

Weekly Market View

A tipping point?

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→ The Fed, under incoming Chair Kevin Warsh, is likely to keep policy rates steady as long as long-term inflation estimates stay anchored.

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→ That would help sustain the rally in risk assets, particularly China and India equities which have missed this year's rally in Asia. Emerging Market bonds and AUD bonds are also likely to benefit.

→ Any prolonged strait blockade is a risk to our constructive outlook. We continue to hedge stagflation risks through US inflation-linked bonds, gold and alternative assets.

Bullish Hang Seng Tech index:
Reasonable valuations and
improving growth visibility

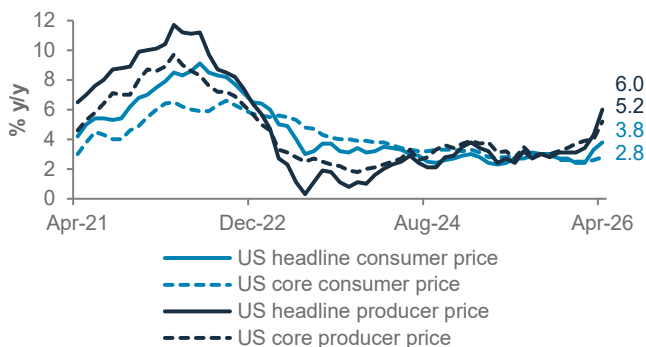
Bullish US inflation-protected
bonds: hedge against rising
inflation risks

Bullish AUD/JPY: AUD to
benefit from improving
commodity and China outlook

Charts of the week: Getting hotter

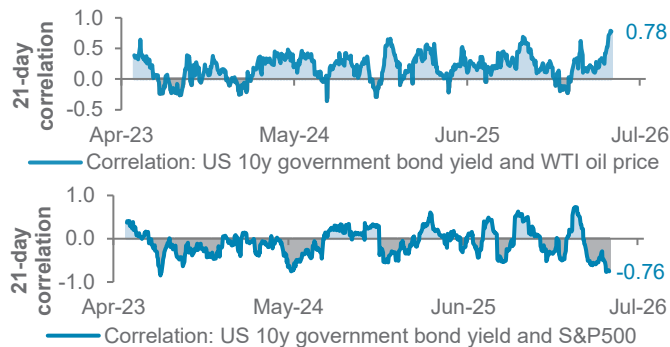
Higher oil prices are fuelling headline inflation and bond yields, but core consumer inflation remains relatively subdued

US headline and core consumer and producer price inflation



Source: Bloomberg, Standard Chartered

Correlation between US bond yield and oil, equities



Editorial

A tipping point?

Strategy summary: The ongoing blockade of the Hormuz strait is reaching a tipping point as the summer holiday season approaches. The closure has fuelled headline US inflation but broader inflationary effects have yet to materialise. The Fed, under incoming Chair Kevin Warsh, is likely to keep policy rates steady as long as long-term inflation estimates stay anchored.

A US-China joint push following the Trump-Xi meeting could potentially lift the strait blockade, lowering oil prices, bond yields and the USD. That would help sustain the rally in risk assets, particularly China and India equities which have missed this year's rally in Asia. Emerging Market bonds and AUD bonds are also likely to benefit. A prolonged strait blockade is a risk to our constructive outlook. We continue to hedge stagflation risks through US inflation-linked bonds, gold and alternative assets.

Still pro-risk but avoid concentration: Equity markets have continued their rally, driven by optimism regarding improved US-China relations and strong earnings fundamentals. While the medium-term outlook remains constructive for risk assets, US equity market investor positioning is now less attractive than a month ago. Hence, we remain positioned to navigate volatility by minimising concentration risks. Meanwhile, firms with strong pricing power are expected to outperform if inflation persists. Broadening exposure to technology, especially internet industries, remains a preferred investment strategy.

