

Weekly Market View

Light at the end of the tunnel?

Rising expectations of a COVID-19 vaccine launch by early 2021 have driven stocks to new records. While the resurgence of the pandemic in the US and Europe presents near-term risk, the brightening medium-term outlook leads us to maintain a buy-on-dips strategy in the coming weeks

Equities: Q4 is seasonally the strongest period for stocks, with December recording positive returns most of the time

Bonds: Recent onshore China bond defaults do not affect our positive outlook for Asia USD corporate bonds

FX: GBP/USD could pop towards 1.35 amid rising expectations of a EU-UK post-Brexit trade deal in the coming weeks

Also find out...

What is the impact of Trump's order banning US investment in some Chinese companies?

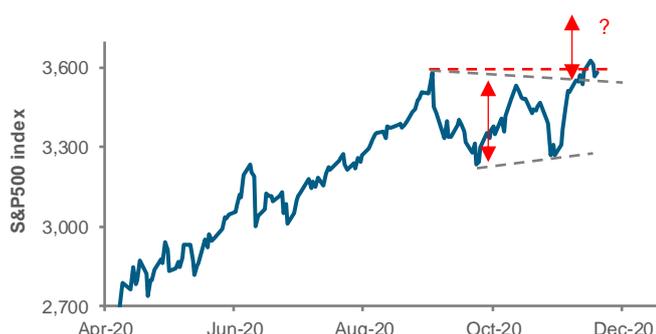
Are charts pointing to a break higher for the S&P500 index?

Is it time to build GBP exposure?

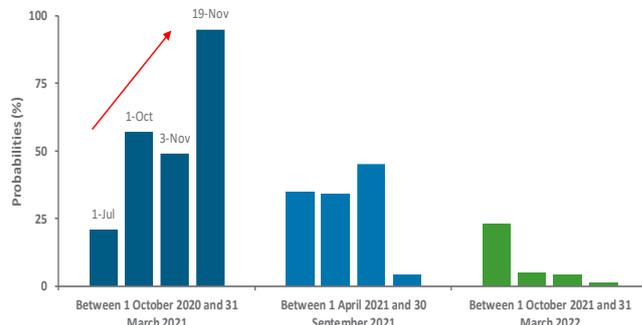
Charts of the week: A vaccine shot for equities

Surprisingly strong test results from three vaccine candidates have raised the prospects of a return to economic normalcy

S&P500 index and key technicals



Evolution of probabilities that a vaccine is launched by a certain period



Source: Bloomberg, Standard Chartered; *Probabilities are based on forecasts from GoodJudgment.com taken on 01 July, 01 October, 03 November and 19 November

Editorial

Light at the end of the tunnel?

A slew of positive COVID-19 vaccine news has driven global and US stocks to record highs, but the coming weeks are unlikely to be smooth. Markets are likely to face a tug-of-war between rising expectations of relatively quick vaccine distribution and a deteriorating near-term outlook in Europe and the US as authorities confront another wave of infections. Nevertheless, we believe the successful vaccine trials have brought greater visibility of the day when economies can return to normalcy. That combined with positive sentiment generated by Joe Biden's election win and supportive policies mean any near-term dips would offer opportunities to add to risk assets, in our assessment.

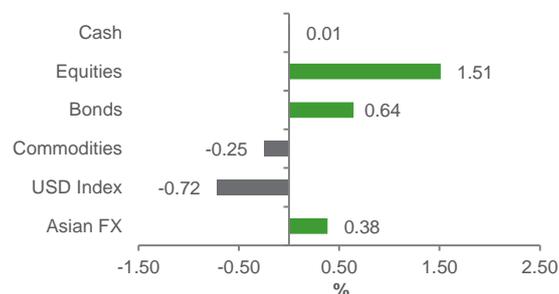
Over the past week, at least three COVID-19 vaccine candidates have reported surprisingly strong results from their final phase of trials. Two of the vaccines have had c.95% success rates, well above the 50% threshold used by US authorities to approve vaccines. The high success rate suggests at least one is likely to get emergency approval from authorities before year-end. This would set the stage for mass-scale inoculation, at least in the US and Europe initially, in H1 2021.

