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Wealth Management Global Chief Investment Office
12 January 2024

Weekly Market View

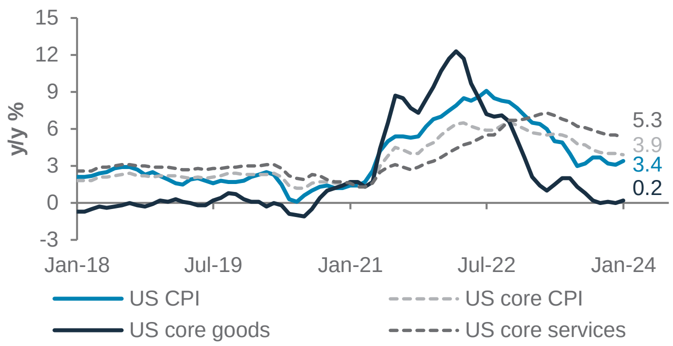
In search of the perfect landing?

- The strong rally in equities and bonds since Q4 2023 suggests investors are pricing in an economic soft-landing in the US. This involves a sustained decline in inflation, enabling central banks to start cutting rates in H1 to support growth.
- US employment and inflation reports over the past week provided partial support to this narrative. Job markets, while resilient, are showing signs of cooling.
- The latest US inflation report was less conclusive – while core inflation continued to edge lower, headline inflation rebounded, beating expectations.
- We remain constructive on US and Developed Market government bonds. In the near-term though, markets are likely to consolidate recent gains as they try and overcome technical and geopolitical hurdles. A strong US earnings season is likely to trigger the next leg of the rally. In the meantime, we continue to see value in Japan equities and Indian bonds.

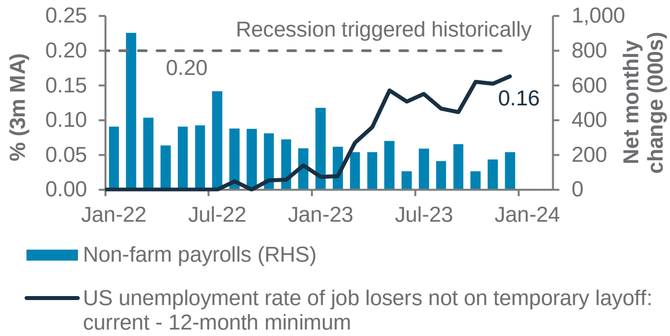
Charts of the week: Soft-landing narrative sustained

Slowing core inflation and a resilient job market sustain the US soft-landing narrative, supporting equities and bonds

US headline, core, goods and services inflation



US job creation, rate of permanent job losers minus 12m low*



Source: Bloomberg, BCA Research, Standard Chartered; *both numbers are based on a three-month moving average (prior data revised)

Editorial

In search of the perfect landing

The strong rally in equities and bonds since Q4 2023 suggests investors are pricing in an economic soft-landing in the US. This involves a sustained decline in inflation, enabling central banks to start cutting rates in H1 to support growth. US employment and inflation reports over the past week provided partial support to this narrative. Job markets, while resilient, are cooling. The latest US inflation report was less conclusive - while core inflation continued to edge lower, headline inflation rebounded, beating expectations. We remain constructive on US stocks and Developed Market government bonds. In the near-term though, markets are likely to consolidate as they overcome technical and geopolitical hurdles. Strong US earnings are likely to trigger the next leg of the rally. In the meantime, we continue to see value in Japan equities and Indian bonds.

Resilient but cooling US job market: The US job report for December reflected an apparently healthy job market, with net new jobs (216,000) and wage growth (4.1% y/y) both beating expectations. However, most of the jobs were created in leisure and hospitality (which benefitted from the Christmas shopping season), education and health services and government sectors. Total job creation in the previous two months was revised down by 71,000. Similarly, the employment sub-index of the ISM Services PMI slumped to July 2020 low of 43.3, from 50.7. While the Fed would be keen to pre-empt a significant deterioration in the job market, it would be careful about easing policy too soon lest it stokes a second round of inflation.

