

# Weekly Market View

## Biden rally gets a vaccine shot

The past couple of weeks have been constructive for risk assets – first with Biden being projected as the US election winner, followed by positive test results from a COVID-19 vaccine. The resurgence of the virus in Europe and the US is a near-term hurdle, but we believe the stage is being set for extension of the rally in 2021

**Equities:** 'Value' stocks have long underperformed 'Growth' peers. The following pages explain why more conditions need to fall in line for 'Value' to outperform 'Growth' sustainably

**Bonds:** US Treasury yield gains are likely to be short-lived. We discuss why we continue to prefer riskier bonds, including in Asia

**FX:** Gold is likely to remain under pressure in the near-term as risk appetite returns

## Also find out...

What are the implications of China's new regulations on its technology sector?

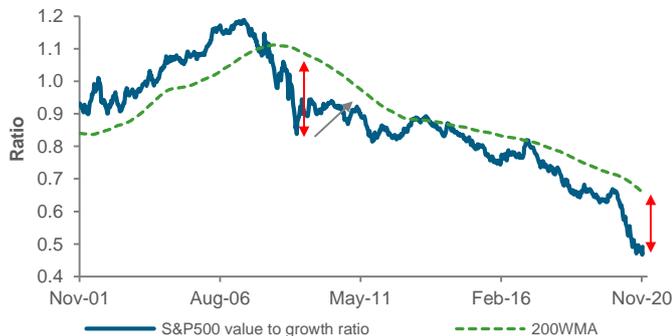
Would US REITs benefit from economic optimism from COVID-19 vaccines?

Are gains in the CNY and commodity currencies likely to extend?

## Charts of the week: Start of a new trend?

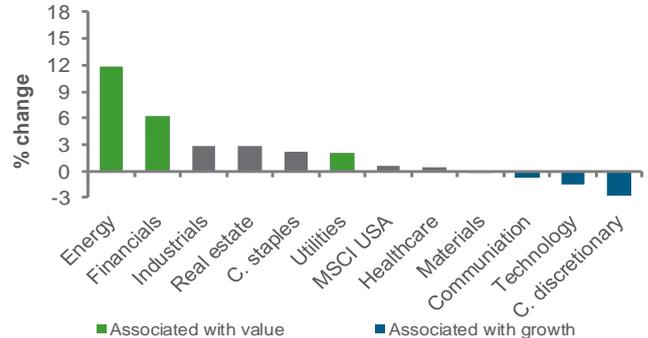
'Value' stocks have long underperformed 'Growth' equities, but promising vaccine results could lead to a rebound

Ratio of S&P500 Value vs Growth indices; 200-week moving average



Source: MSCI, FactSet, Bloomberg, Standard Chartered

S&P500 index sectoral gains since close of trading on 6 Nov, 2020



## Editorial

### Biden rally gets a vaccine shot

The past couple of weeks have been constructive for risk assets. First came the relief rally as projections showed US voters chose Democrat Joe Biden as the next President and left the Senate narrowly under the Republicans' control. This combination reduces the chances of higher taxes and increased regulation that would have resulted from a Democrat 'Blue wave'. Meanwhile, Biden's more diplomatic approach to foreign policy has arguably lowered geopolitical risk for investors.

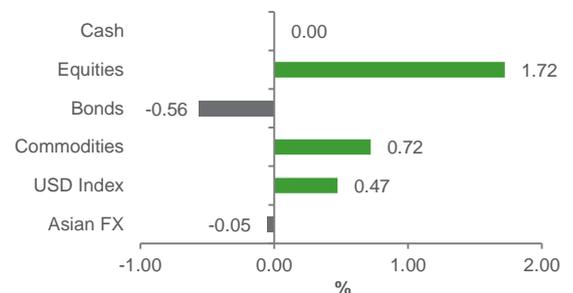
This week, the 'Biden rally' received a shot in the arm as an announcement by a Pfizer-BioNTech venture of better-than-expected COVID-19 vaccine trial results brightened the prospects for widespread inoculation next year. At least two more vaccine candidates are due to announce results soon. We see the market reaction as supportive of our long-standing view that risk assets would have more room to run if vaccines enabled economies to recover from the pandemic, especially if accompanied by sizeable fiscal stimulus.

