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WS Global CIO Office
13 June 2025

Weekly Market View

Three takeaways from a turbulent first half

→ The first six months of this year will probably go down in history as the period when the world's economic tectonic plates shifted. The US scaled back its leadership position, forcing Europe and China to shoulder more responsibility of driving global growth.

→ We see three key takeaways from a turbulent first half: i) "Trump put" is alive – avoid the urge to cut and run; ii) China has found the US's vulnerability (rare earths), reducing all-out trade war risk; and iii) Germany is reflating, helping global rebalancing.

→ The last two takeaways send a salient message to investors: avoid over-concentration in US assets.

→ We see Europe's banking and industrial sector equities and exposure to JPY as some of the ways to reduce US concentration.

→ Any escalation of conflict in the Middle East is a near-term risk. JPY and gold are likely to benefit from any conflagration in the Middle East.

ECB rate cuts and European fiscal boost: bullish on European banks, industrials

India's monetary easing: Maintain Indian equities as a core holding

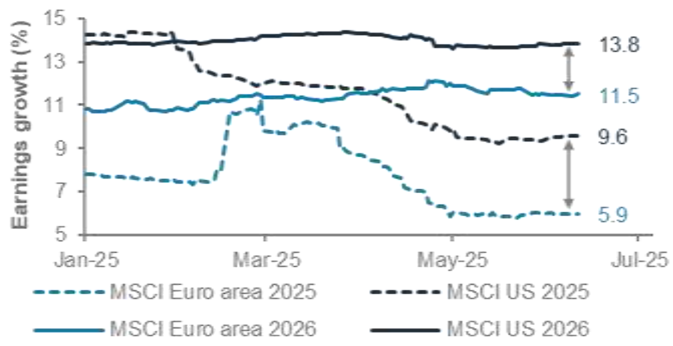
Questions about Japan's debt sustainability overblown: bearish USD/JPY, EUR/JPY

Important disclosures can be found in the Disclosures Appendix.

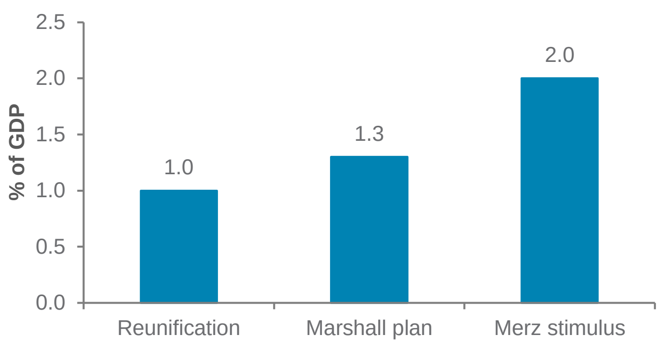
Charts of the week: Narrowing gap

The earnings gap between the US and Euro area is expected to narrow in 2026; Germany's fiscal stimulus is a key driver

Consensus earnings estimates for MSCI US & MSCI Euro area



Germany's proposed fiscal impulse vs. previous stimulus plans



Source: FactSet, Bloomberg, Standard Chartered

Editorial

Three takeaways from a turbulent first half

The first six months of this year will probably go down in history as the period when the world's economic tectonic plates shifted, setting the stage for a balanced global order. The US scaled back its leadership position, forcing Europe and China to shoulder more responsibility of driving global growth.

There are three primary takeaways for investors: 1. The "Trump put" is alive – hence, avoid event-driven panic sales and focus on the hard data and investor positioning; 2. China has found the US's vulnerability (rare earths) – thus, chances of an all-out trade war have faded; and 3. Germany is finally reflating. The last two takeaways send a salient message to investors: avoid over-concentration in US assets. We see Europe's banking and industrial sector equities and JPY exposure as some of the ways to lower US concentration. JPY and gold are also likely to benefit from any conflagration in the Middle East.

