



Weekly Market View

Another bumper earnings season

US corporate earnings have once again delivered a resoundingly positive surprise. European earnings have also significantly beaten expectations. Bull markets are usually sustained by repeated earnings beats of this magnitude. While some equity market technical indicators are stretched, we remain buyers on dips.

Equities: Our preferred US Value sectors, such as financials and energy, have delivered some of the strongest earnings surprises.

We continue to prefer the cyclical Value sectors over their secular Growth peers

Bonds: We see limited scope for a further pullback in US Treasury yields. The immediate technical support for the 10-year yield is 1.528%

FX: We expect China's modest policy tightening to support the CNY and expect USD/CNY to decline towards 6.42 over the medium term



What is the outlook for the technology sector-heavy Nasdaq100 index?

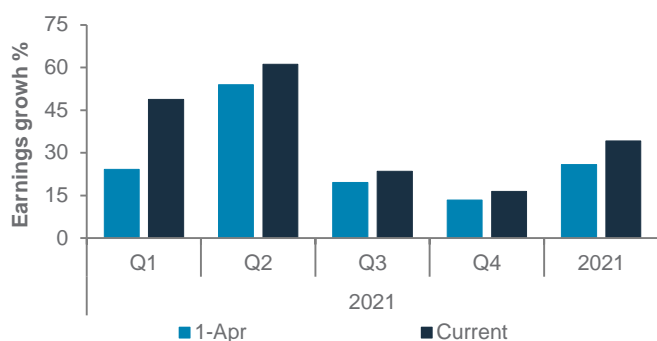
What are the implications of India's pandemic wave on its financial markets?

What are the charts saying about the outlook for Value style equities?

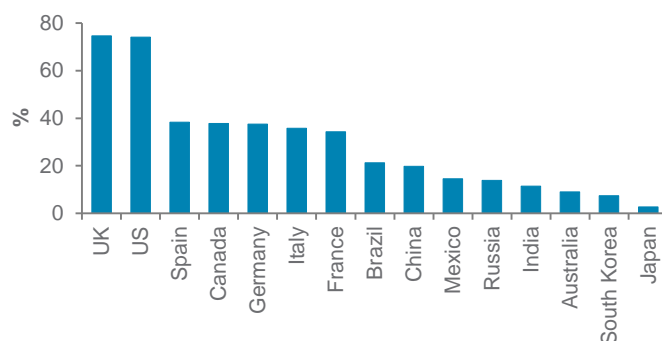
Charts of the week: Upbeat earnings

US earnings estimates have risen for every quarter this year; vaccinations should lead to further upgrades

US consensus earnings estimates, current vs 1 April



Vaccination rates* in the world's 15 largest economies



Source: Refinitiv, Our World in Data, Standard Chartered; *Number of COVID-19 vaccine doses administered as percentage of population

Editorial

Another bumper earnings season

The US earnings season has once again delivered a resoundingly positive surprise. The consensus is now expecting a 50% y/y jump in S&P500 earnings in Q1 vs a 24% rise seen at the start of April. The stellar earnings mirror the strong momentum in the economy. In Europe too, Q1 earnings growth estimates have been raised to 83% from 47% in early April. Bull markets are usually sustained by repeated earnings beats of this magnitude. We have highlighted over the past year that we expect markets to climb the wall of worry, helping risk assets to continue outperforming government bonds and cash. We expect this trend to continue over the coming quarters as vaccinations allow economies to return to normal.

The US earnings beats have been particularly positive in sectors most sensitive to the economic cycle. This supports our view of continued rotation from the secular Growth stocks to the cyclical Value equities (see page 4). We are not bearish on Growth stocks, per se. Technology sub-sectors such as 5G, medical technology and e-vehicles, for instance, form some of our key thematic preferences, given their secular, medium-to-long-term drivers for revenue and profit growth. Nevertheless, the broader technology sector faces near-term challenges (see page 4). For one, the strong economic momentum is reviving worries that central banks could start gradually withdrawing unprecedented monetary stimulus and lift government bond yields. In theory, higher bond yields reduce the current value of Growth stocks as future cash flows are 'discounted' by a higher interest rate.

