



Weekly Market View

A hopeful Fed

→ Global markets are starting to see a rotation of flows away from the US into Asia, partly amid concerns about relatively high US valuations and rising inflation.

→ The Fed, having turned dovish in Q4 23, which now seems premature, appears hopeful that the rebound in inflation will be 'transitory'.

→ US data remains inconclusive. On the negative side, inflation is rising, the job market is slowing and the manufacturing sector is contracting again. However, US corporate earnings have beaten expectations again in Q1.

→ Weighing the still-constructive earnings outlook with the inflation risks, we believe a modestly pro-risk foundation allocation, weighted towards US and Japan equities, remains prudent.

→ In the short-term (1-3 months), we see further upside in some Asian regional equity markets.

How has the US Q1 earnings season fared so far?

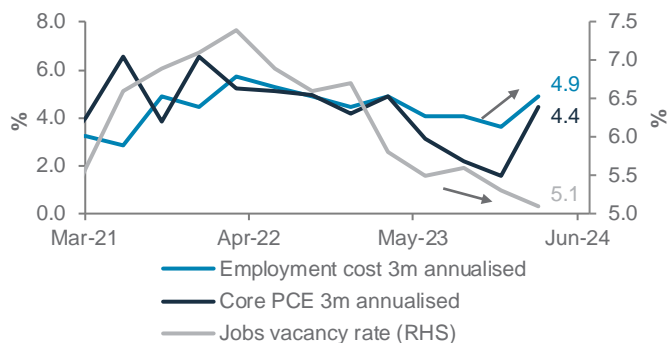
What are the near-term prospects for Chinese equities?

Is JPY weakness likely to extend in the near term? What is the impact on Japan's equities?

Charts of the week: Hot or cold?

US inflation and wage pressures have rebounded lately; we expect a cooling job market to ease wage pressures in H2 24

US employment cost index, core PCE inflation, job vacancy rate



Source: Bloomberg, Standard Chartered

US, Euro area and China economic surprises indices



Editorial

A hopeful Fed

Global and US stocks have pared back 3-4% from their record highs, while Hong Kong's Hang Seng index has now entered a bull market. Global markets are starting to see a rotation of flows away from the US and into Asia, partly amid concerns about relatively high US valuations and rising inflation. The Fed, having turned dovish in Q4 23, which now seems premature, appears hopeful that the rebound in inflation will be 'transitory'.

US data remains inconclusive. On the negative side, inflation is rising, the job market is slowing and the manufacturing sector is contracting again. However, US corporate earnings have beaten expectations again in Q1. Weighing the still-constructive earnings outlook with the inflation risks, we believe a modestly pro-risk foundation allocation, weighted towards US and Japan equities, remains prudent. In the short-term (1-3 months), we see further upside in some Asian regional equity markets.

Strong earnings: US corporate earnings remain robust, with growth broadening out beyond the technology-related sectors. Almost four-fifths of the S&P500 index companies which have reported Q1 earnings have beaten estimates (vs 66% long-term average). As a result, earnings growth estimates for full-year 2024 and 2025 have been revised higher to 10.3% and 14%.

Conflicting US data: US inflation concerns are rising. A 1.1% q/q upturn in Q1 in a measure of US wage growth (Employment Cost Index) mirrored an ongoing rebound in the Fed's core inflation gauge (core PCE) and 'prices paid' components of business confidence indices. However, the US job market continues to slow, as seen from the sustained downtrend in the job vacancy rate, which fell to a three-year low in March (April's non-farm payrolls data due tonight; consensus: 250,000 net new jobs). The US manufacturing sector, including the new orders and new export orders components, returned to contraction in April, based on ISM Manufacturing PMI data.

The Fed's dilemma: The Fed expects growth to slow in the coming quarters as two-decade high interest rates impact the economy, helping cool the job market and lower inflation later. This explains why Fed Chair Powell, after keeping rates steady at the 1 May policy meeting, reiterated his base case that the Fed is more likely to cut rates later this year than hike.

