



Weekly Market View

Recovery after the tantrum

→ Global equities have recovered almost all of early August's downturn as a continued slowdown in US inflation sustained expectations of Fed rate cuts, while strong retail sales boosted hopes of an economic soft landing.

→ Through early August's market dislocation, the Fed's capacity to significantly ease policy was our main reason to stay invested in a moderately pro-risk diversified allocation. The Fed's upcoming Jackson Hole summit will provide more insight on policymakers' stance after the recent batch of data.

→ We still prefer US growth equities due to their structural earnings growth outlook. However, with our technical model still pointing to near-term risk for US and Japan equities, we would prefer to average in only gradually.

→ We see downside risk for the NZD after the central bank's surprise rate cut this week. We also have benchmark allocation to gold as a hedge against rising geopolitical risk.

Where are the opportunities in US equities after the shakeout?

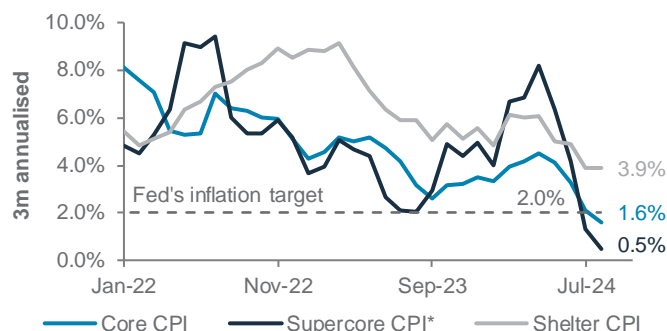
How do the mounting geopolitical tensions affect your view on commodities and related currencies?

What are the implications of the latest RBNZ meeting for the NZD?

Charts of the week: Green signal for Fed cuts

Continued slowdown in US inflation is paving the way for Fed rate cuts starting in September

US core, supercore* and shelter inflation, 3-month annualised



Source: Bloomberg, Standard Chartered; *core services inflation excluding shelter

Money market expectations of Fed cuts by December 2024



Editorial

Recovery after the tantrum

Through early August's market dislocation, the Fed's capacity to significantly ease policy was our main reason to stay invested in a moderately pro-risk diversified allocation. The continued softening of US inflation in July provided another signal for the Fed to start easing policy from September, while strong retail sales boosted hopes for an economic soft landing. This, and the near-exhaustion of unwinding of JPY-funded carry trades, has helped risk assets recover from the recent shakeout.

However, since our technical model still points to near-term risk for US and Japan equities, we would prefer to average in only gradually. We still prefer US growth equities due to their structural earnings growth outlook. We see downside risk for the NZD after the central bank's surprise rate cut this week.

Cooling inflation: US inflation continued to cool in July, helping revive risk sentiment. On a three-month annualised basis, core and supercore inflation (services inflation excluding food, energy and shelter) have fallen below the Fed's 2% overall inflation target. Although shelter inflation rose to 0.4% m/m from 0.2% in June, accounting for most of July's 0.2% m/m inflation, and auto insurance accelerated, falling market rents and a slowing job market portend lower official shelter inflation in the coming months. Also, the sharp drop in used car prices points to lower auto insurance inflation later this year.

Jackson Hole summit watch: Cooling inflation and the surprisingly weaker-than-expected monthly employment report for July have turned the spotlight on the Fed's annual Jackson Hole summit (22-24 August). While markets are pricing almost 100bps of rate cuts this year and a total of almost 180bps of cuts in the next 12 months, they have dialled back the expected size of the first rate cut in September to 25bps, after earlier pricing in a 50bps cut. Fed policymakers will get a chance to push back against such aggressive rate cut expectations, which

in turn could drive the US 10-year government bond yield above 4%. On the other hand, support for more aggressive cuts could drive yields towards early August's closing low just below 3.8%. We see low chances of the latter happening in the near term unless the job market cracks and weekly jobless claims surge. Nevertheless, we believe investors have an opportunity to lock in high quality US government bonds for the longer term at 10-year yields of 4% or higher as the US economy gradually slows.

US growth sectors still preferred: We believe the high-growth technology and communication services sectors remain attractive relative to other US sectors, especially because of the sectors' strong structural earnings growth potential. For instance, the LSEG I/B/E/S consensus expects 18% and 21% growth in technology sector earnings in 2024 and 2025. The growth sector-heavy Nasdaq index also has strong technical support around 18,000, providing a base to add exposure. We also see near-term opportunity in Japan banks (see page 4).

