



Weekly Market View

Opportunities from diverging trends

→ The diverging policy outlook between the US and China is creating opportunities for investors. The Fed is likely to pause, but not cut rates yet given the tightest job market in 50 years and still elevated inflation.

→ Tightening US lending conditions are likely to add to ongoing stress among regional banks and the non-negligible risk of a technical default.

→ Meanwhile, China's low inflation means policymakers are likely to continue to stimulate domestic consumption and revive private investment.

→ Given this divergent backdrop, we believe US risk assets are under-pricing risk, while China and Asia-ex-Japan equities and Asia USD bonds are undervalued.

What is the outlook for European equities? Do you expect the US technology sector outperformance to sustain?

How do opportunities in Developed Market Government bonds and Asia USD-denominated bonds stack up?

Do recent central bank guidance alter your views on the Japanese Yen, Canadian Dollar and British Pound?

Charts of the week: Hot and cold

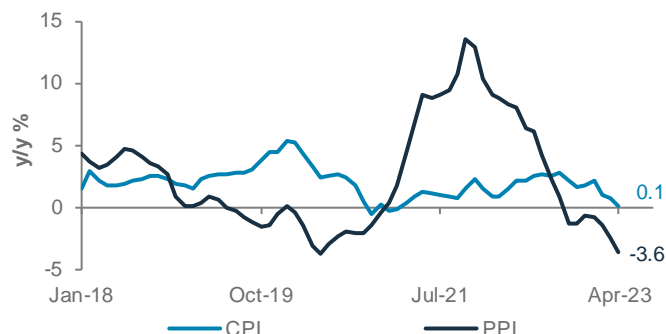
US job market remains tight and inflation high, requiring restrictive policy; China's low inflation argues for easier policy

US core consumer inflation and jobless rate



Source: Bloomberg, Standard Chartered

China's consumer (CPI) and producer (PPI) price inflation



Editorial

Opportunities from diverging trends

The diverging policy outlook between the US and China is creating opportunities for investors. The Fed is likely to pause, but not cut rates yet given the tightest job market in 50 years and still elevated, albeit moderating, inflation. Add to this tightening US lending conditions, ongoing stress among regional banks and the non-negligible risk of a technical default. Meanwhile, China's low inflation means policymakers are likely to continue to stimulate domestic consumption and revive private investment. Given this divergent backdrop, we believe US risk assets are underpricing risk, while China and Asia-ex-Japan equities and Asia USD bonds are undervalued.

US inflation, job market and bank lending standards: US inflation continued to slow in April, building the case for a Fed rate pause. The continued slowdown in core services inflation ex-shelter, Fed Chair Powell's preferred measure to gauge underlying wage pressures, argues for a pause. Nevertheless, with the US job market still tight, the Fed would be reluctant to cut rates just yet, at least until it sees clear signs of a sharp deterioration in the job market. The latest quarterly Senior Loan Officers' Survey showed further tightening of bank lending conditions and slowing loan demand. This is likely to weigh on economic growth, corporate earnings, and the job market, likely causing a recession in H2 or early next year. In that event, risk assets, including US equities and high yield bonds, are likely to underperform high quality bonds.

US debt ceiling: There was not much progress on raising the US debt ceiling to avoid a US government default as early as June. President Biden and House Speaker McCarthy are due to meet again on this issue. In our base case, the two sides will agree on separating the debt ceiling issue with budget spending cuts, kicking the can down the road yet again. This plan would entail raising the debt ceiling enough for the government to meet its expenses, say until the end of this year. That would leave the two sides to wrangle over spending

cuts at the annual round of budget talks in Q3 (the US fiscal year starts in October). Such a plan would lower the near-term risk of a US default but would raise the likelihood of large-scale budget cuts later this year. There is of course the tail risk of a small caucus of Republican Congressman shooting down any deal. In the extreme case, President Biden hinted at the "nuclear option" of using the 14th Amendment (which says the validity of US public debt "shall not be questioned") to raise the debt ceiling, opening himself up for litigation.

China's May Day holiday bounce: China's May Day "golden week" data confirm our view that consumption is recovering strongly. Single-day rail ticket sales, the number of trains operating, and tourist site ticket sales all rose to record highs. Almost 20% more people travelled during the five-day holiday than in the pre-pandemic year's May Day holidays. However, per-traveller consumption was lower than in 2019. The good news is the leadership recognises the challenges in sustaining the recovery in domestic private demand. The Politburo's statement after its meeting on 28 April was pro-growth. We expect more targeted measures to boost sentiment and youth employment and revive private sector business confidence.

