



Global Market Outlook

Riding the wave

Major equity markets have risen to all-time highs. In foundation allocations, we remain Overweight global equities, led by the US and Japan, on resilient earnings growth. Meanwhile, a policy catalyst is likely needed for a sustained rebound in China.

We remain Overweight high quality government bonds. The pushback in market expectations of the Fed's first likely rate cut to June now fits with our own view, making current bond yields attractive once again, particularly against cash. The bonds also offer the potential for capital gains.

In opportunistic allocations, we remain Overweight US technology, communication services and healthcare sectors as earnings in these sectors are likely to outperform the broader market this year.



Are Chinese equities poised for a sustained turnaround?

What is outlook for US and Euro area policy rates?

Are quant models pointing to a sustained equity rally?



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Investment strategy and key themes

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Our top preferences (12-month outlook)

Foundation overweights

- Global equities, govt. bonds
- *In equities:* US, Japan
- *In bonds:* DM IG government

Sector overweights

- *US:* Comms. services, technology, healthcare
- *Europe:* Tech., healthcare
- *China:* Tech, Comms. services, consumer discretionary

FX views

- Rangebound (bearish bias) USD

Ride the wave

- Major equity markets have risen to all-time highs. In foundation allocations, we remain Overweight global equities, led by the US and Japan, on resilient earnings growth. A policy catalyst is likely needed for a sustained rebound in China.
- We remain Overweight high quality government bonds. The pushback in market expectations of the Fed's first likely rate cut to June now fits with our own view, making current bond yields attractive once again, particularly against cash. The bonds also offer the potential for capital gains once the Fed starts cutting rates.
- In opportunistic allocations, we remain Overweight the US technology, communication services and healthcare sectors as earnings in these sectors are likely to outperform the broader market this year.

A strong start to 2024

2024 has opened on a strong note. Since we published our Outlook 2024, our growth-oriented foundation allocation has risen over 4.0%. Much of the gains have been driven by equities (global equities up about 6.5% over the same period), with our preferred markets, the US (up almost 8.1%) and Japan (up almost 9.9%), outperforming.

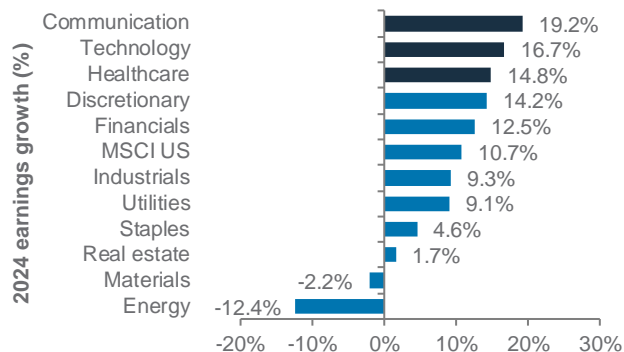
Bonds, however, have had a more muted start to the year. Positive returns have been led by riskier and more 'equity-like' high yield bonds. High quality Investment Grade (IG) bonds are down slightly as markets have pushed back expectations of the first Fed rate cut to June, as sticky inflation led Fed policymakers to signal delaying the start of policy easing. We, however, view this positively for high quality bonds as it brings the market's assessment now in line with our own outlook for Fed rates.

Growth optimism or exuberance?

Can gains in US equities continue? Optimists argue that the underlying earnings fundamentals remain strong, the labour market remains resilient and the Fed could cut rates pre-emptively to head-off a recession as inflation softens. Pessimists, however, argue that valuations are now lofty and that the concentration of the rally among the technology leaders (the 'Magnificent Six/Seven') is unusually narrow.

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

2024 earnings growth estimates of US equity sectors



Source: LSEG I/B/E/S, Standard Chartered

Insights from the technology sector can help. There is undoubtedly some merit to the view that earnings growth is strong – the US technology and communication services sectors rank among the top 3 sectors in terms of 2024 expected earnings growth (see Fig. 1). This follows a 70% y/y surge in earnings growth in Q4 23 for the so-called ‘Magnificent Six’. This is also likely why technology sector gains are no longer about falling bond yields - this relationship appears to have started breaking down from last year.

A second insight likely comes from investor positioning. Our own market diversity indicator continues to warn that US equities, and the technology sector, face a two-thirds chance of a temporary consolidation. Fund manager surveys similarly show falling cash levels among institutional investors and rising consensus on US equity allocations. The ‘Magnificent Six’ are potentially the most crowded trade today.

On balance, we believe the risk/reward favours maintaining Overweight on US equities in foundation allocations and our existing sector preferences for technology, communication services and healthcare in opportunistic allocations. While the risk of a temporary pullback or consolidation are higher than usual, we believe the resilience in economic and earnings growth, supported by strong corporate margins, is likely sufficient to help maintain the market’s momentum.

Japan and Asia

The standout gains in Japanese equity markets (and indeed in Indian equities within Asia) elicit a similar question – can the gains extend? In Japan, the jump in stock buybacks argues there is substance behind the optimism about improving corporate reforms. This, along with relatively fewer short-term positioning concerns, is why we retain our Overweight view.

Within Asia ex-Japan, though, the debate between India and China equities remains an intense one. The outlook for Indian equities is potentially similar to that for US markets – strong gains since Q4 2023, arguably justified by growth and earnings optimism, but now at high valuations. In contrast, Chinese equities offer unusually cheap valuations, but greater uncertainty about the growth outlook.

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

Fed rate expectations vs. 10yr bond yield & USD



Source: Bloomberg, Standard Chartered

In China, markets continue to look towards policymakers for a catalyst. Measures thus far have not revived the equity market sentiment in a significant way, but the Hang Seng Index’s outperformance compared with global equities since its late January low suggests some investors believe policy support is approaching a critical level. As we detail in our Perspectives section, the emergence of positive momentum can be an important factor in driving Chinese equities higher in the short term. The upcoming National People’s Congress (NPC) could sustain the momentum with further policy support.

On balance, we believe a neutral allocation to both Indian and Chinese equities within Asia ex-Japan offers the most attractive risk/reward. For Indian equities, this ensures maintaining moderate exposure without taking excessive risk (by maintaining a preference for large cap over small/medium cap equities). For Chinese equities, a neutral stance ensures exposure to what could be an unexpectedly rapid rebound, given the unusually bearish sentiment and positioning. Raising exposure to the market as momentum improves, or adding exposure to preferred equity sectors, can be additional ways to improve the risk/reward in Chinese equities.

Staying the course on bonds

Unlike equities, bonds have faced headwinds from rising yields as markets went through a repricing of the likely start of a potential Fed rate cutting cycle. However, this repricing now brings market expectations closer to our own, ie, the Fed to start cutting rates only by mid-year. We believe this is more reasonable given the still-persistent inflation pressure and resilient growth.

Nevertheless, we expect growth and inflation to continue to slow in the coming quarters as the impact of past Fed rate hikes starts to bite. As the Fed starts cutting rates, high quality bonds are likely to offer an attractive risk/reward. Therefore, we believe the recent backup in yields offers a renewed opportunity to add exposure. This is particularly true relative to staying in cash. History shows us that USD cash returns failed to beat inflation in four of the past six decades, regardless of the starting yield level.

