

# Weekly Market View

## Positioning for a consolidation

→ Risk assets are due for a consolidation, coinciding with a short-term bounce in the US dollar.

→ After a strong rally, investor positioning in US and European equities, global high yield corporate bonds, Emerging Market equities and local currency bonds look stretched. Such extreme one-sided positions raise the risk of a short-term reversal.

→ We would use any near-term volatility to reduce any over-exposure to US markets and rotate into our preferred assets, including China and Korea equities in Asia ex-Japan and EM local currency bonds.

→ We remain bullish on UK government bonds. While concerns that the government could relax its fiscal consolidation plans drove yields higher, we see slowing growth leading to BoE rate cuts later this year, dragging gilt yields lower.

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Bullish US technology and banks: Expect Q2 earnings to beat expectations

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Bullish China and Korea equities: Policy support, attractive valuations

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Bullish gilts: fiscal concerns overdone, expect BoE rate cuts as growth, inflation slow



## Charts of the week: Overly bullish investors

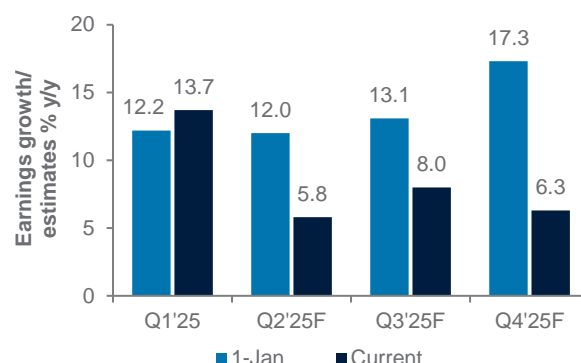
**Several asset classes face the risk of a reversal; meanwhile, US Q2 earnings face a low bar to beat expectations**

Investor diversity indicators\* of assets facing risk of reversal

| Asset Classes             | Fractal dimension | Asset Classes           | Fractal dimension |
|---------------------------|-------------------|-------------------------|-------------------|
| <b>Level 1</b>            |                   | <b>Equities</b>         |                   |
| Global Equities           | 1.18              | US Equities             | 1.22              |
| <b>Sectors</b>            |                   | Europe Equities         | 1.17              |
| US Technology Sector      | 1.21              | UK Equities             | 1.13              |
| US Industrials Sector     | 1.17              | Asia ex Japan Equities  | 1.20              |
| US Materials Sector       | 1.22              | EM ex Asia Equities     | 1.18              |
| US Communication Sector   | 1.22              | HK Equities             | 1.15              |
| Europe Financials Sector  | 1.21              | Singapore Equities      | 1.14              |
| Europe Industrials Sector | 1.17              | Korea Equities          | 1.17              |
| Europe Energy Sector      | 1.23              | Taiwan Equities         | 1.24              |
| China Financials Sector   | 1.18              | <b>Bonds</b>            |                   |
| China Industrials Sector  | 1.22              | DM High Yield Bonds     | 1.21              |
| China Energy Sector       | 1.24              | EM Local Currency Bonds | 1.18              |

Source: LSEG I/B/E/S, Bloomberg, Standard Chartered; \*Fractals below 1.25 indicate extremely low market diversity/high risk of a reversal

S&P500 index earnings and consensus estimates



## Editorial

### Positioning for consolidation

**Investment Strategy:** Risk assets are due for a consolidation. After a strong rally, investor positioning in US and European equities, global high yield corporate bonds, Emerging Market equities and local currency bonds look stretched. This raises the risk of a near-term consolidation or a pullback, coinciding with a short-term bounce in the US dollar. We would use any near-term volatility to reduce any over-exposure to US markets and rotate into our preferred assets, including China and Korea equities in Asia ex-Japan and EM local currency bonds.

**Short-term consolidation likely:** Global equities have scaled new record highs, but are now running into a headwind – excessively bullish investor positioning. Our technical indicators (fractals) which measure the degree of one-sided investor positioning, have fallen below a key threshold (1.25) for several asset classes (see table above). Such extreme one-sided positions raise the risk of a short-term reversal in trend. As the USD bounces from three-year lows, these assets are likely to come under further pressure. We would not chase the rally in risk assets at this stage, but would see a USD bounce as an opportunity to diversify out of USD assets.

