



Weekly Market View

Europe calling

The chips are falling into place for Euro area and UK stocks to outperform the rest of the world and the EUR and GBP to rise further in the next 6-12 months. Our increased conviction is based on the accelerated pace of vaccinations, which should enable the region's economies to normalise quicker than previously expected. We believe the improved prospects are not yet priced into asset valuations or reflected in investor positions

Equities: In Europe, we prefer financial and industrial sectors which are likely to benefit from the region's economic and corporate earnings recovery

Bonds: We remain positive on the China high yield property developer sector as fundamentals have improved over the past year following policy measures

FX: GBP/USD has room to rally further as the UK economy gradually reopens



Do valuations and investor positions support Europe's equity outperformance?

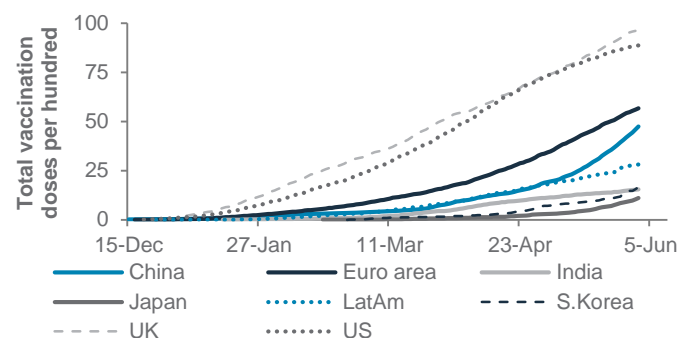
What are the market implications of OPEC's decision to raise output?

What do the charts say about Europe and China stocks, Value equities?

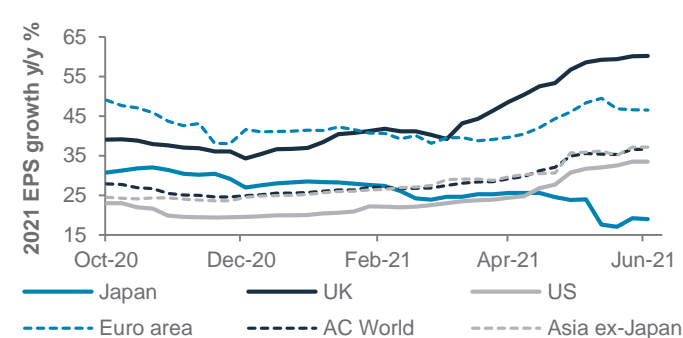
Charts of the week: A vaccination-led recovery

The UK is a COVID-19 vaccinations leader; the Euro area is catching up. This is lifting their earnings outlook

Total vaccine doses per hundred people



The UK and Euro area lead earnings growth estimates*



Source: Bloomberg, MSCI, FactSet, Our World in Data, Standard Chartered; *FactSet consensus 2021 earnings growth estimates

Editorial

Europe calling

The chips are falling into place for Euro area and UK stocks to outperform the rest of the world and the EUR and GBP to rise further in the next 6-12 months. Our increased conviction is based on the accelerated pace of vaccinations, which we believe will enable the region's economies to normalise quicker than previously expected. While markets seem to have caught on to this upturn, illustrated by the MSCI Europe index's technical breakout (see page 6) and 2%-3% gains in the GBP and EUR against the USD in the past two months, we believe the improved prospects are not yet priced into the asset valuations or reflected in investor positions.

The UK has piloted Europe's revival, having already immunised 75% of its adults with at least one vaccine dose. The Euro area, a late starter, has now moved into full gear – it has inoculated half its adults with at least one dose, up from 28% a month ago. At this rate, more than 70% adults will likely be fully vaccinated by July. This likely explains why authorities are removing travel restrictions and welcoming international tourists during the impending summer holidays.

As the region returns to normalcy, consumption should follow, adding to the already buzzing manufacturing and export sectors. Europe, unlike the rest of the world, did not see significant job losses during the pandemic as many jobs were protected by government-funded furlough schemes. As a result, European households are sitting on near-record savings. A significant part of this is likely to be spent as fears of severe infections recede. Reopening of hospitality, travel and recreation facilities should also boost pent-up demand for services.

