



Weekly Market View

Goldilocks returns

→ It took two soft US economic reports and an approving nod from Fed Chair Powell for equity markets to regain record highs.

→ After a softer-than-expected April US job market report revived the economic soft-landing narrative, markets needed to cross one last hurdle – the April US inflation data.

→ The data obliged, with headline inflation slowing more than expected, ending three straight months of upward surprises. Core inflation also slowed.

→ Fed Chair Powell said the latest inflation data was “a step in the right direction” towards rate cuts later this year.

→ We see a window for the “not-too-hot, not-too-cold” Goldilocks economic regime to support risk assets in the coming months. Technical indicators remain supportive, with solid momentum and low volatility.

How have US and European Q1 24 corporate earnings fared so far?

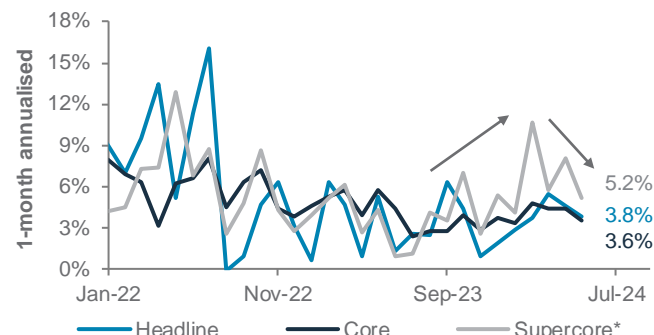
What is the likely impact of China's issuance of long-term bonds?

How does the surge in Japanese bond yields impact your view on the JPY and Japan equities?

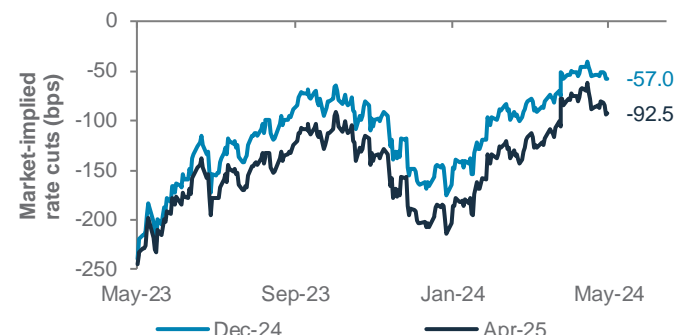
Charts of the week: Cooling again

Weaker-than-expected US inflation data has led money markets to price about two 25bps rate cuts by the end of the year

US headline, core and supercore* inflation, 1-month annualised



Market estimates of Fed rate changes by Dec 2024, Apr 2025



Source: Bloomberg, Standard Chartered; *supercore refers to services inflation, excluding food and energy services and housing

Editorial

Goldilocks returns

It took two soft US economic reports and an approving nod from Fed Chair Powell for equity markets to regain record highs. As flagged last week, after a softer-than-expected US job market report for April revived the US economic soft-landing narrative and a rebound in risk assets, markets needed to cross one last hurdle – April US inflation data. The data obliged, with headline inflation slowing more than expected, ending three straight months of upward surprises. Core inflation also slowed.

While the latest data does not offer an all-clear signal as shelter inflation remains elevated, the resumption of the downward trajectory, especially in two components that had led the Q1 24 inflation resurgence (auto insurance and medical services), eased market concerns about a Fed rate hike risk. Fed Chair Powell said the latest inflation data was “a step in the right direction” towards Fed rate cuts later this year. Weaker-than-expected US retail sales in April added support to the US economic soft-landing narrative. Markets have priced about 50bps of Fed rate cuts by the end of this year (which is also our core scenario), with the first 25bps cut in September.

Investment implications: We see a window for the “not-too-hot, not-too-cold” Goldilocks economic regime to support risk assets in the coming months. Technical indicators remain supportive, with solid momentum and low volatility (signalling low perception of risk), especially in the US and Europe.

Key signposts: There are two economic data markers, besides the US 10-year and 2-year government bond yields, we are watching closely to assess any potential shift from this Goldilocks regime. First, business confidence indicators (PMIs) next week: US manufacturing activity was on the verge of contracting again in April, while the much larger services sector is slowing. The new orders and employment components will be watched closely for any signs of sustained weakness.

