Global Market Outlook

An improving outlook

We retain a constructive view on risk assets (equities and credit) and multi-asset income strategies, especially over the next 3-6 months.

Within equities, we have a preference for Developed Markets (DMs). The Euro area joins the US as a preferred equity market.

We prefer to gain Emerging Market (EM) exposure through bonds, especially EM government and Asian USD corporate bonds.

Gold is a good way to hedge downside risks, mainly stemming from geopolitical and trade issues.

This reflects the views of the Wealth Management Group
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An improving outlook

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Global risk appetite appears to be gradually returning. US stocks have broken to new record highs as fears of an imminent US recession recede, amid expectations of an interim US-China trade deal and a ‘soft’ Brexit.

Investors reluctant to embrace the rally

While this positive narrative has led to improved sentiment, with global equity markets recovering and credit outperforming government bonds, investors appear reluctant to fully embrace risk assets. Fund managers have actually increased cash holdings, which remain at levels that have historically been associated with the outperformance of global equities in subsequent periods.

Economic data mixed, US earnings ‘surprise’ positively

US economic data has been mixed with hard data showing signs of stabilisation, but business sentiment has weakened. Meanwhile, there are early signs, especially in the Euro area, that the weakness in the manufacturing sector may be spreading to the services and consumer sectors. Finally, the IMF’s decision to cut its 2020 economic growth for China below 6% merely reinforces the view that China is facing a structural slowdown, not just trade-related weakness.

Having said that, earnings growth expectations are showing tentative signs of bottoming out. Also, the Fed cut rates for the third time this year, enabling other central banks to ease policy. Fiscal policies in China, India and other EMs have also turned supportive, helping in sustaining the economic expansion.

Figure 1

Some near-term indicators are showing tentative signs of bottoming

Global equities EPS growth; factors influencing risk assets over 3-6 months – our assessment

<table>
<thead>
<tr>
<th>Short-term factors</th>
<th>Current signal</th>
<th>Guide</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consensus earnings</td>
<td></td>
<td>Expectations may be starting to turn higher</td>
</tr>
<tr>
<td>Business confidence</td>
<td></td>
<td>Global PMI shows tentative signs of bottoming</td>
</tr>
<tr>
<td>US financial conditions</td>
<td></td>
<td>US financial conditions remain loose</td>
</tr>
<tr>
<td>Technicals</td>
<td></td>
<td>Equity markets appear to have broken higher</td>
</tr>
<tr>
<td>Market diversity</td>
<td></td>
<td>No clear signal</td>
</tr>
<tr>
<td>Event risks</td>
<td></td>
<td>Progress on US-China trade, Brexit risks</td>
</tr>
<tr>
<td>Seasonality</td>
<td></td>
<td>Seasonally weak May-Oct period for equities ending</td>
</tr>
</tbody>
</table>

Source: Bloomberg, FactSet, Standard Chartered

IMPLICATIONS FOR INVESTORS

Global equities and multi-asset income strategies likely to outperform bonds and cash

Within bonds, we believe Emerging Market assets are particularly attractive

Within equities, we have a preference for US and Euro area equities

Gold may be a good way to hedge risks
What does it all mean?

Although global growth has slowed this year, there are some signs the worst may be behind us. For instance, the decline in US bond yields (and mortgage rates) this year is likely to be a positive impulse for the important housing market and the overall economy. A US-China trade truce should also potentially soften and reverse some of the demand destruction caused by the trade policy uncertainty. While US job creation is slowing, the economy is still generating more jobs than entrants to the workforce, supporting consumption. Meanwhile, China’s economic slowdown is being supported by targeted fiscal and monetary policy easing measures. This should be positive for Europe’s substantial export sector.

Looking forward, policymakers remain focused on managing downside risks. For central banks, the bias remains towards further easing. Governments, especially in Germany and China, are increasingly under pressure to expand fiscal policy. Adding the fact that fund managers are defensively positioned, with elevated cash levels and allocations to defensive assets, we believe risk assets are set to do well from here, particularly in the next 3-6 months.

Equities at a critical juncture

From a technical standpoint, equity markets have broken above recent ranges. Global equities appear headed to test all-time highs, while US equities have already set new all-time highs. A short-term pullback cannot be ruled out in case of disappointment around trade developments. However, the recent steepening of the yield curve suggests the current easing cycle is precautionary, and history suggests precautionary Fed rate cuts are positive for US and global equities. The US remains a preferred market for us.

We have upgraded Euro area equities to a preferred market. While regional data remains negative, we believe much of this is already priced in, with Euro area equities trading at close to 20-year lows relative to global equities. Meanwhile, investor positioning has shifted to more neutral levels. This means any upside surprise in Europe, for instance on the fiscal policy front, could lead to an outsized market reaction.

Prefer credit and Emerging Market bonds

While we believe the risks are skewed to a slight disappointment when it comes to US monetary policy settings, with markets gradually paring back Fed rate cut expectations for 2020, we believe benign inflation indicators will cap any rise in DM bond yields.

This, together with our outlook for stabilising growth, leads us to continue to prefer corporate and EM USD bonds (credit). Within this, we have a preference for EM bonds – we maintain our preference for EM USD government bonds, but also upgrade EM local currency government bonds as a preferred area within bonds. USD-denominated bonds continue to be well-supported by what we see as reasonable valuations and relatively contained risk from higher Treasury yields. Local currency bonds have always offered a competitive yield, but we now believe the inherent currency risk may be worth taking, given our increasingly bearish view on the USD.

Asia USD bonds also remain preferred, with a stabilising (or even improving, based on some data points) Chinese growth outlook likely to offer some support to the riskier High Yield (HY) component.