Against this backdrop, we need to keep a close eye on the US job market and inflation trends. The April jobs

report is likely to show another month of strong job gains (consensus expects a million net new jobs). Some indicators (PMI prices paid) are also pointing to a rise in corporate pricing power. This is likely to fuel calls for a potential scaling down of Fed bond purchases. However, we believe most price pressures are temporary as they are caused not only by pandemic-driven supply bottlenecks, but also due to statistical effects from last year's recession. Hence, we expect these to fade by Q4 as bottlenecks are removed, businesses lift productive capacity and more people re-enter the job market.

Wages hold the key to any sustainable rise in inflation. Here, we are less optimistic. Even with a series of strong US job reports in the coming months, the US jobless rate is likely to stay high enough to limit wage pressures this year. Jobless rates are also likely to stay high in Europe as government job support programmes are withdrawn. Meanwhile, the latest business confidence (PMI) data shows China's economic activity continues to moderate, which should put a cap on global commodity prices.

As such, we see near-term price pressures and talk of gradual unwinding of monetary policy stimulus as a sign of growing confidence in the economic outlook, given the improving underlying fundamentals. Some equity market technical indicators, including metrics tracking investor diversity, look stretched, especially in some of the cyclical sectors (see page 9). This raises the risk of a short-term pullback in risk assets. We would use any such reversal as an opportunity to add exposure to our preferred cyclical sectors and longer-term thematic ideas, including those linked to infrastructure spending.

— Rajat Bhattacharya, Senior Investment Strategist

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

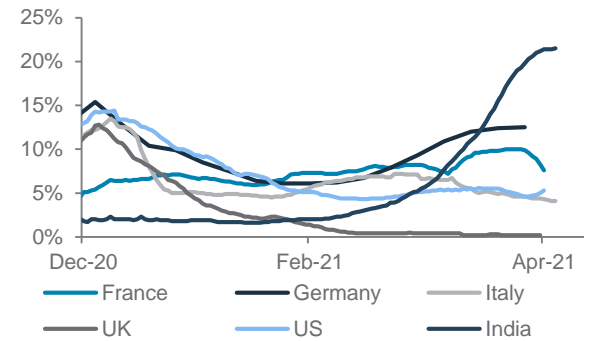
(+) factor: US, Europe pandemic improvement

(-) factor: India pandemic wave, US policy tightening talk

	Positive for risk assets	Negative for risk assets
COVID-19	<ul style="list-style-type: none"> New cases continued to fall in the US and Europe The US backed a plan to lift patent protections on COVID-19 vaccines President Biden set a July 4 target to provide at least one vaccine dose to 70% of US adults European Commission proposed easing travel restrictions for fully vaccinated people 	<ul style="list-style-type: none"> India's new cases and death rates continued to set new records, leading to calls by medical experts to impose a national lockdown New cases continued to rise in Japan US vaccination rates are slowing Germany said removing vaccine patent protection could hurt production
	Our assessment: Neutral – Falling cases in US, Europe and plan to lift vaccine patents vs surging cases in India	
Macro data	<ul style="list-style-type: none"> US jobless claims fell more than expected Euro area jobless rate fell more than expected and retail sales rose more than expected German factory orders rose more than expected Japan industrial output rose more than expected 	<ul style="list-style-type: none"> US manufacturing and services sector confidence (ISM PMIs) unexpectedly fell China manufacturing and non-manufacturing sector confidence (PMI) fell more than expected Euro area producer prices accelerated m/m
	Our assessment: Neutral – Strong US job market vs weaker-than-expected US, China PMI data	
Policy developments	<ul style="list-style-type: none"> RBA said rates will stay at record lows at least till 2024 RBI took steps to boost liquidity, credit supply ECB's Lane said this year's inflation surge was mainly due to statistical base effects 	<ul style="list-style-type: none"> Yellen said US rates may have to rise modestly to prevent overheating, though she later said she was not predicting hikes Weidmann said the ECB must be prepared to tighten policy when needed to curb inflation BoE slowed bond purchases
	Our assessment: Negative – Talk of policy tightening	

COVID-19 positive test rates have declined in most major economies, except in India; even in India, the positive test rate is decelerating

