



# Weekly Market View

## Fed cut boosts risk sentiment

→ US stocks scaled record highs after the Fed's plan to ease policy significantly over the next couple of years showed central banks are increasingly focussing on supporting growth as inflation cools.

→ Fed rate cuts are likely to help the US economy achieve a soft landing. In this environment, staying invested in a broadly diversified allocation, with an overweight to US equities and the US technology sector in particular, remains attractive, in our view.

→ Bond yields and the USD are likely to consolidate in the near term after their sharp drop heading into the Fed meeting. Any rebound in US government bond yields towards 4% would offer an opportunity to lock in attractive income over the longer term.

→ In FX markets, we see GBP/USD upside in the near-term as the BoE remains relatively hawkish, given still-high UK wage inflation.

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What does history tell us about the performance of bonds after the first Fed rate cut?

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What are the implications of the latest BoE rate decision for the GBP and UK equities?

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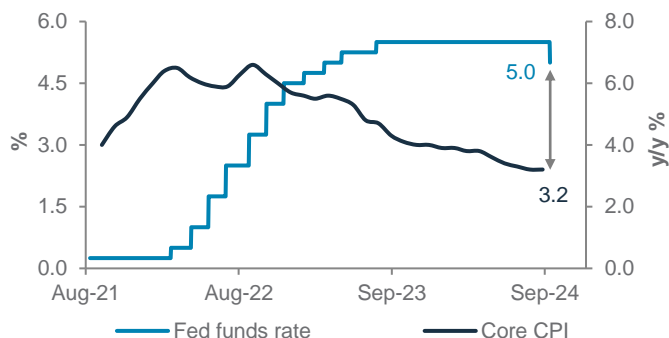
Does Japan's upcoming election have any implication for its financial markets?



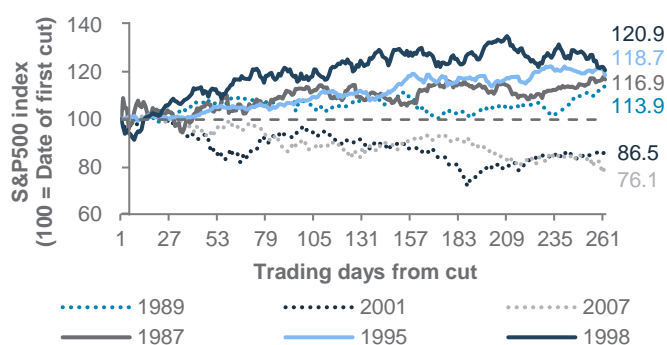
## Charts of the week: Fed has ample scope to ease policy

**Cooling inflation allows the Fed to ease policy substantially; US equities typically perform well when the Fed cuts rates**

Fed funds rate (upper bound) and US core consumer inflation



S&P500 12m trend after past Fed rate cuts\*



Source: Bloomberg, Standard Chartered; \*Fed rate cuts in 1987, 1995 and 1998 resulted in an economic soft-landing, while cuts in 1989, 2001 and 2007 failed to prevent recessions

## Editorial

### Fed cut boosts risk sentiment

The Fed's plan to ease policy significantly over the next couple of years shows central banks are increasingly focussing on supporting growth as inflation cools. Fed rate cuts are likely to help the US economy achieve a soft landing. In this environment, staying invested in a broadly diversified allocation, with an overweight to US equities, remains attractive, in our view. Bond yields and the USD are likely to consolidate in the near term after their sharp drop heading into the Fed meeting. Any rebound in US government bond yields towards 4% would offer an opportunity to lock in attractive income over the longer term. Historically, interest rate sensitive bonds have delivered the best performance in the 12 months after the first Fed rate cut (see page 4). In FX, we see GBP/USD upside in the near-term as the BoE remains relatively hawkish, given still-high UK wage inflation (see page 4).

**Fed plans substantial policy easing:** The US Federal Reserve lowered its policy rate by 50bps, from a 23-year high of 5.5%, slightly exceeding market expectations. It was the largest rate cut at the start of a Fed policy easing cycle since 2007. The Fed also projected a total of 100bps and 200bps of rate cuts by end-2024 and end-2025, respectively, as inflation is seen falling close to its 2% target by 2025. After delivering the outsized cut, Fed Chair Powell sought to assure investors that the Fed would not fall behind the curve as the economy cooled. The inaugural 50bps of cut in the cycle was "a sign of our commitment not to get behind," Powell said.

