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WS Global Chief Investment Office
5 July 2024

Weekly Market View

Staying (almost) balanced

→ Polls show former US President Trump's chances of winning the November elections have soared after last week's debate with President Biden.

→ US government bond yields and equities have risen since the debate on the view a Trump presidency would lead to further tax cuts and higher fiscal deficits.

→ However, two factors are likely to cap any significant rise in bond yields and hurt global equities - a decidedly slowing US economy and likely import tariff hikes if Trump returns to power.

→ Any sign of weakness in upcoming US job market, inflation or corporate earnings data is likely to raise the chances of Fed rate cuts earlier than markets are currently anticipating. Thus, we believe the risks are broadly balanced.

→ In the near-term, there is an opportunity to lock in elevated government bond yields in the US and Europe, especially if the French far-right fails to win a majority in the second-round elections.

What are your expectations from the upcoming US Q2 earnings season?

What is the outlook for US government bond yields after the Biden-Trump debate?

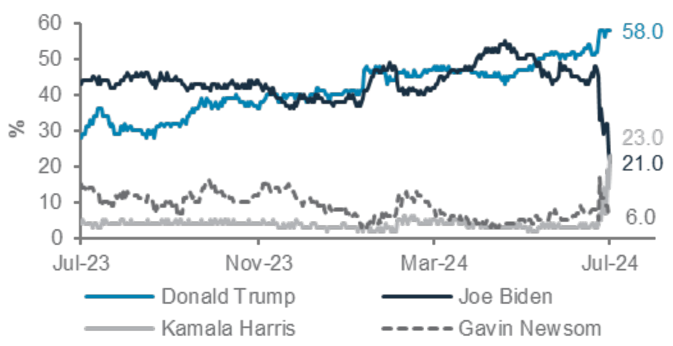
What are the FX market implications of the UK and French elections?

Important disclosures can be found in the Disclosures Ap

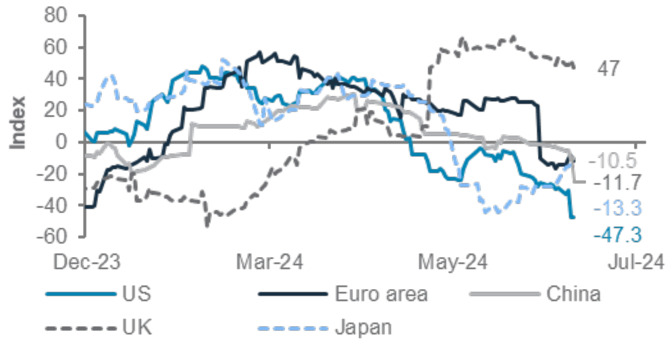
Charts of the week: Trump presidency vs a slowing economy

While markets are starting to price in a Trump presidency, investors need to first contend with a slowing global economy

Implied probability of who will win the US presidential election*



Economic surprise indices for major economies



Source: PredictIt*, Bloomberg, Standard Chartered

Editorial

Staying (almost) balanced

Polls show former US President Trump's chances of winning the November elections have soared after last week's debate with President Biden. While Democrats are reportedly exploring a candidate to replace Biden, markets are starting to price in a Trump presidency. US government bond yields and equities have risen since the debate on the view a Trump presidency would lead to further tax cuts and higher fiscal deficits.

However, two factors are likely to cap any significant rise in bond yields and negatively impact global equities - a decidedly slowing US economy and likely import tariff hikes if Trump returns to power. Friday's US job market data, next week's inflation data for June and Q2 corporate earnings are key indicators to watch. Any sign of further weakness is likely to raise the chances of Fed rate cuts earlier than markets are currently anticipating (in November). We believe the risks are broadly balanced. In the near-term, there is an opportunity to lock in elevated government bond yields in the US and Europe.

