



# Weekly Market View

## Political season heats up

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The UK elections are probably the least interesting for markets given the Labour party's sizeable lead in the opinion polls, although how Labour plans to fund its campaign promises remains unclear.

We believe a diversified foundation asset allocation, with a tilt towards US equities globally, a preference for Indian equities in Asia, and an allocation to gold as a hedge against political uncertainty, is a prudent strategy in the coming months. (See our H2 Outlook report for more details.)

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What are the market implications of the upcoming French elections?

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Where are the emerging opportunities in the US technology sector?

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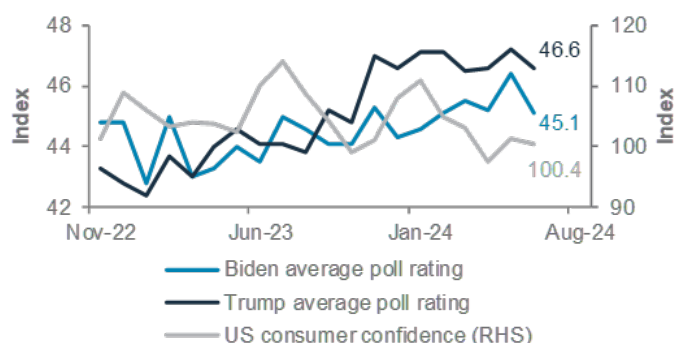
Do you expect further gains in USD/JPY after the pair broke above 160?



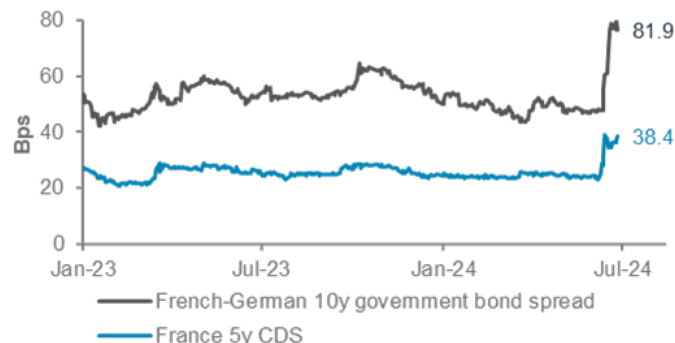
## Charts of the week: Politics hits markets

### President Biden needs to boost consumer confidence to get re-elected; French bonds are likely overpricing fiscal risks

Biden vs Trump poll ratings and US consumer confidence



France bond yield premium vs Germany; French 5-year CDS\*



Source: RealClearPolitics, Bloomberg, Standard Chartered; \*Credit Default Swaps price the risk of a bond issuer defaulting over a given period

## Editorial

### Political season heats up

Markets are likely to focus on four political events in the coming week. The first Biden-Trump debate before the US presidential elections in November kicked off a packed political season. President Biden's performance reinforced concerns about his age, likely giving Trump an early edge in the campaign.

France's two-round elections can potentially cause market volatility, especially if the far-right National Rally wins a majority, since markets are expecting a hung parliament. We believe any pullback would offer a chance to add to European government bonds. Iran is likely to elect a president aligned with the ruling authorities, sustaining Middle East tensions. The UK elections are probably the least interesting for markets given the Labour party's sizeable lead in the opinion polls, although how Labour plans to fund its campaign promises remains unclear.

We believe a diversified foundation asset allocation, with a tilt towards US equities globally, a preference for Indian equities in Asia, and an allocation to gold as a hedge against political uncertainty, is a prudent strategy in the coming months.

**Trump vs. Biden debate:** Apart from the well-known issues (inflation, immigration, China/trade tariffs, abortion rights, Trump tax cuts/fiscal sustainability and the wars in Ukraine and Gaza), the focus was on the physical abilities of the two oldest major contestants to ever fight a US election. Former President Trump appeared to have come out on top after the debate as President Biden wavered at times. While the race remains tight, history suggests Biden has an edge if the US avoids a recession before the elections. However, Biden's chances of re-election are likely to wane if he fails to lift US consumer confidence soon. Over the past 50 years, except in 2012 (when Obama was re-elected), no incumbent US party has won a re-election if the Conference Board consumer confidence index was below 100 in July (the index stood at 100.4 in June).

