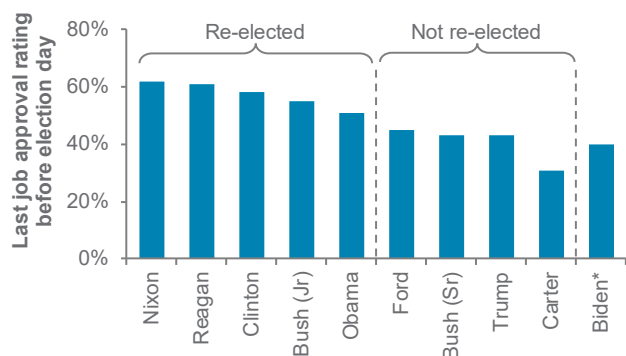
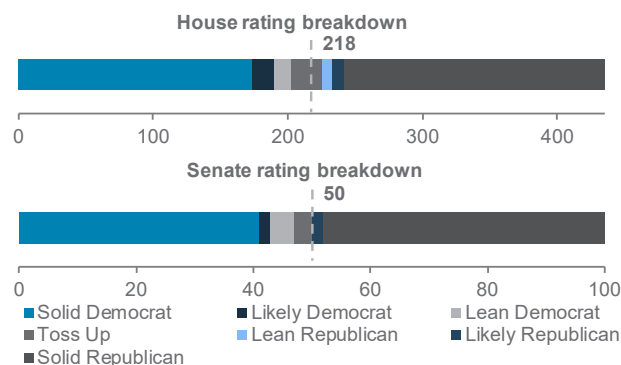


Fig. 10 No sitting President since Nixon has won re-election with a job approval rating below 50% by the election day

Job approval ratings of past presidents



2024 House and Senate ratings breakdown



Source: GallUp, The Cook Political Report, Standard Chartered. * As of 20 March 2024. Solid: Races are not competitive and not likely to be closely contested. Likely: Not competitive but have the potential to become engaged. Lean: Competitive, but one party has an advantage. Toss up: Most competitive; either party has a chance of winning

House and Senate election outcomes will determine how aggressively Trump can pursue his political agenda

Even if Trump wins, the outcome of the elections for the Senate and House will determine to a large extent what he can and cannot do. According to analysis by the Cook Political Report, the Republicans have better chances of winning the Senate, but the Democrats have marginally better odds of securing the House (Fig. 10). A party divide between the White House and the Congress would mean that Trump would focus on what he can control (appointments, tariffs, global affairs) rather than on what he cannot (taxes and spending). In contrast, the not insignificant odds of a Republican clean sweep, in the event of a Trump victory, means investors should take seriously Trump's formal policy agenda, especially those on trade and foreign policy. (Fig. 11)

Fig. 11 Trump's policies diverge sharply from Biden's

Key policy proposal from Trump and Biden

Key policies expected under Biden	Key policies expected under Trump
Continue with his economic plan (Bidenomics) that aims to boost the economy and raise middle class incomes	Aim to achieve 4% economic growth by restraining federal spending and pursuing pro-work tax policies: the 2017 Tax Cuts and Jobs Act to be permanent
Create new, innovative trade arrangements with allies and partners while enforcing existing ones	Aggressively enforce existing trade laws and impose tariffs when appropriate to counter unfair practices leading to an unbalanced trade
Taking diplomatic, economic and security measures to limit the transnational reach and influence of China	Ensure the Phase One Trade Agreement is enforced and maintain elevated tariffs on Chinese goods
Boost security at the southern border while still providing a safe, orderly and humane immigration system	Prohibit intellectual property transfers to Chinese entities with strict punishments; ban China's access to US infrastructure
A likely divided Congress would limit the implementation of policies by either candidates, especially Biden	Aggressive use of executive authority to increase border security and restrict immigration, legal and illegal
Respect the Fed's independence and continue to show support for it	Reinforce the primacy of price stability in the Fed's dual mandate

Source: Bloomberg, Standard Chartered

Trump's policies are inflationary over the long run

Despite considerable policy uncertainty, we can draw some conclusions about the likely macroeconomic impact of Trump's policy agenda. Trump's political priorities on reducing immigration, increasing tariffs, and preserving/increasing tax cuts mean that the Trump administration would likely oversee large budget deficits, labour shortages, higher import prices and expansionary fiscal policies, all of which are inflationary in nature. Heightened geopolitical tensions, likely the result of a withdrawal of support for Ukraine or the resumption of Trump's 'maximum pressure' policy on Iran, would also keep energy prices elevated and feed into higher inflation.

Equities tend to perform well during an election year

If history is any guide, investors can take comfort in the fact that equities tend to perform well during election years. Since the 1928 presidential election, the S&P500 has only seen six years of negative returns during election years. Notably, the Fed has also kept policy rates unchanged in the six months before each of the past three elections. While this could prove to be a spurious link, it may also suggest that the bar for policy changes is raised increasingly higher as the election day draws nearer. It is possible that the Fed could come under increasing political pressure to pause policy decisions after an anticipated rate cut in June.

The outlook for financial markets after the election depends on several factors

Assuming a Trump victory, the outlook for equity markets after the election will depend on 1) whether a recession has already occurred; 2) whether the Republicans managed a clean sweep of both the White House and Congress. If a recession has already occurred, this means that inflationary policies by the Trump administration could occur early in the new economic cycle. This is likely to be an environment in which financial markets will be more receptive to policies that increase the budget deficit. If a recession has not occurred, inflation risks could re-emerge, potentially pushing back the timing of Fed rate cuts.

In the event of a Republican clean sweep, the sequencing of policies will be important to monitor. For instance, a legislative priority of immigration over tax cuts, alongside the imposition of tariffs, could bode badly for risk assets. However, if tax cuts are instead prioritised, equities could benefit from some near-term tailwinds. In contrast, a divided Congress means that Trump would likely focus on what he can control. This suggests that his policies relating to trade, immigration and global affairs would be high on the agenda. This would have implications for international equities and currencies, while also bolstering the appeal of safe-haven assets, such as gold.

Fig. 12 US equities perform well during election years

Average election year returns/changes since 1928*

Incumbent	Elected	Average Returns				Average Change (Bps)
		S&P 500	Treasuries	US dollar	EM Equities	Fed Funds Rate*
Republican	Republican	13.2%	8.3%	3.8%	28.7%	96.8
Republican	Democrat	-2.7%	10.2%	2.7%	-9.9%	-137.5
Democrat	Republican	8.9%	6.7%	4.2%	-11.6%	175.0
Democrat	Democrat	10.4%	2.3%	1.7%	9.5%	-12.5
Unconditional		7.5%	7.6%	3.3%	2.6%	25.9

Source: Bloomberg, Standard Chartered. *Calculations for average returns subjected to the availability of data for the underlying. S&P500 (1928-2020), US Treasuries (1976 - 2020), US dollar (1968 - 2020), EM equities (1988 - 2020), Fed Funds Rate (1972 - 2020)

Macro overview – at a glance

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Investment Strategist



Key themes

We expect the global disinflationary trend to resume after a few months' pause. This is likely to boost global real incomes and enable the Fed and the ECB to cut rates starting in June, reducing policy rates by a total 75bps this year. **We now see a 50% chance of a soft-landing and a 30% chance of no-landing in the US in the next 12 months.** Besides the lift from real incomes, the US expansion is likely to last longer, as a surge in immigration helps in easing a tight job market, preventing wage pressures to build. The increasing labour force is also sustaining consumption just as excess savings built during the pandemic, which has fuelled the expansion so far, become depleted. There are also signs of a global manufacturing recovery.

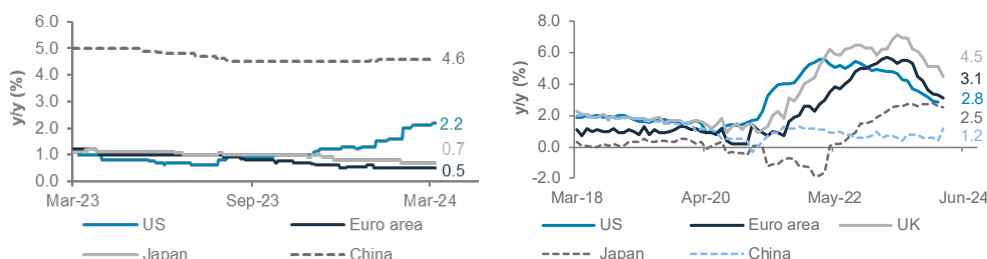
The outlook for Europe and China remains relatively weak. While both economies are likely to benefit from the upturn in the global manufacturing cycle, the Euro area continues to struggle with high energy costs, following Russian sanctions and record high policy rates. We expect ECB rate cuts starting in June to partly ease financial conditions. Meanwhile, China continues to face deflationary pressures, led by the downturn in the property sector. Authorities appear keen to stabilise growth around 5% through measured policy easing, and focus on 'quality' growth, rather than boost the economy through large-scale stimulus.

