



Weekly Market View

Trump vs. the bond market

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→ Investors will look for reassurance that he is responsive to markets. We expect his pro-growth tax cut and deregulation plans to outweigh concerns about his trade and immigration policies, and thus remain pro-risk in our asset allocation.

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→ Meanwhile, we have revised our 3-month USD target higher, with downgrades to GBP, AUD, NZD and CNH estimates. We will look for opportunities to sell the USD in the coming weeks, especially on any near-term tariff-related bump. USD/JPY looks vulnerable if the BoJ hikes rates next week.

What is the outlook for US equities amid the recent surge in bond yields?

Is recent Indian equity market weakness a worry or an opportunity?

What is the outlook for the USD and other major currency pairs?

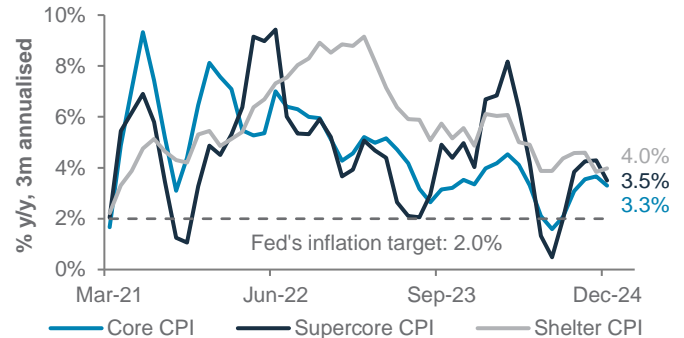
Charts of the week: Is Trump listening?

Although US inflation softened lately, strong growth and policy uncertainty have driven bond yields higher

The breakdown of the US 10-year government bond yield*



US core, core services less housing and shelter inflation



Source: Bloomberg, Standard Chartered; *real yield = inflation adjusted yield; breakeven inflation = 10-year inflation expectation derived from bond market, 10-year term premium = extra yield investors demand to hold longer-term bonds vs. shorter-term bonds (Adrian, Crump & Moench)

Editorial

Trump vs. the bond market

As President Trump returns to the White House, one of his first tasks is likely to be assuaging bond markets. A sharp rise in US bond yields in the past month reflects resilient US growth, but also rising concerns about the impact of Trump's policies. Investors will look for reassurance that he is responsive to markets. We expect his pro-growth tax cut and deregulation plans to outweigh concerns about his trade and immigration policies, and thus remain pro-risk in our asset allocation.

We particularly like US equities, with a preference for the financial sector, especially after this week's solid Q4 bank earnings, which reflect underlying strength. The sector is likely to be a primary beneficiary of deregulation under the Trump administration. Meanwhile, we have revised our 3-month USD target higher, with downgrades to GBP, AUD, NZD and CNH estimates. We will look for opportunities to sell the USD in the coming weeks, especially on any near-term tariff-related bump.

Bond markets pricing uncertainty: After a sharp run up over the past month, the US 10-year government bond yield pulled back this week from a 14-month high of 4.8% after softer-than-expected US inflation data for December eased some near-term inflation concerns. Nevertheless, the so-called term premium (the extra yield that investors demand to hold longer term bonds) has risen to a 10-year high, reflecting uncertainty about the impact of Trump's policies on long-term inflation expectations and the fiscal deficit. The latest University of Michigan consumer survey showed 5-10-year inflation expectations rose to 3.3% in January, its highest since 2008. The past month's surge in oil prices, especially after President Biden's new sanctions against Russian entities this week, is another factor that could drive inflation expectations higher. This makes Trump's policy direction in the early days of the administration increasingly important for bond markets.

Political compulsions vs market feedback: Some of Trump's closest advisors, including Treasury Secretary nominee Scott

Bessent, are market veterans. Hence, although Trump is likely to start delivering on his election promises, including imposing tariffs on trade partners, we expect his team to craft policies with a sharp ear for feedback from markets. Reports suggest some of Trump's advisors are studying gradual tariff hikes of 2-5% per month, primarily as negotiating tools to achieve their objective of boosting US exports, curbing imports and bringing back manufacturing investment and jobs to the US.

