

Weekly Market View

G7 rate cuts begin

→ The Bank of Canada (BoC) and the European Central Bank (ECB) kicked off the G7 central bank rate cutting cycle with the goal of supporting growth, as long as disinflation continues.

→ Although the Fed is likely to hold rates next week, a slowing US job market and renewed disinflation supports our view that the Fed will start cutting rates in H2, likely as early as Q3.

→ We believe proactively easing central banks, which is helping pull bond yields lower, are positive for risk assets, especially US equities, in the coming months.

→ Meanwhile, India's ruling National Democratic Alliance, spurred by a weaker-than-expected election mandate, is likely to increase spending in the rural economy and infrastructure. This should support corporate earnings growth, boosting Indian large-cap equities.

What's next for US government bond yields after this week's down move?

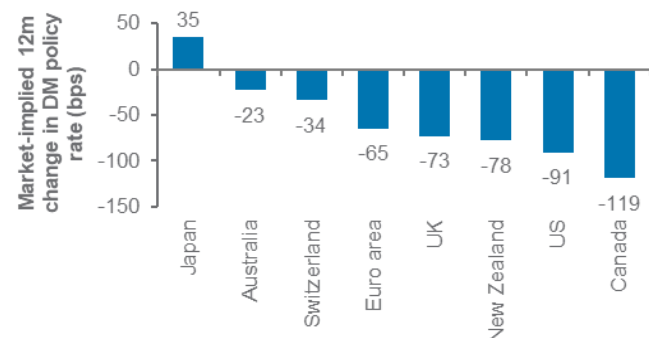
What is the outlook for Indian equities and bonds after the latest elections?

What is the outlook for major currencies as central banks start to cut rates?

Charts of the week: Pre-emptive cuts

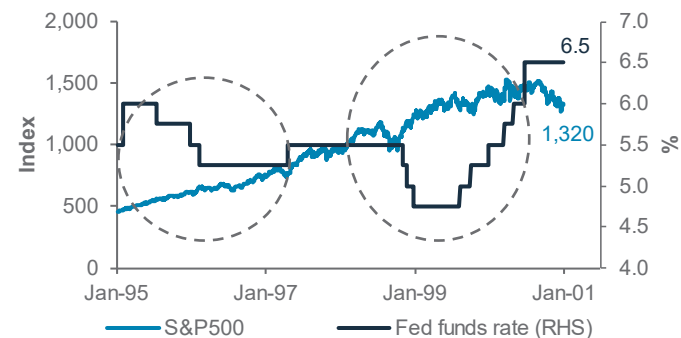
Developed Market (DM) central banks are likely to ease policy further to support growth; this is likely positive for equities

DM central bank policy rate cut expectations* in next 12 months



Source: Bloomberg, Standard Chartered; *based on money markets

Fed policy rate and S&P500 index during 1995-2000



Editorial

G7 rate cuts begin

The Bank of Canada (BoC) and the European Central Bank (ECB) kicked off a rate cutting cycle by the Group of Seven (G7) central banks this week. Although the Fed is likely to hold rates next week at a more than two-decade high, a slowing US job market and renewed disinflation supports our view that the Fed will start cutting rates in H2, likely as early as Q3. The aim of these central banks is to pre-emptively ease multi-decade high policy interest rates to support growth and avoid a recession, if disinflation continues. We believe proactively easing central banks, which is helping pull bond yields lower, are positive for risk assets, especially US equities, in the coming months.

In Emerging Markets (EM), we like EM USD bonds, which are likely to benefit from renewed flows into Emerging Market debt as G7 central banks cut rates. Meanwhile, India's ruling National Democratic Alliance, spurred by a surprisingly weak election mandate, is likely to increase spending in the rural economy and infrastructure. This should support corporate earnings growth, boosting Indian large-cap equities.

More G7 rate cuts coming: The BoC and ECB rate cuts were widely anticipated. Inflation in Canada has fallen within the BoC's 1-3% target, while Euro area inflation is gradually declining towards the ECB's 2% target (although inflation in May ticked up slightly). US inflation has been stickier, though, which means the Fed is likely to hold off from cutting rates next week. Nevertheless, we expect the Fed to start cutting rates in Q3 if recent data signalling renewed disinflation and weakness in the job market continues for a few more months.

