



Weekly Market View

Another year of US exceptionalism?

→ US exceptionalism has scaled new heights this year. US equities have gained 29% year to date, following 26% returns in 2023, widening the performance gap with other markets.

→ President-elect Trump's policies are likely to lead to another year of US equity outperformance in 2025. However, prudence dictates investors stay diversified and nimble to hedge against risks.

→ Our strategies, which hold a slight preference for US assets, offer investors ways to capture opportunities while avoiding taking undue risks.

→ We remain overweight gold to hedge against rising geopolitical uncertainty (as seen in France and South Korea this week) and any revival in inflation.

→ Europe's escalating political uncertainty raises the risk of sustained ECB policy easing after a likely 25bps rate cut next week, lifting European government bonds.

→ Meanwhile, the unexpected political turmoil in Korea should boost Korean USD bonds, especially in the financial sector.

Where are the opportunities in US equities ahead of the holiday season?

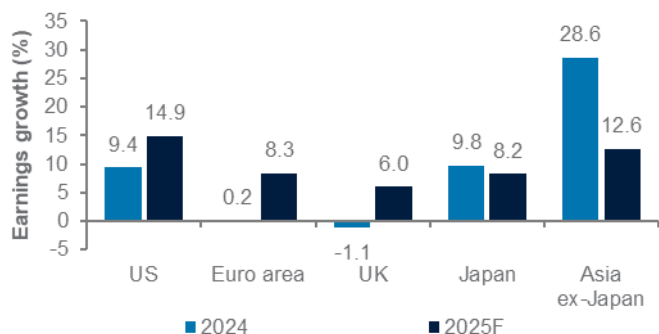
What is the outlook for Korean equities, given recent political uncertainty?

What are the implications of France's political uncertainty for the EUR and European government bonds?

Charts of the week: Standout economy

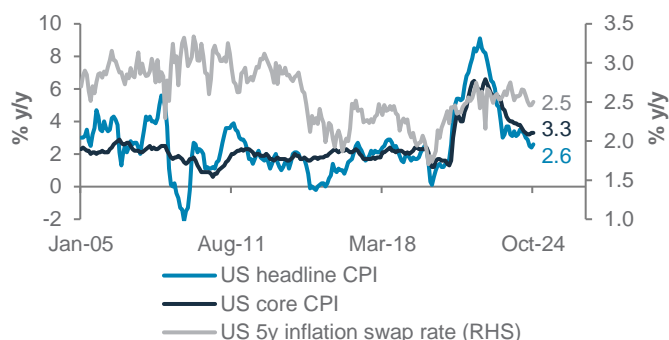
We see continued US outperformance amid robust earnings outlook and Trump's policies; revival of inflation is a key risk

Consensus earnings estimates for major markets



Source: Bloomberg, Standard Chartered

US headline and core inflation, long-term inflation expectation



Editorial

Another year of US exceptionalism?

US exceptionalism has scaled new heights this year. US equities have gained 29% year to date, following 26% returns in 2023, widening the performance gap with other markets. President-elect Trump's policies are likely to lead to another year of US equity outperformance in 2025. However, prudence dictates investors stay diversified and nimble to hedge against risks. Our strategies, which hold a slight preference for US assets, offer investors ways to capture opportunities while avoiding taking undue risks. We remain overweight gold to hedge against rising geopolitical uncertainty (as seen in France and South Korea this week) and any revival in inflation.

US exceptionalism: This year's gains have been led by our three preferred sectors: technology (up 39% so far this year), communication services (37%) and financials (35%). President-elect Trump's policies, focussed on tax cuts and deregulation, are likely to benefit US corporate earnings, while tariffs raise uncertainty for non-US markets (see chart). The technology and communication services sectors are likely to drive earnings growth, thanks to the ongoing structural rise in demand for generative Artificial Intelligence-related tools and systems. The financial sector, especially the regional and community banks, is likely to be a major beneficiary of deregulation policies.

Uncharted geopolitical landscape: Trump has already notified key trade partners such as China, Canada and Mexico of his plans to impose stiff import tariffs. It remains to be seen whether the threat of tariffs is a negotiating tool to achieve his objective of attracting manufacturing investment into the US or is an advance notice of building walls, at least temporarily, to protect domestic industry against imports and reduce the trade deficit. While the nomination of Wall Street veteran Scott Bessent suggests Trump wants to use tariffs as "a means to an end", Trump's cabinet consists of trade 'hawks' who see tariffs as "an end in itself" to rebalance US economic drivers and the pattern of global trade. How key trade partners such as China and Europe react, given their own internal economic and political challenges, is another key question.

