

Weekly Market View

Rally broadens

The broadening of the rally beyond the US to include European and Emerging Market stocks, bonds and currencies reflects optimism about a faster global recovery from the crisis. However, near-term risks remain elevated

Equities: ADRs of China companies continue to rally on expectation that dual-listing in Hong Kong will attract more investors from mainland China

Bonds: We expect lower corporate bond issuance in H2 and the Fed's bond buying to cap yield premiums

FX: EUR/USD's decisive break above the 1.1025 key resistance signals growing risk appetite, which could lead to a weaker USD in the medium term

Rally broadens

Also find out...

Has US equities' outperformance vs Europe run its course?

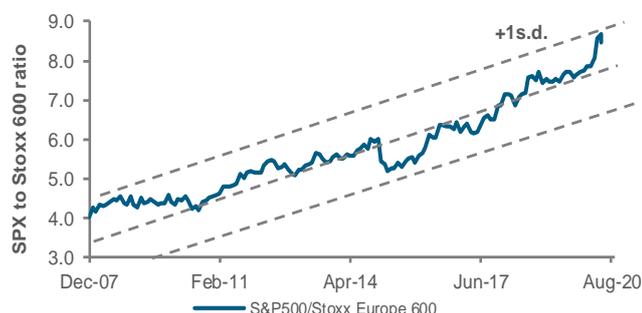
What are the implications of rising corporate bond issuance?

Is risk appetite returning to FX markets?

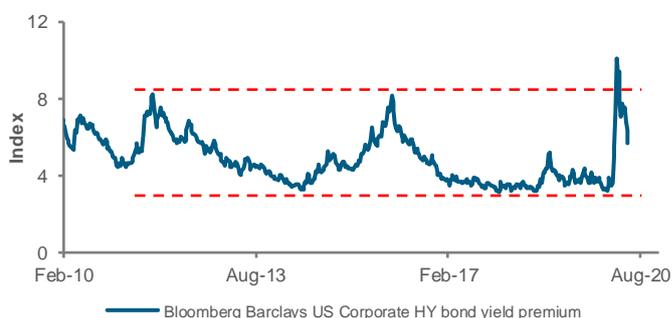
Chart of the week: Rally broadens with rising recovery optimism

Euro area and non-US equities and other risk assets such as HY bonds and commodities likely to have more room to rally

Relative ratio of S&P500 index vs Stoxx Europe 600 index



US High Yield bond yield premiums are reverting towards previous lows



Source: Bloomberg, Standard Chartered;

Editorial

Rally broadens

The broadening of the rally in risk assets in recent weeks reflects, in our view, growing belief that the unprecedented policy stimulus implemented worldwide will accelerate the pace of recovery as major economies emerge from lockdowns. This likely explains why the rally, which started in end-March with US technology and defensive sector equities and Investment Grade (IG) bonds, has quickly spread to cyclical sectors, value stocks and non-US (including Emerging Market) equities, bonds and currencies. The 52% surge in crude oil prices and 2.9% dip in the USD in the past month, EUR/USD's break above 1.1025 and steepening bond yield curves are other examples of this broadening risk appetite.

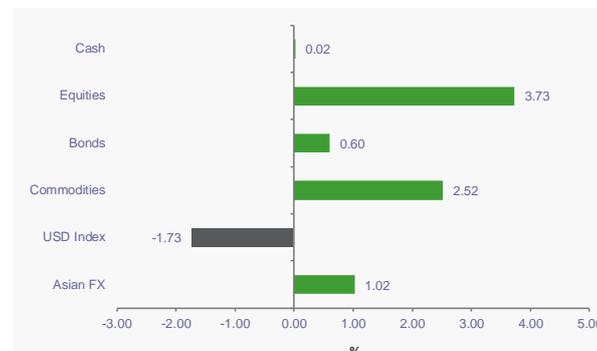
Economic data and policy actions this week, on balance, support this broader uptrend, in our assessment (see page 3). Business confidence indicators (PMIs) in the US and Europe show the downturn in both the manufacturing and services sectors is close to bottoming, though they remain in contraction territory. Economic activity in China, which is 1-2 months ahead in the pandemic cycle, has returned to expansion mode, led by construction activity on renewed government-led infrastructure spending. The Fed expanded its USD 500bn emergency programme to all states, while the ECB expanded its pandemic bond purchases by a bigger-than-expected EUR 600bn.

