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WS Global Chief Investment Office
23 August 2024

Weekly Market View

Powell and the two key markers

→ A lot is riding on Fed Chair Powell's speech at Friday's Jackson Hole summit. Global equities have recovered almost all their losses since mid-July on expectations the Fed will cut rates from September, enabling an economic soft landing. Rate cut hopes have lowered US bond yields and the USD.

→ Any policy effort to ease financial conditions and manage a US soft-landing would be supportive for risk assets. It would also support high yield bonds, a key component of income portfolios. Nevertheless, tight yield premiums suggest returns are likely to come from yields instead of price gains.

→ As the Fed cuts rates, we see the JPY-funded carry trade fading and, thus, turn tactically bearish on AUD/JPY, a posterchild of the carry trade.

→ China's earnings estimates have risen as companies deliver positive surprises in Q2. We continue to see opportunities in quality non-financial state-owned enterprises with a record of rewarding shareholders with attractive dividends.

How would a potential Harris presidency affect the outlook for US equities?

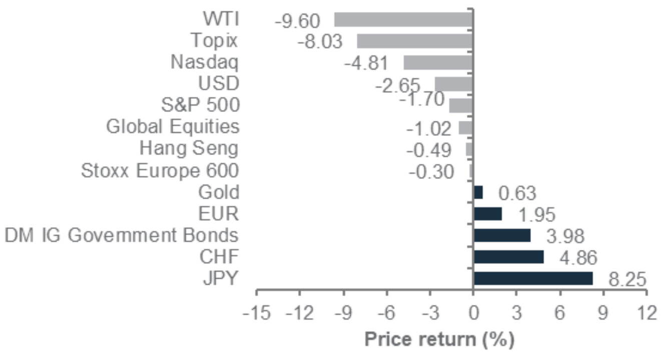
Can Developed Market High Yield corporate bonds extend their outperformance?

Do you see any tactical opportunities in FX following the carry trade unwind?

Charts of the week: Full circle

Global equities have recovered almost all their losses as US bond yields and the USD weakened on Fed rate cut hopes

Returns of major market indices since 16 July*



US 10-year government bond yield and USD index (DXY)

Source: Bloomberg, Standard Chartered; *the day global equities closed at a peak before the latest sell-off

Editorial

Powell and the two key markers

A lot is riding on Fed Chair Powell's speech at Friday's Jackson Hole summit. Global equities have recovered almost all their losses since mid-July on expectations the Fed will cut rates from September, enabling an economic soft landing. Rate cut hopes have lowered US bond yields and the USD. Any policy effort to ease financial conditions and manage a US soft-landing would be supportive for equities. It would also support high yield bonds, a key component of income portfolios. Nevertheless, tight yield premiums suggest returns are likely to come from yields instead of price gains. As the Fed cuts rates, we see the JPY-funded carry trade fading and, thus, turn bearish near-term on AUD/JPY, a posterchild of the carry trade.

Does Powell agree with bond markets? Even if Powell were to signal support for the 100bps of cuts currently priced in by money markets by year-end, we would expect the USD to stabilise around current levels and the US 10-year government bond yield to stay above its technical support close to 3.8% (which has held since last December, barring brief intra-day breaches). A dovish Powell at Jackson Hole would also likely support risk assets. Any pushback from Powell, however, could see the USD and bond yields rebounding and the risk asset rally faltering in the near term. We now expect the Fed to cut rates by 75bps this year following the recent string of weak US job market data and this week's 818,000 downward revision in US total payrolls for the year ending March. Hence, we see a low probability for the 10-year yield falling significantly below 3.8% in the near term, unless US data deteriorates sharply in the coming weeks.

Will the USD hold above pivotal support level? The USD index is close to testing last December's low of 100.6, having weakened almost 5% from July's high. The next support is around 99.6, tested in July 2023. We see low probability of the USD weakening further in the near term unless US economic data deteriorates further. Although the US job market has weakened over the summer and the manufacturing sector is contracting, service sector activity remains healthy, as shown in August's S&P Global PMI data. Also, strong US corporate earnings in Q2 and robust earnings estimates for the rest of the year and next year suggest the business outlook remains constructive (chipmaker Nvidia's earnings next week will be keenly watched to gauge the outlook for AI-related demand). Easier monetary policy in the coming months should also help the economy achieve a soft landing, supporting the USD.

