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Wealth Management Global Chief Investment Office
18 August 2023

Weekly Market View

Stay CALM, allocate broadly

→ The ongoing market selloff is a reminder of the risks confronting investors after equities climbed vertically this year. Continued weak sentiment in China, rising US government bond yields and a rebound in the USD – all came to a head this week.

→ Our **CALM** framework highlighted in our H2 Outlook is more salient in the current turbulence. **A** is perhaps the most significant letter in this framework. It stands for 'Allocating broadly' – maintaining a diversified and balanced foundation allocation should help mitigate volatility, especially during such times.

→ While weak seasonality (September is seasonally weak for equities) and technical charts point to more near-term downside, further weakness would present opportunities for medium-to-long-term investors.

→ Developed Market government bonds offer attractive yields and scope for capital gains over the 6-12-month horizon. We also see a structurally bullish case for Indian assets.

What are the market implications of this week's developments in China?

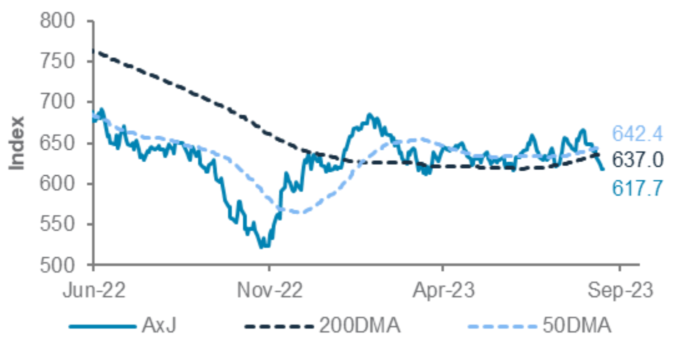
Why is the healthcare sector attractive in the current scenario?

Is there a case for structural allocation to Indian equities?

Charts of the week: A structural case for Indian markets

Asia ex-Japan equities broke below the 200DMA, challenging our positive view; we are structurally bullish on India

MSCI Asia ex-Japan equity index, with 50DMA and 200DMA



Annualised USD returns for key equity markets*

1-year	3-year	5-year	10-year	20-year
Europe (13.4%)	India (14.9%)	Taiwan (12.0%)	US (11.6%)	India (11.7%)
Japan (5.8%)	US (9.5%)	US (10.2%)	Taiwan (11.1%)	US (9.2%)
Global (3.9%)	Taiwan (7.2%)	India (7.6%)	India (10.3%)	China (8.6%)
US (3.2%)	Global (7.1%)	Global (7.3%)	Global (8.1%)	Taiwan (8.2%)
Korea (1.5%)	Europe (7.0%)	Europe (5.1%)	Japan (4.8%)	Global (7.9%)
Taiwan (0.5%)	Japan (2.8%)	Japan (2.7%)	Europe (4.5%)	AxJ (7.7%)
India (-0.3%)	ASEAN (1.9%)	EM (1.5%)	AxJ (4.4%)	EM (7.5%)
ASEAN (-0.6%)	Korea (-1.1%)	AxJ (1.3%)	Korea (3.5%)	ASEAN (7.4%)
EM (-1.5%)	EM (-1.6%)	Korea (1.3%)	EM (2.9%)	Korea (7.1%)
AxJ (-2.8%)	AxJ (-3.0%)	ASEAN (-1.1%)	China (2.5%)	Europe (6.4%)
China (-6.4%)	China (-13%)	China (-3.2%)	ASEAN (0.4%)	Japan (4.9%)

Source: Bloomberg, Standard Chartered; *Annualised returns of respective MSCI total return USD indices as of 17 Aug, 2023; AxJ: Asia ex-Japan

Editorial

Stay CALM, allocate broadly

The ongoing market selloff is a reminder of the risks confronting investors after equities climbed vertically this year. Continued weak sentiment in China, rising US Treasury yields and a rebound in the USD – all came to a head this week. Our **CALM** framework highlighted in our H2 Outlook is more salient in the current market turbulence. **A** is perhaps the most significant letter in this framework. It stands for 'Allocating broadly' – maintaining a diversified and balanced foundation allocation should help mitigate volatility, especially during such times.

