



Weekly Market View

What to do after the shakeout?

→ After a period of mostly smooth sailing since equities bottomed last October, investors were jolted out of some over-crowded positions last week.

→ Concerns about a slowing US job market, tightening monetary policy in Japan and doubts about near-term benefits of AI investments led to the equity market sell-off and a reversal of FX carry trades funded by low-cost JPY and CHF.

→ As bond markets consolidate, US 10-year bond yield around 4% offers an opportunity for those still holding cash to lock in the yields from high quality bonds for a longer period. Bonds should benefit as the Fed cuts rates to support growth.

→ The market dislocation has made US technology-related equities attractive again. There is also an opportunity to add to the defensive healthcare sector in Europe and non-financial state-owned enterprises in China.

→ USD is likely to consolidate after the recent slump but upside likely to be capped as the Fed cuts rates.

Where are the key opportunities in equities after the recent sell-off?

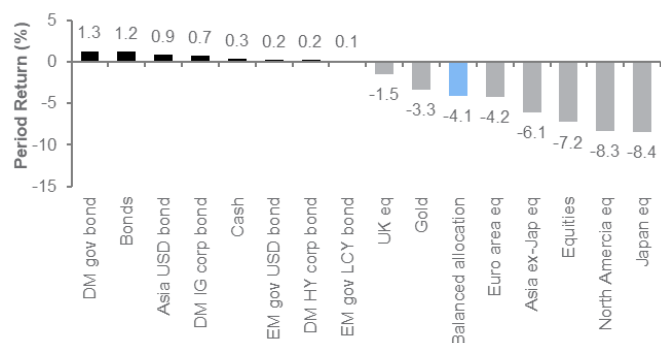
Is it time to add to bonds after the recent yield slump?

Are safe haven currencies such as the JPY and CHF overbought?

Charts of the week: Winners and losers

Gains in bonds partly offset losses in equities, highlighting the benefits of a diversified allocation as US growth weakens

Performance of key assets since latest S&P500 index peak*



Source: Bloomberg, Standard Chartered; *S&P500 peaked on 16 July

US bond, equity performance after yield curve turned positive

Yield curve most inverted	Yield curve turned positive	US recession start date	12-month fwd returns of US equities	12-month fwd returns of US bonds
May-81	Jul-82	Jul-81	-16.2%	13.3%
Mar-89	Mar-90	Jul-90	5.6%	10.6%
Apr-00	Jan-01	Mar-01	-8.8%	7.0%
Nov-06	Jun-07	Dec-07	-39.5%	1.7%
Mar-24	?	?	?	?
Average			-14.7%	8.2%

Editorial

What to do after the shakeout?

After a period of mostly smooth sailing since equities bottomed last October, investors were jolted out of some over-crowded positions last week. This is a risk we have been flagging in recent weeks amid concerns about economic growth and one-sided short positioning in low-cost JPY and CHF currencies.

Despite the volatility, the return of negative correlation between stocks and bonds meant our balanced asset allocation strategy has been relatively resilient. This highlights the benefits of a diversified foundation allocation. Our near-term technical model has turned bearish on equities for the first time in two years, implying near-term risks are present, but our longer-term quantitative model remains pro-risk. Besides, the Fed is likely to cut rates significantly in the coming months to support growth. Hence, we see opportunities from the shakeout, including taking advantage of cheaper valuation in the high-growth US technology and communication services sectors and adding defensive equity sectors in Europe and China.

What triggered the shakeout? Concerns about a slowing US job market, doubts about near-term benefits of Artificial Intelligence (AI) investments amid crowded investor positions and tightening monetary policy in Japan appeared to be the primary drivers.

Slowing US job market: US monthly job creation slowed sharply in July. Some US recession indicators we closely follow have been triggered following the latest job report (see page 3). Nevertheless, an unusual rise in labour supply in this cycle due to a surge in immigration could distort the signal. Also, a closely followed US service sector business confidence indicator surprisingly strengthened in July, partially allaying concerns about growth. We will need to watch higher frequency job indicators, such as weekly jobless claims, closely. A weaker job market is likely to hurt consumption, the key US growth driver.