We broadly agree with this macroeconomic outlook. The rise in corporate bankruptcies and credit card and auto delinquencies indicate weaker parts of the economy are hurting from high rates. The slowing job vacancy rate and quits rate are leading indicators for wage growth. A burst of immigration over the past year is helping ease labour shortages. This in turn is sustaining the US job market and consumption even as household excess savings dwindle. The new entrants to the job market should also help ease wage pressures, thus enabling the Fed to cut rates. However, managing the soft-landing will take deft management of monetary policy and is likely to be challenging. This is likely to cause market volatility.

Investment implications: The above scenario leaves us pro-risk, while hedging inflation risks through inflation-protected bonds and energy sector equities. Within equities, strong US earnings support our Overweight allocation to the market. We expect US earnings to broaden out in the coming quarters.

We expect the JPY to remain weak in the near term, despite the BoJ's intervention, given Japan's slowing inflation trend (see page 5). Continued JPY weakness supports our Overweight Japan view. We also see near-term opportunities across Asia ex-Japan. These include select equity sectors in China which are likely benefitting from the nascent investor rotation from the relatively expensive US markets (see page 4). We also see upside in Korean stocks on the back of global technology sector upturn and Korea's Value up programme. We also like Indian equities and bonds as they stand to gain from likely policy continuity after the ongoing elections.

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: Strong US private payrolls, Dovish BoJ

(-) factors: Stubborn US inflation, weak US manufacturing, job openings

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> US private sector added more jobs than expected at 192,000 Euro area economy grew more than expected by 0.3% q/q in Q1 24 China mfg PMI fell less than expected to 50.4; Caixin mfg PMI rose unexpectedly to 51.4 Euro area CPI was unchanged at 2.4% y/y as expected, though core CPI slowed less than expected 	<ul style="list-style-type: none"> US PCE inflation rose more than expected by 2.8% y/y; core PCE rose more than expected US wages (ECI) grew at a faster-than-expected pace US job openings fell more than expected to 8.5m US ISM mfg PMI fell more than expected to 49.2 US consumer confidence fell more than expected China non-mfg PMI fell more than expected to 51.2
	Our assessment: Negative – Stubborn US inflation, weak US manufacturing, consumer confidence and job openings	
Policy developments	<ul style="list-style-type: none"> Fed Chair Powell said the next move is unlikely to be a hike; he acknowledged stubborn inflation The Fed planned to slow the pace of paring down its balance sheet; US Treasury announced bond buyback operations The BoJ is reported to have intervened in the currency market after leaving rates unchanged 	<ul style="list-style-type: none"> US Treasury lifted its Q2 borrowing estimate more than expected and left its refunding amount unchanged ECB's Holtzman suggested that the latest data implies consecutive rate cuts are difficult
	Our assessment: Neutral – Less than hawkish Fed, dovish BoJ vs increased US debt issuance	
Other developments	<ul style="list-style-type: none"> Reports suggest progress on ceasefire discussion between Israel and Hamas 	<ul style="list-style-type: none"> US Secretary of State Blinken's meeting with China President Xi highlighted areas of continued disagreement
	Our assessment: Neutral – Gaza ceasefire vs US-China disagreements	

US consumer confidence and manufacturing sector confidence both underwhelmed in April

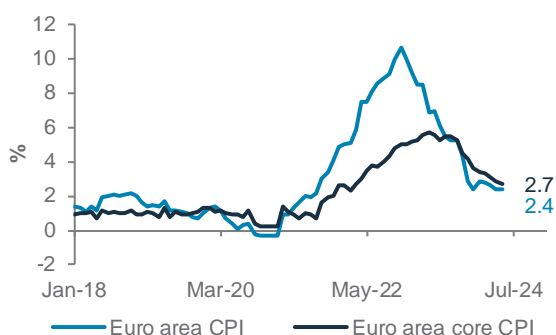
US consumer confidence, ISM Manufacturing and ISM New Orders PMI



Source: Bloomberg; Standard Chartered

We expect the ECB to start cutting rates from June as Euro area core inflation continues to slow

Euro area headline and core inflation



Source: Bloomberg; Standard Chartered

China's manufacturing and services sectors both weakened in April

China's manufacturing and non-manufacturing PMI



Source: Bloomberg; Standard Chartered

Top client questions

Q How has the Q1 24 US earnings season fared so far?