Near-term volatility: A month ago, our investor positioning and sentiment indicators flagged risks in the red-hot US technology sector, which has been leading the equity market rally this year. Subsequently, Fitch's downgrade of US's debt rating and US Treasury's guidance of a surge in bond issuance returned focus on the impact of soaring US fiscal deficit on market liquidity.

Add to that resilient US data (next week's PMI data is the next focus) and still-hawkish central banks (Fed's Jackson Hole meeting next week), and the stage was set for the 10-year US Treasury yield to retest last year's cycle highs just above 4.3%. Moody's downgrade of some US banks is a reminder of the risks in the US regional banking sector (first flagged in March) due to its exposure to office properties and asset-liability mismatches from falling prices of government bond holdings.

Challenges in Asia: The current downturn has challenged the **L** in **CALM**, which stands for 'Lean towards Asia'. While we remain constructive on Japan (this week's strong GDP data supports this view), China's sustained weakness is testing our preference for the broader region. Concerns about missed payments by major property and trust companies have added to the uncertainty. Investors are looking for more significant and sustained support from policymakers to revive confidence. Until then, we will need to see key technical support levels hold before wading back to the market. For the Hang Seng index, the next big support is at 16,800.

The opportunities: While weak seasonality (September is seasonally weak for equities) and technical charts point to more near-term downside, further weakness would present opportunities for medium-to-long-term investors. [The **C** in **CALM** stands for 'capitalising on market opportunities'] The latest turn in the market mood is a reminder that markets often outrun fundamentals, on both directions. The surge in Developed Market government bond yields and consolidation in Indian equities are good examples.

The lure of government bonds: The US 10-year Treasury yield is testing last year's cycle high just above 4.3%, offering attractive risk-reward odds for investors. Even if the yield rises to new cycle highs closer to US trend nominal GDP growth (the typical peak for the US 10-year yield) just above 4.5%, bond investors will earn positive 12-month total returns. Meanwhile, investors owning a 10-year bond would gain significantly more if yields fall as growth slows over a 6-12-month horizon.

Structural case for India: The pullback in Indian equities makes them attractive for investors structurally under-allocated to the market. Indian equities have consistently delivered over the past 20 years (see table), rivalling other stellar performers, such as the US. This is driven by positive earnings growth potential and high return on equity (see page 6). Even though the market remains relatively expensive and there is risk of near-term volatility, these factors also make a case to have a higher allocation to India in global structural portfolios than that prescribed by benchmarks. Meanwhile, Indian government bonds offer attractive real returns, with relatively low volatility.

Finally, the **M** in **CALM** stands for managing volatility. We see attractive opportunities in the US healthcare sector due to its defensive qualities during a downturn. The sector's resilience during this week's selloff supports this view. Gold also offers portfolio diversification benefits, especially in volatile markets. We see strong technical support around USD 1,812/oz.

— Rajat Bhattacharya

The weekly macro balance sheet

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

(+) factors: China rate cut, resilient US retail sales

(-) factors: Weak China data, shadow bank risks; hawkish Fed minutes

	Positive for risk assets	Negative for risk assets
Macro data	• US retail sales rose more than expected by 0.7% m/m • US Michigan mid- and long-term inflation expectations fell unexpectedly • US housing starts rose more than expected • UK economy expanded unexpectedly by 0.2% q/q in Q2 • Japan economy expanded more than expected by 6% q/q in Q2 • US leading index improved as expected	• US producer prices rose more than expected by 0.8% y/y • US Michigan consumer sentiment fell as expected to 71.2 • China M2 money supply rose less than expected by 10.7% y/y; new CNY loans were lower than expected • China retail sales, factory output and fixed assets investment rose less than expected • UK consumer inflation fell less than expected
	Our assessment: Neutral – Positive Developed Market economic surprises vs negative China economic surprises	
Policy developments	• The PBoC cut 1y medium-term lending facility rate unexpectedly by 15bps • China asked fund houses to avoid net equity sales, while considering a cut in stamp duty on stock trades	• Fed minutes showed policymakers are still concerned about inflation, leaving the door open for more rate hikes • Fed's Kashkari, citing still-elevated inflation, said he is not ready to end rate hikes • Argentina devalued the peso; Russia hiked rates by 350bps to 12% in an emergency meeting
	Our assessment: Neutral – China rate cut vs hawkish Fed	
Other developments		• China's leading private wealth manager missed payments and halted redemptions on investment products • Fitch is reconsidering China's A+ rating; warned it could downgrade US banks
	Our assessment: Negative – China shadow bank risks	

