Investment Monthly – October 2019

Riding the storm

HSBC
Global Asset
Management

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Summary

Macro Outlook

- Global growth continues to face headwinds from a downturn in the industrial cycle and uncertainty related to trade tensions. Nevertheless, the global Nowcast remains stable at around 2%
- US growth remains above trend but has become more dependent on robust consumer spending. The recent softening in some labour market data therefore needs to be monitored closely
- Growth elsewhere is broadly below trend. Europe remains the main underperformer while China has shown further signs of stabilisation, with credit dynamics improving and industrial/trade indicators levelling off
- The unbalanced nature of growth leaves the global economy vulnerable to negative shocks. However, policy makers are now making a concerted effort to limit the risk of a further sharp slowdown

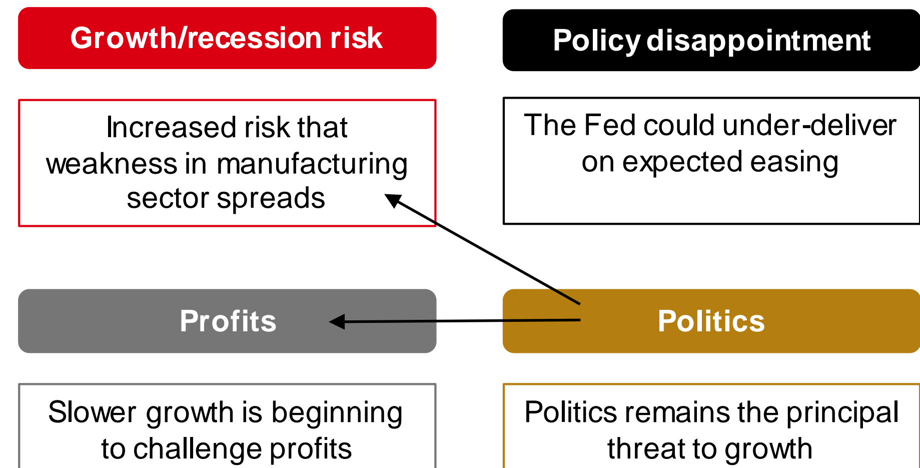
Key Views

- In our view, risky assets offer relatively high premiums (excess return over risk-free assets). We want to focus on global equities and parts of emerging market fixed income (Asia high`-yield) over US/European corporate bonds
- We estimate very negative bond-risk premiums i.e. we are being penalised for holding longer duration bonds. We should focus on short-duration strategies
- But the macro outlook remains difficult – in particular, the extent to which labour markets can remain resilient amid elevated political uncertainty and a manufacturing sector slowdown
- Ongoing headwinds to corporate profits and economic growth mean we are making limited use of our short-term risk budgets at this point

Central Banks

- The US **Federal Reserve (Fed)** is likely to continue its gradual easing of policy in the near term to reduce the chance that US growth is dragged lower by soft global growth and persistent geopolitical uncertainty
- The **European Central Bank (ECB)** delivered a substantial easing package at its September meeting, including the restarting of net asset purchases
- The **Bank of England (BoE)** remains non-committal on the policy outlook, with future decisions ultimately affected by upcoming political developments
- Stressing downside risks from abroad, the **Bank of Japan (BoJ)** has signalled it could ease policy if activity cools. A further trigger could be yen strength
- The **People's Bank of China (PBoC)** has signalled its willingness to offer more policy support if needed, but large-scale stimulus is unlikely

Key Risks



Source: HSBC Global Asset Management, Global Investment Strategy, October 2019
All numbers rounded to one decimal place. The views expressed were held at the time of preparation, and are subject to change.

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Investment Views

In our view, risky assets offer relatively high premiums (excess return over risk-free assets). We want to focus on global equities and parts of emerging market fixed income (Asia high-yield)

- **Global equities** – We are overweight given a wide valuation gap versus bonds. But given the global economy is vulnerable to further shocks at this point, we adopt a more cautious tactical (i.e. short-term) stance
- **Government bonds** – We are underweight given our estimate of negative bond-risk premiums i.e. we are being penalised for holding longer-duration bonds. We prefer short-duration strategies. Policy is also moving toward fiscal stimulus.
- **Corporate bonds** – most credit asset classes are overvalued in our view, and we prefer equities. There are some signs of credit fundamentals deteriorating which need monitoring

Equities

Asset Class	View	View move
Global	**Overweight**	–
US	Overweight	–
UK	Overweight	–
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)	**Underweight**	–
USD IG	Underweight	–
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)	**Underweight**	–
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	Overweight	–
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 October 2019, and subject to change.

