



Weekly Market View

What next?

→ The V-shaped rebound in equities and bonds has lifted our Balanced asset allocation strategy by 3.6% since the 26 October trough. It begs the question: "What next?"

→ While we remain circumspect on a year-end equity rally due to a deteriorating economic outlook, we see room for the rally to extend in the next few weeks on the back of supportive technical factors.

→ Bonds have relatively less room to rise further in the near term. The US 10-year government bond yield has fallen close to our three-month target range of 4.25-4.50% set in October.

→ However, we still see the yield falling at least another 100bps in the next 6-12 months as US growth slows sharply in the coming quarters. Investors with a horizon of 6-12 months should continue to look for opportunities to add to US and European government bonds on any short-term yield spikes.

What is the earnings outlook for major markets?

Do you expect a sustainable rebound in Asia USD bonds?

What is the outlook for the AUD after the latest RBA meeting?

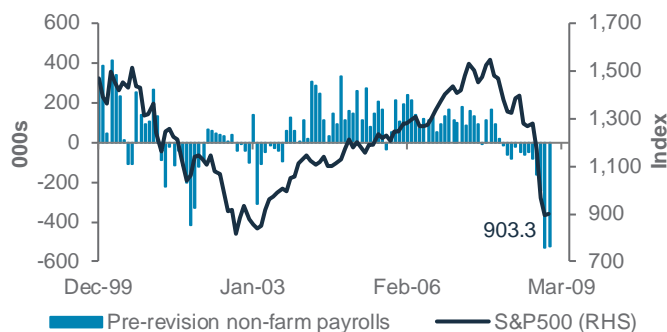
Charts of the week: A window of opportunity

The US job market is slowing, but US equities often continue to rally till just before the job market starts to shrink

US aggregate* weekly private payrolls, % m/m



S&P500 index and US non-farm payrolls during 1999-2008



Source: Bloomberg, Standard Chartered; *product of total employment, average hourly earnings and average weekly hours worked

Editorial

What next?

The V-shaped rebound in equities and bonds has lifted our Balanced asset allocation strategy by 3.6% since the 26 October trough. It begs the question: "What next?" While we remain circumspect on a year-end equity rally due to a deteriorating economic outlook, we see room for the rally to extend in the next few weeks on the back of supportive technical factors, provided the following three conditions hold: i) Next week's US consumer inflation data matches or comes in softer than expectations (consensus: 0.1% m/m for headline, 0.3% m/m for core); ii) US government bond yields consolidate near current levels; and iii) the Israel-Gaza conflict does not escalate, threatening Middle East oil supplies. Bonds have relatively less room to rise further in the near term. The US 10-year government bond yield has fallen close to our three-month target range of 4.25-4.50% set in October, though we still see the yield falling at least another 100bps in the next 6-12 months as US growth slows sharply in the coming quarters.

Equity market technicals: The global equity market rebound has support from positioning, seasonality and some technical metrics. Investor positioning is modestly bearish across major equity markets, while being extremely bearish for China. This, as contrarian signals go, is supportive of a further recovery in equity markets. Investor diversity remains broad, indicating it is not likely to stand in the way of a further rally. Expected volatility in US equities has plunged, suggesting investors are less concerned about the near-term outlook. Meanwhile, indicators for US equity market momentum, strength, breadth and sentiment remain modestly bearish despite the rebound. This is another contrarian signal that US equities can still climb "the wall of worry". November and December have historically been among the two best months for US equity market returns.

Mixed fundamentals: US firms have delivered strong earnings beats, with consensus expecting 5.7% growth for Q3 23 and 7% growth for Q4 23. However, earnings growth estimates for 2024 have been pared down slightly. The US economy is slowing. US aggregate payrolls, which combines net new jobs,

hourly earnings and average hours worked, stagnated for the first time m/m since early 2021. If the slowdown is backed by slower inflation, it should allow the Fed to hold rates (instead of hiking further). Indeed, the Fed's surprisingly less hawkish policy stance last week (from which Chair Powell tried to row back this week) in the face of weaker economic data and the US government's more modest borrowing plan for Q4 23 were the triggers for the latest V-shaped rally in markets.

