



# Weekly Market View

## Tables turning?

→ US, Europe and Japan equity markets hit all-time highs this week. Yet, beneath this upturn, markets are seeing a nascent switch in leadership. Since the Lunar New Year, China equities have outperformed Developed Markets on the back of a strong rebound in domestic tourism and another raft of stimulus measures.

→ There is rising chance of a tactical upside in China and Asia-ex-Japan equities in the near term. Nevertheless, some investors are still waiting for more forceful demand-side fiscal and credit stimulus measures to revive the property sector and boost business confidence for a sustained upturn in China equities. China's upcoming National People's Congress in March will be closely watched.

→ Meanwhile, the US, backed by strong corporate earnings (especially in our preferred sectors) and Japan, backed by strong inflows, remain our top picks in global equity markets. Meanwhile, the US and European healthcare sector's earnings resilience through economic cycles make it an attractive sector to add exposure on any pullbacks.

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What are the implications of China's latest policy measures on its equity and bond markets?

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How did the latest US earnings season fare? How does it impact the outlook for growth stocks?

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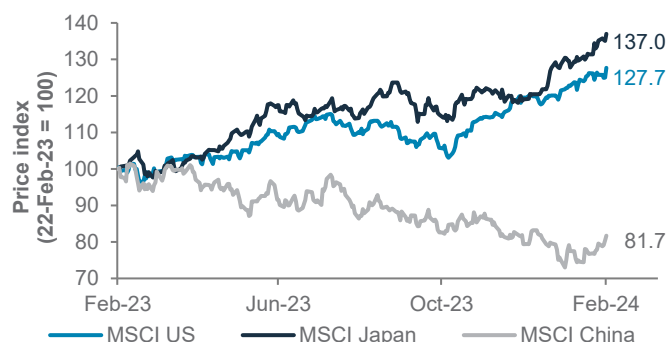
Should investors add investment grade corporate bonds when yield premiums versus government bonds are tight?



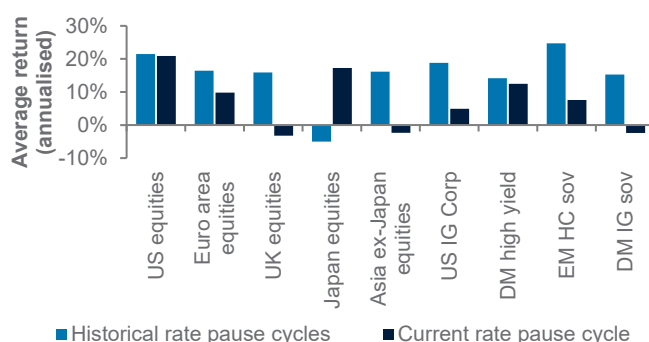
## Charts of the week: Narrowing the gap

**China equities await more forceful policy support to rebound sustainably; meanwhile, a Fed pause is good for US stocks**

One-year performance of US, Japan and China equities\*



Return of asset classes during Fed rate pauses before cuts^



Source: Bloomberg, Standard Chartered; \*relative returns (Index: 100 = 22 February, 2023); ^based on four Fed rate pauses over the past 30 years

## Editorial

### Tables turning?

US, Europe and Japan equity markets hit all-time highs this week. Yet, beneath this upturn, markets are seeing a nascent switch in leadership. Since the Lunar New Year, China, and more broadly Asia ex-Japan and other Emerging Markets, have outperformed Developed Markets (DM) on the back of a strong rebound in China's domestic tourism during the holidays and another raft of stimulus measures from Beijing. While it has only been a few days, is this the start of a new trend?

There is rising chance of a tactical upside in China and Asia-ex-Japan equities in the near term as China's authorities roll out measures to revive consumer and business sentiment (see page 4). Nevertheless, some investors are still waiting for more forceful demand-side fiscal and credit stimulus measures to revive the property sector and boost business confidence for a sustained upturn in China equities. China's upcoming National People's Congress in March will be closely watched for further measures. Meanwhile, US and Japan, the two outperformers YTD, remain our preferred global equity markets.