There is a twist to the emerging narrative, though. The 'Biden rally' after the elections was primarily driven by the so-called Growth stocks. Investors paid a premium for intrinsically fast-growing technology and healthcare sectors after concluding that a divided US Congress would be unable to pass the Democrats' ambitious fiscal stimulus plans and lift long-term growth. However, gains in the past week have been focussed on the so-called Value and cyclical areas, such as energy and financial sectors, European equities and EM stocks, bonds and currencies.

So, is this the start of a new trend? On page 4, we discuss why these are likely still early days as only one of what we see as the three main conditions of a potential shift to Value has been met. Other near-term hurdles include: a) surging COVID-19 cases in the US and Europe, leading to restrictions in US states and double-dip recession fears in Europe, and b) uncertainty over the transfer of power in the US as Trump's team challenges the election results. The latter risks domestic unrest or causing Trump to be more hawkish in foreign policy, possibly reviving market volatility as liquidity dries up heading into the year-end. Nevertheless, we believe the stage is being set for a further rally in risk assets in 2021, leading us to prefer a strategy of buying any dips and averaging into preferred assets (see page 8).

### Equities and commodities extended gains as a Biden 'relief rally' got a boost from COVID-19 vaccine results

Benchmark market performance w/w\*



Source: Bloomberg; \*week of 05 Nov 2020 to 12 Nov 2020

### Our proprietary market diversity indicators point to low risk of a short-term trend reversal

Market diversity across key asset classes as of 11 Nov

Level 1	Diversity	Diversity trend since 12-Oct-20	Fractal dimension
Global Bonds	●	↑	2.28
MSCI ACWI	●	↑	1.52
Gold	●	↑	1.69
<b>Equity</b>			
MSCI US	●	↑	1.56
MSCI Europe	●	↓	1.62
MSCI AC AXJ	○	→	1.40
<b>Fixed Income</b>			
DM Corp Bond	●	↑	2.14
DM High Yield	●	↑	1.61
EM USD	●	↑	2.85
EM Local Currency	○	↓	1.44
Asia Hard Currency	●	↑	2.20
<b>Currencies</b>			
USD/CNH	○	→	1.34
EUR/USD	●	↑	2.38
USD/JPY	●	→	1.60
GBP/USD	●	↑	1.66
AUD/USD	●	↑	1.64

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

## The weekly macro balance sheet

**Our weekly net assessment:** On balance, data and policy were positive

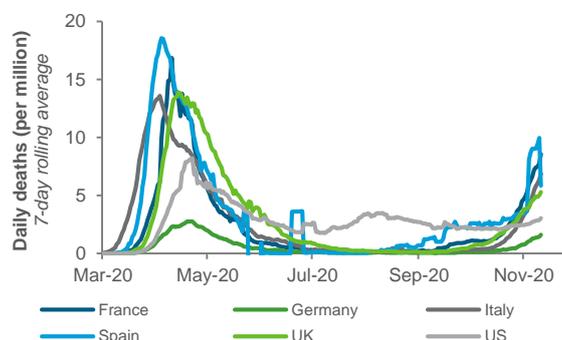
**(+) factor:** Promising vaccine trial results; stronger-than-expected US jobs data

