



# Weekly Market View

## September Blues

→ US jobs market data is likely to be pivotal for markets in the near term. An upside surprise could help offset some of the pessimism from the weak manufacturing data, triggering a rebound in bond yields. A downside surprise, though, could strengthen the case for a larger Fed rate cut.

→ September is seasonally the weakest month in the year for US equities. While we continue to believe the US economy can achieve a soft landing, markets could be volatile in the near term as weak seasonality combines with heightened election, geopolitical and Fed policy uncertainty.

→ In equities, we would focus on the healthcare and financial sectors in the US. In bonds, we would be prepared to take advantage of any yield rebound to add exposure to high quality bonds.

→ Recent data argues USD/CHF is likely to trade in a range for now. However, further JPY strength is a risk to monitor.

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Are US equities likely to face another correction?

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What are the implications of China's potential measure to lower existing mortgage rates?

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Is India's RBI likely to cut rates this year?

## Charts of the week: September seasonality

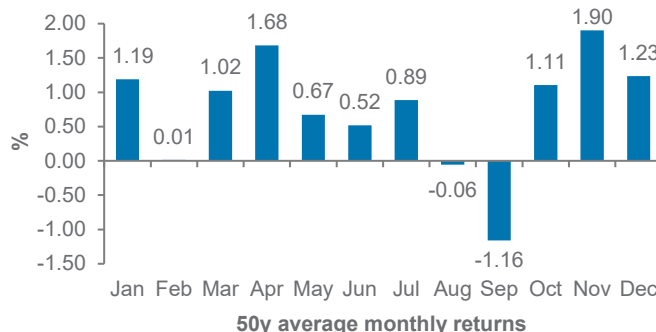
### US job market key to Fed interest rate decision; September seasonally the weakest month for US equities

US ISM manufacturing index and US 10-year govt bond yield



Source: Bloomberg, Standard Chartered

Average S&P500 monthly returns over the last 50 years



## Editorial

### September Blues

As large parts of the world return to work and school after summer, markets could be forgiven for facing September blues. The first hurdle to cross is likely to be the US jobs market data due at the end of this week, which is likely to be pivotal for markets in the near term. An upside surprise could help offset some of the pessimism from the weak manufacturing data, triggering a rebound in bond yields, while a downside surprise could strengthen the case for a larger 50bps Fed rate cut.

September is also seasonally the weakest month in the year for US equities. While we continue to believe the US economy can achieve a soft landing, the near-term risks mean, for now, we would focus on our recently upgraded healthcare and financial sectors in the US, gold (where we are now Overweight) and taking advantage of any rebound in US bond yields.

#### Job market data to play a key role in US Fed policy debate.

The August US ISM manufacturing data missed consensus estimates, with the weak new orders index being one key factor pushing US bond yields lower. The focus now shifts to the August jobs market data. An upside surprise could create greater confidence around the soft landing narrative and allow the Fed to ease into its rate cutting cycle later in September with a 25bps cut. However, a downside surprise could raise pressure on the Fed to consider a larger 50bps rate cut and rekindle worries of a less-than-soft landing for the US economy.

#### Healthcare, financial sector offer diversification opportunities in equities.

September is seasonally the weakest month for US equities. While seasonality does not mean this holds every single year, we believe the US macro backdrop and heightened US election and geopolitical uncertainty raise the risk of near-term volatility. While such a scenario could very well create a buy-on-dips opportunity in the longer run given our soft landing view, for now we would be more selective about where we add equity risk. In the US, the

healthcare sector is one such candidate. We recently upgraded the sector given its lower earnings growth volatility. The US financial sector also offers another alternative to diversify sector exposure beyond the AI theme alone (see page 4).