Less conclusive US inflation report: The US inflation report was a mixed bag. While headline inflation accelerated to 0.3% m/m and 3.4% y/y, beating expectations, core inflation was unchanged at 0.3% m/m and slowed marginally on y/y basis to 3.9%. The acceleration in headline inflation was driven by shelter, used car and energy prices. We expect shelter inflation to cool over the coming months, based on market prices of existing rental contracts (which filter through to official prices with a lag), but energy prices are vulnerable to geopolitical risks, especially with escalating tensions in the Red Sea.

US earnings, Taiwan elections: US Q4 2023 earnings season is another likely market driver: major banks start reporting today. The consensus expects 5.2% rise in S&P500 earnings. Estimates have been cut going into the earnings season, lowering the bar for firms to beat expectations, which should be positive for equities. The guidance for 2024 will be key. Our preferred technology, communications services and healthcare sectors are expected to deliver the strongest earnings growth in 2024. Taiwan elections this weekend is a near-term risk for markets. Polls points to a victory for the pro-US Democratic Progressive Party – this could raise US-China tensions further.

Investment implications: Near-term consolidation aside, we maintain a constructive stance on equities and bonds. Both assets are likely to benefit from the soft-landing narrative.

Value in Japan: We particularly see value in Japan equities. The market got a boost this week from a cooler-than-expected wage report, which pushed back BoJ rate hike expectations. Domestic flows into equities are expected to rise with the government's new tax-free savings plan (NISA), while foreign investors continue to add Japanese equity holdings amid improving corporate governance, strong earnings growth and increased geopolitical tensions impacting rest of Asia.

US market re-entry opportunities: US stocks face near-term technical hurdles, with S&P500 less than 1% away from its all-time high. Strong Q4 earnings and 2024 earnings guidance have the potential to take the index to a new record. We are also looking to add to US government bonds – the 10-year yield faces near-term resistance at the 200DMA of 4.07%.

INR bonds attractive. The bonds offer one of the highest positive real yields among Emerging Markets. We also expect increased foreign inflows after Bloomberg proposed adding the bonds in its EM local currency bond index (following similar plan by other bond index providers earlier).

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

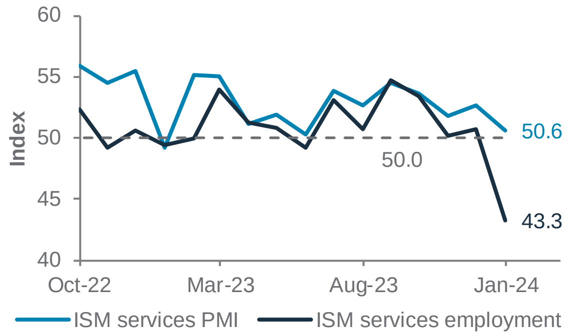
(+) factors: China policy support, resilient US, Euro area job markets

(-) factors: Geopolitical tensions, weak US ISM services, China deflation

	Positive for risk assets	Negative for risk assets
Macro data	• The US added more jobs than expected in December (216,000); the jobless rate was unchanged • Euro area Sentix investor confidence rose to -15.8 • Euro area retail sales fell less than expected by 1.1% y/y • Euro area unemployment fell to 6.4%, a record low • Euro area producer inflation contracted more than expected by -8.8% y/y • China exports and imports growth beat expectations	• US headline inflation rose more than expected to 3.4% y/y; core inflation eased less than expected to 3.9% y/y • US ISM services fell more than expected to 50.6 • Euro area consumer inflation rebounded as expected to 2.9% y/y and 0.2% m/m; core inflation slowed to 3.4% y/y as expected • China consumer deflation eased more than expected to -0.3%, while producer deflation eased less than expected to -2.7%
	Our assessment: Neutral – Robust US and Euro area labour market, recovering Euro area retail sales vs US/Euro area rebound in headline inflation, China deflation	
Policy developments	• PBoC's top leader signalled more monetary easing in a media interview • Fed's Bowman said inflation could fall below 2% in due course	• Fed's Williams said that central banks should maintain tighter policy for longer • ECB's Schnabel pushed back against rate cuts
	Our assessment: Positive – China supportive policies likely	
Other developments	• The US securities regulator approved Bitcoin-based ETFs, adding another source of demand for the alternative asset class	• US and US launched airstrikes against Houthi targets • China sanctioned five US firms for arm sales to Taiwan
	Our assessment: Negative – Geopolitical tensions	

