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Wealth Management Chief Investment Office
13 August 2021

Weekly Market View

The return of Value stocks?

Our strategy of averaging into Value-style equities may be starting to pay off. The revival of confidence in the US economic recovery after a solid jobs report and yet another quarter of surprisingly strong US and European corporate earnings have led to a recovery in bond yields. Although the resurgence of COVID-19 worldwide remains a concern, we see the renewed confidence as a catalyst for global Value-style equities, regions and sectors.

Equities: We believe the rotation into Value equities is likely to benefit Euro area and UK equity markets and sectors such as financials and energy over the coming months.

Bonds: The break of the 10-year US Treasury yield above 1.32% has opened the path for further gains.

FX: We expect currencies backed by stronger fundamentals and technicals, such as the NZD, GBP and CAD, to outperform the EUR in the near-term.

Is it time to switch back into Value-style equities?

Should we buy the dip in gold?

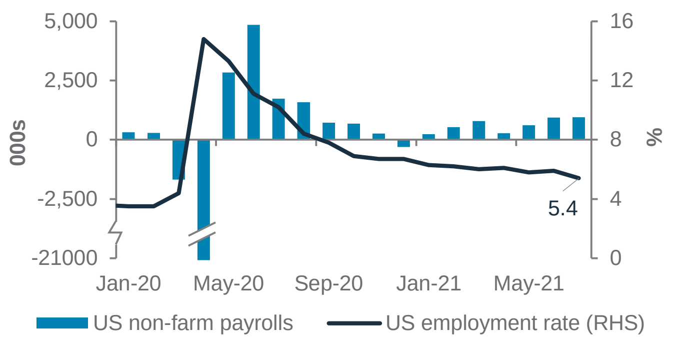
What are the charts saying about Global Value stocks & China’s internet stocks?

Important disclosures can be found in the Disclosures Appendix.

Charts of the week: US recovery remains robust

Strong US jobs data shows growth remains robust, despite COVID-19's resurgence; this is helping Value stocks recover

US monthly job creation, unemployment rate



Ratio of MSCI World Value vs MSCI World Growth indices

Source: Bloomberg, Standard Chartered

Editorial

The return of Value stocks?

The summer is going largely as expected. Global stocks have scaled record highs, with renewed confidence in the US recovery reviving US Treasury yields and Value stocks. A month ago, we highlighted three factors to watch closely: a) the Q2 earnings season, b) economic data and policy moves, and c) COVID-19's trajectory. Of these, US and Euro area earnings have exceeded expectations by 16% and 22%, respectively, so far, leading to upgrades to H2 earnings estimates. Economic data remains strong, with the US delivering yet another surprisingly strong jobs report. Meanwhile, US inflation appears to have peaked, with July m/m inflation rates decelerating, even for once red-hot segments such as used cars and airline tickets. The global COVID-19 resurgence, though, is a concern.

The strong US job market has led some Fed policymakers to call for tapering of bond purchases sooner rather than later. However, with inflation peaking, we believe the Fed is likely to wait a few more months before a tapering announcement (we expect tapering to begin in early 2022). The Fed's Jackson Hole summit on 26-28 August is likely to provide further guidance.

The passage of the bipartisan USD 1trn US infrastructure bill through the Senate is another positive signal, burnishing Biden's deal-making credentials. The bill is unlikely to move the economic growth needle significantly, given that it is likely to add to the US budget deficit by only USD 256bn over the next 10 years (based on Congressional Budget Office estimates). Nevertheless, the infrastructure bill should provide a boost for Value equity sectors such as industrials and materials. Biden's real test will be on the follow-up USD 3.5trn budget bill – which includes spending proposals on climate change, healthcare, education and affordable housing – which the Democrats will have to push through the Senate using their single-person majority. We are unlikely to see any bipartisan camaraderie here, given that much of that bill will likely be paid for by higher taxes. How much taxes rise and the impact on the US deficit will determine the net effect on potential US economic growth.

The global surge in the COVID-19 Delta variant remains a concern. The message from relatively highly vaccinated UK and Israel is mixed so far. Hospitalisations appear to have peaked in the UK at much lower levels than in previous waves but are surging in Israel. China has reverted to locking down cities. China's regulatory reforms, which have been a drag on its markets, also remain front-and-centre. We expect the reforms to continue, given Beijing's focus on curbing monopolistic practices and tackling economic inequalities in the run-up to next year's crucial 20th National Party Congress.

