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WS Global Chief Investment Office
11 October 2024

Weekly Market View

When good news becomes bad news

→ US stocks scaled record highs and the US 10-year government bond yield once again rose above 4% after a surprisingly strong jobs report for September revived expectations of an economic soft-landing.

→ The equity rally could have legs if US corporate earnings once again beat subdued expectations.

→ Nevertheless, history suggests a sharp spike in bond yields in a short period typically leads to a short-term pullback in risk-assets. Also, equity volatility is likely to rise heading into the US elections in November. Against this backdrop, we would average into bonds, which look relatively attractive after the latest surge in yields.

→ In China, we remain selective in some consumer-driven equity sectors pending any announcement of a large fiscal stimulus. In India, the latest dovish shift in the central bank's policy stance is positive for Indian government bonds.

→ In FX markets, we see downside risks for the EUR/AUD amid widening interest rate differentials.

What is the outlook for China equities as fiscal stimulus expectations build up?

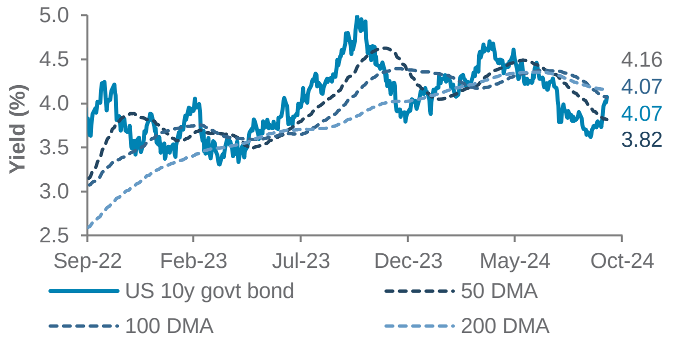
Should we add Developed Market Investment Grade bonds now?

How to position for the EUR ahead of ECB's policy meeting next week?

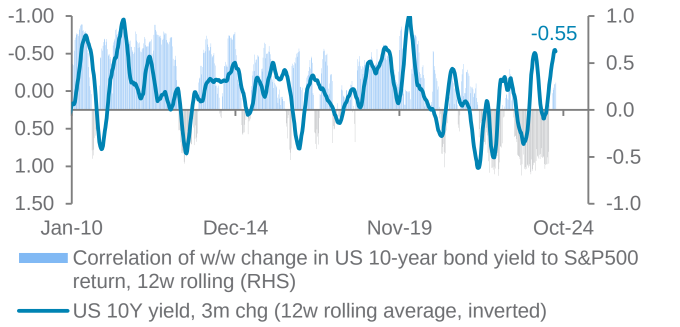
Charts of the week: Risks and opportunities from bond yields surge

A sharp spike in bond yields is potentially negative for stocks near term, but provides an opportunity for bond investors

US 10-year government bond yield and moving averages



Correlation of w/w change in US 10-year bond yield to S&P 500 return; US 10-year bond yield 3m change



Source: Bloomberg, Standard Chartered

Editorial

When good news becomes bad news

US stocks scaled record highs and the US 10-year government bond yield rose above 4% after a surprisingly strong jobs report for September revived expectations of an economic soft-landing. The equity rally could have legs if US corporate earnings beat subdued expectations. Nevertheless, history suggests a sharp spike in bond yields typically leads to a short-term pullback in risk-assets. Also, equity volatility is likely to rise heading into the US elections in November. Against this backdrop, we would average into bonds, which look relatively attractive after the latest surge in yields. In China, we remain selective in some consumer-driven equity sectors pending any announcement of a large fiscal stimulus. In FX markets, we are bearish EUR/AUD amid widening interest rate differentials.

Strong US jobs report upends bond markets: A stronger-than-expected US job market report for September has led to a paring back of Fed rate cut expectations, driving bond yields higher. The policy sensitive 2-year US government bond yield surged more than 30bps, while the 10-year yield rose over 25bps since the jobs report. Also, US inflation in September was higher than expected, while minutes from the Fed's last meeting showed policymakers were divided on the outsized 50bps rate cut in September. This raises the chance of just 25bps rate cuts in each of the remaining two meetings this year. The market is pricing a total of 140bps of Fed rate cuts over the next 12 months vs. 175bps before the September jobs report. We would average into bonds to lock-in higher yields over the longer term. The key risk to bonds is a 'Republican sweep' of the White House and Congress in the elections, which could lead to higher fiscal deficits. Also, a dramatic surge in oil prices due to any disruption in supplies remains another risk.

