



Weekly Market View

Another hawk mellows

→ Two weeks ago, we flagged that US government bond yields and the USD were likely at a turning point, with our indicators for investor diversity showing a high risk of a reversal.

→ This week, the US 10-year bond yield pulled back sharply from a 16-year high, breaking below the key 4.8% technical support level, and the USD retreated.

→ The drivers: a less hawkish policy outlook from the Fed, weaker US manufacturing sector data and easing concerns about the US Treasury's moderate bond issuance plan for Q4.

→ Lower US bond yields typically help the more rate-sensitive, faster-growing equity markets. The retracement of bond yields likely opens a window for US equities to recover in the near term.

→ Investors with 6-12-month horizon still have an opportunity to add high-quality Developed Market government bonds within a broadly diversified portfolio. Gold and energy equities remain viable hedges against any escalation in the Middle East.

Do you see the US equity market rebound sustaining?

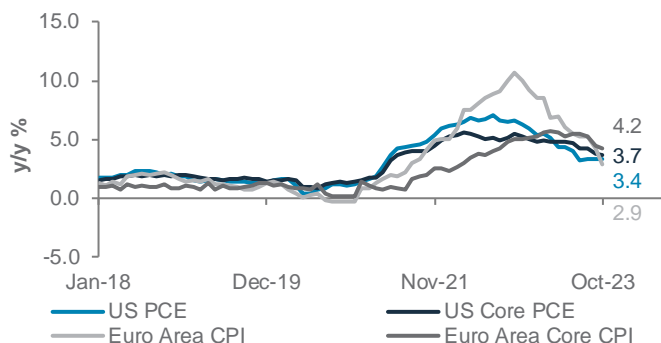
Do the latest Fed meeting and US Treasury's latest bond issuance plan change your outlook for bond yields?

Are you still bullish on the JPY after the latest BoJ policy meeting?

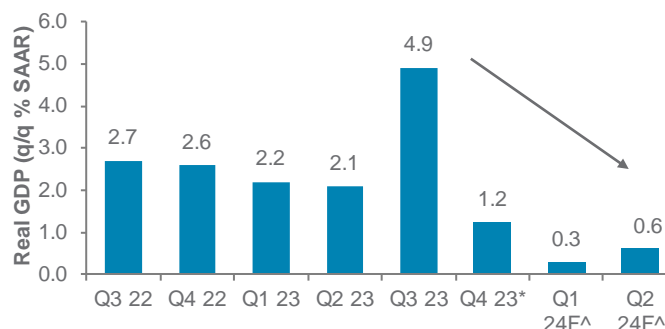
Charts of the week: A cyclical top?

Western central banks are likely to gradually turn their focus towards supporting growth as inflation cools

US PCE inflation; Euro area CPI inflation (core and headline)



US q/q annualised growth, with Nowcast/consensus estimates



Source: Bloomberg, Standard Chartered; *Nowcast estimates for Q4 23 from Atlanta Fed, ^Bloomberg consensus estimates

Editorial

Another hawk mellow

Two weeks ago, we flagged that US government bond yields and the USD were likely at a turning point, with our diversity indicators showing a high risk of a reversal. This week, the US 10-year bond yield pulled back sharply from a 16-year high above 5%, breaking below the key 4.8% technical support level, and the USD retreated. The drivers: a less hawkish policy outlook from the Fed, weaker US manufacturing sector data and easing concerns about the US Treasury's more moderate bond issuance plan for Q4. Lower US bond yields typically help the more rate-sensitive, faster-growing equity markets. Hence, we believe the retracement of bond yields opens a window for US equities to recover in the near term from a three-month correction. Investors with 6-12-month horizon still have an opportunity to add high-quality Developed Market (DM) government bonds within a broadly diversified portfolio.

A mellow Fed: Fed Chair Powell's tone this week, after the US central bank held rates for the second straight meeting at a 22-year high, was unmistakably mellow than before. Powell stressed that the risks around the Fed doing too much or too little to fight inflation were more balanced. Indeed, US core PCE inflation is likely to fall below the Fed's 3.7% y/y estimate for Q4 (the Fed's preferred measure of inflation had already slowed to 3.7% in September, with base effects likely to drag it lower in Q4). Powell's comments, which followed a similarly milder tone from ECB President Lagarde last week and BoE Governor Bailey this week (the BoE also held rates for the second straight meeting), suggests the world's major central banks are done with hiking rates in this cycle. Markets have also pared back expectations of another rate hike by the Fed and BoE and have started to price in rate cuts by the ECB from April.