**Economic backdrop:** The US job market has cooled lately, raising concerns about rising unemployment unless the Fed eased policy. Against this backdrop, a drop in inflation had turned US monetary policy highly restrictive (US headline and core inflation have fallen from cycle peaks of 9.1% and 6% in 2022 to 2.5% and 3.2%, respectively). The decline in inflation

means the Fed has ample capacity to ease policy (see chart). The Fed aims to lower rates towards its long-run estimate of neutral rate (2.9%) over the next two years, thus sustaining the ongoing expansion and boosting business investment.

**Fed policy easing to support an economic soft-landing; US equities to benefit the most:** Equity and bond markets have both gained going into the Fed policy meeting, suggesting markets are pricing in a soft-landing for the US economy. In this scenario, Fed rate cut expectations help lower bond yields, in turn easing financial conditions and supporting economic growth and corporate earnings. Historical trends show Fed rate cuts that were followed by a US soft-landing were positive for US equities over a 12-month period following the start of rate cuts (e.g., soft-landings of 1987, 1995 and 1998 – see chart).

**We stay overweight US equities within a broadly diversified asset allocation.** Fed rate cuts are likely to lower borrowing costs for consumers and businesses. US large corporate balance sheets remain robust and corporate earnings growth outlook remains strong. This is particularly so in growth sectors such as technology, where rising demand for generative artificial intelligence-related equipment and software is driving structural growth. Lower interest rates also help support valuations of long-term growth sector equities. We expect the technology sector to lead US equity outperformance.

**Average into any rebound in bond yields.** Markets are pricing in another ~200bps of rate cuts by end-2025. A Fed path less aggressive than this would likely lift bond yields and the USD in the near term. We would use any bounce in US bond yields towards 4% to lock in an attractive income.

**More GBP upside.** The BoE's decision to hold rates this week amid still-elevated wage growth contrasts with the Fed's outsized rate cut. We see further GBP/USD upside near term, with the next resistance at 1.3480 (see page 4).

## 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:** Resilient US retail sales, factory output, China policy support

**(-) factors:** Weak Euro area factory output, China economic activity

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> <li>US Michigan consumer sentiment rose more than expected to 69.0</li> <li>US Empire manufacturing rose more than expected to 11.5</li> <li>US retail sales rose unexpectedly by 0.1% m/m</li> <li>US factory output rose more than expected by 0.8% m/m</li> <li>US housing starts and building permits rose more than expected</li> <li>US leading index declined less than expected</li> </ul>	<ul style="list-style-type: none"> <li>Euro area factory output fell more than expected by 0.3% m/m</li> <li>Euro area ZEW survey expectations fell to 9.3</li> <li>China total social financing growth fell to a new record-low; private sector and household credit growth contracted</li> <li>China retail sales, factory output and fixed assets investment slowed more than expected to 2.1% y/y, 4.5% y/y and 3.4% y/y, respectively</li> </ul>
	<b>Our assessment: Neutral</b> – Resilient US data vs. soft Euro area data and weakening China economic activity	
Policy developments	<ul style="list-style-type: none"> <li>The Fed cut rates more than expected by 50bps and guided another 150bps of cuts likely by end-2025</li> <li>The PBoC committed to more policy easing</li> <li>The BoJ held its policy rate at 0.25%, as expected</li> </ul>	<ul style="list-style-type: none"> <li>The BoE held rates unchanged at 5% as expected</li> </ul>
	<b>Our assessment: Positive</b> – Fed cuts, China policy support	
Other developments	<ul style="list-style-type: none"> <li>NA</li> </ul>	<ul style="list-style-type: none"> <li>A short-term bill to avoid a US govt. shutdown by October was pulled from the House due to a lack of support</li> </ul>
	<b>Our assessment: Negative</b> – Risk of US govt. shutdown	

