Wealth Management Global Chief Investment Office
24 November 2023

# Weekly Market View

## A Christmas rally next?

→ What will it take for the month-long equity market rebound to progress into a Christmas rally?

→ For one, the rally needs to overcome several chart hurdles, notably a major technical resistance for the S&P500 index and critical support levels for US government bond yields and the USD. This raises the chances of a period of consolidation ahead.

→ However, data does not show any significant one-sided investor positioning in any major market. There is plenty of cash waiting to be put to work, especially among institutional and retail investors.

→ This should provide a tailwind to equities and risk assets heading into Christmas, provided policymakers do not revive their hawkish tone or economic data does not significantly deteriorate.

What is the outlook for China equities and the CNH after the recent policy measures?

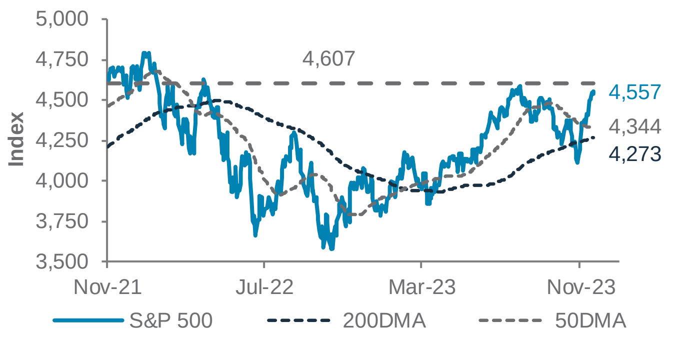
What is the implication for Developed Market investment grade bonds after the strong US government bond auctions?

What is the near-term outlook for gold and oil?

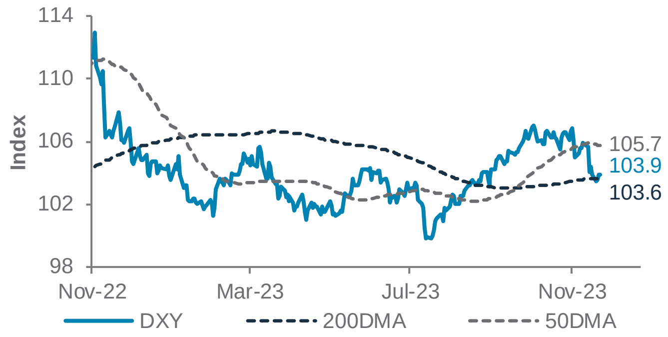
# Charts of the week: Technical hurdles

**The S&P500 index faces strong technical resistance; a break lower in the USD likely needed to sustain the rally**

The S&P500 index with key technical levels




The USD index (DXY) with key technical levels




Source: Bloomberg, Standard Chartered

# Editorial

## A Christmas rally next?

What will it take for the month-long equity market rebound to progress into a Christmas rally? For one, the rally needs to overcome a few key chart hurdles, notably a major technical resistance for the S&P500 index and critical support levels for US government bond yields and the USD. This raises the chances of a period of consolidation ahead. However, data does not show any significant one-sided investor positioning in any major market and there is plenty of cash waiting to be put to work, especially among institutional and retail investors. This should provide tailwind to equities and risk assets heading into Christmas, provided policymakers do not revive their hawkish tone or economic data does not significantly deteriorate.

**Chart hurdles:** The S&P500 index faces a major resistance at 4,607 from which it has retraced four times over the past two years. A sustained break higher will likely need a further decline in US government bond yields and, associated with that, a further weakness in the USD. However, the USD index (DXY) faces strong technical support around the 200DMA close to 103.5, while the US 10-year government bond yield faces key technical support around 4.35%. The technical hurdles raise the chance of near-term consolidation in markets.

**Other technical indicators supportive:** While US equities look overbought in the near term, momentum remains strong. Our “Fear & Greed” indicator has moved to “Greed” territory but not to extreme levels that would raise concerns about a pullback. Investor positioning does not appear stretched despite the sharp moves recently and is particularly supportive for China equities. Our investor diversity indicators (fractals) remain broad-based and, thus, not a bar against further equity gains. There is still plenty of firepower left to fuel the rally, especially among retail investors and mutual funds who appear to have barely participated in the month-long gains (which have been mainly driven by quantitative model-driven funds).