Slowing economies: As inflation slows, policy focus is likely to turn towards the growth outlook. US growth is likely to slow significantly in the coming quarters. The Atlanta Fed GDPNow is estimating 1.2% growth in Q4 vs. 4.9% expansion in Q3. US real (inflation-adjusted) interest rates, running at 15-year highs close to 2.5%, are starting to hurt the broader economy, with

consumer and corporate delinquencies rising. The summertime consumption spree is likely to fade as resumption of student debt payments curbs disposable income. Meanwhile, the Euro area economy contracted in Q3. Yet, the Fed, ECB and BoE are unlikely to cut rates soon, given inflation remains well above their 2% target and job markets stay tight. As central banks hold rates longer, financial conditions are likely to tighten further.

Investment implications:

Conviction in DM government bonds: This week's sharp pullback in the US 10-year bond yield and Powell and Lagarde's comments solidify our belief that we are near the cyclical peak in bond yields. Historically, peak policy rates have signalled a cyclical top in yields. We would continue to use the opportunity to add exposure to US and European government bonds.

US equities, EM bonds: US stocks are likely to gain the most from lower bond yields since the market is heavily weighted towards rate-sensitive technology and communication services sectors. The S&P500 index has rebounded above its 200-day moving average (DMA) amid stronger-than-expected Q3 earnings. Technically, it needs to break above the next key resistance around 4,394 to break the pattern of lower highs and lower lows since July; EM local currency government bonds are also likely to benefit as the USD peaks with bond yields. A break in the USD index (DXY) below its 50DMA of 105.6 is likely to lead to a test of 104.7. Brazil's central bank cut rates this week for the third time in this cycle; other EM central banks are likely to cut once they gain confidence the USD has peaked.

Hedging Middle East risk: The Israel-Gaza conflict has remained largely confined to Gaza, with other regional powers, notably Iran, staying away. However, Israel's ground operations risk a wider flare-up. Gold has rallied since the conflict broke out; it remains a time-tested hedge against short-term spikes in volatility. Although oil prices have retreated as the conflict stays confined, energy sector equities remain a viable hedge against any escalation that disrupts oil supplies from the Middle East.

— 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

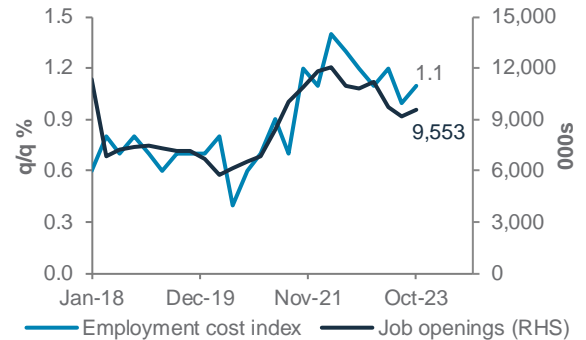
(+) factors: Slowing Euro area inflation, Fed, BoE rate pause

