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WS Global Chief Investment Office
21 June 2024

Global Market Outlook

Adapting to shifting winds

The start of major central bank rate cuts marks a key turning point for investors as policymakers switch their focus towards supporting growth.

We see it as a good time to adapt to these shifting winds by (i) staying Overweight equities over bonds and cash, (ii) favouring US equities globally and Indian equities in Asia and (iii) owning gold and EM USD bonds as diversifiers.

In this environment, balanced foundation allocations comprising equities, bonds and alternative assets are likely to outperform allocations that are solely aimed at generating income.

Our opportunistic allocations continue to favour growth sectors in the US, a barbell-like strategy in Europe and select government policy beneficiaries in China.

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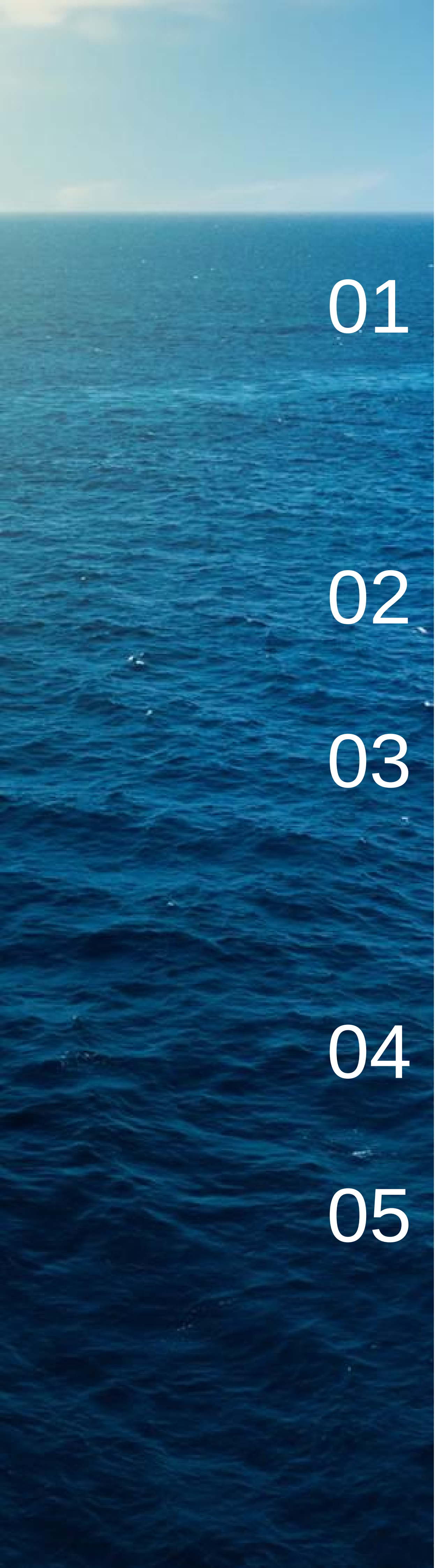
How to craft a diversified portfolio for the long-term?

Is the US economy still headed for a soft-landing?

What is the message from your quantitative models?



Contents

Investment strategy and key themes

Steve Brice
Global Chief Investment Officer

Manpreet Gill
Chief Investment Officer, AMEE

Raymond Cheng
Chief Investment Officer, North Asia

Our top preferences

Foundation Allocations

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

Opportunistic Allocations

Equity BUY ideas

- *US technology sector*
- *US comms. services sector*
- *India large cap equities*
- *China non-financial divi SOEs*
- *Taiwan equities*
- *Japanese banks*

Bond BUY ideas

- *US inflation-protected bonds*
- *Europe govt. bonds (FX-hedged)*
- *INR local currency bonds*
- *US Agency MBS*

FX views

- Bullish bias on USD

Adapting to shifting winds

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- In this environment, balanced foundation allocations comprising equities, bonds and alternative assets are likely to outperform allocations that are solely aimed at generating income.
- Our opportunistic allocations continue to favour growth sectors in the US, a barbell-like strategy in Europe and select government policy beneficiaries in China.

Investment strategies in the face of shifting winds

Our 2024 Strategy of 'Sailing with the Wind' has performed well on the back of a strong equity market rally. Our Balanced allocation has risen 6.7% year-to-date, outperforming income-oriented strategies.

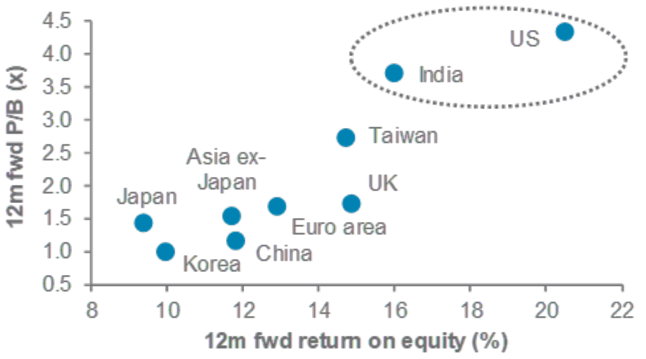
As we approach a potential inflection point in the form of central bank rate cuts and the US election, we believe it is time for investors to 'Adapt to Shifting Winds'. We expect: (i) equities to outperform bonds and cash, an outcome likely to result in balanced strategies outperforming income strategies; (ii) US and Indian equities to outperform global and Asian markets, respectively; and (iii) gold and EM bonds to offer diversified sources of return.

Policy inflection point a key positive for equities

Major central bank rate cuts, which started in Q2, are likely to extend into the second half of the year. Europe is the forerunner along this path. The central banks of Sweden and Switzerland and the European Central Bank have already cut rates as growth and inflation slow. We believe the Fed has room to follow suit, albeit later in H2, as slowing rents and softening labour markets drive inflation lower.

Fig. 1 **High US and Indian equity market valuations arguably justified by high return on equity**

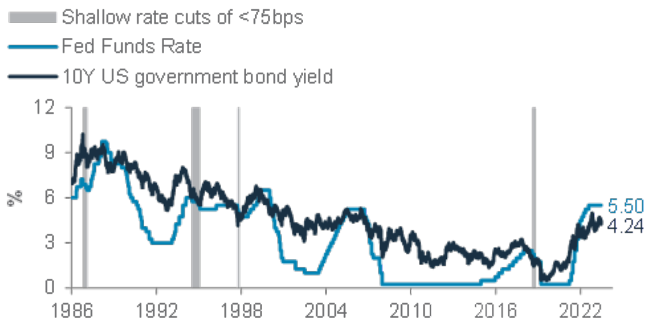
12m forward Price/Book vs. return on equity



Source: FactSet, Standard Chartered

Fig. 2 **Bond yields have historically fallen near or ahead of Fed rate cuts**

10yr US govt. bond yield vs. Fed policy rate



Source: Bloomberg, Standard Chartered

For markets, this policy shift is significant as it creates the conditions for our soft-landing view to pan out. Pre-emptive rate cuts that help avoid a sharp, recessionary slowing of economic growth are likely to support an extended earnings growth cycle. These conditions should result in equities continuing to outperform bonds and cash in H2 24.

US and Indian equities to lead

Regionally, we believe US equities offer a strong case for continued outperformance relative to other major equity markets in H2. US earnings remain a cornerstone of our view – 12-month expected earnings growth remains robust and has been revised higher since the start of the year. More significantly, these expectations show gains broadening beyond the 'Magnificent 7' stocks by year-end.

US valuations are undoubtedly high and have been one key pushback against our positive view. However, we believe these are justified by a high return on equity (ROE). In our view, this suggests valuations are unlikely to be a barrier to further gains in an environment where markets remain focused on growth assets amid likely upcoming Fed rate cuts.

