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Wealth Management Chief Investment Office
14 April 2023

Weekly Market View

Has a recession started?

→ The message from the US corporate sector appears to be in sync with the economic data – the US economy is getting closer to a recession. As the US Q1 earnings season gets going, consensus estimates point to a second straight quarter of y/y earnings contraction. This also rhymes with the signal from the bond market, which is flagging a recession later this year.

→ History shows government bonds handily outperform equities during a recession, but equities are not yet pricing a recession and the consensus is still upbeat on US earnings in H2. Thus, we see further downsides in equities as earnings estimates are cut further.

→ Even a widely expected Fed rate pause after May, followed by rate cuts in H2, are unlikely to prevent a drawdown. Given this, we would continue to use this year's rally in risk assets to move to a more defensive position, focussing on income-generating assets.

What should we expect from US Q1 earnings season?

What is the outlook for the US 10-year government bond yield after it broke below key support levels?

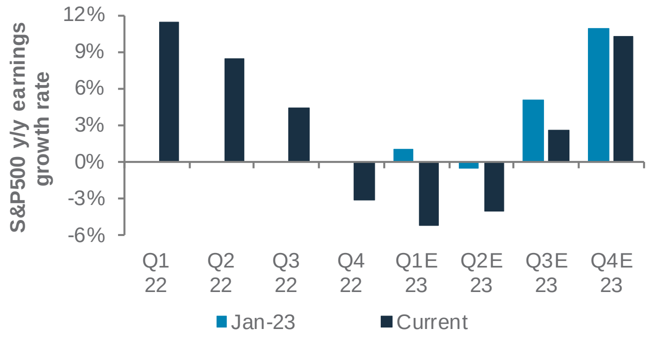
What is the outlook for the Singapore Dollar and Singapore REITs?

Important disclosures can be found in the Disclosures Appendix.

Charts of the week: US earnings recession has likely started

The downturn in US corporate earnings, which mirrors the broader economy, argues for a defensive investment stance

S&P500 index earnings and current estimates for 2023 vs. Jan



12m returns for US stocks and bonds after a recession starts

Yield curve most inverted	Yield curve turned positive	US recession start date^	12-month fwd returns of US equities*	12-month fwd returns of US bonds*
May-81	Jul-82	Jul-81	-16.2%	13.3%
Mar-89	Mar-90	Jul-90	5.6%	10.6%
Apr-00	Jan-01	Mar-01	-8.8%	7.0%
Nov-06	Jun-07	Dec-07	-39.5%	1.7%
Mar-23	**?**	**?**	**?**	**?**
Average			-14.7%	8.2%

Source: Refinitiv, Standard Chartered; ^as per National Bureau of Economic Research (excludes 2020 COVID recession); *after recession starts

Editorial

Has a recession started?

The message from the US corporate sector appears to be in sync with the economic data – the US economy is getting closer to a recession. As the US Q1 earnings season gets going, consensus estimates point to a second straight quarter of y/y earnings contraction. This also rhymes with the signal from the bond market, which is flagging a recession later this year. Equities and corporate bonds are not pricing a recession yet, which raises downside risks for these assets. Even a widely expected Fed rate pause after May, followed by rate cuts in H2, are unlikely to prevent a drawdown. Given this, we would continue to use this year's rally in risk assets to move to a more defensive position, focussing on income-generating assets.

The consensus has downgraded US Q1 earnings estimates to -5.2% y/y, from +1.0% at the start of the year. This follows a 3.2% y/y contraction in Q4 22. The earnings deterioration corroborates with macro data – almost all our US recession indicators, except those for the job market, have been flashing red in recent months (business confidence indicators, or PMIs, are likely to confirm this trend next week). The US job market is also starting to slow, as seen in falling temporary employment, lesser number of hours worked, falling job openings and rising jobless claims. The latest payrolls data (236,000 jobs added in March vs 326,000 in February), while still robust, was mainly lifted by leisure, hospitality and healthcare employment, while the number of permanent job losers rose to the highest since 2020. If the slowdown in the broader economy continues, especially as banks tighten lending conditions following last month's turmoil, we are likely to see rising unemployment (which typically coincides with the start of a recession) in H2.

