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Wealth Management Global Chief Investment Office
21 July 2023

Weekly Market View

Global premium on growth

→ The two leaders of the global equity market rally in recent months – the US technology complex and India – are showing signs of overheating. Our proprietary indicators show investor positioning in the two markets are particularly crowded.

→ We would use this opportunity to rebalance our allocation. The rebalancing would involve locking in some of the recent gains in the equity market leaders and allocating to Developed Market government bonds and Asia USD bonds where the risk-reward balance is more attractive as Fed and ECB policy rates approach their peak.

→ In Asia ex-Japan, this would involve rebalancing to the laggards and inexpensive markets such as China. This would give us exposure to both Growth and deep Value markets.

→ Next week, we expect the Fed and ECB to hike rates by 25bps, the BoJ to stand pat and China's Politburo to unveil new stimulus measures to support growth.

How is the US Q2 earnings season progressing?

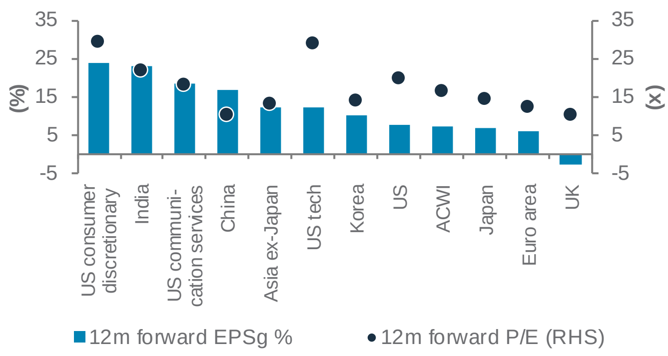
What is the outlook for Developed Market government bonds and the JPY ahead of next week's policy meetings?

Do you expect the recent strength in the Swiss Franc to continue?

Charts of the week: Markets rewarding growth for now

The US technology complex and India stand out in the global earnings league table, but they have become expensive

Consensus 12m forward EPS growth and forward P/E ratios



Our proprietary Fear and Greed index* for the S&P500 index

Source: Bloomberg, Standard Chartered; *An average of market momentum, breadth, equities vs. bonds, volatility and put-call ratio

Editorial

Global premium on growth

The two leaders of the global equity market rally in recent months – the US technology complex and India – are showing signs of overheating. Our indicators show investor positioning in the two markets are particularly crowded. While momentum could still lift these markets higher in the next few weeks, this raises the risk of a consolidation over a 1-3-month horizon.

Investment implications: We would use this opportunity to rebalance our allocation, given our broadly balanced asset allocation stance across major asset classes. The rebalancing would involve locking in some of the recent gains in the equity market leaders and allocating to Developed Market government bonds and Asia USD bonds where the risk-reward balance is more attractive as US and Euro area policy rates are close to peaking. In Asia ex-Japan, this would involve rebalancing to the laggards and inexpensive markets such as China. This would give us exposure to both Growth and deep Value markets.

The structural growth story: A balanced allocation would still be appropriate as investors get to participate in any further run up in risk assets in the coming months, especially if an economic downturn expected later this year is further pushed back. This year's rally shows investors are willing to pay a structural premium for markets that are likely to deliver strong earnings growth in the coming years.

The US technology complex (Information Technology, communication services and consumer discretionary), Japan and the two Asian technology leaders – South Korea and Taiwan – are likely to benefit from an Artificial Intelligence-driven investment growth in the coming years, regardless of any cyclical economic downturn over the next 6-12 months. India, ASEAN and Mexico are likely examples of organic growth engines, driven by geopolitics and shifts in global supply chains. The structural growth story is likely to provide support for any equity market correction over the next 6-12 months.

India's growth example: Standard Chartered estimates India to become the world's third-largest economy by 2028, overtaking Germany and Japan, with GDP growing from USD 3.5trn last year to USD 6trn by 2030. India's per capita income is expected to surge to USD 4,000 from USD 2,450, turning it into an upper-middle-income country – a transition that typically boosts demand for manufacturing goods and services.

The main drivers of this growth are macro and political stability, policy reforms, infrastructure spending, a healthy financial sector, low corporate leverage (lowest since 2008), efficiency gains from digitalisation and the boost from a young population. Historically, Indian companies have been good at translating domestic economic growth into earnings growth; hence India's relatively higher return on equity among Emerging Markets.

