



# Weekly Market View

## The signal from commodities

→ Major commodity prices have surged in recent weeks, with oil and gold experiencing particularly strong gains recently. A reassessment of inflation risks and its implications for the trajectory of Fed rate cuts appears to be a common thread.

→ Our assessment aligns with the ongoing market re-evaluation, which is one of a continued soft landing environment for the US economy and modest Fed rate cuts this year.

→ In the near term, investors are likely to benefit from a more focused approach to US equities via the energy sector while capitalising on the modest grind higher in bond yields.

→ Room for further temporary gains in oil could offer some support to the CAD, but the rally in gold is likely to lose steam in the short term.

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Is more rate cuts better for equities?

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Are high oil prices a risk?

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Is gold set to extend gains?



## Charts of the week: Oil and gold respond to inflation

**Oil prices among drivers of higher market inflation expectations; gold a short-term hedge, but gains likely overdone**

WTI oil price vs market inflation expectations\*



Gold price vs US inflation surprise index



Source: Bloomberg, Standard Chartered; \*as measured from 10-year inflation-protected bonds

## Editorial

### The signal from commodities

Major commodity prices have surged in recent weeks, with oil and gold experiencing particularly strong gains recently. A reassessment of inflation risks and its implications for the trajectory of Fed rate cuts appears to be a common thread. Market sentiment around inflation has mirrored the uptick in oil prices, while gains in gold have likely been supported by technical factors after its break above a previous record high.

Our assessment aligns with the ongoing market re-evaluation, which is one of a continued soft landing environment for the US economy and modest Fed rate cuts this year. In the near term, investors are likely to benefit from a more focused approach to US equities via the energy sector while capitalising on the modest grind higher in bond yields. Room for further temporary gains in oil could offer some support to the CAD, but the rally in gold is likely to lose steam in the short term.

**Powell signals room for rate cuts exists:** Fed Chair Powell's recent comments offered something for both optimists and pessimists. While he acknowledged that the recent rebound in inflation did not "materially change" the overall picture, which fuelled optimism that rate cuts were still on the table, he tempered expectations by noting the central bank needed "greater confidence" in easing price pressures before considering rates cuts. Our focus remains on upcoming data, particularly wage growth and US inflation due next week, which we anticipate will support our expectations for three Fed rate cuts of 25bps each in 2024, commencing in June.

**US energy sector attractive against the backdrop of rising oil prices:** The S&P500 has risen almost 10% YTD, with signs of overextended positioning, which can often signal an impending pause or a temporary pullback. Our proprietary market diversity indicator is not flagging concern about the broad index, but it is now pointing to crowded positioning and a heightened

chance of a short-term reversal in the industrials and communication services sectors. Our positive long-term outlook on equities notwithstanding, for now, we believe risk/reward favours the US energy sector for its potential to capitalise on rising WTI oil prices (a temporary rise to the recent high of USD 94/bbl is possible) and mitigate risks associated with sticky inflation and a Trump victory in US elections later this year.

**Don't leave yield on the table:** The rise in inflation expectations has meant the US 10yr government bond yield is testing resistance just above 4.33%. While we would not rule out a temporary move higher towards 4.50% in the short term if oil prices continue their rise, Powell's signal that Fed rate cuts are indeed probable this year and a continued softening in inflation mean we would continue to use the opportunity to lock in today's yield levels before an expected, modest fall in yields.

**Not chasing gold higher as yet:** Gold has delivered a stellar gain of around 10% YTD, driven by a combination of upside inflation surprises, geopolitical hedge demand and short covering. However, positioning is now looking extremely stretched on technical indicators (a high RSI) and our market diversity indicator (which is signalling a pullback), hence caution is warranted near term.

**Inflation, central banks in focus next week:** A cooling of US inflation surprises after next week's CPI inflation release could prompt a pause in gold and higher bond yield. We believe a focus on oil, via US energy sector equities and USD/CAD, offer a more attractive risk/reward near term.

Additionally, the upcoming ECB meeting is likely to be a key focus, especially on any signals regarding the path of potential rate cuts by the central bank. Markets are also expected to focus on the impact of the Taiwan earthquake on the semiconductor sector, though reports thus far suggest the impact on sector output and markets is likely to be limited.

