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WS Global CIO Office
24 January 2025

# Weekly Market View

## The verdict on Trump's Week One

→ Markets have cheered Trump's Week One policy announcements. Global stocks and bonds rose, while the US dollar and oil prices fell, as Trump's seemingly softer stance on tariffs against trade partners and his push to boost energy output eased inflation concerns.

→ A sustained equity rally will likely need lower US bond yields, weaker dollar and lower oil prices. For that, investors will need to see that Trump's tariff threats are aimed at negotiating trade deals, perhaps even involving a weaker USD, instead of triggering an all-out trade war.

→ We expect the Fed to stay on hold next week until we have more clarity on Trump's trade, fiscal, immigration and energy policies. However, the ECB is likely to cut rates amid rising growth risks.

→ We remain pro-risk in our asset allocation, with a preference for US equities and High Yield bonds, especially with companies on course to deliver yet another quarter of earnings beats.

What are the expectations from US technology and communication services sector earnings?

How should investors position in China following Trump's announcements?

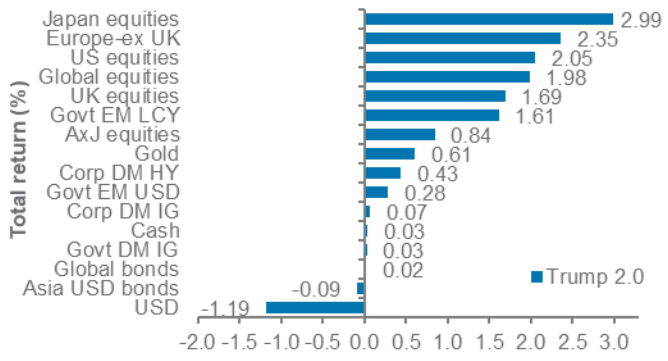
What is the outlook for USD/JPY after the BoJ's latest rate hike?

Important disclosures can be found in the Disclosures Appendix.

# Charts of the week: A promising start to Trump 2.0

**Global stocks and bonds rose, while the USD fell, signalling investors approved of Trump's Week One announcements**

Performance of key asset classes since close of 17 January




S&P500 index and US dollar index (DXY)


Source: Bloomberg, Standard Chartered

# Editorial

## The verdict on Trump's Week One

Markets have cheered Trump's Week One policy announcements. Global stocks and bonds rose, while the US dollar and oil prices fell, as Trump's seemingly softer stance on tariffs against trade partners and his push to boost energy output eased inflation concerns. A sustained equity rally will likely need lower US bond yields, weaker dollar and lower oil prices. For that, investors will need to see that Trump's nuanced tariff threats versus China and neighbours Canada and Mexico are aimed at negotiating trade deals, perhaps even involving a weaker USD, instead of triggering an all-out trade war. We expect the Fed to stay on hold next week until we have more clarity on Trump's trade, fiscal, immigration and energy policies. However, the ECB is likely to cut rates amid rising growth risks. We remain pro-risk in our asset allocation, with a preference for US equities and High Yield bonds, especially with companies on course to deliver yet another quarter of earnings beats.

**Markets reassured by Week One announcements.** Trump's less hawkish tariff stance and his call at Davos for OPEC to boost oil output and central banks to cut rates drove the S&P500 index to a new record high, lowered bond yields and dragged the USD from its two-year highs. The US equity volatility index (VIX) fell, suggesting easing investor concerns, after Trump refrained from imposing blanket tariffs against trade partners. Instead, Trump threatened 25% tariffs against Canada and Mexico and 10% tariffs against China by 1 February, likely as an opening gambit for negotiations to reduce the US budget deficit and attract foreign investment. A trade deal, which also involves a pact with trade partners to weaken the USD, would be significant as it could trigger a revival of non-USD and Emerging Market assets. China will, of course, need to agree to such a deal and appreciate the yuan vs. the dollar. In Davos, Trump said he would rather not use tariffs on China.

