Investment Monthly – January 2019

Market volatility spikes

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Summary

Macro Outlook

- Global growth remains above 3%, according to our Nowcast
- The US Treasury yield curve is close to inversion (i.e. longer-term yields falling below short-term yields). Although this is seen as a traditional recession indicator, we believe it has become less reliable and recession risk still looks low
- Cyclical divergence between US & the rest of the world persists – positive momentum in the US vs negative in eurozone, Japan & Emerging Markets
- The EM Nowcast shows signs of levelling-off, following stabilisation in EM asset prices and China policy easing. Market prices no longer reflect a worst-case scenario.
- Since mid-2018, markets have priced in less inflation. We think this looks out of sync with US macro data in particular

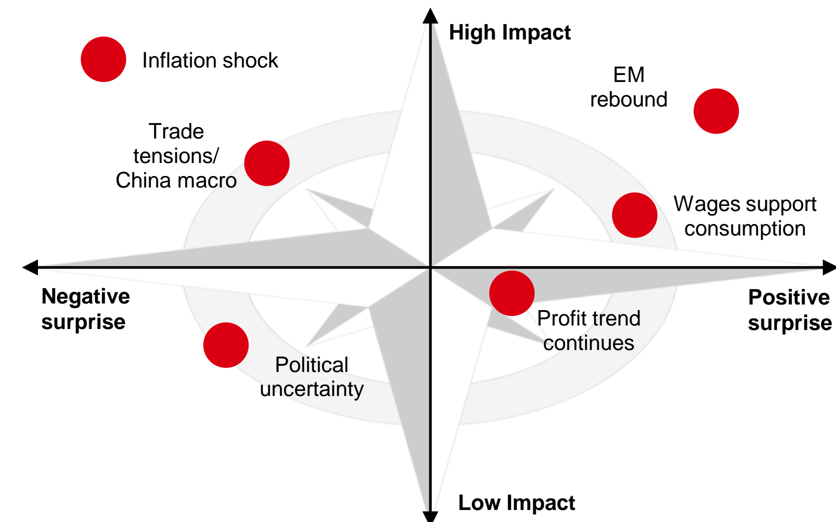
Key Views

- Volatility in asset prices remained high throughout November and spiked in December
- Widening corporate bond spreads, particularly in EUR HY, have improved valuations significantly. We move European High-Yield Corporate Bonds from Underweight to Neutral
- US Treasury yields back below 3% offer poor value versus other asset classes, but are still attractive compared to other Developed Market government bonds
- With market pricing of future Fed rate hikes having shifted lower in Q4, a pick-up in US inflation remains the key risk to markets
- Global equity prices have fallen this year despite leading indicators suggesting we are not yet at the end of the cycle. Current valuations suggest to us that the best way to "back growth" remains through equities

Central Banks

- As expected, the **US Federal Reserve (Fed)** raised interest rates at its December meeting. Given its latest economic and inflation outlook, the Fed expects to continue normalising monetary policy, but at a slower pace
- In December, the **European Central Bank (ECB)** confirmed that net asset purchases under QE would be terminated by end-2018. Low eurozone inflation could see interest rates on hold for the whole of 2019
- The **Bank of England (BoE)** struck a slightly more dovish tone in December amid recently weaker growth and inflation, although the Monetary Policy Committee (MPC) still views ongoing tightening as appropriate given evidence of rising wage costs
- The **Bank of Japan (BoJ)** is likely to continue its ultra-loose monetary policy stance throughout 2019 as inflation remains well below target

Key Risks



Source: HSBC Global Asset Management, Global Investment Strategy, December 2018
All numbers rounded to one decimal place.