History lesson: Past episodes of late-cycle US equity market rallies (from 1999-00 and 2007-08) show that US equities continued to rally till just before the job market started to contract (see chart above). Extrapolating current US job market trends, net non-farm payrolls are likely to start contracting at the end of Q1 24 or early Q2 24. This suggests that we have a window of at least a few months for the equity rally to continue.

Investment implications

Equity market opportunity: Technical factors point to further near-term uptrend in equities, led by the interest rate-sensitive technology and communications sectors (provided the three conditions highlighted above hold). The S&P500 index needs to rise above the 100DMA technical resistance around 4,402 to break the pattern of lower lows and lower highs since July. The recent pullback in US bond yields and the USD are also supportive for Emerging Markets. There is upside opportunity for Asia ex-Japan equities, given the light investor positioning. Nevertheless, we will need to stay nimble, watching for signs of a further growth slowdown as we navigate this late-cycle rally.

Bonds opportunity: Investors with a horizon of 6-12 months should continue to look for opportunities to add to US and European government bonds on any short-term yield spikes. The US 10-year Treasury yield rebounded from below 4.5% and faces resistance around 4.68%. The USD is likely to consolidate around current levels in the near term. USD/JPY faces key technical resistance around the 2023 high of 151.7. We expect the BoJ to intervene if it sustainably breaks higher.

— 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

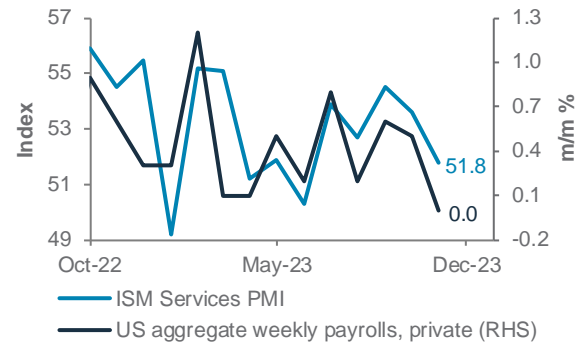
(+) factors: China policy support, dovish US jobs data

(-) factors: Israel-Gaza conflict, weak US ISM services

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> The US added less jobs than expected at 150,000; the jobless rate rose more than expected to 3.9% US ISM services fell more than expected to 51.8 Euro area Sentix investor confidence improved more than expected to -18.6 Euro area retail sales fell less than expected by -2.9% y/y China imports rose surprisingly by 3.5% y/y 	<ul style="list-style-type: none"> The US Senior Loan Officer survey showed a further tightening in lending standards in Q3 23 Euro area producer inflation fell less than expected; ECB's 1-year inflation expectations rose China exports fell unexpectedly by 6.4% y/y China consumer inflation fell more than expected; producer inflation fell less than expected
	Our assessment: Positive – Weaker-than-expected US jobs and ISM services PMI data reduce the risk of further Fed rate hikes and, thus, are positive for risk assets in the near term	
Policy developments	<ul style="list-style-type: none"> Fed's Barkin and Bostic leaned against more hikes China's Premier Li Qiang vowed to boost imports and expand market access China officials signalled more direct support to property developers BoE chief economist raised the possibility of rate cuts around mid-2024 RBA hiked as expected but signalled a higher hurdle to further increases 	<ul style="list-style-type: none"> The Fed's Cook, Kashkari and Bowman warned about inflation resurging again Fed Chair Powell said that the Fed is not fully confident it has tightened policy enough
	Our assessment: Positive – Dovish BoE, RBA comments, China policy support	
Other development	<ul style="list-style-type: none"> Israel expanded its ground operations to underground 	
	Our assessment: Negative – Israel-Gaza conflict	

A slowdown in US service sector activity is likely to hurt the job market and consumption harder than a similar slowdown in manufacturing, given the bigger share of services in the economy