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

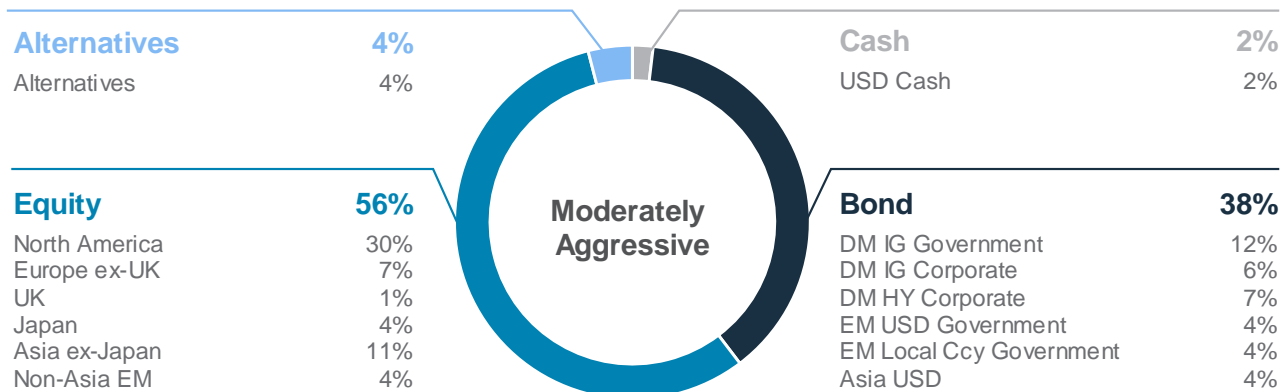


Fig. 4 Foundation+ asset allocation for a moderately aggressive risk profile

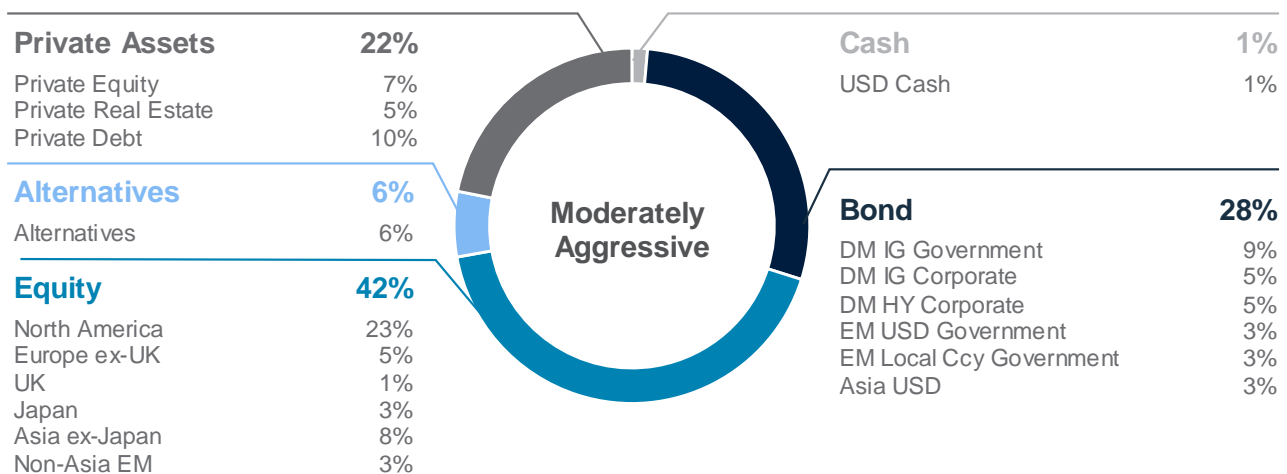
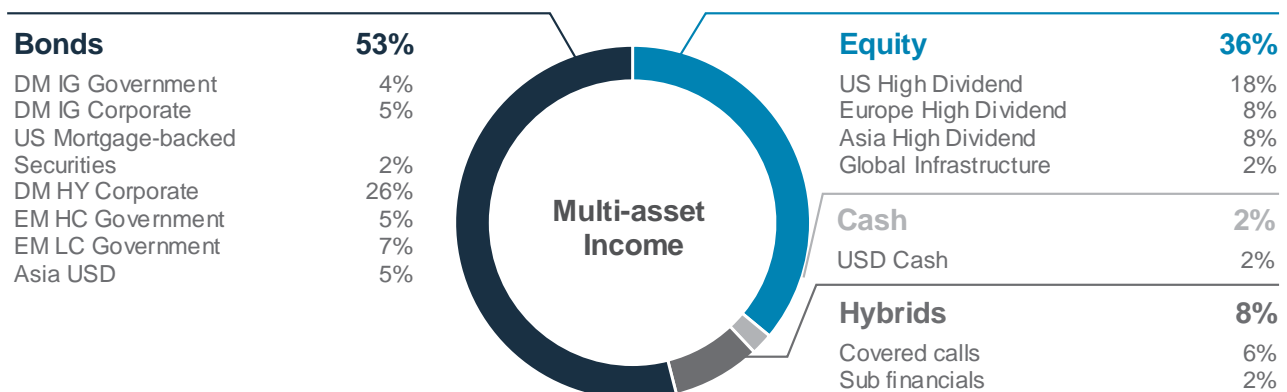


Fig. 5 Multi-asset income allocation for a moderate risk profile



Source: Standard Chartered

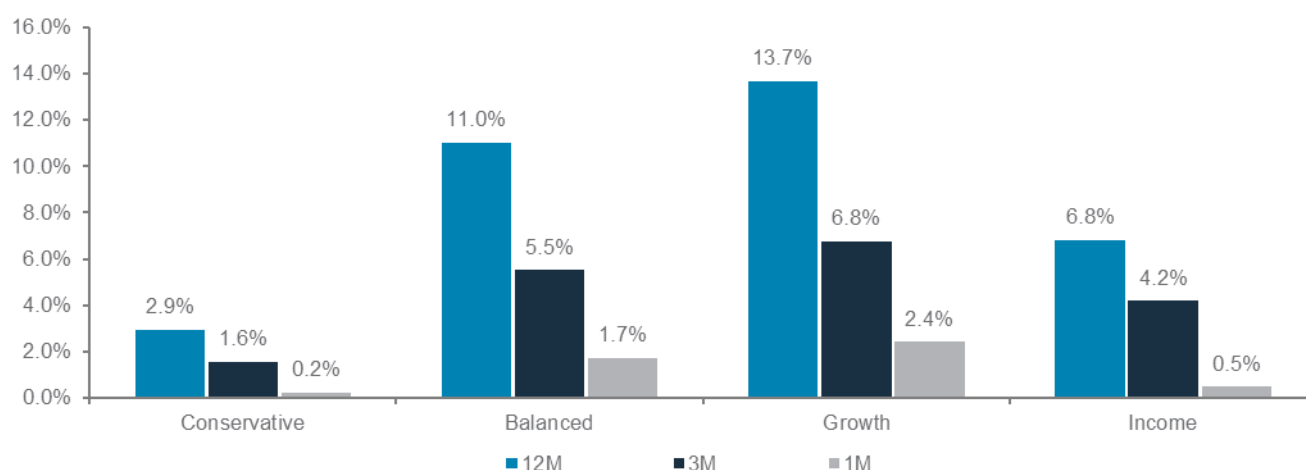
Foundation: Our tactical asset allocation views

	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 28 February 2023 to 29 February 2024, 3-month performance from 29 November 2023 to 29 February 2024, 1-month performance from 29 January 2024 to 29 February 2024.

Perspectives on key client questions

Audrey Goh, CFA
Head, Asset Allocation

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Q Are Chinese equities poised for a sustained turnaround?

The early weeks of 2024 offered no respite for investors in China's stock market. After three consecutive years of losses, the MSCI China index plunged a further 12.2% to a trough in January, as lacklustre growth, deflationary concerns and ongoing worries about the property sector hurt investor confidence.

Since February, however, a series of policy measures have sparked expectations that the pain threshold for policymakers has finally been reached. State-controlled entities have been aggressively buying stocks, restrictions on stock sales have been imposed and the head of the Securities Regulatory Commission has been replaced. The stock market has in turn rebounded, with the MSCI China index rising 10.7% from its trough in January, trimming year-to-date losses to 2.9%.

The flurry of measures to put a floor under the stock market has raised the question whether Chinese equities are now poised for a turnaround. Our views are as follows:

1. Valuation is a poor indicator of how markets may behave in the near term, but over a longer horizon, it does bear greater explanatory power for how stocks may perform. The currently depressed market valuation of Chinese stocks thus may represent an attractive opportunity for long-term investors.
2. Momentum is instead a better guide to how much higher stocks can run in the coming months. Onshore Chinese stocks have shown a tendency to produce even greater returns whenever short-term returns exceed 10%.
3. The upcoming National People's Congress (NPC) meeting bears important implications. Coordinated policies to revive business and consumer confidence would help to reverse deflationary pressures and sustain the nascent rally in equity markets.

