



Weekly Market View

Trimming equity allocation slightly, adding bonds

→ Last week we flagged elevated risk of a short-term reversal in global and US equity markets as they looked overcrowded. This week, the US equity rally stalled after hitting record highs and government bond yields slumped (bonds rose).

→ The catalysts: Fed pushing back against expectations of a March rate cut, renewed concerns about US small banks' exposure to property sector and disappointing revenue guidance from some technology sector leaders. Our investor diversity indicators are still flagging high risk of reversal in global, US and European equities and DM HY bonds.

→ Given this, although we remain Overweight on equities (including US equities), we have chosen to trim our excessive exposure as a result of the rally since we published our Outlook 2024 in mid-December to bring them back closer to the target Foundation allocations.

→ In parallel, we have used the proceeds from trimming equities to fund our allocations to DM government bonds which continue to offer attractive yields.

What is driving the European stock market to multi-year highs? What are the tactical opportunities in the region?

How are US consensus earnings estimates evolving? How would you rebalance within US growth stocks?

How do the recent ECB policy meeting and European data affect your view on the EUR?

Charts of the week: Reducing excessive risk

While we remain Overweight equities, we have trimmed excessive exposure to equities to add to DM government bonds

Our foundation structural and tactical asset allocations across various risk categories, today versus 15 December 2023

Foundation	Moderate				Moderately Aggressive				Aggressive			
	SAA*	TAA^ as of mid Dec-23	TAA now	Changes	SAA	TAA as of mid Dec-23	TAA now	Changes	SAA	TAA as of mid Dec-23	TAA now	Changes
Cash	5.0	1.9	1.9	0.0	5.0	1.9	1.9	0.0	5.0	1.8	1.8	0.0
Fixed Income	55.0	53.5	56.9	3.4	35.0	32.9	37.7	4.7	15.0	13.9	17.6	3.7
Equity	35.0	40.1	36.7	-3.4	55.0	60.9	56.2	-4.7	75.0	80.1	76.4	-3.7
Alternatives	5.0	4.4	4.4	0.0	5.0	4.3	4.3	0.0	5.0	4.2	4.2	0.0
	100	100	100		100	100	100		100	100	100	

Source: Standard Chartered WM Chief Investment Office; *Our Foundation Structural Asset Allocation; ^Our Tactical Asset Allocation

Editorial

Trimming equity allocation, adding bonds

Last week we highlighted heightened risk of a short-term reversal in global and US equity markets as they looked overcrowded. This week, the US equity rally stalled after hitting record highs and government bond yields slumped (bonds rose). The catalysts: Fed pushing back against expectations of a March rate cut, renewed concerns about US small banks' exposure to property sector and disappointing revenue guidance from some technology sector leaders. Our investor diversity indicators still signal a high risk of reversal in global, US and European equities, as well as DM HY bonds.

Given this, while we maintain an Overweight stance on equities, including US equities, we have opted to trim our excessive exposure as a result of the rally since we published our Outlook 2024 in mid-December to bring them back closer to the target Foundation allocations. We continue to be Overweight on global and US equities, though to a lesser extent than in December. The direction of markets near term will likely hinge on tonight's US job market report, upcoming US service sector business confidence indicator (ISM), Fed policymaker commentary and developments in the Red Sea.

Fed cut likely in Q2: The takeaway from the first Fed policy meeting of the year was clear: while policymakers see the ongoing disinflation conducive to initiating rate cuts later this year, they would prefer further data confirmation before acting. We continue to anticipate the first 25bps rate cut in May or June, followed by another 100bps of cuts in H2, contingent upon signs of significant growth slowdown and confirmation of inflation approaching the Fed's 2% target by Q2.

US technology sector earnings mixed: This was a crucial week for US Q4 earnings, given that five of the so-called "Magnificent Seven" megacap companies which have been driving US earnings and stocks over the past year were due to report Q4 23 earnings. The earnings turned out to be a mixed

bag. While Alphabet and Apple disappointed with their revenue guidance, Microsoft met expectations, and Amazon and Meta gave strong guidance. Overall, S&P500 companies which have reported so far have beaten earnings estimates by 6%. However, the consensus has lowered 2024 earnings estimates to 10.1%, from 11.1% at the start of the year.