Sequencing and substance of tax cuts: How Trump goes about balancing the seemingly divergent economic objectives will be key for markets in the coming months. For instance, revenue from the proposed tariffs is expected to partly pay for Trump's other signature policy of extending the individual tax cuts which expire next year. Will Trump issue executive orders to impose stiff tariffs on major trade partners as soon he takes charge on 20 January to enable the tax cuts later in the year?

The Republican party's thin majority in the House of Representatives would make it challenging to pass any ambitious tax cuts through a special "reconciliation" bill in the Congress. Our base case is that the administration will extend the prior tax cuts, perhaps with a few other election promises, such as ending taxes on tips and gratuities. Enacting more ambitious measures such as exempting social security from taxes or significantly cutting corporate taxes further would raise concerns about the budget deficit and lead to a surge in bond yields, something that the administration would try to avoid.

Inflation expectations and the Fed. So far inflation expectations have been well behaved, calming bond yields after a brief spike following Trump's election. We expect the Fed to look through any initial rise in inflation due to tariffs and continue cutting rates by 75bps next year, after an expected 25bps cut this month, but any rise in inflation expectations could lead the Fed to hold rates, upending bond markets.

Strategies for all seasons: Against the uncertain backdrop, investors can position through diversified strategies, based on their individual risk tolerance, to capture the opportunities and still hedge against the risks. Our diversified growth, balanced, conservative and income-focussed strategies, catering to diverse risk profiles, have delivered almost 16%, 13%, 4% and 8% total returns year to date. We are positioned for another year of US exceptionalism, but remain nimble to changing dynamics, especially if Trump's policies lead to significant fiscal policy easing in China and Europe over the coming months. (Look out for our Annual Outlook due to be published on 13 December for more details on strategies to navigate 2025.)

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: Robust manufacturing data; Recovery in US factory data

(-) factors: Weak US and China Services PMI; Rising political risks

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> US ISM manufacturing PMI beat estimates at 48.4 US factory orders growth recovered to 0.2% and trade deficit narrowed to -73.8bn US JOLTs job openings rose more than expected Euro area's core inflation remain unchanged, while headline inflation up slightly to 2.3%, as expected Euro area's Producer price deflation eased to -3.2% y/y from -3.4% y/y, as expected China Caixin Manufacturing PMI beat estimates at 51.5 	<ul style="list-style-type: none"> US ISM Services PMI dropped more than expected to 53.7 in November US initial jobless claims rose more than expected to a six-week high China Caixin services PMI missed expectations at 51.5 Euro area retail sales fell more than expected by 0.5% m/m
	Our assessment: Neutral – Robust manufacturing PMI vs. weak services PMI	
Policy developments	<ul style="list-style-type: none"> ECB's Makhoul and Nagel both anticipate a rate cut in December and further easing to come 	<ul style="list-style-type: none"> Fed Chair Powell stayed cautious on rate cuts given a strong economy BOJ Governor Ueda said rate hike approaching
	Our assessment: Neutral – Further monetary easing in the Euro area vs. slower pace of Fed rate cuts	
Other developments		<ul style="list-style-type: none"> Political turmoil in Korea after brief martial law French govt collapses after no-confidence vote China retaliated against US chip restrictions via rare earth export limits
	Our assessment: Negative – Elevated Political risks	

US services sector business confidence fell, while manufacturing sector confidence rose in November

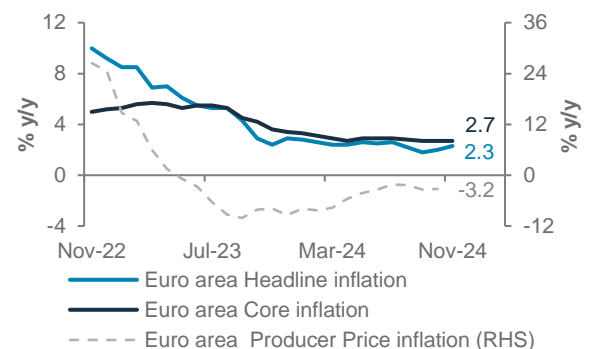
US ISM PMIs for manufacturing, manufacturing new orders and services sectors



Source: Bloomberg, Standard Chartered

Euro area consumer inflation has stabilised just above the ECB's 2% target, while deflation in producer prices continues