Investment implications: The evolving landscape argues for an overall defensive position in foundation allocations, at least until there are clear indications the Fed is ready to ease policy. Over the next few months, history shows the best way to position for US debt ceiling risk is to be Underweight stocks and short-term T-bills and Overweight medium-to-long-term bonds, gold and safe-haven currencies such as JPY and CHF.

We see attractive value in Asia USD bonds and Asia ex-Japan and China equities, especially in China's growth sectors, such as technology, communications services and consumer discretionary. China assets have underperformed YTD likely due to geopolitical concerns. We see rising policy support and improving fundamentals leading to an outperformance in H2.

— 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

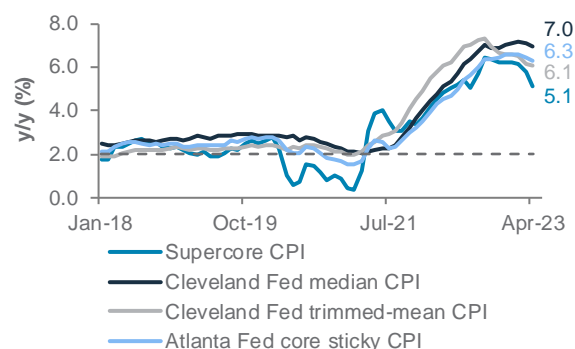
(+) factors: Moderating US consumer inflation, strong US payrolls

(-) factors: Tighter US lending standards, US debt default risk

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> US consumer inflation moderated more than expected to 4.9% y/y; core gauge slowed to 5.5% y/y as expected US producer prices rose less than expected US added more jobs than expected in April (253,000) but there were downward revisions to February and March figures; Unemployment rate fell to a 50-year low China exports rose more than expected in April 	<ul style="list-style-type: none"> US Fed Senior Loan Officer survey signalled further tightening of credit conditions Euro area Sentix investor confidence dipped surprisingly to -13.7 China Caixin Services PMI deteriorated more than expected to 56.4. China imports contracted more than expected in April China consumer inflation slowed more than expected and producer prices fell more than expected
	<p>Our assessment: Neutral – Moderating US consumer inflation, strong US payrolls vs tighter US lending standards, faltering Euro Area investor confidence and building China deflationary pressures</p>	
Policy developments	<ul style="list-style-type: none"> Fed's William left the door open for a pause in rates, saying he does not see wage-price spiral China appointed a new head to oversee the newly formed national financial regulator 	<ul style="list-style-type: none"> BoE hiked rate by 25bps and signalled more increases ahead
	<p>Our assessment: Positive – Dovish Fed official comments</p>	
Other developments	<ul style="list-style-type: none"> China's New Foreign Minister Qin Gang met the US envoy for the first time; the post-meeting statement indicated a priority to stabilise Sino-US relations US Trade Representative plans to meet China's commerce minister later this month 	<ul style="list-style-type: none"> US House speaker McCarthy said there was no new progress in the debt-ceiling meeting with President Biden; the two sides will meet again later this week
	<p>Our assessment: Negative – US debt default risk</p>	

US inflation is starting to moderate, including the Fed's preferred core services ex-housing measure, although they remain well above the 2% target

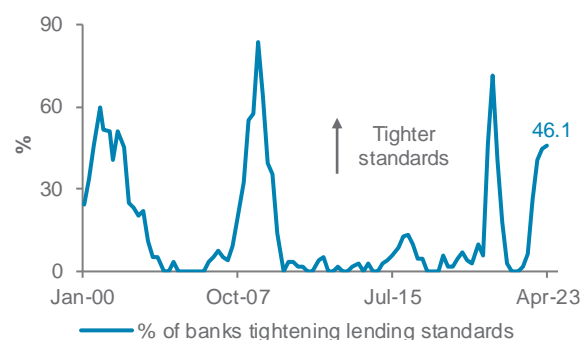
Various measures of underlying US inflation



Source: Bloomberg; Standard Chartered

US bank lending standards continued to tighten, which creates risk of tighter credit conditions and slower growth ahead

Percentage of US banks tightening lending standards



Source: Bloomberg, Standard Chartered

Euro area investor confidence is weakening again

Euro area Sentix Investor Confidence index



Source: Bloomberg, Standard Chartered

Top client questions

Q What is the outlook for European equities after the latest earnings season?