## 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

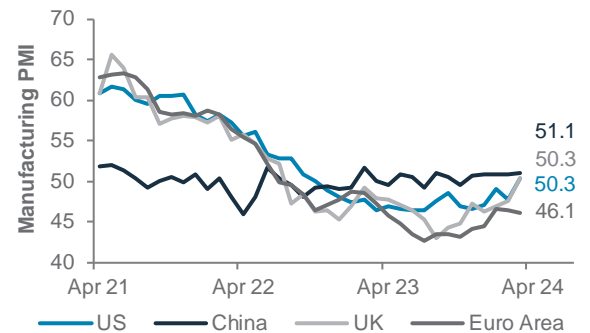
**(+) factors:** Easing US + Euro area inflation, China macro data

**(-) factors:** Strong US economic data capping rate cut expectations, Middle East tensions

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> <li>US Feb core PCE prices moderated to 2.8% y/y</li> <li>Euro area's core inflation rose 2.9% y/y, less than consensus expectations</li> <li>US services sector expanded, but at a slower pace; prices paid dropped to a four-year low</li> <li>China's manufacturing and services sectors expanded in March</li> </ul>	<ul style="list-style-type: none"> <li>US consumer spending grew 0.8% m/m, exceeding expectations</li> <li>US manufacturing PMIs rose into expansion for the first time in 1.5 years</li> <li>US JOLTs job openings, factory orders and ADP employment change exceeded expectations</li> </ul>
	<b>Our assessment: Neutral</b> – Easing inflation, tentative China recovery but strong US data capping rate cut expectations	
Policy developments	<ul style="list-style-type: none"> <li>Fed Chair Powell reaffirmed that it will likely be appropriate to lower interest rates this year</li> </ul>	
	<b>Our assessment: Positive</b> – Fed reaffirms view that lower rates are likely this year	
Other developments	<ul style="list-style-type: none"> <li>US President Biden, Chinese President Xi Jinping spoke 1-on-1 for the first time since the November summit</li> <li>Former US Treasury Secretary Yellen to visit China this week</li> </ul>	<ul style="list-style-type: none"> <li>Taiwan hit by the strongest earthquake in 25 years. Damage from earthquake risks potential impact on semiconductor output</li> <li>Iran vowed to retaliate for what it claims was an Israeli airstrike on its embassy in Syria</li> </ul>
	<b>Our assessment: Negative</b> – US-China dialogue, rising tensions in the Middle East	

### Manufacturing activity turning higher particularly in the US and UK

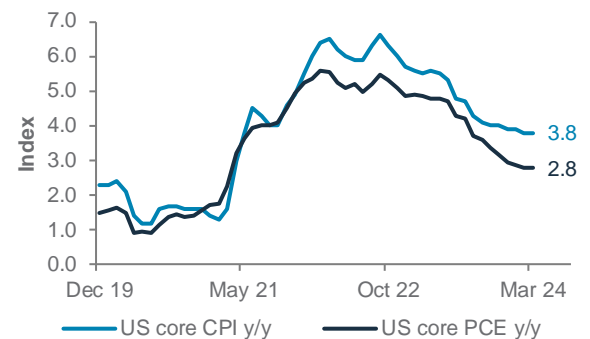
Manufacturing PMIs



Source: Bloomberg; Standard Chartered

### US inflation going in the right direction, but the pace of the fall has slowed

US CPI and PCE inflation



Source: Bloomberg, Standard Chartered

### China inflation data likely to be a key focus next week

China consumer (CPI) and producer (PPI) inflation



Source: Bloomberg, Standard Chartered

## Top client questions

### Q Do changes in Fed rate cut expectations impact US equities' short-term outlook?

We believe any shift in expectations towards either (i) a delay in the timing of the Fed rate cut or (ii) a reduced number of rate cuts in 2024 is likely to create a catalyst for investors to pare back their positioning in US equities, which are currently at the most crowded level since late 2021 and stretched based on our market diversity indicator. Historically, in six out of seven occasions when the positioning indicator was so stretched, equity market returns were weak in the short term as investor positions unwound.

