



# Weekly Market View

## An upbeat Fed calms markets

Markets have heaved a sigh of relief after the Fed upgraded its growth forecasts and appeared confident in unwinding its record stimulus. In Europe, polls are increasingly pointing to a coalition between the socialist SPD, the Greens and the liberal FDP after the 26 September elections, which could lead to more fiscal stimulus. These developments support our positive outlook for US and Euro area equities. We remain watchful about Evergrande's fallout in China, although we believe widespread contagion is unlikely.

**Equities:** We see the Fed's increasingly confident outlook and moderately hawkish stance as a tailwind for Value-style equities.

**Bonds:** The risk-reward balance for medium-term investors in Asian High Yield bonds remains attractive, despite Evergrande's challenges, given attractive valuations and improving China property sector fundamentals.

**FX:** A win for the socialist-Green-liberal alliance in Germany is likely to trigger a EUR/USD rebound.



What is the outlook for China markets following the developments at Evergrande?

What do the Fed's more hawkish forecasts mean for various equity sectors?

What is the technical outlook for Hong Kong and China stocks?

## Charts of the week: Stronger US growth supports earlier rate hikes

The Fed upgraded 2022-23 growth and inflation estimates, which explains its forecasts for earlier-than-expected rate hikes

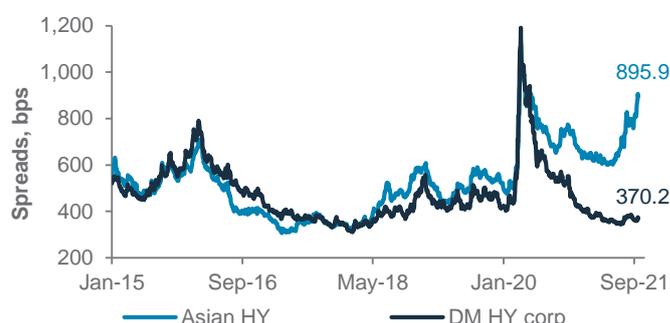
Fed's projections for growth, inflation, unemployment and rates

Dates	GDP growth		Unemployment		Core PCE inflation		Rates estimates	
	Old	New	Old	New	Old	New	Old	New
2021	7.0	5.9	4.5	4.8	3.0	3.7	0.1	0.1
2022	3.3	3.8	3.8	3.8	2.1	2.3	0.1	0.3
2023	2.4	2.5	3.5	3.5	2.1	2.2	0.6	1.0
2024	N/A	2.0	N/A	3.5	N/A	2.1	N/A	1.8

Source: US Federal Reserve, Bloomberg, Standard Chartered; \*Over US Treasury yields

Old - June projections; New - September projections; Rate estimates are the Fed's latest median interest rate estimates for the end of each year

Yield premiums\* on Developed Market, Asian High Yield bonds



## Editorial

### An upbeat Fed calms markets

Investors can breathe a sigh of relief – the Fed remains upbeat about the US economy, so much so that it has upgraded 2022-23 GDP growth forecasts to well above the long-term trend. It also marginally brought forward the expected timeline for ending its bond purchase programme and the start of its rate hiking cycle. Meanwhile, China's embattled property developer, Evergrande, said it will pay a coupon on local currency bonds, easing concerns after earlier missing payments on some bank loans (the fate of its USD bond payments remained unclear).

Equity markets cheered both developments after a few weeks of queasiness – with both US and China stocks up and volatility down after these events. In Europe, the latest opinion polls and betting market odds point to a coalition government consisting of the Social Democratic Party, the Greens and the business-friendly Free Democratic Party after the 26 September election. Such a coalition is likely to be fiscally accommodative, thus lifting the region's growth potential. We view the developments as constructive for global equities, especially in the US and Euro area, as well as for Value stocks. The German elections could also be a catalyst for a EUR rebound (see pages 4-5).