The upshot is that US and European equities are likely to continue driving the rally in risk assets in the next 6-12 months, bouts of pandemic- or policy-related volatility notwithstanding, on solid economic growth and corporate earnings. In China, sectors such as energy and industrials, driven more by the global economic expansion, are likely to outperform. China's High Yield bonds have sold off significantly, offering attractive value. Also, US Treasury yields have broken above the 1.32% resistance, opening the path higher (see page 6). Hence, less rate-sensitive bonds, such as Developed Market High Yield corporate bonds and Asian corporate debt, are likely do well. The USD may have one last hurrah in the coming weeks as Fed tapering expectations build, before broadening global growth leads to a reversal as some central banks start to tighten policy rates faster than the Fed. The combination of solid economic growth and rising Treasury yields should benefit the Value equity sectors. Technical charts suggest Value equities are starting to outperform Growth peers again. The summer could end with a decisive breakout of Value (see page 4 and 5).

— Rajat Bhattacharya

The weekly macro balance sheet

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

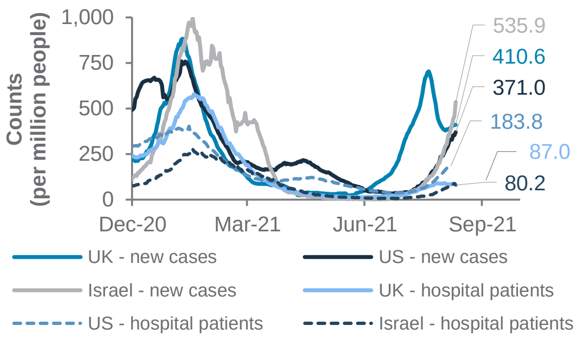
(+) factors: Strong US job market, slowing inflation, infrastructure bill

(-) factors: Rising COVID-19 cases, more Fed officials turning hawkish

	Positive for risk assets	Negative for risk assets
COVID-19	• UK hospitalisation rate tentatively peaks at level well below prior waves despite a sharp rise in COVID-19 cases • Vaccinations continue to rise steadily worldwide; 50% of the US population fully vaccinated	• New cases continue to rise in parts of Asia, Europe, Austrialia; US new cases, hospitalisations surge • Cases, hospitalisations in widely vaccinated Israel continue to surge • UK fatalities continue to rise; new cases rising again • China imposed travel restrictions across more cities to curb the outbreak
	Our assessment: Negative – Continued rise in new infections	
Macro data	• US non-farm payrolls and JOLTS job openings rose more than forecast; initial jobless claims fell • US consumer inflation decelerated m/m in July • German exports rose more than expected • UK GDP accelerated faster than expected in June	• Euro area expectations for economic growth (ZEW), Sentix Investor Confidence and industrial production fell more than expected • China bank loans fell to 9-month low, producer prices rose more than expected • US producer prices rose more than expected
	Our assessment: Positive – Stronger-than-expected US jobs data, while inflation decelerated	
Policy developments	• Fed's Evans, Barkin said it might take several more months for the job market to heal enough for the Fed to reduce economic support • Senate passed USD 1trn infrastructure bill, sending it to the House; Senate takes up USD 3.5trn spending bill	• Fed's Bostic said the bank should start tapering bond purchases faster than previous episodes after another month or two of strong labour market data • Fed's Kaplan said the bank should start tapering sooner rather than later
	Our assessment: Neutral – US infrastructure bill passed vs more Fed officials looking to taper sooner rather than later	
Other developments		• China signalled regulatory reforms will go on for years
	Our assessment: Negative – Tighter China regulations	

Highly vaccinated UK has seen hospitalisations plateau, while Israel is seeing a resurgence in infections and hospitalisations

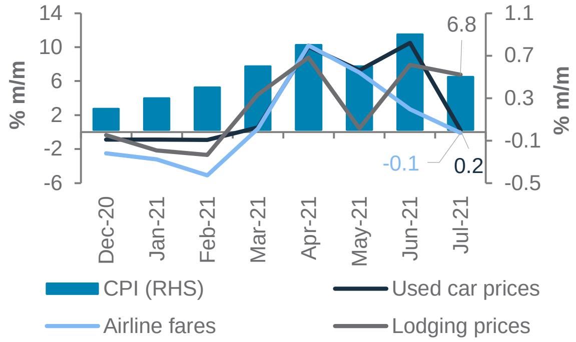
COVID-19 cases, hospitalisations per million people



