Wealth Management Chief Investment Office
19 November 2021

Weekly Market View

Sustaining
the rally

→ The bull market in risk assets just crossed a major milestone – global equities, as measured by the MSCI All Country World index, has doubled since the pandemic low. The question now confronting investors: what will sustain the rally?

→ We believe the fuel that has powered the bull so far – strong economic and corporate earnings growth, driven by above-trend consumer demand and easy financial conditions – will last for the next 6-12 months.

→ The acceleration in US retail sales last month, despite inflation running at 30-year highs, shows the strength of US consumer demand.

How should investors position for rising bond yields?

Could a possible release of US strategic oil reserves bring down oil prices?

How should investors position in FX markets in the near term?

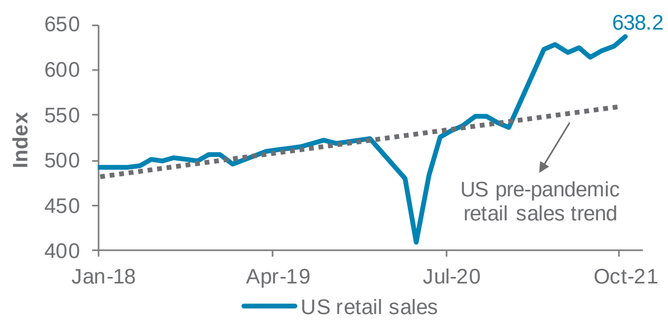
What is the technical outlook for the S&P500 index, EUR/USD and US Treasury yields?

Important disclosures can be found in the Disclosures Appendix.

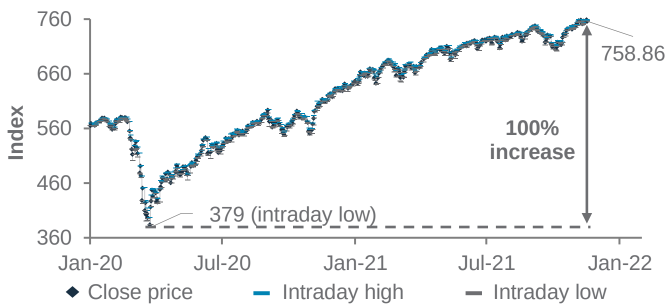
Charts of the week: Consumer power

US consumption is likely to stay above trend in the coming months, sustaining the record-setting equity market rally

US nominal retail sales index (100 = Jan 2010)



MSCI All Country World Index



Source: Bloomberg, Standard Chartered

Editorial

Sustaining the rally

The bull market in risk assets just crossed a major milestone – global equities, as measured by the MSCI All Country World index, has doubled since the pandemic low. The question now confronting investors: what will sustain the rally? We believe the fuel that has powered the bull so far – strong economic and corporate earnings growth, driven by above-trend consumer demand and easy financial conditions – will last for the next 6-12 months. Fiscal policy is tightening and inflation has reared its head after decades. Nevertheless, improving job markets and wages are enabling consumers to pick up the baton from governments to sustain demand. Meanwhile, major central banks are likely to stay highly accommodate, despite unwinding some of their super-easy policies, helping offset the fiscal drag.

The acceleration in US retail sales last month, despite inflation running at 30-year highs, shows the strength of US consumer demand. US households have seen their net worth rise by over USD 30trn (or twice annual personal consumption) since March 2020 as a result of government pay cheques and the surge in equities and house prices. This includes USD 2.2trn of excess savings, which is encouraging consumers to pay up for everything from cars to homes. The consumer's strength is allowing companies to pass on rising input costs.

The ongoing Christmas shopping season in the US and Europe, followed by the Lunar New Year in Asia, should sustain global goods demand for at least another quarter. Widespread vaccinations are also allowing the resumption of more outdoor leisure activities and travel, lifting demand for services. Meanwhile, the infrastructure spending plan, which President Biden signed into law this week, is expected to unleash USD 550bn of new spending on roads, bridges and broadband networks. These typically have larger multiplier effects than giving pay cheques to households. The US energy, material, and industrial sectors are the likely winners from the bill.