#### Looking to opportunities in Chinese and Indian equities.

Greater global diversification is another way to add selectivity to equity exposure near-term. In China, policymakers are reportedly considering measures to lower mortgage rates, with the goal of supporting greater consumption spending, which is a positive. While this poses a risk for financial sector equities, we continue to favour non-financial high-dividend State-Owned Enterprises (SoEs). In India, robust growth and contained inflation mean any RBI rate-cutting cycle over the next 12-months is likely to be shallow. However, still-robust growth is likely to offer support to equities. We favour large-cap Indian equities as they better mitigate valuation risks (see page 6).

**Add high quality bonds on yield rebounds.** Bond yields are likely to be particularly sensitive to US labour market data. A scenario where data is in line or better than expected would likely lead to a rebound in yields, particularly since some reports argue US government bond positioning is excessively long. We would use any such rebounds to add to high quality USD bonds. We are Overweight EM USD government bonds given their relatively high sensitivity to changes in US bond yields and our view that they offer a pocket of value. However, Developed Market Investment Grade government bonds are an alternative.

**Trade the range in USD/CHF, but monitor the JPY.** Swiss inflation has recently been softer than expected, but growth remains resilient. While this ultimately points to a modestly stronger CHF over 6-12 months, for now we believe further SNB rate cuts are likely to keep USD/CHF within a range (see page 5). A break lower in USD/JPY is a risk, both to USD/CHF and for risky assets more broadly in the event it triggers a further unwind in carry trades.

## 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 Factory orders; supportive BoC

**(-) factors:** Weaker US job markets and economic activities, Euro area services PMI, hawkish claims from BoJ policymakers

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> <li>US factory orders beat estimates and rose 5% m/m in July; orders ex-transportation also ticked higher by 0.4% m/m</li> <li>ISM services index came in better-than-expected at 51.5 in August</li> <li>Euro area's PPI came in better-than-expected at -2.1% y/y in July</li> <li>China's Caixin Manufacturing PMI beat estimates at 50.4 in August</li> <li>Japan's real wages beat estimates in July, at 0.4% y/y, but moderated from the previous month</li> </ul>	<ul style="list-style-type: none"> <li>US ISM manufacturing index missed estimates in August at 47.2; new orders index also fell to 44.6</li> <li>US JOLTS job openings came in weaker-than-expected at 7.673m in July, the lowest level since January 2021</li> <li>US durable goods orders revised lower to 9.8% in July, missing expectations</li> <li>Euro area's composite and services PMI revised lower to 51.0 and 52.9, respectively, missing estimates</li> </ul>
	<b>Our assessment: Neutral</b> – Robust US factory orders, Euro area PPI vs weaker US job market, Euro area composite PMI	
Policy developments	<ul style="list-style-type: none"> <li>Bank of Canada (BoC) cut rates by 25bps to 4.25%, with Governor Macklem hinting further cuts should the economy continue to weaken</li> </ul>	<ul style="list-style-type: none"> <li>The Fed's Beige Book suggested tempering economic activities, while price pressures moderate</li> <li>BoJ Governor Ueda reiterated potential rate hikes if the economy and prices perform as projected by the BOJ</li> </ul>
	<b>Our assessment: Positive</b> – Supportive BoC vs hawkish BoJ	
Other developments	<ul style="list-style-type: none"> <li>NA</li> </ul>	<ul style="list-style-type: none"> <li>API report on falling US oil inventories, and potential delay in oil supply increase by OPEC+, may result in a rebound in oil prices</li> </ul>
	<b>Our assessment: Negative</b> – Potential rebound in oil prices	

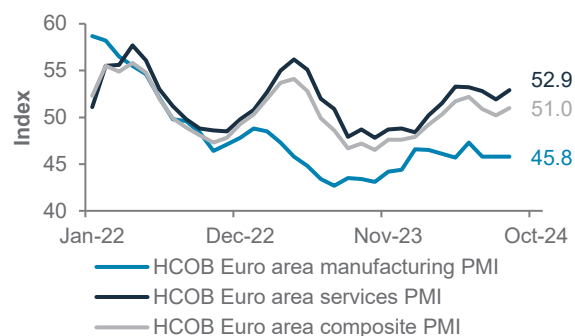
**The US 10-2 yield curve (spread between 10yr and 2yr bond yields) dis-inverted, which tends to occur before a recession**

