



Weekly Market View

Focus on the 'hard' data

→ Global equities broke out into a record high this week, more than recovering the ground lost since President Trump launched – and then scaled back - his 'Liberation Day' tariffs.

→ Although trade tensions have resurfaced, concerns about an all-out trade war have eased, especially after this week's call between Trump and China's President Xi.

→ The upcoming "hard" data for May, in the form of US non-farm payrolls and inflation, will provide the first sign of the impact of US tariffs on real economic activity. Softer US employment and stable inflation could revive Fed rate cut expectations, potentially driving US equities to a new high.

→ We also see further upside in China equities within Asia ex-Japan on potential earnings upgrades, fiscal stimulus and flows into Emerging Markets.

→ Meanwhile, we turn bearish on EUR/JPY as renewed Euro area disinflation trend raises the risk of more ECB rate cuts in H2.

The US tax bill is net earnings positive: add US equities, especially in growth sectors

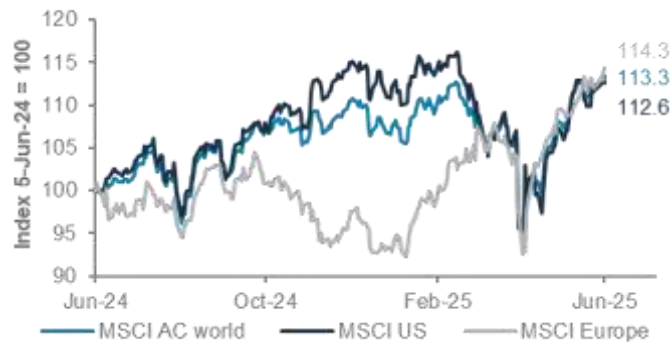
Payment deferral by HK developer is idiosyncratic: Asia USD bonds are core holding

Diverging inflation and policy trends between Euro area and Japan: bearish EUR/JPY

Charts of the week: All-time high

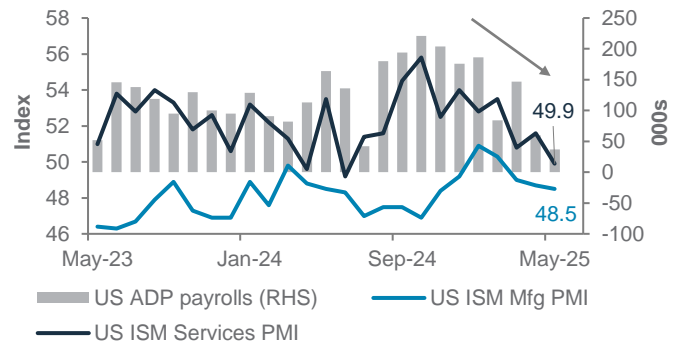
The global equity index rose to a record high; we expect US stocks to follow as soft data leads to Fed rate cuts

MSCI All Country World, US and Europe total return indices*



Source: Bloomberg, Standard Chartered; *Indices rebased to 100 = 5 June 2024

US private sector payrolls, ISM manufacturing & services PMIs



Editorial

Focus on the 'hard' data

Global equities (MSCI All Country World Index) broke out into a record high this week. Stocks have more than recovered the ground lost since President Trump launched – and then scaled back – his 'Liberation Day' tariffs in early April. Although trade tensions have resurfaced, concerns about an all-out trade war have eased, especially after this week's call between Trump and China's President Xi. The upcoming "hard" data for May, in the form of US non-farm payrolls and inflation, will provide the first sign of the impact of US tariffs on real economic activity. Softer US employment and stable inflation could revive Fed rate cut expectations, potentially driving US equities to a new high.

While European equities have led the global rally this year, we expect US equities to catch up. We also see further upside in China equities within Asia ex-Japan on potential earnings upgrades, fiscal stimulus and flows into Emerging Markets. Meanwhile, we turn bearish on EUR/JPY as renewed Euro area disinflation trend raises the risk of more ECB rate cuts in H2.

Trade tensions resurface, then ease. This week, Trump doubled US tariff on steel and aluminium imports to 50%, exempting just the UK, the only market to have signed a preliminary trade pact with the US following 'Liberation Day'. The US president, facing court challenges against his tariffs and criticism that he has gone soft on trade, could seek other legal grounds to impose targeted tariffs to force trade partners to return to the negotiating table. However, we don't see an all-out trade war breaking out, especially after the Trump-Xi phone call which sought to reset US-China trade talks. In April, Trump significantly scaled back tariffs after US stocks, bonds and the dollar tanked. Thus, the so-called "Trump put" remains in place.