The above scenario means inflation is likely to stay elevated for a few more quarters before goods inflation falls away with the normalisation of demand. Nevertheless, historically, equities and risk assets have performed well, as long as inflation does not spin out of control and economic growth remained strong. Of course, central banks will need to look through the current bout of inflation and hold off premature policy tightening for this constructive scenario to play out. We believe they will.

In the US, for instance, five Fed policymaker seats are up for nomination, including for the next Fed Chair. The new look Fed Board is likely to be more dovish than the outgoing one. While President Biden renominating Chair Powell would signal continuity, naming Lael Brainard as the Chair would send an unmistakably dovish message. Brainard believes the current bout of inflation is transitory and that the job market for lower income earners needs more time to heal. A Brainard-led Fed could push back market expectations of two rate hikes in 2022, thwarting the USD's rally and easing US financial conditions. We see market pricing of Fed rate hikes as overly aggressive, and instead expect an ending of bond purchases by Q2 next year, followed by one rate hike by the end of the year.

In the Euro area, the latest comments from ECB President Lagarde suggest the ECB, too, is also willing to look through transitory inflation. The ongoing COVID-19 surge across Europe is likely to make it harder for the ECB to make a case for a faster unwinding of its pandemic bond purchase programme when it reviews it in December. Euro area business confidence indicators (PMIs) due next week are likely to inform that debate, especially with confidence flagging in recent months. In China, policymakers have started to ease some property sector rules, which should encourage buyers to return. These relaxed measures appear to have put a floor under China High Yield bonds and equity prices over the past week.

— Rajat Bhattacharya

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

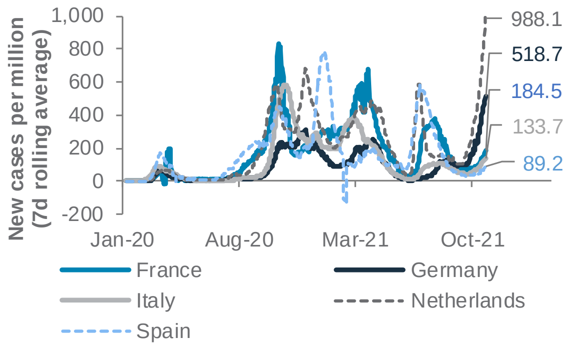
(+) factors: Falling Asian COVID cases; strong US, China retail sales

(-) factors: Revival of COVID in US, Europe; rising European inflation

	Positive for risk assets	Negative for risk assets
COVID-19	• New cases in most of Asia, Latin America continued to fall and appear to have peaked in Russia • Hospitalisations in most countries stayed well below last winter's peak levels • US plans to spend billions of dollars in vaccine manufacturing to boost developing world supplies	• New cases are rising again in the US and UK and continued to rise across Euro area, hitting record highs in Germany • In Asia, new cases rose in South Korea, Vietnam and hit a record in New Zealand • A university in China's Dalian was locked down amid new COVID cases
	Our assessment: Neutral – Falling cases in Asia, subdued hospitalisations vs revival in the US and Europe	
Macro data	• US retail sales rose more than forecast at the strongest pace in seven months; industrial output rose more than expected • US housing market index and building permits rose more than expected • China retail sales and industrial output rose more than expected • Euro area industrial output fell less than expected	• US housing starts unexpectedly fell; consumer sentiment fell to 10-year low • Euro area consumer inflation accelerated to 4.1%, highest since 2008 • China home sales fell for the fourth straight month • UK consumer inflation accelerated more than forecast to 4.2%; jobless rate fell more than forecast
	Our assessment: Neutral – Strong US, China retail sales vs rising European inflation, falling China home sales	
Policy developments	• ECB's Lagarde said tightening policy now would hamper the recovery	
	Our assessment: Positive – Supportive ECB policy	
Other developments	• Biden and Xi agreed at a virtual meeting to strengthen communication, fast-track business travel	• Xi warned Biden about "playing with fire" in Taiwan
	Our assessment: Positive – Easing China-US political tension	

The Euro area is seeing a resurgence of COVID-19 cases; this should keep ECB policy accommodative at its December policy meeting

