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WS Global CIO Office
28 February 2025

Weekly Market View

Growth concerns return

→ US consumer confidence has begun to wilt amid rising policy uncertainty as US President Trump shakes up US trade, immigration, government employment and foreign policies.

→ The S&P500 index and the US 10-year government bond yield are both down since the day Trump was inaugurated on 20 January and US earnings expectations have come off their peak. These trends suggest investors are getting more worried about the growth, rather than the inflationary, impact of Trump's policies.

→ Our base case is that central bank rate cuts and lower bond yields should help mitigate any downside risks. Likely modest fiscal easing in the US, China and Germany is another potential shock absorber against any trade war escalation. Also, Trump is likely to recalibrate his policies if they negatively impact stock and bond markets on a sustained basis.

→ In the near-term, we would rotate into China technology sector equities, as US peers potentially pull back another 3-4%, and fade the EUR rebound as safe-haven demand lifts the USD.

What is the outlook for China's technology sector after the recent rally?

Given recent US data, how should investors allocate within Developed Market corporate bonds?

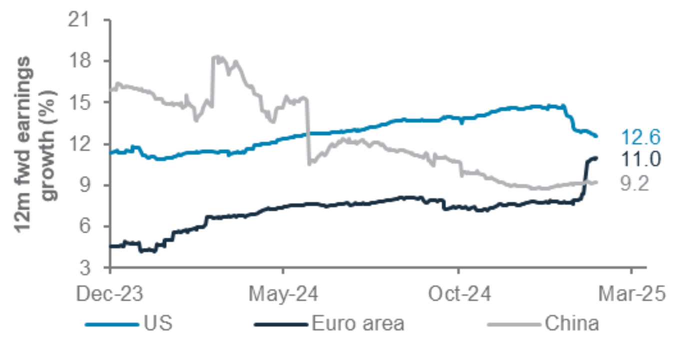
How does Germany's election results affect your view on government bonds and EUR?

Important disclosures can be found in the Disclosures Appendix.

Charts of the week: Gap narrowing

The narrowing gap in earnings estimates between the US and Euro area has coincided with divergence in economic data

US, Europe, China 12m forward earnings growth estimates



US and Euro area economic surprise indices

Source: FactSet, Bloomberg, Standard Chartered

Editorial

Growth concerns return

US consumer confidence has begun to wilt amid rising policy uncertainty as US President Trump shakes up US trade, immigration, government employment and foreign policies. The S&P500 index and the US 10-year government bond yield are both down since the day Trump was inaugurated on 20th January and US earnings expectations have come off their peak. These trends suggest investors are getting more worried about the growth, rather than the inflationary, impact of Trump's policies. Our base case is that central bank rate cuts and lower bond yields should help mitigate any downside risks. Likely modest fiscal easing in the US, China and Germany is another potential shock absorber against any trade war escalation. Also, Trump is likely to recalibrate his policies if they negatively impact stock and bond markets on a sustained basis. In the near-term, we would rotate into China technology sector equities as US peers potentially pull back another 3-4% and fade the EUR rebound as safe-haven demand lifts the USD.

US confidence cracking: US service sector PMI for February suggested contraction in activity for the first time in two years. Two widely followed measures of consumer sentiment have fallen sharply in the past two months, while inflation expectations have risen. This follows weak retail sales and a drop in aggregate payrolls (taking into account total payrolls, average hours worked and average hourly earnings). The consensus estimate for US 12-month forward earnings-per-share growth has also slipped to 12.5% from a peak of 14.8% in late January. The market has focussed on slowing growth metrics as Trump reiterated plans to impose tariffs on Canada and Mexico from next week and raise China tariffs another 10%. The S&P500 has fallen from a record high hit a weak ago and has broken below its 100-day moving average, with the next key support at 5,764, followed by 5,697. The US 10-year government bond yield fell through a key support (4.4%) and is testing the 200-day moving average of 4.24%.

Central banks, fiscal policy to the rescue? Although Trump considers the stock market a good yardstick for the efficacy of his policies over the medium term, we believe his immediate aim would be to lower bond yields. On that score, a moderate growth slowdown would not be a bad thing, especially if the resultant decline in bond yields helps Trump implement his tax cut proposals without significant challenge from the 'bond vigilantes'. This week, Republicans narrowly pushed through the US House of Representatives a budget bill that will add USD 2.8tn to the deficit by 2034. The bill is likely to be amended by the Senate, but there is a good chance that the net impact will be modestly stimulative. Also, moderately softer growth is likely to encourage the Fed to resume rate cuts in Q2, in turn easing financial conditions. In fact, money markets are once again pricing two 25bps rate cuts by the end of the year, instead of just over one cut priced only a week ago. Besides, investor positioning is not stretched. These factors should limit the equity market downside and be ultimately positive for stocks.

