



# Weekly Market View

## Rotating back into US equities

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→ Tariffs had hurt US equities more than other markets. Their reversal should help US equities outperform.

→ With tariffs easing, we turned bullish on the US semiconductor sector this month as it continues to benefit from AI-driven demand for high-end chips.

→ We also turned bullish on long-term US government bonds as we see the recent rise in yields having significantly priced the risk of increased bond sales and policy uncertainty.

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Easing trade risks, tax cuts:  
rebalance towards US equities

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Strong revenue guidance: add  
US semiconductor equity  
sector

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Fiscal and policy risks  
adequately priced: add 20+  
year US government bonds

## Charts of the week: Eyeing the all-time high

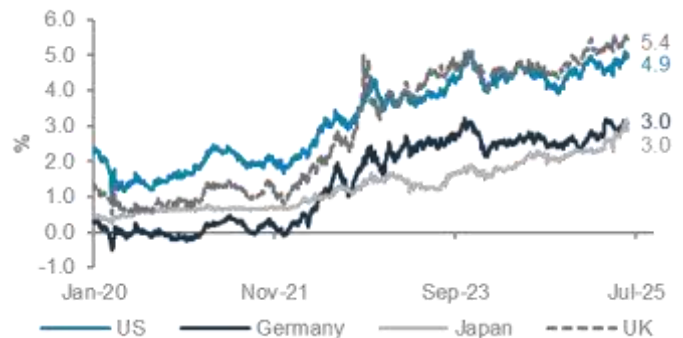
**The S&P500 index is poised to test February's all time high; we would also lock in attractive yields on US long-term bonds**

S&P500 index, with 1st and 2nd support and resistance levels



Source: Bloomberg, Standard Chartered;

US, UK, Germany, Japan 30-year government bond yields



## Editorial

### Rotating back into US equities

As flagged in our recent publications, US equities remain poised to test February's record high as easing trade tensions and President Trump's tax cuts and deregulation help revive earnings estimates and fund flows back to the US. This week, Trump paused tariffs on Europe, while the tariffs themselves are being challenged in court. Meanwhile, US consumer confidence rebounded strongly after the trade truce with China.

Tariffs had hurt US equities more than other markets. Their reversal should help US equities outperform. With tariffs easing, we turned bullish on the US semiconductor sector this month as it continues to benefit from AI-driven demand for high-end chips. We also turned bullish on long-term US government bonds as we see the recent rise in yields having significantly priced the risk of increased bond sales and policy uncertainty.

**US equities to scale record high.** We expect US equities to test February's record high of 6,147 in the coming weeks and potentially advance towards 6,520 over a 12-month horizon as US policy focus turns towards Trump's growth-oriented policies. A US court ruling, blocking many of Trump's recent tariffs, has been overturned by an appeals court, reviving uncertainty. Nevertheless, the path ultimately seems to be leading to deals with major trade partners such as Japan, South Korea, India and eventually the EU in the coming months.

**Ambitious budget.** While the administration wrestles with courts on tariffs, it is keen to push ahead with an ambitious fiscal agenda. Trump's so-called "Big, beautiful bill", approved by the House and now undergoing the Senate's review, will increase the US budget deficit by USD 472bn in the financial year 2026, a 28% increase over the Congressional Budget Office estimate published in January, and a 25% increase over the current fiscal year. Pressure from bond markets is likely to lead to withdrawal of some of the tax cut proposals before the budget lands on President Trump's desk for signoff, but the net impact is likely to be marginally positive for the economy.

**Improving economic data.** US economic data have surprised positively thanks to a strong rebound in consumer confidence, likely after the thaw in US-China trade relations. Meanwhile, US "hard" data has remained resilient through the trade tensions as seen from the initial jobless claim numbers averaging around 230,000 over the past four weeks. That's well below levels above 300,000 that would raise recession concerns. Against this backdrop, it's time to reverse the "Sell America" trade, even as we remain well diversified in our asset allocation.