UST 10-2 spread



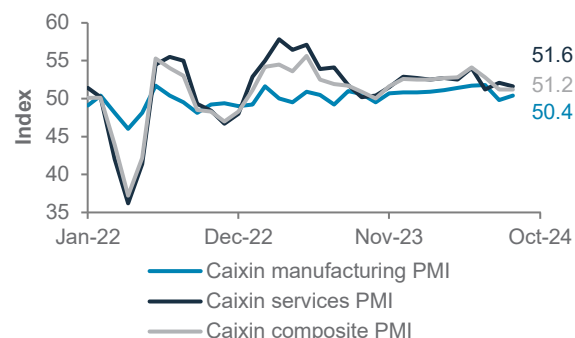
**Euro area manufacturing PMI remained in contractionary territory**

Euro area PMI



**China Caixin PMI remained in expansionary territory, with manufacturing PMI ticking higher to 50.4 in August**

China Caixin PMI



## Top client questions

### Q Are US equities primed for another correction?

US macro data has been soft recently. The latest ISM manufacturing release missed expectations, with deteriorating new orders and a build-up in inventories. Jobs data is the next key release.

The S&P 500 index technicals are weakening. The index did not break key resistance at 5,650 and upward momentum is waning. Its 16% year-to-date return is well above the +7.5% average election year return.

Despite upcoming US growth stock catalysts, such as the launch of iPhone 16, we believe there is likely to be short-term volatility ahead. We would consider switching some exposure to the US healthcare sector, which we recently upgraded to preferred. It offers relatively less volatile earnings growth that has historically been positive through an economic cycle. US Financials is another preferred sector, which should benefit from our “soft-landing” thesis.

Near-term volatility could create a long-term opportunity to add back exposure to growth-oriented equities after the dust settles. However, we would be patient for now.

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

### Q What are the economic and market implications of China’s push for a reduction in existing mortgage rates?

The PBoC issued a report back in July highlighting that lowering interest rates on outstanding mortgages plays a critical role in reducing early mortgage retirement and stimulating consumption growth. The recent Politburo meeting emphasized “boosting consumption as the focus of expanding domestic demand”. This implies expectation and room for further interest rate adjustments.

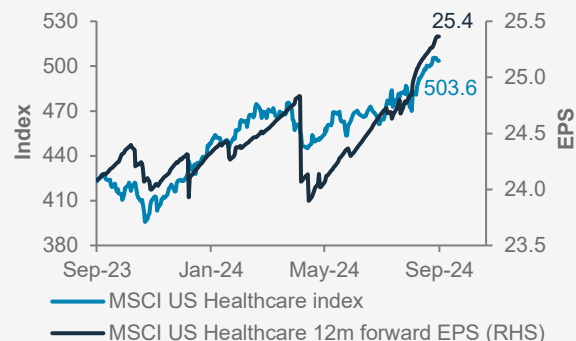
Authorities saw some success with similar measures last year. In September 2023, authorities jointly urged banks to lower interest rates on the outstanding first mortgage loans. As a result, the average monthly early mortgage repayment amount in Sep-Dec 2023 fell by 10.5% from Aug 2023. Total retail sales in Oct-Dec 2023, meanwhile, registered the highest Q4 growth in the past 3 years.

One risk is that a further reduction of interest rates on existing mortgages will challenge Chinese banks’ earnings outlook, posing the risk of near-term downside for the equity sector. Their Q2’24 net interest margin was already at a record low of 1.54%. However, these measures could help onshore bond yields stabilise, providing support for the CNH. We would also use the current pullback to average into high-dividend non-financial SOEs.