**France's elections** have implications for EU fiscal policy. The consensus is for a hung parliament which would disrupt President Macron's economic agenda. A victory for the far-right National Rally (or a coalition led by the party) is likely to trigger talks to ease EU fiscal policy rules. Nevertheless, Italian Prime Minister Meloni's precedent of a far-right candidate heading a major European government for the first time since WWII suggests markets are excessively pricing EU political risks even if a far-right coalition government is formed in Paris.

**Investment implications: We maintain a tilt towards US equities** in our diversified global asset allocation. US PMI data for June surprised positively, while Euro area PMIs underwhelmed. Besides, US equities continue to be powered by improving earnings expectations, especially in the technology and communications services sectors, with market leadership broadening out (see page 5). Quantitative and technical models remain supportive of US equities.

**We continue to prefer European government bonds (FX-hedged)**, especially after the dip due to French election risks. Barring an upset forcing President Macron to resign, the elections are unlikely to alter EU fiscal rules. Meanwhile, weak Euro area PMI data point to more ECB rate cuts in H2. This would be positive for Euro area government bonds.

**In Asia, India remains our preferred equity and bond market.** India's political uncertainty has waned with the formation of the new government, ensuring policy continuity. In the upcoming budget (likely in the third week of July), we expect the government to boost rural consumption, infrastructure and green energy. The fiscal boost is likely to sustain India's corporate earnings growth and Return on Equity advantage vs other EMs. We also find Indian government bonds attractive due to high real rates. The inclusion of Indian government bonds in a major global bond index, with a 10% weight, is a key milestone for the bond market.

## 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

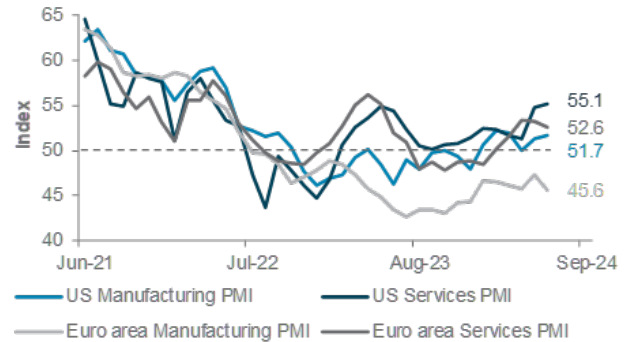
**(+) factors:** Robust US PMI, consumer confidence; US banks pass the Fed's annual stress tests

**(-) factors:** Weaker Euro area PMI, hawkish Fed, geopolitics

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> <li>US manufacturing and services PMIs rose more than expected to 51.7 and 55.1, respectively</li> <li>US Conference Board consumer confidence fell less than expected</li> <li>US durable goods orders rose unexpectedly</li> <li>US Q1 GDP was marked up by 0.1pp</li> <li>Euro area M3 money supply rose more than expected</li> </ul>	<ul style="list-style-type: none"> <li>US Dallas Fed manufacturing activity improved less than expected</li> <li>US home price rose less than expected; new home sales slowed more than expected</li> <li>Euro area manufacturing and services PMIs fell unexpectedly to 45.6 and 52.6, respectively</li> <li>China industrial profits rose less than expected</li> </ul>
	<b>Our assessment: Neutral</b> – Robust US PMI, consumer confidence vs weaker Euro area PMI	
Policy developments	<ul style="list-style-type: none"> <li>Major US banks passed annual Fed stress tests</li> <li>Fed's Goolsbee said it may be time to think about whether the policy is too restrictive</li> <li>Japan reportedly replaced its currency chief, raising the prospect of official support for the yen</li> </ul>	<ul style="list-style-type: none"> <li>Fed officials reiterated the need for more evidence of cooling inflation to start rate cuts</li> </ul>
	<b>Our assessment: Neutral</b> – US banks pass stress tests vs Hawkish Fed	
Other developments		<ul style="list-style-type: none"> <li>Houthi rebels ramped up attacks in the Red Sea</li> <li>Russia blamed the US for a Ukrainian missile strike on Crimea</li> <li>The EU placed more sanctions on vessels transporting Russian oil</li> </ul>
	<b>Our assessment: Negative</b> – Geopolitical tensions	