Watching US job market report: US non-farm payrolls data tonight holds the key in determining the potential for a more protracted pullback in risk assets. The build-up to this data has been mixed - while US job openings rose more than expected and hiring rate ticked up, the job openings rate was unchanged, and the quits rate fell. Alternative sources of job openings data from Indeed and Linkup suggest to a deteriorating job market. Additionally, US private sector job creation (ADP) fell below estimates. Overall, the job market continues to cool. Two key indicators from the non-farm payrolls will be in particular focus - total number of hours worked, which is on a downtrend, and the rate of permanent job losers - as these are early warning indicators of a sharp deterioration in the job market. Also, ISM Services PMI data next week (especially new orders sub-indices) will also provide an update on the resilience of this key economic sector.

Investment implications: Against the above backdrop, we have marginally reduced risk in our foundation asset allocations. While we maintain an Overweight position on equities, including US equities, we have trimmed excessive exposure to equities as a result of the rally since we published our Outlook 2024 in mid-December to bring them back closer to the target allocations. Concurrently, we have redirected proceeds from trimming equities to fund our allocations to DM government bonds which continue to offer attractive yields. In our opportunistic allocations, we have added US short-duration inflation protected bonds to hedge against any revival of inflation as a result of any escalation in the Red Sea, or geopolitical tensions elsewhere.

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

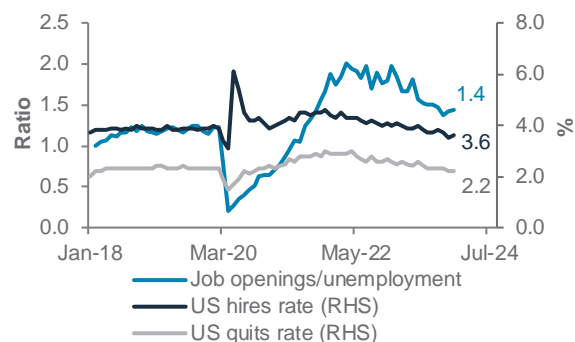
(+) factors: Cooling US core inflation, recovering US mfg. PMI, lower Treasury financing estimates

(-) factors: Geopolitical tensions, contraction in China mfg. PMI

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> US PCE inflation was unchanged at 2.6% y/y as expected; core inflation slowed more than expected to 2.9% y/y US employment cost index rose less than expected US consumer confidence and ISM mfg. PMI (49.1) rose more than expected US job openings rose more than expected to 9.03m; the hiring rate rose Euro area economy was unexpectedly flat in Q4 23; unemployment rate unchanged as expected China non-manufacturing PMI rose more than expected to 50.7 	<ul style="list-style-type: none"> US Dallas Fed manufacturing fell more than expected to -27.4 US private payrolls added less jobs than expected at 107,000 China manufacturing PMI rose less than expected to 49.2 Euro area core inflation eased less than expected; headline eased as expected
	Our assessment: Positive – Slowing US consumer, wage inflation, rising US job openings, resilient Euro area economy	
Policy developments	<ul style="list-style-type: none"> US Treasury financing estimates were lower BoE held rates and gave dovish guidance 	<ul style="list-style-type: none"> Fed Chair Powell doused expectations of a March rate cut
	Our assessment: Neutral – Lower US Treasury financing estimates versus fading expectations of Fed rate cut in March	
Other developments	<ul style="list-style-type: none"> OPEC output remained steady despite cuts 	<ul style="list-style-type: none"> Iran-backed militants killed three US soldiers in Jordan US lawmakers proposed a ban on China biotech firms Hong Kong court ordered Evergrande to liquidate
	Our assessment: Negative – Geopolitical tensions	

US job openings rate was unchanged in December; while the hiring rate ticked up, the quits rate continued its downtrend

