



# Weekly Market View

## An eventful week ahead

The coming week is an eventful one for investors. The Fed policymakers' interest rate forecasts through to 2024 will show whether they are turning more hawkish. Also, in focus is China's measures to contain any fallout from debt challenges at its second-largest property developer. Finally, the German election on 26 September portends to alter the policy space in Europe. Each of these events offers medium-term investors attractive opportunities.

**Equities:** We believe it is attractive to rotate into Value-style equities, which are likely to benefit from any hawkish surprise from the Fed as well as from other supportive macro factors.

**Bonds:** We see value in Asian High Yield bonds which are trading at a big discount to their Developed Market peers.

**FX:** The USD could get a short-term boost if the Fed turns hawkish and/or the German elections are inconclusive. We would use the opportunity to average into the EUR.



How should investors position themselves for the upcoming Fed policy meeting?

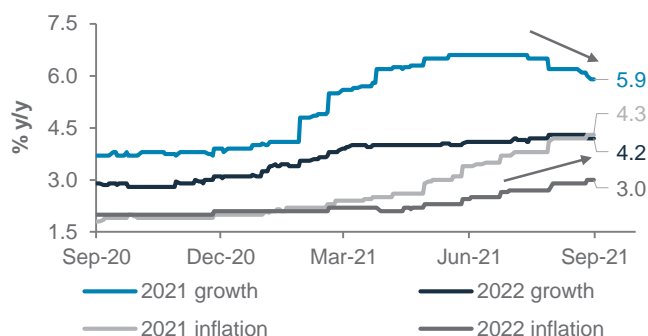
Do you see the oil price rally sustaining? What are the implications for markets?

What is the technical outlook for the US Treasury yield and US and European energy sector stocks?

## Charts of the week: Will the Fed deliver a hawkish surprise?

### The Fed must perform a deft balancing act amid recent downgrades to growth and upgrades to inflation estimates

Consensus US GDP growth and inflation estimates for 2021-22



Source: Bloomberg, Standard Chartered

US 10-year Treasury yield; %



## Editorial

### An eventful week ahead

It is going to be an eventful week for investors. First comes the 22 September Fed policy meeting, which has the potential to jolt markets from their summertime slumber. The US central bank is expected to decide on the timing and pace of unwinding its unprecedented stimulus. Second, a debt repayment is due for Evergrande, China's second-largest property developer. Several media reports have cited the risk of a missed payment. Such an outcome would mean China's authorities would have to decide how to manage the aftermath to ensure that it does not lead to a systemic crisis. Finally, the 26 September German elections that could alter Euro area's fiscal, monetary, trade and foreign policy paths. Each event offers medium-term investors attractive opportunities.

The Fed must perform a deft balancing act. Consensus 2021 growth expectations have been lowered in recent weeks and job creation in August slowed sharply due to the resurgence of the pandemic in Q3. Meanwhile, inflation estimates for 2021 and 2022 have been further upgraded as some supply bottlenecks, notably in semiconductors and shipping, persist despite the continued decline in headline and core inflation from their Q2 peak. Fed Chair Powell, in his annual Jackson Hole symposium speech, pre-announced plans to taper bond purchases later this year, siding with the argument that enough progress has been made towards achieving its twin goals of 2% average inflation and sub-4% unemployment rate. The question for investors is: when and at what pace will the Fed taper? The consensus is a November start, with a gradual taper spread over a year. Any deviation could move markets (see page 4).

Any tapering decision is likely to set expectations for the timing of the first Fed rate hike, even though Powell has been at pains to delink the two. Does the Fed stick with its policy introduced only last year of tolerating inflation slightly above 2%, given

growth and job market uncertainty, or does it signal early rate hikes? While the Fed is unlikely to officially commit to a line so soon, the Fed's 'dot plots', which will show, for the first time, policymakers' rate forecasts through to 2024, will tell us which way they are moving. Some Fed voting members had turned more hawkish at the last meeting. A further hawkish shift in the median policymaker towards an end-2022 hike, instead of early 2023, could jolt markets.

Investor positioning in US Treasuries is dovish. A hawkish surprise from the Fed dots could drive Treasury yields higher, hurting Growth equities and lifting Value stocks. It could also lift the USD in the short term. We would use any such rise in the USD to switch to EUR, among other currencies (see page 5).

