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WS Global CIO Office
14 March 2025

Weekly Market View

Where is the Trump put?

→ Recent comments from US President Trump confirm our concerns raised two weeks ago that the administration may tolerate a moderate economic slowdown if that helps achieve its primary objective of lowering bond yields. The tolerance of short-term pain raises the risk of further 4-5% US stock market downside.

→ We believe any such pullback is likely to create an opportunity for long-term investors as Trump is likely to reverse some of his contentious policies as the pain threshold is reached. History shows equities typically generate positive returns 6-12 months after a 10% drawdown, even if there is a recession.

→ While our base case is 'no-recession', conservative investors can protect any equity downside via US government bonds, defensive equity sectors and alternative market-neutral strategies in a diversified portfolio.

→ Exposure to non-US assets, including the haven JPY and cheaper Europe and China equity markets, which should benefit from increased fiscal spending, may help reduce portfolio volatility. Gold and commodities likely to do well in a stagflation scenario.

How should we position in China's technology sector ahead of the earnings season?

Historically, what were the 6- and 12-month returns after a 10% pullback in US equities?

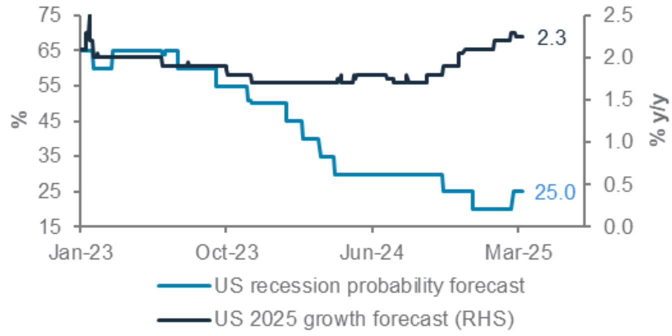
What is the JPY's outlook as Japan's government bond yields surge to 17-year highs?

Charts of the week: Short-term pain vs. long-term gain

US equities have corrected amid concern President Trump is willing to tolerate short-term pain to push his policy agenda

S&P500 index, with key support and resistance levels*

US one-year recession probability and 2025 growth estimate**



Source: Bloomberg, Standard Chartered; *based on our technical model; **based on consensus estimates

Editorial

Where is the Trump put?

Two weeks ago, we raised the prospect in these columns that President Trump may tolerate a moderate economic slowdown if that helps him achieve his primary objective of lowering bond yields. Lower bond yields and a weaker USD will help him implement proposed tax cuts and other pro-growth policies. Recent comments from Trump and his Treasury Secretary Bessent confirm our concerns. The tolerance of short-term pain raises the risk of further 4-5% US stock market downside. We believe any such pullback is likely to create an opportunity for long-term investors as Trump is likely to reverse some of his contentious policies as the pain threshold is reached.

Short-term pain. The S&P500 index has undergone a 10% peak-to-trough correction since its record high on 19 February, breaking below its 200-day moving average. The primary driver is concern that Trump's agenda, including deregulation and cutting government waste, using tariffs to win concessions and investments and curbing immigration, are starting to hurt consumer and business confidence. Trump's latest comment, "What I have to do is build a strong country….you can't really watch the stock market", suggests he is willing to risk short-term pain to pursue his policy agenda. This suggests further near-term downside for US stocks. On technical charts, the S&P500 index has next support at 5,302, followed by 5,082.

Long-term gain. The US equity drawdown is an opportunity for long-term investors. This week's data shows the US job market remains healthy. Disinflation continued in February. A healthy job market should support consumption (retail sales data next week should show a bounce back from January's weather-related slump). Add to that easing financial conditions due to the sharp decline in bond yields and the USD and we see still-low risk of a near-term recession. Although the Fed is likely to hold rates next week, it has enough leeway to cut rates if growth slows sharply. We also expect Trump to extend personal tax cuts expiring this year and reverse his hawkish fiscal spending and trade policies if equity markets fall another 5%.

Hedging risks. While our base case is 'no-recession', conservative investors can protect any equity downside via US government bonds, defensive equity sectors and alternative market-neutral strategies in a diversified portfolio. Exposure to non-US assets, including the haven JPY and cheaper Europe and China equity markets, which should benefit from increased fiscal spending, may help reduce portfolio volatility. We remain bullish on gold on structural demand from central banks. Gold and commodities are likely to do well in a stagflation scenario.