Markets mispricing a Trump second-term? Higher US government bond yields and equities (especially in financial and energy sectors) since the Trump-Biden debate suggests markets are pricing in a Trump victory in November. The belief is that Trump is likely to extend individual tax cuts once they expire in 2025 and may even reduce corporate taxes (previous corporate tax cuts are permanent), further raising the fiscal deficit. However, investors may be overlooking near-term market catalysts and other implications of a Trump presidency. US economic data has significantly missed expectations in recent weeks, with the Institute of Supply Management's latest PMI data showing service sector activity contracting and falling to a four-year low. Any weakness in job market and inflation could lead the Fed to signal rate cuts as early as September. Those who are under-allocated to high quality Developed Market bonds have an opportunity to lock in elevated bond yields on offer after the Trump-inspired bump up in yields.

Will Biden step down? President Biden faces increased pressure to withdraw and nominate another candidate, sustaining near-term political uncertainty. Polls suggest Vice President Kamala Harris is a front-runner if Biden withdraws, but even Harris significantly trails Trump in the polls. Any replacement must be made well before the Democratic National Convention on 19 August, given the challenges of putting a replacement on the ballot in time for the November elections.

Opportunity in European assets: European government bonds, equities and the EUR are likely to see relief rallies if the French far-right National Rally fails to win an outright majority in the second-round elections. National Rally is likely to be constrained in challenging the EU fiscal and monetary establishment even if it wins the largest number of seats. Italian far-right Prime Minister Meloni's pragmatic course since her election win shows the way for other European far right parties.

All eyes on Starmer's UK strategy: After the Labour party's expected landslide win, the key question is how incoming Prime Minister Keir Starmer pays for the campaign promises to improve UK's public healthcare and infrastructure. Tax hikes are the most likely way to fund his ambitious programme, but the UK economy faces an economic slowdown. Markets will be watching the government's first budget closely.

Will US corporate earnings deliver? Q2 earnings are another likely driver of US equities in the coming weeks. The consensus estimates 10.6% and 10.7% y/y rise in Q2 and 2024 earnings. Earnings are also expected to broaden out to sectors other than technology and communications services. Any disappointment is likely to see a pullback in US equities. Nevertheless, our quantitative and technical models remain positive, with 5,639 as the next key technical resistance for the S&P500 index.

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

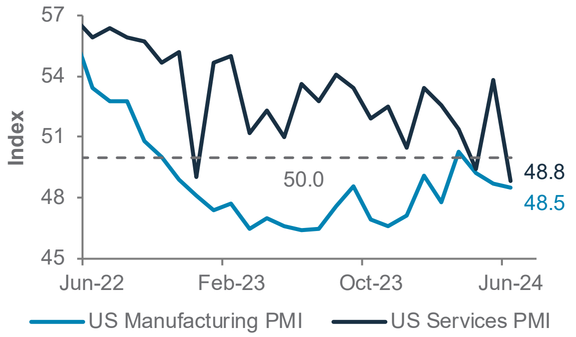
(+) factors: US and Euro area disinflation, US consumer sentiment

(-) factors: Weak US, China PMI, hawkish Fed

	Positive for risk assets	Negative for risk assets
Macro data	• US headline and core PCE inflation slowed to 2.6% y/y, as expected • US job openings rose unexpectedly to 8.14m • Euro area consumer inflation slowed to 2.5% y/y; producer price inflation fell more than expected • China Caixin manufacturing PMI rose unexpectedly to 51.8	• US ISM manufacturing PMI slowed unexpectedly to 48.5; services PMI came below estimates at 48.8 • US private sector added fewer jobs than expected; continuing jobless claims rose to 2.5-year high • Euro area core inflation slowed less than expected • China manufacturing PMI was flat at 49.5; non-manufacturing PMI fell more than expected (50.5) • China Caixin services PMI fell more than expected
	Our assessment: Neutral – US, Euro area disinflation versus weak US, China PMI data, rising US jobless claims	
Policy developments	• NA	• Fed June meeting minutes showed members want "greater confidence" inflation is falling towards 2% before cutting rates • Fed Chair Powell declined to signal policy easing in September but noted progress on disinflation • PBoC is reportedly mulling selling securities to cool the bond rally
	Our assessment: Negative – Hawkish Fed	
Other developments	• French far-right won a smaller share of the vote in the first round of elections than some polls projected • UK exit polls indicate Labour party to win 410 of the 650 lower house seats	• US Supreme Court ruled that former President Trump has some immunity against prosecutions • China seized Taiwan fishing boat, reigniting tensions
	Our assessment: Negative – Geopolitical tensions	