Watching incoming data: The chances of a Fed rate cut in July will rise if today's monthly payrolls data for May falls significantly below the 175,000 level and next week's core consumer inflation for May (consensus: 0.3% m/m) shows continued disinflation. The US job vacancy rate, a leading

indicator for the job market and wage growth, has declined to 4.8%, approaching the 4.5% mark, when the unemployment rate is likely to start rising sharply. The Institute of Supply Management's business confidence indicator suggested renewed contraction in US manufacturing activity in May. As a result, the Atlanta Fed's GDPNow estimate for Q2 US GDP growth has fallen sharply from 4+% a few weeks ago to 1.8%.

Investment implications: G7 rate cuts are positive for risk assets overall. Early rate cuts by the Fed will be key. The Fed has achieved the so-called economic soft landing before – in the second half of the 1990s - helping extend the business cycle. As a result, US stocks rallied through to 2000.

Prefer US technology and communication services: While we remain constructive on risk assets amid G7 rate cuts, we believe US equities are likely to see the strongest upside amid upbeat outlook for technology and communications services on AI-driven earnings upgrades. This week's sharp pullback in bond yields also benefit these two sectors the most and keeps the economic soft-landing/Goldilocks thesis alive. The two sectors are driving corporate earnings estimates for 2024 and 2025. Also, US presidential election years have historically been positive for US equity market returns.

Opportunities in India: We continue to see opportunities in Indian large-cap equities amid political and policy continuity after the elections. There is scope for near-term volatility as coalition partners negotiate key cabinet positions. However, India's economic and corporate earnings growth outlook is likely to get a further boost from increased government spending. The reduced mandate for the ruling NDA alliance is likely to lead to sharper focus on rural, infrastructure and green energy spending to significantly boost job creation. This should be positive for consumption (two wheelers, tractors, etc.) and infrastructure-related and green energy sectors (solar power, electric vehicles) (see more on 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

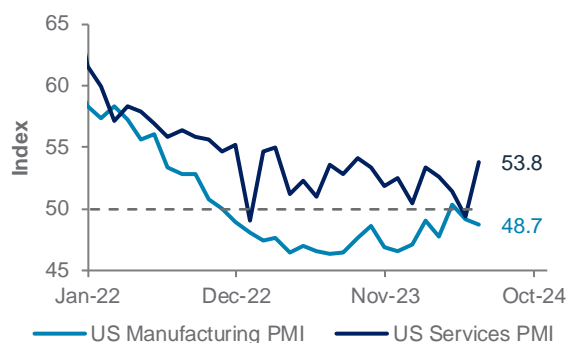
(+) factors: Cooling US inflation, robust China Caixin PMI data

(-) factors: Weaker US manufacturing activity, labour market

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> US headline and core PCE inflation were unchanged at 2.7% y/y and 2.8% y/y, respectively; core PCE inflation slowed to 0.25% m/m in April from upwardly revised 0.33% in March US ISM services PMI rose more than expected to 53.8 US S&P manufacturing PMI revised higher to 51.3 Euro area producer prices fell more than expected China's Caixin manufacturing and services PMI rose more than expected to 51.7 and 54.0, respectively <p>Our assessment: Neutral – Cooling US inflation, healthy US services activity, robust China Caixin PMI vs rebound in Euro area inflation, weaker US manufacturing activity and labour market</p>	<ul style="list-style-type: none"> US ISM manufacturing PMI fell unexpectedly to 48.7 US Chicago PMI fell unexpectedly to 35.4 US job openings fell more than expected to 8.05m; private payrolls rose less than expected by 152,000 Euro area headline and core consumer inflation rose more than expected to 2.6% y/y and 2.9% y/y, respectively Euro area retail sales contracted more than expected
Policy development	<ul style="list-style-type: none"> ECB and BoC cut rates by 25bps, as expected <p>Our assessment: Positive – Start of G7 central bank rate cuts</p>	<ul style="list-style-type: none"> ECB ruled out another rate cut in July
Other developments	<ul style="list-style-type: none"> NA <p>Our assessment: Negative – Weaker ruling party mandate in India</p>	<ul style="list-style-type: none"> India's ruling National Democratic Alliance won the general elections with a significantly reduced majority S&P Global downgraded France's credit rating by 1 notch to AA-, citing a worsening budget position

