



# Weekly Market View

## A new dawn in China?

→ The return of 'animal spirits' in China's stock market thanks to a decisive turn in policy could lead to further near-term upside. However, we believe a large fiscal stimulus is likely needed to sustain the rally.

→ Meanwhile, the long-term market impact of the ongoing flare-up in Middle East tensions is likely to be limited if Iran's oil supplies are not affected. Gold and energy stocks and bonds remain our preferred hedges against any oil shock.

→ In FX markets, we see a rangebound USD/JPY in the near term after Japan's new PM Ishida downplayed the need for further BoJ rate hikes for now.

Also, any CNH upside is likely to be limited, with momentum indicators sending a bullish signal for USD/CNH.

→ The next focus is on the US employment, inflation and Q3 corporate earnings reports. Indications of job market resilience, further disinflation and earnings beats are likely to fuel the USD and the record-breaking US equity rally.

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Should investors chase China equities at this stage?

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What is the outlook for US Q3 corporate earnings?

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How could Middle East geopolitical risks impact financial markets?

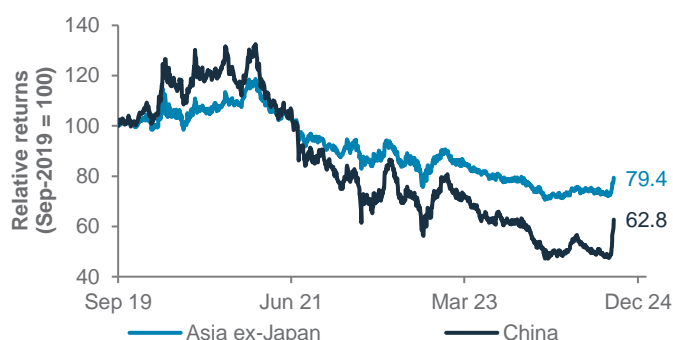
## Charts of the week: Significant catch-up potential

**Following the policy boost, China's stocks can potentially unwind their significant underperformance in recent years**

Hang Seng index and base, bullish and bearish scenarios



Relative returns of MSCI China, MSCI Asia ex-Japan\* indices



Source: Bloomberg, Standard Chartered; \*vs. MSCI All Country World index (100 = September 2019)

## Editorial

### A new dawn in China?

The return of 'animal spirits' in China's stock market thanks to a decisive turn in policy could lead to further near-term upside. However, we believe a large fiscal stimulus is likely needed to sustain the rally. Meanwhile, the long-term market impact of the ongoing flare-up in Middle East tensions is likely to be limited if Iran's oil supplies are not affected. Gold and energy stocks and bonds remain our preferred hedges against any oil shock. In FX markets, we see a rangebound USD/JPY in the near term after Japan's new PM Ishida downplayed the need for further BoJ rate hikes for now. The next focus is on the US employment, inflation and Q3 corporate earnings reports. Indications of job market resilience, further disinflation and earnings beats are likely to fuel the USD and the record-breaking US equity rally.

**China's near-term upside potential:** The near-term bullish case for China stocks argues for a further c.10% potential upside in the coming weeks (see chart above and page 4). This is especially so given low global investor positioning and inexpensive valuations after the significant underperformance of China stocks vs. global equities over the past five years.

Authorities have vowed to provide more support to revive the stock market if the current proposals, totalling 2% of the onshore equity market capitalisation, prove insufficient. Given this, we believe investors who are still underweight China have an opportunity to rebuild exposure towards a benchmark allocation. Those who are neutral or overweight China can consider adding to laggards in our preferred consumer discretionary and communication services sectors, as well as high dividend yielding state-owned enterprises.

**Challenges in sustaining the rally:** A longer-term stock market upturn likely requires a sustained revival in economic growth and a stable property market. This, in turn, potentially requires a fiscal spending boost significantly larger than the 1-2% of GDP currently expected. For context, the last major fiscal

policy stimulus in 2015-16, which resulted in an 80% trough-to-peak stock market rally, entailed a 10% of GDP boost in cumulative net government borrowing. There is also the risk of trade tensions with the US, especially if former President Trump returns to power. Given this, we maintain our 6-12-month allocation to China equities in line with global benchmarks.

