



# Weekly Market View

## Heating up again

→ The hotter-than-expected US inflation report for March, which followed yet another robust jobs report, has raised the risk of higher-for-longer interest rates.

→ We see increased risk of the Fed delaying its first rate cut to H2 (instead of June). Meanwhile, the ECB has signalled increased chance that it will initiate rate cuts this summer as inflation in the region subsides.

→ We see an opportunity to add US inflation hedges, such as energy sector equities and inflation-protected bonds.

→ We would also look to add to US technology and communications sector equities on dips as we anticipate the sectors to deliver strong Q1 earnings.

→ European government and investment grade corporate bonds look increasingly attractive as the ECB is likely to start cutting rates in June. We have also initiated bearish EUR ideas.

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Is it time to buy Developed Market government bonds after the sharp rise in yields?

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What is the outlook for US Q1 earnings season?

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What is the outlook for the EUR after the latest ECB policy meeting?

## Charts of the week: Inflation risks reignited

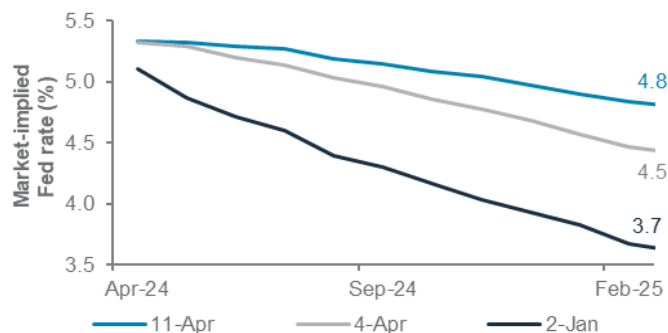
### US inflation has consistently beaten expectations this year, pushing back Fed rate cut expectations

US 'supercore'\* inflation, y/y and annualised 3m, 6m averages



Source: Bloomberg, Standard Chartered; \*US services inflation, ex-energy, ex-housing

Money market estimates of Fed rates over the next 12 months



## Editorial

### Heating up again

The hotter-than-expected US inflation report for March, which followed yet another robust jobs report, has raised the risk of higher-for-longer rates. Given this, we see increased risk of the Fed delaying its first rate cut to H2 (instead of June). If the first Fed rate cut is delayed, it would also reduce the chance of three rate cuts this year as the Fed is expected to be reluctant to make aggressive changes to policy ahead of November's presidential elections. Meanwhile, the ECB has signalled an increased chance that it will initiate rate cuts this summer as inflation in the region subsides.

Based on these developments, we see an opportunity to add US inflation hedges, such as energy sector equities and inflation-protected bonds. We would also look to add to US technology and communications sector equities on dips as we anticipate the sectors to deliver strong Q1 earnings. Among bonds, European government and investment grade corporate bonds look increasingly attractive as we expect the ECB to start cutting rates in June. We have also initiated bearish EUR ideas.

**Inflation uptrend:** The latest US inflation report belies the Fed's expectations that the rebound in inflation in January and February was a blip. Headline and core inflation in March both beat estimates and services inflation excluding energy and housing prices, which the Fed calls 'supercore' inflation, has been on an uptrend since late last year (based on 3-month and 6-month annualised rates). Shelter inflation is proving to be stickier than expected as the job market remains robust, while transportation-related services' inflation (especially auto insurance) has been on an uptrend.

Overall, it appears that the robust job market, increasingly sustained by a surge in immigration over the past year, is causing the inflation upsurge. The Fed, acutely aware of the repeated bouts of inflation in the 1970s, is likely to be reluctant

to cut rates until it sees clear signs of a resumption in last year's disinflationary trend. Money markets are now pricing 1-2 rate cuts this year, with expectations of the first cut pushed back further to November (from September).

#### Investment implications:

**Inflation hedges:** The hot inflation report should add tailwinds to some of our inflation hedges such as Treasury inflation protected bonds. Our other inflation hedge, energy sector equities, carries a risk of a near-term pullback due to stretched positioning. We would look to buy on dips.

