Investment Monthly – February 2019

Equity markets rebound

HSBC

Summary

Macro Outlook

- We estimate that global growth is still running at its 3% trend
- Financial conditions have tightened, but recession risk remains modest given monetary policy is still accommodative, even in the US
- US growth is still comfortably above trend, while other regions are running at, or a little below, trend. Downside risks (e.g. US government shutdown) linger
- The EM Nowcast has yet to show signs of a significant turn-around. Chinese data have been soft. Nonetheless, EM assets have held up well
- Markets are not pricing in any pickup in inflation. This looks out of sync with US macro data in particular

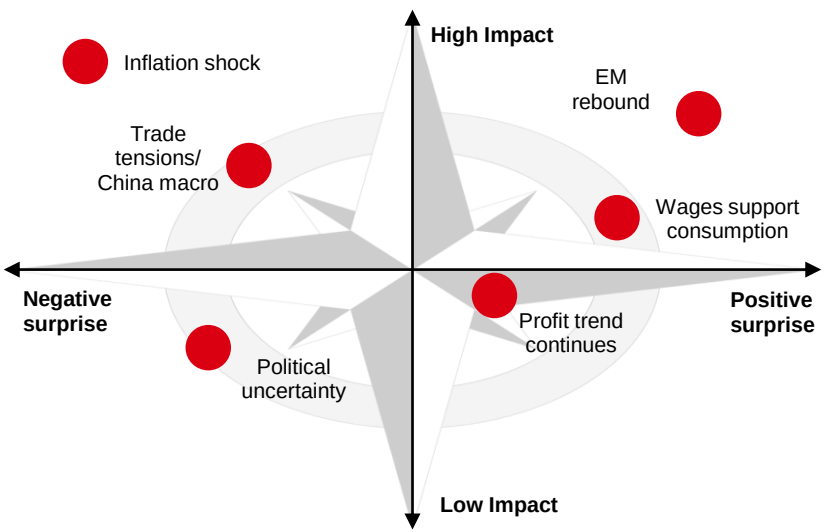
Central Banks

- The **US Federal Reserve (Fed)** January policy statement confirmed a shift towards a more "patient" approach, removing references to further rate hikes
- The **European Central Bank (ECB)** acknowledged recent growth weakness**,** agreeing that the balance of risks to the outlook have "moved to the downside"
- The **Bank of England (BoE)** struck a slightly more dovish tone in December, although still views ongoing tightening as appropriate given rising wage costs
- With inflation well below the **Bank of Japan's (BoJ)** 2% target, policy is expected to remain expansionary, with further tweaks in yield targets possible
- The **People's Bank of China (PBoC)** remains in easing mode, having already cut reserve ratio requirements this year

Key Views

- The market is taking a fairly strong, negative view on the future health of the global economy
- However, macro and corporate fundamentals have not deteriorated as much as perceived. This creates, for us, a buying opportunity
- Prospective risk-adjusted returns have improved in global equities and credit assets. In particular, **US equities are now as attractive as Europe's and Japan's**. Overall, we are overweight DM equities
- US Treasury yields have fallen, making risk-adjusted returns less attractive

Key Risks



Source: HSBC Global Asset Management, Global Investment Strategy, January 2019.
All numbers rounded to one decimal place.

Investment Views

We upgrade US equities and Asian high-yield corporate bonds from neutral to overweight

Valuations and underlying economic and corporate fundamentals remain in favour of risk assets, especially equities, in our view

- **Global equities** – the extent of recent growth fears appear overdone. Equity valuations have improved, and remain consistent with an optimal way to "back growth". However, risks require monitoring (China, trade tensions, Brexit, Italy)
- **Government bonds** – recession worries have allowed US Treasuries to once again be a "safe-haven" asset. However, we believe the market is dismissing the risk of higher inflation, and valuations are very unattractive in most DMs
- **Corporate bonds** – valuations have improved, particularly in Asia high-yield, where we move to overweight. However, we are not yet at the point to overweight corporate bonds at the global level

Equities

Asset Class	View	View move
Global	**Overweight**	–
US	Overweight	↑
UK	Neutral	–
Eurozone	Overweight	–
Japan	Overweight	–
Emerging Markets (EM)	Overweight	–
CEE & Latam	Neutral	–

Government bonds

Asset Class	View	View move
Developed Market (DM)	**Underweight**	–
US	Underweight	–
UK	Underweight	–
Eurozone	Underweight	–
Japan	Underweight	–
EM (local currency)	**Overweight**	–

Corporate bonds & Alternatives

Asset Class	View	View move
Global investment grade (IG)	**Neutral**	–
USD IG	Neutral	–
EUR & GBP IG	Underweight	–
Asia IG	Neutral	–
Global high-yield	**Neutral**	–
US high-yield	Neutral	–
Europe high-yield	Neutral	–
Asia high-yield	Overweight	↑
EM agg bond (USD)	**Neutral**	–
Gold	**Neutral**	–
Other commodities	**Neutral**	–
Real estate	**Neutral**	–

Asian assets

Asset Class	View	View move
EM Asian fixed income	**Underweight**	–
Asia ex-Japan equities	**Overweight**	–
China	Overweight	–
India	Overweight	–
Hong Kong	Neutral	–
Singapore	Overweight	–
South Korea	Neutral	–
Taiwan	Neutral	–