**Hedging against Middle East tensions:** The flare-up in the Middle East raises the chance of accidents. However, we see limited long-term market impact from the escalation unless Iran's oil installations are attacked. The US administration has little incentive to disrupt Iran's oil supplies and risk higher oil prices heading into the November elections, given its ongoing battle to tame inflationary pressures. Nevertheless, those looking to hedge against any short-term energy shocks can consider gold and energy sector stocks and bonds.

**Rangebound JPY:** Japan's new PM Ishiba has played down the need for another imminent BoJ rate hike, although his stated policies imply further BoJ policy tightening in the months ahead to curb inflation. We see any near-term upside in USD/JPY limited to 149. A hawkish turn in BoJ policy, possibly after the US election, could take the pair down to 140.

**Downside risk for EUR:** Euro area inflation below 2% and a continued downturn in the region's manufacturing and construction sectors have raised the prospects of another 25bps ECB rate cut in October. Markets are pricing total 50bps of cuts by December and over 160bps of cuts in the next 12 months. The latest weak data raise the risk of further EUR/USD downside, especially if upcoming US data surprises positively.

**US jobs, inflation, earnings reports in focus:** US equities need a resilient September employment report (consensus: 150,000 net jobs), sustained disinflation and Q3 earnings beat (S&P500 consensus: 5.3% y/y) to sustain this year's rally. Fed Chair Powell's plans to cut rates further to forestall any further deterioration in the job market is potentially positive for stocks.



## The weekly macro balance sheet

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

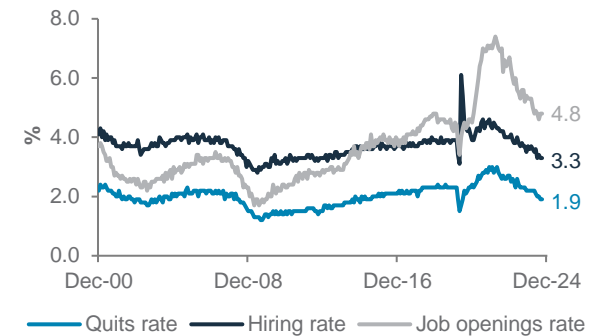
**(+) factors:** Supportive China policies; disinflation in Europe and US

**(-) factors:** Escalation in Middle East conflict

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> <li>US core PCE inflation rose less than expected</li> <li>Euro area's headline inflation fell below ECB's 2% target</li> <li>US ISM manufacturing price index fell by the most since May 2023</li> <li>US job openings rose more than expected</li> </ul>	<ul style="list-style-type: none"> <li>Manufacturing PMIs in US, Europe and China remained in contractionary territory</li> <li>US personal income and spending fell short of estimates in August</li> <li>US hiring and quits rate fell in August and July's data was revised lower</li> </ul>
	<b>Our assessment: Neutral</b> – Falling inflation and higher job openings vs global manufacturing contraction, drop in US hiring	
Policy developments	<ul style="list-style-type: none"> <li>Major Chinese cities relaxed homebuying curbs</li> <li>Fed Chair Powell said Fed to lower rates "over time," while reiterating economy remains on solid footing, in a sign that the Fed remains committed to not falling behind the curve</li> <li>New Japanese Prime Minister Ishiba said that conditions are not right for another BoJ rate hike</li> </ul>	
	<b>Our assessment: Positive</b> – Relaxation of home purchasing rules in China, likelihood of more rate cuts by the Fed	
Other developments	<ul style="list-style-type: none"> <li>France announced plans to reduce budget deficit to support fiscal stability</li> <li>Workers in key US ports called off a strike until 15 January</li> </ul>	<ul style="list-style-type: none"> <li>Iran launched missile strikes on Israel after the latter commenced a ground incursion into Lebanon</li> </ul>
	<b>Our assessment: Negative</b> – Escalation in Middle East conflict	