Europe's improving prospects. Trump's pressure on Europe to boost regional defence spending as he forced Ukraine to agree to a ceasefire with Russia is likely to lead to far-reaching changes. One of the fallouts is Germany's incoming coalition partners proposing to ease constitutional debt limits to enable higher defence and infrastructure spending. While they still require the support of other parties for the two-thirds majority needed to make constitutional changes, these developments are potentially structurally positive for Europe's growth outlook.

Use pullbacks to build Europe exposure. European equities and EUR have benefitted this year as investors rotated away from more expensive US equities and reduced their bearish positions on Europe as the region's prospects improved. However, European assets are showing signs of fatigue, with increasing risk of a near-term pullback. Investors with no exposure to the region could use any such reversal and a bounce in the USD to build positions in European equities.

Renewed optimism about China's technology sector. The emergence of China's low-cost AI-powered chatbot DeepSeek has boosted its technology sector. This was followed by President Xi's rare meeting with private sector business leaders and the National People's Congress prioritising technology and the digital economy. These developments suggest regulators are turning more supportive of private businesses. They support our overweight stance on China's technology and communication services sectors and our opportunistic view on the Hang Seng Technology index (see page 4).

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

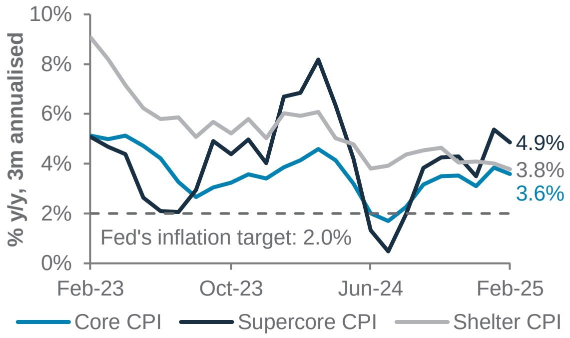
(+) factors: Softer US inflation, potential Ukraine-Russia ceasefire

(-) factors: Rising US unemployment, China deflationary pressures, rising tariff risks

	Positive for risk assets	Negative for risk assets
Macro data	• US headline and core consumer inflation fell more than expected to 2.8% y/y (0.2% m/m) and 3.1% (0.2% m/m) • US headline and core producer inflation eased more than expected to 3.2% y/y and 3.4% y/y respectively • US JOLTS job openings rose unexpectedly to 7.74mn • Euro area Sentix investor confidence fell less than expected to -2.9	• US unemployment rate rose unexpectedly to 4.1% • US non-farm payrolls rose less than expected by 151,000 • US NFIB small business optimism missed expectations at 100.7 • China consumer and producer price inflation came below expected at -0.7% y/y and 2.2% y/y respectively
	Our assessment: Neutral – Softer US inflation vs. rising US unemployment rate, China deflationary pressures	
Policy developments	• Bank of Canada cut its key rate by 25bps as expected	• ECB's board member signaled potential rate cut pause given persistent inflation risks
	Our assessment: Negative – Likely pause in ECB rate cuts	
Other developments	• Ukraine agreed to a 30-day ceasefire as US resumed aid and intelligence sharing with Ukraine • The US walked back 50% tariffs on Canadian steel and aluminium after Ontario agreed to suspend a 25% surcharge on electricity exports to US	• US imposed 25% tariffs on steel and aluminum imports • Trump vowed to respond to EU's retaliatory tariffs after EU unveiled tariffs against US steel and aluminium • Trump threatened 200% tariff on EU wine imports
	Our assessment: Negative – Rising trade risks	

US inflation eased more than expected in February, although still-elevated levels are likely to keep the Fed on hold at next week's meeting

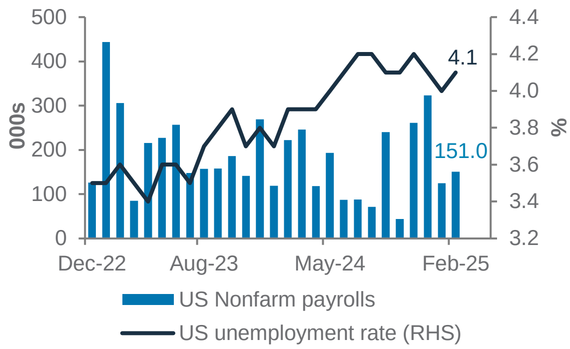
US core, supercore and shelter inflation