This week, the OECD raised its Euro area growth forecast for 2021 and 2022 to 4.3% and 4.4%, respectively, as the region emerges from a double-dip recession suffered during the pandemic. The EUR 750bn European Recovery Fund is set to start disbursements in H2 and the ECB should stay supportive for the next 12 months, which should further improve the growth outlook. Corporate earnings expectations are also rising. UK and Euro area companies are expected to post the strongest earnings growth in 2021 among major markets, making equity valuations attractive – the 12-month forward P/E ratio for MSCI Europe index is 16.5, a 12% discount to global stocks (vs a 10-year average discount of 6.6%). Meanwhile, investor positions remain light (see page 4).

European equity indices have the added advantage of a greater concentration of Value-oriented stocks compared with the US, which is more Growth-focussed. In general, Value sectors are cyclical and outperform Growth peers during periods of rising growth and higher bond yields. Of these, the European financial sector, in particular, is likely to benefit from steeper bond yield curves (long-term yields rising faster than short-term yields). While the ECB is likely to push back against further steepening of the curve and nascent concerns about rising inflation at its meeting next week, the steeper curve so far should boost bank profit margins. A resumption of bank dividends would give a further lift to the region's financial sector.

The key risk to watch is any significant revival of COVID-19 variants that the vaccinations are unable to tackle. In the absence of this, investors are likely to pile back into European stocks, further lifting the two key currencies – the EUR and GBP (see page 4).

— 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

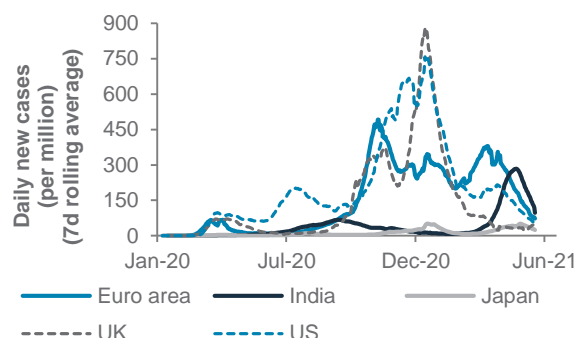
(+) factor: US, Europe pandemic gains, strong industry data

(-) factor: Asia pandemic extends, growing Fed policy debate

| | 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, allowing further easing of restrictions Von der Leyen said EU was on track to vaccinate 70% adults by July; EU approved a vaccine for 12-year olds and above Cases in India, Japan continued to decline | <ul style="list-style-type: none"> Indian states extended lockdowns; Japan and Singapore restrictions to stay for a few more weeks, even as vaccination rates rose China closed parts of Guangdong amid new cases; cases in Malaysia, Thailand, Indonesia rose further |
| | Our assessment: Neutral – US, Europe progress vs extended lockdowns in India and parts of Asia | |
| Macro data | <ul style="list-style-type: none"> US manufacturing and services sector confidence (ISM) rose more than expected US ADP private payrolls rose more than expected Euro area and Japan manufacturing sector confidence indices (PMI) were revised higher China non-manufacturing sector confidence (PMI) rose more than expected | <ul style="list-style-type: none"> US inflation (core PCE) rose more than expected to 29-year high of 3.1% Euro area inflation rose more than expected to 2%, though core inflation stayed subdued at 0.9% China's manufacturing sector confidence (PMI) unexpectedly fell Retail sales in Germany and Japan fell more than expected |
| | Our assessment: Neutral – Strong manufacturing sector data vs rising inflation pressures in US, Euro area | |
| Policy developments | <ul style="list-style-type: none"> Fed's Brainard said inflation pressures are likely to abate All 27 EU members approved the EUR750bn recovery plan | <ul style="list-style-type: none"> Fed's Harker said it was time to discuss tapering bond purchases as a report (Beige book) showed prices rising amid improving activity |
| | Our assessment: Neutral – Growing Fed policy debate | |
| Other development | <ul style="list-style-type: none"> Fed to unwind corporate bond holdings acquired during peak of pandemic | <ul style="list-style-type: none"> President Biden ordered an investigation into the source of COVID-19 |
| | Our assessment: Neutral – US-China tensions rise; Fed corporate bond sales show confidence in recovery | |