After 14.8% gains YTD, though, we would balance our positive view given that further gains are unlikely to occur in a straight line. While our short-term quantitative and technical models are not flashing any warning signs, fund manager surveys note quite low levels of cash, which historically have been an indicator of short-term reversals. History also shows there is a risk of volatility in the weeks around US elections. While both are short-term factors, they warn of greater volatility in H2 than what markets experienced in H1.

Beyond the US, we have a core holding (Neutral) view on most other major markets. We have upgraded Euro area equities to core holding amid a surprise improvement in high frequency growth data, political uncertainties notwithstanding. We also now see Japan as a core holding (Neutral) as the positive case (share buybacks, shareholder-friendly reform, and higher nominal growth) runs up against an extended negative signal from our short-term technical model. We are Underweight UK equities amid low earnings expectations.

In Asia ex-Japan, we are Overweight Indian equities. The basis is not dissimilar to that of US markets – the economic and earnings growth outlook remains positive and the completion of elections puts a key event risk behind us. Valuations are challenging, but we note Indian equity markets rank second highest, after the US, among major equity markets in terms of ROE. Our relative preference for large-cap equities also helps mitigate this risk, in our assessment.

We have a core holding (Neutral) view on Chinese equities. Positioning and valuations suggest the easy gains are now behind us as both have moved away from excessively negative extremes. This now puts the onus on earnings growth, which is likely to require greater policy support.

Carry, the key theme in bonds and FX

'Carry', or the yield, remains the key opportunity in bond and FX markets. It is, however, much harder to find value. This balance causes us to have a core holding (Neutral) view on global bonds.

History reminds us that US dollar bond yields generally peak not far from when the Fed stops hiking rates and fall near or ahead of Fed rate cuts. While the magnitude of this decline varies depending on the size of rate cuts, history strongly argues for locking in today's yield. Holding a core allocation to bonds is attractive, especially vs. holding cash, where reinvestment risk is considerably higher as rate cuts bring future yields lower. We have a neutral view between government and corporate bonds – while the latter offers a slightly higher yield, yield premiums over government bonds offer little value.

EM bonds offer pockets of opportunity and risk. We are Overweight EM USD-denominated government bonds as we believe the relatively high yield and better value mean it is likely to outperform global bonds. In contrast, we are Underweight EM local currency bonds as we believe the yield does not compensate for taking on currency risk. Many major EMs are also unlikely to cut rates as deeply or rapidly as Developed Market (DM) central banks, limiting price gains in EM local currency bonds.

Gold a bright spark

Gold has been a top-performing asset class in H1 24, rising 14.4% YTD. What we find most interesting is how the gold rally continues to be driven by a tight demand/supply balance rather than falling bond yields. We see room for this to continue given central bank demand remains strong, while the direction of yields turns more supportive amid rate cuts.

While we continue to have a core holding (Neutral) view on the asset class, H1 has been a lesson on why it is important to build and maintain a core holding in gold within Foundation portfolios.

Opportunistic allocations: A focus on growth

In the US, our equity sector Overweights are focused on the technology and communication services sectors. While we like them for their earnings outlooks and sensitivity to falling bond yields, we also like them for being growth-oriented. This, we believe, fits well with the macro and markets environment we expect for H2 24 as the Fed starts to cut rates to manage a soft landing for the US economy.

In Europe, we are Overweight the technology and healthcare sectors. We believe this more barbell-like approach is consistent with the improvement in the growth outlook, while recognising this trend still has some distance to go, especially with election-related uncertainty in France.

In China, we are Overweight the technology, communication services and consumer discretionary sectors. We believe this more focused approach on sector-specific fundamentals looks increasingly attractive as the easy gains from broader market gains come to an end, with positioning and valuations both no longer at extremes.

We add a new equity Buy idea on Japan banks. With the short-term technical signal remaining weak for the broader Japan market, we believe this idea should offer more focused exposure to an undervalued sector exposed to a longer-term recovery in Japan's economy and rising net interest margins at banks. We close our Buy idea on South Korean equities, even as we keep our Taiwan Buy idea open, to trim our exposure to the semiconductors sub-sector (see the equity section for more details).

In bonds, we add a new Buy idea on US agency mortgage-backed securities. We believe the risk/reward is attractive given the robust yield, quasi-sovereign credit quality, contained mortgage prepayment risk and the likelihood for yields to move lower (see the bonds section for more details).

How important are US elections for market?

One key event in H2 24 that is firmly on investors' horizons is the US Presidential election.

Since 1972, the S&P500 has, on average, delivered positive returns six months before and after elections, with any volatility limited to the weeks around the election itself.

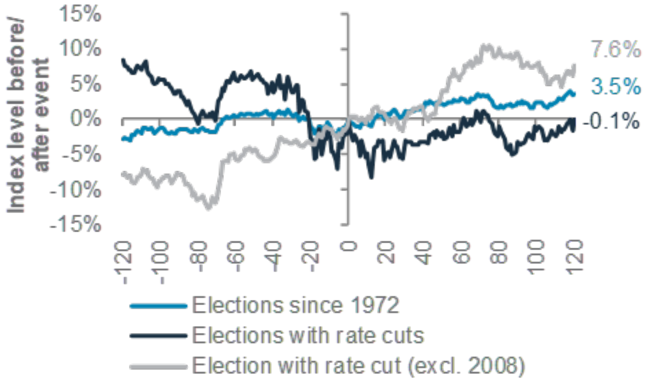
Today, the question is whether the presence of a Fed rate cutting cycle changes this outcome to any degree. Our analysis illustrated in the chart shows that, historically, S&P500 returns were significantly worse than average around elections when the Fed was also cutting rates.

However, this average appears to have been heavily influenced by 2008, the only US Presidential election in our period of analysis that also fell within an economic recession. Excluding 2008 from the analysis suggests the impact of whether we are in a rate hiking or rate cutting cycle makes little discernible difference to market returns.

The bottom-line: The US Presidential election is likely to dominate the headlines, but investors should pay more attention to macro and market fundamentals.

Fig. 3 **US equities generally perform well in the 6 months before and after a US election**

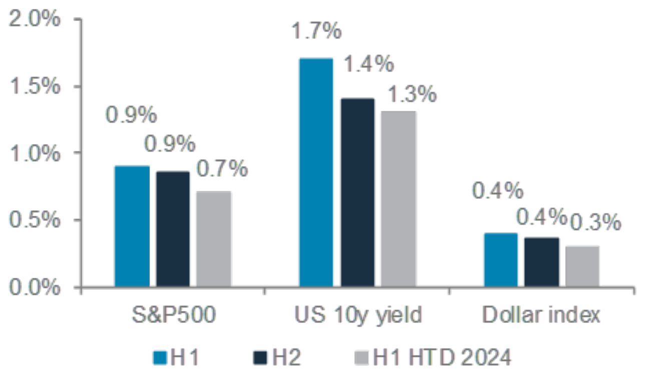
S&P500 average performance around US Presidential elections across scenarios



Source: Bloomberg, Standard Chartered; Data since 1972

Fig. 4 **Equity, FX volatility lower than usual in 2024 compared with previous election years**

Average H1 and H2 historical* realised volatility and actual H1 24 volatility for major US assets during election years