China's regulations remain in focus. We expect authorities to contain any damage from the debt challenges at the country's second largest developer. Thus, we see limited broader fallout on Chinese and Asian High Yield (HY) debt markets, which we believe already factor in very high default rates. Hence, we see Asia HY bonds as attractively priced, especially for medium-term investors. Elsewhere, China's proposed regulations for the gaming industry suggest its reforms are not over. Thus, focussing on sectors that are aligned, or unlinked, with government policy remains a preferred strategy, in our view.

We see the German elections as a positive driver of European assets and the EUR in the next 6-12 months. The left-of-centre SPD-Green combination, which is ahead in the polls, would likely lead to more fiscal stimulus. However, the extent to which any stimulus is funded by higher taxes or higher deficits is uncertain. An SPD-Green tie-up with the business-friendly FPD would be the most market-friendly outcome. A coalition that includes the incumbent CDU/CSU parties should still be fiscally proactive, but more constrained than the socialist alliance.

— 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

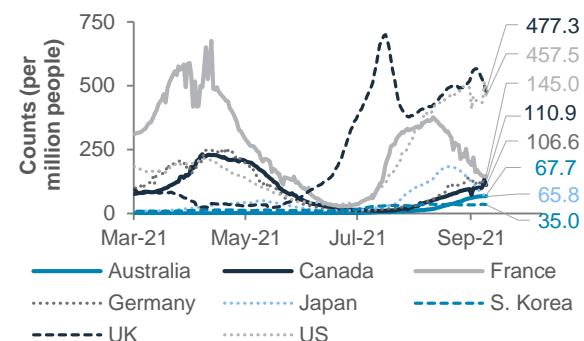
**(+) factors:** Peak cases in Asia, Europe; slowing US consumer inflation

**(-) factors:** US COVID; slowing China retail sales; US corporate tax risk

	Positive for risk assets	Negative for risk assets
<b>COVID-19</b>	<ul style="list-style-type: none"> <li>Cases in most of Asia, Europe and Latin America appear to have peaked</li> <li>Hospitalisations in highly vaccinated UK remain well below prior waves despite elevated level of infections</li> <li>Vaccinations rise globally, led by Asia; a Lancet report said booster doses are not needed for most people</li> </ul>	<ul style="list-style-type: none"> <li>US cases, hospitalisations, still elevated; fatalities rising</li> <li>Infections hit a new record in Australia and Philippines and are rising in Singapore and Canada, which have among the highest level of vaccinations globally</li> <li>Pfizer, Moderna said vaccine efficacy wanes over time</li> </ul>
	<b>Our assessment: Neutral</b> – Peak cases in most of Europe and Asia and rising vaccinations vs still-elevated US cases, deaths	
<b>Macro data</b>	<ul style="list-style-type: none"> <li>US headline and core m/m consumer inflation rose 0.3% and 0.1% in August, both less than expected</li> <li>US retail sales rose unexpectedly in August</li> <li>US NFIB Small Business Optimism index rose, with growing plans to increase hiring, inventory and capex</li> <li>Euro area industrial output rose more than expected</li> </ul>	<ul style="list-style-type: none"> <li>US small business owners more concerned about finding enough workers and supply chain disruptions</li> <li>US producer prices rose more than forecast; industrial output rose less than expected</li> <li>China's retail sales growth slowed more than expected</li> <li>UK inflation, job vacancies hit record high in August</li> </ul>
	<b>Our assessment: Neutral</b> – Slowing US consumer inflation, strong retail sales vs slowing China retail sales growth	
<b>Policy developments</b>	<ul style="list-style-type: none"> <li>ECB's Lagarde said Euro area economy is recovering quicker than expected</li> </ul>	<ul style="list-style-type: none"> <li>US House Democrats mull raising corporate tax rate to 26.5% and imposing surtax on income above USD 5m</li> </ul>
	<b>Our assessment: Negative</b> – Risk of US corporate tax hike	
<b>Other developments</b>	<ul style="list-style-type: none"> <li>Xi and Biden spoke for the first time since February; Biden said competition should not lead to conflict</li> <li>OPEC lifted its 2022 oil demand forecast</li> </ul>	<ul style="list-style-type: none"> <li>North and South Korea tested ballistic missiles</li> <li>US, UK to help Australia deploy nuclear submarines</li> <li>China proposed stricter laws for gambling industry</li> </ul>
	<b>Our assessment: Neutral</b> – Xi-Biden meeting likely points to rapprochement on trade vs US-Australia build-up in Asia Pacific	

