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WM Chief Investment Office
21 May 2021

Weekly Market View

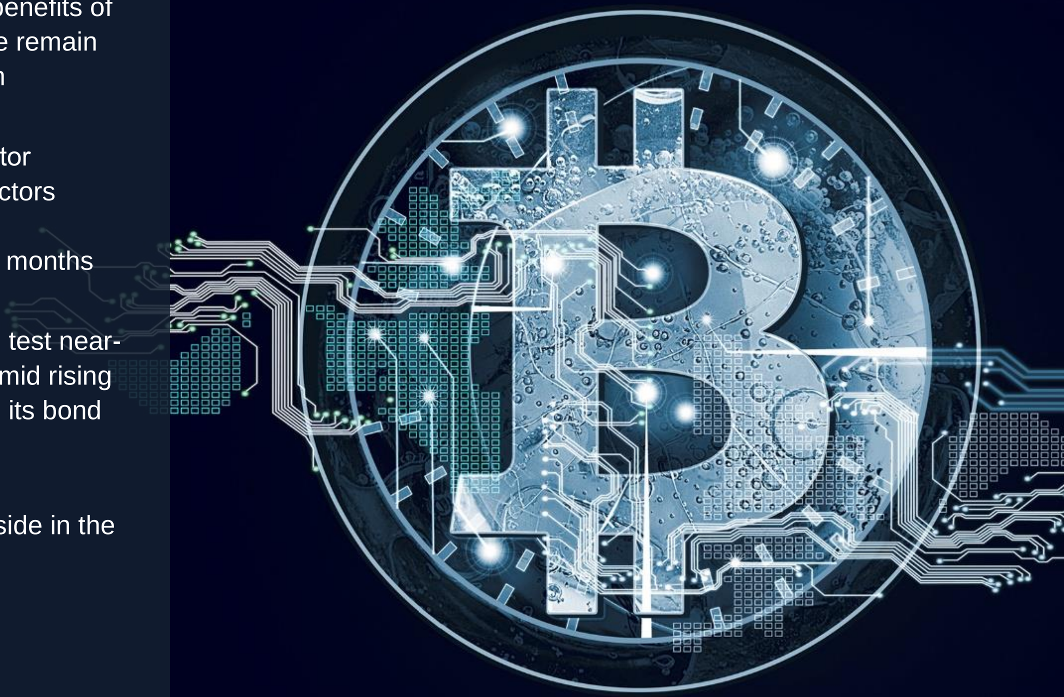
Crypto goes kaput

The 35% plunge in Bitcoin prices since their April peak and this week's volatility send a stark message to investors – not to put core investments at risk by chasing the latest mania. While we do not expect Bitcoin's latest bout of volatility to have a contagion effect on other assets, these episodes are a reminder of the benefits of a diversified asset allocation. We remain pro-risk on a 6-12 month horizon

Equities: Europe's financial sector earnings beat adds to a list of factors which are likely to drive their outperformance in the next 6-12 months

Bonds: US 10-year yields could test near-term resistance around 1.78% amid rising expectations of the Fed tapering its bond purchases this year

FX: We see more GBP/USD upside in the next few months



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What are the implications of the slump in Bitcoin on other risk assets?

Is it time to buy China onshore-listed A-shares?

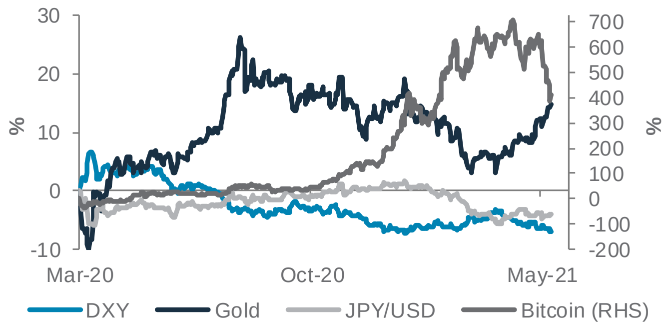
What are the charts saying about the Nasdaq index, Gold and Bitcoin?

Important disclosures can be found in the Disclosures Appendix.

