



# Weekly Market View

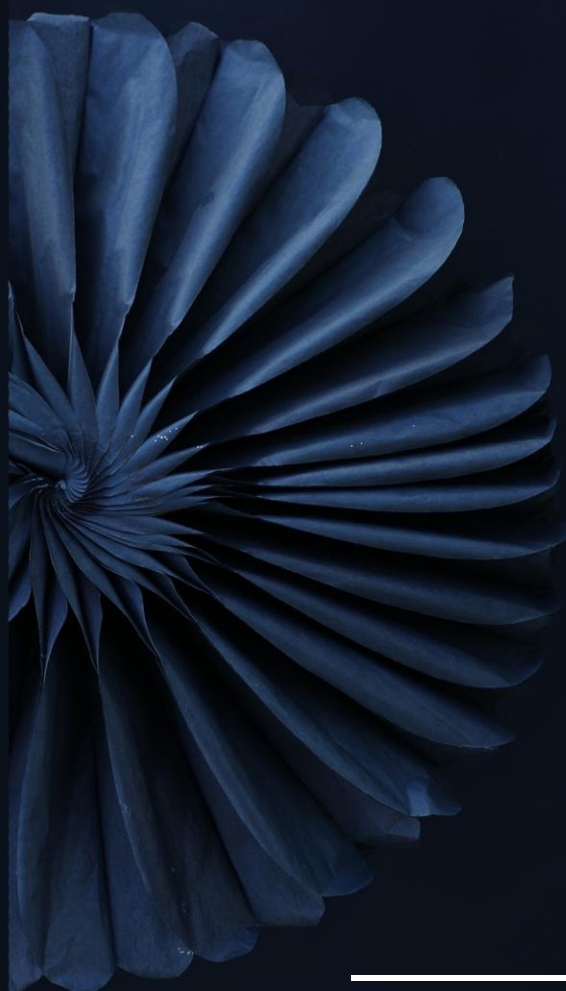
## Time to rebalance

→ US stocks have broken to new record highs this week. The drivers of this rally, which we anticipated in our Outlook 2024 publication, are strong economic data, US Q4 earnings beats and robust global semiconductor demand.

→ However, our indicator of investor diversity is signalling a high risk of reversal in key equity markets. Given this, we believe it would be prudent for investors to trim their equity exposure.

→ In a portfolio context, while our foundation allocations remain unchanged and we remain Overweight on equities, this would mean reducing any excessive exposure to equities to bring them back to the target allocations based on one's risk appetite.

→ We see a chance to average into safe havens such as US and European government bonds, where yields have turned more attractive after this year's rebound. US short-duration inflation-protected bonds also look attractive as a hedge against the risk of any revival of inflation.



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What is the implication of China's latest policy easing on local equity and bond markets?

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Are tensions on the Red Sea a risk to US inflation?

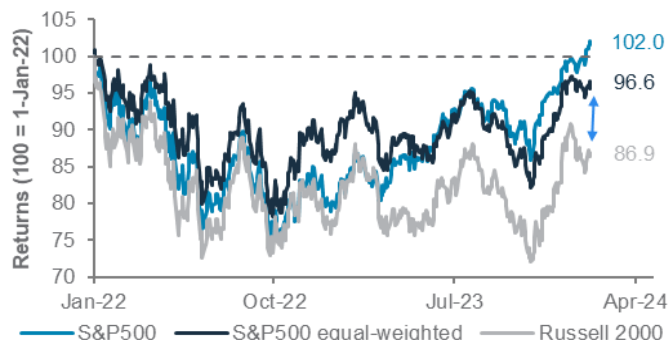
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What are your latest three-month currency views?