"Trump put" is alive - avoid the urge to cut and run: The significant scaling back of Trump's tariffs after US stocks, bonds and the dollar all tanked following the initial imposition of heightened tariffs, confirmed one of our core theses for the year – that market discipline remains an important constraint on the Trump administration's policies. Meanwhile, US Treasury Secretary Scott Bessent wants to re-incentivise US commercial banks to hold US government bonds. The Treasury has also stepped-up government bond buybacks. These measures should put a cap on bond yields, a key concern for investors.

Given these policy backstops, investors need to avoid panicking during any event-driven volatility caused by 'unpredictable' US policy. They should instead focus on economic and earnings data and investor positioning.

The past week's data has shown that the US job market, while slowing, remains healthy and disinflation is continuing despite (or is it because of?) tariffs. This raises the chance of Fed rate cuts in H2. However, with investor positioning remaining uncrowded, we see scope for further upside in equities.

China has found the US's core vulnerability, reducing all-out trade war risk: China produces c. 60% and processes c. 90% of the world's supply of rare earths, critical minerals used in defence fighter aircraft, electric cars, robotics and high-end electronics. In April, it restricted the exports of several rare earths and magnets, in retaliation against US tariffs. This eventually forced the US back to the negotiating table, resulting in this week's preliminary agreement in London. China agreed to accelerate rare earth exports in exchange for the US easing controls on chip exports and reissuing visas for students. This reduces the near-term chance of an all-out trade war.

Germany is reflating, helping global rebalancing: The final lesson is that Trump has forced Germany, Europe's largest economy, to shoulder more defence responsibilities and drive European growth. The Merz-led coalition's infrastructure and defence spending plans could potentially lift German growth by 2 percentage points annually over the next decade.

With China also easing fiscal policy, the wide gap in fiscal policy support between the US and the rest of the world, which was arguably the primary driver for the "US exceptionalism" in recent years, is likely to narrow in the coming years. Investors are starting to factor in this potential - narrowing the earnings estimates gap between the US and Euro area for 2026.

Investors should avoid overconcentration in US assets. The US will undoubtedly remain a global leader in delivering stellar returns to investors, thanks to its inherent competitiveness, driven by innovation and productivity, and its unmatched consumer power, but its outsized gap with the rest of the world will likely narrow. As the gap narrows, funds that had left Europe and other parts of the world for the US over the past decade following the "US exceptionalism trade" are likely to continue to return. This points to a further decline in the US dollar. **This reinforces our final message – avoid over-concentration in US assets. Diversify, diversify, diversify.**

Near-term risk: Any escalation in the Middle East (page 6).

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

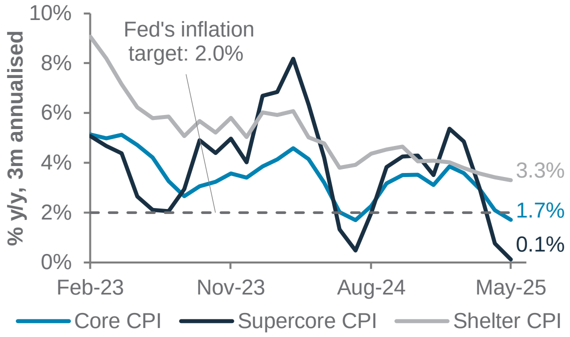
(+) factors: Cooling US inflation, strong US payrolls, Euro area retail sales; progress in US-China trade talks