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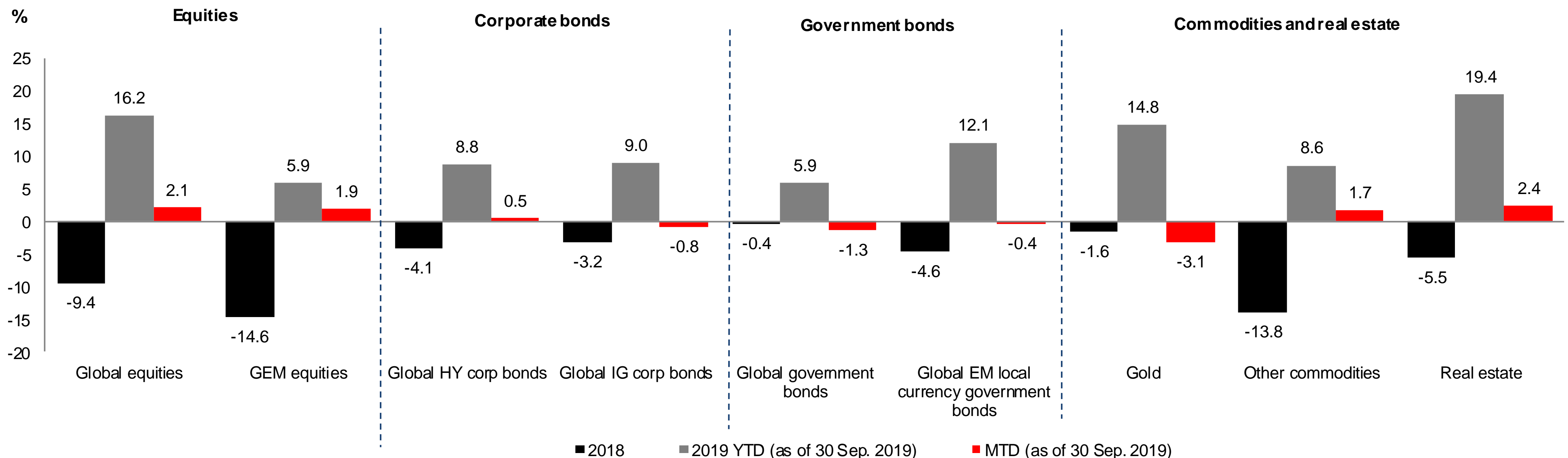
Asset Class Performance at a glance

Global equities rose in September amid an easing of US-China trade tensions, and upbeat US economic data releases

- **Government bonds** – US Treasuries and core European government bonds fell on the back of more positive news on US-China trade relations and easing investor concerns over the global growth outlook
- **Commodities** – Brent crude oil prices were little changed over the month, although prices spiked in the middle of the month following disruptions to production facilities in Saudi Arabia

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 30 September 2019 in USD, total return, month-to-date terms

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Base case views and implications

	Monthly macroeconomic update	Base case view and implications
US	◆ A solid labour market continues to support consumer spending, which contrasts to a weak picture for investment and exports amid slower global growth and elevated political uncertainty ◆ Labour market indicators are still consistent with employment growth, but we need to watch these data closely for any further signs of softening	◆ US economic growth is likely to moderate over the next year as fiscal stimulus wanes and the labour market cycle matures ◆ Subdued-inflation pressure and increased downside risks to growth could translate to further Fed rate cuts ◆ US Treasury valuations are at extreme levels and inflation risks are dismissed. Equities remain preferable to us
Europe	◆ **Eurozone:** Recent PMI data suggest Germany could enter a mild technical recession this year. For now, services are sustaining overall eurozone activity ◆ **UK:** GDP contracted in Q2, although this was mainly due to the unwinding of Brexit related stockpiling in Q1. Labour market strength remains a key support	◆ **Eurozone:** European equities remain relatively cheap, supporting our overweight stance ◆ **UK:** We remain comfortable with an overweight view on UK equities given very attractive valuations
Asia	◆ **China:** Still soft data releases is likely to result in further policy easing. But an already strong rate of credit creation could be supportive in the near term ◆ **India:** GDP growth disappointed in Q2, while risks remain tilted to the downside amid a slow transmission between monetary policy easing and the real economy ◆ **Japan:** Growth remains sluggish amid external headwinds and a loss of momentum in business investment. October's consumption tax hike is a risk	◆ **China:** Ongoing policy loosening still has the potential to stabilise China's economy alongside global trade growth ◆ **India:** The long-term structural story remains positive, supporting our overweight view ◆ **Japan:** We believe the valuation of Japanese equities is still attractive while monetary policy is supportive
Other EM	◆ **Brazil:** Positive reform momentum and improving financial conditions support the growth outlook. The economy performed better-than-expected in Q2 ◆ **Russia:** Activity remains sluggish, amid subdued domestic demand. More positively, the industrial and construction sectors are performing well ◆ **MENA:** growth prospects are constrained by elevated geopolitical risks, a weaker global trade picture and oil production cuts	◆ The backdrop for EMs is supported by a dovish Fed and more accommodative EM central banks ◆ We remain overweight EM equities, although weak trends in corporate profitability need to be tracked closely.

