



Weekly Market View

The race to boost Asian valuations

→ Asia ex-Japan equity markets saw a revival in investor sentiment this week. The trigger: attempts by policymakers in China and Korea to boost equity market valuations and revive investor confidence. These measures follow Japan's arguably successful efforts in recent years to improve shareholder value.

→ While China's measures are promising, its fundamentals will need to improve for a sustainable rally in equities to take hold. While China equities remain a core holding in our Asian foundation allocations, we see tactical opportunities in its state-owned enterprises sector as they respond to the government's attempts to boost shareholder value.

→ South Korea remains our preferred equity market in Asia ex-Japan; the latest government proposals to boost valuations supports this preference.

→ Globally, the US equity market, with its relatively higher return on equity, and Japan, with earnings tailwinds from a weak JPY, remain our preferred equity markets.

Do you expect China's latest stimulus measures to mark the trough for Chinese equities?

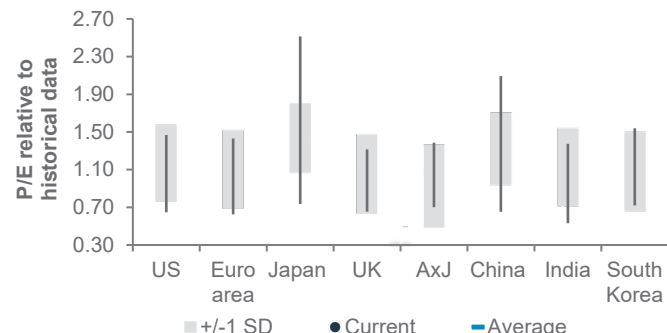
What are the implications of China's latest policy measures on Asia's High Yield bond markets?

What is the outlook for the AUD after the RBA's latest policy meeting?

Charts of the week: A wide dispersion in value

India and Taiwan, the most expensively priced Asian equity markets, are backed by strong return on equity estimates

P/E ratios of key equity markets vs own history



Valuation and earnings metrics of key Asian equity markets*

	Price-to-earnings ratio	Price-to-book ratio	Earnings-per-share growth	Return on equity
Japan	14.9	1.4	9.6	9.4
China	8.8	1.0	15.5	11.4
South Korea	11.2	1.0	62.2	8.7
India	22.5	3.6	17.1	16.2
Hong Kong	11.6	0.8	15.8	7.0
Taiwan	16.1	2.3	18.3	14.1

Source: Bloomberg, Standard Chartered; *all valuation metrics are based on 12-month forward earnings estimates

Editorial

The race to boost Asian valuations

Asia ex-Japan equity markets saw a revival in investor sentiment this week. The trigger: attempts by policymakers in China and Korea to boost equity market valuations and revive investor confidence. These measures follow Japan's arguably successful efforts in recent years to improve shareholder value. While China's measures are promising, its fundamentals will need to improve for a sustainable rally in equities to take hold.

While China equities remain a core holding in our Asian foundation allocations, we see tactical opportunities in its state-owned enterprises sector as they respond to the government's attempts to boost shareholder value. South Korea remains our preferred equity market in Asia ex-Japan; the latest government proposals to boost valuations supports this preference (see page 6). Globally, the US equity market, with its relatively higher return on equity, and Japan, with earnings tailwinds from a weak JPY, remain our preferred equity markets.

Reviving China's investor confidence: China's authorities have taken steps to stem a continued slide in its equity markets. These range from policy rate cuts, measures to boost bank lending, restricting short-selling and directing state funds to boost equity purchases. This week, it replaced its top securities market regulator. While the measures suggest a more coordinated effort to revive investor confidence, more forceful fiscal and monetary policies are needed to revive business and consumer confidence, support the property sector and reverse growing deflationary pressures – this week, data showed consumer prices slumped the most y/y since 2009. Until then, we see tactical opportunities in China's state-owned enterprises sector, which is likely to be the first to respond to government directives to boost shareholder value through stock buybacks and higher dividend payments (see page 4). We also prefer communication services, technology and consumer discretionary sectors in China, which are likely to benefit the most from the government's targeted policy measures.