**(-) factor:** Sustained spread of US COVID-19; surprisingly weak European data

	Positive for risk assets	Negative for risk assets
<b>COVID-19</b>	<ul style="list-style-type: none"> <li>Pfizer/BioNTech said final phase trials showed their COVID-19 vaccine was more than 90% effective, raising chances of an approval for public use by year-end</li> <li>New COVID-19 cases continued to decline in Brazil</li> </ul>	<ul style="list-style-type: none"> <li>US daily new cases and hospitalisations hit new record highs and the death toll rose, forcing New York state to reimpose tighter restrictions</li> <li>Germany reported its highest number of daily fatalities since April and warned Christmas markets would be prohibited</li> </ul>
	<b>Our assessment: Positive, on balance, as the promising results from the vaccine trial raise the prospects for mass inoculation in 2021</b>	
<b>Macro data</b>	<ul style="list-style-type: none"> <li>The US economy added more jobs than expected in October and initial jobless claims fell below expectations</li> <li>Euro area Sentix Investor Confidence declined less than expected in November</li> <li>China's and Germany's exports rose more than expected</li> <li>Japan's leading economic index rose more than expected to the highest level since July 2019</li> </ul>	<ul style="list-style-type: none"> <li>US consumer inflation was surprisingly weak at 1.2%</li> <li>Euro area growth expectations (ZEW) fell to the weakest in seven months and industrial output unexpectedly fell</li> <li>China's CNY y/y loan growth was slower than expected; total financing met expectations</li> <li>China's producer price deflation worsened; consumer inflation was weaker than expected; imports fell more than expected</li> </ul>
	<b>Our assessment: Neutral, on balance, with stronger-than-expected US job market offset by weaker Euro area growth expectations</b>	
<b>Policy developments</b>	<ul style="list-style-type: none"> <li>ECB's Lagarde said policymakers would focus on emergency bond purchases and long-term loans for the next round of stimulus</li> </ul>	<ul style="list-style-type: none"> <li>Fed's Kaplan said next two quarters would be "very difficult" due to the pandemic</li> <li>PBoC said exiting its monetary easing policy is a "matter of time" as the economy improved</li> </ul>
	<b>Our assessment: Neutral, on balance, as expectations of more stimulus in Europe were offset by China's plans to tighten policy</b>	
<b>Other developments</b>	<ul style="list-style-type: none"> <li>US Democrat challenger Joe Biden was declared by media organisations as the next President after he is projected to have won a majority of the electoral college votes</li> <li>European Commission President said some progress had been made in Brexit talks, but large differences remained</li> </ul>	<ul style="list-style-type: none"> <li>President Trump challenged the election outcome, likely delaying final results, and fired his Defence Secretary</li> <li>The US sanctioned four more Chinese officials related to Hong Kong policy and barred citizens from investing in some Chinese companies</li> <li>Hong Kong opposition lawmakers resigned as a group after some members were disqualified</li> </ul>
	<b>Our assessment: Neutral, on balance, as reduced geopolitical risk under a Biden presidency is offset by near-term risk from President Trump potentially turning more hawkish</b>	

**COVID-19 fatalities have continued to rise in Europe and are gradually picking up in the US; the latter trend could force more US states to tighten social restrictions**

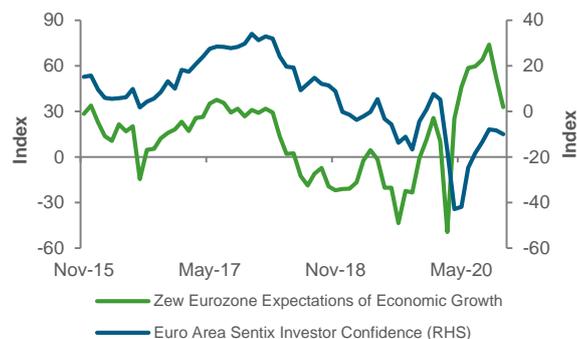
Daily new deaths per million of population in Europe and the US



Source: Our World in Data, Standard Chartered

**Euro area investor sentiment has started to flag as expectations of a double-dip recession in Q4 rise**

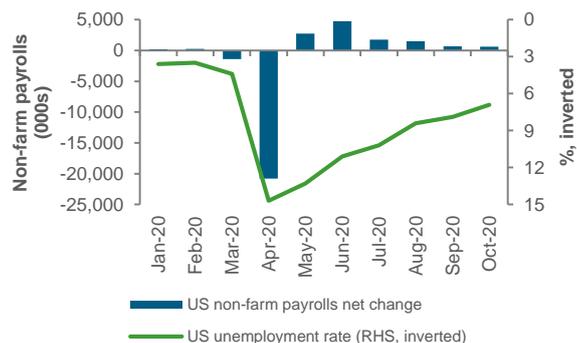
Euro area Sentix investor sentiment index and ZEW survey of economic growth expectations



