weekly market view

macro strategy | 3 May 2019

This reflects the views of the Wealth Management Group

Editorial

Buy in May?

- **The Fed's on-hold stance, better-than-expected Q1 growth and earnings data in the US and China and signs of a US-China trade deal are all positive for risk assets.**
- **Equities:** With 75% of US results out, consensus estimates for S&P500 Q1 earnings have improved to 0.7% growth vs. 2.3% contraction forecast in early April, after major earnings beats.
- **Bonds:** The Fed's decision to hold rates and reiterate confidence in US economic growth argues for modestly higher yields, as the market prices a lower likelihood of a rate cut.
- **FX:** Short-term technicals argue that the USD may not have peaked yet. EUR/USD has support at 1.1050 (see page 3). We see near-term technical break higher in GBP/USD towards 1.32.

What's new?

- **Buy in May?** Investors concerned about the adage "Sell in May and go away" base it on the historical underperformance of global stocks from May to September versus November to April. However, both periods, on average, have delivered positive returns since 1970. One hypothesis is that H2 underperformance occurs because analysts tend to cut earnings forecasts in H2 of the year (after raising them in H1). This year, though, analysts have already cut earnings in the January to April period, leaving less room for H2 cuts. In addition, the Fed's continued dovish stance, better-than-expected Q1 growth and earnings data from the US and China (see page 2), easing concerns about a 'hard' Brexit and signs of an impending US-China trade deal argue the 'sell-in-May' adage may not hold this year. We believe it may be prudent to stay invested and even add equity exposure on dips.
- **Fed remains on pause; sanguine on growth, inflation.** Fed Chair Powell highlighted a healthy domestic economy, moderating global risks and the belief that inflation will return to the Fed's 2% target after a "transitory" decline to justify the decision to hold benchmark rates. The unanimous decision ignored President Trump's plea for a rate cut. Money markets have pushed back expectations of a 25bps rate cut to Q1 2020, from end-2019 prior to the meeting. We expect the Fed to hold rates at least until the end of the year.
- **Global manufacturing still under pressure.** An indicator of US manufacturing sector confidence slumped to a 2 ½-year low amid a dip in new orders. A similar indicator for the Euro area showed contraction for the third month in a row and the one for China fell close to a level that divides expansion and contraction. Meanwhile, South Korean exports, an early indicator of global trade trends, contracted for the fifth month. However, South Korea's manufacturing sector confidence indicated expansion for the first time since October. Given global manufacturing has been significantly impacted by US-China trade tensions, any trade deal (expected in the coming weeks) is likely to ease pressure on this critical sector and lift global investor sentiment.

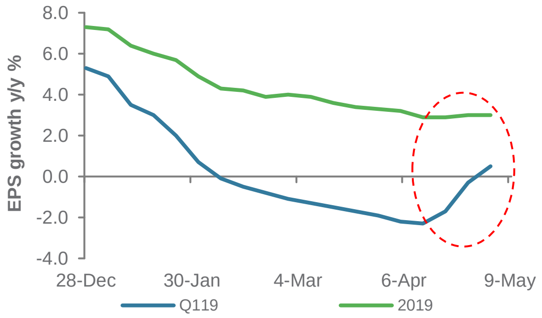
What we are watching

- Will the US extend waivers against Iran oil sanctions for China, India? Brexit talks; US trade talks with China, Japan, Europe.

Contents

US Q1 earnings estimates have turned positive after significant earnings beats, helping full-year expectations to stabilise

US Q1 and 2019 consensus earnings expectations



Source: Refinitiv, Standard Chartered

Market expectations of a Fed rate cut by year-end dropped after the Fed meeting

Money market probability of a Fed rate cut by Dec. 2019

Source: Bloomberg, Standard Chartered

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What does this mean for investors?

Global equities took a breather after four months of gains. Asia ex-Japan stocks outperformed. Crude oil led energy sector equities lower. EM USD bonds outperformed in debt markets.

Equities: What is the takeaway from US Q1 earnings?