**Watching US inflation:** In the coming weeks, markets are likely to take direction from US inflation data, ongoing trade negotiations and Q2 corporate earnings. A pick-up in US inflation could be a trigger for equity market volatility as it would delay any Fed rate cuts, now expected to restart in September. US inflation has defied expectations of a rise following the imposition of US tariffs in April. This is partly because US businesses have built up sizeable inventory by front-loading imports before the April tariffs went into effect.

Inflation is likely to rise as the old (non-tariffed) inventories are depleted, with earliest signs likely from June's inflation data. The market expects US core consumer inflation to have risen to 3% y/y in June, from a four-year low of 2.8% in the previous two months. We expect any rebound in inflation to be short-

lived as slowing, below-trend growth caused by trade and policy uncertainty is likely to drag down service sector inflation, the largest component of the consumer inflation basket. US long-term market-based inflation expectations have remained within their year-to-date range.

**Trade deals to ease tariff uncertainty:** Any success with the US concluding trade deals should significantly lower the ongoing tariff uncertainty and cap any concerns about a sustained bout of inflation. This, and proposed changes to US bank capital requirements to encourage banks to hold more government bonds, in turn is likely to cap USD bond yields.

This week, President Trump pushed back a deadline for imposing stiff reciprocal tariffs on trade partners to 1 August, from 9 July, giving more time to negotiators to reach deals. These negotiations are likely to cause market volatility. However, we expect major US allies to agree to a 10% base tariff, along with pledges to boost energy, agriculture, aircraft and defence imports and/or invest more in US manufacturing. We expect the US to reach broad framework trade agreements with the European Union, India, South Korea and Taiwan over the coming weeks, with Japan potentially reaching an agreement once the Upper House election on 20 July is over.

**Earnings beats to support risk assets.** The bar is low for US earnings to beat expectations after a significant downward revision in consensus Q2 earnings growth estimates to 5.8% y/y, from 12% at the start of the year. Our preferred technology and communications sectors are likely to lead the earnings beats thanks to sustained strong revenue growth from AI-related investments (see page 4).

**Opportunity in China/Korea equities, EM local bonds:** The expected consolidation in EM assets would provide entry opportunities. Despite a rally this year, China and Korea equities remain undervalued and have the support of domestic policy stimulus (see page 5). EM local currency bonds are likely to continue to benefit from a weak USD and EM rate cuts.

## 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

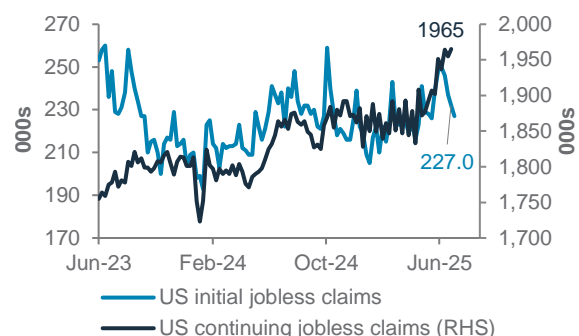
**(+) factors:** Improving Euro area investor confidence; delayed US reciprocal tariff deadline