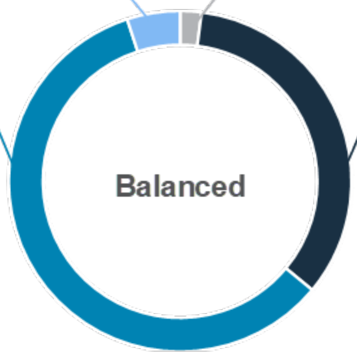


Source: Bloomberg, Standard Chartered; *Data since 1948

Foundation asset allocation models

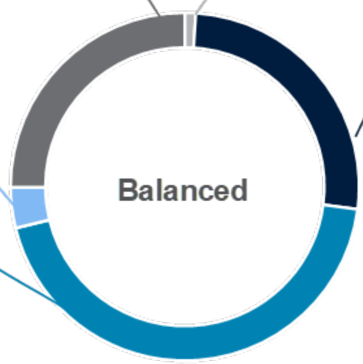
The Foundation and Foundation+ models are allocations that you can use as the starting point for building a diversified investment portfolio. The Foundation model showcases a set of allocations focusing on traditional asset classes that are accessible to most investors, while the Foundation+ model includes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

Fig. 5 **Foundation asset allocation for a moderately aggressive risk profile**



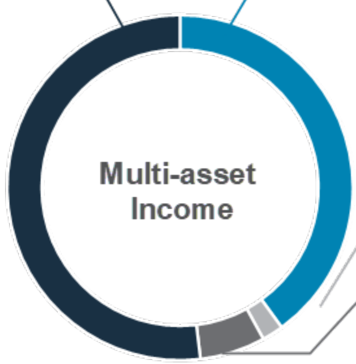
Gold	**5%**
Gold	5%
Equity	**59%**
North America	39%
Europe ex-UK	8%
UK	1%
Japan	4%
Asia ex-Japan	8%
Cash	**2%**
USD Cash	2%
Bond	**34%**
DM IG Government	12%
DM IG Corporate	11%
DM HY Corporate	3%
EM USD Government	4%
EM Local Ccy Government	1%
Asia USD	4%

Fig. 6 **Foundation+ asset allocation for a moderately aggressive risk profile**



Alternatives	**25%**
Alternatives	5%
Private Equity	6%
Private Real Assets	5%
Private Debt	9%
Gold	**4%**
Gold	4%
Equity	**44%**
North America	29%
Europe ex-UK	6%
UK	1%
Japan	3%
Asia ex-Japan	6%
Cash	**1%**
USD Cash	1%
Bond	**26%**
DM IG Government	9%
DM IG Corporate	8%
DM HY Corporate	2%
EM USD Government	3%
EM Local Ccy Government	1%
Asia USD	3%

Fig. 7 **Multi-asset income allocation for a moderate risk profile**



Bonds	**52%**
DM IG Government	7%
DM IG Corporate	5%
US Mortgage-backed Securities	4%
DM HY Corporate	22%
EM HC Government	6%
EM LC Government	3%
Asia USD	5%
Equity	**40%**
US High Dividend	18%
Europe High Dividend	9%
Asia High Dividend	9%
Global Infrastructure	2%
Global REITs	2%
Cash	**2%**
USD Cash	2%
Hybrids	**6%**
Covered calls	3%
Sub financials	3%

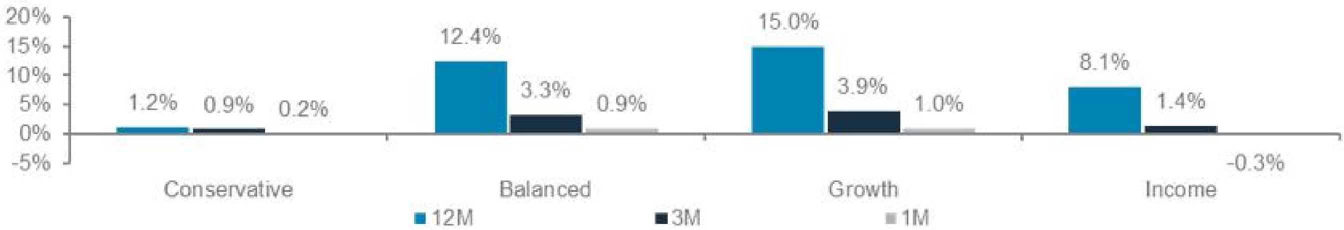
Foundation: Our tactical asset allocation views

	View	Detail
USD cash	▼	+ Safety, yield || - Reinvestment risk, 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 || - Commodity prices
EM Local Ccy Govt	▼	+ Attractive yield, room for policy rate cuts || - USD strength
Asia USD	◆	+ Moderate yield, policy support || - China structural growth concerns
Equities	▲	
North America	▲	+ Strong earnings growth, room for rate cuts || - Elevated valuations
Europe ex-UK	◆	+ Inexpensive relative valuations, improving growth || - Political/election risk
UK	▼	+ Attractive valuations, dividend yield || - Low earnings growth, 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, falling real rates || - 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. 8 **Performance of our Foundation Allocations***



Source: Bloomberg, Standard Chartered

*12-month performance data from 20 June 2023 to 20 June 2024, 3-month performance from 20 March 2024 to 20 June 2024, 1-month performance from 20 May 2024 to 20 June 2024.

Fig. 9 **Opportunistic ideas performance**

Key call		Inception/open date	Close date	Absolute return
Bond - open	EUR government bonds FX-hedged	27-Mar-24		-0.6%
	INR bonds	14-Dec-23		5.0%
	China USD bonds	23-May-24		0.8%
	US Agency MBS	20-Jun-24		-
Bond - closed	US inflation-protected government bonds	1-Feb-24	23-May-24	-0.9%
Equity - open	Buy US Tech	27-Mar-24		14.2%
	Buy US Comm	27-Mar-24		7.1%
	Buy India Large Cap	27-Mar-24		9.8%
	Buy China non-financial high Div SOE - A Share	27-Mar-24		4.0%
	Buy China non-financial high Div SOE - H Share	27-Mar-24		21.3%
	Buy Taiwan	23-May-24		10.2%
	Buy Japan Banks	20-Jun-24		-
Equity – closed	US Energy	27-Mar-24	23-May-24	-2.2%
	Europe Energy	25-Apr-24	20-Jun-24	-5.2%
	Korea	25-Apr-24	20-Jun-24	6.9%

Foundation: Multi-asset income strategies

Audrey Goh, CFA
Head, Asset Allocation

Hannah Chew
Portfolio Strategist

Key themes

Our Multi-Asset Income (MAI) model allocation has delivered 4.4% YTD return. The model benefitted from optimism surrounding risk assets, and dividend equities also benefitted from a broadening of the rally in traditional equities. Developed Market High Yield (DM HY) and leveraged loans gained from a strong corporate earnings season, while EM USD government bonds benefitted from a decline in US government bond yields.

Our MAI model now yields c.5.8%, dipping below the 6% mark for the first time this year. In recent weeks, major central banks, including the Swiss National Bank (SNB) and the European Central Bank (ECB), have initiated their rate cutting cycle, while the Fed has guided for one rate cut this year. We expect the ECB to deliver more rate cuts this year (see the macro section for more details), and the Fed to be more cautious in order not to loosen financial conditions prematurely while economic data remains resilient. We believe yield levels are attractive for income-focused investors to lock in the current high yield on offer.