**Risk rally needs lower US bond yields, USD:** Despite supportive investor positioning indicators, the ongoing equity rally will likely need stable-to-weaker government bond yields and the USD to sustain through the rest of the year. A further decline in the US 10-year government yield and the USD will, in turn, likely require at least one or more of the following conditions to play out:

i) Modestly weak US data: US business confidence indicators (PMIs) are due tonight and ‘Black Friday’ sales, US consumer confidence data and the Fed’s Beige Book economic survey next week. A modest weakness in data is likely to sustain the equity rally, while a significant deterioration would be negative.

ii) A distinctly dovish turn in Fed commentary will be risk-asset positive: watch Powell’s speech on the theme of productivity next week for any comments on productivity boost from Artificial Intelligence, or any guidance on rate cuts.

iii) A significant improvement in European/China data would be USD negative and risk asset positive: Euro area PMIs showed business activity contracted less than expected in November. China PMIs and Euro area inflation data are due next week.

**Investment implications:**

**Locking in gains:** With chances of near-term consolidation high, investors can consider locking in some of the substantial gains in equities and bonds from the past month. Maintaining a broadly diversified allocation will allow investor to still participate in further rallies in equities and/or bonds if the conditions highlighted above fall into place.

**Watching technicals:** Any S&P500 break above 4,607 is likely to lead to a test of 4,637. A further break would open the path towards a test of last year’s high of 4818. Europe’s Stoxx600 index has broken above its 200DMA, but Asia ex-Japan and China markets have underperformed over the past month.

A break in the USD below the 200DMA support is likely to be positive for China and Asia-ex-Japan markets, especially as China policymakers consider more fiscal stimulus for next year and take steps to reduce property sector risks (see page 4).

**— Rajat Bhattacharya**

## The weekly macro balance sheet

**Our weekly net assessment:** On balance, we see the past week's data and policy as positive for risk assets in the near term

**(+) factors:** Dovish Fed minutes, supportive China policies

**(-) factors:** Deteriorating US Leading index, existing home sales

| | Positive for risk assets | Negative for risk assets |
|---|---|---|
| Macro data | • US initial jobless claims fell more than expected while continuing claims fell unexpectedly<br>• Euro area manufacturing and services PMI rose more than expected to 43.8 and 48.2, respectively<br>• Euro area consumer confidence improved more than expected to -16.9<br>• UK manufacturing and services PMI rose more than expected | • US Leading index contracted more than expected by 0.8% m/m<br>• Uni. of Michigan 1-year inflation expectations revised higher to 4.5%<br>• US durable goods orders fell more than expected by -5.4% m/m<br>• US existing home sales fell more than expected (-4.1% m/m) |
| | **Our assessment: Neutral** – Lower US jobless claims, stabilising Euro area PMIs vs deteriorating US Leading index | |
| Policy developments | • Fed minutes showed a unanimous agreement to "proceed carefully" on rate hikes; ECB minutes showed more cautious take on growth<br>• China drafted a list of developers eligible for financing support<br>• Germany suspended debt limits for the fourth straight year | • Fed officials said it was too early to focus on rate cuts<br>• ECB officials pushed back against rate cuts, while minutes from the last policy meeting showed members argued for leaving the door open for further hikes<br>• The PBoC kept its loan prime rates unchanged as expected |
| | **Our assessment: Positive –** Dovish Fed minutes, supportive China policies, suspension of German debt limits | |
| Other developments | • Israel and Hamas agreed to a four-day ceasefire to exchange hostages<br>• US 20-year government bond auction was stronger than expected | • The OPEC+ disagreement on production led to a delay of its meeting |
| | **Our assessment: Positive –** Receding geopolitical risks | |

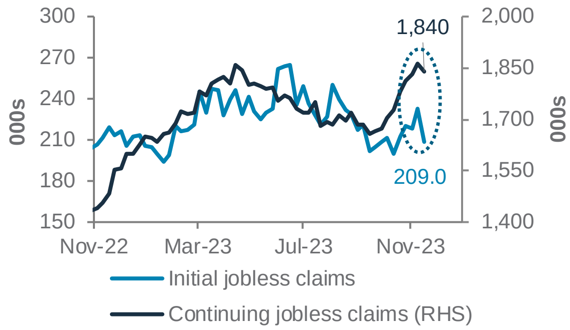
**Continued contraction in the US leading economic indicator and a sustained decline in core capital goods orders point to a decelerating economy**

