



Weekly Market View

Should we sell?

Risk assets, especially Emerging Market equities and global high yield bonds, remain overbought. Nevertheless, improving fundamentals suggest it would be prudent to stay invested in a diversified allocation, instead of reducing exposure, and average in on any short-term market pullback

Equities: The US financial sector is likely to benefit from the resumption of share buybacks, while the technology sector benefits from digitalisation and the shift to cloud

Bonds: Attractive yield premiums on Emerging Market and Asia USD bonds are likely to more than compensate for a moderate rise in US Treasury yields

FX: We see selling low-yielding currencies such as the GBP and EUR as an attractive way to add exposure to the CNH



Are cracks emerging in the Asia equity market rally?

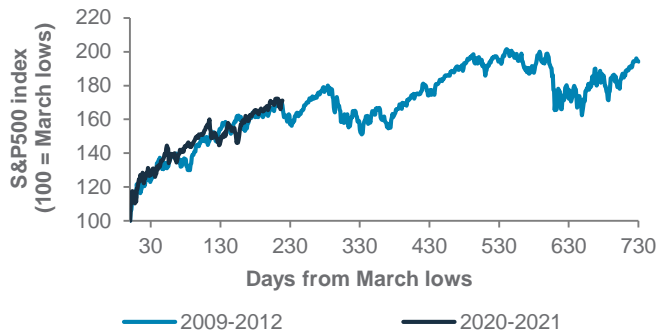
Can CNH strength continue amid the recent tightening in liquidity?

What does India's growth budget mean for asset prices?

Charts of the week: Technicals vs fundamentals

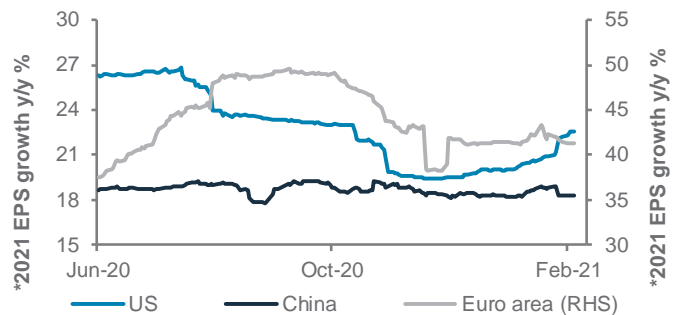
Equities and other risk assets vulnerable to near-term pullbacks, but the fundamentals are looking brighter

S&P 500 index trend from 2009 and 2020 lows
(indexed; 100 = March 2009 and March 2020 lows)



Source: Bloomberg, Standard Chartered

US 2021 earnings expectations have risen sharply on the back of a strong Q4 2020 earnings season



Source: MSCI, FactSet, Standard Chartered; *consensus estimates

Editorial

Should we sell?

Risk assets have rebounded from late January's sell-off, but volatility remains elevated. Our proprietary indicators suggest investor positions in risk assets, especially in Emerging Markets and global High Yield bonds, remain crowded (see page 8). This raises the risk of a short-term pullback. Nevertheless, fundamentals have brightened in recent weeks – including the prospect of a quick approval of a USD 1.9trn fiscal stimulus by the US Congress in the coming weeks, a stepped-up pace of vaccinations (especially in the US and UK), upward revisions to US earnings estimates for 2021 amid a stronger-than-expected earnings season and restart of equity buybacks by US banks. Since it is difficult to time markets, we believe the prudent approach would be to stay invested, and use any near-term drawdown to average in.

For sure, the recent bout of volatility showed how stretched investor positions make markets vulnerable to any untoward news. In the latest case, the trigger came from a tussle between investors that had built up short positions in select small-cap stocks and investors who bought into those shares. The resulting so-called “short-squeeze” on investors who were short led to losses and margin calls, forcing them to deleverage some of their unrelated profitable positions elsewhere in the market. While we believe most of this deleveraging is likely over, the market remains vulnerable to other risks such as progress of COVID-19 vaccinations, virus mutations and rising inflation expectations and bond yields.

