



# Weekly Market View

## What comes after November's stellar rally?

→ Markets are consolidating after a stellar November for equities, bonds and non-USD currencies. Our balanced asset allocation strategy has surged close to 7% since the 26 October trough in risk assets, when we flagged a turning point in markets.

→ The return of risk appetite has been triggered by rising expectations that major central banks are done with rate hikes and are now looking for confirmation from cooling inflation data to consider cutting rates in 2024. US and Euro area inflation data obliged this week, confirming the global disinflationary trend.

→ While equities, bonds and the USD need to overcome key technical hurdles, tepid retail and institutional investor positioning support further upside for risk assets until the year end.

→ However, investors will need to stay nimble, watching out for any significant economic slowdown in the coming months, especially in job markets.

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How will the German budget crisis impact European assets?

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What are the implications of recent US data on equities?

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Will the AUD and NZD extend their uptrend to year-end?

## Charts of the week: The disinflationary tailwind

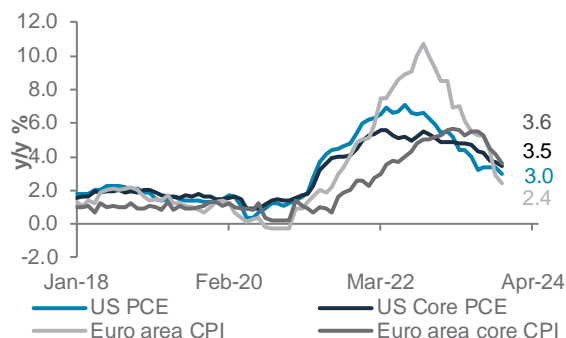
**The US 10-year government bond yield tested a key technical support level following further signs of disinflation**

US 10-year government bond yield, technical support levels



Source: Bloomberg, Standard Chartered

US (PCE) and Euro area headline and core inflation



## Editorial

### What comes after November's stellar rally?

Markets are consolidating after a stellar November for equities, bonds and non-USD currencies. Volatility in US stocks has dropped close to pre-pandemic lows. The return of risk appetite has been triggered by rising expectations that major central banks are done with rate hikes and are now looking for confirmation from cooling inflation data to consider cutting rates in 2024. US and Euro area inflation data obliged this week, confirming the global disinflationary trend. While equities, bonds and the USD need to overcome key technical hurdles, tepid retail and institutional investor positioning support further upside for risk assets until the year end. However, investors will need to stay nimble, watching out for any significant economic slowdown in the coming months, especially in job markets.

**Stellar November:** In November, global bonds surged 5.1%, while global equities soared 9%, their best months since December 2008 and November 2020, respectively. Meanwhile, the broad USD staged its biggest monthly retreat in a year (down 3%), aiding the return of risk appetite. Our balanced asset allocation strategy has surged c.7% since the 26 October trough in risk assets, when we flagged a turning point in markets [*Weekly Market View, 20 Oct: "Turning Point?"*].

**Disinflationary trend:** The sharp turnaround in risk sentiment has been triggered by a growing chorus of central bankers signalling the end of the sharpest monetary policy tightening in more than four decades. This week, ECB President Lagarde and a host of Fed policymakers reiterated that policy rates no longer need to go higher if the disinflation trend continues (we will also be watching Fed Chair Powell's fireside chat tonight).

This week, data showed the Fed's preferred inflation gauge (core PCE deflator) slumped to a 2.5-year low of 3.5% in October, while the Euro area's core inflation slumped to a 1.5-year low of 3.6%. While both measures remain higher than the central banks' 2% target, forward-looking indicators, such as shelter inflation in the US, base effects, falling energy prices

and a growth downturn in the Euro area, point to further downside in inflation in 2024. Hence, markets are now pricing in four 25bps rate cuts by the Fed and the ECB next year.

**Chart hurdles:** Supportive data notwithstanding, markets still need to overcome key chart hurdles. The S&P500 index faces strong resistance less than 1% away at around 4,607. A break higher could lead to a test of 4,637, followed by January 2022's all-time high of 4,818.6. The US 10-year bond yield is testing key support in the 4.3-4.35% region. The next support is around 4.05%. The broad USD index (DXY), meanwhile, appears to be recovering from oversold levels, bouncing back from just above the 102.3 support level. The next resistance is just above 104.

