

Weekly Market View

Looking through the shutdown

→ The US government shutdown is a near-term risk for markets. Our base case is a 2-3-week shutdown, which is likely to have limited market impact.

→ A shutdown lasting beyond 2-3 weeks, coinciding with stretched investor positioning, could cause a short-term pullback in risk assets. For tactical investors, it is prudent to lock in gains on excessively concentrated positions.

→ Longer-term investors should consider using any pullback to add to our preferred equity markets (US and Asia ex-Japan) and US technology, communications and healthcare equity sectors backed by solid earnings.

→ Gold remains a reliable hedge during a government shutdown and a structurally bullish story. In bonds, we would lock in current yields in 5-7-year maturities as a slowing US job market points to more Fed rate cuts in the next 12 months. We also see downside in USD/JPY amid rising prospect of a BoJ rate hike.

Add US equities, tech sector on dips – limited lasting impact of government shutdowns

Lock in yields on 5-7-year maturity bonds – Fed rate cuts amid weaker job market to lower yields on cash deposits

USD/JPY to test 145 support – rising chance of BoJ rate hike

Charts of the week: Limited impact of government shutdowns

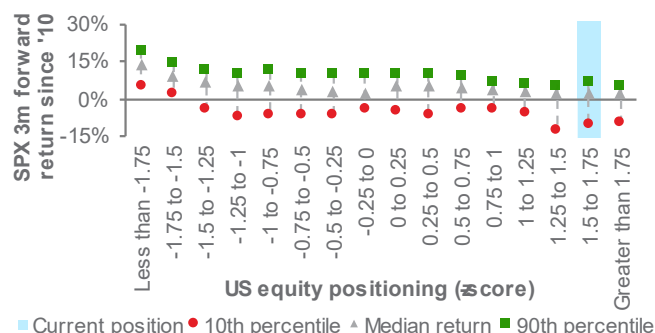
US shutdowns historically had limited impact on risk assets and USD, but investor positioning is stretched today

Performance of US assets during past government shutdowns*

Shutdown begins	Duration (days)	S&P500	US 10y yield (bps)	USD index	Gold
21-Nov-81*	2	-0.1%	30.0	-0.3%	-1.2%
1-Oct-82	1	1.3%	-22.0	0.0%	1.3%
4-Oct-84	2	0.1%	-22.2	0.9%	-1.3%
17-Oct-86*	1	-0.3%	3.3	0.0%	-1.5%
06-Oct-90*	3	-2.1%	16.5	-1.2%	0.4%
14-Nov-95	5	1.3%	-5.1	-0.5%	0.0%
16-Dec-95	21	0.1%	-8.6	-0.1%	2.5%
01-Oct-13*	17	3.1%	-2.1	-0.7%	-0.7%
20-Jan-18*	2	0.8%	-0.9	-0.2%	0.2%
22-Dec-18	34	10.3%	-3.2	-1.2%	3.8%
Median	2.5	0.5%	-2.6	-0.2%	0.1%

Source: Bloomberg, Vanda Research, Standard Chartered. *Full US government shutdowns (the rest were partial shutdowns)

US equity investor positioning, blue bar = current z-score 1.65



Editorial

Looking through the shutdown

Strategy summary: The US government shutdown is a potential near-term risk for markets. **Our base case is a 2-3-week shutdown, which is likely to have limited market impact. A shutdown lasting beyond 2-3 weeks, coinciding with stretched investor positioning, could cause a short-term pullback in risk assets.** For tactical investors, it is prudent to lock in gains on excessively concentrated positions. Longer-term investors should consider using any pullback to add to our preferred equity markets (US and Asia ex-Japan) and US technology, communications and healthcare equity sectors which are backed by a strong earnings outlook.

Gold remains a reliable hedge during a government shutdown and a structural bullish story. In bonds, we would lock in current yields in 5-7-year maturities as a slowing US job market points to more Fed rate cuts in the next 12 months. We also see further downside in USD/JPY amid rising prospect of a BoJ rate hike.