**(-) factors:** Escalating US sectoral and country tariffs

|                     | Positive for risk assets   | Negative for risk assets  |
|---------------------|--|---|
| Macro data          | <ul style="list-style-type: none"> <li>US initial jobless claims fell unexpectedly in the week ended 5 July</li> <li>Euro area Sentix investor confidence rose more than expected</li> <li>China consumer price inflation rose unexpectedly to 0.1% y/y</li> </ul> | <ul style="list-style-type: none"> <li>China producer price inflation dropped more than expected to -3.6% y/y</li> <li>Euro area retail sales growth decelerated to 1.8% y/y in May</li> </ul>  |
|                     | <b>Our assessment: Positive</b> – Robust Euro area confidence  |   |
| Policy developments |  | <ul style="list-style-type: none"> <li>June Fed minutes signaled a cautious approach on rates</li> <li>RBA unexpectedly kept interest rates unchanged</li> <li>RBNZ held interest rates at 3.25% as expected</li> </ul>   |
|                     | <b>Our assessment: Negative</b> – Cautious central banks   |   |
| Other developments  | <ul style="list-style-type: none"> <li>Trump delayed US tariff deadline to 1 August from 9 July</li> <li>Trump announced 25% tariffs on South Korea and Japan, but left scope for negotiations</li> </ul>  | <ul style="list-style-type: none"> <li>Trump announced a 35% tariff on Canada</li> <li>Trump imposed 50% tariff on Brazil and threatened extra 10% tariffs on countries that align with 'anti-American policies' of BRICS nations</li> <li>Trump planned to impose 50% tariffs on copper and also threatened 200% tariff on pharmaceuticals</li> <li>China retaliated against EU with imports of medical devices</li> </ul> |
|                     | <b>Our assessment: Neutral</b> – Delayed US reciprocal tariffs vs escalating sector- and country-specific tariffs  |   |

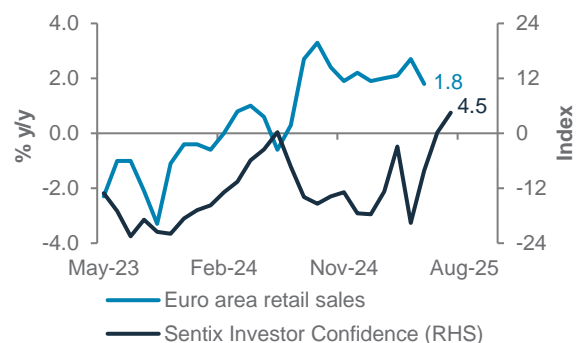
### US initial jobless claims in the week ended 5 July fell unexpectedly to a seven-week low

US initial jobless claims, continuing jobless claims



### Euro area retail sales growth decelerated in May, but investor confidence in July rose to the highest level since Feb 2022

Euro area retail sales growth and Sentix investor confidence



### China's consumer price inflation turned positive in June, while producer price deflation continued

China consumer and producer price inflation



## Top client questions

### Q What to expect from the upcoming US earnings season?

**Our view:** Companies likely to beat the low-bar, heavily-managed Q2 earnings estimates. We are bullish US major banks. Add to technology sector on pullbacks.

**Rationale:** The Q2 earnings season will kick off in earnest when the major banks start reporting on 15 July. According to LSEG I/B/E/S estimates, Q2 earnings rose by 5.8% y/y; this consensus estimate has been lowered from 10.2% growth expected on 1 April, setting a **low hurdle for companies to “beat expectations”**. Communication services (31.8%) and technology (17.7%) sectors should lead the growth in Q2 earnings, with energy (-25.4%) and consumer discretionary (-3.5%) lagging. The focus will be on companies’ forward guidance, and how it is influenced by consumer strength, the impact of tariffs and AI investments. It will be **critical to monitor the full year 2025 and 2026 earnings growth expectations, currently at 8.5% and 14.0%, respectively**.

We are overweight the financial, technology and communication sectors. For financials, we see 2.7% earnings growth in Q2 and 4.8% in 2025. Major banks should drive this earnings growth. We expect management to be **upbeat on the US consumer** given robust employment, with contained provisions for credit losses. Major banks passed the Fed’s annual stress test and proposed relaxations to the supplementary leverage ratio should free up additional capital. While tariff uncertainties may dampen corporate loan demand, **deregulation allows major banks to pursue other growth opportunities**, raise their dividends and enhance share buybacks.

For the technology sector, the consensus expects 17.7% earnings growth in Q2 and 16.9% in 2025. **AI investments continue to drive growth for semiconductors** and sovereign AI demand could offer upside. We also expect software spending to be resilient, with C-suite **mandates to use AI tools**, while the more complex reasoning models sustain cloud demand. The weak USD is also supportive of earnings as the sector generates 55% of revenue outside the US.

