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Wealth Management Global Chief Investment Office
17 November 2023

Weekly Market View

Disinflationary tailwind

→ Last week, we set out three conditions for the V-shaped rebound in equities to continue over the coming weeks. The first condition – weaker-than-expected US inflation data for October – has been met. This helped support the second – US government bond yields to consolidate around current levels.

→ Technical factors, including a breakout in US equities and investor positioning, remain supportive of the ongoing equity rally in the near term.

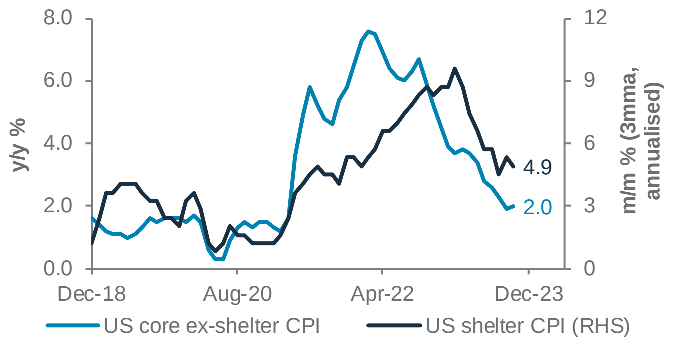
→ Over a 12-month horizon though, we would use any bond yield spikes to add to US and European government bonds as growth and inflation slows.

→ The US 10-year government bond yield faces strong resistance around 4.6%. We expect the yield to decline at least 100bps over 12 months, offering investors the prospect of significant capital gains over and above the attractive yields currently on offer.

Charts of the week: Fading price pressures

US core inflation, excluding shelter, has fallen back close to pre-pandemic levels; this has lent a tailwind to US equities

US core ex-shelter inflation; shelter inflation (3m annualised)



S&P500 index, with key technical levels

Source: Bloomberg, Standard Chartered

Editorial

Disinflationary tailwind

Last week, we set out three conditions for the V-shaped rebound in equities to continue over the coming weeks. The first condition – weaker-than-expected US inflation data for October – has been met, helping support the second – US government bond yields to consolidate around current levels. The third condition – no oil supply disruption from the Israel-Gaza war – remains a risk. Technical factors, including a breakout in US equities and investor positioning, remain supportive of the ongoing equity rally in the near term. Over a 12-month horizon though, we would use any bond yield spikes to add to US and European government bonds as growth and inflation slows.

US disinflation continues: US core inflation, excluding shelter, has fallen to 2.0%, just above the pre-pandemic levels, from last year's peak of 7.6%. Shelter inflation, which propped up core inflation this year, is also decelerating, with forward-looking indicators suggesting this inflation driver is likely to fade by H1 24. Not surprisingly, money markets are no longer expecting another Fed rate hike and are pricing a cut in June.

Technical support for equities: The S&P500 index rose above a key resistance (4,402), breaking out of the downtrend channel and the pattern of "lower lows and lower highs" since July. Investor positioning remains bearish, with both equity and bond markets pricing higher-for-longer rates. This suggests equities can rise further with more dovish macro surprises. Our Fear & Greed indicator is still in "Fear" mode (a contrarian indicator) despite the latest rebound. Investor diversity remains broad-based and thus not a barrier against further equity gains.

Easing near-term political risk: The US Congress's approval of a stop-gap government funding bill averts a near-term government shutdown. Meanwhile, a thaw in US-China relations following the Biden-Xi meeting should also help support short-term sentiment towards Asia ex-Japan equities, where investor positioning is extremely bearish.

Bond yields likely to consolidate near term: While the equity market rally has near-term support, the next leg of the US and European government bond market rally will likely need two factors: (i) clearer signs of job markets cracking and unemployment rising sustainably and (ii) Fed and ECB rate cut expectations brought forward from the middle of next year.

Historically, weekly jobless claims provide an early warning of a deteriorating job market. While continuing jobless claims have risen to a 2-year high, the Christmas shopping season should keep labour demand stable through the year-end (watching the employment component of November PMI data next week).

Apart from these datapoints, investors will be left to read the tea leaves from upcoming commentaries from Fed and ECB officials and minutes of Fed and ECB meetings next week. Fed and ECB officials have already softened their hawkish tone after the recent policy meetings, suggesting policy rates have peaked. However, both Fed Chair Powell and ECB President Lagarde are reluctant to declare the end of rate hikes and have pushed back against rate cut expectations till there are clearer signs of job markets and wage pressures softening further.