Duration of shutdown matters: As the table above shows, a brief US government shutdown is likely to have limited impact on the economy and markets. However, a prolonged shutdown, lasting beyond 2-3 weeks, remains a non-negligible risk, given the Democrats want to use the opportunity to force the Trump administration to undo the planned ending of some healthcare subsidies for millions of Americans by the year end. Our base case is the **Republicans will agree on an extension of the healthcare subsidies**, helping end the government shutdown. Any delay would hand the Democrats a political win over the sensitive issue ahead of next year's mid-term elections.

Stretched investor positioning is a near-term risk. The shutdown coincides with US equity market investor positioning that has become more stretched since we flagged the risk in our latest Global Market Outlook as US equities scaled new record highs. **Combined investor positioning in the US equity market has risen close to extreme (1.65 standard deviation above its historical mean).** At these levels, US equity returns over the following three months have more often been negative. The last time positioning was above 1.6 (Dec

2024), the next 3-month return was -8.1%. However, the risk of a deep correction is low as per our other short- and long-term quantitative models, based on factors such as momentum, implied volatility, economic surprises and macro risk.

Opportunity to add to preferred sectors: We would see any shutdown-driven market drawdown as an opportunity to add to our preferred equity markets – the US and Asia ex-Japan. The structural AI-driven growth story driving the technology sector in the US, Europe and China will remain in place regardless of the length of the government shutdown. The sector is supported by upward earnings revisions, with US Q3 earnings growth now estimated at 8.8%, up from 8% at the start of Q3. Meanwhile, the US healthcare sector has caught a tailwind from recent agreements between some sector leaders and the Trump administration that alleviates tariff concerns (see page 5).

Gold remains a key hedge. The precious metal has been resilient during past US government shutdowns. It is also likely to keep benefitting from structural demand from central banks amid elevated global policy uncertainty. We see gold miners as a tactical opportunity. The sector is seeing rising profit margins as the gold rally in recent years has driven prices far above the all-in production cost which remains below USD 2,000/oz.

Lock-in yields on medium-maturity bonds: A government shutdown, combined with a weakening job market, raises the chance of two more Fed rate cuts this year and a total 100bps of cuts to 3.25% over the next 12 months. We see value in high quality bonds in the 5-7-year maturity space, especially with the US 10-year government bond yield currently above 4%.

Downside risk for USD/JPY: A US government shutdown beyond a few weeks will likely push USD lower. We see downside for USD/JPY, with a test of 145 support, especially if Agriculture Minister Koizumi wins the ongoing leadership race for Japan's ruling Liberal Democratic Party in a run-off. Koizumi backs BoJ rate hikes and supports policy normalisation. There is an increasing chance of the BoJ hiking rates on 30 October.

— 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

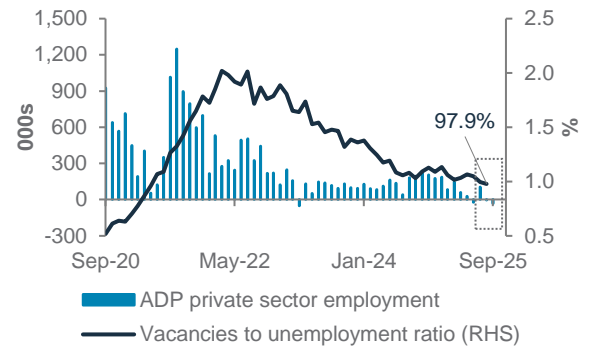
(+) factors: Stronger-than-expected US manufacturing activity

(-) factors: US government shutdown, contracting private payrolls, escalating sector-specific tariffs