Source: Our World in Data, Standard Chartered

US consumer inflation appears to have peaked, with some previously red-hot sectors reporting a sharp deceleration in inflation in July

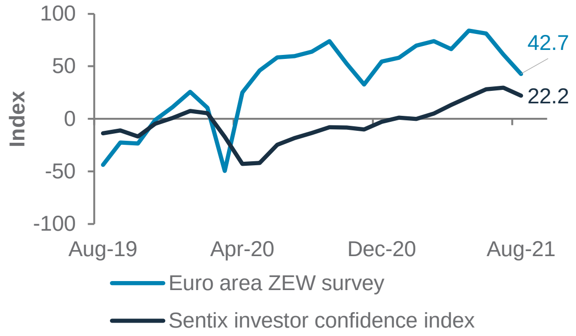
US consumer inflation, headline and select sectors



Source: Bloomberg, Standard Chartered

Euro area economic and investor sentiment have softened lately amid the resurgence of COVID-19

Euro area expectations of economic growth (ZEW survey) and Sentix Investor Confidence index



Source: Bloomberg, Standard Chartered

Top client questions

Is it time to switch back to Value-style equities?

We believe Value-style equities, regions and sectors are likely to resume their outperformance over Growth stocks over the next few months. We expect Value-heavy regions, such as Europe and the UK, to outperform global equities. The financial sector, which recorded the second highest earnings surprise in both the US and Europe during the current Q2 earnings season, is amongst our preferred sectors. The sector is likely to benefit from continued economic growth. The recovery in longer-maturity bond yields, which translates into higher bank lending margins, is likely to improve the sector's profitability. Globally, we also prefer the energy sector. Further gains are likely if recent COVID-19 Delta variant outbreaks are contained efficiently as it could lead to further economic normalisation and a recovery in oil demand. It is worth noting that, in Hong Kong/China markets, the energy sector has the extra tailwind of policy stability, compared with regulatory concerns surrounding internet-based sectors.

Rotation into Value equities has been one of our key themes in 2021. Our strategy of averaging into Value equities over the last few months may be starting to pay off. Over the last couple of weeks, Value equities have begun to break out from their trading range as the US 10-year Treasury yield found a minor bottom, after breaking above key resistance at 1.32%. This may pave the way for yields to challenge the 1.46% - 1.5% area of technical resistance. Higher bond yields hurt valuations of Growth stocks, leading to a rotation into Value equities.

In our view, factors that should contribute to further outperformance of Value equities include: a) A Fed tapering announcement over the next few months, which would add a tailwind to Treasury yields and signal its confidence in economic growth; b) subsiding concerns over the COVID-19 Delta variant, helping a continued normalisation in economic activities.

Technically, the negative divergence of the World Growth index with the 14-day Relative Strength Index (rising index level associated with softening momentum) indicates that the recent rally is losing steam. Furthermore, our measure of diversity – fractals – has fallen to levels which, in the past, have been associated with a reversal – low diversity can be interpreted as a sign of overcrowding. This raises the chance of a pause/retreat in the near term and increases the chances of profit taking and rotation into Value sectors.

— **Daniel Lam, CFA,** *Senior Cross-Asset Strategist*
— **Manish Jaradi,** *Senior Investment Strategist*

Global Value stocks are starting to outperform Growth peers once again as confidence in US economic growth revives US Treasury yields

Global Value vs. Growth equities ratio, US 10-year Treasury yield

Source: Bloomberg, Standard Chartered

The negative divergence of the World Growth index with the 14-day RSI (a momentum indicator) suggests the recent rally is losing steam

MSCI World Growth index and 14-day RSI

Source: Bloomberg, Standard Chartered

Top client questions (cont'd)

Is it time to buy the dip in gold?

In the near term, we expect the precious metal to find technical support just below 1,700 where buying the dip could present an interesting short-term opportunity. On a longer 12-month horizon, though, we continue to view gold only as a core holding.