Opportunity to average into bonds: A gradual tariffs policy would have a low impact on near-term inflation but risks stoking long-term inflation expectations due to uncertainty about the duration and scale of such tariffs. Nevertheless, we expect any resultant rise in the US 10-year bond yield to 5% would trigger a reassessment of policies. Higher bond yields are also self-limiting as they tighten financial conditions. The Fed is also likely to end its bond sales (quantitative tightening) programme in the event of further spike in yields. Given this, we would look to lock in the elevated yields, preferring US high yield bonds which are likely to benefit from Trump's pro-growth policies. The 7.3% yield on US high yield bonds provides a sizable buffer to investors worried about negative total returns.

Strong bank earnings underscore US equity overweight. Major US banks delivered strong Q4 earnings beats this week, buoyed by loan growth and investment banking revenue. We expect the US financial sector to outperform the broader market this year amid elevated rates, rebounding loan growth and wealth and corporate advisory income. The sector is also likely to be a key beneficiary of Trump's deregulation policies. Strong bank earnings also reflect robust underlying economic strength, underscoring our Overweight on US equities (see page 4).

USD likely nearing a peak. We revise higher our 3-month US dollar target, with downgrades to GBP, AUD, NZD and CNH estimates (see page 5). However, near-term USD trend is likely to be driven by the scale of Trump's tariff plans. We would look to sell the USD in the event of any tariff-related bump. USD/JPY looks particularly vulnerable if the BoJ hikes rates next week.

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

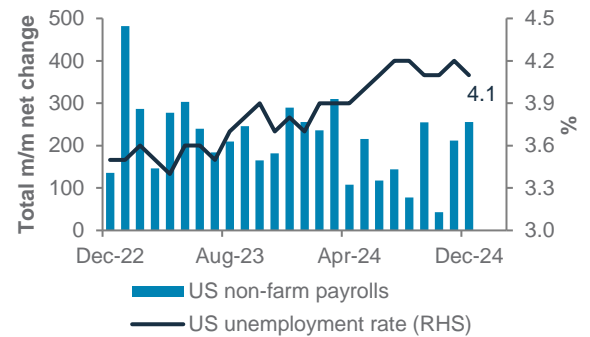
(+) factors: Softer US core inflation and robust job market

(-) factors: Rising inflation expectations in US; rising US-China tensions

| | Positive for risk assets | Negative for risk assets |
|---------------------|--|---|
| Macro data | <ul style="list-style-type: none"> US core consumer inflation fell unexpectedly to 3.2% y/y (0.2% m/m), though headline inflation up 2.9% y/y (0.4% m/m) as expected US headline and core producer prices rose less than expected by 3.3% y/y and 3.5% y/y respectively US nonfarm payrolls rose 256,000, beating estimates, and unemployment rate fell unexpectedly to 4.1% US NFIB small business optimism beat estimates UK headline and core consumer inflation fell below expectations China Q4 GDP beat estimates at 5.4% y/y China exports and imports grew more than expected | <ul style="list-style-type: none"> US Michigan consumer sentiment missed expectations at 73.2 US Michigan 1-year and 5-10-year inflation expectations unexpectedly rose to 3.3% US Empire Manufacturing index fell unexpectedly to -12.6 |
| | Our assessment: Positive – Softer US core inflation and robust job market vs. weak US consumer sentiment and rising inflation expectations | |
| Policy developments | <ul style="list-style-type: none"> Fed's Beige Book showed a slight-to-moderate growth ahead | <ul style="list-style-type: none"> BoJ Governor Ueda and Deputy Governor Himino signalled a likely rate hike at next week's meeting |
| | Our assessment: Neutral – Hawkish BoJ policy guidance | |
| Other developments | <ul style="list-style-type: none"> Israel and Hamas agreed to Gaza ceasefire | <ul style="list-style-type: none"> New US restrictions on AI chip exports Incoming US Secretary of State Marco Rubio expressed hawkish views on China |
| | Our assessment: Negative – Easing Middle East tensions vs. rising US-China tensions | |

US job creation accelerated for the second straight month, lowering the unemployment rate below the Fed's long-run estimate of 4.2%

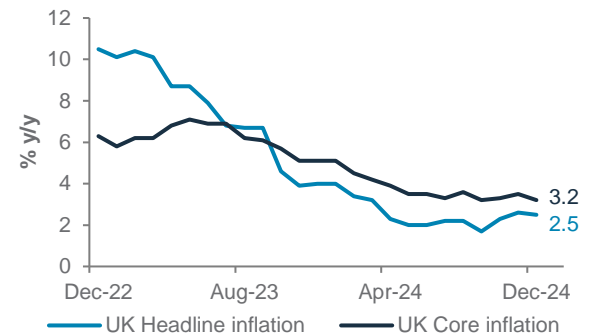
US nonfarm payrolls, unemployment rate



Source: Bloomberg, Standard Chartered

UK headline and core consumer inflation fell below expectations in December, easing stagflation concerns