— **Ethan Wang**, *Head, Investment Strategy, China*

### US healthcare offers defensive earnings growth

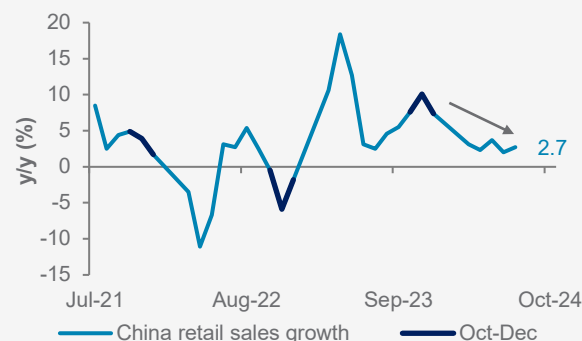
MSCI US healthcare index and its consensus 12-month forward EPS



Source: Bloomberg, FactSet, Standard Chartered

### China retail sales growth strengthened in Q4 2023 partly on the back of mortgage refinancing

China retail sales growth



Source: Bloomberg, Standard Chartered



## Top client questions (cont'd)

### Q How would the latest prints of CPI and GDP affect your tactical view on the CHF?

USD/CHF is likely to remain rangebound over the next 3 months. Both the SNB and Fed are expected to ease monetary policy, but the timing and pace of their respective rate cuts will likely play a crucial role in keeping the pair within a defined range.

The Fed will next meet on 18-Sep and markets are expecting a total of 100bps of rate cuts by year-end. Meanwhile, the SNB next meets to set policy on 26-Sep. Swiss economic data has been mixed recently, with inflation softer than expected, but GDP growth showing resilience. The SNB is expected to deliver a further 50bps of cuts by year-end. As such, rate differentials are likely to favour modest CHF strength. Any safe-haven demand is also likely to provide support. However, technical indicators are more neutral. On balance, we expect USD/CHF to remain rangebound for now, with key support at 0.8330 and resistance at 0.8670.

— Iris Yuen, Investment Strategist

### Q Why add to EM USD gov't. bonds now?

Our Overweight view on EM USD government bonds is based on the following factors:

1. **Improved fundamentals:** Many EM markets have shown solid post-COVID economic growth, contained inflation and reduced reliance on external debt in recent quarters. Additionally, successful debt restructurings and IMF support programs have contributed to the strong performance of lower-rated bonds within the asset class.
2. **Attractive yield premium:** EM USD government bonds offer an attractive yield premium over US government bonds and, more recently over US High Yield bonds as well (since Jun-2024). Hence, we see relative value in the asset class.
3. **A likely soft-landing beneficiary:** EM USD government bonds have relatively high sensitivity to changes in US bond yields. They should, therefore, benefit from our expectation of falling US bond yields over the next 6-12 months.

The key risks to our view include a hard landing scenario for the US economy and geopolitical risks. As US elections approach, volatility could rise as policy proposals, such as Trump's proposed tariffs, could weigh on the asset class.

— Cedric Lam, Senior Investment Strategist

### USD/CHF currency pair is likely to remain rangebound over the next 3 months

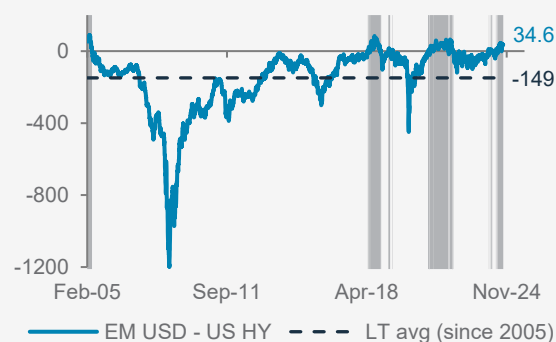
USD/CHF and technical levels



Source: Bloomberg, Standard Chartered

### EM USD bonds offer marginally higher yield than US HY bonds

EM USD yield premium (spread) over US HY bonds



Source: Bloomberg, Standard Chartered

## Top client questions (cont'd)

### What is your view on India's RBI policy over the next 12 months and its impact on Indian stock and bond markets?

After hiking policy rates by 250bps in recent years, the Reserve Bank of India (RBI) has maintained status quo on policy rates since February 2023. In its recent communications, the central bank reiterated it would retain a data-driven approach aimed at keeping consumer inflation around the 4% target. Policymakers pushed back against expectations that the RBI would follow the Fed in a potential policy pivot. In our view, the RBI is likely to stay on hold in H2 2024, given still robust growth and contained inflation. Rate cuts are possible thereafter should growth slow or inflation decline on a durable basis. However, any such easing cycle is likely to be a shallow one.