Investment implications

Near-term equity upside: Technical factors point to further upside in equities in the next few weeks amid the disinflationary tailwind. S&P500 could test the next resistance around 4,541, followed by 4,607. However, investors with a 12-month horizon will need to stay nimble, watchful of signs of further growth and a job market slowdown. The past 50 years of history show US equities peak an average six months before a recession.

Tilt towards government bonds: For investors with a 6-12-month horizon, increasing allocation towards US and European government bonds is more attractive, given our view that Fed and ECB policy rates have peaked and both US and European economies are likely to slow significantly next year. The US 10-year government bond yield faces strong resistance around 4.6%. We expect the yield to decline at least 100bps over 12 months, offering investors significant capital gains over and above the attractive yields currently on offer.

— Rajat Bhattacharya

The weekly macro balance sheet

Our weekly net assessment: On balance, we see the past week's data and policy as positive for risk assets in the near term

(+) factors: Slowing US, UK inflation, improving China economic data

(-) factors: Rising US jobless claims, Japan economic contraction

	Positive for risk assets	Negative for risk assets
Macro data	• US consumer inflation slowed more than expected to 3.2% y/y (0% m/m); core inflation slowed more than expected to 4.0% y/y (0.2% m/m) • US producer prices rose less than expected by 1.3% y/y (-0.5% m/m) • US retail sales fell less than expected • Euro area ZEW investor sentiment jumped more than expected to 13.8, the highest since March • China factory output, retail sales rose more than expected • China total social financing rose 9.3% y/y as expected • UK consumer inflation slowed more than expected to 4.6% y/y	• US initial and continuing jobless claims rose more than expected, with the latter rising to the highest in almost two years • US industrial production contracted more than expected by 0.6% m/m • China fixed assets investment rose less than expected; property investments declined more than expected • Japan's economy contracted more than expected in Q3 23
	Our assessment: Positive – Slowing US consumer and producer inflation, improving China factory output, retail sales	
Policy developments	• China injected more liquidity via medium-term lending facility	
	Our assessment: Positive – China monetary easing	
Other developments	• US Congress passed stop-gap government funding plan to avert a shutdown • US President Biden and China President Xi had constructive talks	• Moody's cut its outlook on the US sovereign rating to negative
	Our assessment: Neutral – US stop-gap funding plan vs Moody's US outlook cut	

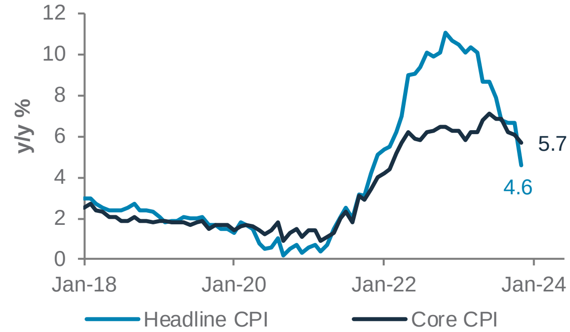
US overall retail sales growth slowed in October after a brief rebound in Q3 23; underlying consumption trends remained resilient

US retail sales, headline and control group*

Source: Bloomberg; Standard Chartered; *excludes autos, building materials, gasoline, office supplies, mobile homes and tobacco

UK's consumer inflation slowed more than expected, reducing the prospect of further BoE rate hikes

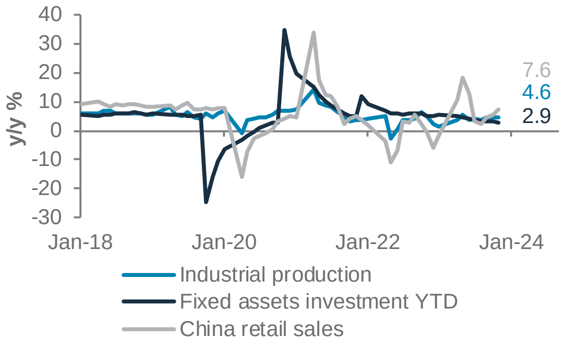
UK headline and consumer inflation



Source: Bloomberg, Standard Chartered

China's retail sales and industrial output rose more than expected, but fixed asset investment remained weak, dragged lower by property investment

China's retail sales, industrial production and fixed asset investment



Source: Bloomberg, Standard Chartered

Top client questions

Do you expect US government bonds to rally further?