Looking ahead: Next week is likely to be dominated by Fed, ECB, BoJ and China politburo meetings. We expect 25bps hikes from the Fed and ECB next week. The Fed, under Chair Powell, has never surprised markets. Forward guidance will be key – the recent disinflationary trends suggest the Fed will likely be done after delivering next week's rate hike.

In Japan, BoJ Governor Ueda pushed back any idea of policy tightening and the BoJ's new inflation forecast will be key to any reversal in its ultra-dovish policy is likely in the next 12 months. Finally, we expect the China Politburo to announce modest stimulus measures to support growth.

On the data front, US and Euro area PMI data will be watched for signs of any services sector weakness and/or any turnaround in the severely depressed manufacturing sector. Meanwhile, US Q2 earnings face low hurdles (the consensus has been downgraded to -8.2% y/y from -6.4% a week ago). Leading US banks have beaten estimates so far on the back of strong capital market activity. The next focus will be on US technology sector leaders.

— **Rajat Bhattacharya**

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 economic data, China pro-business policies

(-) factors: Weak China economic data, geopolitical tensions

	Positive for risk assets	Negative for risk assets
Macro data	• US consumer sentiment rose more than expected • US core retail sales rose more than expected • US Empire manufacturing fell less than expected • US NAHB housing market index improved as expected • Euro area consumer confidence improved more than expected • China factory output, fixed asset investment rose more than expected • UK inflation fell more than expected	• US industrial production contracted unexpectedly • US leading index deteriorated unexpectedly • China economy grew less than expected in Q2 by 6.3% y/y (vs 7.1% y/y) • China retail sales rose less than expected; property investment contracted more than expected, new home prices fell • China's youth unemployment rate rose • US housing starts came below expectations • Japan inflation beat estimates
	Our assessment: Neutral – Resilient US economic data vs weak China economic data	
Policy developments	• China Communist Party and the government vowed to support private businesses • China officials relaxed guidelines on Artificial Intelligence	• US Treasury Secretary Yellen said that US hiring demand has subsided; warned China's slowdown might spill over • The PBoC held key lending rates stable despite slowing economy
	Our assessment: Positive – China pro-business policies	
Other developments		• US plans to limit China investments from 2024 • The G20 finance ministers' meeting ended without a communique due to differences over the Ukraine war • Russia halted deal to export grains safely from Ukraine
	Our assessment: Negative – Geopolitical tensions	

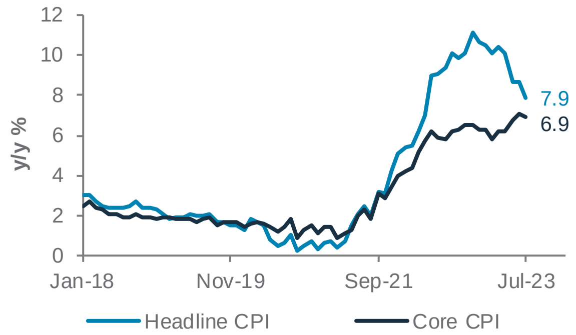
US core retail sales rose more than expected in June, sustaining the consumption-driven economy

US headline, core and controlled group* retail sales

Source: Bloomberg; Standard Chartered; *a more precise measure of consumer spending (used in the US Personal Consumption Expenditure report), which excludes sales at gas stations, food services, auto dealers and building material stores

UK headline inflation slowed sharply due to base effects of falling energy prices, but core inflation remained elevated

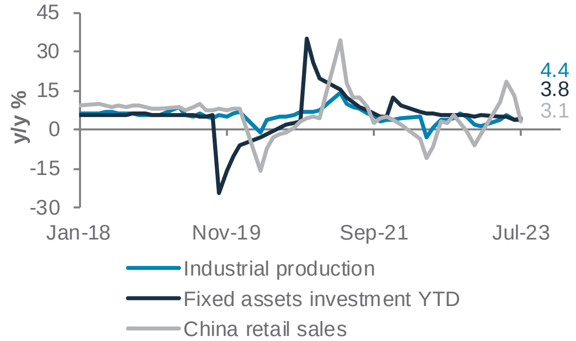
UK headline and core inflation



Source: Bloomberg, Standard Chartered

China's economic activity data underwhelmed in June, raising the chance of some stimulus measures at the upcoming Politburo meeting

China's industrial production, fixed asset investment (YTD) and retail sales growth



Source: Bloomberg, Standard Chartered

Top client questions

How is the US Q2 23 earnings season progressing?