US Leading index; non-defence capital goods orders (excluding aircraft)


Source: Bloomberg; Standard Chartered

**US jobless claims fell more than expected; the Christmas shopping and holiday season should keep the job market resilient till year-end**

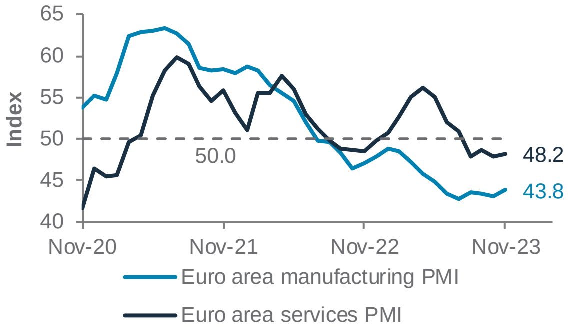
US initial and continuing jobless claims




Source: Bloomberg, Standard Chartered

**Euro area business confidence (PMIs) contracted less than expected in November**

Euro area manufacturing and services Purchasing Managers indices (PMIs)




Source: Bloomberg, Standard Chartered

## Top client questions

### What is the outlook for China equities and the CNH after the recent supportive policy measures?

Media reports suggest that China could target economic growth of 4.5-5.5% next year and roll out a package of new financing support for 50 property developers to backstop the industry. Such measures are in line with our expectations of policy support in China to stabilise economic growth. In addition, November 2023 has seen a weakening of the USD. China equities have historically outperformed global equities during periods of USD weakness. Along with low investor positioning and robust earnings growth expectations (15% for 2024), China equities could continue a slow recovery to the end of the year.

However, we believe investor sentiment remains fragile and is vulnerable to negative headlines. Geopolitical tensions remain a potential source of risk. Furthermore, a possible rebound in the USD could act as a headwind for China equities. We continue to have a neutral view on China equities over 6-12 months, where we see it performing in line with global equities. Our preference is to gain exposure to Chinese equities via sectors that would benefit from growth in consumer spending, ie, communication services and consumer discretionary.

The recent decline in USD/CNH appears to be overdone, in our assessment. We expect the pair to rebound towards 7.3000 in the short term. Our bullish short-term view on USD/CNH is driven by the following factors:

1. Broadly, we expect the USD index (DXY) to rebound modestly following the sharp decline over the past few weeks. The recent upside surprise in University of Michigan inflation expectations highlights the risk that inflation may decline slower than expected, leading markets to push back Fed rate cut expectations.
2. Fundamentals continue to point towards near-term CNH weakness. Market sentiment towards the economy remains fragile, and any monetary stimulus measures are likely to lead to further downward pressure on the CNH.
3. From a technical standpoint, USD/CNH looks extremely oversold on RSI indicators and has rebounded higher from the 200DMA line, which indicates an exhaustion of near-term downward momentum.

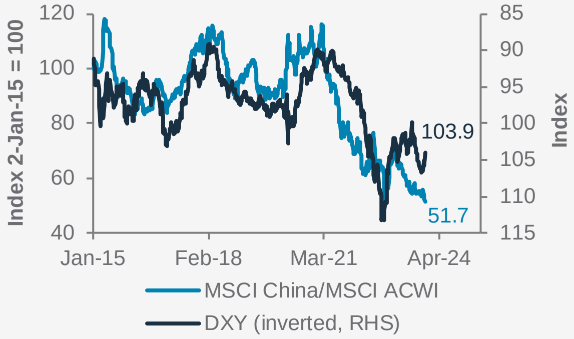
Technicals suggest 7.1160 is a near-term support while the pair is unlikely to run into any substantial resistance till 7.2650.