Key chart

We see a 50% chance of a US soft-landing as Fed rate cuts and a spurt in immigration sustain the consumption; The Euro area and China are likely to benefit from a global manufacturing upturn, although both face structural challenges

Fig. 13 US growth estimates have been upgraded, while global disinflation continues

Consensus 2024 growth estimates of major economies; core inflation* for major economies



Source: Bloomberg, Standard Chartered; *core PCE inflation for the US

Monetary policy*

Macro factors positive for risk assets

Macro factors negative for risk assets

US 	<ul style="list-style-type: none"> + Resilient jobs, immigration lifting consumption + Disinflation, stable wages to buoy real income + Fed rate cuts to easing financial conditions + Early signs of manufacturing, capex recovery 	<ul style="list-style-type: none"> – Elevated policy rates sustain recession risk – Tight lending conditions; credit contraction – Negative fiscal thrust, falling excess savings – Fed policy error, sticky inflation, election
Euro area 	<ul style="list-style-type: none"> + Robust job market, savings to sustain demand + Disinflation, stable wages to lift real income + Early signs of industrial recovery; ECB to ease 	<ul style="list-style-type: none"> – Weak exports, fiscal and credit contraction – Weak manufacturing; weakening services – Tight policy, ECB policy error, Russia risk
China 	<ul style="list-style-type: none"> + Macro green shoots; normalising consumption + Fiscal and monetary policy to prioritise growth + Property sector easing; new growth drivers 	<ul style="list-style-type: none"> – Weak property, local governments; geopolitics – Weak external environment to limit exports – Investment outflows, weak sentiment, deflation
Japan 	<ul style="list-style-type: none"> + Trend growth; boost from weak JPY + Sustained wage growth, robust services data + Dovish BoJ guidance; govt. economic package 	<ul style="list-style-type: none"> – Soft exports; supply disruption by earthquake – Broadening inflation; risk of JPY strength – BoJ policy mistake, balance sheet unwind
UK 	<ul style="list-style-type: none"> + Robust job market, savings to sustain demand + Disinflation, stable wages to lift real income + Improving business activity; BoE to ease 	<ul style="list-style-type: none"> – Elevated policy rates sustain recession risk – Fiscal consolidation, tight financial conditions – Election uncertainty; Brexit-linked disruption

Source: Standard Chartered Global Investment Committee; *Next move **Legends:** ▲ Tighter policy | ▼ Easier policy | ◆ Neutral policy

Top macro questions

What are the drivers of your US ‘soft landing’ thesis? We assign a 50% probability to the US achieving a ‘soft-landing’ (below-trend, but positive growth) and a 30% chance to a ‘no-landing’ (above-trend growth) scenario in the next 12 months. This view is based on **i)** sustained consumption driven by a structurally tight job market and boost to disposable real income from continued disinflation; **ii)** sustained housing investment amid a structural shortage of residential homes; **iii)** continued investment in manufacturing plants as a result of reshoring of production and due to President Biden’s green infrastructure incentives; **iv)** a nascent rebound in global manufacturing, aided by a recovery in the inventory cycle; **v)** sustained consumption fuelled by household net worth boosted by the past year’s stock market rally, which is helping to offset dwindling excess savings built during the pandemic; **vi)** a surge in immigration last year, easing a shortage of workers and helping keep wage pressures in check, while providing additional fillip to consumption; and **vii)** the Fed’s apparent eagerness to cut rates later this year.

Of these, the last three have lately emerged as increasingly important factors helping to extend the US expansion.

US household net worth surged by USD 4.8trn in Q4 23, according to the Fed’s latest estimates, primarily due to stock market gains, and was up USD 39.3trn (140% of GDP) since Q4 19 (the pre-pandemic quarter). Higher net worth is likely to encourage households to sustain consumption by paring down savings. The net worth boost is also likely to offset dwindling excess savings built during the pandemic, a key factor that has sustained the US consumption growth so far.

Immigration boost: Latest estimates from the Congressional Budget Office and independent researchers suggest the US experienced 2% population growth last year, almost three-fourth of which was driven by undocumented workers. This explains the economy’s resilience (3.1% GDP growth in 2023) against the backdrop of labour shortages, but also implies that the productivity of the new workers fell short of that for the overall economy. The immigration surge is positive for the economy in the near term as it helps in keeping wage pressures in check. However, any economic downturn is likely to result in a jump in unemployment, given the recent upsurge in workers.

The Fed’s increasing eagerness to ease policy is an added factor that leads us to stay positive on the US economic

outlook. The Fed’s latest projection retained three policy rate cuts for this year even as it bumped up core inflation estimate for end-2024 well above its 2% target. This suggests the Fed plans to cut rates several times even if annual inflation stays above 2% for some time. We believe the 6-month annualised core PCE inflation rate is a key indicator to determine the timing of the first rate cut. This rate briefly fell below 2% in Q4 23, before rising above this threshold in January. A couple of months of sub-2% print for this metric would likely trigger the first rate cut. Given this, we expect the first rate cut in June.

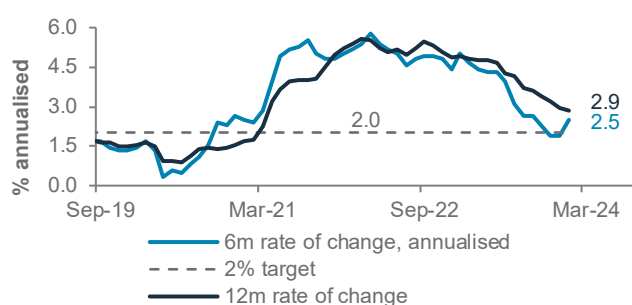
The positive drivers notwithstanding, we assign a **20% chance of a US recession in the next 12 months**. The Leading Index of 10 key economic indicators (LEI) has reported a y/y decline for the past 20 months, a trend that has historically preceded recessions. Additionally, the US government bond yield curve has remained inverted (2-year yield has remained above the 10-year yield) since July 2022, the longest stretch in history. Historically, a US recession has started 9-22 months (median: 16 months) after an inversion.

Euro area likely to avoid a recession. The Euro area narrowly escaped a technical recession in H2 23, but the region faces rising intra-regional disparities. Germany, the region’s largest economy, has structural challenges from higher energy costs and the transition of its auto industry towards battery-powered cars. In 2024, it also faces a fiscal drag estimated at 1.4% of GDP, the largest in the Euro area. However, Spain and Italy are likely to benefit the most from the EU’s peak recovery fund disbursements. A global manufacturing recovery should also help Europe’s exporters. We expect the ECB to cut rates 75bps this year, starting in June, likely easing financial conditions and supporting growth.

China recovering. China’s economy appears to be gradually recovering. Major indicators, except for retail sales and property investment, beat expectations. A rebound in business confidence indicators (PMIs) suggests a modest recovery is underway, aided by increased credit growth and a rebound in the global manufacturing cycle. The annual National People’s Congress has set an ambitious 5% annual growth target, which suggests increased issuance of local government bonds and potential issuance of CNY 1trn of special central government bonds to fund infrastructure projects. We expect further cuts to bank reserve requirements in the coming months to ease liquidity and support growth.

Fig. 14 US inflation picked up lately, delaying rate cuts

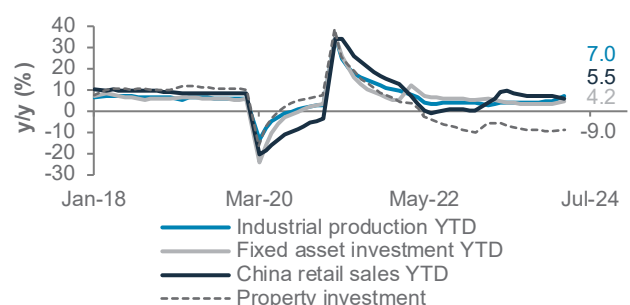
US 12-month and 6-month annualised inflation rate



Source: Bloomberg, Standard Chartered

Fig. 15 China’s economic indicators are improving

Retail sales, factory output, fixed asset, property investment



Bonds – at a glance

Cedric Lam
Senior Investment Strategist

Zhong Liang Han, CFA
Investment Strategist



Key themes

We are now Neutral Developed Markets (DM) Investment Grade (IG) government bonds. A higher likelihood of US soft-landing has prompted us to reduce our Fed rate cut expectation this year to 75bps. We expect the US 10-year government bond yield to stay within a 4.00-4.25% over the next 3 months, but now expect a relatively more muted move to 3.75-4.00% over the next 12 months. Overall, we still see yields as attractive, but price gains may be more muted relative to our start-of-year expectations. We remain Neutral DM IG and DM High Yield (HY) corporate bonds given attractive yields, but yield premiums offer only a limited buffer against a growth slowdown.

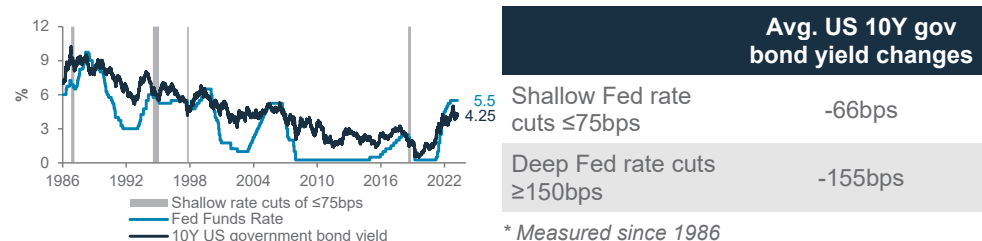
We raise our preference of EM USD government bonds to Neutral. Our expectation for more supportive commodity prices in the next 12 months is a positive. In addition, nominal yields continue to be attractive. Their high sensitivity to falling US bond yields is also a positive. We are Neutral EM local currency government bonds given our flat USD view. In Asia, we are Neutral Asia USD bonds, with a preference for Asia HY over Asia IG, on expectations of fiscal and monetary support in the region.

Key chart

Although we reduce our Fed rate cut expectation this year to 75bps, a shallow rate cut also moves US government bond yields lower on average in history.

Fig. 16 On average, US government bond yields have moved lower in both shallow and deep rate cut environments, but with differing magnitudes

Historical average move in US 10y bond yield in different rate cut regimes



Source: Bloomberg, Standard Chartered.

