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WS Global Chief Investment Office
24 May 2024

Global Market Outlook

A macro **summer**

We see room for equity market gains to extend as cooling inflation brings bond yields lower and sustains central bank rate cut expectations for the rest of the year. We remain Overweight equities in Foundation allocations.

Within this, we maintain our preference for US and Japan equities and EM USD bonds. We remain reluctant to chase Gold higher, given crowded investor positions.

In Opportunistic allocations, we add Buy ideas on Taiwan equities and China USD bonds and close US energy sector equity and US inflation-protected bond Buy ideas.

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Can China's stock market rally sustain?	What are the drivers of the opportunistic Buy ideas?	What is the signal from the quantitative models?

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Steve Brice
Global Chief Investment Officer

Manpreet Gill
Chief Investment Officer, AMEE

Raymond Cheng
Chief Investment Officer, North Asia

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- OW Global equities
- *In equities:* US, Japan
- *In bonds:* EM USD bonds

Opportunistic Allocations

Equity BUY ideas

- *US technology sector*
- *US comm. services sector*
- *Europe energy sector*
- *India large cap equities*
- *China non-financial divi SOEs*
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- *Taiwan large-cap equities*

Bond BUY ideas

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- *INR local currency bonds*
- China USD bonds

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A macro summer

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- Within this, we maintain our preference for US and Japan equities and EM USD bonds. We are reluctant to chase Gold higher, given crowded investor positions.
- In Opportunistic allocations, we add Buy ideas on Taiwan equities and China USD bonds and close US energy sector equity and US inflation-protected bond ideas.

A post-inflationary sigh of relief

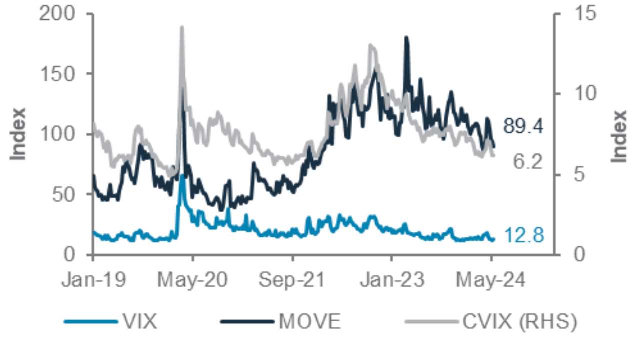
A macro data-led month. After several higher-than-expected US inflation readings, markets appeared to collectively heave a sigh of relief that the latest US CPI inflation readings were slightly below expectations. April's pullback in US stocks was correlated with a jump in inflation worries, which led to a pushing back of Fed rate cut expectations and a rise in US bond yields.

This relatively high correlation with the macro data extended into May, with the rebound in equities and bonds correlating closely with a fall in US inflation surprises. This was consistent with our own expectations that the pullback in equities and bonds was likely to be temporary. In May month-to-date, global equities have risen 4.3%, while global bonds have gained 1.3%.

We see room for equity and bond market gains to extend. Several indicators of the US housing market, especially falling market rental costs, suggest it is reasonable to expect official inflation to continue grinding gradually lower. This, in turn, should help the market's inflation expectations and bond yields to ease and the Fed to start cutting rates in H2. In the Euro area, inflation remains less of a challenge. As a result, we continue to see room for the ECB to start cutting rates in June, ahead of the Fed, given the region faces more growth than inflation challenges. Both these trends, we believe, mean the policy backdrop remains a positive one for global stocks and bonds.

Fig. 1 **Volatility has declined across asset classes as inflation starts to subside once again**

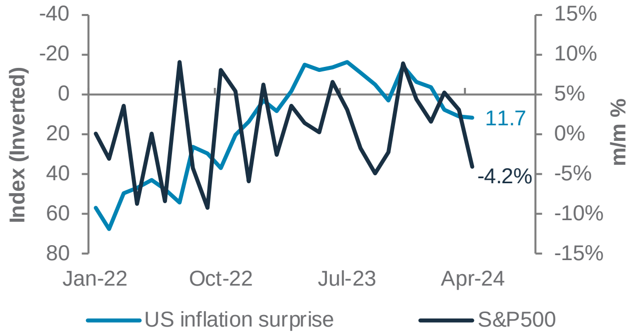
Equity (VIX), Bond (MOVE) and FX (CIVX) volatility



Source: Bloomberg, Standard Chartered

Fig. 2 **US inflation has started to ease again, which should help sustain the equity market rebound**

US inflation surprise index vs. S&P500 m/m



Source: Citigroup, Bloomberg, Standard Chartered

Chase the rally?

Although the equity market pullback is behind us, is the rebound sustainable? We believe the answer is yes.

In US equities, our short-term (1-3m) technical model remains positive, led by strong momentum and low volatility. This model did well in assessing that last month's pullback was temporary. Our long-term (6m) fundamental model remains positive as well, albeit less so than a month ago following soft labour market data. Together, we believe the case to remain Overweight equities, and, the US within that, remains intact.

What about 'Sell-in-May' seasonality? We would not reduce exposure on seasonality alone. The current backdrop of softening inflation, a still-robust economy, a strong Q1 earnings season and supportive technical indicators makes a pullback unlikely in the short term without an external shock. Our view of a US economic soft landing means that we would not worry excessively about slowing growth unless the labour market starts to weaken significantly.

Japan remains the only major market where our short-term technical model remains bearish. Nevertheless, we continue to see this as an opportunity to accumulate given our long-term view of improving growth and shareholder-friendly policies causing us to retain an Overweight view.

In Asia, it is fair to question whether China's issuance of special ultra-long government bonds and a proposal to buy unsold real estate inventory signal a turning point in the market's outlook. We hold a balanced view. Short-term market momentum remains strong, arguing for further gains over 1-3 months. Longer term, though, we do not see the announced measures as being significant enough to alter our core holding view on China equities relative to Asia ex-Japan.

Indian equities have also rebounded in recent weeks as Parliamentary elections come towards a close on 1 June (results due on 4 June). Expectations for policy continuity remain high, and history shows markets trend positively into elections and react well to expected outcomes. We remain Overweight Indian equities within Asia ex-Japan.

Buy ideas – adding Taiwan, closing US energy

We make four changes to our opportunistic ideas this month.

First, we add a new Buy idea on large-cap Taiwan equities. The market's significant exposure to the semi-conductor sector means it is likely to benefit from demand for its most advanced chips from both AI and non-AI users.

Second, we are adding a new Buy idea on China offshore USD bonds. While riskier Asia USD bonds have rallied and credit spreads generally remain tight across most corporate and EM bonds globally, China USD bonds still offer some value, in our assessment.

Third, we are closing our Buy idea on the US energy sector, following a 2.2% loss since we initiated the Buy idea on 27 March 2024. This closure will help trim our energy exposure as oil prices come off the boil. However, our Buy on European energy sector remains open. This should benefit from strong free cash flows and high dividend and share buyback yields from integrated oil companies, besides offering a hedge against the risk of any new oil price surges.

Fourth, we are closing our Buy idea on US inflation-protected bonds as inflation worries start to recede. Although the idea is down slightly (-0.9% since inception on 1 February 2024), it has outperformed the broader global bonds asset class by 2.1% as inflation concerns escalated in Q1.

What about gold and bonds?

Gold continues to rise, with the current rally likely driven by strong end-user demand, central bank demand and, more recently, by easing US bond yields. However, investor positioning looks crowded. While we revise our 3-month price expectation modestly higher (see page 14), we continue to believe a core allocation (around 5% allocation across most risk profiles) offers the best risk/reward at current levels.

Within bonds, EM USD bonds have outperformed global bonds so far in Q2, with support from high yields and the asset class's high sensitivity to falling US bond yields. We retain our Overweight on EM USD bonds, expecting these factors to continue to offer support.

Foundation asset allocation models

The Foundation and Foundation+ models are allocations that you can use as the starting point for building a diversified investment portfolio. The Foundation model showcases a set of allocations focusing on traditional asset classes that are accessible to most investors, while the Foundation+ model includes allocations to private assets that may be accessible to investors in some jurisdictions, but not others.