Source: HSBC Global Asset Management. As at 1 October 2019. The views expressed were held at the time of preparation, and are subject to change.

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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) has recently improved following the rally in government bonds.	Episodic volatility may be triggered by concerns about global economic growth and/or trade tensions, coupled with political risks.
		We believe global equities still offer attractive rewards despite the risks to the growth outlook.	A further significant deterioration of the global economic outlook could also dampen our view. However, we remain of the view that we are facing a "cyclical slowdown", not a more severe recessionary environment.
		Policy support can help offset headwinds from more modest global growth, trade tensions, and political uncertainty in many regions.	Corporate fundamentals are beginning to come under pressure. We are monitoring developments closely.
US	**Overweight** –	US economic and earnings growth remains relatively robust. The risk of a US recession remains modest, in our view.	The boost from last year's fiscal stimulus is fading.
		Positively, the Fed is enacting "insurance" policy easing against downside risks.	Risks from US-China trade tensions also need to be considered.
Eurozone	**Overweight** –	In our opinion, Eurozone equities benefit from fairly high implied risk premiums (on a hedged basis).	On an unhedged basis, we measure higher risk-adjusted prospective returns in other developed markets.
		Ultra-low ECB policy interest rates are likely to persist until the early 2020s. The ECB has recently eased policy, and fiscal stimulus is coming into focus.	Economic growth remains fragile, with the manufacturing sector facing headwinds from elevated global uncertainty and softer global demand. A key risk is that this spills over into services activity.
		For the time being, a robust labour market is supporting service sector activity.	Risks may be posed by Italy's fiscal dynamics and the potential for economic disruption from a possible "no-deal" Brexit.

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

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

Equities cont'd

Asset class	View	Rationale	Risks to consider
UK	**Overweight** —	The UK equity risk premium (excess return over cash) remains comfortably above the equity risk premium for developed market (DM) equities. In our view, sterling weakness amid a "no-deal" Brexit outcome may support the earnings performance of UK-based multinationals with foreign currency revenues. Meanwhile, a negotiated Brexit is likely to lift some uncertainty, supporting corporate investment. Higher UK growth may support domestically oriented stocks.	A much more significant deterioration in UK growth and corporate fundamentals would be a major challenge for UK 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.	Japan's recent economic performance has been weak, and is vulnerable to world trade growth. Protectionism is a key risk. Other headwinds include a consumption tax increase planned for October 2019.
Emerging Markets (EM)	**Overweight** —	EM equity risk premiums have recently risen, and look relatively high. The EM macro outlook is supported by policy easing in China and a dovish Fed. EM central banks are loosening policy amid subdued inflation. We believe 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.	Aggregate EM growth momentum remains fairly soft, with sluggish world trade growth weighing on the outlook. Furthermore, although Chinese authorities have eased policy, it remains to be seen if this will provide enough support. Corporate profitability has disappointed this year and trade related uncertainties remain a downside risk.
CEE & Latam	**Neutral** —	There has been a loss of economic growth momentum in Latin America, although there are signs of stabilisation. Meanwhile, parts of CEE offer us attractive equity risk premiums.	Economic growth could deteriorate further, with many economies dependent on the global trade and industrial cycle. 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.