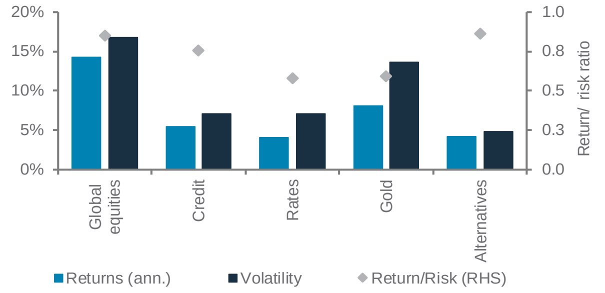
Charts of the week: Returns vs risk

Bitcoin returns stunning, but came with extreme volatility; a diversified allocation is a more balanced option

Total returns of currencies, Bitcoin during the pandemic*



Average returns, risk and their ratio over the past 5 years



Source: Bloomberg, Standard Chartered; *Total returns measured since the WHO declared the COVID-19 infection as a pandemic on 11 March '20

Editorial

Crypto goes kaput

The c.35% plunge in Bitcoin prices since their April peak and the volatility in between (including a 31% peak-to-trough drop on Wednesday) send a stark message to investors – not to put core investments at risk by chasing the latest mania. While we do not expect Bitcoin's latest bout of volatility to have a contagion effect on other assets (see page 4), these episodes are a reminder of the benefits of a diversified asset allocation. As our chart shows, a broad allocation across stocks, bonds, gold and other alternative assets arguably offers more stable risk-adjusted returns over the medium to longer term. For sure, assets such as Bitcoin have delivered stellar returns since the pandemic broke out, but those returns came at the cost of extreme volatility and possibly sleepless nights for many investors.

One can ascribe several reasons to the spate of distinctive asset bubbles since the pandemic started. Perhaps the foremost is the unprecedented fiscal and monetary stimulus provided by global policymakers to counter the pandemic's shock to the global economy and consumer/business confidence. This surge in policy-driven liquidity has (i) raised concerns about the intrinsic value of fiat currencies, driving investors in search of alternatives such as gold and cryptocurrencies, and (ii) encouraged speculators to use the new cash to chase the next mania. However, recent events have raised doubts about the maturity of cryptos as a mode of payment and as a store of value. The bigger risk for cryptos, of course, is growing scrutiny from regulators. While blockchain technologies are likely here to stay, China's decision to bar financial institutions from doing business in cryptocurrencies is a case in point.

Investors concerned about the true value of currencies – which, in effect, is a concern about future inflation – can take heart from central banks' comments that they are not only aware of the distortions their measures have created, but that they are also in no mood to tolerate runaway inflation. While policymakers, most explicitly in the US, have said that they are likely to look though a bout of above-2% target inflation over the next few months, they have reiterated that the extraordinary policies will last only as long as their job markets need to heal. Canada and the UK have already started to taper bond purchases as their economies improve.

The Fed's latest meeting minutes show US policymakers are also starting to talk about unwinding stimulus as the job market improves (see page 4 for bond market implications). The minutes have raised expectation that the Fed may announce tapering of its bond purchases by Q4. We agree the risk of tapering in the next 6-12 months is rising - progress in the job market, especially in the lower-income segment, will play a key role in timing the tapering. Meanwhile, economic data and corporate earnings continue to improve, especially in the US and Europe (see page 5 for financial sector earnings beats).

Against this backdrop, we remain pro-risk over the next 6-12 months within a diversified allocation. Gold is a likely beneficiary from the ongoing volatility in Bitcoin, along with other real assets, including our preferred commodity-driven equity sectors (energy and materials). More broadly, equities, corporate bonds and alternative strategies are likely to keep delivering strong risk-adjusted gains.

— 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

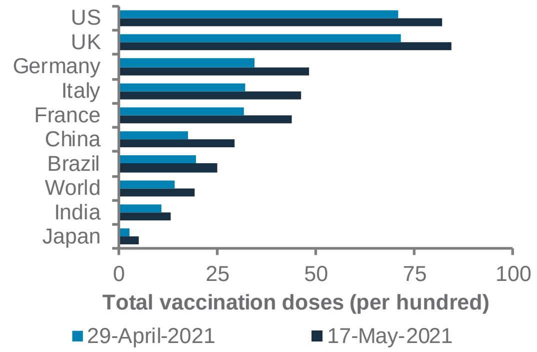
(+) factor: US, Europe pandemic progress, supportive policy