German election result defuses early stimulus expectations; fade the EUR rally. Based on Germany's election results, the conservatives and the socialists together have enough seats to form a coalition with majority support in parliament. However, they will need other partners for the two-thirds majority required to ease Germany's strict fiscal policy rules. While the parties bargain with the left to form a "Grand coalition", European government bonds are likely to benefit from ECB rate cuts aimed at stabilising growth (including a 25bps cut next week). The rate cuts are likely to accelerate if Trump follows through with his tariff plans against Europe by April. Against this backdrop, the EUR/USD rally is likely to fade, with first technical support at 1.0330 (see page 6).

Remain bullish on Hang Seng technology index. We believe the emergence of China's low-cost AI-powered chatbot, DeepSeek, provides a fresh impetus to China's technology sector. We expect DeepSeek to expand demand, speed and performance of a host of technology infrastructure, equipment and service providers, helping narrow China's valuation discount with US peers. Fiscal stimulus from the upcoming National People's Congress would be a bonus (see page 4).

The weekly macro balance sheet

Our weekly net assessment: On balance, we see the past week's data and policy as negative for risk assets in the near-term

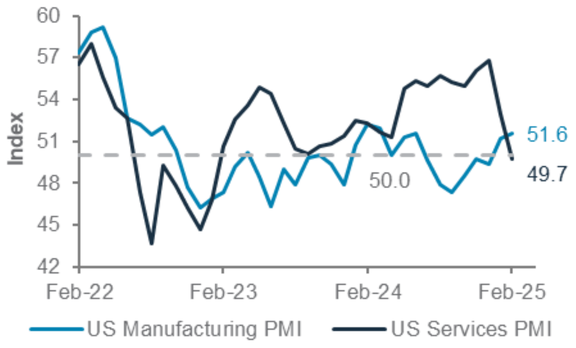
(+) factors: Improving Euro area manufacturing data, potential Ukraine-Russia ceasefire

(-) factors: Weak US consumer confidence, new home sales, rising initial jobless claims; weaker US, Euro area services; Trump's tariff threats

	Positive for risk assets	Negative for risk assets
Macro data	• US Chicago Fed National Activity index dropped less than expected • US durable goods orders came in above expectations in January • Euro area's manufacturing PMI rose more than expected, but remained contractionary	• US Conference Board consumer confidence dropped unexpectedly • US services PMI fell unexpectedly to 49.7 • US new home sales dropped unexpected • US initial jobless claims rose above expectations to 242,000 • Euro area's Service PMI dropped unexpectedly • German IFO business climate index rose less than expected
	Our assessment: Neutral – Weak US consumer confidence, new home sales; weaker US, Euro area services	
Policy developments	• US House of representatives passed a budget bill that adds USD 2.8tn to the deficit by 2034	• PBOC kept 1-year medium-term lending facility rate and liquidity unchanged, as expected • ECB officials signaled cautious stance on further policy easing
	Our assessment: Neutral – US proposed budget boost vs. cautious central banks	
Other developments	• Russia-US talks to end Ukraine conflict; US-Ukraine minerals trade agreement • Germany likely headed for coalition government of conservatives and socialists, but this would be short of two-third majority	• Trump announced tariffs on Canada and Mexico will start from 4 March, and on EU from April • Trump ordered new tariff probe into US copper imports
	Our assessment: Neutral – Potential Ukraine-Russia ceasefire vs. rising trade tensions	

US service sector activity marginally contracted in February for the first time in two years

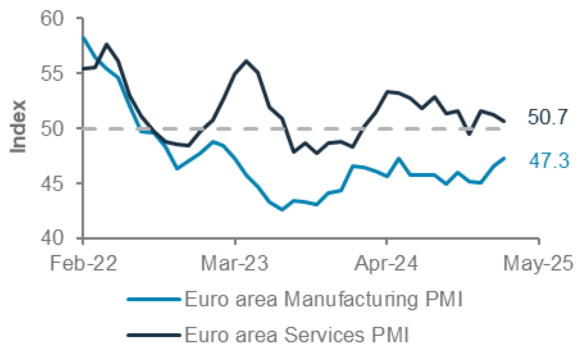
US manufacturing and service sector PMIs