**Bullish on US semiconductor equity sector.** The US semiconductor sub-sector was one of the victims of the "Sell America" trade on concerns about the negative impact of tariffs and trade tensions on demand. Also, the sector was seen as too expensive, while China's low-cost AI model, DeepSeek, raised questions about the willingness of large US companies to continue investing in AI capabilities. However, recent US earnings showed the sector continues to benefit from AI-related investment. Although policy risks around sales to China remain, global demand should buoy earnings, supporting the ongoing equity rebound. Meanwhile, after the recent correction, the sector's valuation has returned to long-term averages (see page 4), while investor positioning remains supportive.

**The risk and opportunity in long-maturity bonds.** The continued rise in US long-term government bond yields is a potential risk to the equity rally. Long-term bond yields have risen across the world, most notably in Japan, as investors seek higher risk premium to compensate for long-term risks as fiscal deficits rise globally, leading to increased bond supply.

Nevertheless, except for Japan, inflation expectations have remained rangebound, while growth expectations for 2025 and 2026 have been cut in the US, Europe and Japan. Against this backdrop, we believe the rise in bond yields have largely priced in the risk of higher bond sales and policy uncertainty. Thus, we would use the elevated US yields to turn bullish on 20-years+ US government bonds (yield: 4.92%).

## 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 consumer confidence, new home sales, Trump's EU tariff pause

**(-) factors:** Cautious Fed, renewed US-China tensions

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> <li>US new home sales rose unexpectedly</li> <li>US Conference Board consumer confidence rose more than expected</li> <li>US durable goods orders fell less than expected by 6.3% m/m in April</li> <li>Euro area economic, industrial and service sector confidence beat expectation</li> <li>China's industrial profit growth increased to 3.0% y/y from 2.6% y/y</li> </ul>	
	<b>Our assessment: Positive</b> – Robust US consumer confidence, new home sales and improving Euro area confidence data	
Policy developments	<ul style="list-style-type: none"> <li>May Fed meeting minutes indicated cautious approach to rate cuts</li> <li>RBNZ cut rate by 25 bps to 3.25% as expected, and downgraded 2026 GDP growth projection amid global headwinds</li> </ul>	
	<b>Our assessment: Negative</b> – Fed's hawkish bias	
Other developments	<ul style="list-style-type: none"> <li>President Trump delayed 50% tariff on the EU to 9 Jul</li> <li>US trade court blocked Trump's Liberation Day tariffs (which was subsequently overturned by an appeals court)</li> <li>US restricted chip design software and jet engine sales to China</li> <li>US planned to revoke visas for Chinese students</li> </ul>	
	<b>Our assessment: Neutral</b> – Trump's EU tariff pause vs. renewed US-China tensions	

### US consumer confidence rose for the first time since November 2024, while durable goods orders fell less than expected in April

US Conference Board consumer confidence and durable goods orders ex-defence, aircraft and parts



Source: Bloomberg, Standard Chartered

### Euro area economic, industrial and service sector confidence improved in May

Euro area economic, industrial, and service sector confidence



Source: Bloomberg, Standard Chartered

### China's industrial profit growth accelerated in April despite uncertainties from trade tensions

China industrial profits growth



Source: Bloomberg, Standard Chartered

## Top client questions

**Q** Will the outperformance of Euro area equities over US equities persist?

**Our view:** *US equities will reverse this trend and catch-up in performance, driven by its higher weighting in growth sectors.*

**Rationale:** Erratic US tariff policies resulted in the outperformance of Europe against US equities YTD. Sectors within the Euro area with higher domestic exposures (e.g. financials) or benefitting from the fiscal boost (e.g. industrials) continue to be sought after amid trade tensions.

However, we expect the US to outperform Euro area equities in the coming months, and thus recently upgraded US equities to Overweight: 1) **US data has been positively surprising, catching up with the Euro area**, but US equities have been held back due to tariff uncertainty. We expect renewed interest in US equities, following Trump's de-escalation of trade tensions with China and the EU; 2) The **recent weakness in European data**, such as weaker German business sentiment and French service inflation, weighed on European reflation expectations; 3) **Earnings projections** in the US (9.4% in 2025) also outpaced those for the Euro area (6.0%). Resilient Q1'25 earnings across US mega-caps is also a major tailwind for US equities (please see next Q&A for more).

