

# Weekly Market View

## Rally broadening

The swift approval of vaccines in the UK and Russia and signs of US bipartisan agreement on another fiscal stimulus have fuelled the month-long rally in risk assets. We see the broadening rally as yet another sign of investor confidence in a sustainable economic recovery. This, we believe, is positive for risk assets going forward

**Equities:** US equities are looking overbought and a short-term pause cannot be ruled out. Nevertheless, the widening participation in the ongoing rally suggests further gains in the coming months

**Bonds:** OPEC's decision to gradually raise oil output is unlikely to thwart the recovery in oil prices and continued gains in High Yield bonds

**FX:** We expect EUR/USD gains to extend towards 1.25 and USD/CNH to weaken further towards 6.46

### Also find out...

Are equity markets pointing to profit-taking in December?

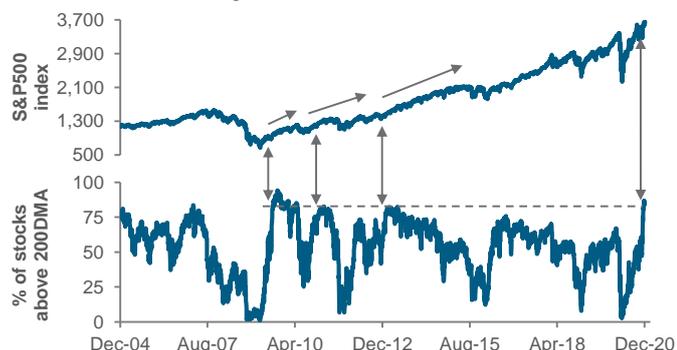
What are the implications of the latest US decisions against China companies?

Does OPEC's decision to raise output alter your views on energy sector stocks?

## Charts of the week: And they all join in

**85% of S&P500 index members are now trading above their 200-day moving average as Value stocks play catch up with Growth peers**

S&P500 index; Percentage of index stocks above their 200DMA



Ratio of MSCI World Value vs Growth indices



Source: Bloomberg, Standard Chartered

## Editorial

### Rally broadening

This week brought more signs of the equity market rally broadening towards cyclical sectors and beyond the US, with European stocks outperforming and the USD weakening further. The approval of COVID-19 vaccines in the UK and Russia likely helped, but we believe this is just the start, with more vaccine approvals expected across Europe and the US over the coming weeks. The rapid pace of approvals means mass-scale vaccinations can begin in the coming months and life can return to normalcy, perhaps as early as H1 21.

Meanwhile, incoming US President Biden and the Democrats appear increasingly keen on passing another stimulus, if possible before Biden assumes office in January, as the US COVID-19 situation worsens. Any breakthrough here, even with a relatively conservative USD 500bn-1trn fiscal package that is likely to be more agreeable for the Republicans, could accelerate investor rotation towards cyclical assets, such as financial, industrial and materials sectors.

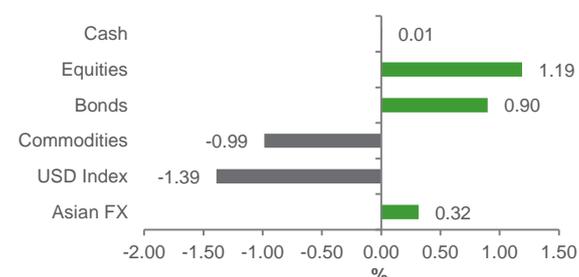
The broadening recovery in equities beyond the sectors that had benefitted from the pandemic suggests the long-term outperformance of Growth vs Value equities could be ending. Our increasingly constructive view on an economic and corporate earnings recovery in 2021 means we see a rising probability of Value outperforming Growth in the next 6-12 months, even as Growth equities continue to deliver strong returns on the back of secular earnings expansion.

The near-term focus for markets remains on how soon COVID-19 vaccines are launched on a mass scale, a post-Brexit trade deal, the ECB's response to a stronger EUR and the Fed's response to rising bond yields. While rising bond yields reflect an improving growth outlook, we expect the Fed to limit any rise in yields to avoid a significant rise in borrowing costs which would challenge the recovery.

All the above events have the potential to further support the risk rally as technical indicators remain supportive over the medium term (see page 4). The US Senate run-off election in Georgia in early January is another potential trigger – the Democrats are looking to win both seats to get a clear Senate majority and implement their green infrastructure spending plans. Near-term risks include rising COVID-19 hospitalisations in the US, escalating US sanctions against Chinese companies in the last days of the Trump administration (page 4) and rising tensions with Iran.