**Developed Markets at all-time highs:** This week, major US equity benchmarks scaled new record highs, while Europe's Stoxx600 index broke above 2022's record and Japan's Nikkei 225 index broke above 1989's record to scale new highs. This milestone raises the obvious question: are we going to see the continuation of this rally in DM equities? To the extent that the ongoing rally is driven by strong earnings, especially in the case of the US and Japan, a mania-like momentum in stocks linked to the Artificial Intelligence wave in the US, a nascent recovery in the US manufacturing cycle and strong global services activity (as seen from the latest PMI data), this rally is likely to have further legs. However, positioning remains stretched in the US, which raises the chances of a near-term consolidation.

**Leadership switch to Japan?** The equity market milestone raises another question: will there be a shift in DM leadership?

Japan looks to be a serious contender to outperform the US for the rest of the year (our two preferred equity markets are neck-and-neck in USD terms – US up 6.7% vs. Japan's 6.5% YTD). Japan equities continue to be backed by sustained foreign and domestic inflows. Investors have been attracted to the market by strong corporate earnings at exporters who are benefitting from a weak JPY, the downturn in China equities, relatively attractive valuation vs US equities, and other investor-friendly measures, such as improving corporate governance and state incentives for households to invest in domestic stocks.

**US earnings leadership:** However, it is hard to see the US giving up leadership easily, especially with the continued boom in our preferred technology and communications sectors. The latest Q4 earnings season bolstered the case for the two sectors, which delivered solid earnings beats on the back of stellar revenue growth (see page 5). Earnings at the now so-called 'Magnificent Six' stocks (Alphabet, Amazon, Apple, Meta, Microsoft and Nvidia) surged 70% y/y, vs. 9.6% growth for the overall S&P500 index. Also, Fed rate pauses ahead of rate cuts have historically been good for global equities, and US equities in particular (see chart above). We expect the Fed to cut rates in June, which means the current Fed pause would be slightly longer than the average pause (9 months) over the past 30 years. This leaves room for further upside in US equities.

**Investment implications:** The US, backed by strong corporate earnings (especially in our preferred sectors) and Japan, backed by strong inflows, remain our top picks in global equity markets. Meanwhile, the US and European healthcare sector's earnings resilience through economic cycles make it an attractive sector to add exposure on any pullbacks. In China, while we await further policy measures, we would add exposure to technology, communication services and consumer discretionary sectors, which are likely to benefit the most from policies to drive innovation to boost China's competitiveness and from the nascent upturn in consumer demand.

## 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

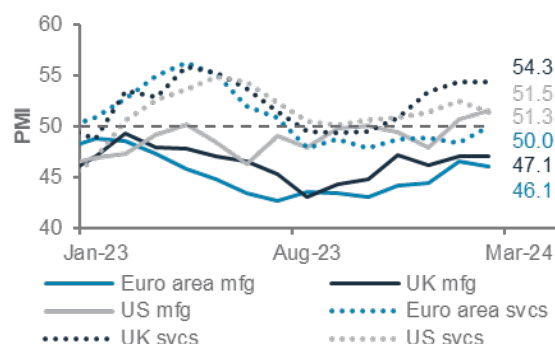
**(+) factors:** Supportive China policies, strong China CNY holiday data

