



Weekly Market View

Time to consolidate gains

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→ Our indicator of investor diversity is signalling a high rebound probability in DM government bond yields near term. A bond yield rebound is usually a headwind for US Growth equities.

→ We remain constructive on equities, especially in the US and Japan, and Developed Market government bonds, and would look for an opportunity to add exposure to both after a short-term consolidation.

→ US job market and inflation data, US Q4 corporate earnings, geopolitical tensions in the Middle East and Taiwan's presidential elections are key events to watch in the near term.

Where do you see opportunities to re-enter US government bonds? What are the implications for technology sector equities?

What are your expectations from the US Q4 earnings season?

What are the implications of the Red Sea tensions on oil prices?

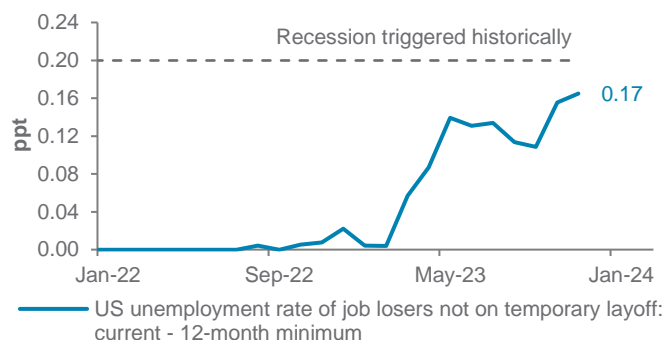
Charts of the week: Near all-time highs

Global equity markets are close to all-time highs even as economic growth and job markets start to slow

S&P500 index and MSCI All Country World index



US jobless rate of permanent job losers minus 12m low*



Source: Bloomberg, BCA Research, Standard Chartered; *both numbers based on 3-month moving average

Editorial

Time to consolidate gains

A consolidation in markets was overdue after the sharp rally in equities and bonds in Q4 2023. Equity markets face a major technical resistance: US and global stocks are close to all-time highs. Our indicator of investor diversity is signalling a high rebound probability in DM government bond yields near term. A bond yield rebound is usually a headwind for US Growth equities. We remain constructive on equities, especially in the US and Japan, and Developed Market government bonds, and would look for an opportunity to add exposure to both after a short-term consolidation. US job market and inflation data, US Q4 corporate earnings, geopolitical tensions in the Middle East and Taiwan's presidential elections are key events to watch in the near term.

US jobs data: December's US non-farm payrolls is likely to signal a healthy labour market during the Christmas shopping month (Bloomberg consensus: 171,000 net new jobs). While a healthy US jobs report is likely to push US government bond yields modestly higher, this should cause only a mild consolidation (c. 5%) in equity markets.

A key recession indicator: Nevertheless, the US job market continues to slow (job openings fell to the lowest since early 2021). We are closely watching a key real-time recession indicator: the US unemployment rate of job losers who are not on temporary layoff. The indicator is approaching the threshold (latest 3-month moving average minus the 12-month low of the average rising above 0.2 percentage points that has signalled the start of a recession each time since the 1960s - see chart).

US inflation: Any rebound in US core inflation in December above 0.2% m/m, especially a rebound in service-sector inflation, is likely to lead markets to pare back expectations of almost 150bps of Fed rate cuts this year – this would likely lead to higher bond yields and a pullback in equities in the near term. We expect 125bps of rate cuts this year, mostly in H2.

Corporate earnings: The upcoming US Q4 earnings season is likely to be another key market driver. The consensus expects 5.2% y/y rise in Q4 earnings, down from 11% rise projected in early October. Corporate guidance on 2024 earnings will be closely watched, especially with the consensus expecting a robust 11% rise in 2024 earnings.

Geopolitical events: Any escalation in tensions in the Red Sea is likely to drive oil prices and near-term inflation expectations higher. Taiwan's Presidential election on 13 January is another flashpoint for markets. Polls suggest the pro-West Democratic Progressive Party (DPP) is ahead in the race.