View move:
– No change
↑ Upgraded over the last month
↓ Downgraded over the last month

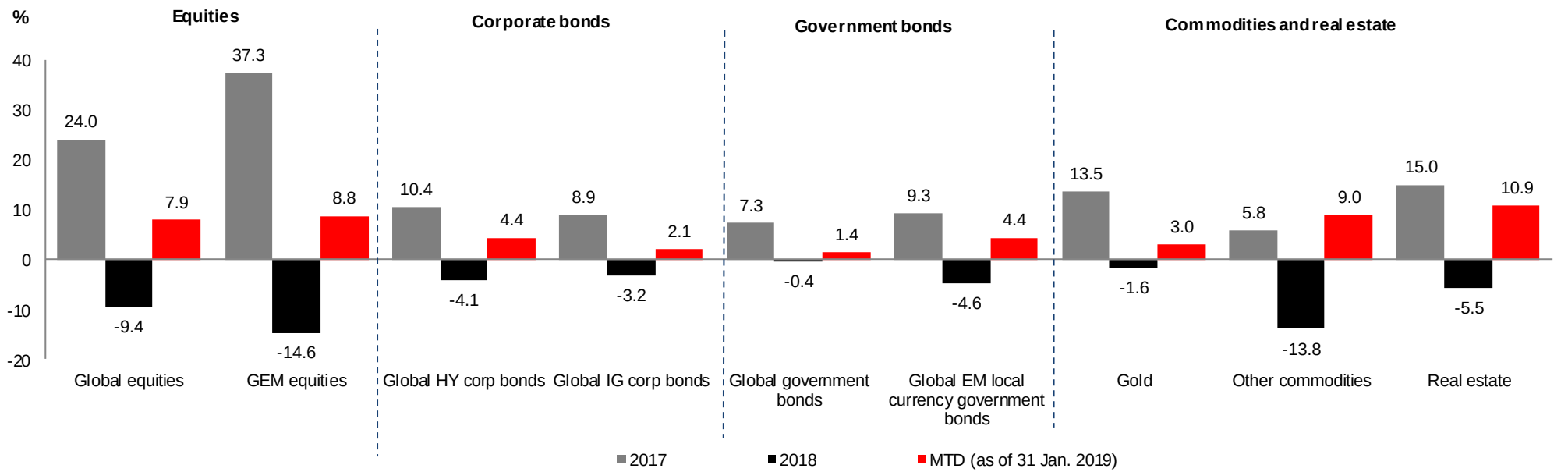
Source: HSBC Global Asset Management, as at January 2019. Subject to change.

Asset Class Performance at a glance

Global equities rebounded in January amid easing US-China trade tensions, upbeat corporate earnings reports and dovish comments by the US Federal Reserve

- **Government bonds** – US Treasuries and European bonds rallied (yields fell), supported by dovish comments by the European Central Bank and US Federal Reserve. Riskier Italian and Spanish bonds outperformed
- **Commodities** – oil prices also rose on easing US-China trade concerns and increasing investor confidence that OPEC, Russia and other allies will restrain production enough to avoid an oversupply

Past performance is not an indication of future performance



- Note: Asset class performance is represented by different indices.
- **Global Equities:** MSCI ACWI Net Total Return USD Index. **Global Emerging Market Equities**: MSCI Emerging Market Net Total Return USD Index. **Corporate Bonds:** Bloomberg Barclays Global HY Total Return Index value unhedged. Bloomberg Barclays Global IG Total Return Index unhedged. **Government bonds**: Bloomberg Barclays Global Aggregate Treasuries Total Return Index. JP Morgan EMBI Global Total Return local currency. **Commodities and real estate:** Gold Spot $/OZ/ Other commodities: S&P GSCI Total Return CME. **Real Estate**: FTSE EPRA/NAREIT Global Index TR USD.
- Source: Bloomberg, all data above as of close of 31 January 2019 in USD, total return, month-to-date terms

Base case views and implications

	Monthly macroeconomic update	Base case view and implications
US	◆ Recent business surveys have softened amid headwinds from trade and political uncertainty, and the fading impact of fiscal stimulus ◆ The Fed was significantly more dovish in its January policy meeting statement, removing references to further rate hikes, and adopting a "patient" approach	◆ US economic growth is poised to moderate this year, although from above-trend rates. For us, near-term recession risk remains low ◆ The FOMC signalled two rate hikes this year at its December 2018 meeting, recent dovishness makes this less likely ◆ Based on valuations, **US equities now look increasingly attractive relative to Treasuries**
Europe	◆ **Eurozone:** Survey data remains disappointing, and there is now a reasonable chance that Germany was in a recession in the second half of last year ◆ **UK:** The economy remains exposed to the outcome of ongoing Brexit negotiations. However, the labour market is tight, and wage growth is rising	◆ **Eurozone:** there is scope for a near-term recovery following transitory disruptions. European equities remain attractive ◆ **UK:** Given high Brexit uncertainty, we remain cautious on UK equities
Asia	◆ **China:** Despite policy easing measures, there is little evidence yet that the economy has turned a corner. Credit growth remains on a downward trend ◆ **India:** The economy is a major beneficiary of lower oil prices, while muted inflation paves the way for monetary policy easing ◆ **Japan:** Economic growth could pick up on the back of lower oil prices and a tight labour market, but China's slowdown and a planned sales tax hike are key risks	◆ **China:** We believe authorities will ease policy enough to engineer a turnaround. Valuations remain very favourable ◆ **India:** The long-term structural story remains positive, but valuations are fairly unattractive versus other Asian markets ◆ **Japan:** We believe the valuation of Japanese equities is still very attractive while monetary policy is supportive
Other EM	◆ **Brazil:** There are upside risks from lower borrowing costs if crucial pensions reforms can be enacted, although trade tensions are likely to weigh ◆ **Russia:** growth performance remains constrained by lower oil prices and US sanctions. Consumer spending has been hit by higher inflation ◆ **MENA:** Civil conflict, high unemployment and lower oil prices are weighing on the region's economic outlook. Progress with structural reforms is also limited	◆ EMs have weathered recent market volatility fairly well. A more cautious Fed, lower oil prices, lower US bond yields and China policy easing are key supports to macro stability ◆ Asian economies remain relative outperformers, supported by robust structural characteristics and the US-China trade truce ◆ **We upgrade Asian high-yield amid improved valuations**