**High quality bonds:** European government bonds look particularly attractive after the recent surge in yields, given slowing Euro area inflation, which stands in contrast with the US. It looks increasingly likely that the ECB will cut rates in June, before the Fed. In general, Developed Market investment grade government and corporate bonds look increasingly attractive. For US 10-year government bonds, the yield needs to rise more than 55bps from here and thus set a record high for the post-pandemic cycle (above the October 2023 high of 4.99%) for investors to lose money. For US investment grade corporate bonds, the benchmark yield needs to rise more than 80bps from here for investors to lose money.

**Opportunities in equities:** In equities, all our 6 opportunistic ideas have delivered positive returns since we initiated them last month (US energy, technology and communications sectors; India large-cap; China non-financial high dividend SOE basket of A- and H-shares). We would use any pullbacks to accumulate US technology and communications sectors as we expect strong Q1 earnings for these sectors (see page 4).

**Near-term bearish on EUR:** To capitalise on rising expectations of ECB rate cuts starting in June, we have recently initiated bearish EUR/NZD and EUR/CHF ideas (see page 5).

## 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

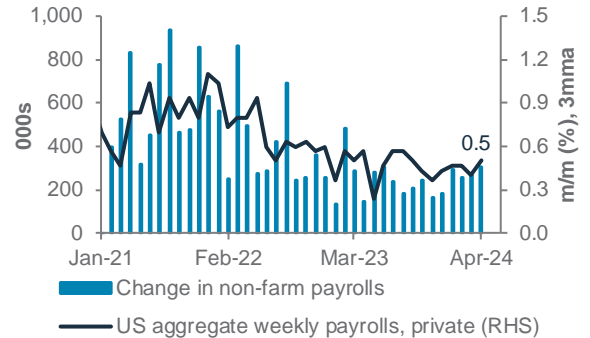
**(+) factors:** Strong US jobs data, Israel-Gaza ceasefire expectations

**(-) factors:** Stubborn US inflation, wages growth

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> <li>US added more jobs than expected at 303,000; the unemployment rate fell to 3.8% as expected</li> <li>US producer prices rose less than expected; core producer prices rose as expected</li> <li>Euro area investor confidence improved more than expected</li> </ul>	<ul style="list-style-type: none"> <li>US consumer inflation rose more than expected to 3.5% y/y; core inflation rose more than expected to 3.8% y/y</li> <li>US average hourly earnings rose more than expected by 0.3% m/m</li> <li>US NFIB small business optimism index fell to its lowest level since 2012</li> <li>Euro area retail sales fell more than expected</li> <li>China consumer inflation fell more than expected to 0.1% y/y; producer prices continued to fall by 2.8% y/y as expected</li> </ul>
	<b>Our assessment: Negative</b> – Re-accelerating US consumer inflation, wage growth	
Policy developments	<ul style="list-style-type: none"> <li>Fed's Bullard said that the base case is three rate cuts this year</li> <li>ECB held rates as expected and continued to signal a June cut</li> </ul>	<ul style="list-style-type: none"> <li>Fed minutes showed policymakers want to see sustained disinflation before cutting rates</li> <li>Fed's Logan said it is too early to consider rate cuts</li> <li>BoC stood pat on rates as expected</li> </ul>
	<b>Our assessment: Negative</b> – Fed minutes showed no urgency for rate cuts	
Other developments	<ul style="list-style-type: none"> <li>Israeli officials signalled optimism on ceasefire talks in Gaza, but prepared for a potential attack from Iran</li> </ul>	<ul style="list-style-type: none"> <li>Fed's Yellen warned of overcapacity in clean energy and threatened sanctions on China banks that aided Russia</li> <li>Fitch revised China's outlook to Negative</li> </ul>
	<b>Our assessment: Neutral</b> – Easing tensions in Gaza vs Yellen's warnings against China	

### US job market remains robust, sustaining wage pressures

US non-farm payrolls, average private weekly payrolls



Source: Bloomberg; Standard Chartered

### Euro area investor confidence continues to recover despite weak retail sales

Euro area Sentix Investor Confidence; retail sales



Source: Bloomberg; Standard Chartered

### China's disinflationary pressures extended into March, despite policy measures to support growth

China consumer and producer price inflation



Source: Bloomberg; Standard Chartered



## Top client questions

### Q Is it time to buy DM IG bonds after the sharp rise in yields?

The stronger-than-expected US inflation data for March has fuelled expectations that the Fed needs to maintain tighter monetary policies for longer. Money markets are now anticipating less than 50bps of Fed rate cuts this year, versus the Fed's March projections of 75bps. This change in expectation has driven more than 25bps surge in the 10-year US government bond yield over the past week, with 10-year real (net-of-inflation) yield surging to a 20-week high of 2.19%.