**(-) factors:** Hot US wholesale inflation, geopolitical tensions

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> <li>US mfg. PMI rose unexpectedly to 51.5</li> <li>US existing home sales rose more than expected</li> <li>Euro area consumer confidence improved as expected</li> <li>Euro area services PMI rose more than expected to 50.0</li> <li>China travel and spending during the CNY holiday period was higher than pre-pandemic</li> </ul>	<ul style="list-style-type: none"> <li>US producer prices rose more than expected by 0.3% m/m; core prices rose more than expected by 0.5% m/m</li> <li>US services PMI fell more than expected to 51.3</li> <li>Euro area mfg. PMI fell unexpectedly to 46.1</li> <li>US consumer sentiment rose less than expected</li> <li>US leading index fell more than expected</li> <li>US housing starts and building permits fell unexpectedly</li> </ul>
	<b>Our assessment: Negative</b> – Higher-than-expected US wholesale inflation, declining US leading index, housing data	
Policy developments	<ul style="list-style-type: none"> <li>China cut five-year loan prime rate more than expected by 25bps</li> <li>China's state media reported that banks have approved USD 17bn of loans for select developers</li> <li>China stock exchanges clamped down on quant fund selling</li> </ul>	<ul style="list-style-type: none"> <li>Fed meeting minutes showed policymakers were reluctant to cut rates pre-emptively unless they see clear signs of sustained disinflation</li> <li>ECB minutes suggest consensus on risk of cutting rates too early</li> </ul>
	<b>Our assessment: Positive</b> – Supportive China policies	
Other developments		<ul style="list-style-type: none"> <li>Israel stated it would launch a ground offensive in mid-March unless the hostages are released</li> <li>More attacks in the Red Sea by the Houthis</li> </ul>
	<b>Our assessment: Negative</b> – Geopolitical tensions	

### Service sector business confidence remains robust in the UK and US and is rising in the Euro area; US manufacturing is recovering as well

US, Euro area and UK manufacturing and services PMIs



Source: Bloomberg; Standard Chartered

### Euro area consumer confidence held up, mirroring a recovery in economic growth expectations

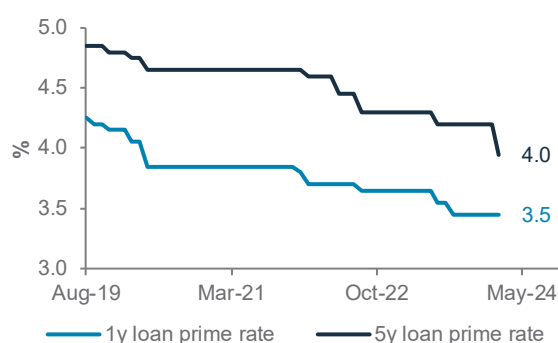
Euro area consumer confidence



Source: Bloomberg; Standard Chartered

### China's central bank cut its benchmark lending rate for five-year loans primarily used for mortgages to revive demand for properties

China's one-year and five-year loan prime rates



Source: Bloomberg; Standard Chartered

## Top client questions

### Q What are the implications of China's latest policy easing measures on the country's equities and bonds?

A fresh round of supportive policy measures in China were reported last week: (i) The PBOC cut the five-year loan prime rate – the key mortgage reference rate – by the most on record (25bps); (ii) banks are reported to have approved CNY 123.6bn of loans for select developers; (iii) The authorities increased scrutiny on domestic quant funds for allegedly contributing to an earlier equity market sell-off.

In the context of bonds, the first and second measures are more significant. China's property developers' USD bonds – mostly rated High Yield (HY) and likely direct beneficiaries – rallied 2.1% this week. However, while these targeted policies are positive at the margin, we believe they are insufficient to bring about a sustained price recovery for the sector's bonds. First, housing prices continue to fall, keeping buying intentions depressed. Second, the loans can be used only for unfinished property projects. Third, the weaker developers, especially privately owned, are still likely to face difficulty accessing stable financing. By contrast, we see better opportunities in other sectors within Asia HY bonds, such as Macau gaming and India renewables sectors. Macau's gross gaming revenue (GGR) recovery is likely to extend in 2024, while India renewables sector should continue to benefit from a positive momentum in the broader economy.

For equities, we believe the latest set of measures signal further easing is likely in the pipeline, which in turn should help in putting a floor under China equities. The Hang Seng index is experiencing a "double-bottom" support at 15,400. Positioning is light compared to US equities. Mixed messages on the US economy are likely to extend uncertainty over Fed's policy, which is likely to prompt some short-term rotation into China equities.

That said, we continue to believe that a significant improvement in the economy is needed to sustain any market rally. Deflationary headwinds are one risk. Producer and consumer prices are declining, house prices are falling and homebuyers' sentiment remains depressed. Relatively elevated real interest rates are another related risk.