	The bullish case	The bearish case
EM USD Govt	<ul style="list-style-type: none"> + High rate sensitivity (long duration) a positive from a peak in interest rates + Commodity prices 	<ul style="list-style-type: none"> – Commodity price disinflation – Geopolitical risk amid elections in the US and key EM countries
Asia USD	<ul style="list-style-type: none"> + Regional growth continues to impress + Attractive yield 	<ul style="list-style-type: none"> – Soft China economic growth outlook – Defaults or bond restructuring risk
DM IG Govt	<ul style="list-style-type: none"> + Attractive yield + DM central banks' pivot 	<ul style="list-style-type: none"> – 'Higher for longer' monetary policy amid a strong economic growth backdrop – Unfavourable supply-demand balance
DM IG Corp	<ul style="list-style-type: none"> + High rate sensitivity (long duration) a positive from a peak in interest rates + Attractive absolute yield on offer 	<ul style="list-style-type: none"> – Relatively tight yield premium – Weakening credit fundamentals
DM HY Corp	<ul style="list-style-type: none"> + Corporate credit fundamentals are still looking solid + Attractive yield on offer 	<ul style="list-style-type: none"> – Rating downgrade risk – Surge of default risks
EM LCY Govt	<ul style="list-style-type: none"> + Supportive EM currency outlook + High EM monetary policy flexibility 	<ul style="list-style-type: none"> – Unfavourable yield differentials with DM – Rate cut expectation is in the price

Source: Standard Chartered Global Investment Committee

Legends: ▲ Overweight ▼ Underweight ◆ Neutral

Neutral DM IG government bonds

We are now Neutral DM IG government bonds. In the US, stronger-than-expected macro data releases YTD suggested economic resilience. Our expectation of a higher likelihood of soft-landing prompted us to reduce Fed cut expectation this year to 75bps, from 125bps previously. The Fed revised full-year inflation projection higher to 2.6% during its March policy meeting, while leaving its rate cut projection unchanged at 75bps. We see government bond valuations as fair against this context and, hence, expect the US 10-year government bond yield to stay within a range of 4.00-4.25% over 3 months. We continue to expect the Fed to deliver the first rate cut in June, but a shallower rate cut path means we expect the fall in the 10yr yield to be limited to 3.75-4.00% over the next 12 months. Overall, we continue to believe current yields offer an attractive entry point, but our price gain expectations are somewhat more muted relative to our start-of-year expectations.

Neutral EM USD government bonds

In EM, we expect more supportive commodity prices in the next 12 months. Their high sensitivity to US government bond yields (long duration) should be also support gains. We see the headline yield as attractive when compared with history, but are mindful that the yield premium over US government bonds has moderated in recent months. In addition, we assess geopolitical risk to be elevated given an election-heavy calendar. Therefore, we believe a Neutral stance offers the best risk/reward balance.

Neutral DM IG and HY corporate bonds

Within corporate bonds, we remain Neutral DM IG corporate bonds. The market appears to be absorbing the massive supply of new issues in the first 2 months of the year well, given the fairly tight new issue premiums granted by the issuers. As supply gradually fades into the second quarter, we believe a more balanced supply-demand dynamic should help support the asset class. Although nominal yields appear to be attractive, tight yield premiums over US government bonds relative to history suggest prospects of capital gains from lower bond yields (higher bond prices) are low from here.

We are also Neutral DM HY corporate bonds. A soft-landing scenario should keep default rates relatively contained. In addition, DM HY corporates are not facing significant refinancing pressure this year, which should support performance. However, a tight yield premium over US government bonds and the reduction of transparency arising from a rise in HY corporates tapping the private credit market are risks to watch.

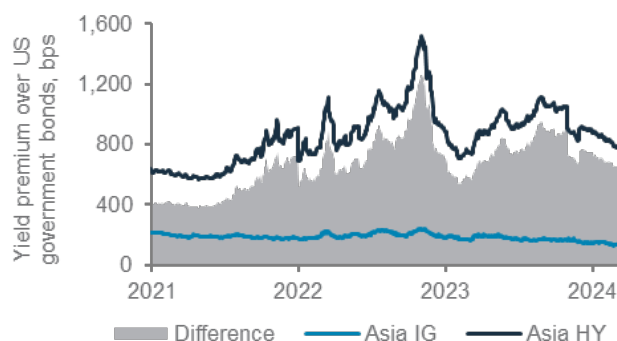
Neutral Asia USD bonds, with preference for HY over IG

In EM Asia, we remain neutral on Asia USD bonds. The asset class has performed approximately in line with DM HY corporate bonds and outperformed DM IG corporate bonds year-to-date. The outperformance was largely driven by Asia HY bonds, in line with our expectations. We continue to prefer Asia HY bonds over IG bonds due to the following observations:

- 1) Although Asia HY bonds remain dominated by Greater China issuers, we believe geographical and sector exposures are now more well-balanced.
- 2) Asia HY bonds have now likely priced ongoing defaults from the property sector, leaving less room for further downside surprises. As an example, we note that recently strong asset class performance has continued despite a significant Chinese property developer default this year.

Fig. 17 Asia HY USD bonds are offering attractive yield pick-up over Asia IG USD bonds

Yield premiums over US government bonds (since 2021)



Source: Bloomberg, Standard Chartered

Neutral EM local currency government bonds

We expect a largely flat USD over the next 6-12 months. We also believe policy rate cuts across much of the EM universe are now largely well-priced in local markets. This, together with a reasonably attractive yield, leaves us with a Neutral view on EM local currency government bonds.

We move our duration preference to Neutral (5-7 years)

We believe a higher likelihood of a soft-landing scenario suggests a lower return from long-maturity US government bonds. Given the greater alignment today between market expectations and the Fed's 'Dot Plot' summary, we believe a Neutral (5-7 year) average duration stance is more attractive in this environment.

Bonds opportunistic views

Zhong Liang Han, CFA
Investment Strategist

Generating alpha from macro uncertainty

Opportunities in the government bond space

- We expect positive absolute returns in three opportunistic buy ideas: US inflation-protected government bonds, European government bonds and Indian local currency bonds.

US inflation-protected government bonds

We maintain our buy on US inflation-protected government bonds (TIPS) (See *Weekly Market View on 2 Feb*) as a hedge against any revival of inflation. Our base case scenario is for the disinflationary process to continue. However, we are also cognisant of the upside inflation risks from a prolonged resiliency in US economy, higher oil prices and any supply shocks. The cost of hedging using US TIPS is lower relative to other classic inflation hedges. Gold is trading close to its historical high, while real estate is challenged by high rates and post-Covid shift in working patterns. Moreover, US TIPS offer a headline yield of around 4.6%, which is much higher than the yield of the Developed Markets (DM) Investment Grade (IG) government bonds (3.2%). Lastly, inflation expectations could overshoot in the near term, driving US TIPS higher.

Risks to our view include: (i) as with all bonds, TIPS carry interest rate risk. This means that higher bond yields could lead to capital losses; and (ii) continued disinflation could see US TIPS underperforming the US government bonds.

European government bonds

We initiate a buy on European government bonds as we see attractive upside potential from a relatively weaker Euro area. The money market is pricing in about the same number of cuts in the Euro area and the US over the next 12 months. However, we see greater downside risks to Euro area economy than the US. The Euro area inflation appears to be less sticky than the US too. Put together, there is a higher risk of deeper cuts by the ECB, which translates to higher capital gains for European government bonds. For USD-denominated investors, the USD-hedged yield of European government bond index is also roughly in line with the US government bond index yield, which means that there is no negative carry.

Risks to our view include: (i) stubborn inflation causing the ECB to remain hawkish; (ii) better-than-expected economic growth in Euro area; (iii) fiscal fragilities in some of the peripheral economies; and (iv) hedging risks.

Fig. 18 USD-hedged European govt. bond yield is comparable to US govt. bonds

USD-hedged Euro govt. bond yield vs. US govt. bond yield



Source: Bloomberg, Standard Chartered

Indian local currency bonds

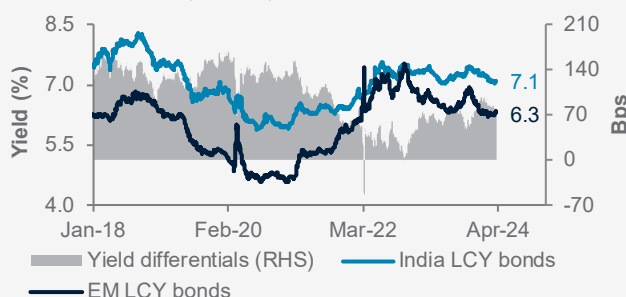
We retain our buy on India local currency (LCY) bonds (See *Outlook 2024*) on a positive outlook of India economy. India local currency bonds offer an attractive yield premium over their EM peers with a lower historical volatility. The continuation of the disinflation could allow the RBI to cut rates later in the year, driving Indian government bond yields lower.

We expect USD/INR to decline modestly towards 82.40 over the next 12 months, which translates to currency gains for USD-denominated investors. India's strong FX reserves and improving balance of payments are also likely to be supportive. The looming inclusion of INR bonds in global bond indices is expected to be an additional tailwind for Indian bonds, given that foreign investor participation has been limited in India's large and liquid bond market, driving steady inflows (USD 20-25bn) in the next 12-15 months.

Risks to our view include: (i) stubborn inflation causing the RBI to remain hawkish; (ii) elevated budget and current account deficits; and (iii) RBI bond sales.

Fig. 19 India local currency bonds offer an attractive yield premium over their EM peers

India local currency bond yield vs EM peers



Source: Bloomberg, Standard Chartered

Equity – at a glance

Daniel Lam, CFA
Head, Equity Strategy

Fook Hien Yap
Senior Investment Strategist

Michelle Kam
Investment Strategist

Jason Wong
Equity Analyst



Key themes

We are Overweight equities, with Japan our top Overweight. The Bank of Japan ending its decade-long 'negative rate policy' is a strong vote of confidence in the Japan economy. The BoJ still maintains an accommodative stance, corporate governance is improving and valuation still attractive. US equities is our other Overweight region. The Fed is likely to cut rates, despite slightly higher-than-ideal inflation rate. US companies continue to display strong pricing power, resulting in solid net margins.

We are Neutral Asia ex-Japan equities. We upgrade India to Overweight. Its economy is growing the fastest among key markets within the region. Fund flow has been strong, and India typically delivers solid returns in an election year. These factors more than compensate for its expensive valuation. We also upgrade Taiwan to Overweight, with strong GDP revisions, a bottoming manufacturing, and a strong semiconductor cycle. We stay Overweight Korea – rising demand for AI-related technology products is likely to support earnings, and the government's 'Value-up' programme may narrow the 'Korean discount' by addressing company cross-holdings and improving corporate governance. We are Neutral China equities. Valuation is cheap and sentiment bearish. Deflationary forces remain the key risk, but the government has been intensifying its policy stimulus.

We downgrade Euro area equities to Underweight. Cheap valuation reflects weak EPS growth. Consumer confidence remains weak, and service inflation remains sticky. UK equities remain Underweight. It has excess exposure to defensive sectors.