### US and UK COVID-19 new cases remain among the highest among Developed Markets, although UK's high vaccinations have curbed hospitalisations

Daily new cases across major economies per million people, seven-day average



Source: Our World in Data, Standard Chartered

### US headline and core inflation both continued to decline from June's peak, which should enable the Fed to space out bond purchase tapering

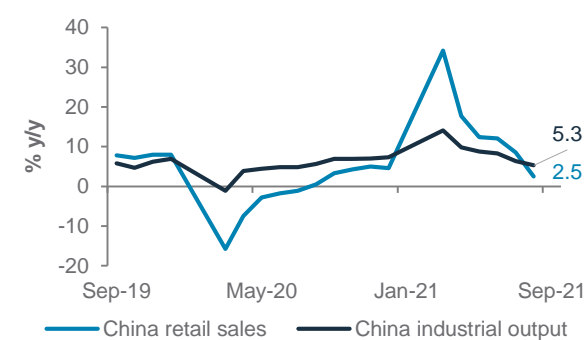
US headline and core consumer price inflation



Source: Bloomberg, Standard Chartered

### China's consumption and industrial output growth slowed further, increasing the prospects for further easing of monetary and fiscal policies

China retail sales and industrial production growth



Source: Bloomberg, Standard Chartered

## Top client questions

### Q How should equity and bond investors position themselves for the upcoming Fed FOMC meeting?

We believe it is attractive to consider rotating into Value-style equities and bonds with lower sensitivity to Treasury yields.

Stretched dovish positioning in US 10-year Treasuries means a hawkish surprise from the Fed may lead to a rise in the US 10-year yield as positions are unwound. This could hurt valuation in Growth-style equities and trigger a rotation into Value-style equities. Such a move would favour sectors such as financials, energy, materials and industrials, especially in our preferred regions in Europe (including the UK) and in the US. We also see tailwinds for these sectors from other macro factors, such as potential approval of vaccine boosters and the US opening vaccination for children under 12, which could accelerate normalisation of the economy.

Technically, the ratio of Value-style equities vs Growth-style equities is approaching a support level. Fed Chair Powell has already indicated that tapering is set to occur – the question being when and at what pace. With the consensus looking for a November 2021 start, we believe a strategy of averaging into Value style equities is attractive.

In bonds, we believe Developed Market High Yield corporate bonds and Asian USD bonds are attractive in the context of a potential Fed taper. These two preferred bond asset classes are less sensitive to changes in Treasury yields, which helps reduce interest rate risk, i.e. negative price movements resulting from a scenario of rising Treasury yields.

US and European High Yield corporate bond yields premiums remain rich relative to history due to earnings improvement and balance sheet repair, but history shows this could remain the case for some time through the current business cycle. Given the relatively high share of the energy sector in US high yield, the recent surge in oil price could also be supportive as well.

We see Asian USD bonds offering an attractive risk/reward balance given inexpensive yield premiums over Treasuries relative to their Developed Market counterparts. While the yield premium has widened lately, especially in the High Yield segment due to rising default concerns in China's property sector, we view the current yield premium offered as attractive in the face of a potential rise in Treasury yields. We also expect any fallout from default events to be well contained.

— Daniel Lam, CFA, Senior Cross-asset Strategist  
 — Cedric Lam, Senior Investment Strategist

### The ratio of Value-style equities vs. Growth style equities is approaching a support level

Ratio of MSCI World Value index vs. MSCI World Growth index



Source: Bloomberg, Standard Chartered

### Asian HY USD corporate bonds are trading at a big discount to their Developed Market peers; both are less sensitive to any rise in US Treasury yields

Yields premiums on Developed Market and Asian USD HY corporate bonds over US Treasury yields



Source: Bloomberg, Standard Chartered

## Top client questions (cont'd)

### Q What is the outlook for EUR/USD ahead of the Fed FOMC meeting and German elections?

We expect EUR/USD to be capped approaching these two key events. A hawkish surprise by the Fed is likely to underpin the USD. However, the German election is likely to be very tight and government formation could take time to conclude. Uncertainty may weigh on the EUR until this process concludes.