US Q2 23 earnings expectations are low (expected to fall 8.2% y/y). So far, 80% of the companies which have reported have beaten expectations. Earnings are expected to recover over the next two quarters (+1% in Q3 and +9.1% in Q4).

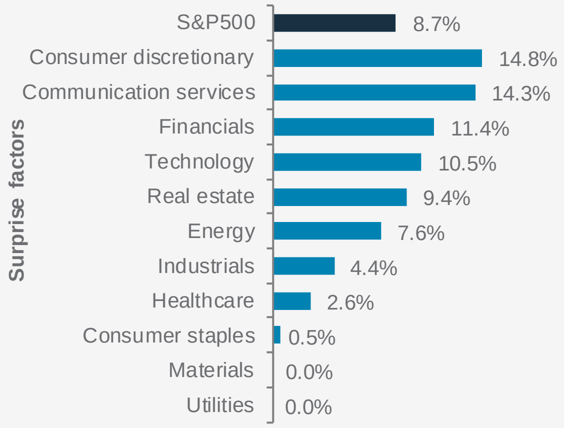
Over a quarter of the financial sector have reported. Results have been positive, with +11.4% earnings surprise. Our two Overweight sectors are also amongst the leaders in earnings surprises, with Communication services and Technology delivering 14.3% and 10.5% earnings surprises, respectively.

In the financial sector, there have been encouraging signs of capital markets activity, which is an indication of strong economic activity. On the negative side, credit card net charge-off rates have been climbing, normalising to historical levels. Banks are boosting loan loss provisions tied to commercial property loans, driven by offices. Losses are still quite small and could take more time to play out.

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

Our overweight US sectors - communication services and technology – have delivered positive earnings surprise in Q2 23 earnings season

Earnings surprise by sectors



Source: Refinitiv, Standard Chartered

What are your views on the recent rally in oil prices and the implications for energy sector equities?

The WTI crude oil price surged going into July, breaking out of the sideways range of USD 67-73/bbl, before hitting a 12-week high of USD 76.89/ bbl on 13 July. The likely drivers are:

1) On 3 July, Saudi Arabia extended its 1mb/d voluntary output cut into August (originally committed only for July), while Russia deepened its voluntary cut to 1mb/d in August.
2) On 14 July, OPEC published Russia's crude oil output based on third-party estimates. Russia's June output was 488kb/d lower, somewhat in line with the committed 500kb/d voluntary cut, dispelling doubts over Russia's compliance with its promised cut.
3) US crude oil stockpiles declined based on EIA's weekly data.

While demand factors have been driving prices earlier this year, supply factors are increasingly dominating oil market sentiment. While this increases the upside risks to oil prices, we still expect WTI crude oil to trend lower towards USD 65/bbl in the next 12 months on weaker oil demand as the global economy slows.

In line with our 12-month view of oil price, we are Underweight US energy sector equities. Earnings momentum for the sector has been poor YTD and is likely to remain so if crude oil prices weaken as we expect. Hence, we would use the sector's gain over the past month and rotate into our preferred US equity sectors: Communication services, Technology and Healthcare.

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

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

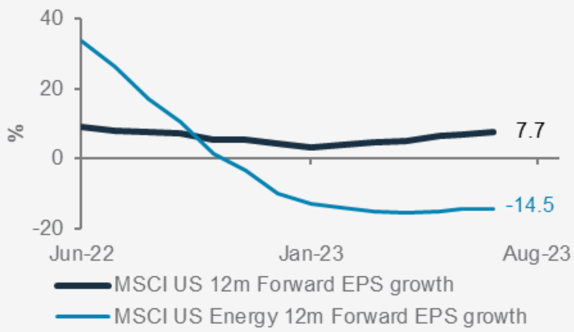
US oil inventories fell last week, with Cushing stockpiles shrinking by the most since Oct 2021

US and Cushing hub crude oil inventories

Source: EIA, Bloomberg, Standard Chartered

Earnings momentum for the US energy sector has been poor

Consensus 12m forward EPS growth estimates for MSCI US and MSCI US Energy indices



Source: FactSet, Standard Chartered

Top client questions (cont'd)

Do you expect the recent CHF strength to sustain?

USD/CHF declined sharply in July after trading in the 0.8850-0.9110 range from April to June. Broad USD weakness, as well as downside inflation surprises in the US, Europe and UK, which led markets to price in fewer rate hikes, were the key drivers of CHF strength.