US remains top preference globally: The stronger-than-expected Q4 23 earnings season supports our preference for the US equity market globally. While average earnings growth is now estimated at 9%, up from the 4.7% expected at the start of January, our preferred communications services (+54%) and technology (+21%) sectors have delivered among the strongest earnings growth. In terms of revenue growth, our three preferred US sectors - healthcare (7.7%), technology (+7%) and communications services (+6.5%) sectors - topped the rankings on the back of structural drivers such as Artificial Intelligence, cloud computing and demand for semiconductors.

Sustained US economic resilience: January's data showed the US economy continues to generate more jobs than expected (although falling number of weekly hours worked suggests underlying demand for labour is softening). Meanwhile, still-robust services sector and a cyclical pick-up in manufacturing suggests the post-COVID expansion could extend longer than previously expected. The Atlanta Fed GDPNow is projecting 3.4% annualised growth in Q1 2024.

Inflation pressures: Sustained economic growth amid a tight job market has raised the risk of a revival in wage pressures (average weekly earnings growth accelerated to 4.5% y/y and the Atlanta Fed's median wage growth, while slowing, remains high at 5% y/y). Also, manufacturers have started to pay higher prices for their inputs for the first time since April (ISM report). The strong data supports our view that the first Fed rate cut will come later than the market expects (we forecast a June cut).

Investor diversity and investor positioning in US equities remain stretched, sustaining the risk of a near-term pullback. Nevertheless, we remain Overweight US equity markets in our foundation allocation, given strong earnings and economic backdrop. To hedge against the risk of a revival in inflation, last month we added US short-duration inflation protected bonds to our portfolio. Other potential inflation hedges include gold, infrastructure assets and energy sector equities.

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

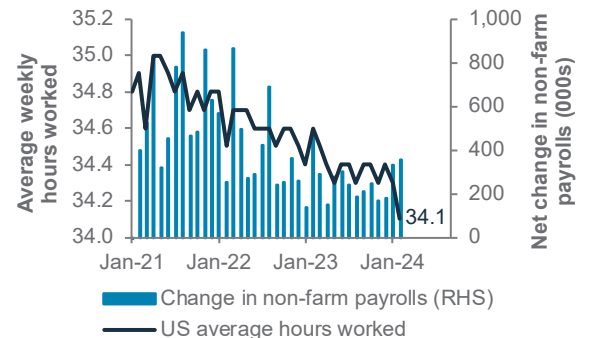
(+) factors: China policy support, strong US payrolls, ISM services, bond auction

(-) factors: Hawkish Fed comments, regional bank concerns

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> The US added more jobs than expected in January (353,000); job creation in the prior two months was revised higher by 126,000 US Atlanta Fed wage growth slowed to 5% US ISM services rose more than expected to 53.4 US Senior Loan Officer survey showed bank lending standards were less tight in Q4 23 Euro area Sentix investor confidence improved more than expected to -12.9 	<ul style="list-style-type: none"> US aggregate payrolls growth slowed to a two-year low; weekly hours worked fell to the lowest since 2020 US average hourly earnings growth accelerated to 0.6% m/m US ISM Manufacturing prices paid rose for the first time since April 2023 China consumer prices fell at the fastest pace since 2009; producer prices fell for the 16th month German industrial output fell more than expected Euro area retail sales fell more than expected
	Our assessment: Neutral – Blockbuster US payrolls, strong US ISM services versus falling weekly hours worked	
Policy developments	<ul style="list-style-type: none"> China regulators vowed more support for stock markets China replaced the head of its securities regulator The RBA kept rates unchanged, as expected 	<ul style="list-style-type: none"> Fed Chair Powell and other officials reiterated that a rate cut is unlikely in March
	Our assessment: Neutral – China supportive measures versus hawkish Fed comments	
Other developments	<ul style="list-style-type: none"> The largest US 10-year government bond auction was met with strong demand 	<ul style="list-style-type: none"> US regional bank Bancorp was downgraded by Moody's
	Our assessment: Neutral – Strong US bond auction versus regional bank concerns	

US job creation beat expectations in January, but underlying indicators suggest the demand for labour is slowing

US net new non-farm jobs, average hours worked



Source: Bloomberg; Standard Chartered

Euro area consumption was weaker than expected, but investor confidence improved more than expected

Euro area retail sales and Sentix investor confidence



Source: Bloomberg, Standard Chartered

China's deflation accelerated in January

China consumer and producer price inflation



Source: Bloomberg, Standard Chartered

Top client questions

Q Do you expect the latest stimulus measures from China's government to mark the trough for Chinese equities?