Implications for investors: We enter the year constructive on equities, especially in the US and Japan, and Developed Market government bonds, as we expect inflation to cool further, enabling the Fed and other central banks to cut rates to support growth. In the near-term, we see two key openings:

DM government bonds: We are looking for an opportunity to re-enter DM government bonds after a period of consolidation. The negligible reaction in US government bond yields to a mildly hawkish Fed meeting minutes this week suggests investors are looking to buy the bonds. For the US 10-year government bond yield, we see strong resistance around the 200DMA of 4.05%, followed by 4.25% – we would use any move to these levels to average in, especially as the economy starts to weaken and inflation cools.

Equity market/sector opportunities: For the S&P500 index, 4547 is a strong support level to re-enter, especially if US Q4 earnings continue to exceed expectations, as happened last year. Look for opportunities to re-enter US technology and communications services sector once government bonds consolidate. US healthcare remains attractive due to the sector's earnings resilience through economic downturns. Healthcare, technology and communications, our three preferred US equity sectors, are expected to deliver the strongest earnings growth (16-17%) in 2024.

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: China policy support, improving US ISM mfg PMI

(-) factors: Red Sea tensions, deteriorating US job openings, China PMI

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> US ISM manufacturing PMI rose more than expected to 47.4 US private sector added more jobs than expected China Caixin manufacturing PMI rose more than expected to 50.8; services PMI rose more than expected to 52.9 	<ul style="list-style-type: none"> US job openings fell more than expected to 8.79m, the lowest since Mar-21 US Chicago PMI slumped more than expected to 46.9 China manufacturing PMI fell more than expected to 49.0; non-manufacturing PMI rose less than expected to 50.4
	Our assessment: Neutral – Improving US manufacturing PMI versus declining US job openings, China manufacturing PMI	
Policy developments	<ul style="list-style-type: none"> Fed's meeting minutes noted progress on inflation IMF's Georgieva and Fed's Barkin said the US is heading for a soft landing China President Xi signalled more policy easing in his New Year address Reuters reported that China removed a top official who tightened gaming regulations 	<ul style="list-style-type: none"> Fed meeting minutes showed participants expected rates to stay elevated "for some time"; Fed's Barkin said that rate hikes remained an option
	Our assessment: Neutral – China supportive policies versus hawkish Fed meeting minutes	
Other developments		<ul style="list-style-type: none"> China President Xi said that reunification with Taiwan is inevitable Iran sent a warship to the Red Sea, escalating tensions with the US Powerful earthquakes hit Japan's northwest coast
	Our assessment: Negative – Red Sea tensions	

US manufacturing activity is recovering but remains in contraction

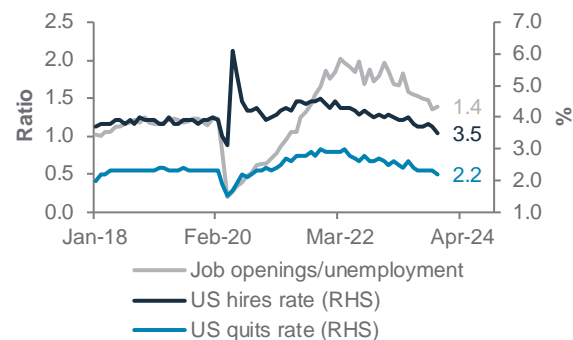
US ISM manufacturing PMI and ISM new orders PMI



Source: Bloomberg; Standard Chartered

US job market continues to slow as summertime boom in consumption fades

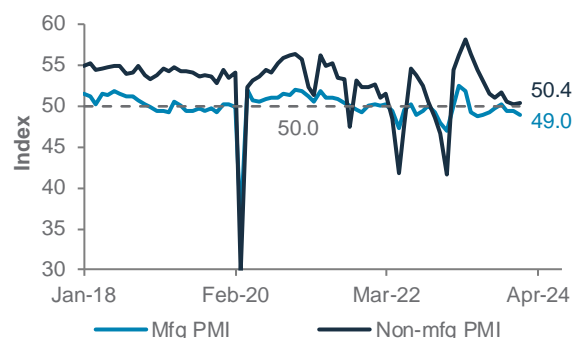
US job opening-to-total employment ratio; hires and quits rates



Source: Bloomberg, Standard Chartered

China large-scale manufacturing activity continues to contract, while non-manufacturing activity remains subdued

China manufacturing and non-manufacturing PMIs



Source: Bloomberg, Standard Chartered

Top client questions

Q Where do you see opportunities to re-enter US government bonds? What are the implications for technology sector equities?