Key chart

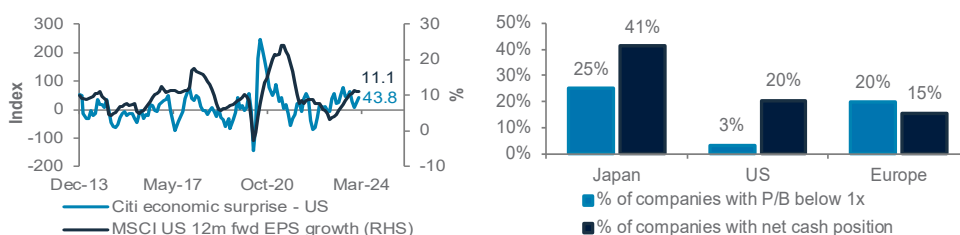
Strong US growth supporting corporate earnings. Japan companies still attractive in valuation vs. DM peers

Index	12m forecast	Target return since published*
S&P 500	5,790	10%
Nasdaq 100	21,000	15%
Stoxx Europe 600	550	7%
Hang Seng	18,100	10%
Nikkei 225	47,000	15%

* Publication dated March 28, 2024 based on levels as of the prior trading day

Fig. 20 US corporate earnings are riding on a strong economy. Still much potential for Japanese companies to narrow their discount vs. their DM counterparts

US economic surprise vs. 12m fwd EPS growth; % of companies with P/B <1 and net cash



Source: FactSet, Bloomberg, Standard Chartered; *table below: We are Neutral China onshore vs offshore

	The bullish case	The bearish case
Japan equities	<ul style="list-style-type: none"> + Strong corporate balance sheets + Rising ROE from corporates reform + Further improvement in earnings outlook 	<ul style="list-style-type: none"> - Less compelling in valuations - Rebound in JPY to hurt company earnings - Rising volatility from a tightening BoJ
US equities	<ul style="list-style-type: none"> + Strong earnings growth and momentum + Technology sector propelling performance + Delayed economic slowdown 	<ul style="list-style-type: none"> - Overconcentration on Magnificent 7 - Macro uncertainties: eg, US election - Expensive valuations. Elevated positioning
Asia ex-Japan equities*	<ul style="list-style-type: none"> + Higher EPS growth projected in 2024 + Rising demand for semiconductors + China's fiscal and monetary stimulus 	<ul style="list-style-type: none"> - Soft survey data and economic activities - Lack of confidence from investors - Persistence in geopolitical tensions
Europe equities	<ul style="list-style-type: none"> + Well-priced for weak EPS growth + Improving corporate margins and ROE + Rebound in manufacturing data 	<ul style="list-style-type: none"> - Weakening earnings growth - Heightened recession risk - Economic rebound unable to sustain
UK equities	<ul style="list-style-type: none"> + High dividend yield + Valuations extremely cheap + Relatively defensive sectors 	<ul style="list-style-type: none"> - Weak earnings growth expected in 2024 - Light in growth sectors - Forward guidance deteriorating

Source: Standard Chartered Global Investment Committee

Legends: ▲ Overweight | ▼ Underweight | ◆ Neutral

Overweight global equities

We are Overweight global equities on a 12m horizon. They are likely to outperform in a US soft-landing scenario, with robust global economic growth and slowing inflationary trends.

Overweight Japan equities

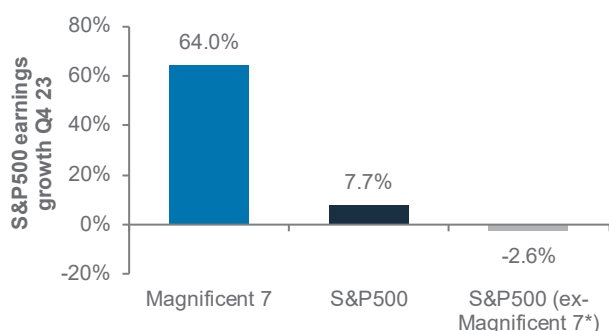
We are Overweight Japan equities. Foreign and domestic fund inflows are strong, from the robust cash savings among local citizens and the reform of Nippon Individual Savings Account. In addition, corporate liquidity positions remain strong – over 40% of companies are net cash positive, significantly surpassing other Developed Markets. Valuations are not too stretched – Japan equities still trading at a 9% discount to global equities, below its historical mean. There is risk from unexpected BoJ tightening, resulting in a stronger JPY, but this is not imminent and much depends upon the messaging from the BoJ.

Overweight US equities

We are Overweight US equities. Persistent economic strength and our expectations of a soft-landing scenario in the coming 12 months are the key catalysts. Following the March Fed policy meeting, we are now expecting 75bps of rate cuts this year, which should continue to support growth stocks by alleviating impact on discounted future earnings. High ROE levels (US equities offer 20.1% ROE, over +1sd above its historical average) are also likely to justify relatively elevated valuation premiums, in our view. We see continued share buybacks supporting share prices further into 2024. However, over-reliance on the Magnificent 7 is a risk for US equities.

Fig. 21 US equities may be over-reliant upon earnings from the Magnificent 7 – a key factor that leads to US equities ranking behind Japan equities, despite both being Overweight

S&P500 vs. Magnificent 7 earnings growth



Source: FactSet, Standard Chartered

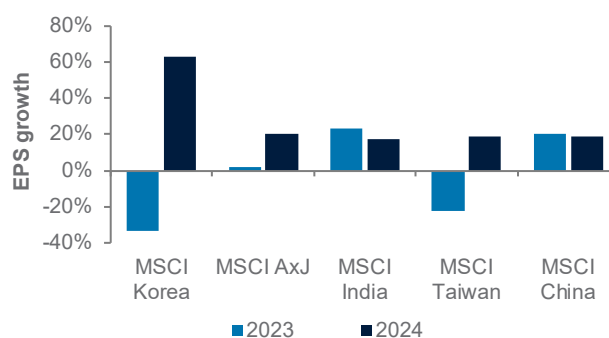
Neutral Asia ex-Japan equities

We are Neutral Asia ex-Japan equities. On the positive note, diverging monetary policies between Emerging Markets and Developed Markets are supportive to fund inflows. That said, any global growth slowdown and geopolitical tensions will likely weigh on the market.

We are Overweight on Korean equities within Asia ex-Japan, on an expected EPS growth rebound this year and rising AI application growth. Its 'Value-Up' programme is set to improve corporate governance and intensify share buybacks. We are also Overweight Taiwan equities within the region amid favourable macro conditions, with 2024 GDP being revised higher on an expected recovery in exports demand. Taiwan is also set to benefit from a bottoming manufacturing and a strong semiconductor momentum.

Fig. 22 Korea, India, Taiwan earnings expected to grow strongly, with China lagging behind

EPS growth in Asia ex-Japan and key individual markets



Source: FactSet, Standard Chartered

We are also Overweight Indian equities. Tailwinds including strong domestic growth, usually favourable returns in election years and relative insulation from geopolitical risks more than offset the country's valuation premium. We prefer large-cap equities over small- and mid-cap equities.

We are Neutral China equities. Light investors' positioning and extremely compressed valuations remain compelling, while structural headwinds, including the property market downturn and demographics, are likely to linger. Following favourable fiscal policies announced over the past months and an overall supportive tone from the National People's Congress, any upside policy surprises could trigger normalisation in investor sentiment. Within China, we are Neutral between onshore equities and offshore counterparts.

Underweight Europe equities

We are Underweight Euro area equities. Elevated interest rates and geopolitical concerns continue to weigh on corporate earnings. However, improving manufacturing data in the Euro area may stimulate market sentiment near term, in our view, given the region's significant exposure to the global industrial cycle. We are also Underweight UK equities, given the region's heavy tilt in defensive sectors may lead to underperformance as global equity markets continue to climb. 12m forward EPS growth of MSCI UK index at 3.1% is also the lowest among major economies.

Equity opportunistic views

Fook Hien Yap

Senior Investment Strategist

Barbell strategy continues

Buy ideas in US sectors, selectively in Asia

- We expect positive absolute returns from five opportunistic buy ideas: the US technology, communication services and energy sectors; India large cap stocks and China non-financial high dividend state-owned enterprises (SOEs).
- Our sector barbell strategy continues; we prefer sectors with secular growth exposure in the US and Europe balanced by a defensive sector. In China, we continue to look for growth in consumer spending, balanced with defensive exposure in consumer staples.

Opportunistic buy ideas

US technology: we expect the strong momentum YTD to continue as corporates are 'forced' to spend on AI in the race to gain an edge. The shift to cloud also generates growth in recurring revenue from software and services. We see the high valuation justified by the sector's superior ROE and growth rates, and an expected decline in bond yields. AI spending weakness is a risk.

US communication services: similarly, we expect the strong momentum YTD to continue. Communication saw one of the most positive consensus EPS changes in the last 3 months and is expected to deliver the highest earnings growth in 2024, per consensus estimates. The ongoing recovery in digital advertising and demand for online entertainment continues to support the sector. A downturn in digital advertising is a risk.

US energy sector: with the current oil price above the 2023 average, we see upside risks to the consensus estimate for a drop in 2024 earnings. OPEC+ and major oil producers have shown discipline in supply. The sector offers attractive valuations and strong cashflows; presidential candidate Trump could be more vocal in support of the energy industry. A fall in oil price is a risk.

India large cap stocks: India offers an attractive structural story of superior growth in Asia, in our view. We see large cap equities offering relatively more attractive valuation than their mid-cap counterparts. We expect policy continuity in the upcoming elections and historically, India equities have been buoyant heading into elections. A risk is weaker-than-expected growth.

Fig. 23 Opportunistic buy ideas

Region	Idea
US	Technology sector
	Communication services sector
	Energy sector
Asia	India large cap
	China non-financial high dividend SOEs

Source: Standard Chartered

China non-financial high dividend SOEs: we expect macro policies and lower rates to boost investor demand for high dividend yielding SOEs. The inclusion of incentives for SOE management to improve their market value are a significant share price tailwind, in our view. We prefer to focus on non-financial SOEs due to a lack of clarity on the financial sector's support for distressed property developers. Adverse regulatory changes are a risk.