However, there is uncertainty in H2 2025 tied to tariffs and the geopolitical landscape. Most tech companies have a tariff exemption, but the US **section 232 investigation** into semiconductors is ongoing, with clarity in the coming weeks or months. A potential tariff on chips manufactured outside the US could lead to cautious guidance and a sector pullback. We would see this as an opportunity to add exposure as **chipmakers have the pricing power** to pass on higher costs and global demand remains strong.

— Fook Hien Yap, Senior Investment Strategist

### US Q2 earnings growth is projected to be the weakest this year before a pick-up heading into 2026

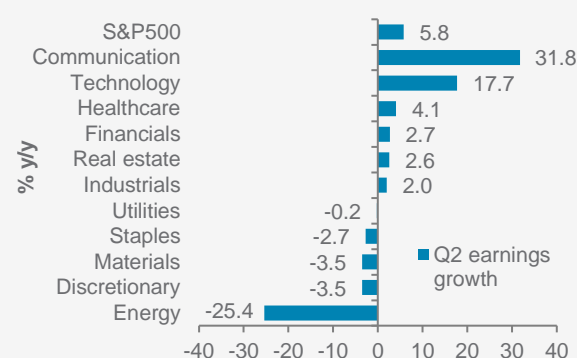
Forecasted earnings growth (y/y) by quarter for S&P500 index



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

### US communications and technology sectors expected to lead in Q2 earnings growth

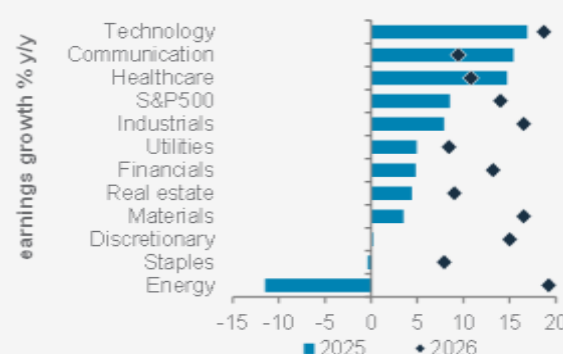
Consensus estimates for US Q2 earnings growth (y/y) by sector



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

### US earnings growth projected to sustain into 2026

US consensus 2025-2026 earnings growth by sector



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

## Top client questions (cont'd)

**Q** What do the latest US tariff announcements mean for Asian equities?

**Our view:** *We stay bullish Asia ex-Japan equities. Increase exposure on pullback, particularly in China and Korea.*

**Rationale:** President Trump extended the US tariff deadline to 1 Aug, but proposed a reciprocal tariff of 25% on both South Korea and Japan and 50% on Brazil. Meanwhile, US-China tensions have calmed, with China's "rare-earth card" keeping the US at bay for now.

Overall, the **US tariff announcements are not overly alarming**. For example, tariffs on both Korea and Japan remain largely unchanged versus the April levels. The US is threatening up to a 35% tariff on Japan, but the deadline extension provides buffer-time for negotiations. This is important because Japan's Upper House elections on 20 July have made discussing politically-sensitive topics, such as automobiles and rice exports, more challenging.

**Valuations** of Asia ex-Japan equities remain **compelling**, with the **weak USD** lowering import costs, supporting companies' earnings. The region can benefit from **"rotational flow" within EM equities**, such as outflows from Brazilian equities. We favour markets such as **China** and **Korea**, which have strong domestic policy support, which can boost corporates' earnings growth projections.

— **Michelle Kam, CFA**, Investment Strategist

**Q** Are we still constructive on UK government bonds (gilts) after the recent rise in yields?

**Our view:** *Remain opportunistically bullish gilts. Add on weakness. 3-month 10-year gilt yield target at 4.25-4.50%.*

**Rationale:** The 10-year gilt yield has risen roughly 15bps since early July, breaking above 4.6%, driven by **renewed fiscal concerns** following Chancellor Reeves' welfare policy reversal. Investors are cautious about a **potential rise in government borrowing**. Some market participants are drawing parallels to the sell-off in October 2024 post Reeves' Autumn Budget announcement. Compared to that episode, the recent rise in yield has been tame. Politically-driven market dislocation likely to be short-lived. We anticipate near-term monetary policy will be on track despite fiscal noise. The UK economy remains sluggish, and inflation is slowing, paving the way for the BoE to cut rates. We expect **gilt yields to drift lower** against this backdrop, with **target range 4.25% - 4.50% over the next three months**. The current 10-year yield at 4.6% offers an **attractive entry point**. Additionally, we expect inflationary pressures from fiscal expansion to remain contained, given UK's limited fiscal headroom, which should **help prevent yields from rising significantly**.