## Charts of the week: Too upbeat versus too downbeat?

**US equities are at risk of a near-term reversal amid narrow investor diversity; China equities appear to be bottoming out**

S&P500, S&P500 equal-weighted and Russell 2000\* indices



Source: Bloomberg, Standard Chartered; \*represents US small cap stocks

Hang Seng index, with key technical support and resistance



## Editorial

### Time to rebalance

US stocks have broken to new record highs this week. The drivers of this rally, which we anticipated in our Outlook 2024 publication, are strong economic data, US Q4 earnings beats and robust global semiconductor demand. However, our indicator of investor diversity is signalling a high risk of reversal in key equity markets. Given this, we believe it would be prudent for investors to trim their equity exposure. In a portfolio context, while our foundation allocations remain unchanged and we remain Overweight on equities, this would mean reducing any excessive exposure to equities to bring them back to the target allocations based on one's risk appetite. We see a chance to average into safe havens such as US and European government bonds, where yields have turned more attractive.

**Strong earnings, economic data:** The S&P500 index broke out of a major technical resistance, the record high of 2022. The key drivers: a) more than 80% of the S&P500 companies that have reported so far have beaten Q4 earnings estimates (upcoming technology sector earnings and their guidance for 2024 are likely crucial for the equity rally to sustain); b) stronger-than-expected business confidence data (PMIs) for January, which suggested manufacturing is seeing a recovery from last year's recession and the services sector remains healthy (except for the Euro area); c) stronger-than-expected US GDP growth in Q4 2023; and d) strong forward guidance from TSMC, Taiwan's leading global supplier of semiconductors.

**Crowded investor positioning:** However, our investor diversity indicators (fractals) are flagging two-out-of-three chance of a reversal in Global, US, Europe, EM ex-Asia and India equities and DM High Yield bonds. Within equity sectors, the indicators are flagging high risk of a reversal in technology, communication services, financial, industrial and real estate sectors in both the US and Europe and the consumer discretionary sector in the US. Investor positioning also looks stretched across most of these markets.

**Investment implications:** The high risk of a near-term pullback makes it prudent for investors who are fully invested to trim exposure. Of course, this does not mean getting out of equities altogether. We remain constructive on risk assets, especially with central banks poised to ease policy if growth and inflation continue their downtrend (as we heard from the ECB this week and are likely to hear from the Fed next week). In a portfolio context, though, those overexposed to equities and HY bonds compared with their risk tolerance could use this opportunity to rebalance their allocations. Those who are still building allocations to equities and HY bonds can wait for and use any pullback to add exposure. The S&P500 index has near-term technical support at 4,740, followed by 4,550 and 4,400.

**Hedging potential headwinds:** Besides crowded positioning, we believe caution is warranted due to the following: a) robust US earnings estimates (11% y/y estimated for 2024, including 16% y/y for technology sector) leave little room for downside surprises; b) deteriorating underlying indicators of job markets, such as the rate of hiring, quits and permanent job losses (next week's US jobs data in focus); c) recent escalation of conflicts on the Red Sea, if sustained, could lead to a revival in global inflation, denting the economic soft-landing narrative and delaying policy rate cuts (page 6). We believe US short-duration inflation-protected government bonds, gold and energy sector equities are attractive hedges against any revival of inflation.

**Upturn in China:** China equities are likely to see a near-term bounce on the back of the new support measures (see page 4), but a sustained rally will need a more coordinated fiscal and monetary policy easing and a revival of business and consumer confidence. The Hang Seng index has strong technical support, having set a double-bottom pattern over the past year (14,794 and 14,597). However, the upside could be limited to 18,300 in the absence of large-scale and coordinated stimulus measures.

**Bullish on EUR and JPY:** In FX, we remain bullish on the EUR and JPY over a 3-month horizon. (see page 5).

## 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

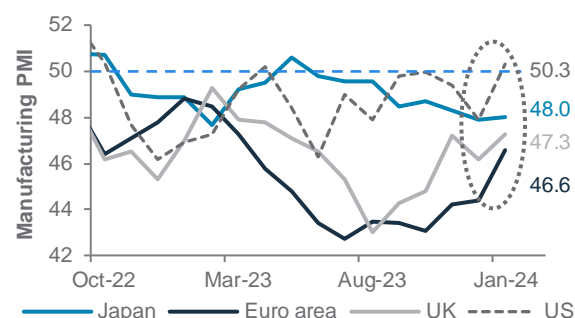
**(+) factors:** Supportive China policies, improving business confidence