(-) factors: Israel-Gaza conflict, contracting Euro area and China activity

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> US job openings rose unexpectedly to 9.55m; private firms added less jobs than expected US consumer confidence fell less than expected Euro area inflation slowed more than expected to a two-year low of 2.9% y/y; core inflation fell more than expected to 4.2% y/y Euro area eco. confidence fell less than expected China Caixin services fell less than expected to 50.4 	<ul style="list-style-type: none"> US core PCE inflation accelerated to 0.3% m/m from 0.1%, as expected US Q3 employment cost index rose more than expected by 1.1% q/q US ISM manufacturing fell unexpectedly to 46.7 Euro area economy contracted unexpectedly by 0.1% q/q in Q3 China mfg, non-mfg. and Caixin mfg. PMI fell more than expected to 49.5, 50.6 and 49.5, respectively
	Our assessment: Neutral – Slowing Euro area inflation vs contracting Euro area, China activity, elevated US labour costs	
Policy developments	<ul style="list-style-type: none"> Fed held its policy rate for the second straight meeting at a 22-year high US Treasury cut its Q4 borrowing target to USD 776bn, USD 76bn short of previous estimates China vowed to resolve local government debt at key policy meeting BoE held its policy rate BoJ added flexibility to its yield curve control policy, but the policy tightening fell short of expectations 	<ul style="list-style-type: none"> China drained liquidity despite a surge in repo rate
	Our assessment: Positive – Less hawkish DM central banks	
Policy development	<ul style="list-style-type: none"> President Biden meeting President Xi at APEC 	<ul style="list-style-type: none"> Israel intensified its ground operations into Gaza
	Our assessment: Negative – Israel-Gaza conflict	

The US job market remains tight, sustaining wage pressures

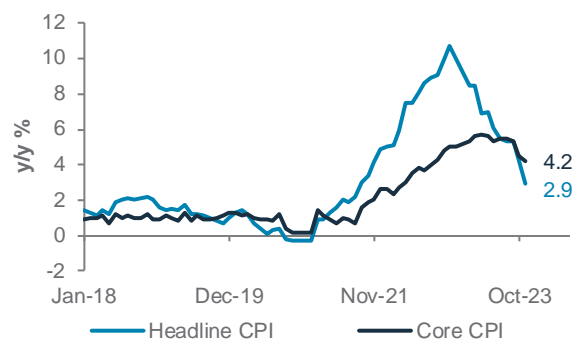
US Employment Cost Index, job openings (JOLTS)



Source: Bloomberg; Standard Chartered

Euro area inflation is likely to slow further as base effects from last year's energy price shock fades

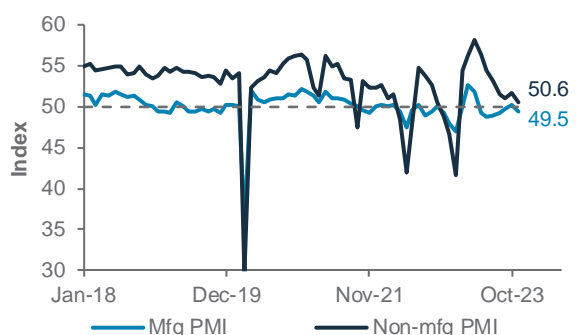
Euro area headline and core inflation



Source: Bloomberg; Standard Chartered

China's business confidence indicators weakened unexpectedly, raising the chance of further monetary and fiscal policy easing

China's manufacturing and non-manufacturing PMIs



Source: Bloomberg; Standard Chartered

Top client questions

Q Do the latest Fed meeting and the US Treasury's bond issuance plan change your outlook for bond yields?

The US government bond yield tumbled in recent days, with the benchmark 10-year yield falling by c.19bps to 4.66%. We attribute the significant market move to two key reasons: (1) a smaller-than-expected US Treasury Department bond supply plan and (2) a less hawkish-than-expected November Fed meeting and Chair Powell's press conference, which appeared to affirm a "no hike" scenario.

On 30 October, the US Treasury issued its Q4 financing estimates that came in lower than its earlier estimates. In addition, the Treasury intends to increase the auction size of short-to-intermediate bonds (ie. 2–7-year bonds) in the upcoming auctions. We believe these changes could ease worries of large supply and hence limit upward pressure on yields in the short term. From a demand perspective, a dovish surprise from the BoJ delayed worries of a tightening of its ultra-loose Yield Curve Control (YCC) policies.

On the second catalyst, Fed Chair Powell said during the post-meeting press conference that higher long-term interest rates are weighing on economic activities. Markets interpreted this as a dovish signal suggesting further rate hikes are less likely than before.

We believe lower bond supply and rising expectations of Fed policy rates having peaked should help cap the upside pressure on US government bond yields. Historical data suggests government bond yields are more likely to trend lower once Fed rate hikes end, consistent with our preference for DM IG government bonds. All of this means that our three-month target of US 10-year government bond remains unchanged at 4.25–4.5%.

— Cedric Lam, Senior Investment Strategist

Q Are you still bullish on JPY after the BoJ policy meeting?