Hot US inflation, resilient jobs: US inflation accelerated sharply in April due to higher energy costs. Despite these increases, secondary inflationary effects remain limited for now. Meanwhile, the US job market has rebounded from last year's downturn, with job creation stabilising the unemployment rate slightly above the Fed's long-run equilibrium. The resilience of consumer spending, aided by households dipping into savings, precautionary business purchases, wealth effect from booming equity markets, a US tax refund windfall, and an AI-driven investment boom, have supported growth. Yet these supports may fade if energy costs climb higher as inventories dwindle.

Not enough to move the Fed: Against this backdrop, the Fed is likely to keep interest rates steady. The bar for a rate hike is high; only a loss of confidence in long-term inflation expectations or an acceleration in wage growth would likely prompt action. Conversely, if the delayed effects of the oil shock undermine growth, the Fed may resort to cutting rates later in the year. With investors holding short positions in bonds, the upside for US bond yields and the dollar seems limited.

A breakthrough in Beijing? The Trump-Xi summit has the potential to lift the blockade. Both leaders have agreed that the Hormuz strait "must remain open", with China's leverage over Iran, being its biggest oil customer, a key factor. Should China act on this pledge, shipping through Hormuz could resume in weeks. Such a development would lower oil prices and relax global financial conditions, sustaining the rally in risk assets.

Risk of prolonged blockade. Any persistence of the Hormuz blockade remains a risk to our constructive outlook. Should the impasse continue into the peak summer driving and travel season, global oil inventories, bolstered thus far by elevated reserves and strategic stockpile releases, are likely to decline sharply. This would lead to upward pressure on oil prices and heightened economic strain. We therefore continue to hedge against stagflation risks through gold and alternative assets.

Opportunity in UK bonds? UK long-term government bond yields have surged to their highest in decades as Prime Minister Starmer faces challenges to his leadership after wide-ranging local election losses. Even with a left-wing Labour replacement, any stimulus is likely to be funded by taxes, not borrowing, likely easing fiscal concerns. Markets have already priced almost 70bps of BoE rate hikes over the next 12 months because of the energy shock, leaving little scope for hawkish policy surprises. Meanwhile, the Gilt-Bund spread, exceeding 2 percentage points, appears excessively wide. Thus, a further UK bond selloff if Starmer departs could present opportunities to add exposure. We are watching this space closely.

— Rajat Bhattacharya

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

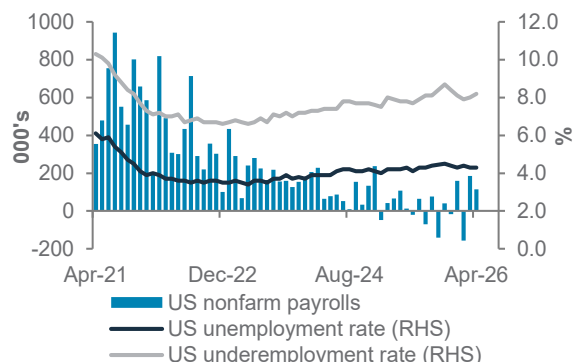
(+) factors: Resilient US job market, Trump-Xi Summit

(-) factors: Rising US inflation; US-Iran peace talks deadlocked

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> US non-farm payrolls rose more than expected by 115,000 in April US core retail sales rose more than expected by 0.5% m/m in April US Michigan 1-year inflation expectations were below expectations at 4.5% y/y in April Euro area and Germany ZEW Survey of growth expectations beat estimates in May China exports grew more than expected by 14.1% 	<ul style="list-style-type: none"> US headline and core consumer prices rose more than expected by 3.8% y/y and 2.8% y/y respectively in April US headline and core producer prices rose more than expected by 6.0% y/y and 5.2% y/y respectively US Michigan consumer sentiment fell more than expected to 48.2 in April China consumer and producer price inflation rose above expectations at 1.2% y/y and 2.8% y/y
	Our assessment: Neutral – Resilient US job market vs. rising inflationary pressures in the US	
Policy developments		<ul style="list-style-type: none"> China's central bank cautioned against imported inflation risks, limiting scope for further easing Fed's Collins did not rule out rate hikes if inflation remains stubbornly above the Fed's 2% target ECB's Nagel said ECB rate hikes more likely due to Iran crisis inflation risks
	Our assessment: Negative – Hawkish central banks	
Other developments	<ul style="list-style-type: none"> President Trump agreed with President Xi to reopen Hormuz Strait, expand China's imports of US products, boost Chinese investment into the US 	<ul style="list-style-type: none"> US and Iran are locked in diplomatic stalemate with no meaningful momentum toward a deal
	Our assessment: Neutral – Constructive Trump-Xi summit vs. US-Iran peace talks deadlocked	