JPY-funded carry trade likely to fade: While the USD finds near-term support, Fed rate cuts against the backdrop of a hawkish BoJ is likely to put a brake on JPY-funded carry trades. A significant part of the carry trade has likely been unwound in recent market dislocations, we see scope for further unwinding. While the JPY offers the largest rate advantage among major currencies, currency appreciation risk remains high. We believe AUD/JPY, a popular carry trade, faces downside risks from a hawkish BoJ and challenging technicals (see page 5).

What does an ascendant Harris mean for markets? This week, US Democrats formally nominated Vice President Kamala Harris as their presidential candidate at the Democrat National Convention, with leaders such as former Presidents Obama and Clinton backing her. Harris has surged in the polls (Real Clear Politics probability of winning: 48%) since she was named to replace President Biden in July, while Republican challenger and former President Trump's probability to win in November has dropped to 47%. A Harris presidency would represent policy continuity, especially if the two houses of Congress are controlled by different parties. It would also ease geopolitical concerns as Trump proposes to impose stiff tariffs against China and other trade partners if he wins (see page 4).

The weekly macro balance sheet

Our weekly net assessment: On balance, we see the past week's data and policy as positive for risk assets in the near term

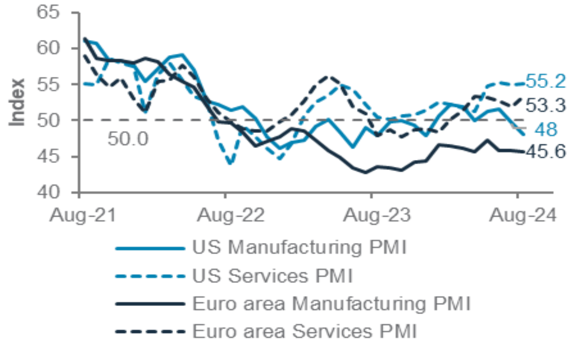
(+) factors: Dovish Fed; supportive PBoC; easing geopolitical tensions

(-) factors: Weaker US job markets, weak US and Euro area manufacturing PMI

	Positive for risk assets	Negative for risk assets
Macro data	• US Michigan sentiment rose more than expected to 67.8 in August; inflation expectations rose more than expected • US and Euro area services PMIs rose unexpectedly to 55.2 and 53.3, respectively	• US payrolls were marked down by 818,000 for the 12 months through March • US and Euro area manufacturing PMIs fell more than expected to 48.0 and 45.6, respectively • US housing starts and building permits fell more than expected • US leading index fell more than expected in July • Euro area consumer confidence fell unexpectedly to -13.4
	Our assessment: Neutral – Robust US and Euro area services PMIs vs weaker US job market, weak US and Euro area manufacturing PMIs	
Policy developments	• July's Fed meeting minutes suggest a 'vast majority' of policymakers saw a September rate cut as appropriate • Fed's Kashkari, Collins and Daly were dovish in recent comments • China rolled out more supportive measures for the property sector • PBoC Governor Pan pledged to support China's economic recovery	• China kept its 1- and 5-year loan prime rates unchanged, as expected • Reports suggest China is willing to let property prices fall, likely dampening near-term sentiment, although it would be positive over the long term as the property overhang is cleared
	Our assessment: Positive – Dovish Fed, supportive PBoC	
Other developments	• Reports suggest an Israel-Gaza ceasefire is likely	• NA
	Our assessment: Positive – Easing geopolitical tensions	

The divergence between services and manufacturing PMIs continued in August

US and Euro area PMI



Source: Bloomberg, Standard Chartered

US housing market continued to weaken in July

US housing starts, building permits

Source: Bloomberg, Standard Chartered

Euro area consumer confidence deteriorated unexpectedly in August

Euro area consumer confidence

Source: Bloomberg, Standard Chartered

Top client questions

How would a potential Kamala Harris presidency affect the outlook for US equities?

