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WS Global Chief Investment Office
26 July 2024

Weekly Market View

Will the Fed come to the rescue?

→ The US has led global equity markets lower on some mega-cap earnings disappointments. However, the Fed is likely to signal rate cuts, perhaps as soon as next week. We see an opportunity to average into US equities

→ After a sharp pullback, the US technology sector is starting to look attractive once again, especially with the sector delivering stronger-than-expected earnings

→ The PBoC's latest rate cut is likely to have little impact on offshore bonds. We continue to prefer China USD bonds amid tightening supply

→ Gold has pulled back on higher bond yields. Further downside is likely limited as the Fed starts to cut rates

→ India's budget focussed on fiscal consolidation and infrastructure spending. Robust earnings growth should continue to drive large cap equity outperformance. Fiscal consolidation is positive for INR government bonds

What are the key takeaways from US Q2 earnings season so far?

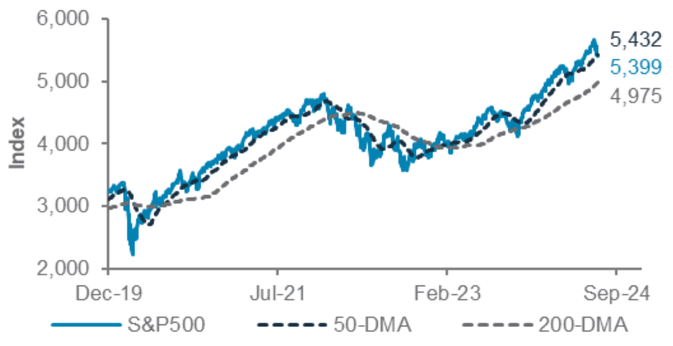
What is the outlook for commodity currencies and gold after the recent slide?

What are the implications of India's budget on local equities and bonds?

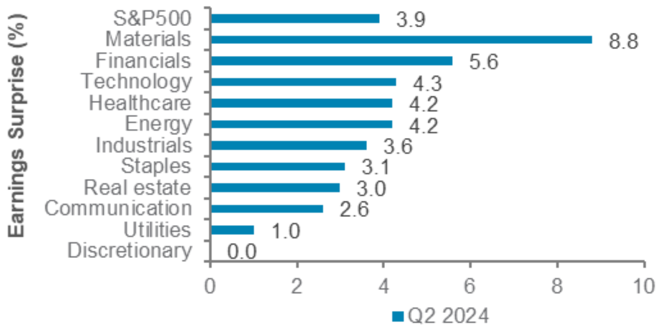
Charts of the week: A pullback was overdue

Stretched investor positioning in US equities presaged a pullback; Fed rate cuts and earnings should provide support

S&P500 index and 50- and 200-day moving averages



S&P500 index Q2 2024 earnings surprise factor*



Source: Bloomberg, LSEG I/B/E/S, Standard Chartered; *as of 25 July 2024

Editorial

Will the Fed come to the rescue?

A pullback in US equities was overdue after a rally since April's lows led to excessively bullish investor positions. The US has led global equities lower over the past week on some mega-cap earnings disappointments. However, the Fed is likely to signal rate cuts as soon as next week. Meanwhile, the US technology and financial sectors have beaten earnings expectations.

We see an opportunity to average into US equities, especially in the technology sector. We also see near-term opportunities in the US banking sub-sector after strong Q2 earnings. While the US presidential race has tightened again after President Biden withdrew and nominated Vice President Harris as the Democrat candidate, Republican former President Trump continues to lead the polls. A Trump presidency would likely lead to a deregulation of the financial sector.

Looking to buy the US equity dip: The past week's pullback in US equities needs some perspective. The S&P500 had surged almost 14%, and the technology sector-heavy Nasdaq 100 index had jumped almost 22%, since April's lows. By late June, technical indicators suggested US equity markets were overbought. Our indicator of investor diversity showed US equities, especially the technology sector, had become over-crowded, leading us to warn two weeks ago not to chase the rally. It took a few earnings misses at some mega-cap companies for the market to pare back.