The US 10-year government bond yield has retreated by 50bps since the start of November. Such a swift downward move is unusual and was last seen during the Silicon Valley Bank collapse. Softer-than-expected US macro data was likely a key driver that pushed the 10-year bond yield lower towards our three-month expectation of 4.25-4.50%. The Moody's downgrade of the US credit outlook did not come as a surprise to markets. We note US government bond yields previously fell following S&P and Fitch downgrades.

While we continue to expect yields to grind lower over a 6-12 month horizon, this is unlikely to be a one-way move.

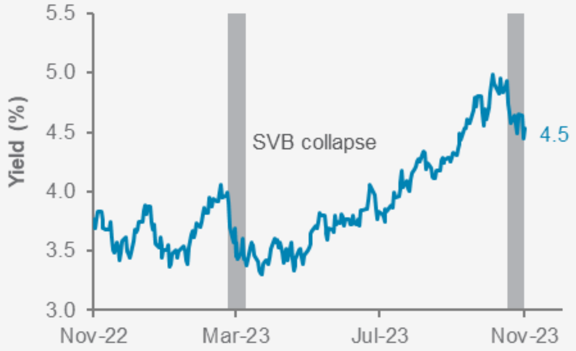
1. The Fed is likely to signal its continued data dependence, leaving room for macro or Fed member speech surprises.
2. Risk-off events, such as a new US government shutdown threat or sovereign rating downgrade, could hurt sentiment.
3. Markets are currently pricing four rate cuts in 2024. A change in these expectations can impact bond prices in the short term, especially if this proves too optimistic.

Technical analysis suggests the 10-year yield is not far from support of 4.40-4.45%. A break of this level lower would likely see the yield test 4.30-4.35%, while resistance is around 4.6%.

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

The speed of the downward move in the US 10-year government bond yield has been unusually rapid

US 10-year government bond yield



Source: Bloomberg, Standard Chartered

Do you expect the recovery in the Chinese equity market to continue?

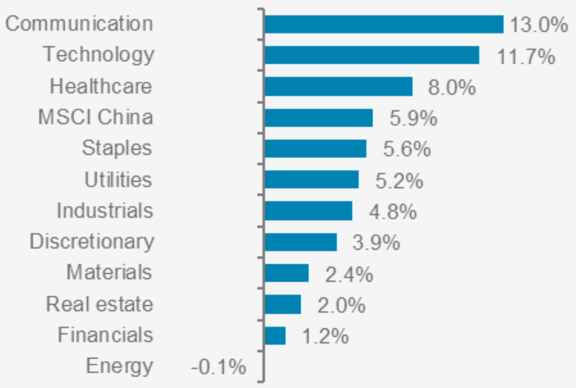
Since MSCI China made a 2023 low on 24 October, it has bounced by 5.9% as US bond yields and the USD fell. Recent Chinese macro data was mixed and the Biden-Xi meeting went as expected although there are signs that US semiconductor restrictions towards China may impact growth in certain industries. We expect ongoing stimulus efforts to stabilise growth in China. MSCI China's earnings growth expectations have been nudged down since the Q3 earnings season started but remains robust at 14-15% per annum in 2023 and 2024. With investor positioning in China equities still below historical levels, we see room for a slow recovery in China equities, provided geopolitical tensions remain stable and the USD remains subdued.

Sector wise, MSCI China's recent bounce has been driven by the communication services (+13%), technology (+12%) and healthcare (+8%) sectors. Healthcare rallied as corruption crackdown concerns eased, while technology was led by idiosyncratic factors. Communication services is our preferred sector, along with consumer discretionary. We continue to expect these two sectors to outperform the broader market, driven by a recovery in consumer spending as growth stabilises and consumer sentiment improves.

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

The MSCI China index has bounced 5.9% since the year's low on 24 Oct, led by the communication services, technology and healthcare sectors

Total return for MSCI China and its sector indices from 24-Oct-2023 to 16-Nov-2023



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

What is the outlook for Japan equities and the JPY?