Source: Bloomberg, Standard Chartered

US unemployment rate rose in February, but remained below the Fed's 4.2% long-run target, while job creation missed expectations

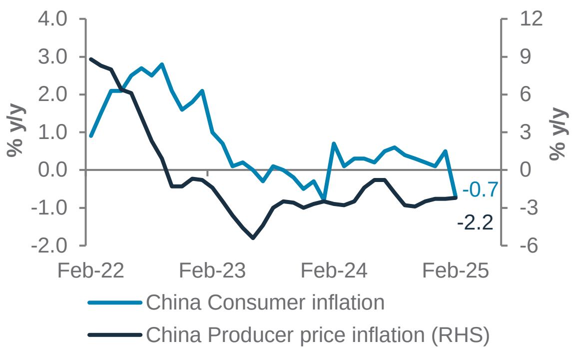
US non-farm payrolls, unemployment rate



Source: Bloomberg, Standard Chartered

China's consumer inflation fell back to negative territory, while producer price deflation continued

China consumer and producer price inflation



Source: Bloomberg, Standard Chartered

Top client questions

How should we position ahead of the earnings release of major Chinese tech and e-commerce companies?

We remain Overweight China's technology and communication services sectors ahead of the earnings releases, driven by rising AI adoption and developments on lower-cost large language models. Projected EPS growth for the sectors are -14.5% and 30.9%, respectively in 2024, followed by 58% and 10.9% in 2025.

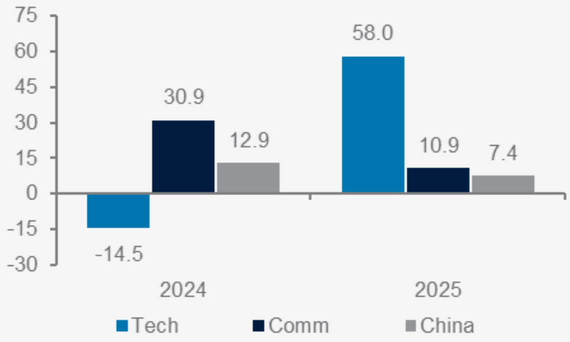
While we remain Neutral China equities within Asia ex-Japan on a 6–12-month horizon on deflation and tariff concerns, we see a slew of catalysts to support growth sector stocks. For instance, officials' prioritisation of technology development in the NPC meeting, with a pledge to raise the core output of the digital economy and continued investments in the private sector, should bolster investor sentiment.

Potential fiscal policies to boost consumption and the integration of AI functions are likely to support top-line growth across e-commerce platforms. Despite the valuation re-rating since mid-January, China's communication services sector is still trading at a 11.9% discount vs the US. We also maintain our opportunistic buy idea on the Hang Seng Technology index.

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

China technology and communication services sectors' earnings are expected to exceed the broader market in 2025

Consensus EPS growth projections for MSCI China, MSCI China Technology, and MSCI China Communication Services indices in 2024-25



Source: FactSet, Standard Chartered

Where do you see opportunity for bond investors?

US government bonds are benefiting as investors seek safer, less risky assets. The 10-year US government bond yield is 4.3%, down from 4.6% in February. The market is now implying nearly 1% in policy rate cuts by end-2025. Amid the uncertainty surrounding Trump and his tariff policies, the market has begun to price in a potential recession, which is likely another factor driving US yields lower. However, a US recession is not our base case, which means the downside to bond yields appears limited. Against this backdrop, our Overweight to DM High Yield bonds holds, as we expect the economy to remain robust enough to keep default risks contained.

In a more risk-off scenario, we recommend our opportunistic buy idea in Agency Mortgage-Backed Securities (MBS). We view this as an attractive yield pick-up over US government bonds. Agency MBS have a very high correlation with risk-free US government bonds and should benefit in a similar manner under risk aversion.