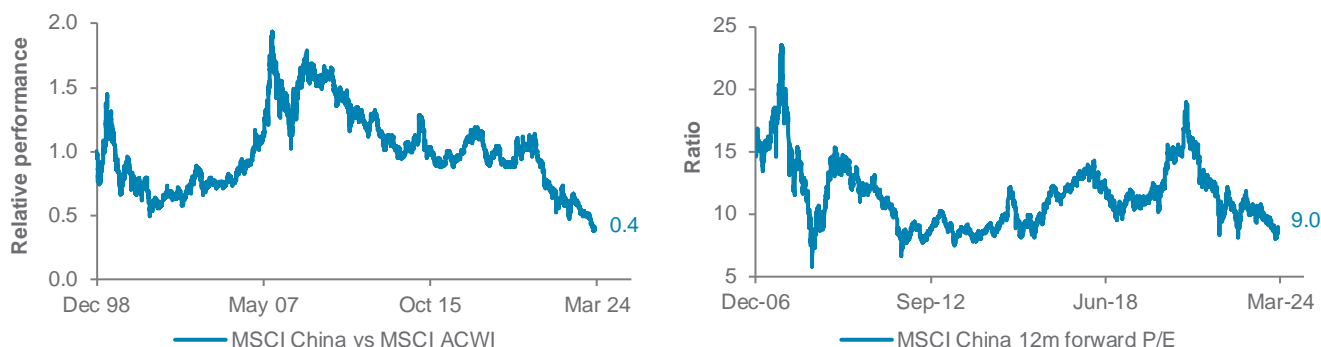
Valuation is cheap, but a poor indicator of near-term returns

The good news is valuation is cheap. However, valuation by itself is often a poor indicator of how markets behave in the near term. Over a longer horizon, though, market valuations do bear greater explanatory power for how stocks may perform. At a 12-month forward P/E ratio of 9.0x or less, which is where the MSCI China has been trading thus far this year, 5-year forward annualised returns dating back to 2005 have been positive almost 100% of the time, with average annualised returns



Fig. 7 Chinese stocks have underperformed against global equities and are currently the cheapest in years

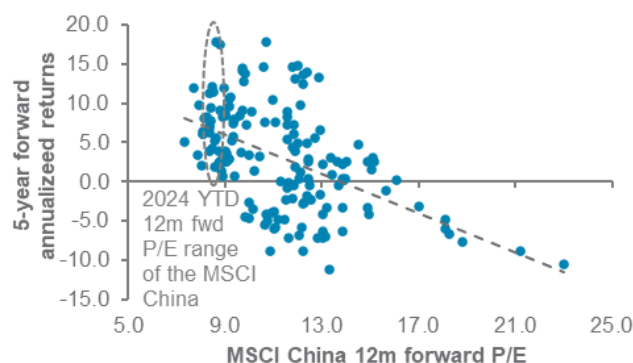
Relative performance of the MSCI China vs. MSCI ACWI and the 12-month forward P/E of the MSCI China



Source: Bloomberg, Standard Chartered

Fig. 8 At current valuation levels, the MSCI China has historically produced average annualised returns of 6.8%

MSCI China 12m forward P/E and 5-year annualised returns



Source: Bloomberg, Standard Chartered

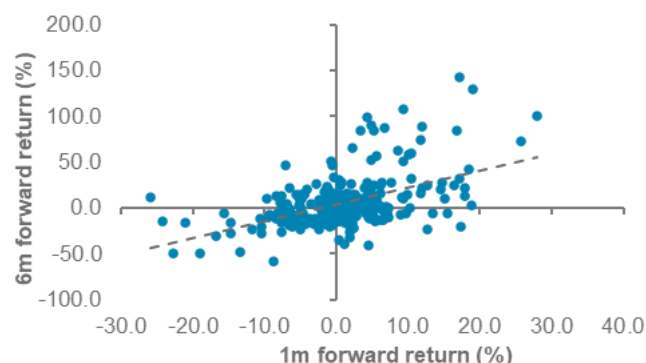
of 6.8%. Depressed valuations and light investor positioning make a compelling argument for limited downside from a long-term perspective. (Fig. 8)

Momentum is a better guide to near-term performance

Instead of valuation, market momentum could determine when interest may be returning to China's equity markets. Financial markets often operate in a self-reinforcing feedback loop, where higher prices attract more investors and push prices even higher. Momentum is particularly pronounced in China's onshore stock market, where there is a higher proportion of individual investors who trade based on sentiment and technical factors rather than fundamentals. As a result, China equities often experience sharp swings in both prices and valuation multiples, with limited correlation to macro and policy variables. For instance, in the past 20 years, a one-month gain in excess of 10% in the CSI 300 index has led to even greater returns in the subsequent six months almost 70% of the time (Fig. 9).

Fig. 9 Rapid short-term gains have often snowballed into larger long-term returns in Chinese onshore stocks

1-month and 6-month forward returns of the CSI 300



Source: Bloomberg, Standard Chartered

Upcoming NPC meeting to bear important implications

Beyond technical factors, the upcoming NPC meeting could also trigger a sustained turnaround in equities. The meeting sets the tone for China's economic and policy direction for the year and will be closely watched for signs of more coordinated policy support for the economy (see the table below).

Conclusion

Investor confidence in China's stock market is weak. However, the momentum-driven nature of Chinese stocks suggests a meaningful rebound is still possible given the nascent pick-up in momentum, even when economic conditions are poor. A series of measures introduced by the authorities lately have set the stage for this positive momentum. Also, depressed valuations suggest compelling longer-term returns for investors. The balance between risk and reward argues in favour of staying invested, as investors' patience can be rewarded, especially if the NPC meeting produces a favourable outcome.

Higher probability scenario: authorities perceive the problem as one of depressed business/consumer confidence

Potential policy measures	Market and economic implications
<ul style="list-style-type: none"> Policies to revive business and consumer confidence; eg, incentives to manufacturers to upgrade equipment, households to replace consumer durable goods Targeted regulatory easing for the property sector Progressive monetary, credit and fiscal easing A widening of equity trading curbs Continued pursuit of high-quality growth with target credit support in priority areas such as green energy, AI 	<ul style="list-style-type: none"> In the absence of a policy bazooka, onshore equity is likely to see a volatile bottom, and continue to outperform its offshore counterparts Housing downturn to persist, albeit managed by authorities to prevent a crash in home prices The CNY may remain under pressure, especially if Fed rate cuts are pushed back further

Low probability scenario: if problem is seen as one of balance sheet recession and debt deflation

<ul style="list-style-type: none"> Larger rate cuts, quantitative easing targeting the property sector, and direct handouts to lower income households Recapitalising banks after writing off property sector loans Measures, albeit temporary, to contain capital outflows 	<ul style="list-style-type: none"> Onshore China equities to bottom and rebound strongly Offshore China equities outlook to depend on the nature of capital restrictions, state of geopolitics (especially US elections) Further CNY weakness, managed by the authorities
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Macro overview – at a glance

Rajat Bhattacharya
Senior Investment Strategist



Key themes

Strong US growth. US economic activity continues to surprise positively given sustained consumption and a revival in manufacturing. We expect growth to slow in the coming quarters due to the lagged impact of 525bps of rate hikes since March 2022 and the fading impact of pandemic stimulus. Excluding Germany, Euro area growth has held up well with the help of EU fiscal support. However, there too, activity is likely to slow as past rate hikes bite. China's economy appears to have stabilised following a series of measures to support the property sector and overall growth.