A series of supportive measures in China last week – including the replacement of the head of securities regulator and Central Huijin Investment's intensifying purchase of China's ETFs – has improved investor sentiment and halted the fall in Chinese equities YTD.

We expect a policy-driven rebound in both China's onshore and offshore market in the near term, led by the state's purchase of A-shares through the stock connect programme, alongside depressed valuations and light investors' positioning. We continue to believe China's state-owned enterprises (SOEs) look increasingly attractive – Beijing's recent focus on improving "market capitalisation management" for SOEs is expected to support their share price and enable them to weather uncertain market conditions.

That said, prolonged deflationary pressures will likely limit prospects of medium- to long-term upside in the market. China's consumer prices (CPI) fell for the fourth month in January, marking its steepest decline (-0.8% y/y) since the GFC in 2009. The Producer Price Index (PPI) in January beat estimates but remained in deflationary territory. A grander-scale, more forceful stimulus, designed to revive domestic demand and re-ignite the positive "loop-back" effect into consumption, is needed to boost sentiment on a sustainable basis.

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

Q What are the implications of China's latest policy measures on Asia's HY bond markets?

Asia High Yield (HY) bonds have delivered YTD return of c.3.0% and outperformed Asia Investment Grade (IG) by 3.2 percentage points. Policy support in China is undoubtedly key as China HY bonds account for about 26% of the asset class, and 52% when Hong Kong and Macau HY bonds are included. The rebound of Chinese property bonds was remarkable despite still-weak contract sales.

It is notable that price rebound of the non-property bonds, such as the financials and industrials, has followed suit. Non-China HY bonds have also contributed to the outperformance due to (i) positive issuer-specific developments, such as a successful Indian HY bond restructuring and expectations of a smooth election in Pakistan; and (ii) favourable supply-demand balance due to lack of Asia USD HY bonds supply.

We continue to expect Asia HY USD bonds to outperform their IG counterparts against the backdrop of global monetary easing prospects. However, a weaker-than-expected economic outlook, geopolitical uncertainties and any resulting rating downgrades or defaults are risks that need to be closely monitored.

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

China equity markets saw an uptick in foreign fund inflows from late January

Cumulative China northbound (Hong Kong to Mainland) net foreign inflows and MSCI China index



Source: Bloomberg, Standard Chartered

Asia HY USD bonds continue to offer attractive yield premium differentials over Asia IG USD bonds, despite the recent rally

Yield premium differentials



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q Is there a risk of weakness in commercial real estate (CRE) spreading to the global financial sector?

We have seen banks in the US, Europe and Japan warning recently about significant loan losses in the US CRE space, resulting in dramatic declines in the affected banks' share prices. None of the large or systemically important banks have been impacted so far, but concerns remain on how far this could spread. Within the US, small- to mid-sized banks hold most of the CRE loans. Senior bank executives and regulators have noted the CRE downcycle and associated problems are likely to take years to resolve, during which time we expect more small- to mid-sized banks to close or merge with stronger peers.

Technically, banks with ample capital can extend the maturity of CRE loans and effectively "spread out" the problem over several years to make it more manageable. What is more concerning is a sudden loss of confidence in a bank – for the right or wrong reasons – which can result in a "bank run", triggering a liquidity crisis. However, given the issue is already in the spotlight following several US bank failures last year, we expect regulators to be proactive in protecting the confidence in the financial system. More small- to mid-sized bank failures can be expected in this CRE downcycle, but we would not expect a significant crisis for the global financial sector.

— Fook Hien Yap, Senior Investment Strategist

Q What is the outlook for the AUD after the recent RBA meeting?