With the past week's pullback, the US equity market is starting to look attractive once again. The S&P500 has fallen below its 50-day moving average, with subsequent technical support levels around 5,342 and 5,256. Investor diversity has normalised, while our technical model remains bullish (although momentum and volatility indicators turned neutral and volume indicators turned bearish). The US technology sector remains one of our preferred areas in the US, especially with the sector delivering stronger-than-expected Q2 earnings (see page 4).

Fed rate cuts coming: We expect the Fed to signal the first rate cut of the cycle as soon as its policy meeting next week as it shifts its focus from curbing inflation to supporting growth. US inflation has continued to cool after a brief surge in Q1 and economic activity data has fallen short of estimates since May, with labour and housing markets softening.

Although Q2 GDP growth (2.8% q/q annualised) beat estimates on the back of strong consumption, a softening job market has increased the urgency for the Fed to act to prevent a further rise in the unemployment rate. We now expect the Fed to cut rates twice this year, likely in September and then in Q4, as it seeks to manage an economic soft-landing. Fed rate cuts are likely to put a floor under US equities, with the dovish policy shift particularly benefitting the rate-sensitive growth sectors.

Limited downside in gold: Gold has pulled back on higher bond yields. We believe further downside is likely limited as the Fed cuts rates. Sustained purchases by Emerging Market central banks remain a structural driver of gold prices. Gold has strong technical support just below USD 2,300/oz (see page 6).

India's budget positive for equities, INR bonds: The first budget of Prime Minister Modi's third term was expected to deliver a boost to consumption. Instead, the budget focussed on fiscal consolidation, with the fiscal deficit target for the current financial year set at 4.9% versus last year's 5.1%. The budget retained its focus on infrastructure spending, while boosting spending in the rural and agricultural sectors.

Sustained government capital expenditure is likely to fuel India's robust earnings growth, driving the further outperformance of large cap equities. Fiscal consolidation is positive for INR government bonds (see page 5).

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

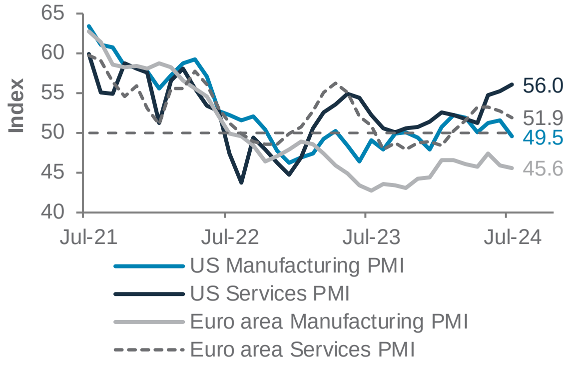
(+) factors: Dovish Fed, PBoC; resilient US services

(-) factors: Lack of stimulus at China's Third Plenum; weak US manufacturing, home sales

	Positive for risk assets	Negative for risk assets
Macro data	• US services PMI rose more than expected to 56.0 • US Chicago Fed National Activity index slowed less than expected • UK manufacturing PMI rose more than expected to 51.8 • Euro area M3 money supply rose more than expected	• US manufacturing PMI fell unexpectedly to 49.5 • US home sales fell more than expected • US durable goods orders slumped unexpectedly • Euro area manufacturing and services PMI fell unexpectedly to 45.6 and 51.9, respectively • UK services PMI rose less than expected to 52.4 • UK retail sales fell more than expected
	Our assessment: Negative – Weak US manufacturing activity, housing market, Euro area PMI	
Policy developments	• Former New York Fed chief Dudley called for Fed to start cutting rates to avoid a recession • PBoC cut the 7-day repo rate and 1-year MLF rate by 10bps and 20bps, respectively • India announced a narrower-than-expected budget deficit goal	• China's Third Plenum offered little new cyclical policy support • India proposed to hike capital gains taxes
	Our assessment: Neutral – Dovish Fed, PBoC versus no new stimulus at China's Third Plenum	
Other developments	• US President Biden withdrew from the US presidential election and endorsed his Vice President Harris as the new Democrat candidate	• Global IT outage disrupted airline and banking services
	Our assessment: Positive – Harris has narrowed the gap with Trump. A Harris presidency could ease geopolitical uncertainty	