Any Fed comments on its average inflation targeting (AIT) policy framework is likely to be key for the USD. If the policy is reasserted, real US yields should be capped or fall, limiting USD gains. However, if there is any hint that AIT could be discarded, real yields are likely to rise. We expect AIT will remain and that real yield differentials will weigh on the USD. In Germany, we expect fiscal spending to rise after the election, with a left-centre coalition without the CDU/CSU offering less constraints to greater fiscal stimulus and closer pan-European fiscal alliance. This, in turn, could accelerate expectations for a faster ECB policy normalisation, supporting the EUR.

EUR/USD may be forming a bullish inverse head-and-shoulders technical pattern. This suggests further EUR/USD weakness may be limited to the 1.1700-1.1750 area. A sustained rally above the 1.1910 neckline could trigger a strong rally through the 200-day moving average towards 1.2260 initially. A break below 1.1660 and the late-2020 lows around 1.1600 would suggest a deeper setback.

### Q Do you see the oil price rally sustaining? What is the implication across markets?

We remain constructive on oil prices amid the OPEC+ group's production discipline and normalising inventories. WTI crude oil prices (front-end contracts) and energy sector equities have rallied over the past week after data showed a larger-than-expected fall in US stockpiles. The bullish data followed warnings that supply lost from Gulf of Mexico storms could offset increased OPEC supply.

Sentiment was also propped up by the release of OPEC's latest outlook on the oil market where it raised 2022 oil demand forecasts. These revisions appear to be driven by a stronger-than-expected recovery in Chinese demand.

With prices of other traditional energy sources (eg. natural gas) surging, we believe crude oil could be a key beneficiary of 'substitution' effects. The winter season could also boost demand for distillates.

Energy sector equities in the US, Europe and China remain preferred. We expect the sector to catch up with crude oil prices, with oil production recovering alongside global oil demand. A reflationary backdrop, relatively high dividend yields and still-cheap valuations are tailwinds for the sector.

— DJ Cheong, CFA, Investment Strategist

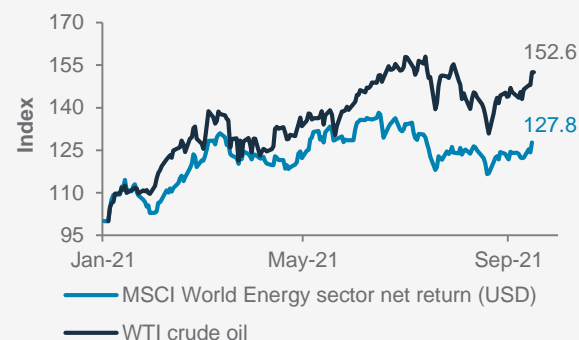
### EUR/USD appears to be forming a bullish head-and-shoulders technical pattern, which suggests any weakness may be limited to 1.1700-1.1750



Source: Bloomberg, Standard Chartered  
 Note: S – 'Shoulder' formation; H – 'Head' formation

### Global energy sector equities have underperformed the rise in oil prices, leaving scope for catch-up

Relative performance of MSCI World Energy sector index vs. WTI crude oil price; Index: 100 = 31 Dec 2020