US services sector activity slumped to a four-year low, according to ISM PMI data, while manufacturing activity continued to contract

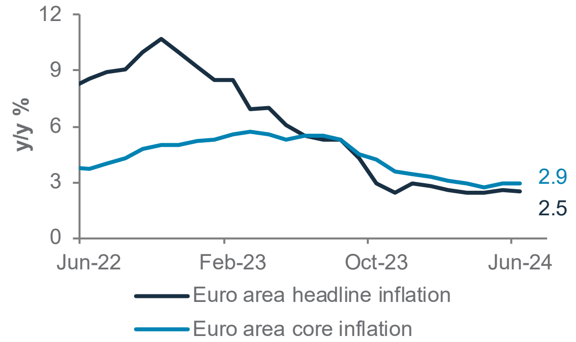
US ISM services and manufacturing PMIs



Source: Bloomberg, Standard Chartered

Euro area disinflation has stalled in recent months

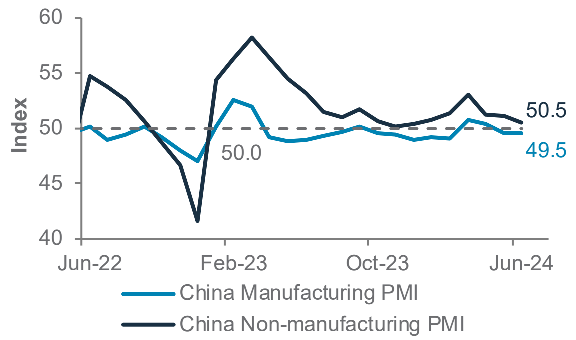
Euro area headline and core inflation



Source: Bloomberg, Standard Chartered

China's manufacturing and services sector activity both slowed more than expected in June

China official manufacturing and non-manufacturing PMIs



Source: Bloomberg, Standard Chartered

Top client questions

What is the outlook for US government bond yields following the latest US presidential election debate?

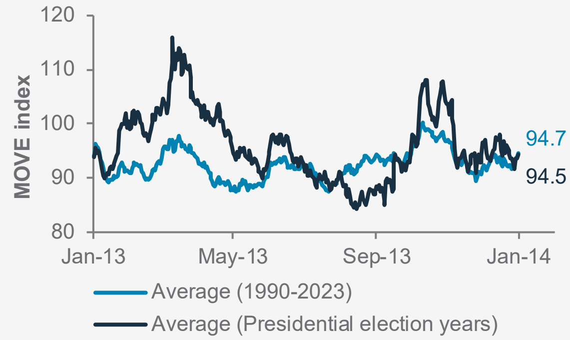
Betting markets and polls saw odds of a Trump presidency rise after the US presidential debate and the Supreme Court's presidential immunity ruling. This raised questions of what a Trump victory would mean for bond markets; the sharp uptick in US government bond yields at the start of the week offers a clue. As we discussed previously, Trump's proposed economic policies are focused on tax cuts, protectionism, illegal immigration and low policy rates, which are generally inflationary in nature. As such, US bond yields, especially longer maturity yields, are likely to see some upward pressure as the prospect of a Trump victory increases. Short-term technical indicators for the US 10-year yield suggest resistance sits at 4.40% and 4.52%. The greater upward pressure on the long-end yield is also consistent with our expectations of a steeper 10y-2y yield curve (ie, the gap between 10y and 2y yields) in the next 6-12 months. The 10y-2y government bond spread jumped after Trump's win in the 2016 presidential election.

In the near term, bond market volatility is likely to rise, especially as we approach the November's election. Historically from July until November, the MOVE index, a gauge of bond market volatility, tends to move much higher in election years than non-election years. That said, growth and inflation data and central bank policies remain much more important in the near term, in our view.