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

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

### China's housing market remains weak amid depressed homebuyers' sentiment

China home prices, house price diffusion index (RHS)



Source: Bloomberg, Standard Chartered

\*Measures the percentage of cities exhibiting higher prices plus half of those with unchanged prices

### Policy stimulus helping place a floor under Chinese equities

Hang Seng Index



Source: Bloomberg, Standard Chartered

## Top client questions (cont'd)

### Q How did the US earnings season fare? How does it impact the outlook for growth stocks and buying opportunities?

About 80% of companies in the S&P500 index have reported Q4 23 earnings with encouraging results. According to LSEG I/B/E/S, 80% of reporting companies have beat consensus earnings estimates, above the long-term average beat rate of 67%. Earnings surprises have been broad, with all 11 sectors enjoying a positive earnings surprise. Earnings in Q4 23 are expected to grow 9.6%, up from 4.7% expected at the start of the year. Similarly, FY 23 earnings growth has been revised up to 4.0% from 2.9% previously; the higher base has led to 2024 earnings growth being revised down to 9.5% from 11.1% previously.

With robust earnings growth and an expected decline in bond yields, we are positive on growth stocks, albeit with a preference for specific areas such as cloud computing, AI investments and the semiconductor industry. We like the technology and communication services sectors, which we expect would outperform the broader market over the next 6-12 months. Besides these growth sectors, we also like the healthcare sector as part of a “barbell” strategy to provide defensive exposure in the event US economic growth weakens. However, we see stretched investor positioning in healthcare at present and would prefer to wait for a pullback before considering adding exposure.

— Fook Hien Yap, Senior Investment Strategist

### Q Should investors add IG corporate bonds when yield premiums versus government bonds are tight?

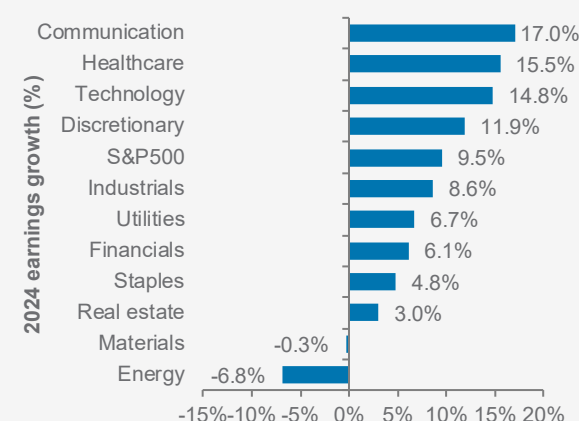
IG corporate bond yield premiums over government bonds are now close to historical lows. We attribute the tight premium to (i) strong demand for high quality corporate credit and (ii) stronger-than-expected earnings releases on average. Nominal yields remain at an attractive level given higher benchmark government bond yields. IG credit fundamentals have remained strong, with rating upgrades continuing to outpace downgrades. A sharp economic slowdown remains a risk to credit quality, but strong corporate balance sheets should help offset the impact of a mild recession.

Therefore, despite elevated valuations, we believe IG bonds remain compelling relative to cash. While cash yields appear optically comparable with those on IG bonds, high quality corporate bonds offer the ability to lock yields for a longer period of time, in addition to the prospect of capital gains from falling USD bond yields. We hold a Neutral view on Developed Market (DM) IG corporate bonds and Asia USD bonds, an allocation we believe balances the risk/reward.

— Cedric Lam, Senior Investment Strategist

### Our preferred US equity sectors (technology, communication services and healthcare) are expected to deliver the highest earnings growth in 2024