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Investment Views

We upgrade European high-yield corporate bonds from underweight to neutral

Current valuations suggest to us that the best way to "back growth" remains through global equities

- **Global equities** – have fallen in price in 2018 despite leading indicators suggesting we are not yet at the end of the cycle. Given this, current valuations suggest that the best way to "back growth" remains through global equities
- **Government bonds** – the near-term direction for US Treasuries remains uncertain, although we continue to recognise the relative value that exists versus Bunds, JGBs and Gilts. EM local-currency government bonds remain attractive to us
- **Corporate bonds** – the recent sell-off has improved prospective returns, particularly in Europe. Also, corporate fundamentals continue to look good – the corporate earnings and profit cycle remains strong and credit defaults are still low

Equities

Asset Class	View	View move
Global	**Overweight**	–
US	Neutral	–
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	Neutral	–
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

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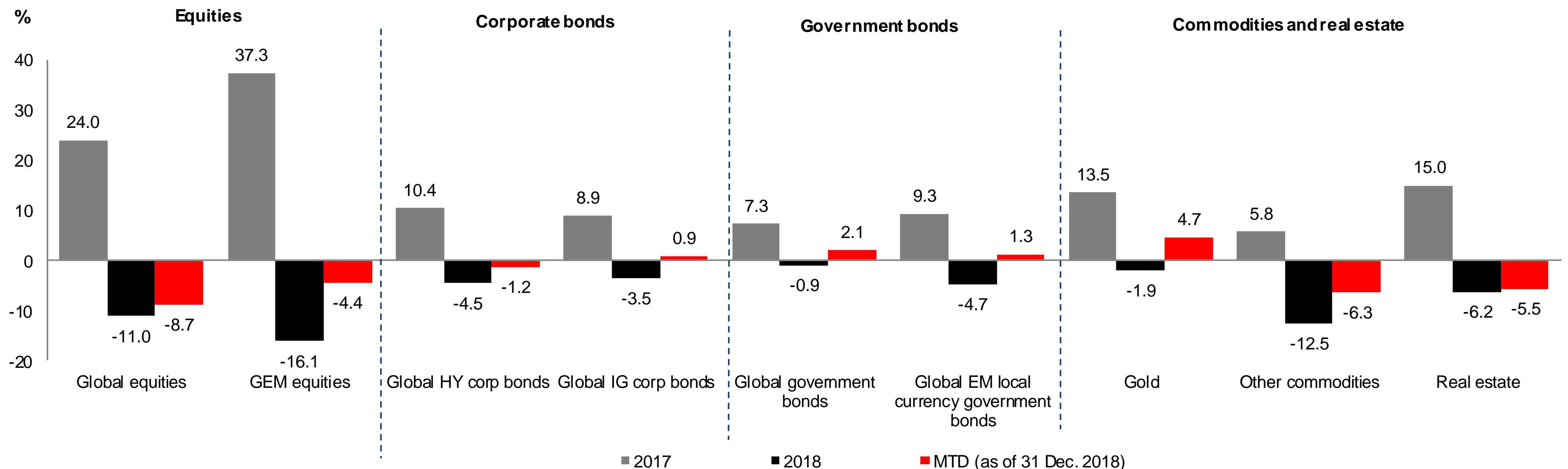
Source: HSBC Global Asset Management. Subject to change.

Asset Class Performance at a glance

Global equities fell in December on the back of global economic growth concerns and lingering trade tensions

- **Government bonds** – US Treasuries and European bonds rallied (yields fell) on heightened risk aversion and perceived safe-haven demand. Support also came from new Fed projections showing a slower pace of rate hikes in 2019. Italian bonds outperformed as the government struck a deal with the European Commission over its budget plans
- **Commodities** – global growth concerns also hit oil prices amid rising US production, and data showing high output from other major producers