US non-farm payrolls rose more than expected in April, while the unemployment rate held steady at 4.3%, reflecting a labour market near equilibrium

US non-farm payrolls, unemployment rate and underemployment rate



Source: Bloomberg, Standard Chartered

Euro area growth expectations remained weak despite a marginal recovery in May

Euro area and Germany ZEW survey of growth expectations



Source: Bloomberg, Standard Chartered

China's deflation pressures have eased, primarily due to a surge in imported energy costs

China's consumer and producer price inflation



Source: Bloomberg, Standard Chartered

Top client questions

Q What are the market implications of the Trump-Xi summit?

Our view: We believe the Trump-Xi summit will be positive for risk assets if it signals greater China involvement in Middle East conflict de-escalation. USD/CNH downside risk remains, which would benefit commodity currencies, such as the Australian dollar (AUD).

Rationale: US President Trump and Chinese President Xi began a two-day summit in Beijing on 14 May, after Trump arrived in China on a 13-15 May state visit. The US and China are expected to launch a 'Board of Trade' mechanism, with each side potentially identifying USD 30bn worth of goods for tariff reductions – a development that, if confirmed, would be modestly supportive of risk assets.

The most significant wildcard for risk assets is the ongoing Middle East conflict. Any signs of progress, diplomatic breakthroughs or formal agreements regarding conflict de-escalation reached at this summit, with China playing a more active diplomatic role in pressuring Tehran, would be pivotal. US Secretary of State Rubio has explicitly urged China to help reopen the Strait of Hormuz, underscoring this as a live negotiating point.

In fixed income, we believe any positive developments towards conflict de-escalation could trigger a relief rally in US Treasuries and Emerging Market (EM) local currency (LCY) bonds, along with some tightening of yield premiums more broadly. This is because oil prices could fall sharply, easing inflation pressures and reducing the geopolitical risk premium embedded in rates.

Meanwhile, the USD/CNH currency pair is facing continued downward pressure, largely due to the People's Bank of China (PBoC) consistently setting the yuan midpoint at stronger levels around 6.84, particularly in the lead-up to and during the Trump-Xi summit. This approach highlights the Chinese authorities' commitment to ensuring currency stability, which bolsters investor confidence in the yuan. We expect USD/CNH to remain in a modestly bearish trend, with the next support at 6.75, reflecting the broader strength of the Chinese yuan.

This supportive environment for the yuan has also had a positive impact on commodity-linked currencies, particularly the AUD. We continue to see room for AUD/USD to rise further, driven by Australia's trade with China and favourable macroeconomic conditions. Immediate resistance is at 0.74. However, we see long AUD/JPY as a more attractive trading opportunity, with the pair in an upward channel since April 2025. We expect it to approach the 116 level in the coming weeks.

— Ray Heung, Senior Investment Strategist
 Iris Yuen, Investment Strategist

Bond yields declined as the news of the first US-Iran ceasefire agreement broke in early April

US 10-year government bond yield, Bloomberg EM local currency government bond index yield, US Investment-grade (IG) corporate bond index yield



Source: Bloomberg, Standard Chartered

The Chinese yuan is strengthening as the PBoC lowers USD/CNH fixing rate

USD/CNH and PBoC fixing rate



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q How does the latest US consumer inflation data impact your view on US Government Bond yields?