US services sector activity remained resilient in May, but manufacturing activity in larger companies contracted unexpectedly

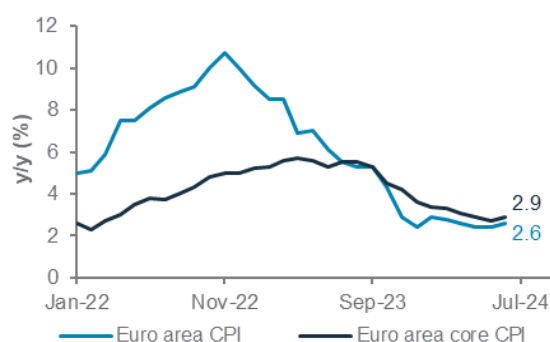
US ISM* services and manufacturing sector PMIs



Source: Bloomberg; Standard Chartered; *Institute of Supply Management PMIs mostly reflect business confidence among large multinational companies

A surprise pick-up in Euro area inflation in May makes the path of ECB rate cuts less clear after it delivered the first cut of this cycle this week

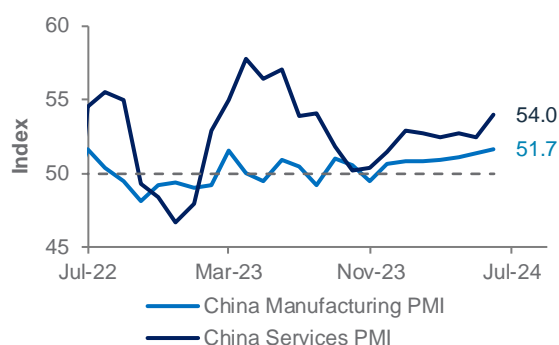
Euro area headline and core inflation



Source: Bloomberg, Standard Chartered

China's small-scale business confidence picked up in May amid resilient exports, though slowing export orders point to a slowdown in H2

China's Caixin* manufacturing and services sector PMIs



Source: Bloomberg, Standard Chartered; *Caixin PMIs reflect business confidence among the smaller export-oriented firms

Top client questions

Q What's next for US government bond yields after this week's down move?

US government bond yields took a leg lower this week as core PCE inflation cooled further and key growth and jobs market data, including ISM manufacturing, JOLTS and ADP, pointed to slowing growth. US economic surprises fell deeper into negative territory, while the Atlanta Fed GDP nowcast saw a marked downshift to 1.8% from 3.52% two weeks ago. Markets are now back to pricing a first Fed cut in September. The 10-year US government bond yield is currently trading close to the lower bound of our three-month target range. In our view, the next leg of decline hinges on three factors:

- 1) **Fed rate expectations** – Next week's Fed policy meeting should offer some guidance on the path for rates. Critically, we would watch the Fed's assessment of recent data closely.
- 2) **Continued disinflation** – April's inflation data was a break from three straight months of higher-than-expected readings. Next week's inflation release is likely to help gauge whether April's data is indeed a resumption of the disinflationary trend.
- 3) **Weakening labour market** – The US job vacancy rate and jobless claims point to a deterioration in the jobs market last month. The upcoming non-farm payrolls release will be crucial for confirming this trend/assumption.

We believe these factors argue for a core holding view on Developed Market Investment Grade government bonds. Any rebound in yields would be an opportunity to lock-in the higher yields.

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

Q What is the outlook for the USD, the EUR and the JPY as G7 central banks start to cut rates?

