



Weekly Market View

A more confident Fed

The Fed's upgrade of US growth and inflation estimates and bringing forward of rate hike expectations to 2023 signals its growing confidence in the outlook for the economy.

We believe a sustained economic recovery, a transitory bout of inflation and a still-accommodative Fed well into 2023 support our view that stocks will continue to outperform bonds and cash over the next 6-12 months.

Equities: We believe Value equities have further room to catch up with Growth peers and expect Value-biased regions such as Euro area and UK to outperform.

Bonds: Our preference for Emerging Market USD government, Asia USD corporate and Developed Market High Yield bonds remain intact partly because of their attractive yields.

FX: The USD index is testing a key technical resistance. We would use the ongoing bounce to reduce USD exposure



What are the implications of the latest Fed meeting on various asset classes?

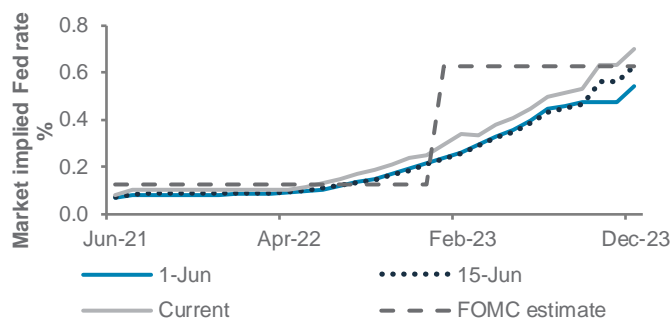
What are the levels to watch for key currency pairs?

What do the charts say about global stocks, US Treasury yields and gold?

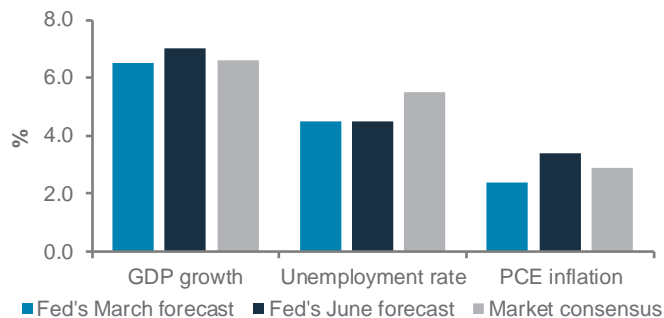
Charts of the week: The Fed catches up with markets

The Fed now expects its first rate hike by 2023, in line with markets, as it upgraded growth/inflation forecasts

Fed rate expectations (markets* vs Fed policymakers**)



Fed's March, June forecasts for Q4 2021 vs consensus



Source: Bloomberg, Standard Chartered; *Fed funds futures market; **Fed's median forecasts in June – values represent end-of-year estimates

Editorial

A more confident Fed

The Fed's upgrade to US growth and inflation forecasts suggests it is more confident of the economic recovery than a quarter ago. The 7% GDP growth forecast for 2021 – a nearly four-decade high – is stronger than consensus (6.6%). It means US economic output is likely to recover from last year's pandemic-led losses and resume pre-pandemic trends by year-end. Given this improved outlook, the Fed naturally brought forward its forecast for the first rate hike in this cycle to 2023, which now broadly aligns with market expectations.

The relatively muted equity and bond market reaction to the new forecasts – US S&P500 index fell 0.5% and the 10-year Treasury yield rose 8bps on the day of the announcement – is a sign that investors generally agree with the Fed's view of a gradually reflationary economic outlook in the coming year. Under this scenario, the US's aggressive COVID-19 vaccination campaign is likely to help bring life back to normal for most Americans this summer, setting off a few quarters of strong services consumption as households pare down record savings.

We do see a couple of quarters of teething troubles, such as supply bottlenecks in parts of the economy (used cars, airlines, shipping), which is likely to keep inflation pressures elevated till early next year. Hence, we agree with the upgrade in the Fed's PCE inflation forecast for 2021 to 3.4% from 2.4%. Nevertheless, we see May's y/y inflation print as the peak of the current inflation cycle and prices are likely to gradually unwind as bottlenecks are removed, new supply comes back online and vaccinated workers return to jobs. This should help bring inflation back down towards the Fed's 2% target by next year.