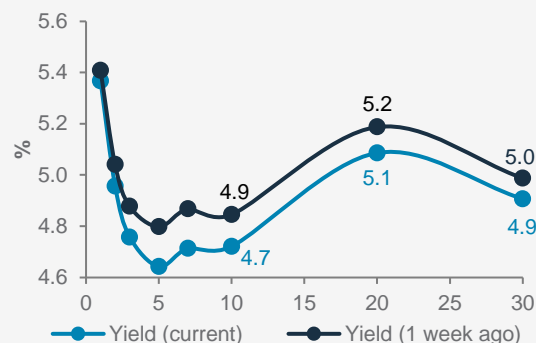
USD/JPY jumped 1.5 % after the BoJ left its short-term policy rate unchanged at -0.1%, while redefining 1% on the 10-year JGB yield as an upper bound reference rate (instead of a rigid cap). This was a disappointment relative to market expectations of greater (YCC) policy flexibility. The JPY move led Japan's chief currency official, Masato Kanda, and other authorities to say they were on standby to intervene if needed. Moreover, the BoJ revised up its price forecasts to project inflation will exceed its 2% target in 2023 and 2024. In our view, this suggests a phase-out of the BoJ's super-loose policy remains likely. This, we believe, will act as a tailwind for the JPY.

In the US, Fed Chair Powell hinted the Fed may be done with hiking rates after it stayed on hold this week. The USD extended its weakness as bond yields fell from a 16-year high. Therefore, upside for the USD/JPY is likely limited to near-term resistance at 152. We expect the pair to retreat to its 100DMA at 145.7 in the near term.

— Iris Yuen, Investment Strategist

The US government bond yield curve has shifted lower after US Treasury Department and Fed policy meeting announcements this week

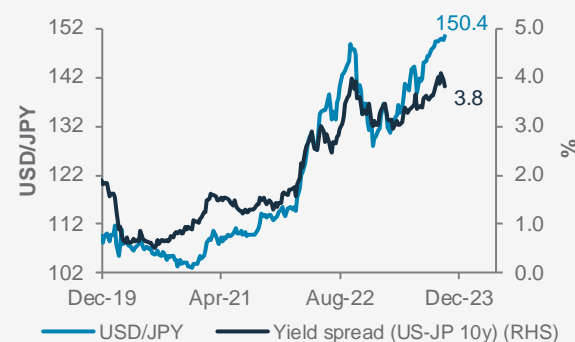
US government bond yield curve (current vs 1 week ago)



Source: Bloomberg, Standard Chartered

The yield spread between US and Japan is narrowing; this suggests downside risk for USD/JPY

USD/JPY and interest rate differentials



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q Do you see the US equity rebound sustaining?

We believe there are fair chances for US equities to continue its rebound over these last two months of this year. US companies' Q3'23 earnings have been strong. All sectors, except energy, reported positive earnings surprises, and expected earnings growth for Q3 23 has been revised up to +5%, from +1.6% a month ago.

In October, economic and policy uncertainties had pushed the S&P500 and Nasdaq-100 indices into "correction" territory, ie, pulling back over 10% from their peaks in mid-July 2023. However, over the last 10 years, such instances have coincided with invariably light investor positioning, as is the case today. Historically, this has provided a good base for rebounds, at least in the short-term.

For a more sustainable rally, upward momentum on longer-term bond yield must abate. Encouragingly, this week, the US 10-year government bond yield softened following 1) signs of a slowdown in US economic surprise and 2) a less hawkish tone in the latest Fed decision. Equity markets have witnessed some stock buying from fast-money discretionary funds, such as systematics, and there could be follow-through if the US 10-year bond yields were to stay below the critical resistance at 4.8%. This would lend a tailwind to growth sectors such as technology and communication services.

— Daniel Lam, Head, Equity Strategy

Q Gold and oil fell this week despite the start of Israel ground operations in Gaza. Are they still good geopolitical risk hedges?

Crude oil slipped, while gold broke above USD 2,000 before paring back, despite Israel ramping up its ground operations in Gaza. Beyond the modest jump in gold, the consensus appears to have relatively limited concerns in terms of the risks this poses to markets.