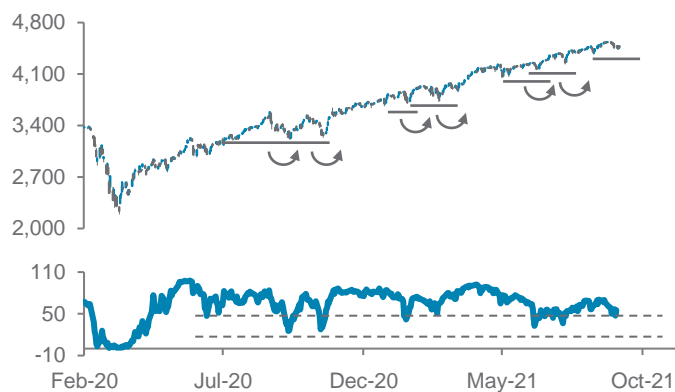
Source: Bloomberg, Standard Chartered

## Technical charts of the week

**Manish Jaradi**  
Senior Investment Strategist

### US equities: Business as usual?

S&P500 index daily chart with % stocks above 50-DMA

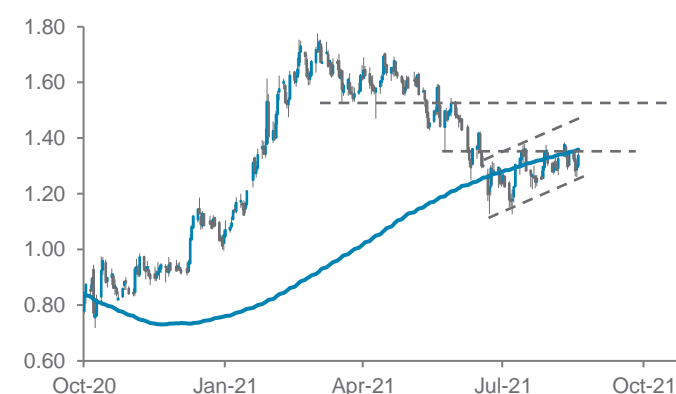


Source: Bloomberg, Standard Chartered

The S&P500 index is approaching the 'window', which has marked the end of pullbacks since 2020 i.e. the previous low and the percentage of stocks above the 50-DMA approaching the 25%-50% zone. The mid-August low of 4,368 is key support, and unless it is broken, the trend remains up.

### US 10-year Treasury yield: Testing key resistance

US 10y Treasury yield daily chart with 200-DMA



Source: Refinitiv, Standard Chartered

The double-bottom (the July and August lows) and the subsequent higher-lows formation are signs that the US 10-year Treasury yield is attempting to form a base. Still, the yield needs to break above immediate resistance at 1.385% for the downward pressure to fade.

### US Energy: Broad recovery picture remains intact

MSCI USA Energy sector index weekly chart



Source: Bloomberg, Standard Chartered

Despite the recent retreat, the MSCI USA Energy sector index failed to break below key support at the June 2020 high of 182. The uptick in momentum this week is a positive sign and opens the way for an eventual test of the downtrend line from 2014; now at about 235 (22% from Thursday's close).