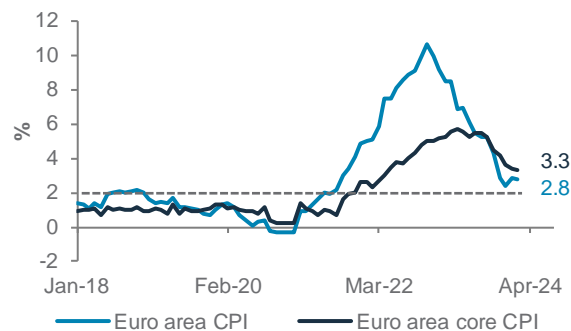
US job openings, hiring and quits rate



Source: Bloomberg; Standard Chartered

Euro area headline inflation eased as expected; core inflation eased less than expected

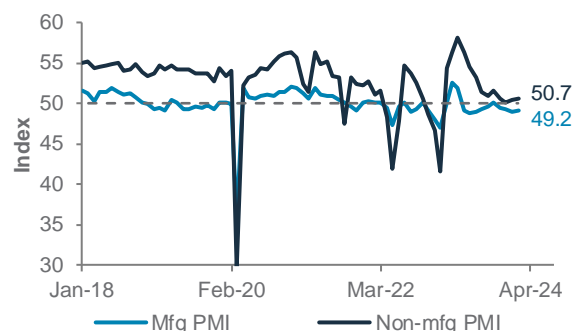
Euro area headline and core inflation



Source: Bloomberg; Standard Chartered

China non-manufacturing business confidence rose more than expected, but manufacturing business confidence remained in contraction

China manufacturing and non-manufacturing PMI



Source: Bloomberg; Standard Chartered

Top client questions

Q What is driving the European stock market to multi-year highs, and what are the tactical opportunities in the region?

The Euro Stoxx 50 index reached a 23-year high this week while the broader MSCI Europe is a whisker below the January 2022 high. This strong performance was led by the technology, industrials and healthcare sectors over the past year. Semiconductor, which accounts for over half the technology sector, has been benefitting from AI investments and unprecedented equipment demand in China. The software industry is also benefitting from a successful transition to cloud. The industrial sector has done well as Europe's economic environment has been better than expected. The latest Eurozone unemployment data is at a record low while GDP was better than feared. Meanwhile, the healthcare sector has performed well on better valuation with more optimism on the drugs pipeline, on top of steady earnings growth.

MSCI Europe continues to be attractively valued at 13x 12m forward P/E, a 22% discount to global equities, wider than a historical 10% average discount. In the near term, we see European equities as overbought with risk of a minor pullback, with support for the Euro Stoxx 50 at 4,400. We believe it would be attractive to add exposure to the technology and healthcare sectors in a pullback – a barbell strategy that would benefit from technology's growth and healthcare's defensiveness.

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

Q How is US consensus earnings evolving? How would you rebalance within US growth stocks?

According to LSEG I/B/E/S, almost 42% of the S&P500 index companies have released Q4 23 earnings as of 1 February. While earnings surprised on the upside by 6%, 2024 earnings growth forecast fell to 10.1%, from an estimated 11.1% since the start of year. Lingering concerns of a higher-for-longer interest rate regime and elevated inflation levels have weighed on earnings guidance.

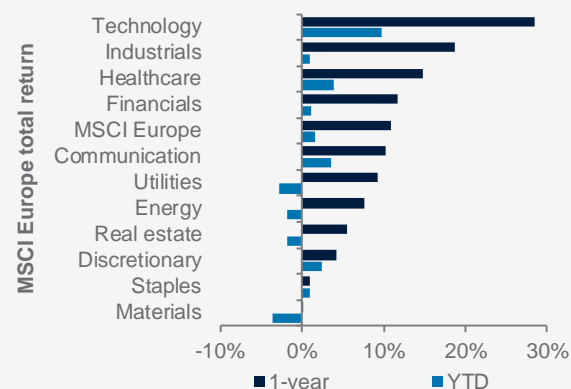
Overall, we expect growth stocks to contribute strongly to earnings growth in the US in 2024. That said, we acknowledge near-term weakness in the electric vehicles (EV) segment. While secular demand is positive, intensifying competition may hinder sales and earnings growth. The potential of geopolitical tensions, especially ahead of US elections this year, may also impact supply chain of major EV companies should there be any trade restrictions.