On crude oil, we believe the geopolitical risk premium is starting to fade as investors refocus on the global demand and supply factors. More signs of demand destruction emerged this week: 1) US crude stockpiles rose 773kbbbl last week; 2) BP said global gasoline and diesel markets are oversupplied; and 3) China, the largest oil importer, reported contractionary manufacturing activity. That said, it is premature to sound an all-clear on the conflict given the elevated uncertainty. We continue to see US energy equities as an attractive hedge against a regional escalation that causes a surge in oil prices.

The yellow metal is confronting two technical headwinds. Firstly, the RSI is indicating overbought conditions. Secondly, the 2,000 level is a key psychological resistance that gold has failed to stay above after breaking early in the week. These technical signals suggest that the recent sharp rebound is unlikely to extend further. However, we still see it as a short-term hedge against extreme geopolitical risks.

— Zhong Liang Han, CFA, Investment Strategist

S&P 500 index broke above initial resistance at 4,220, halting the downtrend since July. The next resistance is at 4,394

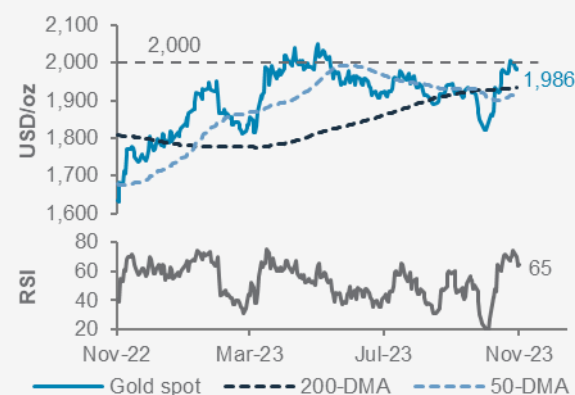
S&P 500 Index



Source: FactSet, Standard Chartered

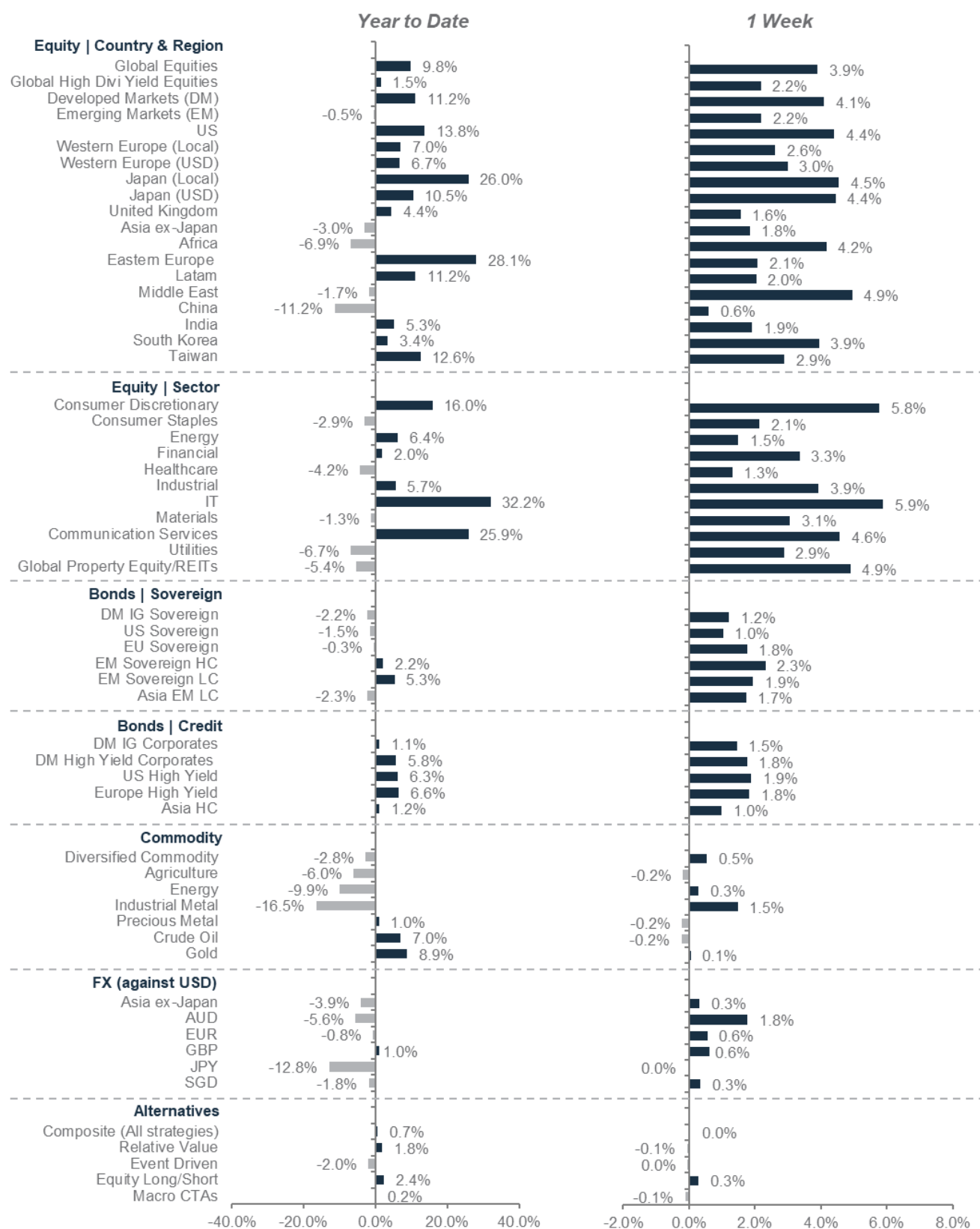
Gold is confronting two near-term technical headwinds