ECB cut rates by 0.25% to 3.75%, as markets expected, but its 2024 and 2025 inflation forecasts were revised up. Another rate cut in July appears unlikely given recently higher inflation and wage growth. Meanwhile, recent US economic data has been mixed – manufacturing sector and labour market are cooling, inflation remains sticky, service sector is improving and markets expect the Fed will cut rates only in late Q4.

A dovish shift at the Fed's policy meeting next week could pave the way for the USD index (DXY) to soften. For now, though, we expect EUR/USD to trade in a range between 1.0790 and 1.0980 over the next 2-4 weeks. The BOJ policy meeting next week will be closely watched too, with rising expectations of a rate hike in late Q3. Any surprise discussion of the Bank reducing bond purchases could act as a catalyst for USD/JPY to trade towards 150.90 in the next 2-4 weeks.

— **Iris Yuen, Investment Strategist**

Disappointing growth and labour data weighed on bond yields over the past week

US 10-year government bond yield, economic surprise index



Source: Bloomberg, Standard Chartered

Real (net of inflation) US-Japan bond yield differential is likely to decline; this points to downside risk for the USD/JPY

US-Japan real bond yield differential and USD/JPY



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q Japan equities have been underperforming other markets lately. What is the outlook from here?

Japan equities performed in line with global equities over the past year (in USD terms) up to the end of March 2024 and have started to lag since. A weaker JPY has been one driver of this underperformance. Our technical model anticipated short-term weakness when it moved to a 'Downtrend' regime at the start of April based on momentum and volatility factors. This short-term model remains on a 'Downtrend', pointing to a high likelihood of further underperformance in the near term. Our longer-term fundamental view, however, remains unchanged, and we still expect Japan equities to outperform global stocks over the next 6-12 months.

We believe the JPY will strengthen versus the USD over the next 12 months, driven by divergent monetary policies, with rate hikes expected in Japan and rate cuts expected in the US. Hence, for investors outside of Japan, investing in Japan equities without hedging currency exposure is more attractive, in our view, to benefit from a stronger JPY. In addition, Japan stocks continue to look attractively valued at a 10% discount to global equities on a P/E basis compared to a long-term historical average of a 4% premium. This comes at a time of significant corporate changes involving greater share buybacks and dividend increases, supporting our positive view of Japan equities over 6-12 months.

— Fook Hien Yap, *Senior Investment Strategist*

Q Do you expect a further decline in oil prices following the OPEC's decision to taper output cuts?

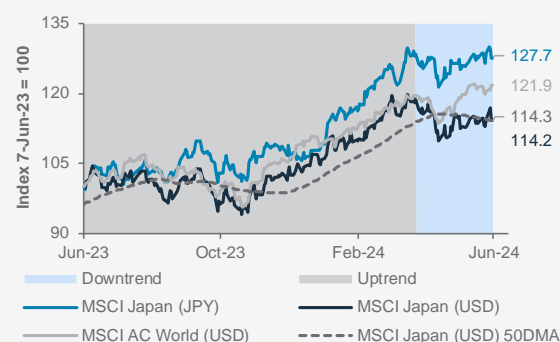
OPEC+ has extended its output cuts, in line with expectations. However, it surprised markets by signalling a gradual tapering of the third round of cuts over a one-year period starting Q3. While the bloc caveated that "this monthly increase can be paused or reversed, subject to market conditions", production hikes are accounted for in the respective members' production schedules, suggesting a high commitment to phase out supply cuts given the elevated spare capacity – a risk we flagged previously. The other key development is the resolution of the long-standing issue over the UAE's production levels, which removes a supply overhang.

Crude oil prices fell out of May's trading range as a result, exacerbated by weak US and China growth data. The intensification of speculative selling added to the down move. We see the market reaction to the OPEC+ meeting to be excessive in the short term, as (i) the output cut extension is likely to keep oil markets tight in the near term; (ii) net short positioning appears increasingly stretched; and (iii) the USD 70/bbl level is an area of strong technical support.