The US bond market is suggesting a similar timeline for a recession. Tracking the past four recessions (see the table above), a recession started between 2-16 months after the US 10-year vs. 2-year bond yield curve became the most inverted. The yield curve then rebounded (the so-called bull steepening) as the 2-year yield fell more sharply than the 10-year yield as the bond market started pricing in Fed rate cuts. The yield curve sustainably turned positive again (the 2-year yield fell below the 10-year yield) typically 2-6 months before a recession started. The above gives us a framework for timing a recession: the US yield curve became most inverted in March. If that low was indeed the extreme for this cycle, it raises the prospects of a recession by the end of this year, perhaps even as soon as Q2.

Why is this important? Government bonds handily outperform equities during a recession, but equities are not yet pricing a recession and the consensus is still upbeat on US earnings in H2. Thus, we see further downsides in equities as earnings estimates are cut further. Equities sometimes perform well once the Fed pauses, but history shows that only happens when there is no recession. In the current scenario, we believe the Fed *wants* to induce a mild recession to cool inflation. Hence, it is likely to hike rates once more in May, by 25bps, especially after core consumer inflation accelerated to 5.6% y/y in March.

Investment implications: Against this backdrop, we would use the rally in risk assets to rebalance to Developed Market government bonds and (overwhelmingly Investment Grade) Asian USD corporate bonds. The US 10-year Treasury yield has strong resistance around 3.5% and 3.6%; we see these as good levels to lock in longer-maturity bond yields. Within equities, we would rebalance to Asia ex-Japan. Data this week showed China's credit growth is picking up, while cooling inflation provides an opportunity for authorities to stimulate further (watch the March activity data next week). Meanwhile, the USD is likely to see further downside. We are bullish on the EUR on a 1-month horizon as the ECB considers a 50bps rate hike in May, while the Fed debates whether to hike at all, with several policymakers calling for a pause at the March meeting.

— 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.

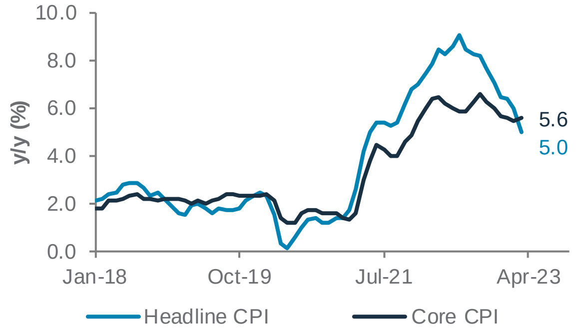
(+) factors: Strong US job market, slowing headline inflation

(-) factors: Hawkish Fed, bearish IMF growth outlook, geopolitical risk

	Positive for risk assets	Negative for risk assets
Macro data	• US job market added more-than-expected jobs at 236k, with unemployment slipping to 3.5%; average hourly earnings growth moderated • US headline consumer inflation rose less than expected by 5% y/y, core rose 5.6% y/y as expected. • US producer prices fell more than expected m/m • Euro area Sentix investor confidence recovered more than expected • China total social financing rose for a second month • China exports surged unexpectedly by 14.8% y/y	• Euro area retail sales fell as expected by -0.8% m/m • China consumer inflation rose 0.7% y/y, the slowest since Sep 2021; producer prices declined for the sixth month in a row, highlighting building deflationary pressures • US initial jobless claims rose more than expected
	Our assessment: Positive – Resilient US job market, slowing headline inflation, strong China credit growth	
Policy developments	• The new BoJ Governor Ueda kept policy unchanged for now • US Treasury Secretary Yellen downplayed banking woes	• Some Fed officials called for more hikes while some asked for prudence and patience • Fed staff forecasts in the latest meeting minutes pointed to a mild recession this year • IMF cuts global growth forecast to 2.8%, the weakest since 1990, as financial risks rose
	Our assessment: Negative – Hawkish Fed officials, bearish Fed and IMF forecasts	
Other developments		• China's military conducted three days of military drills around Taiwan
	Our assessment: Negative – Geopolitical tensions	