**Bessent in charge?** Negotiated trade deals would imply Trump is heeding the advice of his business-friendly Treasury Secretary, Scott Bessent, whose views often contrast with ideological and hawkish positions of many other cabinet colleagues. Bessent, a career fund manager, believes the most prudent (and market-friendly) course for Trump to achieve his non-inflationary, pro-growth agenda would be by raising US potential growth to 3% from below 2% with the help of supply-side policies, including tax cuts and deregulation. He believes higher economic growth will help reduce the US budget deficit significantly from 6.6% currently, lowering US borrowing costs. The third element of Bessent's "three arrows" policy proposal is to significantly boost US energy production, which, besides powering the Artificial Intelligence-led industrial revolution and putting the US in a leadership position, will also lower energy costs, and by extension long-term inflation expectations.

**More policy clarity needed, keeping the Fed on hold:** Although Trump signed a raft of executive orders on Day One and laid out his policy agenda at Davos, questions remain unanswered, including his approach to the upcoming debt ceiling (the US government will run out money to pay its debt in the coming months, unless the government makes significant spending cuts or raises the ceiling), how any spending cuts will align with tax cuts, and whether the proposed immigration curbs will be tempered. Trump's success in reviving US energy sector investment to boost output and lower energy prices remains uncertain as well, with US drilling rig count falling to three-year lows. Given these uncertainties, the Fed is likely to stay on hold next week until we get more clarity on these issues.

**Strong corporate earnings provide fundamental support to equities.** Against the uncertain policy backdrop, we expect US corporate earnings surprises to provide fundamental support for US equity outperformance this year. After the solid earnings beats by major US banks, focus now turned to US technology and communication sector leaders. The consensus expects the two sectors and the overall S&P500 index to deliver 15%, 23% and 10.7% earnings growth in Q4 2024, respectively. Strong earnings beats would support our overweight stance on US equities globally, and technology, communications and financial sectors within the US (see page 4).

# 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

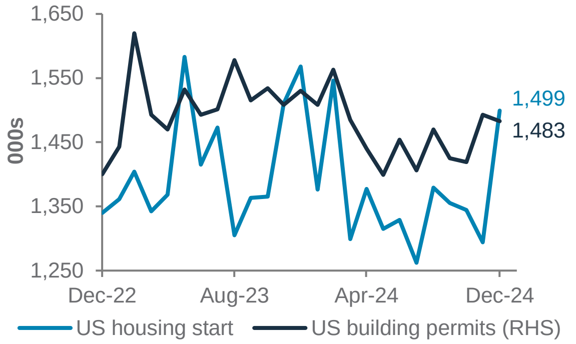
**(+) factors:** Robust US housing data; Trump less aggressive on tariffs

**(-) factors:** US-led political and geopolitical risks; ECB gradual rate cuts

| | Positive for risk assets | Negative for risk assets |
|---|---|---|
| Macro data | • US housing starts and building permits came above expectations<br>• US industrial output beat expectations (0.9% m/m)<br>• Euro area ZEW Survey growth expectations rose marginally in January<br>• China industrial production and retail sales rose more than expected by 6.2% y/y and 3.7% y/y respectively | • US leading index fell 0.1% m/m, as expected<br>• US continuing jobless claims rose to 3-year high<br>• US initial jobless claims rose more than expected<br>• Euro area consumer confidence improved less than expected<br>• China fixed asset investment came below expectation at 3.2% y/y |
| | **Our assessment: Positive** – Stronger-than-expected US housing and factory data | |
| Policy developments | • China government rolled out new plans to support the equity market<br>• Trump, at Davos, urged central banks to lower borrowing costs | • ECB President Lagarde signalled gradual rate cuts ahead<br>• BoJ hiked rate by 25bps and sounded hawkish<br>• China's central bank held loan prime rates |
| | **Our assessment: Negative –** BoJ rate hike, gradual ECB cuts | |
| Other developments | • Trump appeared less aggressive on tariffs, saying in Davos he would rather not use tariffs against China<br>• Trump revoked Biden's order on AI risks and announced private-sector AI infrastructure investment<br>• Trump took steps to boost US energy output and urged OPEC to do the same; he lifted a freeze on new US LNG export deals | • Trump declared a national emergency to clamp down immigration and order a significant ramp up of deportations of illegal migrants<br>• Trump said he's considering imposing 25% tariffs against Canada and Mexico and 10% tariffs against China |
| | **Our assessment: Neutral** – Trump's pro-growth measures vs. immigration, tariff risks | |