These risk factors are not new. We have been talking about the elevated risk of a short-term equity market

pullback for three weeks (see ‘Are markets frothy?’, 15 January), and one pullback occurred at the end of January. Understandably, our readers’ number one question is ‘Should I sell?’. This is natural, especially given the fear of regret in the face of potential short-term losses. However, the performance over the past three weeks highlights the challenges with this approach.

First, the indicators we use to examine the ‘frothiness’ of markets are not precise timing signals. Second, even if markets do temporarily pull back, an investor will need to time both the sale and repurchase of assets extremely well in order to outperform a “buy and hold” strategy. For instance, since we published the 15 January report, global equities are up 1.7% and the peak-to-trough move was just 4%. Meanwhile, if an investor took profits on 15 January and missed the 29 January market bottom by two days before re-entering, then, excluding transaction costs, his/her gains would have been around 0.9%.

Therefore, we believe it is prudent for those who are invested in line with their overall risk tolerance to remain invested. As the chart above shows, when economic and business fundamentals are turning around after a sharp downturn and policies are extremely accommodative, as they were in March 2009 and again in March 2020, risk assets tend to deliver healthy returns over the medium-to-long term, short-term blips notwithstanding.

Also, the recent volatility in a select group of small-cap stocks is a reminder about the risk of excessive concentration. We believe long-term investors are better served by holding a core diversified allocation and then using a ‘satellite’ allocation for shorter term trades.

The weekly macro balance sheet

Our weekly net assessment: On balance, we see the past week's data and policy as positive for risk assets

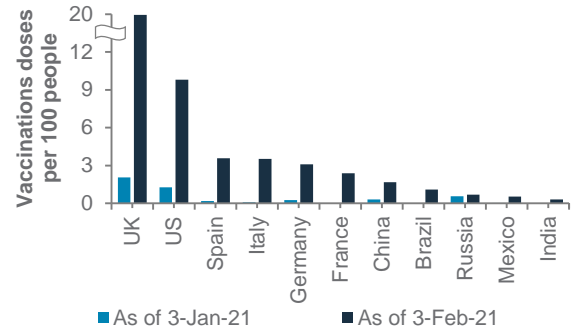
(+) factor: US fiscal stimulus, falling COVID-19 cases, US data

(-) factor: Weak Europe & China data, tighter China liquidity

	Positive for risk assets	Negative for risk assets
COVID-19	<ul style="list-style-type: none"> New cases continued to decline in most parts of the world, including in the US, Europe and Japan EU expects to get 300m vaccine doses by Q2, easing supply concerns US exploring options to accelerate vaccination 	<ul style="list-style-type: none"> Pace of vaccinations in the US and Europe remain below initial estimates China tightened travel restrictions ahead of Lunar New Year holidays Japan extended state of emergency in Tokyo
	Our assessment: Positive – Declining new cases worldwide, partly offset by China travel restrictions	
Macro data	<ul style="list-style-type: none"> US Services PMI rose unexpectedly; private payrolls, factory orders rose more than expected Euro area Q4 2020 GDP fell less than expected Euro area emerged from five months of deflation Fed's Bullard said US economy recovering faster vs prior downturns 	<ul style="list-style-type: none"> US ISM manufacturing PMI declined more than expected in January Euro area composite PMI suggested contraction; German retail sales fell m/m more than expected China private and official manufacturing and services PMIs declined more than expected
	Our assessment: Neutral – Strong US services and payrolls data offset by weak Europe and China data	
Policy developments	<ul style="list-style-type: none"> US Senate vote enables Democrats to get USD 1.9trn stimulus passed by a simple majority Germany extended fiscal support for businesses Italy's President asked former ECB chief Draghi to form a government RBA extended QE plan 	<ul style="list-style-type: none"> A China policymaker said PBoC will keep liquidity 'reasonably ample', without resorting to 'flood-like stimulus' as focus shifts to maintaining financial stability
	Our assessment: Positive – US fiscal stimulus	
Other developments	<ul style="list-style-type: none"> India unveiled bigger-than-expected stimulus 	
	Our assessment: Positive – India's growth budget	

