Global Market Outlook

Balancing the risks

Our Global Investment Committee continues to see the current slowdown as a temporary soft spot, but acknowledges rising risks of a deeper downturn. Therefore, we take a balanced, barbell-like view across equities and bonds.

We have a preference for credit and other multi-asset income strategies in what may be a renewed ‘search for yield’. Within credit, we prefer Emerging Market (EM) USD government bonds.

Within equities, we maintain our preference for the US. We still see gold as a good way to hedge downside risks.

This reflects the views of the Wealth Management Group.
Investment strategy

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Markets remain worried about the growth outlook

Equities pared some of their H1 gains as renewed trade tensions introduced new clouds over the growth outlook. Since June 30, global equities fell -2.4%, while G3 government bonds rallied +2.2%. For investors, the key question remains whether global growth is merely experiencing a temporary slowdown or is at the start of a deeper downturn, as investment implications differ dramatically under each scenario.

Trade, yield curve negatives, but lead indicators positive

We refresh our framework to compare the current situation with prior slowdowns (1995/98) and recessions (2001/07). In our H2 outlook, we noted that only two of the six factors were negative, a significantly better situation than prior to 2001/07.

Since then, the intensity of these two negative factors has increased. The US economic situation, represented by the US job market, which continued to tighten, and the 10-year-2-year part of the yield curve has also inverted following a prior inversion of the 10-year-3-month curve (see the Perspectives section to know why this is a key recession, but not a timing, indicator). Meanwhile, geopolitics also worsened amid a rise in the number of risks that hold the potential to create a negative growth shock – the renewed rise in US-China trade tensions is well-known, but rising Korea-Japan trade tensions also pose a threat to North Asian

Figure 1

Our framework argues this remains a temporary slowdown, but risks have risen

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Valuations</td>
<td></td>
<td></td>
<td></td>
<td>S&amp;P500 P/E; deviation from trend</td>
</tr>
<tr>
<td>US unemployment rate</td>
<td></td>
<td></td>
<td></td>
<td>Level relative to business cycle range</td>
</tr>
<tr>
<td>US monetary policy settings</td>
<td></td>
<td></td>
<td></td>
<td>Policy rate vs. estimates of neutral level</td>
</tr>
<tr>
<td>Inflation expectations</td>
<td></td>
<td></td>
<td></td>
<td>Expectations relative to 2% ‘target’ (lower-positive for risk assets)</td>
</tr>
<tr>
<td>Geopolitics</td>
<td></td>
<td></td>
<td></td>
<td>Current/impending financial market or supply side crisis</td>
</tr>
<tr>
<td>Financial excesses</td>
<td></td>
<td></td>
<td></td>
<td>Excesses similar to mortgage debt (2007) or dot-com bubble (2001)</td>
</tr>
</tbody>
</table>

Source: Standard Chartered
markets and the electronics manufacturing sector. In the UK, the risk of a no-deal Brexit has risen, posing a threat to UK and Euro area growth. Finally, political uncertainty remains elevated in Hong Kong.

However, other factors in our framework have not changed, with the lack of inflation pressure and/or financial excesses being particularly important. On balance, therefore, we believe the case for the current environment being a temporary slowdown remains in place. Having said that, the risks have clearly risen – in our assessment, US recession risks have risen to 40%, from 35% mid-year.

Figure 2
Manufacturing continues to be very weak, but most so in Europe, while consumer confidence is holding up well

![Graph of US and Euro area manufacturing PMIs and US consumer confidence (RHS)](image)

Source: Bloomberg, Standard Chartered

Diversification more important than ever

The rise in risks – whether from our view of increased US recession risks or from a potential geopolitical shock – causes us to take a more balanced, barbell-like approach across equities and bonds, alongside a preference for gold.

Indeed, the last two months have been a lesson in the value of diversification. While many risky assets weakened, government bonds helped partially offset this as the significant fall in yields meant prices rallied. A barbell-like approach can help ensure investment allocations are not concentrated to benefit from one single scenario alone.

Favour credit and other income assets

Within bonds, we have a strong preference for credit (ie. bonds that offer a yield premium over US Treasuries, including EM USD government bonds and corporate bonds) and, more broadly, multi-asset income assets.

This preference may appear somewhat odd, given our view of rising risks and an increasingly balanced allocation. However, we see two specific advantages of credit and multi-asset income strategies. First, a still reasonably attractive yield means investors are paid to wait while the global growth outlook plays out.

Second, credit (and income assets more broadly) also offers exposure to a third possible growth scenario – one of slow, but not recessionary, growth. European financials offer a valuable parallel – since end-2014, the steadily deteriorating growth outlook has meant that returns on financial sector equities have been negative. However, subordinated financial sector credit has ended up offering very strong positive returns. Arguably, while equities require growth to perform, credit can continue to do well as long as the ability to repay exists, even in the absence of significant growth.

Within credit, we continue to prefer EM USD government bonds as we see greater value here than in corporate bonds. Asian USD corporate bonds continue to rank second in our preference order for their relative stability.

Region selection key in equities

Within equities, we continue to see a number of opportunities within each asset class. We prefer the US, which is clearly one market where higher frequency growth data remains noticeably stronger than other regions. US equities also have a track record of largely outperforming other regions in the late stages and at the end of the US business cycle.

Within Asia, we also maintain our focus on onshore China equities. While broader Asian equities may be at risk from any further escalation in trade tensions, onshore Chinese markets are likely to disproportionately benefit from any policy stimulus measures, in our assessment.