**Supportive investor positioning:** On aggregate, investor positioning in US equities has turned neutral after quantitative model-driven funds drove the November rally. However, positioning among retail investors and mutual funds remains tepid as both investor classes did not participate. This leaves scope for further upside in equities if retail investors join the rally into the year end and/or bearish hedge funds capitulate. The balanced mutual funds are more likely to rebalance from equities to bonds in December after last month's sharp equity outperformance. Meanwhile, our measures of investor diversity (fractals) do not show any crowded positions in major asset classes. Our "Fear and Greed" indicator has predictably turned to "Greed" territory, but we would become concerned about this contrarian indicator only if it moves to "Extreme Greed".

**Stay invested, stay nimble, watch macro data:** The above backdrop points to reasonable scope for further upside to bonds and equities after some consolidation, provided markets can overcome the chart hurdles. This argues for staying invested through a broadly diversified allocation but watching data closely. US ISM Manufacturing PMI data tonight, and US job market data next week are the next key signposts. Risk assets need modestly weaker, not sharply deteriorating activity and job market indicators, to sustain November's stellar rally.

— Rajat Bhattacharya



## The weekly macro balance sheet

**Our weekly net assessment:** On balance, we see the past week's data and policy as positive for risk assets in the near term

**(+) factors:** Slowing inflation, supportive policies, improving US services

**(-) factors:** Contractionary US and China manufacturing PMIs

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> <li>US services PMI rose unexpectedly to 50.8</li> <li>Q3 US GDP revised higher</li> <li>US consumer confidence rose more than expected</li> <li>US PCE deflator slowed more than expected</li> <li>Thanksgiving holiday spending was robust</li> <li>Euro area inflation fell more than expected</li> </ul>	<ul style="list-style-type: none"> <li>Fed's Beige Book showed a slowing economy, a pullback in consumer spending</li> <li>US mfg. PMI fell more than expected to 49.4; new home sales fell 5.6% m/m</li> <li>China manufacturing PMI contracted for the second straight month (49.4); non-manufacturing PMI weakened to 50.2</li> </ul>
	<b>Our assessment: Positive</b> – Slowing US, Euro area inflation, improving US services PMI and consumer confidence	
Policy developments	<ul style="list-style-type: none"> <li>Fed's Waller said disinflation could allow the Fed to cut rates; Mester preferred a rate pause; Bostic confident inflation is on a downward trajectory</li> <li>ECB President Lagarde said that policy is tight enough to pause</li> <li>PBoC Governor Pan reiterated his confidence over 2024 growth</li> <li>China's media reported banks can offer unsecured loans to developers</li> </ul>	<ul style="list-style-type: none"> <li>Fed's Barkin sceptical of the US economy achieving 2% inflation and does not rule out another rate hike</li> </ul>
	<b>Our assessment: Positive</b> – Supportive policies	
Other developments	<ul style="list-style-type: none"> <li>House planned to drop China investment curbs from the defence bill</li> </ul>	<ul style="list-style-type: none"> <li>OPEC+ deepened its output cut by another 1mb/d but the lack of any official statement raised questions about the compliance of members</li> </ul>
	<b>Our assessment: Positive</b> – Receding geopolitical risks	

### US new home sales contracted m/m unexpectedly in October, but a structural housing shortage helped sustain a rebound in prices

US new home sales, 20-city home prices



Source: Bloomberg; Standard Chartered

### US service sector business confidence improved marginally in November, while manufacturing confidence weakened more than expected

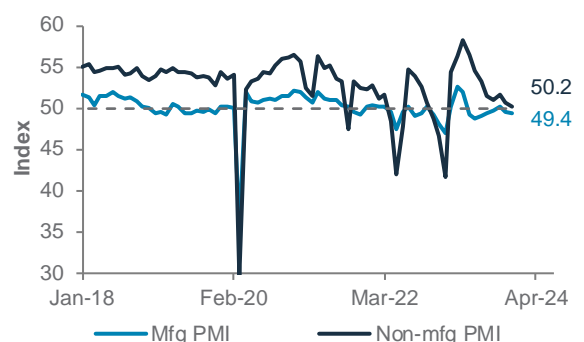
US S&P manufacturing and services PMIs



Source: Bloomberg, Standard Chartered

### China's economic activity remained subdued in November, with manufacturing activity contracting for the second consecutive month

China manufacturing and services PMIs



Source: Bloomberg, Standard Chartered

## Top client questions

### Q How will the German budget crisis impact European assets?

The German Constitutional Court's ruling earlier this month requiring the government to move an estimated EUR 14-24bn worth of spending from special funds to the regular Federal budget, has thrown a spanner in the government's fiscal planning. While the total amount is small relative to Germany's economic output, the debt brake rule means that either the government would need to cut spending in other areas to fund energy transition and energy subsidies or suspend the debt brake for the fifth consecutive year.