Source: Bloomberg, Standard Chartered

**The US job market has continued to improve, with the unemployment rate falling below expectations**

US net new non-farm jobs, unemployment rate



Source: Bloomberg, Standard Chartered

## Top client questions

### Q Is it time to rotate to Value stocks from Growth equities?

The positive news on a COVID-19 vaccine has boosted optimism for a “normalisation” of social and economic activities in the foreseeable future. We had earlier identified the vaccine as one potential driver for the Value investment style to outperform the Growth style. This has indeed been the case since the vaccine news broke, with the US Value style up 4% and the Growth style down 1%. Having said that, though, this is a small bounce in the context of many years of outperformance of Growth (see chart).

Besides vaccines, the second potential driver we identified for Value to outperform was higher bond yields. Expectations of a growth rebound following a vaccine have also led to higher yields over the past week, a further tailwind for Value stocks. However, it is unclear if the rise in yields can be sustained further from here given the Fed is expected to keep yields low with accommodative monetary policies.

The third potential driver we identified for Value to outperform was a more dovish regulatory environment towards the financial sector, including the easing of restrictions for bank dividends and buybacks. This regulatory move could well be linked to a successful vaccine rollout that reduces the pressure on banks’ provision for credit losses. The timing of such an easing remains unclear at this point, as the time required for successful widespread distribution of a vaccine continues to be assessed.

As we get further positive news on COVID-19 vaccines, such as FDA approval, success with further vaccine candidates and concrete rollout plans, we would expect Value stocks to outperform in the near-term. However, we believe a sustained outperformance of Value over Growth is not a foregone conclusion, especially in a low rate environment, and we continue to monitor the various drivers closely.

### Q Would REITs benefit from optimism about vaccines?

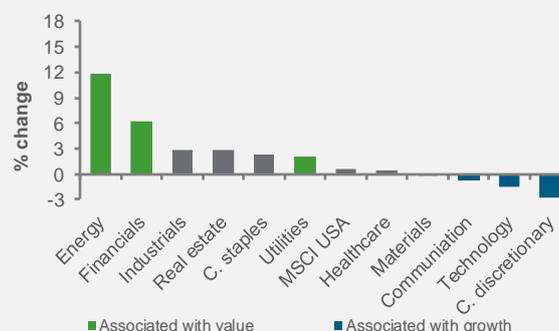
The real estate sector is another sector, besides the traditional ‘Value’ stocks, that is sensitive to economic reopening and higher yields in the event of a widespread rollout of vaccines next year. The US real estate sector is up 3% since the vaccine news broke.

This sector has underperformed the broad US equity market year-to-date on the back of reduced foot traffic at retail properties, lower demand for offices and falling occupancy in lodging properties, leading to concerns over a decline in rental income and capital value, particularly in light of the pandemic.

However, record low mortgage rates has also driven up demand for housing, boosting new home sales close to a 14-year high. While a successful vaccine is not a foregone conclusion and the recovery and subsequent growth path may be uneven across the various real estate segment, we believe the broad US real estate sector, including private markets, may benefit from an extended period of low rates and from investors seeking to diversify their sources of income and returns. Please refer to our separate publication (360 Perspectives – US Real Estate) for a more detailed discussion of the real estate sector.