UK headline and core consumer inflation



Source: Bloomberg, Standard Chartered

China's exports and imports rose more than expected, with exports likely driven by last-minute purchases before potential Trump tariffs

China export and import growth



Source: Bloomberg, Standard Chartered

Top client questions

Q What is the outlook for US equities amid the recent surge in bond yields and the ongoing earnings season?

A persistent uptrend in both the USD and government bond yields in recent months have led to the pullback in risky assets this year. That said, we see the recent consolidation in the US equity market as an attractive opportunity to add exposure. First, a moderation in US inflation in December calmed worries of an inflation rebound, which could have otherwise fuelled a further rise in the US 10-year government bond yield. Second, early prints of Q4 earnings point towards continued healthy earnings growth. According to LSEG I/B/E/S, S&P 500 index earnings are expected to rise by 10.4% in Q4 – an upward revision from just below 10% at the start of 2025.

In particular, financial sector earnings are expected to grow at 24.5% in Q4. As of 15 January, the sector has delivered an earnings surprise of 18.3%. The recovery in investment banking revenue and sustained net interest margins are expected to be the key drivers for the upbeat earnings in US major banks.

While a less-dovish Fed remains a risk, we remain overweight US financials and expected them to be fuelled by strong growth, potential deregulation and a steeper yield curve.

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

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

The rise in the 10-year US government bond yield, initially supported by a strong jobs report in early January, has been tempered after the release of softer than expected Producer and Consumer Prices this week. Despite inflation worries, we still expect the Fed to cut rates 3 times this year, more than the 1-2 expected by markets.

While long maturity yields can remain elevated, we see limited potential for significant spikes. According to Bloomberg, the new Trump administration is considering pacing tariff hikes, indicating an awareness of the impact tariffs can have on inflation. In theory, a more gradual increase in tariffs will limit the immediate inflation impact. However, it could lead to a build-up of long-term inflation expectations, and it is unclear if such an impact will be long-lasting.

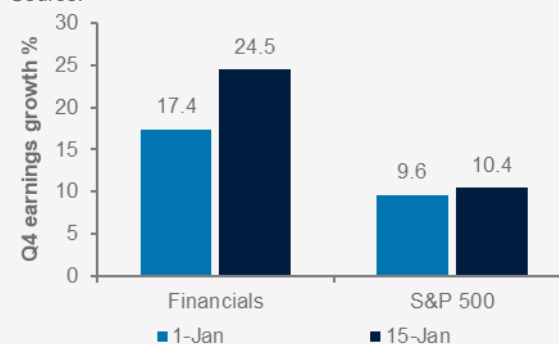
Against this context, we see an opportunity to lock in today's attractive yields for income. Within bonds, we prefer developed market high yield as default rates remain low in a resilient US economy. A 5-7-year average maturity profile likely offers the most attractive trade-off between exposure to potential repricing or more Fed rate cuts and the yield pickup from longer maturities.

— **Ray Heung**, *Senior Investment Strategist*

Earnings projections for the US financial sector have been revised higher since the start of 2025

Projected earnings growth of the Financials sector and S&P 500 index, on 1-Jan-2025 vs. 15-Jan-2025.

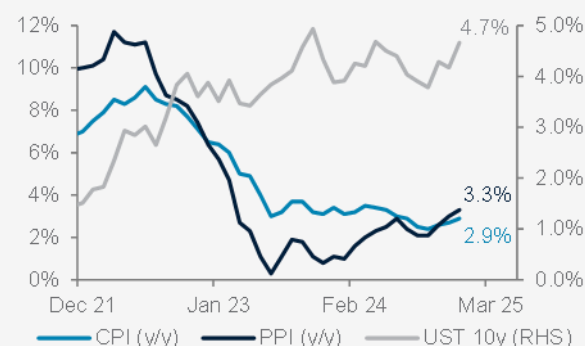
Source:



LSEG I/B/E/S, Standard Chartered

We see limited likelihood of the US 10-year government bond yield rising significantly higher

US headline consumer and producer inflation; US 10 year benchmark yield



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q Is recent Indian equity market weakness a worry or an opportunity?