US services sector activity beat estimates, but US and Euro area manufacturing and Euro area services underwhelmed in July

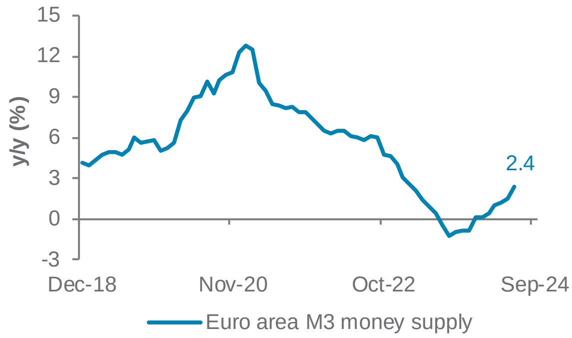
US and Euro area services and manufacturing PMIs



Source: Bloomberg, Standard Chartered

Euro area money supply continued to improve along with a recovery in consumer confidence

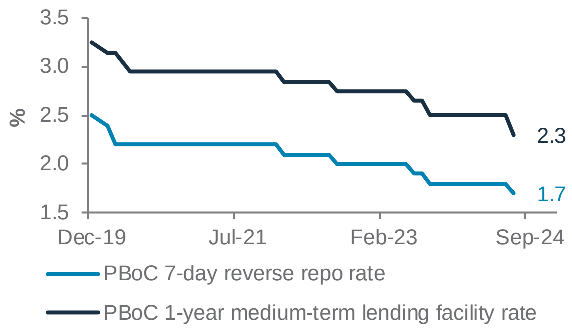
Euro area M3 money supply growth



Source: Bloomberg, Standard Chartered

China cut interest rates to support growth after a weaker-than-expected economic expansion in Q2

PBoC 7-day reverse repo rate, 1-year medium-term lending facility



Source: Bloomberg, Standard Chartered

Top client questions

What are the key takeaways from the US Q2 earnings season so far?

US earnings have been robust. According to LSEG I/B/E/S, of the 181 companies that have reported earnings so far, the S&P500 index has delivered earnings growth of 11.8% in Q2, while earnings in the communication services and information technology sectors outperformed significantly, at 23.9% and 17.9%, respectively.

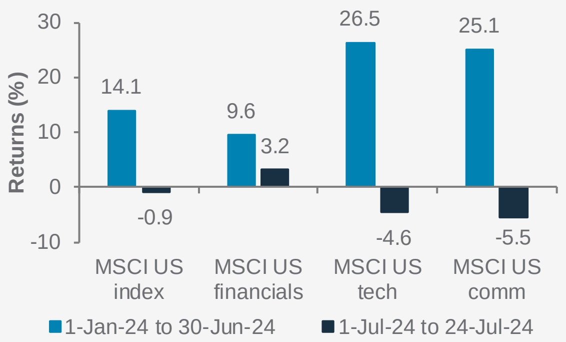
Investors should consider scaling into the current correction in both sectors. In the long term, we see tailwinds, including the growing AI investments, penetration of cloud computing and strong momentum in online entertainment trends, supporting pricing power and sales volume across mega-cap growth stocks. Consensus earnings growth expectations for Q2 for the communication services and IT sectors have also been revised higher since the start of July.

There are near-term opportunities in US financials, with robust earnings growth in Q2, and an earnings surprise of 5.6% (ahead of the broader SPX index of 3.9%). The sector is also a potential beneficiary if Donald Trump, as an advocate of financial sector deregulation, wins the US Presidential election, as polls still suggest is likely despite Kamala Harris' entry into the race.

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

US financial sector equities have outperformed in July on the back of strong earnings beats

US equity market sector returns



Source: Bloomberg, Standard Chartered

Does China's surprise rate cut affect the outlook for China USD bonds and equities?

This week, the PBoC cut key policy rates, including a 10bps reduction in the seven-day repo rate on Monday, followed by a 20bps cut in its medium-term lending facility (MLF) rate on Thursday, bringing the latter to its lowest level since April 2020. The China government bond yield curve bull steepened, with the 10-year China government bond yield edging to a historical low of 2.18%. We believe the PBoC will continue to guide yield curve steepening. Recent policies, such as reducing the collateral required for MLF to encourage long bond selling in the secondary market, supplement the bond-borrowing scheme launched two weeks ago.