Broadly, there are two possible scenarios – (i) the debt brake remains in place and leads to a reduction in government spending, further hurting economic growth, or (ii) the debt brake is suspended, leading to government spending being in line with market expectations. Given that the German economy contracted in Q3 23 and is expected to contract again in Q4 23, a reduction in government spending is unlikely to be a palatable solution. We assign a high likelihood of Chancellor Scholz securing another debt brake suspension. The fact that the German debt-to-GDP ratio has declined over the past two years should help at the margin.

From an investment perspective, we see the risks to German Bund yields and EUR/USD as asymmetric. In the scenario that government spending is reduced, downside risks for the economy are likely to rise. This, in turn, could lead to an earlier-than-expected rate cut from the ECB, resulting in a decline in German bond yields and EUR/USD.

However, in our base case of an eventual spending increase, we foresee limited downside risk to German government yields and EUR/USD. From a technical perspective, EUR/USD is starting to look overbought, and 1.1030 is likely to act as near-term resistance for the pair. We see a high likelihood of a near-term consolidation, with 1.0785 likely to act as an intermediate support.

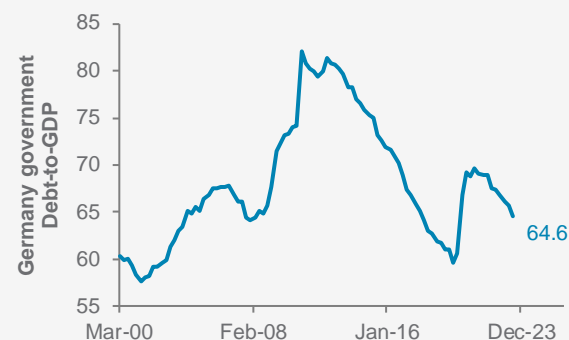
For Euro area equities, any increase in the possibility of an earlier rate cut from the ECB would likely be a supportive factor. A contraction in the German economy and fears of further weakness have led to significant outflows and low investor positioning in Euro area equities. The 12-month forward P/E ratio for the region is at a 26% discount to global equities, significantly wider than the historical 13% average discount. Overall, we see limited impact from the German budget crisis on Euro area equities.

— **Abhilash Narayan**, Senior Investment Strategist

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

### Germany's government debt-to-GDP ratio has declined over the past 2 years, helped by strong economic growth

Germany Government debt-to-GDP ratio (%)



Source: Bloomberg, Standard Chartered

### Euro area equities are currently valued at a deep discount to global equities

Consensus 12-month forward price-earnings ratio for MSCI Euro area relative to MSCI AC World index



Source: FactSet, Standard Chartered

## Top client questions (cont'd)

### Q What are the implications of recent US data on equities?

The recent Black Friday consumption figures were strong, and the Q3 23 US real GDP was revised higher this week. Having said that, the Fed's Beige Book of economic activity is showing some signs of softening economic growth, with a deteriorating outlook on a 6-12-month horizon. The Beige Book also highlighted a slight uptick in consumer delinquencies, with some weakening in the demand for discretionary and durable goods.

This is likely to lead to a continued pullback in inflation and strong-but-slowing wage growth in the near term. Under such an environment, corporate pricing power is likely to be challenged. In our view, this makes sector selection in 2024 even more important than in 2023. The degree of corporate pricing power differentiates firms' ability to protect margins and earnings growth against rising costs. So far, US companies have been resilient in their net margins, led by the mega-cap, high-quality Growth stocks that hold strong pricing power for their services. In our view, this bodes well for the communication services and technology sectors, where we are Overweight.

— Daniel Lam, Head, Equity Strategy

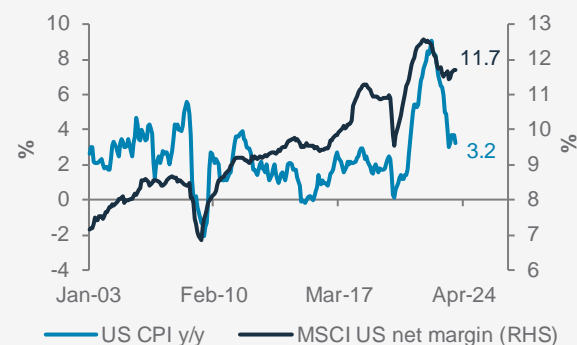
### Q Will the AUD and the NZD extend their uptrend till the end of the year?