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 December 2018 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	◆ US GDP growth is now trending at the fastest pace since early 2015 amid strong growth in consumer and government spending, and robust business activity ◆ In December, a speech by Fed Chair Powell signalled a slightly dovish stance, whilst the Federal Market Open Committee (FOMC) lowered their interest rate projections	◆ Growth is likely to slow in 2019 on the back of gradually dissipating fiscal stimulus, trade tensions and a maturing labour market cycle ◆ However, evidence of wage growth pressure should keep the Fed on track for further policy tightening in 2019 ◆ We still prefer US equities to Treasuries
Europe	◆ **Eurozone:** Survey data in Q4 2018 has been fairly weak, which reduces the prospect of a Q4 GDP growth rebound, following the disappointing 0.2% qoq print in Q3 ◆ **UK:** The economy slowed in Q4 2018 amid high Brexit-related uncertainty, but underlying fundamentals remain fairly robust	◆ **Eurozone: We upgrade European high-yield corporate bonds on the back of better risk-adjusted prospective returns.** We expect GDP growth at around trend in 2019 ◆ **UK:** Gilts remains unattractive but equity valuations have recently improved
Asia	◆ **China:** Further policy easing is likely, with stability the first priority amid still slow credit growth and a cooling property market ◆ **India:** Looser monetary and fiscal policy is likely in the near term, given the benign inflation outlook, and ahead of national elections in H1 2019 ◆ **Japan:** GDP growth is likely to have recovered following a sharp contraction in Q3, supported by a robust labour market and falling oil prices	◆ **China:** We believe equity markets will find support from continued policy easing and favourable valuations ◆ **India:** The positive case for equities is supported by reforms, higher infrastructure spending, and improving governance ◆ **Japan:** We think equities remain very attractively valued, with the risk premium underpinned by ultra-loose BoJ policy
Other EM	◆ **Brazil:** Business confidence has surged following the election of President Jair Bolsonaro who has appointed a market-friendly cabinet ◆ **Russia:** The economy is facing headwinds from lower oil prices, a VAT rate hike and rising inflation. Further sanctions are a key risk for 2019 ◆ **MENA:** Civil conflict, high unemployment and lower oil prices are weighing on the region's economic outlook. Progress with structural reforms is also limited	◆ The global macro backdrop has improved for emerging markets (EMs) amid lower oil prices, subsiding US dollar strength and lower US Treasury yields ◆ The success of policy easing in China and the course of US-China trade tensions remain important factors for the outlook ◆ We believe we are being well rewarded to bear EM equity risk

Source: HSBC Global Asset Management. As at 31.12.2018, and 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) 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 strong. 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	**Neutral** –	Corporate fundamentals remain strong, the earnings growth outlook appears solid in our opinion, and the US macroeconomic backdrop still looks robust. Overall, our measure of the implied risk premium (excess returns over cash) remains consistent with a neutral positioning.	Further Fed policy tightening poses risks, especially as the US economic cycle matures. We are fairly close to the critical point where we need to reassess whether we are being offered enough return to take on equity risk in this market. 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 this 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. Subject to change.

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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 this year.	Brexit-related uncertainty is weighing on UK economic performance.
Japan	**Overweight** —	We believe the valuation 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 remains strong.	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 and the recent decline in oil prices. 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 this year, with US-China trade tensions and 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.

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Source: HSBC Global Asset Management. 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 “safety” assets is limited.
US	**Underweight** —	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 have disappointed in 2018.	Rising Treasury yields mean that we no longer need to be exposed to unwanted risks in order to reach target income levels. Prospective risk-adjusted returns continue to be most attractive in shorter-duration Treasuries. This is set against a backdrop of “price stability”. We hold this position with a significantly positive bias (i.e. close to neutral).
UK	**Underweight** —	Prospective returns for UK gilts continue to look poor, and we are being penalised for bearing interest-rate risk.	Although the BoE has signalled a gradual tightening path, downside risks to growth and the possibility that wage growth could disappoint implies monetary policy could remain relatively accommodative.
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.

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Source: HSBC Global Asset Management. 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 this 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 large, 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.	For the time being, the ECB's corporate bond-buying programme and pledge to reinvest maturing assets for "an extended period of time" remain supportive. Default rates also remain low.

Source: HSBC Global Asset Management. Subject to change.