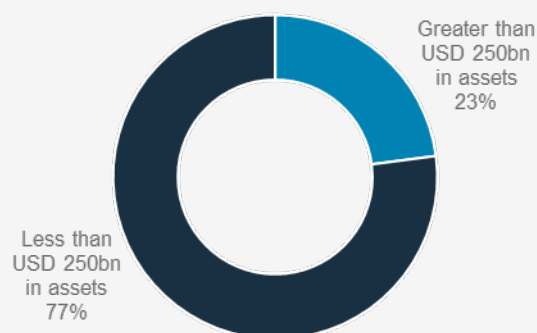
AUD/USD has weakened since the start of the year as investors took profit following the AUD's Q4 23 rally and as the greenback strengthened. However, the RBA held interest rates steady at its latest policy meeting, while cautioning a further increase could not be ruled out given inflation was still high. We see a low probability of a rate cut in H1 24 given the RBA was not in a rush to start easing policy anytime soon. Australia's Q3 23 economic growth stabilised at 2.1%. Although consumer inflation slowed in recent months, it remains high compared with most major economies.

We believe the RBA is likely to be one of the last central banks to cut rates. Hence, interest rate differentials are likely to act as a tailwind for AUD/USD, enabling the pair to test its resistance at 0.67. Meanwhile, China's consumer prices fell the most since 2009 in January. Rising deflation risk, soft domestic demand and property sector challenges are likely to put pressure on the CNH. Therefore, we initiated a bullish AUD/CNH view, with a target of 4.8270, to capture the divergence between the two economies.

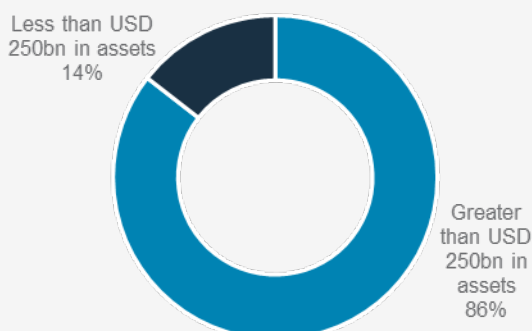
— Iris Yuen, Investment Strategist

Small- to mid-sized US banks account for 77% of commercial and real estate loans, although they account for only 14% of investible bank equities

Share of US CRE loans among small- to mid-sized banks (less than USD 250bn in assets) and large banks



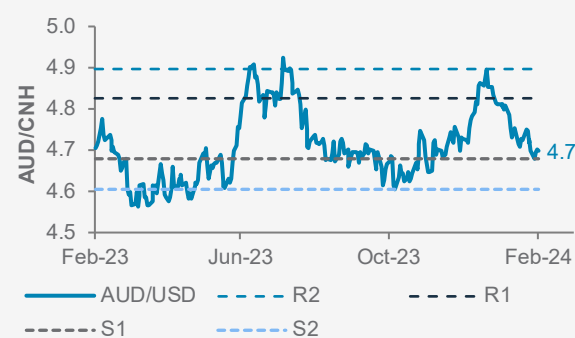
Weight in MSCI USA investible market index of banks of small- to mid-sized banks (less than USD 250bn in assets) and large banks



Source: FDIC, FactSet, Bloomberg, Standard Chartered

We have a bullish view on AUD/CNH on the back of rising interest rate differentials

AUD/CNH with technical support and resistance levels



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Do you expect South Korea's proposed legislations to improve shareholder returns to yield results?

The South Korean government has announced the 'Corporate Value-Up Program' to improve stock market efficiency. It is an effort to benchmark the Japanese stock market, which has been classified as a typical low price-to-book ratio (PBR) stock market alongside Korea's. Japan's equity market has delivered an outstanding performance in the last 12 months, supported by government policies to improve companies' corporate governance. South Korea's programme aims to encourage companies with a PBR of less than 1 to realise their value and to expand the tax-free benefits of the Individual Savings Account (ISA). Since the announcement of the programme, fund flows have been positive. Foreign funds have turned net buyers, and fund exposure has been broadening out from the semiconductor industry into low PBR sectors, such as banks, securities insurance and auto, as they are expected to benefit from the policy.