(-) factor: US, China data disappointments, Asia pandemic

	Positive for risk assets	Negative for risk assets
COVID-19	• New cases continued to fall in the US and Europe, allowing further easing of restrictions • The EU plans to reopen its borders to vaccinated tourists and visitors from 'safe' countries • Cases in India, Japan appear to have peaked	• Indian states extended lockdowns as fatality rates continued to rise • New cases in Malaysia, Thailand, Taiwan and Singapore rose further • Japan, Singapore tightened restrictions and Hong Kong postponed Singapore travel bubble
	Our assessment: Neutral – US, Europe progress vs extended lockdowns in India and parts of Asia	
Macro data	• US initial jobless claims fell below expectations to their lowest level since March 2020 • China jobless rate fell more than expected and property investment rose more than expected • UK jobless rate fell more than expected in Q1	• US retail sales stalled unexpectedly • US industrial production, housing starts rose less than expected • China retail sales, industrial production, fixed asset investment rose less than expected • UK consumer, German producer prices rose more than expected
	Our assessment: Neutral – Improving job markets vs. surprisingly weak US, China retail sales, factory data	
Policy developments	• ECB's Lagarde said it was essential that policy stimulus is not withdrawn too soon • Mester, other Fed officials said there was no reason to change accommodative policy for now	• Fed's May meeting minutes showed some policymakers were open to consider reducing stimulus if the economy continues to improve • The US proposed a 15% global minimum corporate tax rate
	Our assessment: Positive – Policy to remain supportive	
Other development	• Israel-Palestine ceasefire	
	Our assessment: Positive – Middle East tensions ease	

COVID-19 vaccinations continue to accelerate in Europe and are rising worldwide

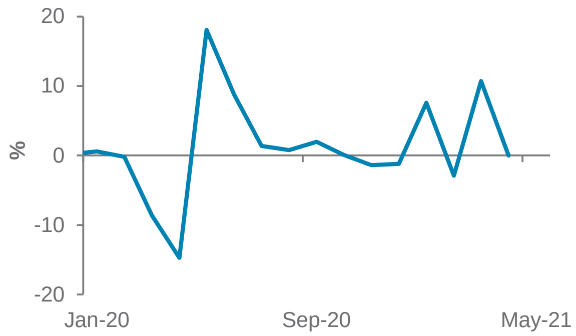
No. of vaccine doses per hundred people



Source: Our World in Data, Standard Chartered

US retail sales stalled in April after a surge since the start of the year following two rounds of stimulus checks to households

US retail sales growth, m/m



Source: Bloomberg, Standard Chartered

China's retail sales and industrial production growth has slowed, leading the PBOC to leave policy unchanged this week

China's retail sales and industrial production, y/y

Source: Bloomberg, Standard Chartered

Top client questions

What are the implications of the recent correction in cryptocurrencies on risk assets?

The recent crash in cryptocurrencies will not spark a rush of liquidations in traditional financial assets, in our view, with still-light institutional adoption helping mitigate contagion fears.

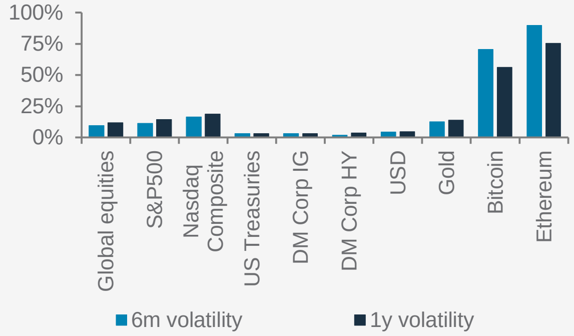
There are several potential catalysts for the recent crash. China's PBoC reiterated that digital tokens cannot be used as a form of payment. In the US, the new Office of the Comptroller of the Currency (OCC) chief requested a review of digital assets and cryptocurrencies policies. A backdrop of leverage across various crypto asset brokers may have added fuel to the fire, with several reports suggesting forced liquidations by leveraged investors following margin calls contributed strongly to the drawdowns over the past few days.

While the slump in cryptocurrencies could dent risk sentiment in the near term, potentially benefiting gold, we see limited risk of contagion to broader financial markets. For investors seeking an allocation to cryptocurrencies, we believe exposure should be considered in inverse proportion to their volatility. (See our report titled "*360 Perspectives – The future of digital assets*" for more details).

