



Weekly Market View

A flare-up in the Middle East?

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→ Nevertheless, geopolitical tensions have generally had a fleeting impact on markets and pullbacks in equities have historically been buying opportunities unless a recession is expected.

→ The Q1 earnings season so far suggests US corporate fundamentals are improving from last year, pushing back recession concerns.

→ Discipline and diversification are two key principles investors must keep in mind during such uncertain times. In the near term, Developed Market government bonds and the USD could benefit from safe-haven demand.

→ For medium-term investors, we see an opportunity to build or average into a diversified global foundation allocation.

Do you expect the US 10-year government bond yield to retest 5%?

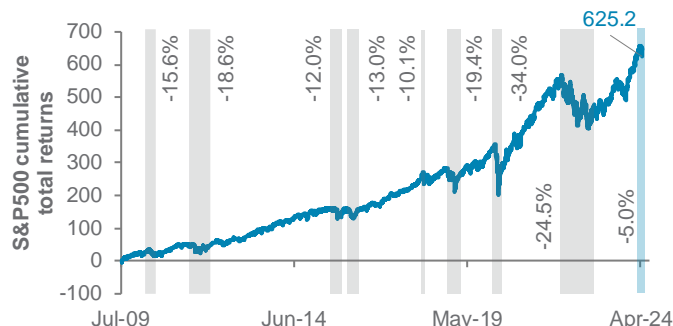
Where do you see tactical opportunities within Chinese equities?

Can India's election derail the momentum in equities?

Charts of the week: Non-recessionary pullbacks are limited and brief

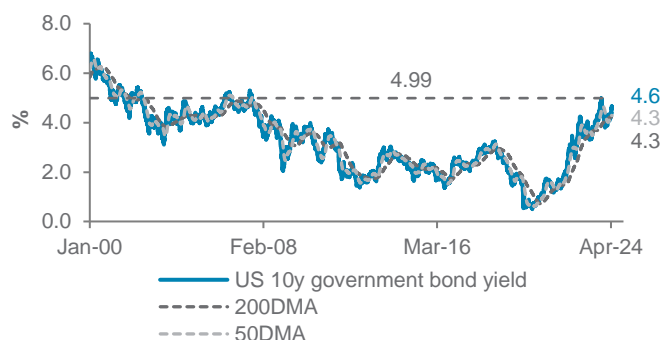
The S&P500 index's drawdown so far is consistent with minor pullbacks rather than a recessionary bear market

S&P500 index since 2009, with 10%+ drawdowns shaded



Source: Bloomberg, Standard Chartered

US 10-year government bond yield, with Oct '23 closing high



Editorial

A flare-up in the Middle East?

Global stocks have pulled back from record highs amid renewed Middle East tensions and inflation concerns. There's a risk of further declines if Middle East tensions escalate and as the market reassesses Fed rate cuts. Nevertheless, geopolitical tensions have generally had a fleeting impact on markets and pullbacks in equities have historically been buying opportunities unless a recession is expected. The Q1 earnings season so far suggests US corporate fundamentals are improving from last year, pushing back recession concerns.

Discipline and diversification are two key principles investors must keep in mind during such uncertain times. In the near term, Developed Market government bonds, where yields are approaching last year's highs, and the USD could benefit from safe-haven demand if Middle East tensions escalate. For medium-term investors, we see an opportunity to build or average into a diversified global foundation allocation, especially since it is hard to perfectly time market bottoms. We also see short-term opportunities in select Indian and Chinese assets, among others, amid the ongoing market dislocations.

Middle East flare-up: Initial indications suggest the reported exchange of missiles between Israel and Iran have been symbolic. Major western powers have no interest in seeing an escalation of tensions in the Middle East, which could result in a surge in oil prices and inflation expectations, especially given US and UK elections later this year. As such, we would refrain from over-reacting to headlines and instead use the dislocation to build inflation hedges around our foundation allocation. Our top picks among inflation hedges are: US inflation-protected government bonds and energy sector equities. We also see an upside risk to our gold forecast, which is increasingly driven by geopolitical factors, instead of the traditional drivers such as bond yields.