Impact of higher rates on equities: While the S&P500 index hit a record high following the strong jobs report and a pullback in oil prices this week, historical data suggests a 20-30bps jump in the 10-year bond yield over a three-month period has caused the correlation between bond yields and the equity market return to turn negative (equities fall as bond yields rise). Given this, any further rise in the US 10-year bond yield could raise the risk of a pullback in equity markets.

Remain selective in China: Meanwhile, China equity volatility has surged as stocks pulled back sharply amid disappointment with the lack of guidance on the size and nature of any fiscal policy measures. A briefing on Saturday by China's finance ministry could provide more details, although any concrete measures are more likely to be announced after the US election uncertainty is over. Also, data from the Golden Week holidays showed a decline in per capita consumption. We expect market volatility (and uncertainty) to remain high in the coming weeks, given the risk of increased trade tensions after the US elections, especially if former President Trump returns to power. Given this, we remain selective in China, adding to laggards in our preferred consumer-related equity sectors (see page 4).

India's monetary policy shift positive for bonds: The Reserve Bank of India shifted its monetary policy stance from restrictive to neutral as the growth outlook cools, partly due to tighter fiscal policies and tightening credit conditions amid high real rates. The monetary policy shift is positive for our tactical view on Indian government bonds, which offer relatively attractive yields among Emerging Markets. The inclusion of the bonds in another major global benchmark should attract further foreign institutional flows. We also prefer the more resilient large cap stocks within Indian equities.

Bearish on EUR/AUD: The decline in Euro area inflation below 2% for the first time since 2021 likely sets the stage for another 25bps ECB rate cut next week. Meanwhile, the Australian central bank is likely to hold policy at least until early next year as inflation remains elevated. Against this backdrop, we see further downside for the EUR/AUD pair in the coming weeks.

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

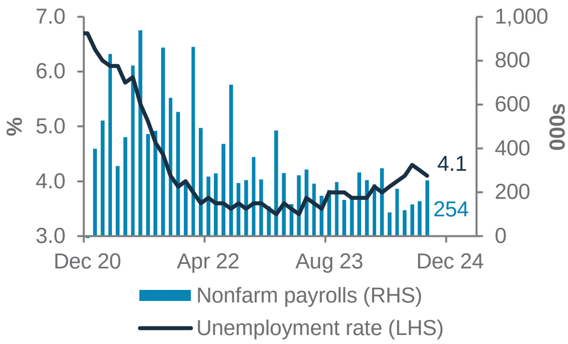
(+) factors: Resilient US labour market, global central bank easing

(-) factors: Rising EU/China trade tensions, ongoing Middle East conflict

	Positive for risk assets	Negative for risk assets
Macro data	• US non-farm payrolls increased more than expected by 254,000 in September, while unemployment rate fell to 4.1% • US trade deficit narrowed sharply in August as exports reached a record high	• US headline (0.2% m/m) and core inflation (0.3% m/m) in September were higher than expected • German factory orders fell 5.8% in August, the largest drop since January • US average hours worked fell although average hourly earnings rose stronger than expected
	Our assessment: Neutral – Resilient US labour market (good news) reduces the scope for significant monetary easing (bad news)	
Policy developments	• Reserve Bank of New Zealand cuts policy rate more than expected by 50 basis points to 4.75% • Reserve Bank of India left interest rates unchanged, but changed policy stance to neutral • China will hold another briefing on fiscal policy on Saturday; expected to introduce moves to strengthen fiscal policy and shore up growth	• EU voted to impose tariffs on China's electric vehicles • China retaliates against EU with brandy tax • A press briefing by China's top economic planner failed to deliver details of further stimulus
	Our assessment: Positive – Global central bank easing	
Other developments	• NA	• Hurricane Milton makes landfall on Florida as Category 3 hurricane • Israel warns Lebanon of "destruction like Gaza"
	Our assessment: Negative – Natural disasters, escalating Middle East conflict	

The US labour market remains resilient

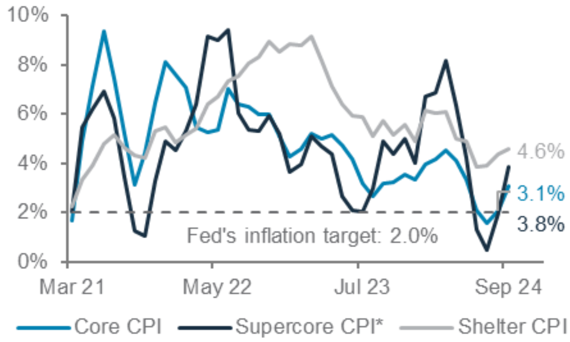
US non-farm payrolls and unemployment rate



Source: Bloomberg, Standard Chartered

US inflation was higher than expected in September

US core, supercore* and shelter inflation, 3-month annualised



Source: Bloomberg, Standard Chartered. *core services inflation excluding shelter

German factory orders slumped in August, in yet another sign of the manufacturing sector's woes

German factory orders m/m

Source: Bloomberg, Standard Chartered

Top client questions

What is the outlook for China equities as fiscal stimulus expectations build up?