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

**Q** Following the earnings updates from major AI-chip producers, what are the implications for the US semiconductor sector?

**Our view:** *We are bullish on the US-listed semiconductor index, following strong AI-related investment and revenue guidance.*

**Rationale:** During the Q1 earnings season, the guidance from AI chip producers has been consistent with that from cloud service providers and AI developers. Both expect an increase in capex to support AI development and related demand for AI semiconductors.

We expect **significant earnings growth** in the US semiconductor sector (consensus estimates: +36% in 2025 and +26% in 2026). Sales of the most advanced semiconductors are vulnerable to export restrictions from the US to China, but demand outside of China is providing a strong offset. Reasoning models for AI Agents are providing great demand, and that trumps the vulnerability of demand from consumer electronics and auto sectors to a growth slowdown.

**Valuation for the semiconductor sector remains reasonable**, with consensus 12m forward PE of 26x, in line with its two-year average of 27x.

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

### Recent improvement in US economic data sets the stage for US equity outperformance

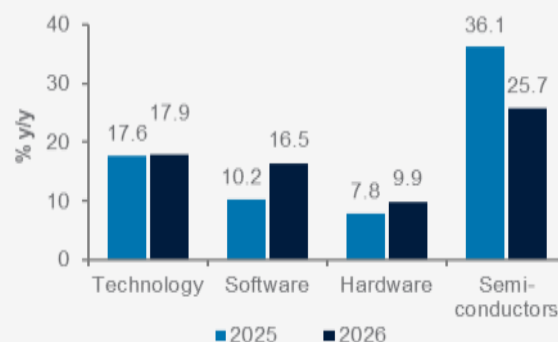
US vs. Euro area economic surprise gap and their relative equity market performance



Source: Bloomberg, Standard Chartered

### We expect the US semiconductor sector to deliver significant earnings growth in the next two years, supported by AI spending

Consensus EPS growth estimates for the MSCI US technology index and the sub-indices for software, hardware and semiconductors sub-sectors



Source: FactSet, Standard Chartered



## Top client questions (cont'd)

**Q** What is driving the rise in long-dated US government bond yields? Is it a good time to buy US 20-year-plus US government bonds?

**Our view:** *Yield premium on long-term bonds is pricing in significant risk. Buy US 20-year-plus government bonds.*

**Rationale:** Yields on long-dated US government bonds, including those with maturities of 20 years and beyond, have retreated from the one-year highs reached last week. However, they remain near the top of their three-month range. **Near-term upside risks persist as investors continue to price in a higher term premium** – the extra yield investors seek for holding longer-dated bonds.

**Inflation expectations** are one key factor influencing the path for yields from here. US May CPI data will start to reflect the impact of recent tariff measures. **Fiscal concerns** have also come to the fore. These intensified after a US sovereign rating downgrade and recent comments by Treasury Secretary Bessent, who said that the “X-date” – the moment when the US government may be unable to meet its obligation – could arrive as soon as early August. Fiscal concerns are exacerbated by the **budget bill**, which now awaits a Senate vote. Finally, the **European and Japanese long-dated government bond yields are also surging**, reducing the relative attractiveness of US government bonds.

Having said, **we believe these concerns, including over fiscal imbalances and default risks, are now overstated.** We are, thus, of the view that long-term US yields are now attractive and the term premium is near its peak. History tells us that governments can maintain high debt levels for extended periods without triggering a crisis. More narrowly, previous budget standoffs and brinkmanship seems more political theatre than signalling imminent risk of default.

— **Cedric Lam**, *Senior Investment Strategist*

**Q** What is your outlook for the EUR?

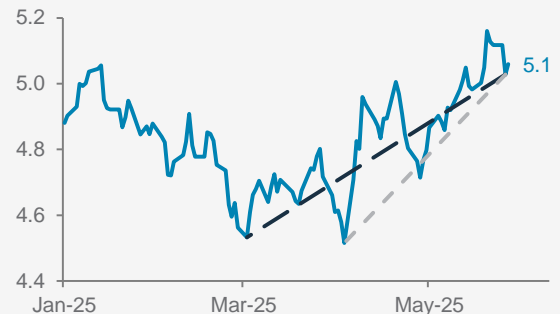
**Our view:** *EUR to consolidate around 1.14.*