US underlying inflation pressures remain elevated despite a sharp decline in the headline rate, sustaining the prospects of a Fed rate hike in May

US headline and core inflation



Source: Bloomberg; Standard Chartered

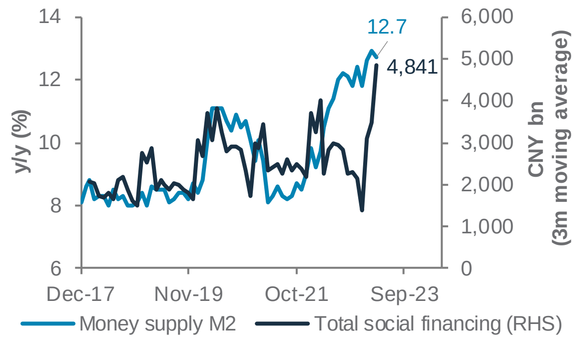
Euro area investor confidence improved marginally, but domestic demand remained weak

Euro area Sentix Investor Confidence and retail sales

Source: Bloomberg, Standard Chartered

China's credit growth has picked up in recent months as the central bank eased monetary policy by lowering bank reserve requirements

China's total social financing and M2 money supply



Source: Bloomberg, Standard Chartered

Top client questions

What should we expect from the US Q1 earnings season?

S&P500 Q1 FY23 earnings are expected to fall 5.2% y/y, according Refinitiv estimates. This compares with expectations of a 1.0% rise at the start of January 2023. This will mark the second consecutive quarter of earnings decline, ie, technically an “earnings recession”, while profit margins are expected to fall. A cocktail of still-elevated inflation and slowing growth has created a challenging environment for companies.

Only four out of eleven S&P500 index sectors are expected to show positive earnings growth. They are consumer discretionary, industrials, energy and financials.

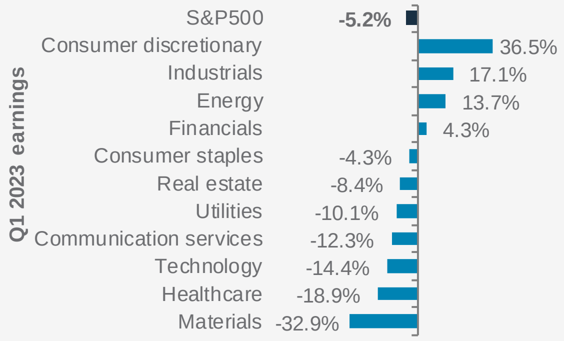
Therefore, we continue to take a defensive sectoral stance on US markets, preferring consumer staples, healthcare and utilities sectors. Historically, they have shown the least earnings volatility even during recessions, compared to other sectors.

In terms of technicals, the S&P500 index has been benefitting from expectations of a potential pause in Fed rate hikes. It has been rebounding and has broken above the important resistance at 4,100. However, we do see strong resistance ahead at 4,300, and we maintain our neutral view on US equities.

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

US Q1 23 earnings are expected to fall by 5.2% y/y, the second consecutive quarter of earnings decline

Consensus estimates for S&P500 index earnings growth in Q1 23, by sectors



Source: Refinitiv, Standard Chartered

What is the outlook for US 10-year yield after it broke below its key daily moving averages?

Since the start of March, the US 10-year government bond yield has been making lower highs and lower lows, while breaking below its 50-day and 200-day moving averages, as the market refocused on downside risks to economic growth. The 10-year fell to as low as 3.25% in April, before retracing above 3.40% in the last few days. It now faces a key resistance around 3.52%, followed by 3.64%. On the downside, we see near-term supports at around 3.39% and 3.25%.