— **Fook Hien Yap,** *Senior Investment Strategist*

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

**China equities have historically outperformed global equities during periods of US dollar weakness**

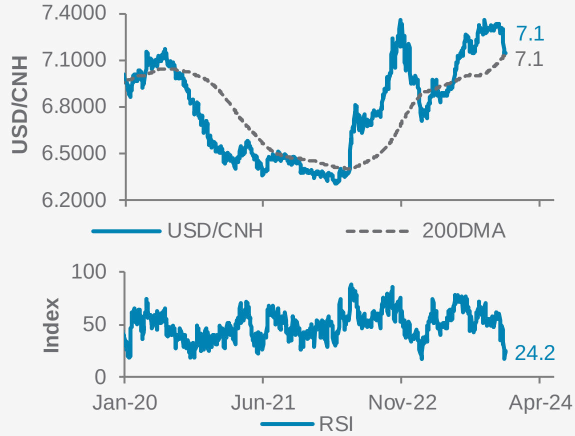
MSCI China relative to the MSCI All Country world index, and the US dollar (DXY) index




Source: Bloomberg, Standard Chartered

**Technical indicators point to a high likelihood of a USD/CNH rebound**

USD/CNH and 200-day moving average, 14-day RSI for USD/CNH




Source: Bloomberg, Standard Chartered

# Top client questions (cont'd)

### What is the implication for DM Investment Grade bonds following the recent strong US government bond auctions?

US government bond auction results have been brittle this year. Investor demand at the 30-year bond auction on 9 November dropped to a 12-month low. However, the rally in government bond yields thereafter lifted sentiment, and this week's 20-year bond auction witnessed strong demand.

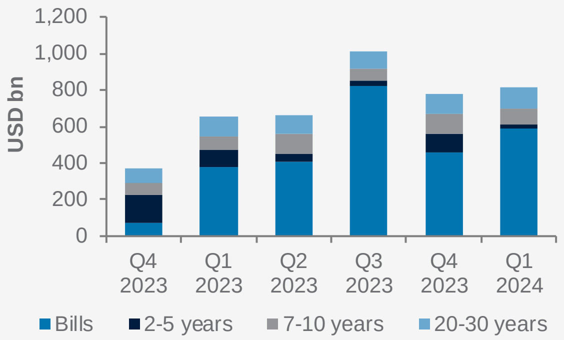
Going forward, we continue to believe that expectations for inflation to edge lower and the Fed to cut rates in 2024 will remain key drivers for a sustained fall in bond yields. While long maturity bonds should benefit the most from this (we continue to like DM Investment Grade government bonds), we do not expect these gains to appear in a straight line:

1. The US Treasury Department's refinancing schedule in 2023 was skewed towards short-term Treasury Bills. This has left open the risk of a significantly higher supply of longer maturity bonds in 2024.
2. Quantitative tightening by the Fed remains on schedule, raising the risk of weaker demand as the Fed no longer acts as a key buyer.

— **Cedric Lam,** *Senior Investment Strategist*

**US Treasury bills issuance surged significantly post the recent debt-ceiling deal, leaving room for higher supply of long-maturity bonds next year**

US government bond issuance history and plan




Source: US Department of Treasury, Standard Chartered

### What is your near-term outlook for gold and oil?

Gold staged a rebound in the last two weeks amid the decline in real (net-of-inflation) yields and the USD. However, we believe technical factors are not favourable for this move to extend. First, the tailwind from an unwinding of short positions is fading as net positioning has turned from negative to neutral. Second, the key psychological level of USD 2,000/oz remains a tough hurdle for the yellow metal to cross. Third, the Relative Strength Index is approaching overbought territory, suggesting limited scope for further upside. On balance, we expect the gold price to trade rangebound in the near term.

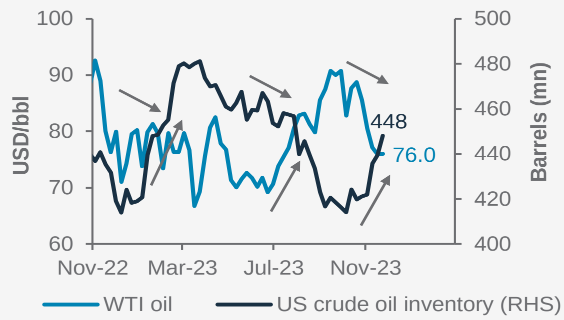
Crude oil prices remained sluggish as US demand continued to be weak, evident in rising inventories since the late-September low. Markets expect OPEC+ to extend or deepen output cuts in the upcoming meeting, which has now been delayed to 30 November amid reports of a disagreement on production levels.