**(-) factors:** Geopolitical tensions, deteriorating Euro area data

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> <li>US economy expanded more than expected by 3.3% q/q annualised in Q4</li> <li>US, Euro area, UK and Japan manufacturing PMIs rose more than expected, with the US moving back to expansion territory</li> <li>US, UK and Japan services PMIs rose more than expected</li> <li>US's leading index fell less than expected by 0.1% m/m</li> <li>US's University of Michigan sentiment rose more than expected</li> </ul>	<ul style="list-style-type: none"> <li>US durable goods orders unchanged m/m vs. expectations of 1.5% rise</li> <li>Euro area services PMI fell unexpectedly to 48.4</li> <li>ECB's quarterly Bank Lending Survey indicated tighter lending standards</li> <li>Euro area consumer confidence fell more than expected to -16.1</li> <li>UK retail sales slumped 3.2% m/m in December</li> </ul>
	<b>Our assessment: Neutral</b> – Improving DM manufacturing PMI, US and Japan services PMI vs. deteriorating Euro area services PMI, tightening Euro area lending standards	
Policy developments	<ul style="list-style-type: none"> <li>PBoC cut RRR by 50bps, effective 5 February, while keeping 1- and 5-year loan prime rates unchanged</li> <li>China is reported to be putting together a rescue package for stock markets</li> <li>The BoJ kept policy rate unchanged as expected</li> </ul>	<ul style="list-style-type: none"> <li>Fed's Daly and Bostic pushed back against the number of rate cuts priced by the market</li> <li>The ECB maintained policy rate as expected; President Lagarde sounded reluctant to begin cuts</li> </ul>
	<b>Our assessment: Positive</b> – Supportive China policies	
Other developments	<ul style="list-style-type: none"> <li>Republican Ron DeSantis dropped out of the US presidential race and endorsed Donald Trump; Trump won the Republican primary election in New Hampshire</li> </ul>	<ul style="list-style-type: none"> <li>US and UK launched more airstrikes against the Houthis, marking the eighth round of allied attacks</li> </ul>
	<b>Our assessment: Negative</b> – Geopolitical tensions	

### Manufacturing sector business confidence continued to recover in the US and Europe, with the US returning to expansion territory

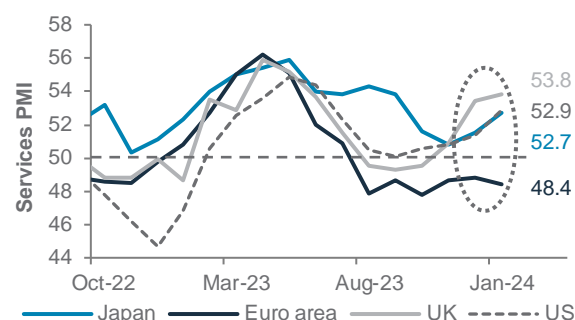
Manufacturing sector PMIs across major economies



Source: Bloomberg; Standard Chartered

### Services sector business confidence remained resilient across Developed Markets, except for the Euro area

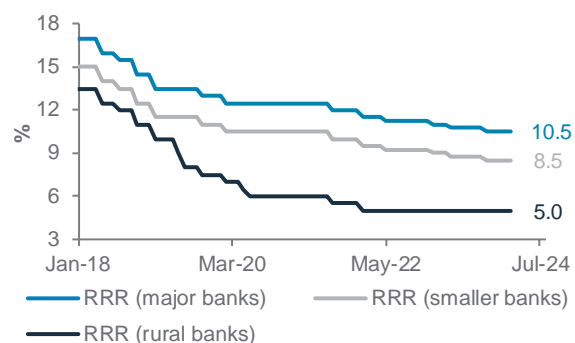
Services sector PMIs across major economies



Source: Bloomberg, Standard Chartered

### China cut bank reserve requirements by 50bps to boost liquidity ahead of the Lunar New Year holidays, among other steps to support growth

China reserve requirement ratio for various banks



Source: Bloomberg, Standard Chartered

## Top client questions

### Q What is the implication of China's latest policy easing on local equity and bond markets?

China announced several supportive policy measures recently. The PBoC's 50bps reserve requirement ratio (RRR) cut was the largest since December 2021. According to PBoC Governor Pan, monetary policy is expected to remain loose. In parallel, more relaxation measures were announced in China's property sector, including expanding the use of commercial property-pledged loans, joint policies between China and HK regulators to intensify cross-border fund flows and opening onshore repurchase market for foreign investors. In the pipeline, Bloomberg reported that Chinese authorities are studying the launch of a CNY2trn stabilisation fund using the offshore funds of state-owned enterprises.