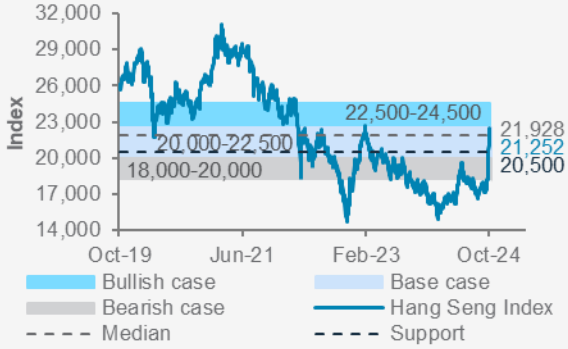
Markets were disappointed earlier this week as no concrete details of fiscal funding was announced during the National Development and Reform Commission (NDRC) meeting. However, the NDRC's mandate is to formulate strategies, set objectives and coordinate macro policies, not announce specific policies. A fiscal policy package is still likely on the way, with the NDRC emphasising that "next steps would involve coordinating with relevant departments to expand effective investment". The markets will be watching for the press conference this Saturday from the Ministry of Finance, as well as the NPC standing committee meeting at the end of Oct-24.

The Hang Seng Index broke below the resistance-turned-support level at 20,500 post the announcement. It is near the 61.8% Fibonacci level, from the range over the last few weeks (from 17,000 to 23,200). Recall that 20,000 to 22,500 is our base case, while 18,000 to 20,000 is our bear case, should the fiscal stimulus underwhelm market expectations. We believe the index is going to trade at the weaker-end of the base case, or the stronger-end of the bear case, before any further significant government announcements. Investors may consider adding incrementally to laggards in the consumer-related sectors, such as consumer discretionary and communication services.

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

In our base case, the Hang Seng Index (HSI) is likely to be volatile within the 20,000-22,500 range, pending any significant fiscal stimulus announcement

HSI 5-year median, resistance, Base/Bull/Bear scenarios



Source: Bloomberg, Standard Chartered; 10 October close

Should we add Developed Market (DM) Investment Grade (IG) bonds now?

The US 10-year government bond yield surged above 4% this week, driven by stronger than expected employment data. Technical indicators, such as the 14-day Relative Strength Index, have reached the "oversold" territory, suggesting an increased likelihood of a reversal. Additionally, the 10-year yield is currently testing a key technical resistance level at 4.07%, with the next resistance level at 4.17%.

As the money market has scaled back expectations for rate cuts and is now more aligned with the Fed's projections, we believe the risk-reward profile of US government bonds is more attractive than it was a few weeks ago. Given this, we see an opportunity to raise exposure while maintaining our view that rate cuts remain on the Fed's agenda. Our 3-month target range for the 10-year US government bond yield is 3.50-3.75%. The key upside risk is inflation expectations bottoming amid (i) stronger-than-expected growth data and (ii) higher oil prices against the backdrop of rising geopolitical risks in the Middle East.

For DM IG corporate bonds, the yields are more attractive today than a couple of weeks ago. However, their yield premium over government bonds has declined to the lowest level since September 2021. Hence, we maintain a core allocation (Neutral) to DM IG corporate bonds.

— **Cedric Lam,** *Senior Investment Strategist*

The risk-reward balance for US government bonds has become more attractive than a few weeks ago

US 10y government bond yield

Source: Standard Chartered

Top client questions (cont'd)

Following the RBA minutes, do we expect rate cut in December? What do we expect from the ECB next Thursday, and how do we view EUR/AUD?

The Reserve Bank of Australia's minutes from their latest meeting highlighted a discussion of different scenarios for either lowering or raising interest rates in the future. Policy could be held restrictive if consumption growth picks up materially. At the flip side, it could be tightened if present financial conditions are insufficiently restrictive to return inflation towards its target. Markets don't believe the RBA will cut rates until early 2025. We see AUD/USD strong support at 0.6620.