It is important to note the programme is still in the draft stage, and uncertainties remain on whether the policy will translate into actual, positive corporate actions. While the policy momentum has boosted low PBR sectors so far, we believe the market will eventually refocus on the fundamentals. As such, it is important for investors to focus on sectors with attractive valuations and high profitability.

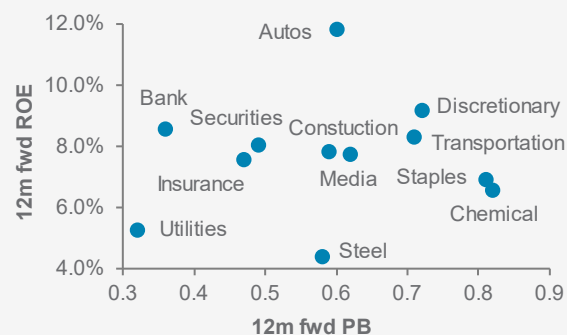
The auto sector is one such example. We expect this to outperform the broader Korean market on the back of robust sales volumes and an improving product mix toward higher-value vehicles. We have seen shareholder-friendly policies, such as share buy-backs in 2023, and more such plans are likely to be announced after the government's new measures are unveiled.

The government's proposal is a fresh tailwind that strengthens our Overweight recommendation for Korean equities within the Asia ex-Japan region. We expect continued recovery in South Korea's earnings estimates, led by improving demand-supply dynamics in the semiconductor industry. Compared to its regional peers, Korean equities are priced at a discount, especially versus Indian equities. Additionally, Korea's equity market does not suffer from the geopolitical and structural economic uncertainties faced by China's equity market.

— Dong Hee HONG & Jong Won CHOI, *Investment Strategy, South Korea*

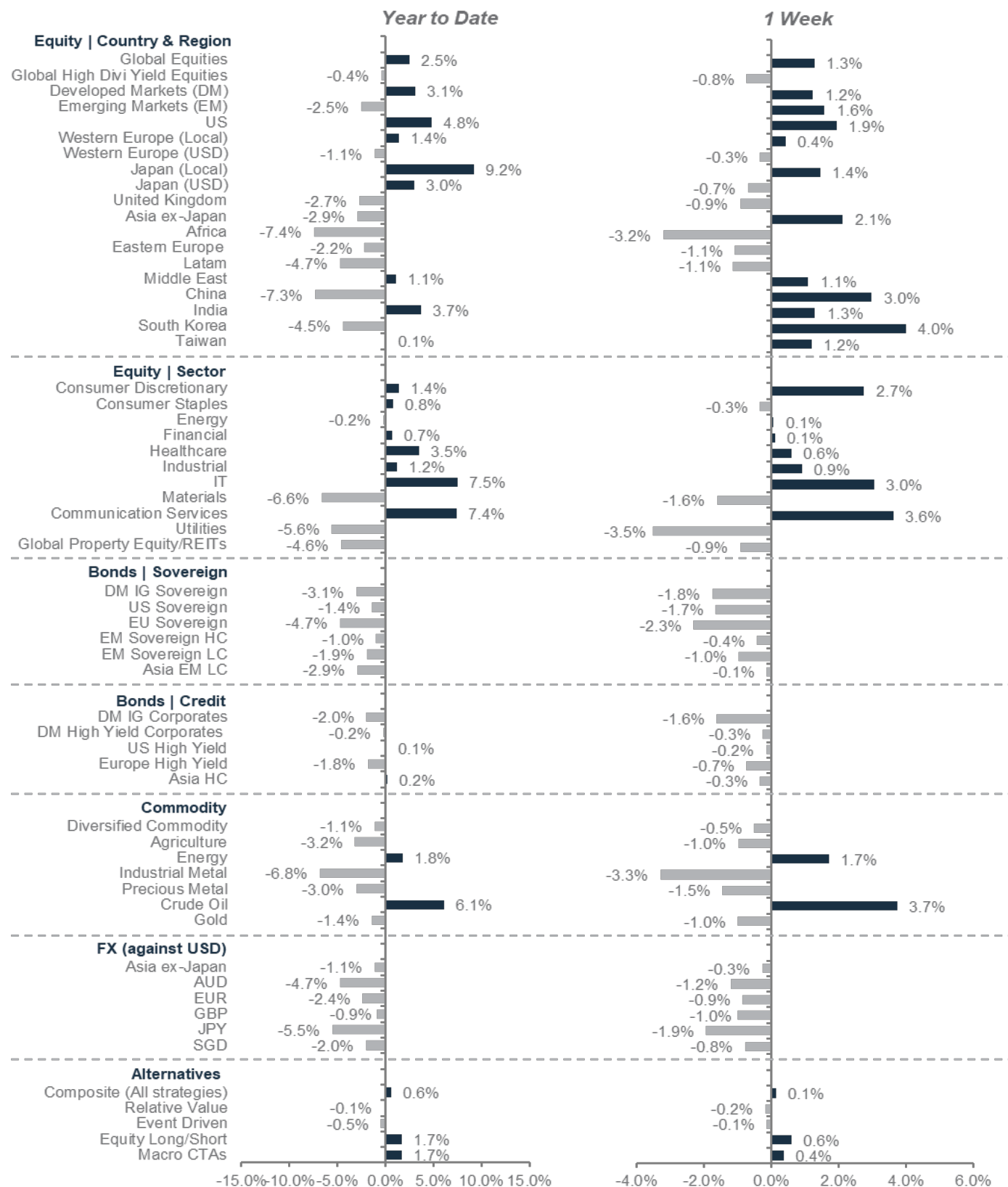
In South Korea, we prefer sectors with high profitability and cheap valuation