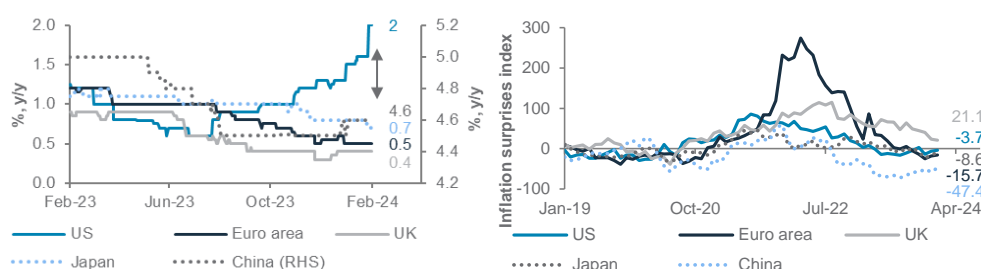
Disinflation delayed: Excluding China, the pace of disinflation has slowed across major economies lately. This is largely due to resilient services inflation. We expect disinflation to resume as growth slows in the coming quarters. In the US, falling asking rents suggest shelter inflation is likely to decelerate, bringing overall inflation near the Fed's 2% target by 2025.

Policy rate cuts pushed back: Growth surprises and stalling disinflation have led markets to push back policy rate cut estimates. Markets are now aligned with our expectations of the first Fed rate cut in June. We expect the first ECB rate cut in Q3. China's National People's Congress is likely to unveil more actions to revive business/consumer confidence.

Key chart

US growth has positively surprised lately due to sustained consumer demand and a pick-up in manufacturing; outside of China, the pace of global disinflation has slowed due to sticky services sector inflation

Fig. 10 US growth estimates upgraded this year, while global disinflation has slowed
2024 GDP growth estimates and inflation surprise indices across major economies



Source: Bloomberg, Standard Chartered

Macro factors to watch

US expansion extends. US growth continues to defy expectations of a sharp downturn. The Atlanta Fed's GDPNow estimates Q1 24 q/q annualised growth at 3.0%, which follows 3.3% growth in Q4 23 and 4.9% in Q3 23. The still above-potential growth can be explained by robust financial health of households and companies thanks to the post-pandemic stimulus, which has delayed the impact of the most rapid Fed policy tightening since 1980s. President Biden's infrastructure stimulus, corporate reshoring of plants and a nascent revival of global manufacturing could extend the expansion longer than previously expected. Nevertheless, we expect growth and inflation to continue slowing this year as the Fed's tightening bites and the pandemic stimulus is exhausted. Thus, we expect the Fed to start cutting rates from June.

Germany vs. Euro area: Euro area economic activity has bifurcated. While Germany went into a technical recession in H2 23 due to a slump in global manufacturing and China, and higher energy costs following the Ukraine crisis, the rest of the Euro area continued to expand. In 2024, Germany faces fiscal

drag estimated at c.1.4% of GDP, the largest in the Euro area. Meanwhile, Spain and Italy are likely to benefit the most from the EU's recovery fund disbursements, the impact of which will peak this year. Overall, while non-German growth is extending the Euro area expansion, we expect a sharper downturn caused by tightening financial and bank lending conditions to force the ECB to start cutting rates in H2.

China rebounding? China's policymakers have stepped up measures lately to revive business and consumer confidence, suggesting the pain threshold has been reached. The record 25bps cut in a rate used for mortgages aims to revive property demand, which remains the biggest economic drag. The central bank is also expanding its balance sheet and boosting liquidity, which is leading to a recovery in money supply and credit growth. Authorities have taken measures to support the stock market, while regional governments have set a median 5.5% growth target for 2024. Lunar New Year holiday spending surpassing pre-pandemic levels is a sign of improving consumer confidence. The upcoming NPC will be closely watched for further stimulus measures.

Bonds – at a glance

Cedric Lam
Senior Investment Strategist

Zhong Liang Han, CFA
Investment Strategist



Key themes

We remain **Overweight Developed Market (DM) Investment Grade (IG) government bonds** and see an attractive opportunity to add exposure following this year's rebound in US bond yields. We raise our **3-month target for 10-year US government bond yield slightly to 4.00-4.25%** amid market repricing of higher-for-longer Fed policy rate, rising Treasuries supply and quantitative tightening (QT). We still **expect the yield to move to 3.25-3.50% over 12-months** as Fed rate cuts start in June.

We remain **Neutral DM IG and High Yield (HY) corporate bonds**. Yield premiums over government bonds point to elevated valuations, but these are well supported by strong earnings and a favourable demand-supply balance. Nevertheless, we believe nominal yields of both the sub-asset classes are attractive when compared with cash.

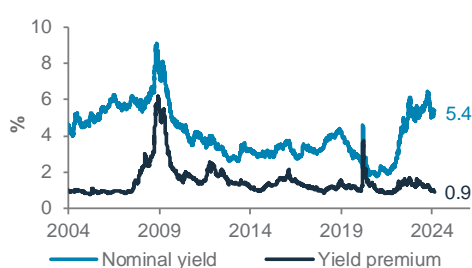
We remain **Neutral Asian USD bonds, with preference for HY over IG**. Asia HY bonds have outperformed IG bonds year-to-date. We expect this to extend further on expectations of more stimulus measures from China's authorities and given the bonds' still-attractive relative value when compared to Asia IG bonds.

In Emerging Markets (EM), we are **Neutral EM local currency government bonds**. While USD strength and narrowing EM-DM yield differentials have weighed on the asset class year-to-date, we expect support from a weaker USD and falling bond yields in many EMs in the next 6-12 months. We remain **Underweight USD government bonds** as ongoing concerns about fundamentals and geopolitics in a year of intensive elections outweigh their sensitivity to decline in US bond yields.

Key chart

Corporate bond nominal yields have surged in recent years due to higher net-of-inflation (real) yields and inflation expectations; In terms of USD-denominated yield premiums over govt. bonds, Asia HY bonds continue to offer relative value to Asia IG peers

Fig. 11 Corporate bond nominal yields are attractive relative to their own history (LHS); Asia HY bond yield premium stands out among USD bond peers (RHS)



Source: Bloomberg, Standard Chartered

	Current	Avg	Percentile
US IG corp	91	145	15.2%
US HY corp	306	477	12.9%
Asia IG	141	162	17.4%
Asia HY	951	597	84.5%

Should we add DM IG government bonds?

DM government bond yields started 2024 with a steep rebound as investors dialled back Fed rate cut expectations after stronger-than-expected US economic data releases. Expectation for a higher-for-longer Fed Funds rate, increases in Treasuries supply and QT prospects are likely to keep yields within a range in the near term. We believe the direction of monetary policy remains intact and will be key for DM IG government bond yields to break lower, as we continue to expect the Fed and the ECB to pivot before end-June.

We continue to view any short-term rise in bond yields as creating an attractive entry point to add exposure to DM IG government bonds.

Should we stick with cash when yields are comparable to bond yields?

Cash yields are optically attractive. However, holding too much cash in a portfolio raises reinvestment risk; i.e., investment return declines as investors fail to reinvest the proceeds, once the cash deposits mature, at a yield comparable to the current return. We believe this risk is likely to rise as we edge closer to the start of central bank rate cuts.

Bonds carry higher credit risk than cash. However, for total return investors, their longer maturity over cash offers better opportunity to manage reinvestment risk by locking in today's yield into future years. In addition, our expectation for lower DM bond yields towards the end of the year leads us to believe that bond investments offer the prospect of capital gains.

In our Tactical Asset Allocation, we continue to view cash as a less preferred holding.

Equity – at a glance

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Head, Equity Strategy

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Michelle Kam
Investment Strategist

Jason Wong
Equity Analyst



Key themes

We are Overweight equities, and within that US equities, given our central scenario of a soft-landing in the US, at least in the first half of 2024. US companies are displaying strong pricing power, resulting in solid net margins. Stickier-than-expected inflation is a key risk, which may delay expected Fed rate cuts. Japan is the other Overweight region that continues to display a healthy combination of solid earnings, improving corporate governance and being less expensive than US equities.