Scaling back our bearish USD view

One of the risks we identified to our modestly bearish USD view was a resurgence of US-China trade tensions. With this risk indeed rising, as best illustrated by the rise in USD/CNY above 7.00, we scale back our view on the USD to a more balanced one given the USD peaking process is likely to complete only after current tensions abate.
### Figure 3
**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>
<tr>
<td>US</td>
<td>▲</td>
<td>+ Modest earnings growth, fair valuations</td>
<td>- Economic growth concerns Lower bond yields a support; US market less exposed to trade war than peers</td>
</tr>
<tr>
<td>Asia ex-Japan</td>
<td>◆</td>
<td>+ Modest earnings growth, fair valuations</td>
<td>- Trade tensions China stimulus, easing Fed policy would prove supportive</td>
</tr>
<tr>
<td>Euro area</td>
<td>◆</td>
<td>+ Modest earnings growth, fair valuations</td>
<td>- Political uncertainty ECB easing, lower yields are positives</td>
</tr>
<tr>
<td>EM ex-Asia</td>
<td>◆</td>
<td>+ Modest earnings growth, fair valuations</td>
<td>- Political uncertainty Relative insulation from trade war a positive, but commodity prices a risk</td>
</tr>
<tr>
<td>UK</td>
<td>▼</td>
<td>+ Modest earnings growth, attractive valuations</td>
<td>- Brexit uncertainty Hard Brexit, political outlook, commodity prices are risks</td>
</tr>
<tr>
<td>Japan</td>
<td>▼</td>
<td>+ Modest earnings growth, attractive valuations</td>
<td>- Weak economic data Tax and wage growth outlook remain uncertain</td>
</tr>
<tr>
<td><strong>Bonds</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EM government (USD)</td>
<td>▲</td>
<td>+ Attractive yields, attractive value</td>
<td>- High interest rate sensitivity Lower bond yields a support, but geopolitics a risk</td>
</tr>
<tr>
<td>Asian USD</td>
<td>◆</td>
<td>+ Attractive yields, reasonable value</td>
<td>- China concentration China concentration remains low relative to other bonds. Trade tensions a risk</td>
</tr>
<tr>
<td>DM HY corporate</td>
<td>◆</td>
<td>+ Attractive yields, short maturity profile</td>
<td>- credit quality Yield attractive, but watch credit quality risks</td>
</tr>
<tr>
<td>EM government (local currency)</td>
<td>◆</td>
<td>+ Attractive yields, moderate value</td>
<td>- FX volatility Policy rate cuts supportive, but FX exposure reduces risk/reward</td>
</tr>
<tr>
<td>DM IG corporate</td>
<td>◆</td>
<td>+ Moderate yields, moderate value</td>
<td>- High interest rate sensitivity High quality and improving ratings trajectory, but rate sensitivity a risk</td>
</tr>
<tr>
<td>DM IG government</td>
<td>◆</td>
<td>+ Moderate value</td>
<td>- Low yields, inflation surprise Recent decline in yields pose a risk if growth or inflation rebounds</td>
</tr>
<tr>
<td><strong>Currencies</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GBP</td>
<td>▲</td>
<td>+ Neutral rate differentials</td>
<td>- Hard Brexit Hard Brexit risks rising, but risk/reward, inexpensive valuations are positive</td>
</tr>
<tr>
<td>EUR</td>
<td>◆</td>
<td>+ Positive rate differentials</td>
<td>- US-EU trade tensions Mix of ECB policy easing is key</td>
</tr>
<tr>
<td>CNY</td>
<td>◆</td>
<td>+ Renewed trade talks</td>
<td>- Worsening rate differentials Tariff outlook still the main driver</td>
</tr>
<tr>
<td>AUD</td>
<td>◆</td>
<td>+ China stimulus</td>
<td>- Worsening rate differentials China stimulus a positive, but slowing domestic growth a risk</td>
</tr>
<tr>
<td>JPY</td>
<td>▲</td>
<td>+ Stable differentials</td>
<td>- Volatility Bouts of risk aversion, fiscal stimulus could offer support</td>
</tr>
<tr>
<td>USD</td>
<td>◆</td>
<td>+ Reduced trade risks</td>
<td>- Weakening rate differentials Growth and rate differentials are key</td>
</tr>
</tbody>
</table>

Source: Standard Chartered Global Investment Committee

Legend: ▲ Preferred ◆ Core holding ▼ Less preferred

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This reflects the views of the Wealth Management Group
Should we be concerned about the inversion of the 2-year and 10-year US Government bond curve?

On 14 August, the yield on the 10-year US Government benchmark rate dipped below that of the 2-year benchmark rate (an event commonly referred to as yield curve inversion). It is the first time since the Global Financial Crisis (GFC) of ’08-09 that this has happened, and it follows other parts of the yield curve that had already inverted earlier in 2019. (Figure 4)

Historically, yield curve inversions have largely preceded economic recessions in the US. We respect the importance of such a signal. However, the time gap between an inversion and a recession can be very wide, making it a somewhat less-than-perfect indicator over specific time periods. For example, 3 out of 10 inversion episodes were not followed by a recession in the subsequent 2 years.

What is different this time around?

Our assessment of broader US economic data suggests that the US economy is in better shape than a yield curve inversion alone would indicate. (See the macro section for more). Other distortions this time around (eg. quantitative easing, negative term premium and a large pool of negative yielding debt globally) may decrease the efficacy of this indicator. Lastly, there tends to be a long lead time between inversions and ensuing recessions (between 8 and 22 months).

In previous business cycles, yield curve inversions have mainly been caused by the Federal Reserve rapidly raising short-term rates to cool down an overheating economy. At present, the inversion has, instead, been led by the fall in long-term rates as investors react to prospects of lower global growth and increased momentum in a flight to safety on the back of escalating trade tensions. Of the three times that the inversion of this part of the yield curve gave a false recession warning, two were characterised by falling long-term yields. One argument against an imminent recession is that this is the precise path being mirrored in today’s markets.

Figure 4

Inversion of the 2-year and 10-year Treasury notes yields has been a signal historically correlated with looming recessions. Will this time be different?

Difference in yields between tenors of the US government yield curve expressed in basis points (bps)
The signalling power of the yield curve may be weaker than it has been historically due to changes in supply/demand dynamics of government bonds given the increasing pool of negative yielding debt across the globe. (c. USD16trn)

The current inversion has been preceded by weaker-than-expected economic data from not only the US, but also from Europe, pushing the German 10-year bond yield into record negative territory (-0.71% at time of writing). Newer studies also show that flatter yields in other Developed Markets (DM) do pose downward pressure on US bond yields.

Moreover, the Fed’s past years of asset purchases may have substantially depressed long-term US bond yields. A Fed research paper suggested that quantitative easing (QE) might have reduced the term premium (ie, the additional return investors can expect to hold a 10-year government bond instead of rolling over a short-term Treasury bill for the entire decade) by 100bps, which indicates a flatter yield curve than the past for a similar economic outlook.

What are the implications of this phenomenon?

Historically, each inversion of the 2-year and 10-year Treasury curve has been followed by a cut from the Fed in the ensuing 24 months. However, looking forward, the key is whether the Fed actions will be enough to stave off a more pronounced inversion.

