



Weekly Market View

What happens when the Fed raises rates?

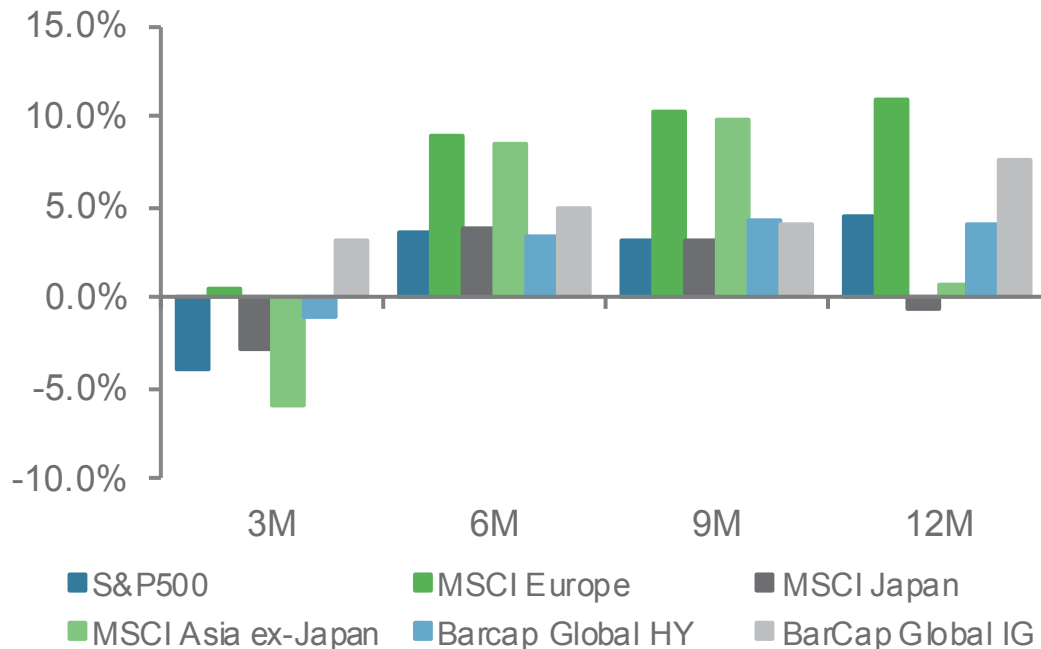
4 December 2015

Weekly Market View (*publication Fri 4/12/15*)

Equities, corporate credit outperform after the Fed kicks off a rate hiking cycle

- Yellen signaled a rate hike on December 16th is likely
- History suggests equities and corporate bonds do well after the Fed starts a rate hiking cycle
- Current set of preferred asset classes fits well into this picture – Euro area equities, US HY bonds, in particular**

Key asset class returns 3-12 months after a Fed rate hike (cumulative, average of last 3 cycles*)



Preferred Asset Classes / Strategies

Diversified income assets

Global high-quality equities

Euro area equities (currency-hedged)

Japan equities (currency-hedged)

Chinese & Indian Equities

Global banks

US High Yield bonds

Emerging Market Investment Grade Sovereign Bonds (USD-denominated)