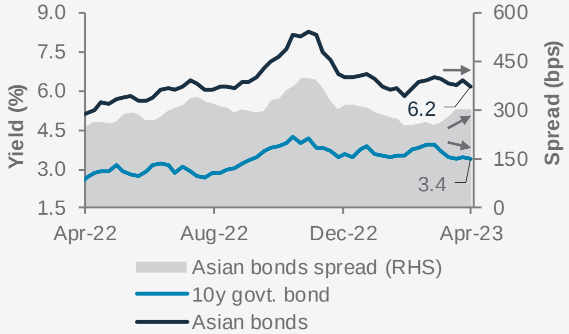
From a fundamental perspective, we expect the pullback in 10-year yield to continue in the near term, given that (1) the Fed remains hawkish in its rhetoric and is likely to deliver one last hike at its meeting in May; (2) A simple fair-value model based on the Fed funds rate, 10-year inflation expectations and real potential GDP growth, currently provides a reading of 3.88% for the 10-year yield.

Having said that, we would note that credit spreads (yield premiums over Treasuries) have widened modestly across many income sub-asset classes, including bonds. This has helped offset some of the decline in government bond yields; for example, our preferred Asian bonds are now offering an all-in yield of 6.29%, not far from a month ago. Hence, we believe the window to add to income assets remains open, despite the move lower in US government bond yields.

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

In Asia, widening of corporate bond yield premiums has offset some of the decline in US government bond yields

US 10-year government bond yield, Asian bond yield and their yield premium over US government bonds



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

What is your outlook on the Singapore REITs sector?

Singapore REITs faced multiple challenges from the COVID-19 pandemic, with lockdowns affecting retail, hospitality and industrial assets and work-from-home impacting office assets. On the other hand, the e-commerce boom saw logistic assets in demand. While some forces are temporary, others have a more lasting impact. In addition, rising interest rates and bond yields have been a headwind for property valuations and interest costs (REITs usually have significant amounts of debt).

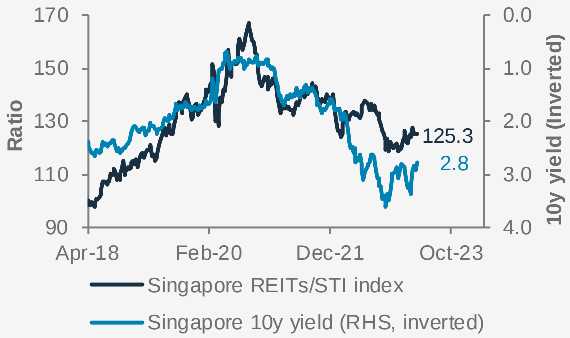
Interest rates in Singapore typically track those of the US, where we expect another 25bps of rate hike before the Fed pauses. When that happens and bond yields subsequently fall, we believe the headwind of rising rates could turn into a tailwind of lower rates for Singapore REITs.

Meanwhile, we see the major Singapore REITs as being relatively well managed, with rental growth and cost control generally able to offset cost inflation and higher interest costs. An economic recovery should continue, supporting hospitality and industrial assets, while structural growth is likely to support data centre and logistic assets. In Singapore, limited new supply of Grade A offices is supportive of the market as it continues to digest work-from-home trends. We believe the outlook will ultimately brighten once interest rate cuts and lower bond yields are in sight.

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

Singapore REITs have been underperforming the broader market since 2021 due to rising bond yields. We expect bond yields to fall by end 2023, which should improve the outlook for the REITs

Performance of S&P Singapore REIT index relative to the Straits Times index (rebased to 100=13-Apr-2018) and Singapore 10-year government bond yield



Source: Bloomberg, Standard Chartered

What is the short- and long-term outlook for the SGD?

The Monetary Authority of Singapore (MAS, Singapore's central bank) kept its monetary policy unchanged, bringing its tightening cycle to a pause, joining several other central banks who have paused monetary tightening amid global growth concerns. The move comes as a mild surprise as 12 out of 22 economists surveyed by Bloomberg were expecting modest tightening.

The pause comes as the latest data showed that Singapore's economy contracted more than expected in Q1 2023. The central bank cited heightened risks to global growth and said that the effects of prior tightening moves were still working their way through the economy and should help dampen inflation (which continues to hover around 14-year highs) going forward.