Forward-looking earnings expectations have shifted meaningfully over the past three months, driven by significant upward revisions to tech earnings, reflecting an AI earnings premium. However, this trend has been visible across other sectors as well. This creates a greater hurdle for lofty expectations to be met during the upcoming earnings season.

While positioning typically poses only a short-term risk, this may present an opportune moment to consider exposure to sectors beyond technology. We upgraded the US energy sector to Buy/Overweight in our latest *Global Market Outlook*. We believe it can act as a hedge against the risk of sticky inflation and a potential Trump election victory. Additionally, higher oil prices, supported by a tightening oil market, is also a supportive factor.

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

### Q Is more Fed rate cuts better for equities?

Markets are expecting around three rate cuts this year, as the Fed maintains a balanced stance of signalling willingness to cut rates but only in response to convincing signs of inflation moving towards 2%.

To gauge the potential impact of a relatively modest Fed rate cut cycle of three rate cuts on major asset classes, we look back to learnings from previous rate cut cycles. Our analysis reveals that rate cut cycles, which deliver 75bps in rate reductions, have historically coincided with positive equity returns (often because these were non-recessionary periods). Conversely, cycles involving more than 75bps in cuts, tend to coincide with poor equity performance (these typically corresponded with recessions). The sole exception to positive equity performance amid deep rate cuts was observed during the mild recession in 1991.

Overall, this is consistent with our broader view of expecting three Fed rate cuts in 2024, a continued soft-landing environment in the US and an Overweight view on global equities.

— **Francis Lim**, *Senior Quantitative Strategist*

### Oil prices above 2023 average, leading to upside risk to energy sector earnings

WTI oil prices since the start of 2023



Source: Bloomberg, Standard Chartered

### Risky assets have often done well in scenarios of mild Fed rate cut cycles

Historical asset class performance in scenarios of 3 rate cuts and >3 rate cuts within a cycle

# of rate cuts	Frequency	Avg cuts (bps)	Average in-cycle performance		
			Equity	Bond	Gold
All	11	-168	(1.4)	1.0	0.6
3	5	-85	7.1	3.1	4.5
>3	3	-400	(12.5)	1.8	(3.2)

Source: Bloomberg, Standard Chartered  
Analysis considers data from 1991 till date

## Top client questions (cont'd)

### Q How much further are oil prices likely to rise? What are the implications for USD/CAD?

Oil prices have risen as OPEC restated its commitment to extend production cuts till the end of June, coupled with the recent drone attacks on Russian refineries by Ukraine, heightening supply concerns. Demand for oil has also been strong amid relatively resilient US growth data and improving sentiment in China. We remain comfortable with our three-month WTI oil forecast of USD 84/bbl but recognise the potential for volatility around this range. For context, WTI has moved within a USD 67-94/bbl range over the past one year. Short of a new geopolitical escalation, we expect this range to act as a price ceiling.

Well-supported oil prices are likely to bolster the CAD. We expect USD/CAD to trade in a range around our 3m forecast of 1.3500, with a bearish bias. Key resistance is at 1.3610, with a vulnerable Canadian housing market and slower growth representing upside risks, while an important support lies at 1.3350.

— Iris Yuen, Investment Strategist

### Q Are gold's gains set to extend?

Gold prices scaled a new record high this week, making it one of the top-performing major asset classes this year. Gold's impressive rally started in early March, after a softer-than-expected rise in US February ISM manufacturing data triggered an increase in Fed rate cut expectations. The second surge was fuelled by the release of US core PCE prices, which pushed US inflation expectations higher. Short-covering activity, as indicated by a fall in open interests, likely also contributed to the current rally as well.

