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WS Global Chief Investment Office
10 May 2024

Weekly Market View

A triple top in rates?

→ Risk assets have rebounded this month as concerns about another Fed rate hike eased. The third failed attempt by the policy-sensitive US 2-year government bond yield to break above 5% over the past year could be a significant signal.

→ It suggests markets agree with the Fed view that the next policy change, whenever that happens, is likely to be a rate cut, rather than a rate hike. Money markets are now pricing a 90% chance the Fed first cuts in September.

→ Strong corporate earnings beats, upward revisions to 2024-25 US earnings estimates and a softer-than-expected US job market report have also helped revive risk sentiment.

→ There is one near-term hurdle to cross for the risk-on rally to sustain – next week's US consumer inflation data.

→ If the data confirms inflation has started to cool again, we see scope for this year's outperformance in equities over bonds and cash to extend and US stocks to break above its March all-time high.

What are the key catalysts that could sustain the equity rally in China?

Do you see value in China USD bonds amid the recent rebound in China equities?

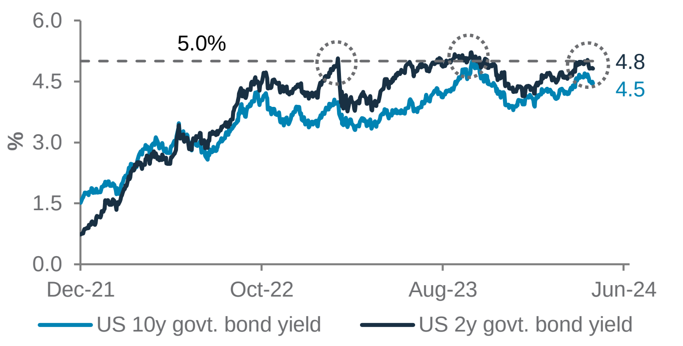
Do you expect continued CHF weakness, despite sticky Swiss inflation?

Important disclosures can be found in the Disclosures Appendix.

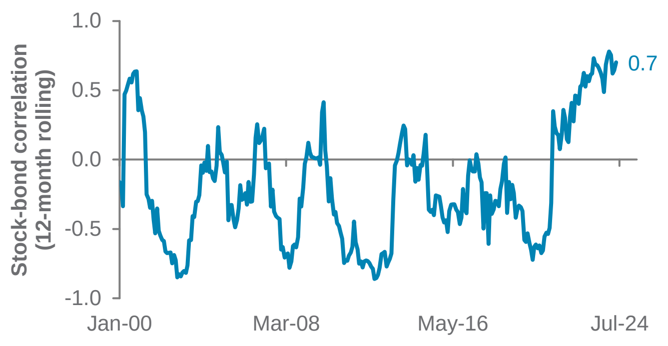
Charts of the week: Was that the peak?

A peak in US short-term rates would be positive for equities, given the positive stock-bond correlation

US 2-year and 10-year bond yields and recent peak levels



Rolling 52-week correlation between US stock and bond return



Source: Bloomberg, Standard Chartered

Editorial

A triple top in rates?

Risk assets have rebounded this month as concerns about another Fed rate hike eased. The third failed attempt by the policy-sensitive US 2-year government bond yield to decisively rise above 5% over the past year could be a significant signal. It suggests markets agree with the Fed view that the next policy change, whenever that happens, is likely to be a rate cut, rather than a rate hike. This is because bond yields typically peak around the peak in Fed policy rates. Money markets are now pricing a 90% chance the Fed first cuts in September. Strong corporate earnings beats, upward revisions to 2024-25 US earnings estimates and a softer-than-expected US job market report have also helped revive risk sentiment.

There is one near-term hurdle to cross for the risk-on rally to sustain – next week's US consumer inflation data. If the data confirms consensus estimates that inflation has started to cool again after Q1's rebound, we see scope for this year's outperformance in equities over bonds and cash to extend and US stocks to break above its March all-time high. Nevertheless, there is an opportunity for those underinvested in bonds to add exposure to high quality bonds as they're likely to outperform equities if the job market deteriorates sharply.

Softer US data: Last week's softer-than-expected jobs report suggests the labour market is cooling. The slowdown in monthly job creation in April to 175,000 and a rise in the unemployment rate to 3.9% were backed up by falling job vacancy and hiring rates and a rise in initial jobless claims to a 9-month high. Average weekly hours worked and average hourly earnings growth also slowed. A downturn in US manufacturing and services sector activity (ISM PMIs), especially in new orders and employment, also point to labour market softness. These indicators point to a slowdown ahead in US consumption, a key driver of US growth in the post-pandemic era.