Near-term caution on equities: Our technical model remains bearish on US equities in the near term. Volatility is the key market variable to watch. Average S&P500 index realised and implied volatility has fallen to 2 standard deviations (SD) above its one-year average, from 4.6 SDs on 5 Aug (the height of the sell-off), suggesting the spike in implied volatility was overdone. Assuming the current pace of decline in overall volatility and momentum does not worsen, it should take another week or so for volatility to return to levels that would support an uptrend regime for equities once again. Hence, we would prefer to gradually average into US equity markets, at least for now.

Maintain geopolitical risk hedges: There is a risk of a near-term escalation in tensions in the Middle East and along the Russia-Ukraine border. Although geopolitical risks have historically had a short-term impact on markets, benchmark allocations to gold and energy-related assets offer hedges in the event of any widespread supply dislocations (see page 5).

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; soft US consumer, producer inflation

(-) factors: Geopolitical tensions; weak Euro area economic sentiment

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> US consumer inflation slowed unexpectedly to 2.9% y/y; core inflation slowed to 3.2% y/y US producer prices rose less than expected; core producer prices were flat US retail sales rose more than expected in July US jobless claims fell more than expected China consumer inflation rose more than expected; producer prices fell less than expected China retail sales rose more than expected UK unemployment rate fell more than expected; consumer inflation rose less than expected 	<ul style="list-style-type: none"> Euro area ZEW economic sentiment slumped to 17.9 China credit growth rose 8.2% y/y, less than expected; private loan demand contracted for the first time in 19 years China factory output and fixed asset investment fell more than expected UK GDP slowed to 0.6% q/q, as expected US industrial production contracted 0.6% m/m, more than expected
	Our assessment: Positive – Soft US inflation, strong retail sales, easing China deflationary pressures	
Policy developments	<ul style="list-style-type: none"> Fed's Bostic said rate cut likely by year-end 	<ul style="list-style-type: none"> China took steps to reverse bond yield decline Japan's PM Kishida opted out for a second term after record-low approval rating
	Our assessment: Positive – Dovish Fed	
Other developments	<ul style="list-style-type: none"> NA 	<ul style="list-style-type: none"> US dispatched more forces to the Middle East in anticipation of a potential Iranian retaliation Ukrainian army entered Russian Oblast Kursk in an unprecedented incursion
	Our assessment: Negative – Geopolitical tensions	

US retail sales were surprisingly strong in July, raising expectations of an economic soft landing

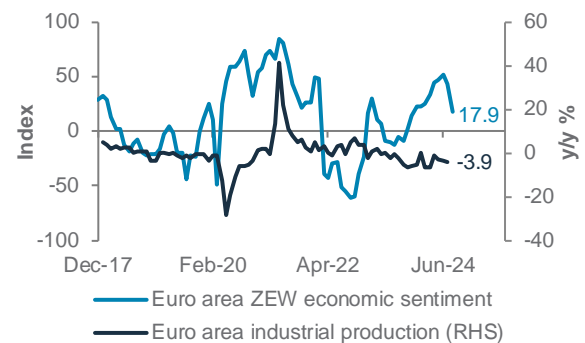
US headline and control group retail sales



Source: Bloomberg, Standard Chartered

Euro area economic sentiment and factory output slumped, suggesting weaker growth momentum

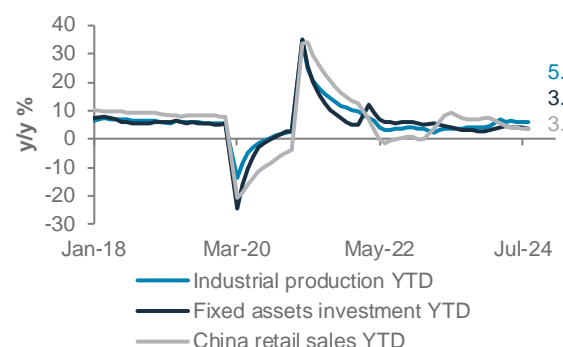
Euro area ZEW economic sentiment and industrial production



Source: Bloomberg, Standard Chartered

China's economic activity remained sluggish, with factory output and fixed asset investment slowing more than expected in July

China industrial production, fixed asset investment and retail sales



Source: Bloomberg, Standard Chartered

Top client questions

Q Where are the opportunities in US equities at this stage?