The UK and US are leading in COVID-19 vaccinations

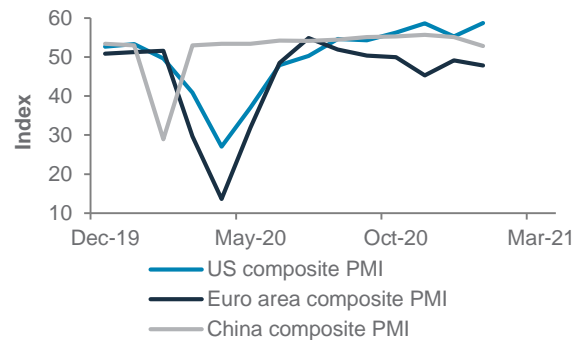
Number of COVID-19 vaccine doses administered per 100 people vs a month ago



Source: Our World in Data, Standard Chartered

US business confidence has improved, but Europe and China confidence have weakened

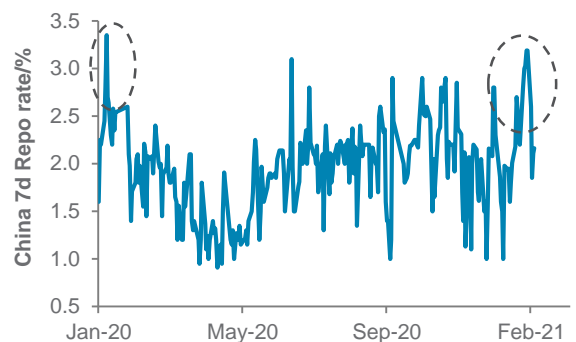
Business confidence indicators (Composite PMIs) for the US, Euro area and China



Source: Bloomberg, Standard Chartered

China's liquidity usually tightens around the Lunar New Year, but policymakers this time are also keen to ensure financial stability

China 7-day repo (money market) rate



Source: Bloomberg, Standard Chartered

Top client questions

Q Are cracks emerging in the Asia stock market rally?

After rising 9.2% YTD, we are seeing early signs of potential weakness for the MSCI Asia ex-Japan Index. On the weekly charts, a bearish reversal candlestick appeared in the last week of January. Highly overbought conditions coupled with low diversity suggest the hurdle is high to maintain the pace of gains. This does not mean the uptrend is reversing, but the index may need to consolidate before its next leg higher.

Also, there are near-term liquidity concerns in the HK/China markets. China's money market rates jumped in the week ending 29 January amid an unexpected liquidity strain triggered by the PBoC's open market operations. We believe the recent move is a policy normalisation after loose liquidity in December and January. The PBoC governor reiterated on 26 January that the central bank would "maintain stability and consistency in policy, and not prematurely withdraw ongoing stimulus." Importantly, the central economic work conference in December cautioned against abrupt policy turns. Having said that, the upcoming Lunar New Year holidays could see reduced southbound flow into the Hong Kong market as the southbound trading for Stock Connect will be closed from 9 February to 17 February (China onshore equity markets will be closed from 11 February to 17 February). China equities, both onshore and offshore, remain our preferred market within Asia ex-Japan as medium-term fundamentals that support our view remain intact.

Q Are rising yields a threat to your bond allocations?

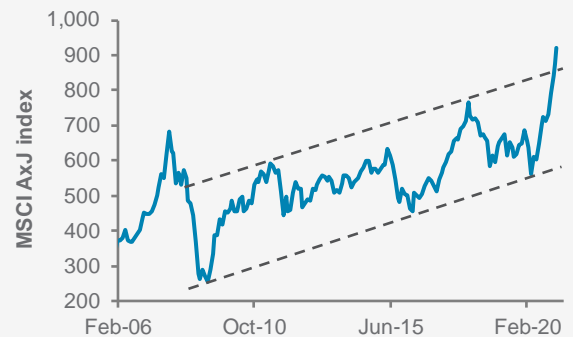
Since the start of the year, longer dated US Treasury yields have risen as 'reflation' expectations have intensified. While there are concerns this can negatively affect performance of corporate and EM bonds, we believe this misses the fact that yield premium buffers can compensate for modest yield gains. In recent weeks, yield premiums have tightened, partially netting off the negative effect of higher Treasury yields.

Yield premiums of our preferred corporate and EM bonds remain around their long-term averages. In our view, an improving economic and earnings outlook would enable yield premiums to further tighten meaningfully. We expect this should more than offset what we expect to be only a modest rise in Treasury yields given Fed efforts to anchor yields.