The main surprise from the Fed was Chair Powell's comment that its bond purchase tapering will be finished by the middle of next year. This implies, starting from November or December, the Fed will slow the pace of its USD 120bn-a-month of bond purchases by USD 15bn each month, ending the programme by June or July next year. This is faster than the market's earlier base case of a Q4 2022 end. This timeline also fits in with the Fed's new interest rate projections, which show that half of the policymakers expect to start hiking rates by the end of 2022, instead of 2023 previously. The median Fed policymaker also expects three more hikes each in 2023 and 2024. The US 10-year Treasury yield has risen c. 10bps since the Fed meeting.

The Fed's growing confidence shows that it is not too perturbed by the pandemic's resurgence in Q3, which led to a slump in job creation in August. We share this optimism as vaccinations continue to rise in the US, albeit at a slower pace than before, likely enabling activity to return to normalcy by the year end.

Fed Chair Powell also said he believes the current bout of high inflation will fade, with its preferred inflation measure (core PCE) settling just above the central bank's long-term target of 2% by 2022. The slightly above-target core inflation estimates for 2022-23 probably explains the added urgency for the Fed to unwind its unprecedented stimulus. We see this in a positive light, i.e. any policy tightening based on improving growth and moderate inflation expectations is a virtuous environment for a world that has undergone a decade of deflationary pressures. Value-style equities typically perform well in the emerging reflationary scenario anticipated by the Fed (see page 5).

While there are concerns about a US government shutdown in October as the Treasury runs out of funds, we view this as a low probability event and a temporary source of market volatility. In the end, the Democrats can raise the debt ceiling using a special reconciliation process in the Senate (which needs only 51 votes, instead of the usual 60 to pass money bills), packaging it together with President Biden's signature infrastructure and other spending plans. However, this would mean the spending plans may have to be curtailed.

China, meanwhile, remains a stock-and-sector-pickers' market, in our view, as regulatory reforms and property sector stress are unlikely to fade soon. For investors in Asia with a 6-12 month horizon, we prefer China's industrial and energy equity sectors and Asia High Yield bonds where yield premiums are attractive vs US High Yield peers (see chart above and page 4). We continue to watch Evergrande and its fallout closely.

— Rajat Bhattacharya

## The weekly macro balance sheet

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

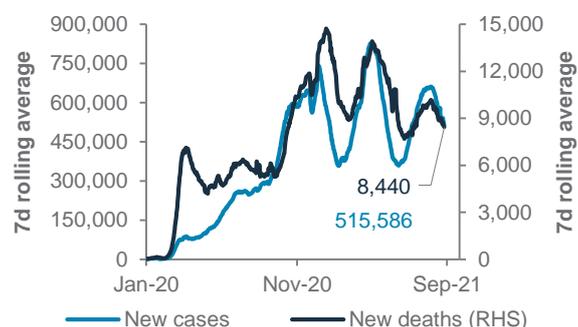
**(+) factors:** Peak COVID cases, easing travel limits, US growth upgrade