We remain Overweight Japan equities. MSCI Japan's 2023 consensus earnings growth has been revised up to 7.8% from 7.2% estimated at the end of September 2023, while 2024 earnings growth estimate has been revised up to 8.1%, from 7.4% over the same period. This contrasts with EPS growth estimates that have been revised down for other key regions.

We continue to expect Japan equities to enjoy tailwinds from improving corporate governance and strong foreign investor interest. Improving risk sentiment is a third tailwind that supports the cyclical-heavy Japan equity market.

JPY strength is a risk. BoJ Governor Ueda signalled he would continue to assess the long-term feasibility of the BoJ's ultra-loose monetary policy. However, some recent shakiness in the data, such as the larger-than-expected contraction of Japan's Q3 23 GDP growth, means any tightening could be measured and gradual.

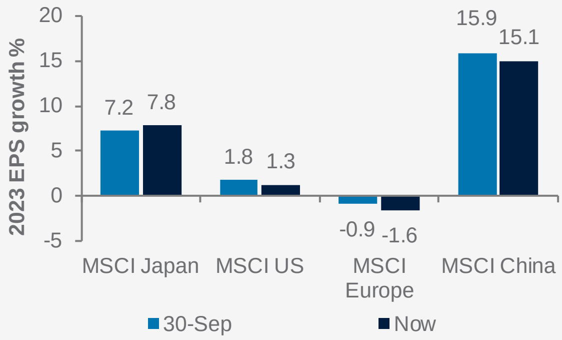
We expect USD/JPY to retreat moderately to its 50DMA at 149.40 in the next few trading sessions, as USD remains under downward pressure in the short-term amid market expectations of Fed rate cuts in 2024. The USD/JPY's 2022 peak of 151.95, which was the highest since 1990, continues to act as a key resistance level for the pair.

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

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

Japan's consensus earnings growth estimates for 2023 have been revised higher

2023 EPS growth (%)



Source: FactSet, Standard Chartered

What is the outlook for the GBP after the latest UK inflation and job market data?

GBP/USD has been under consolidation lately amid mixed fundamental data. The UK employment data showed that Britain's labour market has held up in the face of an economic slowdown. October inflation fell to 4.6%, the lowest in two years. This would normally suggest that the BoE was poised to pause. However, markets still do not expect a rate cut sooner than Q3 24, as previously expected before the data.

We believe the UK-US interest rate differential will likely support GBP/USD and limit downside risk. Technically, indicators such as the Relative Strength Index (RSI) and the MACD signal a neutral or rangebound outlook. We expect the pair to remain rangebound, with a bullish bias, and test its resistance level at 1.2730 in the coming weeks. The 50DMA at 1.2260 acts as a key support. The focus next week will be on retail sales data and the BoE Governor's speeches.