Source: HSBC Global Asset Management. As at January 2019. Subject to change.

Long-term Asset class positioning tables (>12 months)

Equities

Asset class	View	Rationale	Risks to consider
Global	**Overweight** –	Our measure of the global equity risk premium (excess return over cash) is still reasonable given where we are in the profits cycle. We believe global equities still offer attractive rewards despite the risks to the growth outlook, while corporate fundamentals remain solid. Policy support can help offset headwinds from more modest Chinese growth, trade tensions, and political uncertainty in many regions.	Fairly narrow implied equity risk premiums could limit the ability of the market to absorb bad news. Episodic volatility may be triggered by concerns on global trade tensions, Chinese growth, and/or DM central bank policy normalisation, coupled with political risks. A further significant deterioration of the global economic outlook could also dampen our view. Finally, rising wage growth in many developed economies may undermine corporate profits.
US	**Overweight** ↑	**We upgrade our view on US equities because the recent sell-off has improved prospective risk-adjusted returns. Although US economic growth has recently moderated, it remains above trend and continues to outperform other regions. The risk of a US recession remains, in our opinion, modest, and growth fears have been overdone in our view.** **Positively, the Fed has signalled a more cautious approach to policy normalisation, while corporate fundamentals are still strong, particularly the pace of earnings growth.**	Greater than expected Fed tightening is a key risk. This could be driven by concerns over building inflation pressures amid rising wage growth. Further monetary policy tightening may weigh on economic growth, just as the boost from last year's fiscal stimulus is starting to fade. Risks from US protectionism also need to be considered, especially if further rounds of tit-for-tat actions towards China materialise.
Eurozone	**Overweight** –	Eurozone equities benefit from fairly high implied risk premiums and scope for better earnings news. Ultra-low ECB policy interest rates are likely to persist until the end of the decade.	Economic activity indicators have deteriorated over the past year. Export growth is vulnerable to the weaker global environment, protectionism risks and the lagged impact of euro strength. Political risks may be posed by the populist government in Italy and Brexit negotiations.

View:
– No change
↑ Upgraded over the last month
↓ Downgraded over the last month

Source: HSBC Global Asset Management. As at January 2019. Subject to change.

Long-term Asset class positioning tables (>12 months)

Equities cont'd

Asset class	View	Rationale	Risks to consider
UK	**Neutral** ▬	Major UK equity indices are heavily weighted to financial stocks, which should benefit from rising interest rates. Valuations have improved over the past year.	Lingering Brexit uncertainty means that, despite favourable valuations, we retain a cautious stance on UK risk assets in our multi-asset portfolios, including equities.
Japan	**Overweight** ▬	We believe valuations are attractive while policy is supportive. Large corporate cash reserves provide firms with the scope to boost dividends or engage in stock repurchases. Corporate earnings growth is still positive.	Japan's economy is vulnerable to economic developments in China and world trade growth. Other headwinds include a consumption tax increase planned for October 2019. Protectionism is a key risk.
Emerging Markets (EM)	**Overweight** ▬	Valuations have improved in recent months. We believe we are being well rewarded to bear EM equity risk. There are some tentative signs of an underlying improvement in EM macroeconomic and earnings performance. We also think there is scope for an improvement in macroeconomic performance in 2019, especially given policy easing in China, the recent decline in oil prices and a more cautious Fed. There is still significant potential for (selected) EM currencies to appreciate over the medium term. The structural characteristics of EM economies are significantly better than in the past. While core inflation is now rising gradually across many EMs, the average inflation rate remains relatively contained.	Aggregate EM growth momentum has weakened in the past year, with US-China trade tensions and the possibility of further Fed policy tightening weighing on the outlook. Rising inflation in some economies limits the scope for monetary policy easing. Furthermore, although Chinese authorities have eased policy, it remains to be seen if this will provide enough support.
CEE & Latam	**Neutral** ▬	There has been a loss of economic growth momentum in Latin America in 2018, although there are signs of a turning point. Meanwhile, in CEE, we believe Poland, Russia and Hungary offer attractive equity risk premiums.	Economic growth could deteriorate further. Geopolitical tensions are high and unpredictable. We think high local interest rates and sovereign yields in many countries diminish the case for bearing equity risk.

Source: HSBC Global Asset Management. As at January 2019. Subject to change.