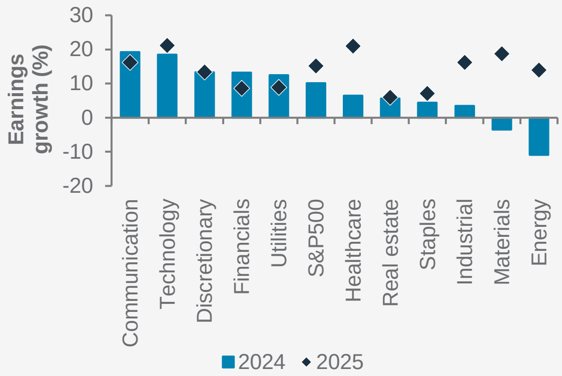
A potential Harris presidency would represent policy continuity with a neutral impact on US equities, in our view, particularly if the election also results in a divided Congress. Tax rates would rise, as previous provisions under the Tax Cuts and Jobs Act expire as planned and Republicans likely continue to block significant new policies. In such a scenario, we believe the focus for US equities would shift to the growth outlook – ie, can the US achieve a soft landing following the Fed rate cuts?

We are of the view a soft landing can be achieved, similar to the experience back in 1995 and 1998 when interest rate cuts from the Fed extended the economic cycle. This would allow US equities to extend gains and outperform global equities. US earnings growth is robust with the S&P500 index expected to see earnings grow 10.1% in 2024 and 15.2% in 2025, per LSEG I/B/E/S consensus. We favour the technology and communication services sectors, which rank among the sectors delivering the highest earnings growth. The AI theme remains key, and Nvidia's earnings release mid-week will be very important for sentiment.

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

US earnings growth is expected to pick up to 15.2% in 2025 from 10.1% in 2024, supporting further market gains

2024 and 2025 earnings growth by sectors in the S&P500 index



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

Have China Q2 2024 corporate earnings lived up to consensus? Do you see any opportunities within the market?

According to Bloomberg, 23% of companies in the MSCI China index have reported Q2 24 earnings so far, delivering an 8.2% positive earnings surprise, led by the utilities, industrials and communication services sectors. Consensus EPS growth estimates in 2024 have been revised higher to 13.3%, from 10.1% at the start of July.

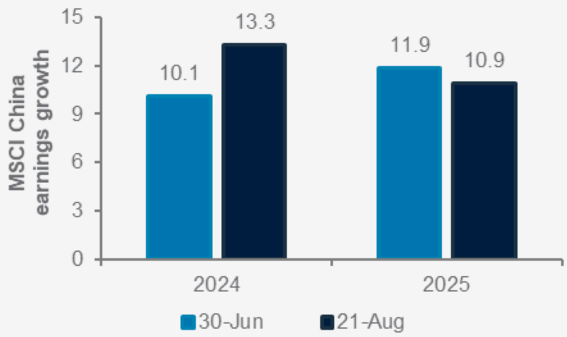
While we retain a Neutral view on China equities within Asia ex-Japan, with deflation and the long-term growth outlook being key risks, a pro-growth tone from the July Politburo meeting and the Third Plenum suggests policy support should be sufficient to support earnings revisions, providing a near-term tailwind to the equity market. In addition, consistently strong Southbound flows and an expansion of the Stock Connect program are likely to provide a further boost. Valuations are also supportive – the 12m forward P/E for the MSCI China index is trading at a 28% discount to Asia ex-Japan equities, significantly below its historical average.

We continue to see high dividend yielding non-financials state-owned enterprises (SOEs) as one key opportunity in this context. We favour them for their income stability and would view the recent pullback as an opportunity to add.

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

Earnings expectations revised higher in 2024, but ticked lower in 2025 on continued worries of deflation and growth challenges

Consensus expectations of MSCI China index earnings growth in 2024 and 2025, on 30 Jun vs 21 Aug



Source: FactSet, Standard Chartered

Top client questions (cont'd)

Can Developed Market HY (DM HY) corporate bonds extend their outperformance against their IG peers?

Developed Market (DM) High Yield (HY) corporate bonds have outperformed their DM Investment Grade (IG) corporate bonds counterpart since the beginning of this year, driven by strong domestic economic growth and the prospect of Fed rate cuts. Key fundamentals, such as strong earnings growth and contained leverage, have also played a significant role. These factors have improved the credit rating upgrade/downgrade ratio, which has been below 1x since Q2 2022.

Looking ahead, the likely start of a Fed easing cycle should prove supportive for DM HY bonds, as a lower yield environment would make it easier for HY bond issuers to refinance their liabilities.