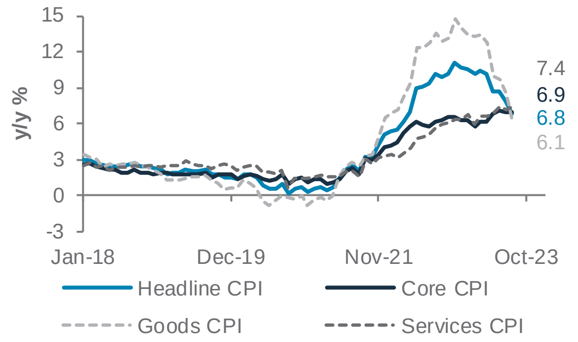
Stronger-than-expected US retail sales reflect sustained summertime consumption strength

US headline, core and controlled group retail sales

Source: Bloomberg; Standard Chartered

UK core inflation remains elevated, especially for the services sector, despite falling goods inflation

UK headline, core, goods and services inflation



Source: Bloomberg, Standard Chartered

China's economic activity data continued to underwhelm; more policy measures likely needed to revive confidence

China's retail sales, industrial production and fixed asset investment (YTD) growth

Source: Bloomberg, Standard Chartered

Top client questions

What are the market implications of this week's developments in China?

This week's economic data added to a string of disappointing Chinese data released last week, including

- Deflating consumer and producer prices
- Falling imports and exports
- Credit growth fell significantly more than expected in July
- July's economic activity data missed expectations by a considerable margin across the board

The silver lining is that the PBoC eased policy further by unexpectedly cutting its medium-term lending facility (MLF) rate and reverse repo interest rates. We expect more policy easing.

Confidence was also hit by reports that Zhongrong Trust, one of China's biggest shadow banks, missed Wealth Management payments totalling CNY 153m. The event came after the largest homebuilder in China missed coupon payments on its USD bonds, fanning fears of contagion spreading from the deepening property slump to the banking system. We do not expect the Zhongrong event to lead to a systemic financial crisis, given that the banking sector balance sheets are in much better shape following the deleveraging of the past six years and policymaker scrutiny. However, the sentiment is likely to remain depressed, arguing for a continued outperformance of Investment Grade bonds over High Yield bonds within Asia USD bonds.

Meanwhile, Chinese equities have seen a sharp downturn over the last two weeks. The Hang Seng Index broke below key support at 18,562. Technically, this means the "upward wave" since the beginning of Jul-23 is now over. The index needs to recover above 19,346 to regain upward momentum. This is likely to require more stimulus than that delivered thus far, even if such efforts would be somewhat at odds with the government's vision to transform the economy into a "higher-quality" one. Hence, there is a possibility the Hang Seng Index initially tests major support at 16,800, before turning higher.

USD/CNH rose as high as 7.3497 this week, just short of its all-time high of 7.3749. The MLF rate cut is likely to be followed by a cut in the Loan Prime Rate (LPR) next week, which would further drive interest rate differentials wider in favour of the USD. However, several technical indicators point to a high probability of a short-term correction for USD/CNH. The pair fell around 20bps from the peak in the last three corrections, following strong overbought signals. If history repeats itself, USD/CNH may test its support at 7.1160 on any correction.

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

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

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

The divergence between Asia Investment Grade and Asia High Yield bonds is likely to continue

Asia USD bonds, IG spreads vs. HY spread

Source: Bloomberg, Standard Chartered

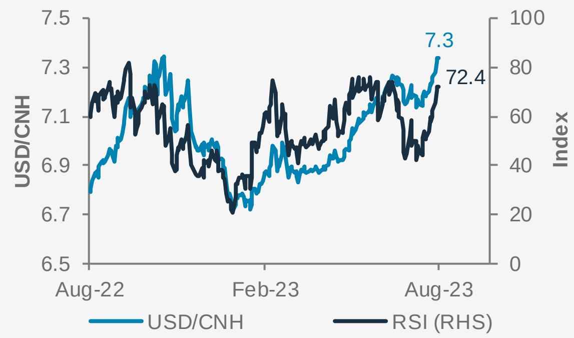
The Hang Seng Index faces short-term downside pressure. 16,800 is the major support level

Hang Seng Index

Source: Bloomberg, Standard Chartered

USD/CNH is testing record highs; overbought technicals make a near-term correction likely

USD/CNH with Relative Strength Index



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Why is the healthcare sector attractive in the current scenario?