US government bond yields have been volatile over the week. The benchmark 10-year yield hit a five-month low of 3.78% before the end of 2023 but rebounded shortly thereafter to 4.01% in intraday trade on 3 January. We attribute the yield pull-back to three drivers:

1. **Strong seasonal supply dynamics.** On the first two working days of 2024, we estimate more than USD 60bn of new bonds were issued in the US bond market alone. The strong pipeline of expected USD credit supply and attractive new issue premiums have likely contributed to higher yields.
2. **Dialling back of rate-cut expectations.** We closed 2023 with money markets pricing more than 150bps of rate cuts in 2024, above the 75bps of cuts suggested by the Fed's dot plot and 125bps of cuts we expect. A moderate correction of these expectations likely was a second factor behind higher US bond yields.
3. **Emerging geopolitical tensions.** We believe the third driver of bond yields comes from higher inflation expectation amid worries of increased oil prices from any escalation in Red Sea tensions.

We continue to view any short-term push higher in bond yields as creating an attractive entry point to add exposure to Developed Market (DM) Investment Grade (IG) government bonds. The US 10-year government bond yield is facing strong resistance at the 200DMA at 4.05%, followed by a subsequent resistance at 4.25%. We remain Overweight DM IG government bonds and expect easing monetary policy in 2024 to be a driver of lower yields.

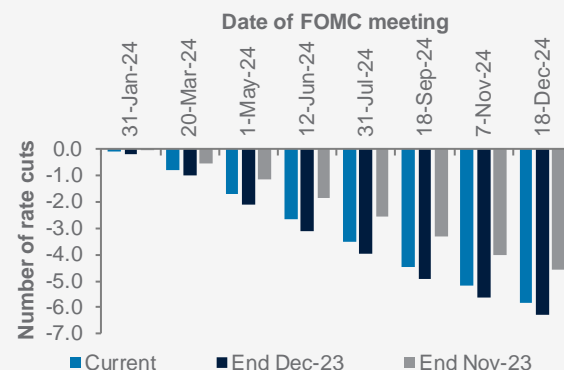
For US equities, falling US bond yields in late 2023 lent a tailwind to the Nasdaq-100, as lower bond yields led to better-supported valuations (via higher discounted cash flows). However, this has partly reversed at the start of 2024 alongside the higher pullback in bond yields. Similar to bonds, we would use the opportunity to add into the Nasdaq-100, especially if it corrects further to key support levels at 16,000 and 15,500. Within the index, the technology sector is likely to see a rebound in earnings in 2024 following muted growth in 2023. Growth is likely to be driven by a turnaround in the semiconductor industry, recurring revenue streams in software companies and AI investments. High return on equity supports the relatively expensive valuation in this sector. Communication services also benefits from strong earnings momentum, and sector valuation remains below its historical average.

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

— **Cedric Lam**, Senior Investment Strategist

Fed rate cut expectations have been partly reversed at the start of the year

Money market implied Fed rate cut expectations



Source: Bloomberg, Standard Chartered

The Nasdaq-100 index is likely to see support at 16,000, followed by stronger support at 15,500

Nasdaq-100 index



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q What are your expectations from the US Q4 earnings season?

Major US banks will start reporting on 12 January, kicking off the Q4 earnings season in earnest. According to LSEG I/B/E/S, consensus expectations are for Q4 earnings to grow 5.2% y/y, a slowdown from 7.5% in Q3. These growth estimates have moved significantly in the last few months. Back in October 2023, consensus expected growth at 11.0% for Q4 and 1.6% for Q3. Analysts effectively 'pulled forward' Q4 growth into Q3 as the Q3 earnings season unfolded. Similarly, some of the expected 2024 growth has been pulled forward into 2023. Consensus currently expects 2024 earnings to grow 11.1% (from 12.1% back in October 2023) and 2023 earnings to grow 3.1% (from 2.4%).