US services sector activity is slowing but remains in expansion territory; services sector job market is cooling

US ISM services PMI and job sub-index



Source: Bloomberg; Standard Chartered

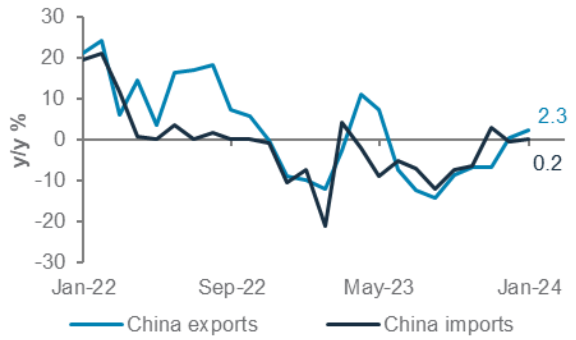
Euro area investor confidence is recovering from depressed levels, while retail sales continued to contract

Euro area investor confidence and retail sales

Source: Bloomberg, Standard Chartered

China exports and imports improved marginally in December, beating expectations

China exports and imports growth



Source: Bloomberg, Standard Chartered

Top client questions

Do you expect Japan's equity rally to sustain? What is the outlook for the JPY and BoJ policy after the latest wage data?

Japan's equity market has been the best performing major market YTD globally. We believe a significant driver has been investors' growing expectation that the BoJ's loose monetary policy is unlikely to end imminently (more below). In addition, the revamped Nippon Individual Savings Account (NISA) programme, enabling greater tax-free investments by Japanese individuals into the domestic stock market, is also generating positive inflow into the market. Furthermore, we believe Japan equities are still under-owned by foreign investors, and its lower geopolitical risk relative to elsewhere in Asia could support a shift of foreign funds into Japan. All this builds on the improving corporate governance among Japanese companies. We expect the Tokyo Stock Exchange's efforts in convincing company boards to improve corporate valuations to continue to spread in 2024, resonating well with investors. Valuations in Japan equities remain attractive, with significantly more companies having a net cash position versus other Developed Markets (DMs).

Technical indicators are mixed, with the Relative Strength Index above 70 indicating overbought conditions, but our diversity indicator implies that investor positioning is not stretched. While a short-term pullback cannot be ruled out, we believe that Japan equities can outperform global equities over the next 6-12 months based on the above-mentioned factors.

From our perspective, the recent developments in Japan increase the risk of a delay in BoJ policy normalisation and act as a headwind for the JPY. The earthquake at the start of the year means that Japanese authorities would need to provide additional support to help rebuild and repair the economic damage incurred. This, at the margin, could lead the BoJ to err on the side of caution with regards to monetary policy. To complicate matters further, the recent disappointment in Tokyo CPI data and wage growth data means the sustainability of wage-driven inflation could come under scrutiny.

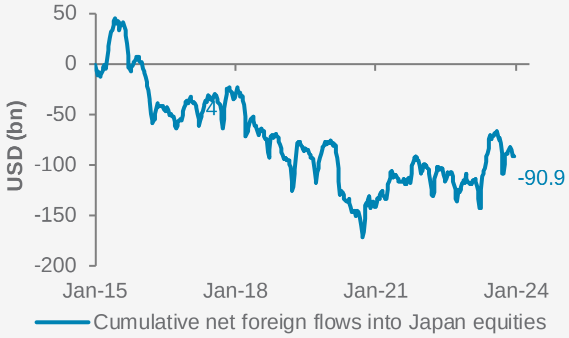
As a result, we have seen USD/JPY rise nearly 3.5% since the start of the year, partially driven by an unwinding of leveraged positions. In the near term, we see 145.67, the 50% Fibonacci retracement level, as a key resistance that USD/JPY has failed to sustainably break twice over the past few trading sessions. Over the next 2-4 weeks, we see 147.15 as being the next key resistance for the pair, with 200DMA of 143.50 being the support. While we do see upside risks over the next three months, on a 12-month horizon, we continue to believe the narrowing of policy divergence (rate cuts in the US and rate hikes in Japan) will drive USD/JPY lower towards 135.00.