Second, US higher frequency job market indicators, such as weekly jobless claims: last week, initial and continuous claims rose above levels that had historically led to US unemployment rising above 4%. A sustained rise above 4% would trigger several time-tested recession signals.

Signals from the bond market and corporate earnings: Besides economic data, US bond yields are likely to flag any change in the economic regime. On the positive side, any decisive rise in the US 2-year bond yield above the 5% level (which it has failed to sustainably break after three attempts over the past year), accompanied by a rise in equities, would likely signal a shift towards a reflationary regime (the “no landing” scenario). This would likely be positive for equities. Strong US Q1 24 corporate earnings, resulting in a rise in consensus 2024 and 2025 earnings estimates to 10.4% and 14.0% respectively, support a positive view on equities.

Conversely, a decisive break above 5% in the US 2-year bond yield, accompanied by a drop in equities would imply a return to 2022’s stagflation regime. We see low probability of this scenario in the absence of an energy supply shock. Meanwhile, also on the negative end of the spectrum, a decisive fall in the US 10-year bond yield below December’s low of around 3.8%, accompanied by a slump in equities, would likely signal risk of a shift towards a recessionary or hard-landing regime. This would likely be accompanied by a sharp rise in unemployment.

Where do we go from here? We expect US bond yields to stay within recent ranges over the next 1-3 months, with the emerging macroeconomic landscape reflecting the goldilocks regime. This regime is typically positive for equities and other risk assets, especially rate-sensitive technology and communications services equity sectors. Capped US bonds yields and an improving economic growth outlook for ex-US economies are also positive for Emerging Market (EM) USD bonds, which we upgraded last month.

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: Supportive China policies, cooling US inflation

(-) factors: Stubborn US producer prices, US-China tensions

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> US consumer inflation slowed more than expected to 0.3% m/m in April; core inflation slowed to 0.3% m/m, as expected Euro area ZEW economic expectations improved Euro area factory output contracted less than expected by 1% y/y China consumer inflation rose more than expected China's industrial production y/y came in above expectations in April 	<ul style="list-style-type: none"> US retail sales growth stalled US headline and core producer prices rose more than expected US Michigan sentiment index fell more than expected to a 6-month low; inflation expectations rose China producer prices fell more than expected China's retail sales, fixed asset investments and property investments missed estimates in April Japan's economy contracted more than expected in Q1 '24
	Our assessment: Neutral – Cooling US inflation, recovering Euro area vs stubborn US producer prices, weak China credit	
Policy developments	<ul style="list-style-type: none"> Fed Chair Powell said April's inflation report was "a step in the right direction" for rate cuts China followed through with the issuance of ultra-long govt. bonds China mulled local government purchases of unsold homes to support the property market 	<ul style="list-style-type: none"> PBoC held the one-year MLF rate as expected, while rolling over a policy loan
	Our assessment: Positive – Powell's dovish signal, China's growth support	
Other developments	<ul style="list-style-type: none"> NA 	<ul style="list-style-type: none"> US enacted additional tariffs on Chinese chips, minerals and EVs
	Our assessment: Negative – US-China tensions	

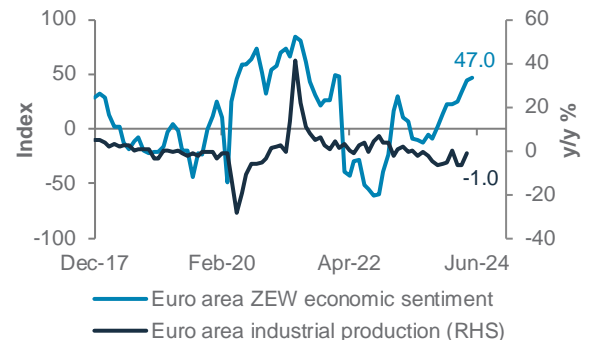
US retail sales slowed unexpectedly, underlining rising challenges faced by consumers from slowing wages and tightening lending standards

US retail sales, headline and control group*



Euro area economic sentiment continued to improve, though the industrial sector remained weak

Euro area economic sentiment (ZEW survey); industrial production



China continued to struggle with deflationary pressure; falling money supply reflects reduced demand for credit

China's consumer and producer price inflation; money supply growth



Top client questions

Q What is your assessment of the US and Europe Q1 24 earnings season and its implications?