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> US ISM mfg. PMI came in above expectations at 49.1, along with expanding employment PMI and falling prices paid US personal income rose more than expected by 0.4% m/m US JOLTS job openings marginally beat estimates Euro area economic and industrial confidence came in above expectations China's industrial profit growth rose 20.4% y/y 	<ul style="list-style-type: none"> US ISM new orders PMI fell more than expected to contractionary levels ADP showed US private businesses cut 32,000 jobs in September, the third decline in four months US Conference Board consumer confidence came in below expectations at 94.2 China manufacturing and non-manufacturing PMIs fell more than expected in September
	Our assessment: Neutral – Stronger-than-expected US manufacturing activity vs. weak private payrolls	
Policy developments		<ul style="list-style-type: none"> RBA and RBI kept policy rates unchanged as expected ECB member Makhoul said Europe's rate-cutting cycle is nearing its end
	Our assessment: Negative – Cautious central banks	
Other developments	<ul style="list-style-type: none"> China will hold its fourth plenum from 20–23 Oct to discuss the next five-year plan, which will set economic, political and social priorities Trump is holding off his threat to impose 100% tariffs on imported pharmaceuticals 	<ul style="list-style-type: none"> US government shutdown began after Senate failed to pass a funding bill in a 55-45 vote, short of the 60 needed Trump ordered new tariffs of 10% on imports of softwood timber and lumber and 25% on kitchen cabinets
	Our assessment: Negative – US government shutdown, escalating sector-specific tariffs	

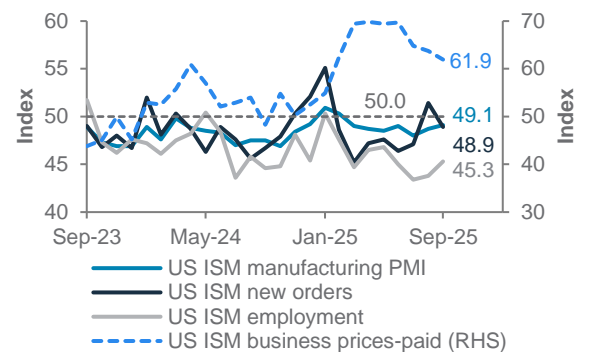
US private payrolls saw the biggest drop since March 2023, with downward revisions for prior months

US ADP private sector employment; Vacancies to unemployment ratio (JOLTS)



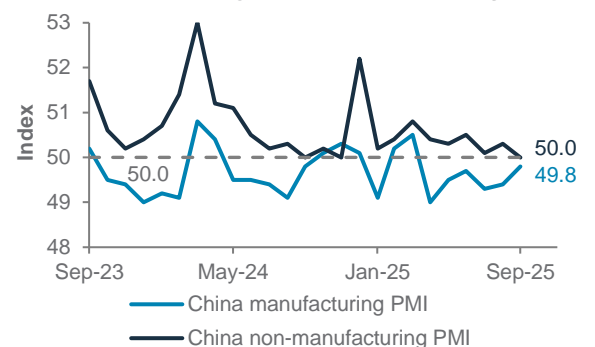
US manufacturing sector business confidence edged toward recovery in September, along with employment, but new orders contracted

US ISM manufacturing PMI; ISM new orders, employment and prices-paid sub-indices



China's manufacturing and non-manufacturing PMIs were below expectations in September

China's manufacturing and non-manufacturing PMIs



Top client questions

Q What is the expected impact of the US government shutdown on US equities and government bond yields?

Our view: Equities: A brief shutdown is likely to have limited impact on US equities. A prolonged shutdown leading to a pullback would be an opportunity to add to US equities, especially in the technology sector.

Bonds: We expect yields to stay anchored in the near-term. We would reduce exposure to longer-maturity bonds and target an average maturity of 5-7 years.

Rationale: In a brief shutdown scenario, we see limited impact on growth and corporate earnings, and little impact on US equities. In a prolonged shutdown, the uncertainty would lead to rising volatility and fears about consumer spending weakness. This could impact growth expectations and the US equities earnings outlook, resulting in a pullback.

However, we expect **the Fed to cut rates in a timely manner** and support the economy, if there were to be any significant growth deterioration. Even prior to the government shutdown, the Fed has already cut rates by 25bps, due to a softening labour market. We expect another 100bps of rate cuts over the next 12 months, which would soothe the US economy into a soft landing. US corporate earnings can continue to expand, boosted by AI investments, and lead US equities higher.

