A volatile Christmas

SUMMARY

- **US equities and Treasury yields fell amid reports Trump discussed firing Fed Governor Powell.** Trump later expressed confidence in both the Fed Governor and Treasury Secretary Mnuchin, likely in an effort to calm markets.
- **Stay diversified and prepare for tactical opportunities**. Two technical indicators on the S&P 500 are increasingly bullish. However, we continue to believe diversification remains key, with still-significant allocations to equities balanced with allocations to cash and government bonds.

BACKGROUND

- **Equities fell further following Trump's comments.** Reports over the weekend and Christmas Eve suggested Trump had discussed firing Fed Governor Powell and Treasury Secretary Mnuchin, roiling markets. However, he later expressed confidence in both on Christmas Day, likely in an effort to calm markets, though he still said the Fed was "raising interest rates too fast".
- **US Treasury Secretary comments, US government shutdown added additional uncertainty.** Earlier on Sunday, US Treasury Secretary Mnuchin said that the largest US banks had confirmed they had "ample liquidity", surprising investors who had not considered liquidity a risk. Meanwhile, the US government remained partially shut since Saturday amid an impasse on border security funding. Negotiations to end the shutdown remain minimal thus far amid the holiday season.
- **US and other Developed Markets underperform.** The S&P500 index fell 2.7% on 24-Dec, the Bloomberg Barclays US High Yield index yield rose above 8% and Japan's Nikkei fell almost 4% on 25-Dec. The US 10-year Treasury yield eased further to 2.74% and USD/JPY fell below 110.5 amid safe-haven Yen strength. However, weakness in Emerging Market equities was relatively muted.

WHAT DOES THIS MEAN FOR INVESTORS?

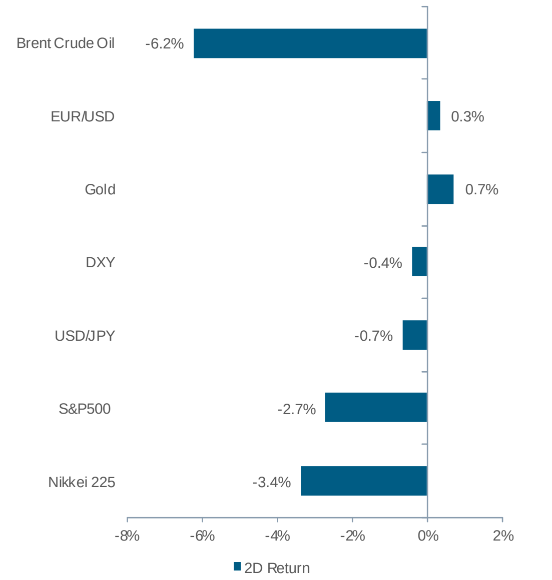
- **Maintain allocation to USD cash, bonds; stay diversified**. As we argued in our 2019 Outlook, yields on USD deposits and bonds have become increasingly attractive. Recent market moves also demonstrate the value of government bonds in diversifying equity-heavy investment allocations.
- **Stay alert for tactical opportunities.** We noted last week that we remain on watch for tactical opportunities in our preferred areas. In equities, two technical indicators for US equities are increasingly bullish (the RSI suggests US equities are now strongly oversold and the index has retraced 50% of its gain from 2016 lows). In bonds, we note EM USD government bonds, our preferred area within bonds, continued to eke out gains month-to-date.

WHAT NEXT?

- **Policymaker comments, technical indicators, trade talks key**. China recently announcement a tariff cuts on 700 goods from 1-Jan. Progress towards a resolution on trade tensions would ease a key risk for global risk assets.

US S&P500 index fell to a 20-month low

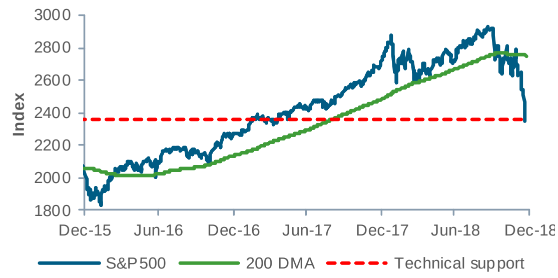
Performance of selected asset classes since 21-Dec (many markets were closed on 25-Dec)



Source: Bloomberg, Standard Chartered

S&P 500 Index has fallen 19.8% from September peak, but is now at a key technical level

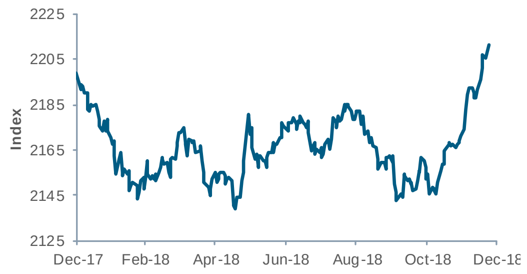
S&P500 Index, 200-day moving average (dma)



Source: Bloomberg, Standard Chartered

Treasuries have acted as a diversifier in the current US equity market sell-off

Bloomberg Barclays US Treasury Total Return Unhedged (USD) Index



Source: Bloomberg, Standard Chartered

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