— **Cedric Lam**, Senior Investment Strategist

### Historically, weak USD has led to stronger Asia ex-Japan equity market performance

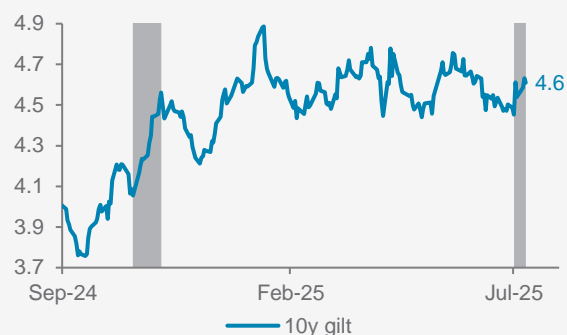
The USD index (DXY) and MSCI Asia ex-Japan index (RHS, inverted) relative to global equities



Source: Bloomberg, Standard Chartered

### The rise in UK 10-year Gilt yields since July is relatively mild, compared with the surge in Oct 2024 after the UK's Autumn Budget announcement

UK 10-year government bond yields



Source: Bloomberg, Standard Chartered

## Top client questions (cont'd)

**Q** What is the outlook for the AUD and NZD after the latest central bank meetings?

**Our View:** *AUD/USD and NZD/USD can rise further following policy pause and extension of US tariff deadlines*

**Rationale:** The RBA held its policy rate steady at 3.85% in July, defying market expectations for a 25bps cut. As recent data, such as private consumption and inflation, has surprised to the downside, we continue to expect two rate cuts this year, likely in August and November, following quarterly CPI releases.

In the near-term, **the policy hold is marginally positive for AUD/USD**. As both the Fed and RBA are expected to ease policy by the same amount in H2 2025, risk sentiment, rather than rates differentials, will likely be the primary driver for AUD/USD. Following the **extension in US tariffs**, positive sentiment in the near-term would allow AUD/USD to track the rising trend, but a breakout is unlikely ahead of the 1 August US tariff deadline. 0.6370 remains a key level of support.

Meanwhile, the RBNZ held rates as expected, with a dovish tilt. The market is currently assigning a 69% probability of a 25bps rate cut at the August meeting. We expect this probability to continue rising, especially if Q2 inflation and labour market data softens further. Like the AUD, the **NZD remains correlated to risk sentiment and to Asian currencies**, given New Zealand's export dependence on Asian trading partners and current account deficit. NZD/USD has good support at 0.5881. We expect the pair to retest the 1st July high at 0.61.