US ISM Services PMI and US aggregate weekly private payrolls



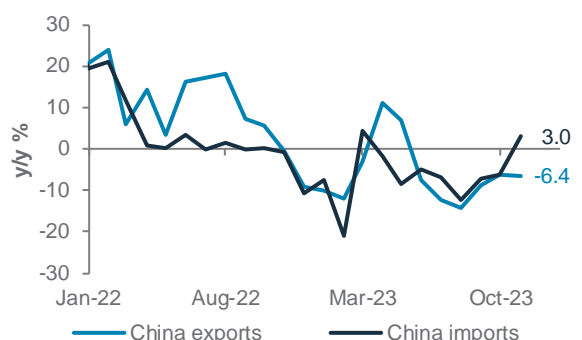
Euro area consumption and factory sector outlook remain depressed

Euro area retail sales and German factory orders



China's exports contracted more than expected; though overall imports rose, it was largely driven by a rise in oil imports

China's exports and imports



Top client questions

What is the earnings outlook for major markets?

In the US, over 80% of companies in the S&P500 have reported Q3 23 earnings, according to LSEG I/B/E/S. Consensus expectations are for 5.7% y/y earnings growth in Q3 23, up from 1.6% expected at the start of the earning season. The strength has been broad, with 9 out of 11 sectors showing positive surprises. Forward guidance remains cautious, as 2024 earnings growth has been nudged down to 11.6%, from 12.0% expected in early October.

In Europe, around 63% of companies in the Stoxx600 have reported, according to LSEG I/B/E/S. Q3 23 earnings growth remains negative at -10.3% y/y, better than prior expectations of -11.6%. Surprises have been evenly distributed across sectors, with half reporting positive surprises and half reporting negative. Consensus expectations are for Europe to see negative earnings growth for the next few quarters before turning positive only in Q2 24.

In China, over 90% of companies in MSCI China have reported Q3 earnings, according to Bloomberg. However, several large internet companies will report earnings next week. Consensus estimates have been largely stable for MSCI China, with 2024 growth at 15.1%, down from 15.5% before the earnings season started.

We remain Overweight US equities, as lower bond yields and earnings growth act as tailwinds. We are Underweight Euro area and UK equities, as a slowdown in growth will likely hurt earnings.

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

Are China equities likely to see a strong rally to year-end?

The dovish turn in US bond markets last week – triggered by a less hawkish-than-expected Fed and a weaker-than-expected set of key US macro data – lent a tailwind to Emerging Market (EM) equities. An end to the Fed's rate hiking cycle may signal a shift in the EM outlook. Historically, a peak in US government bond yields and the USD have been associated with EM outperformance.

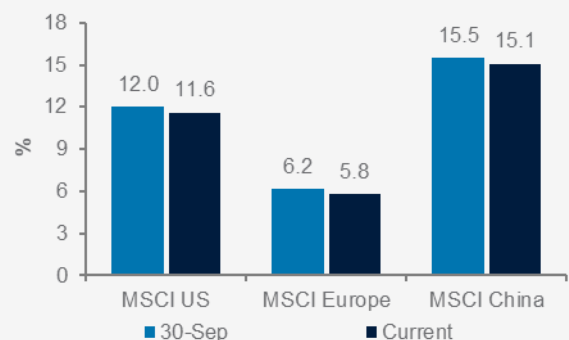
The EM equity space is not crowded. Investor positioning shows continued scepticism around China's recovery. It appears global equity investors prefer expressing an EM rebound via China proxies, such as Korea, rather than investing in China equities directly. Over the past month, investors have increased their short positioning in the Hang Seng index by 10%, while staying neutral in other key EMs.

We believe the Hang Seng index has built a base around 17,000. China macro data remains under pressure, the latest being weaker-than-expected consumer inflation. The government has been supporting the economy, for example, by expanding its fiscal deficit, but investors would need to see more stimulus to regain confidence in Chinese equities. The Biden-Xi summit may also be a potential catalyst that provides relief on the geopolitical front. The immediate resistance level lies at 18,038, followed by 18,899.