— **Marco Iachini, CFA,** *Cross-asset Strategist*
— **DJ Cheong, CFA,** *Investment Strategist*

Allocations to cryptocurrencies should be considered in inverse proportion to their volatility

Realised 6-month and 12-month volatility of various asset classes



Source: Bloomberg, Standard Chartered

What are the implications of the Fed's latest policy meeting minutes on bond yields?

The April Fed meeting notes released earlier this week indicated some Fed officials were considering discussing 'tapering', or a reduction of the Fed's asset purchases. The minutes came as a surprise since Fed Chair Powell, in his press conference after the April meeting, had said that it was not the time to begin "talking about talking about" tapering.

In the near term, concerns around a potential Fed tapering announcement this year could lead the 10-year Treasury yield higher to test technical resistance at the 1.77%-1.78% level. However, we do not see this leading to a repeat of a sharp rise in yields seen earlier in the year:

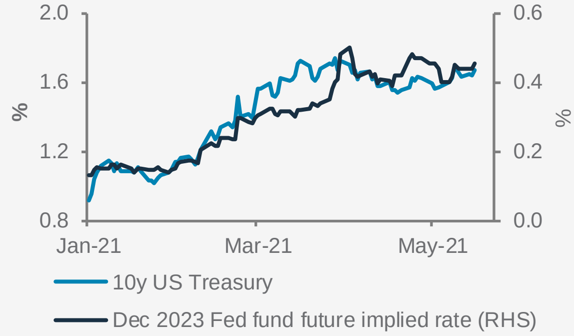
1. The Fed meeting was held prior to the release of the disappointing jobs data earlier in May
2. The current spike in inflation due to base effects is likely to subside in the next few months

Hence, while a year-end Fed taper may be plausible, yields are likely to remain in the 1.50%-1.75% range. Sooner-than-expected tapering could pose an upside risk to yields.

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

Rate hike expectations have been the main driver of US Treasury yields in 2021

US 10Y Treasury yields, money market expectations of the Fed fund rate by Dec 2023



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

What is your view on European financials stocks?

The European financial sector is a preferred sector within Europe. In the short term, a technical pullback is possible. However, we believe it is attractive to buy-on-dips, adding exposure at 59.50 on the MSCI European Financials index (approximately 3% below the current level).

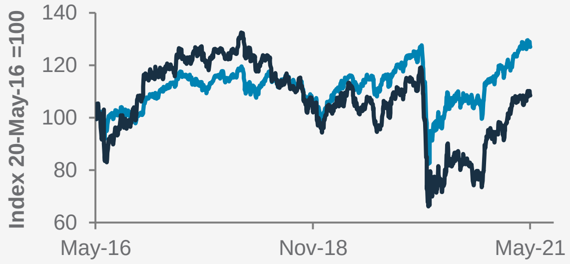
In the Q1 21 earnings season, the financial sector delivered the biggest positive earnings surprise among all sectors. There were surprises on both 1) provisions for credit losses and 2) revenue for the sector. We continue to expect improving net margins on interest income, helped by a steeper yield curve (ie. a widening gap between long and short maturity yields). Reopening continues to be a major driver, fuelled by the Euro area catching up with the US and the UK in terms of the rate of vaccination.

Overall, tailwinds for European equities may also be strengthening. The inflation data from the US last week is likely to lead to further rotation into Value equities globally, which is likely to benefit European equities. The "spectre" of tapering discussions in the US may erode US equities' relatively favourable market liquidity profile, in favour of markets outside the US. Lastly, the weakening USD is likely to help inflows into the EUR and EUR-denominated assets.

— **Daniel Lam, CFA,** *Senior Cross-Asset Strategist*

Performance gap narrowing between European Financials and the broader index

MSCI Europe Financials vs. MSCI Europe Index (rebased to 100 in May-16)



Source: Bloomberg, Standard Chartered

Is it time to buy China A-shares (onshore)?

In our assessment, China A-shares offer an interesting tactical opportunity given the recent test of the resistance around 5,180 as well as the bounce from its 200-day moving average. The recent price action raises the odds that the uptrend could be resuming, although the path higher is unlikely to be a smooth one *(see Cross-Asset Technicals dated 18 May 2021)*.