The primacy of profits: During times of heightened uncertainty, we have historically found it useful to go back to the fundamentals. As the chart above shows, equities typically trend higher as long as the economy avoids a recession. In the case of the US, equity pullbacks have been short-lived in non-recessionary times and have proven to be buying opportunities. Corporate earnings and economic data suggest that the US economy is further away from a recession than envisaged at the start of the year. While these are early days, in the ongoing Q1 earnings season, 86% of the S&P500 companies that have reported so far have beaten earnings estimates. Companies have guided consensus Q1 earnings growth estimates lower to 2.7%, from 5.1% at the start of April. This lowers the bar for beating those estimates in the coming weeks.

Meanwhile, job market and consumption indicators have beaten estimates lately. The continued strength of the US economy, increasingly fuelled by a surge in immigration since last year, is the key driver of a nascent rebound in inflation and pushing back of Fed rate cut expectations. As long as the fundamentals stay healthy, we see equity markets drawdowns as buying opportunities rather than a source of concern.

Discipline and diversification: For medium term investors, instead of following our natural instincts of cutting and running, we believe the current dislocations are presenting yet another opportunity to diversify across asset classes and regions. We maintain our diversified foundation allocation, which has a slight tilt towards equities, with US and Japan as our preferred regional markets globally. In Asia ex-Japan, our top picks are India, Korea and Taiwan markets. The month-and-a-half-long Indian election is likely to keep the incumbent party in power, according to polls. This is likely to be positive for both Indian equities and government bonds (see page 6). We also continue to see tactical opportunities in China's non-financial state-owned enterprises (see page 5).

The weekly macro balance sheet

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

(+) factors: Robust US retail sales, China economic rebound

(-) factors: Fed Chair Powell's hawkish turn, rising US inflation expectations, Middle East tensions

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> US retail sales rose more than expected by 0.7% m/m; control group retail sales (see chart) rose more than expected US industrial production rose 0.4% m/m as expected Euro area factory output rose as expected Euro area ZEW survey expectations improved China's economy expanded more than expected in Q1 24 China's fixed asset investment rose more than expected Fed's Beige Book noted slight growth and modest price pressures 	<ul style="list-style-type: none"> US University of Michigan sentiment fell more than expected; inflation expectations rose more than expected US Empire Manufacturing improved less than expected US leading indicator fell 0.3% m/m in March US housing starts and building permits fell more than expected China factory output and retail sales rose less than expected China M2 money supply growth slowed unexpectedly UK headline and core inflation slowed less than expected
	Our assessment: Neutral – Robust US retail sales, industrial output, China economic rebound vs rising US inflation expectations, weak China activity data	
Policy developments	<ul style="list-style-type: none"> NA. 	<ul style="list-style-type: none"> Fed Chair Powell and other Fed policymakers hinted at a rate-cut delay PBoC held 1-year MLF rate unchanged
	Our assessment: Negative – Powell's hawkish turn	
Other developments	<ul style="list-style-type: none"> NA 	<ul style="list-style-type: none"> Iran launched an unprecedented direct attack on Israel; Israel reportedly fired a missile at Iran, according to the US
	Our assessment: Negative – Middle East tensions	

US retail sales rose more than expected in March

US retail sales and control group* retail sales



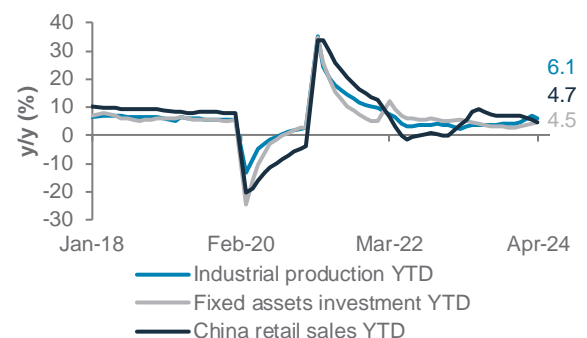
Euro area economic expectations continued to improve, though industrial output remained muted

Euro area ZEW economic survey, industrial production



China's fixed asset investment rose more than expected, but industrial output and retail sales fell short of estimates

China's fixed asset investment (YTD), industrial production and retail sales



Top client questions

Q Do you expect the US 10-year government bond yield to retest 5%?