Looking beyond the OPEC+ meeting, an unexpected increase in supply has eased the demand/supply balance in the last quarter of the year. We would keep a close watch on the upcoming US Energy Information Administration (EIA) inventory data. A turn in the uptrend of crude stockpiles could provide some relief to oil prices.

— **Zhong Liang Han, CFA,** *Investment Strategist*

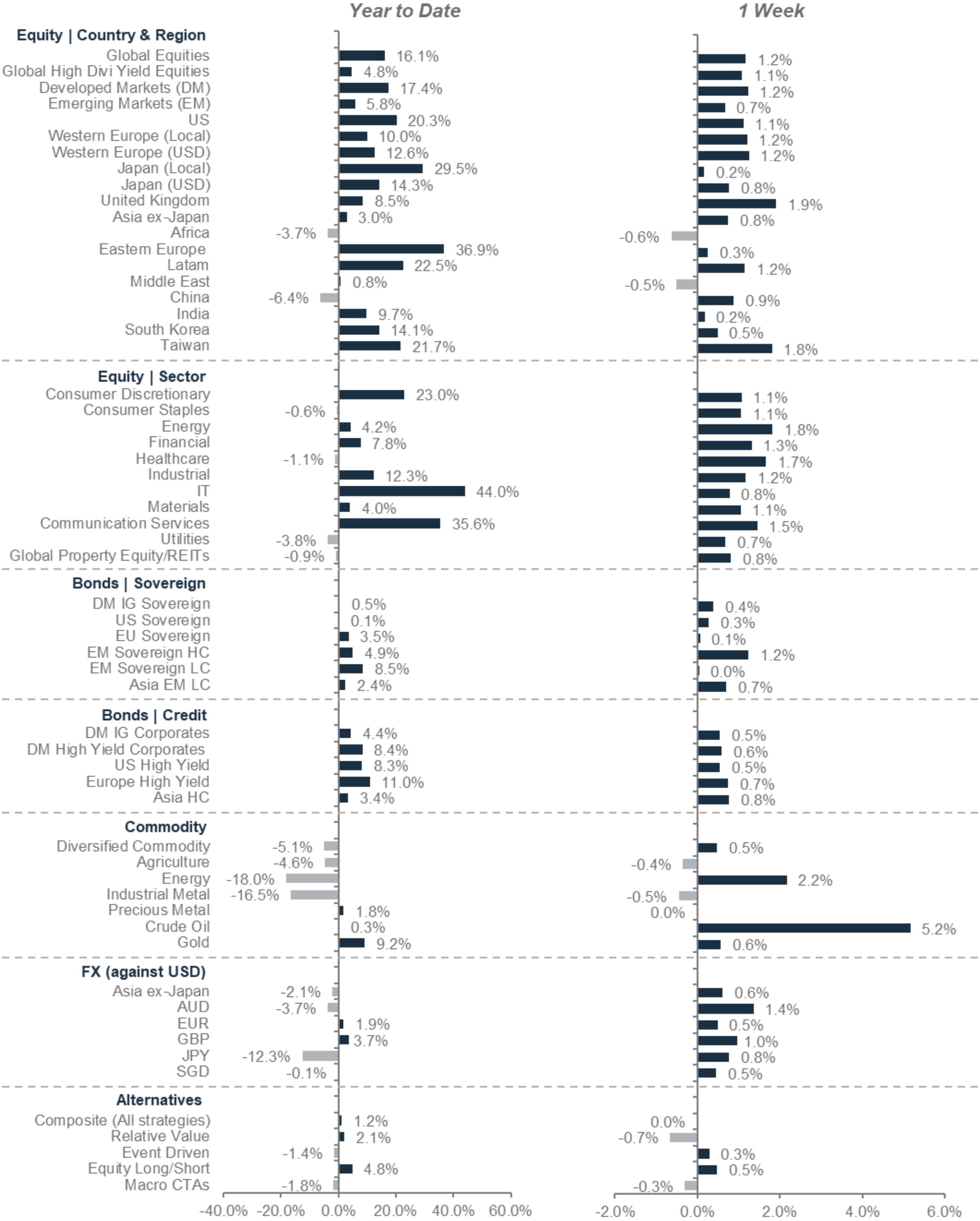
**US crude oil inventory posted fifth straight weekly gains amid downbeat refinery demand, dragging WTI oil price lower**