Thus, we reiterate our preference in DM HY corporate, Asian USD corporate and EM bonds (USD and local currency), given still reasonable yield premiums over Treasuries. Indeed, we would look to add to these assets on weakness.

Asian stocks appear overbought and likely due for a short-term consolidation

MSCI Asia ex-Japan index



Source: Bloomberg, Standard Chartered

Emerging Market and Asian USD bonds offer attractive yield premiums over US Treasuries

Yield premiums on EM and Asia USD bonds over US Treasuries and their long-term averages



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q What is the outlook for US financial and technology sectors after the latest earnings season?

Overall results in the ongoing US earnings season have been encouraging, with 53% of S&P 500 companies having reported thus far. Consensus now expects positive earnings growth in Q4 (+2%), up from a decline expected at the start of 2021 (-10%).

In the financial sector, 77% of companies have reported and earnings have surprised by 29% to the upside. Banks have been releasing credit loss reserves as they believe defaults are now unlikely to be as bad as previously expected. Moreover, major banks have announced share buyback plans following the Fed's allowing of limited share buybacks. We believe a vaccine-driven recovery will drive further earnings and buyback growth, supporting the US financial sector, which is a preferred sector for us.

47% of the technology sector has reported so far, with an 18% positive earnings surprise. The tech sector has been resilient through the pandemic and is expected to post the strongest growth among all sectors in 2020 full year (+11%). We believe digitalisation and the shift to cloud will continue to power the sector's growth. The US tech sector is preferred.

Q Are technical charts constructive for the US financial and technology sectors?

The S&P 500 financial sector index has recouped all of its COVID-19-driven losses. It hit a fresh record high last month, before retreating slightly. A 'V'-shaped rebound on the monthly charts and a new cycle high after such steep losses are signs that the sector index is preparing for a decisive break higher, in our view, above the 2020 high of 520 (1.5% from Thursday's close). Hence, we do not view the retreat as a warning sign, but as an opportunity to add exposure. Any break above 520 could open way toward 580 (13% above Thursday's close).

Meanwhile, the S&P 500 information technology index's rise in December above the August high indicates that the uptrend is not over. Indeed, momentum on the shorter-, and longer-term charts continues to be supportive of a further rise, possibly toward 2715 (about 14% from Thursday's close). On the downside, a break below immediate support at the early-January low of 2219 (7% from Thursday's close) would indicate that the upward pressure had faded.

US 2021 earnings estimates have risen sharply amid a strong Q4 20 earnings season

2021 earnings estimates for the US, Euro area and China



Source: Bloomberg, Standard Chartered

US financial sector technical chart shows it is poised to break above the 2020 high

US S&P500 financial sector index



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Q Can CNH strength continue amid China's recent liquidity tightening measures?

USD/CNH has declined over 10% since May 2020, but the pace of the decline has slowed. Our long-term bearish view on USD/CNH notwithstanding, the current sideways consolidation could continue in the short term amid USD strength. We expect solid technical support around 6.38-6.41 and resistance near 6.51-6.55 to contain the pair for now.

We would consider CNH against the low-yielding EUR, AUD and GBP as an alternative way to gain CNH exposure. EUR/CNH is sitting at an important technical support around 7.75, but a decline towards 7.55 lies ahead once broken, while resistance around 7.90 should hold. AUD/CNH has strong technical resistance around 5.05 and looks set to decline towards 4.65. GBP/CNH should hold below 8.95 as it slides towards the initial support at 8.60.

We see US-China relations as the key risk for CNH exposure. However, the Biden administration is reviewing the US's overall China policy, and there may be a window for early collaboration on climate change, a key pillar of Biden's agenda and an area where common ground exists.

Q What does India's budget mean for asset prices?