Hawkish commentary from Fed Chair Powell has supported US government yields this past week. In the short term, we assess the risks as tilted towards a further rise in yields as markets start to price a slower pace of Fed rate cuts and/or a later start to rate cuts in 2024 relative to the Fed's previously published expectations and the market's views. Despite prevailing risk averse sentiment amid geopolitical tensions, which typically lead to lower rather than higher bond yields, the surge in commodity prices, strong US inflation and worries of energy supply disruptions have added uncertainty to the inflation outlook.

However, we believe the probability of the US 10-year government bond yield rising to 5% is low. The direction of monetary policy remains biased towards looking for an opportunity to cut, in our view, and we do not see the level of inflation warranting a complete reversal of monetary policy expectations.

Hence, we maintain our view that today's higher yields present an opportunity to add exposure to Developed Market (DM) Investment Grade (IG) bonds, including both government and corporate bonds.

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

Q Where do you see tactical opportunities within Chinese equities?

Chinese equities' positioning is extremely light and has remained steady over the last two months. Economic data, while remaining lacklustre, has begun to beat low expectations. Downside in Chinese equities is likely to be limited, in our view, with technical support for the Hang Seng Index at 16,000 and 15,500. Light positioning data suggests Chinese equities should benefit from any rotation from equity markets where positioning normalises from unusually high levels.

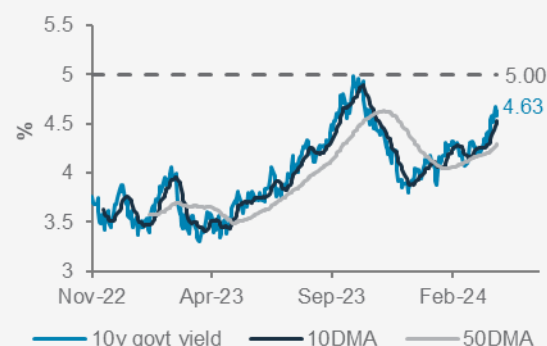
We see one potential opportunity in non-financials Chinese SOEs with high dividends, which gives investors exposure to China in a relatively defensive manner. The Chinese government has made "market capitalisation management" one of the KPIs of SOE management. This incentivises shareholder-friendly activities, such as more share buybacks and higher dividends.

We see a second opportunity in some sub-sectors within the technology sector. There are signs that the recovery in the China smartphone market is beating low investor expectations. They are also in a sweet spot of the upswing in the global technology cycle. Chinese back-end equipment companies are witnessing improved procurement demand since Q4 23 and expect notable y/y growth in 2024 given the current order plans.

— **Daniel Lam**, *Head, Equity Strategy*

While inflation concerns have rebounded somewhat, a complete reversal of Fed rate cut expectations appears unwarranted

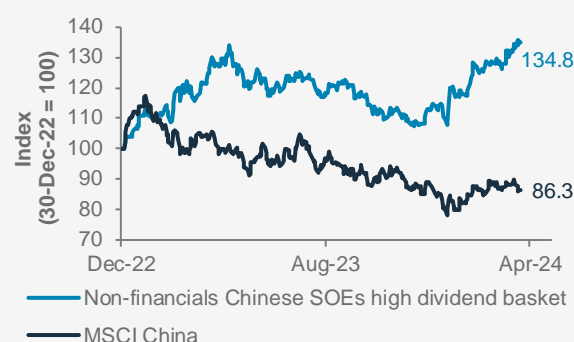
US 10-year government bond yield



Source: Bloomberg, Standard Chartered

High dividend yielding, non-financials SOEs has been the bright spot in Chinese equities*

Performance of Non-financials, high dividend Chinese SOEs basket versus MSCI China.



Source: Bloomberg, Standard Chartered

* This is an opportunistic buy idea, launched in our Global Market Outlook publication on 28-Mar-24. It has returned 6.6%, as of the close of 18-Apr-24.

Top client questions (cont'd)

Q What is the outlook for oil and gold following renewed tensions in the Middle East?

Crude oil and gold prices jumped following mounting tensions between Israel and Iran before consolidating amid hopes any conflict will remain contained. For crude oil, higher-than-expected inventories last week exerted downward pressure on prices, while the reimposition of sanctions on Venezuelan supply created upward pressure.

In the immediate term, the geopolitical focus remains on Israel and Iran. This means crude oil and gold prices could stay elevated in the coming days.