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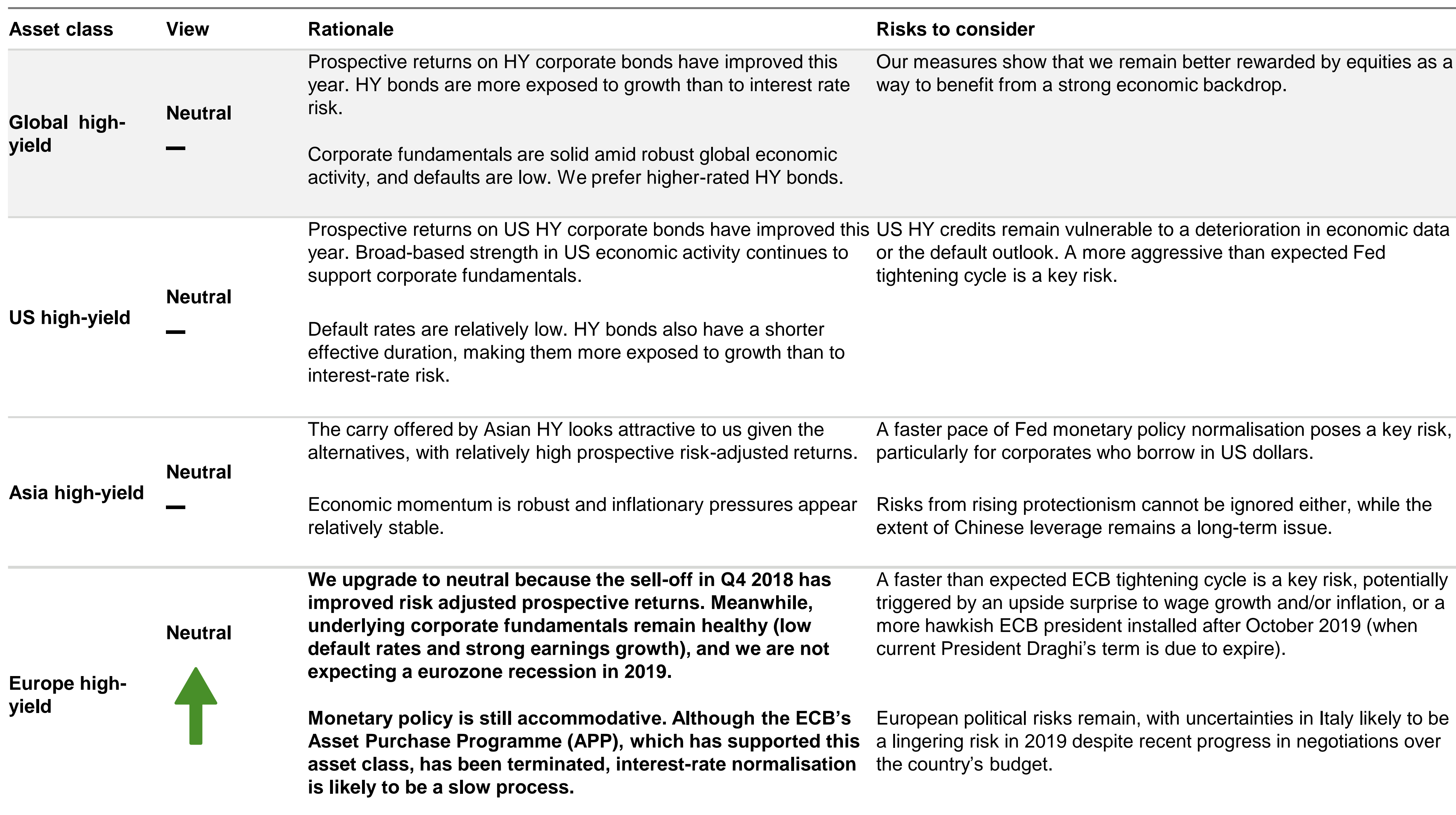
Long-term Asset class positioning tables (>12 months)

High-yield corporate Bonds



Asset class	View	Rationale	Risks to consider
Global high-yield	**Neutral** —	Prospective returns on HY corporate bonds have improved this year. HY bonds are more exposed to growth than to interest rate risk. Corporate fundamentals are solid amid 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 strong economic backdrop.
US high-yield	**Neutral** —	Prospective returns on US HY corporate bonds have improved this 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 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	**Neutral** —	The carry offered by Asian HY looks attractive to us given the alternatives, with relatively high prospective risk-adjusted returns. Economic momentum is robust and inflationary pressures appear relatively stable.	A faster 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**	**We upgrade to neutral because the sell-off in Q4 2018 has improved risk adjusted prospective returns. Meanwhile, 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. Although the ECB's Asset Purchase Programme (APP), which has supported this asset class, has been terminated, interest-rate normalisation is likely to be a slow process.**	A faster than expected ECB tightening cycle is a key risk, potentially triggered by an upside surprise to wage growth and/or inflation, or a more hawkish ECB president installed after October 2019 (when current President Draghi's term is due to expire). 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. Subject to change.