Long-term Asset class positioning tables (>12 months)

Government Bonds

Asset class	View	Rationale	Positive factors to consider
Developed Markets (DM)	**Underweight** ▬	Prospective returns still look low. Robust global activity, the risk of inflationary pressures, and gradual DM central bank policy normalisation suggest yields could move higher still.	Government bonds may still deliver diversification benefits should there be a renewal of economic growth concerns. Also “secular stagnation” forces remain (ageing populations, low productivity and investment). The global pool of perceived “safety” assets is limited.
US	**Underweight** ▬	Prospective risk-adjusted returns have recently fallen and are now consistent with a full UW position. The US is at the forefront of building inflationary pressures. A more meaningful pick-up in inflation is a key risk scenario. Treasuries as a “diversifier” asset disappointed in 2018.	Prospective risk-adjusted returns are higher in shorter-duration Treasuries. Inflation may remain subdued despite rising wage growth and diminishing spare capacity. This would help cap yields.
UK	**Underweight** ▬	Prospective returns for UK gilts continue to look poor, and we are being penalised for bearing interest-rate risk.	Gilts could perform well if UK economic growth disappoints and/or a “no-deal” Brexit materialises.
Eurozone	**Underweight** ▬	Core eurozone government bonds are overvalued, in our view. The market has lost the support of the ECB’s net asset purchases.	Core inflationary pressures in the region remain subdued, which should keep monetary policy accommodative for an extended period of time. Short-maturity Italian bonds offer us decent compensation for their risks.
Japan	**Underweight** ▬	Japanese government bonds (JGBs) are overvalued, in our view. The BoJ has reduced the amount of its JGB purchases and has started to modify its yield targeting framework.	The “Yield Curve Control” framework should limit volatility and reduce the risk of significantly higher yields in the near term.

Asset class	View	Rationale	Risks to consider
Emerging markets (EM) local currency	**Overweight** ▬	In our view, most countries offer high prospective returns, especially compared to the opportunity set. Our estimate of the sustainable return on EM currencies reinforces our choice to hold this position unhedged.	A more aggressive than expected tightening of Fed policy and a rapid gain in the US dollar are key risks. Diverging economic and political regimes in the EM universe also mean that being selective is key.

Source: HSBC Global Asset Management. As at January 2019. Subject to change.

Long-term Asset class positioning tables (>12 months)

Investment grade corporate Bonds

Asset class	View	Rationale	Risks to consider
Global investment grade (IG)	**Neutral** ▬	Prospective returns on IG corporate bonds have improved over the past year. The macro environment remains supportive. The risk of defaults and downgrades appears limited for now.	Although credit premiums have risen, the margin of safety against negative shocks, such as a deterioration in the data or default outlook, is not wide, in our view.
USD investment grade	**Neutral** ▬	Prospective returns on US IG corporate bonds have improved this year. US IG debt looks more attractive to us than European credit. We think carefully-selected US credit may outperform.	The "duration" of US IG corporate bonds — a measure of their sensitivity to shifts in underlying interest rates — is historically high, making them vulnerable to a faster pace of Fed tightening, in our view. We think the short-duration IG space is more attractive.
Asia investment grade	**Neutral** ▬	Within the IG universe, the carry offered by Asian credits looks attractive relative to DM. Our measure of the implied credit risk premium is also relatively high. Robust underlying activity in EM Asia and a neutral monetary policy stance in most countries are also supportive.	A more aggressive than expected Fed policy normalisation poses a key risk, particularly for corporates who borrow in US dollars. Risks from rising protectionism cannot be ignored either, while the extent of Chinese leverage remains a long-term issue.

Asset class	View	Rationale	Positive factors to consider
EUR and GBP investment grade	**Underweight** ▬	EUR IG prospective returns are weighed down by a negative duration risk premium i.e. we are being penalised for bearing interest-rate risk.	The ECB's pledge to reinvest maturing assets for "an extended period of time" is supportive. Default rates also remain low.

Source: HSBC Global Asset Management. As at January 2019. Subject to change.

Long-term Asset class positioning tables (>12 months)

High-yield corporate Bonds

Asset class	View	Rationale	Risks to consider
Global high-yield	**Neutral**	Prospective returns on HY corporate bonds have improved this year. Market perceptions of growth prospects have significantly diminished in recent months, so this growth-sensitive asset class may outperform if activity surprises to the upside. Corporate fundamentals are solid amid broadly robust global economic activity, and defaults are low. We prefer higher-rated HY bonds.	Our measures show that we remain better rewarded by equities as a way to benefit from a broadly robust economic backdrop.
US high-yield	**Neutral**	Prospective returns on US HY corporate bonds have improved over the past year. Broad-based strength in US economic activity continues to support corporate fundamentals. Default rates are relatively low. HY bonds also have a shorter effective duration, making them more exposed to growth than to interest-rate risk. US growth risks are limited in our view.	US HY credits remain vulnerable to a deterioration in economic data or the default outlook. A more aggressive than expected Fed tightening cycle is a key risk.
Asia high-yield	**Overweight**	**We upgrade Asian high-yield corporate bonds from neutral to overweight because the carry (or "return") offered by Asian HY looks attractive to us given the alternatives, with relatively high prospective risk-adjusted returns.** Economic momentum is robust, underlying corporate fundamentals look decent, and inflationary pressures appear relatively stable.	A faster-than-expected pace of Fed monetary policy normalisation poses a key risk, particularly for corporates who borrow in US dollars. Risks from rising protectionism cannot be ignored either, while the extent of Chinese leverage remains a long-term issue.
Europe high-yield	**Neutral**	Underlying corporate fundamentals remain healthy (low default rates and strong earnings growth), and we are not expecting a eurozone recession in 2019. Monetary policy is still accommodative, with ECB interest-rate normalisation likely to be a slow process.	A faster than expected ECB tightening cycle is a key risk, although the bank has recently struck a more dovish tone. European political risks remain, with uncertainties in Italy likely to be a lingering risk in 2019 despite recent progress in negotiations over the country's budget.