COVID-19 positive test rate* (%)



Source: Our World in Data, Standard Chartered; * Positive test rate: % of COVID-19 tests confirming the infection

Business confidence in the services sector worldwide has caught up with robust manufacturing sector confidence

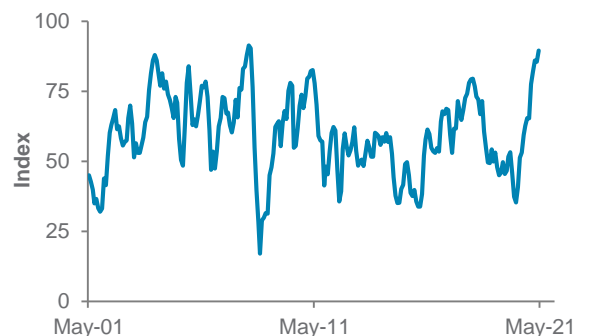
Global manufacturing and services sector PMIs



Source: Bloomberg, Standard Chartered

US price pressures are building due to supply bottlenecks and favourable base effects; we expect the rise to be temporary

US PMI index for prices paid by manufacturers



Source: Bloomberg, Standard Chartered

Top client questions

Q What are the key takeaways from the US Q1 2021 earnings season?

We are nearing the end of yet another stellar earnings season in the US, with nearly 84% of the S&P500 companies having reported Q1 earnings. The consensus now expects Q1 earnings growth of +50%, significantly higher than the +24% expected at the start of April. Such strong earnings, as well as a combination of fiscal stimulus and easy monetary policy, are consistent with our preference for US equities.

Consumer discretionary, energy and financials are the three sectors that have delivered the biggest earnings surprise. Energy and financials are two of our preferred sectors in the US – alongside materials and industrials. This reinforces our rotation to Value sectors theme.

From a technical standpoint, in the short term, Value sectors appear to be overbought and are coming up against key resistance (see page 8). However, we believe medium-to-long-term technicals remain strong, as shown by various other indicators (such as wave count, breakout, MACD and ADX). When matched with the fundamental outlook, we believe it is attractive to average into these sectors, taking advantage of any pullbacks.

— Daniel Lam, CFA, Senior Cross-Asset Strategist

Q What is the outlook for Nasdaq-100 in the near term?

Unlike the S&P500 index, the technology sector-heavy Nasdaq-100 index has weakened in recent days. Technical charts suggest the index may have another 5% downside from current levels in the near term. The continued strength in the US economy coupled with the speed of vaccination has lent a tailwind to the reopening theme, benefitting Value sectors (as opposed to Growth sectors such as technology). The resulting worries of higher US bond yields have hurt the valuation of Growth stocks in the Nasdaq-100 index. Ongoing talk of whether the recent rise in inflation is transitory or long-lasting, and whether Fed policy could eventually tighten as a result, could act as a headwind for the Nasdaq-100 index.

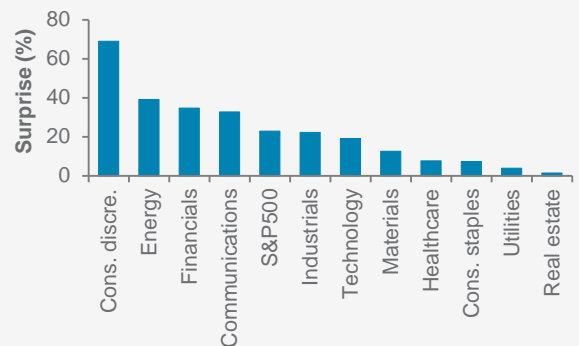
Moreover, growing concerns about Biden's capital gains tax agenda, particularly following last week's address to the US Congress, likely triggered some profit-taking given strong technology sector gains since last year. Further profit-taking could remain an overhang on the Nasdaq-100 index.

Our preference continues to be for Value sectors in the US, ie, energy, financials, materials and industrials.