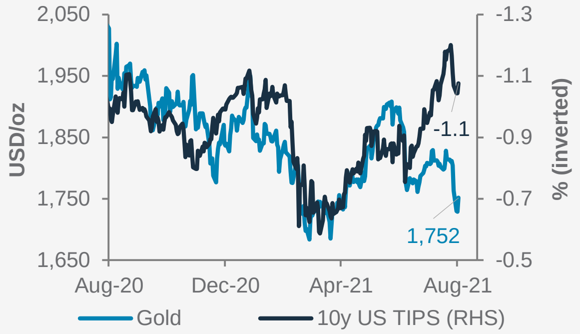
Recent outsized moves can be attributed to expectations of rising real (inflation-adjusted) yields and increased concerns that the Fed could accelerate monetary policy tightening. Gold is highly sensitive to shifts in bond yields due to its non-yielding characteristics, but the sell-off was likely exacerbated by a lack of market liquidity due to Singapore and Japan market holidays. It is worth noting that the decline ended close to 1,675, which we view as a key technical support level.

There has been a disconnect between gold prices and real yields, but we believe gold has room to catch up. We also believe that the USD is nearing a corrective peak and a resumption of the cyclical USD downtrend will also support gold. As long as support at around 1,675 continues to hold, gold could gradually recover towards technical resistance at around 1,835.

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

Gold has diverged from US inflation-adjusted bond yields in recent months; we see room for gold to catch-up if the 1,675 technical support level holds

Gold price, US inflation-adjusted 10-year Treasury yield (TIPS yield)



Source: Bloomberg, Standard Chartered

Where do you see opportunities in FX cross-currency pairs?

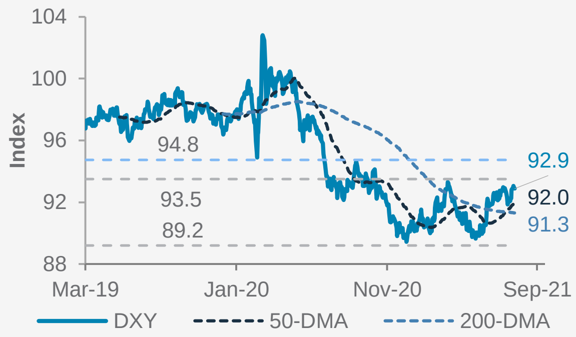
We are almost half-way through the summer period of potentially lower liquidity and higher volatility. The USD has been supported by Fed tapering expectations and economic data. However, the USD (DXY) index is now nearing the 93.20–93.50 resistance range. We anticipate the Fed's narrative later this year will emphasise expectations of a lengthy gap between starting tapering of bond purchases and kicking off a rate hike cycle. Several other central banks will likely take their cue from the Fed in terms of their own policy shifts. We cannot rule out another USD spike in the coming weeks, although we believe it will be short-lived.

In the interim, one attractive short-term strategy could be to focus on currencies with strong domestic economic momentum and more hawkish central banks against the EUR, which is likely to be subdued ahead of September's ECB meeting and German elections. On the other side, the NZD, GBP and CAD have stronger fundamentals and technical support. A "portfolio" of bearish EUR/NZD, EUR/GBP, EUR/CAD and EUR/JPY pairs could be an interesting strategy for the next few weeks as we await clearer evidence that the USD is peaking ahead of a resumption of its cyclical decline.

Meanwhile, a useful diversifier for these "risk-on" currencies could be the JPY, which is undervalued, oversold and a strong safe-haven.

We expect any broad-based USD spike in the coming weeks to be short-lived as other central banks start to tighten policy faster than the Fed

USD index (DXY)