**Rationale:** We continue to see the EUR driven by the US Dollar and domestic European macro data. On the positive side, Germany’s IFO business climate index surprised positively in May. We also expect the ECB to hold rates for the rest of the year after cutting 25bps next week amid resilient data and incoming German fiscal stimulus. An ECB rate pause should provide support to the EUR. However, any near-term rotation back towards US assets is likely to lean against these EUR-positive factors. Overall, we expect this to leave EUR/USD rangebound around 1.14. Technically, the pair is well supported above 50-day moving average.

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

**The US 20-year-plus government bond yield has retreated from recent highs. Concerns about fiscal imbalances and default risk are overstated**

Aggregate US 20-year plus government bond yield



Source: Bloomberg, Standard Chartered

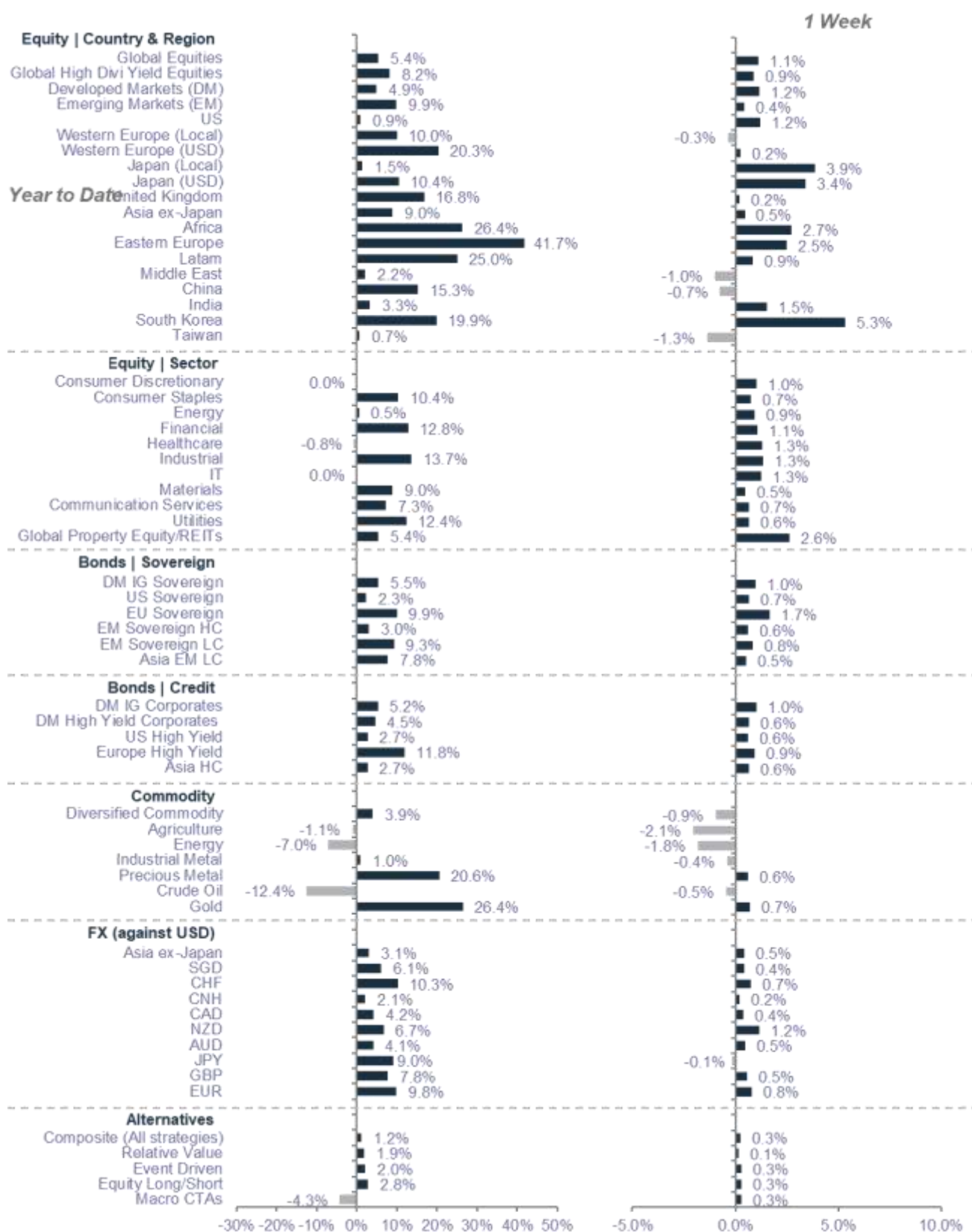
**We expect the EUR/USD to be well supported above its 50-day moving average**