Gold a hedge amid a weaker USD

While we hold the view that growth is likely to stabilise, albeit at a relatively weak level for now, we continue to believe a barbell approach remains sensible at this stage in the cycle. Gold may very well face some near-term headwinds if Treasury yields temporarily creep higher, but it remains a way to partially protect against any unexpected shock that could threaten the ongoing expansion.

Meanwhile, we now expect the USD to weaken on a 12-month horizon as its expensive valuation is eroded by Fed rate cuts, rising global USD liquidity and increased risk appetite amid easing global trade tensions. This should favour the EUR and GBP initially.

This reflects the views of the Wealth Management Group
## Our Tactical Asset Allocation views (12m) USD

<table>
<thead>
<tr>
<th>Asset class</th>
<th>Sub-asset class</th>
<th>Relative outlook</th>
<th>Rationale (+ Positive factors II – Negative factors)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Equities</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| US          |                | ▲               | + Resilient earnings outlook || - Elevated valuations  
Elevated valuations supported by earnings and margins outlook |
| Euro area    |                | ▲               | + ECB policy support, fair valuations || - Fiscal progress likely slow  
ECB deposit rate changes, trade supportive of valuations |
| Asia ex-Japan|                | ◆               | + China stimulus, fair valuations || - Trade risks  
Interim trade deal and weak USD would be positives |
| UK          |                | ◆               | + Attractive valuations || - Brexit, election uncertainty  
Hard Brexit looks increasingly unlikely, but election an uncertainty |
| Other EM    |                | ◆               | + Modest earnings growth, fair valuations || - Political uncertainty  
Weak USD would be supportive, but trade, commodity prices are risks |
| Japan       |                | ▼               | + Attractive valuations || - Consumption tax hike  
Inexpensive valuations, but uncertain tax and wage growth outlook |
| **Bonds**   |                |                 |                                                   |
| EM government(USD) | | ▲ | + Attractive yields, attractive value || - High interest rate sensitivity  
Weak USD should be supportive, but yield rebound, geopolitics are risks |
| Asian USD   |                | ▲               | + Attractive yields, reasonable value || - China concentration  
Low volatility and credit quality positives, but China slowing a risk |
| EM government(local currency) | | ▲ | + Attractive yields, weak USD view || - FX volatility  
Attractive yields and easing policy are positives. Weak USD view is key |
| DM HY corporate | | ◆ | + Attractive yields || - Expensive valuation, credit quality  
Risk of downgrades, rising defaults though high yields a positive |
| DM IG corporate | | ◆ | + Moderate yields, moderate value || - High interest rate sensitivity  
Fairly valued, but need to watch direction of credit quality |
| DM IG government | | ▼ | + Moderate value || - Low yields, inflation surprise  
Easier monetary policy a support, but upside inflation surprise a risk |
| **Currencies** |                |                 |                                                   |
| GBP         |                | ▲               | + Long-term valuations supportive || - Hard Brexit, election uncertainty  
‘Hard Brexit’ risks averted with “Flexextension”; election outcome hard to predict |
| EUR         |                | ▲               | + External surplus, weak USD view || - Fiscal progress likely slow  
Fiscal stimulus a potential game-changer |
| CNY         |                | ◆               | + ‘Phase 1’ trade deal, weak USD view || - Trade sensitivity  
US tariffs a key driver; Emphasis on stability remains |
| AUD         |                | ◆               | + China stimulus, weak USD view || - Trade sensitivity  
RBA remains vigilant, but housing market stabilising; Commodity demand low |
| JPY         |                | ◆               | + Inexpensive valuations, weak USD view || - Rising risk-on sentiment  
Bouts of risk-on and -off impact; BoJ policy easing room appears limited |
| USD         |                | ▼               | + Reduced trade risks || - Falling rate differentials, better USD liquidity  
Narrowing rate differentials, trade resolution, USD liquidity are negatives |

Source: Standard Chartered Global Investment Committee

Legend: ▲ Preferred  ◆ Core holding ▼ Less preferred
Your asset allocation preferences indicate a relatively constructive view of the world. Yet, the economic backdrop seems mixed at best. What are the key drivers for this view?

Our Global Investment Committee has a “glass half full” view of the world. While recent economic data may appear mixed, as we note in the investment strategy section, we see tentative signs of stabilisation. Putting this in a longer-term context, we would associate the current economic backdrop with that of modest growth rather than an outright reflationary or recessionary scenario. While we acknowledge the ongoing risks (global trade tensions, Brexit and geopolitics), our analysis indicates that a balanced, pro-risk (equities and credit) asset allocation with a focus on multi-income strategies can continue to perform well in this environment.

Figure 4
Global risk asset prices tend to respond to Chinese stimulus

Yearly change in global equities and global corporate bonds overlayed by the growth in Chinese credit measures (i.e., Credit impulse)

Source: Refinitiv, Standard Chartered
*Bloomberg Barclays Global Aggregate Bond index Yield-To-Worse (Inverted)

Central banks have responded to the macroeconomic slowdown

One key aspect of our thesis is the response of central banks around the globe. Not only there has been a decisive U-turn in monetary policy globally in 2019, but in recent months both the Fed and the ECB have also begun injecting liquidity by re-committing to expand their balance sheets (i.e., the Fed’s USD 60bn monthly Treasury purchases and the ECB’s new bond-buying programme). Additionally, the PBoC has been in an easing mode since June 2018 and its policy has been accompanied by fiscal measures as well; in the past, these have been supportive of risk assets globally.

While monetary stimulus alone can support growth in the short term, the deployment of fiscal stimulus policies is also likely to be important. Our Global Investment Committee sees the probability of fiscal stimulus in both Developed and Emerging Markets rising in the next 12 months. This, in turn, should bode well for risk assets in the long term.
**US still steady, Europe likely turning around**

Recently, economic growth concerns have centred on 1) further decreasing trade volumes, 2) whether the manufacturing slowdown may spread to the other parts of the economy.