### Europe Energy: Showing potential to break higher

MSCI Europe Energy sector index monthly chart



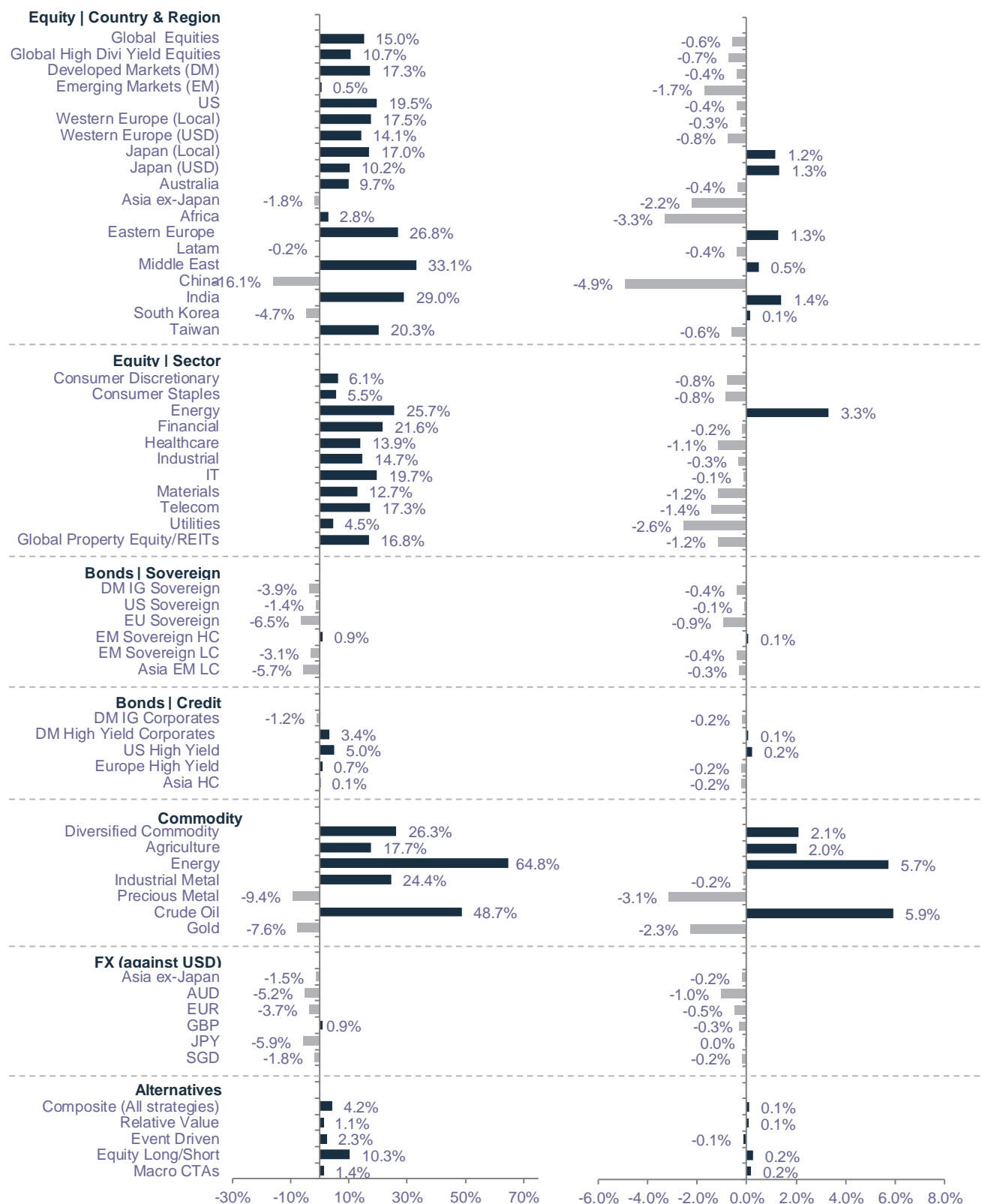
Source: Bloomberg, Standard Chartered

After the late-2020 rebound, gains in the European Energy sector have stalled since Q2 around key horizontal trendline resistance from 2008-2009. However, the shallow retreat in recent weeks coupled with a hold above support at 97 raise the odds of an eventual break above resistance at 109-110.

## Market performance summary \*

2021 YTD

1 Week



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 16 September 2021; 1-week period: 09 September 2021 to 16 September 2021

### Our asset class views at a glance

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

Source: Standard Chartered Global Investment Committee

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

### S&P500 has first support 0.5% below current level

Technical indicators for key markets as on 16 September 2021

Index	Spot	1st support	1st resistance
S&P500	4,474	4,451	4,489
STOXX 50	4,170	4,147	4,192
FTSE 100	7,027	7,007	7,058
Nikkei 225	30,323	30,208	30,555
Shanghai Comp	3,607	3,571	3,679
Hang Seng	24,668	24,155	25,693
MSCI Asia ex-Japan	816	807	833
MSCI EM	1,277	1,266	1,298
Brent (ICE)	75.7	73.8	76.6
Gold	1,754	1,737	1,788
UST 10Y Yield	1.34	1.30	1.36

Source: Bloomberg, Standard Chartered

### Economic and market calendar

	Event	Next week	Period	Prior
MON				
TUE	US	Building Permits	Aug	1630k
WED	EC	Consumer Confidence	Sep A	-5.3
THUR	US	FOMC Rate Decision (Upper Bound)	22-Sep	0.3%
	BZ	Selic Rate	22-Sep	5.3%
	GE	Markit/BME Germany Composite PMI	Sep P	60.0
	EC	Markit Eurozone Manufacturing PMI	Sep P	61.4
	UK	Bank of England Bank Rate	23-Sep	0.1%
	US	Leading Index	Aug	0.9%
FRI/SAT	JN	Natl CPI Ex Fresh Food, Energy y/y	Aug	-0.6%
	US	New Home Sales	Aug	708k

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 remain normal across major assets

Our proprietary market diversity indicators as of 15 September

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↑	1.85
Global Equities	●	→	1.56
Gold	●	↓	1.80
<b>Equity</b>			
MSCI US	⦿	→	1.37
MSCI Europe	●	↑	1.66
MSCI AC AXJ	⦿	→	1.49
<b>Fixed Income</b>			
DM Corp Bond	●	↑	1.62
DM High Yield	●	↑	1.62
EM USD	⦿	→	1.41
EM Local	●	↓	1.59
Asia USD	●	↑	1.85
<b>Currencies</b>			
EUR/USD	⦿	→	1.48

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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