Government bond yields have historically declined during government shutdowns. A government shutdown poses significant challenges, such as the pausing of non-essential services, which **impedes the release of crucial data** necessary for economists to evaluate macroeconomic developments. Concurrently, the surge in non-essential federal layoffs and the suspension of government functions could negatively impact economic activity, raising the risk of a slowdown and potentially leading to lower yields.

However, the impact on growth depends on the scope and duration of the shutdown. We anticipate a short-term shutdown is unlikely to trigger a US credit ratings downgrade as the hit on growth should be marginal and temporary. We expect yields to stay anchored in the near-term, with the benchmark **10-year US government bond yield to stay within our 3-month target of 4% to 4.25%**. We continue to reduce exposure to longer-maturity bonds and prefer 5-7 years maturity profiles for bond portfolios.

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

Historically, US government shutdowns have had little impact on US equity markets

Performance of S&P 500 index during US government shutdowns since the 1980s

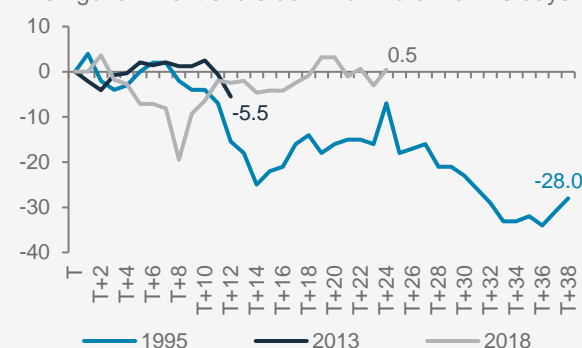
US government shutdown

Start	End	Duration (days)	Full/ partial	S&P500 change
21-Nov-81	23-Nov-81	2	Full	-0.1%
01-Oct-82	02-Oct-82	1	Partial	1.3%
04-Oct-84	05-Oct-84	1	Partial	0.1%
17-Oct-86	18-Oct-86	1	Full	-0.3%
06-Oct-90	09-Oct-90	3	Full	-2.1%
14-Nov-95	19-Nov-95	5	Partial	1.3%
16-Dec-95	06-Jan-96	21	Partial	0.1%
01-Oct-13	17-Oct-13	16	Full	3.1%
20-Jan-18	22-Jan-18	2	Full	0.8%
22-Dec-18	25-Jan-19	34	Partial	10.3%
Median		2.5		0.5%

Source: Bloomberg, Standard Chartered

History shows US government bond yields declined going into the start of a government shutdown and remained anchored thereafter

Changes in aggregate US government bond yields when government shuts down for more than 10 days



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q Do you see further upside in the US healthcare equity sector?

Our view: Add to the US healthcare sector, especially on pullbacks. We expect further deals between drugmakers and the Trump administration, reducing tariff and pricing risks.

Rationale: The US healthcare sector reacted favourably after major pharmaceutical companies reached an agreement with the White House on lowering US drug prices, for instance, to Medicaid patients at the “most-favoured-nation” pricing, as demanded by President Trump. In return, the **3-year grace period for major drug makers to be exempt from pharmaceutical-specific tariffs** substantially alleviates investors’ worries about prolonged sector uncertainty. In addition, the 100% tariff on imported drugs into the US can further strengthen the drug-making supply chain of the nation and **protect domestic production**.

We upgraded the US healthcare sector to Overweight in our latest Global Market Outlook. There is **continued innovation of new patent drugs, ramping-up on local production and fading policy uncertainty**. Valuation of the sector is still compelling, despite the recent rise in share prices, with the MSCI US Healthcare index trading around its 5-year average on a 12-month forward P/E basis, at 17.6x. Earnings projections for 2025 and 2026 are also positive at 12.8% and 9.8% respectively (source: LSEG I/B/E/S).

— Michelle Kam, CFA, Investment Strategist

Q What is the outlook for the USD given the US government shutdown? Which currency is likely to outperform?

Our View: USD index fragile, likely to test 97.1. JPY likely to appreciate, with USD/JPY testing support at 145.