(-) factors: Middle East escalation; Trump's unilateral tariff plans

	Positive for risk assets	Negative for risk assets
Macro data	• US headline and core consumer inflation both decelerated to 0.1% m/m, softer than expectations • US headline and core producer price inflation were less than expectations • US nonfarm payrolls rose 139,000, above estimates. NFIB Small Business Optimism Index rose more than expected to 98.8 • Euro area's retail sales rose to 2.3% y/y, above estimates. Sentix Investor Confidence beat estimates • China consumer price deflation was less than expected at -0.1% y/y	• China producer prices fell more than expected by 3.3% y/y • China's exports growth decelerated more than expected to 4.8% y/y; imports contracted by 3.4%
	Our assessment: Positive – Cooling US inflation, strong US payrolls and Euro area retail sales	
Policy developments	• RBI cut rate by a more than expected 50bps to 5.5% • BoJ's Ueda reaffirmed his rate hike stance if improving confidence in inflation target	• ECB officials signaled rate pause ahead
	Our assessment: Neutral – RBI rate cut vs. cautious ECB	
Other developments	• US and China agreed in principle on a framework for de-escalating trade tensions • China delayed decision on EU pork imports as EV tariff talks continue	• Israel attached Iran's nuclear sites, escalating Middle East tensions • US appeals court kept Trump tariffs in place; Trump plans unilateral tariffs within two weeks
	Our assessment: Neutral – Preliminary US-China trade agreement vs escalation in the Middle East	

US inflation continued to ease in May; headline and core consumer inflation both decelerated

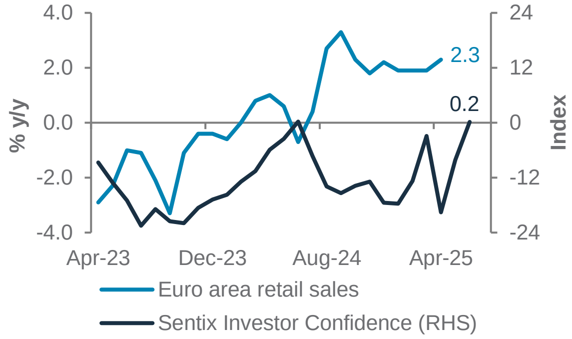
US core, supercore and shelter inflation



Source: Bloomberg, Standard Chartered

Euro area core retail sales grew in April and investor confidence improved in June

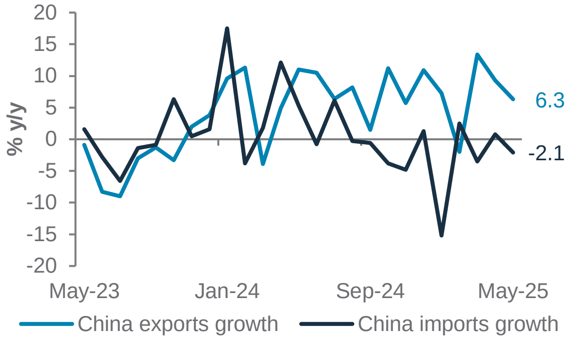
Euro area retail sales growth and Sentix investor confidence



Source: Bloomberg, Standard Chartered

China's trade data was hit by US tariffs in May. Export growth slowed more than market expectation and imports contracted

China exports and imports



Source: Bloomberg, Standard Chartered

Top client questions

What is the outlook for Euro area equites, with the ECB approaching the end of its rate cutting cycle?

Our view: Bullish on European banks and industrials.

Rationale: The ECB has halved its policy rate since 2024, to 2%. The market expects another 25bps cut by Q1'26 as 1) the ECB is forecasting lower inflation, while 2) US tariffs pose a headwind to growth. **Rate cuts, together with expected fiscal spending boost for infrastructure and defence, support Euro area equities.**

Euro area equities have performed well this year but the 12m forward P/E valuation of 14.5x remains at a significant 21% discount to global equities (average discount long term is 13%). Therefore, we maintain a core allocation to Euro area equities.

There has been downward revision to consensus earnings growth for 2025 since the start of the year, while 2026 growth has been nudging higher. The stronger EUR this year, up 11% YTD vs. USD, hurts Euro area earnings, which derive **56% of revenue overseas.** However, fiscal stimulus supports the region's 2026 outlook.

Within Europe, we are bullish on the **banking sector, given attractive valuation** and shareholder payouts, as well as the **industrial sector, a beneficiary of fiscal spending** tailwinds.