Our view: We expect the firmer US consumer inflation print to maintain near-term upward pressure on the 10-year US Government Bond yield.

Rationale: The higher-than-expected US consumer inflation in April (3.8% y/y) suggests the market will scale back expectations for near-term Fed easing, and at the margin, revive concerns about further tightening.

Nevertheless, the latest inflation rise is not broad-based. Much of the upside stemmed from energy, food, airfares and a one-off shelter distortion. While core goods inflation was flat, wage growth remains contained, and **long-term inflation expectations remain anchored**.

As a result, we view the strong headline consumer inflation data as likely to push the 10-year Government Bond yield higher initially, with the yield potentially reaching resistance at around 4.5%. If the pressure persists, it could test the next resistance level at around 4.6%, a level last seen in May 2025. Our **three-month estimated range for the 10-year US Government Bond yield of 4.25-4.5% remains intact**, but bouts of inflation pressure are expected to lead to a temporary breach of this range.

— Ray Heung, Senior Investment Strategist

Q Do you believe incoming Fed Chair Kevin Warsh will steer market expectations away from a neutral Fed stance?

Our view: We believe Warsh is unlikely to steer the Fed away from its neutral stance in the near term.

Rationale: The current economic backdrop is not conducive to a dovish Fed pivot, especially given that the **latest US consumer inflation reading remains elevated** at 3.8% y/y – a level not seen since 2023.

In an April 2026 CNBC interview, Trump said he would be “disappointed” if incoming Fed Chair Warsh did not cut rates. However, we expect **Warsh to prioritise inflation credibility over accommodation**. In addition, he is expected to rely less on balance sheet tools, which will further constrain the room to ease policy, particularly in the early stages of his tenure as Fed Chair.

That said, Warsh believes in the disinflationary benefits of AI-driven productivity gains. As a result, we think the odds of a shift away from this neutral stance could rise if the Middle East conflict subsides and US labour market weakness becomes more evident in H2 2026.

— Ray Heung, Senior Investment Strategist

We expect the US 10-year government bond yield to stay in the 4.25-4.5% range in the near term



Source: Bloomberg, Standard Chartered

The market has been expecting a Fed rate hold since the start of the Middle East conflict

Market-implied number of Fed funds rate cuts/hikes as of December 2026



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q Would the planned mega US initial public offerings (IPO) in H2 2026 challenge your positive stance on US equities?

Our view: *We remain positive on US equities, driven by solid earnings growth, and we do not expect major equity offerings to derail this positive trend.*

Rationale: Media reports suggest major US equity offerings may emerge in H2 2026 from the **technology sector**, driven by rapid AI growth, and from the **industrial sector**, fuelled by aerospace and space exploration. These offerings could raise concerns that fund managers might have to sell down existing holdings to participate in the new equity offerings, potentially triggering market weakness.

While this could cause short-term volatility, we expect the primary driver for US equities to be earnings growth, on which we remain positive. Consensus expectations are for **S&P500 earnings to grow robustly** by 24% in 2026 and 14.9% in 2027 (per LSEG I/B/E/S). Over time, earnings growth can fund share buybacks – which provide fund managers further capital to deploy directly. Earnings growth also indirectly support the stock market as companies reinvest their earnings to fund growth and individuals see rising income and savings. Indeed, it is more likely that major equity offerings are the result of sustained positive equity market sentiment.

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

Q What are the key takeaways from major Chinese technology companies' earnings?