Measure of profitability (12m forward ROE) vs. valuation (12m forward PB)



Source: Infomax, 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 08 February 2024; 1-week period: 01 February 2024 to 08 February 2024

Our 12-month asset class views at a glance

Asset class	
Equities	▲
Euro area	◆
US	▲
UK	▼
Asia ex-Japan	◆
Japan	▲
Other EM	◆
Preferred Sectors	
US Communication	▲
US Technology	▲
US Healthcare	▲
Europe Technology	▲
Europe Healthcare	▲
China Discretionary	▲
China Communication	▲
China Technology	▲
Bonds (Credit)	◆
Asia USD	◆
Corp DM HY	◆
Govt EM USD	▼
Corp DM IG	◆
Alternatives	◆
Gold	◆
Bonds (Govt)	▲
Govt EM Local	◆
Govt DM IG	▲

Source: Standard Chartered Global Investment Committee

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

S&P500 index has immediate resistance at 5,016

Technical indicators for key markets as of 08 February close

Index	Spot	1st support	1st resistance	12m forward P/E (x)	12m forward dividend yield (%)
S&P 500	4,998	4,961	5,016	20.5	1.5
STOXX 50	4,711	4,673	4,730	13.1	3.5
FTSE 100	7,595	7,567	7,653	11.0	4.3
Topix	2,563	2,547	2,570	15.4	2.4
Shanghai Comp	2,866	2,757	2,920	9.8	3.6
Hang Seng	15,878	15,546	16,173	7.5	4.8
Nifty 50	21,718	21,647	21,860	19.9	1.5
MSCI Asia ex-Japan	623	615	628	12.1	2.8
MSCI EM	998	986	1,006	11.6	3.1
WTI (Spot)	76.2	73.6	77.5	na	na
Gold	2,035	2,027	2,041	na	na
UST 10Y Yield	4.15	4.06	4.20	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					
TUE	UK	ILO Unemployment Rate 3Mths	Dec	–	–
	EC	ZEW Survey Expectations	Feb	–	22.7
	US	NFIB Small Business Optimism	Jan	–	91.9
	US	CPI y/y	Jan	2.9%	3.4%
	US	CPI Ex Food & Energy y/y	Jan	3.7%	3.9%
WED	UK	CPI y/y	Jan	–	4.0%
	UK	CPI Core y/y	Jan	–	5.1%
THU	UK	Industrial Production y/y	Dec	–	-0.1%
	UK	GDP q/q	4Q P	–	-0.1%
	US	Empire Manufacturing	Feb	-10.0	-43.7
	US	Retail Sales Ex Auto & Gas	Jan	0.3%	0.6%
	US	Industrial Production m/m	Jan	0.4%	0.1%
FRI/SAT	US	Housing Starts	Jan	1468k	1460k
	US	Building Permits	Jan	1515k	1495k
	US	PPI Final Demand y/y	Jan	–	1.0%
	US	PPI Ex Food & Energy y/y	Jan	–	1.8%
	US	U. of Mich. Sentiment	Feb P	80.0	79.0