Peak in inflation? Fed officials would want to see inflation sustainably easing back to 0.2% m/m or below for a few months before they consider rate cuts (April's CPI data is due next week; consensus for core inflation: 0.3% m/m vs. 0.4% in March). The key uncertainty is around shelter inflation which remains elevated and sticky, partly due to a boost in population growth from immigration amid a structurally tight housing market. We expect shelter inflation to cool in H2 as lagged official data catches up with falling market rents. A cooling job market should help ease wage inflation in the coming quarters.

Fed reaction: While the Fed is keenly watching inflation, we believe it is likely to be equally sensitive to a slowdown in the job market. For now, a sustained pace of monthly job creation of around 175,000 should keep the unemployment rate stable. However, any further rise in jobless claims is likely to push up the jobless rate above the Fed's 4% long-term target, triggering several time-tested indicators of a recession. Hence, we believe the Fed will start to cut rates in Q3 to support growth.

Investment implications: Further confirmation of the peak in bond yields is likely to extend equity market's outperformance over bonds and cash in the near term. US stock-bond correlation remains positive i.e., lower bond yields continue to support equities, underlining the current 'goldilocks' environment of a not-too-hot-not-too-cold economy. The key markers to watch are: i) any persistence in inflation, as that could revive concerns about Fed rate hikes (2-year rates could decisively break above 5% in this scenario); and ii) any sharp deterioration in the job market (leading to a drop in the 10-year bond yield decisively below December's low of around 3.8%).

For now, all our quantitative models are pointing to continuation of the risk-on rally, although the latest downturn in the ISM manufacturing PMI data has toned down the models' bullish bias. Technical charts point to further upside in S&P500 index towards next key resistance – the all-time high of 5264.85.

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: Recovering Euro area retail sales, investor confidence

(-) factors: Soft US payrolls, ISM services, weak loan demand

	Positive for risk assets	Negative for risk assets
Macro data	• Euro area retail sales rose more than expected • Euro area Sentix Investor Confidence improved to -3.6, the highest since February 2022 • China's exports and imports rose more than expected	• US added less jobs than expected in April at 175,000; unemployment rate rose unexpectedly to 3.9% • US ISM services PMI fell unexpectedly to 49.4 on weak employment sub-index • US Senior Loan Officer survey showed tightening lending standards and weaker loan demand for most categories • China Caixin Services PMI eased to 52.5, as expected
	Our assessment: Neutral – Soft US payrolls, ISM services vs recovering Euro area retail sales, investor confidence	
Policy developments	• Fed's Barkin and Williams echoed the Fed's view that the next policy move will likely be a rate cut as growth and inflation slow down • BoE held interest rates as expected but guided that a rate cut in June depends on upcoming data releases • Sweden's Riksbank cut its policy rate by 25bps, as expected	• Fed's Kashkari and Collins expect an extended pause on rates; Kashkari did not rule out a hike • RBA left its policy rate unchanged, as expected
	Our assessment: Neutral – Mixed Fed official comments	
Other developments	• US President Biden said he will stop some weapons shipment to Israel if it invades Rafah	• Israel rejected a ceasefire proposal that Hamas had accepted
	Our assessment: Negative – Gaza ceasefire stalled	

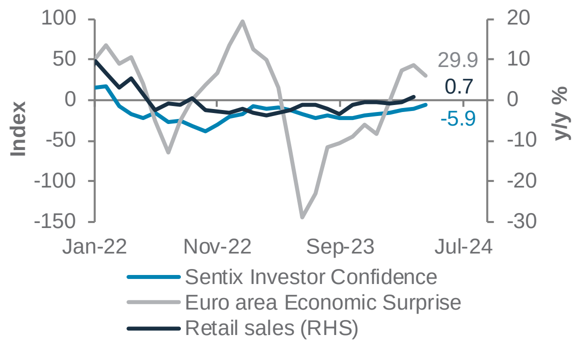
US services sector activity slowed more than expected in April, with employment component contracting and new orders slowing sharply

US ISM services PMI, including new orders and employment components

Source: Bloomberg; Standard Chartered

A revival in Euro area retail sales extends a stream of positive data surprises recently and explains the upturn in investor confidence

Euro area retail sales, Citi Economic Surprise index and Sentix Investor Confidence index



Source: Bloomberg, Standard Chartered

China's exports and imports rose more than expected, mirroring an upturn in global trade and manufacturing activity

China's export and import growth

Source: Bloomberg, Standard Chartered

Top client questions

What are the key catalysts that could sustain the equity rally in China?