The sharp rally in risk assets suggests the speed of vaccine development (less than one year) has positively surprised investors. Vaccines typically take years to develop. The 95% success rates of the two most advanced vaccine trials also raises the prospects of higher public acceptance, which is critical in getting economies back to normal. Having said that, there are still a few unknowns, such as how long the vaccines would provide immunity or whether an inoculated person can still transmit the virus, besides the logistical challenges of distribution.

While awaiting the vaccines, markets will need to overcome the near-term hurdle of a tough winter in the northern hemisphere as social restrictions are tightened with the resurgence of COVID-19. We expect monetary policies to provide strong support to sentiment, with rising chances of further easing by the ECB and the Fed in December. These should help alleviate some of the seasonal liquidity tightening seen during the year-end. Also, prospects of a post-Brexit trade deal between the EU and the UK have brightened after Biden's win, potentially lifting a key uncertainty weighing on Europe. GBP/USD could pop towards 1.35 on a deal (see page 6). Meanwhile, seasonality and charts support more gains in US stocks, one of our preferred markets (see pages 4-5).

Equities and commodities extended gains and the USD fell amid more positive COVID-19 vaccine results

Benchmark market performance w/w*



Source: Bloomberg; *week of 12 Nov 2020 to 19 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 19 Nov

Level 1	Diversity	Diversity trend since 19-Oct-20	Fractal dimension
Global Bonds	●	↑	1.69
MSCI ACWI	●	→	1.51
Gold	●	→	1.64
Equity			
MSCI US	●	→	1.57
MSCI Europe	●	↓	1.52
MSCI AC AXJ	●	→	1.35
Fixed Income			
DM Corp Bond	●	→	1.60
DM High Yield	●	→	1.53
EM USD	●	↑	1.79
EM Local Currency	●	↓	1.40
Asia Hard Currency	●	↑	1.82
Currencies			
USD/CNH	●	→	1.31
EUR/USD	●	↑	2.13
USD/JPY	●	→	1.49
GBP/USD	●	↑	1.69
AUD/USD	●	↓	1.63

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: Neutral, on balance

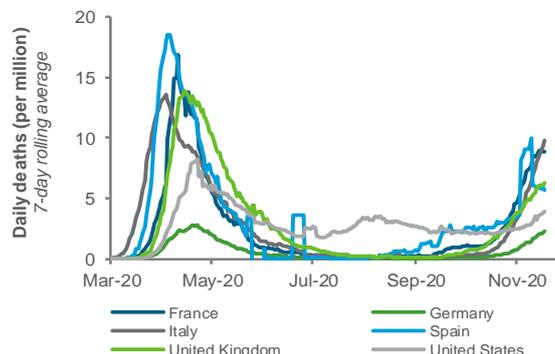
(+) factor: Promising vaccine trial results; Fed, ECB policy support, Brexit hopes

(-) factor: COVID-19 rise in Europe, US; surprisingly weak US, China retail sales