Source: Bloomberg, Standard Chartered

Euro area manufacturing activity improved in February, but remained contractionary, while service sector weakened

Euro area manufacturing and service sector PMIs



Source: Bloomberg, Standard Chartered

Germany's consumer and business confidence remain lacklustre; a "grand coalition" delivering fiscal stimulus would be a positive catalyst

Germany's IFO business expectations and GfK consumer confidence indices

Source: Bloomberg, Standard Chartered

Top client questions

What is the outlook for China's equities, especially the technology sector?

We continue to have an Opportunistic Buy on the Hang Seng Technology Index, which has been leading the current Hang Seng index rally. It is worth highlighting that, despite gains thus far, the Hang Seng Index is still trading at a 42% discount relative to global equities – about a whole standard deviation cheaper than the 10-year average.

There have been concerns that the rally could be set for a pause or reversal, especially due to the additional tariff that Trump has just announced on Chinese goods, and if further US trade restrictions on chips are announced. We believe that while a mild pullback in Chinese equities is possible in the near-term, the support for the Hang Seng Index has moved higher, to the 21,600 level. DeepSeek has been a wake-up moment for global investors – it puts China on the AI technology race map and opens a "non-zero probability" that the China technology sector can catch-up with the US.

In our view, chip restriction segregates the AI-value chain, effectively protecting US companies at the high end, but they are unlikely to prevent Chinese companies continuing to make inroads at the lower-end of AI. This means the Chinese technology sector can narrow its discount in the market relative to the US technology sector. It is now critical to observe how earnings evolve – strong upward earnings revision will likely help build a more robust case for further gains in China technology sector equities.

DeepSeek is likely to remain a key focus of Chinese equity market investors in the near-term – trumping the importance of the looming National People's Congress (NPC), which we expect will leave room for fiscal expansion. There is potential for a widening of the official budget deficit to 4% of GDP (from 3% currently).

We believe DeepSeek provides a fresh fundamental impetus for growth in Chinese equities, one that is perhaps even more direct than fiscal stimulus, via the following channels: 1) **Volume** – rising usage from consumers and businesses helps companies in Large-Language Models (LLM) or Cloud Services, as well as Telecommunications, with increasing internet data centre revenue, 2) **Speed** – helps autonomous driving models to improve their mean time between failures (MTBF) (i.e. measure of reliability of a system) and slashing training time by as much as 50%, 3) **Performance** – AI-PC and AI-smartphone should benefit from a faster customer replacement cycle driven by AI-enabled functions. Software companies are set to benefit from increased efficiency and reduced error rates.

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

The Hang Seng Index is still trading at a deep discount vs. global equities despite recent rally

12-month forward P/E valuation gap: Hang Seng index vs. MSCI All-Country World index

Source: Bloomberg, Standard Chartered

The support for the Hang Seng Index has moved higher to the 21,600 level

Hang Seng Index

Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

What is your view on the US technology sector?

The US earnings season is now largely behind us. Q4 '24 earnings were robust, with the technology sector delivering 19.3% earnings growth in the S&P 500 index as of 27 Feb, based on LSEG I/B/E/S.

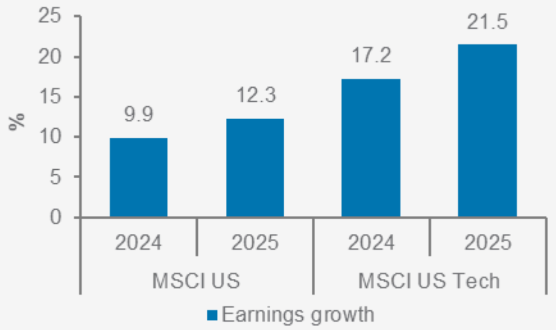
Overall, we remain bullish on the sector and see secular growth trends in Artificial Intelligence (AI) continuing. This should be supported by intensifying AI adoption by corporations and ongoing technological breakthroughs on chip designs and AI interface. While DeepSeek's platform has resulted in a rotation to non-US regions, narrowing the valuation gap between US and China technology sectors, we believe the US tech sector should maintain an edge in "higher-end" areas, such as agentic and physical AI.