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

Expectations for 2024 earnings growth have been pared back slightly through the Q3 earnings season

Consensus 2024 earnings growth for MSCI US, MSCI Europe and MSCI China indices, current and as of 30-Sep-2023



Source: FactSet, Standard Chartered

A peak in US bond yields has historically been key to unlocking EM equity outperformance

Relative performances of MSCI EM vs MSCI US; US 10-year government bond yield



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q Do you expect a sustainable rebound in Asia USD bonds?

Global corporate bond markets had a strong start in November after a dovish Fed meeting. In Asia, the rebound gathered steam after an Investment Grade-rated Chinese developer received public support from the Shenzhen municipal government. While this development should support risk-on sentiment in the near term, we retain our Neutral view towards Asia USD bonds due to the following reasons:

- Government support to a single developer is arguably idiosyncratic and should not be confused with broader industry policy measures. We believe the Shenzhen government's offer of support is based on: (i) Shenzhen's state asset regulator indirectly owning around 30% of the concerned developer and (ii) the concerned developer contributing over 30% of the annual revenue of Shenzhen's state asset regulator.
- We continue to see support measures for the real estate sector leaning towards home buyers instead of developers. We believe developers are likely to continue to struggle amid an imbalanced demand-supply outlook, thin liquidity and limited refinancing channels. We would continue to watch whether measures to support refinancing (such as "the first to the third arrow") are broadened and/or scaled up.
- The Chinese real estate sector contributes only c.2% of the Asia USD bond benchmark index after multiple defaults this year. As such, we do not expect risk-seeking technical buying in the sector to trigger significant upside to the broader asset class.
- Despite defaults in the Chinese real estate sector, China remains the largest geographical contributor to the Asia USD bonds benchmark. As such, China's economic outlook (one of arguably still-weak growth) could weigh on the overall performance. Month-to-date, the rebound in Asia USD bonds has lagged its Developed Market (DM) counterparts.

— Cedric Lam, Senior Investment Strategist

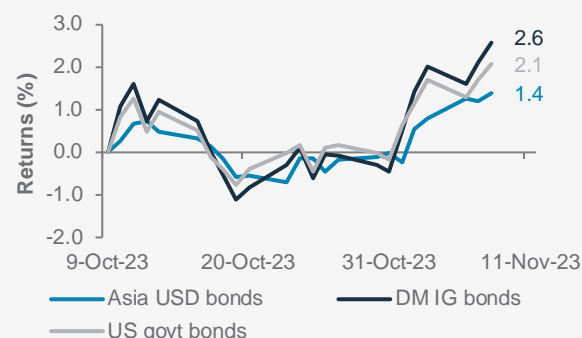
Q What is the outlook for the AUD after the latest RBA meeting?

The RBA recently hiked the policy rate for the first time since June 2023, leaving the rate at 4.35% – the highest level seen in 22 years. The bank expects Australian CPI to reach 3.5% by the end of 2024 and remain within the target range of 2.0-3.0% throughout 2025. Following what we see as a dovish rate hike, AUD/USD experienced a decline and tested its support at the 50DMA at 0.6390.

We believe this places it towards the lower end of its trading range, with room for a short-term rebound amid a weaker USD as US government bond yields tumble. Additionally, the market still expects a 30% chance of another rate hike by the RBA in early 2024, with no rate cuts expected till late Q4 24. In contrast, a rate cut from the Fed is expected to occur in Q2 24. This suggests Australia-US interest rate differentials could push AUD/USD higher. Furthermore, the