Consensus 2024 earnings growth by sectors in the S&P500 index



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

### Global Investment Grade corporate bond nominal yields are attractive despite tight yield premiums

Global aggregate corporate bond yield and yield premium



Source: Bloomberg, Standard Chartered

## Top client questions (cont'd)



### What is the near-term outlook for NZD/USD?

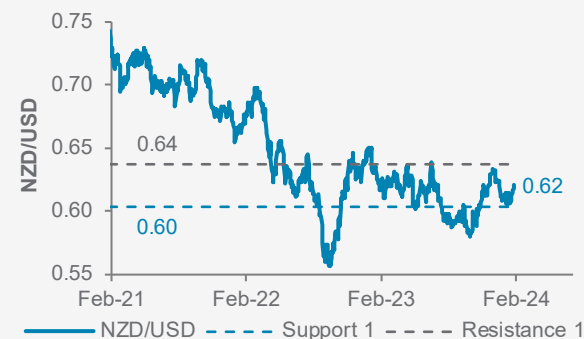
Recent economic data in New Zealand has remained resilient. Business performance of the manufacturing index in January improved to a six-month high of 47.3 and that of the services index moved into the expansionary territory of 52.1. The latest rise in debit card retail spending growth indicated a recovery in consumption spending. However, two-year household inflation expectations rose to 3.2%, from 3.0%, based on the latest RBNZ survey. This data is closely watched as the central bank considers this time horizon as key to gauge monetary policy effectiveness.

We expect the RBNZ to hold the cash rate at 5.5%, and markets currently see no rate cuts till the end of 2024. This contrasts with likely earlier cuts from other major central banks. In the immediate term, we see good risk/reward on NZD/USD amid this likely interest rate differential advantage. Momentum also suggests potential near-term upward pressure for the currency pair towards its resistance level at 0.6370.

— Iris Yuen, Investment Strategist

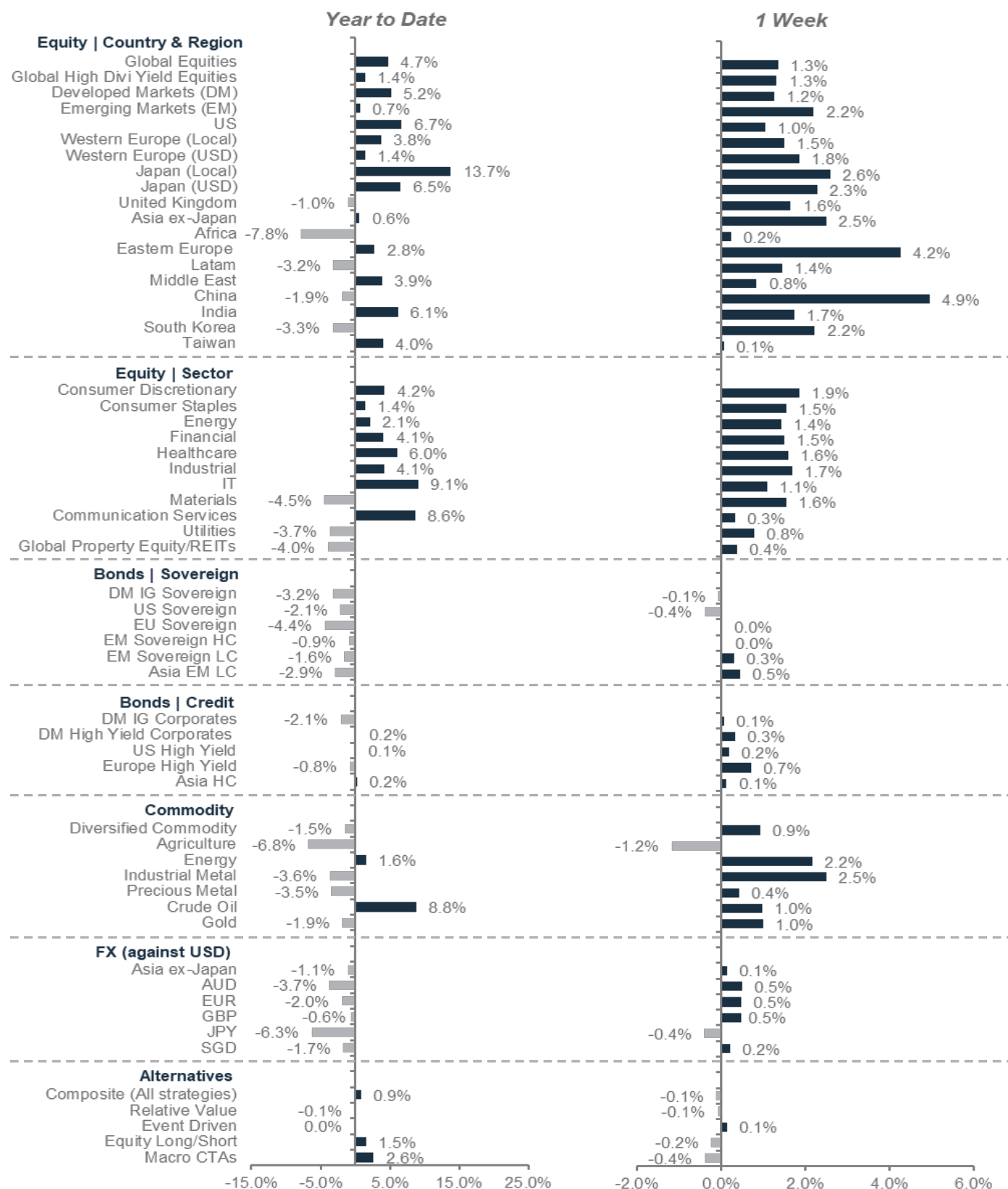
### New Zealand's economic resilience is likely to underpin NZD/USD