We see further opportunities to buy on dips. Within the technology sector, we see the software sub-sector benefiting from a lower vulnerability to tariff threats and rising M&A activity. Usage of lower-cost AI models should accelerate cybersecurity software demand.

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

2025 earnings projection for the US technology sector index is higher than that for 2024 and are now ahead of the broader market benchmark

Projected earnings growth of MSCI US and MSCI US Technology indices in 2024-25



Source: FactSet, Standard Chartered

Given recent US data, how should investors consider allocations between DM IG and DM HY bonds and average maturities of bond portfolios?

The trend in US bond yields has been relatively benign since January, with the US 10yr yield retreating from nearly 4.8% to the current range of 4.2-4.3%, towards our own forecast range of 4.00-4.25% over 6-12 months. Markets now expect 2-3 Fed rate cuts by year-end, largely in-line with our own expectations.

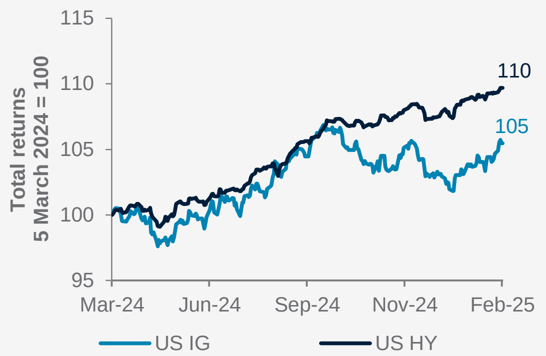
While one interpretation is that still-elevated inflation expectations are driving a higher-for-longer view on rates and yields, it could also indicate that the US economy has remained resilient, which allows further tightening in credit spreads. We believe this supports the case to stay the course with Developed Market Investment Grade (DMIG) bonds. While asset class returns were under some pressure when US government bond yields rose towards 4.8%, this is now reversing, a move we expect has a little further to run. DMIG yields are also still attractive relative to historical lows from an income point of view. Additionally, we also favour remaining overweight DM High Yield (DMHY) bonds. As the economy remains robust enough to justify delaying rate cuts, DMHY bonds are likely to stay well-supported as default risks remain contained in a resilient economy.

For USD bonds, we believe a 5-7-year average maturity profile offers an attractive trade-off between potential exposure to a repricing of more Fed rate cuts and the limited yield pickup in longer maturities.

— **Ray Heung**, *Senior Investment Strategist*

US investment grade bond returns have picked up in recent weeks as markets expect the Fed to deliver 2-3 25bps rate cuts by the end of 2025

DM HY and IG bonds returns over the past year



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

How does Germany's recent election affect your view on European bonds and the currency?

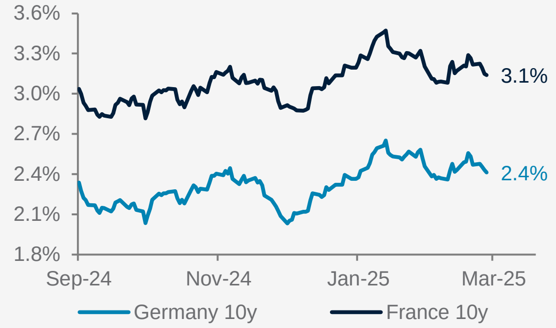
The German election outcome largely met market expectations, with the conservatives led by the CDU/CSU now expected to form a coalition government. It is likely the new government boosts infrastructure investments to support growth, but the debt brake is likely to ultimately act as a constraint. Nonetheless, long bond yields in Germany and even in France have been relatively stable post the election outcome. We continue to expect 3 cuts by the ECB this year, bringing the ECB policy rate to 2%, and thus reiterate our preference to opportunistically buy European government bonds (fx-hedged).

On the macro front, Germany consumer confidence softened while Euro area inflation stayed flat. The focus now shifts to Euro area inflation data and ECB policy meeting next week. Additionally, the Euro area negotiated wage rate softened, which is likely to boost ECB rate cut expectations. Therefore, we see moderate downside pressure on EUR/USD in the coming weeks. Technically, immediate resistance is at 1.0760, with first support at 1.0330, followed by 1.0140.

— **Ray Heung**, *Senior Investment Strategist*
— **Iris Yuen**, *Investment Strategist*

Europe's long-term bond yields have remained stable after Germany's election

10-year German and French government bond yields



Source: Bloomberg, Standard Chartered

What is your near-term outlook for the USD/CAD exchange rate? How big a threat are proposed US tariffs?