The US earnings season is largely complete, with 92% of S&P 500 companies having reported, per LSEG I/B/E/S. A total of 77% of the reporting companies beat earnings expectations, above the long-term “beat” rate of 66%. Strength has been broad, with all sectors surprising positively. Q1 24 earnings are expected to grow 7.4% y/y (up from 5.1% expected on 1 April). More significantly, consensus earnings growth expectations have been revised up to 10.4% for 2024 (from 9.9%) and 14.0% for 2025 (from 13.7%). This earnings strength supports our view that US equities are likely to outperform global equities over the next 6-12 months.

Europe has also seen a strong earnings season, albeit less so than the US. Within the Stoxx 600, 74% of companies have reported Q1 24 results, with 61% of reporting companies beating earnings expectations, above a typical “beat” rate of 54%. Eight out of ten sectors delivered a positive earnings surprise, and Q1 24 earnings are expected to fall -5.4% (versus -11.0% expected on 1 April). Consensus 2024 earnings growth expectations have nudged up to 4.7% (from 4.1%). Europe has performed well in recent months but give its relatively weaker growth outlook, we expect Euro area equities to underperform US and global equities.

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

Q How will the tariff announcement impact China equities?

The US imposed higher tariffs on USD 18bn of imports from China, including solar cells, electric vehicles (EVs) and lithium-ion EV batteries. Tariff rates rose to 50%, 100% and 25%, respectively.

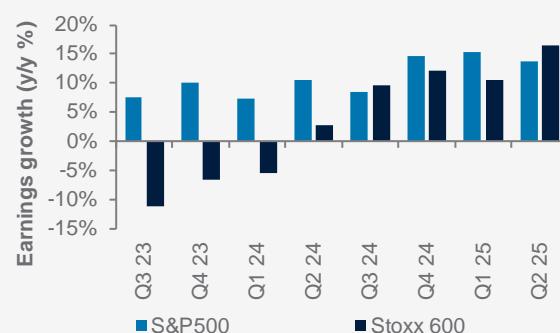
However, the direct impact of US tariffs on China’s economic growth is likely to be limited given US imports of EVs, batteries and solar cells from China are relatively small. Only 1.0% of EVs and 0.2% of solar cell exports went to the US in 2023. In contrast, Europe is China’s largest market, accounting for about 40% of EV, lithium-ion battery and solar cell exports.

Despite the tariff announcement, we remain Neutral China equities within Asia-ex-Japan, a view we believe remains justified as tailwinds of supportive government policies and continued fund inflows is offset by longer-term economic growth concerns and property sector worries. That said, we continue to monitor any intensification of geopolitical tensions in the run-up to the US Presidential Elections in November, especially given presidential candidate Trump’s proposed tariff of 60% or higher on all Chinese goods imports.

— **Jason Wong**, Equity Analyst

From Q2 24, US earnings growth is expected to accelerate while Europe earnings growth should turn positive

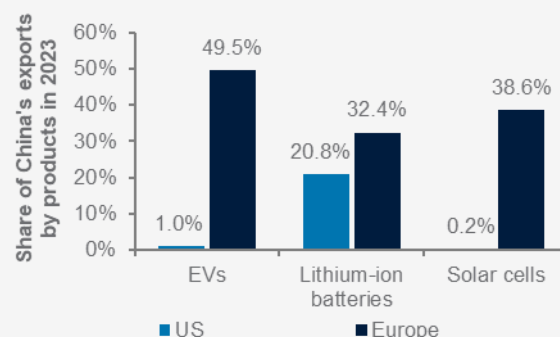
Consensus earnings growth expectations by quarter (y/y) for S&P 500 and Stoxx 600 indices



Source: LSEG I/B/E/S, Standard Chartered

US a fairly small market for Chinese EV, Lithium-ion battery and Solar cell exports. Europe is much more significant

Share of China's exports by products in 2023



Source: China Customs, Standard Chartered

Top client questions (cont'd)

What is the likely impact of China's recent bond and property market measures?