— Daniel Lam, CFA, Senior Cross-Asset Strategist

Our preferred US energy and financial sectors have delivered strongly positive earnings surprises in Q1

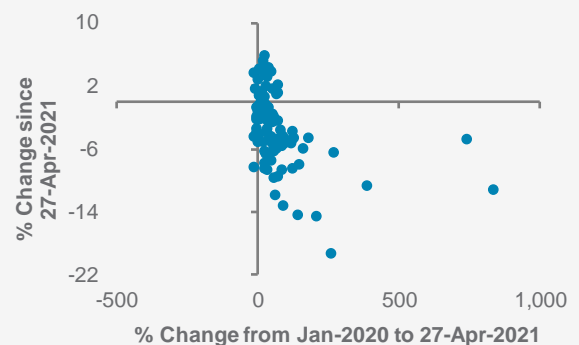
US Q1 earnings surprise, by sector



Source: Refinitiv, Standard Chartered

Nasdaq 100 index: broadly, bigger the gains since the start of the pandemic, the bigger the pullback since April amid profit-taking

Performance of Nasdaq 100 index members since start of 2020 and since 27 April



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q Can US Treasury yields pull back further?

10-year US Treasury yields declined over the past week and broke through the 50-Day Moving Average. We view the recent pullback in yields as temporary. Significant foreign currency bond buying by Japanese investors due to periodic rebalancing as well as concerns regarding the resurgence of global virus cases have likely helped push yields lower.

However, the underlying US economic data remains robust and recent policymaker remarks point to a risk of earlier-than-projected monetary tightening by the Fed. Additionally, while the market's inflation expectations are elevated by historical standards, near-term supply bottlenecks could drive them even higher, exerting further upward pressure on yields.

On technical charts, any break below immediate support at the April low of 1.528% would confirm that the multi-month upward pressure had faded, opening the way towards support on the 100-DMA (now at 1.35%). On the upside, the March high of 1.776% remains tough resistance.

Thus, on balance, we see limited scope for a further pullback in yields and expect the 10-year bond yield to trade between 1.50% and 1.75%, with an upward bias.

— **Abhilash Narayan**, *Senior Investment Strategist*

Q What are the implications of China's monetary policy tightening on FX markets?

China's policymakers have clamped down on excess leverage, taking advantage of a rapid economic recovery from the COVID-19 pandemic. We expect the impact on FX markets to be felt via growth and yield differentials, in proportion to how deeply China reins in these excesses.

While moderating growth is likely to weigh on China government bond yields, this will likely have a limited impact on US-China bond yield differentials as US yields remain range-bound. China's growth outperformance vs the rest of the world and its modestly tighter monetary policy is likely to support the CNY. Given our bearish USD view, we expect USD/CNY to slide towards 6.42 over the next 6-12 months.

Beyond the CNY, an improving global growth outlook means 'high-beta' currencies (such as the AUD) are also likely to strengthen. Although the RBA will likely keep policy accommodative, terms of trade remain a structural supportive factor for the AUD. We remain AUD/USD buyers on dips with a 12-month target of 0.82. Borrowers may use the dips to reduce AUD loan exposure. Key support is likely near 0.7565.

— **DJ Cheong**, *CFA, Investment Strategist*

On technical charts, the US 10-year Treasury yield needs to break below 1.528% to confirm that the upward pressure has faded

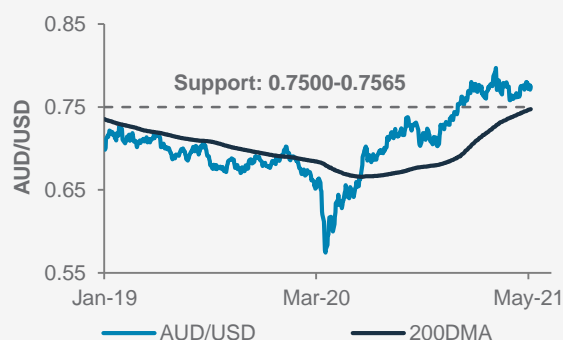
US 10-year Treasury yield



Source: Bloomberg, Standard Chartered

We expect riskier currencies such as the AUD to strengthen over the next 6-12 months; thus, we would remain buyers on dips

AUD/USD



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q What are the implications of India's pandemic wave on its stocks, bonds and currency markets?