— **Fook Hien Yap**, *Senior Investment Strategist*

Euro area 2025 consensus earnings growth revised down since the start of the year, but 2026 growth has been nudging higher

Evolution of consensus 2025 and 2026 earnings growth estimates for MSCI Euro area index

Source: FactSet, Standard Chartered

What are the implications of RBI's larger-than-expected rate cut for Indian equities?

Our view: Indian equities are a core holding. Its structural story remains strong.

Rationale: The Reserve Bank of India surprised investors with a higher-than-expected 50bps policy rate cut and lowered the cash reserve ratio (CRR) requirement for domestic banks by 100 bps, to be implemented in phases over September to November 2025. However, in a hawkish surprise, it switched the policy stance from "accommodative" to "neutral" along with a forward guidance indicating limited space for further easing.

The frontloaded policy stimulus marked a decisive shift in the central bank's outlook towards domestic growth and inflation, supporting the growth momentum. The CRR cut could boost banking system liquidity by INR 2.5trn, supporting faster transmission of lower rates. **Supportive fiscal policy and easing financials conditions under a benign inflation outlook should help a recovery in domestic growth and corporate earnings.**

Indian equities are trading at expensive valuations, but fundamentals have been improving. Low foreign investor positioning and domestic funds' high cash levels are supportive.

— **Ravi Kumar Singh**, *Chief Investment Strategist, India*

Markets pricing no further India rate cuts over the next 12-months; surplus liquidity should aid faster transmission of lower rates, supporting growth

RBI repurchase rate (%), India 1-year overnight indexed swap rate (%)

Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Does the approaching US debt limit raise the risk on US government bonds?

Our view: Hold US government bonds as a core allocation.

Rationale: The US government may face a depletion of available funding should US lawmakers fail to reach an agreement to raise the statutory debt ceiling.

Nevertheless, rather than triggering a default on its debt obligations, **the US Department of Treasury (DoT) could employ extraordinary measures, such as suspending certain federal disbursement, to prioritize principal and interest servicing.** During the prior episode of suspending the debt limit on 3 June 2023, US government bond yields remained largely range-bound, reflecting investors' familiarity on recurring political brinkmanship and the presumption of an eventual resolution.

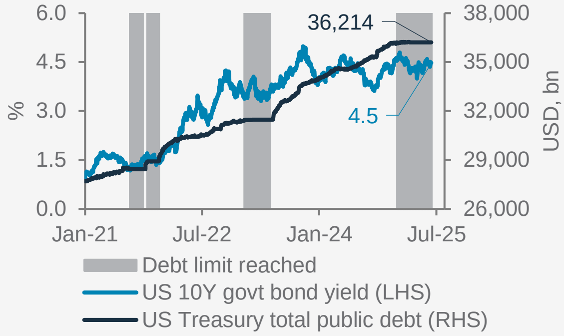
However, current market dynamics may challenge the old regime. **Ongoing de-dollarization trends, combined with a steepening yield curve, increase the risk premium being embedded in holding US government bonds**, exerting upward pressure on yields as investors reassess sovereign credit risk and term premia.

In the near term, bond yields can go higher as the projected "X-date" approaches. **Elevated volatility in US yields shifts market focus towards potential intervention by the Treasury**. Treasury Secretary Bessent recently emphasized the breadth of policy tools, which can include buying back treasuries. This can alleviate market dislocations and liquidity stress, capping bond yields.

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

The US 10-year government bond yield has stayed range-bound during earlier debt limit decisions

US 10-year government bond yield, US Treasury total public debt outstanding (USD billion)



Source: Bloomberg, Standard Chartered

What is the outlook for the JPY amid questions about Japan's debt sustainability?