This transitory view of inflation also explains why the Fed remains patient in terms of raising interest rates until the job market heals and the jobless rate falls below 4% (from 5.8% in May). We expect the Fed to announce tapering of its bond purchases later this year, from the current pace of USD 120bn a month. The tapering itself will likely begin from early 2022 and proceed gradually, probably by USD 10bn a month, spread over a year, setting the stage for rate hikes in 2023. This is a pace that, we believe, is baked into financial market prices.

Meanwhile, the ongoing supply shortages are good news for the economy – we expect private investment to keep rising as businesses rebuild inventory and expand capacity to meet growing demand. Indeed, we see private consumption and investment taking over the baton from government investment as the main driver of growth and corporate earnings as fiscal stimulus fades.

To sum up, we believe a sustained economic recovery, a transitory bout of inflation and a still-accommodative Fed well into 2023 are positives for risk assets, negative for US and Developed Market government bonds and support our view that stocks will continue to outperform bonds and cash over the next 6-12 months, especially in the US and Europe (which is also benefitting from its own vaccination-driven recovery). We're watching the USD bounce closely, especially after this week's strong Fed outlook. We believe a strong US recovery is also positive for global growth, which typically means a weaker USD over the medium term. Thus, we would use the USD bounce to average into other major currencies (see page 4 and 5 for equities, bonds and FX market implications).

— Rajat Bhattacharya

The weekly macro balance sheet

Our weekly net assessment: On balance, we see the past week's data and policy as neutral for risk assets

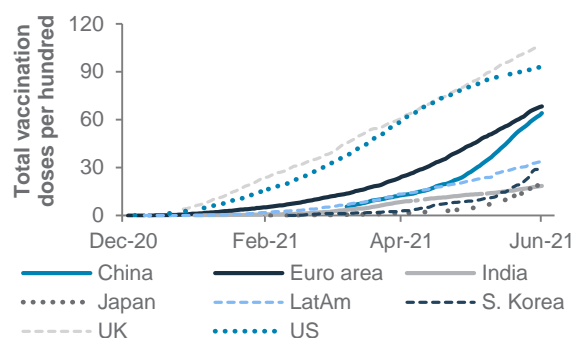
(+) factor: Euro area reopening, US growth forecast upgrade

(-) factor: UK COVID revival, less dovish Fed policy outlook

	Positive for risk assets	Negative for risk assets
COVID-19	<ul style="list-style-type: none"> Euro area, Japan, India eased restrictions as cases continued to fall; US cases stabilised near pandemic low; China vaccinations accelerated EU agreed to lift curbs on US visitors regardless of vaccination status 	<ul style="list-style-type: none"> UK new cases continued to rebound; the government delayed economic reopening by a month
	Our assessment: Neutral – US, Euro area progress vs rising new cases in the UK	
Macro data	<ul style="list-style-type: none"> US consumer sentiment and industrial output rose more than expected Euro area industrial output rose more than expected China jobless rate unexpectedly fell 	<ul style="list-style-type: none"> US retail sales rose less than expected; producer prices surprisingly strong US jobless claims unexpectedly rose China retail sales and industrial output rose less than expected China YTD fixed asset and property investment rose less than expected
	Our assessment: Neutral – Strong industrial output vs weaker-than-expected US, China retail sales	
Policy developments	<ul style="list-style-type: none"> Fed raised US 2021 growth forecast to 7.0% from 6.5% 	<ul style="list-style-type: none"> Fed raised 2021 US PCE and core PCE inflation forecasts to 3.4% and 3.0% (vs 2.4% & 2.2%) The Fed brought forward its rate hike expectations to 2023 – it now sees 0.5ppt hike that year – and internally discussed tapering of bond buying
	Our assessment: Negative – Less dovish Fed outlook	
Other developments	<ul style="list-style-type: none"> Biden, Putin termed their first meeting 'positive' and 'constructive' 	<ul style="list-style-type: none"> China flew sorties near Taiwan after G7's human rights statement
	Our assessment: Neutral – Thaw in US-Russia relations vs growing US-China tensions	

China's vaccination rates are accelerating more quickly than other major economies