### The US labour market has continued to soften

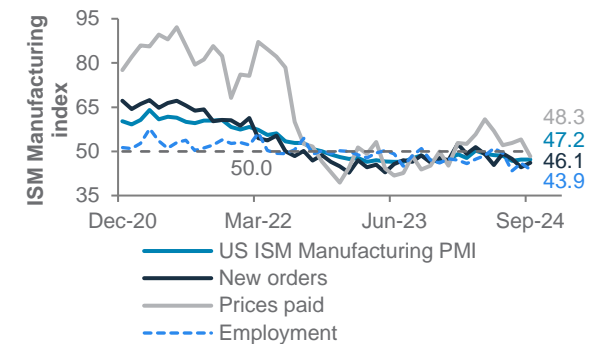
US quits, hiring and job openings rate



Source: Bloomberg, Standard Chartered

### US manufacturing remains in contractionary territory

US ISM manufacturing PMI and subcomponents



Source: Bloomberg, Standard Chartered

### Euro area headline inflation eased below the ECB's 2% target for the first time since 2021

Euro area headline and core inflation y/y



Source: Bloomberg, Standard Chartered

## Top client questions

### Should investors chase China equities at this stage?

There has been much FOMO (Fear Of Missing Out) activity by global investors in China equities, based on strong inflows (the largest since mid-2022) into foreign-domiciled ETFs. In our view, this likely explains the rapidity of the market rally in recent days.

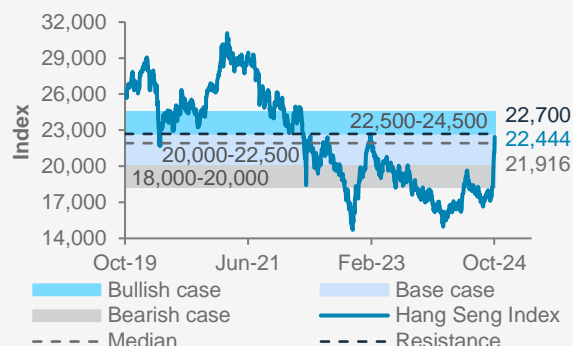
For Chinese equities to move higher longer-term, though, the participation of local investors after the National Day holidays is key. Expectations-beating fiscal stimulus, supportive of consumer spending-led growth, is likely to lead to our 'bull case' scenario range of 22,500-24,500 for the Hang Seng. Should the fiscal support come in later, or is smaller in magnitude, than expected, the index may pull back to a 'bear case' scenario range of 18,000-20,000.

Overall, valuation levels are still depressed, and Chinese equities are still offering an approximately 19% discount to Asia ex-Japan equities. Our preferred sectors of consumer discretionary and communication services and our non-financial high-dividend yielding SOEs idea can offer opportunities for rotation into laggards.

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

### Hang Seng Index (HSI) rose above its 5-year median

HSI 5-year median, resistance, Base/Bull/Bear scenarios



Source: Bloomberg, Standard Chartered; 02 October close

### What is the outlook for US Q3 corporate earnings?

Major US banks will report their Q3 earnings next week, after managing down expectations in the past month. For the overall US market, Q3 is expected to see the lowest earnings growth in 2024. Consensus expectations from LSEG I/B/E/S for the S&P500 benchmark are for Q3 earnings to grow 5.3% y/y led by the technology (+15.4%), communication services (+12.3%) and healthcare (+11.2%) sectors. Two sectors are expected to see a fall in Q3 earnings, namely energy (-19.7%) and materials (-2.8%). S&P500 earnings growth are expected to accelerate in Q4 (+12.9%) and Q1 2025 (+14.4%).

In addition to Q3 earnings surprises, we will be watching how companies' guidance affect consensus growth expectations for 2024 and 2025. S&P500 earnings are expected to grow by 10.0% in 2024, nudged down from 10.7% expected at the start of July, and by 15.0% in 2025, nudged up from 14.4% expected at the start of July. Our base case for a soft landing in the US economy is supportive of this expected growth acceleration from 2024 to 2025 and underpins our preference for US equities. Our US sector preferences take a barbell approach with overweight views in technology and communication services for growth exposure, financials as a soft-landing beneficiary and healthcare for defensive exposure.