Fig. 3 **Foundation asset allocation for a balanced risk profile**

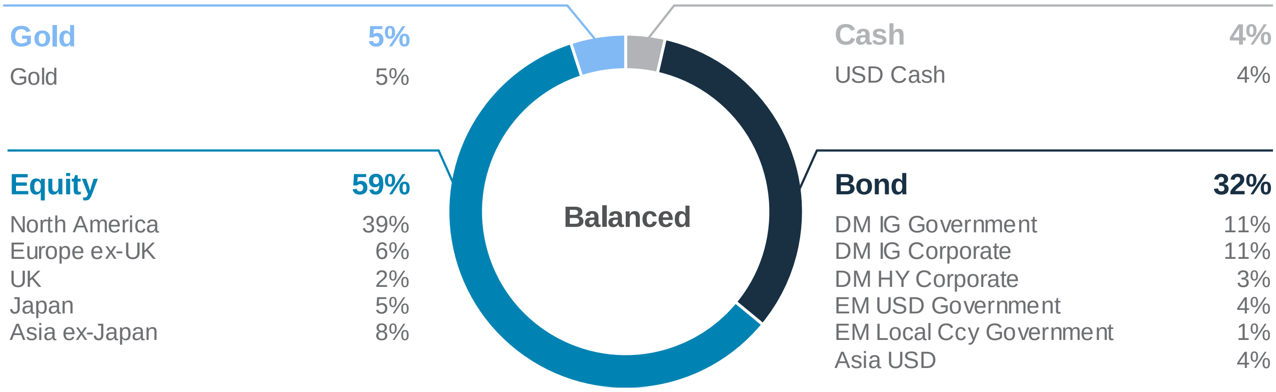


Fig. 4 **Foundation+ asset allocation for a balanced risk profile**

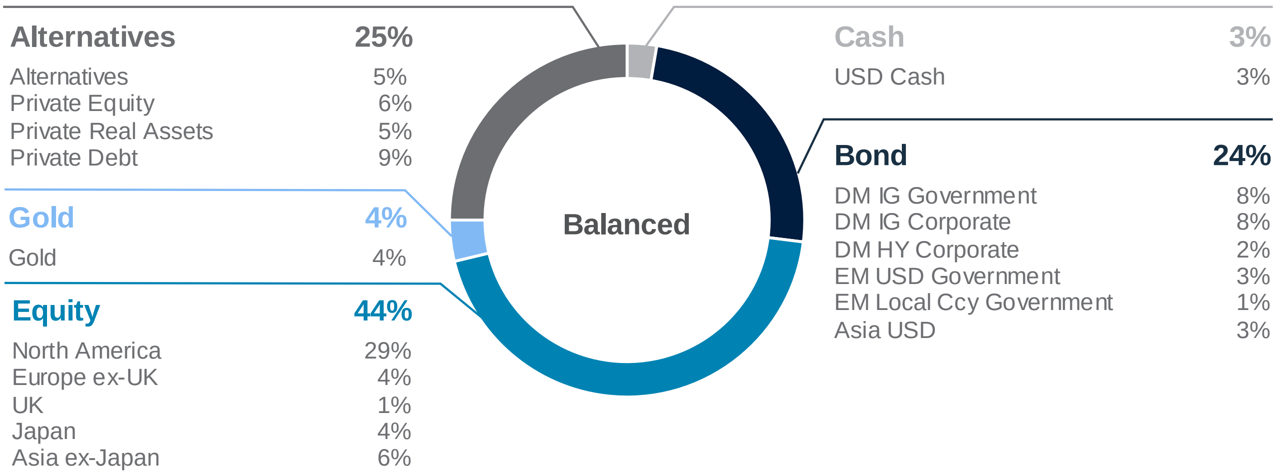
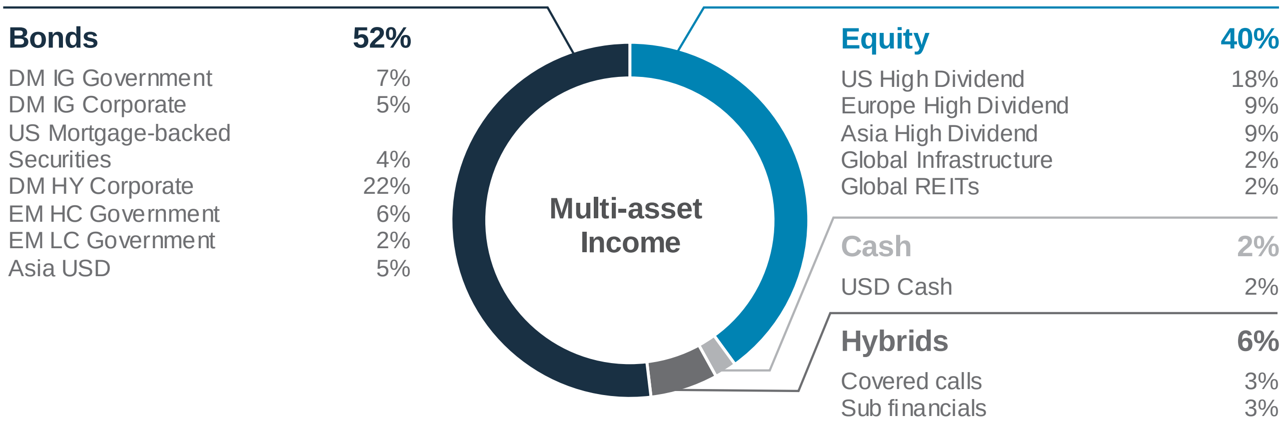


Fig. 5 **Multi-asset income allocation for a moderate risk profile**



Source: Standard Chartered

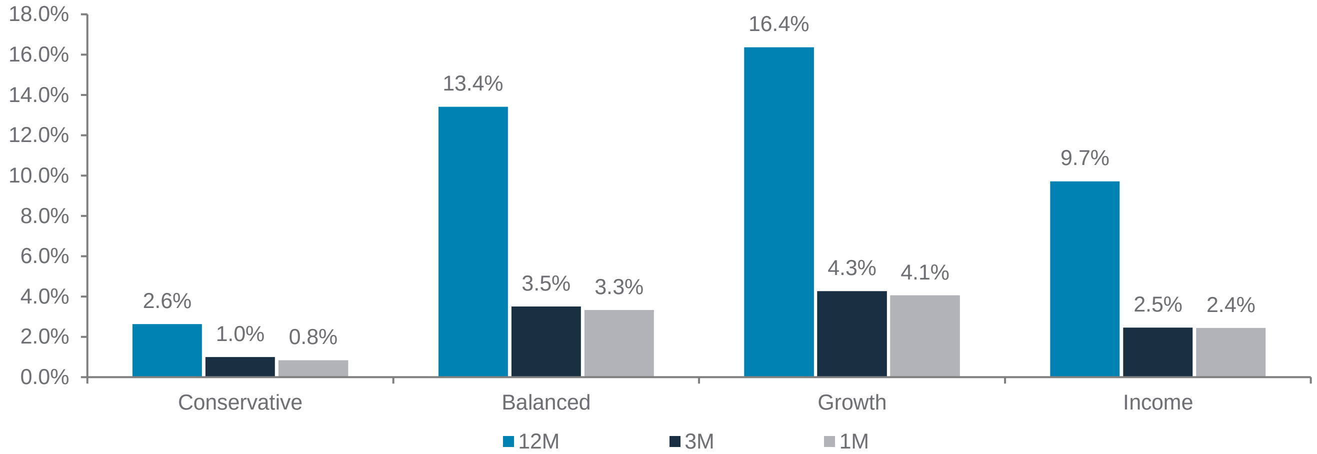
Foundation: Our tactical asset allocation views

	View	Detail
USD cash	▼	+ Safety, real yields || - Risk of missing higher returns elsewhere
Bonds	◆	
DM Govt	◆	+ High credit quality, attractive yields || - High sensitivity to monetary policy
DM IG Corporate	◆	+ High credit quality, sensitive to falling yields || - Elevated valuations
DM HY Corporate	◆	+ Attractive yield, low rate sensitivity || - Elevated valuations, sensitive to growth
EM USD Govt	▲	+ Attractive yield, sensitive to US rates || - EM credit quality, election/political risks
EM Local Ccy Govt	▼	+ Attractive yield, room for policy rate cuts || - USD strength, election/political risks
Asia USD	◆	+ Moderate yield, low volatility || - China property contagion risk, elevated IG valuations
Equities	▲	
North America	▲	+ Strong earnings growth amid robust consumption || - Impact of high interest rates
Europe ex-UK	▼	+ Inexpensive relative valuations || - Still-weak structural growth outlook
UK	◆	+ Attractive valuations, dividend yield || - Stagflation risks, political uncertainty
Japan	▲	+ Reasonable valuations, rising dividends/share buybacks || - Expected JPY strength
Asia ex-Japan	◆	+ Earnings rebound, China policy support || - China structural growth concerns
Gold	◆	+ Portfolio hedge, central bank demand || - Resilient USD
Liquid Alternatives	◆	+ Diversifier characteristics || - Equity, corporate bond volatility

Source: Standard Chartered Global Investment Committee; **Green** = Upgrade; **Red** = Downgrade;

Legends: ▲ Overweight | ▼ Underweight | ◆ Neutral

Fig. 6 **Performance of our Foundation Allocations***



Source: Bloomberg, Standard Chartered

*12-month performance data from 23 May 2023 to 23 May 2024, 3-month performance from 23 February 2024 to 23 May 2024, 1-month performance from 23 April 2024 to 23 May 2024.

Perspectives on key client questions

Audrey Goh, CFA
Head, Asset Allocation

Tay Qi Xiu
Investment Strategist

Can China's stock rally sustain?

Mainland China and Hong Kong stocks have taken off in 2024 after spending three years in the doldrums. In 2022 and 2023, the MSCI China index was among the world's worst-performing stock indices. Year-to-date, however, it has outperformed the US's S&P500 index. Investor optimism can be attributed to a string of measures introduced by the authorities to support the stock and property markets, while cheap valuations have also spurred foreign investor rotation from US and Japan stocks. Nevertheless, the economic recovery in China continues to be patchy, with no end in sight to the property sector's woes.