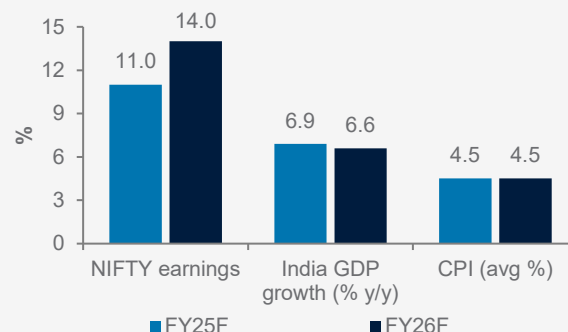
Despite a moderation in Q1 FY2025 earnings and GDP growth, driven in part by a high statistical base effect, we expect Indian equities to remain supported by a still-robust level of growth and a broadening policy focus. Our preference for large cap equities can help mitigate risks from elevated valuations.

Our constructive view on onshore bonds is underpinned by the still attractive yield, our view of a stable INR and the government sticking to a path of fiscal consolidation in the FY2025 union budget.

— **Ravi Singh**, Chief Investment Strategist India

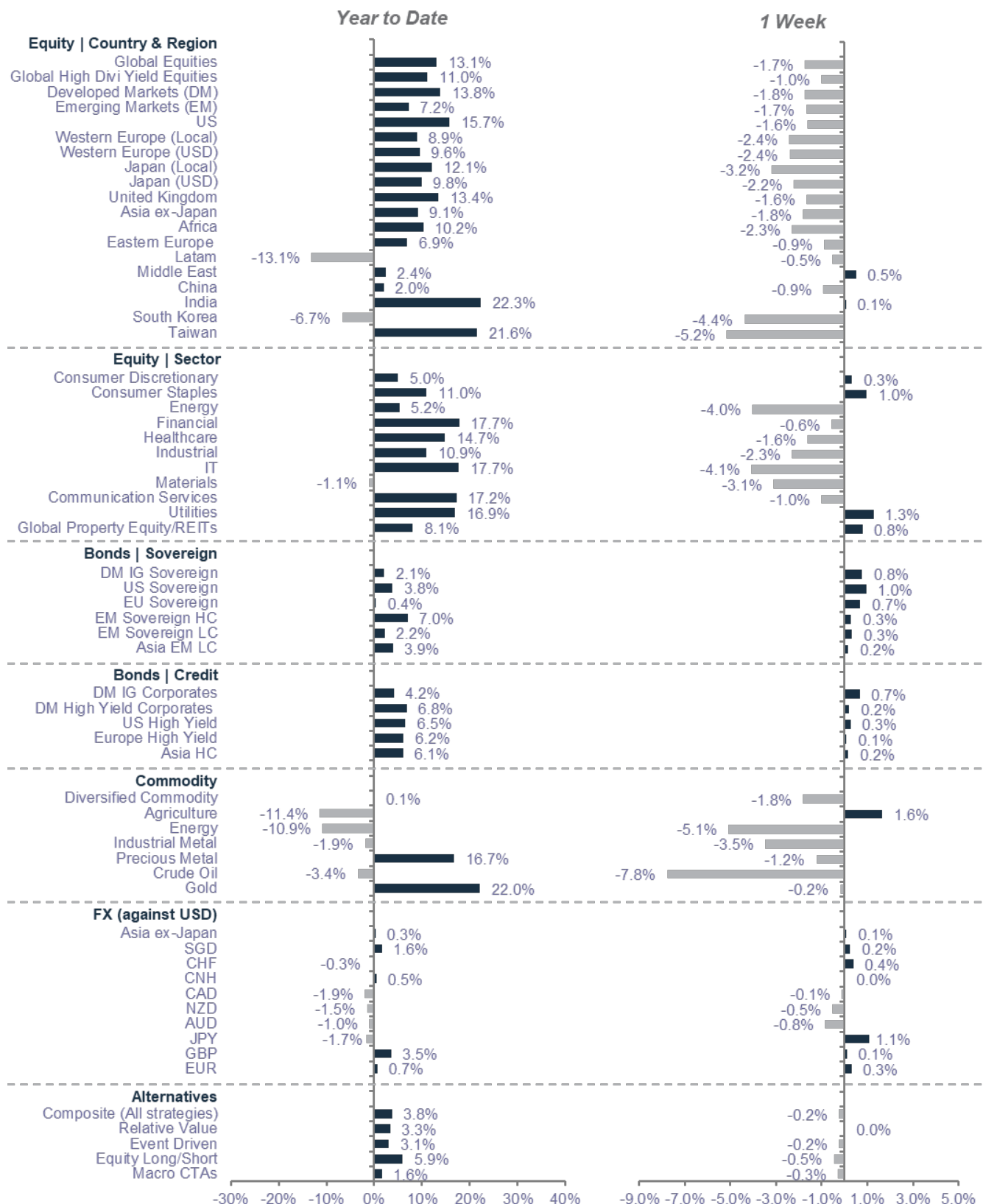
### India's strong growth profile remains a strong support for large cap equities