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

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

Japan equities are still under-owned by foreign investors. Higher geopolitical risks in the rest of Asia could support a shift in foreign funds into Japan

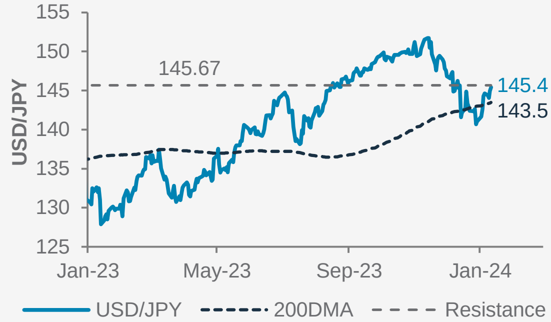
Cumulative net foreign flows into Japan equities



Source: Bloomberg, Standard Chartered

USD/JPY's failure to break key technical resistance at 145.67 signals exhaustion of recent uptrend. We expect near-term consolidation, with a modest downside bias

USD/JPY, 200-day moving average and key resistance level



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Do you see value in Indian bonds and equities?

We expect India's economic growth to stay above Emerging Market peers in 2024. Resilient domestic demand, supportive policies and higher capex are factors underpinning the positive outlook.

One of our key opportunistic calls is to buy India local currency (LCY) bonds. In addition to the supportive growth environment, we are positive for five reasons:

1. India LCY bonds offer an attractive yield of around 7.2%, higher than the yield of around 6.3% offered by Emerging Markets (EM) LCY bonds.
2. India government bond yields have likely peaked in the current cycle. The continuation of disinflationary momentum, especially in core inflation, and the government's readiness to address supply side issues could allow the RBI to cut rates in H2 24, pushing bond yields lower.
3. We expect USD/INR to decline modestly towards 82.00 over the next 12 months on broad USD weakness, which translates to currency gains for USD-denominated investors. India's strong FX reserves (about USD 600bn) and improving balance of payments are also likely to be supportive.
4. The recent inclusion of INR bonds in global bond indices is expected to be an additional tailwind for Indian bonds, given that foreign investor participation has been limited in India's large and liquid bond market. The index inclusion could drive steady inflows (USD 20-25bn) from index funds over the next 12-15 months, potentially addressing the demand gap, given large, expected supply of government bonds.
5. Lastly, the recent performance of the incumbent party in state elections points towards a high likelihood of political stability and policy continuity after the national elections due in April-May.

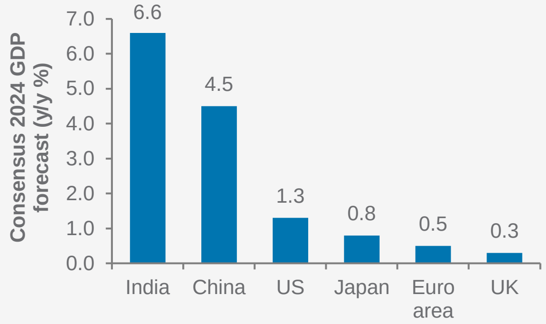
Risks to our view include: (i) Stubborn inflation causing the RBI to remain hawkish; (ii) elevated budget and current account deficits; and (iii) poor technicals amid higher bond supply and RBI bond sales.

Indian equities also offer an attractive growth outlook, but valuations are a potential headwind. We prefer large-cap over small- and mid-cap equities.