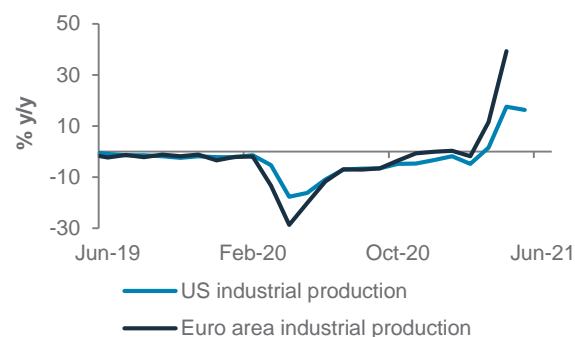
Total vaccine doses per hundred people



Source: Our World in Data, Standard Chartered

US and Euro area industrial output continue to rise strongly to meet rising demand

US, Euro area industrial production growth



Source: Bloomberg, Standard Chartered

US and China retail sales are normalising after surging earlier this year due to base effects; we expect them to stay strong in H2

US and China retail sales growth



Source: Bloomberg, Standard Chartered

Top client questions

Q What are the implications of the Fed policy meeting across major asset classes?

For equity markets, we believe the Fed's shift in tone is unlikely to derail asset class tailwinds. A "more confident" Fed may lead to earlier-than-expected tightening, which, over a three-month horizon, may result in a short-lived rise in equity volatility. However, over a 12-month horizon, we believe equity market tailwinds are likely to remain in place. Private consumption and investment is likely to become a key force in driving growth, any Fed tapering plans are likely to be well communicated and Fed policy itself is likely to tighten only alongside continued economic and earnings growth strength.

For bond markets, the Fed's shift may prove to be more of a headwind rather than a tailwind. US Treasury yields were driven higher by the 'dot plot' (50bps rate hike in 2023) and initial 'talk of tapering'. However, in our view, the rise in US bond yields is likely to be relatively contained short term amid a largely unchanged technical outlook as the new information arguably constituted only a modest hawkish surprise.

We see little impact on our preferred bond asset classes. EM USD government bonds' relatively high sensitivity to Treasury yields means they would be at risk from an upside surprise in bond yields, though we continue to believe the more attractive valuation and yield offer a comfortable buffer. Asia USD and DM HY bonds are arguably more sensitive to continued economic and earnings growth. DM IG bonds remain least preferred given they are likely most at risk from any intensified taper talk and upside Treasury yield surprise.

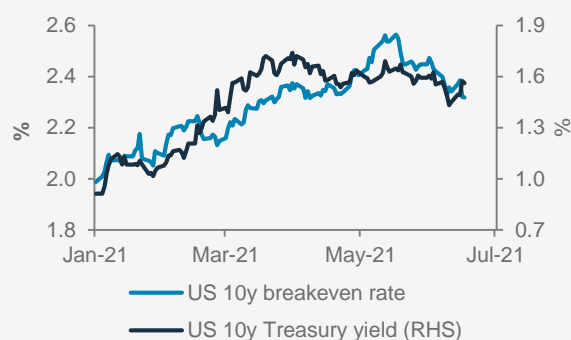
In currency markets, the USD index (DXY) has approached a key resistance level after Fed-related gains. The upcoming trading sessions will likely provide confirmation of whether the USD will continue its cyclical downtrend quickly or settle into a period of consolidation and further near-term strength. Our medium-term bearish USD view remains unchanged as faster-than-expected US growth should add power to the global growth story and potentially change policy expectations elsewhere. Alongside rising US twin deficits, this is expected to drive the counter-cyclical USD lower.

The rise in bond yields has clearly presented a challenge to gold. Some near-term consolidation is expected as markets digest the recent shift in the Fed's reaction function. We remain bullish given our expectation of medium-term USD weakness, although the uncertain trajectory of real (net of inflation) yields is something we are monitoring.