COVID-19 new cases continue to decline in most countries, including India

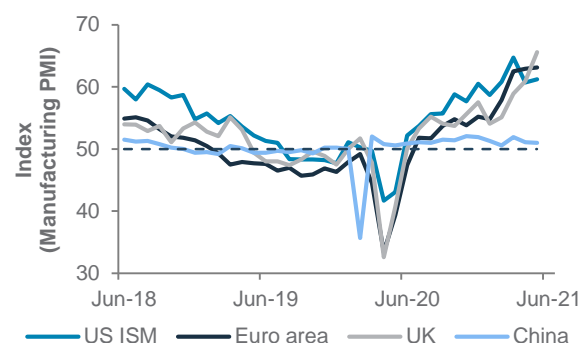
Daily new COVID-19 cases per million people



Source: Our World in Data, Standard Chartered

The US, Euro area and UK continued to see strong manufacturing sector business confidence in May

Manufacturing sector confidence indices (PMIs)



Source: Bloomberg, Standard Chartered

Euro area headline inflation jumped due to rising energy prices and statistical effects, but core inflation remains subdued

Euro area headline and core consumer inflation



Source: Bloomberg, Standard Chartered

Top client questions

Q Are valuations and investor positioning supportive of European equity outperformance? Which sectors?

Improving recovery prospects have filtered into stronger corporate earnings, leading to the most positive earnings revisions the Euro area has seen in the last ten years. Meanwhile, Euro area and UK equities are still 9% and 29% cheaper than global equities, respectively (based on consensus 12-month forward P/E ratios). We believe there is scope for this discount to narrow as investors reset their growth expectations amid the continuing cyclical recovery. The region has seen fund outflows since the start of the year, but this has stabilised and shown tentative signs of a reversal. With investor positioning being light, there is scope for flows to return, supporting Euro area and UK outperformance.

In Europe, we currently prefer financial and industrial sectors as they are likely to be beneficiaries in the cyclical recovery. Rising bond yields support banks' interest income and we expect the ECB will ease banks' dividend restrictions as the economic recovery broadens. Current dividend restrictions are in place till end Sep-2021 and officials have said the ECB could decide on any changes by end Jul-2021. We also have a preferred view on Europe's technology sector; unlike the US, this is dominated by the semiconductor industry that we expect to benefit both from a cyclical demand rebound as well as structural trends like digitalisation and electric vehicles.

— Fook Hien Yap, *Senior Investment Strategist*

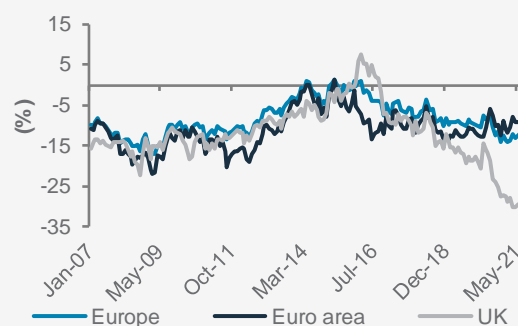
Q Are you still bullish on the EUR and GBP?

We expect the summer months to bring the next wave of a broad USD decline. The reward of recent acceleration in vaccinations, together with deployment of the EU Recovery Fund, could be a catalyst for EUR and GBP strength via accelerating economic growth. The ECB meeting on 10 June will be closely watched, but since there is little imminent expectation for a policy change, any surprise could be EUR-positive. The Bank of England is likely nearer to a rate hike, as QE-related bond buying approaches a cap that has not been extended and house price inflation is a rising concern. GBP/USD could have stronger potential upside near term as risk sentiment improves and positioning is relatively light.

GBP/USD technicals indicate support between 1.3850 and 1.4000. Investors are likely to accumulate the GBP on pullbacks for the next leg of the rally towards resistance at 1.4250 and 1.4375. EUR/USD is expected to hold technical support between 1.1980 and 1.2050. Initial resistance lies at 1.2350, the January high, and a break higher would target the 2018 high around 1.2550.