To be fair, recent US data, such as the latest retail sales numbers or University of Michigan sentiment survey, point to a softening on the consumer side. Meanwhile, business confidence surveys highlight the services segment of the economy has also weakened somewhat, causing investors to worry about a potential negative feedback loop.

However, the data does not appear consistent with a recessionary scenario and would have to be much more pronounced to suggest a significant downturn or recession as opposed to a slowdown to a more modest level of growth.

There is a risk of US political uncertainty rising in the run-up to the November 2020 presidential elections, especially if Democrat candidate Elizabeth Warren emerges as the main challenger to President Trump. Warren’s campaign has focussed on raising taxes for high-income earners, greater regulation of the financial sector and wider health coverage for citizens – policies that are likely to dampen business and investor sentiment. The US Congress is also moving ahead with its impeachment proceedings against the president. Although such a move could pass the Democrat-controlled Congress, we see low chances of it being approved by the Republican-controlled Senate.

On the other side of the Atlantic, while Euro area economic growth appears worse at first glance, we are seeing some underlying improvements. What is essential for the turnaround of the regions’ fortunes is a coordinated fiscal push. Although this is a longer-term structural measure, recent news flow from Germany makes us more hopeful that a change of stance towards fiscal reforms is being considered. Moreover, Lagarde’s appointment at the helm of the ECB could help accelerate this process, in our view.

In the near term, we view the recent ECB decision to embark on a new wave of easing as a positive. Historically, when money supply has increased, economic activity has followed. Moreover, one unique aspect of central bank quantitative easing is that government bond yields tend to rise during periods of balance sheet expansion. Such periods are usually characterised by strong equity market performance, as the gap between equity dividend yield and low bond yields closes.

Another positive development for the Euro area centres on foreign investor flows. In fact, flows in both equity and debt instruments have recently rebounded, albeit from low levels, a trend we believe can continue.

The overall shift in sentiment has been reflected recently by market performance – both European equities and investment grade credit have outperformed their global benchmarks by 0.7% and 1.4% respectively over the past month. We see room for this outperformance in equities to continue and, thus, upgrade the region’s equities to preferred alongside US equities.

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**Figure 5**

Easy monetary conditions tend to support economic activity in the Euro area

- Yearly change in (M1) Money Supply in circulation vs real GDP growth

![Chart showing yearly change in (M1) Money Supply in circulation vs real GDP growth from Q2 2000 to Q2 2019](chart)

Source: Bloomberg, Standard Chartered

* Gross Domestic Product growth deflated by inflation data (CPI)

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**Figure 6**

Periods of central bank balance sheet expansions have generally tended to experience a rise in government yields

US and German government yields during periods of quantitative easing

![Chart showing US and German government yields during periods of quantitative easing](chart)

Source: Bloomberg, Standard Chartered
What should investors watch out for?

The Brexit saga

The ongoing Brexit saga poses one risk to our view. Although UK policymakers appear largely in agreement with an orderly departure from the EU, PM Johnson has failed to secure an exit agreement by the 31 October deadline, resulting in yet another extension. The focus now turns to the general election on 12 December. There are three likely outcomes: a) Johnson’s Conservative party wins a clear mandate; b) a mandate to cancel Brexit; c) an opposition coalition that forces a second referendum.

While the election outcome itself is difficult to forecast at this stage, the first two outcomes are likely to be positive for UK assets and the GBP. The former provides a mandate to leave the EU based on Johnson’s deal agreed with the EU in October. The second option, which polls suggest is the least likely, would be the best outcome for UK assets. The last scenario, while not necessarily negative, may cause prolonged volatility in UK assets, especially if a Labour-led government pursues less business-friendly policies.

US-China trade talks

A second risk to our view is a renewed fallout from the US-China trade negotiations. Recent announcements that a ‘Phase-1’ agreement may be reached later this year is a positive, which suggests risks of a renewed flare-up in the next few months have fallen. However, negotiations have taken many twists and turns over the past year; hence, we would remain on watch for any surprises. For example, the cancellation of the APEC meeting by host country Chile (although for unrelated reasons) adds to the uncertainty regarding a deal-signing meeting timeline.

Fed policy

The Fed cut its key interest rate for the third time this year, while omitting some key language in its statement. Previously Fed officials stated they would “act as appropriate” to sustain the record-long US economic expansion. The intentional omission may imply a pause to rate cuts. Chairman Powell views rates as being close to appropriate levels and noted that the committee’s members “are not thinking about raising rates right now.” The central bank may now wait for more information on trade negotiations and the global economic situation before signalling future intentions. We view the willingness to keep rates unchanged as a positive for markets, though we remain on watch for any changes in this stance.

Stay invested; stay diversified

Thus far in 2019, financial assets have weathered difficult economic and geopolitical conditions. Market volatility has stabilised near 10-year average levels (bond volatility is slightly higher, while equity volatility has receded from 2018 levels). Many analysts have also highlighted the rise in equity-bond correlations to unfavourable levels for investors (i.e., should correlations stay at today’s levels, bonds may provide less of a hedge during a downturn phase).

Nonetheless, we note that the performance of a ‘traditionally’ balanced 60/40 equity-bond allocation in 2019 has been strongest in the past 10 years. The average yearly total median return for the period stands at 7.25%. The main conclusion we draw is that investors can benefit from staying invested and staying diversified for the long term, even in the most basic sense. In a year like 2019, where the narrative has been remarkably negative at times, staying on the sidelines would have meant missing a period of fairly strong performance.
Macro overview

Global stimulus to sustain growth

- **Core scenario**: The Fed’s three rate cuts this year, which enabled other major central banks to ease monetary policies, and fiscal stimulus in China, India and other Emerging Markets (EMs), are likely to stabilise global growth in the coming quarters, in our assessment. A weaker USD is likely to support this trend.