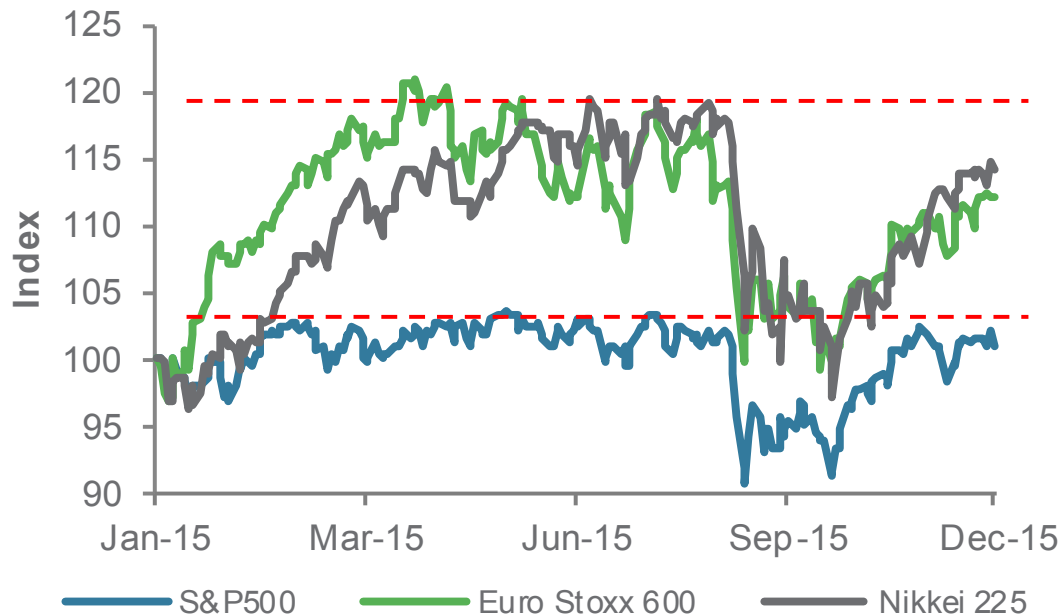
Senior Loans

Selling equity volatility to generate income

Equities

- **Euro area, Japan equities not technically constrained**
 - **US Banks may be a key beneficiary of higher US interest rates**
 - Shorter-term, S&P facing resistance near year-highs, but Euro area and Japan not as constrained
 - Shanghai Composite may face further volatility on securities company investigations

S&P500, Euro Stoxx 600 and Nikkei, 1-Jan-15=100, in local currency terms



Source: Bloomberg, Standard Chartered

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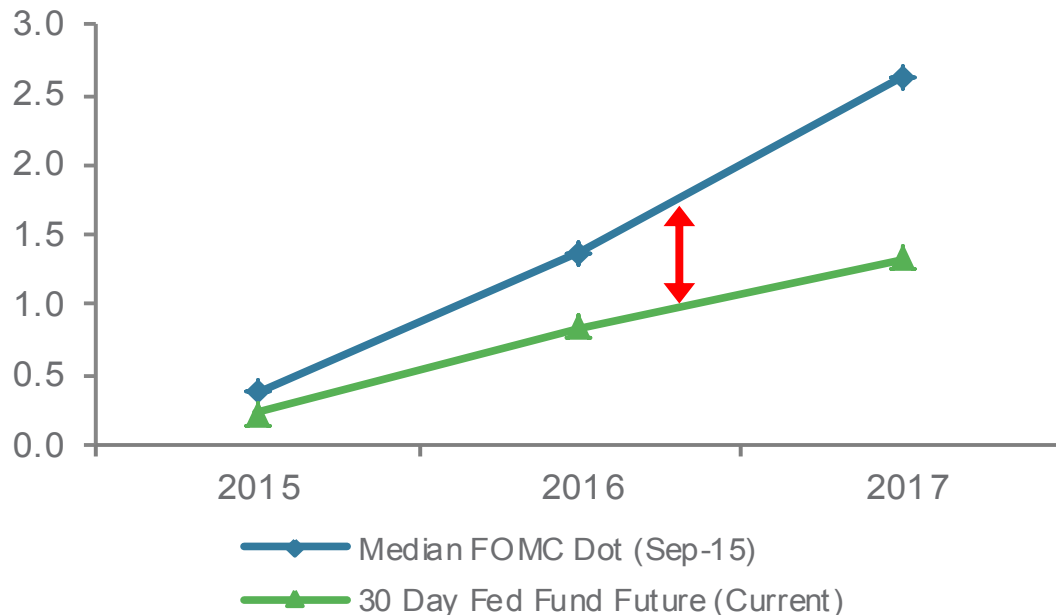
Selling equity volatility to generate income

Bonds

■ US High Yield Bonds excessively pessimistic

- Fitch ratings says overall US default rate <3% despite energy/materials sector stress
- **We believe c.8% yields attractive level to raise exposure**
- Direction of short-term US yields now depends on Fed messaging on pace of future rate hikes

Market-implied path of Fed rate hikes vs. Sep Fed FOMC median rate projections



Source: Bloomberg, Standard Chartered

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FX

▪ Sell into EUR, AUD gains

- EUR jump driven by correction of ECB expectations. However, this is unlikely to last (US-Euro 2yr yield gap remains wide at about 1.25%)
- AUD diverging from iron ore prices following RBA no-change and request to “chill out”. This is unlikely to last

Market-implied path of Fed rate hikes vs. Sep Fed FOMC median rate projections



Source: Bloomberg, Standard Chartered

Key events this week

Data/Event		Date
US	US Non-farm payrolls	4 Dec
CH	Trade balance	8 Dec
EC	GDP Q3	8 Dec
US	NFIB small business optimism	8 Dec
CH	CPI and PPI	9 Dec
SK	BoK policy rate	10 Dec
UK	BoE policy rate	10 Dec
IN	Industrial production	11 Dec
US	Retail sales	11 Dec
US	Univ. of Mich. Consumer sentiment	11 Dec

Disclosure Appendix

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