One aspect we find interesting is that HY yield premium (Figure 5) have not increased materially on the back of the recent inversion and heightened volatility. In addition, the health of the consumer sector remains robust as indicated by fair household debt levels, positive consumer sentiment and robust consumption data; these give support to a balanced view of the health of the US economy.

While our committee’s estimated odds for a US recession in the next 12 months have increased to 40% (see the Macro section), in our assessment, the investment picture warrants a more balanced approach between bonds and equities (see the Investment Strategy section).

What are the pros and cons of equities in this stage of the cycle?

We recently scaled back our view on global equities and now expect them to perform in line with bonds, a shift from our view since early 2017 that equities would outperform bonds (barring a short-lived reduction in early 2019). This is not the same, though, as turning bearish on equities – below, we lay out both the positives and negatives of equity exposure at this stage of the cycle. This debate leads us to what is essentially a balanced view on equities relative to bonds.

On the negative side, we see a risk of 2020 earnings estimates being revised lower, hurting a key driver of equity performance. Valuations are above the long-term average, creating a risk of multiples contraction should there be negative growth surprises. Moreover, studies point out that a buy-the-dip strategy becomes less effective when economic indicators (such as PMIs) are negative and/or falling.

On the positive side, consensus earnings growth still points to double-digit global earnings growth for 2020, while return on equity (ROE) sits at a healthy 14%. Moreover, professional surveys indicate that investors are very overweight cash; historically, high cash levels have proved to be a good contrarian buy indicator for equities. Lastly, as bond yields fall across the globe, a global equities dividend yield of 2.8% becomes increasingly attractive.

Figure 5
DM HY yield premia have not increased materially despite the yield curve inversion and heightened equity market volatility

Developed Market (DM) yield premium (RHS), VIX index (LHS))

If long rates continue to fall persistently below short rates, it will become increasingly unprofitable for banks to borrow money in the form of short-term deposits and lend to companies and individuals over longer periods. This would potentially curtail bank lending, tightening financial and credit conditions, and eventually lead to a recession and a peak in equity markets.
Therefore, while history (what we call the outside view) tells us that equity returns in the late stages of the business cycle can be attractive, the current debate (the inside view), in particular the geopolitical landscape, points to an increasingly balanced picture for global equities. We believe the best way for investors to position between positive and negative drivers is to adopt a balanced, barbell-like approach that still allows for a focus on opportunities within equities and bonds (see page 32 for how this translates into specific weights).

Will the global manufacturing slowdown spill over into the services sector?

The current global economic slowdown would become more worrying if it were to spill over to the services sector; our assessment shows us this risk may not be imminent.

A recent study shows that the manufacturing sector in advanced economies has gone through a downturn six times since the mid-1990s. However, service sector activity only fell considerably in 2000-01 and 2008-09 following the dot-com crash and housing bubble burst, respectively, which had direct effects on jobs, wealth and ultimately the demand for services.

Moreover, service sector slowdowns since the 2008-09 global financial crisis were influenced by other factors outside of the manufacturing sector. In 2011-12, the Eurozone crisis, and in 2015, the significant tightening of financial conditions were other drivers. We would argue that financial conditions are much looser at present.

Figure 6
Most of the global slowdown in manufacturing has come from industries with smaller supply chain links to the services sector

Percent contribution to the slowdown in y/y manufacturing growth in G4 economies (Q4 17-Q2 19)

<table>
<thead>
<tr>
<th>Industry sector</th>
<th>Change (y/y)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electronics</td>
<td>-4.8%</td>
</tr>
<tr>
<td>Rubber &amp; plastic</td>
<td>-4.8%</td>
</tr>
<tr>
<td>Wood &amp; paper</td>
<td>-7.1%</td>
</tr>
<tr>
<td>Electrical equipment</td>
<td>-7.1%</td>
</tr>
<tr>
<td>Chems. &amp; pharm.</td>
<td>-9.5%</td>
</tr>
<tr>
<td>Metals incl. fabr</td>
<td>-14.3%</td>
</tr>
<tr>
<td>Machinery</td>
<td>-23.8%</td>
</tr>
<tr>
<td>Motors &amp; parts</td>
<td>-19.0%</td>
</tr>
<tr>
<td>Food, bevs. &amp; tob.</td>
<td>-7.1%</td>
</tr>
<tr>
<td>Other</td>
<td>-3.0%</td>
</tr>
</tbody>
</table>

Source: Refinitiv, CEIC, OECD ICIO, Standard Chartered

Looking at the past, the study links the possibility for spillovers to two direct channels. The first is through supply chain linkages, while the second is through labour market contagion.

With regards to supply chain linkages, among different manufacturing industries, Food & Beverages and Chemical & Pharmaceuticals – the two largest – have the biggest direct supply chain links according to Capital Economics. However, the industries that have suffered the most during the contraction over the past year and a half have smaller linkages to services, such as Machinery and Motor & Parts. (Figure 6).

With regards to the second link, while manufacturing jobs generally make up a small share of total employment in advanced economies, the analysis shows there needs to be a dramatic loss of employment in the manufacturing sector to have a big impact on the overall labour market to cause the ensuing drop in demand for services. (Figure 7)

Figure 7
A sizeable loss of jobs in manufacturing could be very damaging to global growth. Data does not indicate such conditions

Quarterly y/y percent change in jobs for G7 economies

<table>
<thead>
<tr>
<th>Year</th>
<th>Manufacturing</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-Q1</td>
<td>-7.1%</td>
<td></td>
</tr>
<tr>
<td>2009-Q2</td>
<td>-8%</td>
<td>-6%</td>
</tr>
<tr>
<td>2012-Q3</td>
<td>-4%</td>
<td>-2%</td>
</tr>
<tr>
<td>2015-Q4</td>
<td>0%</td>
<td>2%</td>
</tr>
<tr>
<td>2019-Q1</td>
<td>2%</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source: OECD Statistics, Standard Chartered

One way the downturn could seriously drag the services sector down would be if corporate income in the manufacturing sector falls significantly enough for firms to struggle to service existing debt. However, for the time being at least, there are few signs of this feedback loop developing. That said, the risk rises if the US pursues high tariffs on autos later this year, while escalating its tit-for-tat trade tactics against China, and the manufacturing slowdown deepens further across the globe.
Macro overview

More stimulus to counter slowdown

- **Core scenario**: Global trade tensions have hurt growth, especially in Europe, Japan and China, but the US economy remains relatively resilient. Our Global Investment Committee sees increased chances of monetary and fiscal stimulus worldwide, which could soften the downturn and extend the economic cycle.