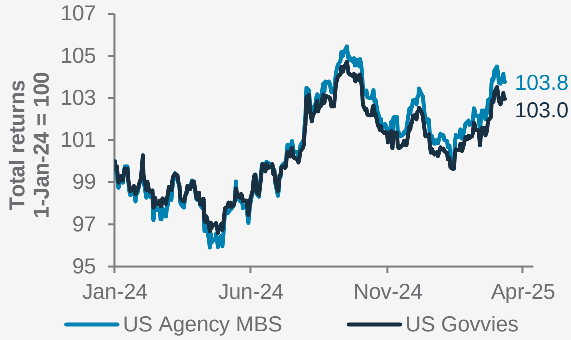
Closing bullish Euro Government Bond opportunistic idea

While we continue to expect the European Central Bank (ECB) to implement two more cuts this year, the recent shift in expectations and the volatility in bond yields have made the risk-reward of our European government bond (FX-hedged) opportunistic buy idea less favourable. We are closing this buy idea for a small 1.5% gain.

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

US agency mortgage-backed securities are likely to benefit in a risk-off scenario

Total returns of US agency asset-backed securities vs. US government bonds



Source: Bloomberg, Standard Chartered

We close our bullish Euro area government bond opportunistic idea

Euro area government bond total return (FX hedged)

Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Japan's 10-year government bond yield has risen to a 17-year high. What is your JPY outlook and positioning strategy?

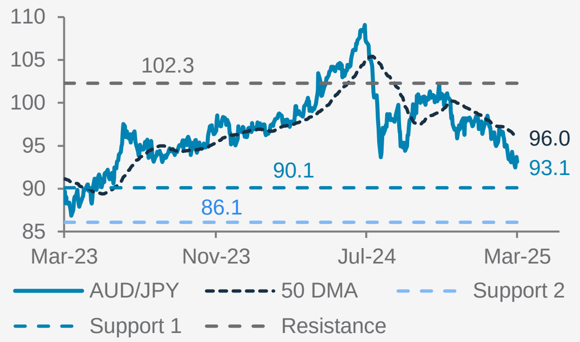
Japan's 10-year government bond yield has risen to its highest level since 2008, despite Japan Q4 2024 GDP growth coming in at 0.6%, slightly below consensus forecasts. USD/JPY has remained below all key moving averages for nearly a month. Given the prevailing risk-off sentiment, the pair is likely to be reinforced to test lower at 144.9. With increasing uncertainty surrounding US tariff policies, we see better risk-adjusted opportunities in JPY crosses. In particular, AUD/JPY presents an attractive set-up lately, in our opinion.

Despite Australia's economic growth surpassing expectations, marking its first acceleration in over a year, consumer inflation expectations declined to 3.6% in March from 4.6% in February. Meanwhile, Australia has opted not to impose retaliatory tariffs in response to new US duties on aluminium and steel, as Prime Minister Anthony Albanese emphasised such measures could raise domestic costs and fuel inflation. We see softer inflation ahead likely to support a dovish tilted RBA. Should AUD/USD break below its 50-day moving average at 0.6270, short-term downside momentum could strengthen, potentially driving the pair toward the five-week low of 0.6187. Overall, this scenario could favour a bearish AUD/JPY, particularly if risk sentiment remains fragile.

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

AUD/JPY trading in downtrend channel; further downside likely

AUD/JPY and technical levels



Source: Bloomberg, Standard Chartered

Historically, what were the 6- and 12-month returns following a 10% decline in US equities from its peak? Which sectors would be most impacted if sentiment worsens?

Since 1970, we have seen 24 instances of the S&P500 index correcting by more than 10% from its all-time high. Such corrections were followed by a recession in the next 6 months in only 7 instances. After a correction that is followed by a recession, the S&P500 would go on to deliver an average return of 2.3% / 1.9% over the next 6 / 12 months. If the correction is not followed by a recession, the average returns are 10.8% / 14.4% over the next 6 / 12 months. Unconditionally, the S&P500 delivers an average return of 4.6% / 9.4% over a 6 / 12 months period. Overall, we can infer that a recession occurs in the minority of cases following such pullbacks. US equities generally go on to deliver better than usual returns following a 10% pullback if the economy can avoid a recession, but as expected, returns would be lower if a recession materialises.

Typically, technology and consumer discretionary would be the most volatile sectors (highest beta) compared to the market while the consumer staples and utilities sectors would be the least volatile. Our current preference in the US are for technology software companies, that we see as less impacted by the trade war. In addition, we favour the communication services sector, small caps and US banks.