WTI crude oil vs. US crude oil inventory




Source: Bloomberg, Standard Chartered

## Market performance summary *




Sources: MSCI, JP Morgan, Barclays Capital, Citigroup, Dow Jones, HFRX, FTSE, Bloomberg, Standard Chartered

*Performance in USD terms unless otherwise stated, 2023 YTD performance from 31 December 2022 to 23 November 2023; 1-week period: 16 November 2023 to 23 November 2023

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

| Asset class | | | |
|---|---|---|---|
| **Equities** | ◆ | **Preferred Sectors** | |
| Euro area | ▼ | US Communication | ▲ |
| US | ▲ | US Technology | ▲ |
| UK | ▼ | US Healthcare | ▲ |
| Asia ex-Japan | ◆ | Europe Technology | ▲ |
| Japan | ▲ | Europe Healthcare | ▲ |
| Other EM | ◆ | China Discretionary | ▲ |
| | | China Communication | ▲ |
| **Bonds (Credit)** | ◆ | | |
| Asia USD | ◆ | **Alternatives** | ◆ |
| Corp DM HY | ▼ | | |
| Govt EM USD | ◆ | **Gold** | ◆ |
| Corp DM IG | ◆ | | |
| **Bonds (Govt)** | ▲ | | |
| Govt EM Local | ▲ | | |
| Govt DM IG | ▲ | | |

Source: Standard Chartered Global Investment Committee

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

### Economic and market calendar

| | | Event Next week | Period | Expected | Prior |
|---|---|---|---|---|---|
| MON | US | New Home Sales | Oct | 723k | 759k |
| TUE | US | Conf. Board Consumer Confidence | Nov | 101 | 102.6 |
| WED | EC | Economic Confidence | Nov | – | 93.3 |
| | US | GDP Annualized q/q | 3Q S | 5.0% | 4.9% |
| THU | CH | Manufacturing PMI | Nov | – | 49.5 |
| | CH | Non-manufacturing PMI | Nov | – | 50.6 |
| | EC | CPI Core y/y | Nov P | – | 4.2% |
| | EC | CPI Estimate y/y | Nov | – | 2.9% |
| | EC | Unemployment Rate | Oct | – | 6.5% |
| | US | Fed Beige Book | | – | – |
| | US | PCE Core Deflator y/y | Oct | 3.5% | 3.7% |
| | US | PCE Deflator y/y | Oct | 3.1% | 3.4% |
| FRI/SAT | US | ISM Manufacturing | Nov | 47.7 | 46.7 |
| | CH | Caixin China PMI Mfg | Nov | – | 49.5 |
| | US | ISM New Orders | Nov | – | 45.5 |
| | US | Fed's Powell speaks in Fireside Chat | | – | – |

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

### The next resistance for the S&P500 index is at 4,571

Technical indicators for key markets as of 23 November close

| Index | Spot | 1st support | 1st resistance | 12m forward P/E (x) | 12m forward dividend yield (%) |
|---|---|---|---|---|---|
| S&P 500 | 4,557 | 4,528 | 4,571 | 19.0 | 1.6 |
| STOXX 50 | 4,361 | 4,342 | 4,371 | 12.0 | 4.0 |
| FTSE 100 | 7,484 | 7,467 | 7,502 | 10.5 | 4.4 |
| Topix | 2,378 | 2,367 | 2,390 | 14.7 | 2.5 |
| Shanghai Comp | 3,062 | 3,048 | 3,072 | 10.1 | 3.6 |
| Hang Seng | 17,911 | 17,606 | 18,063 | 8.3 | 4.3 |
| Nifty 50 | 19,802 | 19,727 | 19,845 | 18.8 | 1.7 |
| MSCI Asia ex-Japan | 624 | 618 | 627 | 12.2 | 2.8 |
| MSCI EM | 988 | 980 | 992 | 11.6 | 3.2 |
| WTI (Spot) | 76.8 | 75.9 | 77.6 | na | na |
| Gold | 1,992 | 1,981 | 2,001 | na | na |
| UST 10Y Yield | 4.40 | 4.39 | 4.43 | na | na |

