

Market Watch

Renewed growth worries

Summary

- **Global equities fell 2.1%, led by the US, following weak China, Germany data and brief Treasury yield curve inversion.**
- **We see this move in the context of a slowdown.**
- **We recommend maintaining a diversified exposure with a relative preference for equities and gold.**

Background

- Major Chinese data (retail sales, industrial output) reported yesterday (Asia morning) disappointed market expectations while German Q2 GDP growth (Europe morning) fell below 0%.
- Shortly before the US opening, the US Treasury 10yr-2yr yield curve (gap in 10- and 2-year bond yields, a commonly-followed recession indicator) fell briefly below 0%.

Reaction

- Global equities fell 2.1%, led by the US (S&P500 down 2.9%) and Europe (Stoxx 600 down 1.7%, Germany's DAX down 2.2%). Brent oil fell 3%, hurting energy sector equities.
- Bonds rallied as the 10-year Treasury yield eased to 1.58%. The JPY (+0.8%) and gold (+1.0%) gained modestly.

What does this mean for investors?

The market's renewed focus on the US yield curve brief inversion is understandable, given it is one key signal of a potential US recession. However, as we first noted in December 2018, it is not a perfect indicator, having offered false signals before, and is also not helpful as a timing signal. The average time gap between curve inversion and equity market peak has been 10 months (with a 0-20 month range). Confirmation by higher frequency US data, like ISM indices, is therefore important in gauging the actual risk.

Technically, the S&P500 remains above the key 200-day moving average. Fund manager surveys show recession worries are already at post-2011 highs, while positioning on safe havens like US Treasuries is already very long, suggesting equity market weakness may be close to its limits in the absence of new triggers.

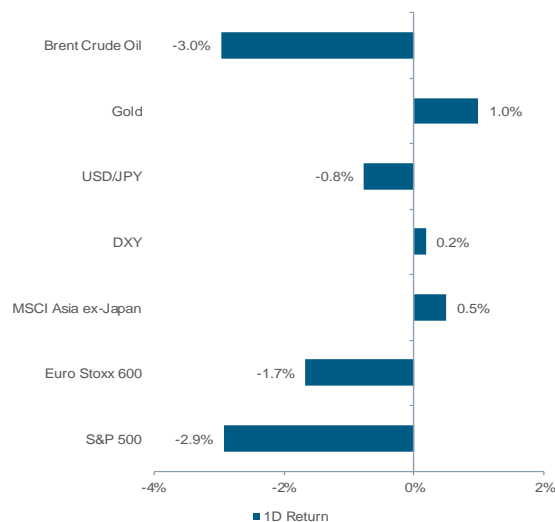
Putting these together, we continue to see the current environment as a slowdown rather than an imminent recession (see our *H2 Outlook* for details). This suggests an equity market rebound remains likely, supporting our long-term preference for equities. However, we do not seek to downplay the risks and believe maintaining a diversified approach, with a relative preference for equities and gold, is prudent at this stage in the cycle.

What are key technical levels and events to watch?

- Support levels: S&P 500 (2729, -3.9% lower), Stoxx 600 (350, -4.4% lower); MSCI Asia ex-Japan (569, -4.5% lower).
- Fed, ECB comments, trade talks, Jackson Hole (22-24 Aug).

Equities fall on growth worries

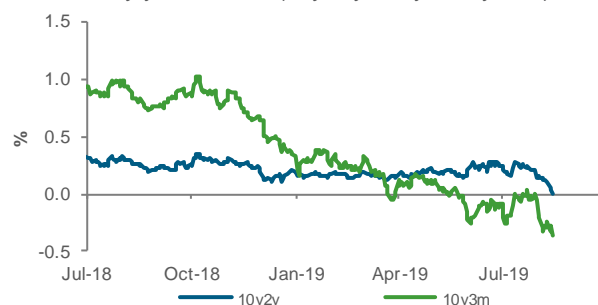
Selected market performance, 14-Aug-2019, local currency



Source: Bloomberg, Standard Chartered

10-year Treasury yields briefly fell below 2yr yields

US Treasury yield curves (10yr-2yr, 10yr-3m yields)



Source: Bloomberg, Standard Chartered

US equities near key support

S&P500 and technicals



Source: Bloomberg, Standard Chartered

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A	Excellent	C	Fair
B	Good	D	Unsatisfactory

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