- **Policy outlook**: The Fed is likely to cut rates further in 2020 to sustain the record expansion, while the ECB and the BoJ are likely to maintain their ultra-easy policy stance. We assign the highest probability of a fiscal stimulus in Europe and China in 2020.

- **Key risks**: US political uncertainty ahead of 2020 US presidential elections has emerged as a major source of downside risk. Easing US-China trade tensions and fiscal stimulus in Europe can potentially improve risk sentiment.

**Core scenario**

Global growth and inflation expectations remain subdued, with business confidence in trade-dependent Europe, Japan and EMs sapped by the on-again-off-again US-China trade uncertainty. However, consumption and service sectors remain relatively resilient on the back of strong job markets. On balance, we believe the significantly dovish turn in monetary policies worldwide over the past year, led by the Fed’s three rate cuts, is likely to put a floor under global growth and help sustain the expansion. Fiscal policies have also become easier in China, India and other Emerging Markets (EMs) lately, even as the impact of previous tax cuts in the US fades. The focus now turns to a possible thaw in US-China trade relations, with a partial agreement expected before year-end. A breakthrough here and growing expectations of fiscal stimulus in Europe have the potential to support global economic and business sentiment, in our view.

**Figure 8**

Central banks worldwide have turned decisively dovish

<table>
<thead>
<tr>
<th>Region</th>
<th>Growth</th>
<th>Inflation</th>
<th>Benchmark rates</th>
<th>Fiscal policy</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>●</td>
<td>○</td>
<td>●</td>
<td>●</td>
<td>The Fed is likely to cut rates further in 2020 to sustain the record economic expansion. We see waning chances of a recession in next 12 months</td>
</tr>
<tr>
<td>Euro area</td>
<td>○</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>Thaw in US-China rift to soften growth slump, but EU fiscal stimulus needed for sustained recovery. Expect new ECB chief Lagarde to push for this</td>
</tr>
<tr>
<td>UK</td>
<td>○</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>The UK’s focus turns to another general election on 12 December to break the Brexit deadlock</td>
</tr>
<tr>
<td>Japan</td>
<td>○</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>The BoJ likely to ease policy further to offset external risk and impact of consumption tax hike</td>
</tr>
<tr>
<td>Asia ex-Japan</td>
<td>○</td>
<td>○</td>
<td>●</td>
<td>●</td>
<td>Asian central banks, including the PBoC, are likely to ease monetary policy further; China and India’s fiscal easing are also growth-supportive</td>
</tr>
<tr>
<td>EM ex-Asia</td>
<td>○</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>Brazilian Senate’s approval of pension reforms is a major step forward in its fiscal restructuring</td>
</tr>
</tbody>
</table>

Source: Bloomberg, Standard Chartered

**IMPLICATIONS FOR INVESTORS**

The Fed is likely to ease further in 2020, with at least one more rate cut expected

The BoJ and the ECB are likely to maintain their loose monetary policy stance, while the PBoC eases policy further

Besides easing US-China trade tensions, fiscal stimulus in Europe and China have the biggest potential to deliver upside surprise to global risk sentiment
US – Sustaining the record-long expansion

Crossing a milestone. As the US economy marks its longest economic expansion on record, the question is: can it sustain the trend? We see a receding probability of a recession in the next 12 months (27% vs 35% a month ago). The Fed’s three rate cuts this year have eased financial conditions, even as a strong job market drives consumption. The manufacturing sector remains depressed, but the outlook is likely to improve if the US and China reach a truce before year-end. A thaw in US-China relations also holds the potential to revive business investment, adding another driver to the ongoing economic expansion.

Another US rate cut likely, but domestic political risks rise. We expect the Fed to cut rates at least once more in 2020 to sustain the expansion. However, the rise of Senator Elizabeth Warren as the potential Democrat challenger to President Trump in the November 2020 election could increase political risks, given Warren’s leftist policy stance.

Euro area – Awaiting fiscal stimulus

A tale of two Europes. Euro area growth slowed in Q3, with Germany entering its first recession in six years, primarily due to global trade uncertainty. However, France and Spain – less-exposed to global trade – remain resilient. A US-China trade truce and the ECB’s policy easing are likely to revive business confidence. However, fiscal easing, especially by Germany, holds the key to a sustained revival, in our view.

Can Lagarde convince Berlin to ease? Given the ECB’s limited scope to ease further, we expect incoming President Lagarde to be more proactive in lobbying Germany and other northern Euro area economies with significant fiscal flexibility to boost spending. A fiscal stimulus in Europe could help revive global business sentiment, in our opinion.

China – Warding off deflation

Slowing growth, despite previous stimulus. China’s growth slowed to 6% y/y in Q3, its weakest in almost three decades, dragged down by the global trade uncertainty and prior deleveraging efforts. Policy measures, including tax cuts and easier bank liquidity, have helped to soften the slump, although the impact has been weaker than expected.

Factory deflation warrants more stimulus. The renewed contraction in producer prices signals waning pricing power for manufacturers, which, if sustained, could hurt corporate profits and growth. As such, authorities are likely to step up fiscal and monetary easing in the coming months.
Japan – More policy easing?

Thaw in US-China tensions to help. Japan’s exports contracted for the 10th month in a row, deepening the manufacturing sector downturn. The consumption tax hike from 1 October is also likely to weigh on domestic consumer spending, which has supported the economy so far in the face of external headwinds from global trade. While Japan’s trade deal with the US does remove uncertainty over its automobile sector (as it removes the prospect of US auto tariffs for now), the economy will need a breakthrough in US-China trade talks in November to turn around decisively.

BoJ keeps easing bias. The BoJ left policy unchanged, but signalled its readiness to ease further in its efforts to support business confidence. Persistent below-target inflation means ultra-loose policy is here to stay for the foreseeable future.