Nonetheless, we believe the recent CHF strength is unlikely to persist and expect USD/CHF to bounce higher over the next few weeks due to three key reasons:

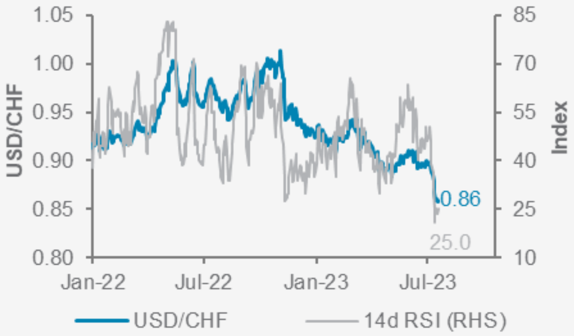
1) Switzerland's inflation in June declined to 1.7%, below the 2% threshold, which increases the risk of the SNB turning less hawkish in the future.
2) With odds of recession being pushed further into 2024, the safe-haven demand for CHF should abate.
3) From a technical perspective, USD/CHF appears to be oversold, with RSI (a momentum indicator) close to 25.

We expect USD/CHF to test resistance at 0.8850 in the next few weeks, with 0.9030 being the subsequent resistance. We see strong support at 0.8520. Should our view materialise, we expect CHF/SGD to test 1.5120 support, with potential to even test 1.4865. However, given our expectation of near-term JPY weakness, CHF/JPY is likely to consolidate around current levels.

— **Abhilash Narayan,** *Senior Investment Strategist*

Our expectation of a broad USD rebound in the near term and reversal of oversold technical indicators point towards a rebound in USD/CHF

USD/CHF and 14-day RSI (momentum indicator)



Source: Bloomberg, Standard Chartered

What is your outlook for Developed Market government bonds and the JPY?

Earlier this week, BoJ Governor Ueda strongly hinted that the central bank is unlikely to change or scrap its Yield Curve Control policy at next week's policy meeting. That said, we continue to expect an eventual tightening of the BoJ policy over the next 12 months, especially given the latest upside surprise in Japan's inflation.

The BoJ's updated inflation projections will be key to market expectations of the timing of any policy shift. On a 6-12 month horizon, we do not expect a sharp jump in Japanese government bond (JGB) yields since the BoJ is not expected to hike rates materially over the next few years. Hence, the impact on the overall Developed Market government bond index is likely to be minimal, especially given the low weighting of JGBs (c. 20%). Hence, we would continue to use the current attractive yields on offer to rotate into the asset class.

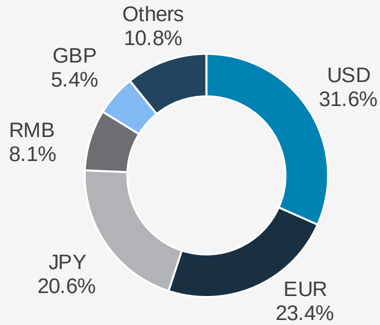
We see near-term upside risk for USD/JPY, given our view of a modest rebound in the USD as well as the potential for a minor market disappointment if the BoJ keeps its policy unchanged next week. The pair is likely to edge higher towards the 142.35 resistance zone over the next few weeks, while 137.25 is likely to act as a strong support.