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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 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.	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. 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 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 easing is expected to ensure economic growth "within a reasonable range"[1] in 2019. Policies to calm market anxiety, support private enterprises and consumption, foster an environment of fair competition and improve monetary policy transmission are positive. Current valuations have priced in a high level of macro concerns. Hopes for US-China trade talks could help sentiment. Further opening up of the economy, market structural changes and financial liberalisation are potential long-term catalysts.	The 90-day US-China truce reduces the near-term risk of further tariff escalation, but the uncertainty related to negotiations is high as the US-China conflict goes beyond trade and relates to structural issues such as technology, market access and IP protection, etc. Capital outflows due to higher US rates, geopolitical tensions and/or intensifying China macro stability concerns are also external risks. Uncertainties over policy effectiveness, the property sector outlook, and structural reform prospects (including deleveraging, SOE reform and deregulation, etc.) are concerns. Balancing often conflicting economic, financial and social goals poses policy challenges.

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[1] Quote from People's Bank of China.
Source: HSBC Global Asset Management. 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** —	Benign inflation, new Reserve Bank of India leadership and state election results raise the odds for a more pro-growth monetary and fiscal policy setting and relaxation in financial regulatory norms.	Earnings risks and election-related uncertainties could remain near-term market overhangs.
		Bank asset quality is steadily improving and loan growth is picking up. Lower oil prices are positive for macro stability. The recent fall in commodity prices and interest rates helps profit 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.	Valuations are fairly unattractive compared with other Asian markets. Fiscal deficit concerns remain amid risks of populist policies (e.g. farm relief) ahead of the national elections and a weak Goods and Services Tax collection trend.
Hong Kong equities	**Neutral** —	The government will likely add fiscal stimulus to cushion against downside risks from external headwinds.	The domestic property/asset markets face risks from rising interest rates and tightening global financial conditions.
		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.
Singapore equities	**Overweight** —	Economic growth is likely to moderate but remain healthy amid a stable labour market and expansionary fiscal policy. 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.

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[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. 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 supports domestic demand (especially consumption), 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 remain key risks. The high level of household leverage is a key macro risk.
		Any improvement in corporate governance and/or a substantial reduction in geopolitical risks provide long-term re-rating potential.	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 the 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 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.