Consensus earnings growth, GDP growth and inflation projections



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 5 September 2024; 1-week period: 29 August 2024 to 5 September 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 ◆	US Healthcare ▲
Asia ex-Japan ◆	US Financials ▲
Japan ◆	Europe Technology ▲
Other EM ◆	Europe Healthcare ▲
	China Communication ▲
<b>Bonds (Credit)</b> ◆	China Discretionary ▲
Asia USD ◆	China Technology ▲
Corp DM HY ◆	India Financials ▲
Govt EM USD ▲	India Industrials ▲
Corp DM IG ▼	India Staples ▲
<b>Bonds (Govt)</b> ◆	<b>Alternatives</b> ◆
Govt EM Local ◆	
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 5,706

Technical indicators for key markets as of 5 September close

Index	Spot	1st support	1st resis- tance	12m forward P/E (x)	12m forward dividend yield (%)
S&P500	5,503	5,247	5,706	20.9	1.5
STOXX 50	4,815	4,573	5,022	12.9	3.8
FTSE 100	8,242	7,990	8,454	11.8	4.0
Topix	2,621	2,348	2,817	14.0	2.6
Shanghai Comp	2,788	2,742	2,870	10.4	3.8
Hang Seng	17,444	16,636	18,228	8.1	4.4
Nifty 50	25,145	24,292	25,666	20.9	1.5
MSCI Asia ex-Japan	687	655	714	12.2	2.7
MSCI EM	1,076	1,027	1,117	11.6	3.0
WTI (Spot)	69.2	65.2	76.6	na	na
Gold	2,516	2,410	2,577	na	na
UST 10Y Yield	3.73	3.62	3.93	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	CH	CPI y/y	Aug	0.7%	0.5%
	EC	Sentix Investor Confidence	Sep	–	-13.9
TUE	US	NFIB Small Business Optimism	Aug	–	93.7
WED	US	CPI y/y	Aug	2.6%	2.9%
	US	CPI Ex Food and Energy y/y	Aug	–	3.2%
	US	Real Avg Weekly Earnings y/y	Aug	–	0.4%
THU	EC	ECB Deposit Facility Rate	Sep-12	–	3.8%
	US	PPI Final Demand y/y	Aug	–	2.2%
	US	PPI Ex Food and Energy y/y	Aug	–	2.4%
FRI/SAT	US	U. of Mich. Sentiment	Sep P	–	67.9
	CH	Industrial Production y/y	Aug	4.7%	5.1%
	CH	Retail Sales y/y	Aug	2.5%	2.7%