- **Policy outlook**: The Fed cut rates for the first time in a decade; we see 1-2 more cuts in 2019, with possibly more cuts in 2020. We also expect the ECB, BoJ and PBoC to ease policy. Europe is increasingly likely to ease fiscal policy.

- **Key risks**: Global trade and geopolitical tensions remain the main sources of risk, followed by Euro area tensions (around Brexit, Italy). Monetary and fiscal stimulus has the potential to deliver positive surprises to the outlook.

**Core scenario**

Global growth expectations have softened since our H2 Outlook amid escalating US-China trade tensions. The uncertainty has led to a sharp downturn in key trade-dependent European economies, such as Germany and Italy, and the more open economies in Asia. There is a growing concern reflected in the bond markets that the slowdown – primarily focused on the manufacturing sector – could spill over to the services sector, dragging down the consumer-driven US economy, which has remained relatively resilient thus far. Our Global Investment Committee acknowledges the risks (our US recession probability over the next 12 months has risen to 40%, from 35% in June). However, with inflation subdued, we believe major central banks, led by the Fed, are preparing to ease monetary policies further. There is also the rising prospect of Europe relaxing its tight fiscal spending rules – this could deliver significant positive surprise to both Europe’s and the world’s growth outlook.

**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 1-2 times more in 2019 to offset the impact of the trade war. We do not expect a recession in the next 12 months</td>
</tr>
<tr>
<td>Euro area</td>
<td>○</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>The ECB is likely to ease policy, perhaps as soon as in September, amid rising impact from global trade tensions and risks from Brexit and Italy</td>
</tr>
<tr>
<td>UK</td>
<td>○</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>PM Johnson has raised hard Brexit risks, although political constraints could lead to elections</td>
</tr>
<tr>
<td>Japan</td>
<td>○</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>The BoJ is increasingly likely to ease policy further as external risks mount with global trade tensions</td>
</tr>
<tr>
<td>Asia ex-Japan</td>
<td>○</td>
<td>●</td>
<td>●</td>
<td>●</td>
<td>Escalating US-China trade tensions and the Fed’s dovish policy U-turn implies further policy easing by China and other Asian central banks</td>
</tr>
<tr>
<td>EM ex-Asia</td>
<td>○</td>
<td>○</td>
<td>●</td>
<td>●</td>
<td>The Fed’s dovish shift paves the way for EMs to cut rates; Mexico seen cutting rates most in Latam</td>
</tr>
</tbody>
</table>

Source: Bloomberg, Standard Chartered

Legend: ● Supportive of risk assets ○ Neutral ○ Not supportive of risk assets

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**IMPLICATIONS FOR INVESTORS**

The Fed to cut rates 1-2 more times in 2019, with growing prospects for further cuts in 2020

The ECB and BoJ to ease further over the next 12 months, with growing prospects for renewed bond buying by the ECB

China’s revision of benchmark rates has set the stage for further easing of monetary policies; targeted fiscal easing to continue supporting consumer-driven growth

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This reflects the views of the Wealth Management Group
US – Fed likely to ease further

Consumption supports US expansion. We believe the US economy is on track for its longest expansion on record (if the growth cycle stretches to September 2019). Although growth has slowed towards the long-term trend – close to 2% – due to a downturn in manufacturing and business spending caused by the US-China trade war, domestic consumption remains robust, helped by a strong job market. Bond markets have lately signalled an increased likelihood of a sharp downturn in growth, with the 10-year US government bond yield falling below 3-month and 2-year yields. However, other leading indicators from the labour, housing and consumer markets remain healthy, leaving us to assign a 40% probability of a recession in the next 12 months. The risk is that the weakness in manufacturing spills over to consumer sentiment and derails the record-long expansion.

Fed to support growth. The Fed has already delivered the first rate cut in this cycle. We expect 1-2 more cuts this year, with rising prospects for more in 2020. The recent raising of the US debt ceiling is also fiscally stimulative for US growth.

Euro area – ECB stimulus coming

Germany drags regional growth. The Euro area’s outlook has weakened as the trade-dependent German economy contracted in Q2 and Italy’s economy stagnated. However, growth elsewhere, notably in France and Spain, remains close to long-term trend due to resilient domestic consumption. The escalation of US-China trade tensions remains the biggest risk, followed by uncertainty around Brexit and Italy (where a new coalition is set to take charge).

ECB likely to ease soon. Markets expect a 10bps rate cut as soon as in September. We see growing prospects for further ECB easing, including a restart of bond purchases, once new President Lagarde takes charge on 1 November. There are also growing signs policymakers, including in Germany, are open to fiscal easing if growth declines further.

UK – Brexit uncertainty hurts growth

PM Johnson raises Brexit risks. Johnson has promised to take the UK out of the EU by 31 October, with or without a deal. However, a solution to the Irish border issue remains elusive, raising the chance of a hard Brexit or an election. The suspension of parliament adds to the uncertainty.

BoE to stay on hold. We believe the BoE is unlikely to change its neutral policy stance until the Brexit outlook becomes clear. A hard Brexit would likely lead to a rate cut.
Japan – External outlook remains challenging

Escalating trade uncertainty dampens outlook. Japan’s exports contracted for the eighth month in a row amid further escalation in US-China trade tensions. There are also signs that the government may proceed with a sales tax hike in October that may hurt domestic consumption, which has been the main driver of growth in recent quarters. The in-principle trade agreement with the US, once finalised, should offset some of the damage from global trade uncertainty as it reduces the risk of US tariffs on Japan’s auto exports.

BoJ to ease further. Continued external uncertainty and below-target inflation imply rising chances of further BoJ easing. This could include letting the 10-year government bond yield turn more negative and further equity purchases.

China – Policy easing to offset trade war

Downside risks mount. The US-China trade war has escalated, as we expect in our H2 Outlook, with both sides imposing higher tariffs on each other. Consensus estimates suggest the direct impact of 25% US tariffs on all imports from China (if and when implemented) is likely to cut at most 1ppt from China’s annual growth. However, the indirect impact through the dislocation of supply chains, especially on China’s manufacturing sector, could be substantial. There are still expectations of a break-through, especially after President Trump’s comments at the G7 meeting, although the flip-flop in US policies makes such an outcome uncertain.