Daily new cases per million people, 7d average



Source: Our World in Data, Standard Chartered

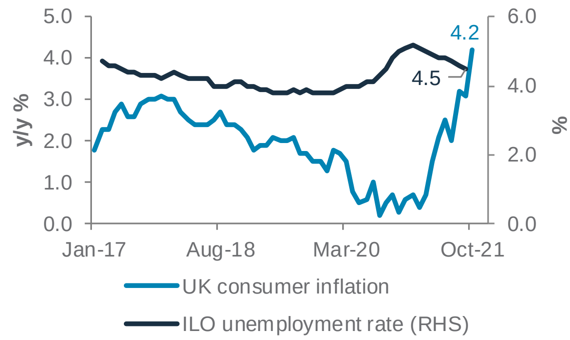
China's home sales growth continued to slow, but retail sales rose more than expected

China home sales and retail sales annual growth

Source: Bloomberg, Standard Chartered

UK consumer inflation accelerated more than forecast and the jobless rate fell, raising the chances of a BoE rate hike at the next meeting

UK consumer inflation and unemployment rate



Source: Bloomberg, Standard Chartered

Top client questions

How should investors position for rising bond yields?

Heading into 2022, Fed tapering and possible rate hikes are likely to be the key drivers for bond markets, likely pushing policy rates and government bond yields higher across maturities. Bond yields and prices are inversely related, so higher bond yields mean lower bond prices, with longer maturity bond prices affected more so than shorter maturity bond prices.

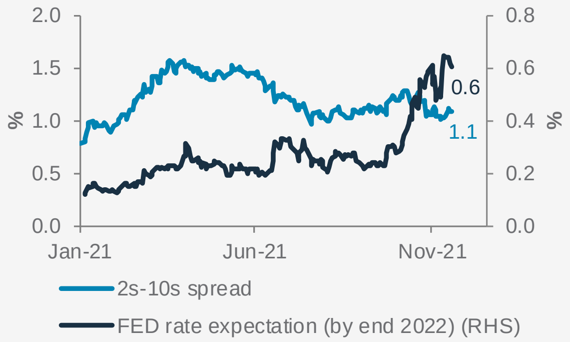
Of course, investors can mitigate the impact in a variety of ways. One key strategy is to keep the average maturity of their bond holding low. Historically, shorter maturity bonds have outperformed longer maturity bonds due to their lower interest rate sensitivity. Riskier (e.g. high yield) or subordinated (e.g. some types of bank debt) bonds are also less sensitive to changes in interest rates or bond yields.

However, the picture is more nuanced when it comes to ‘perpetual bonds’. While, theoretically, their indefinite maturity would suggest a very high sensitivity to changes in interest rates, the key is whether such bonds are called back on their call dates. Many perpetuals offer numerous incentives for issuers to call them back, such as sharp coupon step-ups or rating agency decisions. These effectively shorten the expected maturity of these bonds, making them less sensitive to changes in interest rates or bond yields, compared with those that have no in-built incentive to call.

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

Money market expectations of at least two Fed rate hikes by end-2022 has dragged lower US long-term bond yield premium over short-term yields

US 10-year vs 2-year Treasury yield spread; Fed rate expectations for end-2022



Source: Bloomberg, Standard Chartered

What are the implications on equities from the recent US-China summit?

There has not been any significant escalation of tension between the US and China at the summit. We believe this, together with improving technicals, argue the worst may be over for the Hang Seng Index. Although our 12-month preference still lies in Euro area and in US equities, we believe there are increasingly short-term opportunities in Hong Kong and China markets.