**US housing starts picked up sharply and building permits beat expectations despite elevated mortgage rates**

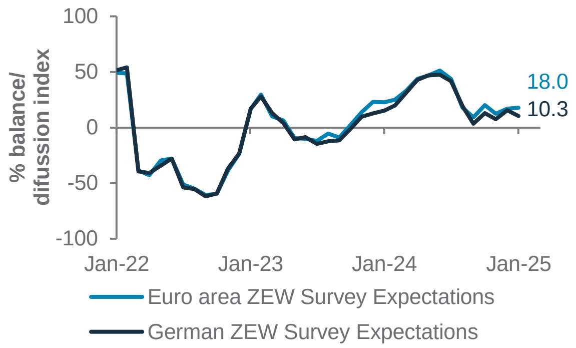
US housing starts and building permits




Source: Bloomberg, Standard Chartered

**Euro area economic growth expectations remain weak amid trade uncertainty, high borrowing costs**

Euro area and Germany ZEW survey expectations of economic growth




Source: Bloomberg, Standard Chartered

**China's industrial production and retail sales beat expectations in December, though fixed asset investment remained lacklustre**

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


Source: Bloomberg, Standard Chartered

## Top client questions

**How have the Q4 US earnings fared so far? With major tech companies starting to report, what are your expectations?**

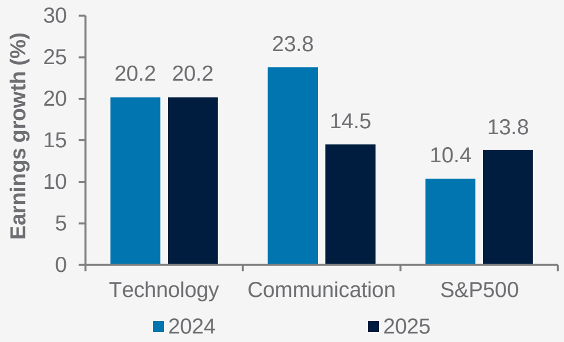
The US Q4 earnings season has been resilient so far. As of 23-Jan, c.15% companies in the S&P 500 index have reported earnings, with overall growth of 18% y/y, according to Bloomberg. Communication Services and Technology were amongst the leading sectors, while Materials, Consumer Discretionary and Healthcare lagged.

Looking forward, we anticipate strong earnings momentum in Technology and Communication Services, supported by ongoing investments on AI infrastructure and semiconductor chips, robust holiday e-commerce sales, advertising growth, as well as a PC refreshment cycle to support tech hardware demand. In addition, President Trump's announcement of a USD 500bn investment project on artificial intelligence (AI) is expected to further boost these sectors. However, we remain cautious on stocks with higher non-US exposures, given the risks of potential trade tariffs and retaliation measures. We expect earnings growth of 20.2% and 23.8% for Technology and Communication Services in 2024, and 20.2% and 14.5% in 2025. (Source: LSEG I/B/E/S)

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

**Projected earnings growth for US technology and communication services sectors in 2024-25 are well above that for the broader S&P 500 index**

Projected earnings growth for US technology sector, communication services sector and S&P 500 index




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

**What is the likely impact on UK's bond yields from recent inflation prints and Trump's proposed policies?**

UK government bond (Gilt) yields have surged alongside Developed Market (DM) bond yields to date. The 10-year Gilt yield rose over 90bp since December before settling at 4.63% this week, underperforming major DM peers such as the US and German government bonds. The sell-off was largely due to the following factors. (i) The UK October budget, which boosted both growth and inflation expectations; (ii) Concerns about UK's fiscal position, where front-loaded stimulus may need to be financed through increased bond issuance, higher businesses taxes, or spending cuts in other areas; (iii) Sticky inflation contributing to market concerns of a higher-for-longer rate environment.