	Positive for risk assets	Negative for risk assets
COVID-19	<ul style="list-style-type: none"> Pfizer/BioNTech and Moderna said final phase trials showed their respective COVID-19 vaccines were c. 95% effective, raising chances of an approval for public use by the end of the year; Oxford vaccine trials showed strong immune response New COVID-19 cases appear to have peaked across Europe 	<ul style="list-style-type: none"> US new cases, hospitalisations hit new highs and the death toll rose, forcing New York to close schools and California to impose night curfew Daily fatalities rose across Europe, leading authorities to consider tighter restrictions Japan's new cases hit a record
	Our assessment: Neutral, on balance, as prospects of earlier-than-expected vaccines were offset by rising social restrictions	
Macro data	<ul style="list-style-type: none"> US industrial production and capacity utilisation rose more than expected in Oct. US housing market index and existing home sales rose unexpectedly and housing starts rose more than expected China's industrial production and fixed asset investment rose more than expected in Oct. 	<ul style="list-style-type: none"> US retail sales slowed more than expected in Oct., rising at the weakest pace in 6 months US initial jobless claims rose more than expected US Michigan Consumer Sentiment fell below estimates China retail sales rose less than expected in Oct. Euro area core inflation stayed at its weakest on record
	Our assessment: Neutral, on balance, as stronger-than-expected manufacturing and housing data were offset by slowing retail sales	
Policy developments	<ul style="list-style-type: none"> Fed's Powell said the central bank was "strongly committed" to using all tools to support recovery President Trump pushed lawmakers to approve "big and focussed" stimulus package ECB's Lagarde said positive vaccine news did not change plans for a "forceful" monetary stimulus in December Italy's government proposed EUR 20bn of additional stimulus RBA's Lowe said the central bank was committed to using all tools to hit its inflation target, boost jobs 	<ul style="list-style-type: none"> Fed's Williams said he expected the economy to slow down in Q4 20 and early next year amid COVID-19's resurgence
	Our assessment: Positive, on balance, on the Fed's and the ECB's commitments to further ease monetary policies	
Other developments	<ul style="list-style-type: none"> Reports said a EU-UK post-Brexit trade deal was likely soon Asia Pacific's 15 economies, including China, Japan and Australia, signed the world's biggest regional trade pact 	<ul style="list-style-type: none"> President Trump signed an order prohibiting US investments in firms in China controlled by the military US regulator proceeded with plans to delist Chinese ADRs that are not subject to US audit
	Our assessment: Positive, on balance, amid rising expectations of a UK-EU trade agreement in the near term	

Europe and the US are likely to further tighten social restrictions as COVID-19 fatalities continue to rise

Daily new deaths per million people in Europe and the US



Source: Our World in Data, Standard Chartered

Consumption growth appears to have peaked near-term in the US, but continues to accelerate in China

US and China retail sales growth



Source: Bloomberg, Standard Chartered

The ECB is likely to ease monetary policy further in December amid growing disinflationary pressures

Euro area headline and core consumer inflation



Source: Bloomberg, Standard Chartered

Top client questions

Q Do seasonal trends support remaining bullish US equities in December?

Over the past 29 years, the S&P500 has risen an average of 1.3% in December and recorded positive returns 76% of the time. On average, the fourth quarter is seasonally the best period for the US equity market. Hence, staying invested in December has historically been rewarded, on average.

This year, the S&P500 has performed better than expected in October/November, rising 6% compared to an average October/November increase of 3%, with markets having been driven higher since US election day.

While a number of risks remain in place, the outlook for December appears positive. As we note earlier, better-than-expected results from the trials of COVID-19 vaccines mean emergency FDA approval is possible before year-end, which would likely support markets positively.

US equities remain preferred based on the recovery in earnings in 2021, the vaccine roll out and likely low inflation due to the large output gap in the economy. This is a goldilocks scenario for equities, in our assessment. While the S&P500 has risen dramatically from the March low, the index is up a more modest 10% YTD, which is in line with the average annual gain of over the past 29 years.

Q What is the impact of President Trump's executive order banning US investments in military-linked companies in China?

US President Donald Trump signed an executive order, effective 11 January 2021, that prohibits US investors (including American investment funds, pension funds and others) from "buying shares of 31 Chinese companies that were designated by the Defence Department as backed by the Chinese military earlier this year". However, it gives investors till 11 November 2021 to fully divest ownership in these companies.

The ban may affect US investment fund flows into the specified China equities, in our view, but the impact is likely to be quite contained. There are 42 listed companies that are affected by the new restriction. In aggregate, we estimate that US ownership represents around 2.6% of the total listed market cap of the 42 companies and, hence, the impact of the disposal is unlikely to be significant given the extended period of implementation.