In turn, we suggest switching into growth stocks which have strong recurring revenue streams to weather unfavourable macro environment. For instance, SaaS and solutions companies tend to have greater resiliency against cyclical downturns. Drivers such as cloud transition and rising AI adoption are supportive to their outlook.

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

Technology, industrials and healthcare stocks have been driving European equities higher over the past year. Technology and healthcare continue to lead so far in 2024

Performance of MSCI Europe by sectors over the last year and year-to-date 2024



Source: Bloomberg, Standard Chartered

Outperformance of the growth-oriented Nasdaq 100 index compared to broader S&P 500 index will likely extend into 2024

Nasdaq 100 and S&P 500 indices (rebased to 100, starting from close of 30-Dec-22)



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q What is your latest view on the 10-year US government bond yield?

The US government bond yield curve bull flattened – the benchmark 10-year yield fell c.24bps this week and bottomed at 3.81% on 1 February 2024 intraday. Although the January FOMC meeting concluded with no change to policy rate at 5.25-5.50%, there were notable changes in the post-meeting statement where (i) Powell downplayed a March rate cut, which strengthened money market expectations that the first rate cut is more likely to happen in May; and (ii) the removal of a line that referenced “additional policy firming” from previous versions was interpreted as a dovish shift. In addition to policy pivot expectations, mixed job data and escalating concerns over small banks’ exposure to the commercial real estate sector have contributed to a rush for safe havens. On 31 January, New York Community Bankcorp (NYCB) reported a larger-than-expected provision of around USD 550m for credit losses from commercial real estate exposure. While subsequent US government bond market reactions did trigger a flashback of the US regional banking crisis in 2023, we believe the NYCB incident is fundamentally different from last year and looks to be idiosyncratic for now. Technicals suggest the 10-year US bond yield has support at 3.78% and resistance now moved lower to 3.92%. We continue to remain Overweight DM IG government bonds. Although sticky inflation and economic strength may have temporarily delayed central banks’ rate cut prospects, we expect the focus to remain on policy direction. Hence, we will use any pull back of government bond yields to add into exposure.

— Cedric Lam, Senior Investment Strategist

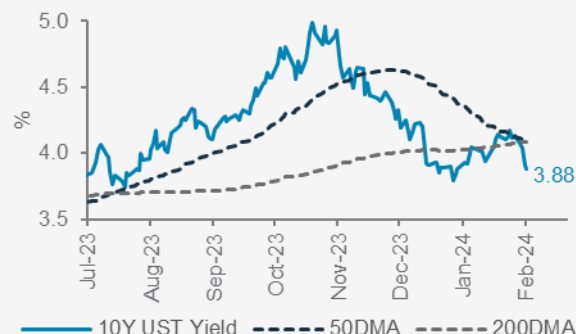
Q How do the recent ECB policy meeting and European data affect your view on the EUR?

The ECB held rates steady at 4% in its latest policy meeting as expected. President Lagarde affirmed the positive progress on inflation but sounded reluctant to begin rate cuts and reinforced the need to stay data dependent to guide future policy. The economy showed resilience – Euro area Q4 GDP expanded 0.1% y/y, and composite and manufacturing PMIs edged higher. Meanwhile, wage growth – flagged as the biggest risk to inflation – is slowing. We believe the ECB would wait for the first-quarter wage data in May to observe inflation risks. Money markets now expect a 70% chance of the first ECB rate cut in April and are fully pricing in 50bps of cuts by June. Meanwhile, in the US, the Fed opted to keep the policy rate unchanged for the fourth straight meeting, with Fed Chair Powell stating he was unlikely to cut interest rates in March. We expect near-term real interest rate differentials to help EUR/USD to consolidate. Technically, the pair is close to oversold; we see the downside risk to be limited and is likely to be rangebound between 1.0720 and 1.0990 over the next two weeks.