Corporate guidance will be key to watch. The year 2024 is expected to see earnings rebound from tepid growth in 2023. All 11 sectors in the S&P500 are expected to deliver positive earnings growth in 2024, led by healthcare (17.5%), technology (16.0%) and communication services (15.9%). Healthcare is rebounding after weakness in 2023, while technology is supported by continued strength in software companies and an expected turnaround in the semiconductor cycle. These three are our preferred sectors in the US. We expect broad earnings strength to support US equities over a 6-12-month horizon.

— Fook Hien Yap, Senior Investment Strategist

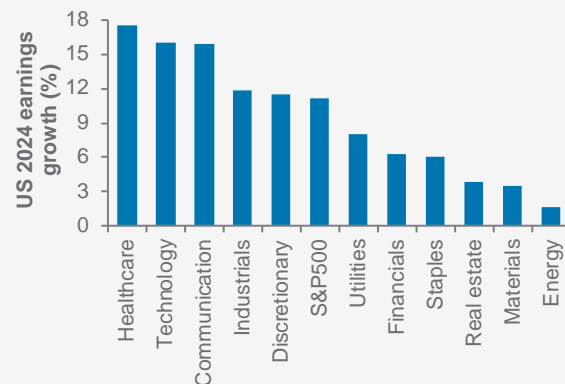
Q What is your view on the EUR amid emerging geopolitical tensions and the latest economic data prints?

There has been no shortage of potential geopolitical flashpoints at the start of 2024. Many of these are likely to have a limited direct impact on the EUR. A surge in oil prices as a result of geopolitical events remains one risk because of the potential it holds to put downward pressure on EUR/USD as an indirect result of increased costs and inflationary pressures. However, this risk is arguably balanced by the recent improvement in economic data, including German unemployment, manufacturing PMI and Spanish inflation. Additionally, the latest CFTC positioning data shows the EUR/USD pair remains in a net-long position. A rebound in the USD on the back of higher US bond yields is another potential downside risk. Most major technical indicators remain neutral. Therefore, on balance, we expect EUR/USD to remain largely rangebound between 1.0830 and 1.1020 over the next two weeks.

— Iris Yuen, Investment Strategist

All 11 sectors in the S&P 500 are expected to deliver positive growth in 2024

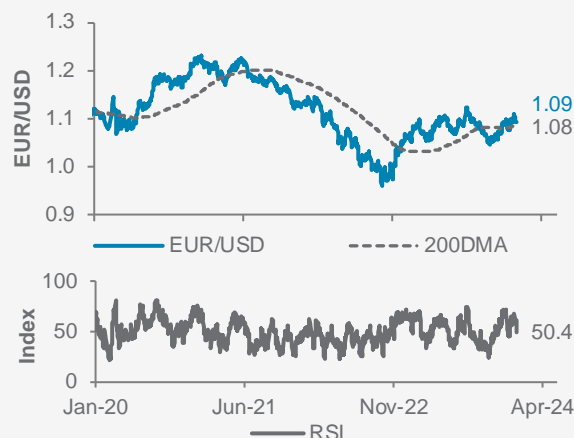
Consensus expectations for 2024 earnings growth in S&P 500 sectors



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

We expect EUR/USD to remain rangebound between 1.0830 and 1.1020 over the next two weeks

EUR/USD and 200-day moving average, 14-day RSI for EUR/USD



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q What are the implications of the Red Sea tensions on oil?