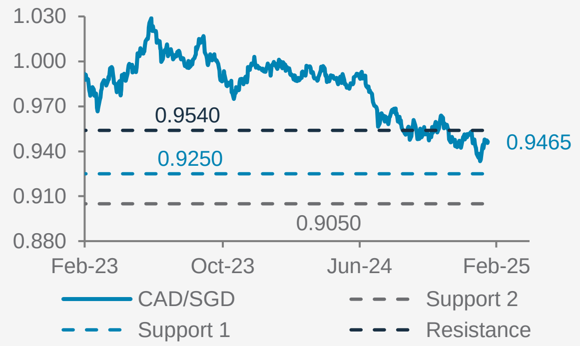
There is likely to be a lot of focus on Canadian economic growth data. The market expects an improvement in this week's data as spending accelerated into year-end on the back of a temporary tax holiday in 2024. However, we believe the CAD is likely to remain under pressure in the near term, with key factors including (i) US-Canada tariff tensions that remain on the boil, (ii) Canada's trade deficit is likely to widen once again if tariffs are imposed, and (iii) crude oil prices fell to a two-month low amid raising supply concerns as prospects for a peace deal between Russia and Ukraine improved.

Technically, the MACD indicates near-term upside pressure, and a firm break above 1.4470 could pave the way for the pair to test 1.4790. We prefer to express our bearish short-term view on CAD against SGD which we believe offers a more attractive opportunity (i.e. we are bearish CAD/SGD). The pair has formed lower highs and lower lows since mid-November 2024. A break below its first support at 0.9250 should pave the way to test 0.9050.

— **Iris Yuen**, *Senior Investment Strategist*

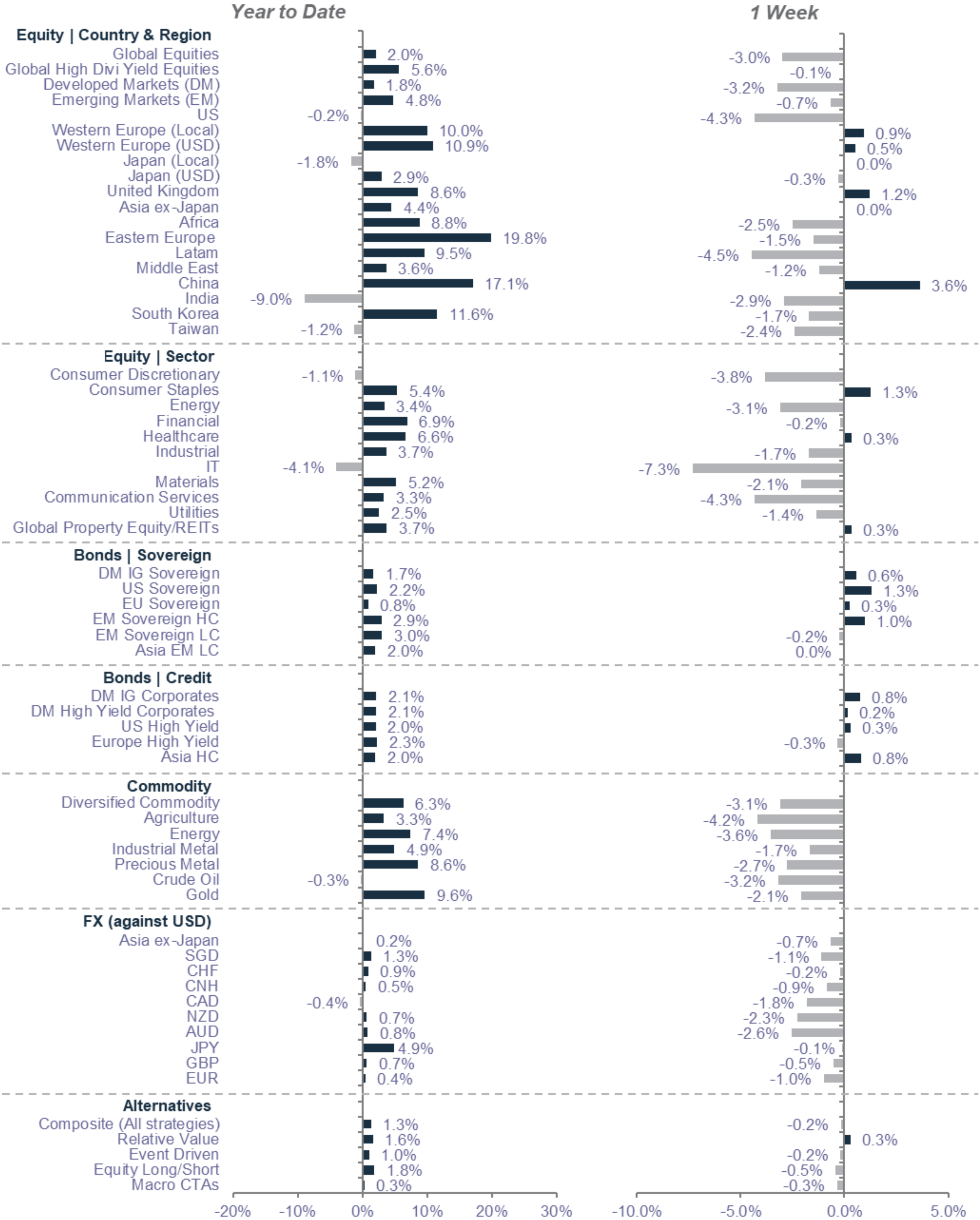
CAD under pressure amid tariff threats and soft oil prices