Reset of AI expectations amid crowded investor positions:

Doubts about the near-term benefits of AI have grown during the recent Q2 earnings season. This coincided with investor positioning in the US technology sector turning extremely crowded, a risk we flagged in the Weekly Market View three weeks ago. Nevertheless, the US earnings outlook remains robust, with almost 80% of S&P500 companies beating Q2 earnings estimates. Consensus expects 10.5% earnings growth in 2024 and 14.8% growth in 2025.

Tightening BoJ monetary policy jolts FX carry trades: The BoJ's ultra-loose monetary policy in recent years against the backdrop of surging policy rates in other major economies had led investors to borrow the low-cost JPY to build leveraged positions in cyclical assets. The BoJ's surprise rate hike last week and its plans to halve its bond purchases by Q2 26 jolted FX markets. At one point, USD/JPY plunged over 12% from its mid-July level. USD/JPY and USD/CHF (another favoured borrowing currency) are now likely to consolidate. While this points to some upside for the pairs near term, gains are likely to be capped amid US growth concerns and Fed rate cuts. We see a more attractive opportunity in the GBP (see page 5).

Investment implications: US growth equities, defensive European and China sectors:

The market dislocation has made US technology equities attractive again. Earnings growth expectations and corporate balance sheets remain robust. There is also an opportunity to add to the defensive healthcare sector in Europe and non-financial Chinese state-owned enterprises (SOE).

Moving to quality bonds as markets consolidate: The US 10-year bond yield has bounced off December's low just below 3.8% as markets consolidate. A yield around 4% offers an opportunity for those still holding cash to lock in the yields from high quality bonds for a longer period. Bonds are also likely to benefit as the Fed cuts rates to support growth.

The weekly macro balance sheet

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

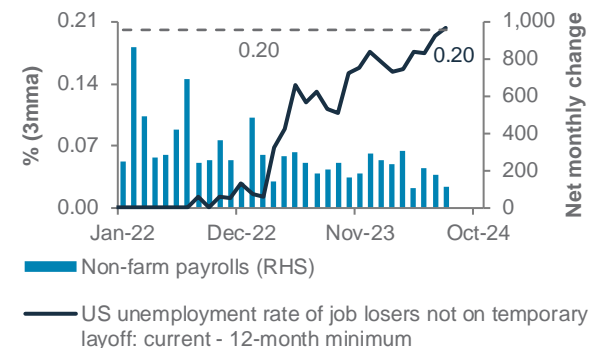
(+) factors: Dovish Fed, recovering US ISM services

(-) factors: Weak US jobs data, geopolitical tensions

	Positive for risk assets	Negative for risk assets
Macro data	<ul style="list-style-type: none"> US July ISM services PMI rose more than expected, back into expansionary territory China July Caixin services PMI rebounded to 52.1 China imports rose more than expected 	<ul style="list-style-type: none"> US added less jobs than expected in July at 114,000; unemployment rate rose more than expected to 4.3% Fed's July Senior Loan Officer Survey showed tighter standards on most loan categories Euro area Sentix investor confidence deteriorated more than expected Euro area retail sales fell unexpectedly by 0.3% m/m China exports rose less than expected
	Our assessment: Negative – Weak US jobs data, still-tight US lending standards, deteriorating Euro area investor confidence	
Policy developments	<ul style="list-style-type: none"> Fed's Goolsbee said the Fed would react to signs of weakness, and policy rates could be overly restrictive Fed's Daly expects rate cuts as job market weakens BoJ's Deputy Governor Uchida pledged to refrain from hiking rates amid market volatility 	<ul style="list-style-type: none"> NA
	Our assessment: Positive – Dovish Fed speak	
Other developments	<ul style="list-style-type: none"> US Vice President Kamala Harris formally clinched the nomination to be the party's Presidential candidate; she named Governor Walz as her Vice President nominee 	<ul style="list-style-type: none"> Hezbollah and Israeli forces exchanged fire; Iran threatened to attack Israel more forcefully
	Our assessment: Negative – Geopolitical tensions	

One of our closely watched US recession indicators was triggered after the recent non-farm payrolls report

3-month average of US unemployment rate of permanent job losers minus its 12-month low; non-farm payrolls



Source: BCA Research, Bloomberg, Standard Chartered

Euro area investor confidence and retail sales deteriorated in the latest release

Euro area Sentix investor confidence and retail sales



Source: Bloomberg, Standard Chartered

China services activity remained robust, while manufacturing activity is weakening

China Caixin Manufacturing and Services PMI



Source: Bloomberg, Standard Chartered

Top client questions

Q Is it still time to add to bonds after the recent yield slump?