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

— **Abhilash Narayan,** *Senior Investment Strategist*

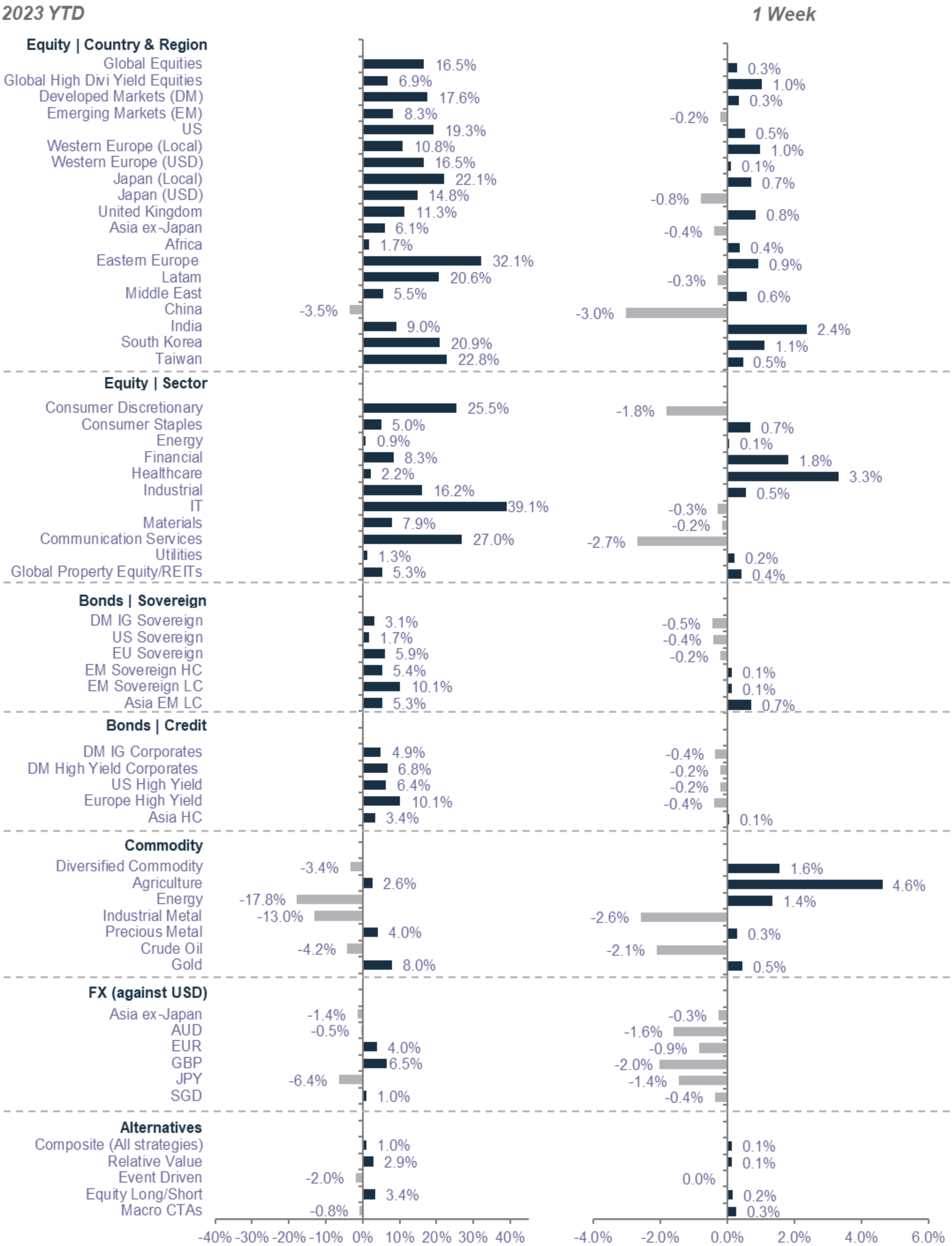
Japanese government bonds account for less than a quarter of the Developed Market government bonds index

Breakdown of Developed Markets government bonds index by currencies



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 20 July 2023; 1-week period: 13 July 2023 to 20 July 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 Discretionary	▲
Other EM	◆	Europe Financials	▲
		China Communication	▲
Bonds (Credit)	◆	China Discretionary	▲
Asia USD	▲		
Corp DM HY	▼	**Alternatives**	◆
Govt EM USD	▼		
Corp DM IG	◆	**Gold**	◆
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	EC	HCOB Eurozone Manufacturing PMI	Jul P	–	43.4
	EC	HCOB Eurozone Services PMI	Jul P	–	52.0
	UK	S&P Global/CIPS UK Manufacturing PMI	Jul P	–	46.5
	UK	S&P Global/CIPS UK Services PMI	Jul P	–	53.7
	US	Chicago Fed Nat Activity Index	Jun	–	-0.15
	US	S&P Global US Manufacturing PMI	Jul P	–	46.3
	US	S&P Global US Services PMI	Jul P	–	54.4
TUE	US	Conf. Board Consumer Confidence	Jul	112.0	109.7
WED	EC	M3 Money Supply y/y	Jun	–	1.4%
	US	New Home Sales	Jun	721k	763k
THU	US	FOMC Rate Decision (Upper Bound)	26-Jul-23	5.5%	5.3%
	EC	ECB Deposit Facility Rate	27-Jul-23	3.75%	3.5%
	US	Durable Goods Orders	Jun P	0.4%	1.8%
FRI/SAT	EC	Economic Confidence	Jul	–	95.3
	US	Employment Cost Index	2Q	1.1%	1.2%
	US	PCE Deflator y/y	Jun	3.1%	3.8%
	US	PCE Core Deflator y/y	Jun	4.2%	4.6%
	JP	BoJ Rate Decision	28-Jul-23		-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