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

US bond market volatility spikes more in an election year than in a non-election year

US government bond volatility index (MOVE)



Source: Bloomberg, Standard Chartered

The French government bond yield premium has declined this week on expectation the far-right will fall short of a majority in this weekend's election

French 10-year government bond yield premium over German bonds

Source: Bloomberg, Standard Chartered

What are the FX market implications of the UK and French elections?

The EUR may be set for a brief relief rally over the next couple of weeks. EUR/USD had dipped briefly below 1.070 alongside the surge in French government bond yield spreads over German bunds after the surprise French election announcement. However, market concerns of an absolute majority for National Rally, a scenario that could result in rising fiscal deficits, appear to be abating. French bond yield spreads have started to decline, and EUR/USD has rebounded to test the 200DMA. Short of a surprise in exit polls on Sunday, we expect markets will quickly move on. This likely means a relief rally in EUR/USD towards resistance at 1.090 and 1.098 over the next 1-2 weeks, after which the focus is likely to return to the likely path of ECB rate cuts. The next ECB policy meeting is on 18 July, and we expect EUR/USD to move to 1.060 over three months.

The bias for GBP/USD may similarly be to the upside for now. A Labour party win is likely priced in, currency volatility is lower than levels experienced during past elections and the focus likely remains firmly on BoE policy. For now, we expect GBP/USD to test resistance just above 1.280 amid a largely rangebound 3-month outlook.

— **Manpreet Gill,** *Chief Investment Officer, AMEE*

UK election outcome is likely consistent with rangebound GBP/USD view for now; key resistance sits just above 1.28

GBP/USD and key near-term technical resistance

Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

What are your expectations from the upcoming US Q2 24 earnings season?

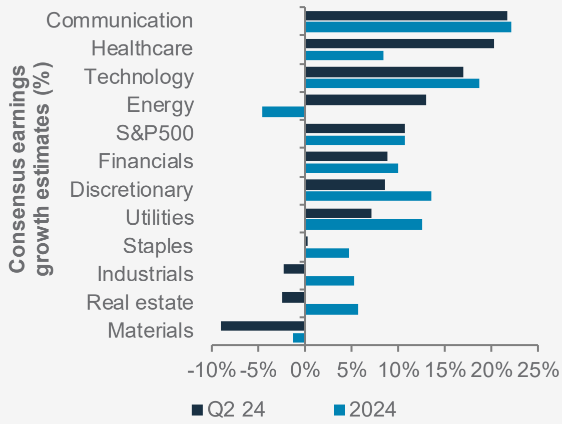
The US Q2 24 earnings season will commence next week, starting with reports from major US banks on 12 July. According to LSEG I/B/E/S, consensus expectations are for the S&P 500 index to deliver 10.6% y/y earnings growth in Q2 24, led by the communication services (+21.7%), healthcare (+20.2%) and technology (16.9%) sectors. In contrast, the materials (-9.1%) and real estate (-2.5%) sectors are likely laggards. Earnings expectations for FY24 has also been revised higher to 10.7% from below 10.0% at the start of April.

We believe (i) positive earnings revision in US markets, ie, the number of companies with upward earnings revisions exceeds those with downward revisions, (ii) strong return on equity, and (iii) a potential Fed rate cut in H2 24 will support a continued uptrend in US equities, especially in growth stocks, despite macro uncertainties. In particular, we favour sectors with high earnings growth expectations, including technology and communication services, to capture the rising momentum in AI investments and cloud computing. We expect the AI-theme to broaden out from the initial "Magnificent Seven" companies to other sub-industries in the technology sector, including semiconductor, software and AI-powered personal computer companies.

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

US Technology and Communication Services sectors have some of the highest earnings growth estimates for Q2 and 2024

Consensus expectations for Q2 2024 and full year 2024 earnings growth by sector



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

Japan equities have delivered strong returns on local JPY terms. Should USD-based investors add exposure?