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

### Q3 2024 is expected to see the lowest earnings growth this year before an acceleration in Q4 2024 and Q1 2025

Consensus earnings growth y/y for S&P500 index



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

## Top client questions (cont'd)

### Q How is China's policy stimulus going to impact CNH?

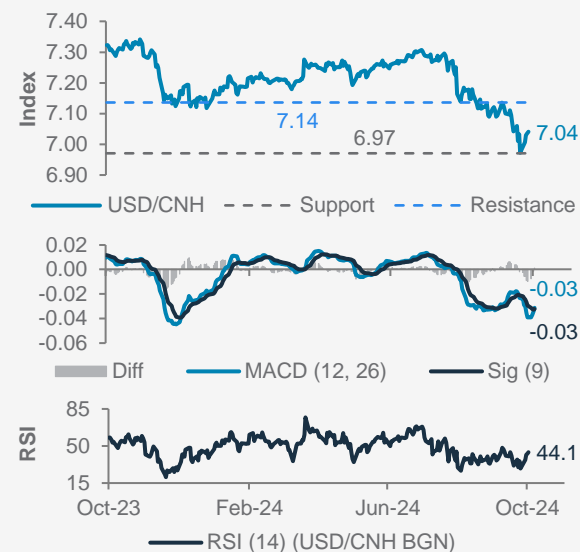
China's PBoC recently delivered a 50bps cut to the reserve requirement ratio and a 20bps cut to the policy rate. These were accompanied by a broad set of measures to support housing demand, and policymakers signalled further policy easing lay ahead.

These announcements initially pushed USD/CNH lower, but the pair has rebounded over the last few days. We see two key underlying risks ahead: i) further fiscal stimulus is likely needed to support domestic consumer confidence, and ii) A Trump win in the US election in November is likely to resurface worries of a surge in tariffs on Chinese exports, directly raising risks for the Asian economic and currency outlooks.

We, therefore, believe that CNH strength is likely to be capped. Technically, USD/CNH's momentum indicator (MACD) is sending a gradually more bullish signal, indicating potential upward pressure and a likely test of the next resistance level at 7.1360. Meanwhile, support remains at 6.9710.

### USD/CNH downside is likely to be capped

USD/CNH and technical levels



Source: Bloomberg, Standard Chartered

### Q Does Ishiba's election impact the JPY outlook?

USD/JPY fell as much as 1.8% after Shigeru Ishiba was set to become Japan's next prime minister. He has called for more clarity on the BOJ's plans to normalize policy and emphasized greater development of regional economies to revitalise the rural areas, aided by government spending.

However, USD/JPY pared back losses and rose 2% following his comment that Japan's economy is not ready for further increases in interest rates, an apparent effort to shake off his reputation as a monetary hawk.

While sensitivity to Ishiba's comments may be high in the very short term, from a currency market perspective, we still see relative interest rate differentials as the key driver. This US-Japan interest rate spread is still narrowing amid expectations of Fed rate cuts. Meanwhile, Japanese inflation has been resilient, the labour market is strong and real household income growth has been sustainably rising since the end of 2023.

On balance, we expect USD/JPY to trade within a relatively wide range between 140 and 149 over the coming month. Over a longer 6-12-month horizon, rate differentials ultimately argue for a fall below this range to 135.

### USD/JPY remains largely rangebound

USD/JPY and technical levels



Source: Bloomberg, Standard Chartered

— Iris Yuen, Investment Strategist

## Top client questions (cont'd)



### How could Middle East geopolitical risks impact financial markets?

A scenario analysis can be helpful to consider how regional geopolitical risk could impact global financial markets. One scenario is that, similar to prior episodes, any further military action is focused on avoidance of any significant or lasting escalation. From a financial market point of view, this would likely mean any volatility in equities or regional bond yield premiums proves fleeting. A second scenario is one where military action ends up triggering a more significant escalation. For financial markets, this increases the risks of rising equity and regional bond market volatility, and the outperformance of US government bonds and gold as safe havens.

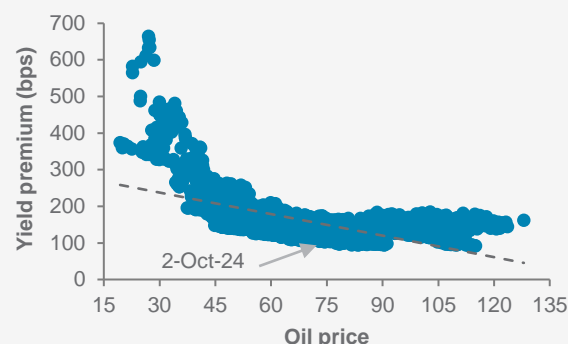
Oil prices remain the key channel of transmission to financial markets. This helps explain why the market impact has thus far been relatively muted. This also suggests investors looking for a short-term hedge can consider US energy sector equities and bonds given their correlation with oil prices.