Looking ahead, we believe several factors will be key to shape the direction of UK bond yields, including rate cuts by the BOE and UK's economic growth trajectory. UK economic growth remains weak, with PMI declining and GDP growth stagnating over the last few quarters. Additionally, concerns over global trade following Trump's inauguration have added to uncertainties. Lastly, the interest rate differentials, i.e. the spread between the UK and the US yields, along with term premium movements, is also key.

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

**UK government bond yields still hover close to post-Global Financial Crisis highs**

UK 10-year government bond yield


Source: Bloomberg, Standard Chartered

## Top client questions (cont'd)

**How should investors be positioned in China following Trump's recent announcements?**

China equities were mixed following Trump's inauguration. Initial optimism about a softer stance on tariffs were tempered by Trump subsequent announcement of a possible 10% tariffs on Chinese imports starting February.

In addition, Trump has also signed an executive order to delay a ban on Tiktok for 75 days, highlighting its use as a potential bargaining chip in trade talks.

We maintain a Neutral view on China equities within Asia ex-Japan, given the lingering political uncertainties, and structural concerns (e.g. deflationary worries and property sector downturn). Within China, we prefer onshore equities versus their offshore counterparts, given the former benefits more directly from any positive policy surprises. Our barbell approach focuses on opportunistic ideas in 1) China non-financial high dividend state-owned enterprises (SOEs), given their lower export exposure to the US, as well as the 2) Hang Seng Technology Index, which can outperform if the markets overestimate US and China tensions.

— **Jason Wong**, *Equity Analyst*

**Barbell approach in opportunistic equity buy ideas on China non-financial high dividend SOEs and Hang Seng Technology index**

Index of China non-financial high dividend SOEs, Hang Seng Technology and Hang Seng Index


Source: Bloomberg, Standard Chartered

**What's the outlook for USD/JPY after BoJ latest rate hike?**

The widely expected 25bps BoJ rate hike was accompanied by slightly more hawkish tone from policymakers. The yen could strengthen in the near term, acting as a safe-haven amid potential trade tensions, similar to its reaction in 2018 after tariffs announcements. The USD/JPY fell 1.5% in two days after the 22 January 2018's announcement of tariffs on washing machines and solar panels from China. From a fundamental perspective, Japan wages are set to rise further this year, with business leaders and unions poised to agree to solid pay rise in their spring wage negotiations (shunto). Rising labour costs should support further BoJ rate hikes this year.

However, sustained yen strength faces challenge from elevated US yields due to resilient US economic data. Trump's softer-than-expected stance on tariffs has eased some upward pressure on US yields and the dollar. Technically, if USD/JPY firm break below 153, it is likely to edge towards the next support at 148.6; with resistance at 160.

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

**More USD/JPY downside expected as the BoJ hikes rates**

USD/JPY and technicals


Source: Bloomberg, Standard Chartered

## Top client questions (cont'd)

### What's the outlook for USD/CHF?

SNB Chairman Martin Schlegel's ultra-dovish comments have weighed on the Swiss Franc, with speculations about further rate cuts, opening doors for negative interest rates. However, Switzerland real interest rates remain the 2nd-lowest in G10 after Japan, limiting SNB's room for aggressive rate cuts. He also noted SNB mandate is price stability in Switzerland. We see downside risk in USD/CHF due to profit taking and reduced fears around US trade tariffs near-term. As long as the 2024 highs of 0.9230 resistance holds, movements below 0.8730 are likely to be corrective. Technical indicators suggest continued near-term downward pressure, with our 3-month forecast for USD/CHF at 0.90, reflecting a rangebound outlook.

