



# Weekly Market View

## Consolidating gains

→ Global and US stocks are undergoing a healthy consolidation, in our view, after scaling record highs. This follows higher bond yields after strong US economic data, a few weak government bond auctions and hawkish Fed comments.

→ However, US forward earnings estimates have been revised higher and US CEO confidence is upbeat. Our quantitative models and charts remain bullish, especially on US equities. The S&P500 index has strong technical support around 3% below Thursday's close.

→ We expect bond yields to decline over the coming months as inflation eases and, thus, would look for an opportunity to average into US stocks as they consolidate.

→ Although China/Hong Kong stocks are no longer the 'low-hanging fruit' they once were, we see tactical opportunities once the Hang Seng index consolidates towards the next key technical support level around 3% below Thursday's close.

What is the outlook for the Hang Seng index after the pullback?

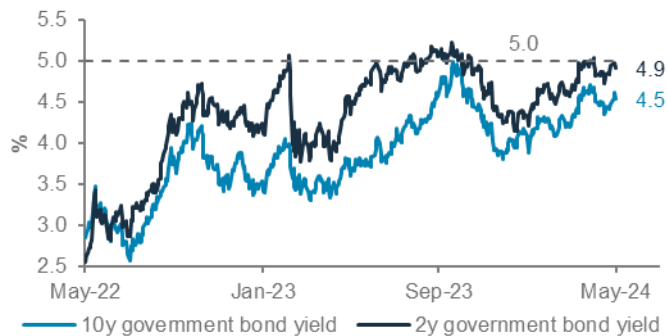
What are the likely catalysts for European government bond yields and the EUR?

What is the likely impact of the upcoming UK elections on UK equities and the GBP?

## Charts of the week: Bond yields reflect a robust macro backdrop

**The US 2-year bond yield is retesting a key threshold as the economic and corporate earnings outlook remain upbeat**

US 2-year and 10-year government bond yields



Source: Bloomberg, Standard Chartered

US 12m forward EPS growth estimate, CEO Confidence index



## Editorial

### Consolidating gains

Global and US stocks are undergoing a healthy consolidation, in our view, after scaling record highs. This follows higher bond yields after strong US economic data, weak government bond auctions and hawkish Fed comments. However, US earnings estimates have been revised higher and US CEO confidence is upbeat. Our quantitative models and charts remain bullish, especially on US equities. The S&P500 index has strong technical support around 5,071 (3% below Thursday's close). We expect bond yields to decline over the coming months as inflation eases and, thus, would look for an opportunity to average into US stocks as they consolidate. Friday's US inflation data, next week's job market indicators and ISM manufacturing PMI are the next likely drivers of US equities. We also see tactical opportunities in China equities (see page 4).

**Strong data:** Economic data in May have been surprisingly strong, recovering from a slowdown in April. Manufacturing sector activity indicators (S&P Global PMIs) improved in the US, the UK, Euro area and Japan. Service sector PMIs stayed in expansion across these markets, led by the US. However, US manufacturing sector new orders are declining, while service sector employment is contracting. Next week's US ISM manufacturing PMI and jobs data should throw more light on the underlying strength of the sector.

Meanwhile, US consumer confidence (measured by the Conference Board) surprisingly rebounded in May after three straight months of decline. This indicator is primarily influenced by the job market, which explains why this indicator has been robust. Overall, the US economy continues to grow at a healthy clip, as reflected in the Fed's latest Beige Book survey and the Atlanta Fed's GDPNow estimate of Q2 24 growth at 3.5%.

**Improving earnings outlook:** The robust economic backdrop is reflected in US corporate earnings. After a stronger-than-

expected Q1 24 earnings season, consensus has revised 2024 full-year earnings growth estimate higher to 11.1% and 2025 estimate to 14.2%. The technology and communications services sectors are leading this earnings upturn, with 18.1% and 23% earnings growth in 2024. This supports our continued preference for these equity sectors. The upbeat outlook is also reflected in this year's rise in the CEO Confidence index.