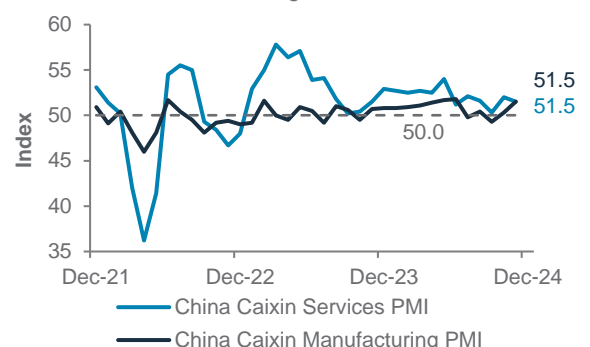
Euro area consumer and producer price inflation



Source: Bloomberg, Standard Chartered

China's manufacturing sector business confidence picked up in November, while services sector remains lacklustre

China Caixin manufacturing and services PMIs



Source: Bloomberg, Standard Chartered

Top client questions

Where are the opportunities ahead of the holiday season?

Preliminary US holiday season sales data point to upbeat momentum. According to Adobe, consumer spending rose 7.3% y/y on Cyber Monday, with 57% of the day's online sales being transacted on a mobile device. In particular, generative AI-powered chat bots contributed significantly to consumers' shopping behaviours, with traffic to retail sites from chat bots surging 1,950% y/y. The company projects sales of the full holiday season (1 Nov – 31 Dec 2024) to rise by 8.4% y/y.

We expect consumption resiliency amid a favourable economic backdrop to support continued sales growth through the holiday season this year. We continue to favour the technology and communication services sectors in the US, in particular digital advertising and e-commerce sub-sectors. Revamped interfaces across major e-commerce platforms under the adoption of Artificial Intelligence (AI) systems, as well as the rising penetration of big data technology on online marketing sales platforms, are expected to optimize customer demand and bolster cross-selling opportunities. Earnings expectations of both sectors in 2024 have also been revised higher since the start of H2 and are now at 20.1% (technology) and 23.8% (communication services) respectively.

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

What is the outlook for Korean equities, given recent political uncertainty?

We have been Underweight Korean equities within the Asia ex-Japan region. The recent, and brief, declaration of martial law adds to the list of headwinds against Korean equities. President Yoon's move triggered a public outcry, with trade unions vowing to strike until he resigns. Yoon's impeachment or resignation would impact fiscal spending and weigh on the economic outlook.

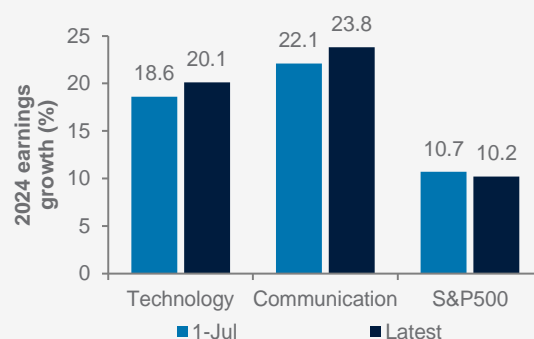
The global economic outlook is also acting as a headwind. Korean equities, which are highly leveraged to the semiconductor sector, are sensitive to incoming US President Trump's hawkish trade policies. It is possible Trump "suggests" his allies restrict chip sales to China, before he sends a similar message to US semiconductor companies. MSCI Korea trades at 8x forward P/E, a discount to the long-term historical average at 10.5x – though we believe this discount is likely to persist, if not widen.

Within Asia ex-Japan, we are Overweight Indian equities as we believe they are more insulated from Trump's rhetoric. The recent pullback in Indian equities have helped valuations pull back to their 12-month average while return-on-equity is still strong at 16%.

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

2024 earnings projections for US technology and communication services sectors have been revised higher

Estimated earnings growth across sectors within the S&P 500 index in 2024 (data as of 29-Nov-24)



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

Korea equity valuation discount is likely to continue, or even widen, given domestic political uncertainties and Trump's proposed trade policies

MSCI Korea 12-month forward PE



Source: FactSet, Standard Chartered

Top client questions (cont'd)

Q What implications will the political uncertainty in France have for the upcoming ECB decision and the outlook for the Euro and European government bonds?

France has made headlines as a political stalemate deepens. In a bold move, Prime Minister Michel Barnier attempted to push through a "special law" under Article 45 of the Organic Law of Budget Bills to extend the 2024 budget into 2025. This manoeuvre backfired, resulting in a motion of no confidence that successfully removed him from office, although he is likely to serve as a caretaker until a new candidate is appointed. Political instability is expected to persist as the government faces a potential shutdown in January.