Can China and Hong Kong stocks build on the recent optimism to rally further, despite still lacklustre economic fundamentals? We dug deeper to examine the factors driving this stock market rebound and came to the following conclusions:

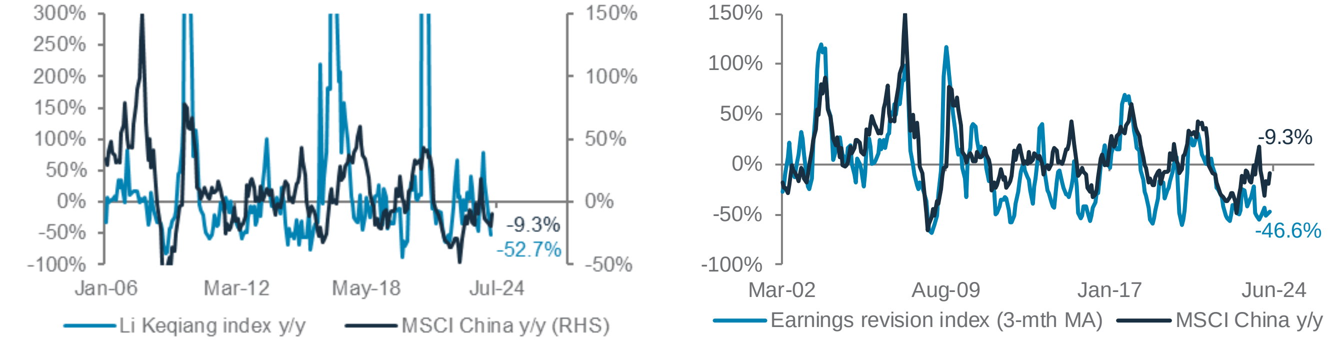
- A stabilisation in economic activity and improvements in earnings expectations are required for a sustainable rally in equities. The good news is, at least, earnings expectations have been showing signs of stabilisation of late.
- Investor positions are no longer as bearish and valuations have normalised, and much of the positioning-related gains in the stock market may already be over.
- However, momentum continues to be strong, and the simple strategy of 'letting your winners run and cutting your losses short' has proven to be profitable for investors in the Hang Seng index.

Better economic and corporate fundamentals are crucial for further returns

Economic and corporate fundamentals are crucial for equity performance, as annual gains in equities track economic activity and earnings revision **(See Fig 7).** However, economic drivers remain lacklustre. While there has been some improvement in the inflation trend, credit growth has weakened, household consumption has slowed, and inward FDI flows have flatlined - a reflection of the macro and geopolitical climate. The property sector remains a drag, and while recent measures, which include instructions for local governments to buy unsold housing inventories, could help on the margin, their effectiveness in boosting sales and stemming the slide in demand is debatable. Until such measures prove successful in arresting the slump in the property sector and lifting the overall economy, a longer-term sustainable rally

Fig. 7 **Annual gains in the MSCI China index have tracked economic activity and earnings revision indices closely**

Li Keqiang index vs MSCI China* (LKQ index as of Mar 2024) | Earnings revision index vs MSCI China



Source: Bloomberg, Standard Chartered. As of April 2024. *Le Keqiang index is an economic measure created by The Economist as a higher frequency growth indicator proxy for China. It is composed of railway cargo volume, electricity consumption and loans disbursed by banks.

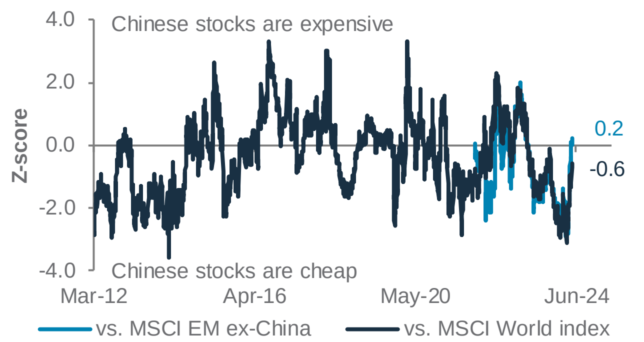
could remain elusive. The good news is, at least, earnings revisions have been showing signs of stabilisation of late. Corporate fundamentals have been on the mend despite the challenging economic climate, with an increasing number of companies beating earnings estimates for the second straight quarter in Q1. Further stabilisation in the earnings revision index thus bodes well for added stock market performance and may be indicative of an eventual improvement in economic fundamentals as well.

Valuations have normalised and investor positioning is no longer as bearish

While economic and corporate fundamentals are better predictors of the stock market's longer-term performance, positioning and momentum provide more useful insights as to whether the recent rally can continue in the near term. This is crucial, as valuations have now normalised. This means foreign investor rotation away from the US and Japan in search of cheaper valuations in China may start to slow. (See Fig 8)

Fig. 8 China stock valuations have normalised against EM ex-China stocks and are no longer as cheap vs Developed Market (DM) stocks

MSCI China's relative valuation vs MSCI EM ex-China and MSCI World* indices



Source: Bloomberg, Standard Chartered. *The Composite Valuation indicator is the de-trended and standardised premium/discount average of MSCI China's P/CF, P/B, P/S, P/E, P/FE relative to the MSCI EM ex-China and MSCI World indexes

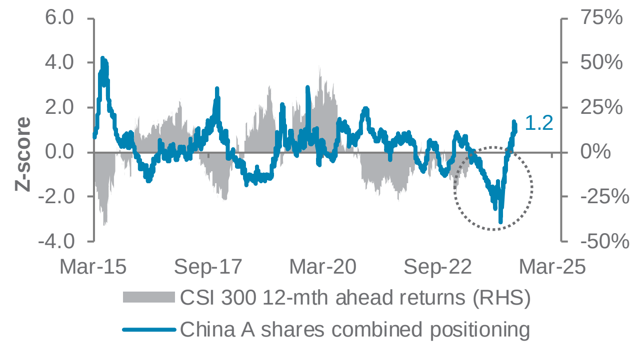
Meanwhile, a look into investor positions also reveals that investors have now turned bullish. At extreme levels, this is typically a contrarian signal for stock market performance. The bullish turn in positioning is also concerning when considering that since peak bearish positioning was reached in China A shares on the 23 January, the CSI 300 index has already gone on to rally almost 14%. This could mean that much of the positioning-led gains may already be over, given that 12-month forward returns based on current positioning are now more likely to be negative than positive. (See Fig 9)

Do not fight the momentum and let your winners run

While the stock market has run ahead of economic fundamentals and valuations and investor positions have turned less supportive, momentum, however, remains strong. A simple strategy of "letting your winners run and cutting your losses short" has proven to be profitable for investors in the

Fig. 9 12-month forward returns have typically been opposite to extreme investor positioning

12-month forward returns and investor positioning*



Source: VandaXAsset, Bloomberg, Standard Chartered. *Based on flows into ETFs, domestic retail investors' net margin trading, foreign institutional net purchases, risk parity and CTA exposures.

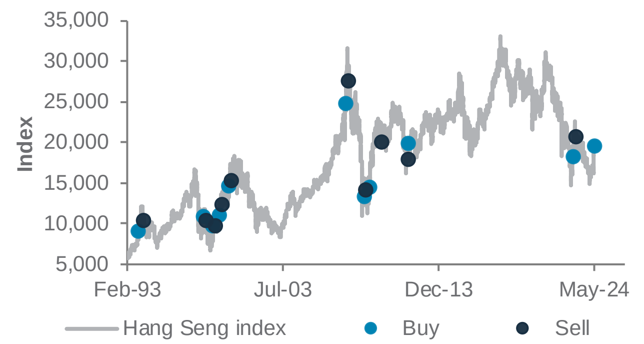
Hang Seng index (HSI). By going long when the 30-day rolling returns exceed 20%, and closing your position when the 20-day rolling returns fall below -8%, investors can achieve an average return per trade of 8.8%, with a hit rate of 80%. For investors, instead of taking profits prematurely in the face of strong price momentum, it may thus pay to closely track price actions and only take profit on positions when momentum falters based on our close signal and the market turns decisively lower. (See Fig 10)

Still a long road to recovery; stay neutral on China equities

The recent rally in China's stock market has triggered a "fear-of-missing-out," and investors may be tempted to chase the rally, especially after several years of lacklustre performance. However, the economy's road to recovery remains long, and some of the drivers of the recent stock market gains have also turned less supportive. Investors should thus continue to exercise caution and balance the recent positive property sector developments and strong price momentum with the still uncertain outlook ahead. Until there are further evidence that economic and corporate fundamentals are on a definitive uptrend, we will continue to recommend a neutral (core holding) allocation to China within our Asia ex-Japan equities.

Fig. 10 Going long when 30-day returns exceed 20% and closing when 20-day returns fall below -8% is a simple strategy that has proven to be profitable

The Hang Seng index with buy and sell signals



Source: Bloomberg, Standard Chartered.

Macro overview – at a glance

Rajat Bhattacharya
Senior Investment Strategist

Key themes

Return to 'soft-landing': After a growth and inflation spurt in Q1, the global economy appears to be heading towards a soft-landing. Most US indicators of consumer and industrial activity for April fell short of expectations, while the job market continued to cool. We expect a burst of immigration over the past year to alleviate worker shortages, sustain the consumption-driven growth, while keeping wage pressures subdued. The Euro area and China are benefitting from a revival in global trade. China is starting to address the property-sector slump, although it needs to do more to revive consumer and business confidence.