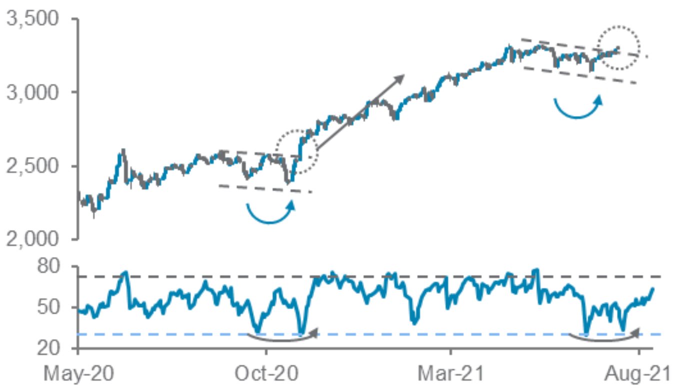
Source: Bloomberg, Standard Chartered

Technical charts of the week

Manish Jaradi
Senior Investment Strategist

Global Value index: Breaks higher

World Value index daily chart with Relative Strength Index

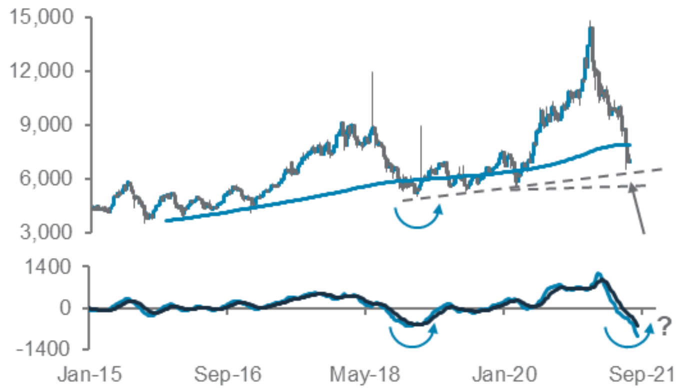


Source: Bloomberg, Standard Chartered

The World Value index has broken out of its range, paving the way initially towards 3360 (the price objective of the channel). Moreover, the shallow retreat, as we saw in end-2020, could be a sign that the index has room to rise further (beyond the channel objective).

China Internet stocks: Deeply oversold, near key support

CSI Overseas China Internet index weekly chart with 200-WMA and Moving Average Convergence Divergence



Source: Refinitiv, Standard Chartered

The China internet sector is deeply oversold as it tests a strong support area, raising the prospect of a short-term rebound. However, upward momentum/catalysts have been lacking, suggesting bulls may need to wait for a rally to unfold.

Gold: A short-term rebound on the cards?

XAU/USD daily chart with 200-DMA, USD/oz

Source: Refinitiv, Standard Chartered

The sharp jump in gold volatility has admittedly blurred visibility beyond the short term. For now, though, gold looks set for a rebound, and it would need to clear quite a few hurdles on the way for a long-term uptrend to be reasserted.

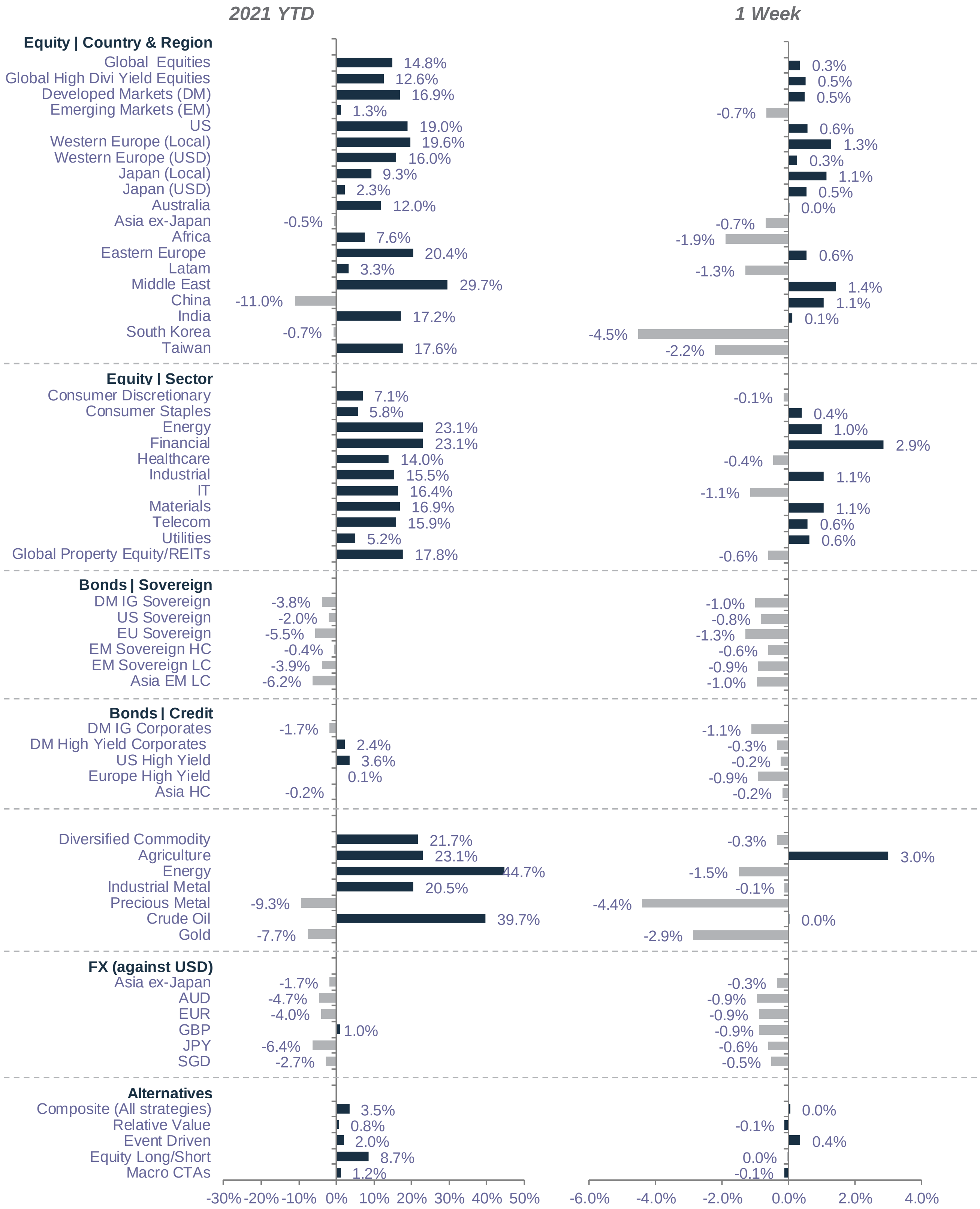
US 10-year Treasury yield: A minor double bottom