- Daniel Lam, CFA, Senior Cross-asset Strategist
- Cedric Lam, Senior Investment Strategist
- DJ Cheong, CFA, Investment Strategist

US Treasury yields rose marginally after the Fed upgraded growth and inflation estimates and brought forward rate hike expectations

US 10-year Treasury yield, 10-year market inflation expectations



Source: Bloomberg, Standard Chartered

The USD index is testing a key resistance following the Fed meeting; we remain bearish over the medium term as growth in the rest of the world picks up, eroding the US advantage

USD (DXY) index



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q Within Equities, how should investors be positioned after the Fed meeting in terms of style, regions, sectors?

The latest Fed meeting reflects the central bank's confidence that the US is on a path to a strong recovery. The uptick in US 10-year Treasury yields on Wednesday supports our view of a continued rotation into Value sectors. We believe there is still room for Value sectors to catch up to Growth sectors following their underperformance over the years (see chart).

The Euro area and the UK remain preferred regions partly due to their heavy Value-bias. They still trade at a historical discount and we believe they may continue to outperform. We see a strong technical opportunity within the energy sector in Europe – the rapid pace of vaccinations, along with Euro area PMIs being at fresh highs signals a sharp rebound in activity. In addition, we retain our preference for the region's financial sector as a steeper yield curve serves as a tailwind, indicating better economic growth prospects and higher lending margins for banks (as they lend long term and borrow short term), allowing them to earn a positive spread on their loans.

— Daniel Lam, CFA, Senior Cross-asset Strategist

Q What are the levels to watch for key currency pairs?

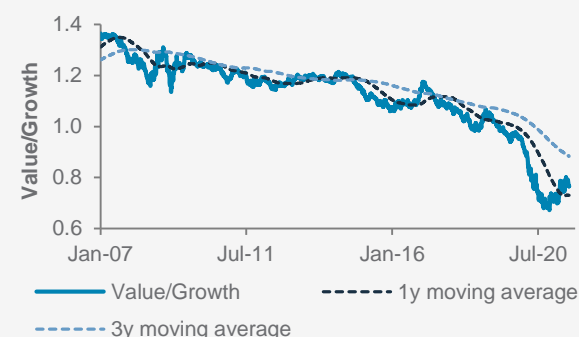
Given the recent sharp USD rally, we favour establishing, or averaging into, short USD positions using technical levels as guidance. EUR/USD has broken below the 200-day moving average just below 1.2000 and is testing 1.1900 – 20 support. If this gives way, we expect a deeper decline towards 1.1750. A sustained break back above 1.20 would revitalise the bullish outlook for a rally towards 1.2250. GBP/USD has found support around 1.3900. A rally above 1.40 could provide momentum for a push towards 1.4250. A break below 1.39 could prompt a decline towards the 1.36–1.37 major support, which should form a strong medium-term base.

AUD/USD is testing strong 0.7530 support and this level could provide a base for a rally towards 0.7900. The next strong support lies around 0.7415. NZD/USD has slipped below the 200-day moving average around 0.7040, and we expect the pair to find a base in the 0.6940 – 0.70 area. A sustained break above 0.7100 would reinstate a bullish outlook and potential gains towards 0.7300 initially.

Gold fell below the key 1840 area and declined very sharply towards technical support at 1755. We believe the capitulation may have played out near-term and current levels are attractive. Further declines would find critical support at the previous double-bottom around 1675. A rally above 1840 would turn the outlook bullish for a drive towards 1920 initially.

Value equities have further room to catch-up with Growth peers

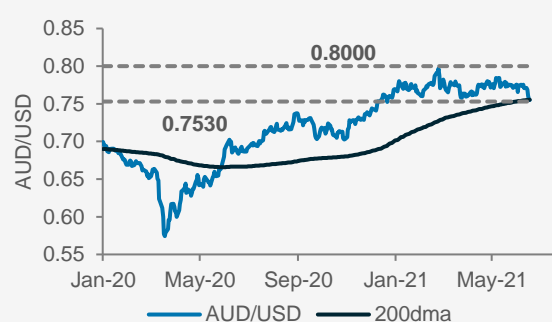
Ratio of MSCI All Country (AC) World Value index vs. MSCI AC World Growth index



Source: Bloomberg, Standard Chartered

AUD/USD is testing the 200-day moving average near 0.7530; next support at 0.7415. We remain bullish over the medium-term