**Equities extended gains and the USD fell further as risk appetite improved with rising growth expectations**

Benchmark market performance w/w\*



Source: Bloomberg; \*week of 26 Nov 2020 to 03 Dec 2020

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

Market diversity across key asset classes as of 02 Dec

Level 1	Diversity	Diversity trend since 2-Nov-20	Fractal dimension
Global Bonds	●	↓	1.54
MSCI ACWI	●	↓	1.55
Gold	●	↓	1.48
<b>Equity</b>			
MSCI US	●	↓	1.74
MSCI Europe	●	→	1.50
MSCI AC AXJ	●	↓	1.38
<b>Fixed Income</b>			
DM Corp Bond	●	↓	1.48
DM High Yield	●	↓	1.49
EM USD	●	↑	1.90
EM Local Currency	●	↓	1.38
Asia Hard Currency	●	→	1.85
<b>Currencies</b>			
USD/CNH	●	→	1.36
EUR/USD	●	↓	1.48
USD/JPY	●	→	1.52
GBP/USD	●	↑	2.22
AUD/USD	●	→	1.74

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:** Positive, on balance

**(+) factor:** Mass vaccination approvals; revival of US fiscal stimulus expectation

**(-) factor:** Rise in US COVID-19 hospitalisations; surprisingly weak US data

	Positive for risk assets	Negative for risk assets
COVID-19	<ul style="list-style-type: none"> <li>Pfizer/BioNTech and Sputnik V got regulatory approvals for their vaccines in the UK and Russia, respectively, enabling them to launch mass-scale vaccinations</li> <li>COVID-19 cases continued to decline in Europe from recent record high levels, enabling some countries to start relaxing restrictions gradually</li> </ul>	<ul style="list-style-type: none"> <li>US new cases, hospitalisations and fatalities hit new highs, leading to more social restrictions</li> <li>Daily fatalities continued to rise in Europe</li> <li>New cases remained on an uptrend in Hong Kong, South Korea and Japan; Hong Kong tightened social restrictions</li> </ul>

**Our assessment:** Neutral, on balance, as the start of vaccinations in some markets was offset by a continued rise in US cases

Macro data	<ul style="list-style-type: none"> <li>China manufacturing business confidence (PMI) rose more than expected while services sector confidence rose unexpectedly</li> <li>US initial jobless claims fell below expectations</li> <li>Eurozone producer price inflation fell less than expected in October</li> <li>Japan retail sales rose more than expected, industrial production fell less than expected and consumer confidence rose unexpectedly</li> <li>German unemployment fell more than expected</li> </ul>	<ul style="list-style-type: none"> <li>US manufacturing business confidence (ISM PMI) slowed more than expected and services sector confidence fell</li> <li>US private employment (ADP) rose less than expected, at the weakest pace since July</li> <li>A Fed report showed slowdown in regions hit by COVID-19</li> <li>Euro area consumer inflation fell more than expected</li> <li>ECB's Guindos said inflation is likely to stay negative, while the economy contracts in Q4 20</li> </ul>
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**Our assessment:** Neutral, on balance, with surprisingly strong China business confidence offset by weaker-than-expected US data

Policy developments	<ul style="list-style-type: none"> <li>Republican and Democrat senators supported a c.USD 900bn stimulus plan; incoming US President Biden earlier said passing another stimulus bill is his top policy priority</li> <li>Fed's Powell reiterated a pledge to use all tools to revive economy despite progress in vaccines</li> </ul>	
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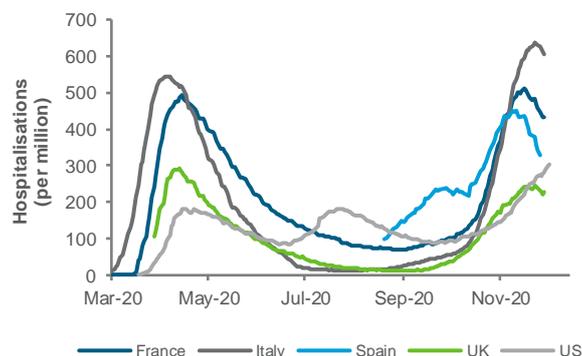
**Our assessment:** Positive, on balance, with new fiscal spending measures proposed in the US