However, we believe the risk of a short-term reversal in gold prices is high:

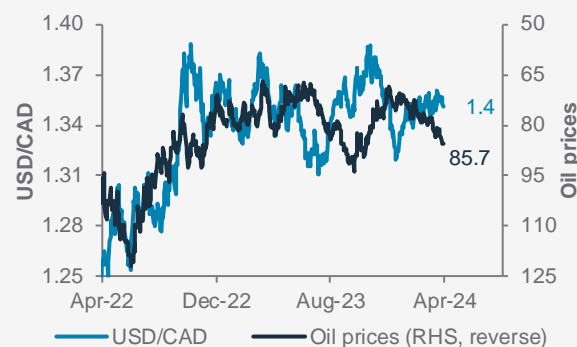
- Our proprietary market diversity indicator has broken the threshold signalling about a 2-in-3 chance of a reversal.
- The premium on gold prices in China declined markedly after gold prices broke above previous record highs in early March. This suggests rising prices could increasingly weigh on demand.
- Central banks are also likely to taper their purchases at current price levels. Net purchases in February, while still positive, fell 58% m/m from January.

These short-term pullback risks notwithstanding, we continue to believe a core allocation in diversified portfolios remains attractive. Gold is likely to benefit from falling interest rates and bond yields and is likely to continue serving as an attractive hedge against escalating geopolitical tensions or a further rise in inflation expectations.

— Qi Xiu Tay, Portfolio Strategist

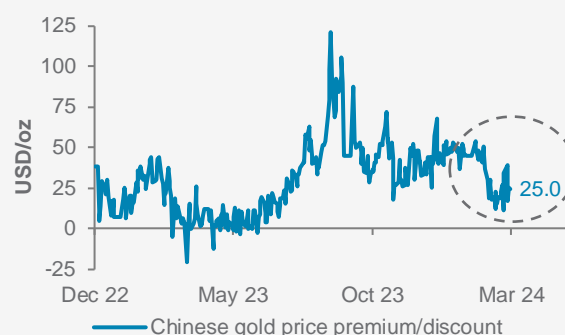
### The rebound of oil prices is likely to bolster the CAD