Japan equities have strong short-term positive momentum. A weaker JPY continues to be one key driver of this, in our view. The tailwinds from the global tech rally is another, enhanced locally by the favourable business plans from Japan's semiconductor companies.

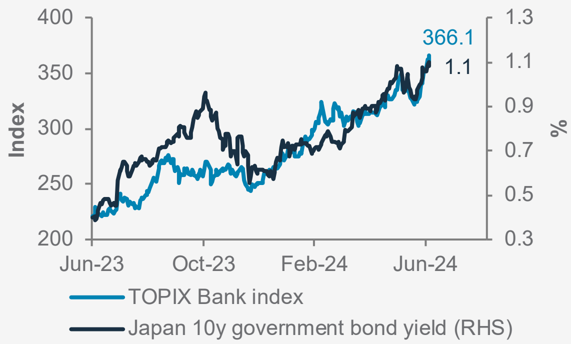
On balance, we maintain a core holding (Neutral) view on Japan equities. We believe the JPY will strengthen over the next 12 months, led by an eventual divergence in monetary policies between the Fed (easing) and the BoJ (tightening). While a rebound in the JPY may temporarily weigh on Japan equities, it is likely to be offset by positive fundamental factors, including improving corporate governance. In addition, the valuation of MSCI Japan continues to look reasonable at a 12m forward P/E of 16x, around its historical average.

Within Japan equities, we recently added a new opportunistic idea on Japan banks, given improving interest margins and profitability. The 10-year Japan Government Bond yield is approaching its highest level since 30 May. Potential tightening from the BoJ and a steepening yield curve would also boost banks' interest income. Recent inflation data has been supportive of our idea, with Tokyo CPI ex-fresh food rising to 2.1% in June from 1.9% in May, above market consensus.

— **Jason Wong,** *Equity Analyst*

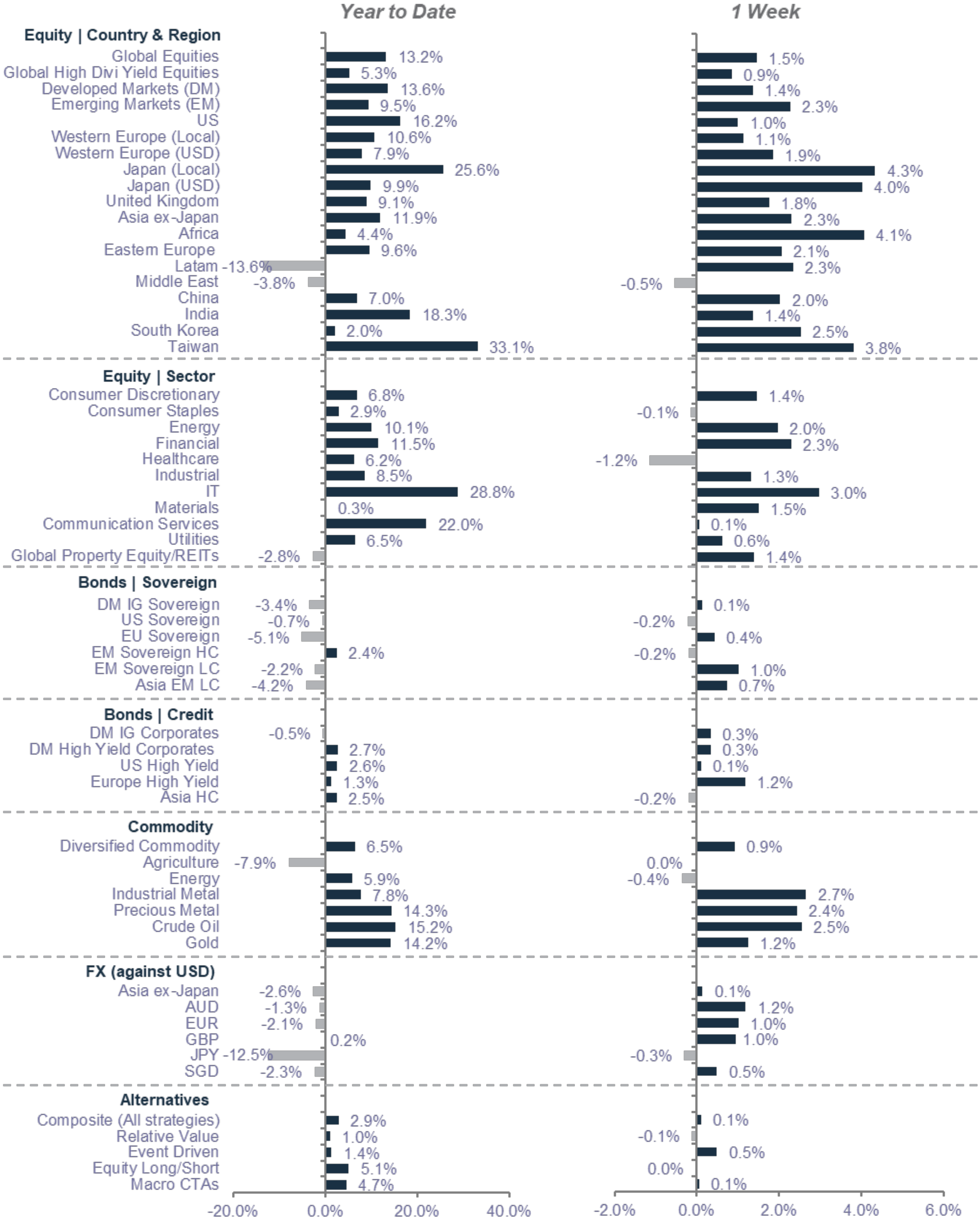
Higher bond yields and a wider gap between short- and long-maturity yields are likely to boost Japan banks' interest income