We are Neutral Asia ex-Japan equities. The region potentially offers the highest earnings growth among our key regions. We are 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. Deflationary forces remain the key risk, but the government has been intensifying its policy stimulus, with more likely at the National People's Congress. We are Neutral Indian equities. Positive drivers include the government maintaining fiscal consolidation, while upgrading infrastructure, with higher outlay for railways, roads, renewable energy, housing and agriculture. This keeps domestic growth strong and supports job creation.

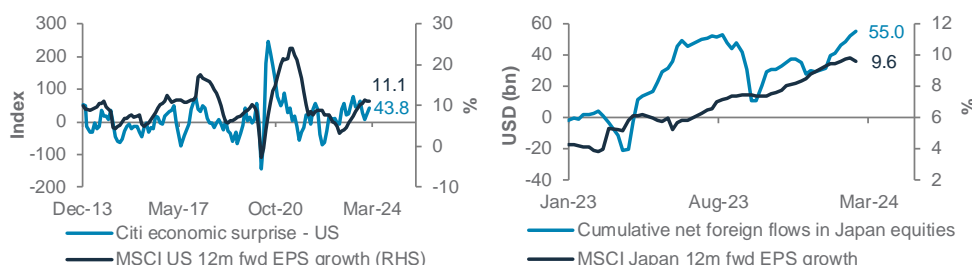
Elsewhere, we are Neutral Euro area equities. Growth prospects remain murky compared with the US, but cheap valuations and low investor positioning are counter-balancing factors. We stay Underweight UK equities – despite cheap valuations, the sector composition is overly defensive, leading to underperformance against global equities.

Key chart

Strong US growth supporting corporate earnings. Improving fundamentals are supporting Japanese earnings growth and attracting foreign fund inflows

Fig. 12 US corporate earnings are riding on a strong economy. Japan's drive to improve corporate governance is leading to improved earnings and fund inflows

Citi US economic surprise vs. MSCI US 12m forward EPS growth (left-hand chart); Cumulative net foreign flows into Japan equities vs. MSCI Japan 12m forward EPS growth



Source: FactSet, Bloomberg, Standard Chartered

Global equities at record highs; more to come

Over the past month, we have seen record highs in US, Japan and global equities. We are staying bullish, particularly in our preferred regions of the US and Japan.

We expect earnings growth to be the key driver for US equities to move higher. Consensus expectations are for MSCI US earnings to grow by 11% in 2024 and 14% in 2025, rebounding from 1.2% in 2023. The Q4 2023 earnings season has been strong and positive economic surprises in the US are also supportive. Valuation of US equities are high, but we expect this to be supported by Fed rate cuts later in the year.

In addition, we are also Overweight Japan, where valuation is inexpensive. Japan's 12-month forward P/E is at an 11% discount to global equities vs. a historical median of a 5% premium. Indeed, funds have been flowing into Japan and we

expect more, enticed not just by inexpensive valuation but also the positive earnings trend, improving corporate governance and relatively lower geopolitical risks.

We are Neutral Asia ex-Japan equities even though it has a low valuation (12-month forward P/E of 13x) and high expected earnings growth (21% consensus growth in 2024). Growth expectations could be at risk in major markets, such as China, which is facing deflation and weak business sentiment. There have been signs of improving consumer activity lately and we continue to watch closely China's upcoming National People's Congress for more stimulus measures to revive business and consumer confidence.

Risks to our view include stickier-than-expected inflation, weaker-than-expected growth in China and escalation in geopolitical risks.

FX – at a glance

Iris Yuen
Investment Strategist



Key themes

The FX market has been unusually muted lately, with the US dollar index's (DXY) 3-month implied volatility reaching a 2-year low. **We expect a rangebound USD, with a bullish bias, over the next 3 months.** US economic activity indicators have remained resilient, especially relative to the non-US regions, and markets continue to push back their anticipated timing of the first Fed rate cut. These factors drive the rise in our DXY 3-month forecast to 104.4. However, this does not alter our view that a USD downtrend is likely to resume over 6-12-months, with US bond yields likely capped by the prospects of slowing growth.

Major currency pairs are likely to similarly consolidate over the next 3 months, as an increasingly intense debate over the timing of the first likely central bank rate cuts gather momentum, leading to more rangebound interest rate differentials. The Bank of Japan, however, stands out against this backdrop as it is likely on a different rate path. We continue to expect policy tightening this year, especially if wage growth proves to be robust. The RBA is likely to keep rates high amid sticky wage growth, while the RBNZ has forecast no rate cuts until 2025. **We expect the JPY, AUD and NZD to be the key outperformers over 6-12 months.**



Key chart

The FX market has been unusually muted lately, with the Dollar index (DXY) 3-month implied volatility reaching a 2-year low

Fig. 13 Low market volatility to drive a rangebound USD

USD Index (DXY); table of forecasts



Source: Bloomberg, Standard Chartered

Currency	3m forecast	12m forecast
USD (DXY)	104.4	100
EUR/USD	1.06	1.12
GBP/USD	1.27	1.27
USD/JPY	145	135
AUD/USD	0.66	0.70
NZD/USD	0.63	0.64
USD/CAD	1.35	1.35
USD/CNY	7.20	7.00
USD/CHF	0.86	0.88

Awaiting the first move

ECB President Lagarde is offering little sign that the central bank was considering rate cuts, while wage growth is recovering. However, other Euro area data has been largely underperforming expectations lately. Therefore, on balance, **we see EUR/USD at 1.06 over the next 3 months.** In the longer term, we see room for upside as the greenback softens. Currently, the market expects the implied policy rate spread between the ECB and Fed to narrow later this year. **Thus, we expect the pair to rise to 1.12 over 6-12 months.**

The BoE is likely to start rate cuts slightly later than the Fed as UK inflation remains stickier. However, this is likely priced and, therefore, likely to leave real yield differentiations in a narrow range. **We continue to have a rangebound view on GBP/USD, expecting 1.27 over the next 12 months.** We see USD/CHF moving modestly lower to 0.86 in the next 3 months as the SNB balances an easing of CHF purchases with moderating domestic data. Softer growth and inflation

data in Switzerland vs the US illustrates growing divergence. Unexpectedly soft Swiss inflation opens the door to expectations of an earlier SNB rate cut. **This policy is likely to result in USD/CHF moving to 0.88 over 6-12 months.**

Our expectation of a declining 10-year US government bond yield, tightening BoJ policy and intervention concerns mean we expect USD/JPY to continue to push lower as yield differentials turn increasingly supportive of the yen. However, near-term USD resilience could limit weakness near term. **USD/JPY is likely to move to 145 over the next 3 months and push towards 135 over the next 6-12 months.**

Commodity currencies are likely to appreciate versus the USD. Expectations of sticky Australian wage growth and inflation should keep RBA rates high, while the RBNZ has a tightening bias and forecasts no rate cuts until 2025. These should support AUD and NZD strength. However, USD/CAD remains an exception, given its low responsiveness to oil prices recently. We expect 1.35 over the next 3 months.

Gold, crude oil – at a glance

Zhong Liang Han, CFA
Investment Strategist



Key themes

Gold stays as a core allocation, with a 12-month forecast of USD 2,150/oz. The yellow metal started the year rangebound, caught between bullish drivers such as geopolitical tensions and seasonal demand, and bearish factors such as upside economic surprises and a stronger USD. We expect gold to continue trading around USD 2,030/oz over the next 3 months as the economic resilience buoys bond yields (hence, real yields). Global gold ETF outflows and a reduction in speculative positioning are also near-term drags. In the long run, however, a Fed rate-cutting cycle would bring down real yields and the USD, powering gold to record highs. Strong central bank demand and robust physical gold demand from China and India are structural tailwinds which, in our view, put a floor to gold prices even outside of our base scenario.