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

India's expected 2024 economic growth overshadows other major economies

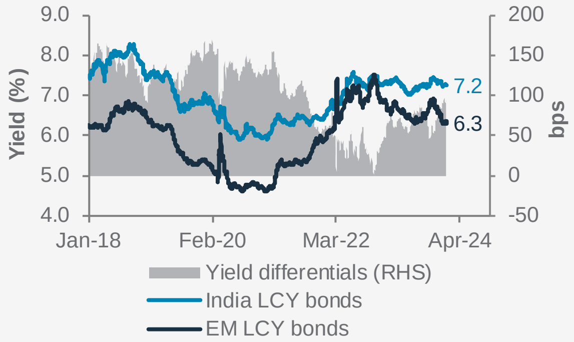
2024 GDP forecast for major economies



Source: Bloomberg, Standard Chartered

India local currency bonds offer an attractive yield premium over their EM peers

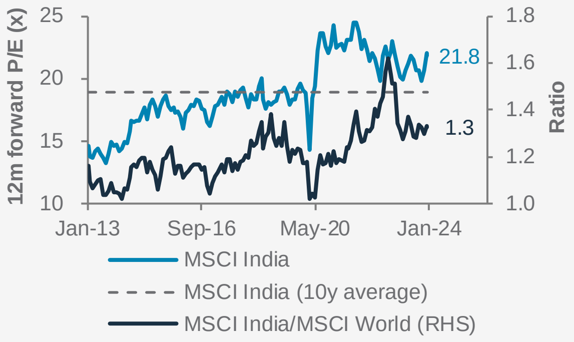
India local currency bond yield vs. EM peers



Source: Bloomberg, Standard Chartered

12-month forward P/E of Indian equities remains elevated relative to its own history and versus global equities

Absolute and relative valuations of MSCI India



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

How could Taiwan's election influence Chinese equities?

Polls suggest Taiwan's incumbent Democratic Progressive Party (DPP), which has historically taken a more hawkish stance towards Beijing, is likely to win a third term. This argues that current geopolitical tensions may not abate following the election. A win by the opposition Kuomintang (KMT), which takes a more engaging approach with Beijing, would likely provide a short-term boost to China equities. Polls do not assign a high probability to this outcome.

Such expectations are likely one reason why the Hang Seng index has seen bearish momentum so far in 2024. The index barely held the key technical support at 15,972. With its RSI near the oversold level at 30, the index is likely to exhibit "sell the rumour, buy the fact" behaviour after the Taiwan elections. However, we do not see any such bounce being sustainable in the near term, with geopolitical risks remaining high in 2024, especially with an upcoming US election by the end of this year. Investor focus is instead likely to remain on China's growth outlook and the likelihood of further policy stimulus to raise the medium-term outlook on China equities.

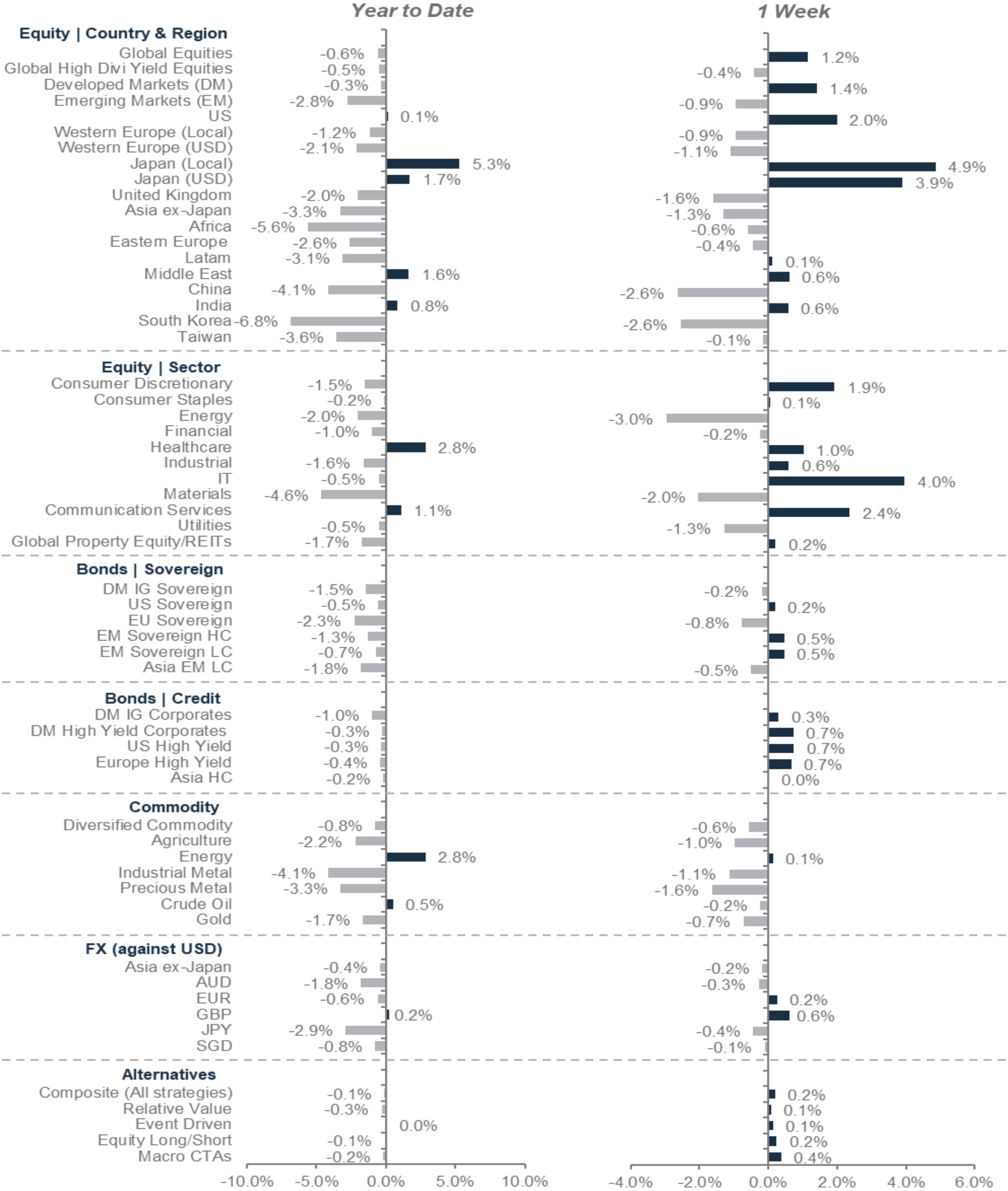
— **Daniel Lam,** *Head, Equity Strategy*