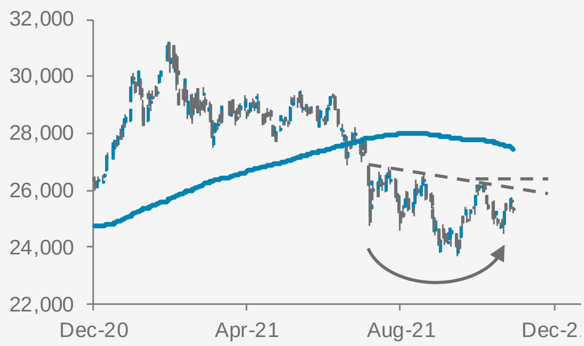
US equities may also benefit from any potential de-escalation in the trade war between the US and China. As 2022 approaches, the key debate lies in the dynamics between growth and inflation. Any decrease in tariffs on Chinese goods is likely to lower the cost of imported materials. For US companies, this would ease pressures on profit margins from higher input prices. Any reduction in the cost of US imports into China is also likely to stimulate China’s demand for US goods and improve US companies’ earnings.

Technically, despite an overall bullish trend in the S&P 500 index, indicators such as MACD are suggesting a loss in momentum to the upside. We believe the US government is likely to keep this “de-escalation” of tensions with China as an “outside option”, should US inflation rise significantly higher.

— **Daniel Lam, CFA,** *Senior Cross-asset Strategist*

Hong Kong’s Hang Seng index is displaying improving technicals

Hang Seng index



Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Could a possible release of US strategic oil reserves bring down oil prices?

US consumers are hurting at the gas pump given the recent surge in gasoline prices. A rising number of reports suggest the Biden administration is considering releasing crude oil from the US Strategic Petroleum Reserve (SPR) in order to drive down prices.

There have been three instances in history where the White House directed an emergency drawdown of the strategic oil reserve – Iraq: Desert Storm (1991), Hurricane Katrina (2005), and the coordinated IEA releases during the Libyan conflict (2011). Loans of crude oil for a period of time from the SPR are much more common. The release of oil barrels from the US has averaged around 30mn barrels in total, with the estimated maximum removal rate at 4.4mbd-4.5mbd.

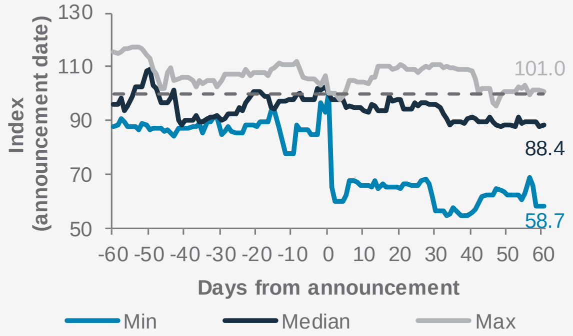
A coordinated tapping of strategic reserves has historically provided short-term relief at the pump and helped push prices down (see chart). However, if demand remains resilient, that relief may prove short-lived, if the response from US producers remains lacklustre, while OPEC+ maintains policy *status quo*.

Taking a step back, we remain constructive on oil prices over the next 12 months as we expect global demand to remain strong, even as supply-side issues are gradually resolved.

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

US release of strategic oil reserves have historically lowered pump prices temporarily; we expect prices to rise over the next 12 months on strong global demand

Oil price following release of strategic reserves; Index: 100 = Day of announcement of reserve release



Source: Bloomberg, Standard Chartered

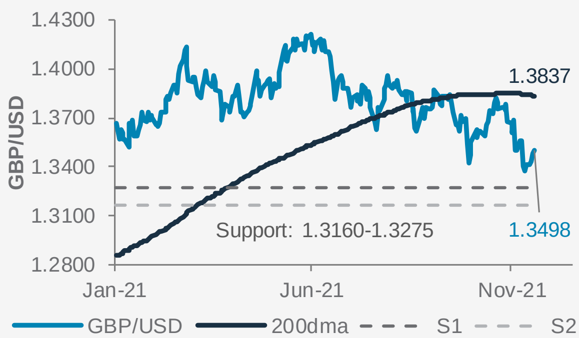
How should investors be positioned in FX markets near-term?

We continue to favour currencies underpinned by more hawkish monetary policy and commodity exports. Recent UK inflation data suggests the BoE could raise rates as early as 16 December. GBP/USD has been trending lower since the BoE previously held policy, but should hold above strong technical support at 1.3160-1.3275. AUD/USD also retreated as the RBA stayed dovish despite abandoning yield curve control. However, domestic banks have started raising mortgage rates as their cost of funds rises, so markets may still price in a more hawkish RBA. Attractive Terms of Trade and cheap valuation suggest 0.70-0.71 technical support can hold and serve as a base for an AUD/USD rally towards 0.7550.