In Europe, 64% of Stoxx 600 companies have reported Q1 results as per Refinitiv. The results have been good, with 66% of those companies exceeding analyst expectations (vs. 53% historically). The companies that reported have delivered a positive earnings surprise of 11.5%, with broad strength across the sectors. Only 2 out of 10 sectors registered a negative earnings surprise. This has led to the Q1 earnings growth expectations being revised up to 6.7% currently, from 5.5% expected on 1 April, prior to the start of the earnings season.

Stoxx 600's earnings growth is expected to be negative for Q2 (trough) and Q3 this year, before turning positive again in Q4. For FY 23, the consensus estimate for Stoxx 600's earnings growth is 0.7% currently, up slightly from 0.1% expected on 1 April.

Given the still-elevated risk of the Euro area entering a recession in the next 12 months, we see downside risks to earnings expectations for H2 23 as higher interest rates drag on growth. Our preference is to position defensively by being Overweight the utilities sector, which faces more predictable demand. We are Underweight the real estate sector, which continues to face valuation and debt servicing headwinds from rising rates.

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

Q Do you expect the US technology sector outperformance to sustain?

The US technology sector has been outperforming the broader market YTD and in the last 12 months. In the Q1 earnings season, the technology sector delivered an earnings surprise of 8.2%*, exceeding an earnings surprise of 7.2% for the S&P500 index.

Favourable macro data, including moderating US inflation and expectations of a Fed pause, have likely moderated the rate outlook. These have also helped drive the sector's performance.

That said, we remain Neutral on the tech sector as these positives are balanced out by several risks. Our base case is a US recession in H2 23 could dampen tech earnings growth. Relative valuations are also likely to be a headwind, with the P/E ratio of MSCI US Tech expanding to a 34% premium relative to the MSCI US index, significantly higher than its historical average premium of 11%.

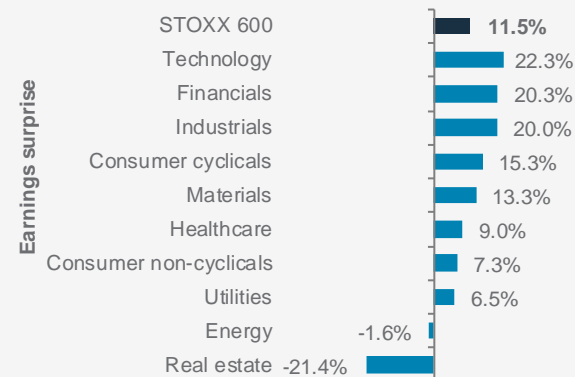
Within the US tech sector, we would focus on more selective areas like cybersecurity, semiconductors and artificial intelligence. However, a regional approach is more attractive in our view. Hence, we suggest rotating into Asia ex-Japan equities, where we expect more robust earnings growth, alongside China's favourable stimulus and pro-business policies, to boost investor sentiment.

Note: *Among the 70% of technology companies in the S&P500 index that have released earnings as of 5 May (source: Refinitiv)

— **Michelle Kam**, Investment Strategist

Europe's Q1 earnings season has seen broad strength, with negative earnings surprises only in 2 sectors out of 10

Q1 2023 earnings surprise by sector for companies in Stoxx 600 who have reported



Source: Refinitiv, Standard Chartered

US technology sector equities have outperformed the broader market in the last 12 months

Performance of "Big Tech" stocks (average for Microsoft, Apple, Meta, Amazon and Alphabet), MSCI US and MSCI US Technology sector (rebased 100=29-Apr-2022)



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q How do opportunities in Asia USD bonds vs Developed Market Government bonds stack up?

Within bonds, we are Overweight Asia USD bonds and DM IG government bonds. Both are high quality and we expect them to outperform global bonds over the next 12 months (see our Asset Allocation page in the Global Market Outlook published on 28 Apr).

DM IG government bonds are traditionally regarded as a safe-haven bond asset class where default risk is expected to be close to zero. Although the nominal yield on offer is the lowest among all bond asset classes, expected returns are likely to be higher in a recessionary scenario. US yields tend to peak not far from the Fed policy rate peak, which is why we expect DM IG government bonds to outperform most other assets at this stage of the economic cycle.

Asia USD bonds are undoubtedly higher on the risk spectrum given they expose investors to credit risks, on top of interest rate risks. As such, these bonds offer a yield premium over risk-free government bond yields. However, when compared with DM IG government bonds, Asia USD bonds have lower sensitivity to interest rate changes. We view the current yield premium of c.340bps as attractive and largely sufficient to act as a buffer for potential market volatility.

— **Cedric Lam**, Senior Investment Strategist

Q Do recent central bank guidance alter your views on the JPY, CAD and GBP?