**Watching bond yields:** While the macro backdrop remains robust, the 5% level on the US 2- and 10-year government bond yields are key thresholds to watch. This yield level has acted as a self-correcting moderator of near-term financial conditions over the past year. A rise in yields towards this level has resulted in tighter short-term financial conditions, dragging risk assets temporarily lower and eventually dragging bond yields back down from this threshold. Any sustainable break higher in the bond yield above 5% would likely suggest a shift from the current not-too-hot, not-too-cold Goldilocks regime, which is positive for risk assets. On the downside, the 10-year bond yield's low of 3.8% last December offers a strong support. A break lower would signal deteriorating economic outlook.

**European government bonds.** We see value after the latest run up in yields. Euro area inflation is falling faster than in the US. We see next week's expected ECB rate cut as the start of an easing cycle. Thus, European government bonds remain one of our opportunistic Buy ideas. We also expect modest EUR weakness if the ECB provides a dovish signal next week.

**Indian elections.** Exit polls are due after the last elections close on 1 June (official results on 4 June). India equities have historically delivered strong near-term returns if the results confirm initial estimates. Any upsets could lead to a knee-jerk reaction. Strong growth outlook and corporate earnings should provide support in the event of any pullback. Election outcomes have had little long-term impact on Indian equity returns. This week, S&P Global upgraded India's rating outlook to 'positive'.

## 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

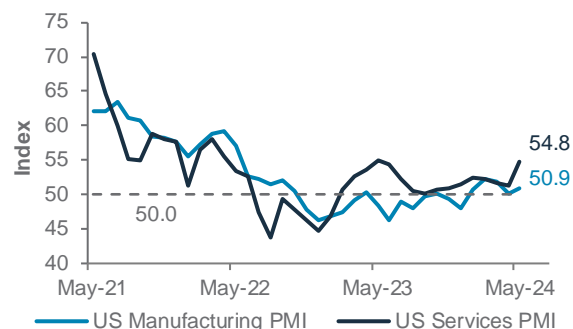
**(+) factors:** Robust US durable goods orders, recovering US consumer confidence and PMI data

**(-) factors:** Hawkish Fed, mounting tensions in Gaza

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> <li>US durable goods orders rose more than expected by 0.7% m/m</li> <li>US Conference Board consumer confidence rose unexpectedly to 102</li> <li>US manufacturing and services PMI improved more than expected to 50.9 and 54.8 respectively</li> <li>Euro area M3 money supply rose 1.3% y/y as expected, the fastest growth in a year</li> <li>Euro area jobless rate fell unexpectedly</li> <li>China industrial profits grew 4% y/y</li> </ul>	<ul style="list-style-type: none"> <li>US GDP revised lower on downwardly revised consumption</li> <li>German IFO business climate index was unchanged unexpectedly</li> <li>Euro area economic confidence rose less than expected</li> <li>China manufacturing and non-manufacturing PMI fell unexpectedly to 49.5 and 51.1 respectively</li> </ul>
	<b>Our assessment: Positive</b> – Robust US durable goods orders, recovering US consumer confidence, PMI data and China industrial profits	
Policy developments	<ul style="list-style-type: none"> <li>ECB officials' comments reinforced prospects of a June rate cut</li> <li>Fed's Beige Book showed the US economy expanded at a modest pace in most regions</li> </ul>	<ul style="list-style-type: none"> <li>Fed's Kashkari said interest rates should be cut only once or twice this year given still-elevated inflation and added that rate hikes are a possibility</li> <li>US Treasury auctions were soft</li> </ul>
	<b>Our assessment: Neutral</b> – Dovish ECB vs Hawkish Fed	
Other developments	<ul style="list-style-type: none"> <li>S&amp;P Global upgraded its outlook on India sovereign rating to 'positive', citing a strong growth outlook</li> </ul>	<ul style="list-style-type: none"> <li>Former US President Trump was found guilty in his hush-money trial</li> <li>Reports suggest an Israel airstrike killed civilians in a tent camp in Rafah</li> </ul>
	<b>Our assessment: Negative</b> – Mounting tensions in Gaza	