It is unlikely to be all smooth sailing from here. The sharp run-up means that we see rising odds of a pullback (see page 4). High jobless rates mean the risk of social unrest is higher unless jobs lost in the lockdown are won back quickly. High joblessness is likely to dampen consumer spending as lockdowns are lifted. Challenges at home (or a robust stock market) raise the risk of President Trump getting tougher on China in the run-up to the November election. COVID-19 cases are still rising in Emerging Markets and a second pandemic wave remains a key risk.

For now, we believe the recent decisions by the US on Hong Kong and foreign companies listed in the US are nominal, with little economic impact (see page 4 for implications). Nevertheless, a technical correction in the risk rally looks overdue, which would present an opportunity to add exposure to risks assets, specifically US and Asia ex-Japan stocks and EM and Asian USD bonds. Gold remains a good hedge. A sustained turnaround in the job market is a key imperative for the rally to continue.

Global equities extended gains with other risks assets, including Emerging Market assets and crude oil, and the USD fell amid expectations of an economic recovery

Benchmark market performance w/w*



Source: MSCI, JP Morgan, DJ-UBS, Citigroup, Bloomberg, Standard Chartered

*Week of 28 May 2020 to 04 June 2020

S&P500 is close to testing resistance at 3131

Technical indicators for key markets as on 04 June 2020

Index	Spot	1st support	1st resistance
S&P	3,112	3,012	3,131
STOXX 50	3,262	3,034	3,292
FTSE 100	6,341	6,018	6,391
Nikkei 225	22,696	21,741	22,902
Shanghai Comp	2,919	2,836	2,931
Hang Seng	24,366	22,798	24,605
MSCI Asia ex-Japan	638	595	642
MSCI EM	989	923	993
Brent (ICE)	39.8	34.5	40.4
Gold	1,713	1,716	1,725
UST 10Y Yield	0.81	0.63	0.86

Source: Bloomberg, Standard Chartered

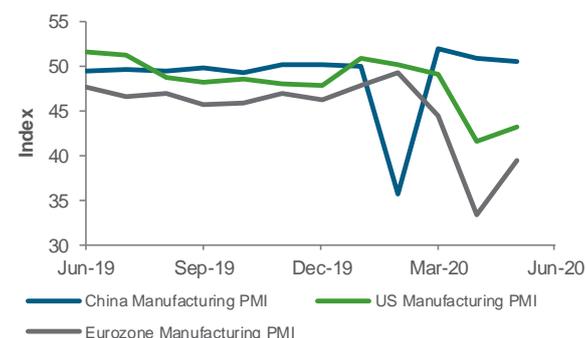
The weekly macro balance-sheet

	Positive for risk assets	Negative for risk assets
Economic data and events	<ul style="list-style-type: none"> China is recovering faster than Developed Markets (DMs), with PMIs consolidating in expansion territory 	<ul style="list-style-type: none"> US and European manufacturing and services PMIs, while recovering in May from April, remain in contraction territory. Japan PMI continues to decline
	<ul style="list-style-type: none"> The Chinese government has increased targets for credit growth and local government bond sales versus last year. This is likely to lift infrastructure activity 	<ul style="list-style-type: none"> US jobless claims, while declining, still point to overall unemployment rates above 20.0%. Germany's unemployment rate rose to a five-year high of 6.3%. This remains a source of potential social instability and could weigh on a consumer spending recovery
	<ul style="list-style-type: none"> US and Euro area business confidence indicators recovered in May from April's multi-decade lows. This suggests the contraction in economic activity is slowing 	<ul style="list-style-type: none"> President Trump re-escalated US-China tensions with plans to revoke Hong Kong's special trade status and suspend Chinese passenger flights to the US. Rising tensions ahead of the November election are a risk
	<ul style="list-style-type: none"> Major US cities are lifting the lockdowns, New York being the latest. This is likely to lead to a recovery in consumer spending and a return to positive economic growth by Q3 20 	<ul style="list-style-type: none"> Euro area retail sales plunged 12% m/m and US consumer spending fell 14% m/m in April, highlighting continued stress on retail consumer-oriented businesses
	<ul style="list-style-type: none"> Germany's decision to re-open its borders from 15 June is a further sign of waning pandemic concerns in Europe 	<ul style="list-style-type: none"> COVID-19 new cases continued to rise across several Emerging Markets, notably in Brazil and India, highlighting risk of a second global pandemic wave
	<ul style="list-style-type: none"> European exporters should start benefitting from China's accelerating recovery 	
<p>In our assessment, the recent evolution of economic data is a net positive for risky assets. While rising US-China tensions are a risk, we believe the latest US decisions constitute political posturing and are likely to have minimal economic impact for now</p>		

