IM

Investment Monthly

01 August 2018

For Professional Client and Institutional Investor Use Only

Corporate bond valuations improve

Key takeaways

- We move from underweight to neutral on US investment-grade (IG) and high-yield (HY) corporate bonds, resulting in a move from underweight to neutral for global IG and HY corporate bonds. We also move from underweight to neutral on US dollar (USD) emerging-market (EM) debt
- Global equity markets rose in July, as upbeat corporate earnings results outweighed lingering global trade concerns
- Amid strong economic data and despite rising trade tensions, Federal Reserve (Fed) Chair Powell testified that interest rates would keep gradually rising, "for now"
- Recent eurozone activity indicators suggest growth has stabilised, following a weakening in Q1. The European Central Bank (ECB) remains on course to terminate its net bond-buying programme by the end of the year
- In China, monetary easing, a slower pace of regulatory tightening and more funding for local government projects should help contain the risk of a sharp growth slowdown
- The Bank of Japan downgraded its inflation forecasts for the next three years and reiterated monetary policy will remain very accommodative "for an extended period of time"

A stronger investment case for corporate bonds

Global economic growth slowed at the start of 2018, but has since stabilised at a good pace. Meanwhile, corporate fundamentals remain solid and default rates low. Yet recently, we think corporate bonds have become increasingly attractive on a valuation basis, especially in the US. Therefore, we move from underweight to neutral on **US investment-grade (IG) and high-yield (HY) corporate bonds**, resulting in an upgrade to our stance on **global IG and HY corporate bonds** from underweight to neutral. We are also more positive on **European equivalents**, although we remain underweight here as the improvement in valuations has not been as significant. Elsewhere, the recent sell-off in EM assets has improved valuations for **USD-denominated EM debt**, and we also upgrade our view to neutral from underweight.

Our previous preference was to be invested in global equities and US Treasuries as a way to mimic the payoff from corporate bonds. We counterbalance this month's view changes by moving away from this stance. Nevertheless, **global equities** remain a superior way to benefit from the robust global environment, and increased volatility presents buying opportunities, in our view. Meanwhile, we think **US Treasuries** are still relatively attractive versus other DM government-bond markets, especially for two-year notes, although higher US inflation is a key risk for this asset class.

Equities

Asset class	View	View Move
Global	**OW**	–
US	N	–
UK	N	–
Eurozone	OW	–
Japan	OW	–
Emerging Markets (EM)	OW	–
Asia ex Japan	OW	–
CEE & Latam	N	–

Government bonds

Asset class	View	View Move
Developed Market (DM)	**UW**	–
US	UW	–
UK	UW	–
Eurozone	UW	–
Japan	UW	–
EM (local currency)	**OW**	–

Corporate bonds

Asset class	View	View Move
Global investment grade (IG)	**N**	↑
USD IG	N	↑
EUR and GBP IG	UW	–
Asia	N	–
Global high-yield	**N**	↑
US	N	↑
Europe	UW	–
Asia	N	–

Other

Asset class	View	View Move
EM agg bond (USD)	**N**	↑
Gold	**N**	–
Other commodities	**N**	–
Real estate	**N**	–

HSBC Global Asset Management

Long-term asset class positioning (>12 months)

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

Views are based on regional HSBC Global Asset Management Asset Allocation meetings held throughout July 2018, HSBC Global Asset Management's long-term expected return forecasts which were generated as at 29 June 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.

"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, EUR and GBP, and Asia investment-grade corporate bonds are determined relative to the global investment-grade corporate bond universe.

Equities

Asset class	View	Movement	Rationale
Global	**Overweight**	—	**Rationale of overweight views:** Our measure of the global equity risk premium (excess return over cash) is still reasonable given where we are in the profits cycle. Global economic growth remains solid, driving global equity markets to deliver positive returns over the long term. Overall, support from still-loose monetary policy and fiscal policy (if needed) will, in the medium and longer term, likely outweigh any headwinds from more modest Chinese growth, monetary policy normalisation in DM economies, and political uncertainty in many regions. **Risks to consider:** Fairly narrow implied equity risk premiums limit the ability of the market to absorb bad news. Episodic volatility may be triggered by concerns surrounding global trade protectionism, Chinese growth, and/or a potentially more rapid than expected Fed, ECB or BoJ normalisation of policy, coupled with political risks. A notable and persistent deterioration of the global economic outlook could also dampen our view.
US	Neutral	—	**Positive factors:** Despite a recent pickup in market volatility, corporate fundamentals remain strong, the earnings growth outlook looks solid (with upside risks from tax reform), and the US macroeconomic backdrop is still robust. Overall, our measure of the implied risk premium (excess returns over cash) remains consistent with a neutral positioning. **Risks to consider:** The magnitude of the boost to GDP growth from tax reform is likely to be small given where we are in the cycle. Further Fed policy tightening also poses risks. We are getting closer 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 materialise.
UK	Neutral	—	**Positive factors:** Major UK equity indices are heavily weighted to financial and resource stocks which should benefit from higher commodity prices and rising interest rates. Overall, however, current valuations are consistent with a neutral positioning, in our view. **Risks to consider:** The prospective reward for bearing equity risk in the UK is relatively low compared to other markets. The UK economy is underperforming amid low real wage growth and Brexit-related uncertainty.
Eurozone	Overweight	—	**Rationale of overweight views:** Eurozone equities benefit from relatively high implied risk premiums and scope for better earnings news given the region's earlier point in the activity cycle. Ultra-low ECB policy interest rates are likely to persist until the end of the decade. **Risks to consider:** The recent softening of activity indicators requires monitoring. EU-US trade barriers pose a significant risk to the outlook, as does the new populist government in Italy and Brexit negotiations. ECB monetary policy may also be less accommodative than expected.