### US business activity surprisingly rebounded in May, with service sector activity picking up pace

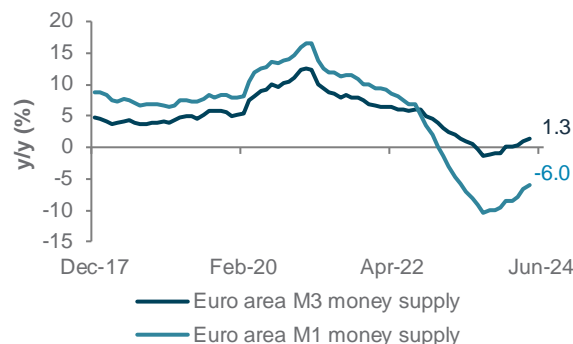
US manufacturing and service sector PMIs



Source: Bloomberg; Standard Chartered

### A gradual recovery in Euro area money supply reflects a nascent turnaround in the economy

Euro area money supply growth



Source: Bloomberg; Standard Chartered

### China's industrial profits staged a weak recovery in April, highlighting the ongoing challenges despite an upturn in global trade

China's industrial profits growth



Source: Bloomberg; Standard Chartered

## Top client questions

### Q What next for the Hang Seng index after the pullback?

We believe the Hang Seng index is in a consolidation stage. Over the last two months, Chinese equities have benefitted from fund rotation away from regional outperformers, such as Korea and Taiwan, and globally from US equities. Chinese data has been outperforming low expectations, while the US data has been underperforming high expectations. This has resulted in Chinese equities outperforming US ones since the end of Q1 24.

However, strong US earnings guidance following the Q1 24 earnings season and easing inflation is helping the US stay in the Goldilocks environment. Also, normalisation of excessive investor pessimism towards China markets and renewed fears of a US-China trade war after the imposition of limited US tariffs on Chinese exports mean China equities are no longer the “low-hanging fruit” they once were.

Technically, the Hang Seng index is testing a key support level at 18,279. We see the next support at 17,687, creating tactical opportunities to buy near that level. It is very close to the 38% Fibonacci retracement of the range since mid-April. Our technical model, which has captured most of the recent rebound in China equities, remains bullish over the next three months. It is driven by a still-positive price trend, as seen in a rising 50-day moving average, and a higher upside volatility since the breakout in China equities.

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

### Q What are the likely near-term catalysts for lower European government bond yields and EUR weakness?

We continue to see a high chance of an ECB rate cut in June, ahead of the Fed. European government bond yields have recently surged as ECB policymakers suggested their rate decision remains data dependent and German inflation came in higher than expected. Nevertheless, the increase in yields has arguably enhanced the risk-reward balance for European government bonds. The spike in German inflation is likely a one-off due to low base effects and core inflation is likely to ease. Therefore, we believe a renewed easing in inflation expectations should allow the ECB to ease policy, lifting European government bonds. We, therefore, maintain a Buy view on European government bonds on a currency-hedged basis.

EUR/USD has been trading in a descending channel with lower highs and lower lows since the start of the year. Several EUR/USD technical indicators remain neutral. Should the ECB signal a dovish interest rate path at its policy meeting next week, we expect the pair to be rangebound with a modestly bearish bias in the coming weeks. Near-term support is at 1.0690, in our assessment.