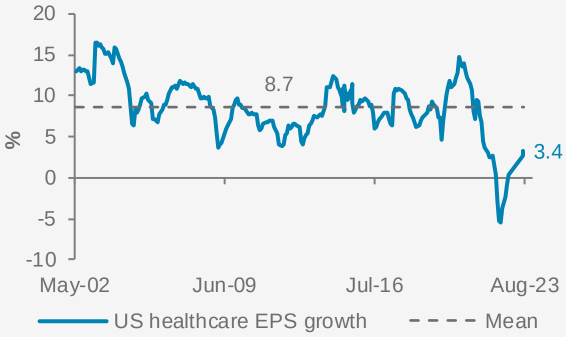
As we laid out in our H2 Outlook, we see investors oscillating between the two narratives of no-recession and deep recession, driving a potential return of market volatility. In this environment of uncertainty, we believe the defensive and high-quality healthcare sector, which is reasonably valued, can outperform the broader US market. Healthcare demand would remain resilient even in a recession and this is borne out in historical earnings trends. Healthcare earnings have lower volatility than the boom-and-bust cycle seen in the broader US market. Healthcare earnings growth has remained positive even through recessions in the last two decades, unlike the broader market. Negative earnings growth in healthcare was seen only for a brief period recently, when the COVID-19-prompted boom in the sector, driven by strong demand for vaccines, test-kits, protective equipment and treatments, faded.

Leaving aside this one-off effect, we expect the healthcare sector to deliver steady and robust earnings growth through the economic cycle. An attractive return on equity of 23% also points to high-quality companies in the healthcare sector. Sector valuation is reasonable, at a 5% discount to the broader market, based on a 12-month forward P/E ratio. We would combine an Overweight in healthcare with the growth sectors of communication services and technology, leading to a "barbell approach" to US sector exposure.

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

The healthcare sector has delivered steady and robust earnings growth through the economic cycle, barring a brief period after the pandemic

Consensus 12-month forward EPS growth for the MSCI US Healthcare index



Source: FactSet, Standard Chartered

Do you expect recent USD strength to continue?

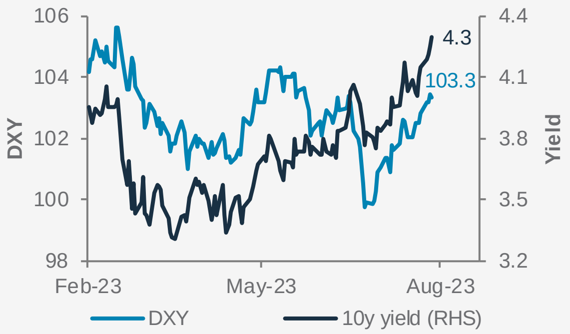
The USD index (DXY) continued its uptrend after the release of July FOMC meeting minutes. The minutes illustrated Fed officials continue to see upside risks to inflation, which, in turn, drove US government bond yields higher. The greenback was also buoyed by improvements in US industrial production and housing data.

While several key economic indicators were released in recent days and priced in by markets in the short term, Fed Chair Powell's speech at the Jackson Hole summit will be closely watched for the Fed's intentions to continue with rate hikes. Technicals argue the DXY likely faces a minor downside correction on a 2-4-week horizon, with a test of support at 100.80 (April 2023 dip) likely.

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

Rising US yields have supported the USD recently, but technical charts suggest a correction is likely over the next 2-4 weeks

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



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Is there a case for structural allocation to Indian equities?

We believe India has the potential to transition into an upper middle-income economy within the next two decades. This transition, which is underpinned by favourable demographics, policy reforms, infrastructure investments and technological improvements, would bring about transformative changes to the economic landscape and benefit Indian financial market assets.