AUD/USD



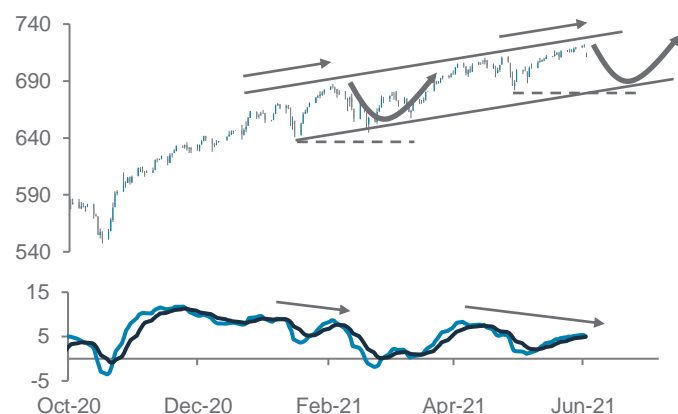
Source: Bloomberg, Standard Chartered

Technical charts of the week

Manish Jaradi
 Senior Investment Strategist

Global Equities: Uptrend remains intact

MSCI All Country World index daily chart with Moving Average Convergence Divergence (MACD)

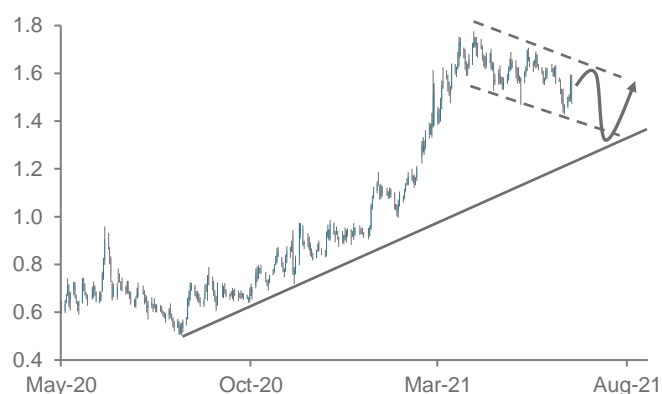


Source: Refinitiv, Standard Chartered

From a medium-term perspective, the uptrend in global equities remains intact. However, in the near term, the negative divergence (MACD with the index) points to a minor pause, possibly similar to the one in Q1.

US 10y Treasury yield: Still within the range

US 10y Treasury yield daily chart

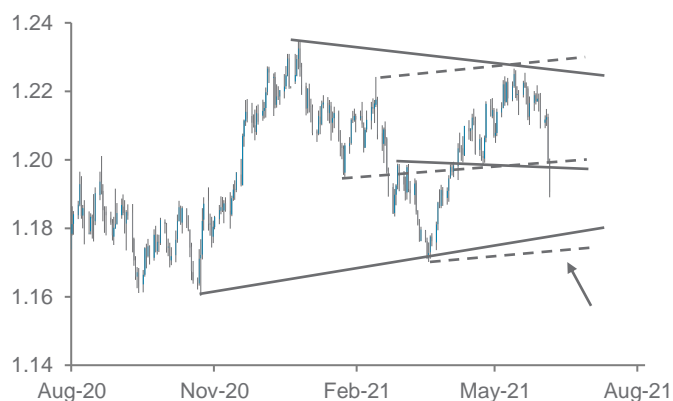


Source: Refinitiv, Standard Chartered

The yield continues to hover within a downward-sloping channel from March. At a minimum, the yield needs to break above resistance at 1.707% for the downward pressure to ease. In the absence of a bullish break, the path of least resistance remains sideways to down.

EUR/USD: Eyes lower edge of the triangle

EUR/USD daily chart

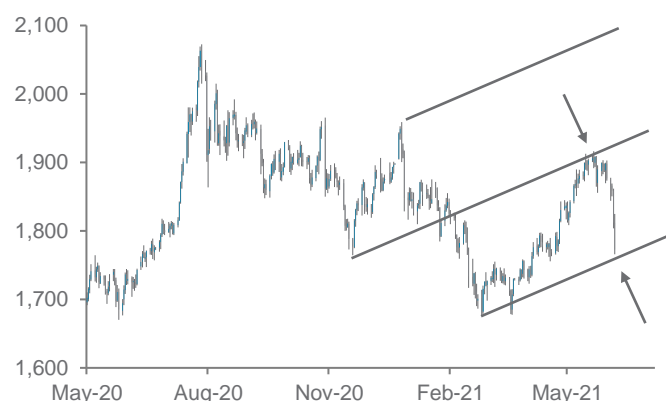


Source: Refinitiv, Standard Chartered

EUR/USD's drop below crucial support at 1.1984 has raised the prospect of a triangle/consolidation pattern within the broader uptrend. The lower edge of the triangle is at 1.1750.