Fig. 24 Our sector views by region

US	Europe	China	India*
Technology	Technology	Comm.	Industrials
Comm.	Healthcare	Discretionary	Discretionary
Healthcare	Discretion. ▲	Technology	Healthcare
Energy ▲	Staples	Staples ▲	Technology
Industrials	Industrials	Industrials	Financials
Discretionary	Energy	Energy	Staples
Staples	Financials	Financials	Others
Financials	Comm.	Utilities	
Materials	Materials	Healthcare ▼	Energy
Utilities	Utilities ▼	Materials	Metals
Real estate	Real estate	Real estate	Utilities

Source: Standard Chartered. *Commentary in India Market Outlook

Legends: Overweight | Neutral | Underweight
 ▲ Upgrade from last quarter | ▼ Downgrade from last quarter

FX – at a glance

Manpreet Gill

Chief Investment Officer, AMEE

Iris Yuen

Investment Strategist



Key themes

We expect the USD to be largely flat over the next 3 and 12 months. One unusual characteristic of FX markets today is low and falling FX volatility. G7 currency volatility is now not far from lows achieved over the past 3 decades. This, together with our view that major central banks, such as the Fed and the ECB, are likely to follow an increasingly converged rate cut path, means we expect the USD to stay rangebound around an unusually flat path over the next 3 and 12 months. Our EUR/USD view is largely a mirror image of this view, given its large weight in the US Dollar Index.

JPY and CHF have the most potential to deviate from this low volatility environment. The BoJ's dovish tone can keep the JPY weak over a shorter 1-3-month horizon and result in USD/JPY testing recent decade highs; but, longer-term, a narrowing yield differential after the recent rate hike will likely strengthen the JPY. The Swiss National Bank's rate cut makes further CHF strength unlikely, though outright weakness that causes USD/CHF to break above 0.91-0.92 will likely need a fresh catalyst.

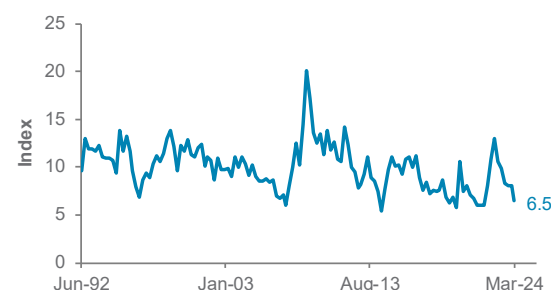
AUD and NZD likely to remain well-supported by relatively hawkish central banks. Inflation that has been relatively more persistent than in peer countries, and support from strong prices for key commodity exports (eg., gold for the AUD) mean these currencies are likely to remain relatively well supported on both 3- and 12-month horizons. The nascent rebound in Chinese economic optimism is also likely to be supportive, albeit one that also places modest downward pressure on the CNH.

Key chart

Our unusually flat US Dollar Index (DXY) forecast is consistent with low and falling FX market volatility

Fig. 25 FX volatility falling towards recent decade lows

G7 FX Volatility Index; table of forecasts



Source: Bloomberg, Standard Chartered

Currency	3m forecast	12m forecast
USD (DXY)	102.8	102.7
EUR/USD	1.10	1.10
GBP/USD	1.30	1.28
USD/JPY	153	142
AUD/USD	0.68	0.69
NZD/USD	0.62	0.64
USD/CAD	1.35	1.35
USD/CNH	7.22	7.25
USD/CHF	0.90	0.92

Fig. 26 Summary of major currency drivers

12-month outlook	The bullish case	The bearish case
USD (DXY)	+ Safe-haven demand, US exceptionalism	– Dovish Fed, non-US growth, expensive valuation
EUR/USD	+ Rising real rates as EU inflation falls	– Weak growth, energy dependency
USD/JPY	+ Falling real yields at inflation rises	– Further BoJ rate hikes, safe-haven
GBP/USD	+ Hawkish BoE due to sticky inflation	– Recession risk, consumption weakness
USD/CHF	+ SNB policy pause, lower safe-haven demand	– Sale of FX reserves,
AUD/USD	+ Terms of trade, China growth rebound	– Capped commodity prices, risk-off sentiment
NZD/USD	+ Hawkish RBNZ, China dairy/tourism demand	– Elevated CA deficit, housing risk
USD/CAD	+ Vulnerable housing market, lower growth	– Lower rate differentials, resilient oil prices
USD/CNH	+ Geopolitics, unfavourable rate differentials	– China growth rebound, capital inflows

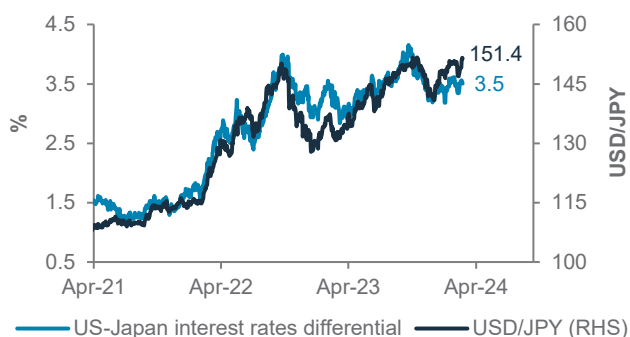
Source: Standard Chartered Global Investment Committee

Converging policy paths

The Fed and the ECB are likely to follow similar paths in terms of timing and magnitude of rate cuts in 2024. We expect the ECB to cut rates by 75bps this year, starting in June, largely mirroring the Fed. This is likely to result in a largely flat EUR/USD. **Therefore, we see EUR/USD at 1.10 over the next 3 and 12 months**, with the trading range around this bordered by 1.07 on the downside and 1.12 on the upside. **The GBP is likely to rebound modestly higher within recent ranges to 1.30 over the next 3 months** as macroeconomic data improves modestly, **but is likely to ease to 1.28 over the next 6-12 months** as rate cuts keep it within the recent broad range.

Fig. 27 EUR could edge higher with yield differentials

USD/JPY and US-JP rate differentials



Source: Bloomberg, Standard Chartered

The Yen's weakness after the recent rate hike created some consternation among market participants who expected the start of BoJ tightening to result in Yen gains. We believe the BoJ's active efforts to strike a dovish tone to limit expectations of further tightening explain this. In the short term, we expect this to result in downward pressure on the Yen, resulting in a testing (and potentially a break) of recent decade highs of just above 151.7. **We expect USD/JPY at 153 over the next 3 months.** Nevertheless, further BoJ tightening is likely in the offing. This, combined with rate cuts by the Fed later in 2024 is likely to intensify rate differentials in favour of the JPY, resulting in a stronger Yen. **We, therefore, expect USD/JPY to fall to 142 over the next 12 months.**

Fig. 29 Summary of Asian currency drivers

Forecast	USD/SGD 1.32 (3m) / 1.34 (12m)	USD/INR 82.40	USD/MYR 4.70	USD/KRW 1300
The bullish case	<ul style="list-style-type: none"> + SGD vulnerable to weak global growth + Oil price surge due to geopolitical events 	<ul style="list-style-type: none"> + RBI may bolster FX reserves + Risk premia due to 2024 elections 	<ul style="list-style-type: none"> + Relatively low FX reserve + Increased commodity price risks 	<ul style="list-style-type: none"> + Vulnerability to global growth and trade + Reliance on USD and CNY trend
The bearish case	<ul style="list-style-type: none"> – Resilient domestic growth – CNY's rebound 	<ul style="list-style-type: none"> – Lower oil price to ease current account deficit – Strong growth; inflows 	<ul style="list-style-type: none"> – Reversal in local dollarisation trends – Resilient GDP growth 	<ul style="list-style-type: none"> – Export growth and tourism inflows – Cheap value; inflows

Source: Standard Chartered Global Investment Committee

Fig. 28 Expected decline in the SNB FX reserves to support CHF valuations

CHF Nominal and Real exchange rates



Source: Bloomberg, Standard Chartered

We see USD/CHF weakening to 0.90 over the next 1-3 months and 0.92 over the next 12 months. The SNB's rate cut and rise in reserves likely indicates that the central bank no longer sees a need for an active strong-CHF policy as inflation falls further below 2%. We believe this is sufficient to avoid any significant further CHF strength. However, a fresh catalyst is likely needed for the CHF to weaken significantly. For now, we expect USD/CHF to weaken to 0.86-0.92.

Commodity currencies should remain well-supported. Relatively more hawkish central banks and supportive terms of trade driven by price gains of key commodity exports are likely to underpin **AUD/USD and NZD/USD (we expect 0.69 and 0.64, respectively, in 6-12 months).** USD/CAD continues to be an exception.

We expect USD/CNH to rise to 7.22 in 3 months and 7.25 in 12 months. The persistence of long-term deflation risks is likely to keep downward pressure on the CNH. Near-term growth resilience may result in greater policy comfort with modest weakness, as signalled by the recent policy fix. **We expect USD/INR to decline modestly towards 82.40 over the next 12 months**, albeit with more volatility than in recent months, supported by strong growth and rising equity and bond inflows. **We expect USD/SGD at 1.32 in 3 months and 1.34 in 12 months.** Monetary policy is likely to remain unchanged for now, leaving USD/SGD to be driven by the broad USD. A flat USD and EUR means other Asian currencies face modest downward pressure.

Gold, crude oil – at a glance

Zhong Liang Han, CFA
Investment Strategist



Key themes

We remain Neutral on gold vs. other major asset classes, seeing it as a portfolio ballast against any meaningful recession and geopolitical risks. The gold market has been on a tear in March on higher tactical demand and continued official sector appetite. We expect gold prices to rise to USD 2,200/oz over the next 12 months as rate cuts materialise, dragging real yields lower. Meanwhile, institutional investors could increasingly add to their positions on higher rate cut expectations. Structural central bank demand remains a key driver, but they could delay purchases, given current elevated prices. However, overbought conditions and lacklustre ETF flows are short-term drags. Thus, gold is prone to corrections in the next 3 months, in our view.

We revise our 12-month WTI oil forecast higher to USD 81/bbl amid tighter demand-supply dynamics. On demand, conditions remain firmer than expected as most major economies, in particular the US and China, showed little signs of a slowdown. In terms of supply, the extension of OPEC+'s 2.2mb/d of voluntary cuts into the second quarter limits the upside for crude oil supply. Moreover, thin spare capacity and low producer elasticity mean that US output is unlikely to see new highs. In the near term, we maintain the view that the oil markets are likely to be in deficit given the elevated demand from the still-robust global economy. This suggests a higher WTI oil price at around USD 84/bbl in the next 3 months.