	Policy
Policy	<ul style="list-style-type: none"> The Fed expanded its USD 500bn pandemic emergency funding across all states. Congress is likely to expand support to cash-strapped states
	<ul style="list-style-type: none"> The ECB expanded its pandemic bond purchase programme by EUR 600bn after cutting its growth and inflation forecasts. Germany provided an additional EUR 130bn stimulus and EUR 9bn to rescue its flagship carrier, Lufthansa. France plans no new taxes for pandemic-related spending
<p>In our assessment, the policy measures indicate US authorities are willing to ease further to mitigate liquidity pressures. European authorities are relaxing fiscal spending rules that have stymied regional growth for years. The ECB is likely to maintain its ultra-accommodative policy for an extended period, given growing disinflationary pressures</p>	

China's manufacturing sector has recovered faster than its US and Euro area counterparts as the country emerged earlier from its economic lockdown

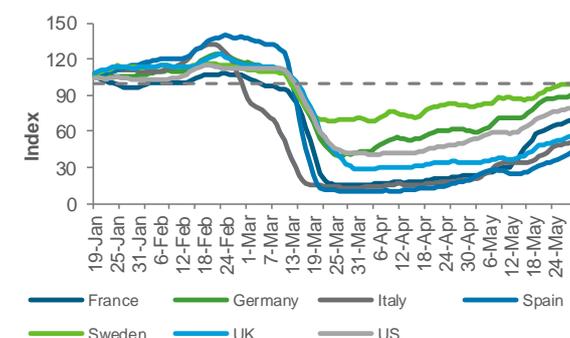
Manufacturing PMIs in the US, Euro area and China



Source: Bloomberg; Standard Chartered

Mobility data suggest economic activity is returning to pre-pandemic levels the fastest in Sweden and Germany; US activity is likely to normalise in the coming weeks as lockdowns are lifted across more cities

Apple mobility data, seven-day moving average (average of driving, walking and transit); Index: 100 = 19 January, 2020



Source: Apple, Standard Chartered

Increasing disinflationary pressures are likely to keep ECB policy highly accommodative

Euro area headline and core consumer inflation



Source: Bloomberg; Standard Chartered

Top client questions

Q Why are American Depository Receipts (ADRs) issued by China's companies rallying despite the increasingly unfriendly US listing policies?

The S&P/BNY Mellon China ADR index has risen 30% from the March low, outperforming the MSCI All Country World index. This is despite increasingly unfriendly listing policies in the US for ADRs.

Chinese ADRs have rallied as the companies had already sensed a change in the regulatory climate and put in motion plans to obtain dual listings in Hong Kong. Importantly, these dual listings are "fungible", which means an ADR can be exchanged for Hong Kong-listed shares and vice versa. This reduces the risk of a sudden delisting of an ADR, which otherwise could leave investors with stocks they cannot trade.

Following recent changes in the listing rules by Hong Kong Exchanges and Clearing, these dual-listed securities are now eligible for inclusion in the Hang Seng index and potentially the Stock Connect system.

Taken together, these factors are encouraging investors to buy Chinese ADRs in anticipation that the stocks will rise ahead of their Hong Kong listing.

