

Market Watch

Sweeping into value?

Summary

In the US, major media networks called a Democrat victory in both Georgia run-off elections. This would offer Democrats a (slim) majority in both Houses of Congress, likely giving Biden greater policy leeway.

Value sector equities outperformed growth sectors overnight while US Treasury yields rose. 'Clean-tech' sectors also gained on expectations of rising policy focus.

Run-off election outcome positive for value-style equities and our 'Ready, Steady, Rotate' theme. Broader equity market gains likely to be supported by contained net-of-inflation bond yields and weaker USD.

Background

In the US, major media networks declared Democrat candidates had won both Georgia state Senate run-off elections. While one Republican candidate has yet to concede, the wins would mean Democrats have a majority in both Houses of Congress, albeit a narrow one (dependent on a Vice Presidential tie breaker vote in the Senate).

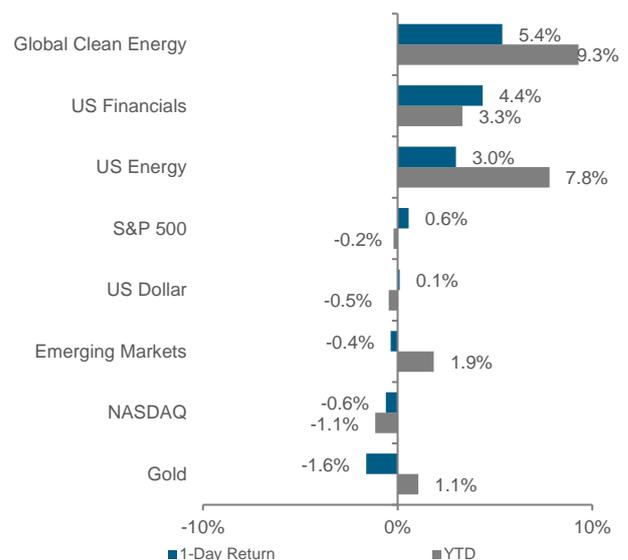
Meanwhile, protestors stormed the US Capital building, forcing postponement of a Congressional certification of Biden's election victory.

Equities gained, with value outperforming growth. The S&P500 rose 0.6%, but within this, value-style sectors such as banks, materials and energy led gains while growth-style sectors such as technology fell.

US Treasury yields rose, but net-of-inflation yield gains were muted. The 10-year Treasury yield rose sharply above 1.0% at one point before falling somewhat. However, rising inflation expectations led the move, leaving real (net-of-inflation) yields largely unchanged.

Markets witnessed value-sector outperformance

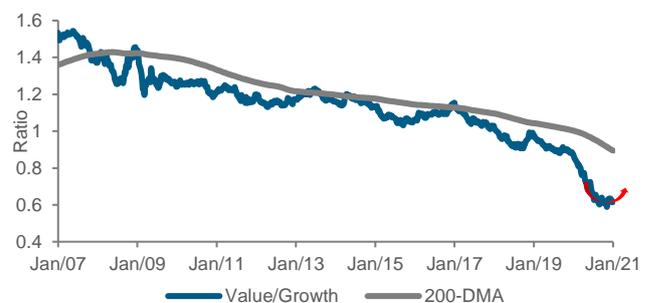
Performance of selected asset classes on 6-Jan



Source: Bloomberg, Standard Chartered

A reversion to long-term trend can still result in significant value-style outperformance

Ratio of MSCI Net Return (US) Value and Growth indices



Source: Bloomberg, Standard Chartered

What does this mean for investors?

Democrat wins makes further stimulus increasingly likely. A slim majority in both Houses of Congress would mean US President-elect Biden has greater leeway to implement his policy agenda, including further policy stimulus. This is likely driving improved growth and inflation expectations.

This is supportive for our value-rotation equities theme. In our *'Ready, Steady, Rotate'* 2021 Outlook theme, we noted an improvement in growth and a rise in bond yields was likely to support relative outperformance of value-style equities, one factor behind our upgrade of sectors such as financials. Technically, we note that even a reversion to the long-term trend offers significant room for value to outperform growth in early 2021 (see page 1 chart).

Technicals argue for modest rise in bond yields. While the US 10-year Treasury yield rose sharply, the move has thus-far been led largely by rising inflation expectations. Technically, we see the US 10-year yield in a gradual uptrend targeting 1.325% in the coming weeks (the 61.8% retracement of the Jan-Mar 2020 fall).

Fed policy is key to how yields trend long term. Minutes from the mid-December Fed meeting noted that while the decision to leave its bond-buying program unchanged was unanimous, they noted any decision on potential changes would be driven by "broad, qualitative" judgment rather than any "specific numerical criteria". This remains consistent with our outlook for 10-year yields to close the year in the 1.00-1.25% range. We believe such a moderate increase would be unlikely to worry equity markets.

What's next?

US Presidential Inauguration on 20 January. Biden's victory will need to be formally certified by Congress to avoid any delays to his formal inauguration.

The next Fed meeting is scheduled for 28-29 January. We would watch for any signals of potential changes to current ultra-supportive policy.

Treasury yields likely in gradual uptrend, though real yields remain contained

US 10-year bond yields, nominal and real (net-of-inflation)



Source: Bloomberg, Standard Chartered

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