The next resistance for the S&P500 index is at 4,565

Technical indicators for key markets as of 20 July close

Index	Spot	1st support	1st resistance
S&P 500	4,535	4,505	4,565
STOXX 50	4,374	4,354	4,397
FTSE 100	7,646	7,486	7,726
TOPIX	2,261	2,240	2,280
Shanghai Comp	3,170	3,147	3,215
Hang Seng	18,928	18,766	19,252
MSCI Asia ex-Japan	647	644	653
MSCI EM	1,018	1,015	1,025
Brent (ICE)	79.6	78.8	80.2
Gold	1,970	1,957	1,980
UST 10Y Yield	3.85	3.78	3.88

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 narrowed in Global and US equities

Our proprietary market diversity indicators as of 20 July

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↑	1.68
Global Equities	◐	→	1.37
Gold	●	↑	1.82
Equity			
MSCI US	◐	↓	1.31
MSCI Europe	●	↑	1.99
MSCI AC AXJ	●	↓	1.86
Fixed Income			
DM Corp Bond	●	↑	1.65
DM High Yield	◐	↓	1.42
EM USD	◐	↓	1.37
EM Local	◐	→	1.32
Asia USD	●	↑	1.87
Currencies			
EUR/USD	●	↓	1.51

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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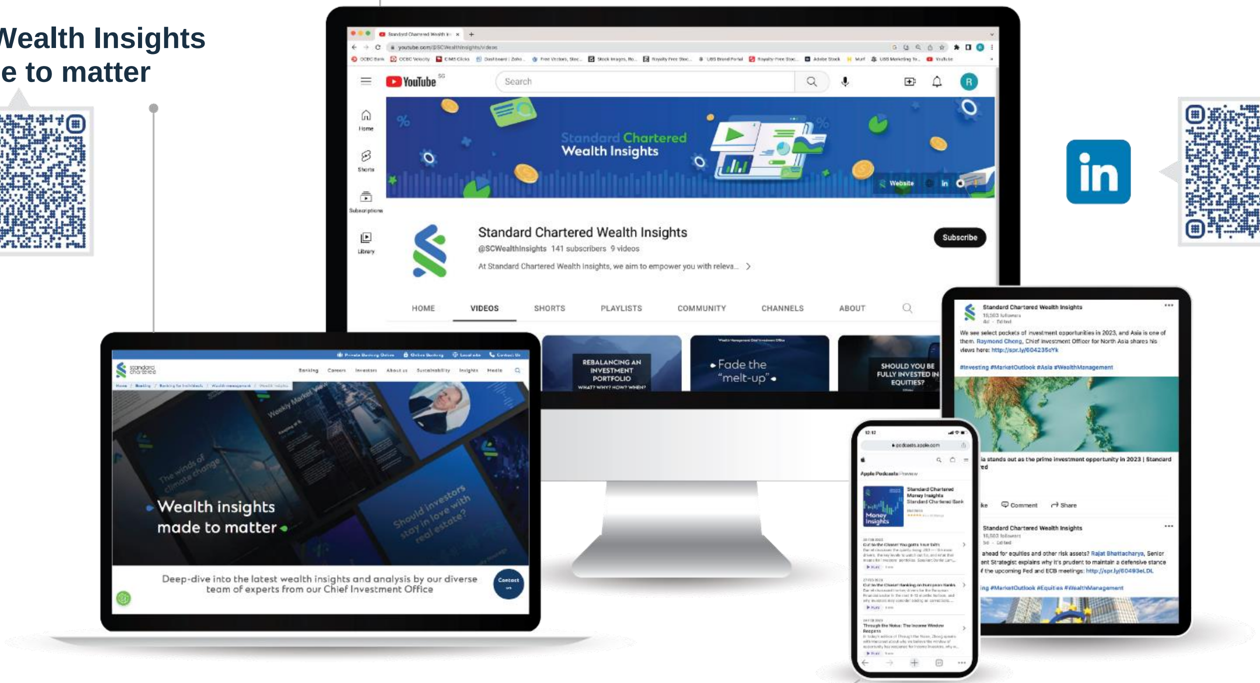

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