India's macroeconomic fundamentals are on a sound and sustainable trend. External debt-to-GDP remains low, credit growth is at a decade high and FX reserves are at healthy levels. India is expected to enjoy a high rate of economic growth in the years ahead, with well-managed inflation and external stability risks.

In our view, Indian equities are particularly well-positioned to benefit from this multi-year trend for the following reasons:

1. A diversified economy with robust domestic macro fundamentals that would be supportive of earnings
2. Healthy corporate balance sheets and strong financial sector health that would ensure more sustainable earnings growth
3. A decline in foreign exchange risks and, therefore, volatility in earnings due to a more stable currency
4. A sustained corporate earnings growth cycle driven by increased formalisation, improving capacity utilisation and efficiency gains from technological advancements
5. Lower reliance on foreign investor inflows due to improvements in domestic financial inclusion, which has resulted in more sustained domestic flows.

The possibility of a protracted global growth slowdown, delays in private investments and a rise in regional and geopolitical tensions are risks to our view.

For a more in-depth look into the structural bull case of Indian assets, please refer to our recently published report: *India: The case for a structural bull market*

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

India's financial assets are likely to benefit structurally from a favourable macroeconomic backdrop over the next few years

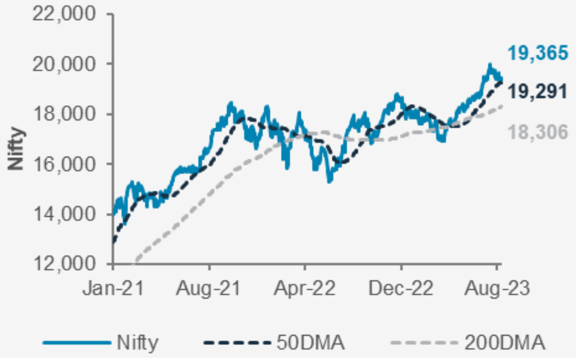
Our long-term (7yr) capital market expectations for Indian financial market assets

Asset class	Sub-asset class	Return (annualised return in INR)	Volatility
Equities	India Large Cap	8.0%	30.1%
	India Mid/ Small Cap	7.6%	34.1%
Fixed Income	India Short Term	7.1%	2.0%
	India Mid/ Long Term India Composite	7.2%	2.7%
	Bonds	7.2%	4.0%
Commodity	INR Gold	4.8%	14.4%
Cash	India Cash	6.5%	1.2%