An additional factor driving investors to buy Chinese ADRs is expectations of a structural change in the Hang Seng index. Over time, the dual listing of these ADRs in Hong Kong, which are predominately technology companies, will potentially change the shape of the Hang Seng index. Currently, the index is dominated (59%) by financials and real estate. Over time, we expect technology and telecom services to increase from their current 19% weight and eventually become the biggest sectors in the market.

Q Has US equities' outperformance vs Europe run its course?

It is too soon to conclude that the long-term (12m) trend of US outperformance has ended, in our assessment. Having said that, we acknowledge that the S&P500's underperformance against the Europe Stoxx 600 could extend further in the near term (3m).

From a technical standpoint, the ratio of the S&P500 to the Europe Stoxx 600 has pulled back from the key resistance (1 standard deviation [SD] of the past 12 years' range). Unlike individual securities, which can trend over time, a spread or ratio generally tends to 'mean revert' as it approaches extreme levels – ie. as the ratio moves away from the mean, the odds of it reverting back to its mean increase.

As the chart shows, the ratio has broadly hovered around the mean since the 2008 Great Financial Crisis (GFC). However, from 2018, US equities unambiguously outperformed their European counterpart until recently. While 1 SD is by no means extreme, it is still the first time since the GFC that the ratio has moved this far. However, over the long term, we believe US equities' fundamentals will reassert and lead to a resumption of their long-term outperformance against Europe.

China ADRs listed in the US have rallied amid prospects of dual listing in Hong Kong where they are likely to attract more Mainland China investors

Relative performance of China ADRs and Hang Seng index since mid-March



Source: MSCI; FactSet; Standard Chartered

The US S&P500 index is close to a key technical resistance

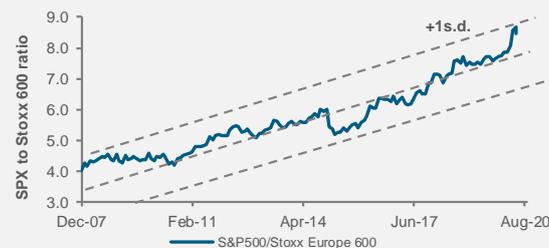
S&P500 index



Source: Bloomberg; Standard Chartered

US equity outperformance vs Europe faces a near-term test, which could lead to a mean-reversion; we believe US equities' fundamentals will re-assert in the next 6-12 months

Relative ratio of S&P500 vs. Stoxx Europe 600 indices



Source: Bloomberg; Standard Chartered

Top client questions (cont'd)

Q Is corporate bond issuance picking up? What are the implications going forward?

Year-to-date, new bond issuance across Emerging Market (EM) and Developed Market (DM) corporate bond markets has been quite varied. This has differing implications across the various markets.

In Asia USD bond markets, the issuance rate of new bonds is running slightly lower than last year, but is at roughly the same pace as the previous three years. That said, we have seen a marked pick-up in supply over the past few weeks as issuers unable to raise capital in March-April rush to markets. However, we do not foresee a significant distortion of the supply-demand balance. This is because rising funding costs in the offshore USD bond market (especially HY) have widened the gap between onshore and offshore funding costs for Chinese companies. This means a greater portion of this issuance is likely to occur in the onshore market in the near future.

EM USD government bonds saw a surge in issuance over the past couple of months as sovereigns shored up their FX reserves. However, this pace has slowed over the past few weeks. We believe that full-year issuance could end up shrinking slightly as a number of weak HY issuers may resort to bilateral/multilateral loans because of high costs in the bond market.

US Investment Grade (IG) and HY corporate bonds have seen a surge in issuance over the past few months; at present, bond issuance is nearly 100% and 30% higher, respectively, than last year. This can partly be attributed to front-loading, as companies issued earlier to prepare for the COVID-19 related slowdown. Hence, we expect issuance to slow in H2 2020. Lower issuance, combined with the Fed's corporate bond buying programme, should help cap credit spreads.

Overall, we believe the supply for corporate bonds is likely to be manageable. When combined with strong demand and the search-for-yield phenomenon, we believe credit spreads are likely to compress and help them outperform government bonds.

Q Is risk appetite returning to FX markets?