Gold: Testing key support

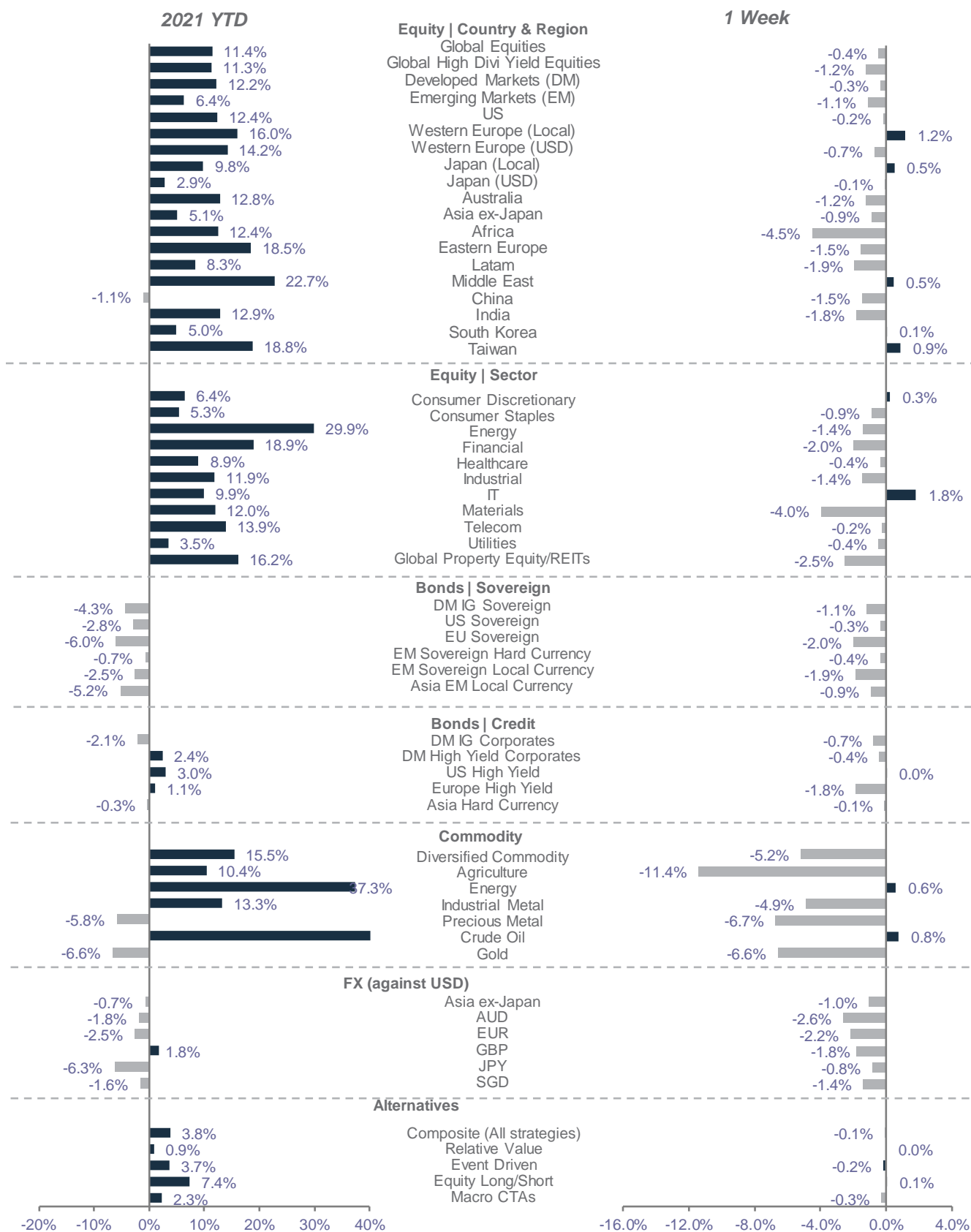
XAU/USD daily chart



Source: Refinitiv, Standard Chartered

Gold has succumbed to stiff resistance on a rising channel. It needs to stay above the lower edge of the rising channel (now at about 1755) for the upward pressure to remain intact.