— Iris Yuen, Investment Strategist

The 10-year US government bond yield tumbled on mixed job numbers and US domestic banks risk

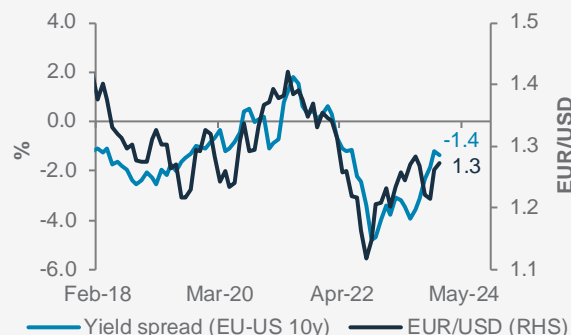
10-year US government bond yield



Source: Bloomberg, Standard Chartered

The yield spread between Euro area and US is narrowing; this suggests limited downside risk for EUR/USD

EUR/USD and interest rate differentials



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

What are your thoughts on the OPEC+ meeting?

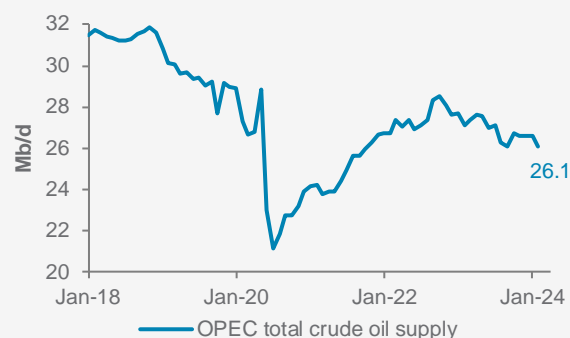
The OPEC+ members met for their regular bi-monthly monitoring meeting this week, which saw no decision change on future production policy. It was not a surprise given that the production cuts were only in effect for just over one month; thus, there was limited production data to review. The group planned to decide in early March whether to extend the cuts beyond the first quarter. That said, there are a few other developments that may shape the supply outlook this week: (i) Middle East tensions continued to simmer as Iran-backed militants killed three US soldiers in a drone attack in Jordan; (ii) OPEC production numbers were broadly unchanged in January, disappointing investors looking for a decline after the output cut announcement of last November; and (iii) Saudi Arabia abandoned plans to lift capacity to 13mb/d by 2027.

On the demand side, US inventories rose last week following three consecutive weeks of drawdown. The EIA's director also commented that global demand growth in 2024 could be as high as 2mb/d. On balance, we continue to expect the oil market to remain largely balanced in 2024, barring any unforeseen events. Any policy actions from OPEC+ is likely to be done with that as an objective. As such, WTI oil price is likely to trade around current levels but with some volatility given the supply uncertainty.