Among the sectors, the telecom sector is likely to face the largest unwinding activity, though the impact is likely to be moderate. The ban, however, would not necessarily lead to a de-listing of related ADRs because non-US investors can still trade them on US stock markets. Compared to China offshore equities, the impact on China onshore markets is likely to be relatively muted as US investor holdings represent only 0.3% of the total impacted listed market cap. China equities, both onshore and offshore, remain preferred markets.

Q4 is seasonally the strongest period for stocks, with December recording positive returns 76% of the time

S&P500 average monthly returns and hit rate since 1991



Source: Bloomberg, Standard Chartered

Q US ownership of China equities impacted by President Trump's executive order is less than 3%

US ownership of impacted China equities in various markets



Source: Bloomberg, Standard Chartered

Q S&P500 faces resistance 1% above the current level

Technical indicators for key markets as on 19 Nov. 2020

Index	Spot	1st support	1st resistance
S&P500	3,582	3,557	3,617
STOXX 50	3,452	3,429	3,479
FTSE 100	6,334	6,293	6,398
Nikkei 225	25,468	25,231	25,860
Shanghai Comp	3,362	3,327	3,380
Hang Seng	26,424	26,206	26,593
MSCI Asia ex-Japan	789	783	794
MSCI EM	1,200	1,190	1,209
Brent (ICE)	44.2	43.2	44.8
Gold	1,863	1,855	1,881
UST 10Y Yield	0.83	0.80	0.88

Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q Are charts pointing to a break higher for the S&P500 index?

The S&P500 index's rise above resistance on a minor downward sloping trendline from September has raised the odds of further gains in the coming weeks, in our view. Amid the uncertainty around the US presidential election, the index had settled in a triangle pattern since early September. Triangles are trend continuation patterns, where the prior trend tends to continue once the consolidation is over. In the case of the S&P500 index, the trend has been up since March, and last week's break above the upper edge (the downward sloping trendline) has raised the chances of the positive trend extending. Generally, a rise above the upper edge of a triangle is a reasonable confirmation of a break. However, given the index is close to a cluster of resistance around 3,588, 3,617 and 3640 (includes major resistance at the early September high and an uptrend line from 2018), we would prefer to wait for at least one weekly close above the converged resistance to confirm that the path toward 3,850, the price objective of the triangle, is relatively clear.

If the index fails to decisively break above resistance at 3,588-3,640 it would imply a prolonged range or a sideways channel is likely in the near-term. Immediate support is at 3,557, while stronger support remains at the September low of 3,209. A break below 3,209 would indicate that the upward pressure had faded.

Q Will the recent rise in onshore China bond defaults spill over into the Asia USD bond market?

In the past 2 weeks, it was reported that three onshore Chinese government-linked corporates failed to fulfill their debt liabilities. This reignited concerns of more defaults and a lower probability of implicit government support. In this period, onshore Chinese corporate AAA bond and AA bonds weakened, with yields rising by 13bps and 23bps, respectively, to around 18-month highs. On the contrary, their offshore USD corporate bond counterparts remained relatively resilient.

In our assessment, current odds of a spillover of onshore credit concerns into offshore USD bond markets remain relatively low. We believe these default cases were independent credit events rather than symptomatic of broader macro risks. Also, policymakers have been stressing the importance of preventing systemic financial risks through controlling corporate leverage. As such, allowing poorly managed entities to default could be a showcase of their determination in cracking implicit guarantees.

We believe that, on a long-term perspective, this is a healthy development for Chinese onshore bond market to continue growing and pricing risk appropriately. Finally, we note that despite recent headlines, the onshore HY corporate default rate remains low (sub-2%), especially relative to high yield peers in other regions. This is also likely to help mitigate any negative impact from recent defaults in both onshore and offshore bond markets.