Despite near-term upside risks, the current level of US government bond yields presents an attractive opportunity for investors seeking a core allocation to Developed Market (DM) Investment Grade (IG) government bonds. With the 10-year government bond yield reaching almost 4.6%, a surge of more than 50bps in yield to a new post-pandemic high would be necessary for investors to incur losses. Additionally, given expectations of sticky inflation and higher commodity prices, we believe adding tactical positions in inflation-protected government bonds (TIPS) would be prudent.

In Europe, the ECB concluded its April policy meeting with key interest rates on hold. However, President Lagarde continued to deliver dovish signals that a rate cut in June is plausible. Money markets are pricing an earlier rate cut by the ECB compared to the Fed. We expect earlier and sharper ECB rate cuts to fuel the outperformance of EUR-denominated bonds over USD-denominated bonds. Hence, we remain tactically overweight EUR-denominated bonds.

— Cedric Lam, Senior Investment Strategist

### Q What is the outlook for the US Q1 24 earnings season?

According to LSEG I/B/E/S consensus estimates, the S&P 500 index is expected to deliver 5.0% y/y earnings growth in Q1 24, led by communication services (+26.7%) and technology (+20.9%). Meanwhile, energy (-24.3%) and materials (-23.7%) are expected to see the largest declines. Forward guidance from companies will be crucial as always.

2024 is expected to see 9.8% earnings growth. This is lower than 11.1% expected at the start of the year as a strong Q4 23 earnings season saw 2023 earnings growth revised up to 4.1% from 2.9%, effectively pulling some growth from 2024 into 2023. Earnings for 2025 are projected to grow by 13.7%. US equities outperformance needs robust growth estimates for 2024 and 2025 to be sustained.

Our preferred technology and communication sectors have done well year-to-date and Q1 earnings expectations are high. We expect these two sectors to deliver the strongest Q1 earnings. Energy – also a preferred sector – has low Q1 and 2024 earnings expectations, but with oil prices currently trading 10% higher than the 2023 average, we see upside risks to energy sector earnings vs consensus expectations.

— Fook Hien Yap, Senior Investment Strategist

### US government bonds appear attractive again after inflation-adjusted yields surged in recent weeks

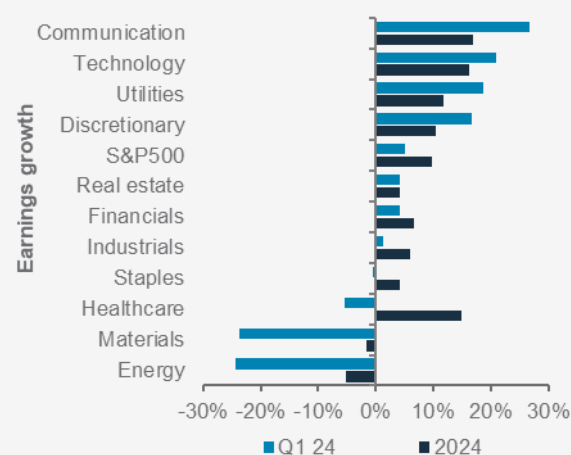
US 10-year real (net-of-inflation) government bond yield



Source: Bloomberg, Standard Chartered

### US Communication and Technology sectors are expected to deliver the strongest earnings growth in Q1 2024 and for the full year

Consensus estimates for Q1 and full-year 2024 earnings estimates, by sector



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

## Top client questions (cont'd)

### Q What is the outlook for the EUR after the latest ECB policy meeting?

The ECB held its policy rate at a record high, as expected, in its April policy meeting. The bank has kept interest rates steady since September, but has signalled the possibility of rate cuts by summer, with policymakers awaiting a few more comforting inflation and wage indicators. In terms of data, Euro area retail sales improved recently, though they continued to contract on a y/y basis, while inflation fell unexpectedly in March.

The data reaffirms our expectation that the ECB is likely to cut rates in June. The market is now pricing in a total of 75bps cuts in 2024. This is likely to act as a headwind for EUR/USD. Meanwhile, the risk is that the Fed will be forced to hold rates for longer amid sticky inflation. Thus, interest rate differentials are now more in favour of the greenback.