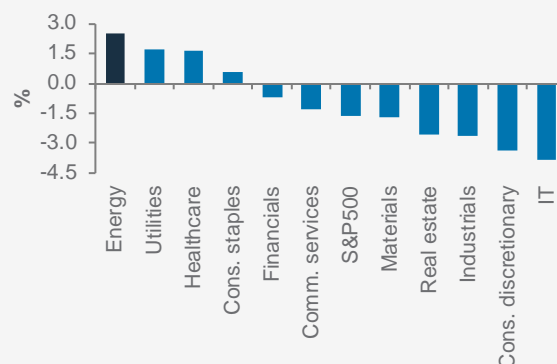
In the past two months, attacks on shipping in the critical Red Sea corridor have raised concerns about the potential for a spillover to energy prices, given that about 9% of the global oil and refined product flows transited through the Red Sea in H1 23. Having said that, the crude oil market reaction has thus far been muted, suggesting investors are not overly concerned about a broadening of the regional conflict.

As outlined in our *Weekly Market View* publication dated 13 October 2023 (All eyes on the Middle East), a conflict that avoids affecting oil supply is likely to have a limited impact on the market. Our base case remains a scenario where the conflict is sufficiently contained to avoid a spillover into financial markets. Having said that, the risk of an escalation that does start to impact oil prices is not negligible. We believe both US energy sector equities and gold offer potential hedges against such a scenario. These two asset classes are core holdings in our foundation asset allocation.

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

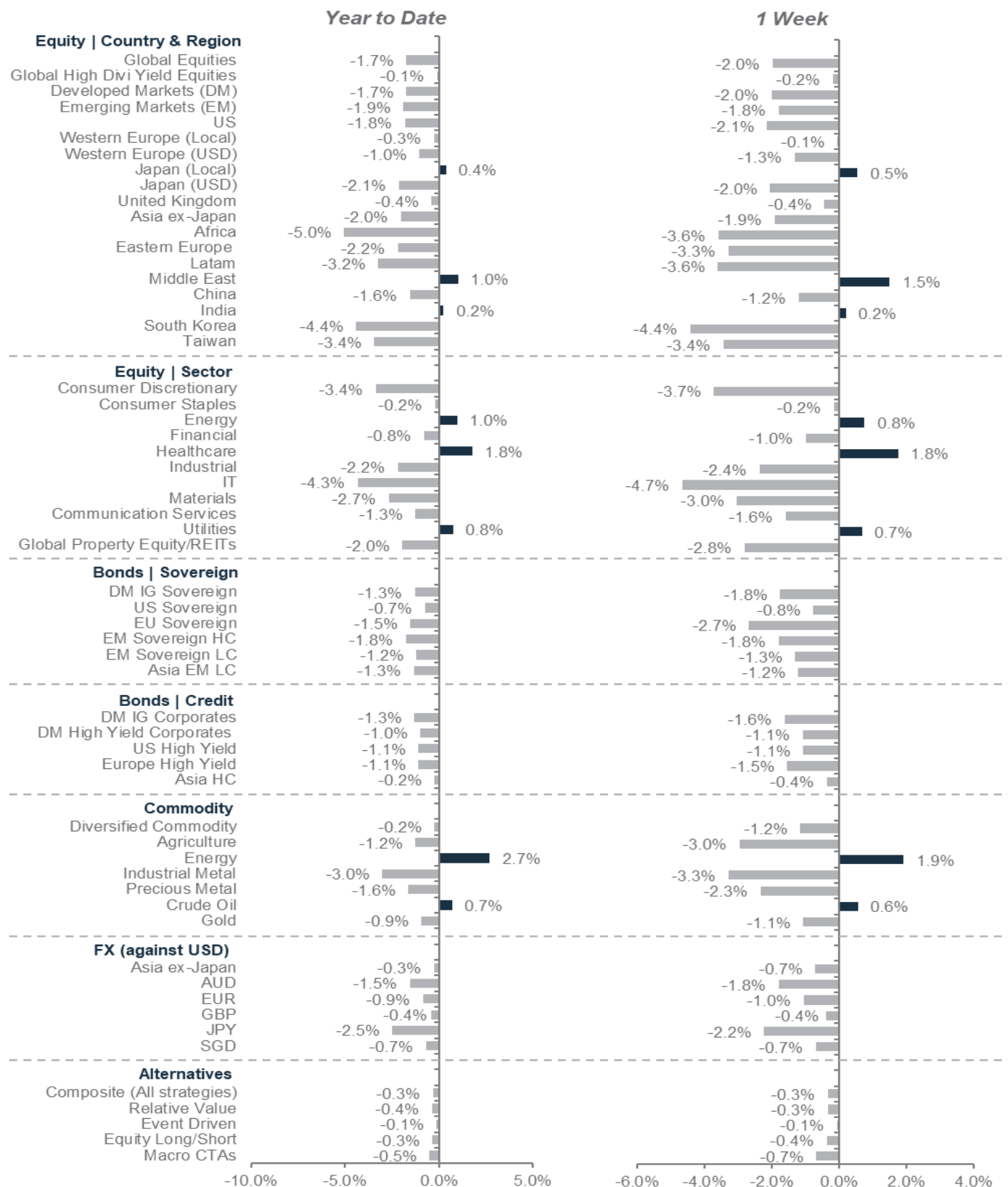
US energy sector equities rose over the past week amid an escalation in Middle East tensions