China's Ministry of Finance commenced the issuance of ultra-long-term special central government bonds (SCGB), with a plan to issue CNY 1tn over the next seven months. This came after the Politburo committed to frontload the sale of SCGBs at its April meeting. The timing of the debt is likely intended to offset the impact of credit contraction resulting from a slump in Q1 24 bond issuance. The proceeds from the SCGBs are likely to be used to fund infrastructure investments that would be supportive for growth. There are concerns that the influx in bond supply could strain liquidity, but we believe this is manageable given the long issuance timeline, ready state bank buyers and PBoC assistance.

Separately, reports suggest authorities are considering a proposal for local governments to buy excess home inventories. Execution is unlikely to be easy or quick given: 1) new home oversupply is significant at the current pace of sales; 2) home supply continues to rise; and 3) unconvincing results from similar schemes historically. While a positive signalling effect is likely to help support risk sentiment, it is unlikely to be a game changer for the China equities or Asia USD bond outlook for now.

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

How does the surge in Japanese government bond yields impact your view on the JPY and Japan equities?

Japanese government bond yields have gradually trended higher in recent weeks, with the 10-year yield approaching 1%, amid ongoing concerns the BoJ could slow the pace of bond purchases. This is likely significant for USD/JPY; much of the recent rise in USD/JPY was arguably driven by widening US-Japan yield differentials as US yields rose. In recent days, higher Japanese yields and softening US yields start to reverse this effect.

USD/JPY is likely to remain within a 150-160 range for now. We believe the bias remains to the upside in the coming weeks and to the downside over the coming 3 months. Key support is at 149.30.

Concerns that this could weigh on Japan equities are understandable. However, this can be partly offset by (i) currency gains for international investors, and (ii) supportive fundamentals, which are ultimately likely to dominate. FY 23 results thus far tracked growth in both sales and profits. Most sectors in the Topix index reported wider margins, driven by FX tailwinds and strong US demand. Share buybacks (+45% y/y) were also significant. Hence, we remain Overweight Japan equities and expect it to outperform global equities on a 6-12m horizon.

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

China's central government rarely issues special central government bonds

Historical special central government bond issuances

Year	Quota (RMB tn)	% of GDP	Tenor (yrs)	Targeted or market-based issuance	Purpose
1998	0.27	3.2	30	Targeted	Support the big four banks during the Asian financial crisis
2007	1.55	5.7	15, 10	Targeted + market-based	Purchasing FX assets to establish CIC during the global financial crisis
2020	1.00	1.0	10, 5, 7	Market-based	Funding fiscal spending during the COVID-19 outbreak
2024	1.00	0.8	50, 30, 20	Market-based	Funding key infrastructure projects to support growth

Source: MOF, NBS, Standard Chartered

Japan's 10-year yield is approaching 1.0% amid concerns of slowing BoJ bond purchases