UK – Back to the polling station

Election may break Brexit deadlock. The UK got another extension to the Brexit deadline to 31 January 2020 after PM Johnson failed to win support for his exit deal. This further reduces the chance of a no-deal Brexit, in our view. The focus turns to the general election on 12 December, with Brexit the central issue. We see three likely outcomes: a) Johnson’s Conservative party wins and the UK leaves the EU with the deal agreed with the EU in October; b) a mandate to cancel Brexit; c) an opposition coalition that forces a second referendum. The first two are positive for UK business sentiment, while c) would prolong the uncertainty.

BoE to stand pat until Brexit outcome clear. We expect the BoE to keep policy rates on hold (at 0.75%) despite the Brexit uncertainty, as tight labour markets sustain wage pressures. The poll outcome is likely to guide its next course.

Emerging Markets – Policy turning supportive

Monetary, fiscal easing supporting growth. The Fed’s rate cuts have helped EMs ease monetary policy, helping soften the impact from deteriorating global trade. Major EMs, including China and India, have eased fiscal policy. Our expectation for a weaker USD is likely to be another positive driver for these economies in 2020.

Brazil, Indonesia outlook brighten. The passage of Brazil’s pension reforms through the Senate is a major step forward for the government’s fiscal revamp, while Indonesian President Joko Widodo’s move to bring in technocrats in his cabinet is positive for his planned restructuring. These moves are likely to support investor sentiment towards EMs.
USD – Rising liquidity could weaken dollar

We expect the USD to weaken over a 12-month horizon. While the USD could remain relatively range-bound over the next three months as it continues its peaking process, we believe conditions for long-term (12-month) USD weakness are rising. The USD remains expensive from a valuation point, but Fed rate cuts and efforts to boost liquidity could erode support. Meanwhile, easing US-China trade tensions could also remove one source of support for the USD.

Over a 12-month horizon, we expect the EUR and the GBP to be key beneficiaries of a turn lower in the USD.

Gold – Near-term headwinds

Rising risk appetite poses near-term headwinds. Falling US Treasury yields have been one key support for gold earlier this year. However, our expectations for a modest rebound in yields combined with stabilising economic growth could pose short-term headwinds for gold.

Prudent to retain exposure as a hedge. Near-term headwinds notwithstanding, we believe a modest allocation to gold remains appropriate. While we expect growth to stabilise and trade tensions to ease (at least for now), gold remains a good way to partially protect against either a surprise event risk or an unexpectedly early end to the economic cycle. We do not expect US Treasury yields to rebound significantly, which means any near-term weakness in gold is likely to be well contained, especially if it partly offsets USD weakness.

Crude Oil – Oversupplied?

Demand has remained soft. Recent measures of both actual demand and market expectations of future demand have remained soft. In the US, demand data has been revised lower in six out of the past seven months, a trend mirrored across many other regions as the International Energy Agency (IEA) also revised down global demand growth expectations.

Meanwhile, supply remains elevated, pointedly illustrated by the unusually short-lived reaction to the attack on Saudi oil facilities. Indeed, the recent OPEC meeting highlighted the desirability of additional supply cuts.

Range-bound, with volatility. On balance, we expect oil prices to remain relatively range-bound, albeit with elevated volatility. Strongly trending prices appear unlikely for now, though the extent to which economic growth (and, hence, energy demand) stabilises will be key.
USD peaking process continues

- Fed easing, and the provision of plentiful USD global liquidity can help the dollar gain momentum in its peaking process; focus may shift towards domestic politics and twin deficits.
- UK election further reduces hard Brexit risks, supporting the EUR and the GBP as USD alternatives; global fiscal stimulus could promote risk-on; a trade deal could nudge USD/CNY lower.

Figure 18
Foreign exchange: key driving factors and outlook

<table>
<thead>
<tr>
<th>Currency</th>
<th>3m View</th>
<th>12m View</th>
<th>Real interest rate differentials</th>
<th>Risk sentiment</th>
<th>Commodity prices</th>
<th>Broad USD strength</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD</td>
<td>◆</td>
<td>▼</td>
<td>○</td>
<td>○</td>
<td>NA</td>
<td>NA</td>
<td>Differentials for growth, rates to narrow; Fed to add large USD liquidity</td>
</tr>
<tr>
<td>EUR</td>
<td>◆</td>
<td>▲</td>
<td>●</td>
<td>●</td>
<td>NA</td>
<td>●</td>
<td>ECB out of rate tools; fiscal policy to rescue growth; trade relief</td>
</tr>
<tr>
<td>JPY</td>
<td>◆</td>
<td>◆</td>
<td>○</td>
<td>○</td>
<td>NA</td>
<td>○</td>
<td>Sensitive to risk sentiment; BoJ easing limited; Asset hedging key</td>
</tr>
<tr>
<td>GBP</td>
<td>▲</td>
<td>▲</td>
<td>●</td>
<td>●</td>
<td>NA</td>
<td>●</td>
<td>Still undervalued; No deal Brexit risk over; election result key</td>
</tr>
<tr>
<td>AUD</td>
<td>◆</td>
<td>◆</td>
<td>○</td>
<td>○</td>
<td>●</td>
<td>○</td>
<td>Domestic slowdown, global trade fears bottoming</td>
</tr>
<tr>
<td>CNY</td>
<td>◆</td>
<td>◆</td>
<td>○</td>
<td>○</td>
<td>●</td>
<td>●</td>
<td>Stimulus and data support; trade deal dependency is key</td>
</tr>
</tbody>
</table>

Source: Bloomberg, Standard Chartered Global Investment Committee

Legend: ◆ Supportive, ◌ Neutral, ○ Not supportive, ▲ Bullish, ▼ Bearish, ◼ Range

USD – Bearish; dollar peaking process to gain traction

We have turned bearish on the USD, looking for around 5% weakness over a 12-month time horizon. Over a 3-month period, we anticipate the current slow peaking process to continue. We believe the USD’s expensive valuation will be eroded as the Fed cuts rates and significantly boosts global USD liquidity through its balance sheet and technical operations. Combined with easing trade tensions, lower global funding costs and likely rising fiscal stimulus, global growth and trade could improve. Reduced US economic exceptionalism could trigger capital outflows and hedging from US asset markets to better risk-reward opportunities, initially via DM currencies and then select EM ones. The process may be cautious at first, but should gain traction early next year.