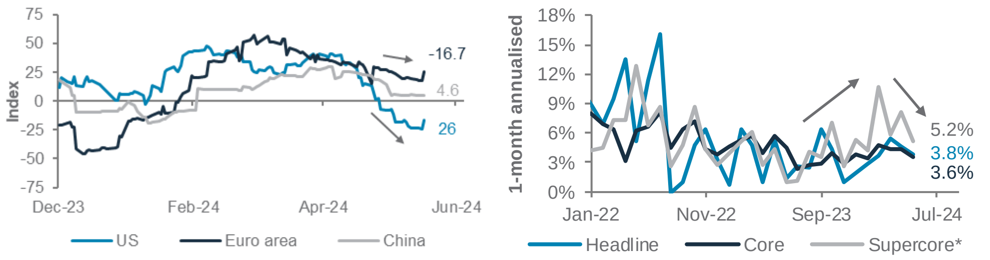
US cooling again: US inflation resumed its downtrend in April after a spurt in Q1, with auto insurance and medical service inflation slowing. While shelter inflation remains high, we expect the official data to catch up with cooling market rents in H2. Euro area inflation continues to slow, while China continues to struggle with an overhang in the property market.

ECB to cut before the Fed: We expect the ECB to start cutting rates in June as inflation slows towards its 2% target. The Fed is likely to follow with a total 50bps of cuts in H2 once policymakers ensure that April's downtrend in inflation sustains for a few more months. China is likely to ease bank reserve requirements and cut rates in H2 to support growth.

Key chart

Most US economic activity indicators for April have missed estimates after Q1's burst, enabling inflation to cool once again; Europe and China are benefitting from a revival in global trade, while China takes steps to reduce its property sector glut

Fig. 11 **US economy cooling; Euro area and China benefitting from global trade spurt**
Economic surprise indices; US headline, core and supercore* inflation, 1-month annualised



Source: Bloomberg, Standard Chartered; *services inflation, excluding food, energy services and housing

Macro factors to watch

US economy cooling. A series of weaker-than-expected economic indicators for April suggest the US economy is finally cooling down this year after last year's above-trend growth. This is also reflected in the job market, where the job openings rate fell to a 3-year low. The slowdown was long expected, given the lagged impact of 23-year high policy rates, tightening bank lending conditions and a negative fiscal impulse. According to the San Francisco Fed, US households have run down their excess savings, which have been sustaining consumption in the post-pandemic period. While a burst of immigration is sustaining overall consumption, it is also helping to reduce wage pressures. Meanwhile, we expect some of the lagged components of official US inflation data, notably auto insurance and shelter, to catch up with cooling market prices in H2. An environment of slowing growth and sustained decline in inflation (a few months of 0.2% m/m of core inflation) is likely to create conditions for the Fed to cut rates by a total 50bps in H2 as it shifts its focus towards supporting growth.

ECB to cut rates in June. Euro area inflation continues to slow faster than US inflation as tight lending conditions and record high policy rates keep growth close to stagnation. Although the region emerged in Q1 out of last year's technical recession on the back of a revival in global trade, fiscal spending and rising disposable income, Germany, the region's largest, remains a drag as it deals with challenges from higher energy costs and green transition. We believe sustained disinflation has set the stage for the ECB to start cutting rates in June, with a total 75bps of cuts likely this year.

China addressing property glut. China's economy is losing momentum in Q2, despite several rounds of monetary and targeted fiscal easing. Credit growth slowed and money supply (M1) contracted in April. Authorities have started to address the key drag, the real estate glut, by easing buying restrictions and mortgage rules. The plan to expedite ultra-long-term bond sales and local government bond issuance should support infrastructure spending. However, it may need to do more to lower the property overhang. We expect rate cuts and easing of bank reserve requirements in H2.

Bonds – at a glance

Cedric Lam
Senior Investment Strategist

Zhong Liang Han, CFA
Investment Strategist

Key themes

We maintain a **Neutral** view on Developed Market (DM) Investment Grade (IG) government bonds. The softer-than-expected US April inflation data has alleviated concerns about the Fed being unable to cut rates this year. We adjust our 3-month expectation for US 10-year government bond yield to 4.25-4.50%, while keeping our 12-month view unchanged at 4%.

Within Emerging Markets (EM), we continue to favour EM USD government bonds, maintaining an **Overweight** allocation. We find their relative value attractive compared with similarly-rated DM peers, after the re-inclusion of a distressed sovereign issuer in benchmark indices. However, we maintain an **Underweight** view on EM local currency (LCY) government bonds. While EM currencies should benefit from a weakening bias in the USD in the next 6-12 months, near-term FX volatility risks persist. The yield is unattractive, in our view, particularly as major EM central banks adopt a 'wait and see' approach until the Fed cuts rates.

Our stance remains **Neutral** on both DM IG and High Yield (HY) corporate bonds. US Q1 corporate earnings released thus far have generally been solid among IG issuers, providing a backdrop for IG bond yield premiums to stay tight. However, this argument does not hold as strongly for HY issues, which continue to see rating downgrades outpacing upgrades.

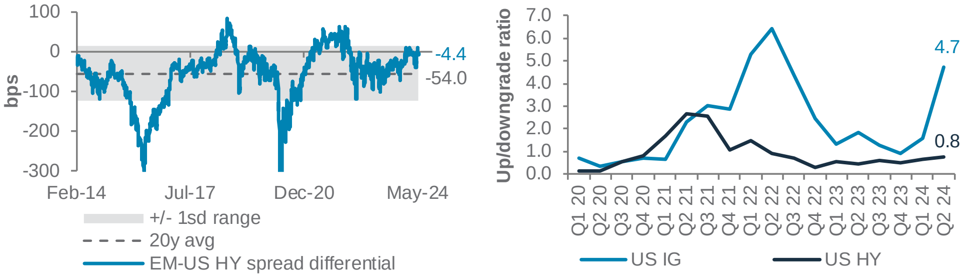
In Asia, we are **Neutral** Asia USD bonds due to a mixed economic backdrop across the region. China's latest round of policy support for the real estate sector and the reduction of idiosyncratic risks in several volatile sovereign bond markets mean we maintain our preference for Asia HY over Asia IG bonds.

Key chart

EM USD government bonds offer an attractive pick-up in yield premiums relative to other risky credit. Improving fundamentals in DM IG corporate issuers support a tight bond yield premium, in our view

Fig. 12 **Relative value of EM USD government bonds is attractive, in our view; DM IG corporate fundamentals remain strong**

JPMorgan EM Bond Index spread minus Bloomberg US HY OAS index; US IG and HY upgrade/ downgrade ratio (>1 represents upgrade outpace downgrade, vice versa)



Source: Bloomberg, Standard Chartered

Changes to our buy ideas

Adding buy Chinese USD bonds idea. Over the past few weeks, there has been a notable improvement in investment sentiment towards Chinese assets, driven by increased policy support from authorities amid economic challenges. These measures include the affirmation of special government bond issuance, along with targeted industry policy stimulus. We anticipate these measures will provide a near-term boost to sentiment. A resurgence of offshore bond defaults is key risk.

Closing US inflation-protected government bonds buy idea. Expectation of sticky inflation in the US has normalised after the April inflation print. Some forward-looking inflation measures are pointing to lower inflation. The idea is closed at a loss of -0.9% since inception on 1 February 2024, although it outperformed the broader global bonds asset class by 2.1%.

Existing buy ideas

Buy EUR government bonds. Recent economic data in the Euro area continue to look sluggish. We believe the ECB could initiate its first rate cut in June, supporting the region's government bond performance. Delay of this expectation is a key risk to this buy call.

Buy INR bonds. We continue to believe the asset class offers attractive risk-reward balance against the backdrop of the INR staying largely within a range in the next 12 months (USD/INR forecast: 84). While the recent performance from this asset class has been flat, we remain optimistic about potential capital gains from falling yields and the attractive yield on offer. Weaker-than-expected regional growth is a key risk.

Equity – at a glance

Daniel Lam, CFA
Head, Equity Strategy

Fook Hien Yap
Senior Investment Strategist

Michelle Kam
Investment Strategist

Jason Wong
Equity Analyst

Key themes

We remain Overweight equities and believe they can outperform bonds and cash in a soft-landing scenario. We are Overweight US equities. US Q1 earnings have been strong, with companies enjoying strong margins. We are also Overweight Japan equities. The earnings outlook is improving, with rising trend in share buybacks and increase in dividends. We see a limited risk of significant JPY appreciation despite the end of negative interest rate policy from the Bank of Japan.

Asia ex-Japan remains a neutral (core) allocation. We are Overweight India given it is the fastest growing economy in the region, and its strong corporate RoE is offsetting elevated valuation. Korea and Taiwan are our two other Overweight positions in the region. The tailwind from semiconductor and AI themes justify the Overweight positions. We are Neutral China equities. Favourable government policies have “taken the baton” as the catalyst to keep the short-term momentum going as investor positions and cheap valuation normalise after the sharp rally since April. However, structural issues are likely to take time to resolve. We are Neutral China onshore versus offshore equities. Lastly, we are Underweight ASEAN, which is overly defensive in a growth environment.