### US core retail sales beat expectations, pointing to still-robust consumer demand

US headline and core retail sales



Source: Bloomberg, Standard Chartered

### Euro area growth expectations continue to weaken, while industrial output remains in contraction

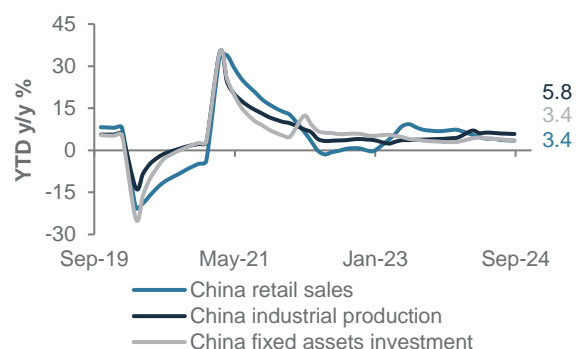
Euro area ZEW survey of economic growth expectations; industrial production



Source: Bloomberg, Standard Chartered

### China's economic activity slowed further, raising the need for further policy stimulus

China retail sales, industrial output and fixed asset investment



Source: Bloomberg, Standard Chartered

## Top client questions

### Q What does history tell us about the performance of bonds after the first rate cut?

While the magnitude was a surprise to some, the Fed delivered on rate cut expectations at its September policy meeting. The Fed also projected a total of 200bps of rate cuts by end-2025, suggesting that this cut is the first of many to come. History shows bonds (government and corporate/EM bonds) deliver positive returns, on average, in the 12 months after the first rate cut of a cycle. Hence, we would use any rebound in bond yields to lock in the income.

Looking deeper into bond sub-asset classes, we observe some variability in post-cut performance. Credit (corporate and EM bonds) generated a higher 12-month average return after the first rate cut, an outcome that could be attributed to the additional yield premium over government bonds. Within credit, Emerging Market (EM) USD government bonds ranked highest in terms of post-cut 12-month returns. This is likely because: 1) Their sensitivity to falling US bond yields is high and comparable to Developed Market (DM) Investment Grade (IG) corporate bonds; 2) their yield premium is relatively high and comparable to that on DM HY corporate bonds.

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

### Q Do the BoE rate decision and the recent economic releases affect our view on the GBP and UK equities?

The BoE kept its policy rate unchanged at 5% this month. Core inflation ticked higher in August, manufacturing and industrial production improved and jobless claims eased. Consensus expects the BoE to cut rates by another 50bp before year-end.

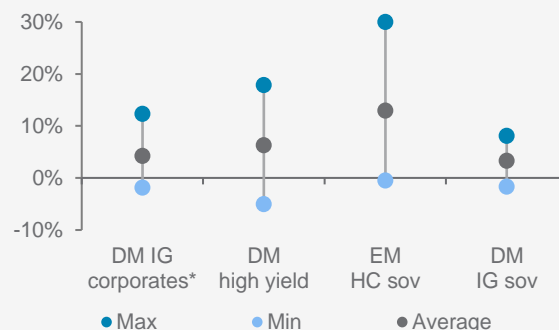
We expect the GBP to remain well-supported, with the BoE proving to be less dovish than the Fed. While positioning is relatively bullish, the momentum indicator (MACD) suggests a bullish crossover in GBP/USD, pointing to upward pressure on the pair near-term. A firm break above 1.3260 could pave the way for a test of the next resistance at 1.3480.

For UK equities, a no-change decision on rates means the financial sector (20% of MSCI UK) will enjoy higher interest income for longer. Beyond financials, UK equities remain relatively defensive, with sectors like consumer staples, healthcare and utilities comprising 37% of UK equities vs. 21% for global equities. The lack of growth sectors like technology can limit relative outperformance, but we nevertheless like UK equities' attractive valuation and defensive qualities amid prevailing uncertainty. We see UK equities as a core holding, expecting them to perform in line with global equities.