Our view: *We maintain our bullish view on Hang Seng Technology Index (HSTECH). Reasonable valuations and improving growth visibility provide scope to increase exposure.*

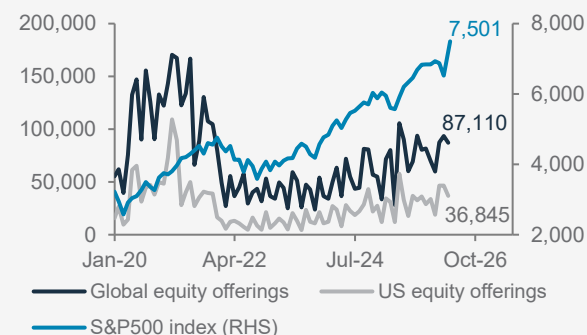
Rationale: China's tech sector delivered **strong Q1 2026 earnings**, reinforcing AI as the dominant driver. According to Bloomberg, as of 14 May, aggregate earnings per share growth for the IT sector more than doubled. **AI adoption broadened beyond IT**, particularly into consumer discretionary (eg: EVs, e-commerce) and communication services (eg: gaming), which recorded positive revenue growth.

Multiple catalysts underpin our expectations of further upside: 1) **Monetisation inflection:** Early revenue traction among immediate AI beneficiaries, including enterprise software and advertising/marketing. 2) **Capex expansion:** Rising investments in segments such as semiconductors and energy infrastructure support the supply build-out to meet commercial AI demand. 3) **Macro support:** Stabilising retail sales and elevated oil prices have supported profitability in select consumer discretionary segments, such as EVs. HSTECH trades at 19.3x 12-month forward price-to-earnings (P/E) ratio – below its five-year average – offering an attractive entry point.

— **Michelle Kam, CFA**, *Investment Strategist*

US equity offerings have been trending higher since 2022, along with a rise in the S&P500 Index

Global and US equity offerings (in USD millions) and the S&P500 Index



Source: Bloomberg, Standard Chartered

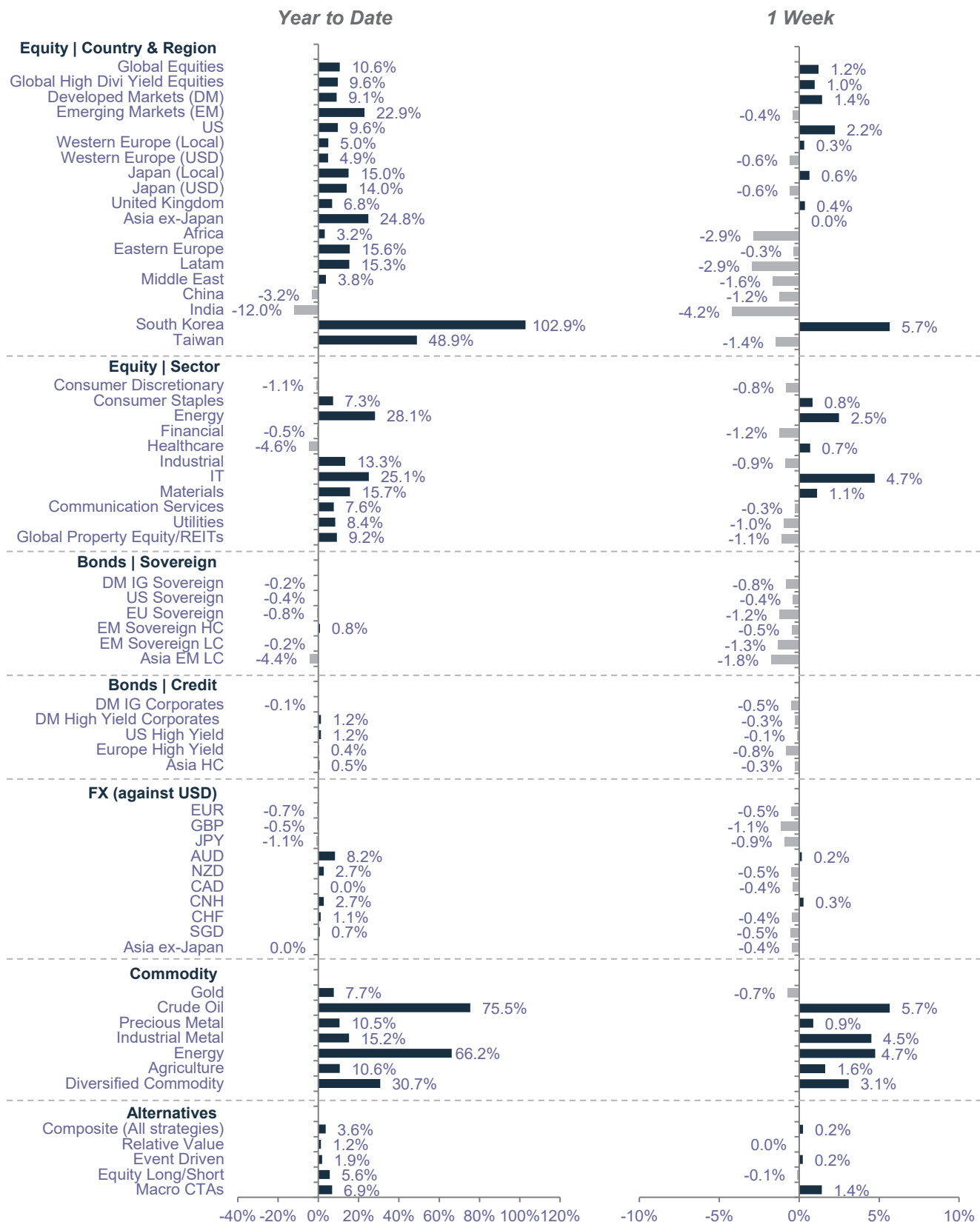
Valuations for the Hang Seng Tech index remain reasonable, providing opportunities to add exposure