### ‘Value’ sectors such as energy and financials led the rally in US stocks following the announcement of positive results from a COVID-19 vaccine trial

Performance of various S&P500 sectors since close of trading on 06 November, 2020



Source: MSCI, FactSet, Standard Chartered

### US ‘Value’ stocks have long underperformed ‘Growth’ stocks; increased expectations of widespread COVID-19 vaccinations next year could help ‘Value’ to rebound

Ratio of S&P500 Value vs Growth indices; 200-week moving average



Source: Bloomberg, Standard Chartered

### S&P500 faces resistance 0.9% above the current level

Technical indicators for key markets as on 12 Nov. 2020

Index	Spot	1st support	1st resistance
S&P500	3,537	3,507	3,570
STOXX 50	3,428	3,266	3,529
FTSE 100	6,339	6,039	6,511
Nikkei 225	25,521	24,724	25,919
Shanghai Comp	3,339	3,309	3,371
Hang Seng	26,169	25,821	26,410
MSCI Asia ex-Japan	778	774	781
MSCI EM	1,182	1,175	1,191
Brent (ICE)	43.5	40.7	45.1
Gold	1,876	1,842	1,931
UST 10Y Yield	0.88	0.81	0.97

Source: Bloomberg, Standard Chartered

## Top client questions (cont'd)

### Q What are the implications for China's internet and technology sector from the new regulations?

On 10 November, China's State Administration for Market Regulation (SAMR) released a consultation paper, the Guidelines for Anti-Monopoly Measures for the Online Platform Economy. The paper is a framework to curb anti-competitive behaviour among large technology companies. The measures proposed include restrictions on sharing data and forming alliances that squeeze competitors/smaller rivals, a crack-down on the practice of selling services below cost to eliminate competitors and a new regulatory approval for weighted voting rights (including all overseas-listed tech firms). Under these guidelines, the online platform economy is broadly defined to cover all online platforms that provide transactions of any type of real goods and services, such as ecommerce, food delivery and online travel booking.

Although the new measures have affected sentiment towards the Chinese technology sector, the broader technology sector (information technology, communication services and consumer discretionary) currently accounts for only 28% of the Hang Seng Index, capping its impact on the index. The old economy stocks (mainly financials, real estate, industrials), which represent c.60% of the index, could negate the correction of the broad tech sector, should investors' preference for Value over Growth styles sustain. Old economy stocks have been laggards YTD and are trading at all-time lows, arguably creating room for upside. Asia ex-Japan is our preferred region due to its more effective containment of COVID-19, improving macro data and fund inflows in a weak USD environment. China equities remain our preferred market and the driver for Asia ex-Japan markets.

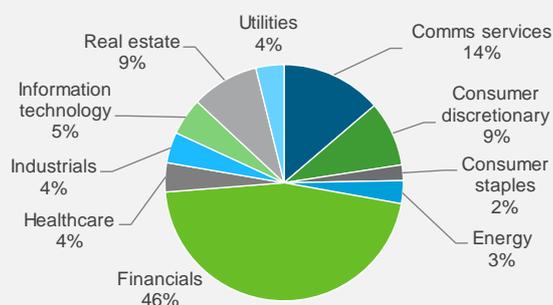
### Q How does last week's rise in US Treasury yields affect your views across corporate and government bonds?

The positive COVID-19 vaccine test result from Pfizer-BioNTech has reignited risk appetite. The benchmark US 10Y Treasury yield surged more than 15bps to 0.97% in the middle of the week. Despite the rise in Treasury yields, corporate and EM bonds (credits) rallied, with both DM HY and EM government bond yields dropping c.10bps to multi-week lows. Asia USD bonds were flat this week, with falling yield premiums largely offsetting the increase in Treasury yields.

However, while absolute yields now look less attractive than before, we believe corporate and EM bonds still offer relative value. Their yield premium over Treasury yields remains attractive, in our assessment. Given our expectation that the Fed is likely to cap Treasury yields, we continue to see room for these yield premiums to tighten further as global growth normalises. In Asia, HY bonds continue to offer more than 500bps in yield pick-up relative to their IG counterpart. Q3 earnings results released so far have been largely supportive.

Thus, we retain our constructive view on DM HY corporate bonds, EM government bonds. We also like Asia USD bonds with a preference for HY. Surging COVID-19 cases in the US and Europe, prolonged US election uncertainties and technicals raise the risk of a temporary pullback in riskier bonds. However, we believe any such pullback would likely be short-lived and create an opportunity to add exposure, given the prospect of an economic recovery in medium term should be supportive for riskier bonds.