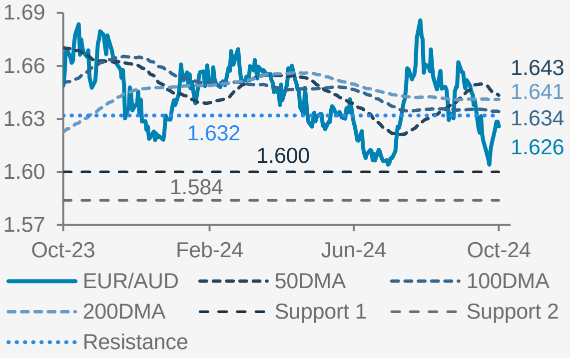
The focus now shifts to the European Central Bank meeting next week. Euro area headline inflation y/y fell to 1.8% in September, below the ECB's 2% target for the first time since 2021, and core inflation is also moderating. These are likely to allow the ECB to signal further rate cuts, with expectations for another 25bps this month. Meanwhile, economic growth projections remain weak, with the Euro area economy expected to grow only 0.8% this year, raising concerns about further downside risks.

Therefore, we have initiated a bearish EUR/AUD position, supported by the policy divergence between the ECB and RBA. Technically, the pair has been trading below critical moving averages, signalling downward momentum. A retreat to 1.6000 could pave the way for a test of the next support at 1.5840 in the coming month.

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

We expect EUR/AUD downside on ECB and RBA policy divergence

EUR/AUD and technical levels



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

What is the impact of the latest RBI policy on India equities and onshore bonds?

In its latest monetary policy meeting, the Reserve Bank of India surprised markets by shifting its monetary policy stance to 'Neutral' with a unanimous vote, while keeping the policy rate unchanged with a 5:1 majority. This move comes on the back of moderating high frequency economic indicators in Q3, after a lacklustre GDP and earnings growth reported in the previous quarter.

In our view, this move affords RBI the flexibility to remain vigilant on inflation, which it expects to surge in coming months amid food price volatility, while retaining the option to cut policy rates later, should growth concerns persist.

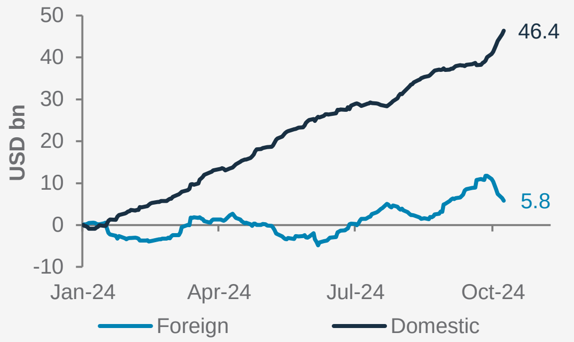
We see this dovish shift as positive for Indian assets. Historically, domestic bond yields decline heading into the start of an RBI easing cycle and continue the downward trend over the next 6-12 months. This supports our preference for India onshore bonds. A gradual decline in real rates from current levels should assuage concerns on India's robust growth and earnings momentum, supporting equities performance. Additionally, narrowing relative valuation premiums after the recent underperformance of Indian equities and low foreign investor positioning support our preference for India's large cap equities.

FTSE Russell's recent inclusion of India into the Emerging Market Government Bond Index (EMGBI) (third global index provider to do so in a year) reinforces our argument on the increasing maturity of, and access to, Indian financial market assets. This allows global investors to diversify across new sources of opportunities in India's large and liquid capital markets while being selective in risk taking.

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

Foreign investor flows into Indian equities remain volatile; record domestic flows provide resilience

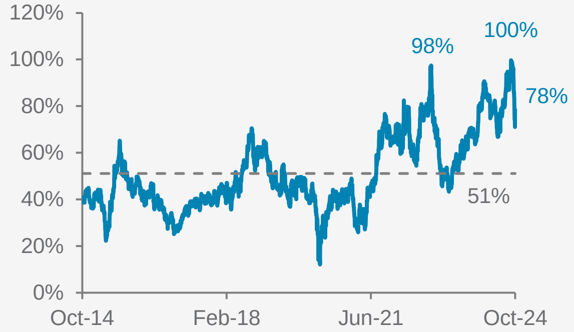
YTD 2024 cumulative flows into Indian equities (USD bn)