US 10y Treasury yield daily chart, %

Source: Refinitiv, Standard Chartered

The US 10-year Treasury yield's break above 1.32% has triggered a minor double-bottom. The rebound was due, as we outlined in our *Global Market Outlook* published end-July 2021. Still, the yield needs to clear tough resistance at 1.46%-1.50% for the short-term downward pressure to fade.

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 12 August 2021; 1-week period: 5 August 2021 to 12 August 2021

Our asset class views at a glance

Asset class			
Equities	▲	**Alternatives**	◆
Euro area	▲	Equity hedge	▲
UK	▲	Event-driven	▲
US	▲	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	CH	Retail Sales y/y	Jul	12.1%
	CH	Industrial Production y/y	Jul	8.3%
TUE	US	Retail Sales Ex Auto and Gas	Jul	1.1%
	US	Industrial Production m/m	Jul	0.4%
WED	JN	Exports y/y	Jul	48.6%
	UK	CPI Core y/y	Jul	2.3%
	US	Housing Starts	Jul	1643k
THUR	EC	ECB Current Account SA	Jun	11.7b
FRI/ SAT	JN	Natl CPI Ex Fresh Food, Energy y/y	Jul	-0.9%
	UK	Retail Sales Ex Auto Fuel y/y	Jul	7.4%

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

S&P500 has first support 0.4% below current level

Technical indicators for key markets as on 12 August 2021

Index	Spot	1st support	1st resistance
S&P500	4,461	4,442	4,470
STOXX 50	4,226	4,192	4,244
FTSE 100	7,193	7,137	7,235
Nikkei 225	28,015	27,867	28,117
Shanghai Comp	3,525	3,478	3,552
Hang Seng	26,518	26,245	26,726
MSCI Asia ex-Japan	829	826	834
MSCI EM	1,291	1,288	1,297
Brent (ICE)	71.3	69.8	72.2
Gold	1,753	1,734	1,768
UST 10Y Yield	1.36	1.32	1.38

Source: Bloomberg, Standard Chartered

Investor diversity has normalised across major assets

Our proprietary market diversity indicators as of 11 August

Level 1	Diversity	1-month trend	Fractal dimension
Global Bonds	●	→	1.58
Global Equities	◐	→	1.33
Gold	●	→	1.51
Equity			
MSCI US	◐	→	1.27
MSCI Europe	◐	→	1.32
MSCI AC AXJ	●	↓	1.73
Fixed Income			
DM Corp Bond	◐	→	1.49
DM High Yield	●	↑	1.63
EM USD	◐	→	1.45
EM Local	●	↑	1.56
Asia USD	●	↑	1.86
Currencies			
EUR/USD	◐	↓	1.38

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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