We maintain our 12-month WTI oil forecast at USD 75/bbl. Crude oil prices have been trading in a tight range over the past few weeks. But, year-to-date, oil has performed relatively well on the back of OPEC+ supply curbs, resilient US consumption and high geopolitical tensions. We expect oil markets to remain tight in the short term, hence, we are raising our 3-month forecast to USD 80/bbl. Geopolitical risks are also likely to create some bouts of volatility. In the longer term, we believe that a slowdown in the global economy would dampen oil demand. Together with OPEC+'s modulation, demand-supply is likely to be more balanced, limiting the upside for oil prices.

Key chart

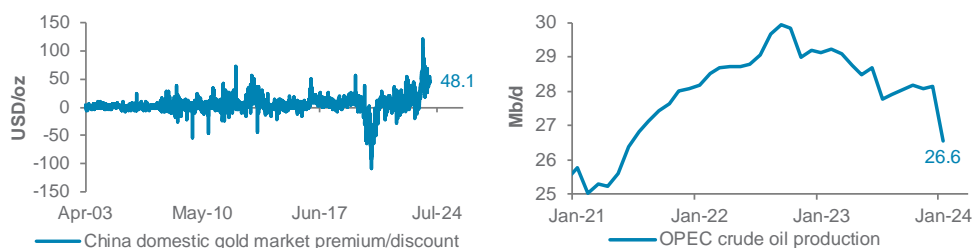
Gold demand in China is likely to remain strong

Global crude oil markets are tight in the short term, supportive of higher oil prices

Fig. 14 China's gold market premium reflects strong domestic demand; OPEC member compliance with output targets has been better than expected

LHS chart: China domestic gold market premium/discount

RHS chart: OPEC crude oil production



Source: World Gold Council, Bloomberg, Standard Chartered

China holds the key to gold demand

China dethroned India as the world's largest gold jewellery buyer in 2023. Gold jewellery purchases in China rose 10% y/y. In addition, China has also maintained its position as the world's largest gold consumer since 2013. Weak Chinese equity and property markets, as well as low domestic interest rates, have driven households to look for alternative investment opportunities. Gold has emerged as an attractive option given its ability to store value and to lower portfolio volatility. This is evidenced in the widening premium in the Shanghai Gold Exchange. We believe this trend will continue this year, supporting physical gold demand in China.

Meanwhile, the PBoC is also likely to continue increasing its gold reserves following record buying in 2023, considering its allocation is still significantly lower than other major central banks. Put together, we expect China to be a key source of gold demand this year.

OPEC+ oil supply curbs are coming through

Last November, when OPEC+ announced another round of supply cuts totalling 2.2mb/d, markets were sceptical about how compliant the bloc will be, especially given that the additional cut is not formalised in the output targets. The latest production data in January allayed some concerns. According to Bloomberg, OPEC crude output fell 1.6mb/d in January to 26.6mb/d. Output data from an alternate data source, Rystad Energy, also showed a broad-based decline across OPEC members. These data corroborate our earlier expectation that OPEC+ would follow through with significant cuts.

Oil demand, the other side of the equation, remained more resilient than expected in the first two months of this year. China, the second-largest oil consumer, appeared to be ramping up purchases following the lunar new year holiday, which saw a boom in travel. In aggregate, oil markets are likely to be in deficit in the near term.

Quant perspective

US risk model is neutral on equity market risks

Francis Lim
Senior Quantitative Strategist

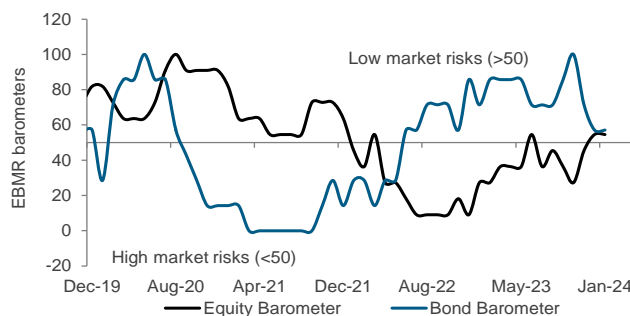
Model is neutral on equity market risks

Our US Equity-Bond Market Risk (EBMR) models the downside risks in US equities and the US 10-year government bonds. It uses 11 economic and market factors to create equity and bond risk barometers. If the value of a barometer falls significantly below 50, it signals higher downside risks.

The model remains in Stage 2, where it has been since December 2023 despite it signalling a high probability of moving to Stage 3 in coming months. In Stage 2, the model signals low downside risks in US equities and US government bonds. The model's view is driven by a positive year-on-year change in US housing starts in January. This factor, however, reversed in February, which risks moderating this improvement. Historical data suggests risky assets such as equities and alternatives should do well in Stage 2.

Fig. 15 EBMR model neutral on equity market risks

US equity and bond market risk barometers



Source: Standard Chartered

Fig. 16 Scenarios over the coming months until June 2024

Probability of the evolution of financial market risk cycle from the current Stage 2 and preferred assets

Model's estimated probabilities in February 2024

Stage	Mar-24	Apr-24	May-24	Jun-24
1	8%	25%	3%	4%
2	1%	11%	2%	3%
3	87%	54%	86%	67%
4	4%	10%	10%	26%

Source: Standard Chartered

Contrasting signals from our other models

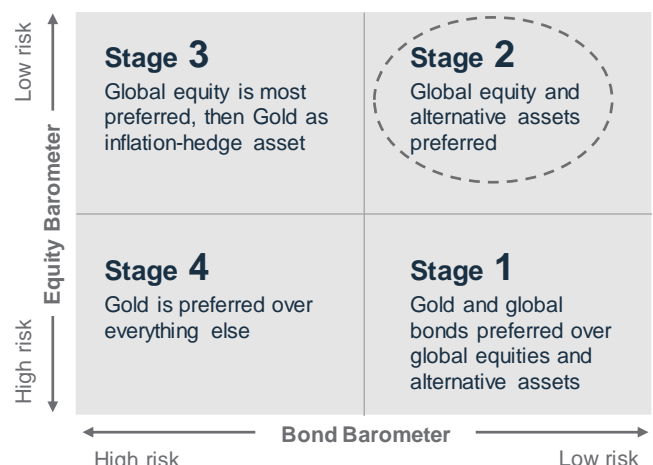
Currently, our US EBMR model's signals have become more aligned with our other key quantitative models.

Our stock-bond rotation model, which utilises a combination of fundamental, valuation and technical factors, has turned even more supportive of risk assets over the near term, with a score of 4 out of 5. This is primarily due to the rise in US PMI new orders, which also recently crossed above 50 to indicate a recovery in demand. Given its bullish view on equities, the model has generated a 1.1% excess return over a 60/40 equity-bond portfolio this year.

Our "fear and greed" indicator remains in the 'greed' territory but not at the extreme. The key driver is equity market momentum, which is at its strongest level in three years. While concerns have recently intensified due to the narrowing market breadth (the technology sector being the main contributor to market performance), history suggests the current level of 'greed' is not at a level that would guarantee a steep correction.

We also find supportive signals for equities based on our AI-driven technical model. The model continues to support an uptrend market regime for the S&P 500 Index since January 2023, as both realised and implied volatilities are nowhere close to past episodes of market downturns (such as Covid-19 in 2020 and the early onset of the rate hiking cycle in 2022).

Lastly, our global economic regime model is the only contrarian quantitative indicator as leading indicators of several key economies remain depressed and are pointing to a higher probability of a recession. This implies a defensive positioning, with heavy Overweight in bonds over equities.



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?

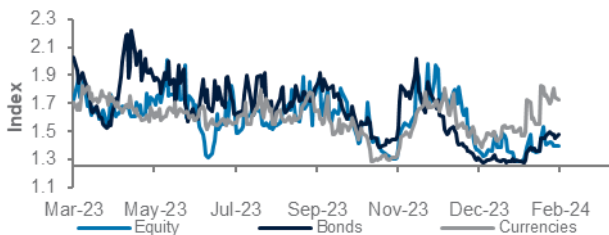
Market diversity across equity and bond markets has broadened over the past few weeks. This is seen in Fig. 17 and Fig. 18 where the average diversity index for equity and bond markets has risen above 1.25 after initially falling below this threshold; no single asset has a diversity below 1.25 currently.