Source: Bloomberg, Standard Chartered

India's valuation premiums over peers have narrowed from peak levels

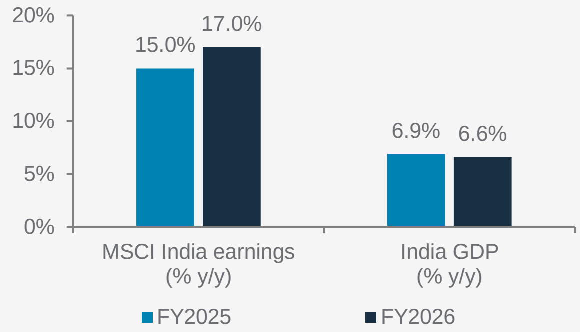
MSCI India valuation premium over MSCI Asia-ex-Japan (12-month forward PE)



Source: Bloomberg, Standard Chartered

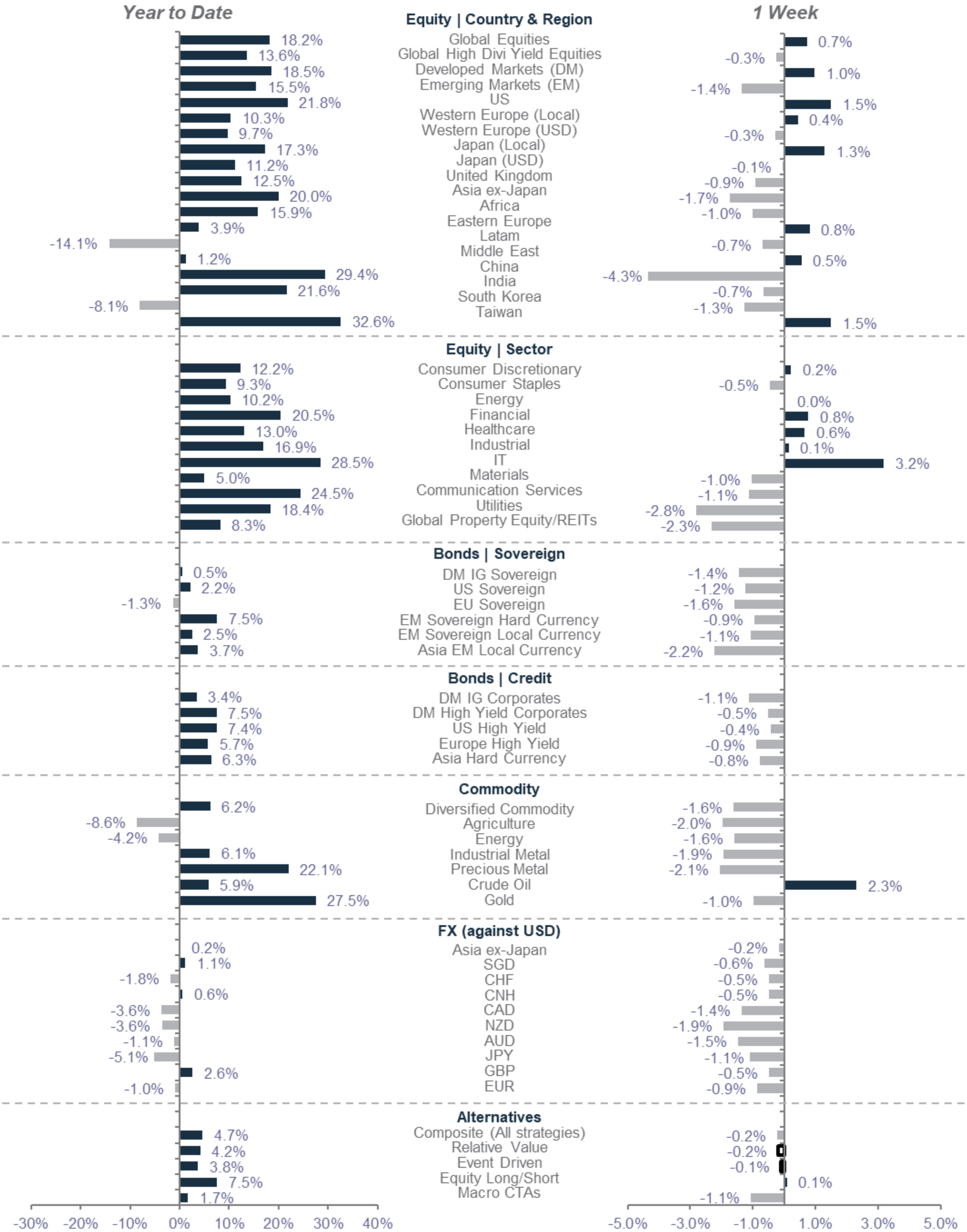
India's growth and earnings outlook remain strong