**US business confidence was stronger than expected in June, while Euro area business confidence underwhelmed**

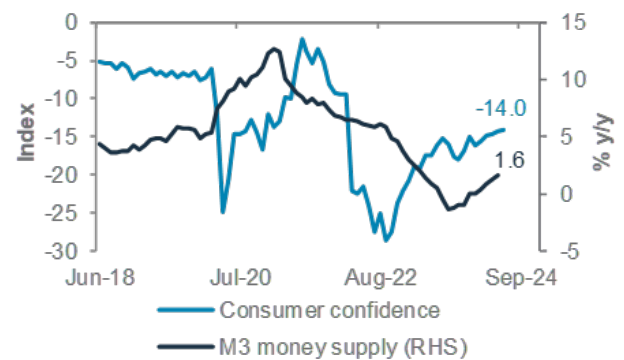
US and Euro area services and manufacturing PMIs



Source: Bloomberg, Standard Chartered

**Euro area consumer confidence and money supply appear to be recovering**

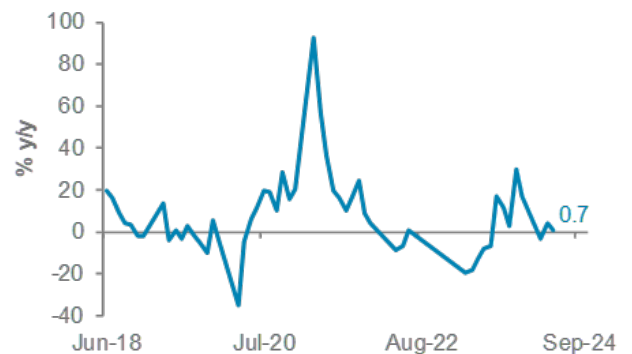
Euro area consumer confidence index, M3 money supply



Source: Bloomberg, Standard Chartered

**China's industrial sector profits are barely growing amid weak domestic demand, despite resilient exports**

China's industrial profit growth



Source: Bloomberg, Standard Chartered

## Top client questions

### Q What are the market implications of the upcoming French elections?

Macron's announcement of the snap legislative elections, following the far-right National Rally's (RN) victory in the European parliamentary elections, triggered a meaningful selloff in French financial market assets. The yield premium on French 10-year government bonds relative to their German peers has widened by 34bps since the day of announcement, while the benchmark French equity market index fell by 6.0%. While Macron's position as the president would not be directly affected by the legislative elections, the markets are afraid that the RN will gain a majority at the National Assembly, resulting in market-unfriendly policies at a time when the fiscal outlook of the country is already under pressure.

In the table to the right, we lay out three likely scenarios that could evolve from the elections. We assess the market implications in the context of those scenarios:

1. Status quo – This scenario is likely to be the most positive for markets as fiscal concerns dissipate. French financial markets are likely to see a relief rally under this scenario, which means the gap between French and German bond yields would narrow.
2. Hung parliament – This scenario is likely neutral for markets. In this scenario, there is little prospect of the French government passing any meaningful policies. There is a heightened risk of political gridlock and repeated no-confidence votes. However, we believe this scenario is now well-priced by markets.
3. Cohabitation (Nationally Rally wins an absolute majority and forms a government, working with President Macron) – This scenario is likely negative for markets, at least in the short term. Worries about the fiscal outlook are likely to rise and the France-EU relationship is likely to deteriorate. This could result in further downside for French financial market assets in the near term. Long-term, however, this market anxiety is likely to fade. In our view, under this scenario, the policy focus is likely to be on non-excessive tax cuts, immigration and law and order, which limits the fiscal instability. A parallel here is the 2022 Italian General Elections, where right-wing leaders, once elected, focused on policies that were ultimately more centre leaning. On Euro area stability, a cohabitation limits what the Prime Minister can do externally. Moreover, the RN appears to have shifted away from its anti-euro rhetoric.

Opinion polls suggest scenario 2 is most likely. This means that the current sell-off presents an opportunity to add to European government bonds, of which approximately 23% are French government bonds.