The broad USD index has broken from its sideways trading range over the past week, with the EUR/USD breaking decisively above its previous resistance of 1.1025 on the back of expectations of greater EU fiscal stimulus backed by common regional bond sales. The ECB's expanded pandemic bond purchase programme drove the pair higher this week. The AUD also recorded one of the best performances among its G10 peers, driven by renewed optimism about growth as global lockdowns are relaxed. Investors have also shrugged off unrest in the US and the rising US-China trade tensions so far.

We are bullish on AUD/USD over the next 6-12 months. Fundamentals for the AUD appear to be improving as it benefits from an aggressive domestic fiscal policy-driven recovery, limited virus spread and less intensive lockdowns and improving outlook for China. Increasing US-China tensions and deteriorating Australian-China tensions are risks to our bullish AUD view. Any pullbacks in the pair are likely to be good opportunities to add exposure. Technicals suggest the pair is currently in overbought territory and should see some near-term retracement.

Corporate bond issuance has surged this year in the US, especially in US Investment Grade bonds; the Fed's plan to buy corporate bonds is likely to cap yield premiums

YTD issuance of corporate bonds in the US, Asia ex-Japan



Source: Bloomberg; Standard Chartered

EUR/USD broke decisively above its previous resistance of 1.1025 amid growing expectation of a common EU fiscal spending package and optimism about a global economic recovery

EUR/USD



Source: Bloomberg; Standard Chartered

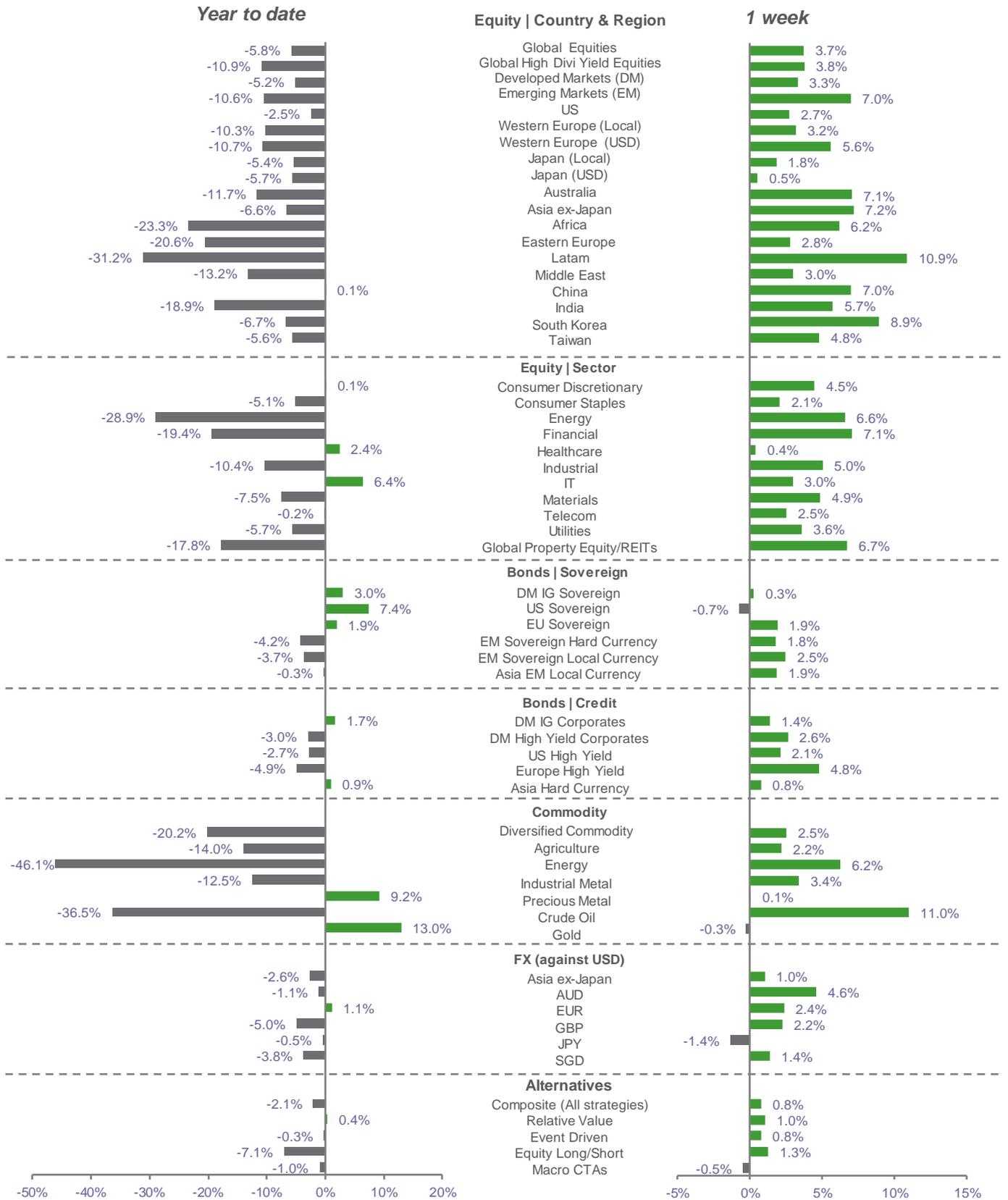
AUD has rebounded sharply from March lows on the back of an aggressive domestic fiscal policy-driven recovery and improving outlook for China's economy