Source: HSBC Global Asset Management. As at January 2019. Subject to change.

Long-term Asset class positioning tables (>12 months)

Alternatives

Asset class	View	Rationale	Risks to consider
EM agg bond (USD)	**Neutral** –	Prospective returns on EM hard-currency bonds have improved in 2018. Investors' reach for yield may continue to support this asset class.	The possibility of a more hawkish-than-expected Fed and stronger US Dollar poses a significant risk to USD-denominated debt holdings in the EM universe. USD debt leverage is high in some economies.
Gold	**Neutral** –	Gold futures can offer reasonable diversification benefits to our multi-asset portfolios and have some inflation-hedging characteristics. Gold performed well in the October and December 2018 sell-offs.	In our view, prospective returns on gold futures look poor. This is due to the large negative expected roll yield (the cost of renewing futures contracts) and a negative expected spot price return.
Other commodities	**Neutral** –	Commodity futures can offer us reasonable diversification benefits and have some inflation-hedging characteristics. Our measure of expected returns have improved during 2018. The energy sub-sector is the most attractive.	We measure a large negative expected roll yield (the cost of renewing futures contracts) for many commodities (particularly wheat and corn).
Real Estate	**Neutral** –	We believe global real estate equities are priced to deliver reasonably attractive long-run returns relative to DM government bonds. Current dividend yields offer a sizeable premium over wider equities and, in the long run, rents are linked to general economic growth, providing a partial inflation hedge.	In some countries, real estate equities that are focused on retail property are vulnerable to growing e-commerce although this is partly offset by strong demand for logistics space to support internet shopping. A serious escalation in global trade disputes could harm occupier demand. Sudden rises in interest rates could adversely affect prices in the short term. In the UK, Brexit continues to overshadow the market.

Source: HSBC Global Asset Management. As at January 2019. Subject to change.

Long-term Asset class positioning tables (>12 months)

Asian assets

Asset class	View	Rationale	Positive factors to consider
EM Asian Fixed Income	**Underweight**	From a near-term perspective, this asset class is sensitive to US monetary policy. While a gradual interest rate hike cycle in the US is positive for the asset class, Asian bond spreads look particularly tight compared with other EM regions, reducing their relative attractiveness.	From a long-term perspective, we believe return signals are still positive, backed by relatively sound economic fundamentals, stable inflation and credit quality.

Asset class	View	Rationale	Risks to consider
Asia ex-Japan equities	**Overweight**	We think Asia ex-Japan equities offer attractive risk-adjusted returns. Asian economic growth has held up relatively well, corporate earnings growth is strong and macroeconomic structural characteristics are better than in other EM regions. We think Asian currencies are poised to appreciate in the medium term.	A further rise in US Treasury yields is a key risk, along with DM central bank policy normalisation. Other risks include US protectionist policies; geopolitical events; commodity-price and/or currency volatility and renewed concerns about China's growth and financial stability.
China equities	**Overweight**	Policy support should eventually help stabilise growth prospects, particularly measures to aid private enterprises and consumption and improve monetary policy transmission. Current valuations are undemanding. A more constructive view on US-China negotiations and a more dovish Fed policy outlook could support sentiment. Further opening up of the economy, market structural changes and financial market liberalisation and globalisation are potential long-term catalysts.	Corporate earnings face further downward revisions in the near term, given the domestic macro environment and slower global growth. The uncertainty related to US-China trade talks remains, as the dispute goes beyond trade and relates to structural issues such as technology, market access and IP protection, etc. Uncertainties over policy effectiveness, the property sector outlook, and market-oriented structural reform prospects (including deleveraging, SOE reform and deregulation, etc.) are concerns. Balancing often conflicting economic, financial and social goals poses policy challenges.

Source: HSBC Global Asset Management. As at January 2019. Subject to change.

Long-term Asset class positioning tables (>12 months)