— **Cedric Lam**, Senior Investment Strategist

— **Iris Yuen**, Investment Strategist

### The Hang Seng index is consolidating and approaching a key technical support

Hang Seng Index price chart



Source: Bloomberg, Standard Chartered

### EUR government bonds offer value after yields surged alongside US government bond yields

Bloomberg EuroAgg Treasury index yield and US 10-year government bond yield



Source: Bloomberg, Standard Chartered

### We have a bearish near-term bias on EUR/USD as ECB rate cuts are likely to widen US-Euro area rate differentials

EUR/USD, Euro area and US CPI inflation-adjusted 10-year bond yield differential



Source: Bloomberg, Standard Chartered



## Top client questions (cont'd)

### **Q** What is the likely impact of the upcoming UK elections on UK equities and the GBP?

Polls currently indicate about a 20% lead for the Labour party. This suggests a change of government is likely notwithstanding the “shy Tory” factor (a historical observation that the Conservative party performs better in the actual election than pre-election polls). Investors continue to watch for party manifestoes, expected by early-to-mid June, particularly on tax policies and relationship with the EU.

Overall, we do not expect a significant impact from the election on large cap UK equities that generate c.79% of their revenue outside the UK. The UK offers lower earnings growth than global equities, offset by a deep valuation discount. It also has a defensive tilt. Overall, we expect UK equities to perform in line with global equities over the next 6-12 months.

Meanwhile, the GBP nominal effective exchange rate (NEER) is resilient, indicating limited concern in the currency market. The Labour party was in power over the 1997-2010 period, with no clear evidence that they impacted the GBP’s direction. We believe a bigger impact on GBP/USD is likely to come from the BoE and the Fed monetary policy. After the higher-than-expected UK inflation print, markets now expect a UK rate cut only in late Q3 24. This suggests room for the GBP to fall if either these expectations are brought forward once again, or the Fed rate cut outlook is delayed. We see downside in GBP/USD to 1.21 over the next three months.

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

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

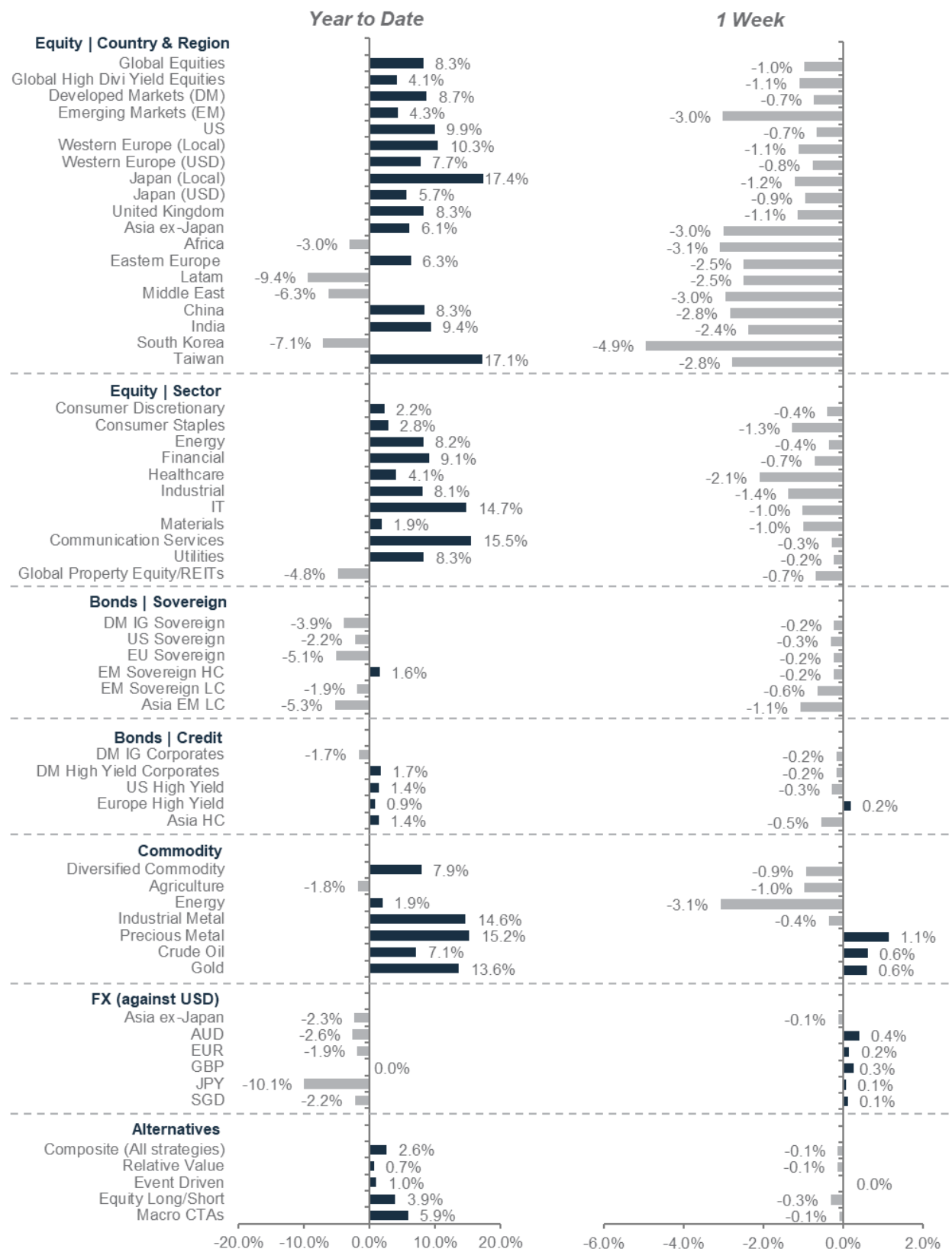
### The UK’s Labour party has maintained a consistent lead in polls since 2022, with a 22% lead currently