**(-) factors:** Hawkish Fed, weaker European business confidence (PMI)

	Positive for risk assets	Negative for risk assets
<b>COVID-19</b>	<ul style="list-style-type: none"> <li>Global new cases, including in the US, have peaked</li> <li>Hospitalisations in highly vaccinated UK remain well below prior waves despite elevated level of infections; US hospitalisations peaked</li> <li>US approved booster shots for above 65-year-olds; Pfizer said its vaccine was safe for 5-11-year-olds; US to ease travel restrictions</li> </ul>	<ul style="list-style-type: none"> <li>US fatalities continue to rise</li> <li>New infections remain close to record in Australia and Philippines and continue to rise in Singapore and Canada, which have among the highest level of vaccinations globally</li> </ul>
	<b>Our assessment: Positive</b> – Peak global cases, safe vaccines for 5-11-year olds, US booster shots & easing travel restrictions	
<b>Macro data</b>	<ul style="list-style-type: none"> <li>US Fed upgraded its growth forecast for 2022 &amp; 2023 to above-trend 3.8% and 2.5%</li> <li>Fed sees inflation falling back close to 2% by 2022</li> <li>US housing starts rose more than expected</li> <li>Euro area consumer confidence rose more than expected</li> </ul>	<ul style="list-style-type: none"> <li>US existing homes sales unexpectedly fell; consumer sentiment rose less than expected; jobless claims rose more than expected</li> <li>Euro area and UK composite PMIs fell more than expected</li> <li>UK retail sales fell more than expected</li> </ul>
	<b>Our assessment: Neutral</b> – US growth forecast upgrades, rising Euro area consumer confidence vs weaker Europe PMIs	
<b>Policy developments</b>	<ul style="list-style-type: none"> <li>US House approved the suspension of debt ceiling through to 2022, sending the bill to the Senate</li> <li>PBoC injected CNY 120bn into the banking system</li> </ul>	<ul style="list-style-type: none"> <li>Fed projections showed half of its policymakers expect the first rate hike in 2022</li> <li>Powell said the Fed likely to end tapering by mid-2022</li> <li>BoE signalled it could raise rates as soon as November</li> </ul>
	<b>Our assessment: Neutral</b> – PBoC support vs hawkish Fed	
<b>Other developments</b>	<ul style="list-style-type: none"> <li>China's second largest property developer said it will pay the coupon on a domestic bond</li> </ul>	
	<b>Our assessment: Positive</b> – Easing China contagion worries	

### COVID-19 infections and fatalities have peaked across most countries

Global daily new cases, deaths; seven-day average



Source: Our World in Data, Standard Chartered

### Euro area consumer confidence has picked up strongly this year, while US confidence took a dip with the resurgence of the pandemic in Q3

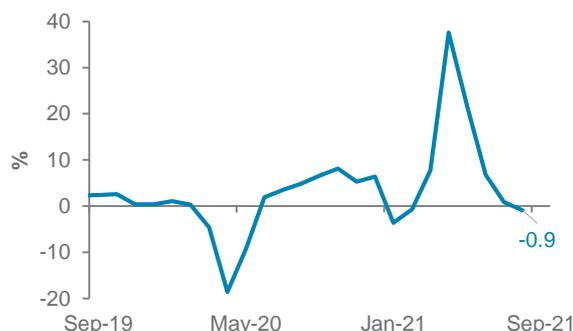
Euro area consumer confidence; US Michigan consumer sentiment



Source: Bloomberg, Standard Chartered

### UK retail sales fell more than expected in August, underlining the fragility of the recovery

UK retail sales volume growth



Source: Bloomberg, Standard Chartered

## Top client questions

### Q What is the outlook for China bonds and equities following developments at Evergrande?

Over the past week, concerns of a potential default by Evergrande and its spillover to the broader property sector continued to increase. Earlier this week, Evergrande missed bank loan payments, though the company subsequently confirmed it has “negotiated” coupon payments with holders of its onshore bonds. At the time of writing, it is unclear whether the company has paid bond coupons due to its offshore bondholders. Bond and stock prices of several smaller or lower-rated developers have plunged sharply as markets increasingly price broader policy and contagion risks to the sector.

While we cannot rule out further downside in Asia High Yield (HY) bond prices in the near term, we believe authorities are likely to step in to stem any signs of broad-based contagion for 2 reasons:

1. To prevent a large number of defaults across many property developers, which may further exacerbate contagion and social stability risks.
2. The real estate sector, along with its upstream and downstream linkages, is a significant contributor to Chinese GDP growth. Policymakers are likely to be cognizant that an extended period of low real estate investment would be an additional drag on the broader economy.

With the exception of a few developers, the government’s ‘3 Red Lines’ policy of improving the property sector’s credit quality has been largely successful in incentivising developers to reduce leverage and improve their balance sheets. Hence, given our view of limited contagion, an improvement in aggregate fundamentals and attractive valuations on offer, we continue to view the risk-reward for Asian HY bonds as attractive on a 6-12 month horizon.