Over the past week, BoJ Governor Ueda re-emphasised that he did not see a need to change the yield curve control policy near term, dampening the hopes of JPY bulls as it indicated that the BoJ could delay a shift towards policy tightening. Nevertheless, USD/JPY has fallen sharply over the past two weeks, as the JPY has likely benefitted from safe-haven demand. While the BoJ could shift policy later than we initially expected, we expect USD/JPY to trade in a 132.0-135.75 range near term, helped by safe-haven demand.

The CAD has been a notable outperformer over the past few weeks as Canada's strong labour market data, higher oil prices and pushback on rate cut expectations from BoC Governor Macklem have led the markets to sharply reduce their rate cut expectations for 2023. However, from a tactical perspective, we see a risk of a consolidation or even a move higher for USD/CAD towards 1.3500 over the next few weeks.

The BoE hiked rates by 25bps and guided for further rate hikes, in line with our expectations. While GBP/USD could test the 100-week moving average at 1.2710, we believe that the negative real yields (due to high inflation) is likely to cap near-term gains for the pair. We see 1.2505-1.2510 as the support for any pullbacks.

— **Abhilash Narayan**, Senior Investment Strategist

Asia USD bonds provide higher yields for higher credit risk compared with DM government bonds; we are Overweight both asset classes vs. global bonds

Comparison of FTSE WorldBIG Sovereign Index and JPMorgan Asia Credit Index

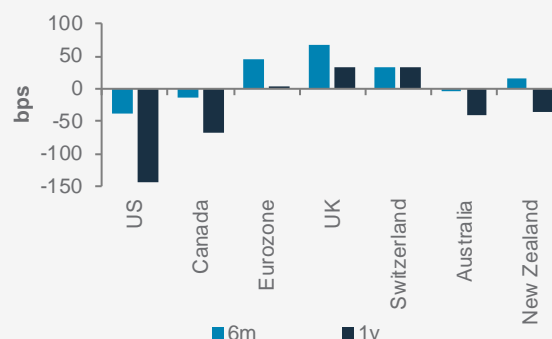
	Asia USD	DM govt
Yield ¹	6.30%	3.12%
Duration*	4.5	7.6
Market Value (USD)	1.0trn	24.7trn
Rating	A-	AA

¹ Yield to worst for Asia USD bonds; Yield to maturity for DM government bonds; *sensitivity to changes in bond yields

Source: FTSE, JPMorgan, Standard Chartered; data as of 30 April 2023

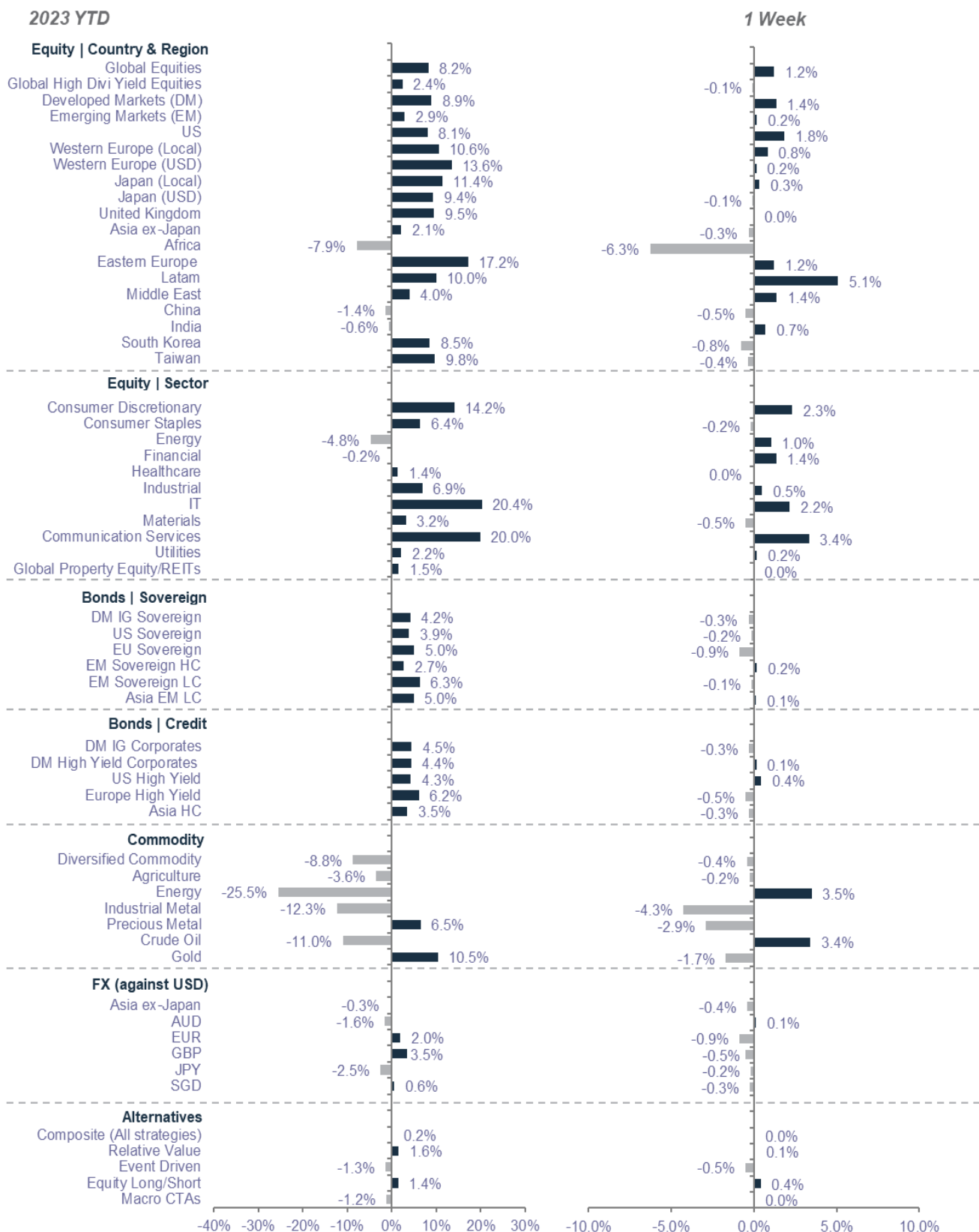
Expectations of faster US rate cuts relative to other Developed Markets should lead to further USD/JPY declines and keep other currencies supported versus the USD