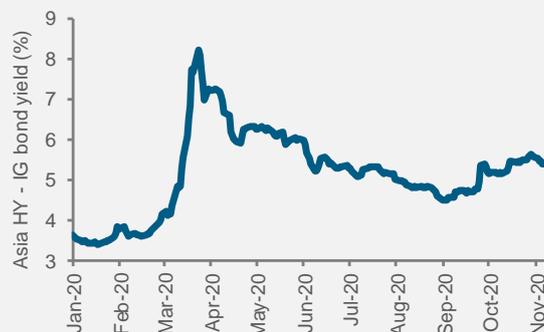
'Old economy' stocks account for c. 60% of the Hang Seng Index, while the broader technology sector accounts for only 28%; the lower share could reduce the impact of China's new regulations on the online sector  
 Breakdown of Hang Seng Index by sector as of 11 Nov, 2020



Source: Bloomberg, Standard Chartered

### Asian High Yield bonds continue to offer more than 500bps in yield premium relative to Investment Grade peers

Asia High Yield bond yield premium over Investment Grade bonds



Source: Bloomberg, Standard Chartered

## Top client questions (cont'd)

### Q Are gains in the CNY and commodity currencies likely to extend?

The USD/CNY is likely to trade in a short-term range for now, around a 6.60-6.65 pivot, after previously extending its decline to 6.56 from the May 2020 high of around 7.18. Rallies are likely to be capped unless a significant geopolitical incident is triggered. More broadly, we expect the PBoC to encourage a stable currency during the US Presidential transition, with the bias towards continuing CNY strength, as the Biden Presidency nears. The 6.60 area is a strong technical level that may ease USD/CNY downside pressure, but a break would target 6.46 next.

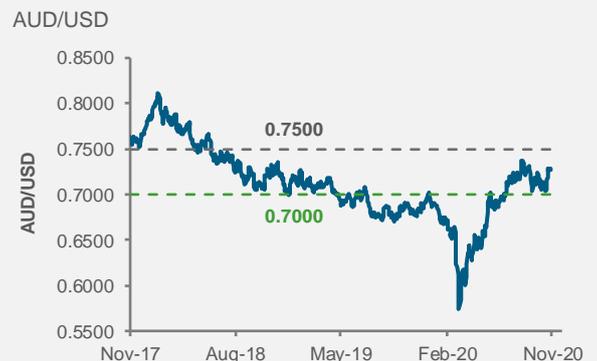
The AUD, CAD and NZD have also performed well as the prospect of improved China and global growth, alongside a more predictable international trade environment under a Biden administration, are being priced into markets. Technically, AUD/USD has created a double-bottom formation around 0.70 and we anticipate more range-trading between this base and 0.74 in the coming weeks, with potential for a break higher to test the 0.7515 technical resistance. NZD/USD has recently broken resistance at around 0.68 and could track higher towards resistance at 0.6970 and 0.7060 as the RBNZ has kept rates stable and expectations for negative rates have subsided. USD/CAD is currently pivoting around 1.30-1.32 and is likely to edge lower with a Biden presidency confirmation, with an initial target range around 1.2680-1.2780 as 1.34 caps any larger rebound.

### Q Is gold likely to weaken further?

The post-election day rally in gold faltered just before the 1,975 resistance, and was followed by a dramatic fall towards 1,850, creating a technical "double bottom". From a fundamental perspective, rising nominal and (to a more limited extent) real US bond yields, alongside the rising risk of a much smaller and perhaps delayed fiscal stimulus, are headwinds. This has likely been amplified by speculative and investment positioning that has been very long gold going into the US election, and that has probably been partially unwound. Overall risk sentiment has also been buoyed by the positive vaccine test news, and the safe-haven role of gold has faded.