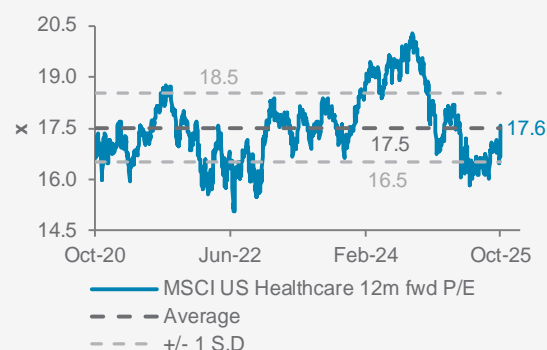
Rationale: The USD backdrop remains fragile. A scenario where no deal is reached between President Trump and Congress in the coming days would imply a prolonged US government shutdown, similar to what happened during Trump’s first term. This means the USD Index (DXY) is likely to slide towards support at 97.1.

We expect the **JPY** to outperform given its **safe-haven status**. Markets are pricing in just over a **50% probability of a BoJ rate hike this month**, based upon the messaging from the BoJ, as well as the Tankan survey. The LDP leadership candidates avoided taking strong stances regarding monetary policy, signalling little resistance to potential tightening from the BoJ. Meanwhile, we expect **the Fed to cut rates by 25bps in the next meeting**, given the weakness in the US labour market, with private sector payrolls falling by 32,000 in September, the steepest drop since March 2024.

— Iris Yuen, Investment Strategist

Valuation for the US healthcare equity sector remains reasonable, trading in line with its 5-year average

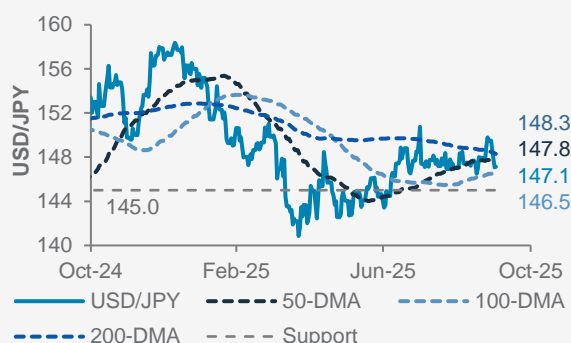
12-month forward P/E for MSCI US Healthcare index



Source: Bloomberg, Standard Chartered

USD/JPY poised for downside

USD/JPY and technical levels



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Can the rally in silver and gold continue?

Our view: *We are wary of chasing the rally in silver at current levels. However, we would be comfortable establishing exposure should prices fall to USD 40/oz. We remain bullish on gold over the medium term.*

Rationale: Silver has surged 64% year-to-date, putting it on track for its strongest year since 2010. The two key drivers for silver's advance: 1) a broader rally in risk assets and 2) rising in sympathy with gold's continued strength, after a period of underperformance versus gold. Even after such rapid gains, silver remains less stretched than gold, with inflation-adjusted prices still well below historic peaks. Near term, safe-haven demand from the recent US government shutdown lends further support, leaving room for silver to climb alongside gold.

That said, **we are wary of chasing silver higher**. The USD 50/oz record high looms as a major resistance level, suggesting limited upside. The gold/silver ratio has also fallen back to its 10-year average, meaning silver is no longer "cheap" relative to gold. More importantly, silver's industrial exposure makes it vulnerable to growing macro headwinds.

While we are constructive on silver over the longer term, expecting a tight physical market for years to come, the near-term path for further gains looks increasingly narrow, and we do not anticipate silver to sustainably surpass USD 50/oz in the near term. Risk/reward at current levels therefore do not appear compelling. However, should prices fall back toward USD 40/oz (50-DMA), we would be comfortable establishing exposure at that level to position for a more attractive long-term outlook for silver.