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

Government Bonds

Asset class	View	Rationale	Positive factors to consider
Developed Markets (DM)	**Underweight** –	Prospective returns look very low. A large amount of "bad news" about the macro-economy is being priced in. If current investor worries do not fully materialise, bond yields could rise. DM government bonds still have a role to play as a portfolio diversifier, but given current pricing, we prefer other diversifiers.	Recent momentum has been positive and there is potentially a lack of triggers that could move yields significantly higher in the near term. "Secular stagnation" forces remain (ageing populations, low productivity and investment). The global pool of perceived "safety" assets is limited.
US	**Underweight** –	The risk of higher inflation is dismissed by the market, and investor growth worries are overdone in our view. There is uncertainty if Treasuries can act as an effective "diversifier" asset given current market pricing.	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. The market is not discounting the risk of a significant fiscal easing.	Gilts could perform well if UK economic growth deteriorates and/or a "no-deal" Brexit occurs. Nevertheless, gilt issuance may increase on the back of UK fiscal stimulus.
Eurozone	**Underweight** –	Core eurozone government bonds are overvalued, in our view. Although the ECB is restarting net asset purchases, the market has already priced this in, to a degree.	Core inflationary pressures in the region remain subdued, and economic growth is vulnerable to external developments. This should keep monetary policy accommodative for an extended period of time.
Japan	**Underweight** –	Japanese government bonds (JGBs) are overvalued, in our view. The BoJ has reduced the amount of its JGB purchases.	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 EM countries offer high prospective returns. The risk of a dollar rally is contained by a dovish Fed policy stance. EM countries have scope to reduce policy rates to support growth. We believe there is still significant potential for (selected) EM currencies to appreciate over the medium term.	A rapid gain in the US dollar is a key risk. This could be triggered by the Fed not delivering rate cuts as priced in by the market. Diverging economic and political regimes in the EM universe also mean that being selective is key.

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

Investment grade corporate Bonds

Asset class	View	Rationale	Positive factors to consider
Global investment grade (IG)	**Underweight** —	Prospective returns are consistent with an underweight position. In particular, there is a significantly negative duration risk premium. In other words, we are being penalised for bearing risks related to unexpected changes in interest rates or inflation. Corporate fundamentals are beginning to come under pressure - risks in DMs are increasing and profitability has deteriorated faster than expected in Asia.	According to Moody's, global default rates are expected to increase in the coming year, but expected to remain below the historical average of around 4%. Dovish central bank policy and low interest rates are positives.
USD investment grade	**Underweight** —	US IG valuations mean that we believe there is an inadequate margin of safety against downside risks. US IG could come under pressure from slowing US economic growth and falling profitability.	Positively, US growth remains robust and the Fed is in dovish mode. The level of profitability remains relatively high. US corporate fundamentals are relatively robust, with typical levels of leverage, and healthy interest rate coverage ratios (a measure of how easily a company can pay their interest expenses on outstanding debt).
EUR and GBP investment grade	**Underweight** —	EUR IG prospective returns are also weighed down by a relatively large negative duration risk premium i.e. we are being penalised for bearing interest-rate risk.	The ECB is restarting net asset purchases, including eurozone corporate bonds. Default rates also remain low.

Asset class	View	Rationale	Risks to consider
Asia investment grade	**Neutral** —	Within the IG universe, the carry (or "return") offered by Asian credits looks attractive relative to DM in our view. Reasonably solid underlying activity in EM Asia and a neutral monetary policy stance in most countries are also supportive.	A stronger US dollar poses a risk, particularly for corporates with USD denominated debt. Risks from rising protectionism cannot be ignored either, while the extent of Chinese leverage remains a long-term issue.

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

High-yield corporate Bonds

Asset class	View	Rationale	Risks to consider
Global high-yield	**Neutral** —	The pricing of duration risk is a drag on prospective returns, but there remains a reasonable credit risk premium (compensation for bearing risks associated with corporate defaults). This growth-sensitive asset class may perform well if activity surprises to the upside	Our measures show that we remain better rewarded by equities as a way to benefit from a decent economic backdrop. Recent signs of pressure on corporate fundamentals make us monitor this asset class closely.
US high-yield	**Neutral** —	Still decent 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 recession risk is modest in our view.	US HY credits remain vulnerable to a deterioration in economic data or the default outlook.
Asia high-yield	**Overweight** —	The carry (or "return") offered by Asian HY looks attractive to us given the alternatives, with relatively high prospective risk-adjusted returns. Economic growth is holding up fairly well and inflationary pressures appear relatively stable.	A stronger US dollar poses a risk, particularly for corporates with USD denominated debt. 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), although economic activity has recently deteriorated. Monetary policy is still accommodative, with the ECB restarting net asset purchases. Fiscal stimulus is also coming into focus.	Eurozone growth could disappoint further in 2019, although problems seem to be concentrated in the manufacturing sector. European political risks remain, with a "no-deal" Brexit still possible.