Source: Standard Chartered

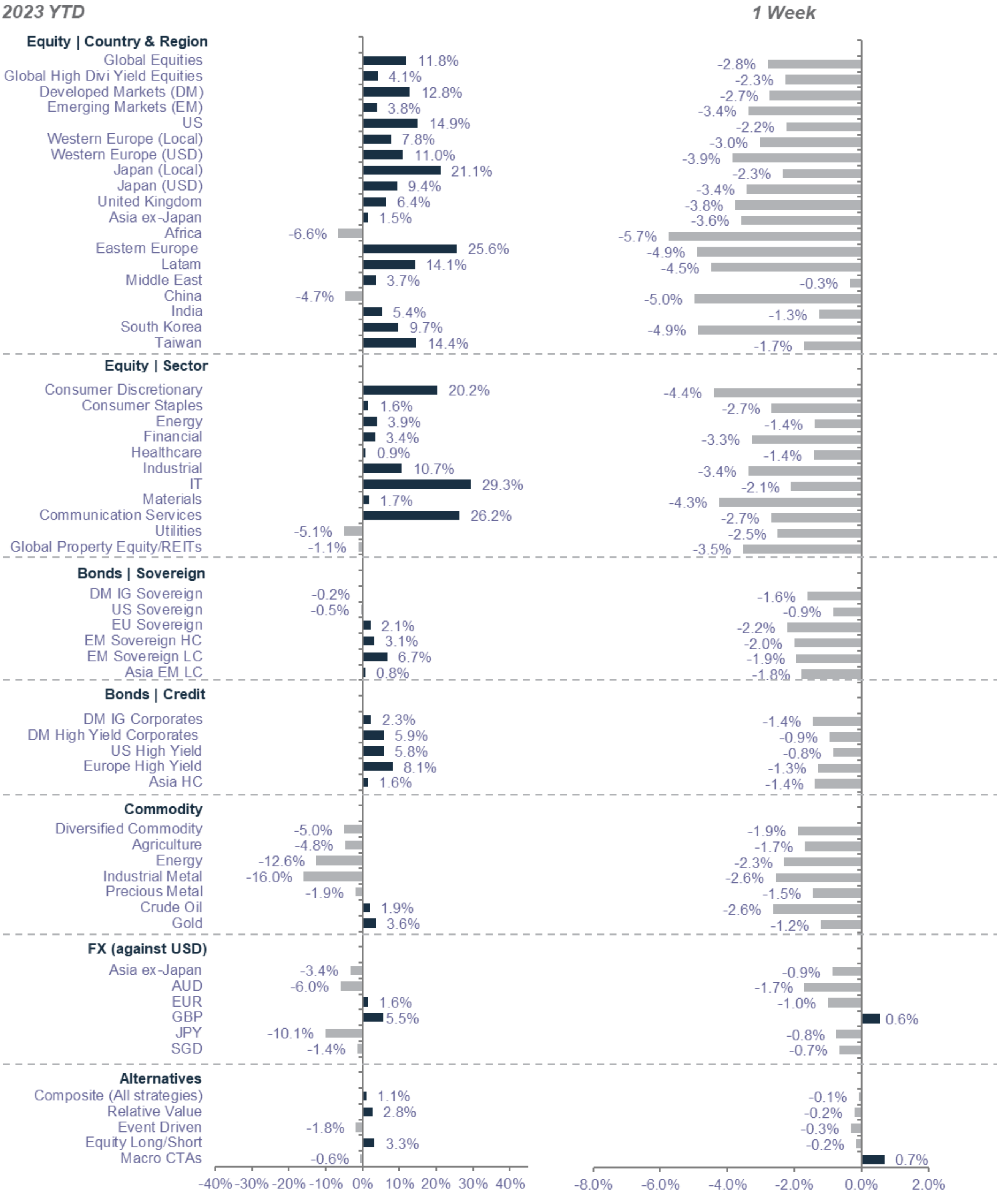
India's Nifty 50 index has retraced in recent weeks but remains in a long-term uptrend

Nifty 50 Index



Source: 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, 2023 YTD performance from 31 December 2022 to 17 August 2023; 1-week period: 10 August 2023 to 17 August 2023; Alternatives data is until 16 August 2023

Our 12-month asset class views at a glance

Asset class			
Equities	◆	**Preferred Sectors**	
Euro area	◆	US Communication	▲
US	◆	US Technology	▲
UK	▼	US Healthcare	▲
Asia ex-Japan	▲	Europe Technology	▲
Japan	▲	Europe Discretionary	▲
Other EM	◆	Europe Financials	▲
		China Communication	▲
Bonds (Credit)	◆	China Discretionary	▲
Asia USD	▲		
Corp DM HY	▼	**Alternatives**	◆
Govt EM USD	▼		
Corp DM IG	◆	**Gold**	◆
Bonds (Govt)	▲		
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					
TUE	US	Existing Home Sales	Jul	4.15m	4.16m
TUE	South Africa	China Chairing Brics Leaders' Summit	–	–	–
WED	EC	HCOB Eurozone Manufacturing PMI	Aug P	–	42.7
WED	EC	HCOB Eurozone Services PMI	Aug P	–	50.9
WED	UK	S&P Global/CIPS UK Manufacturing PMI	Aug P	–	45.3
WED	UK	S&P Global/CIPS UK Services PMI	Aug P	–	51.5
WED	US	S&P Global US Manufacturing PMI	Aug P	–	49.0
WED	US	S&P Global US Services PMI	Aug P	–	52.3
WED	US	New Home Sales	Jul	710k	697k
WED	EC	Consumer Confidence	Aug P	–	-15.1
THU	US	Durable Goods Orders	Jul P	-4.0%	4.6%
THU	US	Jackson Hole Economic Symposium	–	–	–
FRI/ SAT					