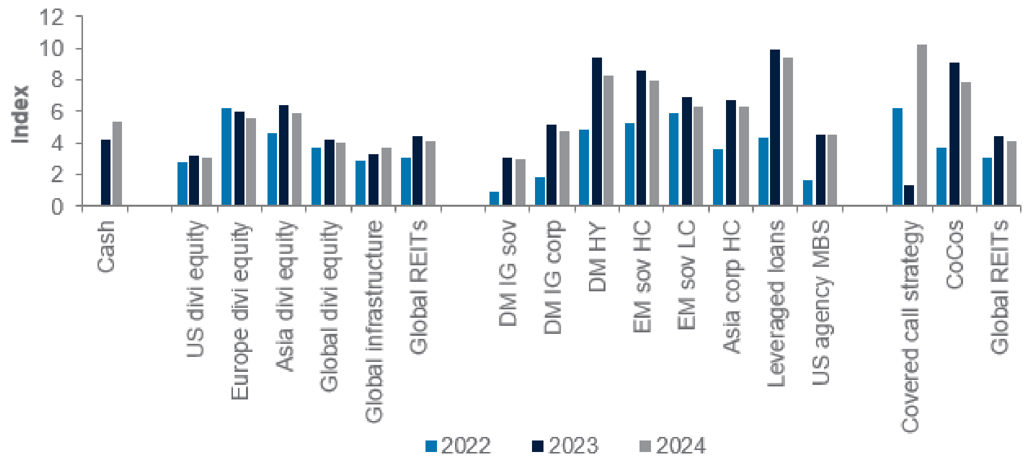
Over the next 6-to-12 months, the 2024 US elections will be closely watched by markets. History suggests income assets tend to deliver positive returns during US election years, regardless of whether the Fed is cutting or hiking rates. The only exceptions were REITs and Europe high dividend equities, which delivered negative returns in the 2020 pandemic election year.

Key chart

Yields remain high and attractive across most income assets

Fig. 10 **Yield on offer still high, although it is beginning to come off from the peak in 2023**

Yield to worst/dividend yield (%)

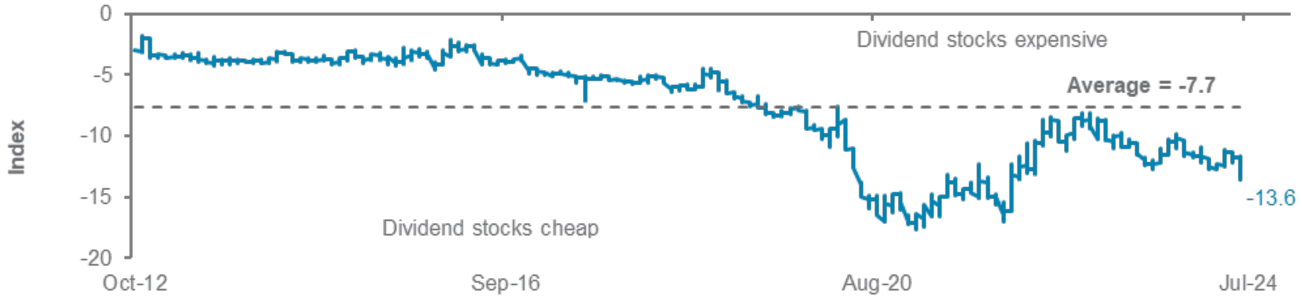


Source: Bloomberg, Standard Chartered

Contingent Convertibles (CoCos) are complex financial instruments. (Refer to Important Information on page 31 for further details)

Fig. 11 **Valuation gap between income and growth equities still makes dividend stocks attractive**

P/E difference between MSCI ACWI Dividend Equity Index and MSCI ACWI Growth Index



Source: Bloomberg, Standard Chartered.

Balanced allocation to equities and bonds

Our MAI model has returned 4.4% YTD. This has largely been due to the increased allocations to equities earlier in April, which has benefitted from a broadening of the equity rally beyond traditional equities, particularly in AI and technology sectors. DM HY and leveraged loans also added positively, given earnings growth remains strong. EM USD government bonds also saw gains due to declining US government bond yields.

We maintain a balanced allocation between fixed income and equity components within MAI. Solid earnings growth should continue to underpin upside in equity markets and we believe dividend equities have room to catch up to traditional equities given a still-attractive valuation discount relative to growth stocks. In the case of bonds, yields are high and attractive, and we also expect bonds to benefit from impending rate cuts by major central banks.

We anticipate performance in DM HY bonds and leveraged loans to be roughly aligned. DM HY bonds, by nature of their bigger allocation, have been a strong contributor to the overall MAI performance, while leveraged loans, due to their floating rate nature, have benefitted from interest rates remaining high. Given our expectation of an economic soft landing, we believe both asset classes are attractive given their high yields on offer. Also, default risks, while climbing gradually, are likely to remain capped given the strong earnings backdrop.

We continue to prefer sub-financials over DM HY bonds. The former has delivered better performance YTD and the spreads are still modestly wide, giving us comfort that there is scope for continued outperformance over the next 6 to 12 months . We also acknowledge that the French elections might pose some uncertainty in markets, but we view this as a temporary challenge, which is likely to have limited impact to the underlying fundamentals over the medium term.

Lastly, we remain neutral between dividend equities and covered calls within the equity basket. We expect multiple tailwinds for dividend equities moving forward, such as an earnings growth recovery and a valuation catch-up to the broad equity markets. Covered calls will still be a favourable way to generate additional income, while still participating broadly in any equity market rally.

Implications of US elections on income assets

In addition to monetary policy and economic data, investors will also have to grapple with the uncertainties surrounding the US elections. Our analysis covers the last three US elections due to the shorter history of available data for income assets. In each of those election years, Fed policy decisions were different. **And if history is any guide, investors can take comfort in the fact that both fixed income and equities had performed well regardless of the change in monetary policies**. At a glance, income assets across the board had recorded positive annualised returns during the calendar years of each US election, with the exception of global REITs and Europe high dividend equities during the 2020 pandemic year. That being said, the 2020 US election year, which saw the Fed cutting by 150bps, generally had poorer returns relative to the earlier two election years.

Fig. 12 **Income assets saw positive returns during the past three US election years**

Annualised returns during the calendar years of the 2020, 2016 and 2012 US elections

	2020 election year	2016 election year	2012 election year
Fed decisions	Cut rates by 150bps	Hiked by 25bps	Unchanged
DM IG govt	4.3	3.5	4.1
DM IG corp	7.3	6.2	10.3
EM USD govt	3.6	11.5	16.5
EM LCY govt	3.8	9.0	14.8
Asia USD	5.7	6.7	13.6
DM HY	6.6	15.1	20.2
Leveraged loans	5.9	8.4	9.9
US HDY	3.4	16.6	14.2
Europe HDY	-1.3	5.6	14.2
Asia HDY	5.7	7.9	25.3
Global infrastructure	1.1	12.1	12.2
Global REITs	-7.8	6.7	31.4
Covered calls	-0.9	8.4	6.7
CoCos	9.7	6.5	

Source: Bloomberg, Standard Chartered

Elections can induce uncertainty into markets, but the key is to also consider other market factors that can potentially impact performance. For instance, 2020 saw the onset of the pandemic, dragging the economy into a technical recession. Both factors were unrelated to the elections itself.

Reinvesting dividends imperative for total returns

While political events can pose short-term volatility risks, long-term investment decisions are still better made based on long-term fundamentals. Income strategy is designed to provide investors with a consistent and stable income stream. On top of that, it offers investors an option to consider reinvesting of dividends that will support capital preservation and wealth accumulation. In other words, to enhance the implementation of the income strategy, investors can consider harnessing the power of compounding over time by reinvesting any unused dividends. Our analysis on the historical returns shows that reinvesting dividends can lead to as much as c.67% outperformance as compared to when dividends not reinvested.

In our Perspectives section on page 10, we compare balanced and income strategies.

Perspectives on key client questions

Audrey Goh, CFA
Head, Asset Allocation

Tay Qi Xiu
Investment Strategist

How to craft a diversified portfolio for financial longevity?