We expect EUR/USD to trade rangebound with a bearish bias in the coming weeks, with resistance at 1.0980. If the pair sustainably breaks below 1.0690, it could pave the way for a test of 1.0450. We initiated bearish EUR/NZD and EUR/CHF ideas recently to capture the above view, supported by technical signals.

— Iris Yuen, Investment Strategist

### We expect EUR/USD to trade rangebound with a bearish bias in the coming weeks amid expectations of an ECB rate cut this summer

EUR/USD, support and resistance levels



Source: Bloomberg, Standard Chartered

### Q What are the implications of the recent positive developments in the semiconductor industry for Asia ex-Japan equities?

In recent months, the AI theme has fuelled the upbeat momentum in global technology segments, including cloud computing and semiconductors. We retain our Neutral allocation to Asia ex-Japan equities amid concerns over China's economic growth slowdown, but we expect continued outperformance of the technology sector to support Taiwan and South Korea equities in the near term, given its dominance in both markets (the sector accounts for 77% of Taiwan's total market capitalisation and 50% of South Korea's).

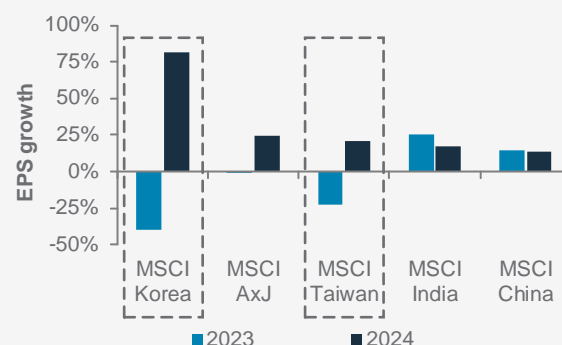
In South Korea, the government's pledge to re-examine incentives for chip investments and the roll-out of the "value-up" programme to improve corporate governance and boost shareholder value are positive. Meanwhile, the US government's grant to Taiwan's semiconductor chip giants to expand capacity and build new plants in the US is also a potential positive catalyst for the long-term earnings outlook.

Market expectations are for 82% EPS growth in Korea and 21% EPS growth for Taiwan in 2024. Improving earnings growth is likely to justify relatively elevated valuations in both markets.