Asian assets cont'd

Asset class	View	Rationale	Risks to consider
India equities	**Overweight**	A more pro-growth monetary and fiscal policy setting and relaxation in financial regulatory norms is expected amid benign inflation and ahead of the general elections. The cash transfer to farmers and tax benefits for the middle income class will be a boost to consumption.	Earnings risks and election-related uncertainties could remain near-term market overhangs. Valuations are fairly unattractive compared with other Asian markets.
		Bank asset quality is steadily improving and loan growth is picking up. Lower oil prices are positive for macro stability. Lower commodity prices and interest rates helps margins.	Tepid consumer sentiment/festive demand, tighter slower non-bank finance companies (NBFC) credit growth and external uncertainties pose downside risks to near-term growth and corporate earnings.
		The long-term structural story remains positive with substantial progress on key reforms, higher infrastructure spending, and improving governance and ease of doing business.	The pre-election FY20 interim budget prioritised populism over fiscal prudence with a pause on fiscal consolidation due to the farm package. The new glide path does not change the original target of achieving 3% of GDP by FY21, but the credibility of the target is questionable.
Hong Kong equities	**Neutral**	The government will likely add fiscal stimulus to cushion against downside risks from external headwinds.	The domestic asset markets face risks from rising interest rates and tightening global financial conditions, though a data-dependent Fed with more cautious approach toward policy normalisation provides relief.
		Hong Kong has a strong external balance sheet and fiscal position and a healthy banking sector.	There have been signs of some softness in the housing market recently. Softer property prices could weigh on consumption via the wealth effect.
		Policy focus on upgrading the economy with innovation and technology and greater regional integration through the Greater Bay Area can boost longer-term productivity growth.	Uncertainties over US-China trade relations, China's growth slowdown and financial risk contagion and weaker global growth are also risks.
		Opportunities in some multinationals with branded products set to benefit from the region's structural growth/consumption story.	
Singapore equities	**Overweight**	Economic growth is likely to moderate but remain healthy amid a stable labour market and expansionary fiscal policy.	Weakness in exports and manufacturing could spill over to domestic demand, potentially halting the gradual recovery in employment growth
		Singapore will benefit from CPTPP[2] and it could marginally benefit from multinational companies looking to diversify their supply chain operations and manufacturing bases into ASEAN.	Singapore faces the risk of tighter global financial conditions, slower global demand, Chinese growth moderation, and trade protectionism, and is sensitive to sharp moves in the USD.
		The relatively high dividend yield is positive. Banks have robust net interest margins, asset quality and capital & yield support.	Tightening market liquidity is a risk. The housing market faces the challenges of rising mortgage rates/debt and policy measures.

[2] The Comprehensive and Progressive Agreement for Trans-Pacific Partnership ("CPTPP") is a Free Trade Agreement ("FTA") between 11 countries: Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam. Source: HSBC Global Asset Management. As at January 2019. Subject to change.

Long-term Asset class positioning tables (>12 months)

Asian assets cont'd

Asset class	View	Rationale	Risks to consider
South Korea equities	**Neutral**	South Korean equity valuations are attractive.	We remain cautious about the corporate earnings outlook given slower global growth, risk of a softer semiconductor sector, a tepid domestic economy and regulatory pressures (e.g. on the housing market).
		An expansionary fiscal policy and fast-tracking selected regional infrastructure projects support domestic demand, although the 2019 budget is focused largely on the welfare sector, which has relatively weak fiscal multiplier effects.	US-China trade relations and China's growth outlook could bring both downside and upside risks. The high level of household leverage is a key macro risk.
		Active engagement from the National Pension Service on corporate governance and capital return/dividend policy has the potential to bring significant changes in the market.	Labour-market headwinds to consumption persist, partly reflecting the impact of minimum wage/labour policy and corporate restructuring.
Taiwan equities	**Neutral**	We think Taiwan's relatively-high dividend yield is appealing amid heightened market volatility.	Earnings growth remains weak. Recent data sends worrying signals about the near-term outlook on Taiwan's exports and manufacturing, and regional supply-chain activity.
		Macro policies will likely remain accommodative to support the economy, with the multi-year public infrastructure investment plan having been rolled out.	A softer global capital expenditure and tech cycle, global demand slowdown and uncertainties over US-China trade negotiations are major concerns.
		Taiwan has a strong external trade balance, sufficient fiscal room and relatively low debt levels (both public and private sector).	Rising political and military tensions with China (which also put Taiwan at risk of being excluded from regional trade and investment agreements) are also risks.

Source: HSBC Global Asset Management. As at January 2019. Subject to change.