CAD/SGD with technical levels



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 27 February 2025; 1-week period: 20 February 2025 to 27 February 2025

Our 12-month asset class views at a glance

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

Source: Standard Chartered Global Investment Committee
Legend: ▲ Most preferred | ▼ Less preferred | ◆ Core holding

Economic and market calendar

	Market	Event	Period	Expected	Prior
MON	CNH	Caixin China PMI Mfg	Feb	50.5	50.1
	EUR	CPI Estimate y/y	Feb P	–	–
	EUR	CPI Core y/y	Feb P	–	2.7%
	USD	ISM Manufacturing	Feb	50.5	50.9
	USD	ISM Prices Paid	Feb	–	54.9
TUE	EUR	Unemployment Rate	Jan	–	6.3%
WED	CNH	Caixin China PMI Services	Feb	–	51.0
	EUR	PPI y/y	Jan	–	0.0%
	USD	Factory Orders	Jan	1.2%	-0.9%
	USD	ISM Services Index	Feb	53.0	52.8
THU	EUR	Retail Sales y/y	Jan	–	1.9%
	EUR	ECB Deposit Facility Rate	6-Mar	–	2.8%
FRI/SAT	USD	Change in Nonfarm Payrolls	Feb	155k	143k
	USD	Unemployment Rate	Feb	4.0%	4.0%

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 S&P500 has next interim support at 5,764

Technical indicators for key markets as of 27 February close

Index	Spot	1st support	1st resis-tance	12m forward P/E (x)	*12m forward dividend yield (%)
S&P500	5,862	5,764	6,053	21.3	1.4
STOXX 50	5,473	5,250	5,620	15.1	3.2
FTSE 100	8,756	8,566	8,884	12.2	3.8
Topix	2,736	2,687	2,790	14.4	2.7
Shanghai Comp	3,388	3,276	3,444	12.3	3.2
Hang Seng	23,718	20,963	25,275	10.6	3.2
Nifty 50	22,545	22,100	23,399	18.5	1.7
MSCI Asia ex-Japan	734	700	758	13.2	2.5
MSCI EM	1,124	1,078	1,159	12.3	2.9
WTI (Spot)	70.4	67.4	74.2	na	na
Gold	2,878	2,756	2,978	na	na
UST 10Y Yield	4.26	4.12	4.53	na	na

Source: Bloomberg, Standard Chartered; *as at close of 27-Feb-25
Note: These short-term technical levels are based on models and may differ from a more qualitative analysis provided in other pages

Investor diversity has normalised across asset classes

Our proprietary market diversity indicators as of 27 Feb close

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↑	1.94
Global Equities	●	↓	2.35
Gold	◐	↓	1.35
Equity			
MSCI US	●	↑	1.65
MSCI Europe	◐	↓	1.32
MSCI AC AXJ	●	→	1.54
Fixed Income			
DM Corp Bond	●	↑	1.76
DM High Yield	●	↓	1.54
EM USD	●	↓	1.59
EM Local	●	↑	1.62
Asia USD	●	→	1.58
Currencies			
EUR/USD	●	↑	1.55

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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