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 points to a reversal in US equity markets

Our proprietary market diversity indicators as of 08 February

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↑	1.42
Global Equities	○	→	1.21
Gold	●	↑	1.48
Equity			
MSCI US	○	→	1.20
MSCI Europe	●	→	1.29
MSCI AC AXJ	●	↑	1.63
Fixed Income			
DM Corp Bond	●	→	1.38
DM High Yield	●	→	1.29
EM USD	●	→	1.35
EM Local	●	↑	1.47
Asia USD	●	→	1.34
Currencies			
EUR/USD	●	↑	1.56

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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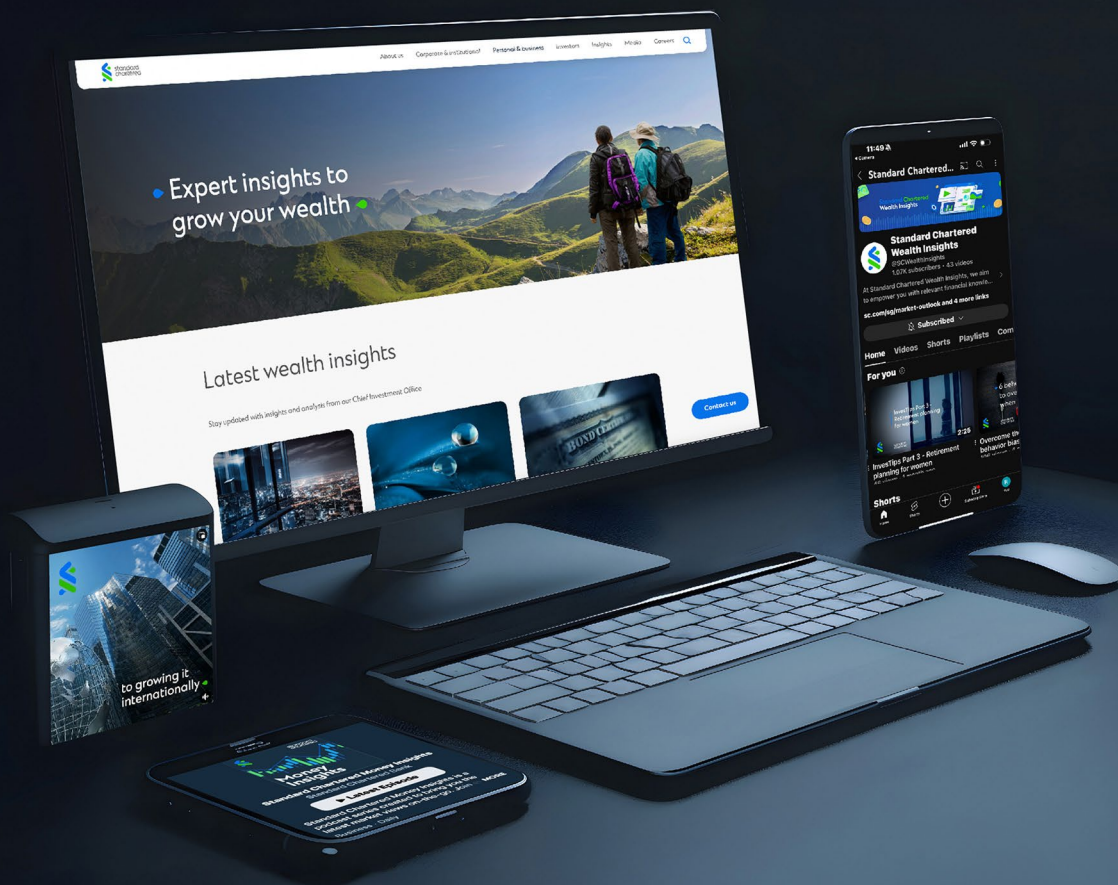
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