The MAS decision has effectively brought forward the expected pause in policy tightening. The muted rise in USD/SGD following the decision suggests investor positioning was relatively neutral heading into the meeting. In the near-term, USD/SGD could potentially test the 1.3365-1.3370 resistance zone. However, our 12-month expectation of 1.30 for USD/SGD remains unchanged and we would use any bounce towards 1.3460 as an opportunity to sell USD/SGD.

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

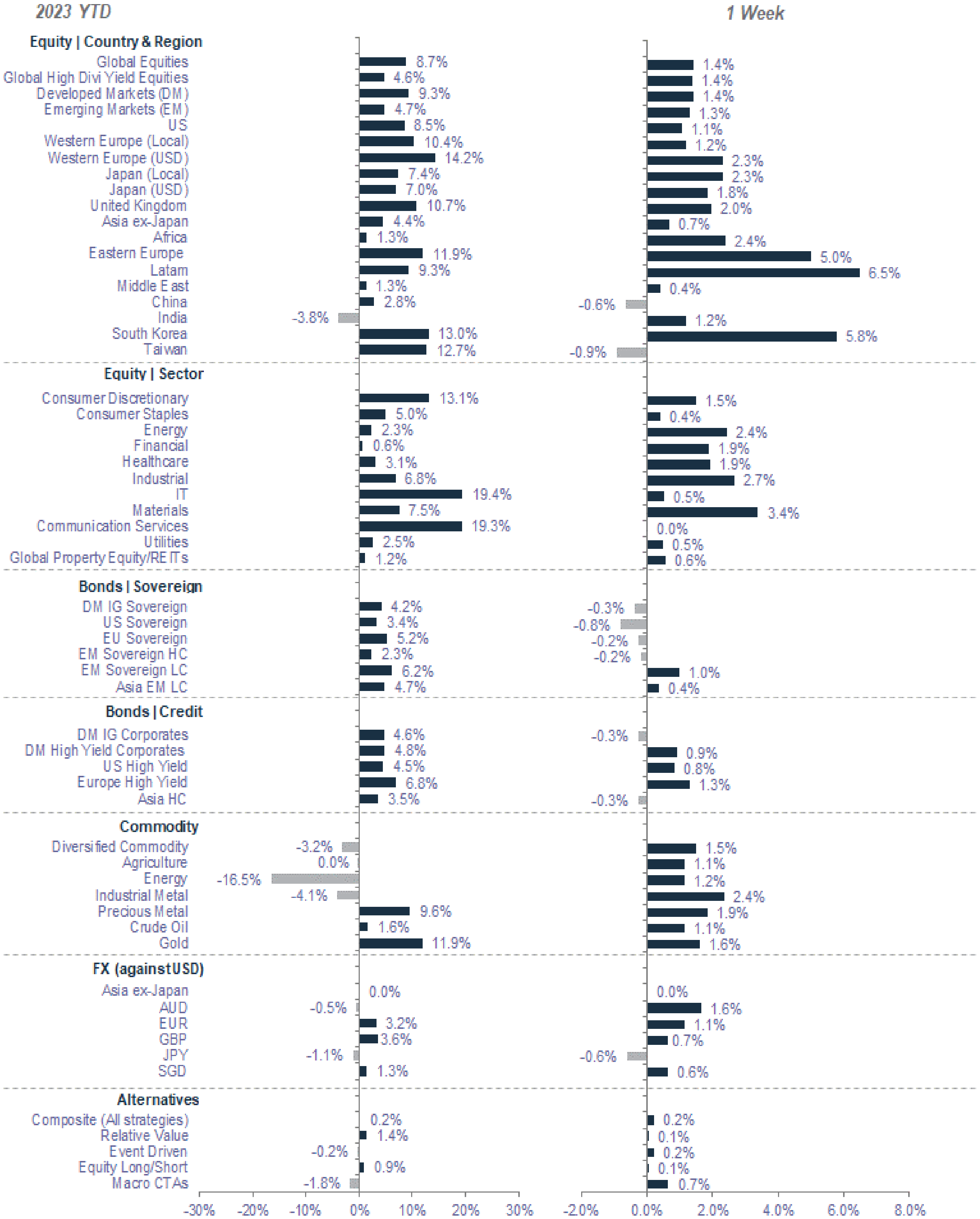
The MAS's surprise pause in policy this week signals a likely end to the current monetary tightening cycle, as the central bank focuses on balancing elevated inflation with growth risks