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

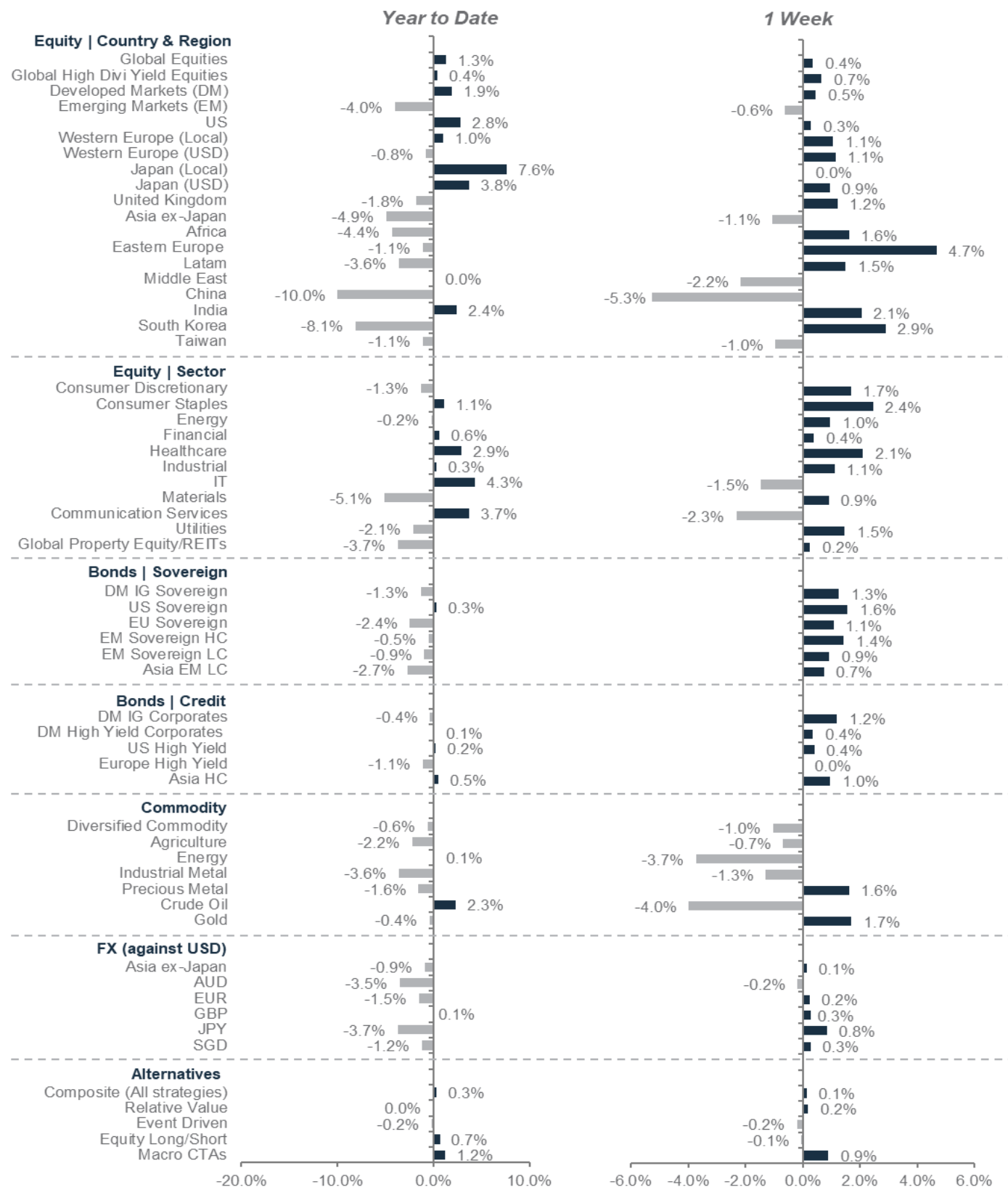
OPEC output remained steady in January

OPEC monthly total crude oil supply



Source: Energy Information Administration, 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 01 February 2024; 1-week period: 25 January 2024 to 01 February 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 4,941

Technical indicators for key markets as of 01 February close

Index	Spot	1st support	1st resis- tance	12m forward P/E (x)	12m forward dividend yield (%)
S&P 500	4,906	4,859	4,941	20.2	1.5
STOXX 50	4,639	4,628	4,656	12.9	3.8
FTSE 100	7,622	7,607	7,652	11.0	4.3
Topix	2,534	2,504	2,558	15.3	2.4
Shanghai Comp	2,771	2,724	2,864	9.3	3.8
Hang Seng	15,566	15,342	15,934	7.3	4.8
Nifty 50	21,697	21,567	21,783	20.0	1.5
MSCI Asia ex-Japan	610	605	616	11.8	2.9
MSCI EM	982	975	990	11.3	3.2
WTI (Spot)	73.8	72.4	76.6	na	na
Gold	2,055	2,031	2,067	na	na
UST 10Y Yield	3.88	3.79	4.05	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	CH	Caixin China PMI Composite	Jan	–	52.6
	CH	Caixin China PMI Services	Jan	53.0	52.9
	EC	Sentix Investor Confidence	Feb	–	-15.8
	EC	PPI y/y	Dec	–	-8.8%
	US	ISM Services Index	Jan	52.2	50.6
TUE	US	Senior Loan Officer Survey			
	UK	S&P Global UK Construction PMI	Jan	–	46.8
	EC	Retail Sales y/y	Dec	–	-1.1%
WED					
THU	CH	PPI y/y	Jan	-2.6%	-2.7%
	CH	CPI y/y	Jan	-0.6%	-0.3%
FRI/SAT	CH	New Yuan Loans CNY	Jan	–	1170.0b
	CH	Money Supply M2 y/y	Jan	–	9.7%