Japanese 10y government bond yield



Source: Bloomberg, Standard Chartered

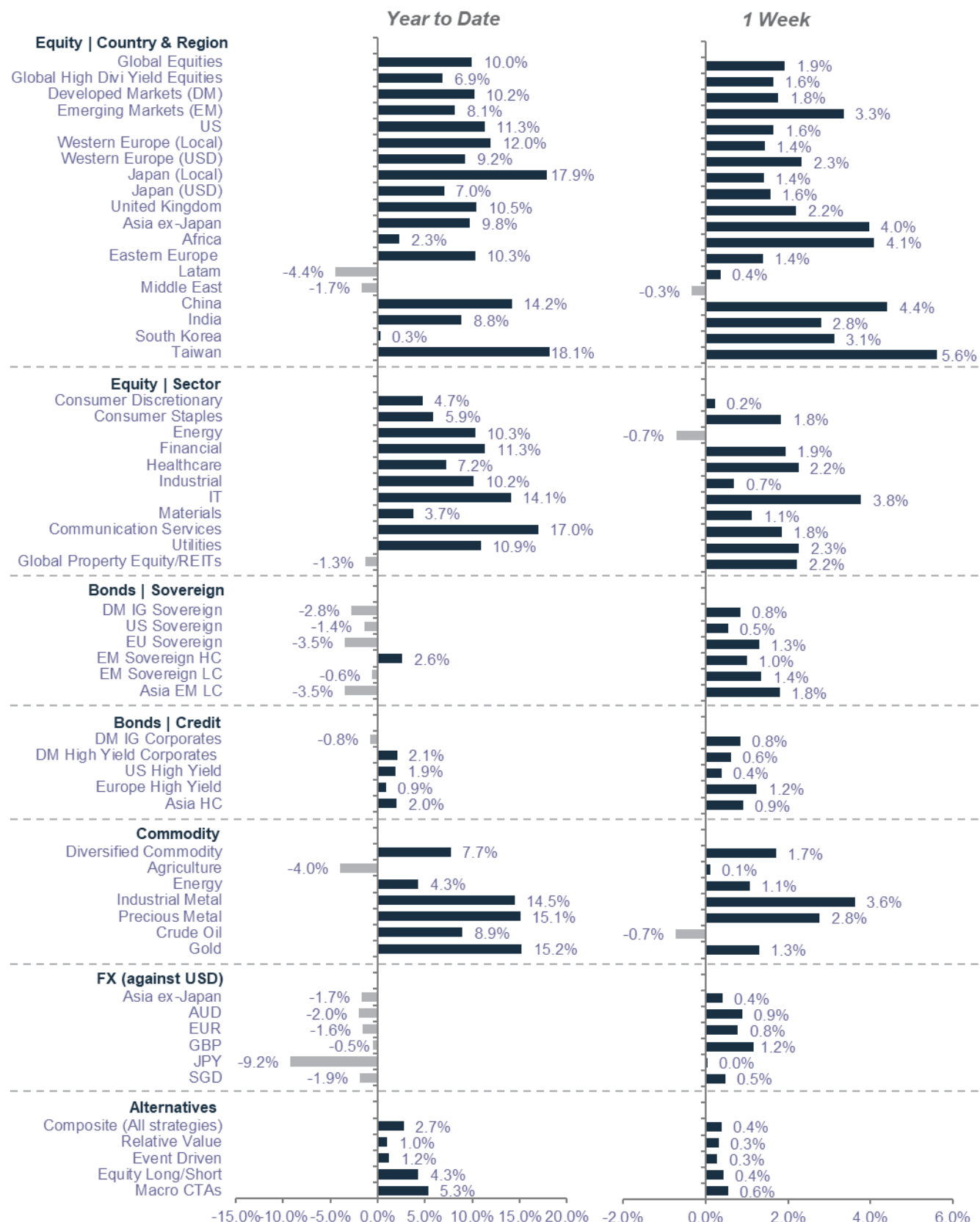
Continued fund inflows into Japan equities YTD

Cumulative net foreign flows since 2021



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 16 May 2024; 1-week period: 09 May 2024 to 16 May 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 US 10-year yield has next interim support at 4.21%

Technical indicators for key markets as of 16 May close

Index	Spot	1st support	1st resistance	12m forward P/E (x)	12m forward dividend yield (%)
S&P 500	5,297	5,059	5,431	20.9	1.5
STOXX 50	5,072	4,937	5,155	13.8	3.3
FTSE 100	8,439	7,997	8,677	12.1	3.8
Topix	2,738	2,638	2,798	15.6	2.3
Shanghai Comp	3,122	3,029	3,190	11.0	3.4
Hang Seng	19,377	17,133	20,531	9.4	4.0
Nifty 50	22,404	21,856	22,873	19.4	1.6
MSCI Asia ex-Japan	700	649	726	13.2	2.6
MSCI EM	1,099	1,030	1,133	12.4	3.0
WTI (Spot)	79.2	76.5	83.6	na	na
Gold	2,377	2,297	2,437	na	na
UST 10Y Yield	4.38	4.21	4.64	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					
TUE					
WED	UK	CPI y/y	Apr	–	3.2%
	UK	CPI Core y/y	Apr	–	4.2%
	US	Existing Home Sales	Apr	4.16m	4.19m
THU	EC	HCOB Eurozone Manufacturing PMI	May P	–	45.7
	EC	HCOB Eurozone Services PMI	May P	–	53.3
	UK	S&P Global UK Manufacturing PMI	May P	–	49.1
	UK	S&P Global UK Services PMI	May P	–	55.0
	US	Chicago Fed Nat Activity Index	Apr	–	0.15
	US	S&P Global US Manufacturing PMI	May P	–	50.0
	US	S&P Global US Services PMI	May P	–	51.3
	EC	Consumer Confidence	May P	–	-14.7
	US	New Home Sales	Apr	680k	693k
FRI/ SAT	US	Durable Goods Orders	Apr P	0.3%	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 in gold has fallen below a key threshold