More policy easing coming. Escalating trade tensions raise the prospects for further policy easing, especially in the run-up to the 70th anniversary of the People’s Republic of China on 1 October. The earlier tax cuts and other targeted fiscal measures have been less impactful than expected. Credit growth has also stagnated. We see the revamp of PBoC’s rate-setting mechanism as a precursor to more policy easing, which should offset some of the trade war impact.

Emerging Markets – Primed for more rate cuts

Fed U-turn paves way for more EM rate cuts. Emerging Markets (EM), especially trade-dependent economies in Asia, have been hurt by US-China trade tensions, a strong USD and previous Fed rate hikes. Thus, the U-turn in the Fed’s policy is likely to ease some of the pressure on EMs.

India leading the way in Asia? Money markets suggest c. 75bps rate cut in India over the next 12 months. Subdued inflation and growth are likely to support RBI cuts. Mexico is expected to deliver the most rates cuts in Latin America.
USD – Dialing back our bearish view

**USD could yet see support.** The Fed’s pivot to lower rates has triggered a collective dovish shift towards easier monetary policies. While interest rate differentials argue for a lower USD, we acknowledge that capital flows could keep the USD supported for some time. The JPY is likely to strengthen as the BoJ struggles to ease meaningfully from here. We still see attractive risk/reward in the GBP, rising hard Brexit risks notwithstanding. Lastly, we believe a meaningful appreciation of the CNY is unlikely without any positive resolution in US-China trade relations.

Gold – The bull market remains intact

**Gold prices breach USD 1,500/oz.** While the initial reaction to the Fed’s ‘mid-cycle adjustment’ rate cut was a pullback in prices, the re-escalation of US-China trade tensions has sparked a flight to safety. Increasing central bank dovishness – falling real (net of inflation) yields and a growing chunk of negative-yielding debt have bolstered investor interest in gold. Fundamentals remain supportive of higher gold prices as we expect further Fed rate cuts ahead and real (net of inflation) yields to remain largely range-bound. Continued central bank buying and the ongoing uncertainty over economic growth are also supportive of higher gold prices. Having said that, we note investor diversity is low and net positioning is relatively stretched.

Crude Oil – Demand fears return to the fore

**Caught in the cross-fire.** Several demand-side factors have exerted considerable downside pressure on Brent crude oil prices – US-China trade war, tightening financial conditions globally and a still-strong USD. While the direct effect of the new proposed tariffs are likely minimal, indirect effects in the form of slower growth are bearish for crude oil prices.

**Oil prices to trade largely range-bound.** While trade war concerns continue to dominate headlines, the probability of a collapse in demand (especially in EM) is relatively low given the collective dovishness of central banks. Supply factors are likely to stay supportive given OPEC production cuts. US shale output growth is also expected to slow as the emphasis shifts towards capital discipline and increased return of shareholders’ capital. In our assessment, a range-bound oil price is the most likely scenario, but we would caution that volatility will likely remain elevated over the next few months.
Bonds Preference for credit

- Bonds remain a core holding. The recent spike in trade tensions reaffirmed their diversification value. Our base case of a further extension in the business cycle and the sharp decline in bond yields lead us to prefer credit (bonds offering a yield premium over government bonds) over government bonds.

- Heightened trade tensions, global growth concerns and our expectation for 1-2 more Fed rate cuts in 2019 lead us to believe the yields are likely to remain anchored around the current low levels over the next 6-12 months. The 10-year US Treasury yields are likely to be range-bound around 1.50%-1.75%. A swift resolution of trade tensions is the key risk that may result in higher yields.

- Emerging Market (EM) USD government bonds are a preferred area within bonds as cheap valuations (higher than average yield premiums), easier Fed policy and a heightened search for income-generating assets are likely to help them outperform global bonds. Asian USD bonds rank second in our preference order given their high credit quality and defensive characteristics, though increasing US-China trade tensions are a risk.

- Our view the USD could see more support than we earlier expected may pose a headwind to EM local currency bonds. Developed Market (DM) High Yield (HY) and Investment Grade (IG) corporate bonds are a core holding given we prefer credit. Lastly, the sharp decline in government bond yields tempers our enthusiasm for DM IG government bonds, which are least preferred.

- We favour hedging FX exposure for DM IG bonds to reduce currency volatility. For USD-denominated bond investors, we prefer to maintain a short (3-5 years) average maturity profile.

Figure 18
Bond sub-asset classes in order of preference

<table>
<thead>
<tr>
<th>Bond asset class</th>
<th>View</th>
<th>Rates policy</th>
<th>Macro factors</th>
<th>Valuations</th>
<th>FX</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>EM USD government</td>
<td>▼</td>
<td>▲</td>
<td>☐</td>
<td>☐</td>
<td>NA</td>
<td>Attractive yields, cheap valuations; escalation in geopolitical tensions is a risk</td>
</tr>
<tr>
<td>Asian USD</td>
<td>◆</td>
<td>▲</td>
<td>☐</td>
<td>☐</td>
<td>NA</td>
<td>High credit quality, low volatility is positive. Increased risk from US-China trade tensions</td>
</tr>
<tr>
<td>DM HY corporate</td>
<td>◆</td>
<td>▲</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>Attractive yields, short maturity profile; risk of higher default rates due to low oil prices</td>
</tr>
<tr>
<td>EM local currency</td>
<td>◆</td>
<td>▲</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>Attractive yields, easier EM central bank policy; FX volatility a risk</td>
</tr>
<tr>
<td>DM IG corporate</td>
<td>◆</td>
<td>▲</td>
<td>☐</td>
<td>☐</td>
<td>☐</td>
<td>High credit quality and improving rating trajectory balanced by low yield and high interest rate sensitivity</td>
</tr>
<tr>
<td>DM IG government</td>
<td>◄</td>
<td>▲</td>
<td>☐</td>
<td>☐</td>
<td>NA</td>
<td>Easier monetary policy balanced by recent decline in yields</td>
</tr>
</tbody>
</table>

Source: Standard Chartered Global Investment Committee

Legend: ▲ Supportive ☐ Neutral ◐ Not supportive ▲ Preferred ◄ Less preferred ● Core holding

IMPLICATIONS FOR INVESTORS

US 10-year Treasury yield likely to remain anchored around 1.50%-1.75% over the next 6-12 months

EM USD government bonds are most likely to outperform global bonds.