Weaker "soft" data. While trade tensions simmer in the backburner, US "soft" business confidence indicators (PMIs) have continued to weaken. The US ISM manufacturing PMI for May missed expectations, remaining contractionary. Meanwhile, ISM service sector PMI, particularly new orders

component, turned contractionary for the first time in almost a year, while 'prices paid' continued to rise.

Resilient "hard" data. Despite weak "soft" data, the so-called "hard" real activity indicators have remained resilient, likely supporting household consumption. One of the timeliest job market indicators – initial jobless claims – is rising but has averaged around 235,000 in May, well below levels that would signal recessionary conditions (the 2007-09 Great Recession was triggered after US claims rose to around 350,000).

US payrolls, inflation expectations. Against this backdrop, the upcoming employment and inflation reports for May are important drivers for markets. The consensus estimates US net job creation slowed to 126,000 in May. A significant miss in the payrolls data, if followed by a relatively stable inflation data next week (consensus estimate for May core inflation: 2.9% y/y, 0.3% m/m) would raise the prospect of the Fed resuming rate cuts from July. This could potentially drive US equities to a new record high. On the contrary, any tariff-driven surge in inflation would delay rate cuts, leading to a short-term consolidation in equity markets. However, we do not expect a significant pullback as investor positioning in US equities remains bearish.

Watching US budget. Trump's "Big, beautiful bill" could potentially upset bond markets if passed in its current form, given soaring deficit projections. We expect cutback to some of the tax incentives. There are some elements of the bill, including tax deductions on R&D, capex and interest expenses, that are net positive for US earnings growth (see page 4).

Bearish on EUR near-term. Continued Euro area disinflation, accentuated by US tariffs, raise the prospect of further ECB rate cuts in H2, following this week's 25bps cut to 2.0%. Euro area core inflation fell sharply to a three-year low of 2.3%. Meanwhile, we see further appreciation in the JPY amid global growth uncertainty. The BoJ is likely to hike rates further as inflation continues to surprise higher, exceeding its 2% target. We see an opportunity to turn bearish on EUR/JPY (page 6).

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: Easing inflation in the US and Euro area; Trump-Xi talks

(-) factors: Weaker US business confidence and payrolls data, cautious Fed, higher US sectoral tariff

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> US headline PCE inflation fell more than expected to 2.1% y/y (0.1% m/m), while core inflation fell to 2.5% y/y (0.1% m/m), as expected US ISM manufacturing new orders and employment PMIs rose US trade deficit narrowed to USD -62bn in April as post-tariff imports dropped Euro area consumer and producer price inflation fell more than expected China Caixin services PMI beat estimates to 51.1 	<ul style="list-style-type: none"> US ISM manufacturing and services PMIs fell unexpectedly to 48.5 and 49.9, respectively US factory orders missed estimates at -3.7% m/m US initial jobless claims rose to a seven-month high of 247,000 in the week ending 31 May China Caixin manufacturing PMI came in below expectations at 50.7
	Our assessment: Neutral – Easing inflation pressures in the US and Euro area vs. weaker US business confidence	
Policy developments	<ul style="list-style-type: none"> ECB cut interest rate by 25 bps to 2.0%, as expected 	<ul style="list-style-type: none"> Fed officials cautioned against cutting rates Bank of Canada kept interest rate unchanged at 2.75% as expected
	Our assessment: Neutral – ECB rate cut vs. cautious Fed	
Other developments	<ul style="list-style-type: none"> Trump-Xi phone call reset US-China trade talks US-EU trade talks showed progress in Paris but there were no breakthroughs OPEC+ announced larger-than-expected hike in oil output 	<ul style="list-style-type: none"> US doubled steel and aluminum tariffs to 50%, while exempting the UK US planned to enact Section 899 in its proposed budget, targeting a new set of "retaliatory" taxes on inbound foreign investment
	Our assessment: Neutral – Trump-Xi phone call, progress in EU trade talks vs rising sectoral tariff	

US ISM service sector 'prices paid' index rose to the highest level since November 2022, while new orders fell in May, below market expectations