Key chart

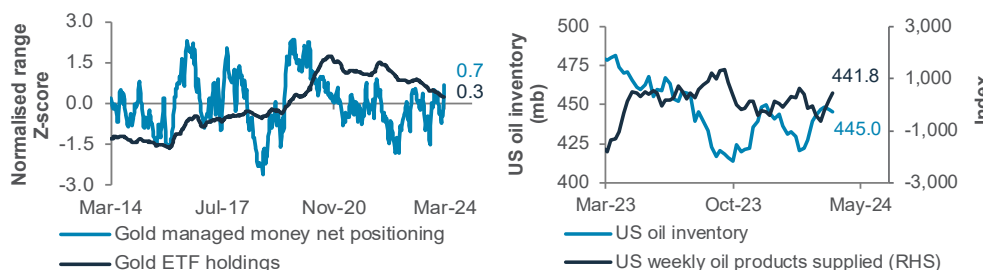
A revival of the lacklustre ETF flows is required to power the next leg of the gold rally

Oil demand conditions remain firmer than expected

Fig. 30 While tactical positioning rebounded, ETF outflows remained persistent; US oil demand is recovering, drawing down on oil inventory in recent weeks

LHS chart: Gold managed money net positioning, ETF holdings

RHS chart: US oil inventory vs EIA weekly product supplied (an oil demand measure)



Source: CFTC, Bloomberg, Standard Chartered

	The bullish case	The bearish case		The bullish case	The bearish case
Gold	<ul style="list-style-type: none"> + A normalisation in Fed rates + Escalation of geopolitical tensions + Safe-haven bids + Reserve diversification for central banks + Strong central bank and physical demand + USD weakness + Entry of CTAs 	<ul style="list-style-type: none"> – Rising real yields increase opportunity costs of holding gold – Geopolitical risk premium in gold tends to be short-lived – Positive correlation with equities – Resurgence in USD strength – Risk-on sentiment – Demanding valuations 			
12m TAA					
◆					
12m forecast: USD 2,200/oz			Crude oil	<ul style="list-style-type: none"> + Resilient DM economies + Stable demand growth in Asia + Supply reduction from geopolitical conflicts + OPEC+ supply cuts + Low inventories + US shale underinvestment + US SPR refill 	<ul style="list-style-type: none"> – Tight monetary policies and resulting growth slowdown – Redirection of Russian oil flows – Easing of sanctions against Venezuela – Significant global spare capacity – OPEC+ supply discipline – Lower demand from energy transition
			12m WTI forecast: USD 81/bbl		

Source: Standard Chartered Global Investment Committee

Legends: ▲ Overweight | ▼ Underweight | ◆ Neutral

Quant perspective

A bullish tilt towards equities

Francis Lim
Senior Quantitative Strategist

Summary

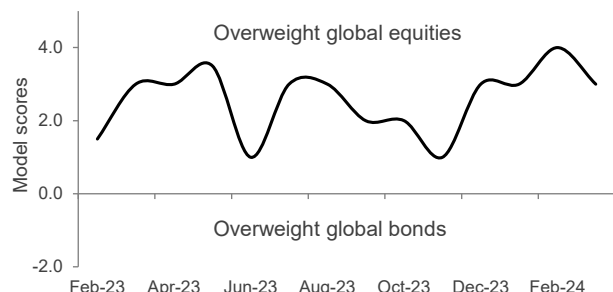
Our longer-term quantitative models have a typical time horizon of 3 months. They include the equity-bond model, which currently favours global equities over bonds. Supplementing this directional view is the equity-bond market risk model, which is not predicting high downside risks in US equities and government bonds. Meanwhile, our short-term models based on a bull-bear indicator and market diversity are not flagging any near-term risks in equities yet.

Equity-bond model: Prefer equities

We formally introduce the equity-bond model after a year of monitoring. The model generates a monthly score that ranges between -5 and 5, based on the aggregate scores of fundamental, valuation and technical factors. A positive score indicates an OW in equities and vice versa. Since February 2023, the model outperformed a 60/40 portfolio by 3.2%, with YTD outperformance at 1.60%.

Fig. 31 Equity-bond model prefers equities

Total of fundamental, valuation and technical scores



Source: Standard Chartered

Fundamental: A bullish tilt towards equities. Supporting the view is low risk aversion as measured by the Citi Macro Risk Index and still-positive economic surprises index. Both have been bullish equities since 2023. Meanwhile, manufacturing activity (ISM New Orders) is net neutral due to a small contraction, but it has improved over the past 3 months. Finally, our earnings revision factor is a negative as net-earnings upgrades are slowing.

Valuation: Bullish on equities. Global and Asian equities are currently trading within 1 standard deviation of their 5-year historical average of forward price-to-earnings ratio. The valuation factors are lagged as our back-tests show markets tend to delay a derating (implies increasing tolerance towards higher valuation).

Technical: A net neutral on equities. Our market breadth indicator scores well as 85% of equity markets are currently above their 200-day moving averages, indicating a healthy

participation in the global equity rally. However, our contrarian indicator is indicating a bearish divergence, where net-advances in stocks are forming lower highs, while global equities are forming higher highs, indicating the uptrend may be ending.

Neutral on equity and bond market risks

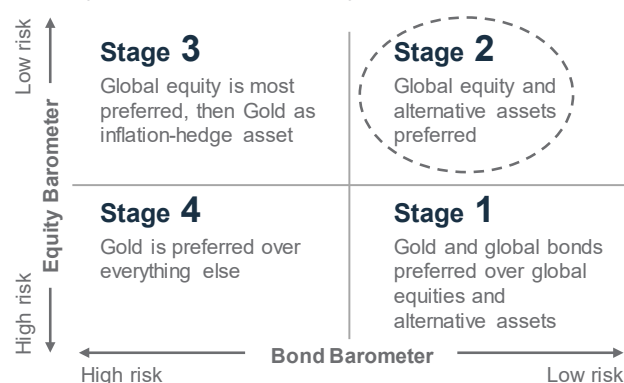
Our equity-bond market risk (EBMR) model uses 11 economic and market factors to create the equity and bond risk barometers that range from 0 to 100 (a higher value indicates lower risk).

The model's risk barometers have weakened towards Neutral in March (slightly below 50), due to fluctuations in US housing starts and initial jobless claims. As the model capitalises on macro trends, fluctuations in these factors that are missing clear trends are not regarded as a significant change.

Our 2-by-2 quadrant analysis of the risk barometers below show that we are currently in Stage 2, where downside risks in both equity and government bonds are low (we avoid unnecessary turnover by sticking to last month's quadrant given the Neutral levels in the risk barometers). Risky assets such as equities and alternative assets have historically performed well in Stage 2.

Fig. 32 EBMR model is in Stage 2

US equity-bond market risks analysis



Source: Standard Chartered

Bull-bear regime indicator

Our bull-bear regime indicator is bullish across many equity markets, including the US, Europe, the UK, Asia ex-Japan and Japan. The model monitors market momentum, volatility and volume to detect early signs of a regime break.

Interestingly, current market factors for the US are exhibiting strong similarity to past periods when uptrends ended soon after – Dec-2017 (fear of monetary policy tightening), Feb-2020 (Covid 19) and Feb-2022 (start of Fed hiking cycle).

Tracking market diversity

Francis Lim
Senior Quantitative Strategist

About our market diversity indicators

Our market diversity indicators help to identify a potential change in short-term trends due to a drop in the market breadth across equities, credit, FX and commodities. When market diversity falls, it implies either buyers or sellers are dominating, leading to a rapid rise or fall in asset prices. This is usually unsustainable and is likely to be followed by a slowdown or a reversal. Our diversity indicator is based on a statistical index called fractal dimension; a value below 1.25 serves as a guideline that prices are rising or falling too fast.

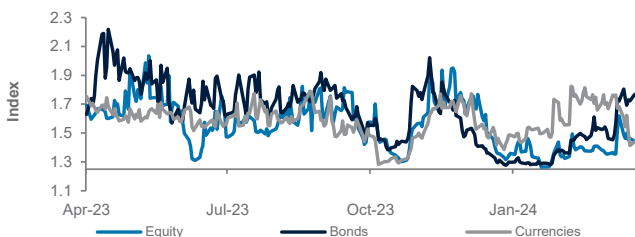
Where is diversity falling or rising this month?

March is a less exciting month from a market diversity perspective. We have seen diversity improving across equity, bond and currency markets, after a synchronised fall in Q4 23. The increase in market diversity of bonds and currencies is mainly driven by a reversal in their strong trends at the end of 2023.

Equity markets have had the highest number of consolidation or reversal triggers based on our market diversity indicator (fractal) threshold of 1.25 earlier in the year. These markets included the US, Japan and Europe. Despite stretched positioning, they have maintained a good momentum going into 2024. These trends are weaker in 2024, however, and have helped to balance the diversity of these equity markets somewhat. Diversity of US and Japanese equities is still looking stretched but is above our trigger point for now. Meanwhile, diversity of European equities has risen well above its trigger, partly due to a weaker UK within the mix.

Fig. 33 Market diversity has broadened in 2024

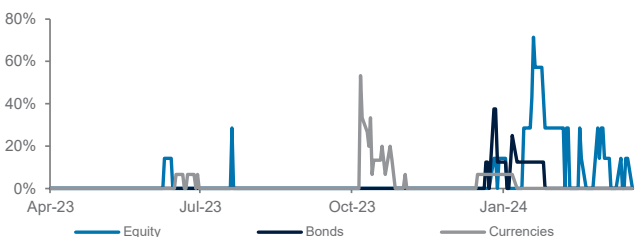
Average market diversity score by asset class



Source: Bloomberg, Standard Chartered

Fig. 34 Equity markets have been in and out of reversal triggers throughout Q1

Percentage of assets with diversity score <1.25



Source: Bloomberg, Standard Chartered

Diversity in bond markets has also improved after initially falling below 1.25 at the beginning of year. Most bond markets gained 9-12% from October to December 2023, when the Fed was more dovish. These trends have either reversed or have slowed down after our diversity indicator flagged extremely low investor diversity. DM government bonds have led the drop with a 2.8% decline.