Technicals suggest strong resistance for the USD (DXY) index between 99.25 and 100.15 should continue to hold. Near-term support between 97.00-97.40 should break to open a test of the 95.74 level. We eventually expect the DXY to test 93.95 and 92.60, being key retracement levels of the entire rally that began in early 2018.

IMPLICATIONS FOR INVESTORS

USD interest rate and growth exceptionalism could continue to fade. USD weakness could extend as rotation and hedging away from US assets increase.

Fiscal stimulus and low rates should eventually stabilise Euro growth, helped by a Brexit finale and easing trade tensions. The EUR will begin to assume the role of the “anti-dollar”.

The GBP will likely continue to revert towards long-term valuation as Brexit risks recede and capital investment returns.

Easing trade tensions could help USD/CNY edge lower. AUD and EM currencies could follow the direction as global trade improves.

Figure 19
Where markets are today

<table>
<thead>
<tr>
<th>FX (against USD)</th>
<th>Current level</th>
<th>1m change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia ex-Japan</td>
<td>104.02</td>
<td>0.9%</td>
</tr>
<tr>
<td>AUD</td>
<td>0.69</td>
<td>2.1%</td>
</tr>
<tr>
<td>EUR</td>
<td>1.12</td>
<td>2.3%</td>
</tr>
<tr>
<td>GBP</td>
<td>1.29</td>
<td>5.3%</td>
</tr>
<tr>
<td>JPY</td>
<td>108.03</td>
<td>0.0%</td>
</tr>
<tr>
<td>SGD</td>
<td>1.36</td>
<td>-1.6%</td>
</tr>
</tbody>
</table>

Source: Bloomberg, Standard Chartered
# 30 September to 31 October 2019
EUR – Bullish; fiscal policies remain in focus

We remain bullish on EUR/USD over a 12-month horizon, expecting around a 5% appreciation, as we believe the ECB’s latest efforts can create a conducive environment for expansionary fiscal policy. The cost of debt servicing is very low, and continued weak data tied with domestic political considerations may eventually prompt European economies to move towards pro-growth fiscal settings. An improving US-China trade environment may support improving global economic conditions – usually consistent with a broadly weaker USD. A softer Brexit solution is also likely within the next three months, which could support the EUR. Together, the recent trend of rising investment flows into Euro area assets could become a key driver for a stronger EUR.

EUR/USD made a new low around 1.0880 and, from a technical perspective, this may be the end of the downtrend from 1.2550 since early 2018. We expect a choppy period of net gains that will initially test support around 1.1200-1.1250. A break would bolster our expectation of a downtrend reversal and would target a gradual climb into the 1.1500-1.1700 resistance band.

JPY – Neutral; cautious on investment flows

We remain neutral towards USD/JPY for now. While a broad USD weakening and the limited options for BoJ easing of monetary policy would tend to bring USD/JPY lower, this could be mitigated if our expectations for improved global growth and stable markets reduce safe-haven flows into the JPY. Unhedged investor outflows continue to underpin USD/JPY as they seek yield overseas. We are cautiously watching for signs of large-scale investment hedging as this could have a significant impact and push USD/JPY lower. We expect strong resistance between 109.35 and 110.00, and support between 106.50 and 105.00.

GBP – Bullish; positive Brexit/election finale

A hard Brexit is likely to be avoided with a “flexible extension” until 31 January secured. We now await what type of “soft-Brexit” (or no-Brexit) outcome will finally result. An imminent election has been called for December. The risk of a Labour government has also fallen sharply, but the result of a 4-party election will be very hard to forecast. We expect 1.25-1.27 support to hold near-term as GBP/USD probes resistance above 1.30 and into the 1.3385-1.3450 area. Over a 12-month horizon, we expect a broadly lower USD and a return to average valuation: GBP/USD above 1.40.
AUD – Neutral; domestic support, trade hope
We remain neutral towards the AUD, but see emerging signs of stability that could now limit the downside risk, without yet triggering confirmation of a meaningful rally. US-China trade talks have shifted to a more optimistic near-term scenario, but longer-term stress is likely to remain. At home, domestic real estate prices appear to have stabilised for now and the RBA has committed to ensuring an accommodative stance to prevent further economic weakness (although this may not require further significant policy easing). Australia’s terms of trade are a positive factor, and we are therefore awaiting technical market signals that clarify the AUD/USD downtrend since January 2018 is over. The pair made a double-bottom around 0.6670 in October and is now pressing strong resistance between 0.6900-0.6960. A break above 0.7085 would suggest the rally could extend towards 0.7200-0.7300.

CNY – Neutral; bearish bias if tariffs removed
The Chinese economy continues to gradually slow and government policy remains stabilisation-oriented, with targeted and domestically focused monetary and fiscal initiatives. Tariffs combined with slowing growth have reduced both imports and exports. Capital outflows have been modest, and the rally towards 7.15 in October petered out, with USD/CNY now testing 7.05. “Phase 1” of US-China trade negotiations are expected in the coming weeks and will likely provide a trigger for the USD/CNY direction. Strong recent correlation between tariffs and the exchange rate suggests any rollback of existing tariffs could guide USD/CNY lower. A sustained break below 7.00 may be psychologically influential and an important technical signal. Resistance around 7.15-7.18 could hold if tariffs do not rise. A break of 7 opens a possible re-test of the next key support around 6.90.