More broadly, current risks are consistent with our asset allocation Overweight to gold. High quality bonds (particularly US Treasuries) should also do well in an environment of volatility. Equities may face the most volatility in scenario 2, but for longer term investors this is likely to create an opportunity to add exposure if the US economy otherwise remains on a soft-landing path. Chinese equities also offer an opportunity to diversify sources of returns given the market is currently more focused on domestic policy drivers.

— **Manpreet Gill**, *Chief Investment Officer AMEE*  
— **Cedric Lam**, *Senior Investment Strategist*

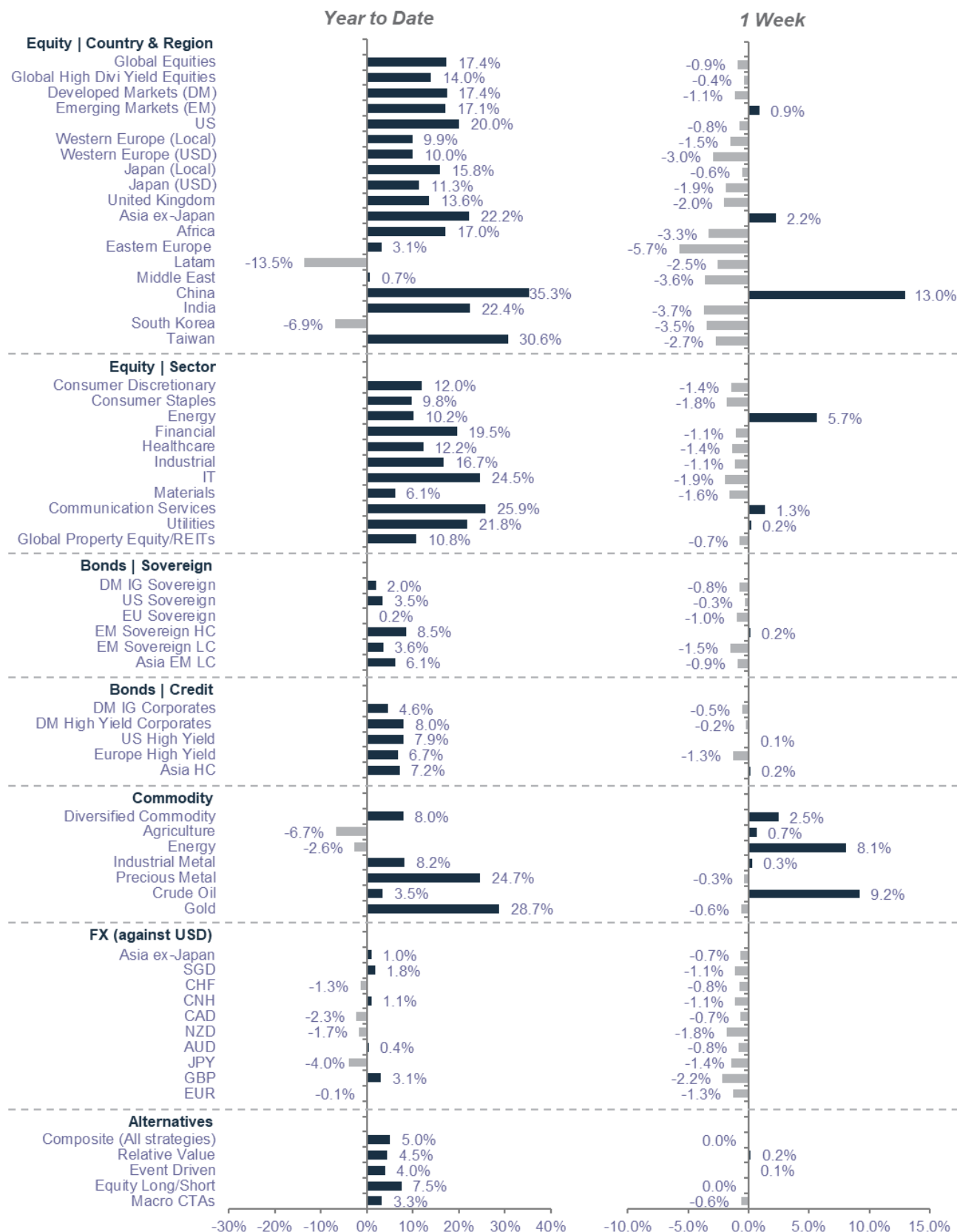
### Energy bond yield premiums typically tighten when oil prices rise