USD/CAD and WTI oil prices

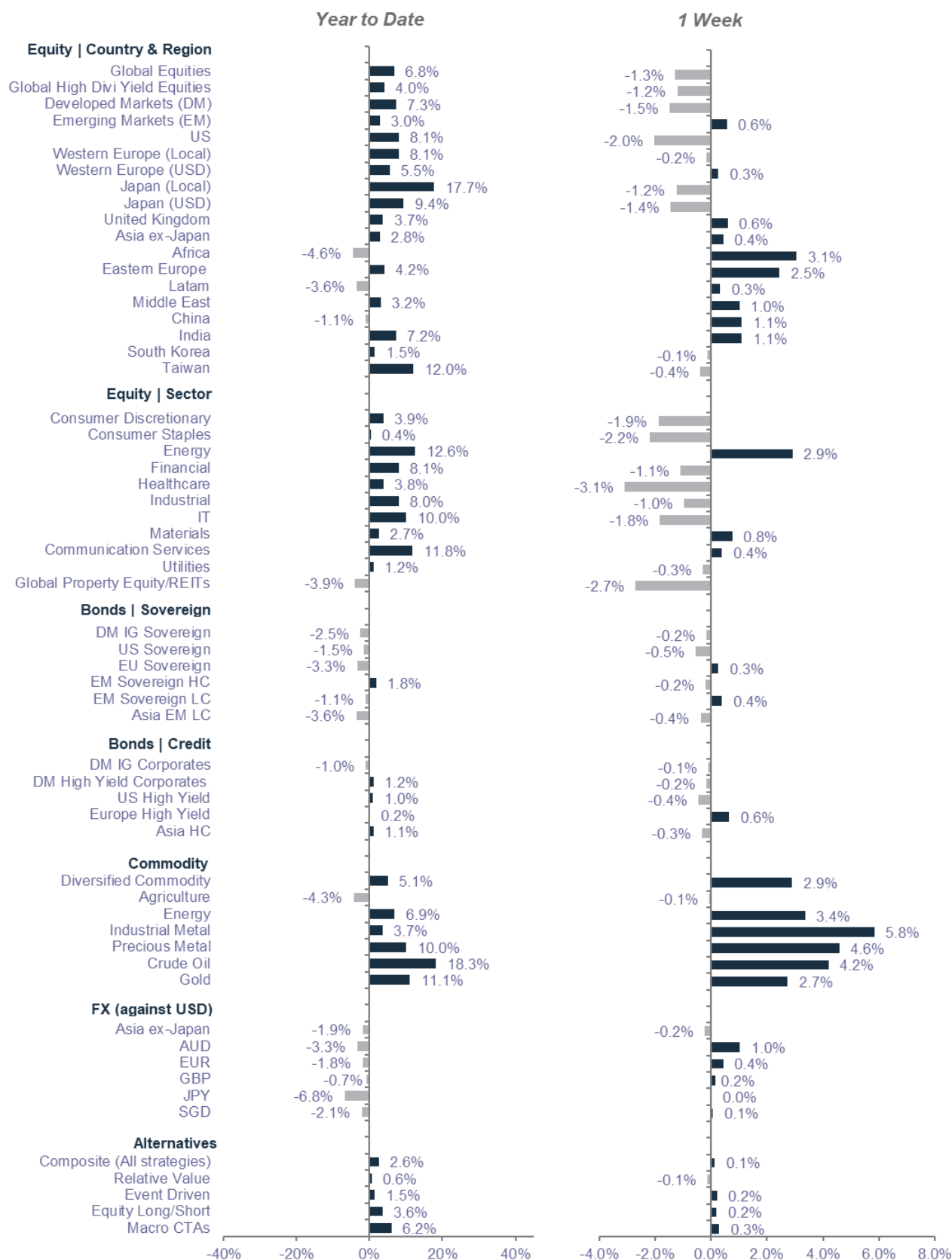


### End-user demand in China could face headwinds from higher prices, as illustrated by a falling price premium in China

China gold price premium/discount to global prices



## 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 4 April 2024; 1-week period: 29 March 2024 to 4 April 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 Energy ▲
Japan ▲	Europe Technology ▲
Other EM ◆	Europe Healthcare ▲
	Europe Discretionary ▲
<b>Bonds (Credit)</b> ◆	China Communication ▲
Asia USD ◆	China Discretionary ▲
Corp DM HY ◆	China Technology ▲
Govt EM USD ◆	China Staples ▲
Corp DM IG ◆	
	<b>Alternatives</b> ◆
<b>Bonds (Govt)</b> ◆	
Govt EM Local ◆	<b>Gold</b> ◆
Govt DM IG ◆	

Source: Standard Chartered Global Investment Committee

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

## The 10yr yield has next interim resistance at 4.37%

Technical indicators for key markets as of 4 April close

Index	Spot	1st support	1st resistance	12m forward P/E (x)	12m forward dividend yield (%)
S&P 500	5,147	5,115	5,212	20.7	1.5
STOXX 50	5,071	5,052	5,080	14.0	3.3
FTSE 100	7,976	7,949	7,989	11.6	4.0
Topix	2,732	2,703	2,765	15.8	2.3
Shanghai Comp	3,069	3,048	3,084	10.6	3.4
Hang Seng	16,725	16,656	16,863	8.1	4.6
Nifty 50	22,515	22,461	22,541	20.1	1.5
MSCI Asia ex-Japan	657	654	661	12.8	2.7
MSCI EM	1,049	1,044	1,052	12.1	3.1
WTI (Spot)	86.6	84.7	87.6	na	na
Gold	2,291	2,262	2,310	na	na
UST 10Y Yield	4.31	4.22	4.37	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	JN	Labor Cash Earnings y/y	Feb	1.9%	2.0%
TUE					
WED	JN	PPI y/y	Mar	0.8%	0.6%
	NZ	RBNZ Official Cash Rate	10-Apr	5.5%	5.5%
	CA	BOC Rate Decision	10-Apr	5.0%	5.0%
	US	CPI Ex Food and Energy y/y	Mar	3.7%	3.8%
THU	US	FOMC Meeting Minutes	20-Mar	–	–
	CH	CPI y/y	Mar	0.4%	0.7%
	EC	ECB Deposit Facility Rate	11-Apr	–	4.0%
	US	PPI Ex Food and Energy y/y	Mar	–	2.0%
FRI/SAT	JN	Industrial Production y/y	Feb F	–	-3.4%
	UK	Industrial Production y/y	Feb	–	0.5%
	US	U. of Mich. Sentiment	Apr P	80.0	79.4
	CH	Exports y/y	Mar	-1.8%	5.6%
	CH	Imports y/y	Mar	0.7%	-8.2%