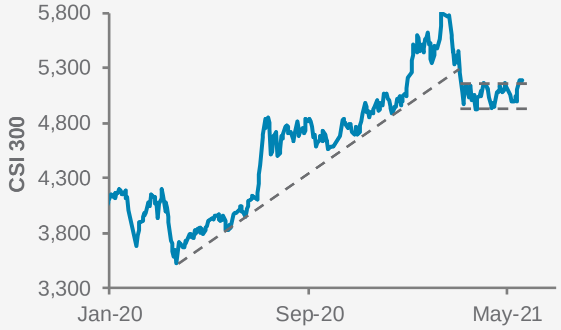
Onshore equities have been pricing in policy tightening risks as well as a peak in the domestic economic cycle. A lot of these factors may already be in the price, in our view. However, we believe China will avoid over-tightening as its policy continues to emphasize stability, which means limiting monetary and fiscal excesses.

Chinese equities remain a core holding – meaning we expect them to perform in line with Asia ex-Japan equities. Within China, we maintain our preference for Chinese onshore equities given their heavier weights to Value-oriented stocks. The rotation from Growth to Value sectors remains very much in play, in our view.

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

Chinese onshore equities are testing a key resistance; a breakout would signal the uptrend has resumed

CSI 300 with key technical patterns/levels



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

What is the outlook for the GBP after the Scottish elections?

The GBP rally since the March-April double bottom at 1.3665 is now approaching the January high at 1.4235, driven by increasing vaccinations, ending lockdowns, rising global growth and the Bank of England being an early mover towards monetary normalisation. Following the Scottish elections, it appears that any move towards a Scottish independence vote will not happen quickly. The currency has also recovered much of its Brexit-induced "undervaluation". The key question is, therefore, to what extent is the good news now priced in?

We believe a high-beta currency like the GBP can swing from being undervalued to overvalued, driven by long-term investors rebuilding their exposure, while short- and medium-term investors pursue tactical gains. This, combined with our view that the broad USD remains in a cyclical (12 month) downtrend, should provide strong support to the GBP.

We see key technical resistance around 1.43–1.44. This is the 2018 high, and also the 50% retracement of the large 2014–2020 decline. This resistance could temporarily hold up the GBP's progress, but we believe broad USD weakness and an improving global economy could be a catalyst for a sustained break higher. We remain bullish GBP/USD on a 12-month horizon.

More GBP upside over the next few months

GBP/USD with key support and resistance levels

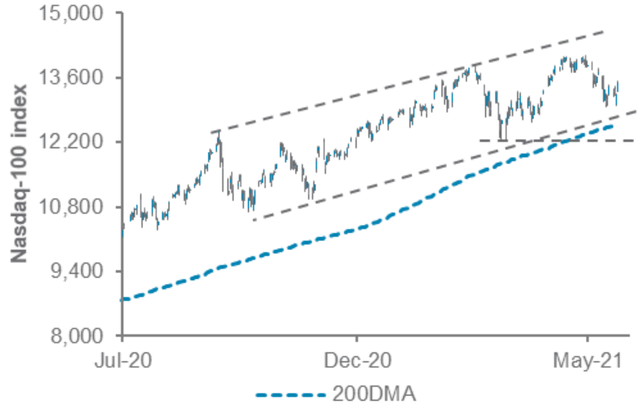
Source: Bloomberg, Standard Chartered

Technical charts of the week

Manish Jaradi
Senior Investment Strategist

Nasdaq: "It ain't over till it's over!"

Nasdaq-100 index daily chart

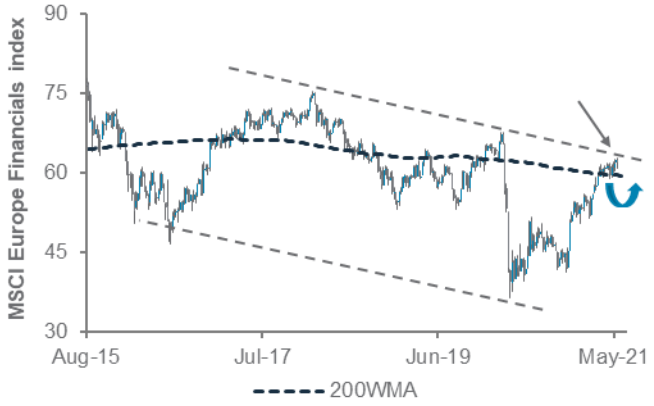


Source: Bloomberg, Standard Chartered

The index remains within its well-established channel. While the recent failure to rise towards the top of the channel poses a minor risk, the short-term uptrend remains intact while support at 12,208 holds.