We are Neutral UK equities. The current higher-yield environment is likely to help the value-tilted sectors in the market, despite the weakness in earnings revisions. We are Underweight Euro area equities on subdued economic environment and EPS growth.

Key chart

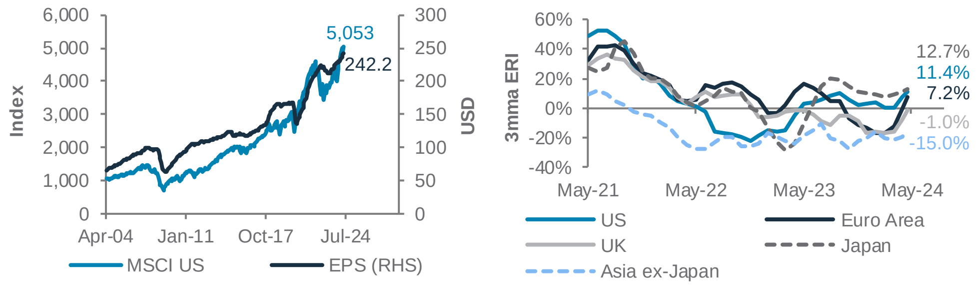
US equities broadening out. Earnings growth remains strong in the US and Japan

Index	12m forecast	Upside to price target*
S&P 500	5,500	4%
Nasdaq 100	19,400	4%
Euro Stoxx 50	5,200	3%
FTSE 100	8,600	3%
Hang Seng	Under Review	
Nikkei 225	41,600	6%

* Based on closing levels on 23 May, 2024

Fig. 13 **Strong earnings supporting US equities. Earnings revisions are the highest in Japan and the US, our most preferred markets**

MSCI US index vs 12-month forward US EPS growth. 3-month moving average of earnings revisions for various regional MSCI equity indices



Source: FactSet, Bloomberg, Standard Chartered

US and Japan still our favourites

We believe investors should continue to Overweight the US within global equities. For Q1, 78% of the reporting companies have beaten earnings expectations, alongside positive surprises in all the sectors. We believe the US market is likely to outperform global equities due to its economic resilience and likely strong earnings growth over the next 6-12 months.

In addition, we are Overweight Japan. The market has been enjoying tailwind from improving corporate governance and increasing foreign investor inflows. Most sectors in the MSCI Japan index reported wider profit margins in the recent quarter. Besides, Japan has the highest upward earnings revision among the major equity markets at 13%. These positive factors are likely to enable Japan’s equity market to outperform broader equities.

Asia ex-Japan equities remain a Neutral (Core allocation). Valuation is no longer as cheap as before, although we still expect Asia ex-Japan to deliver the highest EPS growth in 2024 within global equities. We continue to like the strong domestic economic and structural growth trends in India and the ‘sweet spot’ that Korea and Taiwan equity markets enjoy amid strong growth in the AI and semiconductor segments.

For China equities, we see renewed signs of foreign investor inflows and supportive governmental policies. However, structural headwinds, including subdued economic growth and property sector worries, are likely to linger.

Risks to our view include stickier-than-expected inflation in the US, weaker-than-expected earnings growth in the US and Japan, a global economic downturn and any escalation in geopolitical risks.

Equity opportunistic views

Fook Hien Yap
Senior Investment Strategist

Rotating to growth in our Opportunistic ideas

- We target positive absolute returns in our Opportunistic buy ideas. This month, we switch out of the US energy sector into Taiwan equities, keeping seven ideas in total.

Changes to our buy ideas

Closing US energy: We close this idea after almost 2 months (27 March 2024 to 23 May 2024) for a 2.2% loss. Momentum in the sector has softened in recent weeks and we take the opportunity to reduce energy exposure in our Opportunistic ideas. We remain exposed to the energy theme with our Europe energy sector equities idea.

Taiwan equities: We add Taiwan equities as a new idea. Semiconductor manufacturing has a large weight in Taiwan's equity market. Taiwan's market leadership in making the most advanced chips means Taiwan stands to benefit from the global AI adoption and cyclical tailwinds in non-AI demand. Taiwan's broader economy is also likely to benefit from an export recovery in its tech sector. Weakness in semiconductor demand is a risk to the idea.

Existing buy ideas

US technology: Signs that inflation is slowing down is likely to pave the way for lower bond yields, which can sustain the valuation of Growth stocks. We expect the technology sector to benefit from strong earnings growth driven by AI spending and cloud computing. Any weakness in AI spending is a risk.

US communication services: Similarly, we expect this Growth sector to benefit from slowing US inflation. The ongoing recovery in digital advertising and the demand for online entertainment continue to support earnings momentum in the sector. A downturn in digital advertising is a risk.

Europe energy sector: The sector, dominated by integrated oil companies generating strong free cash flows, offers the highest dividend and share buyback yield in Europe. Europe's energy sector has lagged its counterparts in the US and China year to date. A fall in the oil price is a risk.

China non-financial high dividend SOEs: We continue to see investor demand for high dividend yielding state-owned enterprises (SOEs). SOE management teams continue to have an incentive to improve their market value and we focus on non-financial SOEs due to the lack of clarity on the financial sector's support for the distressed property sector. Adverse regulatory changes are a risk.

Fig. 14 **Opportunistic buy ideas**

Region	Idea	Initiation
US	Communication services sector	27-Mar-24
	Technology sector	27-Mar-24
Europe	Energy sector	25-Apr-24
Asia	China non-financial high dividend SOEs	27-Mar-24
	India large cap	27-Mar-24
	Korea equities	25-Apr-24
	*Taiwan equities	23-May-24

Source: Standard Chartered. * New. ^Since initiation to 23-May-24

India large cap stocks: We expect policy continuity after India's general elections, results of which will be announced on 4 June. India's structural story of superior growth in Asia continues to be the driver of returns, in our view. A risk is weaker-than-expected growth.

Korea equities: We expect a rise in semiconductor chip prices to drive an earnings rebound in Korea, given the sector's large weight in the market. We also expect Korea's 'Value-up' programme to improve corporate governance and attract inflows as valuation remains attractive. Any weakness in memory chip prices is a risk.

Fig. 15 **Our sector views by region**

US	Europe	China	India*
Comm.	Healthcare	Comm.	Discretionary
Technology	Energy	Discretionary	Industrials
Energy	Technology	Technology	Healthcare
Healthcare	Discretionary	Energy	Technology
Industrials	Industrials	Industrials	Financials
Discretionary	Financials	Staples	Staples
Staples	Staples	Financials	
Financials	Comm.	Utilities	
Materials	Materials	Materials	Utilities
Utilities	Utilities	Healthcare	Energy
Real estate	Real estate	Real estate	Materials

Source: Standard Chartered. *Commentary in India Market Outlook

Legends: Overweight | Neutral | Underweight

▲ Upgrade from last quarter | ▼ Downgrade from last quarter

FX – at a glance

Manpreet Gill
Chief Investment Officer, AMEE

Iris Yuen
Investment Strategist

Key themes

We remain modestly bullish on the USD over the next 1-3 months. While US bond yields have started to fall as inflation started to soften once again in April, we believe inflation expectations and bond yields are likely fall at a gradual pace. Bouts of geopolitical risk are also likely to trigger periodic demand for the USD as a safe haven. Together, this means that while softening bond yields are likely to cap USD gains, we expect the dollar to remain relatively resilient over the next 1-3 months. **We retain our rangebound 12-month USD view, with a bearish bias.** This means we expect the USD Index (DXY) at 107 in 3 months and 105 in 12 months, consistent with still-low levels of FX volatility.

We expect USD/JPY to soften to 152 on a 3-month horizon and fall further to 150 on a 12-month horizon. Rising US bond yields have helped USD/JPY to surge over the past couple of years. However, with Japanese bond yields creeping higher and US bond yields starting to soften, we believe the pair's bias is likely to shift to the downside. Ongoing equity market inflows into Japan amid shareholder-friendly reforms are also likely to be a source of support for the JPY. A renewed rise in US bond yields or a significant rise in Japanese inflation (which, in turn, would reduce real, or inflation-adjusted, Japanese bond yields) remain key risks to our view.

We expect EUR/USD to ease to 1.05 on both 3- and 12-month horizons. Policymaker comments and falling inflation in the Euro area remain consistent with our view that the ECB is likely to cut rates in June, ahead of the Fed, putting the EUR at an yield disadvantage. This is likely to frontload a EUR pullback. **GBP/USD is also likely to have a bearish bias over the next 3 months,** falling to 1.21, as the Bank of England looks to ease rates to support growth. Persistent inflation is a risk to our view.

CNH weakness is likely to be capped as falling US bond yields and policy support in China offer near-term stability. We expect USD/CNH to rise modestly to 7.28 in 3-months. We remain bullish on **the AUD and NZD** as relatively more persistent inflation pressure limits room for their central banks to consider early rate cuts.