NZD/USD, with its key 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 22 February 2024; 1-week period: 15 February 2024 to 22 February 2024



## Our 12-month asset class views at a glance

Asset class	
<b>Equities</b>	▲
Euro area	◆
US	▲
UK	▼
Asia ex-Japan	◆
Japan	▲
Other EM	◆
<b>Bonds (Credit)</b>	◆
Asia USD	◆
Corp DM HY	◆
Govt EM USD	▼
Corp DM IG	◆
<b>Bonds (Govt)</b>	▲
Govt EM Local	◆
Govt DM IG	▲

<b>Preferred Sectors</b>	
US Communication	▲
US Technology	▲
US Healthcare	▲
Europe Technology	▲
Europe Healthcare	▲
China Discretionary	▲
China Communication	▲
China Technology	▲
<b>Alternatives</b>	◆
<b>Gold</b>	◆

Source: Standard Chartered Global Investment Committee

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

## S&P500 index has immediate resistance at 5,124

Technical indicators for key markets as of 22 February close

Index	Spot	1st support	1st resis- tance	12m forward P/E (x)	12m forward dividend yield (%)
S&P 500	5,087	5,013	5,124	20.7	1.5
STOXX 50	4,855	4,792	4,887	13.5	3.7
FTSE 100	7,684	7,655	7,721	11.2	4.2
Topix	2,661	2,637	2,673	15.9	2.3
Shanghai Comp	2,988	2,936	3,014	10.1	3.5
Hang Seng	16,743	16,351	16,939	7.9	4.5
Nifty 50	22,217	22,100	22,276	20.3	1.5
MSCI Asia ex-Japan	645	638	648	12.4	2.8
MSCI EM	1,029	1,021	1,034	11.8	3.1
WTI (Spot)	79.7	78.7	80.2	na	na
Gold	2,024	2,017	2,029	na	na
UST 10Y Yield	4.32	4.29	4.34	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	New Home Sales	Jan	685k	664k
	EC	M3 Money Supply y/y	Jan	–	0.1%
TUE	US	Durable Goods Orders	Jan P	-4.5%	0.0%
	US	Conf. Board Consumer Confidence	Feb	114.8	114.8
WED	EC	Economic Confidence	Feb	–	96.2
THU	US	PCE Deflator y/y	Jan	2.4%	2.6%
	US	PCE Core Deflator y/y	Jan	2.8%	2.9%
	US	MNI Chicago PMI	Feb	–	46.0
FRI/SAT	CH	Manufacturing PMI	Feb	49.5	49.2
	CH	Non-manufacturing PMI	Feb	–	50.7
	CH	Caixin China PMI Mfg	Feb	50.7	50.8
	EC	CPI Estimate y/y	Feb	–	–
	EC	CPI Core y/y	Feb P	–	–
	EC	Unemployment Rate	Jan	–	6.4%
	US	ISM Manufacturing	Feb	49.1	49.1