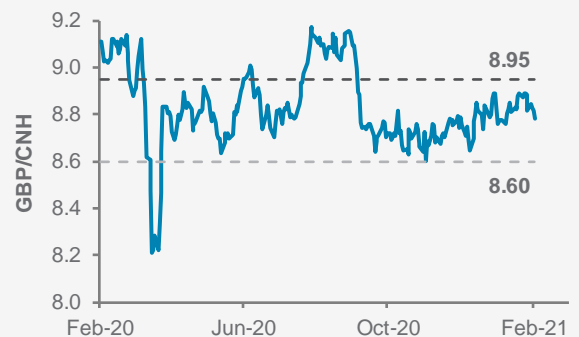
India's annual budget took major fiscal policy steps to spur growth: 1) Higher capital expenditure, with a substantial focus on infrastructure; 2) greater thrust on asset monetisation and privatisation, increase foreign investor limits in the insurance sector and greater power sector competition; and 3) the formation of new financial institutions to buy stressed bank assets and Investment Grade bonds and to fund infrastructure projects. However, the current financial year fiscal deficit was high at 9.5% of GDP (vs a targeted 3.5%) and the next financial year's deficit is targeted at 6.8% of GDP. Equity markets surged following the budget while bonds slumped.

In our view, the budget is supportive for Indian equities given the fiscal boost should hasten the economic recovery, and support consensus expectations of above-30% earnings growth in the next 12 months. Cyclical and value sectors are likely to benefit given efforts to revive the investment cycle.

The RBI's support will be crucial for the bond and the INR market. In our view, the RBI is likely to maintain its accommodative stance and continue with efforts to keep bond yields capped – a key pillar for risk assets. Though the near-term impact on the INR is likely limited, growth-supportive fiscal policy has increased the downside risks for the INR over the medium term amid prospects of a wider trade deficit.

We see selling GBP/CNH as a good way to add CNH exposure

GBP/CNH



Source: Refinitiv, Standard Chartered

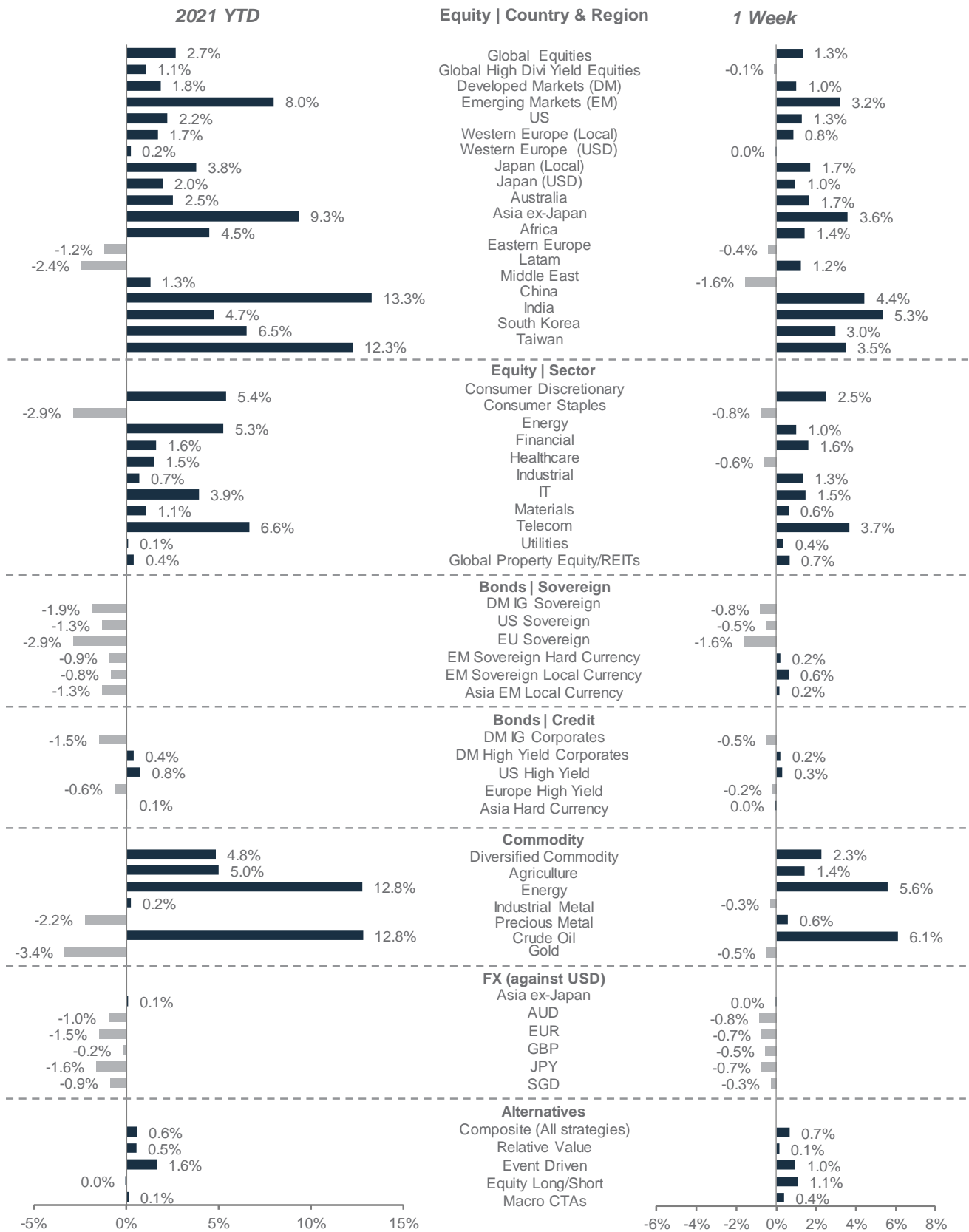
Nearby technical support suggests limited USD/INR downside