The rebound in Asia USD bonds has lagged US government bonds and DM IG bonds

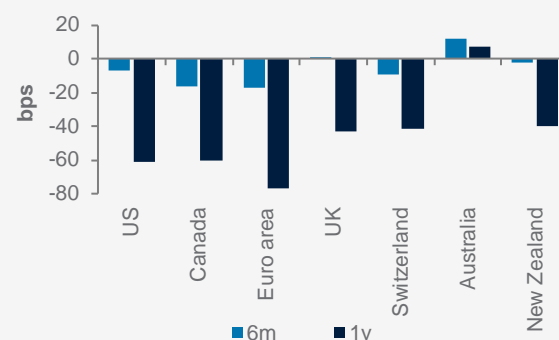
Returns (%) in the last 30 days



Source: Bloomberg, Standard Chartered

A rising divergence in policy rate expectations between the RBA and other major central banks is likely to support AUD/USD

Market-implied policy rate changes over the next 6 and 12 months



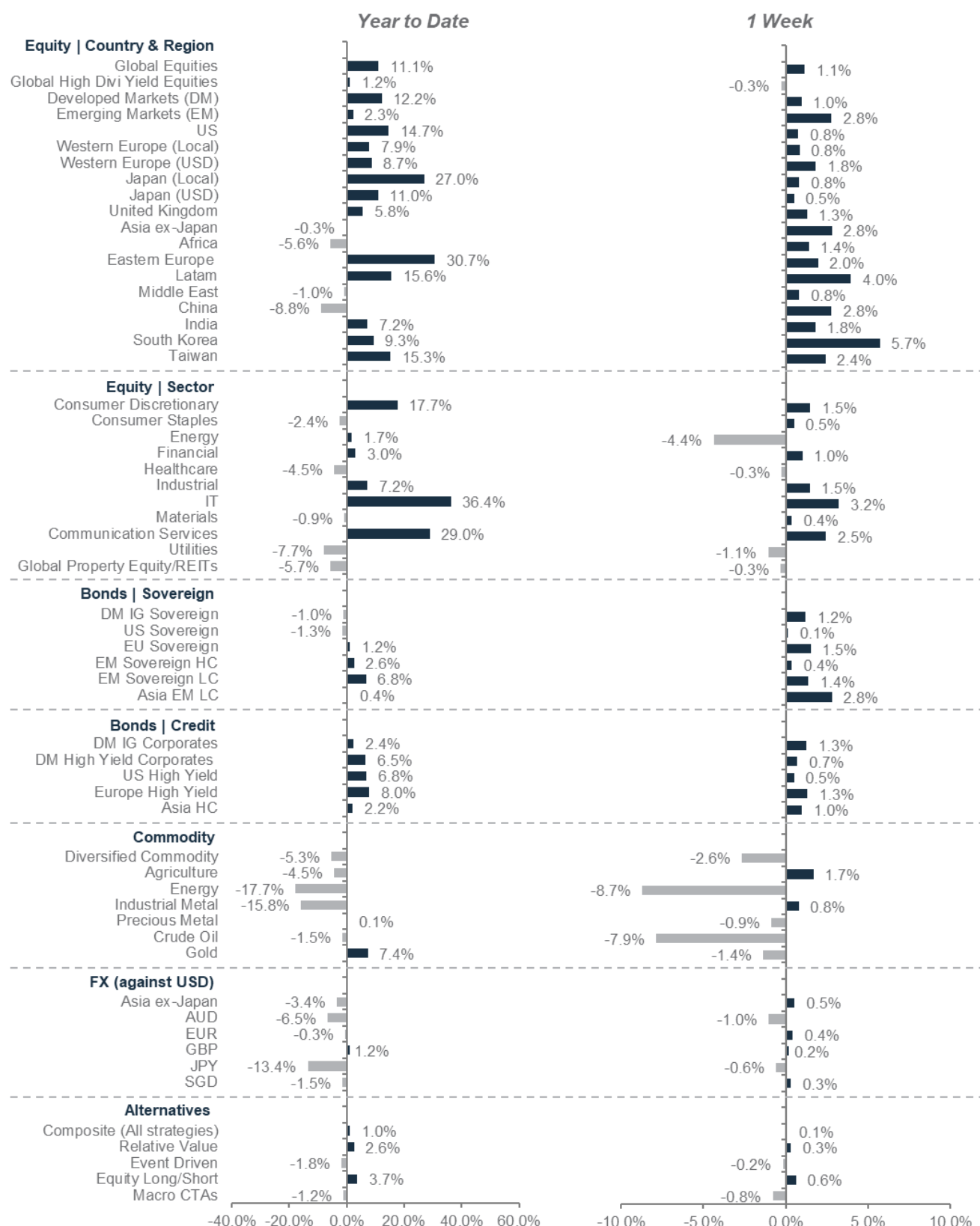
Source: Bloomberg, Standard Chartered

recent resumption of the annual meeting between China and Australia after a seven-year hiatus indicates a potential easing of trade tensions, which may further bolster the pair.

Technically, a break above 0.6450 (October 2023 high) for AUD/USD in the near term is likely to attract new buyers and open the door for it to test its next resistance level at 0.6530.

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

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 09 November 2023; 1-week period: 02 November 2023 to 09 November 2023

Our 12-month asset class views at a glance

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

Source: Standard Chartered Global Investment Committee

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

The next resistance for US 10-year bond yield is at 4.68%

Technical indicators for key markets as of 09 November close