The MSCI China index has gained over 10% since 19 April, led by the real estate (+23%), communication services (+17%) and consumer discretionary (+14%) sectors. We believe Chinese equities have been benefitting from a global rotation of funds from the US. It was also supported by 25 consecutive days of positive net inflows from Southbound trading (Mainland Chinese investors buying Hong Kong equities). Investors' positioning on MSCI China is still relatively light. Valuations continue to be cheap at 10.3x 12m forward P/E, which remains below the long-term average.

In the coming week, Q1 24 earnings from widely held Chinese internet companies will be in focus. On the positive side, further cash return to shareholders via buybacks or dividends could be an upside catalyst. On the flip side, 2024 earnings growth estimates for MSCI China has been revised down to 11.3%, from 15.9% at the start of the year. We believe there will be a short-term tactical opportunity in Chinese equities once the Hang Seng Index corrects to the 17,800 level. For a longer-term sustainable uptrend in Chinese equities, the earnings revision would have to stabilise or turn positive. We prefer exposure to consumption-oriented sectors in China, such as communication services, consumer discretionary and technology.

— **Jason Wong,** *Equity Analyst*

China corporate earnings likely need to stabilise in order for equity gains to sustain long-term

Consensus 2024 earnings growth estimate for MSCI China index

Source: FactSet, Standard Chartered

Do you see value in China USD bonds amid the recent rebound in Chinese equities?

The recent rebound in Chinese equities raises the question: will the positive sentiment spill over to Asia USD bonds? We believe this will be challenging. Valuation indicators suggest that Chinese equities have been undervalued for a significant period, in contrast to China USD bonds, where the yield premium is currently at expensive levels relative to its own history. Additionally, the yield premium is at the tight end of its historical range relative to Developed Market (DM) peers, limiting the potential for meaningful spread compression.

That said, we still see some value in China USD bonds for two main reasons. Firstly, despite the tight yield premium, nominal yields continue to look attractive due to elevated government bond yields. Secondly, we believe there are relative value opportunities within the High Yield (HY) space. In our view, fundamentals in sectors such as industrials and financials are strong despite a still-challenging outlook for the property sector. Given this balanced risk-reward profile, we believe a Neutral allocation to Asia USD bonds is warranted, with a preference for HY bonds over Investment Grade (IG).

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

China USD bond valuations are high relative to Developed Market peers

China USD – DM bond yield premium (Apr 2010 to date)

Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

What is the outlook for UK equities?

The strong performance of UK equities in recent weeks can be largely attributed to the rally in the healthcare sector. Overall, we retain a Neutral stance on UK equities and expect the region to perform in line with global equities in the next 12 months. Valuations remain appealing, with the MSCI UK index trading at a 12m forward P/E of 12x. This is still below its historical average, despite a modest rerating this year. UK equities' defensive nature and the market's value bias can also help the market weather any unexpected economic downturn and a higher-for-longer yield environment.

That said, we remain cautious over the UK's subdued EPS growth of 2% in 2024 – this is well below consensus for global equities and other major DMs, including the US (11%) and Japan (10%).

Looking ahead, we continue to see opportunities to stay invested in the UK via a barbell strategy of being Overweight the energy and healthcare sectors. We are also bullish on energy prices, given subdued supply amid geopolitical tensions and strong demand. The healthcare sector provides secular growth exposure, with expected EPS growth of 7% in 2024 – the fourth highest among major sectors.

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

UK equities remain inexpensive vs. history

MSCI UK 12m forward P/E ratio

Source: Bloomberg, Standard Chartered

What is the view on industrial metals and material stocks?

Industrial metals have been strong in recent weeks; specifically, copper reached a two-year high, with over 14% gains last month. There are a few factors that powered this move:

- Global manufacturing activity has begun to stabilise, as evidenced by the improving manufacturing PMI and new orders data across some major economies (though US PMIs fell).
- China is a major source of demand for most industrial metals. Its share of global copper consumption was 60% in 2023. The firming of growth momentum in China boosted industrial metals.
- Inventories remain tight for some industrial metals due to supply disruptions from mine closures.

The use of copper in electrification trends argues for a positive structural outlook. However, our technical indicator is now pointing to overbought conditions, implying limited gains in the near term.