The AUD and the NZD have rebounded from October amid a soft USD. Expectations of sticky wage growth and inflation in Australia should lead the RBA to keep rates at elevated levels longer than other central banks. RBA Governor Bullock highlighted that Australia's inflation was demand driven and may take two years to decline to 3%. Markets expect the probability of RBA rate cuts in 2024 to be low, which supports the AUD. Technically, the momentum indicator (MACD) has not signalled a cross-over yet. Meanwhile, the Relative Strength Index (RSI) at 65 suggests that the pair is not overbought yet, which leaves room for further upside towards a test at 0.6810 (April high) in the next few trading sessions. Meanwhile, the RBNZ held the benchmark rate steady at 5.5% in the latest policy meeting, as markets expected. The bank stated that inflation remains too high and kept the door open for further rate hikes. Technicals appear overbought (RSI at 70), suggesting upside risk is likely to be capped in the near term. We expect NZD/USD to retreat from the October high of 0.6050. The AUD has been outperforming the NZD YTD, and this trend is expected to continue towards the end of year.

— Iris Yuen, Investment Strategist

### US firms, particularly large-cap Growth companies, enjoy strong profit margins

US CPI (y/y) and MSCI US net profit margin



Source: FactSet, Standard Chartered

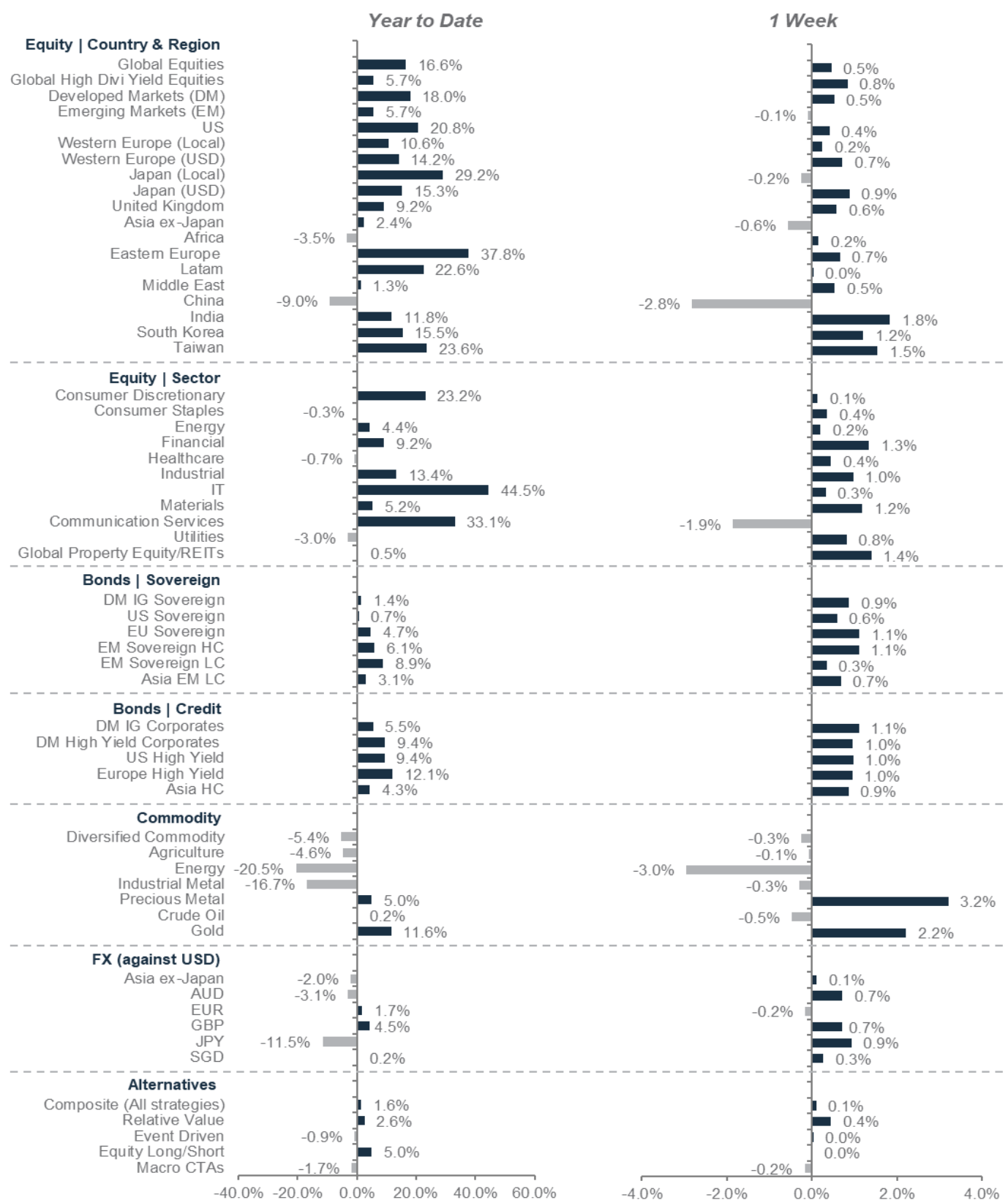
### The AUD has outperformed the NZD YTD in comparison with the currencies of their major trade partners