Asian USD bonds remain second ranked despite increasing risks from US-China trade tensions

Figure 19
Where markets are today

<table>
<thead>
<tr>
<th>Bonds</th>
<th>Yield</th>
<th>1m return*</th>
</tr>
</thead>
<tbody>
<tr>
<td>DM IG government (unhedged)</td>
<td>0.77%*</td>
<td>3.0%</td>
</tr>
<tr>
<td>EM USD government</td>
<td>5.30%</td>
<td>0.5%</td>
</tr>
<tr>
<td>DM IG corporates (unhedged)</td>
<td>2.04%*</td>
<td>2.2%</td>
</tr>
<tr>
<td>DM HY corporates</td>
<td>6.15%</td>
<td>-1.5%</td>
</tr>
<tr>
<td>Asia USD</td>
<td>3.70%</td>
<td>1.6%</td>
</tr>
<tr>
<td>EM local currency government</td>
<td>5.44%</td>
<td>-3.0%</td>
</tr>
</tbody>
</table>

Source: Bloomberg, JPMorgan, Barclays, FTSE, Standard Chartered
# 29 July to 29 August 2019
*As of 26 August 2019
Equities – reduced to core holding

- We now see global equities as a core holding. Earnings growth is being impacted by trade tensions, while elevated valuations are a risk. We anticipate global equities moving in a +/-5% range in the coming 6-12 months.

- The US remains our preferred market. Asia ex-Japan, the Euro area and Emerging Markets (EM) ex-Asia are core holdings. The UK and Japan are less preferred. The relative preference for US equities reflects our view that the market is more defensive compared to Developed Market peers.

- Asia ex-Japan has been reduced to a core holding from preferred. China offshore equities have also been reduced to core holding from preferred, although onshore equities remain preferred. The cumulative effect of the US-China trade war and the Japan-Korea trade dispute is weighing on sentiment and leading us to take a more cautious stance.

- Euro area equities remain a core holding with prospects for monetary and fiscal stimulus offsetting trade war risks in terms of the outlook, in our view.

- EM ex-Asia is a core holding. Slower global growth is a concern for these markets. However, they may also be a beneficiary of the US-China trade war. Import tariffs on US soya and oil may nudge Chinese companies to look for alternative sources for these goods; Brazil and Russia are major producers.

- Risks to our equity views: prolonged US-China trade war, weakening Chinese growth and significant USD strength.

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**Equity market drivers and our assessment of their outlook**

<table>
<thead>
<tr>
<th>Market</th>
<th>Valuations</th>
<th>Earnings</th>
<th>Corporate margins</th>
<th>Economic data</th>
<th>Bond yields</th>
<th>Fund flows</th>
<th>Geo-politics</th>
<th>View</th>
</tr>
</thead>
</table>
| US     | ▲          | ●        | X                  | ●             | ●           | ●          | ●            | Preferred view driven by lower bond yields that are supportive of elevated valuations. Market less exposed to trade war compared to peers.
| Asia ex-Japan | ●          | ●        | X                  | ●             | ●           | ●          | ●            | Core view reflects potential for China stimulus offsetting part of the trade war risks. Easier US monetary policy implies easier Asian financial conditions.
| Euro area | ●          | ●        | X                  | ●             | ●           | ●          | ●            | Core view reflects potential changes to ECB rates on bank excess reserves as well as supportive bond yields and valuations.
| EM ex-Asia | ●          | ●        | X                  | ●             | ●           | ●          | ●            | Core view reflects fair valuations and relative insulation from trade war.
| UK      | ▼          | ●        | X                  | ●             | ●           | ●          | ●            | Less preferred view reflects Brazil risks and the impact of lower commodity prices. Political outlook increasingly uncertain, despite a new Prime Minister.
| Japan   | ▼          | ●        | X                  | ●             | ●           | ●          | ●            | Less preferred view reflects uncertainty over tax and wage growth outlook, outweighing supportive valuations and low bond yields.

Source: Standard Chartered

Legend: ▲ Not supportive, ● Somewhat supportive, X Balanced, ▼ Supportive, ◇ Very supportive, △ Preferred, ▼ Less preferred, ◇ Core holding

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**IMPLICATIONS FOR INVESTORS**

Global equities are a core holding, with a preference for US equities

Asia ex-Japan, Euro area and EM ex-Asia are core holdings. UK and Japan are less preferred

Prefer Chinese onshore equities within Asia ex-Japan

Figure 21
Where markets are today

<table>
<thead>
<tr>
<th>Market</th>
<th>P/E ratio</th>
<th>P/B</th>
<th>EPS</th>
<th>Index level</th>
</tr>
</thead>
<tbody>
<tr>
<td>US (S&amp;P 500)</td>
<td>17x</td>
<td>3.1x</td>
<td>8%</td>
<td>2,925</td>
</tr>
<tr>
<td>Euro area (Stoxx 50)</td>
<td>13x</td>
<td>1.4x</td>
<td>8%</td>
<td>3,411</td>
</tr>
<tr>
<td>Japan (Nikkei 225)</td>
<td>12x</td>
<td>1.1x</td>
<td>2%</td>
<td>20,461</td>
</tr>
<tr>
<td>UK (FTSE 100)</td>
<td>12x</td>
<td>1.5x</td>
<td>6%</td>
<td>7,184</td>
</tr>
<tr>
<td>MSCI Asia ex-Japan</td>
<td>13x</td>
<td>1.3x</td>
<td>9%</td>
<td>602</td>
</tr>
<tr>
<td>MSCI EM ex-Asia</td>
<td>10x</td>
<td>1.4x</td>
<td>9%</td>
<td>1,300</td>
</tr>
</tbody>
</table>

Source: FactSet, MSCI, Standard Chartered. Note: valuation and earnings data refer to 12-month forward data for MSCI indices, as of 29 August 2019

This reflects the views of the Wealth Management Group.
Asia ex-Japan equities – Core holding

Asia ex-Japan equities have been reduced to a core holding from preferred. In our assessment, the region is likely to perform broadly in line with global equities over the coming 6-12 months, in USD terms.

Our balanced view is underpinned by possible downward earnings risks caused by the escalating US-China trade war and the uncertain impact of the Korean-Japan trade tensions.