YouGov UK general election voting intention for the Conservative and Labour parties



Source: YouGov, 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 30 May 2024; 1-week period: 23 May 2024 to 30 May 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 Energy ▲
Asia ex-Japan ◆	Europe Healthcare ▲
Japan ▲	Europe Energy ▲
Other EM ◆	Europe Technology ▲
	China Communication ▲
<b>Bonds (Credit)</b> ◆	China Discretionary ▲
Asia USD ◆	China Technology ▲
Corp DM HY ◆	China Energy ▲
Govt EM USD ▲	China Industrial ▲
Corp DM IG ◆	
	<b>Alternatives</b> ◆
<b>Bonds (Govt)</b> ◆	
Govt EM Local ▼	<b>Gold</b> ◆
Govt DM IG ◆	

Source: Standard Chartered Global Investment Committee

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

## The S&P 500 has next interim support at 5,212

Technical indicators for key markets as of 30 May close

Index	Spot	1st support	1st resistance	12m forward P/E (x)	12m forward dividend yield (%)
S&P 500	5,235	5,212	5,283	20.5	1.5
STOXX 50	4,982	4,944	5,040	13.5	3.4
FTSE 100	8,231	8,163	8,319	11.8	3.9
Topix	2,726	2,712	2,754	15.3	2.4
Shanghai Comp	3,092	3,079	3,114	10.9	3.4
Hang Seng	18,230	18,017	18,656	8.8	4.2
Nifty 50	22,489	22,329	22,808	19.5	1.6
MSCI Asia ex-Japan	676	669	691	13.0	2.6
MSCI EM	1,058	1,047	1,080	12.1	3.0
WTI (Spot)	78	77	79	NA	NA
Gold	2,343	2,328	2,360	NA	NA
UST 10Y Yield	4.55	4.47	4.62	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	CH	Caixin China PMI Mfg	May	51.6	51.4
	US	ISM Manufacturing	May	49.6	49.2
	US	ISM New Orders	May	–	49.1
TUE	US	JOLTS Job Openings	Apr	8300k	8488k
WED	CH	Caixin China PMI Services	May	52.6	52.5
	EC	PPI y/y	Apr	–	-7.8%
	US	ADP Employment Change	May	180k	192k
	US	ISM Services Index	May	50.7	49.4
THU	EC	Retail Sales y/y	Apr	–	0.7%
	EC	ECB Deposit Facility Rate	6-Jun-24	–	4.0%
FRI/SAT	US	Change in Nonfarm Payrolls	May	180k	175k
	US	Unemployment Rate	May	3.9%	3.9%
	CH	Exports y/y	May	–	1.5%