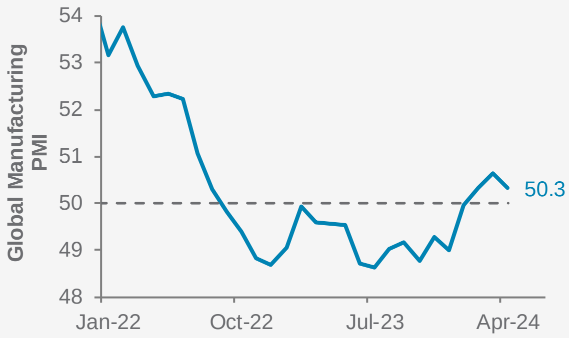
Rebounding industrial metal prices led us to upgrade our view on materials sector equities from Underweight to Neutral in our last *Global Market Outlook.* The announcement of a large hostile takeover in the mining sector also highlights the strategic importance of copper. However, we expect global growth to slow in H2, softening demand for commodities. Hence, we expect material stocks to perform in line with the broader market over the next 6-12 months.

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

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

Global manufacturing activity has begun to stabilise, supporting demand for industrial metals

Global manufacturing PMI



Source: Bloomberg, Standard Chartered

Improvement in global manufacturing activity has supported the outperformance of material stocks

Global manufacturing PMI and relative performance of the global materials sector vs. the broader market

Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Do you expect continued CHF weakness, despite sticky Swiss inflation data?

Swiss annual inflation rose to 1.4% in April 2024, above market expectations of 1.1%. This lowered market expectations of another SNB rate cut at their next meeting in June. The market is currently pricing in a total cut of 36bps in 2024. Moreover, the SNB usually uses CHF purchases as part of its policy to control imported inflation. Swiss foreign reserves have gradually rebounded from a seven-year low over the past few months. Therefore, the market is also inferring that the SNB is no longer supporting the currency, adding further downward pressure on the CHF.

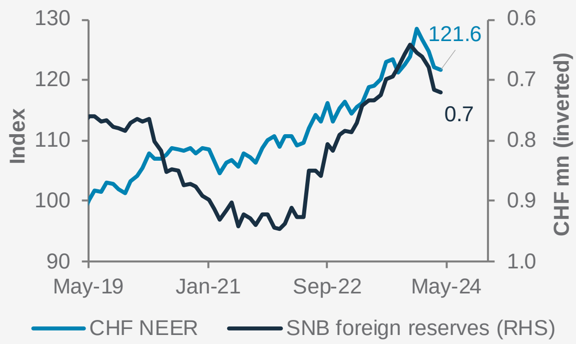
Meanwhile in the US, until April, investors were pushing back the timing of the first rate cut amid sticky inflation. However, recent data has been mixed – the labour market remains soft, and the manufacturing sector contracted. This may limit the extent to which the greenback strengthens.

Hence, USD/CHF is likely to consolidate with a bullish bias in the next three months. Technically, the pair has been trading in an ascending channel since the start of the year. We see the October 2023 and April 2024 highs of 0.9200-0.9250 acting as the near-term resistance zone.