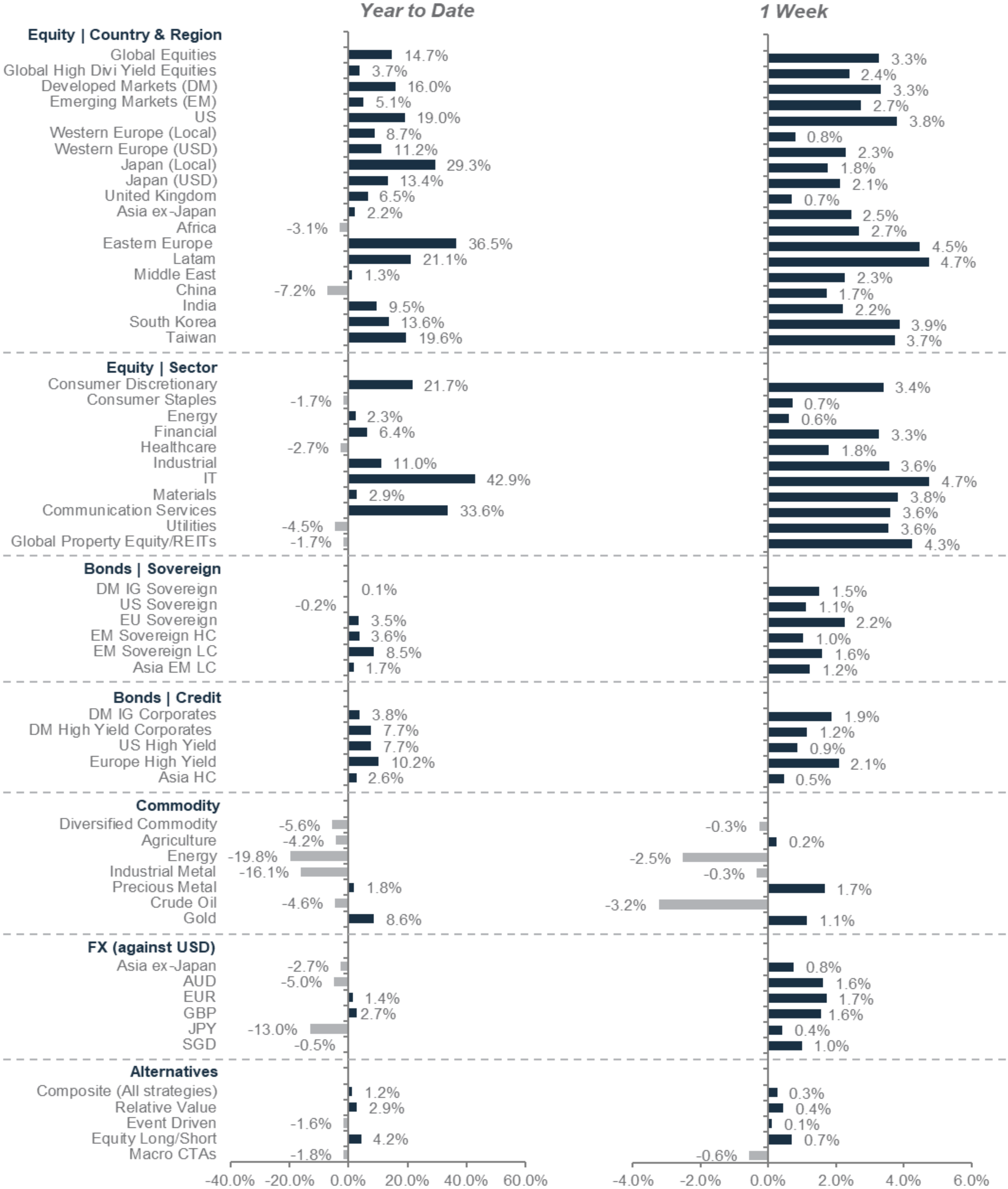
— **Iris Yuen,** *Investment Strategist*

Markets still do not expect a BoE rate cut sooner than Q3 24; the UK-US interest rate differential will likely support GBP/USD

GBP/USD index with resistance and support level

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 16 November 2023; 1-week period: 09 November 2023 to 16 November 2023

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	◆	Europe Technology	▲
Japan	▲	Europe Healthcare	▲
Other EM	◆	China Discretionary	▲
		China Communication	▲
Bonds (Credit)	◆		
Asia USD	◆	**Alternatives**	◆
Corp DM HY	▼		
Govt EM USD	◆	**Gold**	◆
Corp DM IG	◆		
Bonds (Govt)	▲		
Govt EM Local	▲		
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	US	Leading Index	Oct	-0.6%	-0.7%
TUE	US	Chicago Fed Nat Activity Index	Oct	–	0.02
	US	Existing Home Sales	Oct	3.90m	3.96m
WED	US	FOMC Meeting Minutes	Nov		
	US	Durable Goods Orders	Oct P	-3.2%	4.6%
	EC	Consumer Confidence	Nov P	–	-17.9
THU	EC	ECB Account of October Policy Meeting			
	EC	HCOB Eurozone Manufacturing PMI	Nov P	–	43.1
	EC	HCOB Eurozone Services PMI	Nov P	–	47.8
	UK	S&P Global/CIPS UK Manufacturing PMI	Nov P	–	44.8
	UK	S&P Global/CIPS UK Services PMI	Nov P	–	49.5
FRI/SAT	EC	ECB's Largarde speaks at Euro20+ Townhall			
	US	S&P Global US Manufacturing PMI	Nov P	–	50.0
	US	S&P Global US Services PMI	Nov P	–	50.6

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 next support for US 10-year bond yield is at 4.36%