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 fallen sharply for gold

Our proprietary market diversity indicators as of 4 April close

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↑	1.57
Global Equities	●	→	1.29
Gold	○	↓	1.23
<b>Equity</b>			
MSCI US	●	↑	1.28
MSCI Europe	●	→	1.36
MSCI AC AXJ	●	↓	1.55
<b>Fixed Income</b>			
DM Corp Bond	●	↑	1.93
DM High Yield	●	→	1.42
EM USD	●	↑	1.51
EM Local	●	→	1.83
Asia USD	●	↑	1.64
<b>Currencies</b>			
USD/JPY	●	↓	1.33

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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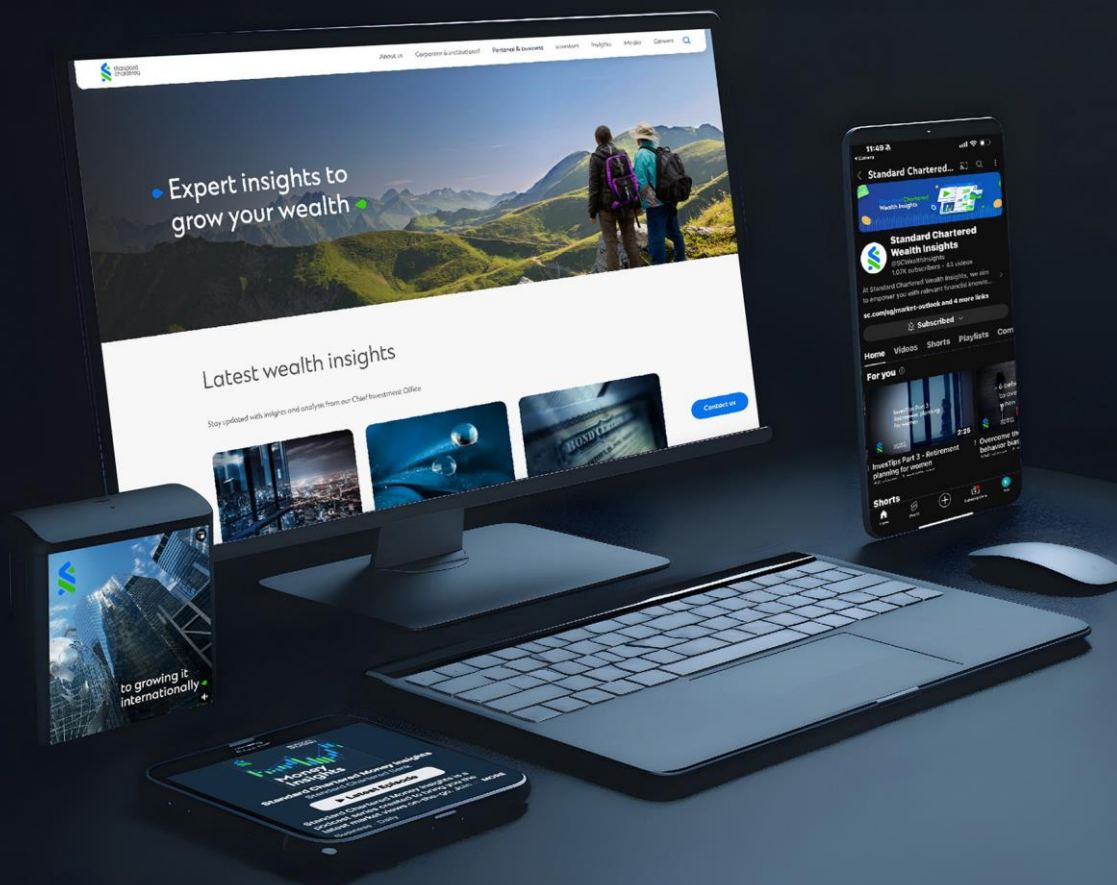
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