We also see opportunities in French financial sector corporate bonds, particularly sub-financials. While the market has used French corporate bonds to express a negative macro view on recent

Of the possible French election scenarios, an absolute majority for the right wing National Rally is likely to hurt Euro area risk assets the most

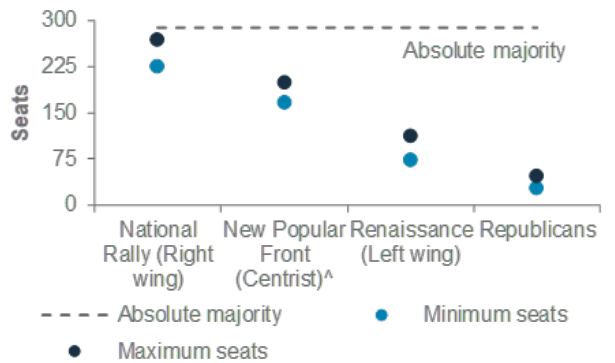
French elections – three scenarios

Potential outcomes	Details
Status quo	Macron's allies secure an absolute majority. This would mean his coalition continues to run the government and push its agenda.
Hung parliament	No single party or coalition reaches an absolute majority. Macron could appoint the Prime Minister from his coalition with some support from the centre-left and centre-right parties. However, the weak political mandate would make it harder for them to pass their policies in Parliament.
Cohabitation	National Rally (RN) succeeds in obtaining an absolute majority. The new government would be led by RN. President Macron's power would be reduced, and the new government would be able to implement its manifesto.

Source: Standard Chartered

### Early French opinion polls point to a hung parliament

Projected seats based on voting intention\* (26 June)



Source: Bloomberg, Standard Chartered; \*An average of all major opinion polls ^Macron's allies

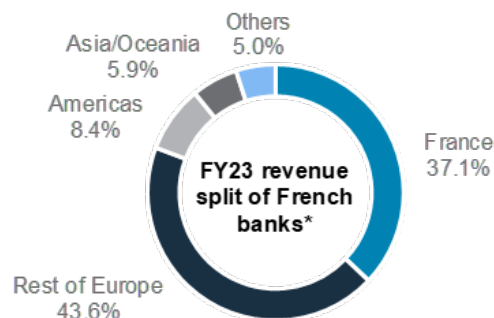
developments, we believe the fundamental impact on the sector is likely to be more minimal. French banks' balance sheets have strengthened over the years. French banks have a low exposure to French government bonds (less than 5% of total assets or approximately 30% of Common Equity Tier-1 capital). More importantly, these banks derive the bulk of their revenue outside of France. Good access to multiple capital markets also reduces exposure to the risk of potentially higher French funding costs.

From an equity market perspective, the upside potential of the French banking sector is likely capped, in our view. Net interest income (NII) is expected to start coming under pressure as the ECB progresses with further rate cuts. We prefer a barbell approach – an Overweight in the growth-oriented Technology sector as well as the defensive Healthcare sector – within Europe equities. In addition, Europe Technology equities are expected to see strong earnings growth and benefit from AI demand.

— **Zhong Liang Han, CFA**, *Investment Strategist*  
— **Jason Wong**, *Equity Analyst*

### French banks derive a majority of their revenue from outside France

Average FY23 revenue split of major French banks\*



Source: Bloomberg, Standard Chartered; \*Average of Societe Generale, BNP Paribas and Credit Agricole

## Top client questions (cont'd)

### Q Where are the emerging opportunities in the US technology sector?

We expect the AI theme to continue powering global equities in the coming months. The “Magnificent Seven” have been the “primary nucleus” of this AI revolution, but we believe there are also opportunities in sub-sectors associated with these companies, i.e., there is scope for the rally to “broaden out”. For example, companies offering **cooling solutions** for the machines in data centres and **AI-powered personal computers (AI-PC)** are potential beneficiaries associated with the AI theme. AI-PCs are especially exciting because their share of total global PC sales is expected to rise to 60% in 2027 from the current low teens. We expect a surge in sales and earnings because of (i) the demand to replace and upgrade from both corporates and households, and (ii) AI-PCs’ premium pricing.