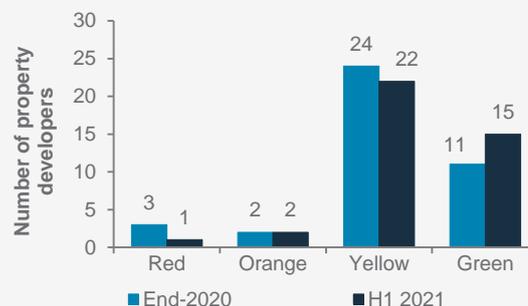
In equities, we view the Chinese property sector (accounting for about 4% of the MSCI China index) as least preferred, a view we have held since December 2020. The lack of clarity on how widely the concept of “common prosperity” is applied means it remains extremely difficult to forecast the impact on earnings for the property sector as well as other sectors currently facing regulatory reform.

Hence, while Hong Kong/China equities may continue to offer short-term tactical trading opportunities, we continue to prefer US and European equities on a 6-12 month horizon.

- **Abhilash Narayan**, *Senior Investment Strategist*
- **Daniel Lam**, *CFA*, *Senior Cross-asset Strategist*

### In aggregate, the credit quality of major China property developers has improved since the government introduced stricter leverage policies

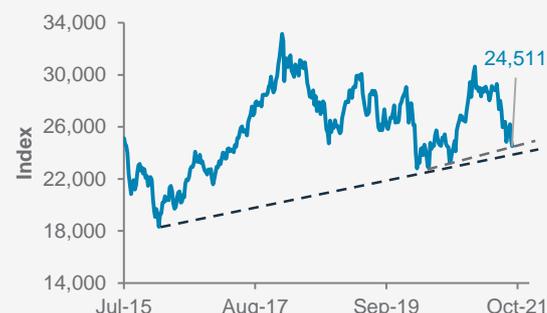
No. of major China property developers under various credit quality categories as per the ‘3 Red Lines’ policy



Source: Bloomberg, Standard Chartered; \*Green = strongest credit quality, Red = weakest credit quality

### Hong Kong’s benchmark index is testing a key technical support

Hong Kong’s Hang Seng index



Source: Bloomberg, Standard Chartered

## Top client questions (cont'd)

### Q What do the Fed's more hawkish rate forecasts mean for various equity sectors?

In theory, a company's 'value' is based on the cashflows it is expected to generate in the future and the interest rate at which these are 'discounted' to the present. As rates rise, future cashflows are discounted more heavily, lowering the value of a company.

On their own, higher interest rates would have a bigger negative impact on sectors that trade at higher valuation multiples. Sectors with higher valuation multiples derive more of their value from future expected growth, compared with sectors with a low multiple, and their future cash flows are discounted more heavily as rates move higher. Sectors with high multiples are often Growth companies, in the technology sector or disruptors expected to experience rapid growth, for example. The real estate sector, meanwhile, trades at a high multiple due to highly certain future cashflows, usually based on long term rent contracts. In our view, higher rates can be expected to have a relatively bigger negative impact in the US on the valuation of real estate, consumer discretionary and technology sectors.

However, higher rates should not be viewed in isolation. As discussed earlier, the Fed's stance reflects greater confidence in an improving economy. This could imply higher rents for the real estate sector or higher earnings for various sectors, which can be a significant offset when markets value a company. Nonetheless, higher rates have historically been a tailwind for Value sectors like Energy and Financials, which are our preferred sectors in the US.

— Fook Hien Yap, *Senior Investment Strategist*

### Q Is the EUR primed for an upturn after the Fed meeting?

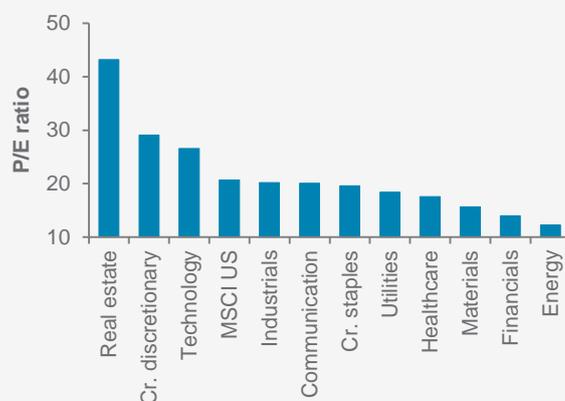
EUR/USD maintained its mildly bearish bias through the FOMC meeting, and despite a slightly hawkish outcome, losses have not accelerated. The Fed's Average Inflation Targeting (AIT) policy is still relevant, but the updated "dot plots" effectively gives the Fed the flexibility to respond to actual data and events. We may now see the other G10 central banks follow the Fed, helping cap USD strength.