US ISM services PMI for new orders and price paid



Source: Bloomberg, Standard Chartered

Euro area core and headline inflation fell more than expected in May

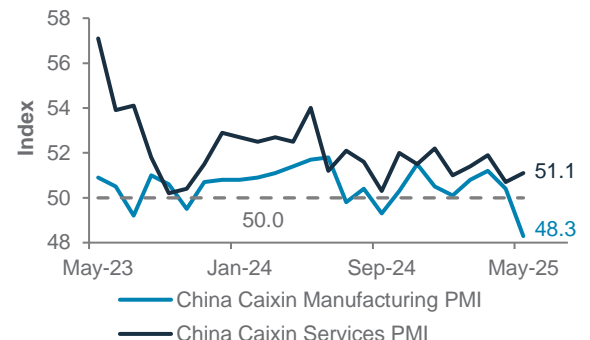
Euro area core and headline inflation



Source: Bloomberg, Standard Chartered

China's Caixin manufacturing PMI fell below the neutral 50.0 mark for the first time in eight months, while services PMI was slightly above expectation

China Caixin manufacturing and service PMIs



Source: Bloomberg, Standard Chartered

Top client questions

Q What are the key takeaways from the HK/China earnings season?

Our view: *We are bullish on China equities over a 12-month horizon, especially favouring the Hang Seng Tech index. This is backed by robust earnings projections across growth sectors.*

Rationale: Over 95% of companies in the MSCI China index have reported their Q1 earnings. In recent weeks, consensus earnings expectations for the MSCI China index in 2025 have been revised lower to 6.3%, reflecting concerns over economic growth and tariff-related policies. However, 2026 projections remain robust at 11.8%. We see **further upside to earnings, supported by a few factors:**

1. **Fiscal stimulus, especially helping technology-related investments.** Earnings expectations for the Hang Seng Tech index in 2026 have been revised higher to 24.6% (from 21.6% at the start of year), while valuations remain attractive, with 12m forward P/E at 16.5x.
2. **USD weakness could drive further rotation into EM equity markets,** benefitting China equities.
3. The latest Trump-Xi call to ease trade tensions could also offer potential tailwinds. While tariff uncertainties persist, progress on US-China trade deals during this 90-day tariff exemption period could support China's exports and earnings growth.

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

Q What are the implications of President Trump's "One Big Beautiful Bill" for US equities?

Our view: *Add exposure to US equities, on pullbacks. The tax bill is net-earnings positive, given extension of tax cuts and various tax deductions on R&D, capex and interest expenses.*

Rationale: **The bill is net-earnings positive.** It benefits corporate earnings by extending existing tax cuts, making certain R&D, capex spend, and more interest expense tax deductible, while reducing tax on foreign income. On the flipside, the withdrawal of green energy credits, and other government policies, such as tariffs and immigration restrictions could negatively impact earnings, while concerns about the fiscal deficit could reduce US equity valuation.

Section 899 of the bill implies higher withholding taxes on dividends for some foreign holders of US equities. This might reduce the attractiveness of dividend yielding stocks, relative to non-dividend paying growth stocks. We continue to expect upside in US equities, underpinned by growth sectors: we favour US-listed semiconductor and the technology software sectors. Investor position normalisation and lower market volatility could drive flows back to US equities.

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

Earnings growth projections for the MSCI China index for 2026 remains resilient at 11.8%

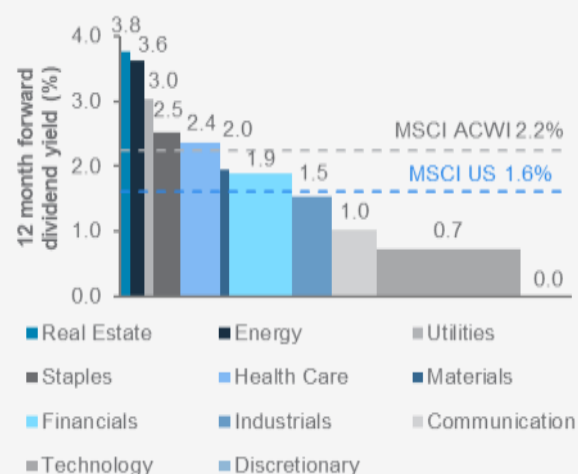
Earnings growth projections for MSCI China index in 2025 and 2026



Source: Factset, Standard Chartered

Growth sectors*, where fundamentals are robust, dominate the US equity market. High-dividend sectors carry less weight

Consensus 12m forward dividend yield of MSCI US sectors**. Horizontal lines for dividend yield of MSCI All Country World and MSCI US indices



Source: FactSet, Standard Chartered

* Technology, communication; **Width of the column represents the sector's weight within MSCI US

Top client questions (cont'd)

Q Will rising long-term Japanese government bond yields hurt Japanese insurers?