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

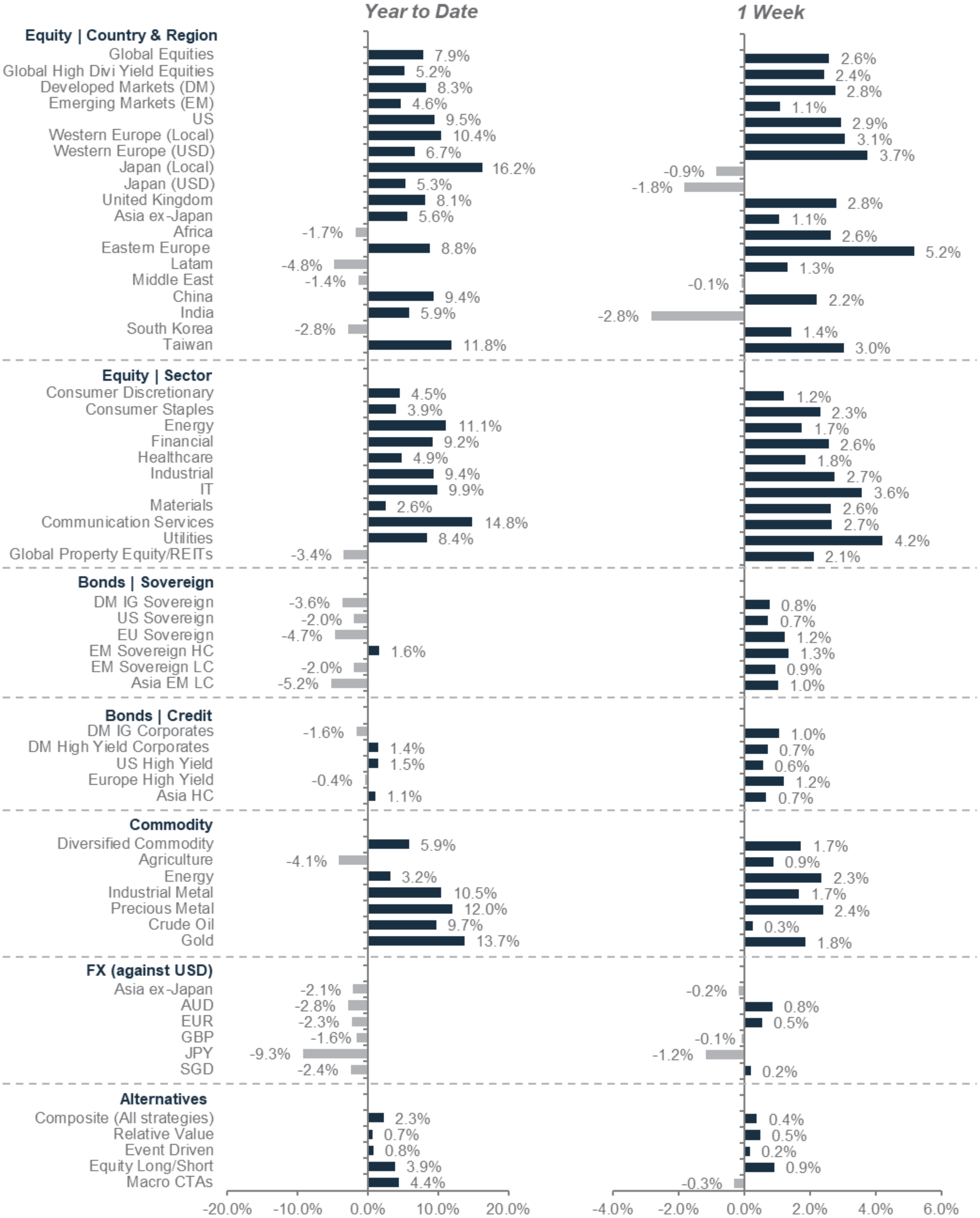
Swiss foreign reserves have gradually rebounded, adding pressure on the CHF

CHF NEER* and SNB foreign reserves (inverted)



Source: Bloomberg, Standard Chartered; *NEER refers to Nominal Effective Exchange Rate. It is a measure of the value of a currency against a weighted average of a basket of currencies of the country's major trade partners

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 09 May 2024; 1-week period: 02 May 2024 to 09 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

Economic and market calendar

	Event	Next week	Period	Expected	Prior
MON					
TUE	UK	ILO Unemployment Rate 3Mths	Mar	–	4.2%
	EC	ZEW Survey Expectations	May	–	43.9
	US	NFIB Small Business Optimism	Apr	88.2	88.5
	US	PPI Final Demand y/y	Apr	2.1%	2.1%
	US	PPI Ex Food & Energy y/y	Apr	2.3%	2.4%
WED	US	Empire Manufacturing	May	-10.0	-14.3
	US	CPI y/y	Apr	3.4%	3.5%
	US	CPI Ex Food & Energy y/y	Apr	3.6%	3.8%
	US	Retail Sales Ex Auto & Gas	Apr	0.1%	1.0%
THU	US	Housing Starts	Apr	1440k	1321k
	US	Building Permits	Apr	1490k	1458k
	US	Philadelphia Fed Business Outlook	May	8.0	15.5
	US	Industrial Production m/m	Apr	0.2%	0.4%
FRI/SAT	CH	Retail Sales y/y	Apr	3.8%	3.1%
	CH	Fixed Assets Ex Rural YTD y/y	Apr	4.6%	4.5%
	CH	Property Investment YTD y/y	Apr	-9.6%	-9.5%
	US	Leading Index	Apr	-0.2%	-0.3%

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 US 10-year yield has next interim support at 4.43%