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Long-term Asset class remove full stoptables (>12 months)

Alternatives

Asset class	View	Rationale	Risks to consider
Gold	**Neutral** —	Gold futures can offer reasonable diversification benefits to multi-asset portfolios and have some inflation-hedging characteristics. Gold performed well in the August 2019 equity market selloff.	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 over the past year. The energy sub-sector is the most attractive in our opinion.	We measure a large negative expected roll yield (the cost of renewing futures contracts) for many commodities (particularly wheat and corn).
Real Estate	**Neutral** —	Based on our estimates of prospective long run returns, global real estate equities offer a significant margin over DM government bonds. The current dividend yield on global real estate equities is 130 basis point higher than wider equities and over 320 basis points above DM government bond yields.	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 would harm occupier demand. The prospect of future rent control is overhanging selected residential markets. Brexit continues to overshadow the UK market.

Asset class	View	Rationale	Positive factors to consider
EM agg bond (USD)	**Underweight** —	Valuations are relatively unfavourable, with a negative duration risk premium. In other words, we are being penalised for bearing risks related to unexpected changes in interest rates or inflation. Overall, risk-adjusted returns look poor relative to the rest of the opportunity set.	This asset class may perform well if key EM macroeconomic and political risks do not materialise.

Source: HSBC Global Asset Management. As at 1 October 2019. The views expressed were held at the time of preparation, and are subject to change.

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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 cautious Fed 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 this asset class offers attractive risk-adjusted returns. Economic growth in Asia has held up relatively well and macroeconomic structural characteristics are better than in other EM regions. We think Asian currencies are set to appreciate in the medium term.	A sharp rise in US Treasury yields and/or the US dollar is a risk, along with less dovish-than-expected DM central bank policy. Asian corporate earnings growth has recently deteriorated amid global trade tensions. 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** —	Recent data showed some incremental improvement in industrial activities; a modest pickup in infrastructure and better (non-auto) consumer demand, amid sustained/intensified policy support and resumption of trade talks, while external demand appears to be stabilising in the near term. Consensus earnings forecasts for China remain one of the highest in Asia. Corporate earnings/profits may find support from tax cuts and interest rate reform to improve monetary policy transmission and lower business funding costs, among other policies, though policy easing has been incremental and defensive in nature and confidence is key to policy effectiveness. Further opening up of the economy/services sector, global index inclusion/ capital market liberalisation, and structural market reforms (e.g. the Nasdaq-style tech board) are potential catalysts. The 4th Plenum* may set the tone for policy direction and financial markets for the coming quarters. The direct impact from existing US tariffs on MSCI China's aggregate earnings should be manageable (albeit material for selected companies).	While a lower comparison base may work in favour of the YoY earnings growth in H2 2019, we see downside risks from persistent trade policy uncertainty, a weaker RMB (though the FX impact on MSCI China may gradually weaken as the MSCI A-share inclusion factor continues to increase), and slower nominal GDP growth and industrial sales revenue and profits (on the back of a modest PPI deflation). The sluggish trend in manufacturing capex is a concern. We see the risk of state-led reforms failing to empower the market and delays in the implementation of structural reforms that may cause short-term pains. There are concerns about fundamental weakness in small banks/financial institutions and funding/capital constraints weighing on credit growth. Structural headwinds and debt concerns remain a headwind to China's long-term growth. There is still no clear path towards a comprehensive US-China trade deal. Any potential US measures limiting US portfolio flows into China could add a new layer of complexity in the bilateral relations. Extended uncertainty weighs on private sector sentiment and spending. That said, the risks are binary: a breakthrough in trade talks or any positive development could send the market higher.