Our view: Add Japanese insurer bonds on weakness. The impact of rising bond yields on solvency and profitability is not material due to Japanese accounting principles governing the treatment of domestic bond holdings.

Rationale: Reports indicate that Japanese insurers have been purchasing longer-dated Japanese government bonds (JGBs) and these investments in JGBs pose risks to their financial position due to rising bond yields. We note the increase in JGB yields has led to significant unrealized losses. However, these have been partially offset by substantial unrealized gains in insurers' equity portfolios accumulated over the years.

From an accounting perspective, insurers' liabilities typically have longer duration than their assets. Consequently, **an increase in interest rates would reduce the present value of these liabilities**, potentially leading to mark-to-market gains and increase in shareholders' equity. However, **most Japanese insurers recognize their yen-denominated liabilities and bond holdings at book value** using the amortized cost method under Japanese accounting principles, which **minimizes the impact of fluctuating JGB yields on their capitalization and earnings**.

Furthermore, insurance liabilities are more stable than bank deposits, lowering the likelihood of forced asset sales during periods of market stress. Insurers also tend not to use **leverage in their investment portfolios**, further reducing the risk of disorderly selling in JGBs.

— Ray Heung, Senior Investment Strategist

Q Does the decision by a key Hong Kong property developer to delay its coupon payment impact Asia USD bonds?

Our view: Asian USD bonds remain a core holding. The payment deferral by a Hong Kong property developer is an idiosyncratic event.

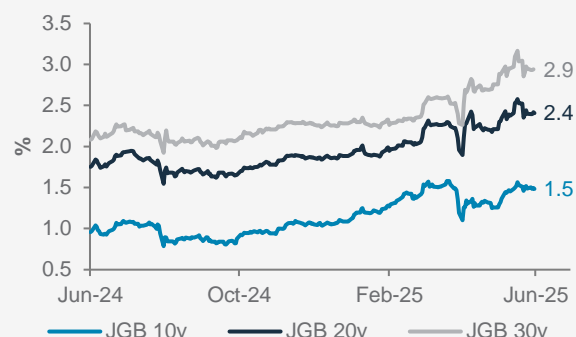
Rationale: The decision by a Hong Kong developer to defer coupon payment has led to a markdown in the developer's perpetual bonds. Perpetual bonds from other Hong Kong property developers have also dropped, in sympathy.

We believe this negative price reaction is primarily linked to the specific liquidity issues of this particular developer, and the spillover impact is not going to significantly affect other Asian bonds. **Most other Hong Kong developers are rated investment grade and have stronger credit metrics compared to the developer in question**. Lastly, the total weight of Hong Kong property developers' bonds in the Asia Bond Index is low, at 1.4%.

— Ray Heung, Senior Investment Strategist

We do not expect material impact on the credit metrics of Japan's insurers from rising long-dated Japanese government bond yields

10-, 20- and 30-year Japan government bonds yields



Source: FactSet, Standard Chartered

The deferral of a perpetual coupon payment by a HK property developer should have limited impact on Asian USD bonds

Asia USD bond index performance (6 June 2024 = 100)



Source: FactSet, Standard Chartered

Top client questions (cont'd)



What is the outlook for the EUR following the latest ECB meeting?