Most equity markets have risen lately, despite our market diversity indicators flagging overbought conditions between mid-to-end of January. Better-than-expected earnings have been the main driver behind the rally. Since 19 January, MSCI US, MSCI Europe and MSCI Japan have gained 5.3%, 4.8% and 5.9%, respectively, and have closed at fresh record highs.

Within US equities, we still see elevated risks of a reversal or slowdown in financial, healthcare and industrial sectors. Their diversity indices are currently at 1.23, 1.23 and 1.21, respectively, which are significantly below the 1.25 threshold. All three sectors have generated good returns lately, with their 3-month returns at 14.4%, 11.8% and 14.8%, respectively.

Fig. 17 Average market diversity score by asset class

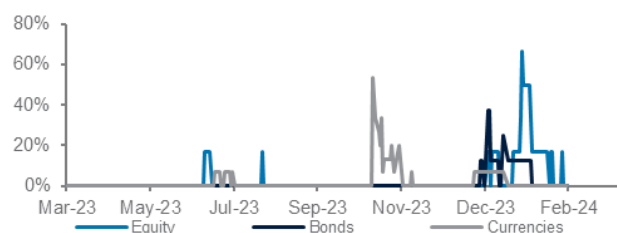
Market diversity has broadened recently



Source: Bloomberg, Standard Chartered

Fig. 18 Percentage of assets with diversity score <1.25

No major asset class is currently flagging reversal risk



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 bond has 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. 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 were pushed back to June 2024.

Fig. 19 Diversity across key assets has normalised

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 28 February 2024

Legends: ○ Very low ● Low/moderate ● High

Foundation: Asset allocation summary

Summary	View	FOUNDATION			Summary	FOUNDATION Conservative
		Moderate	Moderately Aggressive	Aggressive		
Cash	▼	2	2	2	Cash	35
Fixed Income	◆	57	38	18	Fixed Income	65
Equity	▲	37	56	76		
Alternatives	◆	4	4	4		
Asset class					Asset class	
USD Cash	▼	2	2	2	USD Cash	35
DM Government Bonds*	▲	16	12	7	DM IG Govt (Short duration)	10
DM IG Corporate Bonds*	◆	10	6	3	DM IG Corp (Short duration)	13
DM HY Corporate Bonds	◆	11	7	3	DM HY (Short duration)	14
EM USD Government Bonds	▼	6	4	2	EM USD Govt (Short duration)	9
EM Local Ccy Government Bonds	◆	7	4	2	EM LCY Govt	9
Asia USD Bonds	◆	7	4	2	Asia USD bonds	11
North America Equities	▲	20	30	43		100
Europe ex-UK Equities	◆	4	7	9		
UK Equities	▼	1	1	1		
Japan Equities	▲	2	4	5		
Asia ex-Japan Equities	◆	7	11	14		
Non-Asia EM Equities	◆	3	4	5		
Alternatives	◆	4	4	4		
		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	◆	46	28	13
Equity	▲	29	42	58
Alternatives	◆	5	6	6
Private Assets		18	22	22
Asset class				
USD Cash	▼	2	1	1
DM Government Bonds*	▲	12	9	5
DM IG Corporate Bonds*	◆	8	5	2
DM HY Corporate Bonds	◆	9	5	2
EM USD Government Bonds	▼	5	3	1
EM Local Ccy Government Bonds	◆	6	3	1
Asia USD Bonds	◆	6	3	1
North America Equities	▲	16	23	32
Europe ex-UK Equities	◆	3	5	7
UK Equities	▼	1	1	1
Japan Equities	▲	2	3	4
Asia ex-Japan Equities	◆	6	8	11
Non-Asia EM Equities	◆	2	3	4
Alternatives	◆	5	6	6
Private Equity		3	7	11
Private Real Estate		7	5	5
Private Debt		8	10	6
		100	100	100