Gold price and its technical indicators



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, 2023 YTD performance from 31 December 2022 to 02 November 2023; 1-week period: 26 October 2023 to 02 November 2023

Our 12-month asset class views at a glance

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

Source: Standard Chartered Global Investment Committee

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

The next support for US 10-year bond yield is at 4.57%

Technical indicators for key markets as of 02 November close

Index	Spot	1st support	1st resistance	12m forward P/E (x)	12m forward dividend yield (%)
S&P 500	4,318	4,184	4,385	18.1	1.7
STOXX 50	4,170	4,066	4,221	11.5	4.1
FTSE 100	7,447	7,343	7,498	10.4	4.5
Topix	2,322	2,262	2,353	14.3	2.5
Shanghai Comp	3,009	3,005	3,019	9.9	3.6
Hang Seng	17,231	17,086	17,391	8.1	4.5
Nifty 50	19,133	19,035	19,186	18.1	1.9
MSCI Asia ex-Japan	589	583	592	11.7	3.0
MSCI EM	931	920	936	11.1	3.3
WTI (Spot)	82.5	80.1	85.2	na	na
Gold	1,986	1,977	2,001	na	na
UST 10Y Yield	4.66	4.57	4.84	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	EC	Sentix Investor Confidence	Nov	–	-21.9
	EC	PPI y/y	Sep	–	-11.5%
TUE	US	Trade Balance	Sep	-\$60.5b	-\$58.3b
	CH	Imports y/y	Oct	–	-6.2%
	CH	Exports y/y	Oct	–	-6.2%
WED	EC	Retail Sales y/y	Sep	–	-2.1%
THU	CH	CPI y/y	Oct	–	0.0%
	CH	PPI y/y	Oct	–	-2.5%
	CH	New Yuan Loans CNY	Oct	–	2310.0b
	CH	Money Supply M2 y/y	Oct	–	10.3%
FRI/SAT	UK	Industrial Production y/y	Sep	–	1.3%
	UK	Manufacturing Production y/y	Sep	–	2.8%
	UK	GDP q/q	3Q P	–	0.2%
	US	U. of Mich. Sentiment	Nov P	–	63.8

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 in Asia ex-Japan equities has declined