US government bond yields fell sharply in the past week on a trifecta of growth concerns, higher rate cut expectations and safe-haven demand. Friday's weaker-than-expected employment report was a key driver. The data triggered some closely watched US recession indicators, though Hurricane Beryl and the surge in immigrant workers risks adding distortions. However, bullish positioning on US government bonds now looks increasingly stretched, with positioning in 10-year bonds reaching an all-time high on Monday. Moreover, markets are now pricing in about 180bps of Fed rate cuts over the next 12 months, which is aggressive. Together, these data points suggest US bond yields are at risk of a consolidation in the near term.

That said, we still see opportunities to add to bonds as yields consolidate. Firstly, shorter-term yields fell more than longer-term yields in August, making it attractive to lock in yields for longer. Secondly, history shows that a Fed rate cutting cycle coincides with falling longer-term bond yields (rising bond prices). Finally, the risk premium of most corporate and Emerging Market (EM) bonds rose, offsetting the decline in government bond yields. For instance, the yield premium on our preferred EM USD government bonds rose more than 10bps, further enhancing its valuation relative to history.

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

Q Where are the key opportunities in equities after the recent sell-off?

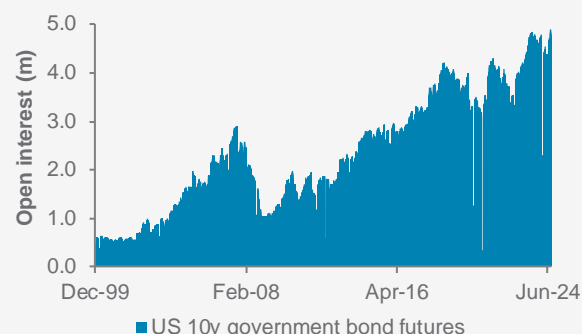
Global equities witnessed an 8% peak-to-trough decline from their mid-July high, with the S&P500 experiencing a drawdown of similar magnitude. We continue to expect US equities to outperform global equities over the next 6-12 months. Following expected rate cuts from the Fed, we believe investors will be drawn to US equities' strong earnings growth. The Q2 earnings season supports our view. A total of 86% of S&P500 companies have reported earnings, with 78% beating expectations, according to LSEG I/B/E/S. Expectations for 2024 earnings growth have ticked down to 10.5%, while 2025 earnings growth has ticked up to 14.8%, from 10.7% and 14.4%, respectively, prior to the start of the Q2 earnings season.

Our preferred US sectors are communication services and technology. Communication services is expected to deliver the strongest earnings growth this year (24%), with strength in digital advertising and online entertainment. Technology is also likely to see strong earnings growth this year (19%), driven by AI spending, a semiconductor cycle upturn and cloud computing. In addition, we see an attractive buying opportunity in US major banks – financials delivered one of the most positive Q2 earnings surprises, and banks would benefit from yield curve steepening. Europe's healthcare sector and Chinese SOEs can also add some defensive exposure.

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

Bullish positioning in US 10-year government bonds looks increasingly stretched

Open interest of US 10-year government bond futures



Source: Bloomberg, Standard Chartered

Valuations of most bond sub-asset classes have improved following the market sell-off

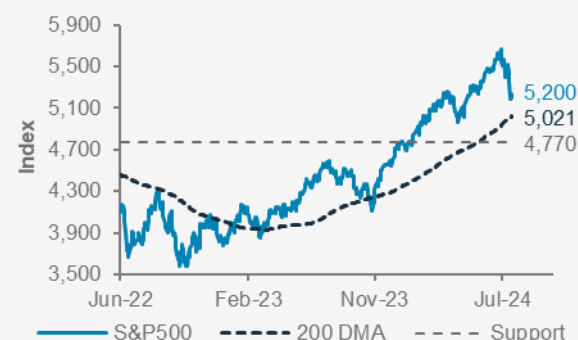
Yield premium and percentile* for major bond asset classes (current vs end-July)

	Current	Percentile	31-Jul	Percentile
DM IG corporates	112	32.9%	101	24.1%
DM HY corporates	423	38.4%	393	29.9%
EM USD govt	421	83.6%	408	81.3%
Asia USD	231	19.8%	221	14.2%

Source: Bloomberg, Standard Chartered; *20-year history

S&P500 has technical support around the 200-day moving average (5,021), and subsequently at 4,770

S&P500 index with 200-day moving average



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q GBP/USD has fallen steadily since the recent BoE rate cut. Do you see further downside for the pair?