Bloomberg IG Energy Index vs Brent Oil Price (since 2014 to date)



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 3 October 2024; 1-week period: 26 September 2024 to 3 October 2024

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

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

Source: Standard Chartered Global Investment Committee

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

### The S&P500 has next interim resistance at 5,844

Technical indicators for key markets as of 3 October close

Index	Spot	1st support	1st resistance	12m forward P/E (x)	*12m dividend yield (%)
S&P500	5,700	5,479	5,844	21.5	1.4
STOXX 50	4,921	4,746	5,084	13.5	3.7
FTSE 100	8,283	8,174	8,386	11.9	3.9
Topix	2,684	2,547	2,782	14.3	2.6
Shanghai Comp	3,336	2,898	3,567	12.4	3.2
Hang Seng	22,114	18,496	24,199	10.1	3.5
Nifty 50	25,250	24,576	26,101	21.1	1.4
MSCI Asia ex-Japan	769	704	807	13.7	2.4
MSCI EM	1,173	1,089	1,225	12.7	2.8
WTI (Spot)	73.7	67.9	76.9	na	na
Gold	2,647	2,517	2,731	na	na
UST 10Y Yield	3.85	3.65	3.99	na	na

Source: Bloomberg, Standard Chartered; \*as at close of 3-Oct-24

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	EC	Sentix Investor Confidence	Oct	–	-15.4
	EC	Retail Sales m/m	Aug	0.3%	0.1%
TUE	JN	Labor Cash Earnings y/y	Aug	3.1%	3.6%
	JN	Household Spending y/y	Aug	-2.7%	0.1%
	AU	RBA Minutes of Sept. Policy Meeting			
	AU	NAB Business Confidence	Sep	–	-4.0
	US	NFIB Small Business Optimism	Sep	–	91.2
	US	Trade Balance	Aug	-\$72.5b	-\$78.8b
WED	NZ	RBNZ Official Cash Rate	9-Oct	4.8%	5.3%
THU	US	FOMC Meeting Minutes	18-Sep	–	–
	JN	PPI y/y	Sep	2.3%	2.5%
	US	CPI y/y	Sep	2.3%	2.5%
	US	CPI Ex Food & Energy y/y	Sep	3.2%	3.2%
	US	Initial Jobless Claims	5-Oct	–	–
FRI/SAT	UK	Industrial Production m/m	Aug	–	-0.8%
	UK	Manufacturing Production m/m	Aug	–	-1.0%
	US	PPI Final Demand m/m	Sep	0.1%	0.2%
	CA	Unemployment Rate	Sep	6.6%	6.6%
	US	U. of Mich. Sentiment	Oct P	–	70.1
	CH	PPI y/y	Sep	–	-1.8%
	CH	CPI y/y	Sep	–	0.6%

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 3 Oct close

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	→	1.31
Global Equities	●	→	1.61
Gold	●	↓	1.30
<b>Equity</b>			
MSCI US	●	↑	1.66
MSCI Europe	●	↓	1.72
MSCI AC AXJ	●	↓	1.43
<b>Fixed Income</b>			
DM Corp Bond	●	→	1.31
DM High Yield	○	→	1.22
EM USD	●	↓	1.26
EM Local	●	↓	1.28
Asia USD	●	→	1.29
<b>Currencies</b>			
EUR/USD	●	→	1.48

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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FROM THE CIO'S DESK

PRESENTED BY



**Steve Brice**  
Global Chief Investment Officer



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