Gold, by contrast, continues to enjoy stronger tailwinds. The resumption of Fed rate cuts aligns with seasonal jewellery demand from India and China, while elevated fiscal concerns, stagflation risks, and policy uncertainty all reinforce its safe-haven appeal. **We continue to expect gold prices to surpass USD 4,000/oz over the next 12 months.**

— **Tay Qi Xiu** Portfolio Strategist

Silver has advanced relative to gold, alongside the broader rally in risk assets

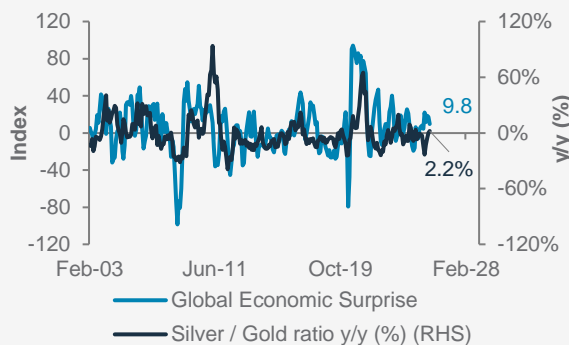
Silver/Gold ratio and Nasdaq 100 index



Source: Bloomberg, Standard Chartered

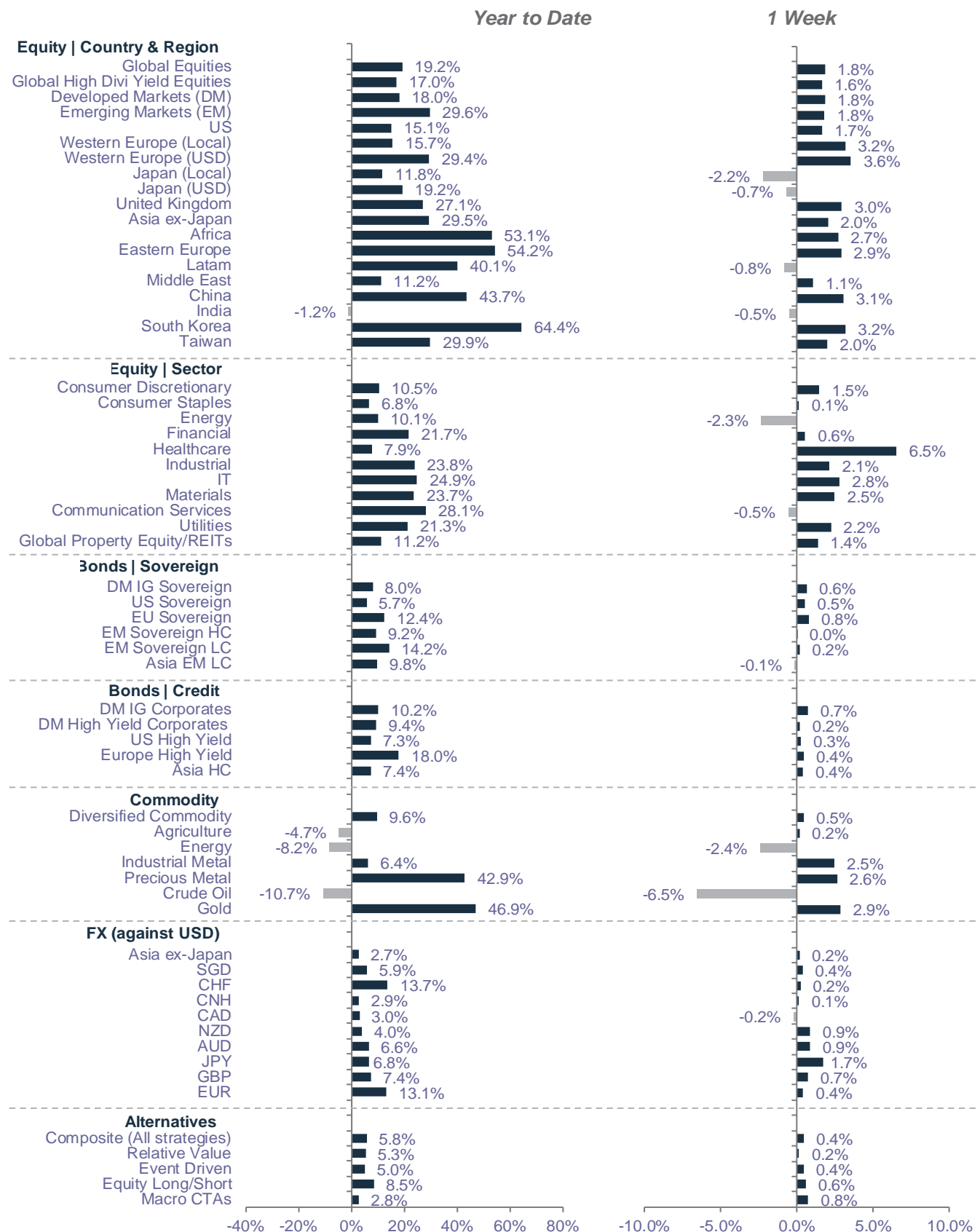
Silver's role as an industrial metal makes it vulnerable to the global economic cycle. Silver prices are likely to decline, should economic conditions deteriorate