- Consensus expectations for S&P500 Q1 earnings have significantly improved to project 0.7% growth, as against the 2.3% contraction projected in early April. With almost 75% of US results out, 75% have beaten expectations, above the average "beat" trend of 65%. Technology stands out as among the leading sectors in terms of beating analyst forecasts, with earnings 6% above expectations. Investors appear to be looking ahead to the positive effect of a potential US interest rate cut over the coming year. Consensus earnings expectations for 2020 are for 12% growth, led by the energy sector.
- **Have investors discounted the potential US-China deal?** Although the MSCI China index has risen 21% YTD, there may be scope for externally-focussed sectors to catch up after domestically-orientated sectors have led the charge so far. The consumer discretionary sector is up 37% and the technology sector is up 32%. More globally-focused sectors, such as industrials, have underperformed the market, rising only 8%. This implies that if we do get a trade deal, there is potential for performance of externally-focused sectors to catch up with the broader market as investors rotate into laggards. China onshore and offshore equities are our preferred markets in Asia.

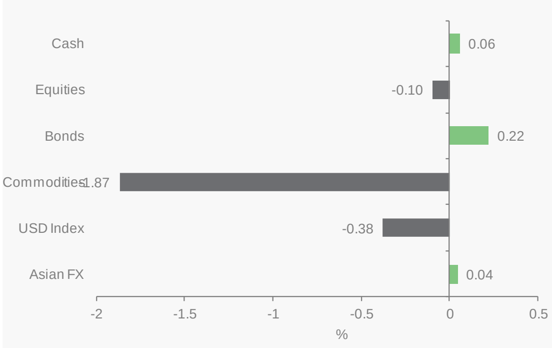
Bonds: What does the Fed meeting mean for bond yields?

- The Fed's decision to hold rates and reiterate confidence in the US economy argues for modestly higher yields, as the market prices a lower rate-cut probability. We continue to expect US 10-year Treasury yields to trade within 2.50-2.75%, leaving room for yields to edge higher. This reinforces our least-preferred view on DM Investment Grade (IG) government bonds.
- **Is the slowdown in flows a concern for EM bonds?** Last week witnessed the year's first net weekly outflow from EM USD bonds. However, we believe it is too early to extrapolate a trend from a single data point. Although inflows have moderated, EM USD government bonds still offer reasonable valuations, attractive yield of c.6% and are supported by an uptick in EM growth. Stabilisation of China's data is supportive for Asian USD bonds. Thus, our preference is to use any dip to add exposure to our two preferred asset classes, EM USD and Asian USD bonds.

FX: Is the GBP uptrend intact?

- **We see a near-term technical break higher** in GBP/USD towards 1.3230, while strong support at 1.2950-1.3000 should hold. We also expect GBP/SGD to also break higher towards 1.8000 as 1.7650 support holds. PM May and the opposition Labour party appear to be moving towards a Brexit deal, where the UK remains in the EU Customs Union. The Labour party may insist on a referendum to ratify the deal. Also, the BoE revealed a more hawkish bias. These are all supportive for GBP.
- **What is the outlook for ZAR and INR?** Support for USD/ZAR at c.14.00 will be tough to break ahead of the 8 May election; a break above 14.55 could lead to 15.00. The Eskom utility bailout, electricity supply disruptions and the risk of a rating review post-election are key concerns. USD/INR continues its downtrend, with 68.40 and 67.50 the next targets. Any near-term rally is likely to meet resistance at 70.30 and 71.00. Indian poll results are due 23 May, with consensus thus far pointing to PM Modi's return.