This view is supported by history, assuming the Fed is indeed successful in achieving a soft landing. In 1994-95, after hiking rates by 300bps over approximately 12 months, the Fed pivoted in June 1995 towards rate cuts and successfully achieved a soft landing. The average 3-month return for DM HY bonds over the subsequent 12 months was 4.1% compared to 1.2% for DM IG corporate bonds.

The main risk to monitor is that of a hard landing. DM HY bonds are unlikely to perform as well in a scenario where the US economy ends up in a recession.

— **Cedric Lam,** *Senior investment Strategist*

DM HY corporate bonds outperformed DM IG corporate bonds after the first Fed rate cut during the last soft landing episode in 1994

Beginning of rate hike	4-Feb-94
End of rate hike	1-Feb-95
Number of hikes (bps)	300
Beginning of rate cut	6-Jul-95
End of rate cut	31-Jan-96
Number of cuts (bps)	75
Avg 3M DM HY corp in 12M post 1st rate cut	4.1%
Avg 3M DM IG corp return in 12M post 1st rate cut	1.2%

Source: Bloomberg, Standard Chartered

What is your tactical view on the AUD? Do you see any opportunities following the carry trade sell-off?

The RBA published the minutes of its August monetary policy meeting, highlighting that board members considered a case to raise rates, but decided an unchanged outcome would be a better way to balance the risks. The central bank further stated that the policy rate may stay unchanged for an extended period. This cautious approach is likely to support extended AUD strength in the coming months. However, technically AUD/USD is now overbought; we see 0.6870 as near-term key resistance.

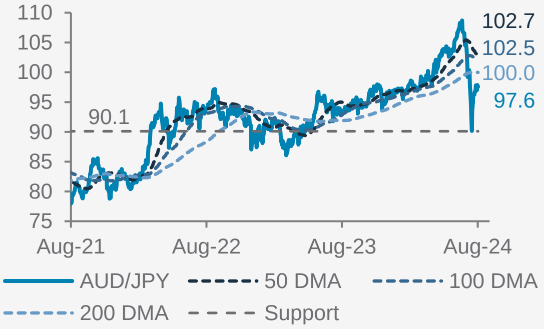
One alternative to consider is AUD/JPY. This has been one of the most popular carry trades since 2020. However, rate differentials have now narrowed as the BoJ started to raise rates. Additionally, the JPY is likely to strengthen further in the short term amid a further unwind of the carry trade and demand for the safe-haven currency.

This, together with its technicals, is why we see room for AUD/JPY to move lower from here. We see AUD/JPY testing support at 90.10 in the coming weeks.