Source: Bloomberg, Standard Chartered
Note: These short-term technical levels are based on models and may differ from a more qualitative analysis provided in other pages

### Investor diversity has increased across major markets

Our proprietary market diversity indicators as of 23 November

| Level 1 | Diversity | 1-month trend | Fractal dimension |
|---|---|---|---|
| Global Bonds | ● | ↑ | 2.03 |
| Global Equities | ● | ↑ | 1.67 |
| Gold | ◐ | ↑ | 1.49 |
| **Equity** | | | |
| MSCI US | ● | ↑ | 1.64 |
| MSCI Europe | ● | ↑ | 1.91 |
| MSCI AC AXJ | ● | ↑ | 1.83 |
| **Fixed Income** | | | |
| DM Corp Bond | ● | ↑ | 1.76 |
| DM High Yield | ● | → | 1.60 |
| EM USD | ● | ↑ | 1.81 |
| EM Local | ● | ↑ | 1.83 |
| Asia USD | ● | → | 1.65 |
| **Currencies** | | | |
| DXY | ● | → | 2.14 |

Source: Bloomberg, Standard Chartered; **Fractal dimensions below 1.25 indicate extremely low market diversity/high risk of a reversal**

**Legend:** ● High | ◐ Low to mid | ○ Critically low

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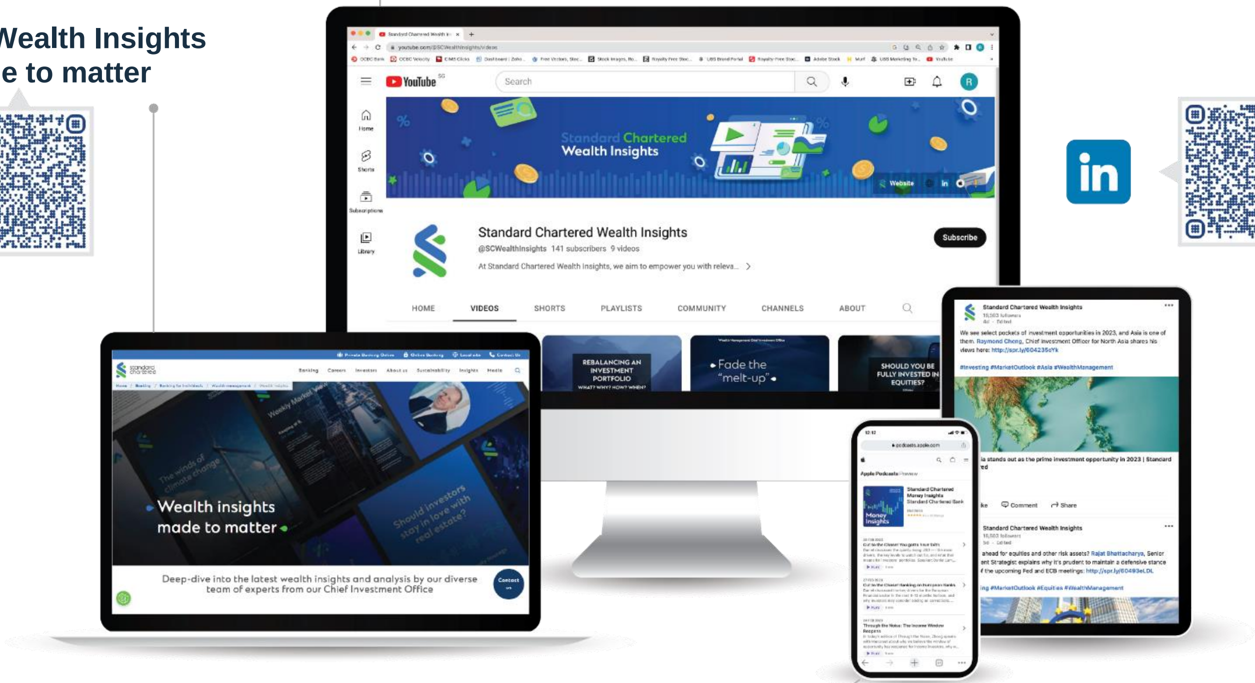


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