In the US, nominations for Fed Chair and at least five open Fed policymaker seats could impact markets when President Biden announces his choice very soon. Powell's renomination would likely signal policy and regulatory continuity, supporting asset markets and the USD. Proposing Brainard may prompt markets to soften hawkish expectations and price in a higher risk of more financial regulation. The nominee needs Senate approval and a few Democratic senators could potentially object to either candidate, ushering in a period of political horse-trading. Uncertainty at a critical market juncture could trigger position adjustment and a broad USD downside correction after its recent rise towards overbought technical levels.

GBP/USD has strong technical support around 1.3160; the pair could get a boost from expectations the BoE may raise rates in December

GBP/USD



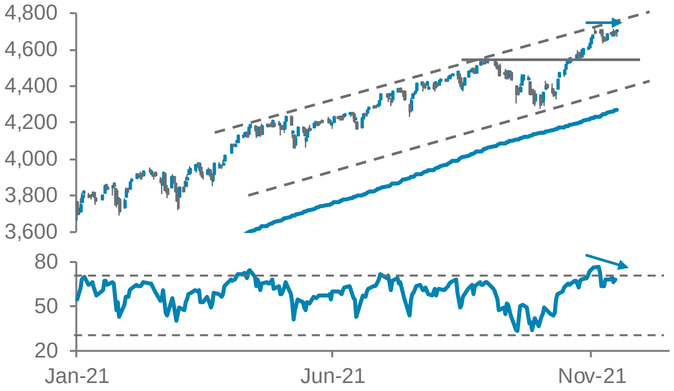
Source: Bloomberg, Standard Chartered

Technical charts of the week

Manish Jaradi
Senior Investment Strategist

S&P 500: Minor signs of fatigue

S&P 500 daily chart with 200-DMA and RSI

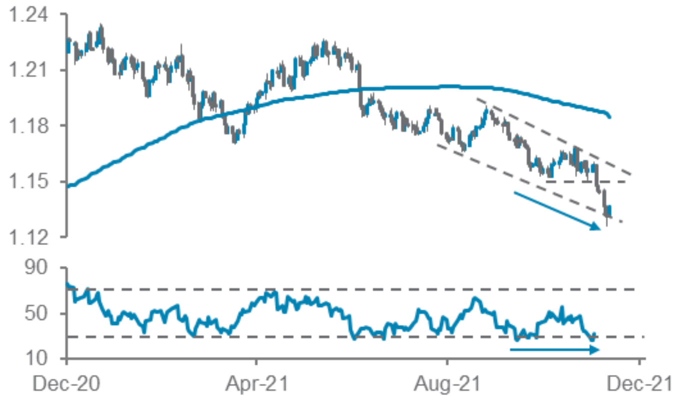


Source: Refinitiv, Standard Chartered

> Negative divergence (rising index associated with declining momentum i.e. RSI) suggests that the index is showing some signs of fatigue as it tests key resistance on an uptrend line from April. Still, the upward pressure is unlikely to ease while it holds above the September high of 4,546.

EUR/USD: The break below support points to weakness

EUR/USD daily chart with 200-DMA and RSI

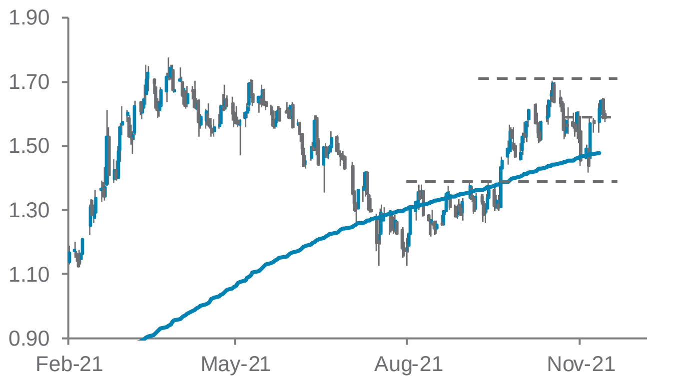


Source: Refinitiv, Standard Chartered

> EUR/USD's break below the mid-October low of 1.1523, around the 200-WMA, implies weakness. Even though it looks oversold in the near term, at the very least, EUR/USD needs to break above the top end of the channel (now at about 1.1600) for the downward pressure to ease.