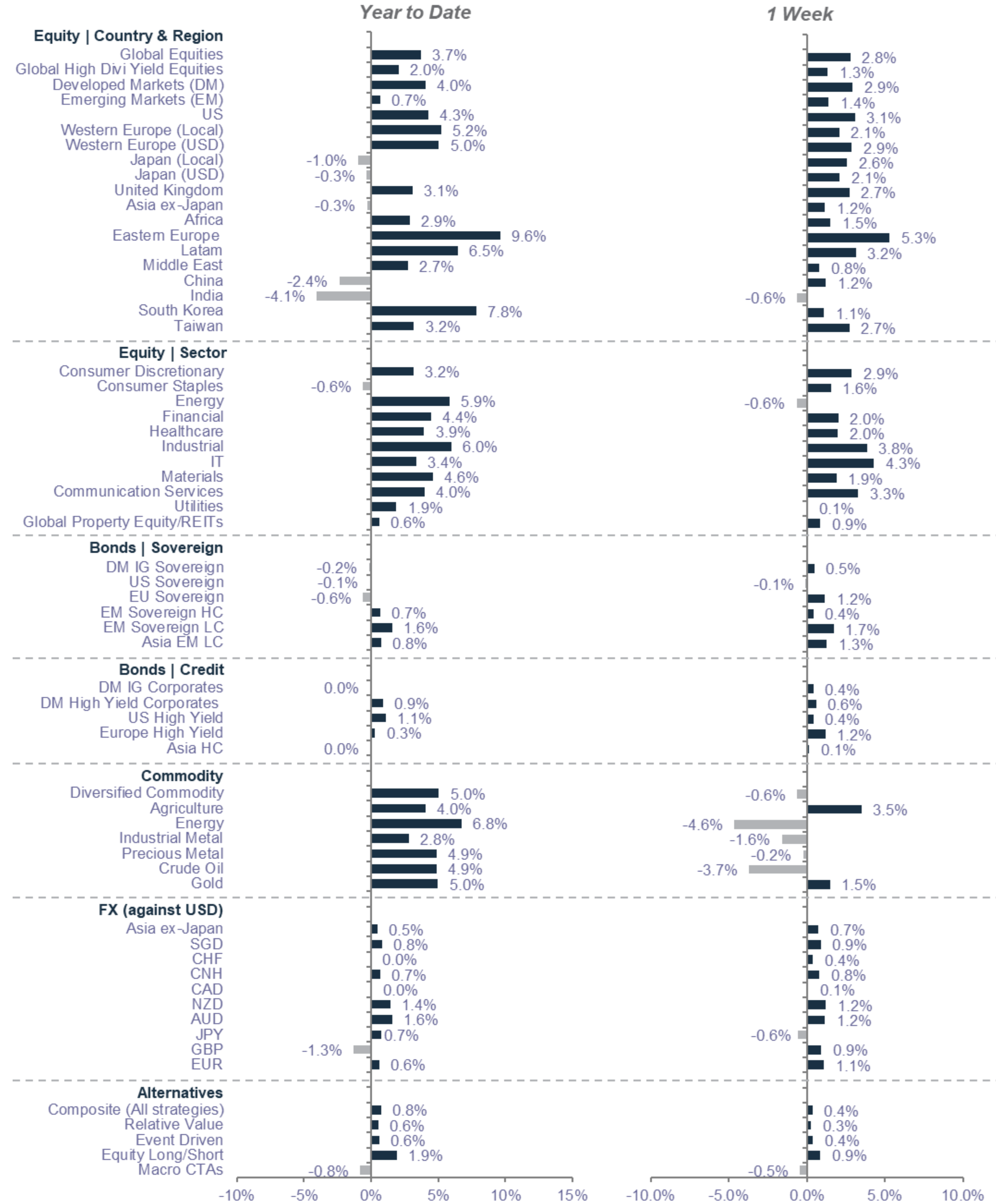
— **Iris Yuen**, *Investment Strategist*

**USD/CHF faces key technical resistance at 0.9230**

USD/CHF with technicals


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, 2025 YTD performance from 31 December 2024 to 23 January 2025; 1-week period: 16 January 2025 to 23 January 2025