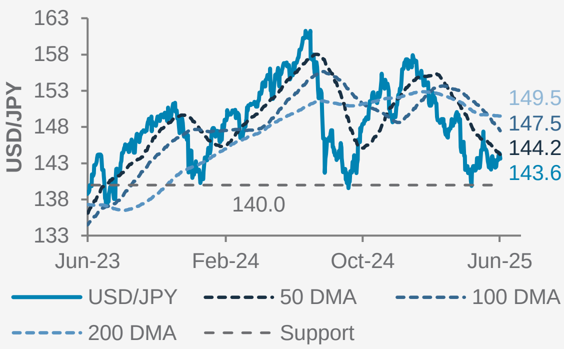
Our view: JPY can strengthen due to diverging fiscal conditions between the US and Japan. We expect USD/JPY and EUR/JPY to test 140 and 163 technical support levels, respectively.

Rationale: 1) Fiscal dynamics and 2) De-dollarisation are the key drivers for the JPY. Japan's debt sustainability and debt ownership have been questioned recently. **Japan has a far more stable debt ownership structure than the US.** While foreign investors hold much of US government debt, domestic investors hold most of Japan's government debt, insulating Japan's debt burden to some extent against global financial movements. Japan's debt-to-GDP ratio is higher than US' ratio, but that has been trending down. Japan's fiscal health can also support the JPY. We see further downside for USD/JPY and EUR/JPY pairs. The next focus will be on US-Japan trade talks during G7 meeting next week.

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

We expect further USD/JPY downside towards 140

USD/JPY and technical levels



Source: Bloomberg, Standard Chartered

What is your view on US 20-year-plus government bonds?

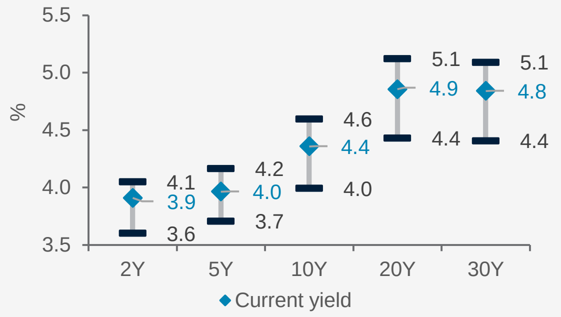
Our view: We close our opportunistic bullish US 20-year-plus government bond idea after strong performance.

Rationale: Long-term yields have fallen this week following a weaker-than-expected May inflation report. Looking forward, we anticipate compensation for holding long-term bonds (term premium) will likely remain escalated and weigh on performance. Hence, we use the opportunity to close our opportunistic bullish idea on US 20-year-plus government bonds. Since initiation of idea on 22 May 2025, Bloomberg calculation suggests absolute return of 3.71%.

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

US 20Y+ government bond yields look fair now when compared with other maturities

US 2Y, 5Y, 10Y, 20Y and 30Y yields and their respective 3-month range



Source: Bloomberg, Standard Chartered

Are Middle East geopolitical risks likely to push oil prices even higher? What are the implications?

Our view: We see room for a near-term test of the USD 82/bbl resistance if tensions escalate, but abundant OPEC supplies suggest oil prices are likely to be capped in the medium term. JPY and gold are likely to benefit from any near-term escalation in the Middle East conflict.

Rationale: Reports noted that, Israel launched military strikes across Iran targeting key nuclear and military sites. Public statements from Israel's Prime Minister suggested strikes could continue while concerns grew about the nature of an Iranian retaliation.

In financial markets, the initial reaction was characterized by a jump in oil prices and a fall in US equity futures. Brent oil prices jumped more than 10% before paring back towards prior resistance of USD 75/bbl. The pricing in of increased oil supply disruption risks suggests there is room for the surge in Brent oil prices to extend towards the January high of USD 82/bbl in the very short term.

While much depends on how the situation evolves, we would focus on three factors in the coming days: (i) the nature of any Iranian retaliation, particularly any attempts to disrupt energy supply, (ii) whether oil prices hold below key technical resistance and (iii) any impact on US inflation expectations as a result of higher oil prices. Having said that, we would balance near-term oil market worries against the longer-term context of significant over-supply relative to global demand, and significant OPEC+ spare capacity.