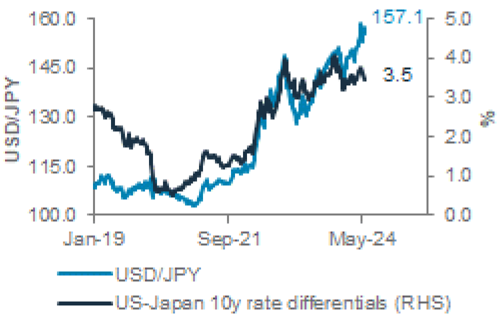
Key chart

Real rate differentials are supporting USD/JPY. This support may ease moderately as US yields soften over the next 1-3 months

Our revised 3-month and 12-month FX forecasts

Fig. 16 **Focus remains on bond yield differentials as a key driver of USD/JPY**

USD/JPY and interest rate differentials; Table of FX forecasts



Currency	3m forecast	12m forecast
USD (DXY)	107	105
EUR/USD	1.05	1.05
GBP/USD	1.21	1.22
USD/JPY	152	150
AUD/USD	0.65	0.67
NZD/USD	0.61	0.61
USD/CAD	1.35	1.38
USD/CNH	7.28	7.28
USD/CHF	0.92	0.90
USD/SGD	1.36	1.36

Source: Bloomberg, Standard Chartered

A focus on key events and rate differentials

The focus on inflation and central bank reactions means FX markets continue to be closely driven by the differential in bond yields between the two sides of the currency pair. This means central bank meetings are likely to be a key focus.

One potentially key event is an ECB policy rate cut in June, putting it several months ahead of a likely Fed cut. For FX markets, this could open a window of weakness for the EUR/USD until the Fed starts to cut as well. The GBP may also follow a similar path if the BoE is able to follow suit with a rate cut in summer. In Switzerland, the SNB has already embarked down this path, drawing away support from the CHF likely until the Fed is able to cut rates.

At the opposite extreme, Australian and New Zealand central banks do not appear to be in a hurry to cut given still-persistent inflation risks. This should prove positive for their currencies.

Gold, crude oil – at a glance

Zhong Liang Han, CFA
Investment Strategist

Key themes

We maintain a Neutral (core holding) view for gold, with a 3-month forecast of USD 2,350/oz. The yellow metal consolidated going into May, before rising to claim new all-time highs on increasing optimism about Fed's rate cuts in H2. Safe-haven demand also remain supportive amid uncertainty in the Middle East. However, momentum seems to be slowing as it approaches stretched territory, while investor diversity remains low. Furthermore, gold ETF outflows persisted. Hence, we expect a near-term consolidation, with 2,200 being a key support. In the longer run, we expect Fed rate cuts to provide a conducive backdrop to support gold at around USD 2,325/oz. Strong central bank and physical demand also anchor the long-term outlook.

We see tight demand-supply balance favouring higher WTI oil price at around USD 83/bbl in the near term. Crude oil prices have returned to rangebound trading in May despite improving risk sentiment supported by slowing inflation and higher demand. Recent developments in the Middle East – the death of Iran's President and the failure of Gaza conflict ceasefire negotiations – also failed to push oil prices higher. The focus is shifting to the OPEC+ June meeting, where an extension of output cuts would keep oil markets in deficit in the short run, driving prices higher. Over the longer term, potentially weaker demand on the back of slowing global growth is expected to weigh on oil prices. Moreover, elevated OPEC+ spare capacity and overly tight oil markets suggest that an increase in OPEC+ production is plausible, particularly in 2025.

Key chart

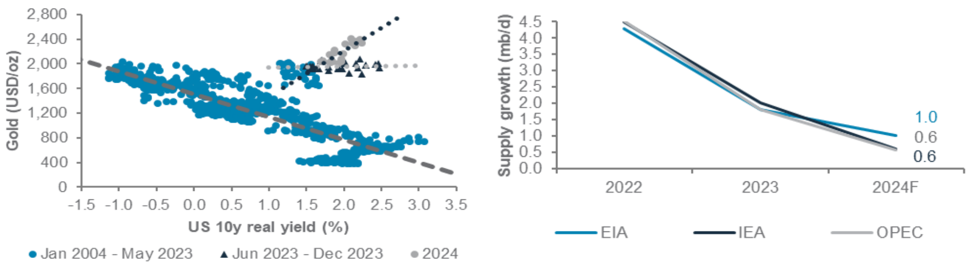
Real (inflation-adjusted) bond yields have been playing a reduced role as a driver of gold prices recently

Global crude oil supply is constrained in the near term

Fig. 17 **Gold's correlation with US 10-year real (inflation-adjusted) bond yield turned positive this year; global oil supply growth expected to slow on OPEC+ supply cuts**

LHS chart: Gold price vs US 10-year real yield

RHS chart: Global oil supply growth actual/forecasts from major oil agencies



Source: Bloomberg, Standard Chartered

A breakdown in correlation?

Gold, a zero-yielding asset, usually has a negative correlation with real (inflation-adjusted) bond yields because its attractiveness falls as the yield on alternative assets rises. However, we saw a breakdown in this relationship recently – gold has a positive correlation with real yield this year. Similar phenomenon has occurred in the past (averaging 2 months).

Comparing with more than 40 periods of positive correlation in the past, there are two factors that could help explain the current market: 1) Central bank purchases have dominated over other macro factors in driving gold prices. This was observed in 2010/11 when central banks became net gold buyers for the first time in 20 years; 2) a higher level of uncertainty increases the allure of gold, as seen in past crises including Iraq war, Iran nuclear tensions, European debt crisis, Sino-US trade war and Russia-Ukraine war.

OPEC+ likely to extend output cuts in June

Last November, OPEC+ announced 2.2mb/d of output cuts. In March, the bloc followed up with an extension to June. In the upcoming June meeting, OPEC+ members are likely to decide on the next move. There are three possible scenarios from this meeting: 1) extend supply cuts; 2) partial unwind of supply cuts; 3) full unwind of supply cuts. We assign the lowest odds to the third scenario as OPEC+ would probably want to take a gradual approach with the unwinding of output cuts. Between the first and second scenario, we lean more towards the former due to the following reasons: 1) oil prices have been weak in recent weeks despite positive drivers; 2) fading supply risks outside of OPEC+; 3) price boost from extending the output cuts outweighs the volume hit. Consensus forecasts also expect an extension of the output cut, which is reflected in lower 2024 global supply growth estimates.

Quant perspective: Remains bullish equities; commodities stretched

Francis Lim
Senior Quantitative Strategist

Maggie, Au Yeung
Quantitative Analyst

Summary

Long-term model remains bullish equities. Our stock-bond rotation model's YTD excess return jumped to 3.2% compared with a 60/40 equity-bond portfolio, following the recent positive market reaction from the latest US inflation data. The model continues to Overweight equities in May, but by a smaller magnitude than last month, as the model's score fell from +4 to +1. The drop in the model score is driven by (1) a small contraction in ISM manufacturing new orders and (2) a dip in the economic surprise index. Strong earnings revisions after the recent US earnings season have partially offset these negative shifts in economic indicators.

Short-term technical models remain bullish on most equity markets. Momentum and volatility indicators continue to be supportive of key equity markets, including China. The exception is Japan due to increased market volatility and weakening momentum indicators. Since our last outlook in April, our long positions in the US (+4.3%), Europe (+4.1%), the UK (+4.9%), Asia ex-Japan (+5.8%) and China (+8.6%) have generated strong gains, while Japan (+4.0%) has also rebounded on weakness but remains the worst performing market.

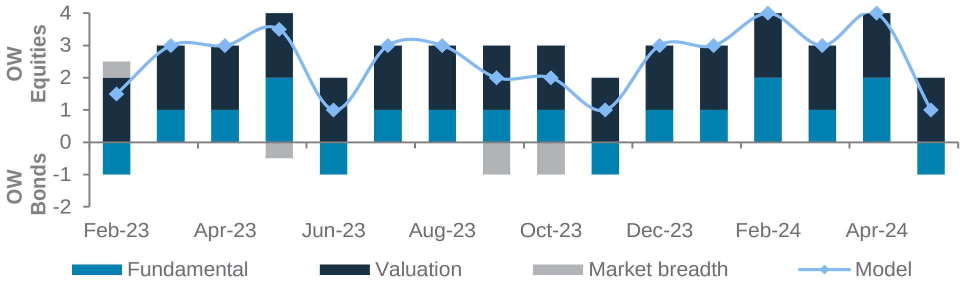
Commodities, especially copper, silver and gold look stretched on market positioning. Our proprietary indicator for investor diversity in various asset classes had previously flagged stretched positioning in gold before the precious metal lost 4.4% near the end of April. Our indicator has once again flagged a stretched positioning in gold, alongside silver and copper, as these metals have received a renewed boost from a weaker USD after the recent US inflation data.

Key chart

The valuation factor remains pro-risk despite the recent downturn in some fundamental drivers

Fig. 18 **Breakdown of the stock-bond rotation model's scores since inception in February 2023**

Model scores as the sum of fundamental, valuation and market breadth factors



Source: Bloomberg, Standard Chartered

Fig. 19 **Long- and short-term quantitative models remain bullish risky assets**

Long-term models below have a typical time horizon of 3–6 months, while short-term models have 1– 3 months horizon

Long-term models			**Short-term models**	
Prefer equities over bonds	**Risk of a deep sell-off remains low**	**Prefer risky assets**	**Bullish equities**	**Commodities look stretched**
Stock-bond rotation model	**Equity-bond market risk model**	**Macro regime model**	**Technical model**	**Market diversity model**
A monthly scorecard of -5 to 5 based on fundamental, valuation and market breadth factors to indicate relative preference of equities over bonds.	Risk barometers used to gauge the likelihood of large sell-off in US equities and bonds. They range from 0–100; a higher value indicates lower risk.	A macro model of global economic cycle (recession, recovery, late cycle and stagflation) and implications on long-term asset returns.	Identifies markers for a bear market using momentum, volatility, and volume indicators. Leverages machine learning to cut through market noises.	A market indicator that provides a timely indication of investor positioning in various assets based on price actions.