Benchmark (USD) performance w/w*



**Week of 25 April 2019 to 02 May 2019*

Source: MSCI, JP Morgan, DJ-UBS, Citigroup, Bloomberg, Standard Chartered (Indices used are JP Morgan Cash, MSCI AC World TR, Citi World Big, DJ-UBS Commodity, DXY and ADXY)

US and Asian equity technicals are strongly positive

Technical levels of key market indicators as on 02 May

Index	Spot	1st support	1st resistance	Short-term trend
S&P500	2,918	2,890	2,990	↑
STOXX 50	3,489	3,476	3,540	↗
FTSE 100	7,351	7,236	7,528	→
Nikkei 225	22,259	21,580	23,000	↑
Shanghai Comp	3,078	2,990	3,190	→
Hang Seng	29,944	29,000	30,250	↑
MSCI Asia ex-Japan	679	659	687	↑
MSCI EM	1,079	1,054	1,098	↑
Brent (ICE)	71	68	76	↗
Gold	1,271	1,266	1,300	↘
UST 10Y Yield	2.54	2.46	2.62	→

Source: Trading Central, Standard Chartered
Note: Arrows represent short-term trend opinions

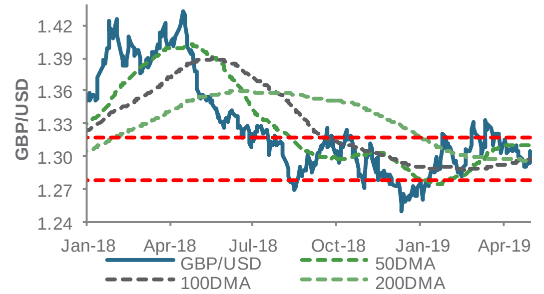
We expect the US 10-year government bond yield to trade within 2.50-2.75% over the next 6-12 months as the Fed holds rates steady

US 10-year Treasury yield

Source: Bloomberg, Standard Chartered

We expect GBP/USD to break higher towards 1.3230 in the near term

GBP/USD



Source: Refinitiv, Standard Chartered

Top client questions

Q1. Has the USD peaked against the EUR?

We believe that the USD is in a process of peaking against the EUR, but it is too soon to conclude from technical charts that it has peaked.

Our long-term (6-12) bearish view on the USD is based on the view that interest rate differentials will no longer support the currency, and eventually turn against it as the Fed has more room to ease relative to the ECB and other major central banks. However, in the short term, the USD may not have yet turned lower.

Both the ECB and the Fed have cut back their hawkishness in recent months and switched to a more neutral stance. However, the overall interest rate differential currently remains supportive of the USD. Anaemic Euro area economic growth, ongoing EU trade tensions with the US and the upcoming European parliamentary elections raise the bar for the ECB to switch to a hawkish stance in the foreseeable future. Although its US counterpart has more room to cut nominal rates and has moved to a "wait-and-see" approach, it may be premature to conclude that the Fed's hiking cycle is over.

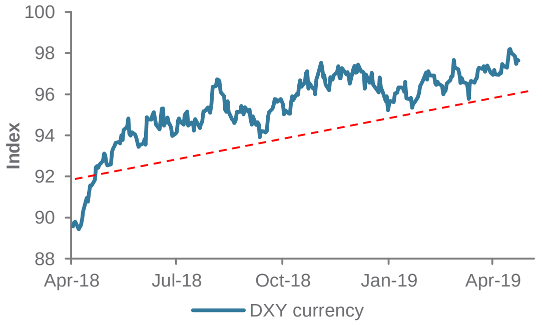
Having said that, the Economic Surprise Index for Euro area has displayed strength, implying that macro data recently has been less negative than expectations and there are signs that M1 money supply growth, a leading indicator of economic growth, may have bottomed. In contrast, the Economic Surprise Index for the US has been declining since February. This contrasting trend is positive at the margin for EUR.

Net speculative positioning has been short EUR and long USD. Any positive news in favour of the Euro area could be enough to trigger some short-covering, boosting the EUR (and unwinding of bullish positions on the USD).

On technical charts, the DXY index has pulled back after hitting a two-year high last week. A break below an uptrend from September (now at about 96.20), followed by the March low of 95.74, would raise the odds that the USD has peaked. The downtrend channel for EUR/USD from early 2018 remains intact. Key resistance for the pair sits between 1.1350 and 1.1450, while the next key support lies at 1.1050.