The most recent US initial jobless claims, retail sales and CPI data has reassured investors. The VIX index, a short-term volatility indicator, dropped to 15 – the lowest level since the sharp equity market sell-off started. Granted, there are still risks from any forced liquidation of global risk assets. However, we believe it is time for investors to gradually scale into attractive areas in equities.

Over the last 10 years, the US technology and communication services sectors have rebounded the most after market sell-offs. Technically, we believe it is attractive to scale into these sectors, when the Nasdaq 100 index is trading between the double-bottom support level at 18,000 and the current level just above 19,000.

These two sectors remain attractive relative to other sectors, in our opinion. Earnings have remained solid in the latest Q2 24 earnings season and should benefit from the long-term structural potential in AI. Moreover, the recent set of data releases has nearly cemented the beginning of a Fed rate cut cycle, starting from September 2024, which should support US equities, especially growth sectors.

— **Daniel Lam**, *Head, Equity Strategy*

Q What is our tactical view on Japan equities, now that the momentum of the JPY strength is fading?

Key benchmark equity indices in Japan corrected over 20% in the past month, driven by a sharp unwinding of the JPY carry trade, whereby people access cheap JPY funding to invest in assets globally. A pause in the JPY's appreciation has enabled equity indices to rebound significantly.

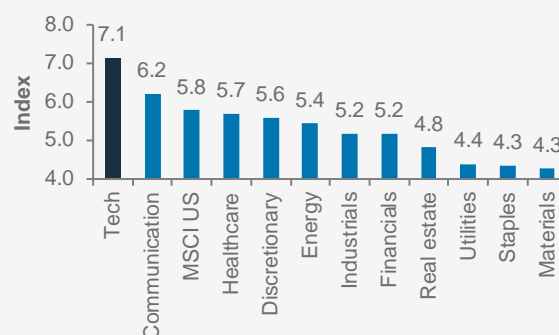
We expect USD/JPY to be rangebound over the next three months (support at 140.2, resistance at 151.8), which should allow Japan equities to recover along with global equities. A stronger JPY means exports are less competitive and overseas earnings are worth less in JPY terms. However, we believe these are more than offset by the valuation discount of Japan equities and improving corporate governance, which is resulting in higher dividends and share buybacks. A reflationary environment also supports positive pricing strategies and nominal profit growth for Japanese corporates.

With monetary policy normalising gradually, we see an interesting investment opportunity – Japanese banks. Rising interest rates support higher interest income for banks, and major banks reported strong results for the April-June 2024 quarter, with consensus 12-month forward earnings estimates being revised up. Sentiment remains cautious in Japan, but earnings fundamentals would imply further recovery upside for Japan banks.

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

Technology and communication service sectors have historically rebounded strongly after market troughs*

Magnitude of rebounds in US equities, 10 days after market bottoms (in %)



Source: FactSet, Standard Chartered

*More than 7% decline, high to low, in a 30-day period in MSCI US over the past 10 years

Japan bank stocks corrected along with the unwind of the JPY carry trade, while earnings expectations have been revised up

TOPIX banks index and consensus 12-month forward EPS for TOPIX banks index



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q How do the mounting geopolitical tensions affect your views on commodities and the related currencies?

Renewed geopolitical tensions in the Middle East and Europe have ignited fears of supply disruptions, adding geopolitical risk premium to the WTI oil price, which topped USD 80/bbl last week. The covering of extended short positioning is another likely driver. Gold also benefitted from the safe-haven demand, rising to a new record-high on Monday.

The longevity of the geopolitical risk premium hinges on whether there is a realised impact to the demand-supply balance.

In Europe, the risk of supply disruption emanates from the fact that fighting is taking place near a key cross-border transit point for natural gas. While there could be a second-order effect, it is likely to be marginal. News reports also indicate that both countries intend to keep the pipeline gas flowing to Europe.