Market performance summary*



Sources: MSCI, JP Morgan, Barclays Capital, Citigroup, Dow Jones, HFRX, FTSE, Bloomberg, Standard Chartered

*Performance in USD terms unless otherwise stated, 2021 YTD performance from 31 December 2020 to 17 June 2021; 1-week period: 10 June 2021 to 17 June 2021

Our asset class views at a glance

Asset class	
Equities ▲	Alternatives ◆
Euro area ▲	Equity hedge ▲
UK ▲	Event-driven ▲
US ▲	Relative value ◆
Asia ex-Japan ◆	Global macro ▼
Japan ▼	
Other EM ◆	Cash ▼
	USD ▼
Bonds (Credit) ◆	EUR ▲
Asia USD ▲	GBP ▲
Corp DM HY ▲	AUD ▲
Govt EM USD ▲	CNY ◆
Corp DM IG ▼	JPY ◆
Bonds (Govt) ▼	Gold ▲
Govt EM Local ◆	
Govt DM IG ▼	

Source: Standard Chartered Global Investment Committee

Legend: ▲ Most preferred | ▼ Less preferred | ◆ Core holding

S&P500 has first support 0.3% below current level

Technical indicators for key markets as on 17 June 2021

Index	Spot	1st support	1st resistance
S&P500	4,222	4,211	4,244
STOXX 50	4,158	4,137	4,169
FTSE 100	7,153	7,130	7,181
Nikkei 225	29,018	28,831	29,324
Shanghai Comp	3,526	3,499	3,571
Hang Seng	28,559	28,383	28,788
MSCI Asia ex-Japan	880	876	888
MSCI EM	1,363	1,356	1,376
Brent (ICE)	73.1	72.4	74.1
Gold	1,775	1,740	1,844
UST 10Y Yield	1.50	1.45	1.57

Source: Bloomberg, Standard Chartered

Economic and market calendar

	Event	Next week	Period	Prior
MON				
TUE				
WED	EC	Markit Eurozone Manufacturing PMI	Jun P	63.1
	EC	Markit Eurozone Composite PMI	Jun P	57.1
	EC	Markit Eurozone Services PMI	Jun P	55.2
	US	Markit US Composite PMI	Jun P	68.7
	US	Markit US Manufacturing PMI	Jun P	62.1
THUR	US	Markit US Services PMI	Jun P	70.4
	UK	Bank of England Bank Rate	24-Jun	0.1%
FRI/SAT	US	Initial Jobless Claims	19-Jun	-
	US	PCE Core Deflator y/y	May	3.1%
	US	PCE Deflator y/y	May	3.6%

Source: Bloomberg, Standard Chartered

Prior data are for the preceding period unless otherwise indicated. Data are % change on previous period unless otherwise indicated

P - preliminary data, F - final data, sa - seasonally adjusted, y/y - year-on-year, m/m - month-on-month

Investor diversity has normalised across assets

Our proprietary market diversity indicators as of 16 June

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	→	1.46
Global Equities	●	→	1.39
Gold	●	↓	1.54
Equity			
MSCI US	●	→	1.43
MSCI Europe	●	→	1.28
MSCI AC AXJ	●	↑	2.29
Fixed Income			
DM Corp Bond	●	↓	1.38
DM High Yield	●	↓	1.32
EM USD	●	↓	1.39
EM Local	●	↓	1.35
Asia USD	●	↓	1.61
Currencies			
EUR/USD	●	↑	2.13

Source: Bloomberg, Standard Chartered; **Fractal dimensions below 1.25 indicate extremely low market diversity/high risk of a reversal**

Legend: ● High | ● Low to mid | ○ Critically low

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