In our view, these measures should improve investor confidence and support both China and Hong Kong equity markets, at least in the short term. Valuations remain depressed (the MSCI China index is trading 1.2 standard deviations below its historical valuation average), and investor positioning is light – both likely to make the market more sensitive to positive policy efforts.

That said, the continued presence of long-term uncertainty about the growth outlook may limit equity market gains. Firstly, downside surprises in macro data points, as illustrated by China's latest GDP growth, property investment and retail sales data, indicate China's macro recovery remains weak thus far. This, in turn, is likely to weigh on cyclical stocks. Secondly, uncertainties on the geopolitical and regulatory fronts could limit any reversal in foreign fund outflows seen since the start of the year.

For Chinese USD bonds, we view the recent policy announcements as supportive but insufficient to meaningfully tighten yield premiums. We expect interest rate-sensitive bond sectors, such as financials and state-owned asset managers, to benefit from the prospect of widening net interest margins and lower deposit rates. For property sector bonds, though, we remain cautious as contracted sales continue to struggle. Overall, we have a moderate preference for High Yield (HY) over Investment Grade (IG) USD bonds in Asia, as the former benefits from a higher yield and what is now a significant historical price weakness.

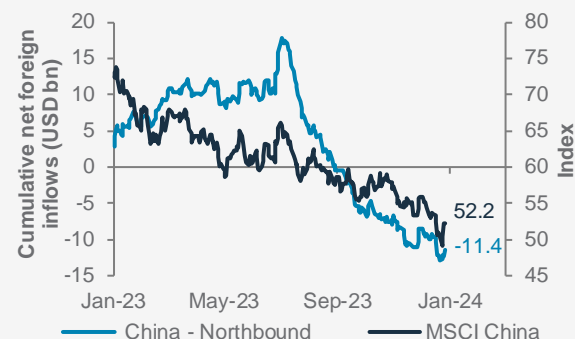
More demand-side policies are likely needed to support a sustained improvement in the market's longer-term outlook. In this regard, we would keep a watch on the National People's Congress meeting in early March, which helps set the direction for annual growth targets and fiscal policy plans. We retain a Neutral (core holding) view on China equities within Asia ex-Japan equities and a Neutral view on Asia USD bonds within global bonds.

— **Cedric Lam**, Senior Investment Strategist

— **Michelle Kam**, Investment Strategist

### China equity markets saw an uptick in foreign fund inflows this week

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



Source: Bloomberg, Standard Chartered

### China's USD bond yield premiums have been largely flat this week, despite the stimulus measures

Asia USD and China USD bond yield premiums



Source: Bloomberg, Standard Chartered

## Top client questions (cont'd)

### What are your latest three-month currency views?

Major central banks, including the BoJ, the BoC and the ECB, have concluded their first policy meeting of 2024. Their decisions, alongside technical indicators, remain key to the three-month currency outlook.

The BoJ kept its negative interest rate policy unchanged and lowered its inflation forecast. While Governor Ueda said that the policy is unlikely to be tightened until wage growth increases, he suggested a shift in policy was only a matter of time. Japan's spring wage talks start in March, and any signs of above-inflation wage hikes are likely to enable the BoJ to end its negative rates policy. We see USD/JPY moving lower to 140 over the next three months.

The BoJ was soon followed by the BoC, which kept the policy rate unchanged at 5% for the fourth time in a row. It also signalled another hike was unlikely if economic data evolved as forecast. We expect USD/CAD to consolidate around 1.34 over three months.