TOPIX Bank Index and Japanese 10-year government bond yield



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 04 July 2024; 1-week period: 27 June 2024 to 04 July 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)	◆		
Govt EM Local	▼	**Gold**	◆
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	EC	Sentix Investor Confidence	Jul	–	0.3
TUE	US	NFIB Small Business Optimism	Jun	89.0	90.5
	CH	Money Supply M2 y/y	Jun	6.7%	7.0%
	US	Fed's Powell Semiannual Monetary Policy Report to Congress	Jul (9-Jul-24 – 10-Jul-24)		
WED	CH	PPI y/y	Jun	-0.8%	-1.4%
	CH	CPI y/y	Jun	0.4%	0.3%
THU	UK	Industrial Production y/y	May	–	-0.4%
	US	CPI y/y	Jun	3.1%	3.3%
	US	CPI Ex Food and Energy y/y	Jun	3.4%	3.4%
FRI/SAT	US	PPI Final Demand y/y	Jun	–	2.2%
	US	PPI Ex Food and Energy y/y	Jun	–	2.3%
	US	U. of Mich. Sentiment	Jul P	67.0	68.2
	CH	Exports y/y	Jun	7.9%	7.6%
	CH	Imports y/y	Jun	3.2%	1.8%
	CH	Trade Balance	Jun	$84.20b	$82.62b

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&P 500 has next interim resistance at 5,639

Technical indicators for key markets as of 04 July close

Index	Spot	1st support	1st resis-tance	12m forward P/E (x)	12m forward dividend yield (%)
S&P 500	5,537	5,334	5,639	21.4	1.4
STOXX 50	4,987	4,844	5,107	13.4	3.4
FTSE 100	8,241	8,129	8,331	11.6	3.9
Topix	2,898	2,760	2,969	15.7	2.3
Shanghai Comp	2,958	2,895	3,057	10.6	3.5
Hang Seng	18,028	17,499	18,641	8.6	4.3
Nifty 50	24,302	22,255	25,375	20.9	1.4
MSCI Asia ex-Japan	709	683	722	13.1	2.6
MSCI EM	1,104	1,067	1,123	12.3	2.9
WTI (Spot)	83.9	76.8	87.4	na	na
Gold	2,357	2,300	2,401	na	na
UST 10Y Yield	4.36	4.20	4.50	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 remains healthy across asset classes