India remains in the midst of a significant second pandemic wave as daily new COVID-19 cases hit record highs and more states impose lockdowns. The Oxford stringency index and average Google mobility report are now back to October 2020 levels.

The consensus expects any economic impact to be restricted to the current quarter. Though growth expectations have been lowered for the financial year ending March 2022, growth is still expected to be in double digits, supported by favourable base effects, faster vaccine roll-out, benign policy and improving global growth. Policy support also remains strong amid a wider fiscal deficit and the RBI's signal that it will remain accommodative as long as needed to sustain growth. This explains the INR's resilience amid the latest wave.

Equity earnings expectations remain robust. Q1 2021 calendar year earnings are expected to double compared to last year on a low base and sharp recovery. 12-month forward earnings expectations remain at a robust 30%, with positive momentum holding.

Also, bond yields are likely to be capped after the RBI committed to purchase INR 1.0tn worth of Indian government bonds in the current quarter. This should support equity valuations. While there are clearly risks to Q2, these factors point to a still robust full-year outlook for Indian equities.

Nevertheless, Indian USD bond yield premiums have increased by 15-20bps versus the broader Asian USD bond universe since late-March. In the near-term, another 10-20bp yield premium increase cannot be ruled out. In the medium term, the risk of a sovereign rating downgrade has increased. Under such a risk scenario, a further 30-50bp increase in yield premium for Indian USD bonds is possible.

The INR has been resilient despite regional lockdowns as investors expect the economic impact of the pandemic wave to be temporary

USD/INR



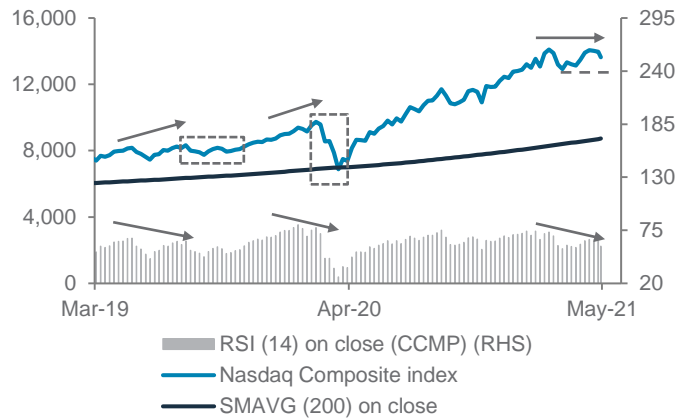
Source: Bloomberg, Standard Chartered

Technical charts of the week

Manish Jaradi
 Senior Investment Strategist

Nasdaq: Still just a pause

Nasdaq Composite index weekly chart

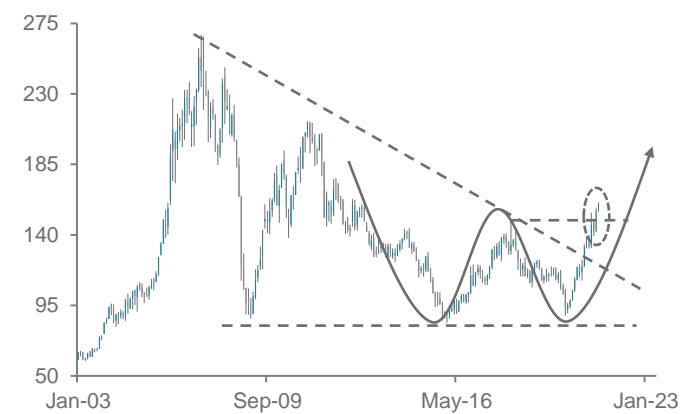


Source: Bloomberg, Standard Chartered

For the current pause to be more than minor, the Nasdaq Composite index would need to break below key support at the March low of 12,397.