The ECB also kept its policy rate unchanged. Markets expect the first rate cut in June. While we await the Fed policy meeting next week (markets expect the first rate cut in May), we expect near-term real interest rate differentials to support EUR/USD and the pair to rise to 1.10 in three months. The USD index (DXY) is likely to be largely rangebound without any rate moves from various central banks. The BoE policy meeting will be closely watched next week as well. We expect it to start rate cuts later than the Fed given stickier UK inflation, leaving real yield differentiations in a narrow range. This supports our rangebound view on GBP/USD. We expect the pair at 1.25 in the next three months. We see USD/CHF weakening marginally to 0.86 over the next three months as a still-hawkish SNB seeks to maintain a strong CHF for now to contain imported inflation.

In Asia Pacific, concerns about sticky wage growth in Australia and New Zealand are likely to result in both the RBA and the RBNZ keeping rates elevated longer than other major central banks. We expect AUD/USD to rise to 0.67 in three months' time and NZD/USD to rise to 0.62. In China, the PBoC cut banks' reserve requirement ratio by 50bps effective 5 February, the biggest cut since December 2021, as policymakers extended efforts to shore up the economy. USD/CNY is likely to be largely stable over the next three months at 7.15.

— Iris Yuen, Investment Strategist

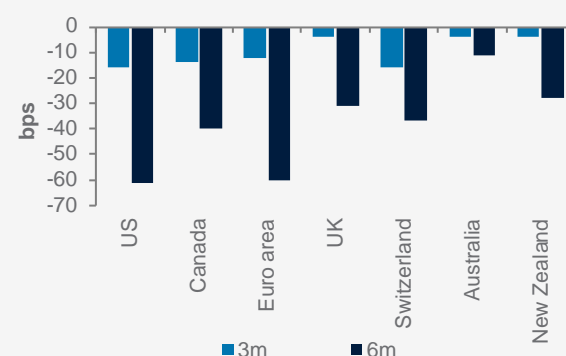
### Our updated 3-month FX forecasts

	3m forecast	12m forecast*
DXY Index	102	100
EUR/USD	1.10	1.12
GBP/USD	1.25	1.27
AUD/USD	0.67	0.70
NZD/USD	0.62	0.64
USD/JPY	140	135
USD/CHF	0.86	0.88
USD/CAD	1.34	1.35
USD/CNY	7.15	7.00
USD/SGD	1.32	1.33

Source: Bloomberg, Standard Chartered; \*12-month forecasts remain the same as published in our Outlook 2024 publication in December

### Money markets are expecting the RBA to keep rates elevated longer than other central banks

Money market-implied interest rate changes over the next 3 and 6 months



Source: Bloomberg, Standard Chartered



## Top client questions (cont'd)

### **Q** Are fund flows still supporting US equities? Should investors chase US equities higher?

In recent weeks, investors have been increasing their Overweight in US equities, while there has been some trimming in their Overweight in global equities. This indicates that US equities are seeing fund inflows at the expense of other major regions. Depending on the horizon, studies show that allocations to US equities are +1.0 to +1.5 standard deviations above their medium- to long-term averages.

There have been concerns that Fed rate cut expectations have gone “too far, too fast”, resulting in the backing up of US 10-year government bond yields. Moreover, investor positioning has been rising in the more defensive sectors such as staples, Utilities and healthcare. In our view, this warrants caution and builds the case for investors to rebalance by partly trimming exposure to US equities, particularly from in our preferred Growth-heavy communication services and consumer discretionary sectors.

Against this backdrop, we believe it is attractive to either (i) rotate into the healthcare sector, where we are also Overweight in our “barbell approach”, or (ii) add back to US equities if the S&P500 pulls back to key technical support levels of 4,550 and 4,400.

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

### **Q** Are tensions on the Red Sea a risk to US inflation?

History shows that most geopolitical events have a temporary impact on markets, raising volatility over the short term but with very limited impact over the long term. South Korea's KOSPI index is a good example of this, with most Korean peninsula tensions creating largely short-lived volatility for markets. Occasionally, of course, an event can have a more long-lasting impact on markets, such as the start of the Ukraine conflict via the gas price channel.