Investing is a deeply personal journey, shaped by each individual's financial goals and risk tolerance. In the quest for financial gains, many investors are drawn to high-income strategies for their immediate cash flow. Yet, this focus may not be optimal for long-term growth. Income portfolios, rich in bonds and dividend yielding stocks, offer consistent cash flow appreciated by retirees and those seeking stability. However, for investors aiming to grow their assets, having a balanced allocation, which includes a good amount of growth assets – such as stocks that might not pay much dividends but have potential to significantly increase in value – is crucial. In this piece, we explore the merits of both strategies and the optimal income level for a sustainable long-term withdrawal rate for portfolios.

Understanding income portfolios

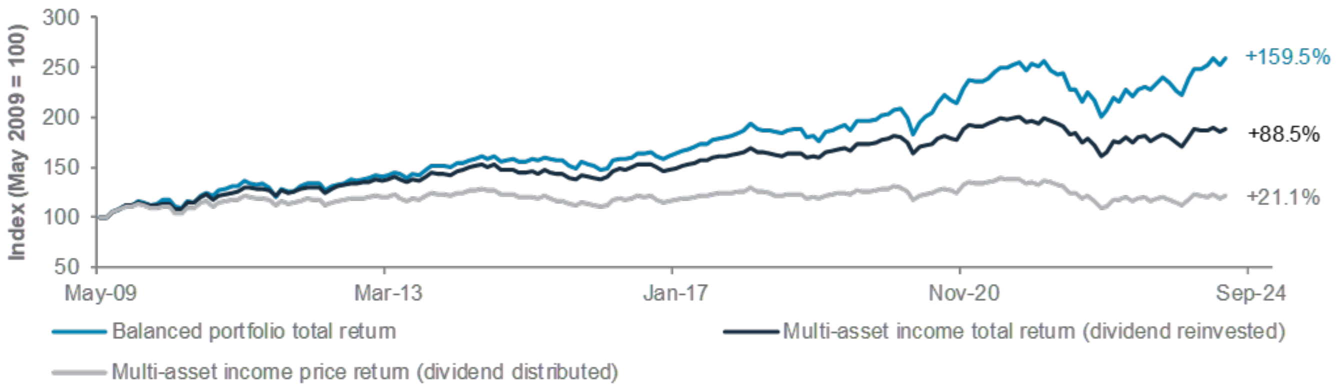
Income portfolios, typically heavy in bonds and dividend-yielding stocks, are engineered to deliver a steady cash flow. They are popular among those needing regular income. Despite their appeal, traditional income portfolios often trail behind their more balanced counterparts, which combine income generation with growth potential. Without substantial growth, they struggle to beat inflation and maintain purchasing power. Historical data since 2009 showed that a balanced stock and bond portfolio (Fig.13) handily outperformed an income portfolio from a total returns perspective, highlighting the importance of including growth assets into the investment mix to capitalise on market upswings and compound wealth over time.

The hidden cost of not reinvesting income

A critical aspect often overlooked by income investors is the long-term impact of not reinvesting their income. While income portfolios provide regular cash flows, they can suffer in terms of compound growth if dividends and interests are regularly withdrawn instead of being reinvested. This factor can significantly diminish the portfolio's potential to grow over time. While an income portfolio caters to immediate financial needs, investors need to weigh the opportunity cost of forgoing the powerful effects of compounding, which is central to long-term wealth accumulation.

Fig. 13 **Total returns key for long-term wealth accumulation; for income strategies, reinvesting income is imperative. Not reinvesting income will result in lower total returns long-term**

Cumulative returns of total return and price return of a diversified income allocation* vs. total returns of a balanced allocation** (May 2009 to May 2024)



Source: Bloomberg, Standard Chartered. *Income allocation: 55% Global Bonds, 43% Global High Dividend Equities, 2% Cash ** Balanced allocation: 55% Global Equities, 35% Global Bonds, 5% Gold, 5% Cash.

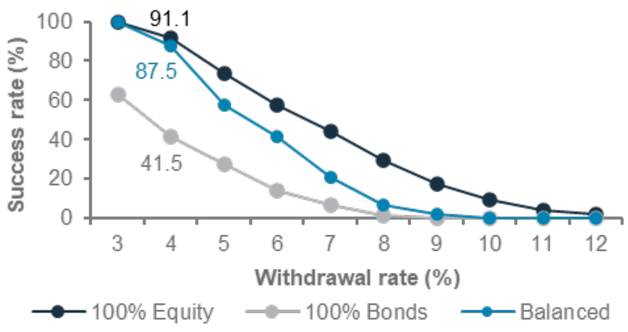
Total returns: A key measure of success

Total return, which encompasses interest, dividends, and capital gains, is an important measure of financial success. Focusing solely on income can be misleading as it does not consider the potential for losses in asset value. Having a holistic view of portfolio performance, considering both income and growth, when evaluating success is key.

This concept of total return is not only crucial for investment performance but also for retirement planning. For example, as investors approach retirement, the focus often shifts from accumulation to preservation and distribution of wealth. In this phase, understanding the interplay between total returns and withdrawal strategies becomes paramount.

Fig. 14 **Balanced and equity investors have greater odds of success with a 4% withdrawal rate**

Success rate* of simulated portfolio with varying withdrawal rates



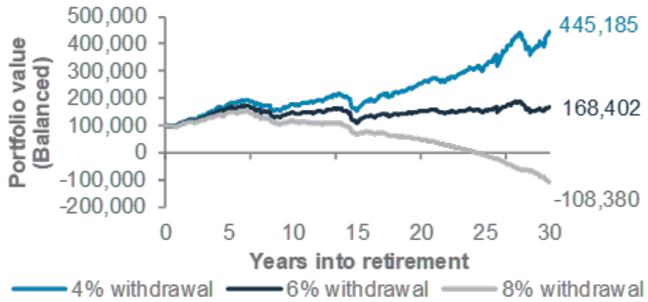
Source: Bloomberg, Standard Chartered *Success rate: the proportion of simulated portfolios with a positive value post a 30-year rolling retirement period since 1871. US assets only.

The 4% rule: A guideline for sustainable withdrawals

A balanced portfolio provides a robust foundation for implementing sustainable withdrawal. This 4% rule is a time-tested principle that offers a benchmark for sustainable withdrawal. It is predicated on the premise that an investor can withdraw 4% of their portfolio in the first year of retirement, and then subsequently adjust the amount for inflation each year, without facing a significant risk of depleting their retirement funds over a typical 30-year period.

Fig. 15 **Withdrawal rates over 6% could be hazardous, especially given risks from inflation and longer expected retirement periods**

12-month forward returns and investor positioning*



Source: Bloomberg, Standard Chartered; Starting value = 100,000

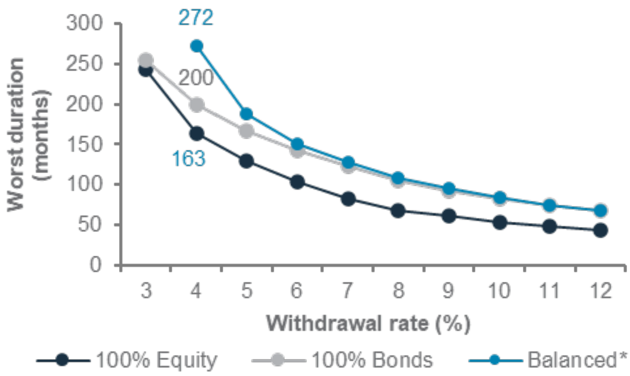
At higher rates of withdrawal, the risk of depleting the portfolio prematurely increases significantly. For example, if a retiree withdraws at a higher rate, say at 8%, they may initially have a more comfortable standard of living. However, this comfort could be short-lived if the market experiences a downturn or if inflation rises unexpectedly. A higher withdrawal rate would accelerate the depletion of the portfolio's principal, potentially leading to a situation where the portfolio may run out earlier than expected. **Moreover, higher withdrawal rates also limit a portfolio's growth potential. Since a large portion of the assets is being used for current expenses, less is left to invest and compound over time.** This can be particularly detrimental during the early years, as the effects of compounding are most potent over long-term.