MSCI India earnings and GDP growth estimates



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 10 October 2024; 1-week period: 3 October 2024 to 10 October 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	◆	US Financials	▲
Japan	◆	Europe Healthcare	▲
Other EM	◆	China Healthcare	▲
		China Communication	▲
Bonds (Credit)	◆	China Discretionary	▲
Asia USD	◆	China Technology	▲
Corp DM HY	◆	India Financials	▲
Govt EM USD	◆	India Industrials	▲
Corp DM IG	◆	India Staples	▲
Bonds (Govt)	◆	**Alternatives**	◆
Govt EM Local	◆		
Govt DM IG	◆	**Gold**	▲

Source: Standard Chartered Global Investment Committee

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

Economic and market calendar

	Event	Next week	Period	Expected	Prior
MON	CH	Trade Balance	Sep	$91.0b	$91.02b
TUE	JN	Industrial Production m/m	Aug F	–	-3.3%
	UK	Unemployment Rate	Aug	–	4.1%
	UK	Jobless Claims Change	Sep	–	23.7k
	EC	ZEW Survey Expectations	Oct	–	9.3
	EC	Industrial Production SA m/m	Aug	–	-0.3%
	CA	CPI y/y	Sep	1.9%	2.0%
WED	NZ	CPI q/q	3Q	–	0.4%
	UK	CPI y/y	Sep	–	2.2%
THU	AU	Employment Change	Sep	22.3k	47.5k
	AU	Unemployment Rate	Sep	4.2%	4.2%
	EC	CPI y/y	Sep F	–	2.2%
	EC	ECB Deposit Facility Rate	17-Oct	–	3.5%
	US	Retail Sales Advance m/m	Sep	0.2%	0.1%
	US	Initial Jobless Claims	12-Oct	–	--
	US	Industrial Production m/m	Sep	-0.1%	0.8%
FRI/SAT	JN	Natl CPI y/y	Sep	2.5%	3.0%
	CH	GDP y/y	3Q	4.6%	4.7%
	CH	Industrial Production y/y	Sep	4.7%	4.5%
	CH	Retail Sales y/y	Sep	2.6%	2.1%
	CH	Fixed Assets Ex Rural YTD y/y	Sep	3.3%	3.4%
	UK	Retail Sales Inc Auto Fuel m/m	Sep	–	1.0%
	US	Housing Starts	Sep	1349k	1356k

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

The S&P500 has next interim resistance at 5,916

Technical indicators for key markets as of 10 October close

Index	Spot	1st support	1st resis-tance	12m forward P/E (x)	*12m forward dividend yield (%)
S&P500	5,780	5,526	5,916	21.8	1.4
STOXX 50	4,970	4,780	5,116	13.6	3.7
FTSE 100	8,238	8,148	8,349	11.8	3.9
Topix	2,713	2,563	2,807	14.5	2.5
Shanghai Comp	3,302	2,770	3,754	12.3	3.2
Hang Seng	21,252	17,730	24,008	9.7	3.7
Nifty 50	24,998	24,369	25,952	20.8	1.5
MSCI Asia ex-Japan	755	695	798	13.3	2.5
MSCI EM	1,157	1,078	1,215	12.4	2.9
WTI (Spot)	75.9	67.9	81.1	na	na
Gold	2,630	2,525	2,710	na	na
UST 10Y Yield	4.06	3.73	4.25	na	na

Source: Bloomberg, Standard Chartered; *as at close of 10-Oct-24
Note: These short-term technical levels are based on models and may differ from a more qualitative analysis provided in other pages

Investor diversity has normalised across asset classes

Our proprietary market diversity indicators as of 10 Oct close

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	◐	→	1.41
Global Equities	●	↑	1.65
Gold	◐	↓	1.35
Equity			
MSCI US	●	↑	1.67
MSCI Europe	●	↑	1.72
MSCI AC AXJ	●	→	1.56
Fixed Income			
DM Corp Bond	◐	→	1.41
DM High Yield	◐	→	1.26
EM USD	◐	→	1.33
EM Local	◐	→	1.38
Asia USD	◐	→	1.39
Currencies			
EUR/USD	●	↑	1.65

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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FROM THE CIO'S DESK

PRESENTED BY

Steve Brice
Global Chief Investment Officer

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