UK and Euro area equities are trading at a discount to history

Consensus 12-month forward P/E ratio of MSCI Europe, MSCI Euro area and MSCI UK compared with MSCI All Country World index



Source: Bloomberg, Standard Chartered

The GBP has room to rally further as the UK economy gradually reopens

GBP/USD



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q Should we be concerned about risks to China HY real estate bonds?

The recent default of a small HY property developer has again led to heightened scrutiny of the China HY bonds real estate sector. However, over the next 6-9 months, we remain positive on the sector owing to the following reasons:

- 1. Strong sector fundamentals:** Contracted sales by developers showed resilience in 2020 and have been showing strong growth this year, something we expect to continue through 2021. Additionally, property prices in Tier-1 and Tier-2 cities have resumed their uptrend.
- 2. Balance sheet improvement:** Following the 'Three red lines' policy from mid-2020, there has been a significant improvement in sector balance sheets. While in the near term it raises the risk of default from weaker developers, the policy-enforced credit improvement is an overall medium-term positive for the sector, in our view.

While we see some headwinds gathering for the sector in the longer-run, over the next 6-9 months, we believe the strong performance of Chinese HY real estate sector would help Asian HY bonds outperform Asian IG bonds.

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

Q What are the implications of OPEC's latest decision to boost output on oil prices and energy equity sectors?

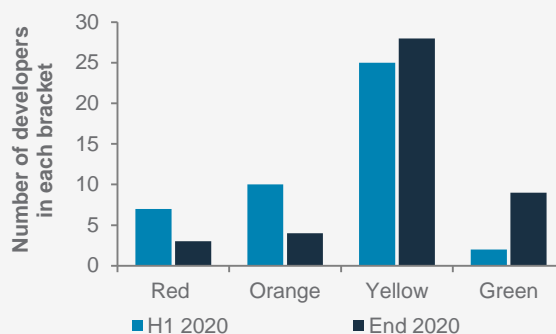
Oil prices have continued to grind higher after OPEC+ stuck with plans to gradually raise production, noting clear signs of improvement in oil demand as well as falling global oil inventories. WTI crude oil prices will likely remain supported and are expected to trade in the mid-USD 70/bbl range as global oil demand continues to recover. This improvement in fundamentals should extend as vaccination programmes accelerate, particularly in Asia. In our assessment, the key risk to monitor over the next few weeks will be US-Iran talks, especially ahead of the upcoming Iranian presidential election.

We retain our preferred view on the US energy sector, which is underpinned by an expected rebound in earnings as well as the sector's high dividend yield. While climate-related pressures are a multi-year challenge, we believe a normalisation in demand, modestly higher prices and free cash flows matter more for the sector over a 6-12 month horizon. The energy sector should also benefit from the rotation to Value-style sectors, which we believe has further to run.

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

China's property developer fundamentals have improved following the 'three red lines' policy introduced in mid-2020

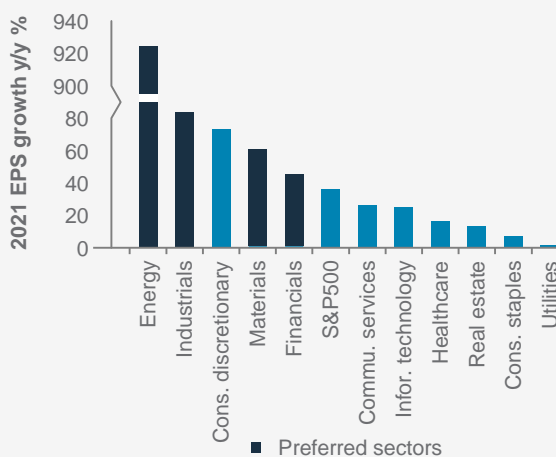
Number of property developers categorised under each risk bracket