— Zhong Liang Han, *CFA, Investment Strategist*

Japan equities (in USD terms) underperformed global equities in recent months due to JPY weakness. Our technical model anticipates further underperformance near-term but we are fundamentally positive over 6-12 months

Performance of MSCI Japan in JPY and USD terms and MSCI AC World indices, normalised



Source: Bloomberg, Standard Chartered; 'Uptrend' and 'Downtrend' regimes are based on our proprietary technical model

OPEC+ extended all three rounds of cuts but guided that it will start tapering the extra voluntary cuts after Q3

Details of OPEC+ output cuts

Type of cut	Amount (mb/d)	Announcement date	Extended date	Countries involved
Group	2.00	Oct-22	Q4 25	All OPEC+ members
Voluntary	1.66	Apr-23	Q4 25	Saudi Arabia, Russia, Iraq, UAE, Kuwait, Algeria, Kazakhstan, Oman, Gabon
Extra voluntary	2.20	Nov-23	Q3 24	Saudi Arabia, Russia, Iraq, UAE, Kuwait, Algeria, Kazakhstan, Oman

Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q What is the outlook for India equities and bonds after the latest elections?

India equities saw their steepest decline since March 2020 and bond yields jumped after a weaker-than-expected performance of the Bharatiya Janata Party (BJP)-led alliance at the latest general elections. While the broader National Democratic Alliance (NDA) won 293 lower house seats out of a total 543, crossing the 272-majority mark, the BJP's 240 seats were much lower than the seats won in the 2014 and 2019 elections. Markets recovered later in the week after pre-poll alliance partners in the NDA extended their support to Prime Minister Modi as the leader of the alliance, paving way for his return to office for a third time.

India's election playbook over the past three decades offers a key insight. Coalition governments do not mean weaker growth. Over the past 33 years, India has had only two governments out of eight, in 2014 and 2019, where a single party won a majority. However, GDP growth has averaged over 6.1% y/y over this period. Further, the strength of past governments appears to have had a limited impact on markets beyond the very short term. Over a government's 5-year tenure in office, economic growth dynamics, policy choices, corporate earnings and global factors have generally been more important drivers of performance. The Nifty index delivered an average c.15% return during the past six coalition regimes. That said, interim unstable coalitions have led to weak equities performance. In our view, India remains on a strong footing by these parameters based on its resilient post-pandemic recovery, improved macro stability and strong corporate earnings performance.

The upcoming annual budget for FY2025 will offer more insights on the government's policy priorities. Improved fiscal balance following the RBI's record INR 2.1tn dividend payment could help the government balance its growth aspiration through continued focus on infrastructure, increased support for rural growth and welfare spending, without jeopardising fiscal consolidation. This could aid policy efforts of the past decade that focused on bringing governance efficiency, rationalizing tax, boosting domestic manufacturing and macro stability. In our view, this sets a strong base for robust growth momentum in the coming years and supports the 12-month outlook for Indian equities and bonds. We would stay the course on Indian assets than react to the surprise election verdict.

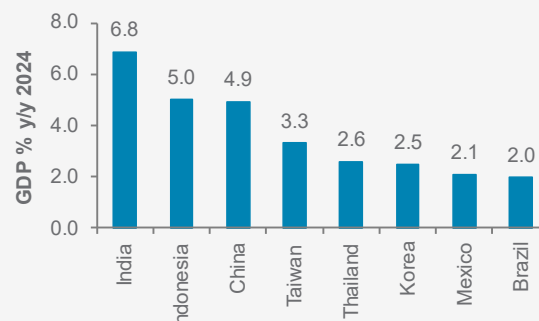
Within equities, we maintain our Overweight on large-cap equities, given our view that it offers a higher margin of safety in terms of earnings and valuations. We also believe Indian onshore bonds, especially medium- and long-term maturity bonds, offer attractive yields, given the outlook for policy rate cuts, improving international demand for onshore bonds following their inclusion in global bond indices and continued fiscal discipline amid robust tax collection.

A key risk to our view is an unstable coalition that could trigger sharp market volatility in the near term.