In the Middle East, the US has increased its military presence in the region in anticipation of an Iran retaliation following the assassination of key Hamas and Hezbollah leaders. While it is reasonable to assume that Iran will take some action in retaliation, our base case remains one where the conflict is contained. Hence, the feed-through to oil supply and demand is likely to be limited. Add in OPEC's high spare capacity (around 4% of world production), and this suggests any upside in oil prices in the event of an aggravated escalation will likely be limited.

That said, near-term volatility is likely to remain elevated as markets remain on alert for a potential Iran response and further developments in the Ukraine-Russia war. Oil prices could overshoot the fair price justified by "pure" economic fundamentals.

Gold has been trading within a range between USD2,350/oz and USD2,480/oz since July. However, if fresh geopolitical risks emerge, we could see a breakout above this range, potentially pushing gold towards the next resistance at USD2,580/oz. We believe it is prudent to maintain some small exposures to gold and the oil sector as hedges against the tail risk of geopolitics, especially on a pullback.

Gold strength might bolster commodity currencies like AUD/USD, which could test resistance at 0.6700. Similarly, if oil prices strengthen, we see USD/CAD test its support at 1.3580.

— **Zhong Liang Han, CFA**, Investment Strategist

— **Iris Yuen**, Investment Strategist

The impact of geopolitical developments on commodity prices ultimately depends on the effect it has on supply and demand. Crude oil suppliers have sizeable excess capacity, if needed

OPEC crude oil spare capacity



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q What are the implications of the latest RBNZ meeting for the NZD?

The outlook for the NZD/USD currency pair is increasingly cautious after the RBNZ cut interest rates by 25bps. The move was unexpected, especially with the central bank previously signalling a pause in rate adjustments. The rate cut indicates the RBNZ's growing concerns about New Zealand's economic outlook, particularly in terms of growth.

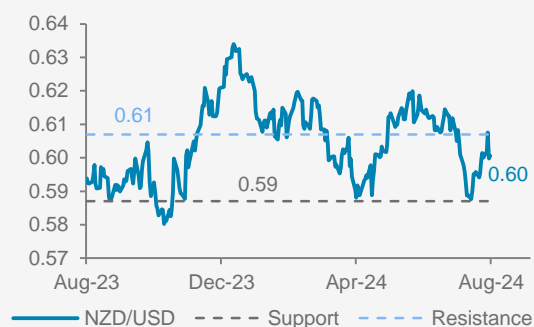
In our opinion, the economic outlook is quite mixed with soft business confidence and a cooling housing market balanced against a resilient labour market. Additionally, New Zealand's export-driven economy has been impacted by softer demand from China, its largest trading partner. The ongoing challenges in China's economy have reduced demand for New Zealand's key exports such as dairy, meat and forestry products, which are likely to further undermine NZD/USD.

Meanwhile, geopolitical tensions are also worth watching. A further escalation in either the Middle East or Europe would likely support the rebound of the USD and act as a headwind for the NZD, which is seen as a pro-risk currency. We expect NZD/USD to trade rangebound with a bearish bias in the next two weeks and test its near-term support at 0.5870.