Market diversity remains high in most currency markets. USDCHF is the only currency where our market indicator recently flagged a reversal signal in January. The CHF has depreciated against the USD by 5.0% after it reached an 8-year high at the beginning of this year. Looking more broadly, the weakness in CHF against the dollar was partly due to USD strength as the USD index (DXY) has rebounded since December 2023 as Fed rate cut expectations have been pushed back to June 2024.

Fig. 35 Diversity across key assets

Equities	Market diversity	30-day diversity trend
MSCI US	●	↑
MSCI Europe	●	→
MSCI UK	●	→
MSCI Japan	●	→
MSCI Asia ex Japan	●	↓
Fixed Income		
DM Government Bonds	●	↑
DM IG Corporate Bonds	●	↑
Global High Yield Bonds	●	→
EM USD Bonds	●	↑
Asia Credit	●	↑
Currency		
DXY	●	→

Source: Bloomberg, Standard Chartered; as on 25 March 2024

Legends: ○ Very low ● Low/moderate ● High



A holistic approach to managing your wealth Today, Tomorrow and Forever

SC Wealth Select

Has your portfolio had a health check lately?

Keeping in shape is important for good health and well-being. But what about your financial health? Are you ensuring that your portfolio stays financially fit?

Just like you get regular check-ups to stay on top of your health, it is important to give your portfolio regular check-ups to ensure it is in optimal condition for your financial well-being.

To help you stay on track with your financial goals, reach out to our wealth specialists to arrange a portfolio review. Our team follows a holistic approach to ensuring your wealth is managed to suit your Today, Tomorrow and Forever needs. We will guide you using our investment principles and ensure that your portfolio is adjusted to reflect any change in your financial goals.

Everyone approaches their wealth differently. However, what truly matters is that you feel in control of your wealth journey and are well-positioned to secure your financial future. As you plan out your next health review, make sure you undertake a portfolio review too.

Purpose

Today, Tomorrow, Forever

Our approach to wealth management is built on your vision of Today, Tomorrow and Forever for yourself, your family and beyond. As you move through life, your needs, life goals and preferences change. However, at every stage, clearly defined goals help to anchor your investment decisions.

Using a 'Today, Tomorrow and Forever' approach, we distinguish the assets intended to be used in the near term (Today) from the assets that are to be used over decades (Tomorrow and Forever), thereby segmenting your portfolio into different strategies that can help you meet your short- and long-term goals.

'Today, Tomorrow and Forever' planning is unique to you. Our specialists partner with you to build well-diversified, long-term Foundation portfolios aligned to your Today, Tomorrow and Forever needs. Opportunistic ideas are added to capture short-term opportunities, and sufficient protection included to address your and your family's objectives.

Today, Tomorrow, Forever Approach

Planning for Today

Requires ensuring liquidity and income flows take centre stage.

Securing Tomorrow

Entails a well-diversified investment and protection portfolio with a focus on growth, while ensuring inflation is accounted for and risks are mitigated.

Building for Forever

Involves greater focus on long-term returns given the time horizon of the portfolio can be measured in decades, and might also include business interests, real estate, collectibles, or charitable funds.

Principles

that stand the test of time

Adhering to time-tested principles, to ensure your investment decisions remain robust and consistently applied, is paramount to your success Today, Tomorrow and Forever. We use five Wealth Principles to guide and guardrail your wealth decisions.



Discipline – Ensure consistency and prudence over your emotions

- Reacting to emotions such as optimism and fear can lead to poor investment decisions at the worst times
- Have a plan and stick to it – this helps you to stay focused on the bigger picture



Diversification – Simply put, don't put all your eggs in one basket

- Reduce risk by holding a variety of financial assets. Multi-asset diversification in your Foundation portfolio is important
- As a guide, make sure your portfolio contains a variety of asset classes and investments that have low correlation with one another



Time in the Market – A more robust strategy than timing the market

- Predicting market sell-offs is challenging, and timing your exit and re-entry is difficult

- Missing out on the best performing days of a market can have a significantly detrimental impact on your portfolio
- 'Time in the market' and buying the market with a longer-term view provide more consistent returns that can ride out bumps along the way



Risk and Return – Make sure the risk is worth the return

- To achieve higher investment returns, you will likely have to accept a greater level of risk in your portfolio
- Therefore, it is important to understand the risks and manage these on an ongoing basis



Protection – Don't let the unexpected catch you unprepared

- Even though you may feel healthy, or financially stable now, protection offers the ability to overcome times of financial uncertainty and mitigate the long-term impact of unforeseen events on your wealth
- A good protection plan not only safeguards your wealth today, but also considers the value of your future earnings over your lifetime, in today's terms

Process

Following a holistic approach to managing your wealth

We follow a rigorous process to ensure your needs and objectives are well-understood, and your portfolio is aligned and managed to deliver on these objectives.

However, markets constantly evolve and your needs change. Hence, we encourage you to undertake regular portfolio reviews to ensure your portfolio remains aligned to your Today, Tomorrow and Forever objectives. This proactive approach includes strategic rebalancing based on insights from our Chief Investment Office

Learn more

Scan the QR code below to learn more about our SC Wealth Select approach to growing, managing and protecting your wealth.



The five-step process



Please be sure to reach out to your Relationship Manager today to arrange a portfolio review.

Foundation: Asset allocation summary

Summary	View	FOUNDATION			Summary	FOUNDATION Conservative
		Moderate	Moderately Aggressive	Aggressive		
Cash	▼	2	2	2	Cash	35
Fixed Income	◆	51	33	14	Fixed Income	65
Equity	▲	42	60	79		
Alternatives	◆	5	5	5		
Asset class					Asset class	
USD Cash	▼	2	2	2	USD Cash	35
DM Government Bonds*	◆	10	6	3	DM IG Govt (Short duration)	10
DM IG Corporate Bonds*	◆	9	6	3	DM IG Corp (Short duration)	13
DM HY Corporate Bonds	◆	10	7	3	DM HY (Short duration)	14
EM USD Government Bonds	◆	7	5	2	EM USD Govt (Short duration)	9
EM Local Ccy Government Bonds	◆	7	4	2	EM LCY Govt	9
Asia USD Bonds	◆	7	5	2	Asia USD bonds	11
North America Equities	▲	22	31	41		100
Europe ex-UK Equities	▼	4	6	8		
UK Equities	▼	1	2	2		
Japan Equities	▲	3	5	7		
Asia ex-Japan Equities	◆	8	12	16		
Non-Asia EM Equities	◆	3	4	6		
Alternatives	◆	5	5	5		
		100	100	100		

Source: Standard Chartered

All figures in %

1. Allocation figures may not add up to 100 due to rounding. *FX-hedged

2. The Conservative TAA is based off the SAA and is not overlaid with any tactical views

Legends: ▲ Most preferred | ▼ Least preferred | ◆ Core holding

Foundation+: Asset allocation summary

Summary	View	FOUNDATION PLUS		
		Moderate	Moderately Aggressive	Aggressive
Cash	▼	2	1	1
Fixed Income	◆	40	24	10
Equity	▲	35	46	60
Alternatives	◆	6	6	6
Private Assets		18	22	22
Asset class				
USD Cash	▼	2	1	1
DM Government Bonds*	◆	8	5	2
DM IG Corporate Bonds*	◆	7	4	2
DM HY Corporate Bonds	◆	8	5	2
EM USD Government Bonds	◆	6	3	1
EM Local Ccy Government Bonds	◆	5	3	1
Asia USD Bonds	◆	6	3	1
North America Equities	▲	18	24	31
Europe ex-UK Equities	▼	3	5	6
UK Equities	▼	1	1	2
Japan Equities	▲	3	4	5
Asia ex-Japan Equities	◆	7	9	12
Non-Asia EM Equities	◆	3	3	4
Alternatives	◆	6	6	6
Private Equity		3	7	11
Private Real Estate		7	5	5
Private Debt		8	10	6
		100	100	100