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 next support for the S&P500 index is at 4,331

Technical indicators for key markets as of 17 August close

Index	Spot	1st support	1st resistance
S&P 500	4,370	4,331	4,450
STOXX 50	4,228	4,194	4,296
FTSE 100	7,310	7,239	7,453
TOPIX	2,253	2,241	2,278
Shanghai Comp	3,164	3,146	3,185
Hang Seng	18,327	18,077	18,826
MSCI Asia ex-Japan	618	612	629
MSCI EM	974	966	990
Brent (ICE)	84.1	82.8	86.1
Gold	1,889	1,881	1,906
UST 10Y Yield	4.27	4.19	4.31

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 is healthy in global equities and bonds

Our proprietary market diversity indicators as of 17 August

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↓	1.55
Global Equities	●	→	1.54
Gold	◐	↓	1.42
Equity			
MSCI US	◐	→	1.41
MSCI Europe	●	↑	1.74
MSCI AC AXJ	●	→	1.83
Fixed Income			
DM Corp Bond	●	↑	1.92
DM High Yield	◐	→	1.47
EM USD	●	→	1.64
EM Local	●	→	1.70
Asia USD	●	↑	1.83
Currencies			
EUR/USD	●	↑	1.69

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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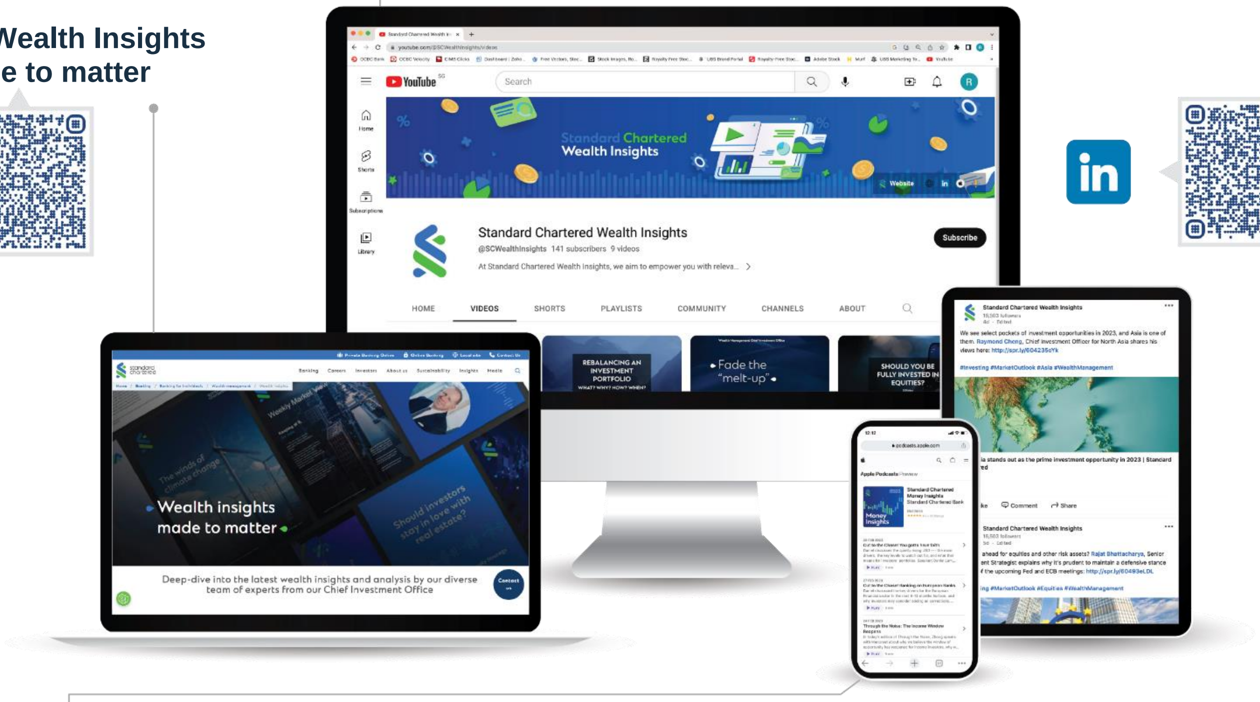

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