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 equity markets

Our proprietary market diversity indicators as of 22 February

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↑	1.54
Global Equities	○	→	1.28
Gold	●	↑	1.67
<b>Equity</b>			
MSCI US	○	→	1.28
MSCI Europe	○	→	1.36
MSCI AC AXJ	●	↓	1.65
<b>Fixed Income</b>			
DM Corp Bond	○	↑	1.49
DM High Yield	○	→	1.34
EM USD	○	↑	1.42
EM Local	●	↑	1.55
Asia USD	○	→	1.40
<b>Currencies</b>			
EUR/USD	●	↑	1.74

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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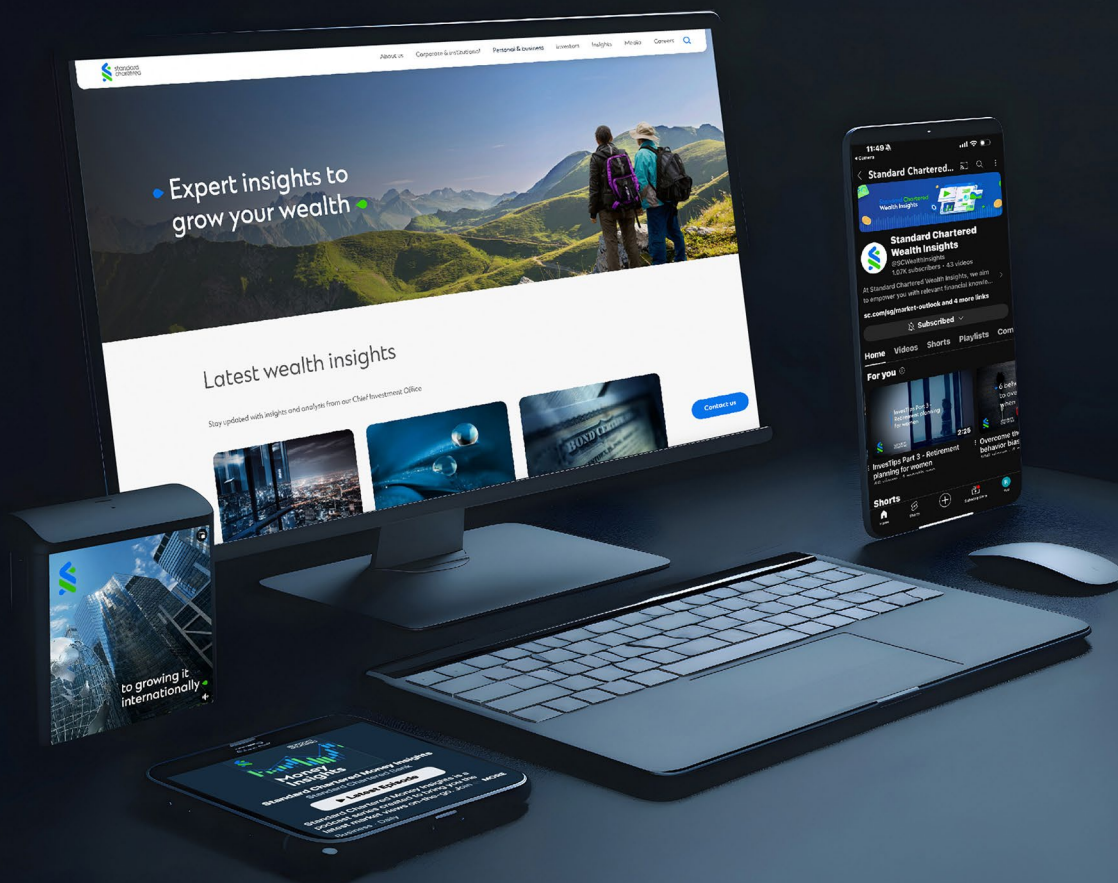
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