— Iris Yuen, *Investment Strategist*

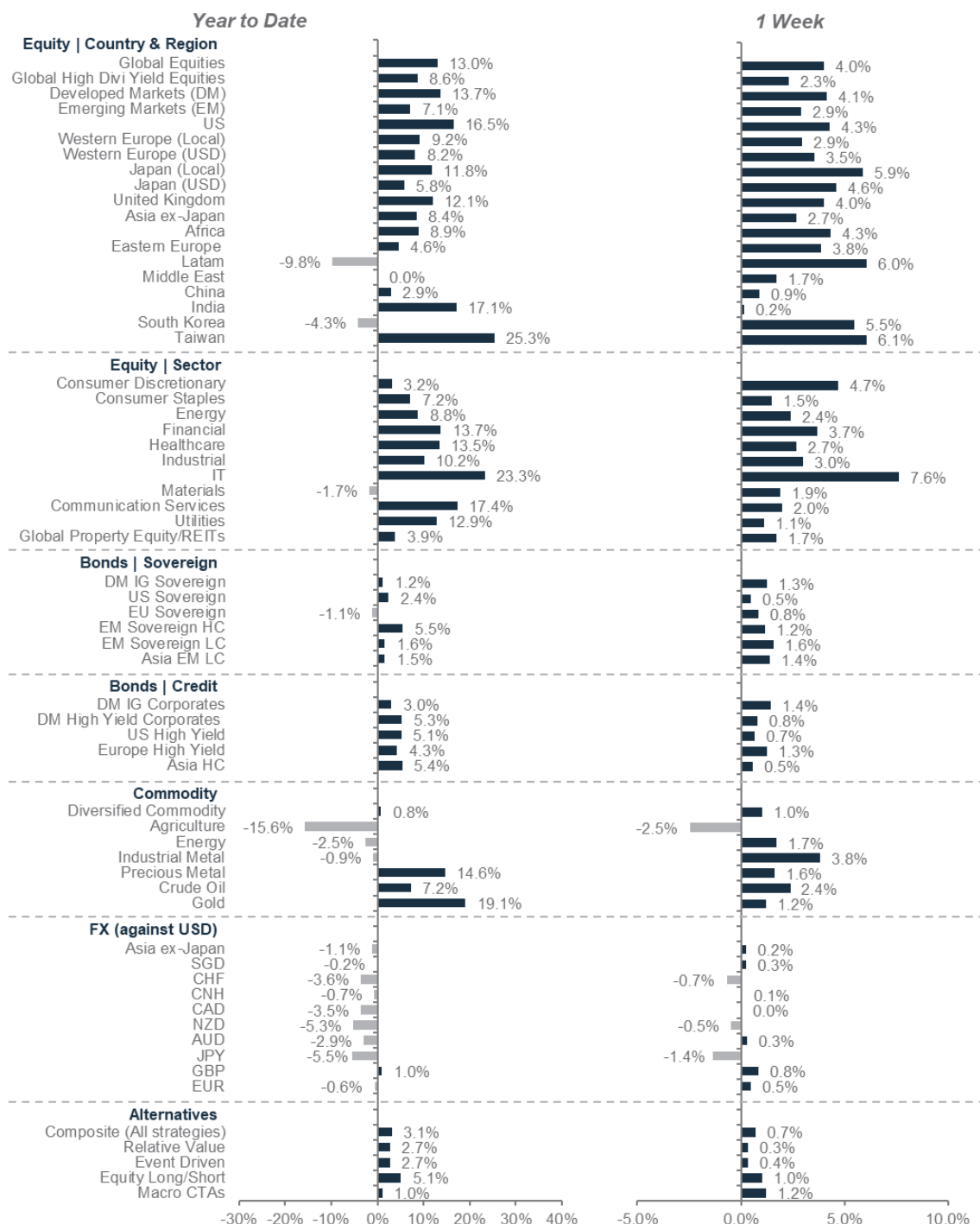
The surprise dovish rate cut by the RBNZ pushed the NZD/USD pair down from a one-month high

NZD/USD 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 15 August 2024; 1-week period: 8 August 2024 to 15 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

The S&P500 has next interim resistance at 5,769

Technical indicators for key markets as of 15 August close

Index	Spot	1st support	1st resistance	12m forward P/E (x)	12m dividend yield (%)
S&P500	5,543	5,218	5,769	21.2	1.4
STOXX 50	4,808	4,532	5,026	12.9	3.6
FTSE 100	8,347	8,040	8,530	11.8	3.9
Topix	2,601	2,229	2,950	13.8	2.6
Shanghai Comp	2,877	2,816	2,963	10.5	3.6
Hang Seng	17,109	16,401	17,859	8.0	4.5
Nifty 50	24,144	23,666	24,850	20.2	1.5
MSCI Asia ex-Japan	684	648	719	12.3	2.7
MSCI EM	1,076	1,020	1,126	11.7	3.0
WTI (Spot)	78.2	71.9	84.1	na	na
Gold	2,457	2,379	2,509	na	na
UST 10Y Yield	3.91	3.62	4.25	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

	Event	Next week	Period	Expected	Prior
MON	US	Leading Index	Jul	-0.3%	-0.2%
TUE	EC	CPI y/y	Jul F	–	2.5%
	EC	CPI Core y/y	Jul F	–	2.9%
WED					
THU	EC	HCOB Eurozone Manufacturing PMI	Aug P	–	45.8
	EC	HCOB Eurozone Services PMI	Aug P	–	51.9
	UK	S&P Global UK Manufacturing PMI	Aug P	–	52.1
	UK	S&P Global UK Services PMI	Aug P	–	52.5
	US	Chicago Fed Nat Activity Index	Jul	–	0.05
	US	Jackson Hole Economic Policy Symposium	Aug		
	US	S&P Global US Manufacturing PMI	Aug P	–	49.6
	US	S&P Global US Services PMI	Aug P	–	55.0
	EC	Consumer Confidence	Aug P	–	-13.0
	US	Existing Home Sales	Jul	3.90m	3.89m
FRI/SAT	US	New Home Sales	Jul	634k	617k