There is also likely to be a positive feedback loop, ie, the rising demand for these AI-related sectors are likely to contribute back to the more “primary” sectors, such as those in **software** and **semiconductors**, which make up 70% of the US technology sector. Companies in these sectors have been mentioning AI as their key driver of future earnings. Thus, we remain Overweight the US technology sector and would consider adding on pullbacks.

— Daniel Lam, Head, Equity Strategy

### Q Do you expect further gains in USD/JPY after the pair broke above 160?

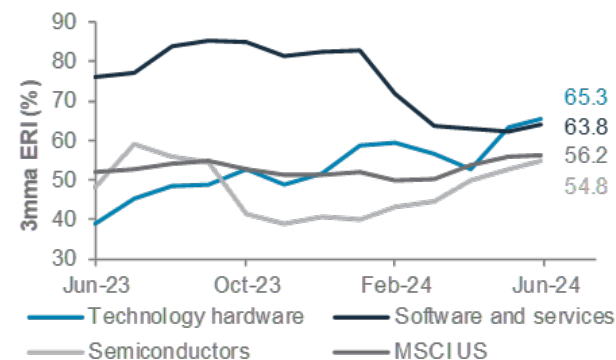
USD/JPY surpassed the previous level at which Japan authorities intervened (160.2) to reach a 38-year high. The pair has reached our three-month target earlier than we expected. Although Japan authorities warned that they stood ready to intervene, if necessary, the pace of the currency move so far may not be enough to trigger an immediate reaction. The largest USD/JPY move from its 28-day low to intra-day high on a rolling basis over the past one-and-half years has been JPY 9.4; the latest move is around JPY 6.0. Given this history, we believe intervention risks are likely to intensify if the pair approaches 164.0. In the event of intervention, history shows it would not be unusual for the pair to move sharply within a single day. In that event, 157.7 is likely to be a potential area of support.

Meanwhile, the monthly US PCE inflation data is also a key data point for currency markets as it is likely to be a key factor in the Fed’s policy path and the USD. A softer US inflation data print is likely to keep the greenback under pressure, reducing the need for Japan’s authorities to intervene in the currency market to prop up the JPY. Having said that, on technical indicators, USD/JPY appears overbought. Thus, we believe the upside is likely limited with 164 as the key resistance in the near term.

— Iris Yuen, Investment Strategist

### US Technology hardware’s earnings revision surging ahead

Earnings revision of major sub-sectors within the US technology sector



Source: FactSet, Standard Chartered

### The largest USD/JPY move from its 28-day low to intra-day high on a rolling basis over the past one-and-half years has been at JPY 9.4