US 10Y Treasury yield: Within a range

US 10-year Treasury yield daily chart with 200-DMA

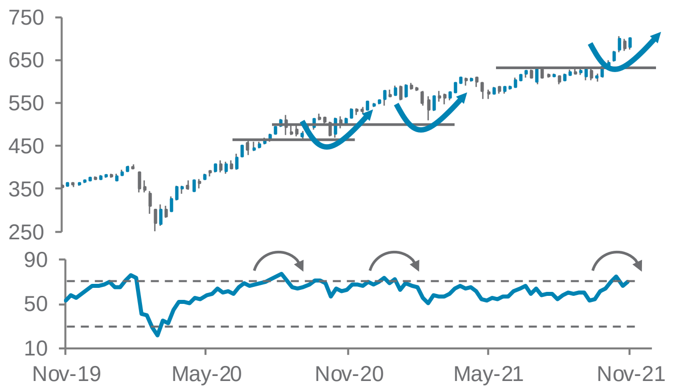


Source: Refinitiv, Standard Chartered

> While 1.41%-1.71% has been the broader range recently, it appears that 1.54% and 1.65% are important levels to watch. Any break below 1.54% would raise the odds of a move towards 1.41%. On the other hand, any break above 1.65% could open the way initially towards 1.71% and then possibly higher.

US Consumer Discretionary: Overbought with an uptrend

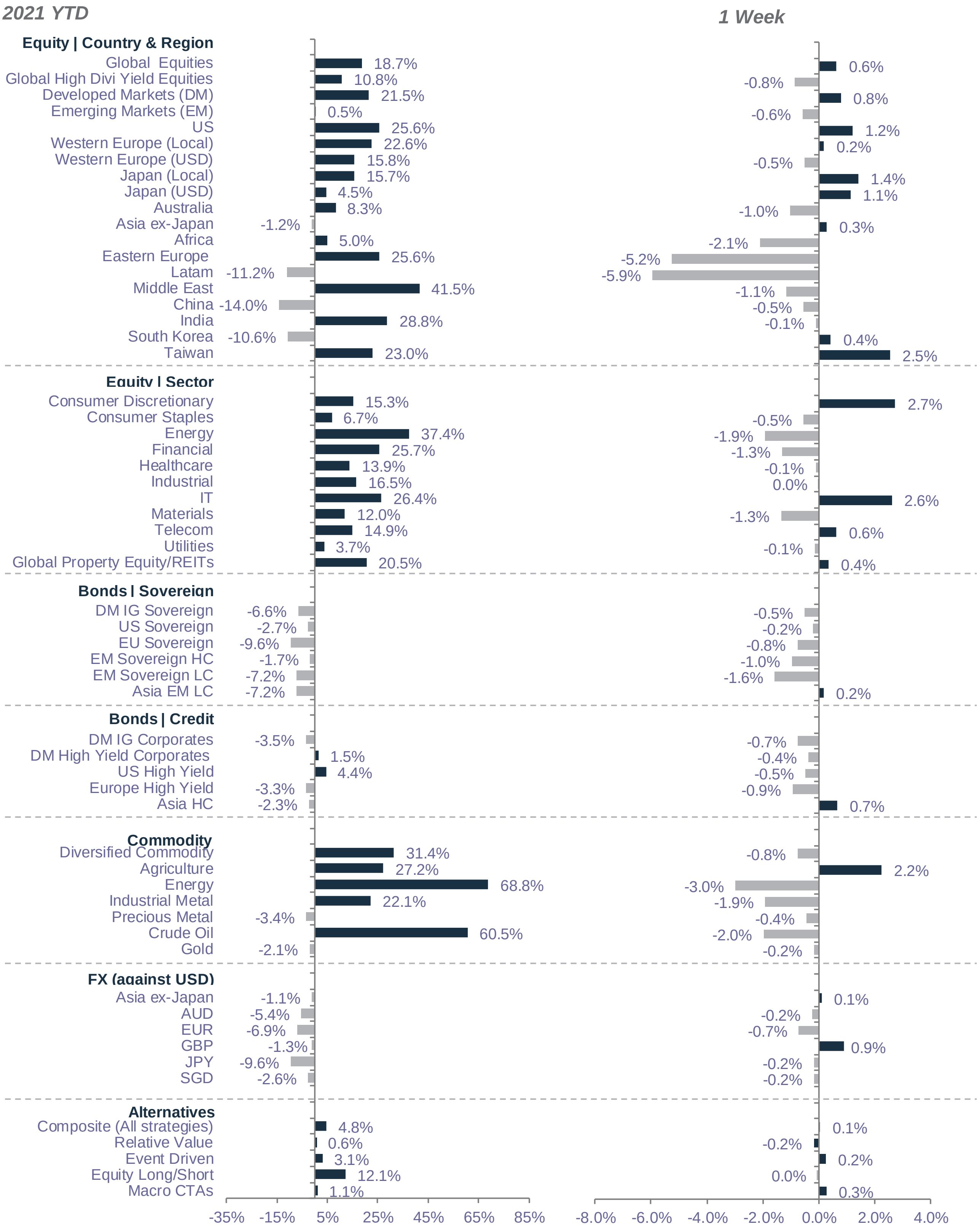
MSCI US Consumer Discretionary weekly chart with RSI