Therefore, we retain our constructive view on Asian USD corporate bonds and our preference on HY over IG. Besides limited spillover risk, we prefer HY bonds due to their improving fundamentals and recovery process from the pandemic. The attractive valuation of Asian HY bonds over IG bonds is another factor supporting our view.

The S&P500 index's break above a near-term resistance raises the odds of further gains in the coming weeks, but the index faces medium-term resistance near 3588-3640



Source: Bloomberg, Standard Chartered

China onshore corporate bond yields have risen marginally following reports of defaults

China onshore yields on AAA- and AA-rated corporate bonds



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q Is it time to build GBP exposure as the Brexit deadline approaches?

News reports indicate that a basic EU-UK trade agreement is likely to be reached soon. The FX market has likely priced in such an event to a considerable extent. A deal that is perceived as better-than-expected for the UK could see a euphoric GBP/USD pop towards 1.35-1.36, whereas a deal that signals a significant UK reversal from its negotiating position could lead to a decline towards 1.27-1.28 in the near term. Once the trade deal is agreed, though, the thornier issues of services – particularly financial services – will appear on the radar. These will take some time to address.

There are other significant risk variables to consider in the coming weeks, which have a significant focus on the broader USD. Positioning and sentiment for the USD are bearish, and this leaves it vulnerable to a short, possibly sharp, rally if there are risk-off surprises. Potential sources could be an unlikely twist in the US presidential result, a final foreign policy “fling” from President Trump, a dramatic worsening of COVID-19 cases in the US or globally, failure to get any US fiscal stimulus, a dovish surprise from the ECB on 12 December or a less dovish one from the Fed on 16 December. We would also watch for any greater-than-usual market illiquidity risk as we approach year-end.

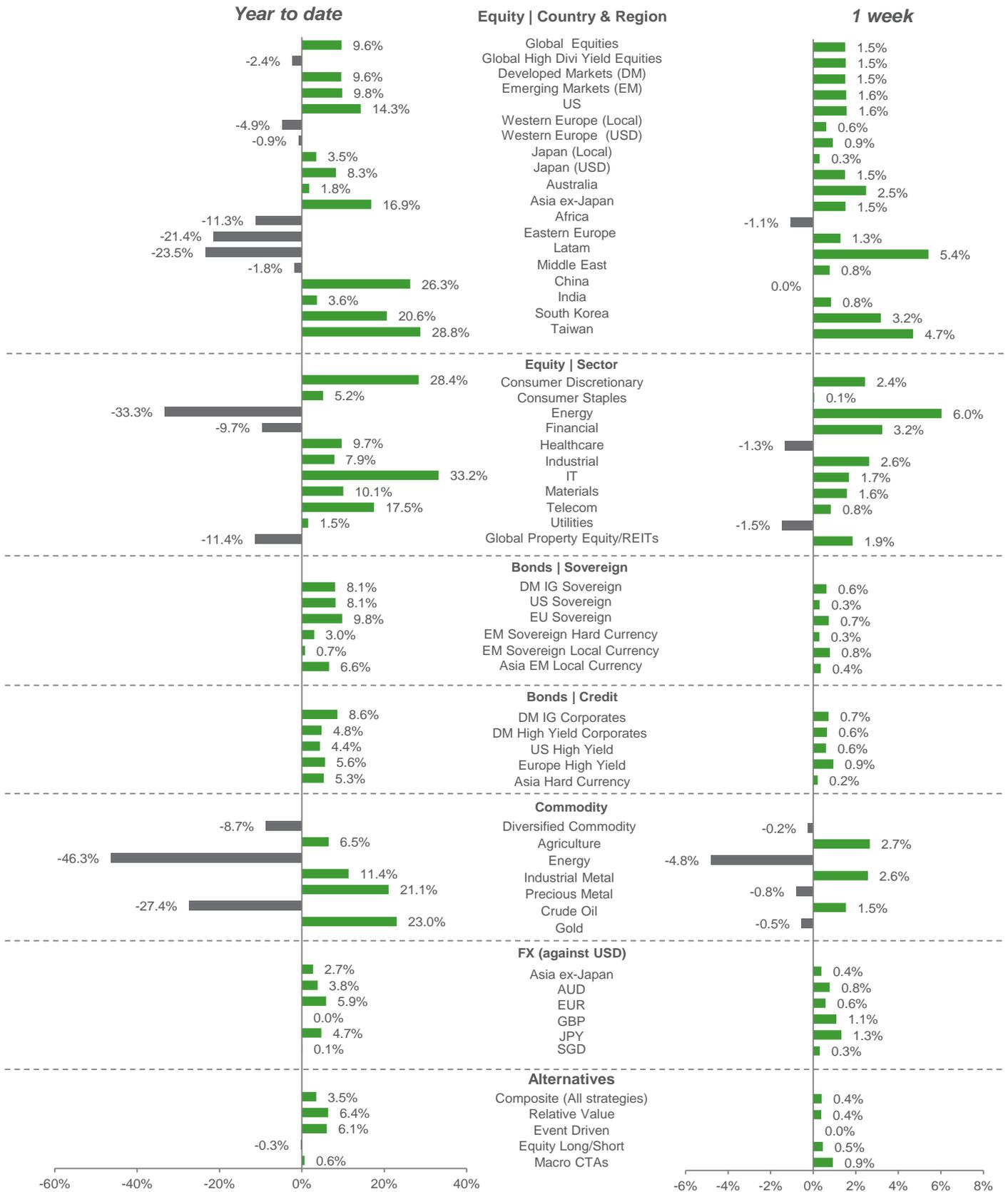
Our preferred strategy for GBP/USD, therefore, would be to sell any short-term USD rally rather than build exposure to the pair at current levels.