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* A plenum or plenary session is the convening of the Communist Party of China's Central Committee, during which the Political Bureau (Politburo) proposes policies for review or approval.
Source: HSBC Global Asset Management. As at 1 October 2019. The views expressed were held at the time of preparation, and are 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** —	The large corporate tax cut has revived sentiment and will likely improve corporate profits and balance sheets in the near term. In the longer term, making India's tax rates globally competitive will likely support its business environment and attract foreign direct investment (FDI), setting the stage for a pickup in business capex and exports, which could translate to higher employment & higher disposable income with productivity gains. The government has also announced sector-specific relief measures. The combination of counter-cyclical fiscal policy along with monetary easing and better policy transmission thanks to surplus system liquidity should support a gradual growth recovery in the coming quarters. The long-term structural story remains positive with substantial progress on reforms to raise productivity, upgrading infrastructure, urbanisation, and improving governance and ease of doing business.	The corporate tax cut may not drive a meaningful near-term economic turnaround amid weak external and domestic demand conditions. Aside from passing on some benefit to consumers, companies could use tax savings for de-leveraging, and/or share buybacks rather than invest aggressively in the near term. Some cyclical and structural growth headwinds (e.g. problems with NBFCs*, weaker household balance sheets and global uncertainties) will not be addressed by policy stimulus. Near-term risks to earnings remain. The tax cut and fiscal measures have raised the risk of fiscal slippage or expenditure cuts, particularly against weak revenue collections and ambitious divestment targets, though a larger RBI dividend transfer could help at the margin. Despite more competitive tax rates, other determinants for attracting **foreign direct investment** (e.g. skills, infrastructure, and land acquisition etc.) will take time to all come together. The government's ability to undertake tough reforms (e.g. land, labour) is to be tested.
Hong Kong equities	**Overweight** —	Valuation looks attractive to us, and risk premia have increased over the last six months. Many of the multinational listed companies, operating mostly outside of Hong Kong, are within sectors that leverage on Asia's longer-term growth potential and are seen as less exposed to global trade tensions. Earnings growth is expected to be among the highest in the region. A dovish Fed could ease some pressure on borrowing costs/financial conditions in HK; China's policy accommodation/liquidity easing should provide some support.	HK's economy has lost momentum with the risk biased to the downside, which could put some pressures on corporate earnings. The external environment remains challenging, with uncertainties over the global demand outlook, US-China trade standoff, concerns over de-globalisation, and other geopolitical tensions. Lingering trade tensions between the US and China represent a key risk but high-level talk resumption in early October could improve market sentiment. China's financial risk contagion is another key risk. Any deterioration in China's macro outlook or reform prospects could have a negative spillover on HK.
Singapore equities	**Overweight** —	Our estimates of Singapore expected returns have improved since the beginning of the year, with risk premia now substantially higher than in most other non-Japan Asian markets. The budget focuses on long-term economic transformation, with modest short-term fiscal impulse, but there is sufficient policy ammunition to navigate the global slowdown. The Monetary Authority of Singapore (MAS) could also ease policy at its October policy meeting. In the longer term, Singapore could marginally benefit from multinational companies looking to diversify their supply chain operations into ASEAN.	There are signs of continued weakness in exports and manufacturing spilling over to domestic demand, employment and wage growth, posing downside risks to the outlook for economic and corporate earnings growth. Singapore is vulnerable to slower global demand, trade protectionism, and a weak tech/ electronics cycle, with many of its listed companies having significant foreign sales exposure. It is sensitive to sharp moves in the USD. Tightening market liquidity is a risk. Higher financing costs and cooling measures have weighed on housing affordability and the market, though there are prospects of easier mortgage financing in the near term if Fed cut rates to support transaction volumes.

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* Non-banking financial company. Source: HSBC Global Asset Management. As at 1 October 2019.
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Long-term Asset class positioning tables (>12 months)

Asian assets cont'd

Asset class	View	Rationale	Risks to consider
South Korea equities	**Neutral** ━	South Korea stock valuation remains fairly attractive although risk premia have been declining in the last few months. The Bank of Korea signaled it is prepared to cut rates should risks continue to rise**.** The semiconductor memory* cycle seems to be bottoming amid ongoing inventory correction/production cuts. Over the medium term, Korea could potentially benefit from trade diversion and temporarily eased competition pressures from China.	The lingering trade tensions with Japan and persistent uncertainty from US-China trade frictions pose downside risks via the potential near-term impact on regional supply chains. Earnings expectations remain weak amid external challenges from soft global demand and a tepid domestic economy with subdued private sector sentiment, a high household debt level, ongoing housing market adjustments, as well as the labour market headwinds and corporate restructuring.
Taiwan equities	**Neutral** ━	Despite a relatively high dividend yield, Taiwan shares valuation doesn't look compelling. Risk premia are average compared to other EM Asian countries. Macro policies remain accommodative. The government's multi-year infrastructure investment plan continues to roll out. The expectation for an improvement in the semiconductor sector outlook is supportive.	The outlook for Taiwan's economy and corporate earnings remains weak amid persistent external headwinds from soft global (CapEx) demand as well as the potential risk of a drag on business confidence and supply-chain interruptions arising from trade policy uncertainty. Political noise and policy uncertainty are likely to rise, heading into 2020 presidential/national elections.

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* Semiconductor memory is a digital electronic data storage device, often used as computer memory.
Source: HSBC Global Asset Management. As at 1 October 2019. The views expressed were held at the time of preparation, and are subject to change.