— **Iris Yuen,** *Investment Strategist*

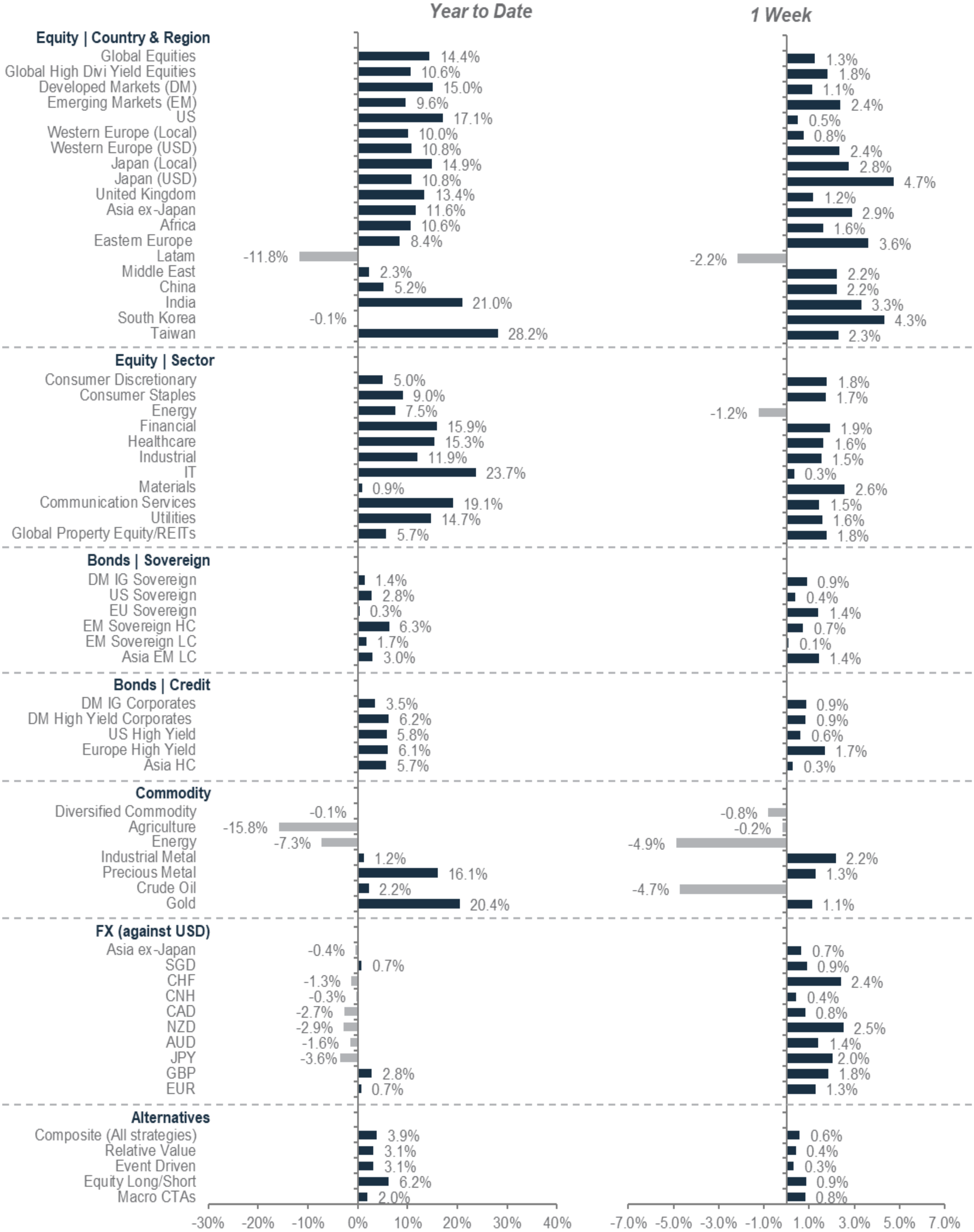
AUD/JPY 50-day moving average is crossing its 100-day moving average; we see near-term downside risks

AUD/JPY and technical levels



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 22 August 2024; 1-week period: 15 August 2024 to 22 August 2024

Our 12-month asset class views at a glance

Asset class			
Equities	▲	**Preferred Sectors**	
Euro area	◆	US Communication	▲
US	▲	US Technology	▲
UK	▼	Europe Technology	▲
Asia ex-Japan	◆	Europe Healthcare	▲
Japan	◆	China Communication	▲
Other EM	◆	China Discretionary	▲
		China Technology	▲
Bonds (Credit)	◆	India Industrials	▲
Asia USD	◆	India Discretionary	▲
Corp DM HY	◆	India Healthcare	▲
Govt EM USD	▲		
Corp DM IG	◆	**Alternatives**	◆
Bonds (Govt)	◆	**Gold**	◆
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	US	Durable Goods Orders	Jul P	3.5%	-6.7%
TUE	CH	Industrial Profits y/y	Jul	–	3.6%
	US	Conf. Board Consumer Confidence	Aug	100.0	100.3
WED	EC	M3 Money Supply y/y	Jul	–	2.2%
THU	EC	Economic Confidence	Aug	–	95.8
	US	GDP Annualized q/q	2Q S	2.8%	2.8%
FRI/SAT	EC	CPI Estimate y/y	Aug	–	2.6%
	EC	Unemployment Rate	Jul	–	6.5%
	EC	CPI Core y/y	Aug P	–	2.9%
	US	PCE Price Index y/y	Jul	2.6%	2.5%
	US	Core PCE Price Index y/y	Jul	2.7%	2.6%
	US	MNI Chicago PMI	Aug	–	45.3

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 has next interim resistance at 5,769

Technical indicators for key markets as of 22 August close

Index	Spot	1st support	1st resis-tance	12m forward P/E (x)	12m forward dividend yield (%)
S&P500	5,571	5,246	5,769	21.3	1.4
STOXX 50	4,885	4,590	5,065	13.1	3.5
FTSE 100	8,288	8,001	8,490	11.8	3.9
Topix	2,671	2,301	2,947	14.2	2.5
Shanghai Comp	2,849	2,805	2,926	10.5	3.7
Hang Seng	17,641	16,819	18,085	8.2	4.4
Nifty 50	24,812	24,111	25,295	20.8	1.5
MSCI Asia ex-Japan	704	664	725	12.5	2.7
MSCI EM	1,101	1,040	1,135	11.8	3.0
WTI (Spot)	73.0	69.6	78.3	na	na
Gold	2,505	2,395	2,574	na	na
UST 10Y Yield	3.85	3.58	4.21	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 has normalised across asset classes