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Market data

December 2018

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)	456	-7.2	-13.1	-11.2	-11.2	551	435	13.9
North America								
US Dow Jones Industrial Average	23,327	-8.7	-11.8	-5.6	-5.6	26,952	21,713	14.7
US S&P 500 Index	2,507	-9.2	-14.0	-6.2	-6.2	2,941	2,347	15.4
US NASDAQ Composite Index	6,635	-9.5	-17.5	-3.9	-3.9	8,133	6,190	19.8
Canada S&P/TSX Composite Index	14,323	-5.8	-10.9	-11.6	-11.6	16,586	13,777	13.6
Europe								
MSCI AC Europe (USD)	404	-4.6	-12.8	-17.2	-17.2	524	391	11.6
Euro STOXX 50 Index	3,001	-5.4	-11.7	-14.3	-14.3	3,687	2,909	11.5
UK FTSE 100 Index	6,728	-3.6	-10.4	-12.5	-12.5	7,904	6,537	11.3
Germany DAX Index*	10,559	-6.2	-13.8	-18.3	-18.3	13,597	10,279	11.1
France CAC-40 Index	4,731	-5.5	-13.9	-11.0	-11.0	5,657	4,556	11.5
Spain IBEX 35 Index	8,540	-5.9	-9.0	-15.0	-15.0	10,643	8,286	10.4
Italy FTSE MIB	18,324	-4.5	-11.5	-16.1	-16.1	24,544	17,914	8.7
Asia Pacific								
MSCI AC Asia Pacific ex Japan (USD)	477	-3.0	-9.3	-16.2	-16.2	617	459	12.3
Japan Nikkei-225 Stock Average	20,015	-10.5	-17.0	-12.1	-12.1	24,448	18,949	14.5
Australian Stock Exchange 200	5,646	-0.4	-9.0	-6.9	-6.9	6,374	5,410	14.1
Hong Kong Hang Seng Index	25,846	-2.5	-7.0	-13.6	-13.6	33,484	24,541	9.6
Shanghai Stock Exchange Composite Index	2,494	-3.6	-11.6	-24.6	-24.6	3,587	2,449	9.1
Hang Seng China Enterprises Index	10,125	-4.7	-8.1	-13.5	-13.5	13,963	9,796	7.2
Taiwan TAIEX Index	9,727	-1.6	-11.6	-8.6	-8.6	11,270	9,401	12.3
Korea KOSPI Index	2,041	-2.7	-12.9	-17.3	-17.3	2,607	1,986	8.4
India SENSEX 30 Index	36,068	-0.3	-0.4	5.9	5.9	38,990	32,484	20.7
Indonesia Jakarta Stock Price Index	6,194	2.3	3.6	-2.5	-2.5	6,693	5,558	14.5
Malaysia Kuala Lumpur Composite Index	1,691	0.6	-5.7	-5.9	-5.9	1,896	1,627	15.9
Philippines Stock Exchange PSE Index	7,466	1.3	2.6	-12.8	-12.8	9,078	6,791	15.7
Singapore FTSE Straits Times Index	3,069	-1.6	-5.8	-9.8	-9.8	3,642	2,956	11.7
Thailand SET Index	1,564	-4.7	-11.0	-10.8	-10.8	1,853	1,547	13.6
Latam								
Argentina Merval Index	30,293	-3.8	-9.5	0.8	0.8	35,462	24,618	8.9
Brazil Bovespa Index*	87,887	-1.8	10.8	15.0	15.0	91,242	69,069	13.3
Chile IPSA Index	5,105	-0.1	-3.4	-8.3	-8.3	5,895	4,999	16.1
Colombia COLCAP Index	1,326	-3.9	-12.0	-12.4	-12.4	1,598	1,291	11.9
Mexico S&P/BMV IPC Index	41,640	-0.2	-15.9	-15.6	-15.6	51,121	39,272	14.4
EEMEA								
Russia MOEX Index	2,359	-1.4	-4.7	11.8	11.8	2,502	2,065	5.2
South Africa JSE Index	52,737	4.1	-5.3	-11.4	-11.4	61,777	50,033	12.2
Turkey ISE 100 Index*	91,270	-4.3	-8.7	-20.9	-20.9	121,532	84,655	5.9

Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 31 December 2018.

Past performance is not an indication of future returns.

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Market data (continued)

December 2018

Equity Indices - Total Return	3-month Change (%)	YTD Change (%)	1-year Change (%)	3-year Change (%)	5-year Change (%)	Dividend Yield (%)
Global equities	-12.8	-9.4	-9.4	21.1	23.2	2.8
US equities	-13.8	-5.0	-5.0	27.6	44.8	2.1
Europe equities	-12.7	-14.9	-14.9	6.4	-3.0	4.1
Asia Pacific ex Japan equities	-8.9	-13.9	-13.9	25.9	17.3	3.5
Japan equities	-14.2	-12.9	-12.9	10.6	16.3	2.6
Latam equities	0.4	-6.6	-6.6	51.5	-8.4	3.3
Emerging Markets equities	-7.5	-14.6	-14.6	30.4	8.5	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)	524	1.4	1.7	1.8	1.8
JPM EMBI Global	771	1.5	-1.2	-4.6	-4.6
BarCap US Corporate Index (USD)	2,829	1.5	-0.2	-2.5	-2.5
BarCap Euro Corporate Index (Eur)	244	0.2	-0.6	-1.3	-1.3
BarCap Global High Yield (USD)	456	-0.8	-3.1	-2.7	-2.7
BarCap US High Yield (USD)	1909	-2.1	-4.5	-2.1	-2.1
BarCap pan-European High Yield (USD)	416	-0.1	-2.9	-0.8	-0.8
BarCap EM Debt Hard Currency	390	1.3	-0.5	-3.0	-3.0
Markit iBoxx Asia ex-Japan Bond Index (USD)	195	1.3	0.8	-0.7	-0.7
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	244	1.1	-1.1	-3.1	-3.1