Source: Bloomberg, Standard Chartered

An expected rebound in earnings is a tailwind for the US energy sector

Consensus 2021 EPS growth estimates for US sectors



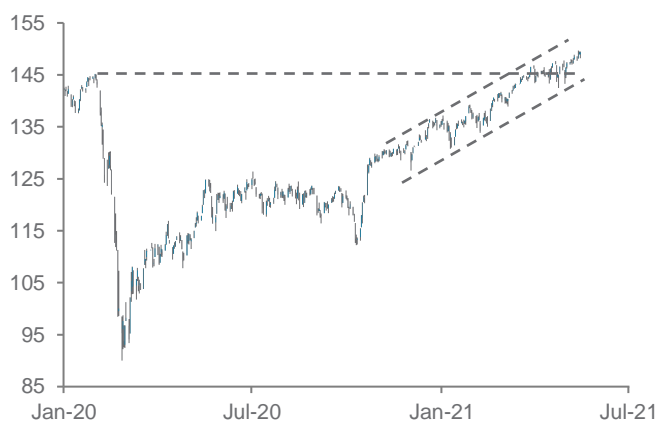
Source: FactSet, Standard Chartered

Technical charts of the week

Manish Jaradi
Senior Investment Strategist

European equities: The uptrend is gathering steam

MSCI Europe index daily chart

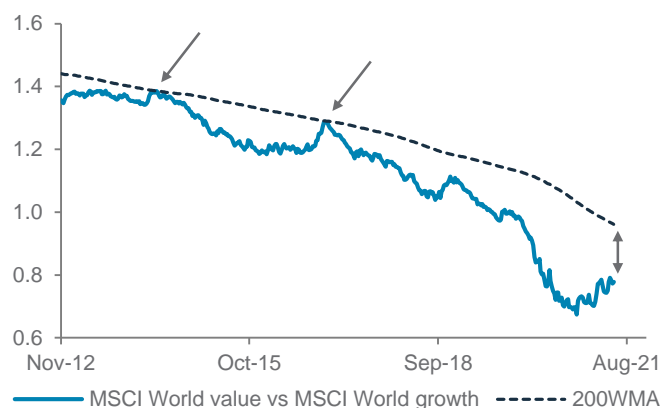


Source: Bloomberg, Standard Chartered

The uptrend is gaining steam – pullbacks have been shallow and the index continues to make new highs. The break above the 2020 high has opened the way towards toward 170 (14% above Thursday's close).

Value vs Growth: Recovering, albeit gradually

Ratio of MSCI World Value index vs MSCI World Growth index, Weekly chart with 200-week moving average

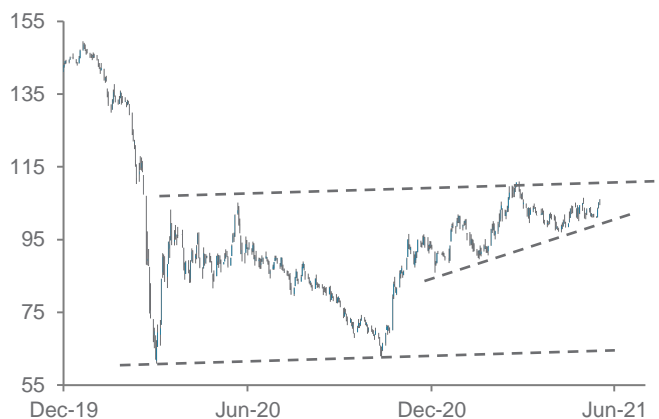


Source: Bloomberg, Standard Chartered

Value's rebound vs Growth has been hesitant on technical grounds. Still, there is potential for Value's historical underperformance gap vs. Growth to shrink, like in the past.