Next comes the potentially transformational German election that could impact the direction of German fiscal policy and EU fiscal unity for many years to come. Voting will likely be very close. We observe a slight shift in polls towards a left-leaning "traffic light" coalition – the SPD, Greens and FDP – with Scholz seen as the next Chancellor. Extended negotiations around forming a new government could keep EUR/USD capped near-term, but the medium-term outcome likely points towards greater fiscal stimulus that could be the long-awaited catalyst for EUR strength and broad USD weakness.

The pair remains rangebound between 1.16 and 1.19. The technical inverse head-and-shoulders pattern discussed last week is still in play. This implies a test and break above the 1.19 "neckline", but a decline through 1.1660 would negate it. This weekend's elections may be a catalyst for a move, and we expect a EUR/USD rally to result in the coming weeks.

### Sectors with higher valuation multiples are more vulnerable to higher rates, such as Real Estate, Consumer Discretionary and Technology sectors

Price/earnings ratios for MSCI US index sectors, based on consensus 2022 earnings estimates



Source: Bloomberg, Standard Chartered

### EUR/USD's inverse head-and-shoulders pattern in charts implies a break above the 1.19 'neckline', while a fall through 1.1660 would negate it

EUR/USD



Source: Bloomberg, Standard Chartered

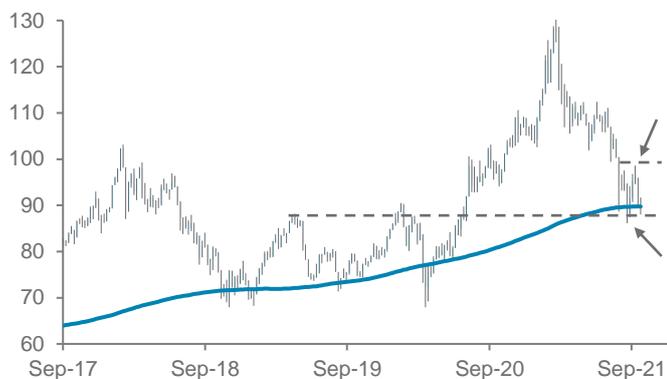
Note: S – 'Shoulder' formation; H – 'Head' formation

## Technical charts of the week

**Manish Jaradi**  
 Senior Investment Strategist

### MSCI China: Upward momentum is lacking

MSCI China index weekly chart with 200-WMA

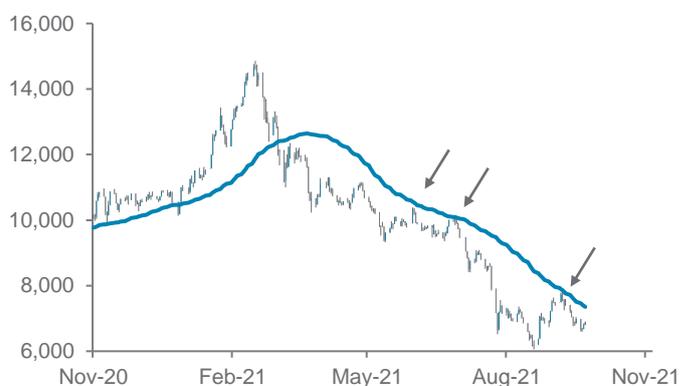


Source: Refinitiv, Standard Chartered

While the slide has paused for now given the fairly strong support, the MSCI China index has been lacking sustained upward momentum, at least strong enough to break past immediate resistance at the August high of 97.50. The barrier needs to break for a meaningful short-term rebound to occur.