Indian equities faced renewed weakness in January, driven by tepid early earnings reports this quarter, INR weakness in the face of USD gains and rising bond yields amid higher inflation uncertainty.

The nature of US tariff policy remains a risk, but a more accommodative trade policy should limit the drag on manufacturing exports. India's relatively large domestic economy also makes it relatively less vulnerable compared to peers. The upcoming budget and RBI policy meetings are the next areas of focus. The government is expected to largely stay on its fiscal consolidation path, but we expect a broadening of policy measures to support consumption and retain an investment focus. We also expect the RBI to start easing in H1 2025 to support growth.

These, together with our long-term preference for Indian equities within Asia ex-Japan, mean that while further near-term volatility is possible, we would adopt a buy-on-dips strategy, especially in large-caps where we see more attractive earnings stability and valuations.

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

Q What is the outlook for the USD and other major currency pairs?

We update our 3-month views on major currency pairs, summarized in the table on the right. Changes are largely driven by an upward revision in our US Dollar Index (DXY) forecast to 107 (from 106 previously). The greenback has risen to test 110 on the back of stronger US labour data and the resulting rise in US bond yields. However, a likely pricing in of Trump policy concerns, a softer US core inflation reading and reports that tariff hikes may be introduced in a gradual manner could help the US Dollar partially reverse its rise, especially if US bond yields also soften.

Our forecast for GBP/USD over the next 3 months has been revised to 1.24, from 1.28 previously. UK inflation unexpectedly cooled for the first time in three months in December, adding to bets that the BoE will cut rates this year. This also helped calm GBP bond markets after a week of turmoil that pushed yields to a 17-year high; lower yields should help cap gains in GBP, even if the USD turns lower. We see 1.20 as the key near-term support from where a short-term rebound from oversold territory is likely.

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

Indian equity valuations look reasonable after the most recent pullback

MSCI India index 12-month forward price-to-earnings ratio, 5-year average



We revise up our 3-month USD forecast and downgrade forecasts for GBP, AUD, NZD and CNH

Our revised 3-month forecasts

| | 3m |
|-----------------|------|
| EUR/USD | 1.04 |
| GBP/USD | 1.24 |
| AUD/USD | 0.62 |
| USD/JPY | 153 |
| USD/CNH | 7.40 |
| NZD/USD | 0.58 |
| USD/CAD | 1.42 |
| USD/CHF | 0.90 |
| USD/SGD | 1.37 |
| USD index (DXY) | 107 |

Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q Will oil prices continue to rise amid geopolitical tensions? What are our latest views on commodity currencies?

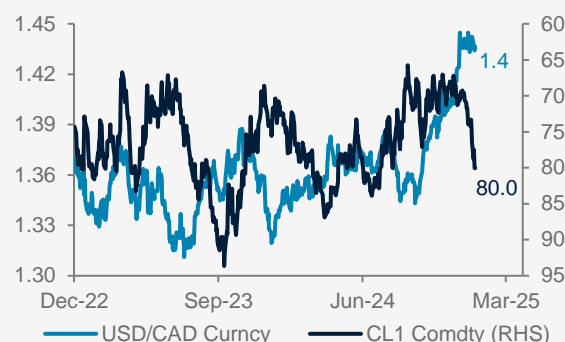
Oil prices have been well supported in recent weeks, led by expectations that renewed US sanctions on Russia's energy industry and Iran could have an impact on supply. Recent US data also illustrated a drawdown on oil inventories, adding to near-term supply concerns. However, on a full year basis we still see the oil market as oversupplied, with relatively weak demand growth balanced by what is likely to be significant supply and spare capacity both within and outside OPEC+. This means oil prices are likely to be capped unless the demand outlook improved significantly (for example, via a Chinese growth stimulus).

From a domestic fundamentals point of view, Canada's terms-of-trade has risen significantly since mid-December while the surprising improvement in recent labour market data is likely to act as a tailwind for the Canadian dollar. We see USD/CAD edging lower in the near-term and testing its support at 50-day moving average at 1.42.