EU Financials: Short-term fatigue?

MSCI Europe Financials index daily chart

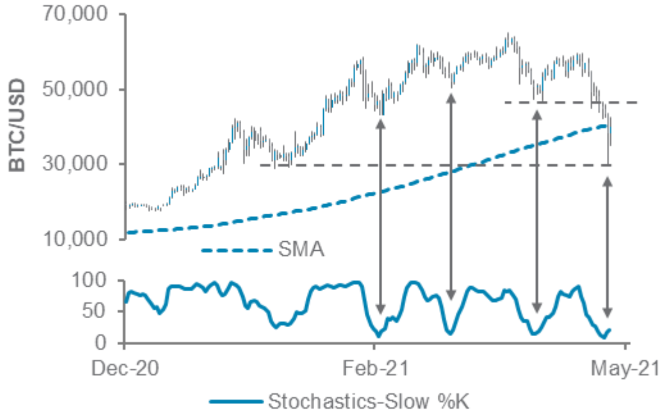


Source: Bloomberg, Standard Chartered

The index is running into stiff resistance, raising the risk of some short-term consolidation. However, any retreat could be limited. There is initial support at the April low of 58.83, stronger support is at 54.60-56.00.

Bitcoin: Deeply oversold, rebound is likely

BTC/USD Daily chart with 200DMA and Stochastics

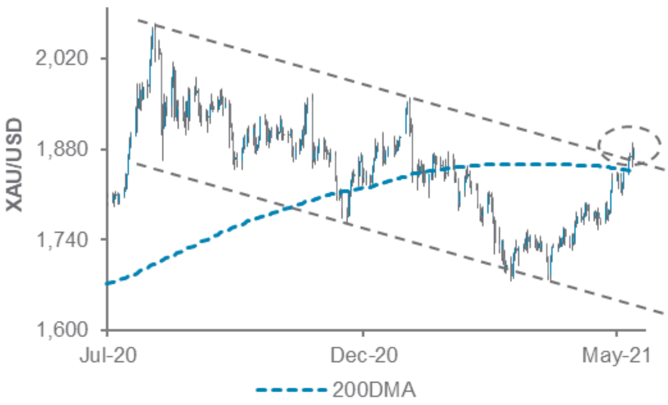


Source: Bloomberg, Standard Chartered

Strong support and deeply oversold conditions point to a rebound in Bitcoin. However, at a minimum, BTC needs to break above 47,000 for the short-term downward pressure to fade.