### China internet: 55-DMA resistance is key

CSI Overseas China Internet index daily chart with 55-DMA



Source: Bloomberg, Standard Chartered

The rebound in the CSI Overseas China Internet index earlier this month ran out of steam at the 55-DMA. This resistance has been strong and a break above the MA is needed for the downward pressure to ease. In the absence of a break, the path of least resistance remains down.

### Hang Seng: In search of a bottom

Hang Seng Index daily chart with Relative Strength Index

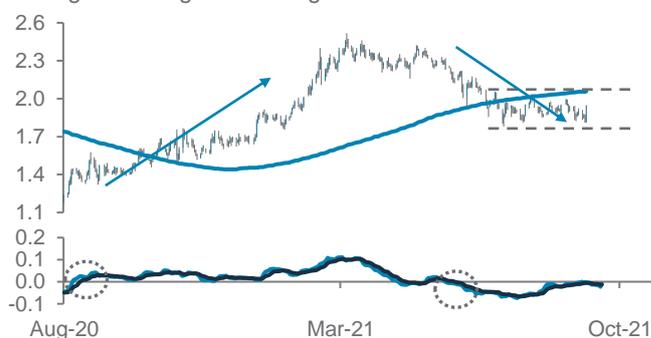


Source: Refinitiv, Standard Chartered

A positive divergence on the daily charts suggests that the slide in the Hang Seng index is losing steam (higher lows in RSI associated with lower lows in the index). But, at a minimum, the index needs to break above initial resistance at 24,750 for the downward pressure to begin fading.

### US 30-year Treasury yield: Looking vulnerable

US 30y Treasury yield daily chart with 200-DMA and Moving Average Convergence Divergence