We would view Red Sea tensions within this framework. The concern is that higher shipping costs feed through to higher US inflation as shipping delays add to costs. For now, we continue to see this more as a risk scenario rather than a central scenario given direct military conflict remains geographically limited. However, a ‘boiling frog’ syndrome, where a conflict continues to spread gradually and create significant supply disruptions, is a risk we would monitor.

For crude oil markets specifically, we expect the geopolitical risk premium to fade under our central scenario. The next technical support for WTI oil is at USD 70/bbl. That said, investors can consider hedging via gold, energy sector equities or through US inflation-indexed government bonds (TIPS). We see 10-year TIPS as inexpensive given it is currently pricing in long-term CPI inflation of around 1.8%, which is lower than the Fed's target (2.0%).

— **Manpreet Gill**, Chief Investment Officer, AMEE

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

**Amid stretched investor positioning, investors can consider either adding back at 4,550 and 4,400 technical support levels (for S&P500), or rotating into more defensive sectors such as healthcare**

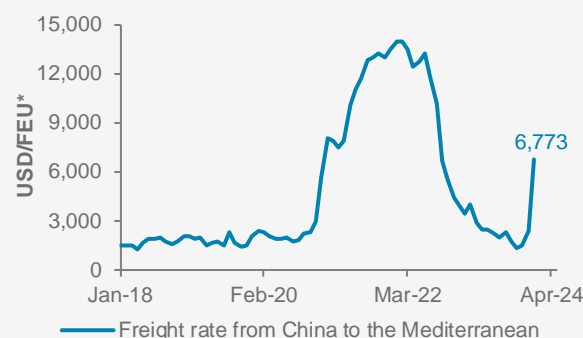
S&P 500 index



Source: Bloomberg, Standard Chartered

### **Shipping costs have spiked on Red Sea tensions**

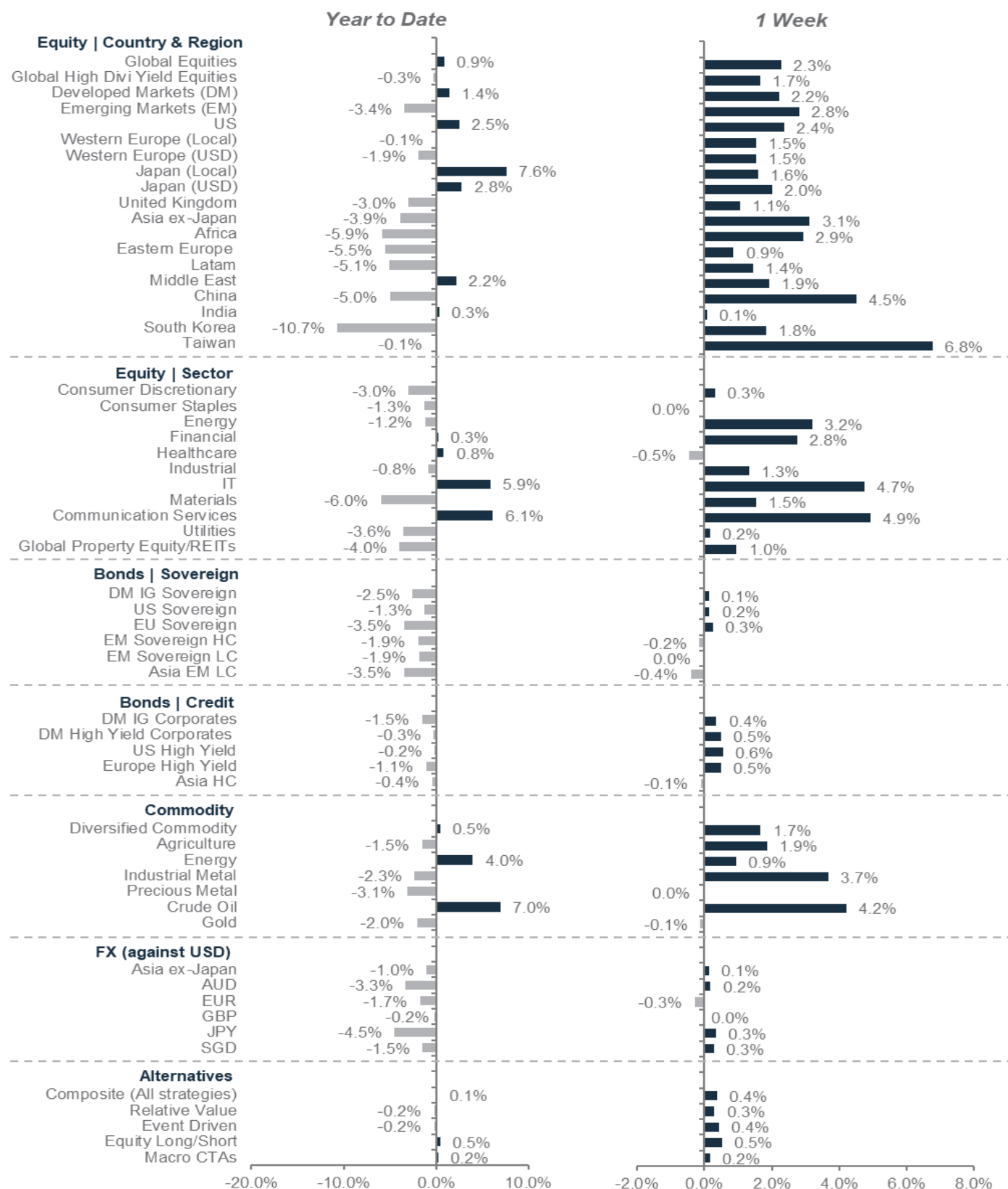
Freight rate from China to the Mediterranean