Striving for balance in our stock-bond mix

A portfolio that is entirely allocated to either stocks or bonds is rarely optimal. Fig. 14 suggests that a higher allocation to equities typically provides better growth, while a 100% bond portfolio fared the worst due to lower returns. However, a 100% equity portfolio carries higher risk due to greater volatility. Given two options 1) a 90% chance to last 30 years, but a chance of running out of money after 7 years, and 2) a 90% chance to last 30 years, but a chance of running out of money after 25 years, the latter is better. Stocks increase the odds of success but are subject to the sequence of return risks and market cycles, while bonds will significantly reduce the chance of a portfolio failing too early. **Hence, balance is key**.

Fig. 16 **Balanced strategies have historically done better in safeguarding against failure and holding value**

Number of months before the first dip into negative value by simulated portfolios



Source: Bloomberg, Standard Chartered. *US assets only.

Navigating market volatility with a balanced portfolio

Achieving financial success involves more than simply choosing between income or growth. It requires a thoughtful blend of both, tailored to individual needs and goals. Income portfolios have their merits, especially for retirees who value predictable cash flow. For those with no immediate income needs and a substantial investing horizon, a balanced portfolio, comprising a judicious mix of income and growth assets is essential to chart a course towards substantial long-term wealth accumulation.

Macro overview – at a glance

Our macroeconomic outlook and key questions

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Zhong Liang Han, CFA
Investment Strategist

Key themes

More rate cuts likely amid renewed disinflation. We expect renewed disinflation to enable major central banks to cut rates in the coming months as they shift their focus towards supporting growth. Given this, **we now see a 55% chance of a US economic soft-landing and a 25% chance of a no-landing in the next 12 months.** The US expansion is benefitting from increased immigration, which is sustaining job creation and consumption, while subduing wages. **Risk scenario:** The Fed expects to cut rates just once this year, in H2, while some other central banks have already started easing. The Fed could be too late in easing, leading to overly tight financial conditions. Therefore, we assign a 20% probability to a hard-landing scenario.

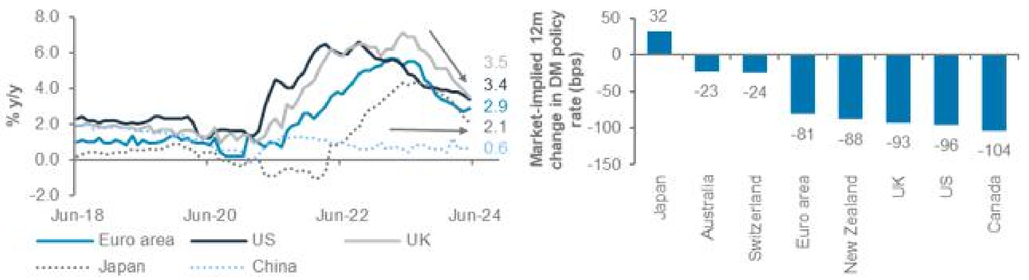
Europe, China to ease policy further. Both economies are benefitting from an upturn in global manufacturing. Nevertheless, the Euro area faces structural challenges in its 'green transition' and political risks, while ECB policy remains too tight. The ECB was among the major central banks to start cutting rates in June. We expect it to cut rates by another 50bps by year-end and 50bps more by June 2025 to support growth. Meanwhile, China's deflationary forces point to further targeted policy easing. **Risks:** Upcoming French elections could result in a far-right party gaining significantly in parliament, reigniting EU fiscal risks.

Key chart

We expect inflation to ease further across major economies in the coming months, enabling central banks to cut rates as they shift their focus towards supporting growth and extending the economic expansion

Fig. 17 **Except BoJ, major central banks are likely to cut rates as inflation subsides**

Core CPI inflation for major economies; Money market estimates of 12m policy rate changes



Source: Bloomberg, Standard Chartered

Monetary policy*	Macro factors positive for risk assets	Macro factors negative for risk assets
US ▼ ◇ △	+ Resilient jobs, immigration lifting consumption + Disinflation, stable jobs to buoy real income + Fed rate cuts to ease financial conditions + Robust corporate, household balance sheets	– Elevated policy rates sustain recession risk – Tight lending conditions; credit contraction – Negative fiscal thrust, depleted excess savings – Fed policy error, sticky inflation, election risks
Euro area ▼ ◇ △	+ Robust jobs, savings to sustain demand + Disinflation, stable jobs to lift real income + Industrial recovery; ECB cuts; credit drag fade	– Fiscal consolidation; France election risk – Structural challenges towards green transition – Tight real rates, ECB policy error, Russia risk
China ▼ ◇ △	+ Macro green shoots; normalising consumption + Fiscal and monetary policy to prioritise growth + Property sector easing; new growth drivers	– Weak property, local governments; geopolitics – Sluggish job market; narrowing profit margin – Weak credit growth, sentiment, deflation
Japan ▽ ◇ ▲	+ Trend growth; export boost from weak JPY + Sustained wage growth, tight labour market + Loose financial conditions; robust capex	– Lacklustre consumer spending, sentiment – Broadening inflation; risk of JPY strength – BoJ policy rate hike, balance sheet unwind
UK ▼ ◇ △	+ Robust jobs, savings to sustain demand + Disinflation, stable wages to lift real income + Improving business activity; BoE to ease	– Elevated policy rates sustain recession risk – Fiscal consolidation, tight financial conditions – Election uncertainty; Brexit-linked disruption

Source: Standard Chartered Global Investment Committee; *Next move **Legends:** ▲ Tighter policy | ▼ Easier policy | ◆ Neutral policy

Top macro questions

Is the US economy still headed for a soft-landing? We assign a 55% probability to a US economic soft-landing over the next 12 months and a 25% chance to a no-landing scenario. The primary drivers of a soft-landing are likely to be: i) the resumption of disinflation lifting household real disposable incomes, thus sustaining consumption, as excess savings built during the pandemic fade; ii) lower inflation enabling the Fed to start cutting rates in H2 to support growth and extend the business cycle; iii) residual impact of the immigration boost of the past couple of years (despite President Biden's executive order seeking to deter illegal migrants) helping to reduce the post-pandemic shortage of workers, and sustaining the job market and consumption; iv) robust balance sheets shielding companies against two-decade high interest rates, supporting earnings and profit margins; and v) boost to household net worth (mainly among high income households) from house price, equity gains over the past couple of years to sustain discretionary spending.

Of the above, the resumption of disinflation has lifted the chances of an economic soft-landing in recent months. In May, US inflation cooled for the second straight month, reversing increases in Q1. The so-called 'supercore' inflation (core services ex-shelter) contracted (-0.1% m/m) for the first time in over three years. The data highlights that, barring shelter inflation, which remains sticky (0.4% m/m), broader inflation is slowing again. Falling market rents suggest shelter inflation is likely to decline in H2, while falling new and used car prices point to further declines in auto insurance and repair costs. Also, forward-looking labour market indicators (declining job vacancy, hiring and quits rates) point to continued deceleration in 'supercore' inflation in the coming months, given wages are a key component of the latter. The recent burst of immigration should also subdue wage gains.