Moving forward, the central bank will likely remain gradual in adjusting dovish policies to support the real economy. Onshore yields are likely to stay anchored, creating a favourable interest rate differential backdrop for offshore bonds. We retain our tactical buy on China USD bonds. For equities, data continues to suggest that onshore demand remains lacklustre. Additionally, market participants seeking a short-term cure for the economy were left disappointed by the outcome of the Third Plenum. As such, we stay neutral on China equities for now and will watch for developments from the upcoming Politburo meeting.

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

China USD bonds offer significantly more attractive yield than the local currency government bond yield

China USD vs local currency government bond yields

Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

What are the implications of India's budget for local equities and bonds?

The final Union Budget FY25 this week was the first key policy announcement of the government, now in its third term in office. On one hand, the budget saw continuity of past policies, with a broadening focus to address concerns in consumption demand, rural and agriculture development.

However, for equity investors, the hike in long-term and short-term capital gains tax rates (raised to 12.5% from 10.0% and 20% versus 15%, respectively) came as a surprise. Indexation benefits were also withdrawn from all asset classes. The equity markets' immediate response to the announcement was negative.

The government stuck to the path of fiscal consolidation - The budget deficit for FY25 was revised lower to 4.9% of GDP compared to 5.1% in the interim budget, with the commitment to bring down the deficit to 4.5% by FY26 and lower government debt over the medium term.

Overall, the fiscal space afforded by the large RBI dividend (INR 2.1trn) last month helped the government focus on investment-led growth, provide stimulus for the rural economy and agriculture. Some key measures announced in the budget include:

1) **Increased social welfare spending:** Largely directed towards youth-skilling and employment, improving women's participation in the labour force and supporting MSMEs and agriculture

2) **Continued focus on investment-led growth:** Capital expenditure maintained at about 3.4% of GDP for supporting infrastructure, railways and housing for all, developing emerging cities, boosting the manufacturing eco-system and transitioning to renewable energy

3) **Acknowledgement of the need for reforms:** The budget promised to set up a policy framework for long-term economic development to set the scope for the next generation of factor market (land, labour, capital and technology) reforms in conjunction with state governments

Broad-based economic growth should help sustain the strong earnings growth momentum and superior ROEs, supporting our preference for India large-cap equities, where we find valuations more reasonable now compared to earlier peaks.

From a bond market perspective, while a rating upgrade is not imminent, the reduced fiscal deficit target is positive for local currency (LCY) government bonds. We expect bond yields to fall over the next 12-months amid lower government borrowing and steady inflows from foreign index-tracking. Coupled with the attractive yield premium versus its Emerging Market peers, we maintain our opportunistic buy on India LCY government bonds.

— **Ravi Kumar Singh,** *India Chief Investment Strategist*
— **Zhong Liang Han, CFA,** *Investment Strategist*

India's budget focussed on fiscal consolidation, which we believe is positive for INR government bonds

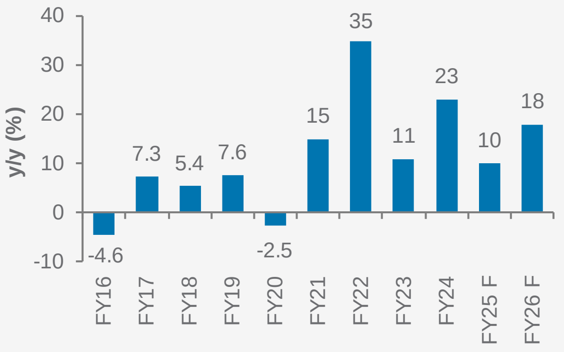
India's budgetary targets for the current and the next financial year