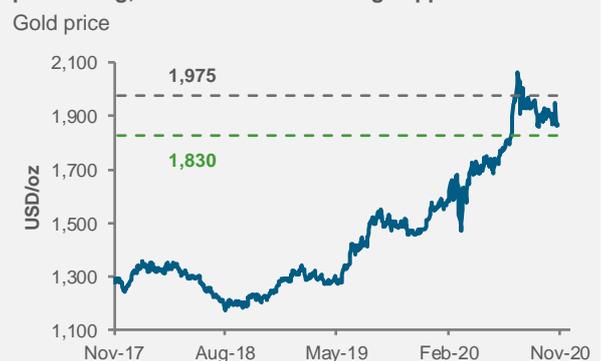
These pressure points on gold may not be over yet, and we are wary that long positioning may need to see a deeper capitulation before the medium-term rally can dominate again. On the positive side for gold, we expect the Fed to lean against rising bond yields, especially if it drives a deeper downside correction in equities. Once positioning is lighter, gold's role as a safe-haven asset may reassert. With the US election results still to be finalised, and with President Trump changing senior personnel in key defence and intelligence roles, we are also mindful of potential social unrest in the US and the pre-inauguration window for geopolitical tensions to rise, particularly around relations with Iran or China. If any of these risks play out, gold may well catch a strong bid. Technical support between 1,830 and 1,850 is unlikely to give way easily. A break, though, would likely signal a final capitulation of speculative longs, and gold could then find a base around the 1,760-1,785 support.

**AUD/USD has created a double-bottom formation around 0.70; improved risk appetite could potentially lead to a test of the 0.75 resistance**