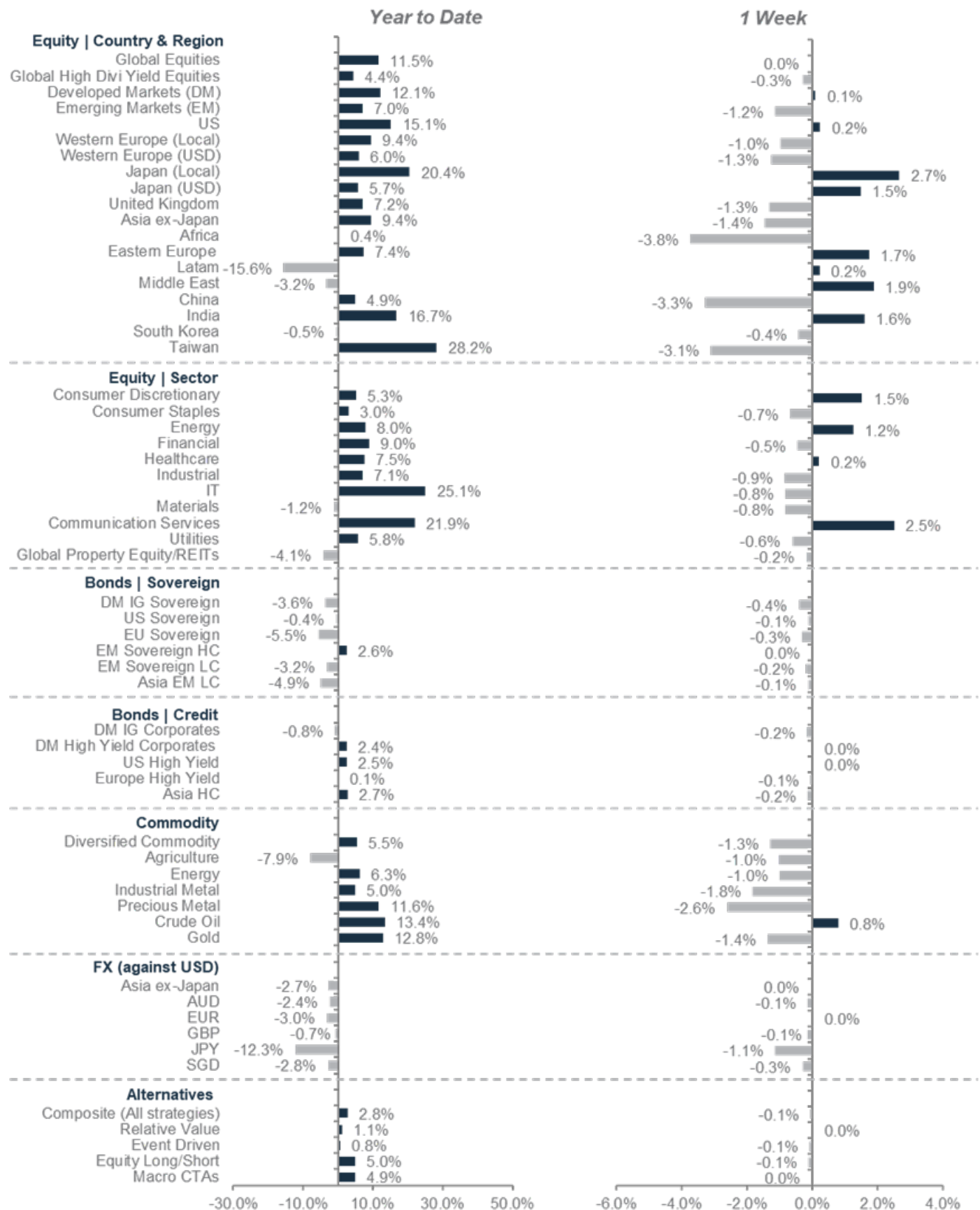
USD/JPY low-to-high in 28 day rolling basis



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 27 June 2024; 1-week period: 20 June 2024 to 27 June 2024

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

Asset class		
<b>Equities</b>	▲	<b>Preferred Sectors</b>
Euro area	◆	US Communication ▲
US	▲	US Technology ▲
UK	▼	Europe Technology ▲
Asia ex-Japan	◆	Europe Healthcare ▲
Japan	◆	China Communication ▲
Other EM	◆	China Discretionary ▲
		China Technology ▲
<b>Bonds (Credit)</b>	◆	India Industrials ▲
Asia USD	◆	India Discretionary ▲
Corp DM HY	◆	India Healthcare ▲
Govt EM USD	▲	
Corp DM IG	◆	
		<b>Alternatives</b> ◆
<b>Bonds (Govt)</b>	◆	
Govt EM Local	▼	<b>Gold</b> ◆
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	CH	Caixin China PMI Mfg	Jun	51.5	51.7
	US	ISM Manufacturing	Jun	49.0	48.7
TUE	EC	CPI Estimate y/y	Jun	–	2.6%
	EC	CPI Core y/y	Jun P	–	2.9%
	EC	Unemployment Rate	May	–	6.4%
	US	JOLTS Job Openings	May	–	8059k
WED	CH	Caixin China PMI Composite	Jun	–	54.1
	CH	Caixin China PMI Services	Jun	–	54.0
	EC	PPI y/y	May	–	-5.70%
	US	ADP Employment Change	Jun	160k	152k
	US	ISM Services Index	Jun	52.0	53.8
	UK	UK General Election			
THU	EC	Retail Sales y/y	May	–	0.0%
FRI/SAT	US	Change in Nonfarm Payrolls	Jun	185k	272k
	US	Unemployment Rate	Jun	4.0%	4.0%
	EC	French Legislative Election	7 June 2024		
	EC	French Legislative Election	7 June 2024		