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

### EM USD government bonds have historically delivered the highest average returns in the 12 months after the first Fed rate cut of a cycle

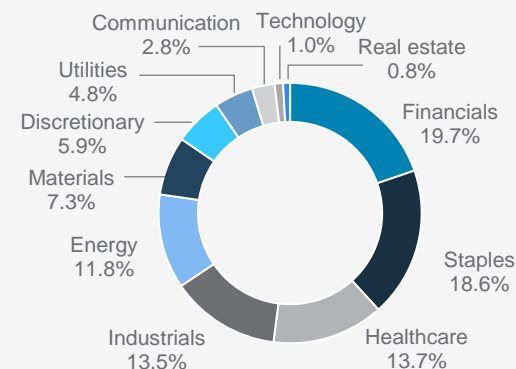
12m returns of bond segments after the first rate cut<sup>^</sup>



Source: Bloomberg, Standard Chartered; <sup>^</sup>Last 5 cutting cycles \*proxied by US IG corporates for a longer data history

### The UK financial sector benefits from interest rates remaining high, while defensive sectors (Staples, Healthcare, Utilities) add to UK equities' resilience

Equity sector composition for UK equities



Source: FactSet, Standard Chartered

### GBP/USD is likely to test resistance near 1.33

GBP/USD and key technical levels



Source: Bloomberg, Standard Chartered

## Top client questions (cont'd)

### Does Japan's upcoming prime ministerial election have any implication for its financial market outlook?

Out of the total of 9 potential Prime Ministerial candidates vying for leadership of the ruling Liberal Democratic Party, polls indicated a tight race among the top 3 candidates in Japan's election next week – Ishiba, Koizumi and Takaichi.

From an equity market perspective, we retain a neutral (core holding) view on the region's equity market. On the positive side, we believe the advocated expansionary policies from candidates ahead of the election mean investor optimism on economic growth and equity market performance is likely to remain well-supported. In addition, resilient macro data (particularly higher-than-expected real wages in July) continues to support the cyclical nature of Japan's equities. Improving corporate governance also support stronger corporate fundamentals.

Having said that, short-term volatility remains a risk as the prime ministerial elections create some uncertainty. The market also remains vulnerable to further strength in the Yen given the export-centric nature of the market. For instance, USD/JPY's move to a 1-year low last week dampened major export-related sectors. This has hurt local currency-denominated performance, though USD-denominated investors have seen greater stability given currency gains helped balance equity weakness. That said, we see opportunities to add to the Japanese banks sector on pullbacks as the BoJ's policy tightening bias is expected to support net interest margins.

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

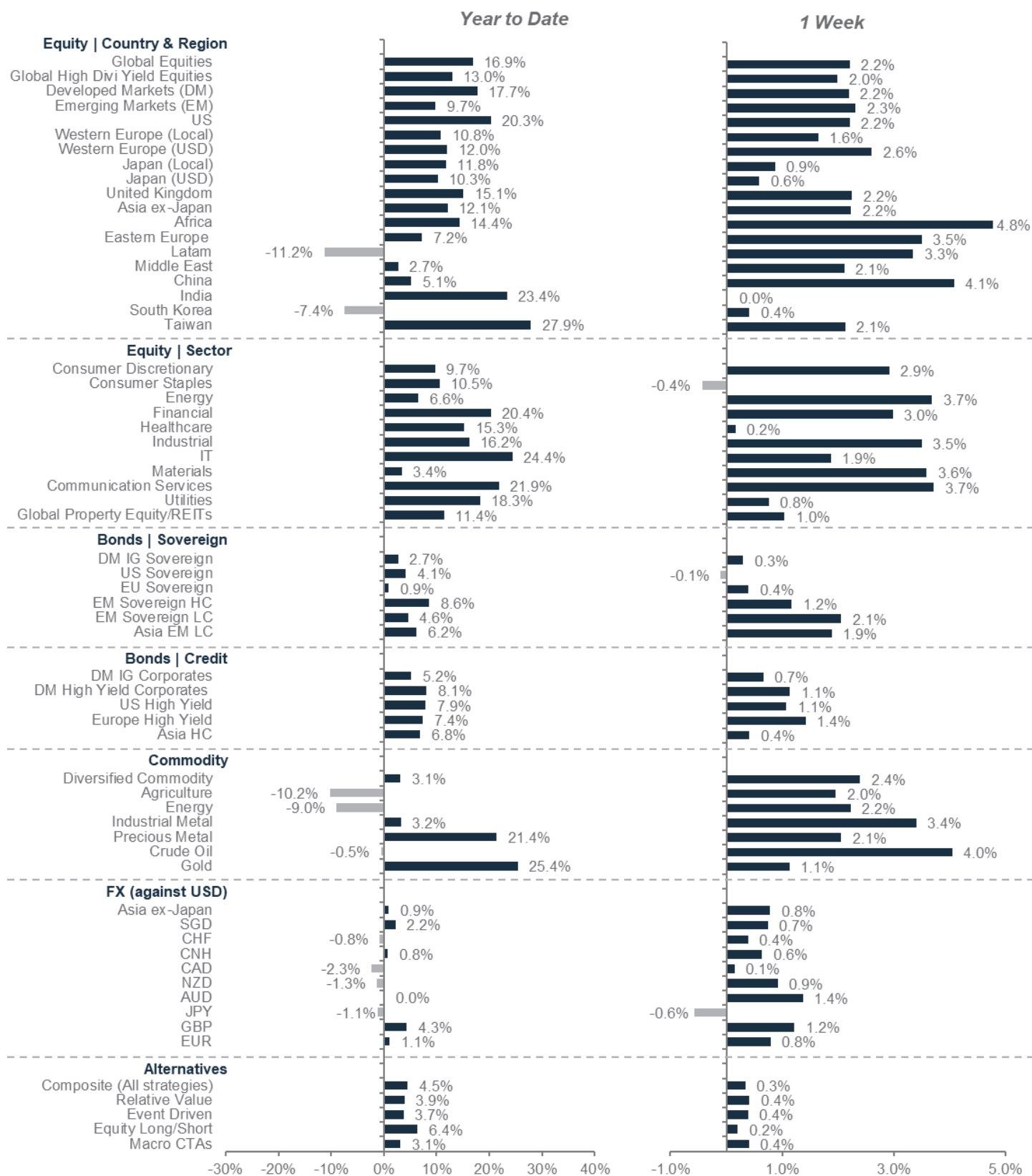
### Japan equities have declined in local currency terms, but resilient macro data and improving corporate governance should provide support