Market data
January 2019

Equity Indices	Close	MTD Change (%)	3M Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low	Fwd P/E (X)
World								
MSCI AC World Index (USD)	491	7.8	1.4	-9.3	7.8	543	435	14.4
North America								
US Dow Jones Industrial Average	25,000	7.2	-0.5	-4.4	7.2	26,952	21,713	15.2
US S&P 500 Index	2,704	7.9	-0.3	-4.2	7.9	2,941	2,347	16.1
US NASDAQ Composite Index	7,282	9.7	-0.3	-1.8	9.7	8,133	6,190	20.6
Canada S&P/TSX Composite Index	15,541	8.5	3.4	-2.6	8.5	16,586	13,777	14.2
Europe								
MSCI AC Europe (USD)	431	6.6	0.7	-16.3	6.6	518	391	12.5
Euro STOXX 50 Index	3,159	5.3	-1.2	-12.5	5.3	3,636	2,909	12.5
UK FTSE 100 Index	6,969	3.6	-2.2	-7.5	3.6	7,904	6,537	12.4
Germany DAX Index*	11,173	5.8	-2.4	-15.3	5.8	13,301	10,279	11.9
France CAC-40 Index	4,993	5.5	-2.0	-8.9	5.5	5,657	4,556	12.7
Spain IBEX 35 Index	9,057	6.1	1.8	-13.3	6.1	10,544	8,286	11.4
Italy FTSE MIB	19,731	7.7	3.6	-16.1	7.7	24,544	17,914	9.6
Asia Pacific								
MSCI AC Asia Pacific ex Japan (USD)	511	7.2	8.4	-15.8	7.2	610	459	13.0
Japan Nikkei-225 Stock Average	20,773	3.8	-5.2	-10.1	3.8	24,448	18,949	15.1
Australian Stock Exchange 200	5,865	3.9	0.6	-2.9	3.9	6,374	5,410	15.2
Hong Kong Hang Seng Index	27,942	8.1	11.9	-15.0	8.1	33,048	24,541	10.7
Shanghai Stock Exchange Composite Index	2,585	3.6	-0.7	-25.7	3.6	3,495	2,441	9.9
Hang Seng China Enterprises Index	11,036	9.0	8.8	-18.6	9.0	13,747	9,762	8.1
Taiwan TAIEX Index	9,932	2.1	1.3	-10.6	2.1	11,262	9,319	13.6
Korea KOSPI Index	2,205	8.0	8.6	-14.1	8.0	2,584	1,985	10.3
India SENSEX 30 Index	36,257	0.5	5.3	0.8	0.5	38,990	32,484	21.5
Indonesia Jakarta Stock Price Index	6,533	5.5	12.0	-1.1	5.5	6,693	5,558	15.8
Malaysia Kuala Lumpur Composite Index	1,684	-0.4	-1.5	-9.9	-0.4	1,896	1,627	16.2
Philippines Stock Exchange PSE Index	8,007	7.3	12.1	-8.6	7.3	8,818	6,791	17.0
Singapore FTSE Straits Times Index	3,190	4.0	5.7	-9.7	4.0	3,642	2,956	12.3
Thailand SET Index	1,642	5.0	-1.6	-10.1	5.0	1,853	1,547	14.7
Latam								
Argentina Merval Index	36,327	19.9	23.2	4.0	19.9	36,492	24,618	8.4
Brazil Bovespa Index*	97,394	10.8	11.4	14.7	10.8	98,405	69,069	12.3
Chile IPSA Index	5,406	5.9	5.9	-7.7	5.9	5,895	4,999	15.4
Colombia COLCAP Index	1,447	9.1	3.9	-7.1	9.1	1,582	1,291	11.7
Mexico S&P/BMV IPC Index	43,988	5.6	0.1	-12.8	5.6	50,927	39,272	13.5
EEMEA								
Russia MOEX Index	2,521	6.4	7.2	10.1	6.4	2,536	2,065	5.7
South Africa JSE Index	54,157	2.7	3.4	-9.0	2.7	60,299	50,033	13.4
Turkey ISE 100 Index*	104,074	14.0	15.4	-12.9	14.0	120,894	84,655	7.2

- *Indices expressed as total returns. All others are price returns.
- Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 31 January 2019.
- Past performance is not an indication of future returns.

Market data (continued)

January 2019

Equity Indices - Total Return	3-month Change (%)	YTD Change (%)	1-year Change (%)	3-year Change (%)	5-year Change (%)	Dividend Yield (%)
Global equities	1.8	7.9	-7.5	39.1	38.5	2.7
US equities	0.2	8.2	-2.8	45.9	62.2	2.0
Europe equities	0.7	6.6	-13.9	21.4	7.6	3.9
Asia Pacific ex Japan equities	8.9	7.3	-13.5	46.5	32.6	3.4
Japan equities	-0.6	6.1	-11.6	27.8	28.3	2.4
Latam equities	11.5	14.9	-5.1	82.5	16.3	3.0
Emerging Markets equities	10.2	8.8	-14.2	51.7	26.2	2.8

All total returns quoted in USD terms.

Data sourced from MSCI AC World Total Return Index, MSCI USA Total Return Index, MSCI AC Europe Total Return Index, MSCI AC Asia Pacific ex Japan Total Return Index, MSCI Japan Total Return Index, MSCI Latam Total Return Index and MSCI Emerging Markets Total Return Index. Data as at close of business 31 January 2019.

Bond indices - Total Return	Close	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)
BarCap GlobalAgg (Hedged in USD)	529	1.1	3.0	3.6	1.1
JPM EMBI Global	805	4.4	5.5	-0.2	4.4
BarCap US Corporate Index (USD)	2,896	2.4	3.7	0.7	2.4
BarCap Euro Corporate Index (Eur)	246	1.1	0.6	0.1	1.1
BarCap Global High Yield (USD)	476	4.3	2.5	0.9	4.3
BarCap US High Yield (USD)	1996	4.5	1.4	1.7	4.5
BarCap pan-European High Yield (USD)	425	2.3	0.3	0.9	2.3
BarCap EM Debt Hard Currency	402	3.0	4.2	-0.4	3.0
Markit iBoxx Asia ex-Japan Bond Index (USD)	199	2.0	3.9	1.9	2.0
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	253	3.7	5.1	-0.2	3.7

- Total return includes income from dividends and interest as well as appreciation or depreciation in the price of an asset over the given period
- Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 31 January 2019.
- Past performance is not an indication of future returns.