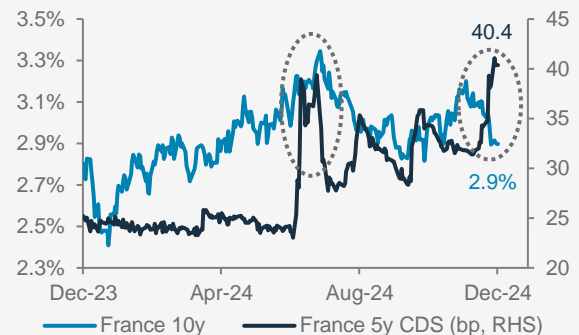
Similar to the situation in late June when President Macron called for a snap election to extend his power, there is some risk aversion in markets. However, negative sentiment in markets remains relatively subdued: 1) the 5-year French CDS (a measure of sovereign default concerns) rose from 31bp to 40bp in less than two weeks, but this increase is modest compared to the 16bp jump in June; 2) the French 10-year bond yield has continued to trend lower alongside expected ECB cuts; 3) the spread between 10-year German and French government bonds rose only 10bp, just 6bp more than during the Macron episode in June. Given this context, we reiterate our view that European government bonds (FX-hedged) remain an attractive opportunistic idea. We see current volatility as an opportunity to add against the backdrop of still-soft European data and a high likelihood of continued ECB rate cuts.

Interestingly, EUR/USD held at 1.05 despite the political risk. We expect the currency market focus to remain on fundamentals. The Euro area services PMI was revised upwards to 49.5, from 49.2 in the preliminary estimate, but it was still lower than the October reading of 51.6. This marked the first contraction in services since January. Additionally, manufacturing PMIs also point to contraction. It is not surprising, therefore, that we expect the ECB to continue cutting rates including at the next meeting. Meanwhile, US Fed Chair Powell noted robust economic strength since the central bank started cutting interest rates in September meant policymakers can be little more "cautious" in cutting rates further. The Fed's Beige Book survey also showed US businesses were optimistic about improving demand in the coming months and held some concerns about the potentially inflationary impact of President-elect Trump's policies. Overall, we believe this, together with weak technical, suggest EUR/USD is likely to test its support at 1.0330 over the next 2-4 weeks.

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

France's credit risk measures haven't risen significantly above early 2024 highs

France's 5-year credit default swap spread and 10-year government bond yield



Source: Bloomberg, Standard Chartered

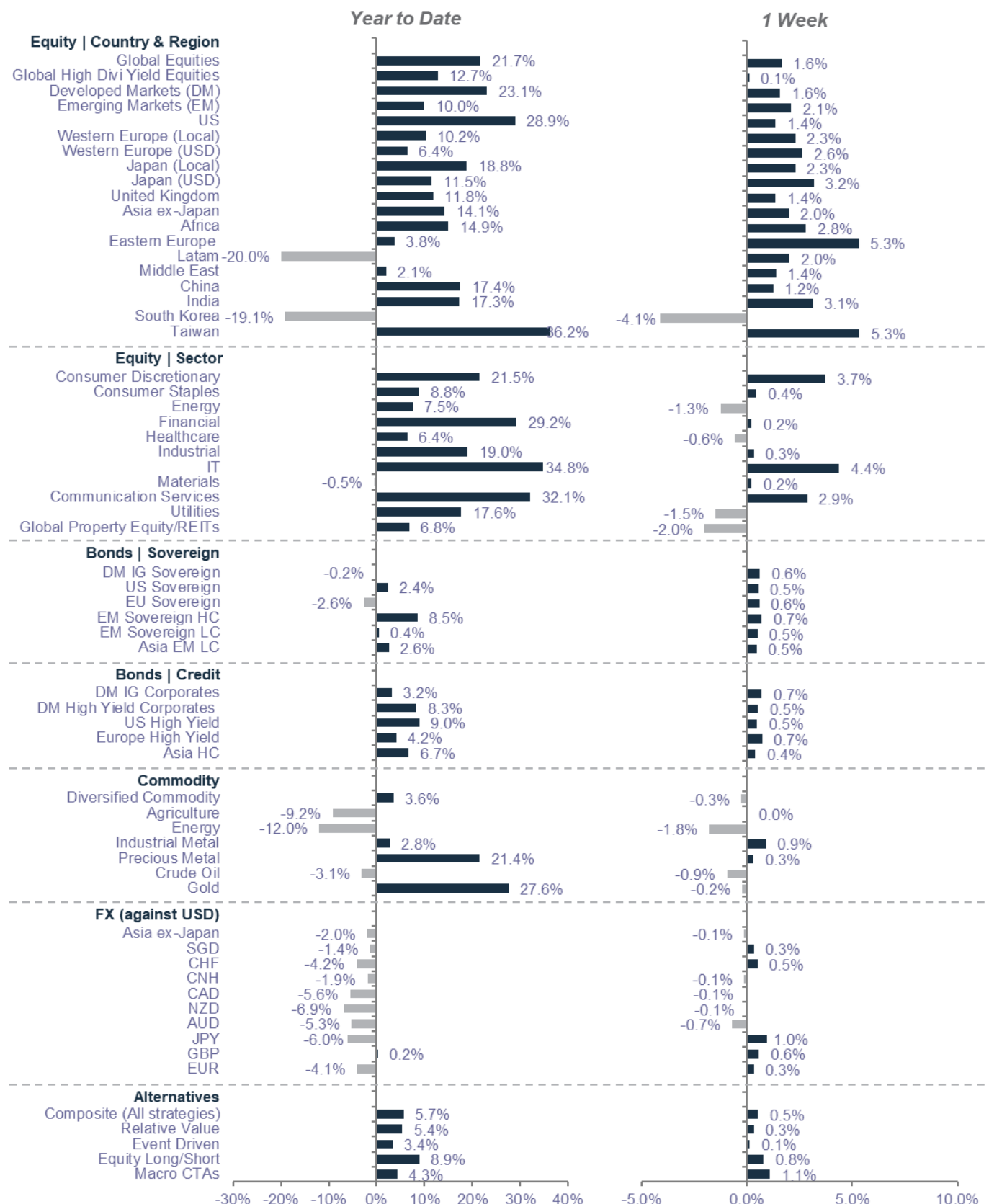
EUR/USD bearish momentum is likely to continue in the near-term