In the long term, the impact of the geopolitical developments on commodity prices ultimately depends on the effect it has on supply and demand. While gold supply-demand balance is unlikely to be affected, a broader conflict scenario would risk disrupting oil supplies. However, our base case remains one where the conflict remains contained; thus, we do not expect the geopolitical risk premium to be sticky. Moreover, the high spare capacity of the OPEC (around 4% of world production) is likely to limit any upside in oil prices.

On balance, we believe it is prudent to maintain some small exposures to gold and oil (via energy sector equities) as long-term hedges against a renewed flare-up in tensions, but would only add on pullbacks.

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

Q What's next for USD/JPY following the fresh highs?

USD/JPY set a new 33-year high recently with the USD strengthening as markets priced in a delay to the start of Fed rate hikes and/or a slower pace of rate cuts this year. Furthermore, worries of an escalation in the Middle East meant the USD faces ongoing safe-haven demand.

Technical and positioning data on USD/JPY remain mixed. Investor positioning on the JPY fell to an extreme low, arguing for a near-term reversal. However, despite similarly overbought technical indicators elsewhere, the momentum indicator (MACD) shows no signs of a crossover yet, suggesting further upward pressure is likely to remain in place in the near term. Japan's Ministry of Finance (MoF) seems keen on preventing the JPY from being undervalued further. It is likely the officials will step up their verbal intervention, with the risk of an actual intervention.

In the short term (1-3 months), we expect the pair to test 157 (the next resistance based on the magnitude of its previous rallies). In the long term (6-12 months), we still see the pair likely reverting to a bearish bias below the 152 level once the Fed's rate cut cycle has started and the BoJ continues the normalisation of monetary policy later this year.

— **Iris Yuen**, *Investment Strategist*

Impact of the geopolitical developments on commodity prices ultimately depends on the effect it has on supply and demand. Energy markets have sizeable supply capacity in need

OPEC spare capacity



Source: Bloomberg, Standard Chartered

USD/JPY rose to a new 33-year high

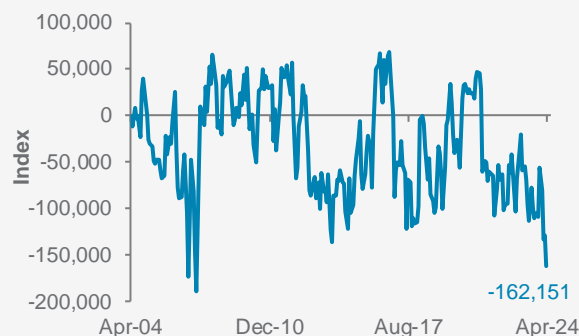
USD/JPY and key technical support and resistance levels



Source: Bloomberg, Standard Chartered

JPY investor positioning fell to an extreme low

JPY CFTC positioning index



Source: CFTC, Standard Chartered

Top client questions (cont'd)

Q Can India's election derail the momentum in equities?

Historically, Indian equities have performed well heading into the general elections. The strong rally in Indian equities since Q4 23 is consistent with this trend. Polls and consensus currently favour the incumbent government retaining its mandate, an outcome that would likely result in policy continuity and scope for further land and labour reforms. These conditions would support strong investment-led economic growth and corporate profitability and likely to be positive for markets. Having said that, history shows surprise outcomes can never be ruled out. Over short horizons, equity markets have reacted positively to consensus polling outcomes (1999, 2009, 2014 and 2019) and negatively to non-consensus verdicts (2004), regardless of which party wins the mandate.

The 2024 elections are being largely contested by the incumbent NDA coalition led by the Bhartiya Janta Party (BJP) and the I.N.D.I.A coalition led by the principal opposition Indian National Congress (INC). The election manifesto of the two main parties make divergent policy proposals. The opposition INC is focused on social welfare, with promises to increase job reservations for underprivileged communities and provide income support to weaker communities along with legal guarantees for minimum support prices for crops. The BJP manifesto builds on policy continuity with a focus on macroeconomic stability, increasing safety-nets for vulnerable and unorganised sectors, continued focus on building infrastructure and manufacturing capability.