Our proprietary market diversity indicators as of 22 Aug close

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	◐	↓	1.35
Global Equities	●	↑	1.52
Gold	●	↓	1.52
Equity			
MSCI US	◐	↑	1.47
MSCI Europe	●	↑	1.78
MSCI AC AXJ	●	↑	2.18
Fixed Income			
DM Corp Bond	◐	→	1.37
DM High Yield	◐	→	1.33
EM USD	◐	↓	1.38
EM Local	◐	↓	1.40
Asia USD	◐	→	1.38
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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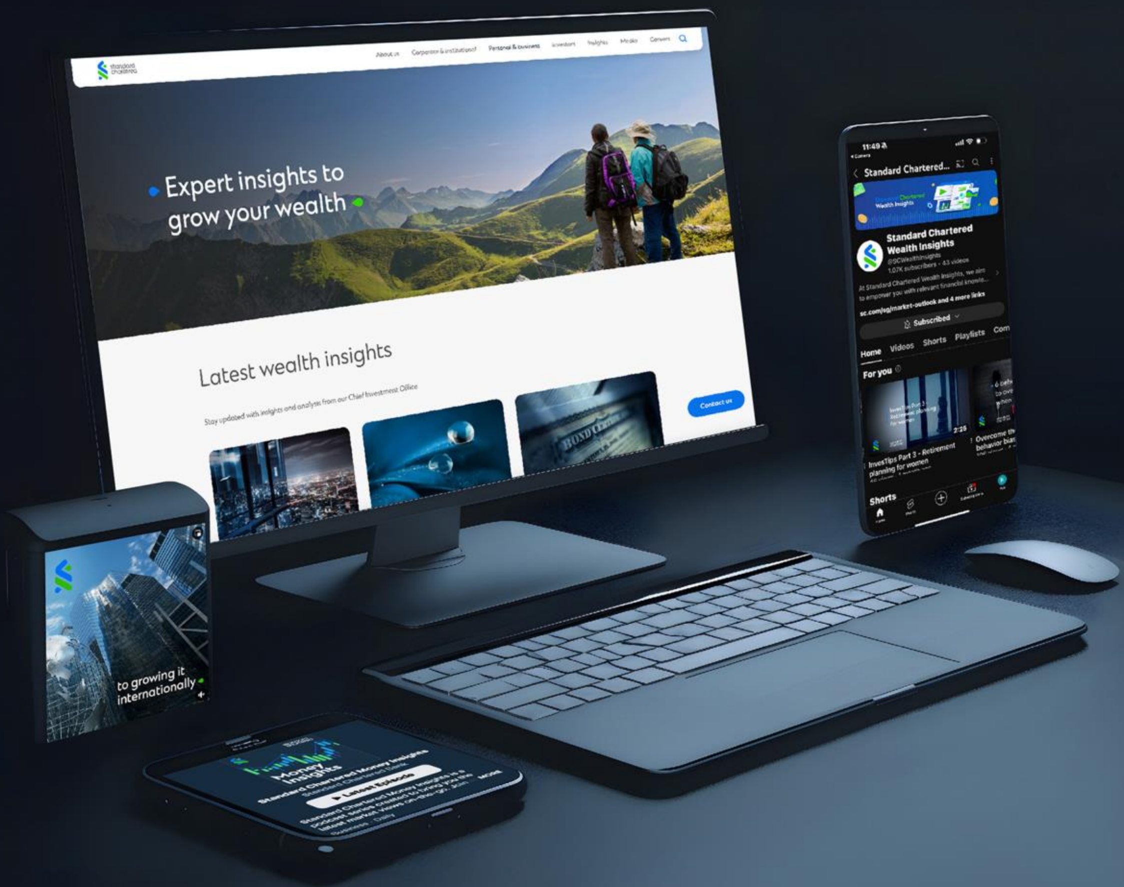

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