Industrial Metals: Major long-term reversal

Bloomberg Industrial Metals index monthly chart

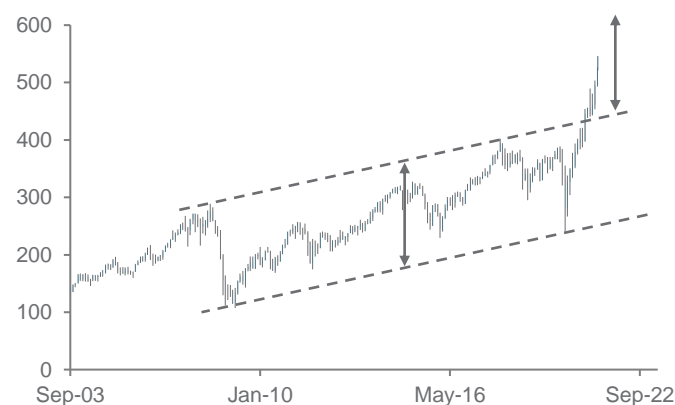


Source: Bloomberg, Standard Chartered

The Industrial Metals index has broken above key resistance at the 2018 high of 149, confirming a major low in the commodities cycle.

US Materials sector: Relentless rise

S&P 500 Materials sector Monthly chart

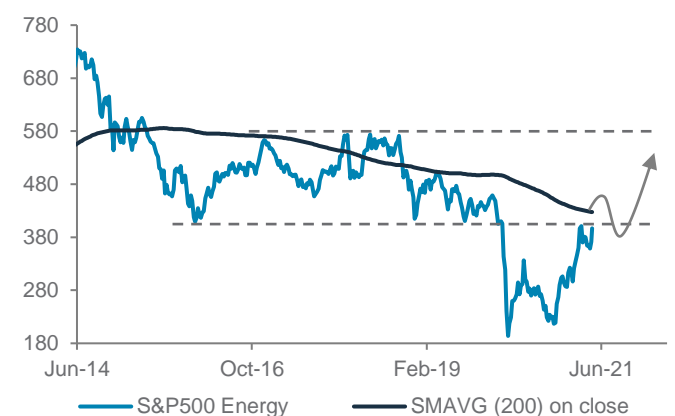


Source: Bloomberg, Standard Chartered

A major bullish break from a multi-year upward-sloping range points to further rise over the medium term in the S&P500 materials sector index.