Market-implied interest rate changes over the next 6 and 12 months



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 11 May 2023; 1-week period: 04 May 2023 to 11 May 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 ▲
	China Industrials ▲
Bonds (Credit) ◆	Alternatives ◆
Asia USD ▲	
Corp DM HY ▼	
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

Next support for the US S&P500 index is at 4,120

Technical indicators for key markets as of 11 May close

Index	Spot	1st support	1st resistance
S&P 500	4,131	4,120	4,139
STOXX 50	4,310	4,295	4,337
FTSE 100	7,731	7,715	7,762
Nikkei 225	29,165	28,996	29,289
Shanghai Comp	3,310	3,281	3,367
Hang Seng	19,744	19,559	20,113
MSCI Asia ex-Japan	630	627	636
MSCI EM	978	974	986
WTI (Spot)	75.4	74.4	76.9
Gold	2,016	2,009	2,029
UST 10y Yield	3.38	3.33	3.47

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	May	-5.0	10.8
	CH	Industrial Production y/y	Apr	10.8%	3.9%
	CH	Retail Sales y/y	Apr	22.0%	10.6%
	CH	Fixed Assets Ex Rural YTD y/y	Apr	5.7%	5.1%
TUE	UK	ILO Unemployment Rate 3Mths	Mar	3.8%	3.8%
	EC	ZEW Survey Expectations	May	—	6.4
	US	Retail Sales Ex Auto & Gas	Apr	0.2%	-0.3%
	US	Industrial Production m/m	Apr	0.0%	0.4%
	EC	ECB's Lagarde Speaks		—	—
WED	US	Housing Starts	Apr	1398k	1420k
THU	US	Philadelphia Fed Business Outlook	May	-20.0	-31.3
	US	Existing Home Sales	Apr	4.25m	4.44m
	US	Leading Index	Apr	-0.6%	-1.2%
FRI/SAT	US	Fed Chair Powell speech at Washington panel	US	—	—
	JP	49TH G7 SUMMIT	JP	—	—

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 healthy across asset classes

Our proprietary market diversity indicators as of 11 May

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↑	1.67
Global Equities	●	→	2.23
Gold	○	↑	1.40
Equity			
MSCI US	●	→	2.06
MSCI Europe	●	↓	1.60
MSCI AC AXJ	●	↓	1.52
Fixed Income			
DM Corp Bond	●	↑	1.82
DM High Yield	●	↓	2.02
EM USD	●	↓	1.96
EM Local	○	↑	1.39
Asia USD	●	↑	2.48
Currencies			
EUR/USD	●	↓	1.54

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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