Consensus earnings growth for Asia ex-Japan is projected at 7.6% over the coming 12 months. However, growth expectations could be trimmed in the face of continued or escalating trade tensions, which could dampen manufacturing activities and corporate earnings growth. These downside risks are balanced by the possibility of Chinese fiscal stimulus, the likelihood of which grows if the US-China trade war escalates further.

Trading at a 12-month ahead P/E ratio of 12.4x, Asia ex-Japan’s valuation is slightly above its long-term average. Current valuations have not priced in a sustained trade escalation, in our view.

Within Asia ex-Japan, we have downgraded China offshore to core holdings from preferred amid CNY depreciation and HK tensions. China onshore, however, remains a preferred holding on attractive valuations and improved fund flows from MSCI inclusion.

Risks to our view include: a slowdown in the global economy and fund outflows, potentially driven by USD strength. From current valuations, history since 2005 suggests a 57% probability of positive returns in the coming 12 months.

Figure 22

Asia ex-Japan is trading at a slight discount to DM

Discount of MSCI Asia ex-Japan’s P/E to World

% premium/discount Vs MSCI AC World

Source: FactSet, MSCI, Standard Chartered
USD neutral as weaker currencies buffer escalating tariffs, slower trade

- The Fed’s pivot towards lower rates has triggered a broad rush to ease monetary policy and generate a weaker currency buffer against slower trade and growth.

- The JPY is likely to strengthen on escalating trade and geopolitical tensions, as BoJ faces challenges to ease monetary policy relative to global interest rates.

- The GBP is pricing in an increasing risk of hard Brexit, but remains structurally undervalued. We continue to see attractive risk/reward in the GBP.

**Figure 23**

**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>Growth and rate differentials are key</td>
</tr>
<tr>
<td>EUR</td>
<td>◆</td>
<td>◆</td>
<td>◆</td>
<td>◆</td>
<td>NA</td>
<td>◆</td>
<td>Growth to bottom; mix of policy easing is key</td>
</tr>
<tr>
<td>JPY</td>
<td>▲</td>
<td>▲</td>
<td>◆</td>
<td>◆</td>
<td>NA</td>
<td>◆</td>
<td>No BoJ policy shift; new fiscal stimulus</td>
</tr>
<tr>
<td>GBP</td>
<td>◆</td>
<td>▲</td>
<td>◆</td>
<td>◆</td>
<td>NA</td>
<td>◆</td>
<td>Brexit risk rising; undervalued</td>
</tr>
<tr>
<td>AUD</td>
<td>◆</td>
<td>◆</td>
<td>◆</td>
<td>◆</td>
<td>◆</td>
<td>◆</td>
<td>RBA expected to maintain easy policy</td>
</tr>
<tr>
<td>CNY</td>
<td>◆</td>
<td>◆</td>
<td>◆</td>
<td>◆</td>
<td>◆</td>
<td>◆</td>
<td>Tariff outlook still the main driver</td>
</tr>
</tbody>
</table>

Source: Bloomberg, Standard Chartered Global Investment Committee

**Legend:** ◆ = Supportive ◆ Neutral ○ Not supportive ▲ Bullish ▼ Bearish ◆ Range

**USD – Could remain strong for longer as global rates fall**

We have turned increasingly neutral on the USD, acknowledging that although the uptrend may be peaking, the USD could simply plateau rather than reverse trend. The shift towards lower US policy rate expectations and US bond yields has quickly prompted many global central banks to join the rush towards easier monetary policies. Weaker currencies could cushion their economies from slowing growth and inflation aggravated by escalating trade tensions.

Global USD liquidity could tighten in the months ahead and capital flows into the US could persist, potentially keeping the USD supported for some time. We are closely watching the outcome of anticipated bilateral US trade talks with China, Japan and the EU for clues to any possible USD trend reversal and its timing. Domestic and global politics are likely to remain a key driver for FX.

The USD (DXY) index has resistance at the August 98.93 high, with a stronger resistance around 100.15-75. Key supports sit at 95.75 and 95.00, where a break would suggest that the USD uptrend may have finally reversed.

**IMPLICATIONS FOR INVESTORS**

The USD could plateau at its current elevated level as tariff tensions escalate amid a broader global slowdown

Trigger for EUR strength could be delayed as the ECB likely pursues deeper negative rates.

We still see attractive risk/reward in the GBP, though near-term volatility is likely.

The JPY is the most likely currency to strengthen against the USD

**Figure 24**

**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>102.39</td>
<td>-2.4%</td>
</tr>
<tr>
<td>AUD</td>
<td>0.67</td>
<td>-2.5%</td>
</tr>
<tr>
<td>EUR</td>
<td>1.11</td>
<td>-0.8%</td>
</tr>
<tr>
<td>GBP</td>
<td>1.22</td>
<td>-0.3%</td>
</tr>
<tr>
<td>JPY</td>
<td>106.52</td>
<td>-2.1%</td>
</tr>
<tr>
<td>SGD</td>
<td>1.39</td>
<td>1.3%</td>
</tr>
</tbody>
</table>

Source: Bloomberg, Standard Chartered # 29 July to 29 August 2019
EUR – Barrier is high for a trend reversal

We have moved to a neutral view on EUR/USD in the near and medium term. Weak economic data driven by low domestic demand and declining exports has been aggravated by the US-China trade war and Brexit concerns. We believe that further ECB rate cuts will have limited economic impact and the anticipated EUR/USD bottoming process could take longer to resolve. A substantial and lasting reversal of global trade tensions, an orderly Brexit and a pan-Euro area agreement to deploy broad and meaningful fiscal stimulus would raise hopes for a strong trend reversal, but this appears a very high hurdle at present. EUR/USD continues to sit in a shallow downtrend, making a new low around 1.1025 in early August. Robust support sits around 1.0860. A sustained break of initial 1.1280 resistance might open a test of the key 1.1410-50. Clearing this hurdle would indicate a likely trend reversal from a technical view.

JPY – Strong JPY, the path of least resistance

We expect USD/JPY to trade lower towards 100 over the near and medium term. Market expectations for a US-Japan trade deal are rising. An agreement – possibly a blueprint for future USD bilateral deals – could include a currency accord that caps USD/JPY strength. The shift in rate differentials is likely to be JPY supportive as the BoJ has limited room to ease monetary policy in an environment where many central banks have expressed a willingness to consider rate cuts.