12-month forward P/E ratio for the Hang Seng Technology index



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, 2026 YTD performance from 31 December 2025 to 14 May 2026; 1-week period: 7 May 2026 to 14 May 2026

Our 12-month asset class views at a glance

Asset class	
Equities ▲	Preferred Sectors
US ▲	US Technology ▲
Europe ex-UK ◆	US Communication ▲
UK ▼	US Healthcare ▲
Asia ex-Japan ◆	US Utilities ▲
Japan ◆	Europe ex-UK Financials ▲
Other EM ◆	China Communication ▲
	China Technology ▲
	China Healthcare ▲
Bonds ◆	
Credit	Alternatives ◆
Asia USD ◆	
Corp DM HY ◆	
Govt EM USD ▲	Gold ▲
Corp DM IG ◆	
Govt	
Govt EM Local ▲	
Govt DM IG ▼	

Source: Standard Chartered Global Investment Committee

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

The S&P500 has next interim resistance at 7,711

Technical indicators for key markets as of 14 May close

Index	Spot	1st support	1st resis- tance	12m forward P/E (x)	12m forward dividend yield (%)
S&P 500	7,501	7,099	7,711	21.2	1.2
STOXX 50	5,935	5,764	6,090	15.1	3.2
FTSE 100	10,373	10,122	10,654	12.8	3.5
TOPIX	3,879	3,732	3,976	16.9	2.3
Shanghai Comp	4,178	4,027	4,294	14.0	2.9
Hang Seng	26,389	25,718	26,953	11.3	3.3
Nifty 50	23,690	23,101	24,440	18.3	1.7
MSCI Asia ex-Japan	1,135	1,039	1,187	12.6	2.0
MSCI EM	1,717	1,596	1,786	11.9	2.5
Crude oil (WTI)	101.2	84.2	114.5	na	na
Gold	4,652	4,472	4,861	na	na
UST 10Y Yield	4.48	4.30	4.58	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

	Market Event	Period Expected	Prior	
MON	CNH Retail Sales y/y	Apr	1.9% 1.7%	
	CNH Industrial Production y/y	Apr	6.0% 5.7%	
	CNH Fixed Assets Ex Rural YTD y/y	Apr	1.7% 1.7%	
	CNH Property Investment YTD y/y	Apr	-11.4% -11.2%	
WED				
TUE				
THU	EUR S&P Global Eurozone Manufacturing PMI	May P	- 52.2	
	EUR S&P Global Eurozone Services PMI	May P	- 47.6	
	USD Philadelphia Fed Business Outlook	May	12.0 26.7	
	USD Housing Starts	Apr	1420k 1502k	
	USD Building Permits	Apr P	1385k 1363k	
	USD S&P Global US Manufacturing PMI	May P	- 54.5	
	USD S&P Global US Services PMI	May P	- 51.0	
	EUR Consumer Confidence	May P	- -20.6	
	FRI/SAT	EUR GfK Consumer Confidence	Jun	- -33.3
		EUR IFO Business Climate	May	- 84.4