Market data (continued)

January 2019

Bonds	Close	End of last mth.	3-months Ago	1-year Ago	Year End 2018
US Treasury yields (%)					
3-Month	2.38	2.35	2.33	1.46	2.35
2-Year	2.46	2.49	2.87	2.14	2.49
5-Year	2.44	2.51	2.97	2.51	2.51
10-Year	2.63	2.68	3.14	2.71	2.68
30-Year	3.00	3.01	3.39	2.93	3.01
Developed market 10-year bond yields (%)					
Japan	0.00	-0.01	0.12	0.08	-0.01
UK	1.22	1.28	1.44	1.51	1.28
Germany	0.15	0.24	0.38	0.70	0.24
France	0.55	0.71	0.75	0.97	0.71
Italy	2.59	2.74	3.43	2.02	2.74
Spain	1.19	1.41	1.55	1.42	1.41

Commodities	Latest	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Gold	1,321	3.0	8.8	-1.8	3.0	1,365	1,160
Brent Oil	61.9	15.0	-18.0	-10.4	15.0	87	50
WTI Crude Oil	53.8	18.5	-17.6	-16.9	18.5	77	42
R/J CRB Futures Index	180	5.8	-5.9	-9.0	5.8	207	168
LME Copper	6,169	3.4	3.0	-13.3	3.4	7,348	5,725

- Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 31 January 2019.
- Past performance is not an indication of future returns.

Market data (continued)

January 2019

Currencies (vs USD)	Latest	End of last mth.	3-mths Ago	1-year Ago	Year End 2018	52-week High	52-week Low
Developed markets							
DXY index	95.58	96.17	97.13	89.13	96.17	97.71	88.25
EUR/USD	1.14	1.15	1.13	1.24	1.15	1.26	1.12
GBP/USD	1.31	1.28	1.28	1.42	1.28	1.44	1.24
CHF/USD	1.01	1.02	0.99	1.07	1.02	1.09	0.99
CAD	1.31	1.36	1.32	1.23	1.36	1.37	1.23
JPY	108.9	109.7	112.9	109.2	109.7	114.6	104.6
AUD	1.37	1.42	1.41	1.24	1.42	1.48	1.24
NZD	1.45	1.49	1.53	1.36	1.49	1.56	1.34
Asia							
HKD	7.85	7.83	7.84	7.82	7.83	7.85	7.79
CNY	6.70	6.88	6.98	6.29	6.88	6.98	6.24
INR	71.09	69.77	73.96	63.59	69.77	74.48	63.74
MYR	4.10	4.13	4.18	3.90	4.13	4.20	3.85
KRW	1,113	1,111	1,140	1,068	1,111	1,145	1,054
TWD	30.72	30.55	30.95	29.14	30.55	31.17	28.96
Latam							
BRL	3.65	3.88	3.72	3.19	3.88	4.21	3.17
COP	3,107	3,254	3,220	2,831	3,254	3,303	2,685
MXN	19.11	19.65	20.34	18.60	19.65	20.96	17.94
ARS	37.31	37.67	35.91	19.64	37.67	41.54	19.36
EEMEA							
RUB	65.38	69.35	65.88	56.19	69.35	70.84	55.56
ZAR	13.25	14.35	14.79	11.85	14.35	15.70	11.51

- Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 31 January 2019
- Past performance is not an indication of future returns.

Basis of Views and Definitions of 'Long term Asset class positioning' tables (>12 months)

- Views are based on regional HSBC Global Asset Management Asset Allocation meetings held throughout **January 2019**, HSBC Global Asset Management's long-term expected return forecasts which were generated as **at 31 December 2018**, our portfolio optimisation process and actual portfolio positions.
- **Icons:** ↑ View on this asset class has been upgraded – No change ↓ View on this asset class has been downgraded.
- Underweight, overweight and neutral classifications are the high-level asset allocations tilts applied in diversified, typically multi-asset portfolios, which reflect a combination of our long-term valuation signals, our shorter-term cyclical views and actual positioning in portfolios. The views are expressed with reference to global portfolios. However, individual portfolio positions may vary according to mandate, benchmark, risk profile and the availability and riskiness of individual asset classes in different regions.
- "*Overweight*" implies that, within the context of a well-diversified typically multi-asset portfolio, and relative to relevant internal or external benchmarks, HSBC Global Asset Management has (or would have) a positive tilt towards the asset class.
- "*Underweight*" implies that, within the context of a well-diversified typically multi-asset portfolio, and relative to relevant internal or external benchmarks, HSBC Global Asset Management has (or would) have a negative tilt towards the asset class.
- "*Neutra*l" implies that, within the context of a well-diversified typically multi-asset portfolio, and relative to relevant internal or external benchmarks HSBC Global Asset Management has (or would have) neither a particularly negative or positive tilt towards the asset class.
- For global investment-grade corporate bonds, the underweight, overweight and neutral categories for the asset class at the aggregate level are also based on high-level asset allocation considerations applied in diversified, typically multi-asset portfolios. However, USD investment-grade corporate bonds and EUR and GBP investment-grade corporate bonds are determined relative to the global investment-grade corporate bond universe.
- For Asia ex Japan equities, the underweight, overweight and neutral categories for the region at the aggregate level are also based on high-level asset allocation considerations applied in diversified, typically multi-asset portfolios. However, individual country views are determined relative to the Asia ex Japan equities universe as of **31 December 2018.**
- Similarly, for EM government bonds, the underweight, overweight and neutral categories for the asset class at the aggregate level are also based on high-level asset allocation considerations applied in diversified, typically multi-asset portfolios. However, EM Asian Fixed income views are determined relative to the EM government bonds (hard currency) universe as of **31 January 2019**.

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