	FY25 BE	FY24 A
Fiscal deficit as % of GDP	4.90%	5.10%
Gross borrowing (INR trn)	14.13	14.01
Disinvestment (INR trn)	0.50	0.50
Gross tax revenue growth	10.80%	13.40%
Expenditure growth	8.50%	5.90%
Capital expenditure growth	17.10%	28.30%
Special outlays (INR)		
Rural developments (INR trn)	2.66	
Agriculture (INR trn)	1.52	
New employment (INR trn)	2.00	
States infra development (INR trn)	1.50	
Housing -PMAY rural (INR trn)	0.55	

Source: Bloomberg, Standard Chartered. BE = Budget estimates; A = Actual; FY25 is the fiscal year ending 31 March 2025

India's strong earnings growth outlook remains the biggest driver of the equity market's outperformance

India's Nifty index earnings growth, actual and consensus estimates



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

What is the outlook for commodity currencies and gold after the recent slide?

We see a divergence among commodity prices recently – base metals slumped, while precious metals showed resilience. The fall in base metals prices is mainly due to the slowdown in China's economy. Base metals, such as copper and aluminium, have experienced significant declines due to reduced demand from China and an increase in metal supply.

In contrast, gold has been buoyed by expectations that the Fed is on the verge of cutting interest rates, most likely by September. This would reduce real interest rates and act as a tailwind for future gold prices.

Furthermore, based on the 2024 Central Bank Gold Reserves (CBGR) survey, 81% respondents expect global central bank gold holdings to increase over the next 12 months.

Finally, India's budget saw the gold import tax cut to 6% from 15%. India is the second largest consumer of the precious metal and this could further spur physical demand in the world's most populous country.

Therefore, we see limited downside for gold. Technically, XAU/USD key support is at USD2270/oz, and we expect the pair to rebound to USD2450/oz in few weeks. Commodity currencies (AUD and NZD) softened amid weak metal prices, but they are likely to find support amid the limited downside risk from gold prices. Technically, both pairs are oversold; key supports for AUD/USD and NZD/USD are at 0.6440 and 0.5850, respectively.

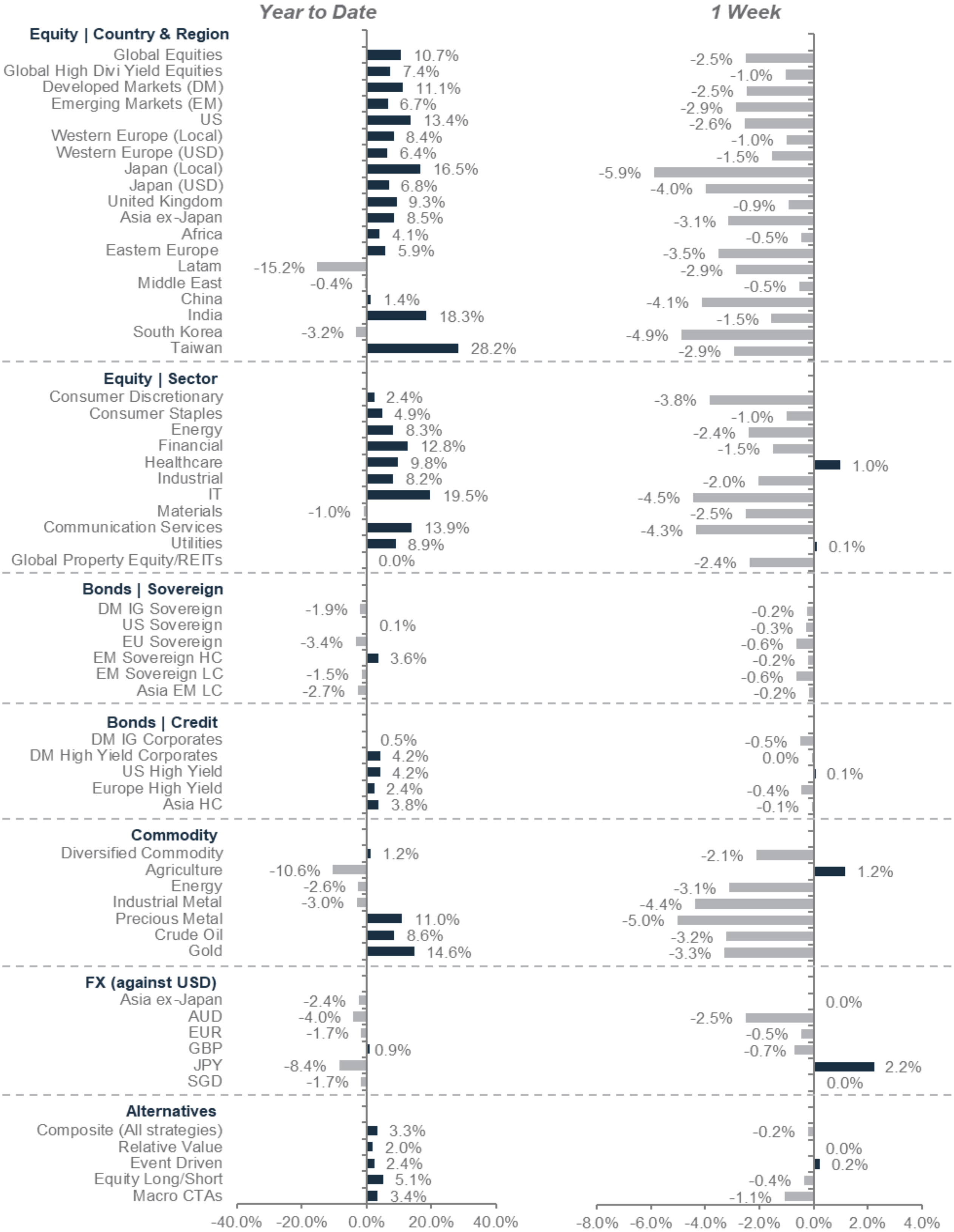
— **Iris Yuen,** *Investment Strategist*