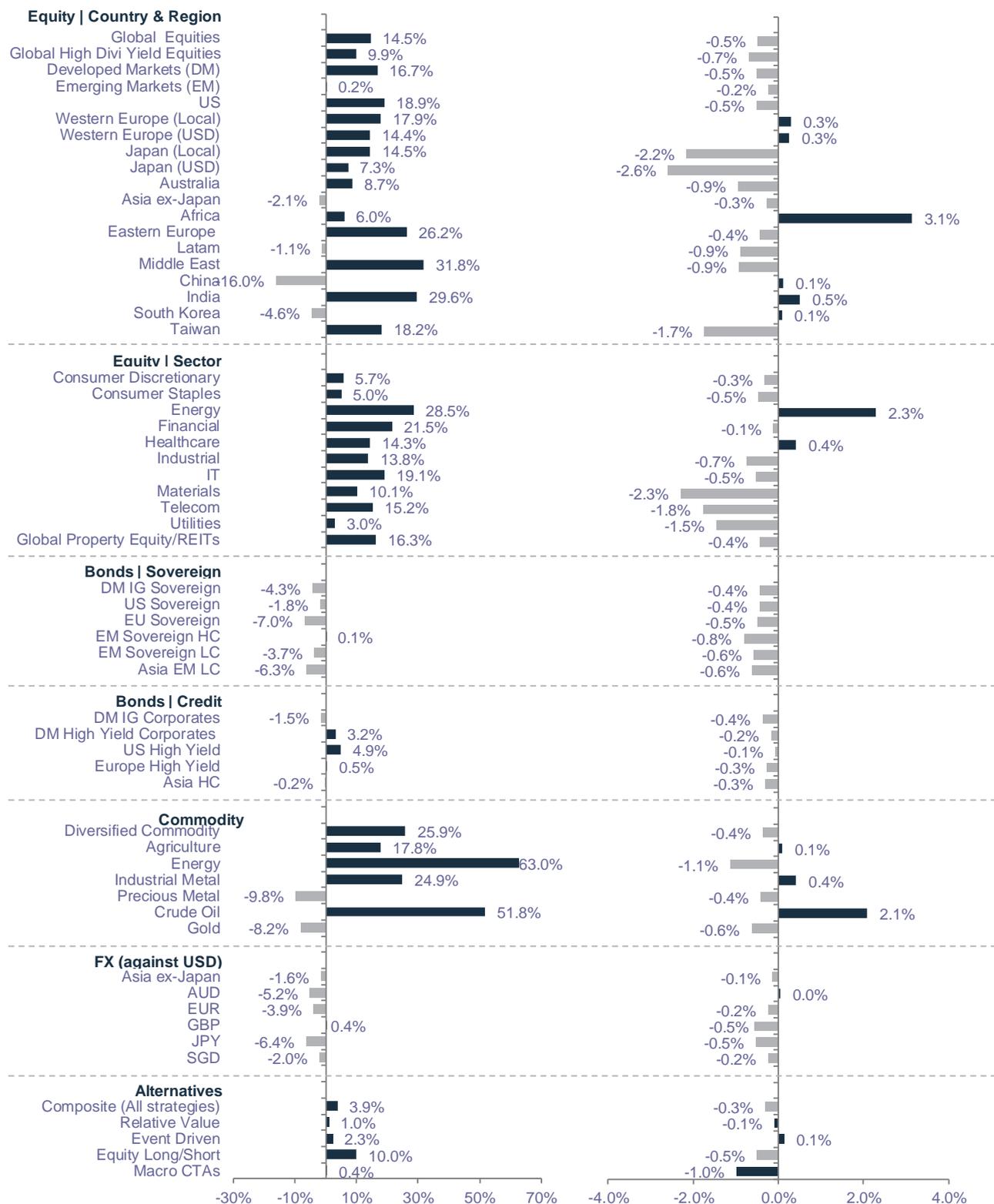
Source: Refinitiv, Standard Chartered

With the MACD indicator in the negative territory on the daily charts, the short-term trend of the US 30-year Treasury yield remains down. However, the July low of 1.78% remains a tough support to crack, and any break above the 200-DMA (now at 2.06%) could lead to an uptrend.

## 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 23 September 2021; 1-week period: 16 September 2021 to 23 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 1.4% below current level

Technical indicators for key markets as on 23 September 2021

Index	Spot	1st support	1st resistance
S&P500	4,449	4,386	4,481
STOXX 50	4,195	4,094	4,245
FTSE 100	7,078	6,960	7,140
Nikkei 225	29,639	29,266	30,614
Shanghai Comp	3,642	3,622	3,650
Hang Seng	24,511	24,092	24,914
MSCI Asia ex-Japan	813	806	820
MSCI EM	1,273	1,261	1,282
Brent (ICE)	77.3	75.1	78.5
Gold	1,743	1,739	1,770
UST 10Y Yield	1.43	1.35	1.49

Source: Bloomberg, Standard Chartered

### Economic and market calendar

	Event	Next week	Period	Prior
MON	EC	M3 Money Supply y/y	Aug	7.6%
	US	Durable Goods Orders	Aug P	-0.1%
TUE	CH	Industrial Profits y/y	Aug	16.4%
WED	EC	Economic Confidence	Sep	117.5
THUR	JN	Industrial Production y/y	Aug P	11.6%
	CH	Manufacturing PMI	Sep	50.1
	GE	CPI EU Harmonized y/y	Sep P	3.4%
FRI/SAT	EC	CPI Core y/y	Sep P	1.6%
	US	Real Personal Spending	Aug	-0.1%

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 22 September

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↑	1.73
Global Equities	●	↑	1.74
Gold	●	↓	1.91
<b>Equity</b>			
MSCI US	●	↑	1.50
MSCI Europe	●	↑	2.27
MSCI AC AXJ	◐	↑	1.44
<b>Fixed Income</b>			
DM Corp Bond	●	→	1.64
DM High Yield	●	↑	1.72
EM USD	●	→	1.55
EM Local	●	↑	1.70
Asia USD	●	↑	1.96
<b>Currencies</b>			
EUR/USD	◐	↑	1.40

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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