Our proprietary market diversity indicators as of 16 May close

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↑	2.05
Global Equities	●	→	1.39
Gold	○	→	1.21
Equity			
MSCI US	●	↑	1.44
MSCI Europe	●	↓	1.28
MSCI AC AXJ	●	↓	1.34
Fixed Income			
DM Corp Bond	●	↓	1.71
DM High Yield	●	→	1.41
EM USD	●	→	1.46
EM Local	●	↓	1.63
Asia USD	●	→	1.57
Currencies			
EUR/USD	●	→	1.58

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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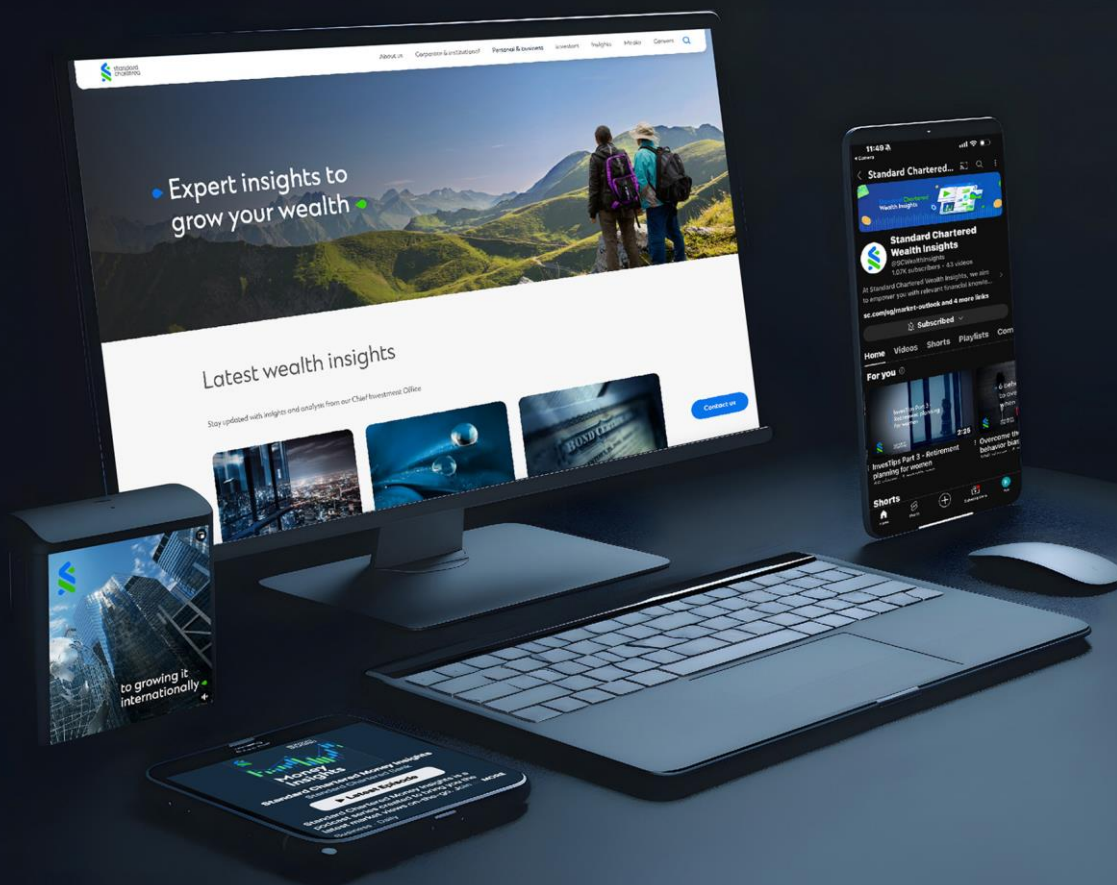
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