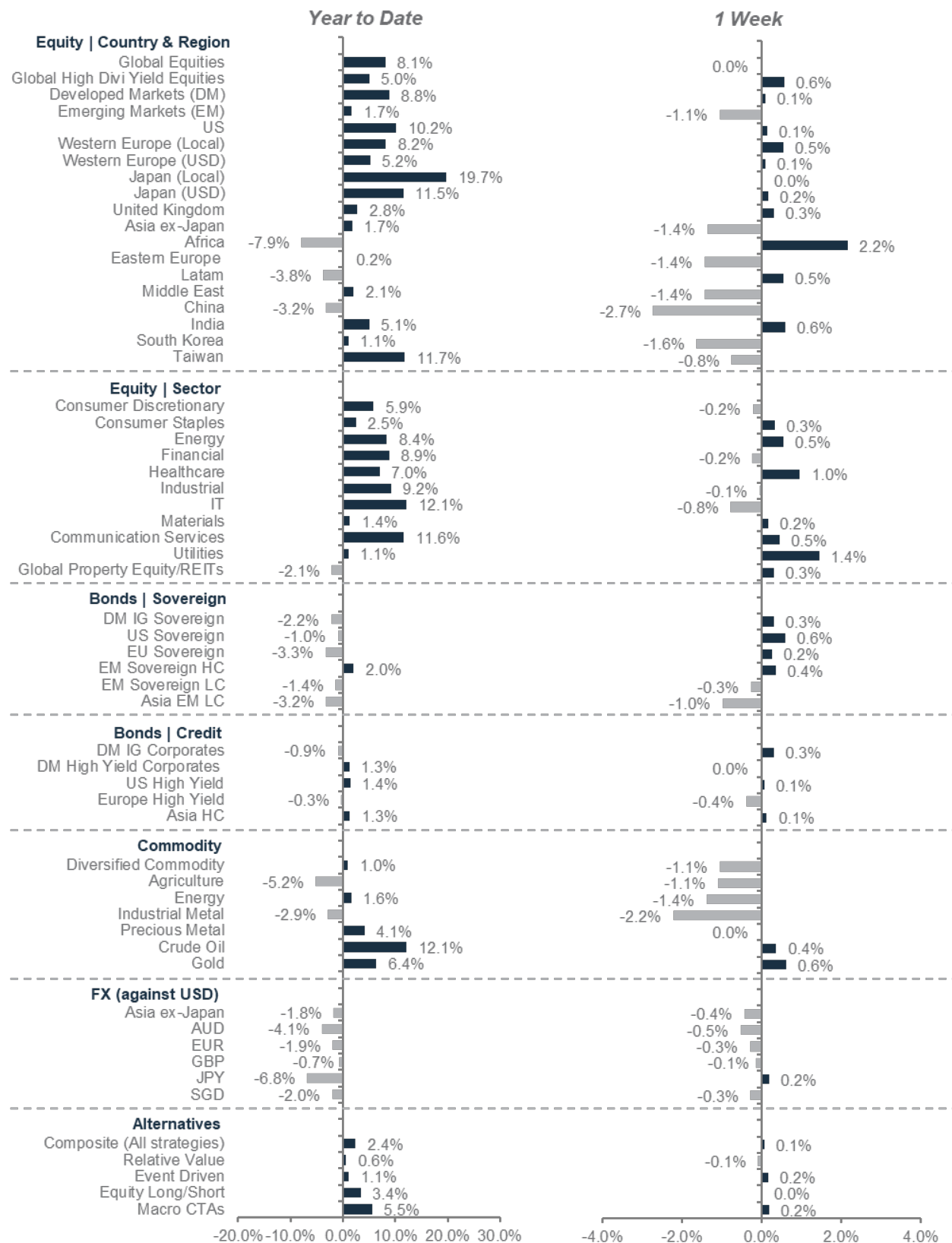
Source: Standard Chartered

All figures in %

1. Allocation figures may not add up to 100 due to rounding. *FX-hedged

Legends: ▲ Most preferred | ▼ Least preferred | ◆ Core holding

Market performance summary*



Source: MSCI, JPMorgan, Citigroup, Dow Jones, HFRX, FTSE, Bloomberg, Standard Chartered

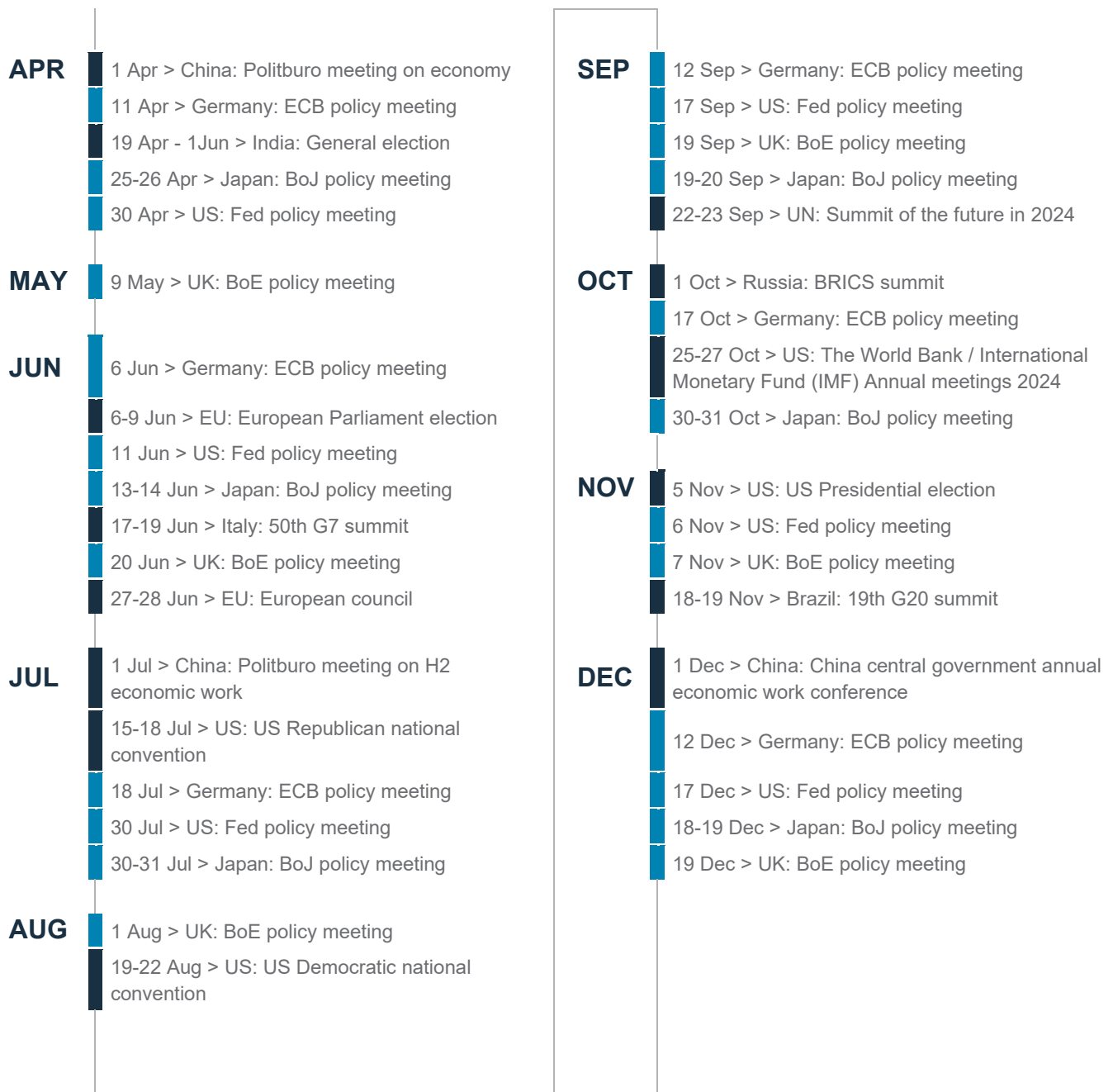
*All performance shown in USD terms, unless otherwise stated

*YTD performance data from 31 December 2023 to 27 March 2024 and 1-week performance from 21 March 2024 to 27 March 2024

Our key forecasts and calendar events

Currency	USD (DXY)	EUR/USD	GBP/USD	USD/JPY	AUD/USD	NZD/USD	USD/CAD	USD/CNH	USD/CHF	Oil (WTI, USD/bbl)	Gold (USD/oz)	Fed policy rate (upper bound)	US Treasury 10y yield (%)	ECB policy rate
3m forecast	102.8	1.10	1.30	153	0.68	0.62	1.35	7.22	0.90	84	2150	5.25% (Jun-24)	4.00-4.25%	3.75% (Jun-24)
12m forecast	102.7	1.10	1.28	142	0.69	0.64	1.35	7.25	0.92	81	2200	4.50% (Mar-25)	3.75-4.00%	3.00% (Mar-25)

Source: Standard Chartered



Legends: ■ Central bank policy | ■ Geopolitics

X – Date not confirmed | ECB – European Central Bank | FOMC – Federal Open Market Committee (US) | BoJ – Bank of Japan | BoE – Bank of England

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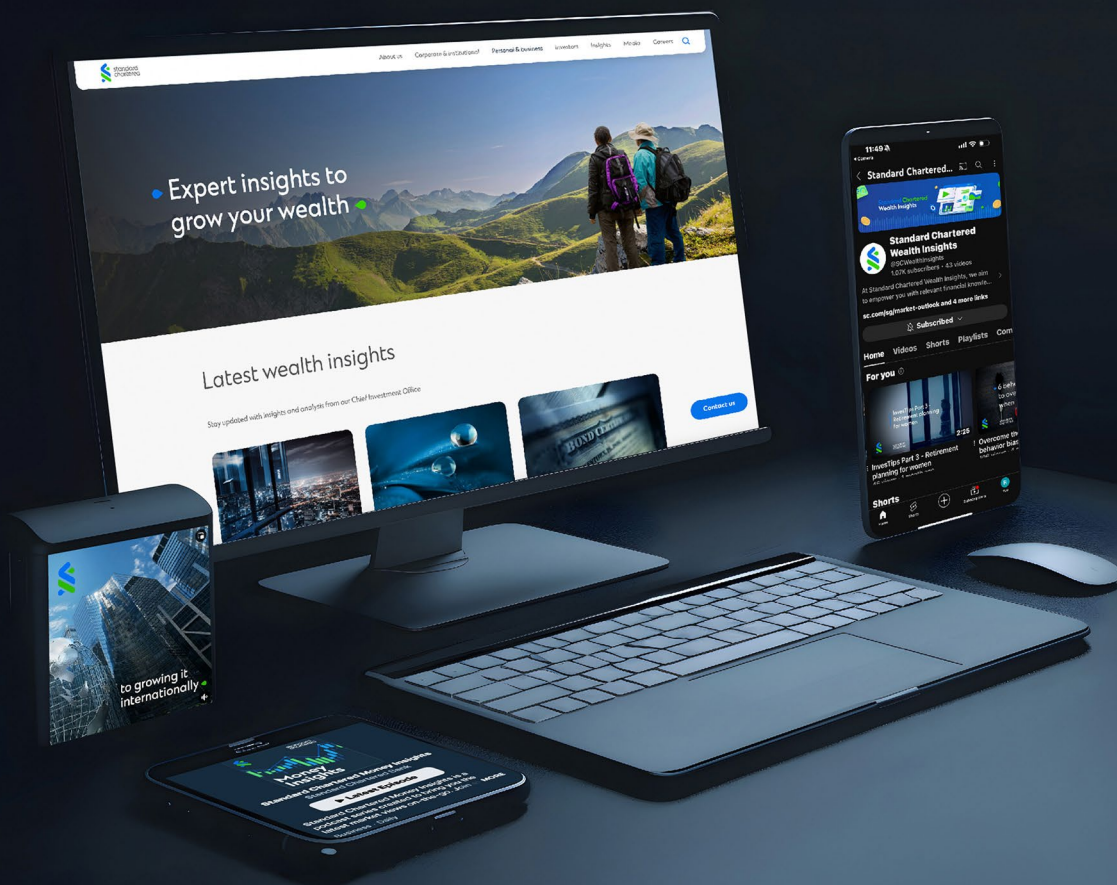
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