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Market data

September 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)	521	1.9	-0.5	-0.7	14.3	533	435	16.2
North America								
US Dow Jones Industrial Average	26,917	1.9	1.2	1.7	15.4	27,399	21,713	17.8
US S&P 500 Index	2,977	1.7	1.2	2.2	18.7	3,028	2,347	18.1
US NASDAQ Composite Index	7,999	0.5	-0.1	-0.6	20.6	8,340	6,190	24.3
Canada S&P/TSX Composite Index	16,659	1.3	1.7	3.6	16.3	16,947	13,777	15.4
Europe								
MSCI AC Europe (USD)	447	2.6	-2.3	-3.5	10.7	465	391	14.1
Euro STOXX 50 Index	3,569	4.2	2.8	5.0	18.9	3,589	2,909	14.8
UK FTSE 100 Index	7,408	2.8	-0.2	-1.4	10.1	7,727	6,537	13.1
Germany DAX Index*	12,428	4.1	0.2	1.5	17.7	12,656	10,279	14.5
France CAC-40 Index	5,678	3.6	2.5	3.4	20.0	5,705	4,556	15.1
Spain IBEX 35 Index	9,245	4.9	0.5	-1.5	8.3	9,588	8,286	12.3
Italy FTSE MIB	22,108	3.7	4.1	6.7	20.6	22,357	17,914	11.3
Asia Pacific								
MSCI AC Asia Pacific ex Japan (USD)	502	1.5	-4.9	-4.5	5.2	547	459	14.3
Japan Nikkei-225 Stock Average	21,756	5.1	2.3	-9.8	8.7	24,448	18,949	15.9
Australian Stock Exchange 200	6,688	1.3	1.1	7.7	18.5	6,876	5,410	17.3
Hong Kong Hang Seng Index	26,092	1.4	-8.6	-6.1	1.0	30,280	24,541	10.4
Shanghai Stock Exchange Composite Index	2,905	0.7	-2.5	3.0	16.5	3,288	2,441	11.4
Hang Seng China Enterprises Index	10,201	1.2	-6.3	-7.4	0.8	11,882	9,732	8.2
Taiwan TAIEX Index	10,830	2.0	0.9	-1.6	11.3	11,097	9,319	16.6
Korea KOSPI Index	2,063	4.8	-3.2	-12.0	1.1	2,352	1,892	13.4
India SENSEX 30 Index	38,667	3.6	-1.8	6.7	7.2	40,312	33,292	20.6
Indonesia Jakarta Stock Price Index	6,169	-2.5	-3.0	3.2	-0.4	6,636	5,624	15.6
Malaysia Kuala Lumpur Composite Index	1,584	-1.8	-5.3	-11.7	-6.3	1,800	1,572	16.6
Philippines Stock Exchange PSE Index	7,779	-2.5	-2.8	6.9	4.2	8,420	6,791	16.7
Singapore FTSE Straits Times Index	3,120	0.4	-6.1	-4.2	1.7	3,415	2,956	12.7
Thailand SET Index	1,637	-1.1	-5.4	-6.8	4.7	1,765	1,547	16.4
Latam								
Argentina Merval Index	29,067	18.1	-30.5	-13.1	-4.0	44,471	22,484	5.2
Brazil Bovespa Index*	104,745	3.6	3.7	32.0	19.2	106,650	78,091	13.7
Chile IPSA Index	5,059	5.3	-0.2	-4.2	-0.9	5,516	4,589	15.5
Colombia COLCAP Index	1,578	1.2	1.9	4.8	19.0	1,634	1,291	12.7
Mexico S&P/BMV IPC Index	43,011	0.9	-0.3	-13.1	3.3	50,042	38,266	14.5
EEMEA								
Russia MOEX Index	2,747	0.3	-0.7	11.0	15.9	2,848	2,258	6.2
South Africa JSE Index	54,825	-0.8	-5.8	-1.6	4.0	59,545	50,033	12.0
Turkey ISE 100 Index*	105,033	8.6	8.9	5.1	15.1	105,930	83,535	7.6

*Indices expressed as total returns. All others are price returns.

Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 30 September 2019.

Past performance is not an indication of future returns.

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Market data (continued)

September 2019

Equity Indices - Total Return	3-month Change (%)	YTD Change (%)	1-year Change (%)	3-year Change (%)	5-year Change (%)	Dividend Yield (%)
Global equities	0.0	16.2	1.4	32.0	38.0	2.6
US equities	1.4	20.1	3.5	42.9	61.5	1.9
Europe equities	-1.8	13.7	-0.7	21.0	12.5	3.8
Asia Pacific ex Japan equities	-4.0	7.8	-1.8	20.9	22.1	3.4
Japan equities	3.1	11.1	-4.7	19.8	31.4	2.5
Latam equities	-5.6	6.3	6.7	21.8	-3.9	3.0
Emerging Markets equities	-4.2	5.9	-2.0	19.0	12.2	3.0

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.