AUD and NZD real effective exchange rate (REER) performance



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, 2023 YTD performance from 31 December 2022 to 30 November 2023; 1-week period: 23 November 2023 to 30 November 2023

## Our 12-month asset class views at a glance

Asset class	
<b>Equities</b>	◆
Euro area	▼
US	▲
UK	▼
Asia ex-Japan	◆
Japan	▲
Other EM	◆
<b>Bonds (Credit)</b>	◆
Asia USD	◆
Corp DM HY	▼
Govt EM USD	◆
Corp DM IG	◆
<b>Bonds (Govt)</b>	▲
Govt EM Local	▲
Govt DM IG	▲
<b>Preferred Sectors</b>	
US Communication	▲
US Technology	▲
US Healthcare	▲
Europe Technology	▲
Europe Healthcare	▲
China Discretionary	▲
China Communication	▲
<b>Alternatives</b>	◆
<b>Gold</b>	◆

Source: Standard Chartered Global Investment Committee

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

## The next support for the US 10-year yield is at 4.23%

Technical indicators for key markets as of 23 November close

Index	Spot	1st support	1st resistance	12m forward P/E (x)	12m forward dividend yield (%)
S&P 500	4,568	4,556	4,574	19.0	1.6
STOXX 50	4,382	4,360	4,394	12.1	4.0
FTSE 100	7,454	7,422	7,487	10.6	4.4
Topix	2,375	2,363	2,389	14.5	2.5
Shanghai Comp	3,030	3,021	3,040	10.0	3.6
Hang Seng	17,043	16,838	17,404	7.9	4.6
Nifty 50	20,133	19,908	20,246	19.1	1.7
MSCI Asia ex-Japan	621	618	622	12.1	2.8
MSCI EM	987	981	990	11.5	3.2
WTI (Spot)	76.0	74.6	77.6	na	na
Gold	2,036	2,010	2,053	na	na
UST 10Y Yield	4.33	4.23	4.44	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	Dec	–	-18.6
	CH	Caixin China PMI Services	Nov	50.7	50.4
TUE	EC	PPI y/y	Oct	–	-12.4%
	US	JOLTS Job Openings	Oct	–	9553k
	US	ISM Services Index	Nov	52.0	51.8
WED	EC	Retail Sales y/y	Oct	–	-2.9%
	US	ADP Employment Change	Nov	120k	113k
	US	Trade Balance	Oct	-\$59.7b	-\$61.5b
THU	CH	Exports y/y	Nov	-2.5%	-6.4%
	CH	Imports y/y	Nov	4.8%	3.0%
FRI/SAT	US	Change in Nonfarm Payrolls	Nov	175k	150k
	US	Unemployment Rate	Nov	3.9%	3.9%
	US	U. of Mich. Sentiment	Dec P	61.6	61.3

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 increased across major markets

Our proprietary market diversity indicators as of 30 November

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↑	1.82
Global Equities	●	↑	1.96
Gold	●	↓	1.42
<b>Equity</b>			
MSCI US	●	↑	1.86
MSCI Europe	●	↑	2.13
MSCI AC AXJ	●	↑	1.92
<b>Fixed Income</b>			
DM Corp Bond	●	↑	1.70
DM High Yield	●	→	1.56
EM USD	●	↑	1.75
EM Local	●	↑	1.68
Asia USD	●	↑	1.62
<b>Currencies</b>			
DXY	●	→	1.72

