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Equities break out

Equities are expected to extend recent gains following strong earnings and softening yields. US and China equities are expected to extend recent gains following strong earnings as bond yields soften. However, maintain regional and sector diversification. Lock in attractive bond yields as oil prices stay capped.

A technical breakout in the S&P500 and Hang Seng China Enterprises indices has focused attention on an improving near-term outlook after recent weakness. A strong US earnings season has been a key contributor, with the vast majority of S&P500 companies beating consensus expectations. Meanwhile, the pause in real (net-of-inflation) bond yields from close to multi-decade highs is also a key positive. It is important to ensure equity exposure remains well diversified both at a regional as well as sector level.

Yen intervention introduces greater two-way volatility, but fundamentals still support Yen weakness

Coordinated Japanese-US intervention raises the credibility and likely impact of the intervention move. However, the persistence of the sizeable gap between Japanese and US interest rates means the fundamental backdrop behind Yen weakness remains in place. The outcome is likely to result in greater two-way volatility, but no change in the larger bias towards Yen weakness for now. In the short term, USD/JPY to remain rangebound and Yen-funded carry trades to remain in place, though greater volatility could dampen the extent of risk investors are willing to place behind this carry trade at a global level.

Latest move towards a Strait of Hormuz deal reinforces rangebound oil price view

Reports of a renewed attempt at a deal to reopen shipping in the Strait of Hormuz helped maintain recent softness in oil prices. While recent history has shown that uncertainty to persist, it reinforces that oil prices are expected to remain largely in a USD 70-90 range. This should help keep a lid on oil-related inflation worries and help cap real bond yields. The opportunity to lock in attractive bond yields for short maturity bonds. The softening of real yields should also reduce headwinds for gold, which can be seen as a core allocation in portfolios.

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