Index	Spot	1st support	1st resistance	12m forward P/E (x)	12m forward dividend yield (%)
S&P 500	4,347	4,336	4,371	18.3	1.7
STOXX 50	4,229	4,179	4,254	11.7	4.1
FTSE 100	7,456	7,420	7,474	10.4	4.5
Topix	2,335	2,307	2,362	14.4	2.5
Shanghai Comp	3,053	3,037	3,064	10.1	3.5
Hang Seng	17,511	17,360	17,815	8.2	4.4
Nifty 50	19,395	19,269	19,482	18.6	1.8
MSCI Asia ex-Japan	605	598	613	12.1	2.8
MSCI EM	956	947	967	11.5	3.2
WTI (Spot)	75.7	73.8	79.3	na	na
Gold	1,959	1,942	1,984	na	na
UST 10Y Yield	4.62	4.53	4.68	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	US	Talks between Biden and Xi at APEC Summit	13-Nov – 17-Nov	
TUE	EC	ZEW Survey Expectations	Nov	– 2.3
	US	NFIB Small Business Optimism	Oct	– 90.8
	US	CPI y/y	Oct	3.3% 3.7%
	US	CPI Ex Food & Energy y/y	Oct	4.1% 4.1%
WED	CH	Industrial Production y/y	Oct	4.6% 4.5%
	CH	Retail Sales y/y	Oct	7.0% 5.5%
	CH	Fixed Assets Ex Rural YTD y/y	Oct	3.1% 3.1%
	CH	Property Investment YTD y/y	Oct	-9.1% -9.1%
	UK	CPI y/y	Oct	– 6.7%
	UK	CPI Core y/y	Oct	– 6.1%
	US	Retail Sales Ex Auto & Gas	Oct	0.2% 0.6%
	US	PPI Final Demand y/y	Oct	– 2.2%
	US	PPI Ex Food & Energy y/y	Oct	– 2.7%
THU	US	Industrial Production m/m	Oct	-0.3% 0.3%
FR/SAT	UK	Retail Sales Ex Auto Fuel y/y	Oct	– -1.2%
	US	Building Permits	Oct	1450k 1473k
	US	Housing Starts	Oct	1350k 1358k

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 in Asia ex-Japan equities has declined