Gold: Beginning to flex muscles

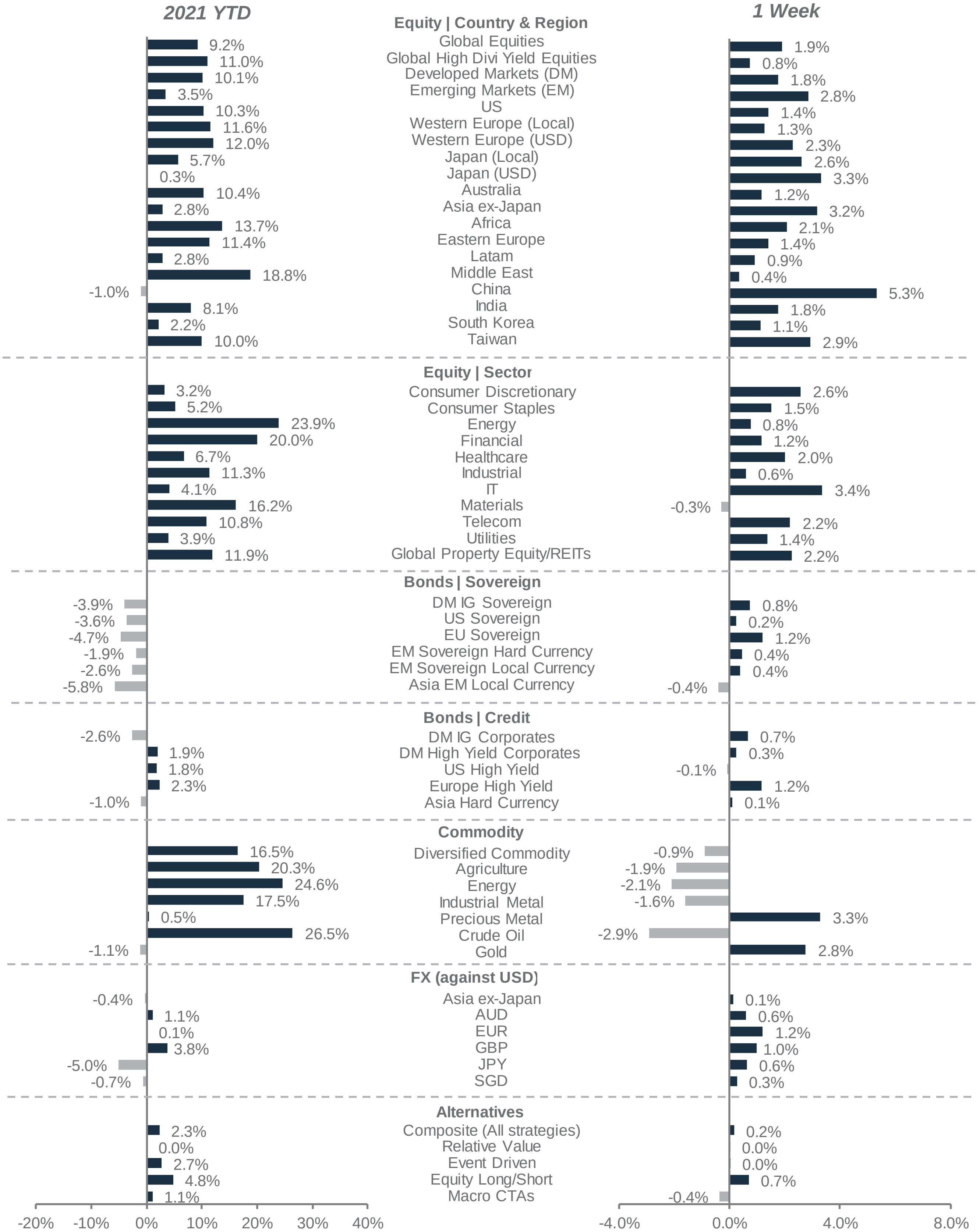
XAU/USD daily chart



Source: Bloomberg, Standard Chartered

The break above 200DMA and the downtrend channel from 2020 has opened the way towards the January high of 1,959.

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 20 May 2021; 1-week period: 13 May 2021 to 20 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	◆
Bonds (Govt)	▼	**Gold**	◆
Govt DM IG	▼		
Govt EM Local	◆		

Source: Standard Chartered Global Investment Committee

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

Economic and market calendar

	Event	Next week	Period	Prior
MON	US	New Home Sales	April	1021k
	US	Conference Board Consumer Confidence	May	121.7
TUE	GE	IFO Expectations	May	99.5
WED				
THUR	CH	Industrial Profits y/y	April	92.3%
	US	Durable Goods Orders	April P	0.8%
	US	Cap Goods Orders NonDef Ex-Air	April P	1.2%
FRI/SAT	US	Personal Spending	April	4.2%
	US	PCE Deflator y/y	April	2.3%
	US	PCE Core Deflator y/y	April	1.8%

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

S&P500 has first support 0.8% below current level

Technical indicators for key markets as on 20 May 2021

Index	Spot	1st support	1st resistance
S&P500	4,159	4,125	4,183
STOXX 50	4,000	3,952	4,033
FTSE 100	7,020	6,965	7,059
Nikkei 225	28,098	27,813	28,395
Shanghai Comp	3,507	3,489	3,527
Hang Seng	28,450	28,121	28,687
MSCI Asia ex-Japan	863	852	870
MSCI EM	1,329	1,314	1,339
Brent (ICE)	65.1	63.7	68.0
Gold	1,875	1,853	1,887
UST 10Y Yield	1.63	1.61	1.66

Source: Bloomberg, Standard Chartered

Investor diversity has normalised across assets

Our proprietary market diversity indicators as of 19 May

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↑	1.54
Global Equities	●	↑	1.74
Gold	●	↑	1.48
Equity			
MSCI US	●	↑	1.64
MSCI Europe	◐	→	1.44
MSCI AC AXJ	◐	↓	1.39
Fixed Income			
DM Corp Bond	●	↑	1.67
DM High Yield	●	↓	1.74
EM USD	●	↑	2.18
EM Local	●	↑	1.68
Asia USD	●	→	1.76
Currencies			
EUR/USD	●	↑	1.65

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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