The US dollar index retreats

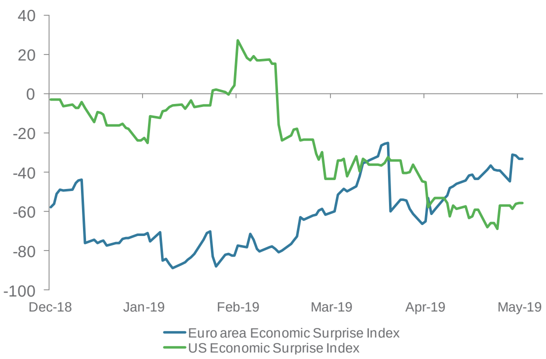
DXY index daily chart



Source: Bloomberg, Standard Chartered

Euro area economic data surprises have turned less negative, and now are less extreme than US economic data surprises

US and Euro area economic data surprises



Source: Citigroup, Bloomberg, Standard Chartered

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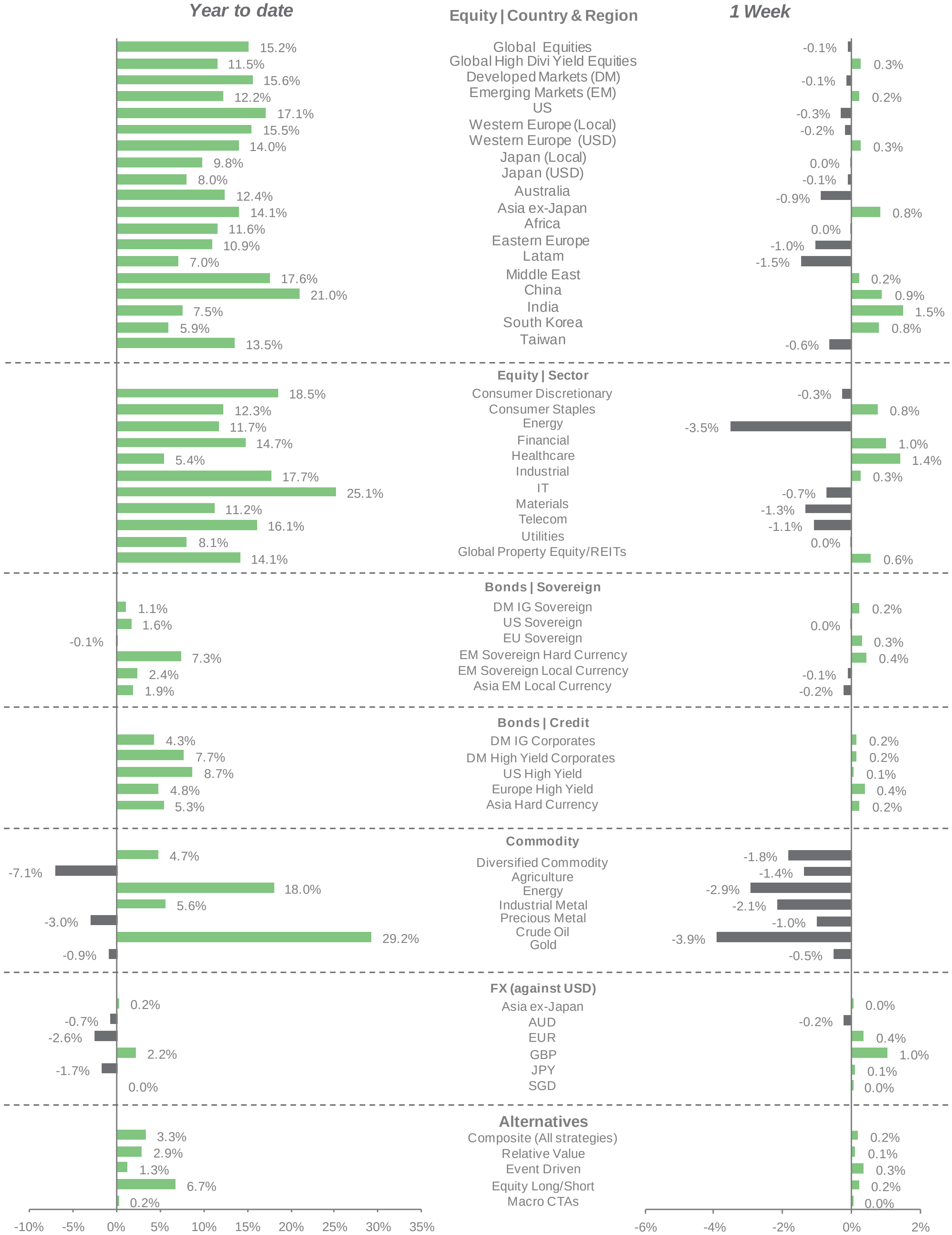
Market performance summary*