A total of 75% of companies in the S&P 500 have reported earnings so far, with 77% of them beating consensus earnings estimates as per LSEG I/B/E/S. This is better than the historical average of 66% of companies “beating” expectations. The earnings surprise has been broad, with all sectors delivering a positive earnings surprise. Q1 24 earnings are now expected to grow by 6.9% y/y, up from 5.1% expected on 1-Apr-24. More positively, 2024 and 2025 earnings have both been revised up as well. 2024 earnings are now expected to grow by 10.3% (from 9.9%) and 2025 by 14.0% (from 13.7%).

The sectors with the greatest percentage point improvement in 2024 growth are communication services (to 22.1% currently from 17.0%) and energy (to -2.9% from -6.3%). This ties in with our preferred view on these two sectors. Communication services is seeing strong growth momentum in digital advertising, while the oil price gains this year are paring back expectations for a decline in energy sector earnings. Six of the seven ‘Magnificent 7’ stocks have reported so far, with a combined 37% y/y earnings growth and 8.8% earnings surprise, though guidance has been mixed. This is in line with the 8.8% earnings surprise in the S&P 500 so far. US equities are consolidating in the near term, but we expect earnings strength to drive its outperformance over 6-12 months.

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

Q What are the near-term prospects for Chinese equities?

Chinese equities have been benefitting from a regional rotation. Rising concerns regarding US inflation and the room it leaves for the Fed to cut rates likely imply a potential increase in US equity volatility. This has likely led some investors to reconsider their allocation to US equities relative to other major regions.

Against these macro uncertainties, we view Chinese equities as being a relative “safe haven” because the bad news in China has been well publicised and arguably priced in. Chinese equities continue to trade at a heavy valuation discount of 45% (offshore) and 27% (onshore) relative to global equities. Investor positioning is also light. The rally has been broadening out – from the high-dividend SOEs to the higher-beta internet and technology stocks.

We expect the Hang Seng index to consolidate in the near term due to its sharp rebound from the 16,000 level, especially when it approaches the key resistance at 18,840. We believe it is attractive to accumulate between the 17,300 to 17,800 area, especially if the macro uncertainties in the US persist.

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

US earnings growth for Q1 and for 2024 full year and 2025 full year have been revised up since 1-Apr-24

Consensus earnings growth estimates for S&P 500 for Q1 24, 2024 and 2025 on 1-Apr-2024 and today



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

Hang Seng Index has positive short-term momentum

Key technical support and resistance levels in the Hang Seng Index



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q Is JPY weakness likely to extend in the near term? What is its impact on Japan's equities?

The JPY faced downward pressure through April amid hawkish US data, which resulted in US yields and the USD surging. Meanwhile, the BoJ left rates unchanged and offered no indication that it was in a hurry to halt the currency pair's ascent with higher borrowing costs.

Although likely policy intervention helped USD/JPY avoid a break above 160, the risk remains tilted towards further upside in the short term (our 3m view: 156), given a still-strong USD and a patient BoJ. The real rate differential between the US and Japan still favours the USD. For now, markets continue to expect the Fed to cut rates in H2 24 (total of 35bps by year-end). We see the pair retreating to 150 in this scenario (our base case). However, if the Fed postpones easing to 2025 amid sticky inflation, USD/JPY could surge to 165-166.

JPY weakness is favourable for Japanese equities, as it supports the earnings outlook for exporters via greater competitiveness relative to other Asian exporters. However, one risk we would keep a close watch on is whether a scenario of extended JPY weakness raises expectations of similar weakness in other Asian currencies.

— Iris Yuen, Investment Strategist

Q Why do you prefer subordinated financial bonds over DM HY bonds?