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 has normalised across asset classes

Our proprietary market diversity indicators as of 5 Sep close

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	→	1.36
Global Equities	●	↑	1.70
Gold	●	↓	1.49
<b>Equity</b>			
MSCI US	●	↑	1.65
MSCI Europe	●	↑	1.95
MSCI AC AXJ	●	↑	2.23
<b>Fixed Income</b>			
DM Corp Bond	●	→	1.38
DM High Yield	●	→	1.30
EM USD	●	→	1.36
EM Local	●	↓	1.35
Asia USD	●	→	1.38
<b>Currencies</b>			
EUR/USD	●	→	1.38

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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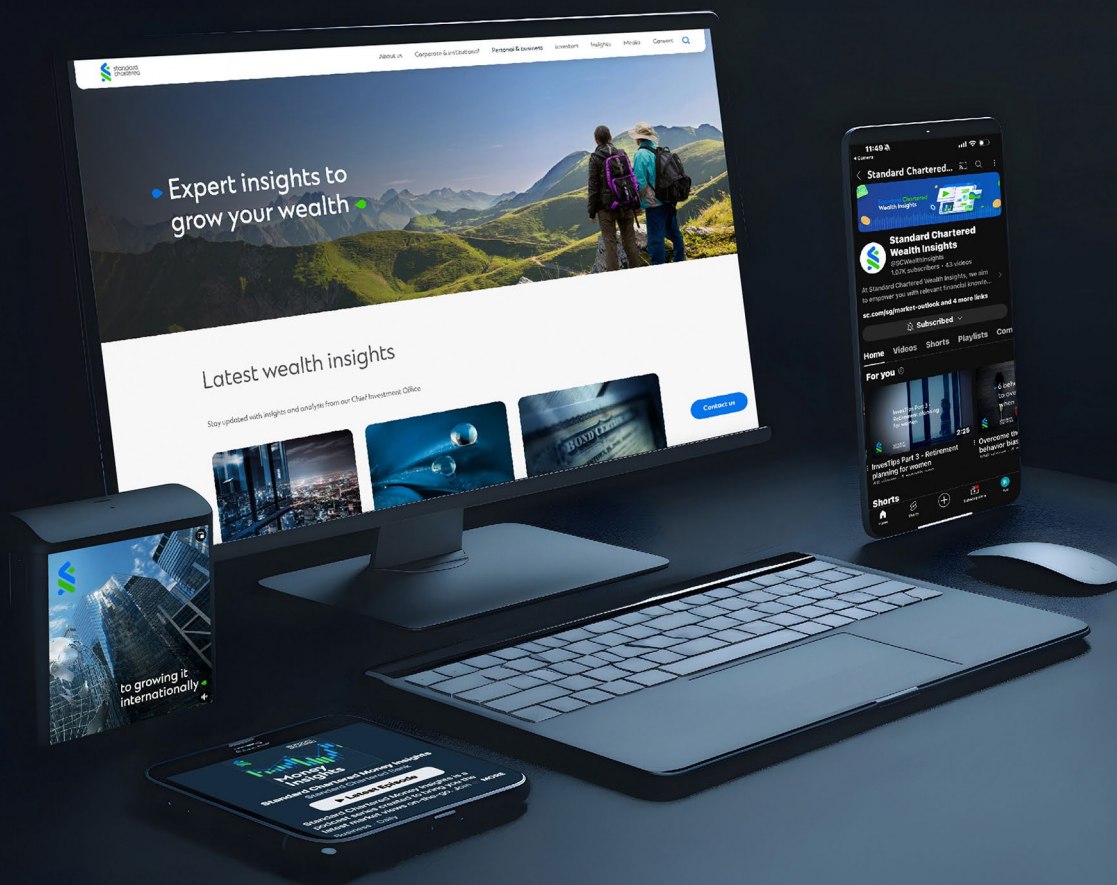
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