MSCI Japan in USD vs JPY terms



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 19 September 2024; 1-week period: 12 September 2024 to 19 September 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 Healthcare ▲
Asia ex-Japan ◆	US Financials ▲
Japan ◆	Europe Technology ▲
Other EM ◆	Europe Healthcare ▲
	China Communication ▲
<b>Bonds (Credit)</b> ◆	China Discretionary ▲
Asia USD ◆	China Technology ▲
Corp DM HY ◆	India Financials ▲
Govt EM USD ▲	India Industrials ▲
Corp DM IG ▼	India Staples ▲
<b>Bonds (Govt)</b> ◆	<b>Alternatives</b> ◆
Govt EM Local ◆	
Govt DM IG ◆	<b>Gold</b> ▲

Source: Standard Chartered Global Investment Committee

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

### The S&P500 has next interim resistance at 5,831

Technical indicators for key markets as of 19 September close

Index	Spot	1st support	1st resistance	12m forward P/E (x)	12m forward dividend yield (%)
S&P500	5,714	5,500	5,831	21.6	1.4
STOXX 50	4,943	4,789	5,042	13.3	3.7
FTSE 100	8,329	8,193	8,439	12.0	3.9
Topix	2,617	2,503	2,736	13.9	2.6
Shanghai Comp	2,736	2,652	2,858	10.1	3.8
Hang Seng	18,013	17,251	18,489	8.2	4.3
Nifty 50	25,416	24,811	25,816	21.0	1.4
MSCI Asia ex-Japan	705	686	717	12.3	2.7
MSCI EM	1,100	1,068	1,121	11.7	3.0
WTI (Spot)	72.0	65.6	77.9	na	na
Gold	2,587	2,505	2,634	na	na
UST 10Y Yield	3.71	3.56	3.90	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	HCOB Eurozone Manufacturing PMI	Sep P	–	45.8
	EC	HCOB Eurozone Services PMI	Sep P	–	52.9
	UK	S&P Global UK Manufacturing PMI	Sep P	–	52.5
	UK	S&P Global UK Services PMI	Sep P	–	53.7
	US	Chicago Fed Nat Activity Index	Aug	-0.20	-0.34
	US	S&P Global US Manufacturing PMI	Sep P	48.5	47.9
	US	S&P Global US Services PMI	Sep P	55.2	55.7
TUE	US	Conf. Board Consumer Confidence	Sep	102.8	103.3
WED	US	New Home Sales	Aug	693k	739k
THU	EC	M3 Money Supply y/y	Aug	–	2.3%
	US	Durable Goods Orders	Aug P	-2.9%	9.8%
FRI/SAT	CH	Industrial Profits y/y	Aug	–	4.1%
	EC	Economic Confidence	Sep	–	96.6
	US	PCE Price Index y/y	Aug	2.3%	2.5%
	US	Core PCE Price Index y/y	Aug	2.7%	2.6%