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 01 February

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	→	1.30
Global Equities	○	↓	1.18
Gold	●	↑	1.57
Equity			
MSCI US	○	↓	1.19
MSCI Europe	○	↓	1.23
MSCI AC AXJ	●	↓	1.56
Fixed Income			
DM Corp Bond	●	→	1.28
DM High Yield	○	→	1.24
EM USD	●	→	1.29
EM Local	●	→	1.31
Asia USD	●	↓	1.27
Currencies			
EUR/USD	●	→	1.54

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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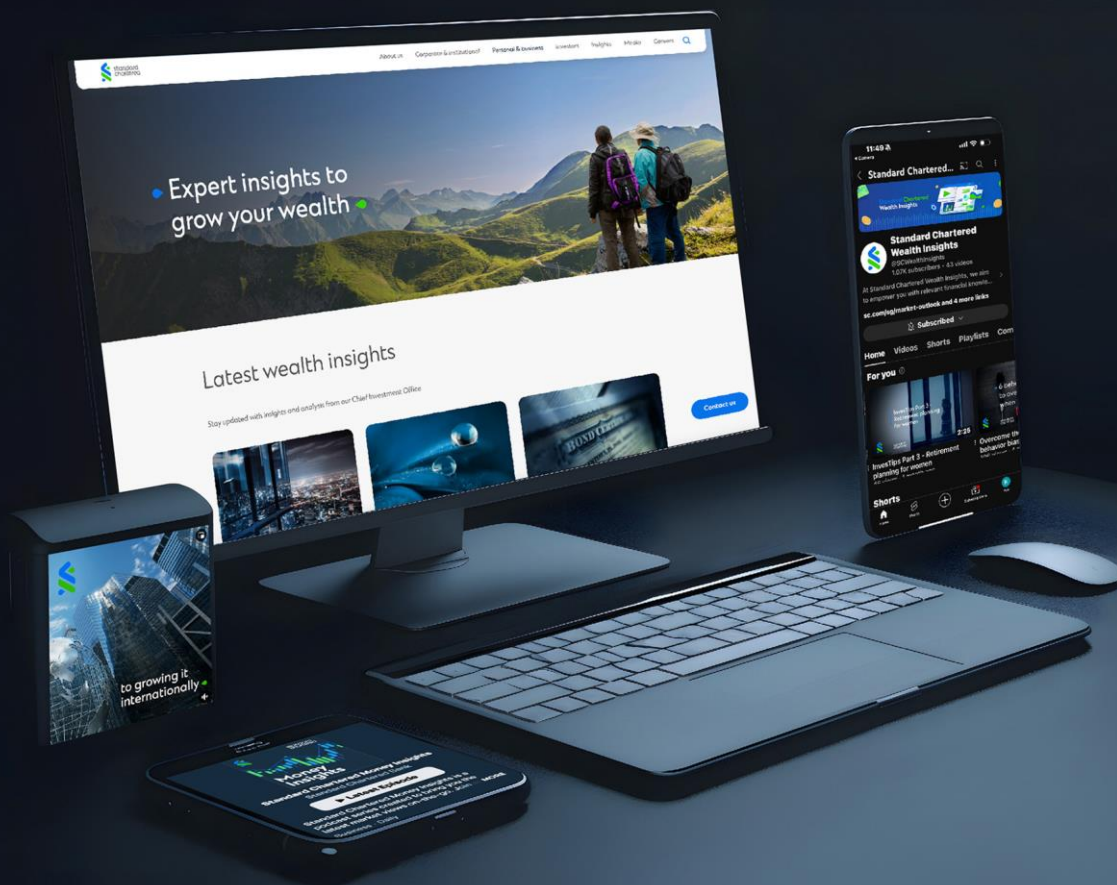
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