— Ravi Kumar Singh, Chief Investment Strategist, India

India is likely to remain the world's fastest growing major economy as the government boosts rural and infrastructure spending

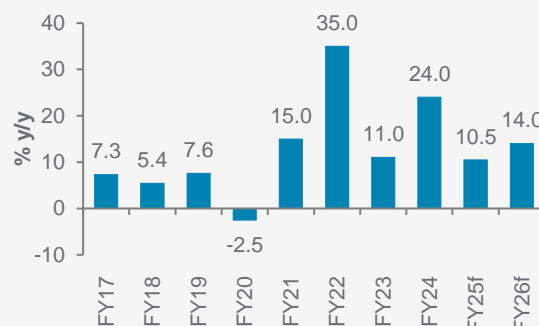
Consensus GDP growth estimates for 2024



Source: Bloomberg, Standard Chartered

India's corporate earnings are likely to be lifted by the government focus on domestic consumption

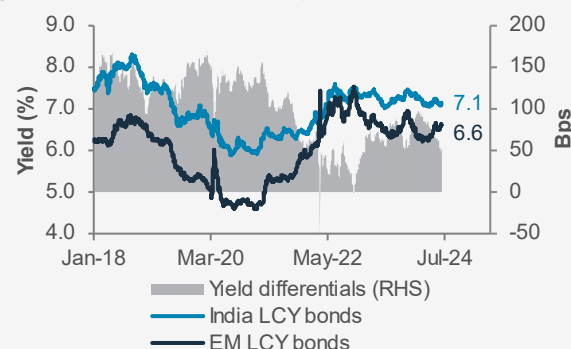
Consensus earnings growth and estimates for Nifty index; FY25 and FY26 are estimates



Source: Bloomberg, Standard Chartered

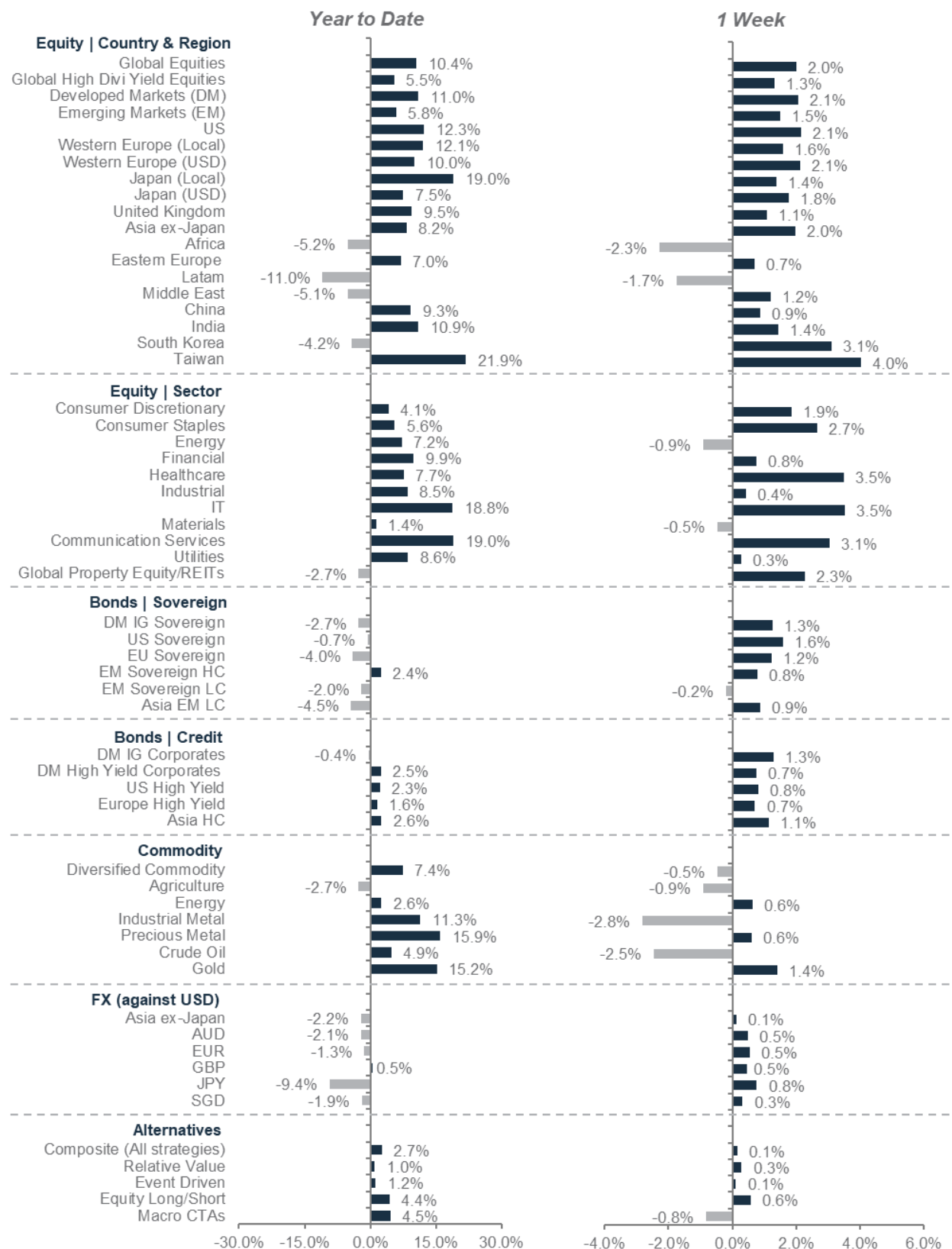
Indian government bonds offer an attractive yield premium over EM local currency bonds