GBP/USD could rise towards 1.35 following a EU-UK post-Brexit trade deal



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 19 November 2020, 1 week period: 12 November 2020 to 19 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	JN	GDP Annualized SA q/q	3Q P	21.4%	EC	Markit Eurozone Composite PMI	Nov P	50.0
	CH	Retail Sales y/y	Oct	4.3%	UK	Markit/CIPS UK Composite PMI	Nov P	52.1
TUE	US	Construction Output y/y	Sep	-2.5%	US	Markit US Composite PMI	Nov P	56.3
	EC	Retail Sales Ex Auto and Gas	Oct	0.2%	JN	Nationwide Dept Sales y/y	Oct	-33.6%
	US	Capacity Utilization	Oct	72.8%	US	House Price Purchase Index q/q	3Q	0.8%
	US	NAHB Housing Market Index	Nov	90.0		jap		
WED	JN	Exports y/y	Oct	-0.2%	JN	PPI Services y/y	Oct	1.3%
	UK	CPI Core y/y	Oct	1.5%	US	GDP Annualized q/q	3Q S	33.1%
	US	Housing Starts	Oct	1530k				
THUR	US	Philadelphia Fed Business Outlook	Nov	26.3	US	FOMC Meeting Minutes	Nov-05	-
	US	Existing Home Sales	Oct	6.85m	EC	M3 Money Supply y/y	Oct	10.4%
FR/SAT	JN	Natl CPI Ex Fresh Food, Energy y/y	Oct	-0.2%	JN	Tokyo CPI y/y	Nov	-0.3%
	JN	Jibun Bank Japan PMI Composite	Nov P	47.0	EC	Economic Confidence	Nov	90.9
	UK	Retail Sales Ex Auto Fuel y/y	Oct	-	IT	PPI y/y	Oct	-3.8%
	EC	Consumer Confidence	Nov A	-	GE	Retail Sales NSA y/y	Oct	6.5%
					CH	Industrial Profits y/y	Oct	10.1%

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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