US equity sector performance in the past week (28 Dec 2023 to 04 January 2024)



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 04 January 2024; 1-week period: 28 December 2023 to 04 January 2024

Our 12-month asset class views at a glance

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

Source: Standard Chartered Global Investment Committee

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

The immediate support for the S&P500 index is at 4,662

Technical indicators for key markets as of 04 January close

Index	Spot	1st support	1st resistance	12m forward P/E (x)	12m forward dividend yield (%)
S&P 500	4,689	4,662	4,743	19.4	1.6
STOXX 50	4,474	4,441	4,514	12.3	4.0
FTSE 100	7,723	7,693	7,743	11.0	4.3
Topix	2,379	2,371	2,383	14.3	2.5
Shanghai Comp	2,954	2,947	2,968	9.8	3.7
Hang Seng	16,646	16,512	16,914	7.8	4.6
Nifty 50	21,659	21,537	21,761	20.0	1.5
MSCI Asia ex-Japan	628	624	637	12.2	2.8
MSCI EM	1,004	997	1,018	11.6	3.2
WTI (Spot)	72.2	70.8	73.1	na	na
Gold	2,044	2,036	2,057	na	na
UST 10Y Yield	4.00	3.92	4.04	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	EC	Sentix Investor Confidence	Jan	—	-16.8
	EC	Retail Sales y/y	Nov	—	-1.2%
	EC	Economic Confidence	Dec	—	93.8
TUE	EC	Unemployment Rate	Nov	—	6.5%
	US	NFIB Small Business Optimism	Dec	90.6	90.6
	US	Trade Balance	Nov	-\$64.8b	-\$64.3b
	CH	New Yuan Loans CNY	Dec	1375b	1090b
	CH	Money Supply M2 y/y	Dec	10.0%	10.0%
WED					
THU	US	CPI y/y	Dec	3.3%	3.1%
	US	CPI Ex Food & Energy y/y	Dec	3.8%	4.0%
FRI/SAT	CH	CPI y/y	Dec	-0.3%	-0.5%
	CH	PPI y/y	Dec	-2.6%	-3.0%
	UK	Industrial Production y/y	Nov	—	0.4%
	UK	Manufacturing Production y/y	Nov	—	0.8%
	US	PPI Final Demand y/y	Dec	—	0.9%
	US	PPI Ex Food & Energy y/y	Dec	—	2.0%
	CH	Exports y/y	Dec	2.1%	0.5%
	CH	Imports y/y	Dec	0.8%	-0.6%

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 are at critical levels in key bond markets