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 14 May close

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↓	1.69
Global Equities	◐	↓	1.46
Gold	●	→	1.64
Equity			
MSCI US	◐	↓	1.38
MSCI Europe	●	↓	1.79
MSCI AC AXJ	◐	↓	1.50
Fixed Income			
DM Corp Bond	●	↓	1.75
DM High Yield	●	→	1.94
EM USD	●	↑	2.00
EM Local	●	→	1.56
Asia USD	●	↓	1.88
Currencies			
EUR/USD	●	→	1.53

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

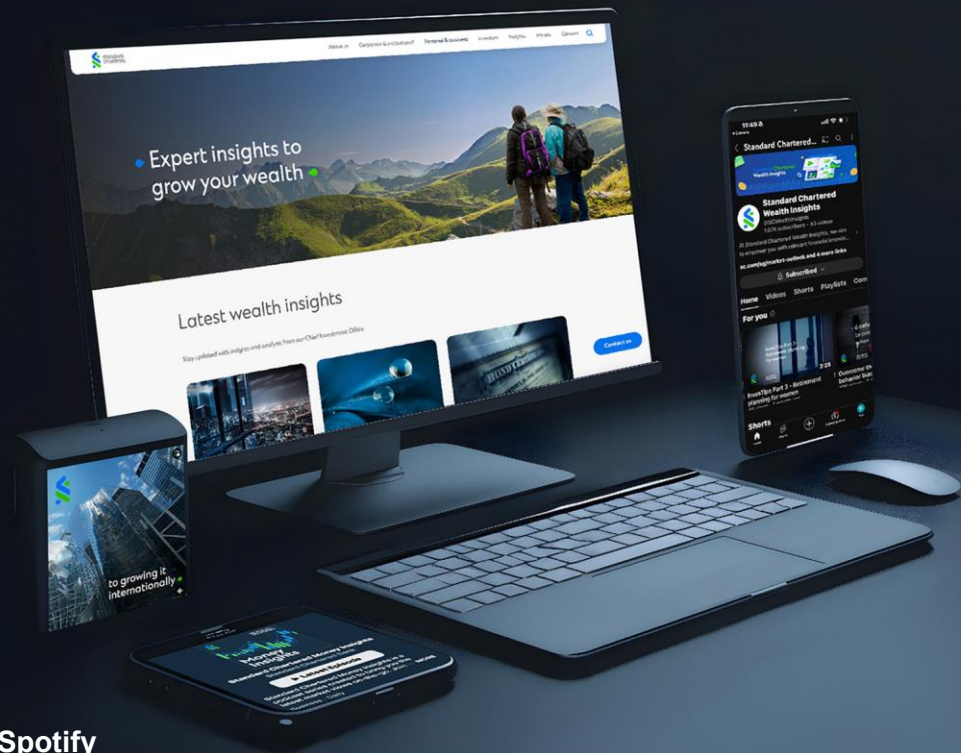
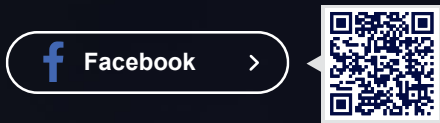
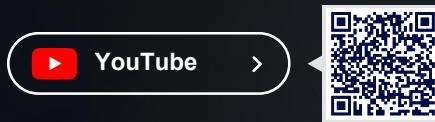
Legend: ● High | ◐ Low to mid | ○ Critically low

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Market views on-the-go



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