New stimulus proposals to offset the planned Consumption Tax hike could improve growth and inflation expectations. Institutional investors’ decisions towards hedging large foreign assets are likely to influence near-term direction. The recent test of 104.50 held, but a break below would indicate a move towards 100. We do not expect BoJ support unless the decline is too rapid. Initial resistance is expected at 107.20 with a much stronger barrier around 110.

GBP – Preparing for the Brexit end-game

We remain bullish in the medium-term for the GBP. While we recognise the risks of a no-deal Brexit, we still see an attractive risk/reward in an undervalued pound should a hard Brexit be avoided. The imminent return of parliament ahead of a planned suspension, and debate around “no-deal” and a possible vote of no confidence, could drive volatility higher in the coming weeks. We expect the recent low around 1.20 to provide initial support with spikes towards 1.15 or even 1.10 possible if a deadlock or “no-deal” prevails. A sustained break above 1.25 opens key resistance around 1.28-1.29.
AUD – Cyclical catalysts still missing

We remain neutral on the AUD in the near and medium term as stabilising domestic data continues to be offset by slower global growth and trade. Given this tepid growth environment, cyclical currencies like the AUD could face headwinds. The RBA is also expected to cut policy rates further, which would encourage a weaker currency via narrowing interest rate differentials. However, local data has stabilised with business and consumer confidence ticking up slightly and a fiscal stimulus is likely in the months ahead.

Valuations are also starting to look more attractive and terms of trade remain supportive. In our assessment, 0.6700-6750 remains a key support area to watch, with a break below targeting the 2009 lows around 0.6250. A break above 0.6830 implies a rally towards 0.7050-0.7100 is possible.

CNY – Likely to track US tariff tactics

The re-escalation of US-China trade tensions saw USD/CNY breaking above its key psychological level of 7.00. Without any positive resolution in US-China trade relations, we believe a meaningful appreciation of the CNY is unlikely. China’s FX policy has become more flexible and market-oriented, where further CNY weakness could help partially offset tariffs. We believe China retains firm control over the CNY and any movement will be at an acceptable pace.

Recent tariff escalation has prompted USD/CNY to push above 7.15 and the scope remains for CNY weakness to extend towards 7.25-7.30 if trade tensions rise. Signs of a tariff truce could allow a move lower to test the 6.95-7.00 previous resistance area that is now support.

EM FX – Expecting a return of INR strength

The fallout from USD/CNY and the ongoing turmoil in Argentina saw EM FX volatility spike higher. Slowing growth, narrowing yields and idiosyncratic risks could put further downward pressure on EM FX, reinforcing our view that a selective stance within this space is warranted.

We remain bearish for USD/INR as lower oil prices, high real rates and potential capital inflows support the INR. As exports are relatively less important for economic growth, the trade war escalation has less direct impact on the INR compared to its regional peers. The caveat to our bullish INR view is the potential negative spill-over effects of a broad risk-off investor sentiment hitting portfolio inflows. Resistance around 72.00 could hold for return to 68.25 and below or risk a return to the October 2018 high around 74.50.
S&P 500: Rising odds of a short-term range

Despite all the negative news flow, the lack of a meaningful support break so far indicates that S&P 500’s broad uptrend remains intact. Granted, on the longer-term charts, there are signs of fatigue – momentum has been slowing even as the index has made new highs in recent months. But unless there is a price confirmation (ie, support break), a slowing of momentum would not necessarily imply a trend reversal.

In the short term, however, the odds of the index settling in a range have increased after the index briefly attempted to make a marginally new high in June/July, but failed to sustain the gains. The immediate range is 2,729 (the June low) and 3,028 (July’s record high). While the June low of 2,729 holds, there is a possibility of a resumption of the uptrend. A break below 2,729 would indicate a larger range, with the base moving lower to 2,605 (the 61.8% retracement of the rise from end 2018), 11% below Thursday’s close.

Only a break below the December low of 2,351 (20% below), roughly coinciding with support on an uptrend line from the start of the bull run in 2009, would threaten the long-term uptrend.

Asian equities are at a crossroad

While the S&P 500 has been resilient, the MSCI Asia ex-Japan index has dropped below key support on an uptrend line from mid-2016, coinciding with the 200-week moving average (that came at 606). The index is looking oversold as it approaches strong support at the 2018 low of 568 (5.6% below Thursday’s close). This support is significant and a break below which could expose downside risks towards the end-2016 low of 505 (16% below Thursday’s close). While we would not pre-empt the break, the index needs to break above the 200-day moving average (now at 635; 5.5% above) for the downward pressure to ease.

Gold: Prospects of a lasting shine

Spot gold’s break above strong horizontal trendline resistance at 1,375 has confirmed that after years of sideways movement, the uptrend has finally resumed – a possibility that we have been highlighting in recent months. The speed and the extent of the move in the past two months suggest that the rally has legs, initially towards 1,585 (the 61.8% retracement of 2011-2015). Subsequent resistance is at the late-2012 high of 1,795.
This reflects the views of the Wealth Management Group.
This reflects the views of the Wealth Management Group

<table>
<thead>
<tr>
<th>July 2019</th>
<th>August 2019</th>
<th>September 2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>x</td>
<td>FOMC policy decision</td>
<td>RBA policy decision</td>
</tr>
<tr>
<td>01</td>
<td>BoE policy decision</td>
<td>03</td>
</tr>
<tr>
<td>02</td>
<td>RBA policy decision</td>
<td>12</td>
</tr>
<tr>
<td>25</td>
<td>ECB policy decision</td>
<td>19</td>
</tr>
<tr>
<td>30</td>
<td>BoJ policy decision</td>
<td>19</td>
</tr>
</tbody>
</table>

<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 Constitutional referendum</td>
<td>China Central Economic Conference</td>
</tr>
<tr>
<td>x</td>
<td>China Politburo meeting on economic policy</td>
<td>x</td>
</tr>
<tr>
<td>01</td>
<td>RBA policy decision</td>
<td>03</td>
</tr>
<tr>
<td>24</td>
<td>ECB policy decision</td>
<td>12</td>
</tr>
<tr>
<td>31</td>
<td>Last day of ECB President Mario Draghi’s 8-year term</td>
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<td>31</td>
<td>FOMC policy decision</td>
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<td>BoJ policy decision</td>
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<td>UK Brexit deadline</td>
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<td>FOMC policy decision</td>
<td>More US Democratic presidential primaries</td>
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<tr>
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<td>BoE policy decision</td>
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