The subordinated financial bonds asset class, which includes Additional Tier-1 bonds (or 'CoCo bonds'*), are issued by financial institutions to meet regulatory requirements. They are considerably junior in a firm's capital structure to more traditional senior bonds and usually contain terms that allow the value to be written down to zero or converted to equity based on pre-defined criteria.

We currently favour sub-financial bonds over Developed Market (DM) High Yield (HY) bonds. While their yield premiums are at the slightly tighter end of the historical range, they are not yet very stretched, and we still see their nominal yields as attractive. Moreover, we assess the risk of extension (ie, non-call) as manageable for the majority of outstanding AT1s, especially given the wave of new bond issuance in Q1 24.

While some of these arguments could be made for DM HY bonds as well, we find AT1s more attractive given the underlying fundamentals of the financial institutions are comparatively stronger, in our view, especially given their recent focus on prudence in loan books and capital management. Additionally, amid the looming prospect of a "higher-for-longer" rates environment, we anticipate net interest margins (NIM) of the banks should stay supportive.

— Cedric Lam, Senior Investment Strategist

Real interest rate differential between the US and Japan point to upside risk for the USD/JPY

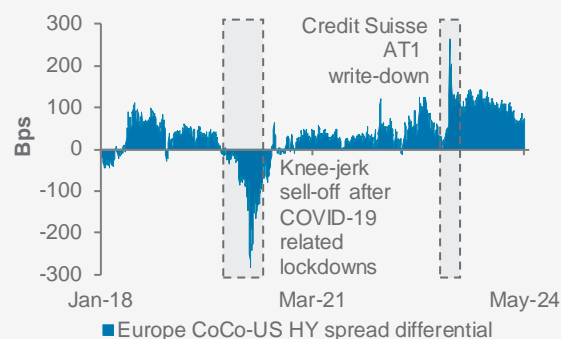
US-Japan real rate differential and USD/JPY



Source: Bloomberg, Standard Chartered

European Additional Tier-1* capital bonds offer attractive relative value over HY bonds