— Michelle Kam, Investment Strategist

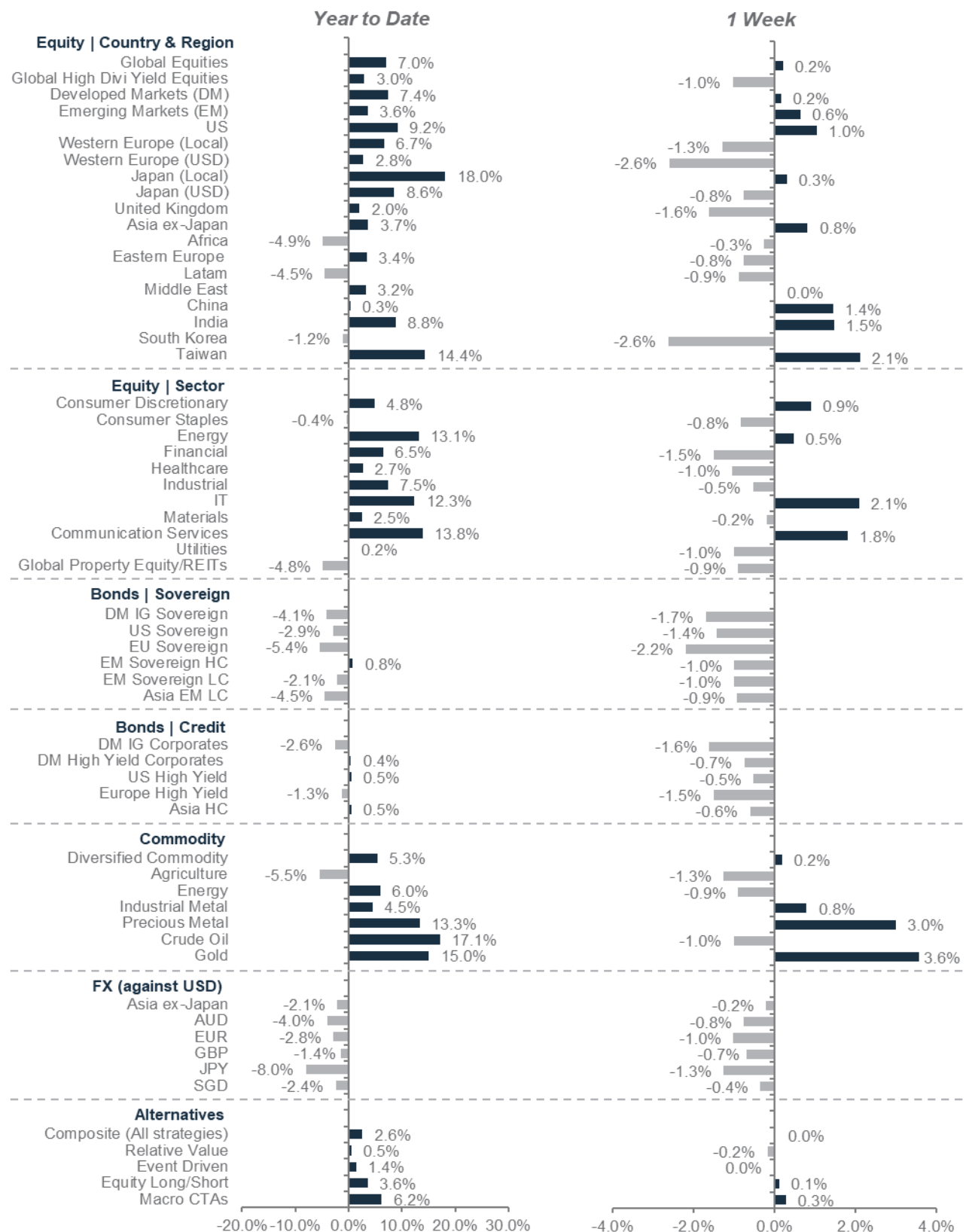
### Taiwan and Korea are expected to see a significant rebound in earnings in 2024

Consensus earnings estimates for MSCI Korea and MSCI Taiwan indices



Source: FactSet, 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 11 April 2024; 1-week period: 04 April 2024 to 11 April 2024

## Our 12-month asset class views at a glance

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

Source: Standard Chartered Global Investment Committee

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

## The US 10-year yield has next interim resistance at 4.59%

Technical indicators for key markets as of 11 April close

Index	Spot	1st support	1st resistance	12m forward P/E (x)	12m forward dividend yield (%)
S&P 500	5,199	5,170	5,219	20.8	1.5
STOXX 50	4,967	4,940	5,020	13.7	3.4
FTSE 100	7,924	7,903	7,953	11.5	4.0
Topix	2,747	2,715	2,767	15.9	2.3
Shanghai Comp	3,034	3,025	3,046	10.4	3.5
Hang Seng	17,095	16,833	17,248	8.3	4.5
Nifty 50	22,754	22,594	22,834	20.2	1.5
MSCI Asia ex-Japan	663	657	666	13.0	2.7
MSCI EM	1,055	1,048	1,060	12.3	3.0
WTI (Spot)	85.0	84.4	86.3	na	na
Gold	2,373	2,344	2,387	na	na
UST 10Y Yield	4.59	4.44	4.66	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	US	Empire Manufacturing	Apr	-7.0	-20.9
	US	Retail Sales Ex Auto & Gas	Mar	0.3%	0.3%
TUE	CH	GDP SA q/q	1Q	1.5%	1.0%
	CH	Industrial Production y/y	Mar	6.0%	–
	CH	GDP y/y	1Q	5.0%	5.2%
	CH	Retail Sales y/y	Mar	5.0%	–
	CH	Fixed Assets Ex Rural YTD y/y	Mar	4.0%	4.2%
	CH	Property Investment YTD y/y	Mar	-9.2%	-9.0%
	UK	ILO Unemployment Rate 3Mths	Feb	–	3.9%
	EC	ZEW Survey Expectations	Apr	–	33.5
	US	Building Permits	Mar	1510k	1518k
	US	Housing Starts	Mar	1480k	1521k
	US	Industrial Production m/m	Mar	0.4%	0.1%
WED	UK	CPI y/y	Mar	–	3.4%
	UK	CPI Core y/y	Mar	–	4.5%
THU	US	Leading Index	Mar	-0.1%	0.1%
	US	Federal Reserve releases Beige Book			
	US	Existing Home Sales	Mar	4.09m	4.38m
FRI/SAT	UK	Retail Sales Ex Auto Fuel y/y	Mar	–	-0.5%