The other important driver of the US soft-landing thesis is the Fed's surprise decision in May to slow the pace of its balance sheet drawdown. The decision revealed, inflation permitting, the Fed's preference for easing, rather than tightening, policy, in our view. Although Fed policymakers subsequently revised their median projection for rate cuts this year to one cut from three, we believe they are being cautious against communicating an easy monetary policy too early, lest it leads to easing financial conditions, in turn defeating the Fed's objective of cooling inflation. Nevertheless, sustained disinflation (a few months of 0.2% m/m or lower core PCE inflation) would raise the chance of more rate cuts. We expect 75-100bps of Fed rate cuts over the next 12 months.

Risk: We assign a 20% probability of a recession over the next 12 months. The Leading Index of 10 key forward-looking indicators and the US government bond yield curve continue to signal a high risk of a recession. Historically, a US recession has started 9-22 months (median: 16 months) after an inversion of the 10-year vs. 2-year curve (occurred in July 2022). Also, US manufacturing and new orders PMIs and consumer confidence are again signalling increased recession risks. We are also watching a key metric of the US job market – the unemployment rate of permanent job losers. When the 3-month moving average of this rate rises more than 20bps from the past 12-month's low, a recession has historically started. The indicator was around 18bps in May.

Will the Euro area avoid a recession? The Euro area is benefitting from an upturn in global manufacturing and stabilisation in China's economy. While inflation surprised to the upside in May, the broader disinflationary trend remains, lifting real incomes. The ECB was among the first G7 central banks to start cutting rates in June. We expect cooling inflation to enable another 100bps of ECB rate cuts in the next 12 months. Meanwhile, a record low Euro area jobless rate and high household excess savings are likely to support consumption. **Risk:** Any gains by the far right in July French elections may lead to clashes with the EU on fiscal policies.

What to expect from China's Third Plenum? China's ruling Communist Party will hold its third plenary session in July. Past 'Third Plenums' have made significant changes to economic policy. This time, we expect the plenum to address key issues such as rising local government debt, oversupply of properties, accelerating the pace of technological innovation and re-orienting global supply chains amid mounting trade tensions. In May, authorities took steps to reduce the property sector inventory overhang. We expect more such targeted measures in the coming months to lift consumer and business confidence. **Risk:** Escalating trade tensions and retaliatory tariffs vs. the US and Europe.

Fig. 18 **A softening US job market points to lower wages**

US job vacancy rate, wage growth tracker, core PCE inflation

Fig. 19 **China to ease policy further to avoid deflation**

China property prices, money supply, Li Keqiang index*

Source: Bloomberg, Standard Chartered; *A measure of China's real economy, comprising of power consumption, rail freight, long-term loans

Bonds – at a glance

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Key themes

Developed Markets (DM) Investment Grade (IG) government bonds remain a core holding. The risk-reward of US government bonds appears fair, with market rate cut expectations being in line with our own expectations for one 25bps Fed rate cut this year. Absent significant catalysts, we anticipate the US 10-year government bond yields to stay within recent ranges in the near term. Our expectations over 3-month and 12-month are unchanged at 4.25-4.50% and 4.00-4.25%, respectively.

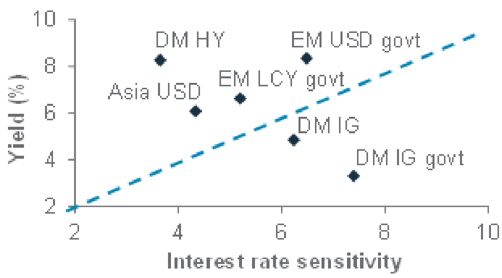
We are Overweight Emerging Market (EM) USD government bonds. Valuations, in our view, remain attractive given a yield premium that continues to exceed historical averages. Despite heightened geopolitical concerns, the fundamental strength of emerging economies remains bolstered by strong foreign exchange reserve, increasingly healthy fiscal balances and greater access to external debt than in recent years. We are Neutral DM IG and High Yield (HY) corporate bonds. Their narrow yield premiums are expected to be sustained by strong fundamentals and healthy supply-demand dynamics. We are Neutral Asia USD bonds as weak China growth outlook and geopolitical concerns are fairly compensated by the yield premium. We are Underweight EM Local Currency (LCY) government bonds on worries of EM FX volatility.

Key chart

We are Overweight Emerging Market USD government bonds given an attractive risk-reward balance and solid fundamentals

Fig. 20 **Emerging Market USD government bonds offer attractive yields and yield premiums relative to other major bond asset classes**

Yield and duration for major bond asset classes; Yield premium and percentile (last 20-year)



	Current	Percentile
DM IG Gov	13bp	49%
US IG	92bp	15%
US HY	320bp	14%
EM USD	394bp	73%
Asia USD*	166bp	5%

** Measured since Apr 2013*

Source: Bloomberg, Standard Chartered.

Preference order

	The bullish case	The bearish case
EM USD Govt ▽ ◇ ▲	+ High rate sensitivity (long duration) a positive from a peak in interest rates + Commodity prices	– Commodity price disinflation – Geopolitical risk amid elections in the US and key EM countries
Asia USD ▽ ◆ △	+ Regional growth continues to impress + Attractive yield	– Soft China economic growth outlook – Defaults or bond restructuring risk
DM IG Govt ▽ ◆ △	+ Attractive yield + DM central banks' pivot	– 'Higher for longer' monetary policy amid a strong economic growth backdrop – Unfavourable supply-demand balance
DM IG Corp ▽ ◆ △	+ High rate sensitivity (long duration) a positive from a peak in interest rates + Attractive absolute yield on offer	– Relatively tight yield premium – Weakening credit fundamentals
DM HY Corp ▽ ◆ △	+ Corporate credit fundamentals are still looking solid + Attractive yield on offer	– Rating downgrade risk – Surge of default risks
EM LCY Govt ▼ ◇ △	+ Supportive EM currency outlook	– Unfavourable yield differentials with DM – Rate cut expectation is in the price

Source: Standard Chartered Global Investment Committee

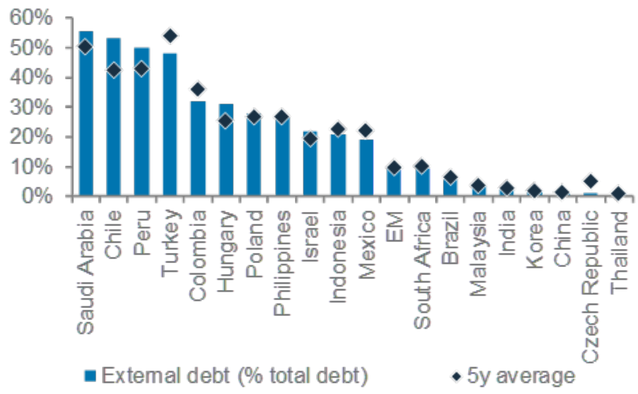
Legends: ▲ Overweight ▼ Underweight ◆ Neutral

Overweight EM USD government bonds

We continue to Overweight EM USD government bonds, supported by attractive valuations and fundamentals. Although persistent geopolitical tensions and softening commodity prices are risks, we continue to derive comfort from the attractive risk-reward, given current yield premiums are still above historical averages. Additionally, we assess EMs' fundamentals as fairly supportive. Although a higher-for-longer rate regime in DMs is likely to maintain some pressure on fund flows, these markets have improved foreign reserves in recent quarters.