Bond indices - Total Return	Close	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)
BarCap GlobalAgg (Hedged in USD)	569	-0.5	2.6	10.6	8.8
JPM EMBI Global	864	-0.4	1.3	10.7	12.1
BarCap US Corporate Index (USD)	3,202	-0.7	3.0	13.0	13.2
BarCap Euro Corporate Index (Eur)	260	-0.8	1.3	6.1	6.8
BarCap Global High Yield (USD)	501	0.6	0.1	6.6	10.0
BarCap US High Yield (USD)	2127	0.4	1.3	6.4	11.4
BarCap pan-European High Yield (USD)	465	0.2	2.2	8.6	11.8
BarCap EM Debt Hard Currency	428	-0.1	0.7	9.1	9.6
Markit iBoxx Asia ex-Japan Bond Index (USD)	213	-0.1	1.8	10.2	9.3
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	267	0.4	0.3	8.3	9.5

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 30 September 2019.

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Market data (continued)

September 2019

Bonds	Close	End of last mth.	3-months Ago	1-year Ago	Year End 2018
US Treasury yields (%)					
3-Month	1.81	1.98	2.09	2.20	2.35
2-Year	1.62	1.50	1.75	2.82	2.49
5-Year	1.54	1.39	1.77	2.95	2.51
10-Year	1.66	1.50	2.01	3.06	2.68
30-Year	2.11	1.96	2.53	3.21	3.01
Developed market 10-year bond yields (%)					
Japan	-0.22	-0.28	-0.16	0.12	-0.01
UK	0.48	0.48	0.83	1.57	1.28
Germany	-0.57	-0.70	-0.33	0.47	0.24
France	-0.28	-0.41	-0.01	0.80	0.71
Italy	0.82	1.00	2.10	3.14	2.74
Spain	0.14	0.10	0.39	1.50	1.41

Commodities	Latest	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Gold	1,472	-3.1	4.5	23.6	14.8	1,557	1,183
Brent Oil	60.8	0.6	-8.7	-26.5	13.0	87	50
WTI Crude Oil	54.1	-1.9	-7.5	-26.2	19.1	77	42
R/J CRB Futures Index	174	2.1	-3.9	-10.9	2.4	202	167
LME Copper	5,725	1.3	-4.5	-8.5	-4.0	6,609	5,518

Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 30 September 2019.

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Market data (continued)

September 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	99.38	98.92	96.13	95.13	96.17	99.58	94.79
EUR/USD	1.09	1.10	1.14	1.16	1.15	1.16	1.09
GBP/USD	1.23	1.22	1.27	1.30	1.28	1.34	1.20
CHF/USD	1.00	1.01	1.02	1.02	1.02	1.04	0.98
CAD	1.32	1.33	1.31	1.29	1.36	1.37	1.28
JPY	108.1	106.3	107.9	113.7	109.7	114.6	104.5
AUD	1.48	1.48	1.42	1.38	1.42	1.50	1.35
NZD	1.60	1.58	1.49	1.51	1.49	1.61	1.44
Asia							
HKD	7.84	7.84	7.81	7.83	7.83	7.85	7.78
CNY	7.15	7.16	6.87	6.87	6.88	7.19	6.65
INR	70.87	71.41	69.03	72.49	69.77	74.48	68.29
MYR	4.19	4.21	4.13	4.14	4.13	4.23	4.05
KRW	1,196	1,211	1,155	1,109	1,111	1,223	1,105
TWD	31.04	31.33	30.99	30.53	30.55	31.73	30.52
Latam							
BRL	4.16	4.15	3.85	4.05	3.88	4.19	3.59
COP	3,478	3,442	3,211	2,966	3,254	3,495	2,993
MXN	19.73	20.06	19.22	18.72	19.65	20.66	18.70
ARS	57.59	59.50	42.48	41.31	37.67	62.00	35.35
EEMEA							
RUB	64.83	66.72	63.22	65.56	69.35	69.82	62.50
ZAR	15.14	15.20	14.09	14.14	14.35	15.50	13.24

Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 30 September 2019

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Basis of Views and Definitions of 'Asset class positioning' tables

- Views are based on regional HSBC Global Asset Management Asset Allocation meetings held throughout **September 2019**, HSBC Global Asset Management's long-term expected return forecasts which were generated as **at 30 August 2019**, 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.
- "*Neutral*" 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 **30 August 2019.**
- 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 **30 September 2019**.

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