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

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

Source: Standard Chartered Global Investment Committee

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

## Economic and market calendar

| | Market | Event | Period | Expected | Prior |
|---|---|---|---|---|---|
| MON | CNH | Industrial Profits y/y | Dec | – | -7.3% |
| | CNH | Manufacturing PMI | Jan | 50.1 | 50.1 |
| | EUR | IFO German Business Climate | Jan | – | 84.7 |
| | USD | Chicago Fed Nat Activity Index | Dec | – | -0.12 |
| | USD | New Home Sales | Dec | 670k | 664k |
| TUE | USD | Durable Goods Orders | Dec P | 0.5% | -1.2% |
| | USD | Conf. Board Consumer Confidence | Jan | 106.0 | 104.7 |
| WED | CAD | Bank of Canada Rate Decision | 29-Jan | 3.0% | 3.3% |
| THU | USD | FOMC Rate Decision (Upper Bound) | 29-Jan | 4.5% | 4.5% |
| | EUR | Economic Confidence | Jan | – | 93.7 |
| | EUR | Unemployment Rate | Dec | – | 6.3% |
| | EUR | ECB Deposit Facility Rate | 30-Jan | – | 3.0% |
| | USD | GDP Annualized q/q | 4Q A | 2.6% | 3.1% |
| | USD | Personal Consumption | 4Q A | – | 3.7% |
| | USD | Core PCE Price Index q/q | 4Q A | – | 2.2% |
| FRI/SAT | USD | Personal Income | Dec | 0.4% | 0.3% |
| | USD | PCE Price Index y/y | Dec | 2.5% | 2.4% |
| | USD | MNI Chicago PMI | Jan | 40.0 | 36.9 |

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&P500 has next interim resistance at 6,234

Technical indicators for key markets as of 23 January close

| Index | Spot | 1st support | 1st resistance | 12m forward P/E (x) | *12m forward dividend yield (%) |
|---|---|---|---|---|---|
| S&P500 | 6,119 | 5,888 | 6,234 | 22.3 | 1.3 |
| STOXX 50 | 5,218 | 4,966 | 5,349 | 14.5 | 3.3 |
| FTSE 100 | 8,565 | 8,245 | 8,735 | 11.9 | 4.0 |
| Topix | 2,752 | 2,664 | 2,826 | 14.7 | 2.6 |
| Shanghai Comp | 3,230 | 3,108 | 3,386 | 11.8 | 3.3 |
| Hang Seng | 19,701 | 18,846 | 20,380 | 8.9 | 3.9 |
| Nifty 50 | 23,205 | 22,713 | 23,962 | 19.1 | 1.6 |
| MSCI Asia ex-Japan | 701 | 680 | 717 | 12.6 | 2.7 |
| MSCI EM | 1,081 | 1,051 | 1,100 | 11.9 | 3.0 |
| WTI (Spot) | 74.6 | 69.0 | 80.5 | na | na |
| Gold | 2,755 | 2,646 | 2,813 | na | na |
| UST 10Y Yield | 4.64 | 4.50 | 4.80 | na | na |

Source: Bloomberg, Standard Chartered; *as at close of 23-Jan-25
Note: These short-term technical levels are based on models and may differ from a more qualitative analysis provided in other pages

## Investor diversity has normalised across asset classes

Our proprietary market diversity indicators as of 23 Jan close

| Level 1 | Diversity | 1-month trend | Fractal dimension |
|---|---|---|---|
| Global Bonds | ◐ | ↑ | 1.49 |
| Global Equities | ● | ↑ | 1.56 |
| Gold | ● | ↑ | 1.99 |
| **Equity** | | | |
| MSCI US | ◐ | ↑ | 1.45 |
| MSCI Europe | ● | ↑ | 1.74 |
| MSCI AC AXJ | ◐ | ↓ | 1.46 |
| **Fixed Income** | | | |
| DM Corp Bond | ● | ↑ | 1.59 |
| DM High Yield | ● | → | 1.61 |
| EM USD | ● | → | 1.95 |
| EM Local | ● | ↑ | 1.63 |
| Asia USD | ● | ↓ | 1.90 |
| **Currencies** | | | |
| EUR/USD | ◐ | ↑ | 1.41 |

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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**PRESENTED BY**

**Steve Brice**
Global Chief Investment Officer

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