Our view: *We are bearish on EUR/JPY amid diverging inflation and policy rate trends between the Euro area and Japan.*

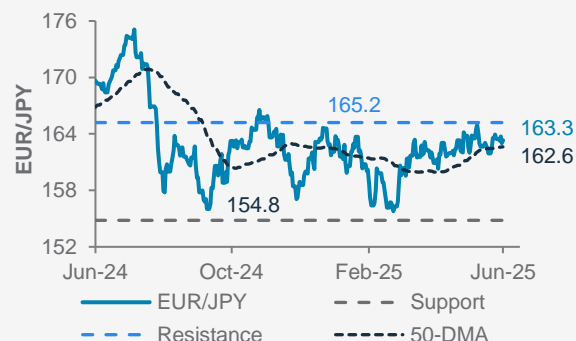
Rationale: This week, the ECB cut its deposit rate by 25bps to 2.0% as expected. The ECB also revised its inflation forecasts for 2025 lower to 2%, from 2.3% in March. For 2026, the average increase in consumer prices is projected at 1.6% (previously 1.9%), and for 2027, the ECB maintained its inflation forecast of 2%. Against this disinflationary backdrop, we see risks of further policy easing in H2, especially if the US reinstates reciprocal tariffs after the latest pause. We see EUR/USD falling towards 1.1250 (50-day MA) this week.

However, we see more compelling value in a bearish EUR/JPY idea. We see **further strength in JPY on safe haven demand due to ongoing trade and global growth uncertainty. We expect the BoJ to continue hiking rates as Japan's inflation continues to run above its 2% target.** Japan's recent consumer inflation exceeded expectations. Technically, a firm break in the EUR/JPY pair below 162.5 (50-Day MA) can pave the way for a test of 158.3.

— Iris Yuen, Investment Strategist

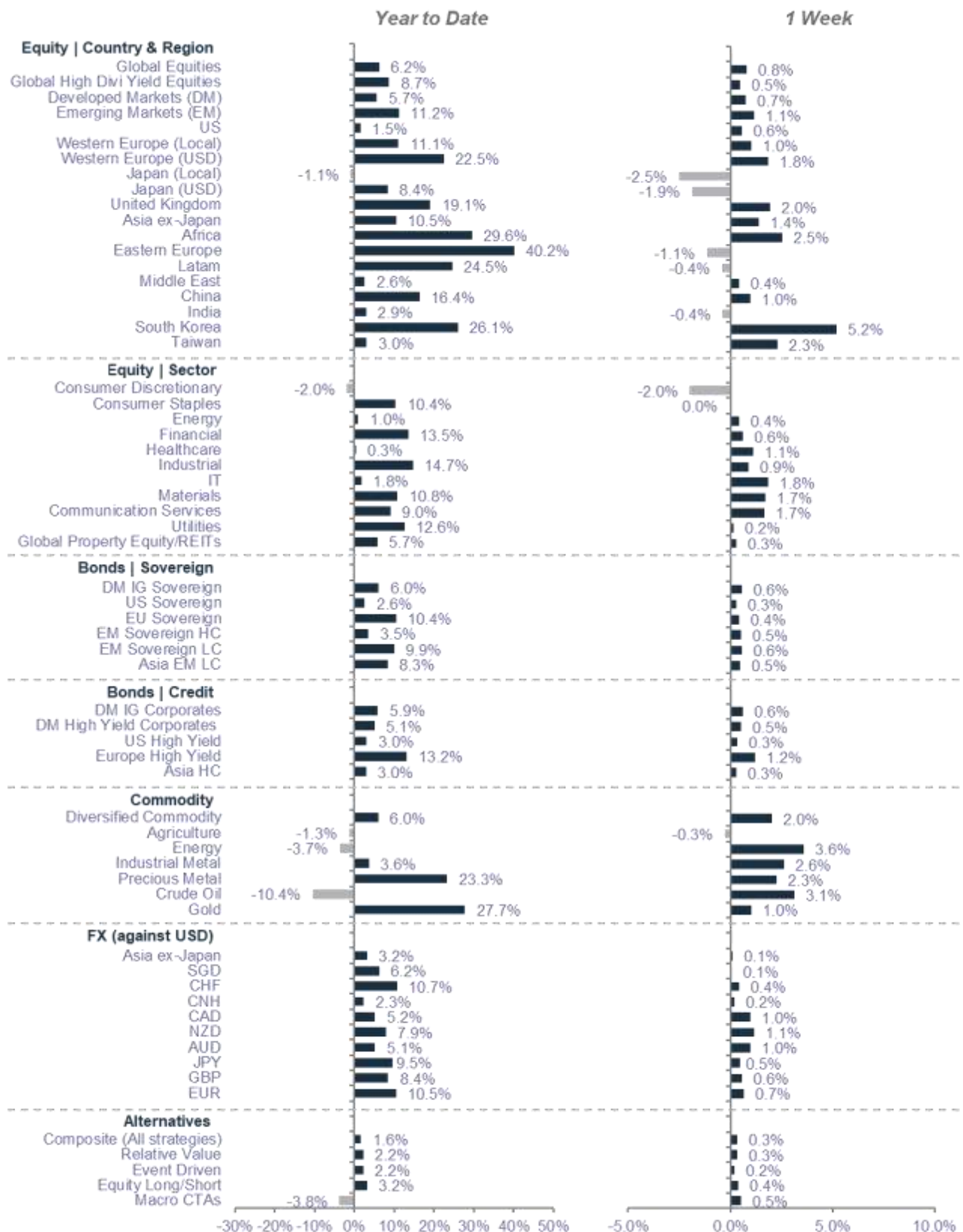
We expect EUR/JPY downside, with support at 158.3