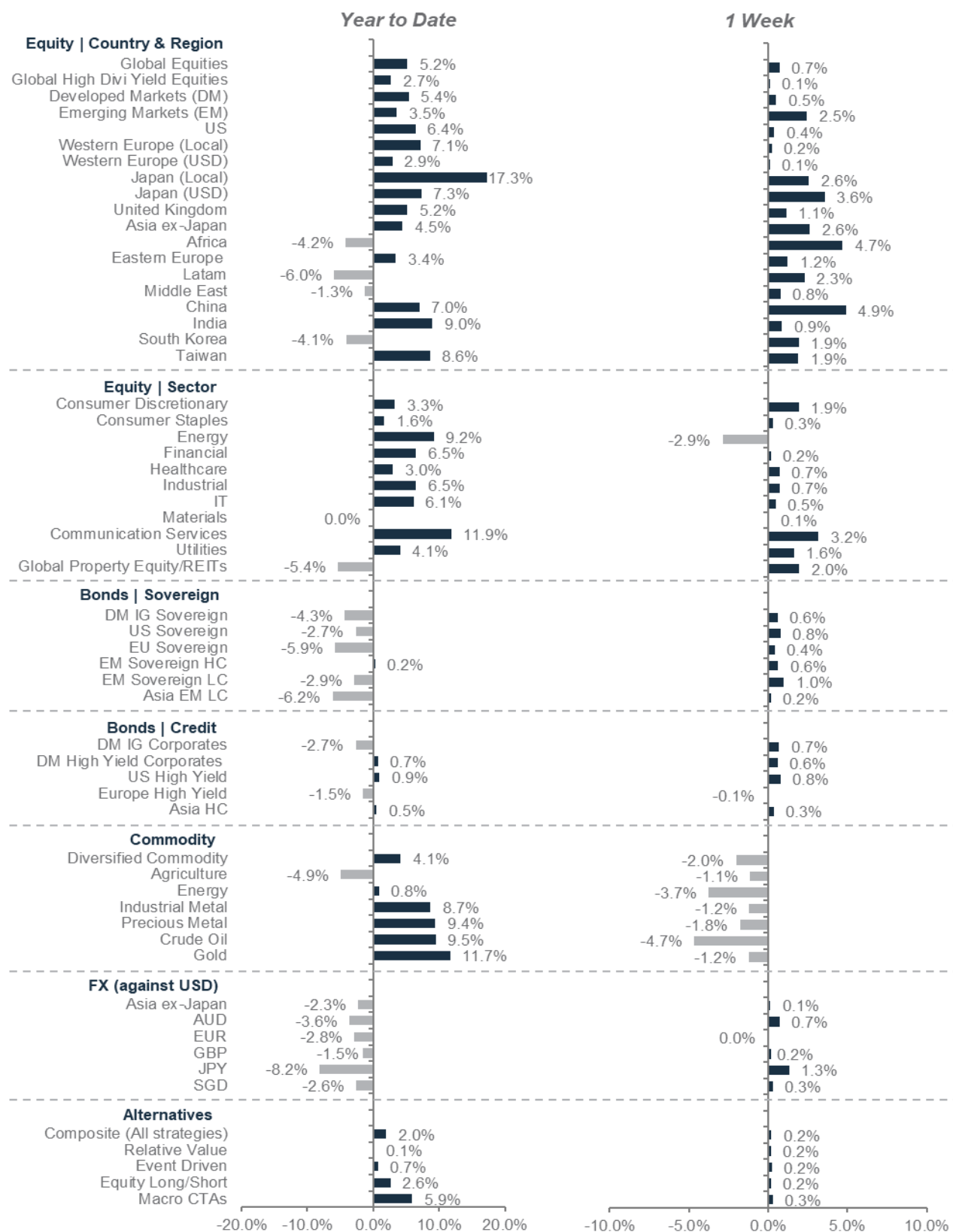
Yield premium difference for European AT1s and US HY bonds (positive spread = positive AT1, or CoCo, yield premium over US HY bonds)



Source: Bloomberg, Standard Chartered

*Contingent Convertibles (CoCos) are complex financial instruments. Refer to Important Information on page 9 for further details

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 02 May 2024; 1-week period: 25 April 2024 to 02 May 2024

Our 12-month asset class views at a glance

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

Source: Standard Chartered Global Investment Committee

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

The US 10-year yield has next interim resistance at 4.65%

Technical indicators for key markets as of 02 May close

Index	Spot	1st support	1st resistance	12m forward P/E (x)	12m forward dividend yield (%)
S&P 500	5,064	5,016	5,114	20.0	1.5
STOXX 50	4,891	4,852	4,968	13.4	3.4
FTSE 100	8,172	8,138	8,189	11.7	3.9
Topix	2,729	2,696	2,752	15.5	2.4
Shanghai Comp	3,105	3,091	3,116	10.9	3.4
Hang Seng	18,207	17,836	18,392	8.8	4.2
Nifty 50	22,648	22,496	22,724	20.0	1.5
MSCI Asia ex-Japan	667	661	670	12.8	2.7
MSCI EM	1,053	1,045	1,057	12.1	3.0
WTI (Spot)	79.0	77.3	82.2	na	na
Gold	2,304	2,281	2,332	na	na
UST 10Y Yield	4.58	4.55	4.65	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	CH	Caixin China PMI Composite	Apr	–	52.7
	CH	Caixin China PMI Services	Apr	52.5	52.7
	EC	Sentix Investor Confidence	May	–	-5.9
	EC	PPI y/y	Mar	–	-8.3%
TUE	EC	Retail Sales y/y	Mar	–	-0.7%
WED					
THU	UK	Bank of England Bank Rate	9 May	–	5.3%
	CH	Exports y/y	Apr	–	-7.5%
	CH	Money Supply M2 y/y	Apr	–	8.3%
FRI/SAT	UK	GDP q/q	1Q P	–	-0.3%
	UK	Industrial Production y/y	Mar	–	1.4%
	US	U. of Mich. Sentiment	May P	77.0	77.2