US Energy sector: Scope for a further rise

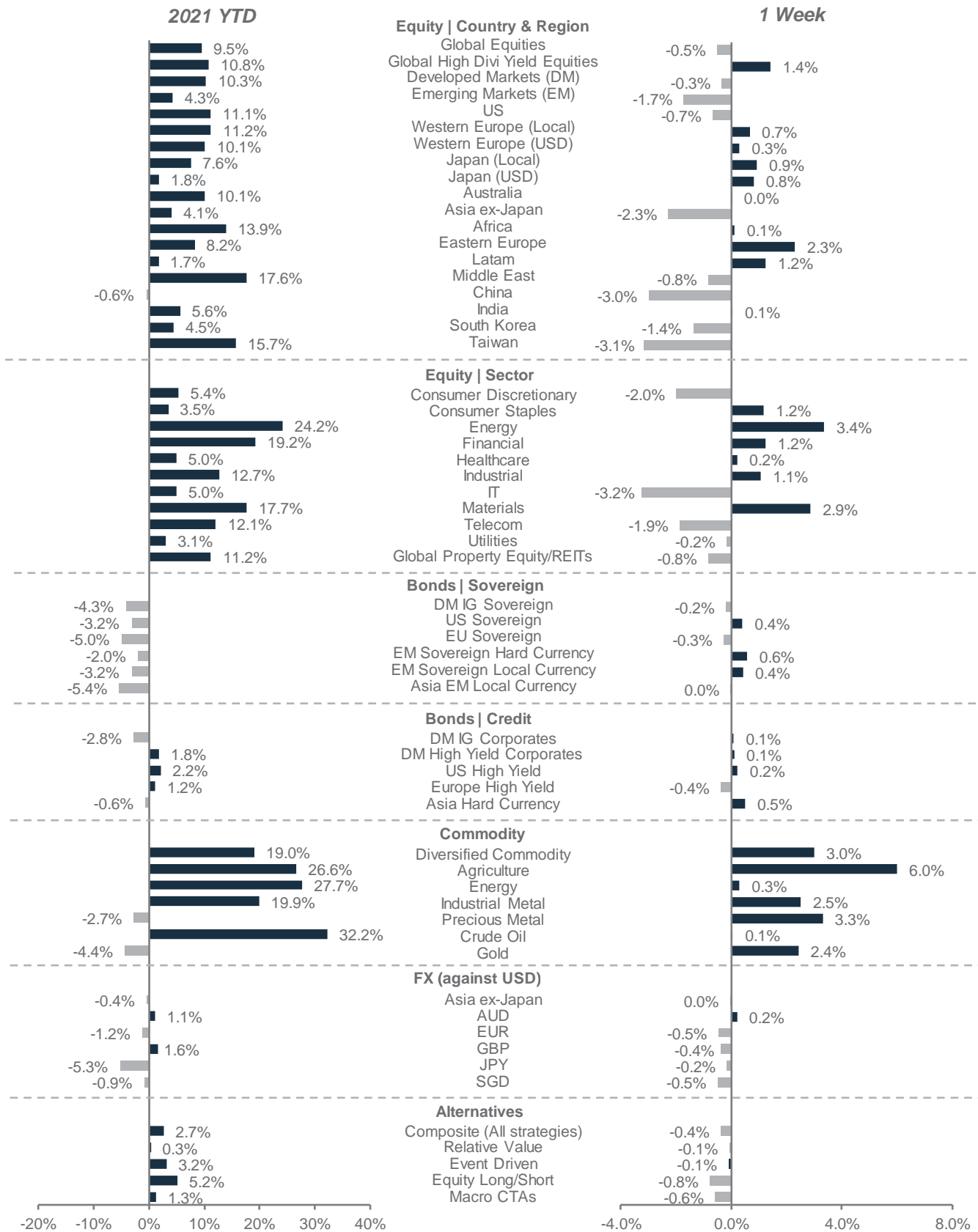
S&P 500 Energy sector Weekly chart



Source: Bloomberg, Standard Chartered

While the US energy sector faces immediate converged resistance, chances of an eventual break higher are rising, potentially towards 583.

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 06 May 2021; 1-week period: 29 April 2021 to 06 May 2021

Our asset class views at a glance

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

Source: Standard Chartered Global Investment Committee

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

S&P500 has first support 0.6% below current level

Technical indicators for key markets as on 06 May 2021

Index	Spot	1st support	1st resistance
S&P500	4,202	4,177	4,214
STOXX 50	3,999	3,949	4,027
FTSE 100	7,076	6,974	7,127
Nikkei 225	29,331	28,986	29,504
Shanghai Comp	3,441	3,439	3,445
Hang Seng	28,637	28,422	28,789
MSCI Asia ex-Japan	875	869	882
MSCI EM	1,341	1,333	1,348
Brent (ICE)	68.1	67.2	69.0
Gold	1,815	1,784	1,830
UST 10Y Yield	1.57	1.55	1.61

Source: Bloomberg, Standard Chartered

Economic and market calendar

	Event	Next week	Period	Prior
MON	EC	Sentix Investor Confidence	May	13.1
TUE	JN	Household Spending y/y	Mar	-6.6%
	CH	CPI y/y	Apr	0.4%
	EC	ZEW Survey Expectations	May	66.3
WED	US	JOLTS Job Openings	Mar	7367k
	US	CPI Ex Food and Energy y/y	Apr	1.6%
THUR	UK	GDP y/y	1Q P	-7.3%
FRI/SAT	US	Retail Sales Ex Auto and Gas	Apr	8.2%
	US	Industrial Production m/m	Apr	1.4%
	US	U. of Mich. Expectations	May P	82.7

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

Low investor diversity in some equity sectors

Our proprietary market diversity indicators as of 05 May

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↑	1.42
Global Equities	●	↓	1.44
Gold	●	↑	1.64
Equity			
MSCI US	●	↓	1.41
MSCI Europe	●	→	1.30
MSCI AC AXJ	●	↓	1.52
Equity Sectors (US)			
Industrials	○	↓	1.22
Materials	○	↓	1.23
Financials	○	→	1.23
Real Estate	●	→	1.25
Energy	●	→	1.31
Currencies			
EUR/USD	●	↑	1.98

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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