Standard Chartered

market watch

This reflects the views of the Wealth Management Group

macro strategy | 21 November 2018

Challenging year continues

SUMMARY

- **US equities back to negative year-to-date.** Sharp losses over the past two days have pushed the US S&P 500 index back into negative territory for the year. The tech sector led the weakness, but weaker oil prices exacerbated the decline overnight.
- **Peaking growth**. Markets may be adjusting to the fact that 2018 is likely 'as good as it gets' for US economic and corporate earnings growth. Trade war fears have also increased this week.
- **Peak growth does not necessarily equate to the end of the cycle**, either for the economy or for the equity market. The Fed appears increasingly sensitive to market concerns, which suggests it could consider taking its foot off the brakes in the coming months.

BACKGROUND

- **Challenging year for investors**. This year has been a challenging year for investors. Higher bond yields and increased yield premia have undermined bond returns. Meanwhile, the vast majority of equity markets are down so far this year, with many in bear market territory (down over 20% from highs). The beacons of strength were the US equity market and US high yield bonds, but even these are in negative territory after this week's movements.
- **Slowing growth and trade tensions bite**. It looks highly likely that US economic and corporate earnings growth will slow in 2019. This is hardly surprising given the fiscal boost provided in 2018. This is increasing the scrutiny of companies' earnings guidance (despite Q3 earnings being much better than expected). Mike Pence's aggressive rhetoric on US-China relations and the sharp decline in oil prices have merely added to the negative sentiment.

WHAT DOES THIS MEAN FOR INVESTORS?

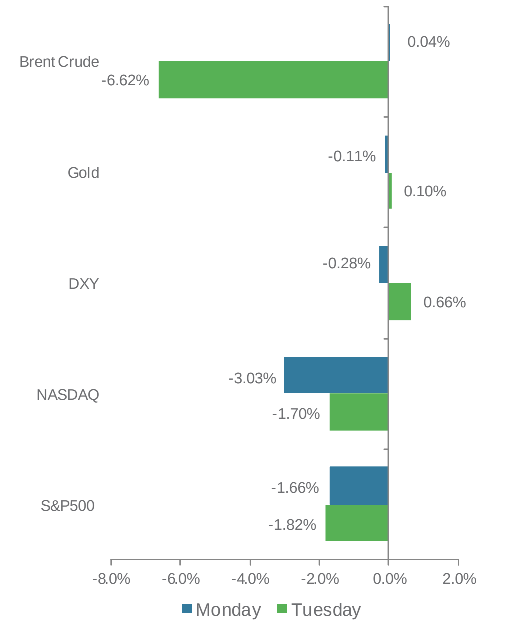
- **Peak growth does not mean the end of the cycle.** US corporate earnings are expected to expand 24% in 2018. This is clearly unsustainable and a slowdown in 2019 is to be expected. However, the market consensus for 2019 is 8.8%, around its long-term average. Even if you view this as optimistic, earnings are still likely to expand as long as the economy continues to grow and inflation pressures remain relatively benign.
- **Trade fears may be overblown**. The US appears to be flip-flopping on its trade stance heading into key US-China talks at the end of the month. However, broadening trade tariffs to other Chinese exports may have a greater impact on the US economy as these are areas where China has a more dominant market share and therefore cannot easily be replaced. This suggests the US may be wary about being too aggressive from here.

WHAT NEXT?

- **Trade talks, key technical levels.** US-China trade talks at the end of next week will be critical for short term sentiment. We remain constructive on the outlook for US equities. Key support is seen at 2532 (the February low), about 4% below last night's close.

Tech slumped on Monday, followed by oil prices overnight

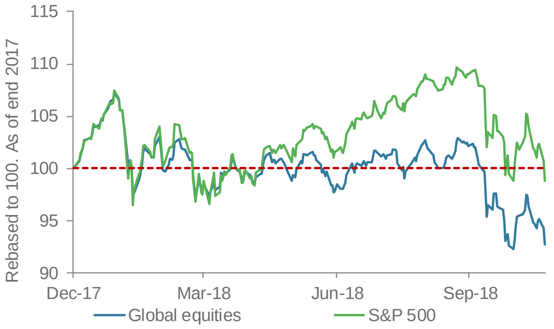
Performance of selected asset classes over the past 48 hours



Source: Bloomberg, Standard Chartered

US equities fall back into negative territory

Global equity and US S&P500 index performance, year-to-date



Source: Bloomberg, Standard Chartered

Oil prices look oversold and are approaching key support

Brent oil price

Source: Bloomberg, Standard Chartered

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