Source: Bloomberg, Standard Chartered

\* Forty-foot equivalent unit, which is the size of one container

## 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 25 January 2024; 1-week period: 18 January 2024 to 25 January 2024

Our 12-month asset class views at a glance

Asset class					
Equities			Preferred Sectors		
Euro area	◆		US Communication	▲	
US	▲		US Technology	▲	
UK	▼		US Healthcare	▲	
Asia ex-Japan	◆		Europe Technology	▲	
Japan	▲		Europe Healthcare	▲	
Other EM	◆		China Discretionary	▲	
			China Communication	▲	
			China Technology	▲	
Bonds (Credit)			Alternatives		
Asia USD	◆				
Corp DM HY	◆				
Govt EM USD	▼				
Corp DM IG	◆		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 4,912

Technical indicators for key markets as of 25 January close

Index	Spot	1st support	1st resistance	12m forward P/E (x)	12m forward dividend yield (%)
S&P 500	4,894	4,858	4,912	20.2	1.5
STOXX 50	4,582	4,493	4,627	12.7	3.9
FTSE 100	7,530	7,485	7,552	10.9	4.4
Topix	2,532	2,513	2,548	15.2	2.4
Shanghai Comp	2,906	2,806	2,956	9.7	3.7
Hang Seng	16,212	15,378	16,629	7.6	4.7
Nifty 50	21,353	21,187	21,570	19.6	1.5
MSCI Asia ex-Japan	616	605	622	11.9	2.8
MSCI EM	988	972	996	11.4	3.2
WTI (Spot)	77.8	74.9	79.3	na	na
Gold	2,021	2,013	2,029	na	na
UST 10Y Yield	4.12	4.09	4.16	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
TUE	EC	Economic Confidence	Jan	–	96.4
	US	Conf. Board Consumer Confidence	Jan	111.6	110.7
	US	JOLTS Job Openings	Dec	–	8790k
WED	CH	Manufacturing PMI	Jan	–	49
	CH	Non-manufacturing PMI	Jan	–	50.4
	US	ADP Employment Change	Jan	135k	164k
	US	Employment Cost Index	4Q	1.0%	1.1%
THU	US	FOMC Rate Decision (Upper Bound)	31-Jan-24	5.5%	5.5%
	CH	Caixin China PMI Mfg	Jan	–	50.8
	EC	CPI Estimate y/y	Jan	–	–
	EC	CPI Core y/y	Jan P	–	3.4%
	EC	Unemployment Rate	Dec	–	6.4%
	UK	Bank of England Bank Rate	1-Feb-24	–	5.3%
FRI/SAT	US	ISM Manufacturing	Jan	47.3	47.4
	US	Change in Nonfarm Payrolls	Jan	168k	216k
	US	Unemployment Rate	Jan	3.8%	3.7%