Source: Standard Chartered

A holistic approach to managing your wealth Today, Tomorrow and Forever

SC Wealth Select

Has your portfolio had a health check lately?

Keeping in shape is important for good health and well-being. But what about your financial health? Are you ensuring that your portfolio stays financially fit?

Just like you get regular check-ups to stay on top of your health, it is important to give your portfolio regular check-ups to ensure it is in optimal condition for your financial well-being.

To help you stay on track with your financial goals, reach out to our wealth specialists to arrange a portfolio review. Our team follows a holistic approach to ensure your wealth is managed to suit your Today, Tomorrow and Forever needs. We will guide you using our investment principles and ensure that your portfolio is adjusted to reflect any change in your financial goals.

Everyone approaches their wealth differently. However, what truly matters is that you feel in control of your wealth journey and are well-positioned to secure your financial future. As you plan out your next health review, make sure you undertake a portfolio review too.

Purpose

Today, Tomorrow, Forever

Our approach to wealth management is built on your vision of Today, Tomorrow and Forever for yourself, your family and beyond. As you move through life, your needs, life goals and preferences change. However, at every stage, clearly defined goals help to anchor your investment decisions.

Using a ‘Today, Tomorrow and Forever’ approach, we distinguish the assets intended to be used in the near term (Today) from the assets that are to be used over decades (Tomorrow and Forever), thereby segmenting your portfolio into different strategies that can help you meet your short- and long-term goals.

‘Today, Tomorrow and Forever’ planning is unique to you. Our specialists partner with you to build well-diversified, long-term Foundation portfolios aligned to your Today, Tomorrow and Forever needs. Opportunistic ideas are added to capture short-term opportunities, and sufficient protection is included to address your and your family’s objectives.

Today, Tomorrow, Forever Approach

Planning for Today

Requires ensuring liquidity and income flows take centre stage.

Securing Tomorrow

Entails a well-diversified investment and protection portfolio with a focus on growth, while ensuring inflation is accounted for and risks are mitigated.

Building for Forever

Involves greater focus on long-term returns given the time horizon of the portfolio can be measured in decades, and might also include business interests, real estate, collectibles, or charitable funds.

Principles

that stand the test of time

Adhering to time-tested principles, to ensure your investment decisions remain robust and consistently applied, is paramount to your success Today, Tomorrow and Forever. We use five Wealth Principles to guide and guardrail your wealth decisions.

Discipline – Ensure consistency and prudence over your emotions

- Reacting to emotions such as optimism and fear can lead to poor investment decisions at the worst times
- Have a plan and stick to it – this helps you to stay focused on the bigger picture

Diversification – Simply put, don't put all your eggs in one basket

- Reduce risk by holding a variety of financial assets. Multi-asset diversification in your Foundation portfolio is important
- As a guide, make sure your portfolio contains a variety of asset classes and investments that have low correlation with one another

Time in the Market – A more robust strategy than timing the market

- Predicting market sell-offs is challenging, and timing your exit and re-entry is difficult
- Missing out on the best performing days of a market can have a significantly detrimental impact on your portfolio
- 'Time in the market' and buying the market with a longer-term view provide more consistent returns that can ride out bumps along the way

Risk and Return – Make sure the risk is worth the return

- To achieve higher investment returns, you will likely have to accept a greater level of risk in your portfolio
- Therefore, it is important to understand the risks and manage these on an ongoing basis

Protection – Don't let the unexpected catch you unprepared

- Even though you may feel healthy, or financially stable now, protection offers the ability to overcome times of financial uncertainty and mitigate the long-term impact of unforeseen events on your wealth
- A good protection plan not only safeguards your wealth today, but also considers the value of your future earnings over your lifetime, in today's terms

Process

Following a holistic approach to managing your wealth

We follow a rigorous process to ensure your needs and objectives are well-understood, and your portfolio is aligned and managed to deliver on these objectives.

However, markets constantly evolve and your needs change. Hence, we encourage you to undertake regular portfolio reviews to ensure your portfolio remains aligned to your Today, Tomorrow and Forever objectives. This proactive approach includes strategic rebalancing based on insights from our Chief Investment Office

Learn more

Scan the QR code below to learn more about our SC Wealth Select approach to growing, managing and protecting your wealth.

The five-step process

Showcase
Demonstrate how SC Wealth Select can help you

Discover
Understand you better – your needs, preferences and goals

Propose
Design a Foundation portfolio tailored for you with Opportunistic overlays

Implement
Seamlessly and efficiently

Monitor and review
Regularly review and rebalance your portfolio

Please be sure to reach out to your Relationship Manager today to arrange a portfolio review.

Foundation: Asset allocation summary

Summary	View	FOUNDATION Moderate	Balanced	Aggressive
Cash	▼	4	4	3
Fixed Income	◆	52	32	14
Equity	▲	39	59	78
Gold	◆	5	5	5
Asset class				
USD Cash	▼	4	4	3
*DM Government Bonds**	◆	22	11	4
*DM IG Corporate Bonds**	◆	16	11	4
DM HY Corporate Bonds	◆	3	3	2
EM USD Government Bonds	▲	4	4	2
EM Local Ccy Government Bonds	▼	1	1	0
Asia USD Bonds	◆	6	4	1
North America Equities	▲	25	39	50
Europe ex-UK Equities	▼	4	6	8
UK Equities	◆	1	2	3
Japan Equities	▲	3	5	6
Asia ex-Japan Equities	◆	5	8	11
Gold	◆	5	5	5
		100	**100**	**100**

Summary	FOUNDATION Conservative
Cash	35
Fixed Income	65
Asset class	
USD Cash	35
DM IG Govt (Short duration)	10
DM IG Corp (Short duration)	13
DM HY (Short duration)	14
EM USD Govt (Short duration)	9
EM LCY Govt	9
Asia USD bonds	11
	100

Source: Standard Chartered
All figures in %
1. Allocation figures may not add up to 100 due to rounding. *FX-hedged
2. The Conservative TAA is based off the SAA and is not overlaid with any tactical views