The latest public opinion polls indicate that NDA is likely to achieve a comfortable majority. An NDA coalition led by a weaker BJP (<272 seats) could limit the elected government's ability to push through bold reforms and force a gradual shift towards boosting consumption. Although a low probability outcome, in our view, this scenario could trigger market volatility. Polls suggest an I.N.D.I.A. alliance victory remains a tail-risk; history suggests such a non-consensus outcome could be an adverse short-term shock to the market which is likely to worry about the risk of policy reversal, moderation in capex and increased spending on consumption which can be inflationary.

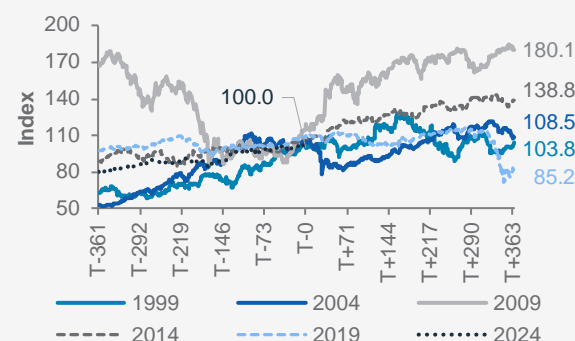
Nevertheless, historically, the impact of elections on markets has remained short term in nature and we believe that medium-term prospects of Indian equities remain intact (strong corporate earnings cycle and low foreign investor positioning), supporting our overweight for the market within Asia-ex-Japan. We would use any interim volatility to add to the asset class.

Following the recent surge in yields, the risk-reward has improved for INR bonds given declining inflation, fiscal prudence, a likely pick-up in foreign investor inflows from June 2024 and a stable INR.

— **Ravi Kumar Singh**, India Chief Investment Strategist

In line with the historical trend, Indian equities have trended positively heading into the elections

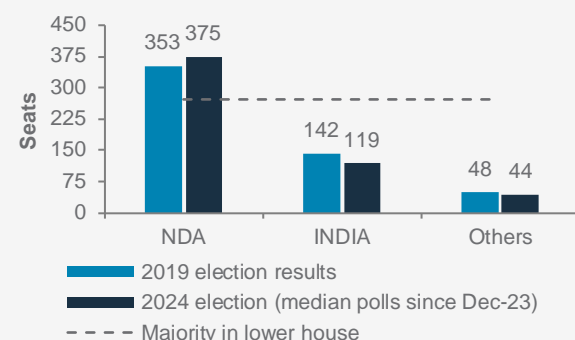
Nifty index; Index: 100 = start of elections