GBP/USD has continuously moved lower since the BoE cut rates. This means it has underperformed other G10 currencies despite a softening of the USD. However, the case for further GBP weakness from here is not compelling, in our view, and may be short-lived. The BoE is not the only major central bank embarking on a rate cutting cycle, and its cautious approach appears in line with its peers. This suggests that current and expected relative-yield differentials should not vary significantly in the coming months, limiting further GBP/USD weakness from here.

The latest improvement in UK retail sales indicates consumption remains resilient. UK inflation and GDP readings will be closely watched. Technically, GBP/USD is still trading in its ascending channel (formed since October 2023), and we expect the pair to rebound once it finds support at 1.2610 (June 2024 low). Resistance is at 1.3040.

We initiate a bearish EUR/GBP to capture the view above, choosing to express our view versus the EUR rather than the USD, given more attractive technicals. See the *Daily Navigator* for more details.

— Iris Yuen, Investment Strategist

Q Are safe haven currencies such as the JPY and the CHF overbought?

Safe haven currencies have strengthened dramatically in recent days on rising concerns of slower-than-expected US growth and a related unwinding of carry trades (ie, trades that use low-yielding currencies as sources of funding).

However, we believe the momentum of this move is fading. Technically, both USD/JPY and USD/CHF are oversold. We expect a moderate near-term rebound over the coming week. Resistance for USD/JPY is at 151.8. US producer prices and inflation are the next key catalysts; it would likely take a further unexpected cooling in both to cause USD/JPY to test its next support at 140.2.

We see USD/CHF facing strong resistance at 0.8730. The upcoming SNB meeting in late September is the next focus. An unexpected acceleration of Fed rate cuts would raise risks of the pair testing support at 0.8330 after a technical rebound.

— Iris Yuen, Investment Strategist

GBP/USD is still trading in its ascending channel and is likely to rebound

GBP/USD and technical levels



Source: Bloomberg, Standard Chartered

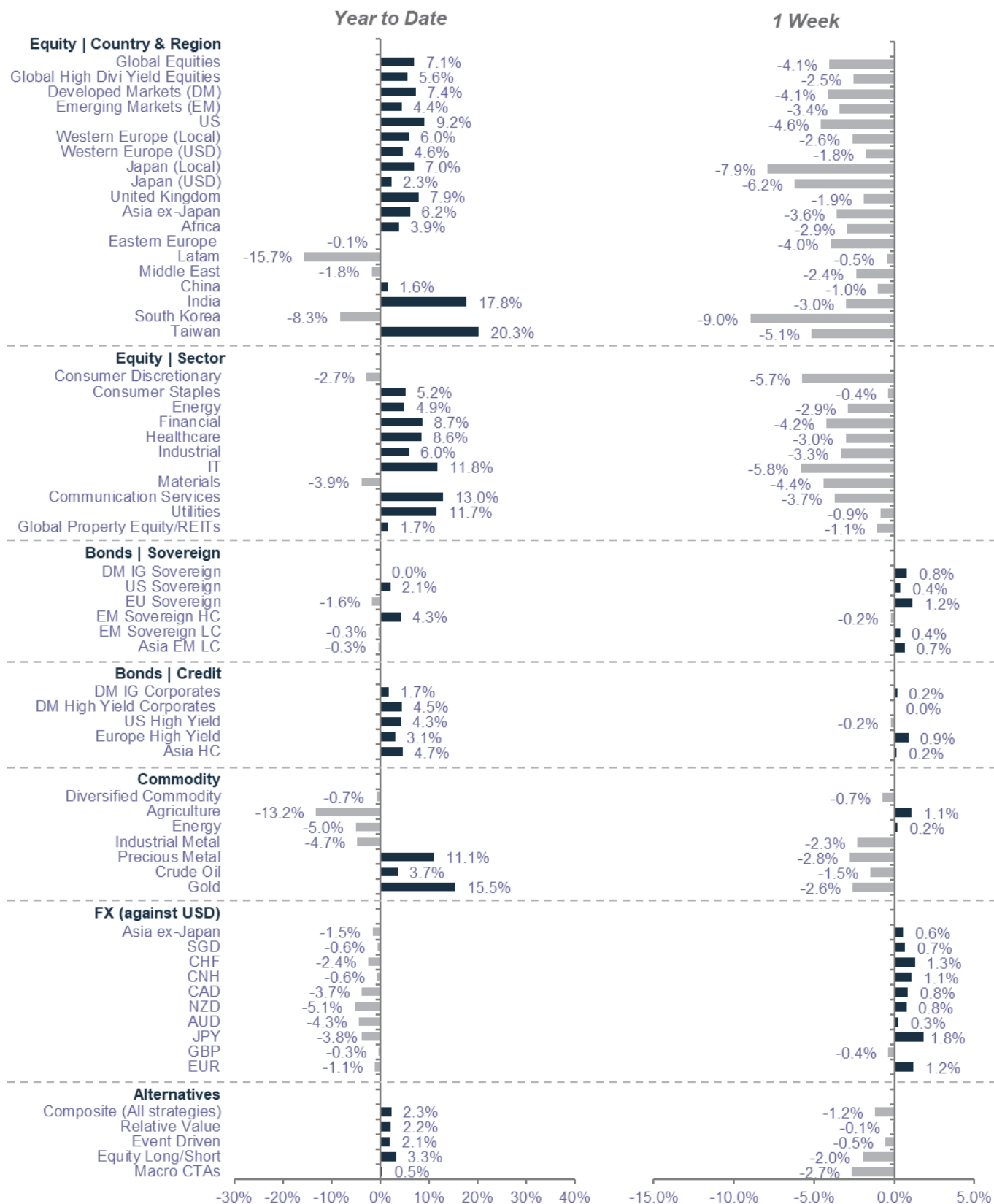
USD/JPY is oversold and looking for a technical rebound