USD/INR



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, 2021 YTD performance from 31 December 2020 to 4 February 2021; 1-week period: 28 January 2021 to 4 February 2021

Our asset class views at a glance

Asset Class	
Equities ▲	Alternatives ◆
Asia ex-Japan ▲	Equity hedge ▲
US ▲	Event-driven ◆
Euro Area ▲	Relative value ◆
Japan ▲	Global macro ▼
Other EM ◆	
UK ◆	Cash ▼
	USD ▼
Bonds (Credit) ▲	EUR ▲
Asia USD ▲	GBP ▲
Govt EM USD ▲	AUD ▲
Corp DM HY ▲	CNY ▲
Corp DM IG ▼	JPY ◆
Bonds (Govt) ▼	
Govt DM IG ▼	
Govt EM Local ▲	

Source: Standard Chartered Global Investment Committee

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

S&P500 has resistance 1.3% above current level

Technical indicators for key markets as on 04 Feb 2021

Index	Spot	1st support	1st resistance
S&P500	3,872	3,767	3,924
STOXX 50	3,642	3,535	3,696
FTSE 100	6,504	6,435	6,544
Nikkei 225	28,342	27,788	28,771
Shanghai Comp	3,502	3,479	3,529
Hang Seng	29,114	28,496	29,519
MSCI Asia ex-Japan	917	889	933
MSCI EM	1,388	1,347	1,410
Brent (ICE)	58.8	56.9	59.8
Gold	1,795	1,772	1,839
UST 10Y Yield	1.14	1.09	1.16

Source: Bloomberg, Standard Chartered

Economic and market calendar

	Event	Next Week	Period	Prior
MON	GE	Industrial Production WDA y/y	Dec	-2.6%
	EC	Sentix Investor Confidence	Feb	1.3
TUE	JN	Machine Tool Orders y/y	Jan P	9.9%
	US	JOLTS Job Openings	Dec	6527
	CH	New Yuan Loans CNY	Jan	1255.2b
	CH	Money Supply M2 y/y	Jan	10.1%
WED	CH	CPI y/y	Jan	0.2%
	US	CPI Ex Food and Energy y/y	Jan	1.6%
	US	Real Avg Weekly Earnings y/y	Jan	4.9%
THUR				
FR/ SAT	US	U. of Mich. Current Conditions	Feb P	86.7

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

Elevated risk of short-term reversal in some markets

Our proprietary market diversity indicators as of 04 Feb

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	↑	1.64
Global Equities	○	→	1.23
Gold	●	↓	1.59
Equity			
MSCI US	●	→	1.30
MSCI Europe	●	→	1.27
MSCI AC AXJ	○	→	1.23
Fixed Income			
DM Corp Bond	●	↑	1.47
DM High Yield	○	→	1.23
EM USD	●	→	1.40
EM Local	●	→	1.28
Asia USD	●	→	1.43
Currencies			
EUR/USD	●	↑	1.43

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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