Global economic surprise index and Silver/Gold ratio



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 2 October 2025; 1-week period: 25 September 2025 to 2 October 2025

Our 12-month asset class views at a glance

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

Source: Standard Chartered Global Investment Committee

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

The S&P500 has next interim resistance at 6,845

Technical indicators for key markets as of 2 October close

Index	Spot	1st support	1st resis- tance	12m forward P/E (x)	12m forward dividend yield (%)
S&P 500	6,715	6,473	6,845	22.8	1.2
STOXX 50	5,646	5,399	5,783	15.9	3.1
FTSE 100	9,428	9,198	9,566	13.2	3.5
TOPIX	3,087	3,018	3,181	15.3	2.5
Shanghai Comp	3,883	3,777	3,944	14.1	2.8
Hang Seng	27,287	25,740	28,108	12.2	3.0
Nifty 50	24,836	24,423	25,349	20.0	1.5
MSCI Asia ex-Japan	896	848	922	14.8	2.3
MSCI EM	1,368	1,295	1,407	13.8	2.7
Crude oil (WTI)	60.5	58.4	64.5	na	na
Gold	3,857	3,586	4,012	na	na
UST 10Y Yield	4.08	3.95	4.26	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

	Market	Event	Period	Expected	Prior
MON	EUR	Sentix Investor Confidence	Oct	–	-9.2
	EUR	Retail Sales y/y	Aug	–	2.2%
TUE	GBP	BOE's Bailey Speaks			
	USD	Trade Balance	Aug	-\$61.4b	-\$78.3b
	CNH	Foreign Reserves	Sep	–	\$3322.1b
WED	USD	Consumer Credit	Aug	\$15.00b	\$16.01b
	NZD	RBNZ Official Cash Rate	8-Oct	–	3.0%
THU	USD	FOMC Meeting Minutes	17-Sep	–	–
	USD	Initial Jobless Claims	4-Oct	–	–
	USD	Continuing Claims	27-Sep	–	–
FRI/SAT	JPY	PPI y/y	Sep	–	2.7%
	USD	U. of Mich. Sentiment	Oct P	–	55.1
	USD	U. of Mich. Current Conditions	Oct P	–	60.4
	USD	U. of Mich. Expectations	Oct P	–	51.7
	USD	U. of Mich. 1 yr Inflation	Oct P	–	4.7%
	USD	U. of Mich. 5-10 yr Inflation	Oct P	–	3.7%

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 fell below threshold

Our proprietary market diversity indicators as of 2 Oct close

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	→	1.46
Global Equities	●	→	1.32
Gold	○	↓	1.24
Equity			
MSCI US	●	→	1.34
MSCI Europe	●	→	1.48
MSCI AC AXJ	●	→	1.30
Fixed Income			
DM Corp Bond	●	→	1.40
DM High Yield	●	↑	1.43
EM USD	●	↑	1.38
EM Local	●	↑	1.60
Asia USD	●	→	1.31
Currencies			
EUR/USD	●	↑	1.84

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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Fortnightly series on WEDNESDAYS

Presented by

Steve Brice

Global Chief Investment Officer
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