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&P 500 has next interim resistance at 5,595

Technical indicators for key markets as on 27 June close

Index	Spot	1st support	1st resistance	12m forward P/E (x)	12m forward dividend yield (%)
S&P 500	5,483	5,281	5,595	21.2	1.4
STOXX 50	4,903	4,787	5,050	13.1	3.5
FTSE 100	8,180	8,071	8,330	11.5	4.0
Topix	2,794	2,721	2,838	15.3	2.4
Shanghai Comp	2,946	2,876	3,073	10.5	3.6
Hang Seng	17,716	17,262	18,586	8.4	4.4
Nifty 50	24,045	22,188	24,994	20.7	1.5
MSCI Asia ex-Japan	694	674	710	13.1	2.6
MSCI EM	1,082	1,055	1,103	12.2	2.9
WTI (Spot)	80.9	77.0	83.4	na	na
Gold	2,328	2,280	2,381	na	na
UST 10Y Yield	4.29	4.10	4.55	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 remains healthy across asset classes

Our proprietary market diversity indicators as of 27 June close

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	→	1.82
Global Equities	●	↑	1.57
Gold	●	↑	1.58
<b>Equity</b>			
MSCI US	●	→	1.49
MSCI Europe	●	↑	1.97
MSCI AC AXJ	●	↑	1.44
<b>Fixed Income</b>			
DM Corp Bond	●	↑	2.02
DM High Yield	●	↑	1.73
EM USD	●	↑	1.96
EM Local	●	→	1.57
Asia USD	●	→	1.66
<b>Currencies</b>			
EUR/USD	●	→	1.62

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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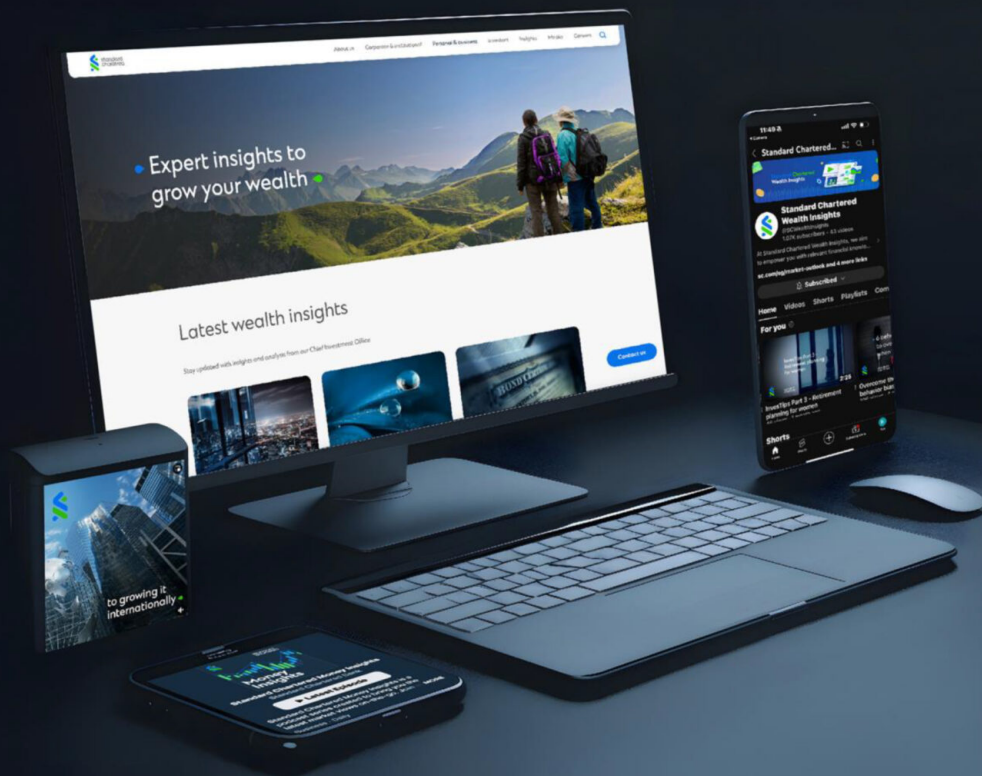
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