— **Fook Hien Yap**, *Senior Investment Strategist*
— **Jason Wong**, *Equity analyst*

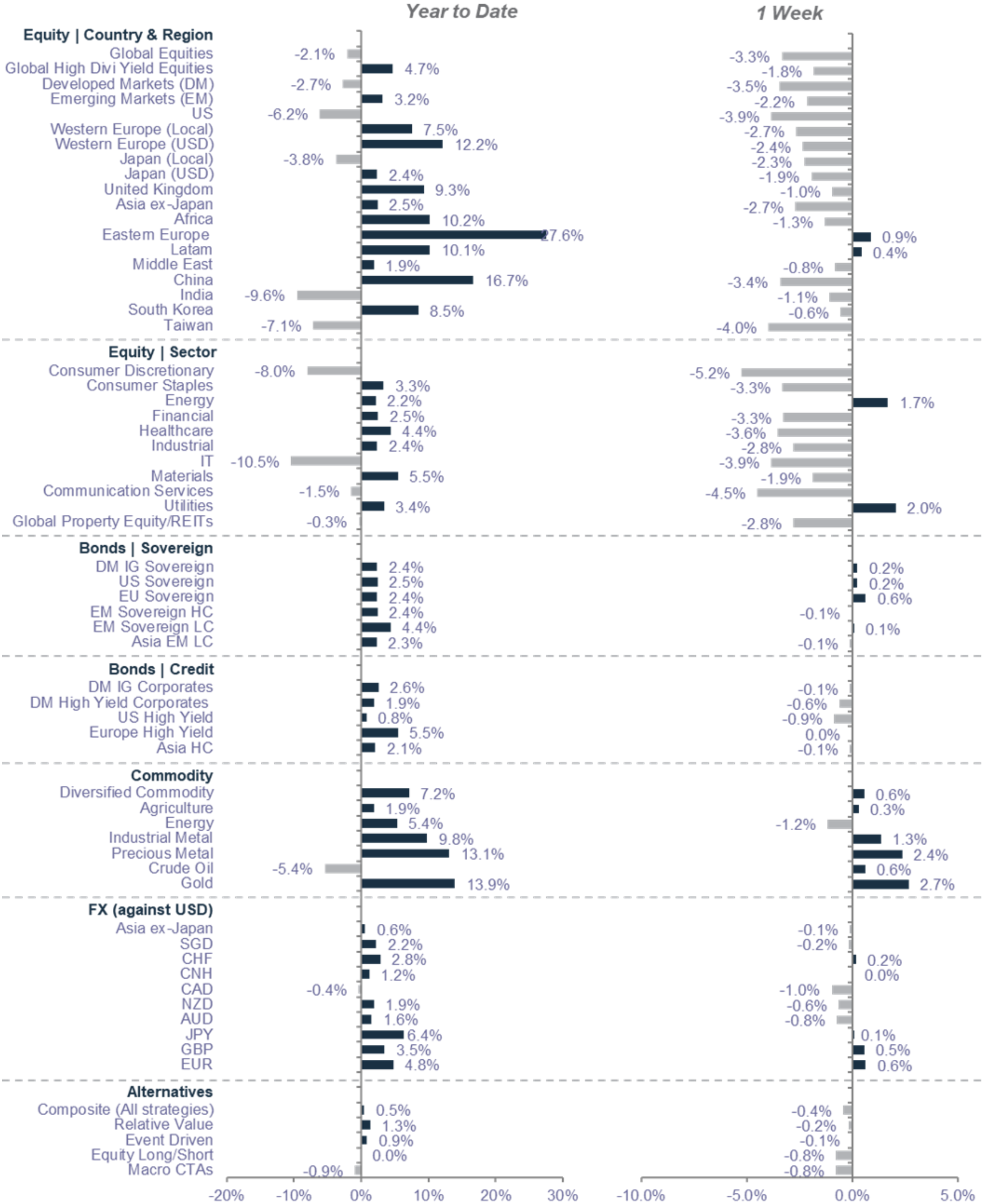
A US recession follows a 10% equity pullback in the minority of cases; following such a pullback, US equities typically go on to deliver better than usual returns if the economy avoids a recession