Yields on benchmark EM local currency and Indian government bonds and their yield difference



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 06 June 2024; 1-week period: 30 May 2024 to 06 June 2024

Our 12-month asset class views at a glance

Asset class	
Equities ▲	Preferred Sectors
Euro area ▼	US Communication ▲
US ▲	US Technology ▲
UK ◆	US Energy ▲
Asia ex-Japan ◆	Europe Healthcare ▲
Japan ▲	Europe Energy ▲
Other EM ◆	Europe Technology ▲
	China Communication ▲
Bonds (Credit) ◆	China Discretionary ▲
Asia USD ◆	China Technology ▲
Corp DM HY ◆	China Energy ▲
Govt EM USD ▲	China Industrial ▲
Corp DM IG ◆	
	Alternatives ◆
Bonds (Govt) ◆	
Govt EM Local ▼	Gold ◆
Govt DM IG ◆	

Source: Standard Chartered Global Investment Committee

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

The S&P 500 has next interim resistance is at 5,422

Technical indicators for key markets as of 06 June close

Index	Spot	1st support	1st resistance	12m forward P/E (x)	12m forward dividend yield (%)
S&P 500	5,353	5,225	5,422	20.9	1.5
STOXX 50	5,069	4,973	5,134	13.7	3.3
FTSE 100	8,285	8,131	8,457	11.8	3.9
Topix	2,757	2,699	2,812	15.3	2.4
Shanghai Comp	3,049	3,002	3,135	10.9	3.4
Hang Seng	18,477	17,801	19,429	8.9	4.1
Nifty 50	22,821	21,622	23,680	19.7	1.6
MSCI Asia ex-Japan	689	671	706	13.0	2.6
MSCI EM	1,073	1,046	1,102	12.1	3.0
WTI (Spot)	75.6	73.3	78.5	na	na
Gold	2,376	2,303	2,449	na	na
UST 10Y Yield	4.29	4.16	4.52	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	Sentix Investor Confidence	Jun	–	-3.6
TUE	UK	ILO Unemployment Rate 3Mths	Apr	–	4.3%
	US	NFIB Small Business Optimism	May	–	89.7
WED	CH	PPI y/y	May	-1.5%	-2.5%
	CH	CPI y/y	May	0.4%	0.3%
	UK	Industrial Production y/y	Apr	–	0.5%
	US	CPI y/y	May	3.4%	3.4%
	US	CPI Ex Food and Energy y/y	May	3.5%	3.6%
THU	US	FOMC Rate Decision (Upper Bound)	12-Jun-24	5.5%	5.5%
	US	FOMC Rate Decision (Lower Bound)	12-Jun-24	5.3%	5.3%
	US	PPI Final Demand y/y	May	–	2.2%
	US	PPI Ex Food and Energy y/y	May	–	2.4%
FRI/SAT	US	U. of Mich. Sentiment	Jun P	73.0	69.1
	JP	BoJ Rate Decision	14-Jun-24	–	0.1%