EUR/USD and technical levels



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 5 December 2024; 1-week period: 28 November 2024 to 5 December 2024

Our 12-month asset class views at a glance

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

Source: Standard Chartered Global Investment Committee

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

The S&P500 has next interim resistance at 6,206

Technical indicators for key markets as of 5 December close

Index	Spot	1st support	1st	12m	*12m
			resis- tance	forward P/E (x)	dividend yield (%)
S&P500	6,075	5,833	6,206	22.6	1.3
STOXX 50	4,952	4,775	5,041	13.8	3.5
FTSE 100	8,349	8,101	8,493	11.8	3.9
Topix	2,742	2,668	2,793	14.8	2.6
Shanghai Comp	3,369	3,228	3,510	12.3	3.2
Hang Seng	19,560	18,625	20,926	8.9	4.0
Nifty 50	24,708	23,695	25,290	20.6	1.5
MSCI Asia ex-Japan	718	695	746	12.8	2.6
MSCI EM	1,102	1,068	1,144	12.0	3.0
WTI (Spot)	68.3	65.6	71.9	na	na
Gold	2,632	2,529	2,742	na	na
UST 10Y Yield	4.18	4.06	4.40	na	na

Source: Bloomberg, Standard Chartered; *as at close of 5-Dec-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	CH	PPI y/y	Nov	-2.8%	-2.9%
	CH	CPI y/y	Nov	0.5%	0.3%
	EC	Sentix Investor Confidence	Dec	–	-12.8
TUE	AU	RBA Cash Rate Target	10-Dec	4.4%	4.4%
	US	NFIB Small Business Optimism	Nov	94.1	93.7
	CH	Exports y/y	Nov	8.0%	12.7%
	CH	Trade Balance	Nov	\$90.90 b	\$95.72b
WED	US	CPI y/y	Nov	2.7%	2.6%
	US	CPI Ex Food and Energy y/y	Nov	3.3%	3.3%
	CA	Bank of Canada Rate Decision	11-Dec	3.3%	3.8%
THU	EC	ECB Deposit Facility Rate	12-Dec	3.0%	3.3%
	US	PPI Final Demand y/y	Nov	–	2.4%
	US	PPI Ex Food & Energy y/y	Nov	–	3.1%
	US	Initial Jobless Claims	7-Dec	–	–
	US	Continuing Claims	30-Nov	–	–
FRI/SAT	UK	Industrial Production y/y	Oct	–	-1.8%
	UK	Manufacturing Production y/y	Oct	–	-0.7%
	US	Import Price Index y/y	Nov	–	0.8%

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 has normalised across asset classes

Our proprietary market diversity indicators as of 5 Dec close

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	→	1.51
Global Equities	○	↓	1.33
Gold	●	↑	1.54
Equity			
MSCI US	○	↓	1.28
MSCI Europe	●	↓	1.55
MSCI AC AXJ	●	→	1.56
Fixed Income			
DM Corp Bond	●	↑	1.69
DM High Yield	○	↑	1.44
EM USD	●	↑	1.64
EM Local	●	→	1.57
Asia USD	●	↑	1.85
Currencies			
EUR/USD	○	↓	1.32

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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