Other developments	<ul style="list-style-type: none"> <li>UK PM's office said the government was working hard to bridge any differences on Brexit, while the EU dispatched a top official to assist negotiators to reach a deal</li> <li>Japan PM Suga's adviser said a proposed stimulus plan is likely to be more than double the size investors expect</li> </ul>	<ul style="list-style-type: none"> <li>EU officials said three main disagreements on a Brexit deal were still unresolved; France warned it could veto a deal</li> <li>The US added four more China companies to its sanctions list</li> <li>The US House passed a bill, earlier approved by the Senate, that could force China companies to delist unless they subject to US audits</li> </ul>
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**Our assessment:** Neutral, on balance, as rising expectations of a post-Brexit trade deal offset by more US sanctions against China

**New COVID-19 cases and hospitalisations in the US have surged lately, while those in Europe have likely peaked**

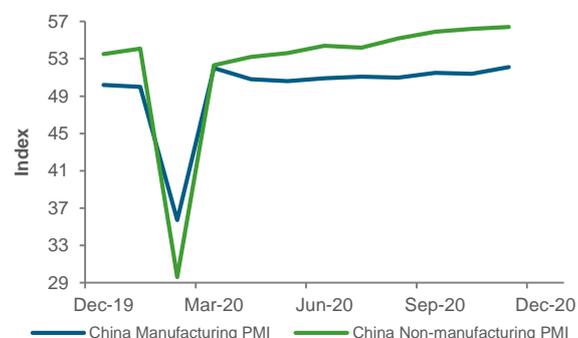
Daily new COVID-19 hospitalisations per million people



Source: Our World in Data, Standard Chartered

**China's business confidence strengthened more than expected in November as the recovery gained steam**

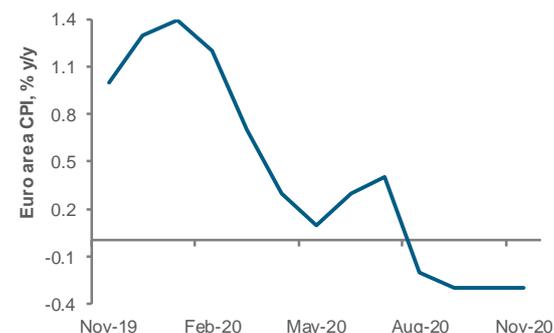
China manufacturing and non-manufacturing PMIs



Source: Bloomberg, Standard Chartered

**The ECB is likely to ease policy further on 10 December as Euro area faces rising deflationary pressures**

Euro area consumer inflation



Source: Bloomberg, Standard Chartered

## Top client questions

### Q Are equity market technicals pointing to profit-taking in December?

The S&P500 index is looking overbought and a minor pause can't be ruled out. However, any retreat could be short-lived. Indeed, improving market breadth (in the form of widening stock participation in the rally) suggests the record high levels of the index may not be an obstacle to further gains in the coming months.

Very low levels of the CBOE equity put/call (P/C) ratio and high levels of the American Association of Individual Investors (AAII) bullish readings indicate that optimism is running high in stocks. In an uptrend, demand for calls tends to be relatively high compared with puts, making calls expensive relative to puts, exerting downward pressure on the P/C ratio. This is not surprising in the context of the rebound since March, but it raises the spectre of a retreat, especially when the index is testing stiff resistance at the upper edge of a rising trendline from 2018 (see chart). While a short-term pause cannot be ruled out, we believe it will likely be short-lived for two reasons.

First, the percentage of NYSE stocks closing above the 200-day moving average (DMA) rose above 85% for the first time since 2009-10. A broadening in market breadth is key to sustainability of any rally and, in this regard, the rally ensuing after the Great Financial Crisis (GFC) low set in March 2009 is an example. While this does not imply a similar rally is on the cards, if history is any guide, since 2000, each time the percentage number has gone above 84, the probability of positive returns in the subsequent 3, 6 and 12 months has been high. Secondly, as highlighted in the Weekly Market View two weeks ago, the bullish triangle break triggered last month points to a price objective at 3,850.