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 06 June close

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↑	1.86
Global Equities	●	→	1.51
Gold	●	↑	1.39
Equity			
MSCI US	●	↓	1.49
MSCI Europe	●	→	1.45
MSCI AC AXJ	●	→	1.51
Fixed Income			
DM Corp Bond	●	↑	1.84
DM High Yield	●	→	1.58
EM USD	●	→	1.69
EM Local	●	→	1.57
Asia USD	●	↓	1.63
Currencies			
EUR/USD	●	↑	1.77

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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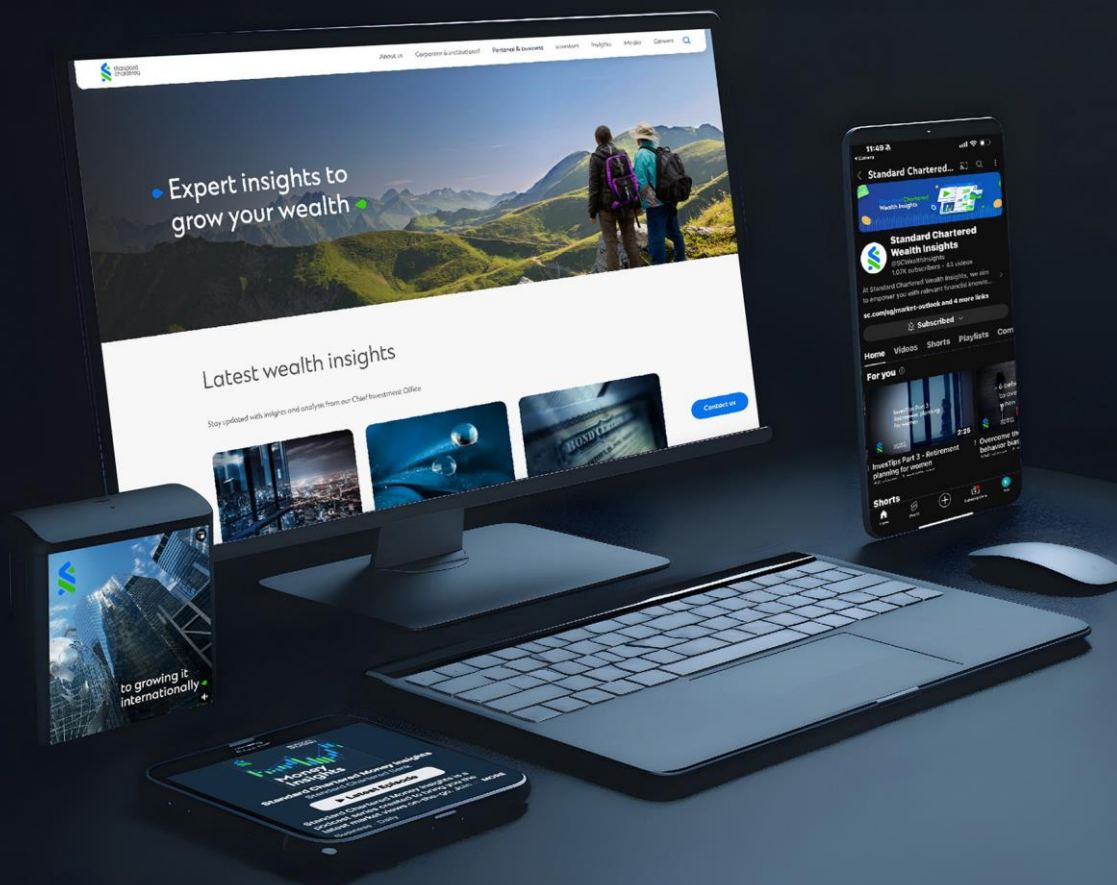
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