A DPP-victory in Taiwan elections appears already priced into Hong Kong and China equities. Medium-term outlook depends on further policy stimulus in China

Hang Seng Index

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 11 January 2024; 1-week period: 04 January 2024 to 11 January 2024

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 Healthcare	▲
Other EM	◆	China Discretionary	▲
		China Communication	▲
Bonds (Credit)	◆	China Technology	▲
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	SZ	World Economic Forum Annual Meeting	15-19 Jan, 2024		
TUE	UK	ILO Unemployment Rate 3Mths	Nov	–	–
	EC	ZEW Survey Expectations	Jan	–	23.0
	US	Empire Manufacturing	Jan	-2.9	-14.5
WED	CH	GDP y/y	4Q	5.2%	4.9%
	CH	GDP SA q/q	4Q	1.0%	1.3%
	CH	Industrial Production y/y	Dec	6.6%	6.6%
	CH	Fixed Assets Ex Rural YTD y/y	Dec	2.9%	2.9%
	CH	Retail Sales y/y	Dec	8.0%	10.1%
	UK	CPI y/y	Dec	–	3.9%
	UK	CPI Core y/y	Dec	–	5.1%
	US	Retail Sales Ex Auto & Gas	Dec	0.3%	0.6%
	US	Industrial Production m/m	Dec	-0.1%	0.2%
THU	US	Building Permits	Dec	1480k	1460k
	US	Fed's Beige Book			
	US	Housing Starts	Dec	1415k	1560k
FRI/SAT	UK	Retail Sales Ex Auto Fuel y/y	Dec	–	0.3%
	US	U. of Mich. Sentiment	Jan P	69.1	69.7
	US	Existing Home Sales	Dec	3.84m	3.82m

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 index faces immediate resistance at 4,810

Technical indicators for key markets as of 11 January close

Index	Spot	1st support	1st resistance	12m forward P/E (x)	12m forward dividend yield (%)
S&P 500	4,780	4,724	4,810	19.7	1.6
STOXX 50	4,442	4,428	4,471	12.2	4.0
FTSE 100	7,577	7,537	7,655	10.9	4.3
Topix	2,483	2,423	2,513	15.0	2.4
Shanghai Comp	2,887	2,867	2,918	9.6	3.7
Hang Seng	16,302	16,088	16,526	7.6	4.7
Nifty 50	21,647	21,537	21,734	21.8	1.4
MSCI Asia ex-Japan	620	616	625	11.9	2.8
MSCI EM	995	988	1,002	11.5	3.2
WTI (Spot)	72.0	70.6	73.6	na	na
Gold	2,029	2,020	2,041	na	na
UST 10Y Yield	3.97	3.94	4.02	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