Europe Energy: Still within its well-established range

MSCI Europe energy sector index daily chart

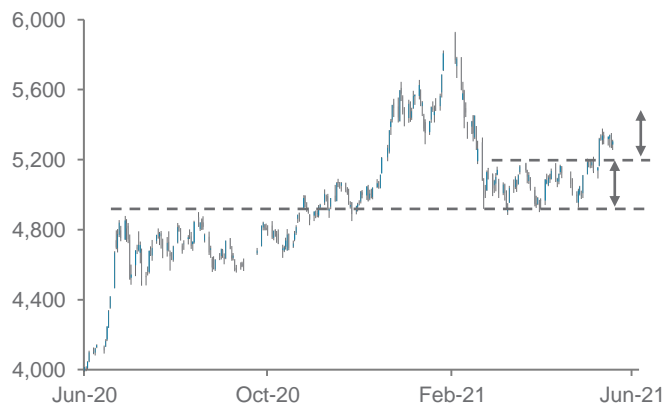


Source: Bloomberg, Standard Chartered

Despite the recent uptrend, Europe's Energy sector index needs to break above the upper end of the channel for its medium-term outlook to turn positive.

China A shares: Rally pauses after the breakout

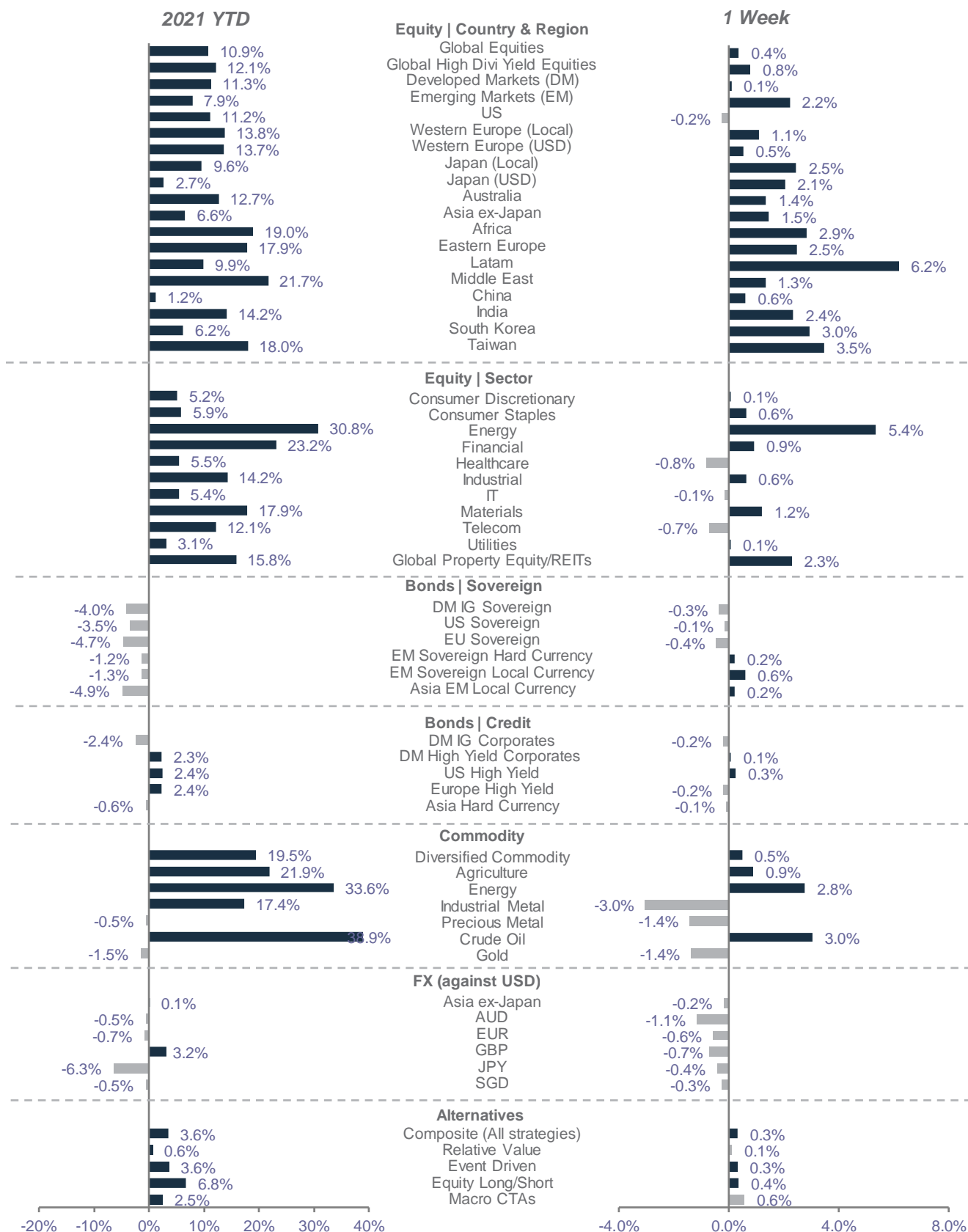
CSI 300 index daily chart



Source: Bloomberg, Standard Chartered

The CSI 300 index has not been able to capitalise on its gains following the break higher from the sideways range. The bias remains up while it holds above 5,045.

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 03 June 2021; 1-week period: 27 May 2021 to 03 June 2021

Our asset class views at a glance

| Asset class | |
|-------------------------|-----------------------|
| Equities ▲ | Alternatives ◆ |
| Euro area ▲ | Equity hedge ▲ |
| UK ▲ | Event-driven ▲ |
| US ▲ | Relative value ◆ |
| Asia ex-Japan ◆ | Global macro ▼ |
| Japan ▼ | |
| 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 EM Local ◆ | |
| Govt DM IG ▼ | |

Source: Standard Chartered Global Investment Committee

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

S&P500 has first support 0.1% below current level

Technical indicators for key markets as on 03 June 2021

| Index | Spot | 1st support | 1st resistance |
|--------------------|--------|-------------|----------------|
| S&P500 | 4,193 | 4,188 | 4,203 |
| STOXX 50 | 4,079 | 4,050 | 4,099 |
| FTSE 100 | 7,064 | 7,022 | 7,107 |
| Nikkei 225 | 29,058 | 28,865 | 29,200 |
| Shanghai Comp | 3,584 | 3,571 | 3,611 |