### Q What are the market implications of the US barring investments in some more China companies?

Less than a month ago, US President Donald Trump signed an executive order prohibiting US individuals from investing in publicly traded securities or derivative products issued by 31 Chinese companies. This week, the US Department of Defense (DoD) added four more Chinese companies that it believes are controlled by the Chinese military to the list. Nevertheless, the deadline for US individuals to fully divest their ownership in the prohibited companies remains 11 November 2021.

We reiterate our view that this ban is unlikely to cause sustained impact to China's broader bond and equity markets, given that US investor ownership in the concerned equities is estimated to be less than 3% of their market capitalisation. Meanwhile, the Asia USD bond market is typically dominated by dedicated Asian investors with a strong regional bias. Thus, while some near-term selling pressure could emerge if the US authorities add more Chinese companies to the banned list, any sell-off is likely to be contained, especially given the extended period of implementation.

### The S&P500 index is facing stiff resistance in the near-term, but any retreat is likely to be short-lived



Source: Bloomberg, Standard Chartered

### US investor ownership in China companies remain very low, limiting the impact of US prohibition orders



Source: Bloomberg, Standard Chartered

### S&P500 faces resistance 0.4% above the current level

Technical indicators for key markets as on 03 Dec 2020

Index	Spot	1st support	1st resistance
S&P500	3,667	3,636	3,683
STOXX 50	3,517	3,497	3,532
FTSE 100	6,490	6,341	6,565
Nikkei 225	26,809	26,559	26,935
Shanghai Comp	3,442	3,405	3,465
Hang Seng	26,729	26,415	26,968
MSCI Asia ex-Japan	809	797	815
MSCI EM	1,239	1,217	1,251
Brent (ICE)	48.7	47.9	49.1
Gold	1,841	1,798	1,862
UST 10Y Yield	0.91	0.85	0.95

Source: Bloomberg, Standard Chartered

## Top client questions (cont'd)

### Q Does OPEC's latest decision to gradually raise oil output alter your view on oil prices, HY bonds and energy sector stocks?

WTI crude oil prices (measured by front-end contracts) have rallied over the past few weeks on the back of rising investor optimism around economic re-openings/COVID-19 vaccines. The only hiccup to the recent trend has been the postponement of the OPEC+ meeting earlier this week. We reiterate that current supply-demand balances matter more for oil markets as they are less forward-looking in nature than other markets. While OPEC's latest decision to gradually raise output by 500k bpd is more than what key OPEC members had recently signalled, this still marks a slower ramp-up of production than the previously planned increase. In our assessment, OPEC+ will retain a data-dependent approach as it continues to prop up oil prices given the still-fragile, near-term outlook for demand amid ongoing lockdowns/mobility restrictions in Europe (see chart) and still-rising COVID-19 case numbers.

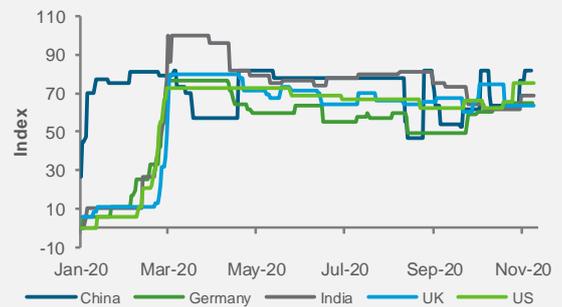
Having said that, we continue to expect higher oil prices over the next 6-12 months as the global growth recovery picks up steam, resulting in a gradual normalisation of oil inventories.

Oil prices are one key driver of Developed Market High Yield (DM HY) corporate bond yield premiums. This is a result of a relatively high energy sector exposure within the indices that we track (eg. the energy sector accounts for 11% of the US HY bond index). While fluctuations in oil prices could weigh on DM HY corporate bonds in the near term, we believe the asset class should perform well in the medium term. This is because of (1) improving credit fundamentals on the back of a global economic recovery and higher oil prices, (2) still-easy financial conditions, and (3) inexpensive valuations.

For energy sector stocks, we believe risks are fading following positive vaccine news, and the sector will likely recover alongside the wider equity market. As the UK has already approved a vaccine roll-out and other countries may follow soon, investors are likely to look through still-rising COVID-19 case numbers to a normalisation of demand. Moreover, in the US, we believe the Biden administration's energy-related policies will likely be less adverse than feared, with a split Congress making it difficult to pass any far-reaching changes to energy sector policy. We also see equity investors favouring a rotation to Value sectors such as energy over the next 6-12 months. Longer term, though, structural headwinds for the sector are unlikely to dissipate completely, especially with a continued emphasis on building a "clean energy"-driven economy.