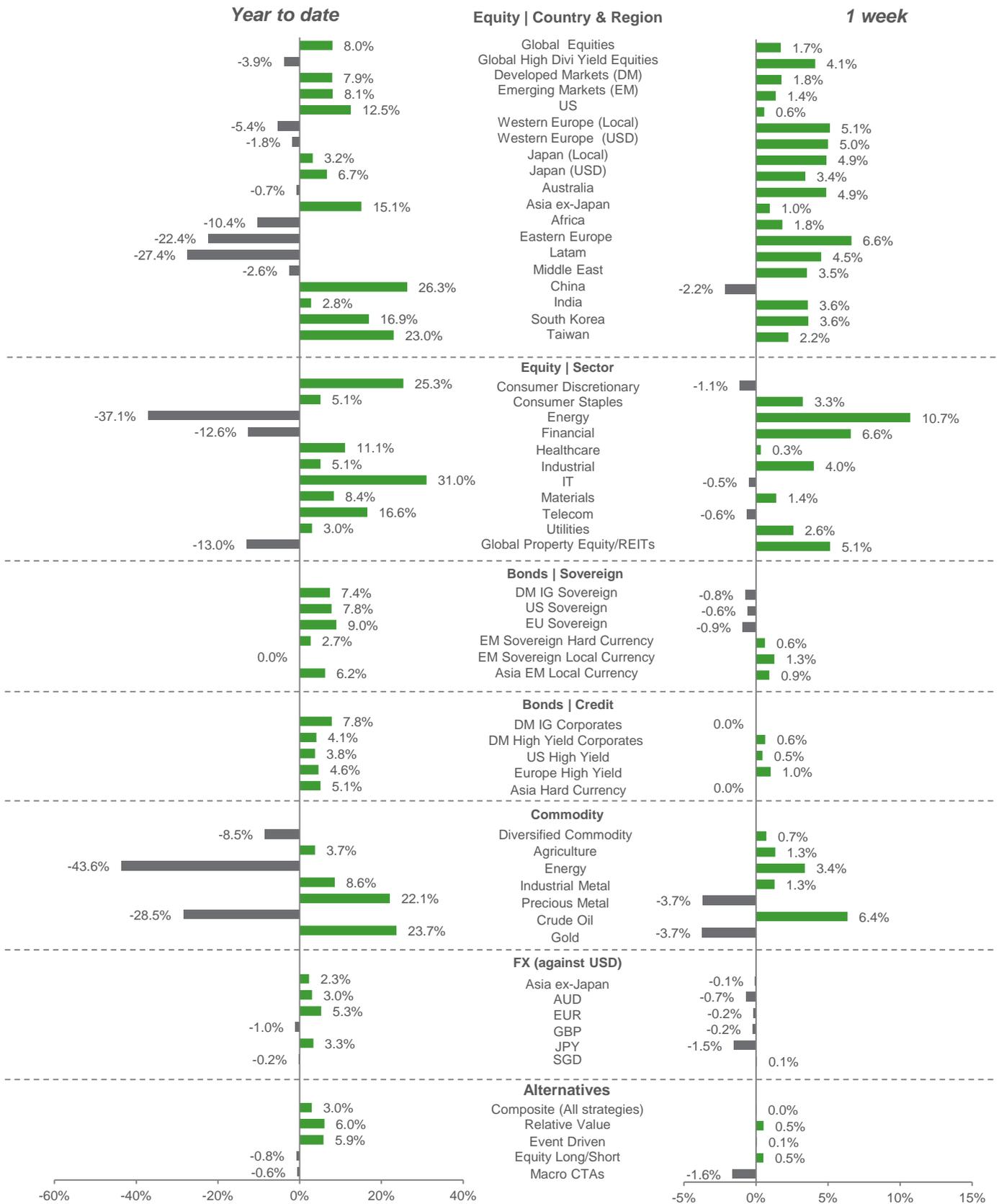
Source: Bloomberg, Standard Chartered

**Gold is likely to remain under pressure in the near-term amid rising US bond yields following the vaccine news, delayed US fiscal stimulus and still-high bullish investor positioning; USD 1830/oz is a strong support**



Source: Bloomberg, Standard Chartered

## Market performance summary \*



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

\*Performance in USD terms unless otherwise stated, 2019 performance from 31 December 2019 to 12 November 2020, 1 week period: 05 November 2020 to 12 November 2020

## Our asset class views at a glance

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

Source: Standard Chartered Global Investment Committee

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

## Economic and market calendar

	Event	This Week	Period	Actual	Event	Next Week	Period	Prior
MON	GE	Current Account Balance	Sep	26.3b	JN	GDP Annualized SA q/q	3Q P	-28.1%
	EC	Sentix Investor Confidence	Nov	-10.0	CH	Retail Sales y/y	Oct	3.3%
	FR	Bank of France Ind. Sentiment	Oct	97.0				
TUE	JN	BoP Current Account Balance	Sep	¥1660.2b	EC	Construction Output y/y	Sep	-0.9%
	CH	PPI y/y	Oct	-2.1%	US	Retail Sales Ex Auto and Gas	Oct	1.5%
	FR	Industrial Production y/y	Sep	-6.0%	US	Capacity Utilization	Oct	71.5%
	IT	Industrial Production y/y	Sep	-5.1%	US	NAHB Housing Market Index	Nov	85.0
WED					JN	Exports y/y	Oct	-4.9%
					UK	CPI Core y/y	Oct	1.3%
					US	Housing Starts	Oct	1415k
THUR	JN	PPI m/m	Oct	-0.2%	US	Philadelphia Fed Business Outlook	Nov	32.3
	UK	Trade Balance GBP/Mn	Sep	£613m	US	Existing Home Sales	Oct	6.54m
	UK	GDP q/q	3Q P	15.5%				
	EC	ECB Publishes Economic Bulletin						
	US	CPI m/m	Oct	0.0%				
FRI/SAT	EC	GDP SA q/q	3Q P		JN	Natl CPI Ex Fresh Food, Energy y/y	Oct	0.0%
					JN	Jibun Bank Japan PMI Composite	Nov P	48.0
					UK	Retail Sales Ex Auto Fuel y/y	Oct	6.4%
					EC	Consumer Confidence	Nov A	-15.5

Source: Bloomberg, Standard Chartered; key indicators highlighted in blue; \*refers to Jan-Feb 2020 combined data

Previous 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

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