Our proprietary market diversity indicators as of 04 January

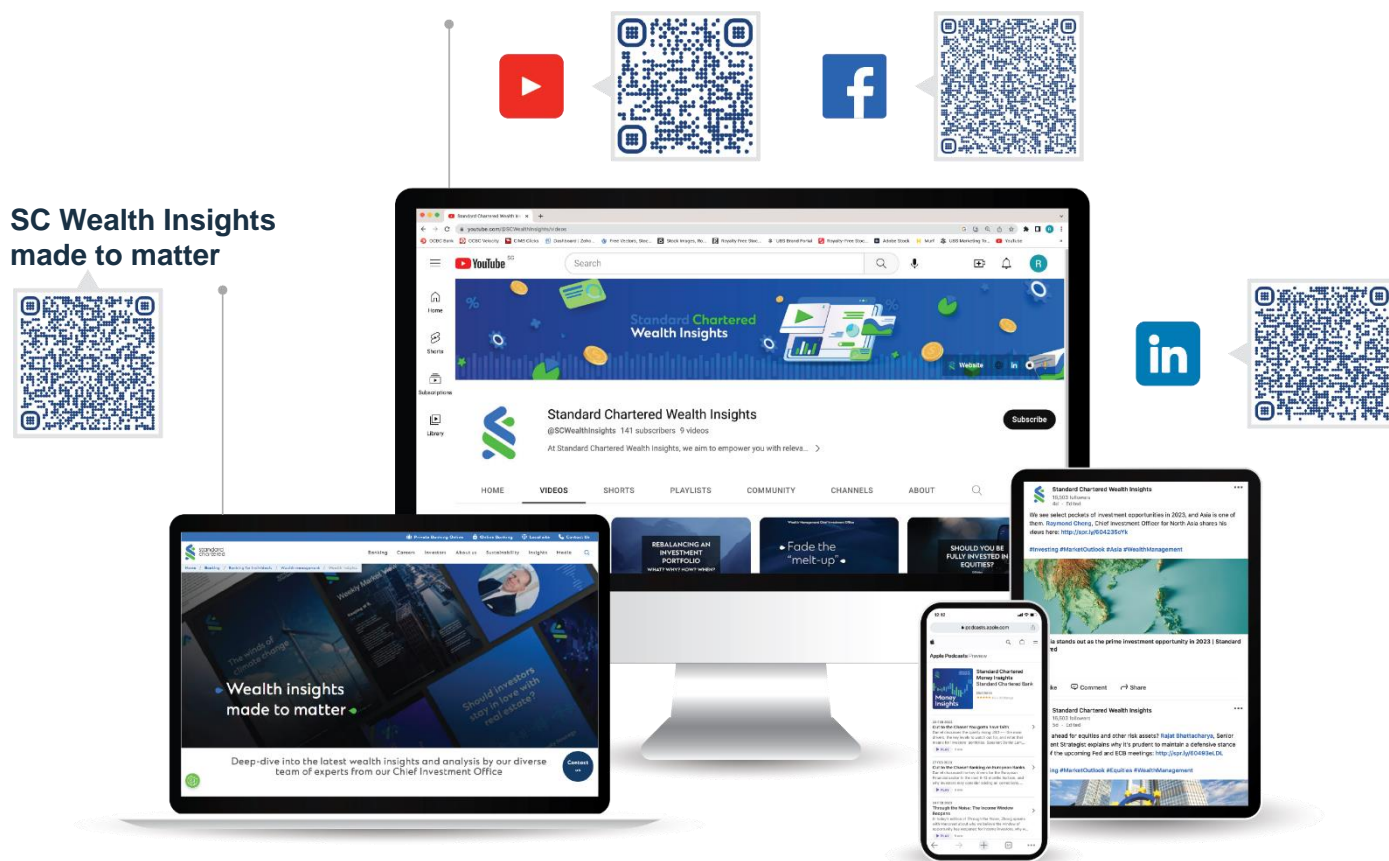
Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↓	1.26
Global Equities	●	↓	1.28
Gold	●	↓	1.27
Equity			
MSCI US	●	↓	1.39
MSCI Europe	●	↓	1.28
MSCI AC AXJ	●	↓	1.48
Fixed Income			
DM Corp Bond	●	↓	1.28
DM High Yield	●	↓	1.26
EM USD	●	↓	1.29
EM Local	○	↓	1.25
Asia USD	●	↓	1.32
Currencies			
DX	●	→	1.40

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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