### Economic restrictions remain stringent in most countries, slowing the recovery in oil demand

COVID-19 Oxford Government Response Stringency Indices<sup>1</sup>

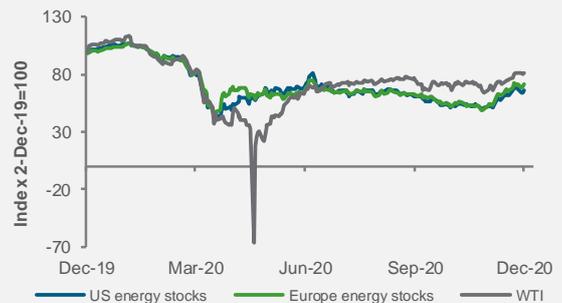


Source: Our World in Data, Standard Chartered; as of 2 December 2020

<sup>1</sup>This is a composite measure based on nine response indicators, including school closures, workplace closures and travel bans, rescaled to a value from 0 to 100 (100 = strictest). If policies vary at the subnational level, the index is shown as the response level of the strictest sub-region

### We see risks fading for energy sector stocks as the economy recovers, lifting oil prices in the next 12 months

Relative performance of US and European energy sector stocks (Index: 100 = 02 Dec 2019)



Source: Bloomberg, Standard Chartered

## Top client questions (cont'd)

### Q How much can the EUR and the CNH benefit from the USD's break lower?

EUR/USD broke above the previous high at 1.2010 and technical resistance at 1.2100, suggesting that the next leg of the uptrend may have begun. There is little in the way of significant technical resistance till the 1.2500-1.2600 area. Hence, the uptrend could accelerate.

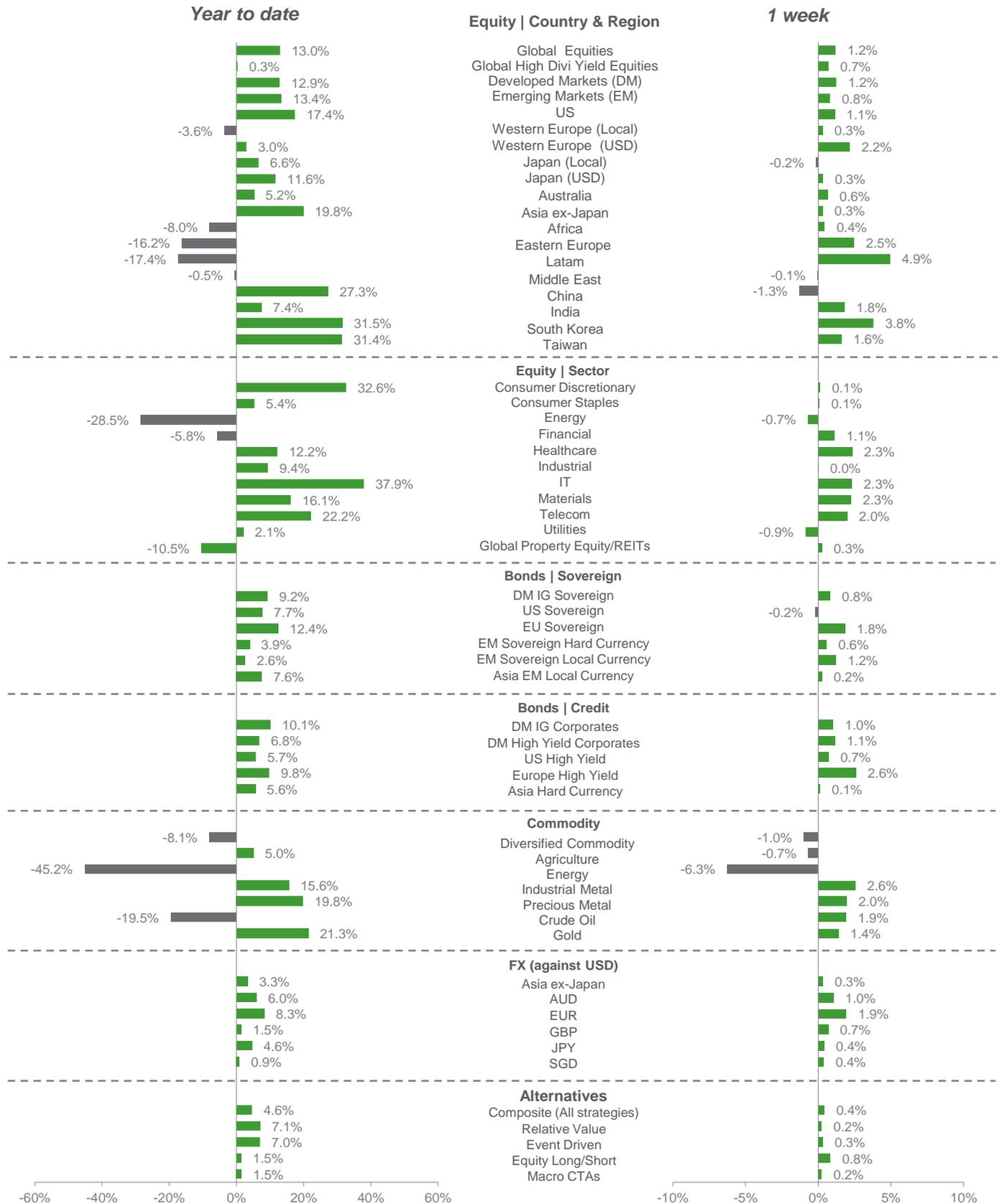
We have previously noted that declining market liquidity towards the end of the year and a period of potential uncertainties between now and the inauguration of President-elect Biden could trigger volatility. This risk is "two-way", in our view. While the momentum of the USD decline can carry EUR/USD higher, we also note that technical readings are approaching overbought levels, which could prompt a correction lower. There is also a risk that the ECB may verbally lean against the EUR strength before and after their monetary policy meeting on 10 December. Support at 1.1900 and 1.1800 should limit any short-term correction.