EUR/JPY and key moving averages



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, 2025 YTD performance from 31 December 2024 to 5 June 2025; 1-week period: 29 May 2025 to 5 June 2025

Our 12-month asset class views at a glance

Asset class		
Equities	▲	Preferred Sectors
US	▲	US Financials ▲
Europe ex-UK	◆	US Communication ▲
UK	▼	US Technology ▲
Asia ex-Japan	◆	Europe Technology ▲
Japan	◆	Europe Communication ▲
Other EM	◆	Europe Industrials ▲
		Europe Financials ▲
Bonds (Credit)	◆	China Technology ▲
Asia USD	◆	China Communication ▲
Corp DM HY	◆	China Discretionary ▲
Govt EM USD	◆	India Healthcare ▲
Corp DM IG	◆	India Discretionary ▲
		India Financials ▲
Bonds (Govt)	◆	
Govt EM Local	◆	Alternatives ◆
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 6,100

Technical indicators for key markets as of 5 June close

Index	Spot	1st support	1st resis- tance	12m forward P/E (x)	*12m dividend yield (%)
S&P 500	5,939	5,679	6,100	21.7	1.4
STOXX 50	5,411	5,258	5,515	15.0	3.3
FTSE 100	8,811	8,604	8,929	13.1	3.7
TOPIX	2,756	2,683	2,822	14.5	2.8
Shanghai Comp	3,384	3,308	3,439	12.5	3.1
Hang Seng	23,907	22,932	24,400	10.4	3.4
Nifty 50	24,751	24,086	25,266	20.4	1.5
MSCI Asia ex-Japan	771	746	784	13.2	2.6
MSCI EM	1,183	1,148	1,201	12.4	2.9
WTI (Spot)	63.4	58.9	66.0	na	na
Gold	3,353	3,171	3,485	na	na
UST 10Y Yield	4.39	4.22	4.59	na	na

Source: Bloomberg, Standard Chartered; *as at close of 5 June 25

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

	Market	Event	Period	Expected	Prior
MON	CNH	PPI y/y	May	-3.0%	-2.7%
	CNH	CPI y/y	May	-0.2%	-0.1%
	CNH	Trade Balance	May	\$100.20b	\$96.18b
TUE	EUR	Sentix Investor Confidence	Jun	–	-8.1
	USD	NFIB Small Business Optimism	May	95.9	95.8
WED	USD	CPI y/y	May	2.5%	2.3%
	USD	CPI Ex Food and Energy y/y	May	2.9%	2.8%
THU	USD	PPI Final Demand y/y	May	–	2.4%
	USD	PPI Ex Food and Energy y/y	May	–	3.1%
	USD	Initial Jobless Claims	7-Jun	–	–
	USD	Continuing Claims	31-May	–	–
FRI/SAT	USD	U. of Mich. Sentiment	Jun P	52.0	52.2
	USD	U. of Mich. 1yr Inflation	Jun P	–	6.6%
	USD	U. of Mich. 5-10yr Inflation	Jun P	–	4.2%

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 June close

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	○	→	1.39
Global Equities	●	↑	1.64
Gold	○	↑	1.39
Equity			
MSCI US	●	↑	1.72
MSCI Europe	●	→	1.55
MSCI AC AXJ	●	↓	1.62
Fixed Income			
DM Corp Bond	○	→	1.45
DM High Yield	●	→	1.55
EM USD	●	↑	1.73
EM Local	○	↓	1.28
Asia USD	●	↑	1.93
Currencies			
EUR/USD	○	↑	1.37

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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InvesTips

from the CIO's desk

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