| Hang Seng | 28,966 | 28,799 | 29,301 |
| MSCI Asia ex-Japan | 894 | 885 | 902 |
| MSCI EM | 1,384 | 1,366 | 1,396 |
| Brent (ICE) | 71.3 | 70.0 | 72.0 |
| Gold | 1,871 | 1,858 | 1,896 |
| UST 10Y Yield | 1.63 | 1.60 | 1.64 |

Source: Bloomberg, Standard Chartered

Economic and market calendar

| | Event | Next week | Period | Prior |
|---------|-------|--------------------------------|--------|-------|
| MON | EC | Sentix Investor Confidence | Jun | 21 |
| TUE | EC | ZEW Survey Expectations | Jun | 84 |
| | US | JOLTS Job Openings | Apr | 8123k |
| WED | CH | CPI y/y | May | 0.9% |
| | CH | PPI y/y | May | 6.8% |
| | CH | Money Supply M1 y/y | May | 6.2% |
| THUR | EC | ECB Deposit Facility Rate | 10-Jun | -0.5% |
| | US | CPI Ex Food and Energy y/y | May | 3.0% |
| | US | Real Avg Weekly Earnings y/y | May | -1.4% |
| FR/ SAT | US | U. of Mich. Current Conditions | Jun P | 89.4 |

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 has normalised across assets

Our proprietary market diversity indicators as of 02 June

| Level 1 | Diversity | 1-month trend | Fractal dimension |
|---------------------|-----------|---------------|-------------------|
| Global Bonds | ● | ↑ | 2.31 |
| Global Equities | ○ | ↓ | 1.38 |
| Gold | ○ | ↓ | 1.32 |
| Equity | | | |
| MSCI US | ○ | → | 1.41 |
| MSCI Europe | ○ | → | 1.29 |
| MSCI AC AXJ | ● | ↑ | 2.13 |
| Fixed Income | | | |
| DM Corp Bond | ● | ↑ | 1.82 |
| DM High Yield | ● | ↓ | 1.51 |
| EM USD | ● | ↓ | 1.62 |
| EM Local | ● | → | 1.50 |
| Asia USD | ● | ↑ | 2.65 |
| Currencies | | | |
| EUR/USD | ● | ↓ | 1.68 |

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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