Technical indicators for key markets as of 16 November close

Index	Spot	1st support	1st resis-tance	12m forward P/E (x)	12m forward dividend yield (%)
S&P 500	4,508	4,444	4,540	18.8	1.6
STOXX 50	4,302	4,228	4,346	11.9	4.0
FTSE 100	7,411	7,352	7,478	10.4	4.5
Topix	2,369	2,346	2,382	14.7	2.5
Shanghai Comp	3,051	3,036	3,070	10.1	3.5
Hang Seng	17,833	17,331	18,207	8.3	4.4
Nifty 50	19,765	19,539	19,878	18.8	1.8
MSCI Asia ex-Japan	620	606	628	12.3	2.8
MSCI EM	982	959	994	11.7	3.1
WTI (Spot)	72.9	71.1	76.5	na	na
Gold	1,981	1,954	1,994	na	na
UST 10Y Yield	4.44	4.36	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

Investor diversity has increased across major markets

Our proprietary market diversity indicators as of 16 November

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↑	2.78
Global Equities	●	↑	1.76
Gold	◐	↑	1.50
Equity			
MSCI US	●	↑	1.68
MSCI Europe	●	↑	2.03
MSCI AC AXJ	●	↑	2.11
Fixed Income			
DM Corp Bond	●	↑	1.84
DM High Yield	●	→	1.74
EM USD	●	↑	2.23
EM Local	●	↑	1.77
Asia USD	●	↑	1.96
Currencies			
DXY	●	→	1.74

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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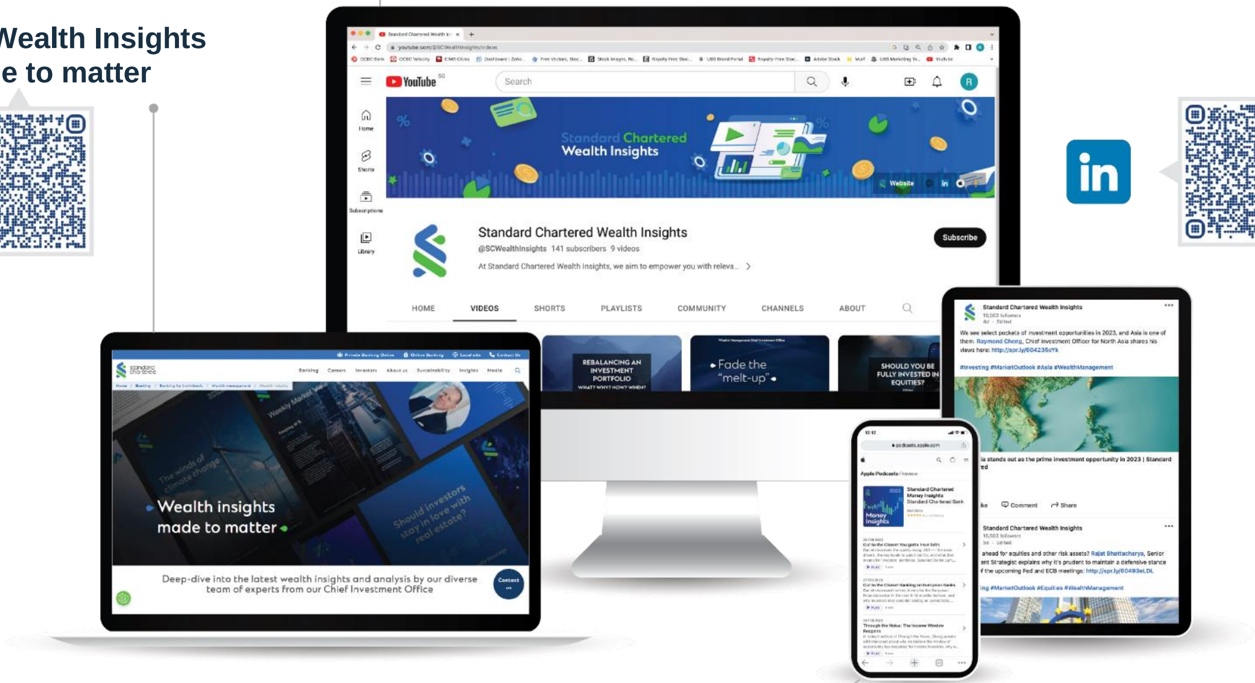

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