Our proprietary market diversity indicators as of 09 November

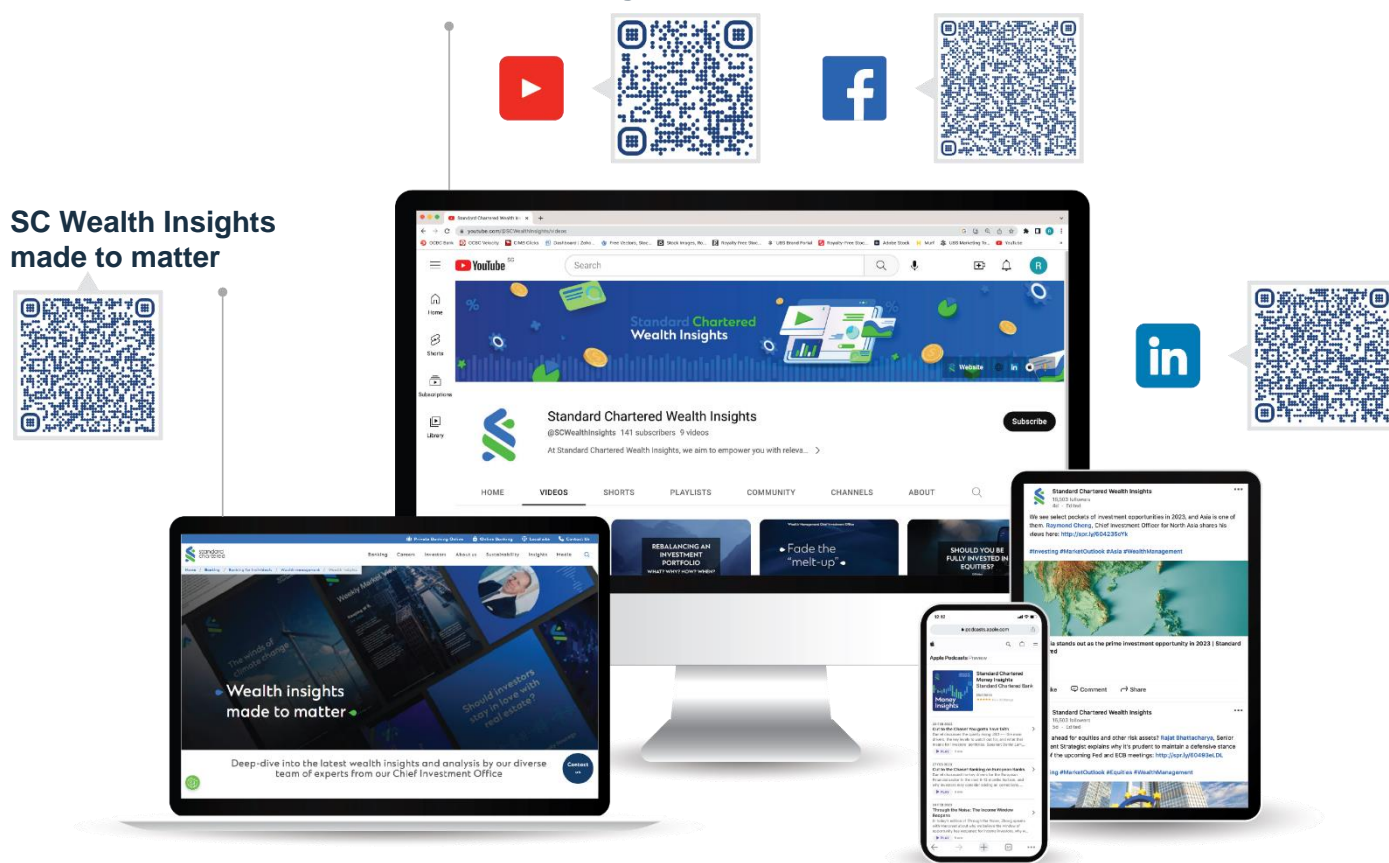
Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↑	1.54
Global Equities	●	→	1.58
Gold	●	→	1.64
Equity			
MSCI US	●	→	1.73
MSCI Europe	●	→	1.45
MSCI AC AXJ	●	→	1.51
Fixed Income			
DM Corp Bond	●	→	1.67
DM High Yield	●	↓	2.09
EM USD	●	→	1.67
EM Local	●	↑	1.71
Asia USD	●	↑	1.83
Currencies			
DX	●	→	1.41

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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