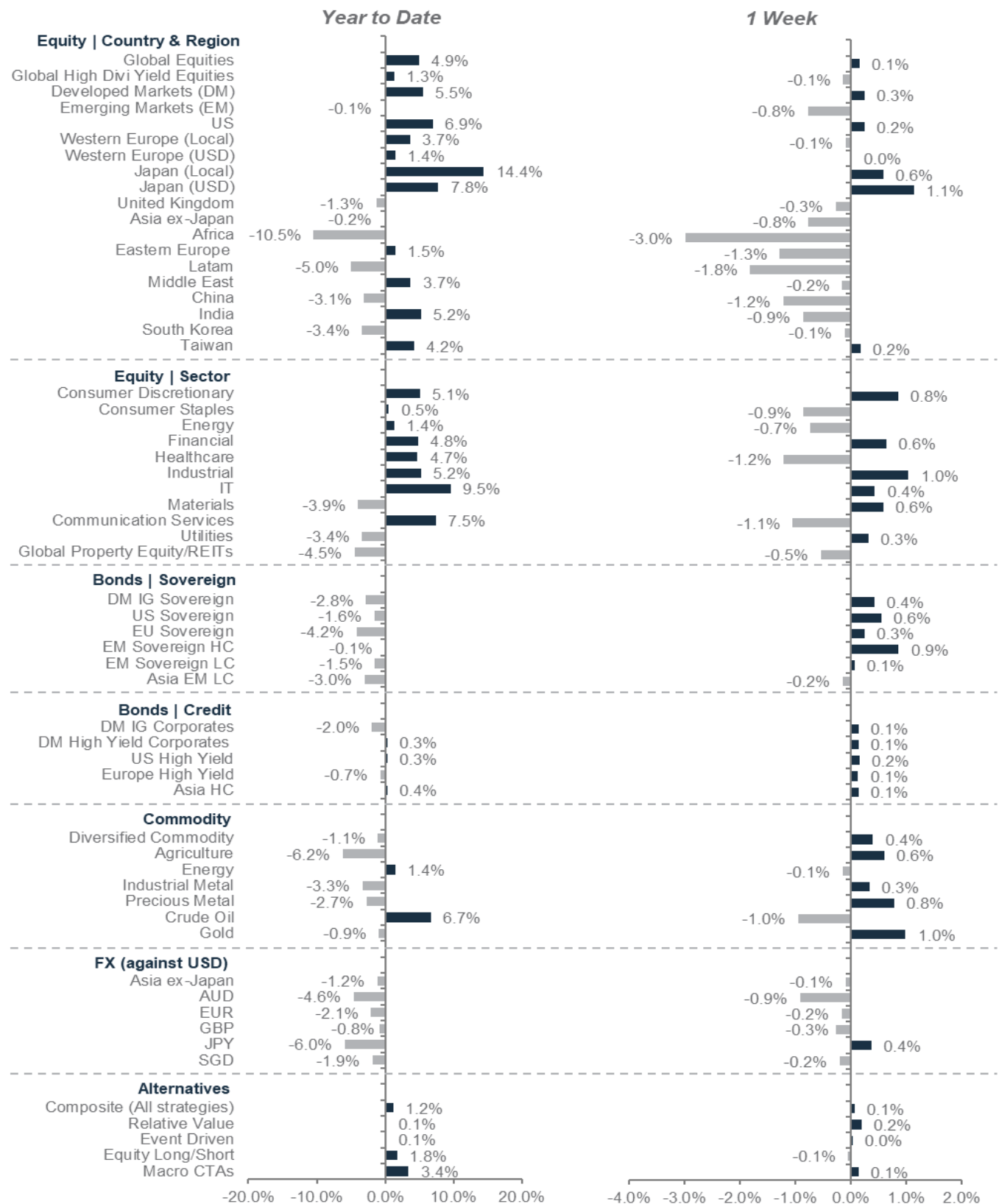
Source: Standard Chartered

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

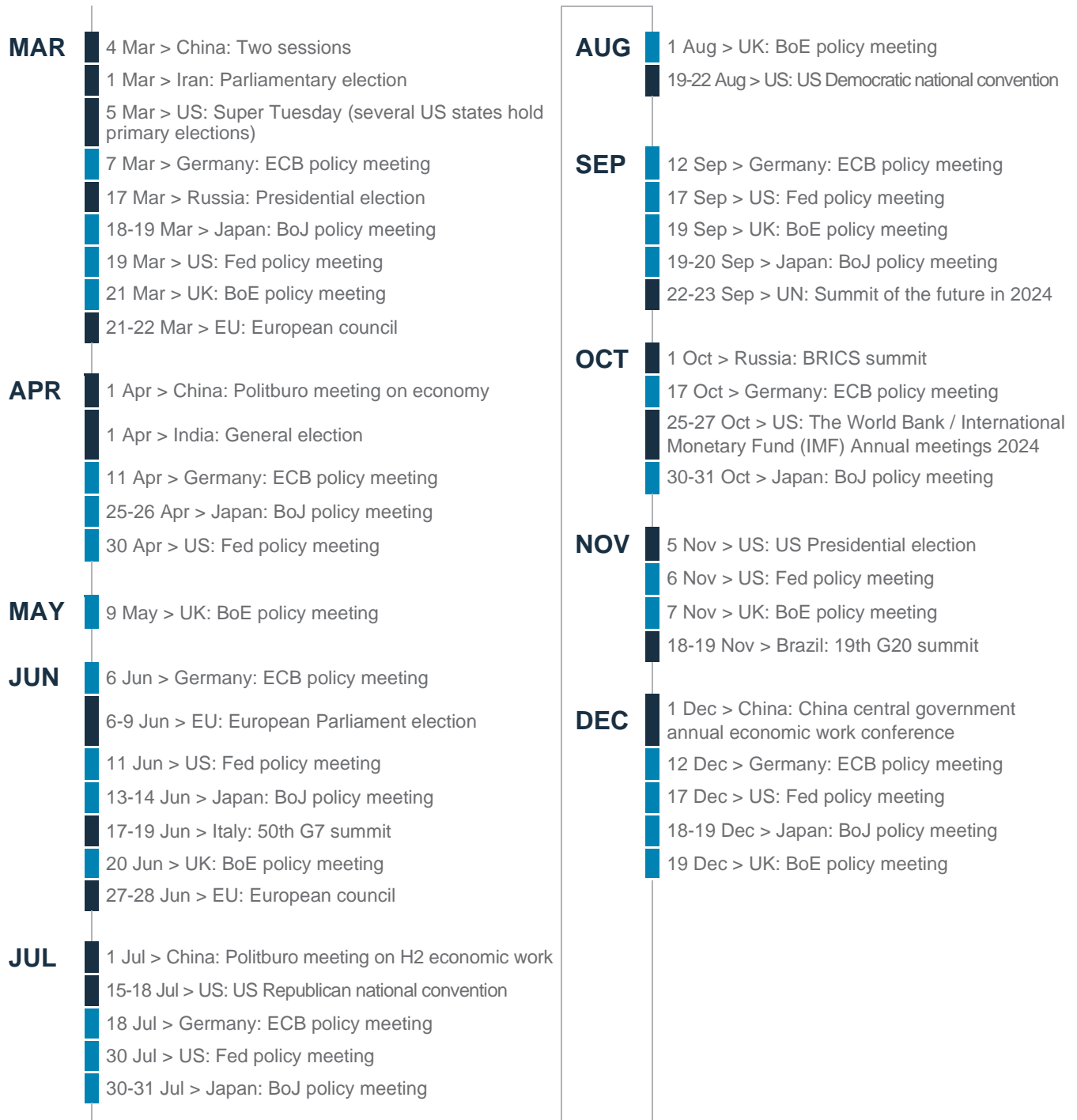
*All performance shown in USD terms, unless otherwise stated

*YTD performance data from 31 December 2023 to 29 February 2024 and 1-week performance from 22 February 2024 to 29 February 2024

Our key forecasts and calendar events

Currency	USD (DXY)	EUR/USD	GBP/USD	USD/JPY	AUD/USD	NZD/USD	USD/CAD	USD/CNY	USD/CHF	Oil (WTI, USD/bbl)	Gold (USD/oz)	Fed policy rate (upper bound)	US Treasury 10y yield (%)	ECB policy rate
3m forecast	104.4	1.06	1.27	145	0.66	0.63	1.35	7.20	0.86	80	2030	5.25% (Jun-24)	4.00-4.25%	4.00% (Jun-24)
12m forecast	100	1.12	1.27	135	0.70	0.64	1.35	7.00	0.88	75	2150	4.25% (Dec-24)	3.25-3.50%	3.25% (Dec-24)

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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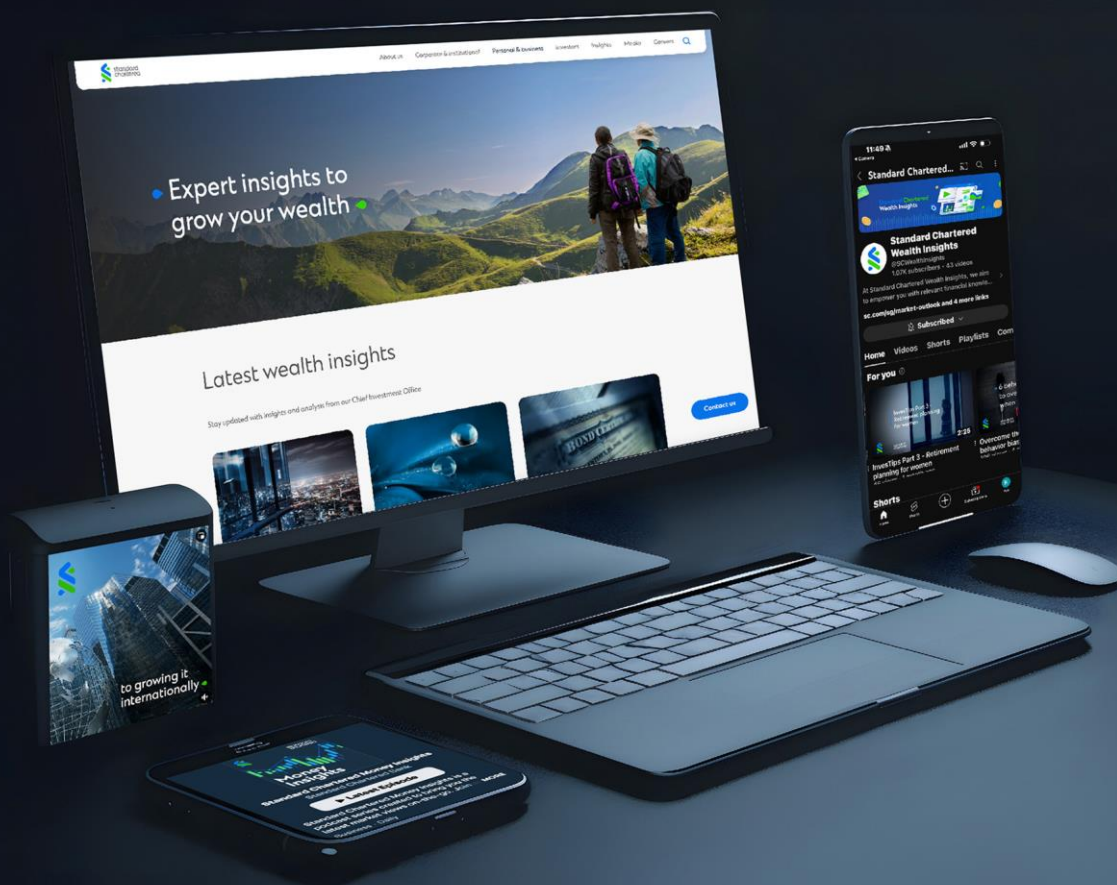
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