Our proprietary market diversity indicators as of 02 November

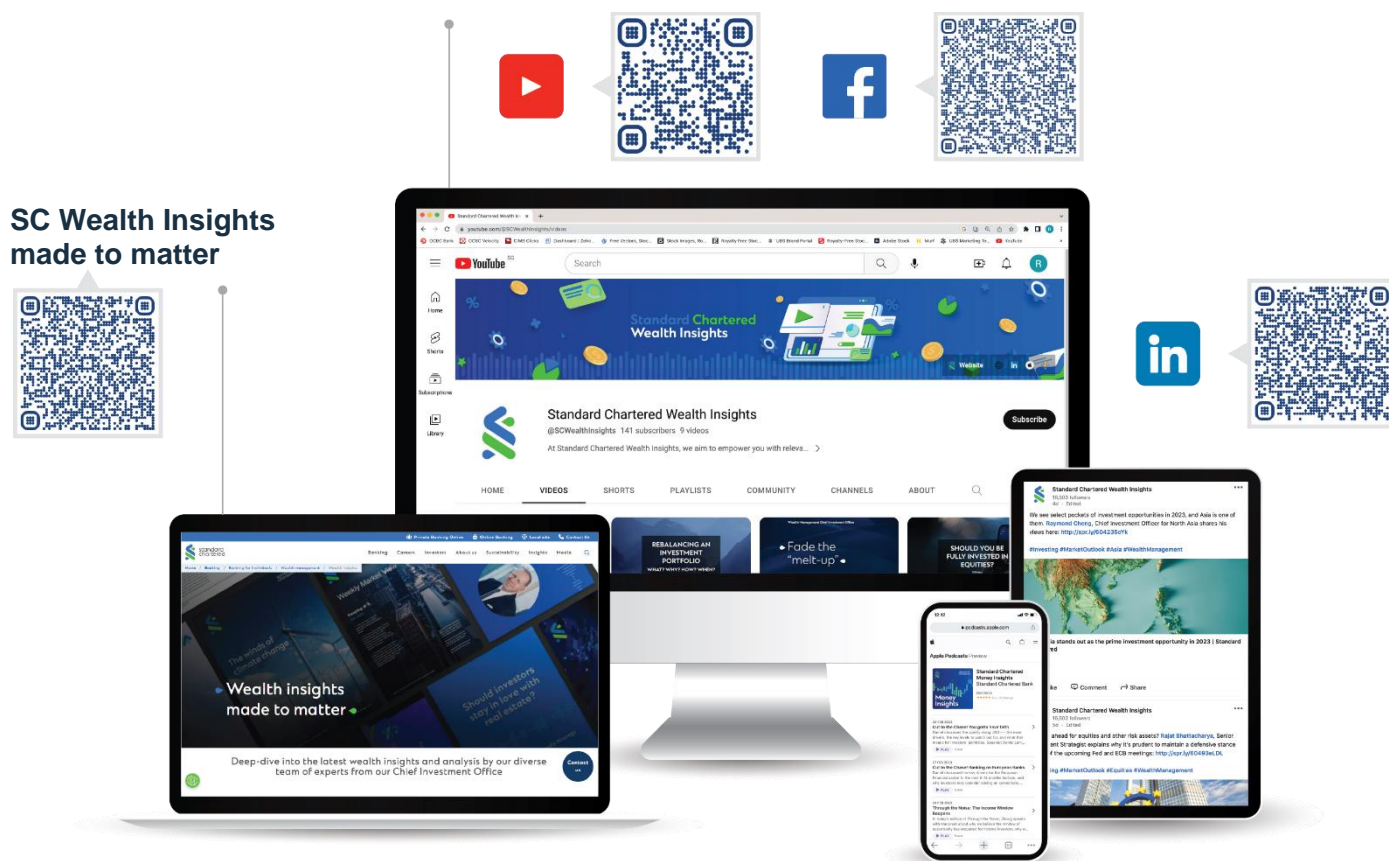
Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	→	1.41
Global Equities	●	↓	1.37
Gold	●	↓	1.56
Equity			
MSCI US	●	↓	1.43
MSCI Europe	●	↓	1.35
MSCI AC AXJ	●	↓	1.33
Fixed Income			
DM Corp Bond	●	↓	1.49
DM High Yield	●	↓	1.61
EM USD	●	↓	1.50
EM Local	●	↓	1.40
Asia USD	●	→	1.55
Currencies			
DX	●	↑	1.35

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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