Fig. 21 **External debt as a proportion of total for most EMs is below their 5-year average**

External debt (% total debt) and 5-year average



Source: Bloomberg, Standard Chartered

Neutral DM IG government bonds

We remain Neutral DM IG government bonds. We assess the risk-reward of US government bonds to be fair, as rate cut expectations by both financial markets and the Fed (the dot plot) are now aligned to our own expectation of a single 25bps cut this year (and 2-3 next year). This is consistent with our estimate of 55% odds of the US economy achieving a soft-landing. As such, we see the US 10-year government bond yield staying within 4.25-4.50% for the next 3-month, followed by 4.00-4.25% over the next 12 months.

Neutral DM IG and HY corporate bonds

DM IG and HY corporate bonds yield premiums remain at the tighter end of historical averages. Strong quarterly earnings have provided support to the rich valuation. Additionally, a soft-landing scenario should keep default rates relatively contained. In addition, DM HY corporates are not facing significant refinancing pressure this year, which should support performance. Although these DM bond assets offer good carry, we stay Neutral to both as value looks hard to be justified.

Neutral Asia USD bonds, with preference for HY over IG

We remain Neutral on Asia USD bonds. The asset class has performed largely approximate with DM HY corporate bonds and outperformed DM IG corporate bonds YTD. The outperformance was largely driven by Asia HY bonds, in line with our expectations. We continue to prefer Asia HY bonds over IG bonds due to the following observations:

1) Although Asia HY bonds remain dominated by Greater China issuers, we believe geographical and sector exposures are now more well-balanced.
2) Asia HY bonds have now likely priced ongoing defaults from the property sector, leaving less room for more downside surprises. For example, we note that strong asset class performance has continued despite a significant Chinese property developer default this year.

Underweight EM LCY government bonds

We expect a largely flat USD over the next 6-12 months. While EM FX is likely to stay moderately weak in the short term, higher EM FX volatility remains a key risk. Additionally, we see risk-reward valuation unattractive when EM central bank rate cuts are largely in the price.

We retain our duration preference to Neutral (5-7 years)

We believe the higher likelihood of a soft-landing scenario for the US economy suggests poorer risk-reward from excessively long-maturity US government bonds. Given the greater alignment today between market expectations and the Fed's 'dot plot' summary, we believe a Neutral (5-7 year) duration offers an attractive balance between yield (term premium) and reduced capital gain prospect from lower yields.

Keep tactical buy EUR government bond, INR bonds and China USD bonds

We retain our tactical buy EUR government bonds. Recent economic data in the Euro area continue to look sluggish with disinflation remaining on track. French election turmoil has driven French government bond yields and volatility higher. However, this volatility is likely to be temporary and also mitigated by the potential for a rally in other European bonds. We would await conclusion of the French election process.

We also keep our tactical buy on INR bonds. We continue to believe the asset class offers attractive risk-reward balance in the backdrop of structural growth and lower-than-peer currency volatility. Missing high regional growth expectation is a key risk.

We keep our tactical buy on China USD bonds. While China's macro outlook remains challenging, we continue to find attractive valuation and supportive government policies.

Add tactical buy US agency mortgage-backed securities (MBS)

This month, we initiate a tactical buy idea on US agency MBS, an asset class that offers a reasonable pick-up over US government bond yields and largely comparable fundamental exposures. While mortgage prepayments are a risk, we see the risk as relatively low as many homeowners used the post-COVID-19 years to refinance their liabilities at very low rates.

Equity – at a glance

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Equity Analyst

Key themes

We are Overweight equities over bonds and cash, with US equities our most preferred region. We are positive on US earnings growth, particularly in the growth sectors. We downgrade Japan equities to core holding (Neutral). Improving corporate governance is still a plus but deteriorating earnings revision is likely to limit the upside. We upgrade Europe ex-UK equities to core holding (Neutral) amid an earnings recovery, even though the French snap elections may lead to volatility in the near term.

We have a core holding (Neutral) view on Asia ex-Japan equities, but we are Overweight Indian equities. Expensive valuations are justified by high return on equity and rapid economic growth. We trim Taiwan equities to core holding (Neutral); tailwinds from the AI themes and strong GDP revision are offset by the expensive valuations and high geopolitical uncertainties. We also downgrade Korea to core holding (Neutral) – we see fading effect from the government's 'Value-up' programme and quietening foreign interests. We are core holding (Neutral) China equities. Challenges of long-term economic growth and the property sector remain the key risks, supported by the piece-meal government policies. We remain Underweight on ASEAN, which is overly defensive in a global environment favouring high-beta stocks. Lastly, we downgrade UK equities to Underweight. Despite cheap valuations, the region is similar to ASEAN – overly defensive.

Key chart

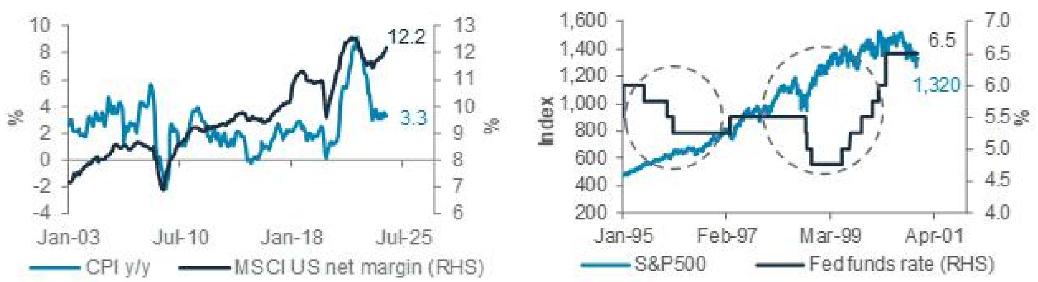
Equities in sweet spot, with falling inflation, high margins

Index	12m forecast	Upside to target*
S&P 500	5,990	9%
Nasdaq 100	23,000	16%
Euro Stoxx 50	5,280	7%
FTSE 100	8,780	6%
Hang Seng	19,500	6%
Nifty 50	25,700	9%
Nikkei 225	41,300	7%

*Based on 20 June closing levels

Fig. 22 **Falling inflation can help sustain expanding margins for US corporates. In late 1990s, equities continued to rally when the Fed successfully cut rates mid-cycle**

US net margin vs. CPI; Fed rate cut cycle and equity performance in 1995-2001



Source: FactSet, Bloomberg, Standard Chartered; *table below: Neutral China onshore vs offshore

Preference order	The bullish case	The bearish case
US equities ▽ ◇ ▲	+ Strong earnings growth and momentum + Technology sector propelling performance + Delayed economic slowdown	– Overconcentration on Magnificent 7 – Macro uncertainties: e.g., US election – Expensive valuations. Elevated positioning
Japan equities ▽ ◆ △	+ Strong corporate balance sheets + Rising ROE from corporates reform + Further improvement in earnings outlook	– Foreign net inflows decelerating – Rebound in JPY to hurt company earnings – Forward guidance deteriorating
Europe ex-UK equities ▽ ◆ △	+ Improving earnings growth + Rebound in economic data + Loosening policies from the ECB	– Macro uncertainties from elections – Less compelling in valuations – Economic rebound unable to sustain
Asia ex-Japan equities ▽ ◆ △	+ Higher EPS growth projected in 2024 + Rising demand for semiconductors + China's fiscal and monetary stimulus	– Soft survey data and economic activities – Lack of confidence from investors – Intensification of geopolitical tensions
Within AxJ	India equities ▲ South Korea equities ◆	Taiwan equities ◆ China equities* ◆
UK equities ▼ ◇ △	+ High dividend yield + Cheap valuations + Relatively defensive sectors	– Weak earnings growth expected in 2024 – Light in growth sectors – Lack of upside catalysts

Source: Standard Chartered Global Investment Committee

Legends: ▲ Overweight | ▼ Underweight | ◆ Neutral