USD/CNH continues to track lower from its May peak around 7.200 and has some further scope to fall, in our view. We expect significant technical support around the 6.450-6.470 region could be tested soon, but that this level may hold as the pair treads water awaiting the incoming Biden administration. Recent comments from Biden suggest that nothing much will change for US-China relations initially, and we anticipate stability would be a preferred approach from the PBoC. We expect initial resistance around 6.680 in the event of a broad USD corrective bounce. A break below strong support at 6.450 would open an extension to 6.380.

We believe USD/CNH has further scope to fall, with levels around 6.46 offering the next major technical support



# 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 03 December 2020, 1 week period: 26 November 2020 to 03 December 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	Industrial Production y/y	Oct P	-3.2%	EC	Bloomberg Dec. Eurozone Economic Survey		
	JN	Retail Sales y/y	Oct	6.4%	CH	Exports y/y	Nov	11.4%
	UK	Lloyds Business Barometer	Nov	-21.0	EC	Sentix Investor Confidence	Dec	-10.0
TUE	JN	Jobless Rate	Oct	3.1%	JN	Eco Watchers Survey Outlook SA	Nov	49.1
	EC	OECD Publishes Economic Outlook			EC	ZEW Survey Expectations	Dec	32.8
	EC	CPI Core y/y	Nov P	0.2%				
	US	ISM Manufacturing	Nov	57.5				
WED	JN	Consumer Confidence Index	Nov	33.7	CH	CPI y/y	Nov	0.5%
	EC	PPI y/y	Oct	-2.0%	CH	PPI y/y	Nov	-2.1%
	EC	Unemployment Rate	Oct	8.4%				
THUR	CN	Caixin China PMI Composite	Nov	57.5	JN	PPI y/y	Nov	-2.1%
	EC	Retail Sales y/y	Oct	4.3%	UK	Industrial Production y/y	Oct	-6.3%
	US	Bloomberg Consumer Comfort	Nov-29	49.3	UK	Construction Output y/y	Oct	-10.0%
	US	ISM Services	Nov	55.9	EC	ECB Deposit Facility Rate	Dec-10	-0.5%
FRI/SAT	US	ISM Services	Nov	55.9	US	CPI y/y	Nov	1.2%
	UK	Markit/CIPS UK Construction PMI	Nov		US	PPI Final Demand y/y	Nov	0.5%
	US	Unemployment Rate	Nov		US	U. of Mich. Sentiment	Dec P	76.9
					US	U. of Mich. 5-10 Yr Inflation	Dec P	2.5%

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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