Gold has remained resilient over the past week on expectations that the Fed is on the verge of cutting interest rates; we see limited downside risks

Relative performance of gold and base metals index

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 25 July 2024; 1-week period: 18 July 2024 to 25 July 2024

Our 12-month asset class views at a glance

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

Source: Standard Chartered Global Investment Committee

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

Economic and market calendar

	Event	Next week	Period	Expected	Prior
MON					
TUE	EC	Economic Confidence	Jul	–	95.9
	US	JOLTS Job Openings	Jun	–	8140k
	US	Conf. Board Consumer Confidence	Jul	99.8	100.4
	UK	Nationwide House Px NSA y/y	Jul	–	1.5%
WED	CH	Manufacturing PMI	Jul	–	49.5
	CH	Non-manufacturing PMI	Jul	–	50.5
	EC	CPI Estimate y/y	Jul	–	2.5%
	EC	CPI Core y/y	Jul P	–	2.9%
	US	ADP Employment Change	Jul	170k	150k
	US	Employment Cost Index	2Q	1.0%	1.2%
	US	MNI Chicago PMI	Jul	44.0	47.4
	JP	BOJ Target Rate (Upper Bound)	Jul	0.1%	0.1%
THU	US	FOMC Rate Decision (Upper Bound)	31-Jul-24	5.5%	5.5%
	CH	Caixin China PMI Mfg	Jul	–	51.8
	EC	Unemployment Rate	Jun	–	6.4%
	UK	Bank of England Bank Rate	1-Aug-24	–	5.3%
	US	ISM Manufacturing	Jul	49.0	48.5
	US	ISM New Orders	Jul	–	49.3
FRI/SAT	US	Change in Nonfarm Payrolls	Jul	188k	206k
	US	Unemployment Rate	Jul	4.1%	4.1%

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 5,582

Technical indicators for key markets as of 25 July close

Index	Spot	1st support	1st resis-tance	12m forward P/E (x)	12m forward dividend yield (%)
S&P500	5,399	5,304	5,582	20.8	1.5
STOXX 50	4,811	4,702	4,986	12.9	3.6
FTSE 100	8,186	8,061	8,307	11.7	3.9
Topix	2,710	2,628	2,869	14.6	2.5
Shanghai Comp	2,887	2,838	2,970	10.6	3.6
Hang Seng	17,005	16,541	17,893	8.1	4.6
Nifty 50	24,406	23,694	24,987	20.7	1.5
MSCI Asia ex-Japan	686	673	711	12.7	2.6
MSCI EM	1,074	1,056	1,110	12.0	3.0
WTI (Spot)	78.3	74.7	83.2	na	na
Gold	2,365	2,278	2,468	na	na
UST 10Y Yield	4.24	4.09	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