AUD/USD



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 04 June 2020, 1 week period: 28 May 2020 to 04 June 2020

Economic and market calendar

	Event	Next Week	Date	Period	Expected	Prior
MON	GE	Industrial Production WDA y/y	08-Jun-2020	Apr	–	-11.6%
	EC	Sentix Investor Confidence	08-Jun-2020	Jun	–	-41.8
TUE	GE	Exports SA MoM	09-Jun-2020	Apr	–	-11.7%
	JN	Machine Tool Orders y/y	09-Jun-2020	May P	–	-48.3%
	US	NFIB Small Business Optimism	09-Jun-2020	May	–	90.9
	US	JOLTS Job Openings	09-Jun-2020	Apr	–	6191
WED	CH	PPI y/y	10-Jun-2020	May	-3.2%	-3.1%
	CH	CPI y/y	10-Jun-2020	May	2.6%	3.3%
	FR	Industrial Production y/y	10-Jun-2020	Apr	–	-17.3%
	CH	Money Supply M1 y/y	10-Jun-2020	May	5.7%	5.5%
	US	CPI Ex Food and Energy y/y	10-Jun-2020	May	1.3%	1.4%
THUR	US	FOMC Rate Decision (Lower Bound)	11-Jun-2020	10-Jun	0.0%	0.0%
	US	PPI Ex Food and Energy y/y	11-Jun-2020	May	0.5%	0.6%
FRI/ SAT	IN	CPI y/y	12-Jun-2020	May	5.6%	5.8%

	Event	This Week	Date	Period	Actual	Prior
MON	US	ISM Manufacturing	01-Jun-2020	May	43.1	41.5
TUE	AU	RBA Cash Rate Target	02-Jun-2020	2-Jun	0.3%	0.3%
WED	CH	Caixin China PMI Composite	03-Jun-2020	May	54.5	47.6
	IN	Markit India PMI Composite	03-Jun-2020	May	14.8	7.2
	EC	PPI y/y	03-Jun-2020	Apr	-4.5%	-2.8%
	EC	Unemployment Rate	03-Jun-2020	Apr	7.3%	7.1%
THUR	EC	Retail Sales y/y	04-Jun-2020	Apr	-19.6%	-8.8%
	EC	ECB Deposit Facility Rate	04-Jun-2020	4-Jun	-0.5%	-0.5%
	US	Trade Balance	04-Jun-2020	Apr	-\$49.4b	-\$42.3b
	US	Continuing Claims	04-Jun-2020	23-May	21487k	20838k
FRI/ SAT	GE	Factory Orders WDA y/y	05-Jun-2020	Apr	–	-16.0%
	US	Change in Nonfarm Payrolls	05-Jun-2020	May	–	-20537k
	US	Unemployment Rate	05-Jun-2020	May	–	14.7%
	US	Average Hourly Earnings y/y	05-Jun-2020	May	–	7.9%

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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