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 remains healthy across asset classes

Our proprietary market diversity indicators as of 30 May close

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↑	1.71
Global Equities	●	→	1.53
Gold	●	↑	1.30
<b>Equity</b>			
MSCI US	●	→	1.54
MSCI Europe	●	→	1.50
MSCI AC AXJ	●	→	1.43
<b>Fixed Income</b>			
DM Corp Bond	●	↑	2.68
DM High Yield	●	→	1.56
EM USD	●	→	1.69
EM Local	●	↑	2.52
Asia USD	●	↓	1.69
<b>Currencies</b>			
EUR/USD	●	↑	2.21

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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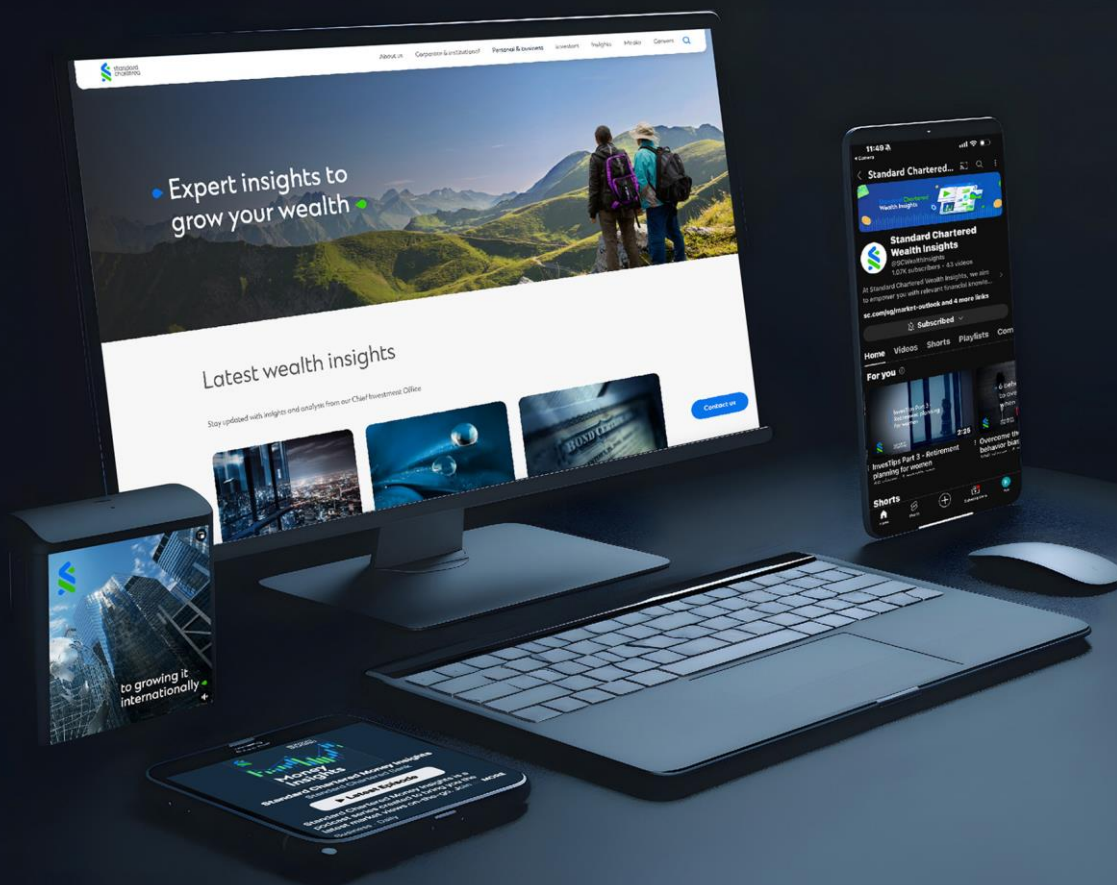
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