S&P500 returns following a 10% pullback from its all-time highs

Scenario	Occurrence	6-month returns	12-month returns
Recession	7	2.3%	1.9%
No-recession	17	10.8%	14.4%
All pullbacks	24	8.3%	10.8%
Unconditional	–	4.6%	9.4%

Source: Bloomberg, Standard Chartered
*A recession scenario includes pullbacks during an NBER-designated US recession and pullbacks where a recession occurs in the next 6 months

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 13 March 2025; 1-week period: 6 March 2025 to 13 March 2025

Our 12-month asset class views at a glance

Asset class			
Equities	▲	**Preferred Sectors**	
US	▲	US Technology	▲
Europe ex-UK	▼	US Communication	▲
UK	◆	US Financials	▲
Asia ex-Japan	◆	Europe Communication	▲
Japan	◆	Europe Technology	▲
Other EM	◆	Europe Healthcare	▲
		Europe Financials	▲
Bonds (Credit)	◆	China Technology	▲
Asia USD	◆	China Communication	▲
Corp DM HY	▲	China Discretionary	▲
Govt EM USD	◆	India Industrials	▲
Corp DM IG	◆	India Financials	▲
		India Technology	▲
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

	Market	Event	Period	Expected	Prior
MON	USD	Empire Manufacturing	Mar	-2.0	5.7
	USD	Retail Sales Control Group	Feb	0.5%	-0.8%
	USD	Business Inventories	Jan	0.3%	-0.2%
TUE	USD	Housing Starts	Feb	1383k	1366k
	CAD	CPI y/y	Feb	–	1.90%
	USD	Building Permits	Feb P	1450k	1473k
	USD	Industrial Production m/m	Feb	0.3%	0.5%
	USD	Capacity Utilization	Feb	77.8%	77.8%
WED					
THU	USD	FOMC Rate Decision (Upper Bound)	19-Mar	4.5%	4.5%
	CNH	1-Year Loan Prime Rate	20-Mar	3.1%	3.1%
	EUR	Construction Output y/y	Jan	–	-0.1%
	GBP	Bank of England Bank Rate	20-Mar	–	4.5%
	USD	Initial Jobless Claims	15-Mar	–	–
	USD	Continuing Claims	8-Mar	–	–
	USD	Philadelphia Fed Business Outlook	Mar	12.0	18.1
	USD	Leading Index	Feb	-0.1%	-0.3%
	USD	Existing Home Sales	Feb	3.92m	4.08m
FRI/SAT	EUR	Consumer Confidence	Mar P	–	-13.6

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 support at 5,302

Technical indicators for key markets as of 13 March close

Index	Spot	1st support	1st resistance	12m forward P/E (x)	*12m forward dividend yield (%)
S&P500	5,522	5,302	5,944	20.0	1.5
STOXX 50	5,328	5,226	5,500	14.7	3.3
FTSE 100	8,543	8,380	8,807	12.0	3.8
Topix	2,698	2,616	2,785	14.1	2.7
Shanghai Comp	3,359	3,307	3,402	12.1	3.2
Hang Seng	23,463	21,605	24,995	10.3	3.4
Nifty 50	22,397	21,778	23,203	18.2	1.7
MSCI Asia ex-Japan	720	702	743	12.9	2.6
MSCI EM	1,106	1,079	1,141	12.1	3.0
WTI (Spot)	66.6	63.3	71.7	na	na
Gold	2,989	2,885	3,041	na	na
UST 10Y Yield	4.27	4.03	4.58	na	na

Source: Bloomberg, Standard Chartered; *as at close of 13-Mar-25
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 13 Mar close

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↑	1.72
Global Equities	◐	→	1.48
Gold	◐	↓	1.30
Equity			
MSCI US	◐	→	1.38
MSCI Europe	◐	↓	1.38
MSCI AC AXJ	●	↑	1.91
Fixed Income			
DM Corp Bond	●	→	1.70
DM High Yield	●	→	1.69
EM USD	●	↑	1.86
EM Local	●	↓	1.51
Asia USD	●	↓	1.61
Currencies			
EUR/USD	◐	→	1.43

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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InvesTips from the CIO's desk

Presented by:

Steve Brice

Global Chief Investment Officer, Standard Chartered Bank

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