— **Tay Qi Xiu**, *Investment Strategist*

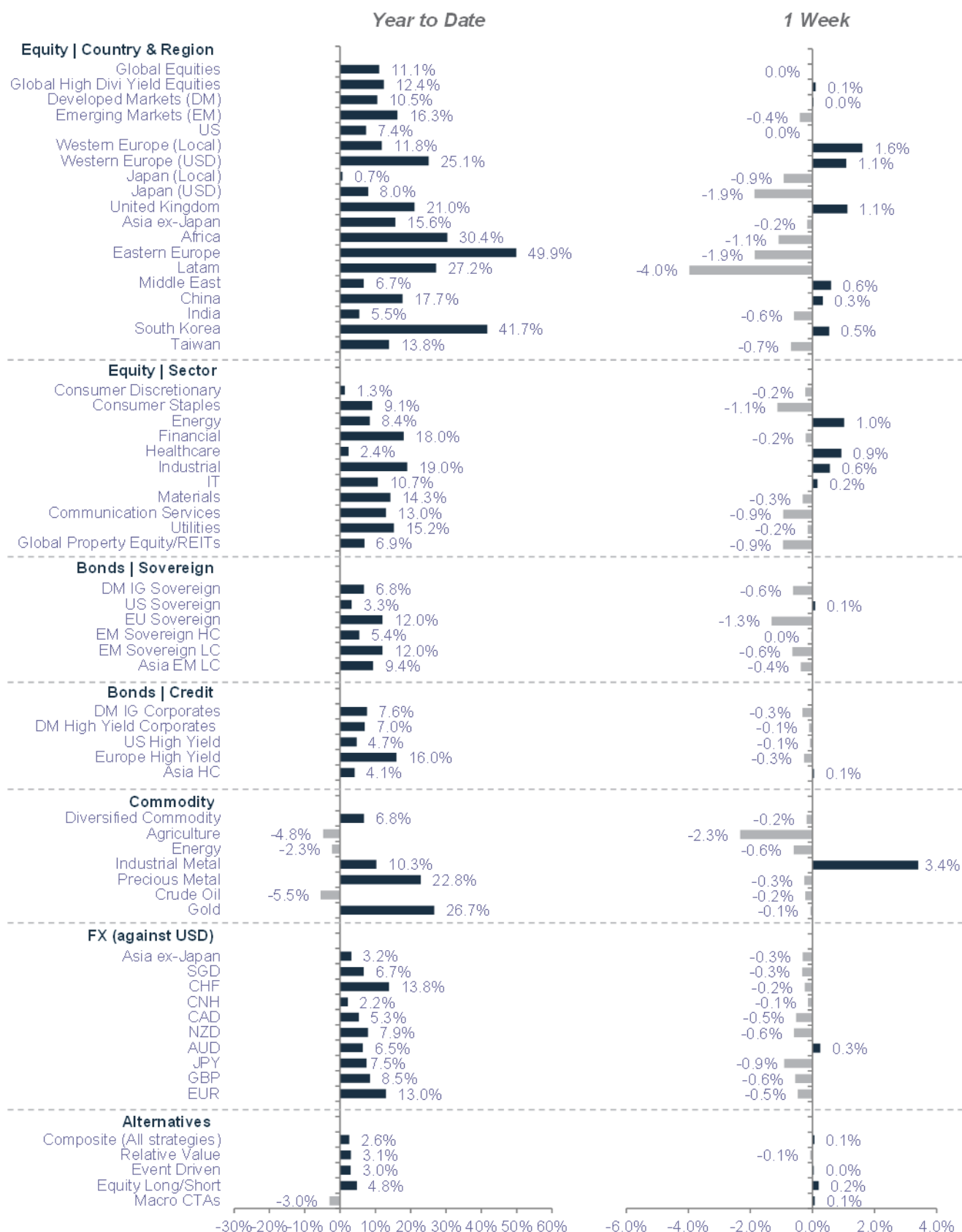
**AUD/USD is expected to track the ascending trendline, but a breakout is unlikely ahead of the 1 August deadline for US tariffs**

AUD/USD



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 10 July 2025; 1-week period: 3 July 2025 to 10 July 2025



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

| Asset class             |                          |
|-------------------------|--------------------------|
| <b>Equities</b> ▲       | <b>Preferred Sectors</b> |
| US ◆                    | US Financials ▲          |
| Europe ex-UK ◆          | US Technology ▲          |
| UK ▼                    | US Communication ▲       |
| Asia ex-Japan ▲         | Europe Technology ▲      |
| Japan ◆                 | Europe Communication ▲   |
| Other EM ◆              | Europe Industrials ▲     |
|                         | Europe Financials ▲      |
| <b>Bonds (Credit)</b> ◆ | China Technology ▲       |
| Asia USD ◆              | China Communication ▲    |
| Corp DM HY ◆            | China Discretionary ▲    |
| Govt EM USD ◆           |                          |
| Corp DM IG ▼            | <b>Alternatives</b> ◆    |
|                         |                          |
| <b>Bonds (Govt)</b> ◆   | <b>Gold</b> ◆            |
| 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 6,399