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

### Investor diversity has normalised across asset classes

Our proprietary market diversity indicators as of 19 Sep close

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	→	1.29
Global Equities	●	↓	1.65
Gold	●	↓	1.36
<b>Equity</b>			
MSCI US	●	↓	1.70
MSCI Europe	●	↓	1.55
MSCI AC AXJ	●	↑	1.84
<b>Fixed Income</b>			
DM Corp Bond	●	→	1.30
DM High Yield	○	↓	1.24
EM USD	●	↓	1.30
EM Local	○	↓	1.24
Asia USD	●	→	1.34
<b>Currencies</b>			
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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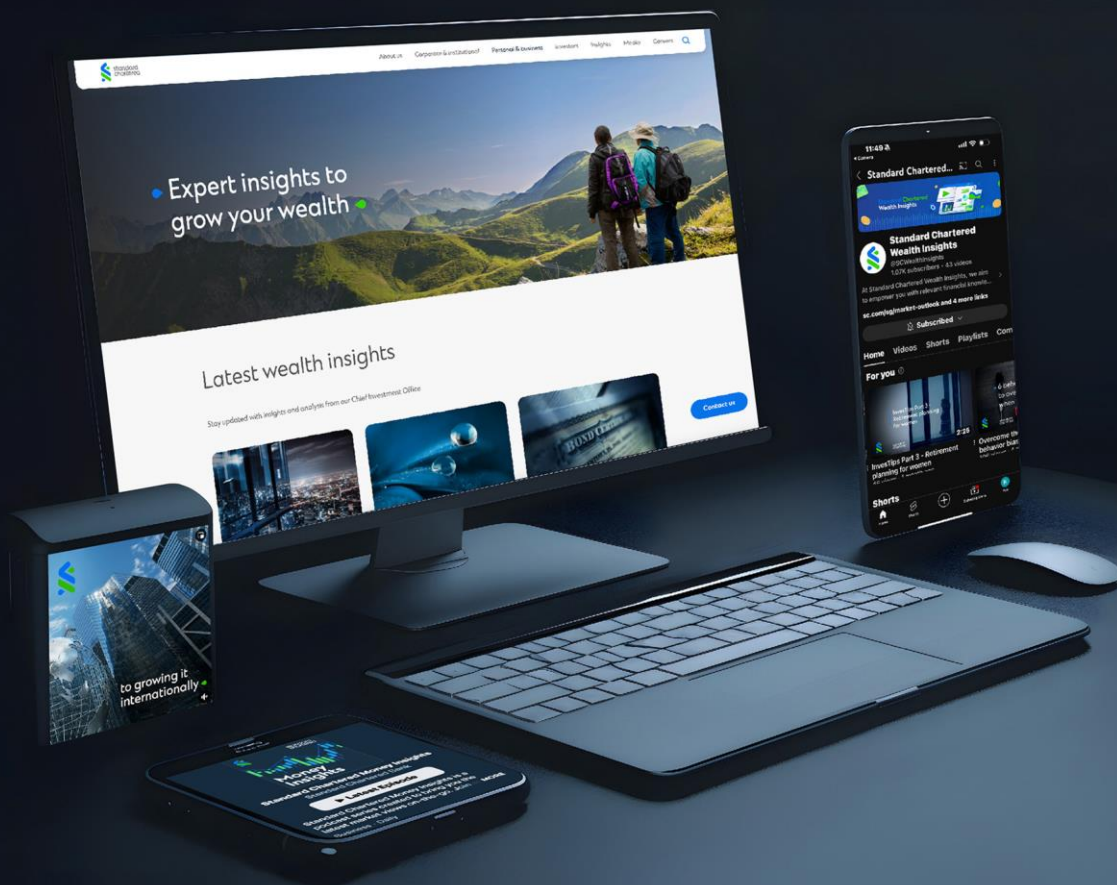
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