**Performance in USD terms unless otherwise stated, YTD period from 31 December 2018 to 02 May 2019, 1 week period: 25 April 2019 to 02 May 2019*

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

Economic & Market Calendar

	Event	Next Week	Date	Period	Expected	Prior
MON	EC	Sentix Investor Confidence	6-May-19	May	–	-0.3
	EC	Retail Sales y/y	6-May-19	Mar	–	2.8%
TUE	AU	RBA Cash Rate Target	7-May-19	7-May	–	1.5%
	CH	Foreign Reserves	7-May-19	Apr	–	$3098.76b
WED	US	Consumer Credit	8-May-19	Mar	$16.750b	$15.188b
	JN	Nikkei Japan PMI Composite	8-May-19	Apr	–	50.4
	GE	Industrial Production WDA y/y	8-May-19	Mar	–	-0.4%
	CH	Exports y/y	8-May-19	Apr	–	14.2%
	BZ	Selic Rate	8-May-19	8-May	6.5%	6.5%
THUR	CH	CPI y/y	9-May-19	Apr	–	2.3%
	CH	PPI y/y	9-May-19	Apr	–	0.4%
	US	Trade Balance	9-May-19	Mar	-$52.0b	-$49.4b
	US	PPI Ex Food and Energy y/y	9-May-19	Apr	2.5%	2.4%
FRI/SAT	GE	Exports SA m/m	10-May-19	Mar	–	-1.2%
	UK	GDP y/y	10-May-19	1Q P	–	1.4%
	IN	Industrial Production y/y	10-May-19	Mar	–	0.1%
	US	CPI Ex Food and Energy y/y	10-May-19	Apr	2.1%	2.0%

	Event	This Week	Date	Period	Actual	Prior
MON	EC	M3 Money Supply y/y	29-Apr-19	Mar	4.5%	4.3%
	EC	Economic Confidence	29-Apr-19	Apr	104.0	105.6
	US	Personal Income	29-Apr-19	Mar	0.1%	0.2%
	US	PCE Core Deflator y/y	29-Apr-19	Mar	1.6%	1.7%
TUE	CH	Manufacturing PMI	30-Apr-19	Apr	50.1	50.5
	CH	Non-manufacturing PMI	30-Apr-19	Apr	54.3	54.8
	EC	Unemployment Rate	30-Apr-19	Mar	7.7%	7.8%
	GE	CPI EU Harmonized y/y	30-Apr-19	Apr P	2.1%	1.4%
	US	Conf. Board Consumer Confidence	30-Apr-19	Apr	129.2	124.2
WED	US	ISM Manufacturing	1-May-19	Apr	52.8	55.3
THUR	US	FOMC Rate Decision (Upper Bound)	2-May-19	1-May	2.5%	2.5%
	SK	Nikkei South Korea PMI Mfg	2-May-19	Apr	50.2	48.8
	GE	Retail Sales y/y	2-May-19	Mar	-2.1%	4.4%
	US	Initial Jobless Claims	2-May-19	27-Apr	230k	230k
FRI/ SAT	EC	CPI Core y/y	3-May-19	Apr A	–	0.8%
	US	Change in Nonfarm Payrolls	3-May-19	Apr	–	196k

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

Source: Bloomberg, Standard Chartered; key indicators highlighted in blue

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