Technical indicators for key markets as of 10 July close

| Index                 | Spot   | 1st support | 1st resis-<br>tance | 12m forward<br>P/E (x) | 12m forward<br>dividend<br>yield (%) |
|-----------------------|--------|-------------|---------------------|------------------------|--------------------------------------|
| S&P 500               | 6,280  | 6,052       | 6,399               | 22.3                   | 1.3                                  |
| STOXX 50              | 5,438  | 5,262       | 5,543               | 15.3                   | 3.2                                  |
| FTSE 100              | 8,976  | 8,796       | 9,067               | 13.1                   | 3.6                                  |
| TOPIX                 | 2,812  | 2,748       | 2,873               | 14.9                   | 2.7                                  |
| Shanghai Comp         | 3,510  | 3,396       | 3,575               | 12.9                   | 3.0                                  |
| Hang Seng             | 24,028 | 23,298      | 24,646              | 10.3                   | 3.4                                  |
| Nifty 50              | 25,355 | 24,662      | 25,859              | 21.3                   | 1.6                                  |
| MSCI Asia<br>ex-Japan | 803    | 778         | 817                 | 13.6                   | 2.6                                  |
| MSCI EM               | 1,231  | 1,191       | 1,254               | 12.8                   | 2.9                                  |
| Crude oil (WTI)       | 66.6   | 60.9        | 75.3                | na                     | na                                   |
| Gold                  | 3,324  | 3,231       | 3,434               | na                     | na                                   |
| UST 10Y Yield         | 4.35   | 4.19        | 4.51                | 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         | CNH    | Exports y/y                | Jun    | 5.1%      | 4.8%      |
|             | CNH    | Trade Balance              | Jun    | \$113.69b | \$103.22b |
| TUE         | CNH    | GDP y/y                    | 2Q     | 5.1%      | 5.4%      |
|             | CNH    | GDP SA q/q                 | 2Q     | 0.9%      | 1.2%      |
|             | CNH    | Retail Sales y/y           | Jun    | 5.1%      | 6.4%      |
|             | EUR    | ZEW Survey Expectations    | Jul    | –         | 35.3      |
|             | USD    | CPI y/y                    | Jun    | 2.7%      | 2.4%      |
|             | USD    | CPI Ex Food and Energy y/y | Jun    | 3.0%      | 2.8%      |
| WED         | GBP    | CPI y/y                    | Jun    | –         | 3.4%      |
|             | USD    | PPI Final Demand y/y       | Jun    | –         | 2.6%      |
|             | USD    | PPI Ex Food and Energy y/y | Jun    | –         | 3.0%      |
| THU         | USD    | Retail Sales Control Group | Jun    | 0.4%      | 0.4%      |
|             | USD    | Fed's Beige Book           | Jul    | –         | –         |
| FRI/<br>SAT | USD    | Housing Starts             | Jun    | 1300k     | 1256k     |
|             | USD    | U. of Mich. Sentiment      | Jul P  | 61.3      | 60.7      |

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 global equities fell below threshold

Our proprietary market diversity indicators as of 10 July close

| Level 1             | Diversity | 1-month trend | Fractal dimension |
|---------------------|-----------|---------------|-------------------|
| Global Bonds        | ●         | →             | 1.41              |
| Global Equities     | ○         | ↓             | 1.18              |
| Gold                | ●         | ↑             | 1.64              |
| <b>Equity</b>       |           |               |                   |
| MSCI US             | ○         | ↓             | 1.22              |
| MSCI Europe         | ○         | ↓             | 1.17              |
| MSCI AC AXJ         | ○         | ↓             | 1.20              |
| <b>Fixed Income</b> |           |               |                   |
| DM Corp Bond        | ●         | ↓             | 1.32              |
| DM High Yield       | ○         | ↓             | 1.21              |
| EM USD              | ●         | ↓             | 1.30              |
| EM Local            | ○         | ↓             | 1.18              |
| Asia USD            | ●         | ↓             | 1.39              |
| <b>Currencies</b>   |           |               |                   |
| EUR/USD             | ●         | →             | 1.48              |

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





# InvesTips

## from the CIO's desk

Fortnightly series on WEDNESDAYS

Presented by

*Steve Brice*

Global Chief Investment Officer  
Standard Chartered Bank

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