USD/JPY and technical levels



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, 2024 YTD performance from 31 December 2023 to 7 August 2024; 1-week period: 1 August 2024 to 7 August 2024

Our 12-month asset class views at a glance

Asset class	
Equities	▲
Euro area	◆
US	▲
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 Communication	▲
US Technology	▲
Europe Technology	▲
Europe Healthcare	▲
China Communication	▲
China Discretionary	▲
China Technology	▲
India Industrials	▲
India Discretionary	▲
India Healthcare	▲
Alternatives	◆
Gold	◆

Source: Standard Chartered Global Investment Committee

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

The S&P500 has next interim resistance at 5,540

Technical indicators for key markets as of 7 August close

Index	Spot	1st support	1st resistance	12m forward P/E (x)	12m forward dividend yield (%)
S&P500	5,200	4,989	5,540	19.9	1.5
STOXX 50	4,668	4,411	4,988	12.5	3.7
FTSE 100	8,167	7,920	8,409	11.5	4.0
Topix	2,489	2,148	2,888	13.3	2.7
Shanghai Comp	2,870	2,815	2,956	10.5	3.6
Hang Seng	16,878	16,107	17,983	7.9	4.6
Nifty 50	24,298	23,768	24,953	20.4	1.5
MSCI Asia ex-Japan	671	637	714	11.9	2.8
MSCI EM	1,050	1,001	1,114	11.3	3.2
WTI (Spot)	75.2	70.0	82.1	na	na
Gold	2,383	2,327	2,461	na	na
UST 10Y Yield	3.94	3.63	4.29	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					
TUE	UK	ILO Unemployment Rate 3Mths	Jun	–	4.4%
	EC	ZEW Survey Expectations	Aug	–	43.7
	US	PPI Final Demand y/y	Jul	–	2.6%
WED	UK	CPI y/y	Jul	–	2%
	UK	CPI Core y/y	Jul	–	3.5%
	US	CPI y/y	Jul	2.9%	3.0%
	US	CPI Ex Food & energy y/y	Jul	3.2%	3.3%
THU	CH	Industrial Production y/y	Jul	5.5%	5.3%
	CH	Retail Sales y/y	Jul	2.7%	2.0%
	CH	Fixed Assets Ex Rural YTD y/y	Jul	3.9%	3.9%
	UK	GDP q/q	2Q P	–	0.70%
	UK	Industrial Production y/y	Jun	–	0.40%
	US	Empire Manufacturing	Aug	-5.5	-6.6
	US	Retail Sales Ex Auto and Gas	Jul	0.2%	0.8%
	US	Industrial Production m/m	Jul	0.0%	0.6%
FR/SAT	UK	Retail Sales Ex Auto Fuel y/y	Jul	–	-0.8%
	US	Building Permits	Jul	1440k	1446k
	US	Housing Starts	Jul	1353k	1353k
	US	U. of Mich. Sentiment	Aug P	66.4	66.4