Summary of MAS policy decisions since October 2021

Date	Slope	Width	Centre
23-Apr	No change	No change	No change
22-Oct	No change	No change	Recentred upward
22-Jul	No change	No change	Recentred upward
22-Apr	Increased	No change	Recentred upward
22-Jan	Increased	No change	No change
21-Oct	Increased	No change	No change

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 13 April 2023; 1-week period: 06 April 2023 to 13 April 2023

Our 12-month asset class views at a glance

Asset class			
Equities	▼	**Preferred Sectors**	
Euro area	◆	US Healthcare	▲
US	◆	US Staples	▲
UK	▼	US Utilities	▲
Asia ex-Japan	▲	Europe Utilities	▲
Japan	◆	China Discretionary	▲
Other EM	◆	China Comm. Services	▲
		China Technology	▲
Bonds (Credit)	◆	China Industrials	▲
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	US	Empire Manufacturing	Apr	-16.8	-24.6
TUE	CH	GDP SA q/q	1Q	2.1%	0.0%
	CH	Industrial Production y/y	Mar	4.0%	–
	CH	Retail Sales y/y	Mar	7.0%	–
	CH	Fixed Assets Ex Rural YTD y/y	Mar	5.7%	5.5%
	UK	ILO Unemployment Rate 3mths	Feb	–	3.7%
	EC	ZEW Survey Expectations	Apr	–	10.0
	US	Housing Starts	Mar	1400k	1450k
WED	UK	CPI y/y	Mar	–	10.4%
	UK	CPI Core y/y	Mar	–	6.2%
THU	US	Leading Index	Mar	-0.4%	-0.3%
	EC	Consumer Confidence	Apr P	–	-19.2
	EC	ECB Meeting Minutes	Mar		
	US	Federal Reserve Beige Book			
FRI/SAT	UK	Retail Sales Ex Auto Fuel y/y	Mar	–	-3.3%
	EC	S&P Global Eurozone Manufacturing PMI	Apr P	–	47.3
	EC	S&P Global Eurozone Services PMI	Apr P	–	55.0
	UK	S&P Global/CIPS UK Manufacturing PMI	Apr P	–	47.9
	UK	S&P Global/CIPS UK Services PMI	Apr P	–	52.9
	US	S&P Global US Manufacturing PMI	Apr P	–	49.2
	US	S&P Global US Services PMI	Apr P	–	52.6
	US	World Bank Spring Meeting			

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

Next resistance for the US 10-year bond yield is at 3.46%

Technical indicators for key markets as of 13 April close

Index	Spot	1st support	1st resistance
S&P 500	4,146	4,110	4,164
STOXX 50	4,363	4,343	4,373
FTSE 100	7,843	7,805	7,863
Nikkei 225	28,465	27,832	28,784
Shanghai Comp	3,333	3,320	3,339
Hang Seng	20,380	20,298	20,474
MSCI Asia ex-Japan	645	643	647
MSCI EM	997	990	1,000
WTI (Spot)	86.3	84.6	87.7
Gold	2,045	2,009	2,063
UST 10y Yield	3.44	3.41	3.46

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 remains healthy across asset classes

Our proprietary market diversity indicators as of 13 April

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	→	1.68
Global Equities	●	→	1.63
Gold	◐	↓	1.42
Equity			
MSCI US	●	→	1.64
MSCI Europe	◐	↑	1.48
MSCI AC AXJ	●	↑	1.72
Fixed Income			
DM Corp Bond	●	↑	1.68
DM High Yield	●	↑	1.94
EM USD	●	↑	1.99
EM Local	●	↑	1.50
Asia USD	●	↑	1.79
Currencies			
EUR/USD	●	↑	1.67

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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