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 extremely low for gold

Our proprietary market diversity indicators as of 11 April close

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	→	1.55
Global Equities	●	→	1.35
Gold	○	↓	1.21
<b>Equity</b>			
MSCI US	●	→	1.35
MSCI Europe	●	↑	1.48
MSCI AC AXJ	●	↓	1.40
<b>Fixed Income</b>			
DM Corp Bond	●	↑	1.73
DM High Yield	●	↑	1.47
EM USD	●	→	1.49
EM Local	●	→	1.66
Asia USD	●	↑	1.59
<b>Currencies</b>			
EUR/USD	●	↓	1.43

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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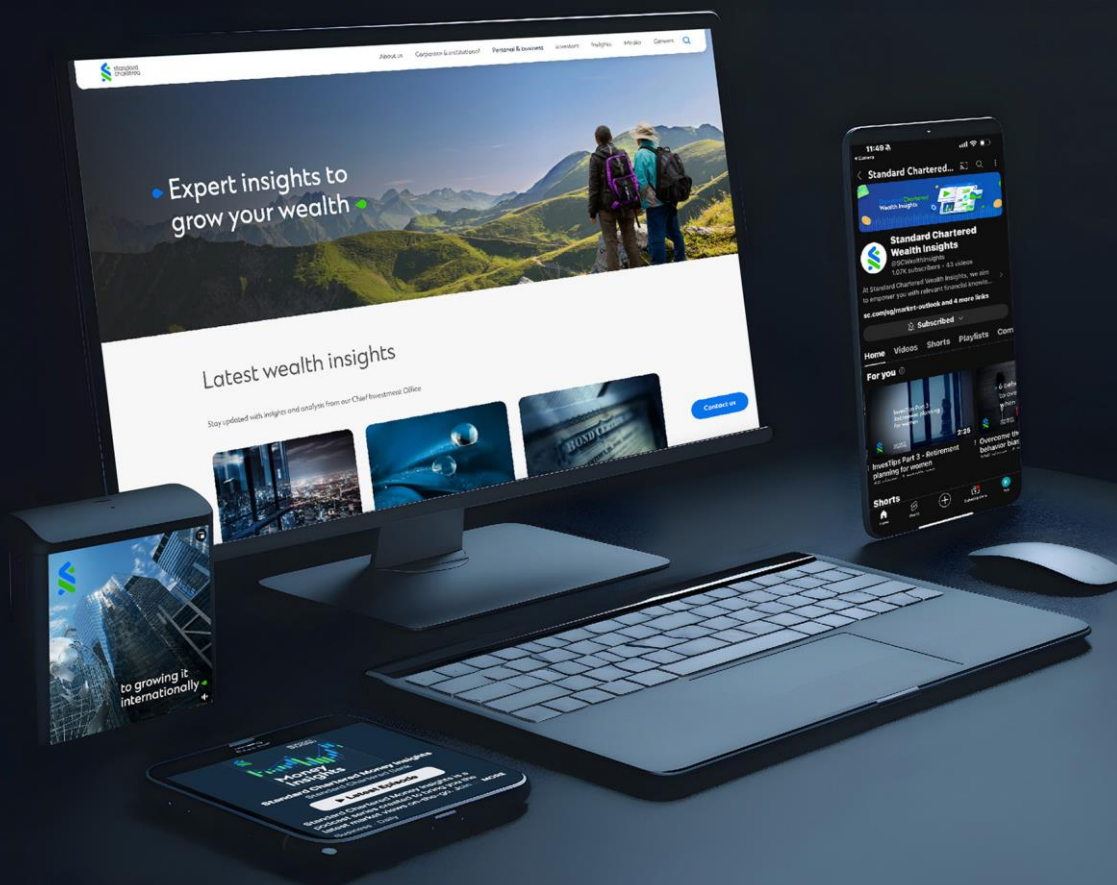
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