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 has normalised across asset classes

Our proprietary market diversity indicators as of 15 Aug close

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↓	1.39
Global Equities	●	↑	1.80
Gold	●	→	1.70
Equity			
MSCI US	●	↑	1.65
MSCI Europe	●	↓	1.62
MSCI AC AXJ	●	↑	2.01
Fixed Income			
DM Corp Bond	●	↓	1.42
DM High Yield	●	↓	1.39
EM USD	●	↓	1.46
EM Local	●	↓	1.43
Asia USD	●	↓	1.39
Currencies			
EUR/USD	●	↓	1.53

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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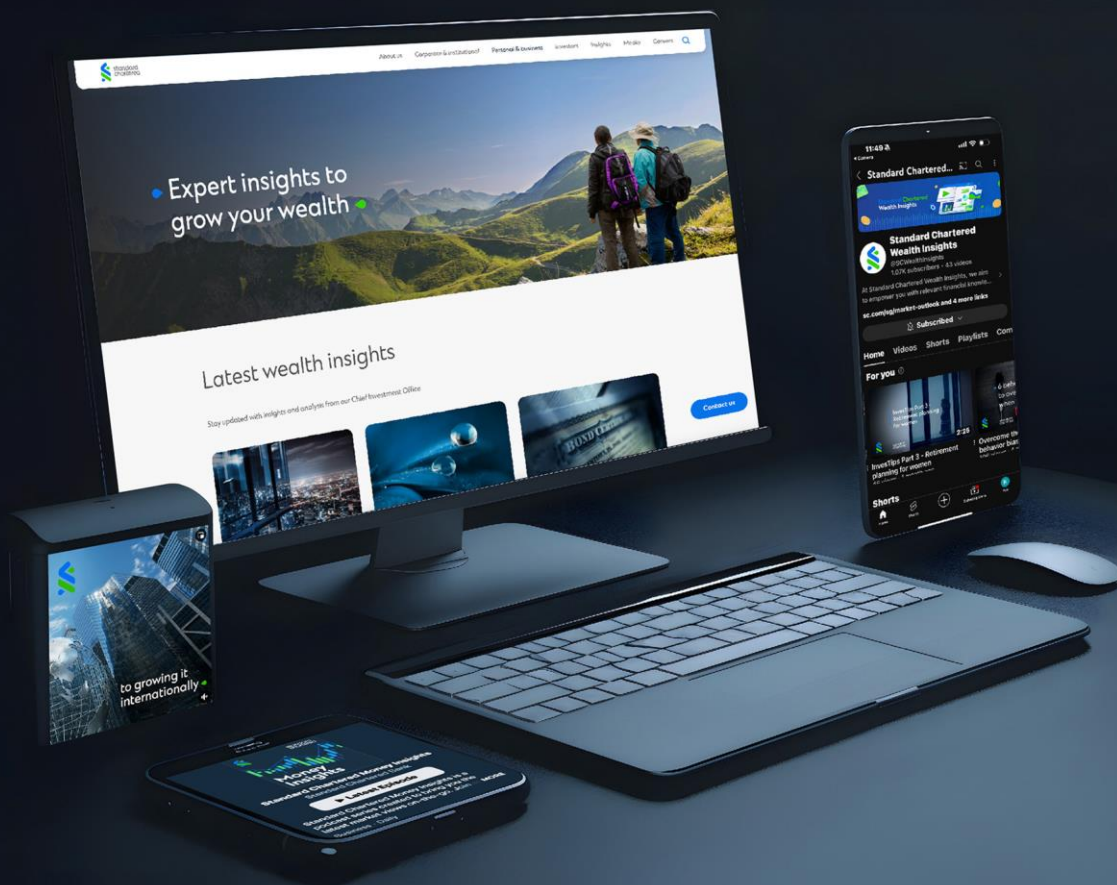
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