Source: Refinitiv, Standard Chartered

> The current price action looks similar to the recent pullbacks – overbought conditions followed by a drop towards support on the previous high and a resumption of the uptrend. Only a break below the immediate support at 632 would imply that the upward pressure had eased, pointing to a range.

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 18 November 2021; 1-week period: 11 November 2021 to 18 November 2021

Our 12-month asset class views at a glance

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

Source: Standard Chartered Global Investment Committee

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

Economic and market calendar

	Event	Next week	Period	Prior
MON	US	Existing Home Sales	Oct	6.29m
	EC	Consumer Confidence	Nov A	-4.8
TUE	EC	Markit Eurozone Manufacturing PMI	Nov P	58.3
	EC	Markit Eurozone Services PMI	Nov P	54.6
	US	Markit US Manufacturing PMI	Nov P	58.4
	US	Markit US Services PMI	Nov P	58.7
WED	US	GDP Annualized q/q	3Q S	2.0%
	US	Durable Goods Orders	Oct P	-0.3%
	US	PCE Deflator y/y	Oct	4.4%
	US	PCE Core Deflator y/y	Oct	3.6%
THUR				
FRI/ SAT				

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

Gold faces resistance 0.4% above current level

Technical indicators for key markets as on 18 November 2021

Index	Spot	1st support	1st resistance
S&P500	4,705	4,690	4,712
STOXX 50	4,384	4,369	4,400
FTSE 100	7,256	7,224	7,320
Nikkei 225	29,599	29,529	29,738
Shanghai Comp	3,521	3,515	3,533
Hang Seng	25,320	25,188	25,582
MSCI Asia ex-Japan	820	816	827
MSCI EM	1,274	1,268	1,285
Brent (ICE)	81.2	80.2	82.4
Gold	1,859	1,851	1,867
UST 10Y Yield	1.59	1.55	1.63

Source: Bloomberg, Standard Chartered

Investor diversity remains normal across major assets

Our proprietary market diversity indicators as of 17 November

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	◐	↓	1.33
Global Equities	◐	↓	1.48
Gold	●	→	1.52
Equity			
MSCI US	◐	↓	1.44
MSCI Europe	●	↑	2.66
MSCI AC AXJ	●	↑	1.61
Fixed Income			
DM Corp Bond	◐	↓	1.44
DM High Yield	●	→	1.64
EM USD	●	↑	1.61
EM Local	◐	↑	1.43
Asia USD	◐	→	1.48
Currencies			
EUR/USD	◐	→	1.33

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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