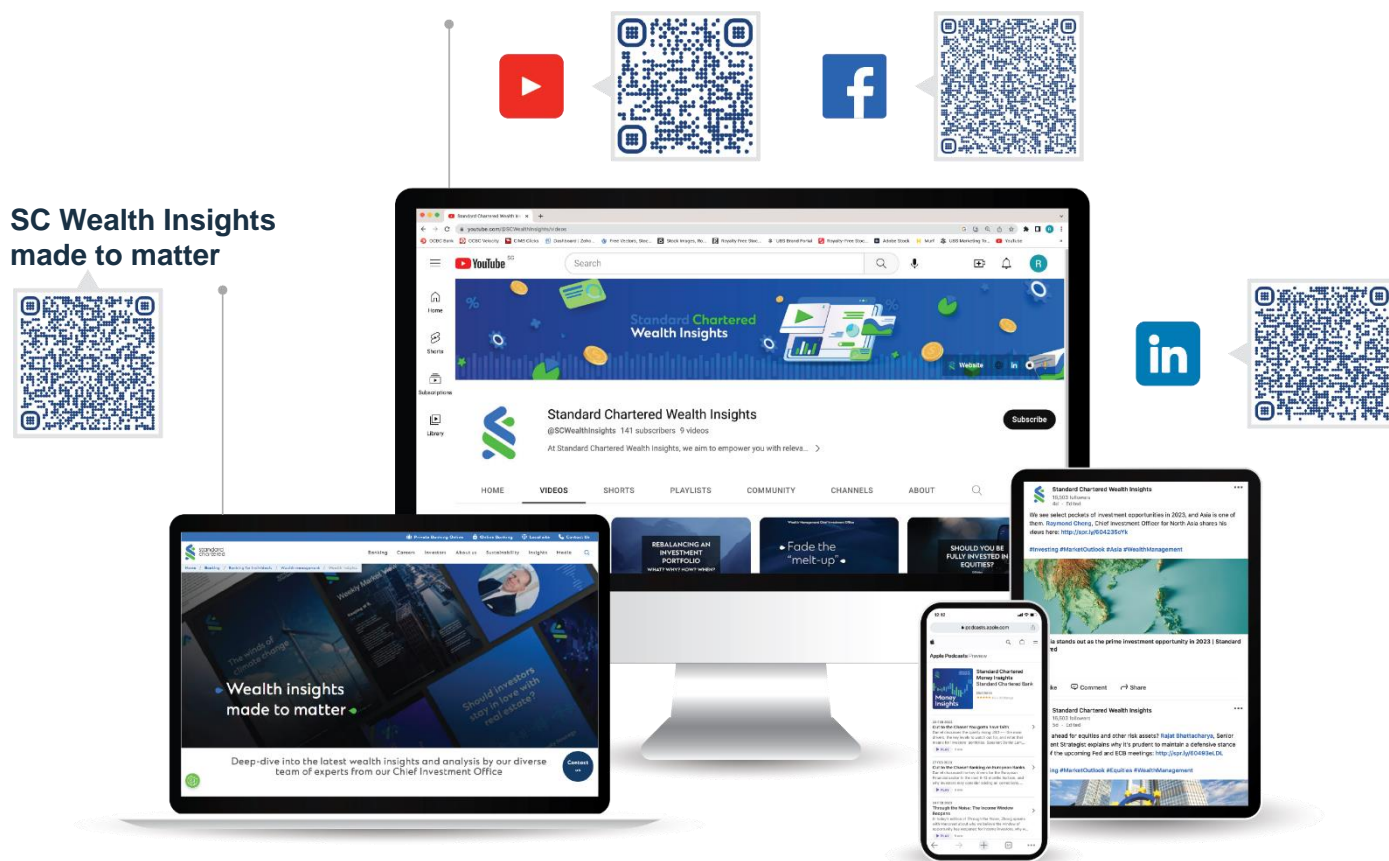
Source: Bloomberg, Standard Chartered; **Fractal dimensions below 1.25 indicate extremely low market diversity/high risk of a reversal**

Legend: ● High | ● Low to mid | ○ Critically low



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