Our proprietary market diversity indicators as of 04 July close

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↑	2.19
Global Equities	◐	→	1.45
Gold	●	↑	1.72
Equity			
MSCI US	◐	↓	1.40
MSCI Europe	●	↑	1.91
MSCI AC AXJ	◐	→	1.45
Fixed Income			
DM Corp Bond	●	→	1.80
DM High Yield	●	↑	1.62
EM USD	●	↑	1.79
EM Local	●	↓	1.73
Asia USD	●	→	1.66
Currencies			
EUR/USD	●	↓	1.81

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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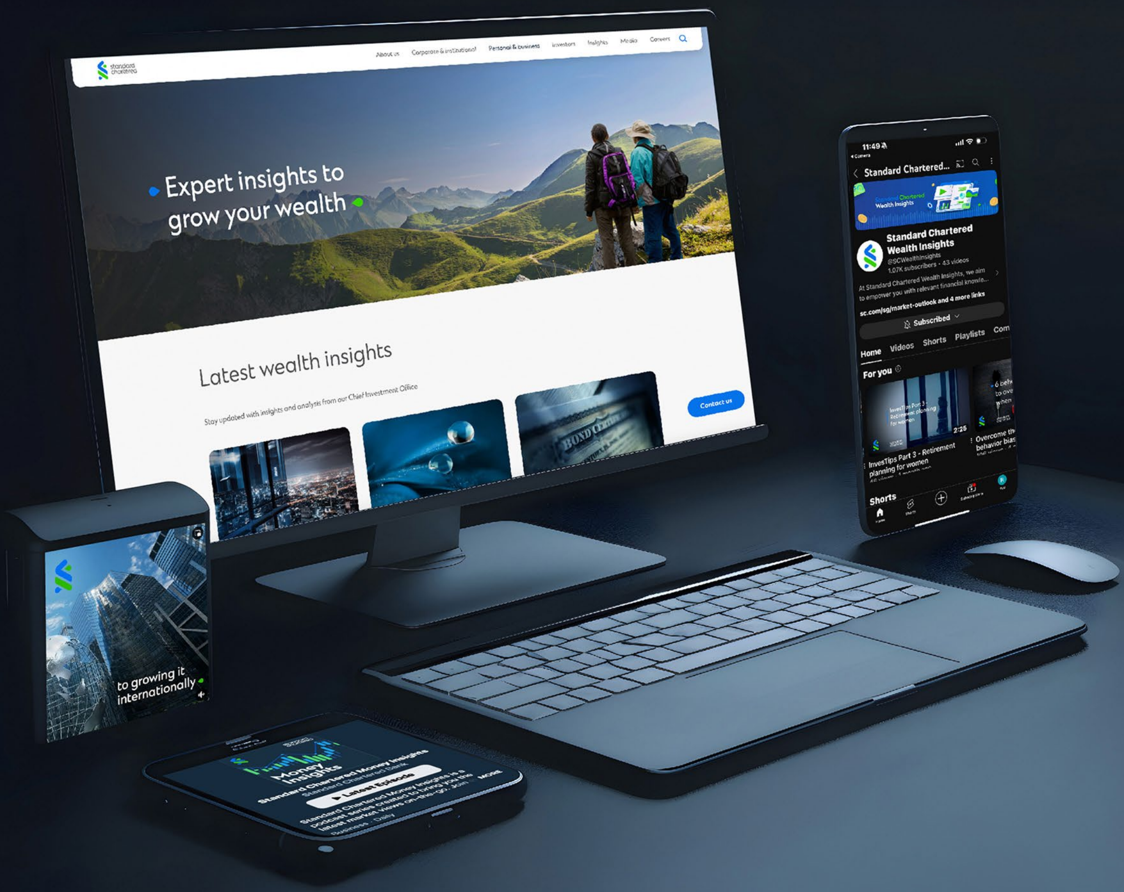

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