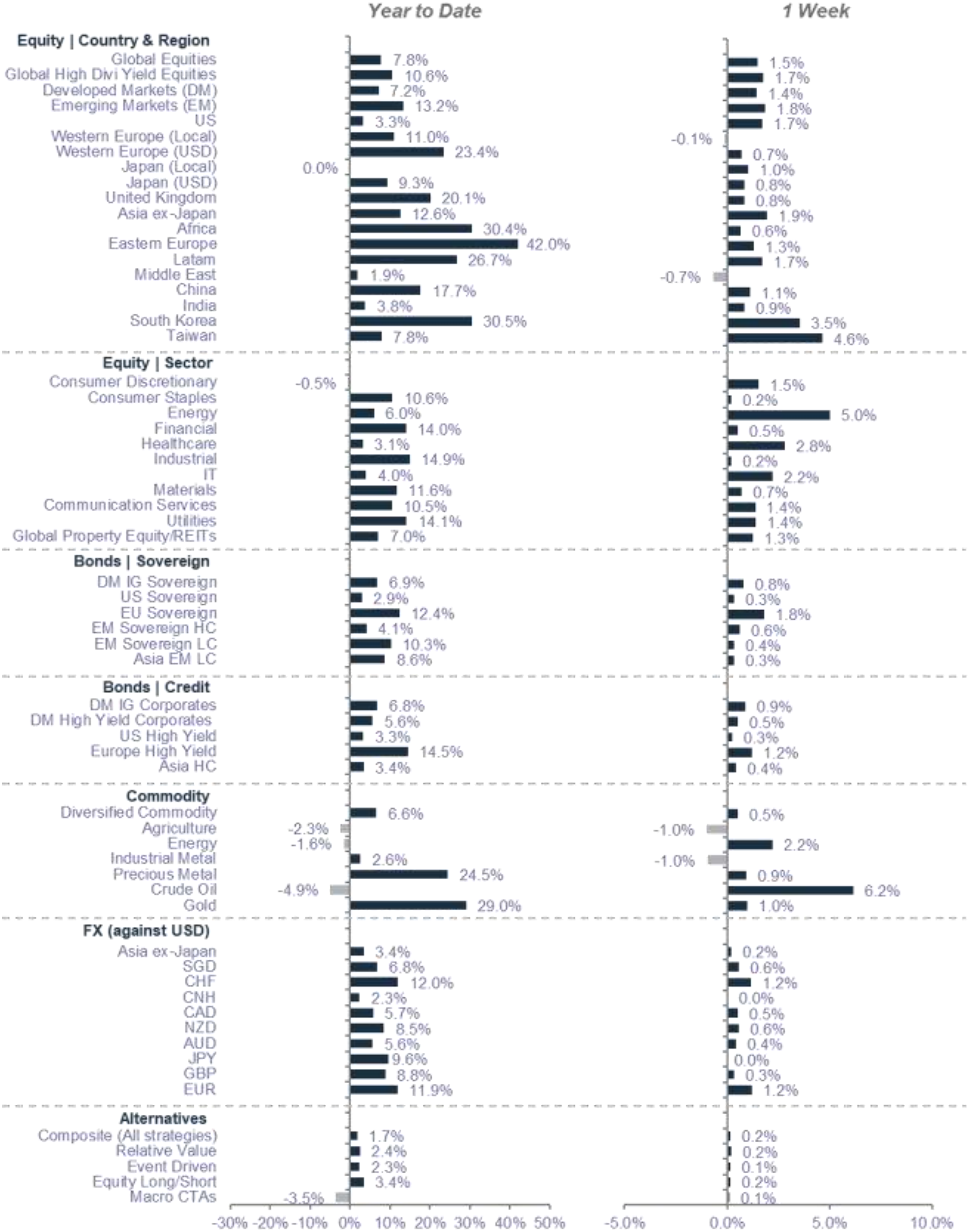
— **Manpreet Gill**, *CIO AMEE*

The Brent crude oil price surged more than 10% and is testing resistance at $75/bbl amid tensions in the Middle East