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

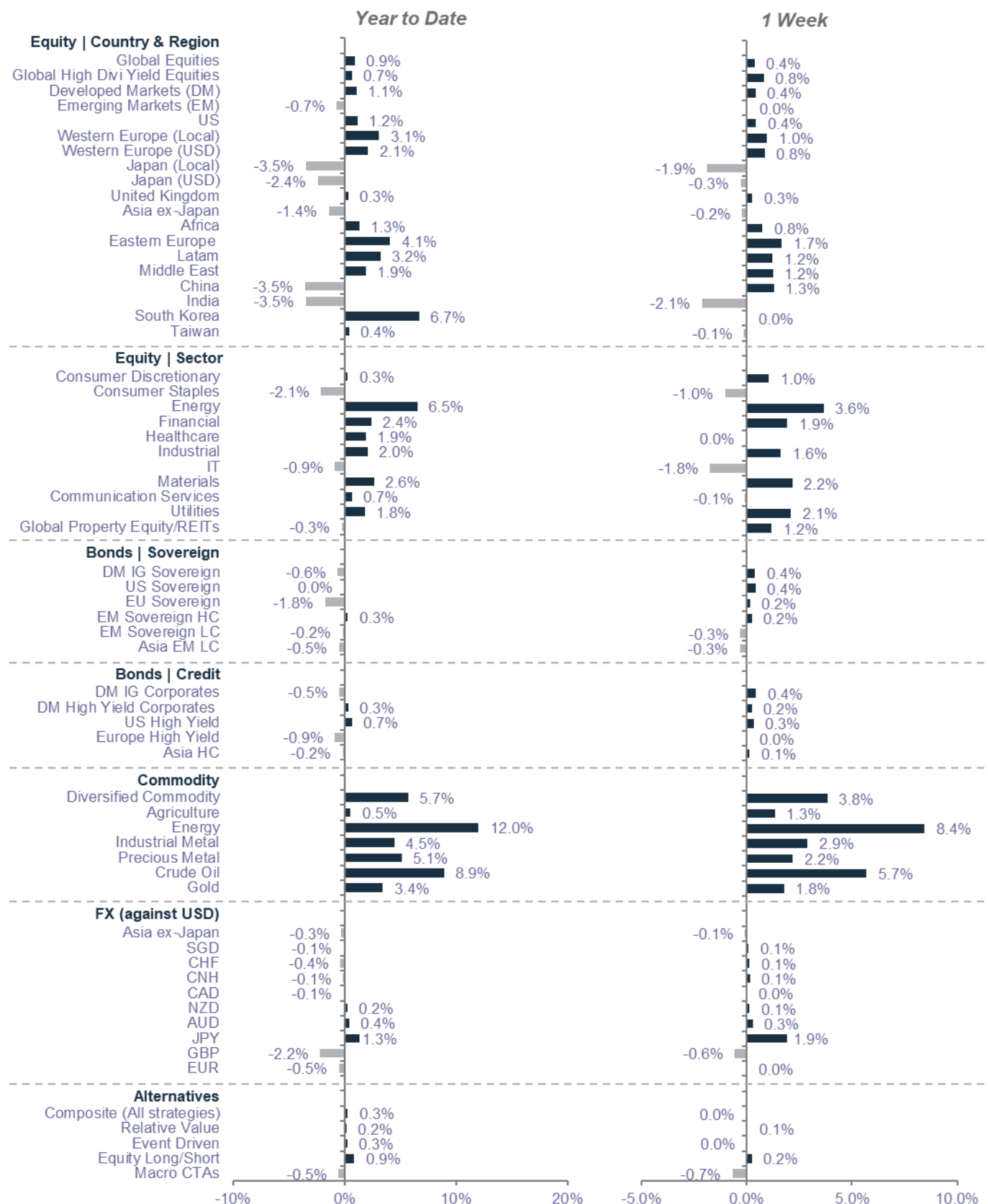
Oil prices and USD/CAD

Oil prices (inverted) and USD/CAD



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 16 January 2025; 1-week period: 9 January 2025 to 16 January 2025

Our 12-month asset class views at a glance

| Asset class | |
|--------------------------|---|
| Equities | ▲ |
| US | ▲ |
| Europe ex-UK | ▼ |
| 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 | ◆ |
| Preferred Sectors | |
| US Technology | ▲ |
| US Communication | ▲ |
| US Financials | ▲ |
| Europe Communication | ▲ |
| Europe Technology | ▲ |
| Europe Healthcare | ▲ |
| Europe Financials | ▲ |
| China Technology | ▲ |
| China Communication | ▲ |
| China Discretionary | ▲ |
| India Industrials | ▲ |
| India Financials | ▲ |
| India Technology | ▲ |
| Alternatives | ◆ |
| Gold | ▲ |