Technical indicators for key markets as of 09 May close

Index	Spot	1st support	1st resis-tance	12m forward P/E (x)	12m forward dividend yield (%)
S&P 500	5,214	5,157	5,243	20.6	1.5
STOXX 50	5,054	4,966	5,099	13.8	3.3
FTSE 100	8,381	8,269	8,437	11.9	3.9
Topix	2,713	2,698	2,738	15.3	2.3
Shanghai Comp	3,154	3,137	3,163	11.1	3.3
Hang Seng	18,538	18,375	18,639	9.0	4.1
Nifty 50	21,958	21,785	22,303	19.2	1.6
MSCI Asia ex-Japan	674	673	676	13.0	2.6
MSCI EM	1,064	1,061	1,067	12.3	3.0
WTI (Spot)	79.3	78.5	79.6	na	na
Gold	2,346	2,317	2,361	na	na
UST 10Y Yield	4.45	4.43	4.49	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 normalised across asset classes

Our proprietary market diversity indicators as of 09 May close

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↑	1.93
Global Equities	◐	↑	1.49
Gold	◐	→	1.27
Equity			
MSCI US	●	↑	1.55
MSCI Europe	◐	→	1.38
MSCI AC AXJ	◐	↓	1.40
Fixed Income			
DM Corp Bond	●	↑	2.09
DM High Yield	◐	→	1.49
EM USD	●	→	1.58
EM Local	●	↑	2.00
Asia USD	●	→	1.73
Currencies			
EUR/USD	●	↑	1.86

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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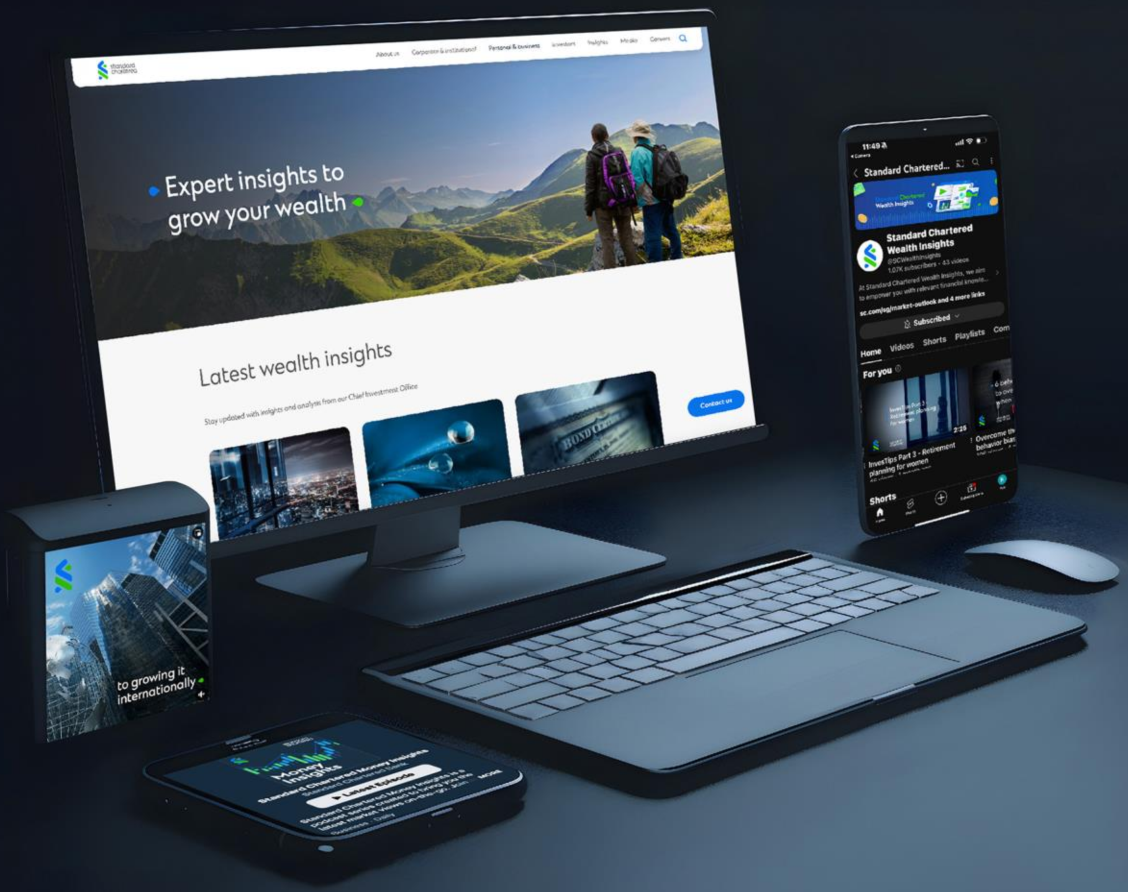

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