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 has normalised across asset classes

Our proprietary market diversity indicators as of 02 May close

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↓	1.42
Global Equities	●	↑	1.55
Gold	●	→	1.27
Equity			
MSCI US	●	↑	1.57
MSCI Europe	●	↑	1.62
MSCI AC AXJ	●	↓	1.37
Fixed Income			
DM Corp Bond	●	↓	1.52
DM High Yield	●	↑	1.64
EM USD	●	↑	1.84
EM Local	●	↓	1.46
Asia USD	●	↑	2.23
Currencies			
EUR/USD	●	↑	1.52

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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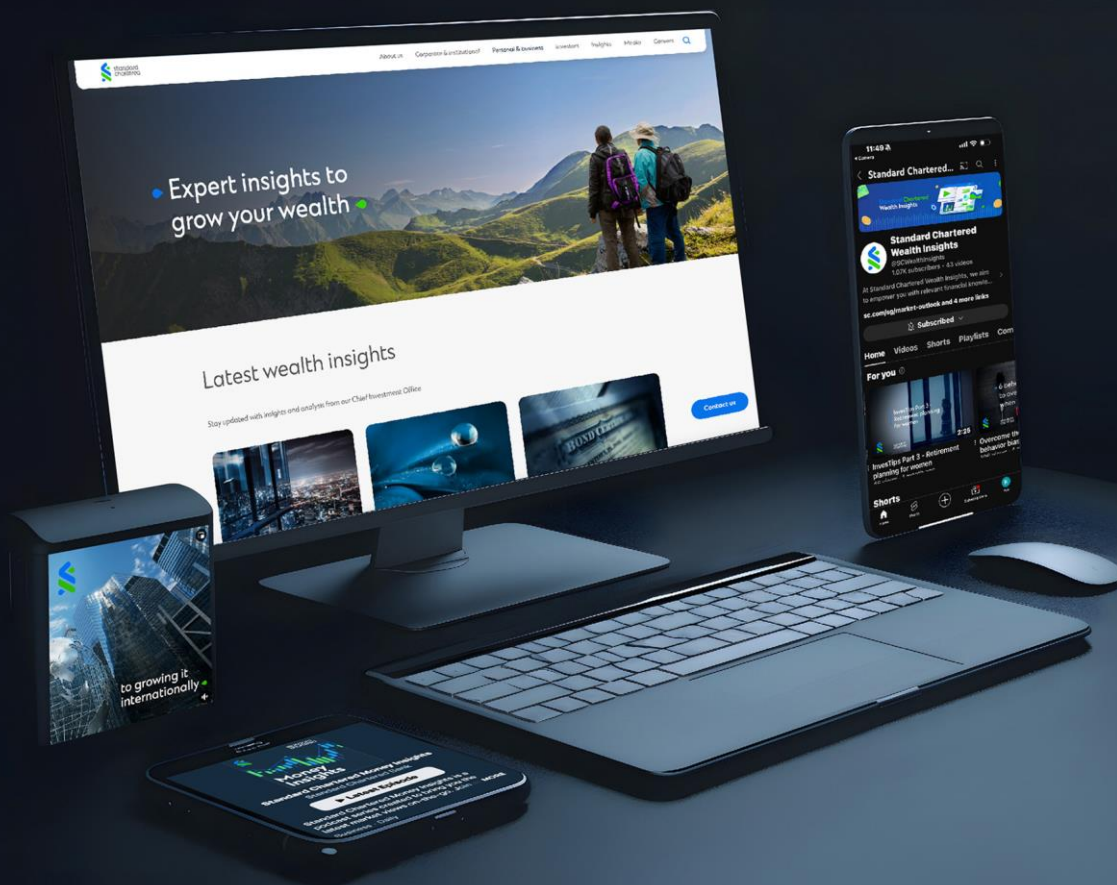
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