Source: Standard Chartered Global Investment Committee

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

The S&P500 has next interim resistance at 6,081

Technical indicators for key markets as of 16 January close

| Index | Spot | 1st support | 1st resis- tance | 12m forward P/E (x) | *12m forward dividend yield (%) |
|-----------------------|--------|-------------|---------------------|------------------------|--|
| S&P500 | 5,937 | 5,784 | 6,081 | 21.8 | 1.4 |
| STOXX 50 | 5,107 | 4,904 | 5,208 | 14.2 | 3.3 |
| FTSE 100 | 8,392 | 8,132 | 8,522 | 11.6 | 4.2 |
| Topix | 2,688 | 2,635 | 2,777 | 14.4 | 2.6 |
| Shanghai Comp | 3,236 | 3,112 | 3,390 | 11.8 | 3.3 |
| Hang Seng | 19,523 | 18,732 | 20,253 | 8.9 | 3.9 |
| Nifty 50 | 23,312 | 22,698 | 24,275 | 19.3 | 1.6 |
| MSCI Asia ex-Japan | 693 | 672 | 717 | 12.4 | 2.7 |
| MSCI EM | 1,067 | 1,035 | 1,101 | 11.7 | 3.1 |
| WTI (Spot) | 78.7 | 71.1 | 83.5 | na | na |
| Gold | 2,714 | 2,624 | 2,765 | na | na |
| UST 10Y Yield | 4.61 | 4.39 | 4.82 | na | na |

Source: Bloomberg, Standard Chartered; *as at close of 16-Jan-25

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

| | Market | Event | Period | Expected | Prior |
|---------|--------|------------------------------------|-----------|----------|-------|
| MON | USD | US Presidential Inauguration | 20-Jan | – | – |
| | – | World Economic Forum | 20-24 Jan | – | – |
| TUE | CAD | CPI y/y | Dec | – | 1.9% |
| WED | USD | Leading Index | Dec | -0.1% | 0.3% |
| THU | USD | Initial Jobless Claims | 18-Jan | – | – |
| | USD | Continuing Claims | 11-Jan | – | – |
| | EUR | Consumer Confidence | Jan P | – | -14.5 |
| FRI/SAT | JPY | Natl CPI y/y | Dec | 3.4% | 2.9% |
| | JPY | Natl CPI Ex Fresh Food, Energy y/y | Dec | 2.3% | 2.4% |
| | GBP | GfK Consumer Confidence | Jan | – | -17.0 |
| | JPY | BOJ Target Rate | 24-Jan | 0.5% | 0.3% |
| | EUR | HCOB Eurozone Manufacturing PMI | Jan P | – | 45.1 |
| | EUR | HCOB Eurozone Services PMI | Jan P | – | 51.6 |
| | GBP | S&P Global UK Manufacturing PMI | Jan P | – | 47.0 |
| | GBP | S&P Global UK Services PMI | Jan P | – | 51.1 |
| | USD | S&P Global US Manufacturing PMI | Jan P | – | 49.4 |
| | USD | S&P Global US Services PMI | Jan P | – | 56.8 |
| | USD | Existing Home Sales | Dec | 4.17m | 4.15m |

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 has normalised across asset classes

Our proprietary market diversity indicators as of 16 Jan close

| Level 1 | Diversity | 1-month trend | Fractal dimension |
|---------------------|-----------|---------------|-------------------|
| Global Bonds | ● | ↓ | 1.38 |
| Global Equities | ● | ↑ | 2.04 |
| Gold | ● | ↑ | 1.96 |
| Equity | | | |
| MSCI US | ● | ↑ | 1.69 |
| MSCI Europe | ● | ↓ | 1.42 |
| MSCI AC AXJ | ● | ↓ | 1.43 |
| Fixed Income | | | |
| DM Corp Bond | ● | ↓ | 1.44 |
| DM High Yield | ● | ↑ | 1.91 |
| EM USD | ● | → | 1.77 |
| EM Local | ● | ↓ | 1.39 |
| Asia USD | ● | ↓ | 1.66 |
| Currencies | | | |
| EUR/USD | ● | → | 1.31 |

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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