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 December 2018.

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Market data (continued)

December 2018

Currencies (vs USD)	Latest	End of last mth.	3-mths Ago	1-year Ago	Year End 2017	52-week High	52-week Low
Developed markets							
DXY index	96.17	97.27	95.13	92.12	92.12	97.71	88.25
EUR/USD	1.15	1.13	1.16	1.20	1.20	1.26	1.12
GBP/USD	1.28	1.27	1.30	1.35	1.35	1.44	1.25
CHF/USD	1.02	1.00	1.02	1.03	1.03	1.09	0.99
CAD	1.36	1.33	1.29	1.26	1.26	1.37	1.23
JPY	109.7	113.6	113.7	112.7	112.7	114.6	104.6
AUD	1.42	1.37	1.38	1.28	1.28	1.43	1.23
NZD	1.49	1.45	1.51	1.41	1.41	1.56	1.34
Asia							
HKD	7.83	7.82	7.83	7.81	7.81	7.85	7.79
CNY	6.88	6.96	6.87	6.51	6.51	6.98	6.24
INR	69.77	69.58	72.49	63.87	63.87	74.48	63.25
MYR	4.13	4.18	4.14	4.05	4.05	4.20	3.85
KRW	1,111	1,121	1,109	1,067	1,067	1,145	1,054
TWD	30.55	30.82	30.53	29.73	29.73	31.17	28.96
Latam							
BRL	3.88	3.87	4.05	3.31	3.31	4.21	3.12
COP	3,254	3,235	2,966	2,986	2,986	3,303	2,685
MXN	19.65	20.37	18.72	19.66	19.66	20.96	17.94
EEMEA							
RUB	69.35	67.09	65.56	57.69	57.69	70.84	55.56
ZAR	14.35	13.87	14.14	12.38	12.38	15.70	11.51
TRY	5.29	5.22	6.06	3.80	3.80	7.24	3.72

Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 31 December 2018

Past performance is not an indication of future returns.

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Market data (continued)

December 2018

Bonds	Close	End of last mth.	3-months Ago	1-year Ago	Year End 2017
US Treasury yields (%)					
3-Month	2.35	2.34	2.20	1.38	1.38
2-Year	2.49	2.79	2.82	1.88	1.88
5-Year	2.51	2.81	2.95	2.21	2.21
10-Year	2.68	2.99	3.06	2.41	2.41
30-Year	3.01	3.29	3.21	2.74	2.74
Developed market 10-year bond yields (%)					
Japan	-0.01	0.09	0.12	0.04	0.04
UK	1.28	1.36	1.57	1.19	1.19
Germany	0.24	0.31	0.47	0.42	0.42
France	0.71	0.68	0.80	0.78	0.78
Italy	2.74	3.21	3.14	2.01	2.01
Spain	1.41	1.50	1.50	1.56	1.56

Commodities	Latest	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Gold	1,282	4.9	7.5	-1.6	-1.6	1,366	1,160
Brent Oil	53.8	-8.4	-35.0	-19.5	-19.5	87	50
WTI Crude Oil	45.4	-10.8	-38.0	-24.8	-24.8	77	42
R/J CRB Futures Index	170	-6.6	-13.0	-12.4	-12.4	207	168
LME Copper	5,965	-3.8	-4.7	-17.7	-17.7	7,348	5,773

Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 31 December 2018.

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

- **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 **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 December 2018**.

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