Investor diversity have normalised across most markets

Our proprietary market diversity indicators as of 11 January

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	◐	↓	1.33
Global Equities	◐	↓	1.32
Gold	◐	→	1.36
Equity			
MSCI US	◐	↓	1.33
MSCI Europe	◐	↓	1.33
MSCI AC AXJ	●	↓	1.92
Fixed Income			
DM Corp Bond	◐	↓	1.33
DM High Yield	◐	↓	1.27
EM USD	◐	↓	1.33
EM Local	◐	↓	1.28
Asia USD	◐	↓	1.37
Currencies			
EUR/USD	◐	↓	1.36

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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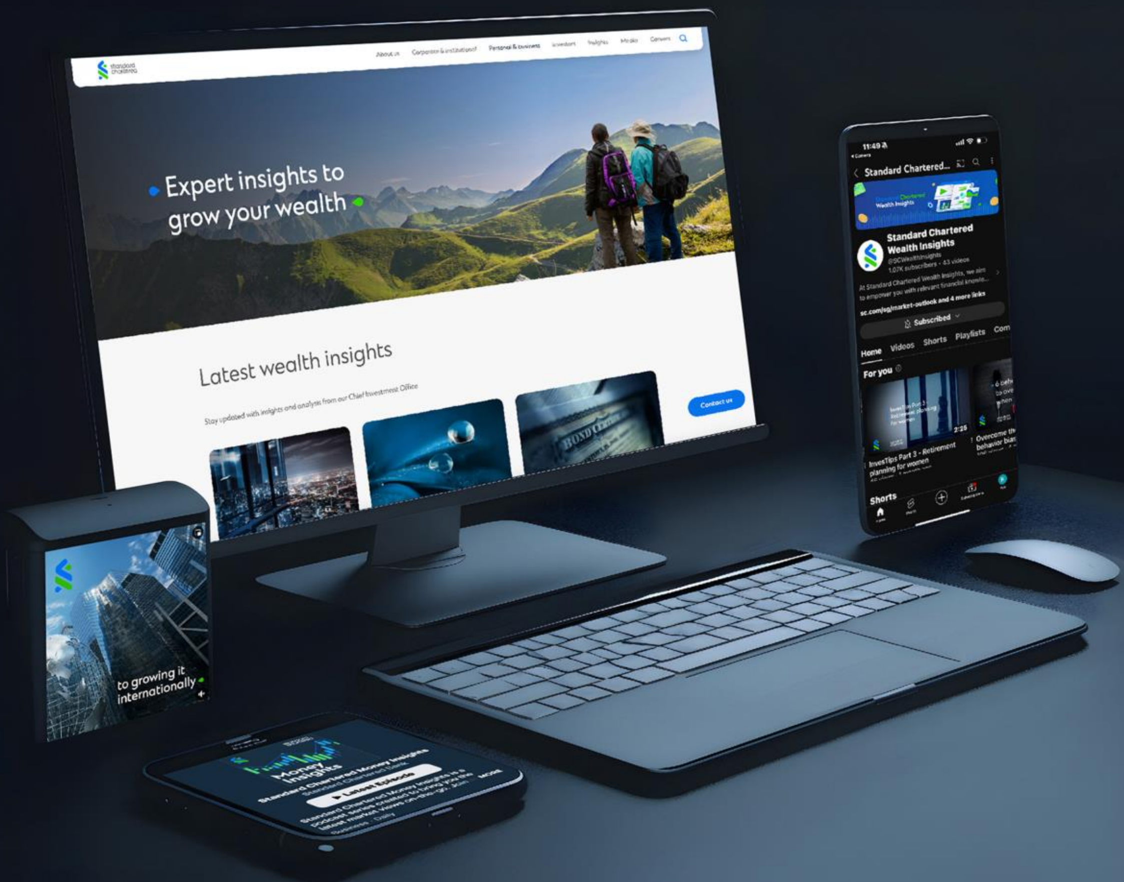

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