Source: Bloomberg, Standard Chartered

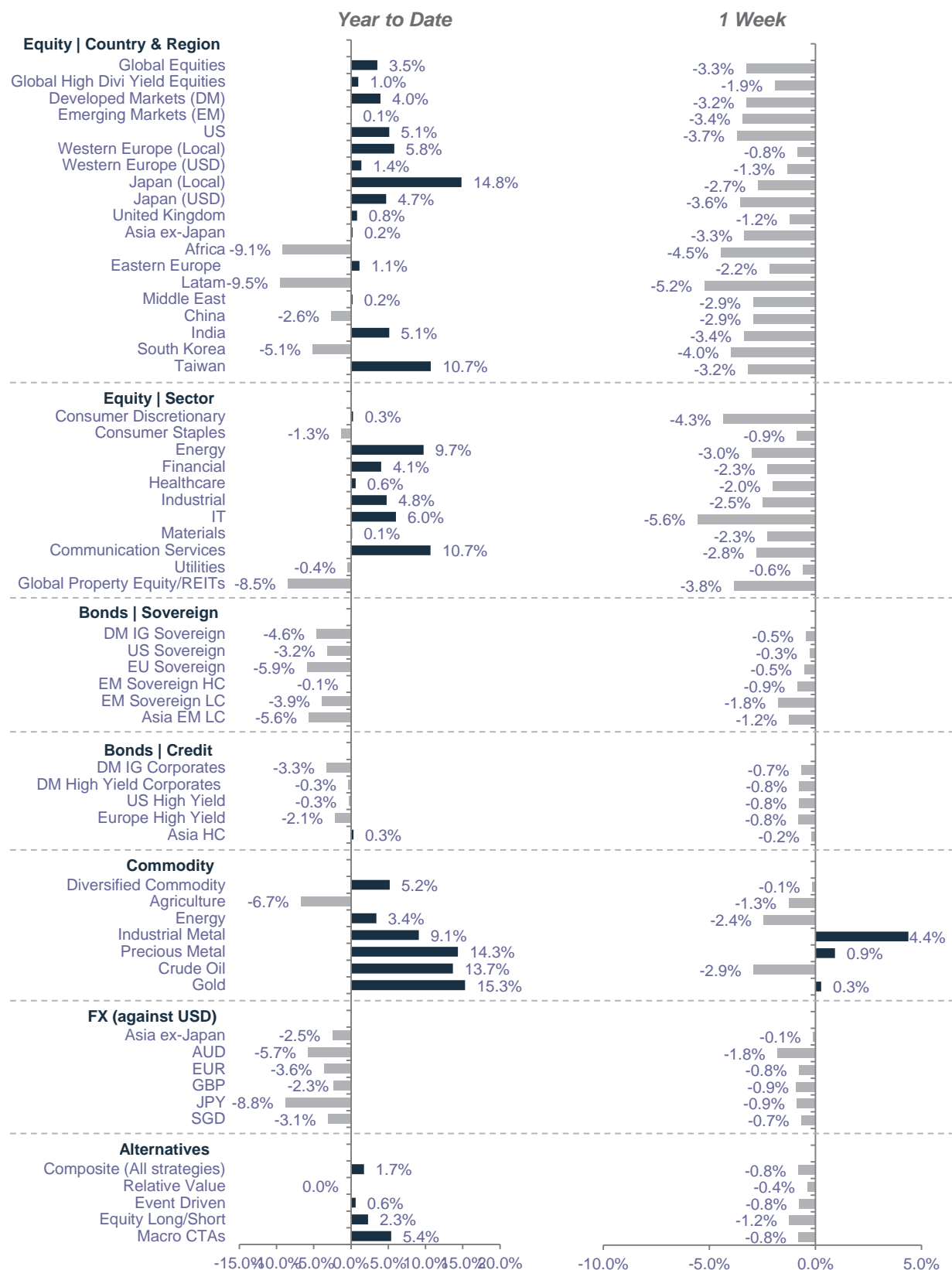
Latest opinion polls indicate a comfortable victory for the incumbent Bharatiya Janata Party (BJP)-led National Democratic Alliance (NDA)

Lower House of parliament seats for major political alliances, based on the median of opinion poll results since Dec 2023; Outcome of 2019 election



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, 2024 YTD performance from 31 December 2023 to 18 April 2024; 1-week period: 11 April 2024 to 18 April 2024

Our 12-month asset class views at a glance

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

Source: Standard Chartered Global Investment Committee

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

The US 10-year yield has next interim resistance at 4.69%

Technical indicators for key markets as of 11 April close

Index	Spot	1st support	1st resistance	12m forward P/E (x)	12m forward dividend yield (%)
S&P 500	5,011	4,974	5,086	20.0	1.5
STOXX 50	4,937	4,906	4,976	13.5	3.4
FTSE 100	7,877	7,800	7,975	11.3	4.1
Topix	2,677	2,641	2,737	15.4	2.4
Shanghai Comp	3,074	3,029	3,097	10.6	3.4
Hang Seng	16,386	16,183	16,655	7.9	4.7
Nifty 50	21,996	21,821	22,345	20.0	1.6
MSCI Asia ex-Japan	640	632	651	12.4	2.8
MSCI EM	1,019	1,005	1,037	11.8	3.1
WTI (Spot)	82.7	81.7	84.7	na	na
Gold	2,379	2,354	2,393	na	na
UST 10Y Yield	4.63	4.55	4.69	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

Economic and market calendar

	Event	Next week	Period	Expected	Prior
MON	US	Chicago Fed Nat Activity Index	Mar	–	0.05
	EC	Consumer Confidence	Apr P	–	-14.9
TUE	EC	HCOB Eurozone Manufacturing PMI	Apr P	–	46.1
	EC	HCOB Eurozone Services PMI	Apr P	–	51.5
	UK	S&P Global UK Manufacturing PMI	Apr P	–	50.3
	UK	S&P Global UK Services PMI	Apr P	–	53.1
	US	S&P Global US Manufacturing PMI	Apr P	–	51.9
	US	S&P Global US Services PMI	Apr P	–	51.7
	US	New Home Sales	Mar	675k	662k
WED	US	Durable Goods Orders	Mar P	2.5%	1.3%
THU	US	GDP Annualized q/q	1Q A	2.0%	3.4%
FRI/SAT	EC	M3 Money Supply y/y	Mar	–	0.4%
	US	PCE Deflator y/y	Mar	2.6%	2.5%
	US	PCE Core Deflator y/y	Mar	2.8%	2.8%