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 7 Aug close

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	○	↓	1.38
Global Equities	●	↑	1.91
Gold	●	→	1.66
Equity			
MSCI US	●	↑	1.91
MSCI Europe	●	↓	1.53
MSCI AC AXJ	●	↑	1.68
Fixed Income			
DM Corp Bond	○	↓	1.42
DM High Yield	○	↓	1.44
EM USD	○	↓	1.49
EM Local	●	→	1.55
Asia USD	○	↓	1.40
Currencies			
EUR/USD	●	→	1.55

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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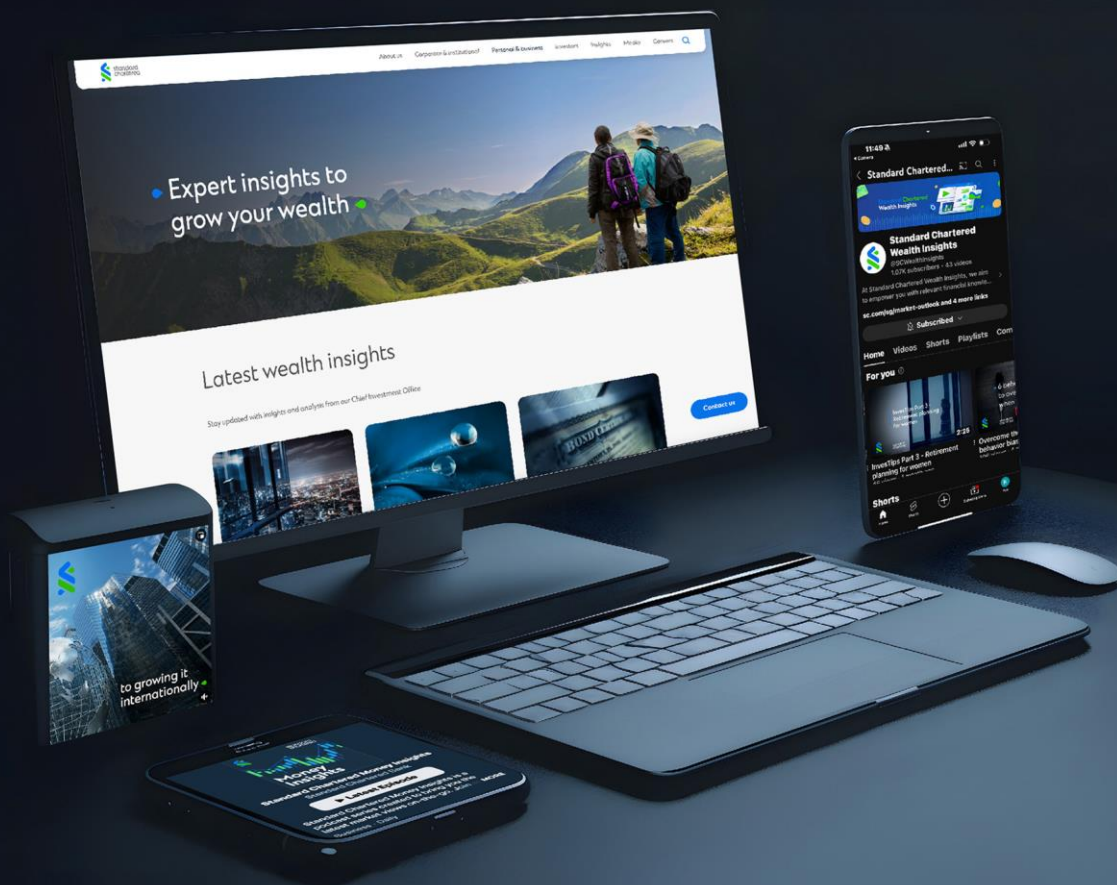
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