Legends: ▲ Most preferred | ▼ Least preferred | ◆ Core holding

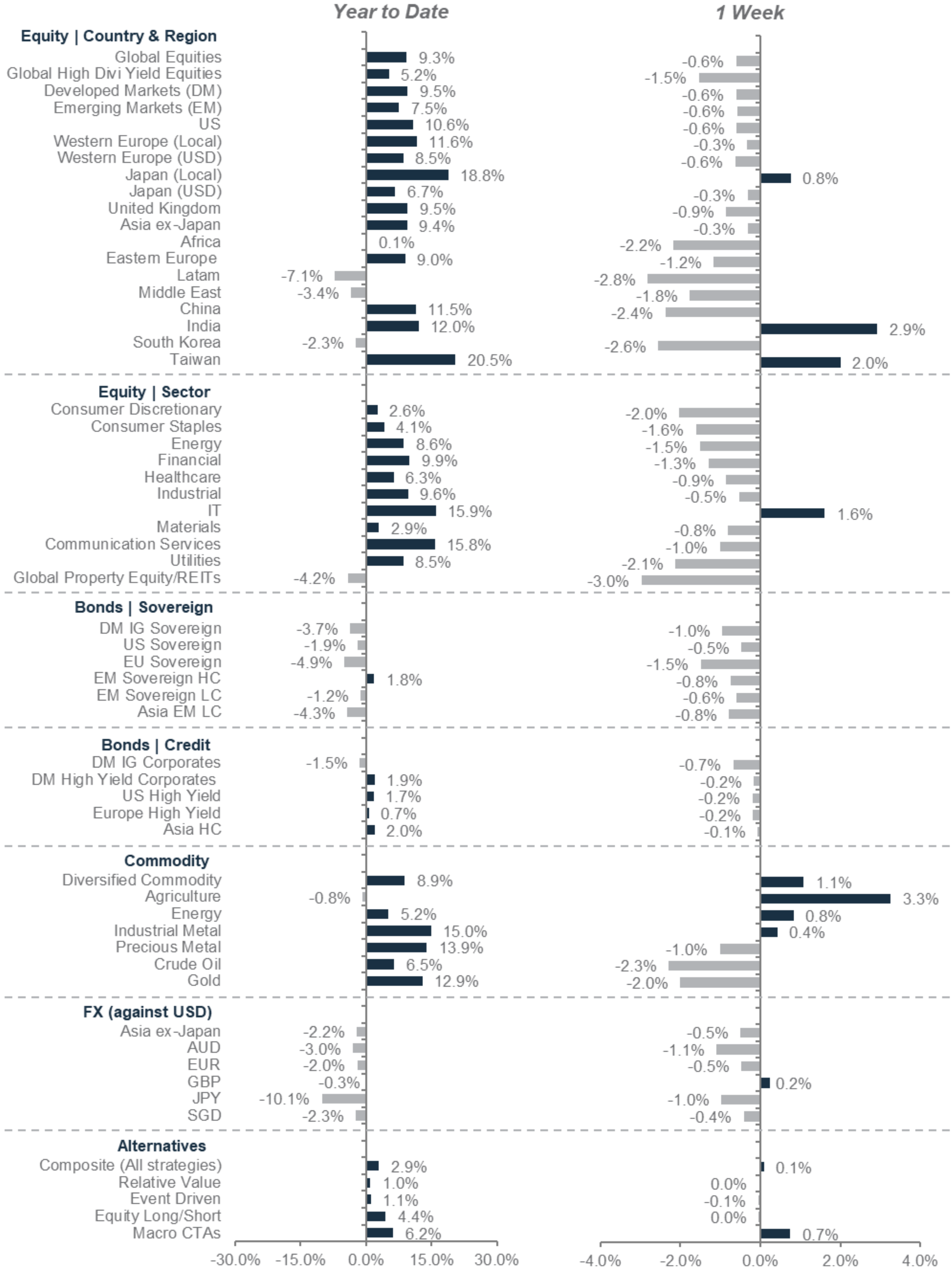
Foundation+: Asset allocation summary

		FOUNDATION PLUS		
Summary	**View**	**Moderate**	**Balanced**	**Aggressive**
Cash	▼	3	3	3
Fixed Income	◆	42	24	10
Equity	▲	31	44	58
Gold	◆	4	4	4
Alternatives	◆	20	25	25
Asset class				
USD Cash	▼	3	3	3
*DM Government Bonds**	◆	18	8	3
*DM IG Corporate Bonds**	◆	13	8	3
DM HY Corporate Bonds	◆	2	2	1
EM USD Government Bonds	▲	3	3	2
EM Local Ccy Government Bonds	▼	1	1	0
Asia USD Bonds	◆	5	3	1
North America Equities	▲	20	29	37
Europe ex-UK Equities	▼	3	4	6
UK Equities	◆	1	1	2
Japan Equities	▲	3	4	4
Asia ex-Japan Equities	◆	4	6	8
Gold	◆	4	4	4
Alternatives	◆	4	5	5
Private Equity		3	6	10
Private Real Assets		6	5	5
Private Debt		7	9	5
		100	**100**	**100**

Source: Standard Chartered
All figures in %
1. Allocation figures may not add up to 100 due to rounding. *FX-hedged

Legends: ▲ Most preferred | ▼ Least preferred | ◆ Core holding

Market performance summary*



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

*All performance shown in USD terms, unless otherwise stated

*YTD performance data from 31 December 2023 to 23 May 2024 and 1-week performance from 16 May 2024 to 23 May 2024

Our key forecasts and calendar events

Currency	USD (DXY)	EUR/ USD	GBP/ USD	USD/ JPY	AUD/ USD	NZD/ USD	USD/ CAD	USD/ CNH	USD/ CHF	Oil (WTI, USD/bbl)	Gold (USD/ oz)	Fed policy rate (upper bound)	US Treasury 10y yield (%)	ECB policy rate
3m forecast	107	1.05	1.21	152	0.65	0.61	1.35	7.28	0.92	83	2350	5.50% (Jun-24)	4.25-4.50%	3.75% (Jun-24)
12m forecast	105	1.05	1.22	150	0.67	0.61	1.38	7.28	0.90	82	2325	4.50% (Jun-25)	4.00%	2.75% (Jun-25)

Source: Standard Chartered

JUN

- 4 Jun > Results of India's general election
- 6 Jun > Euro area: ECB policy meeting
- 6-9 Jun > EU: European Parliament election
- 12 Jun > US: Fed policy meeting
- 13-14 Jun > Japan: BoJ policy meeting
- 17-19 Jun > Italy: 50th G7 summit
- 20 Jun > UK: BoE policy meeting
- 27-28 Jun > EU: European council

JUL

- 1 Jul > China: Politburo meeting on H2 economic work
- 15-18 Jul > US: US Republican national convention
- 18 Jul > Euro area: ECB policy meeting
- 31 Jul > US: Fed policy meeting
- 30-31 Jul > Japan: BoJ policy meeting

AUG

- 1 Aug > UK: BoE policy meeting
- 19-22 Aug > US: US Democratic national convention

SEP

- 12 Sep > Euro area: ECB policy meeting
- 18 Sep > US: Fed policy meeting
- 19 Sep > UK: BoE policy meeting
- 19-20 Sep > Japan: BoJ policy meeting
- 22-23 Sep > UN: Summit of the future in 2024

OCT

- 1 Oct > Russia: BRICS summit
- 17 Oct > Euro area: ECB policy meeting
- 25-27 Oct > US: The World Bank / International Monetary Fund (IMF) Annual meetings 2024
- 30-31 Oct > Japan: BoJ policy meeting

NOV

- 5 Nov > US: US Presidential election
- 7 Nov > US: Fed policy meeting
- 7 Nov > UK: BoE policy meeting
- 18-19 Nov > Brazil: 19th G20 summit

DEC

- 1 Dec > China: China central government annual economic work conference
- 12 Dec > Euro area: ECB policy meeting
- 18 Dec > US: Fed policy meeting
- 18-19 Dec > Japan: BoJ policy meeting
- 19 Dec > UK: BoE policy meeting

Legends: Central bank policy | Geopolitics

X – Date not confirmed | ECB – European Central Bank | FOMC – Federal Open Market Committee (US) | BoJ – Bank of Japan | BoE – Bank of England

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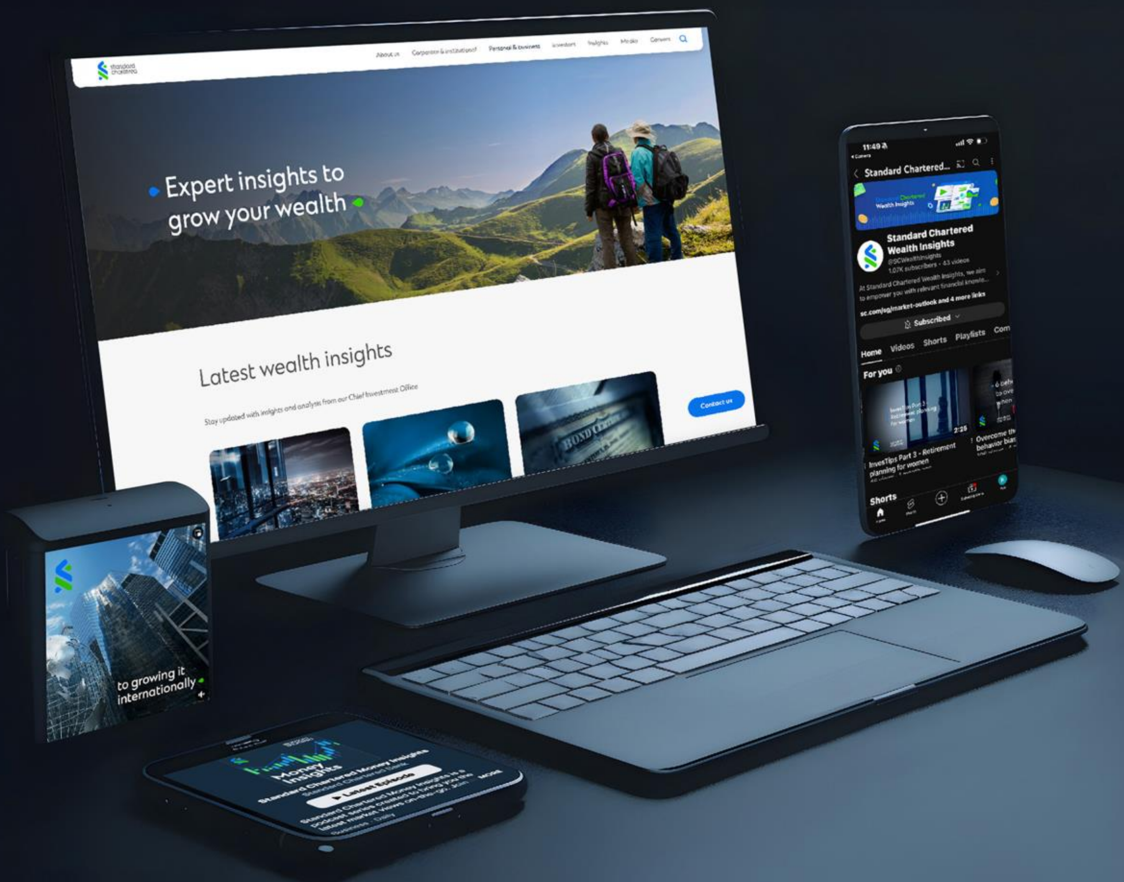

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Explanatory notes

1. The figures on page 5 show allocations for a moderately aggressive risk profile only – different risk profiles may produce significantly different asset allocation results. Page 5 is only an example, provided for general information only and they do not constitute investment advice, an offer, recommendation or solicitation. They do not take into account the specific investment objectives, needs or risk tolerances of a particular person or class of persons and they have not been prepared for any particular person or class of persons.

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