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

Investor diversity remains extremely low for gold

Our proprietary market diversity indicators as of 11 April close

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	→	1.55
Global Equities	●	↑	1.43
Gold	○	↓	1.19
Equity			
MSCI US	●	↑	1.44
MSCI Europe	●	↑	1.45
MSCI AC AXJ	●	→	1.44
Fixed Income			
DM Corp Bond	●	↑	1.67
DM High Yield	●	↑	1.61
EM USD	●	↑	1.67
EM Local	●	→	1.51
Asia USD	●	↑	2.03
Currencies			
EUR/USD	●	↓	1.46

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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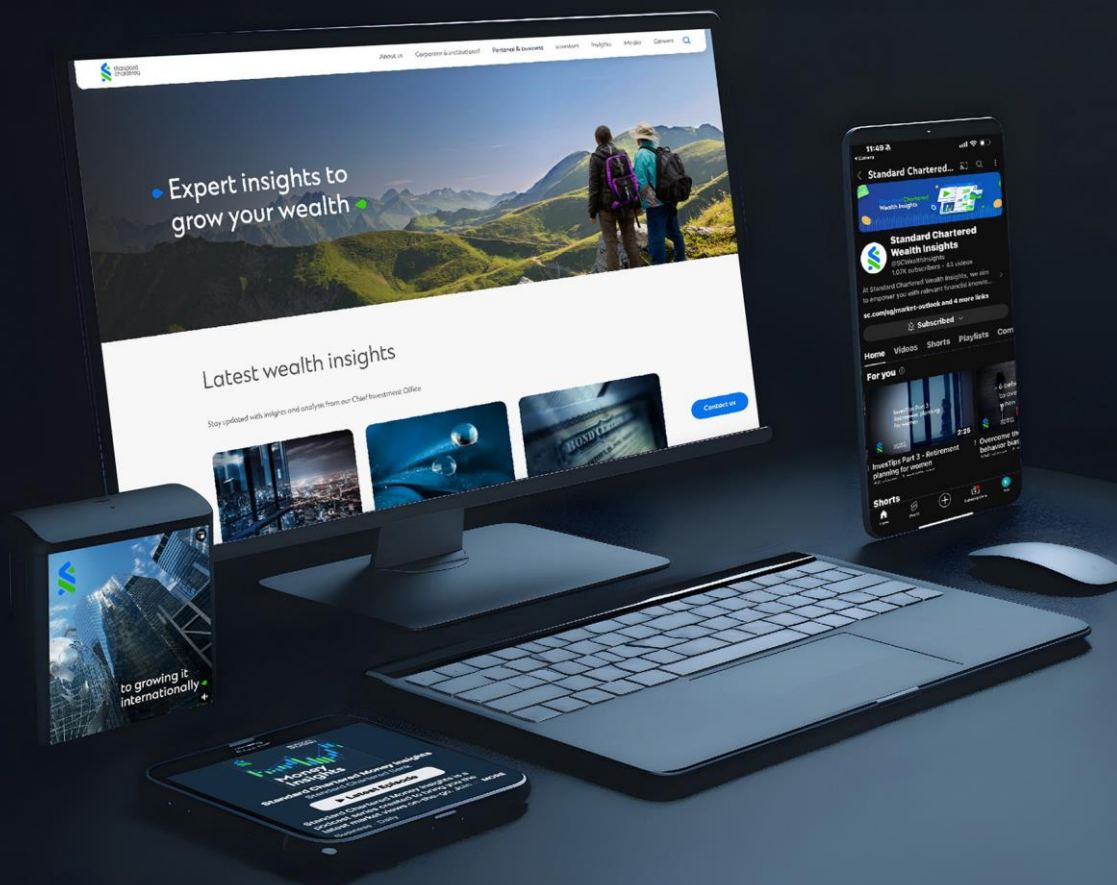
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