EUR/USD and key moving averages



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 29 May 2025; 1-week period: 22 May 2025 to 29 May 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 Communication ▲
UK ▼	US Technology ▲
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 ◆	India Healthcare ▲
Corp DM IG ◆	India Discretionary ▲
	India Financials ▲
<b>Bonds (Govt)</b> ◆	
Govt EM Local ◆	<b>Alternatives</b> ◆
Govt DM IG ◆	<b>Gold</b> ◆

Source: Standard Chartered Global Investment Committee

Legend: ▲ Most preferred | ▼ Less preferred | ◆ Core holding

## The S&P500 has next interim resistance at 6,109

Technical indicators for key markets as of 29 May close

Index	Spot	1st support	1st resis- tance	12m forward P/E (x)	*12m dividend yield (%)
S&P 500	5,912	5,574	6,109	21.6	1.4
STOXX 50	5,371	5,162	5,524	14.9	3.3
FTSE 100	8,716	8,472	8,892	12.9	3.7
TOPIX	2,812	2,705	2,867	14.9	2.7
Shanghai Comp	3,363	3,288	3,428	12.5	3.1
Hang Seng	23,573	22,309	24,377	10.3	3.4
Nifty 50	24,834	24,141	25,321	20.5	1.5
MSCI Asia ex-Japan	761	724	782	13.0	2.6
MSCI EM	1,170	1,122	1,199	12.3	3.0
WTI (Spot)	60.9	56.1	65.0	na	na
Gold	3,318	3,147	3,462	na	na
UST 10Y Yield	4.42	4.15	4.66	na	na

Source: Bloomberg, Standard Chartered; \*as at close of 29 May 25

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	USD	ISM Manufacturing	May	49.0	48.7
	CNH	Caixin China PMI Mfg	May	50.8	50.4
TUE	EUR	CPI Estimate y/y	May P	–	2.2%
	EUR	CPI Core y/y	May P	–	2.7%
	USD	Factory Orders	Apr	-3.1%	4.3%
WED	AUD	GDP y/y	1Q	1.5%	1.3%
	CAD	Bank of Canada Rate Decision	4-Jun	2.5%	2.8%
	USD	ISM Services Index	May	52.0	51.6
THU	CNH	Caixin China PMI Services	May	51.1	50.7
	EUR	PPI y/y	Apr	–	1.9%
	EUR	ECB Deposit Facility Rate	5-Jun	–	2.3%
FRI/SAT	INR	RBI Repurchase Rate	6-Jun	5.8%	6.0%
	EUR	Retail Sales y/y	Apr	–	1.5%
	USD	Change in Nonfarm Payrolls	May	130k	177k
	USD	Unemployment Rate	May	4.2%	4.2%

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 29 May close

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↑	1.38
Global Equities	●	↑	1.76
Gold	●	↑	1.38
<b>Equity</b>			
MSCI US	●	↑	2.06
MSCI Europe	●	→	1.49
MSCI AC AXJ	●	↓	1.66
<b>Fixed Income</b>			
DM Corp Bond	●	↑	1.45
DM High Yield	●	→	1.58
EM USD	●	↑	1.98
EM Local	●	→	1.29
Asia USD	●	↑	2.04
<b>Currencies</b>			
EUR/USD	●	→	1.26

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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from the CIO's desk

**Presented by:**

**Steve Brice**

Global Chief Investment Officer, Standard Chartered Bank

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