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 25 January

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	→	1.30
Global Equities	○	↓	1.18
Gold	●	↑	1.70
Equity			
MSCI US	○	↓	1.17
MSCI Europe	●	↓	1.25
MSCI AC AXJ	●	↓	1.57
Fixed Income			
DM Corp Bond	●	↓	1.28
DM High Yield	○	↓	1.24
EM USD	●	↓	1.29
EM Local	●	↓	1.29
Asia USD	●	↓	1.30
Currencies			
EUR/USD	●	→	1.42

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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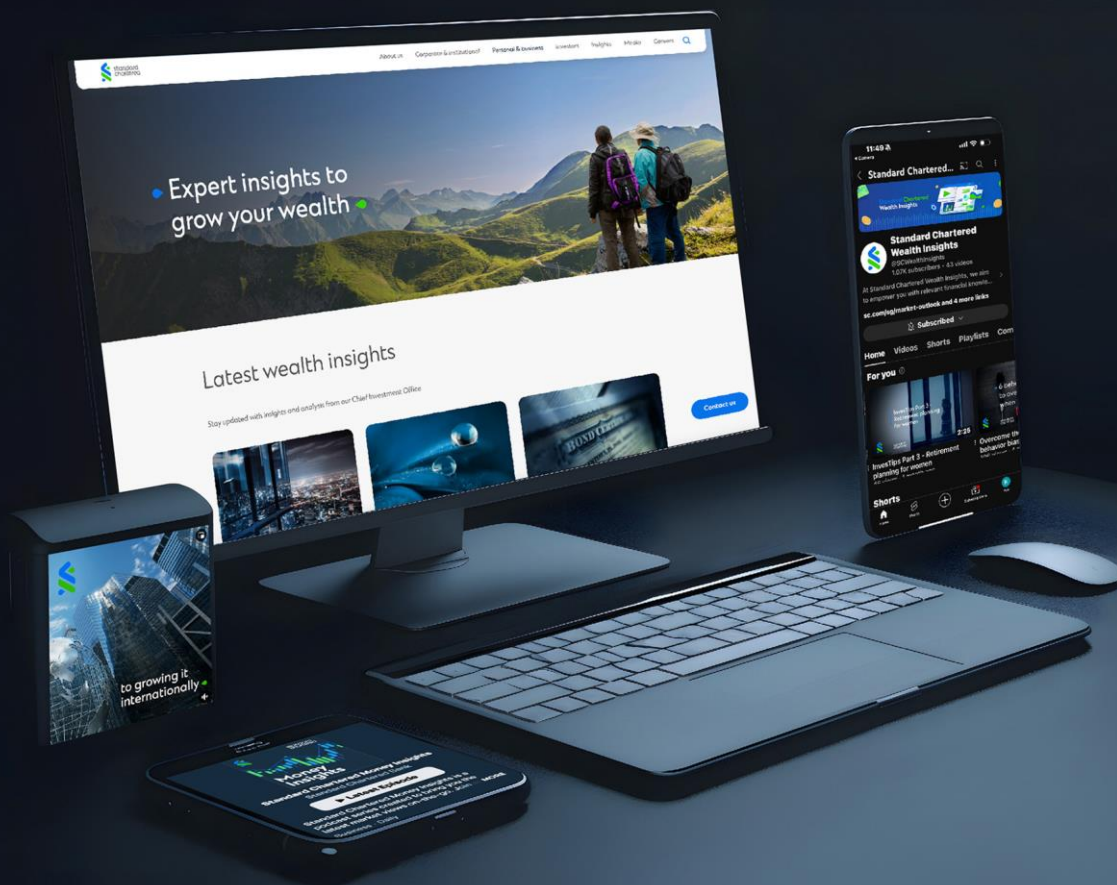
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