EM FX – Bullish INR on growth, capital flows
Slower growth and banking concerns have triggered a clear government pivot towards bolstering both areas. The RBI is likely to extend its accommodative monetary stance and drive to attract overseas investment inflows into Indian bonds. Capital account restrictions on household outflows could stave of INR weakness near term. Technically, USD/INR failed to break above 71.72, which is now resistance and is likely to test initial support between 70.15-70.35 next. A break of stronger support at 69.70-69.85 would suggest a re-test of the July low near 68.25.
MSCI World: On way to retest the 2018 peak

After remaining in a sideways range for months, the MSCI All Country World (MXWD) equities index has broken higher. It has risen above key resistance on a horizontal trendline from 2018 (at about 530) that capped the rise since 2018. Two noteworthy aspects: the break is associated with good momentum, implying that the rally seems to have legs. Also, the recent sideways price action has turned out to be a triangle pattern. Triangles are generally continuation patterns for prices trapped in a range before resuming the prior trend – up in this case. The width of the pattern roughly points to a rise towards the 2018 high of 551 (about 3.2% from Thursday’s close).

European equities: Beginning to flex muscles

The MSCI Europe index (MXEU) is attempting to break above key resistance on a horizontal trendline from April (at about 134), which could push it towards the 2000 record high of 144.45. This could imply an 8.6% upside in the index based on Thursday's close. The hold above the 200-day moving average since mid-2019 raises the odds of such a move. The subsequent Fibonacci projection comes in at 158 (about 19% from Thursday’s close).

MSCI Asia ex-Japan: Slide losing steam

The MSCI Asia ex-Japan (MXASJ) index’s rebound from key support area - the 200-week moving average and an uptrend line from 2016 - and the subsequent rise above a minor downtrend line from April indicate that the downward pressure has faded. In our August outlook, we had highlighted the above support as being crucial, and a hold above the support is encouraging for Asian equities bulls.

The rebound has opened way initially towards the April high of 686 (6.2% from Thursday’s close). This resistance is strong and a failure to break above would imply a 571-686 range for the index in subsequent weeks. However, a break above 686 could open the path toward the 2018 record high of 776 (20% above Thursday’s close). As of now, it is not clear whether the rebound in recent weeks is part of the broader correction that started in 2018 or the resumption of the long-term uptrend. Slowing momentum on longer-term charts, at least, points to the former scenario (range) for now. For the latter scenario to unfold, momentum will need to pick up meaningfully.
This reflects the views of the Wealth Management Group

Source: MSCI, JPMorgan, Barclays, Citigroup, Dow Jones, HFRX, FTSE, Bloomberg, Standard Chartered

*All performance shown in USD terms, unless otherwise stated

*YTD performance data from 31 December 2018 to 31 October 2019 and 1-week performance from 24 October 2019 to 31 October 2019

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**Market performance summary**

**Year to date**

<table>
<thead>
<tr>
<th>Equity</th>
<th>Country &amp; Region</th>
<th>1 Week</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Equities</td>
<td>Global High Divi Yield Equities</td>
<td>19.4%</td>
</tr>
<tr>
<td>Developed Markets (DM)</td>
<td>Emerging Markets (EM)</td>
<td>10.4%</td>
</tr>
<tr>
<td>US</td>
<td>Western Europe (Local)</td>
<td>11.0%</td>
</tr>
<tr>
<td>Western Europe (USD)</td>
<td>Japan (Local)</td>
<td>6.6%</td>
</tr>
<tr>
<td>Japan (USD)</td>
<td>Australia</td>
<td>3.8%</td>
</tr>
<tr>
<td>Asia ex-Japan</td>
<td>Africa</td>
<td>1.5%</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>Latam</td>
<td>-2.7%</td>
</tr>
<tr>
<td>Middle East</td>
<td>China</td>
<td>15.0%</td>
</tr>
<tr>
<td>India</td>
<td>South Korea</td>
<td>7.9%</td>
</tr>
<tr>
<td>Taiwan</td>
<td></td>
<td>18.0%</td>
</tr>
</tbody>
</table>

**Equity | Sector**

<table>
<thead>
<tr>
<th>Equity</th>
<th>Sector</th>
<th>1 Week</th>
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</thead>
<tbody>
<tr>
<td>Consumer Discretionary</td>
<td></td>
<td>0.0%</td>
</tr>
<tr>
<td>Consumer Staples</td>
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<td>0.1%</td>
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<tr>
<td>Energy</td>
<td></td>
<td>0.1%</td>
</tr>
<tr>
<td>Financial</td>
<td></td>
<td>1.4%</td>
</tr>
<tr>
<td>Healthcare</td>
<td></td>
<td>0.9%</td>
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<tr>
<td>Industrial</td>
<td></td>
<td>2.9%</td>
</tr>
<tr>
<td>IT</td>
<td></td>
<td>0.9%</td>
</tr>
<tr>
<td>Materials</td>
<td></td>
<td>1.9%</td>
</tr>
<tr>
<td>Telecom</td>
<td></td>
<td>1.0%</td>
</tr>
<tr>
<td>Utilities</td>
<td>Global Property Equity /REITs</td>
<td>0.0%</td>
</tr>
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</table>

**Bonds | Sovereign**

<table>
<thead>
<tr>
<th>Bonds</th>
<th>Sovereign</th>
<th>1 Week</th>
</tr>
</thead>
<tbody>
<tr>
<td>DM IG Sovereign</td>
<td>US Sov eign</td>
<td>0.0%</td>
</tr>
<tr>
<td>US Sov eign</td>
<td>EU Sov eign</td>
<td>0.0%</td>
</tr>
<tr>
<td>EM Sov eign Hard Currency</td>
<td>EM Sov eign Local Currency</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