Investor diversity has normalised across asset classes

Our proprietary market diversity indicators as of 25 July close

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	◐	↓	1.45
Global Equities	◐	↓	1.39
Gold	●	↑	1.63
Equity			
MSCI US	◐	→	1.37
MSCI Europe	●	↓	1.60
MSCI AC AXJ	◐	→	1.46
Fixed Income			
DM Corp Bond	◐	↓	1.44
DM High Yield	◐	↓	1.36
EM USD	◐	↓	1.44
EM Local	◐	→	1.49
Asia USD	◐	↓	1.39
Currencies			
EUR/USD	●	→	1.60

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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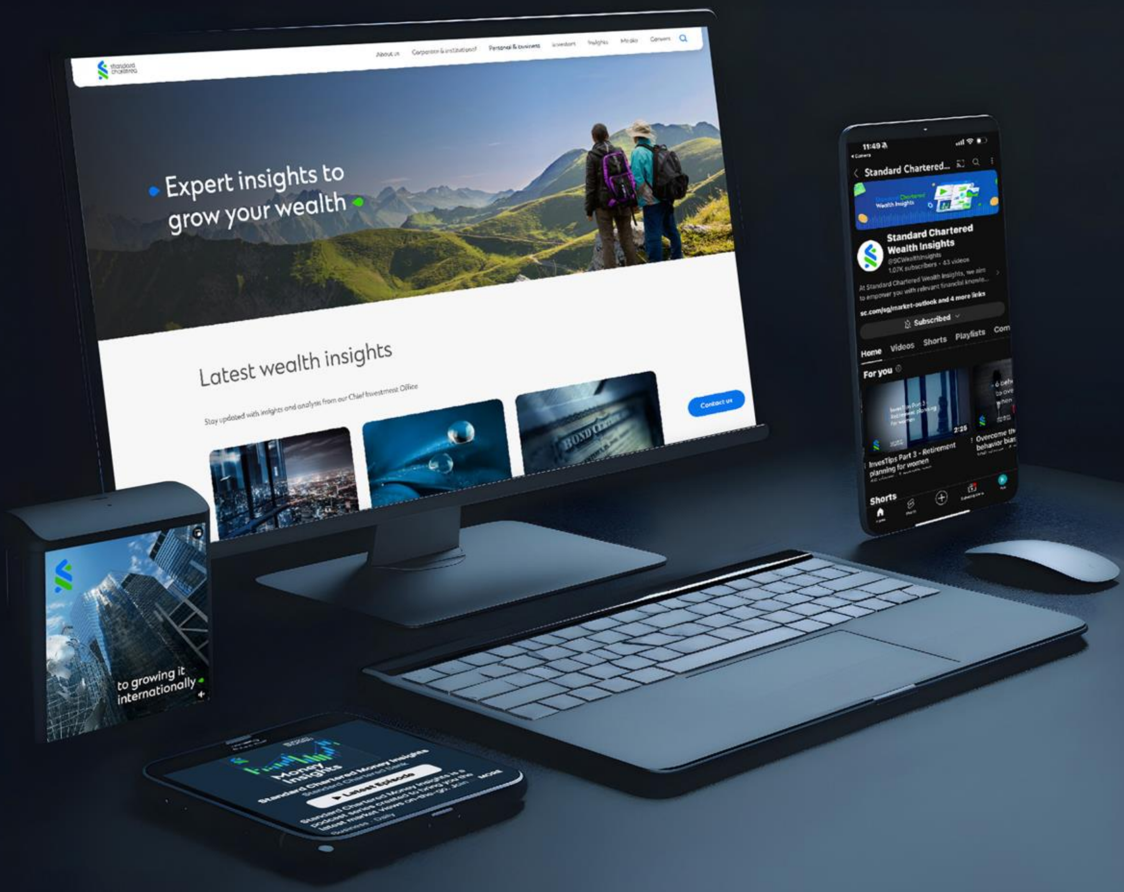

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