Brent crude oil prices and resistance 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, 2025 YTD performance from 31 December 2024 to 12 June 2025; 1-week period: 5 June 2025 to 12 June 2025

Our 12-month asset class views at a glance

Asset class			
Equities	▲	**Preferred Sectors**	
US	▲	US Financials	▲
Europe ex-UK	◆	US Communication	▲
UK	▼	US Technology	▲
Asia ex-Japan	◆	Europe Technology	▲
Japan	◆	Europe Communication	▲
Other EM	◆	Europe Industrials	▲
		Europe Financials	▲
Bonds (Credit)	◆	China Technology	▲
Asia USD	◆	China Communication	▲
Corp DM HY	◆	China Discretionary	▲
Govt EM USD	◆	India Healthcare	▲
Corp DM IG	◆	India Discretionary	▲
		India Financials	▲
Bonds (Govt)	◆		
Govt EM Local	◆	**Alternatives**	◆
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	Retail Sales y/y	May	4.9%	5.1%
	CNH	Industrial Production y/y	May	6.0%	6.1%
	CNH	Property Investment YTD y/y	May	-10.5%	-10.3%
	USD	Empire Manufacturing	Jun	-8.0	-9.2
TUE	EUR	ZEW Survey Expectations	Jun	–	11.6
	USD	Retail Sales Ex Auto and Gas	May	0.4%	0.2%
	USD	Industrial Production m/m	May	0.1%	0.0%
WED	GBP	CPI y/y	May	–	3.5%
	USD	Housing Starts	May	1360k	1361k
	USD	Building Permits	May P	1430k	1422k
THU	USD	FOMC Rate Decision (Upper Bound)	18-Jun	4.5%	4.5%
	GBP	Bank of England Bank Rate	19-Jun	–	4.3%
FRI/SAT	JPY	Natl CPI y/y	May	3.5%	3.6%
	USD	Philadelphia Fed Business Outlook	Jun	-1.0	-4.0
	USD	Leading Index	May	0.1%	-1.0%
	EUR	Consumer Confidence	Jun P	–	-15.2

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

The S&P500 has next interim resistance at 6,147

Technical indicators for key markets as of 12 June close

Index	Spot	1st support	1st resistance	12m forward P/E (x)	12m forward dividend yield (%)
S&P 500	6,045	5,855	6,147	22.0	1.4
STOXX 50	5,361	5,253	5,468	14.9	3.3
FTSE 100	8,885	8,645	9,011	13.1	3.6
TOPIX	2,783	2,722	2,829	14.7	2.8
Shanghai Comp	3,403	3,351	3,436	12.5	3.1
Hang Seng	24,035	22,989	24,760	10.4	3.4
Nifty 50	24,888	24,493	25,253	20.5	1.6
MSCI Asia ex-Japan	785	755	802	13.5	2.5
MSCI EM	1,203	1,161	1,228	12.7	2.9
Crude oil (WTI)	68.0	62.1	71.6	na	na
Gold	3,386	3,203	3,486	na	na
UST 10Y Yield	4.36	4.24	4.55	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 in EM Local bonds fell below threshold

Our proprietary market diversity indicators as of 12 June close

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	◐	→	1.36
Global Equities	◐	↑	1.44
Gold	◐	↑	1.42
Equity			
MSCI US	◐	↑	1.49
MSCI Europe	◐	→	1.43
MSCI AC AXJ	◐	↓	1.44
Fixed Income			
DM Corp Bond	◐	→	1.40
DM High Yield	◐	→	1.45
EM USD	●	↑	1.63
EM Local	○	↓	1.23
Asia USD	●	↑	1.79
Currencies			
EUR/USD	◐	↑	1.36

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 standard chartered

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InvesTips from the CIO's desk

Presented by:

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