**Bonds | Credit**

<table>
<thead>
<tr>
<th>Bonds</th>
<th>Credit</th>
<th>1 Week</th>
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</thead>
<tbody>
<tr>
<td>DM IG Corporates</td>
<td>US High Yield</td>
<td>0.0%</td>
</tr>
<tr>
<td>DM High Yield Corporates</td>
<td>Europe High Yield</td>
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</tr>
<tr>
<td>Asia Hard Currency</td>
<td></td>
<td>0.0%</td>
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**Commodity**

<table>
<thead>
<tr>
<th>Commodity</th>
<th>1 Week</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diversified Commodity</td>
<td>0.0%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>0.0%</td>
</tr>
<tr>
<td>Energy</td>
<td>0.0%</td>
</tr>
<tr>
<td>Industrial Metal</td>
<td>0.0%</td>
</tr>
<tr>
<td>Precious Metal</td>
<td>0.0%</td>
</tr>
<tr>
<td>Crude Oil</td>
<td>0.0%</td>
</tr>
<tr>
<td>Gold</td>
<td>0.0%</td>
</tr>
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</table>

**FX (against USD)**

<table>
<thead>
<tr>
<th>FX (against USD)</th>
<th>1 Week</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia ex-Japan</td>
<td>0.0%</td>
</tr>
<tr>
<td>AUD</td>
<td>0.3%</td>
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<tr>
<td>EUR</td>
<td>0.4%</td>
</tr>
<tr>
<td>GBP</td>
<td>0.4%</td>
</tr>
<tr>
<td>JPY</td>
<td>0.4%</td>
</tr>
<tr>
<td>SGD</td>
<td>0.6%</td>
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</table>

**Alternatives**

<table>
<thead>
<tr>
<th>Alternatives</th>
<th>1 Week</th>
</tr>
</thead>
<tbody>
<tr>
<td>Composite (All strategies)</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Relative Value</td>
<td>0.0%</td>
</tr>
<tr>
<td>Event Driven</td>
<td>0.0%</td>
</tr>
<tr>
<td>Equity Long/Short</td>
<td>0.0%</td>
</tr>
<tr>
<td>Macro CTAs</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Source: MSCI, JPMorgan, Barclays, Citigroup, Dow Jones, HFRX, FTSE, Bloomberg, Standard Chartered

*All performance shown in USD terms, unless otherwise stated

*YTD performance data from 31 December 2018 to 31 October 2019 and 1-week performance from 24 October 2019 to 31 October 2019
# Events calendar

<table>
<thead>
<tr>
<th>October 2019</th>
<th>November 2019</th>
<th>December 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>X</td>
<td>Japan’s consumption tax hike scheduled</td>
<td>X</td>
</tr>
<tr>
<td>X</td>
<td>Japan’s Constitutional referendum</td>
<td>X</td>
</tr>
<tr>
<td>01</td>
<td>RBA policy decision</td>
<td>05</td>
</tr>
<tr>
<td>24</td>
<td>ECB policy decision</td>
<td>07</td>
</tr>
<tr>
<td>31</td>
<td>Last day of ECB President Mario Draghi’s 8-year term</td>
<td>14</td>
</tr>
<tr>
<td>31</td>
<td>FOMC policy decision</td>
<td>03</td>
</tr>
<tr>
<td>31</td>
<td>BoJ policy decision</td>
<td>12</td>
</tr>
<tr>
<td>31</td>
<td>UK Brexit deadline</td>
<td>12</td>
</tr>
<tr>
<td>X</td>
<td>US-China trade talks</td>
<td>12</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>January 2020</th>
<th>February 2020</th>
<th>March 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>23</td>
<td>ECB policy decision</td>
<td>03</td>
</tr>
<tr>
<td>30</td>
<td>FOMC policy decision</td>
<td>10</td>
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<tr>
<td>30</td>
<td>BoE policy decision</td>
<td>12</td>
</tr>
<tr>
<td>30</td>
<td>FOMC policy decision</td>
<td>19</td>
</tr>
<tr>
<td>30</td>
<td>ECB policy decision</td>
<td>26</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>April 2020</th>
<th>May 2020</th>
<th>June 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>30</td>
<td>FOMC policy decision</td>
<td>04</td>
</tr>
<tr>
<td>30</td>
<td>ECB policy decision</td>
<td>11</td>
</tr>
<tr>
<td>30</td>
<td>FOMC policy decision</td>
<td>18</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>July 2020</th>
<th>August 2020</th>
<th>September 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>30</td>
<td>FOMC policy decision</td>
<td>04</td>
</tr>
<tr>
<td>30</td>
<td>ECB policy decision</td>
<td>11</td>
</tr>
<tr>
<td>30</td>
<td>FOMC policy decision</td>
<td>18</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>October 2020</th>
<th>November 2020</th>
<th>December 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>29</td>
<td>ECB policy decision</td>
<td>10</td>
</tr>
<tr>
<td>29</td>
<td>BoJ policy decision</td>
<td>17</td>
</tr>
<tr>
<td>03</td>
<td>US presidential election</td>
<td>17</td>
</tr>
<tr>
<td>05</td>
<td>BoE policy decision</td>
<td>18</td>
</tr>
<tr>
<td>06</td>
<td>FOMC policy decision</td>
<td>18</td>
</tr>
</tbody>
</table>

**Legend:** X – Date not confirmed | ECB – European Central Bank | FOMC – Federal Open Market Committee (US) | BoJ – Bank of Japan | BoE – Bank of England | RBA – Reserve Bank of Australia
The team

Our experience and expertise help you navigate markets and provide actionable insights to reach your investment goals.

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Chair of the Global Investment Committee

Steve Brice  
Chief Investment Strategist

Christian Abuide  
Head  
Discretionary Portfolio Management

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Head  
Equity Investment Strategy

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Head  
FICC Investment Strategy

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Belle Chan  
Senior Investment Strategist

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Cross-asset Strategist

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