Source: HSBC Global Asset Management. All numbers rounded to one decimal place

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Asset class	View	Movement	Rationale
Japan	Overweight	—	**Rationale of overweight views:** The relative valuation is attractive, in our view, whilst policy is supportive. Large corporate cash reserves provide firms with the scope to boost dividends or engage in stock repurchases. The trend in earnings growth remains positive. **Risks to consider:** Although there has been a pick-up in investment, a moderation in world trade growth will weigh on GDP growth this year. Other headwinds include a consumption tax increase planned for October 2019, and weak wage growth. Protectionism is a key risk.
Emerging Markets (EM)	Overweight	—	**Rationale of overweight views:** EM economic growth remains solid, although there are some notable exceptions (e.g. Brazil and Turkey). We think valuations offer a decent margin of safety, and there is still significant potential for (selected) EM currencies to appreciate over the medium term. Unhedged exposures to EM Asia offer the best risk-adjusted rewards, in our view. **Risks to consider:** There could be some near-term volatility as worries persist around the uncertain path for future Fed tightening, the potential for increased trade protectionism, economic transition in China, and the robustness of the global economy as a whole. Geopolitical uncertainty also poses risks.
Asia ex Japan	Overweight	—	**Rationale of overweight views:** We think Asia ex Japan equities have particularly attractive risk-adjusted returns and a reasonable "margin of safety" in current valuations should a less favourable macro backdrop emerge. Asian earnings growth is strong. Asian currencies are also poised to appreciate in the medium term. **Risks to consider:** 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; faltering global growth; and renewed concerns about China's growth and financial stability.
CEE & Latam	Neutral	—	**Positive factors:** Brazil exited recession in Q1 2017, whilst Mexico's economy is resilient. We believe Poland, Russia and Hungary offer attractive risk premiums. **Risks to consider:** Geopolitical tensions are high and unpredictable. We think high local cash rates and sovereign yields in many countries diminish the case for bearing equity risk.

Government bonds

Asset class	View	Movement	Rationale
Developed Markets (DM)	**Underweight**	—	**Rationale of underweight views:** Prospective returns still look low relative to competing asset classes. In a bond-unfriendly environment (robust global activity, the risk of cyclical inflationary pressures, and gradual DM central bank policy normalisation), global bond yields could move higher still. **Positive factors:** Government bonds can still deliver diversification benefits should there be a renewal of economic growth concerns. Also, "secular stagnation" forces remain (ageing populations, low productivity and investment), and the global pool of safety assets is limited.
US	Underweight	—	**Rationale of underweight views:** The US is at the forefront of building inflationary pressures. A more meaningful pick-up in inflation is a key risk scenario. **Positive factors:** Two-year Treasury yields are above US dividend yields. To us, this means we no longer need to be exposed to unwanted risks in order to reach target income levels. We also believe 10-year Treasuries can benefit from recession fears. This is set against a backdrop of "price stability". We hold this position with a positive bias (i.e. close to neutral).
UK	Underweight	—	**Rationale of underweight views:** Prospective returns for UK gilts continue to look poor, and we are being penalised for bearing interest-rate risk. **Positive factors:** Although the BoE has signalled a gradual tightening path, amid downside risks to growth and inflation heading back toward target, monetary policy is likely to remain relatively accommodative.
Eurozone	Underweight	—	**Rationale of underweight views:** Similarly, core European bonds are overvalued, in our view. A key risk is the termination of the ECB Asset Purchase Programme this year. **Positive factors:** Core inflationary pressures in the region remain subdued, which should keep accommodative monetary policy in place for an extended period of time.
Japan	Underweight	—	**Rationale of underweight views**: Japanese government bonds (JGBs) are overvalued, in our view. The BoJ has also recently reduced the amount of its JGB purchases and could modify its yield targeting framework. **Positive factors:** The "Yield Curve Control" framework should limit volatility and reduce the risk of significantly higher yields in the near term.

Source: HSBC Global Asset Management. All numbers rounded to one decimal place

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Asset class	View	Movement	Rationale
Emerging markets (EM)	**Overweight**	–	**Rationale of overweight views:** Most countries offer high prospective returns, especially relative to the opportunity set. Our estimate of the sustainable return on EM currencies reinforces our choice to hold this position unhedged. **Risks to consider:** 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.

Corporate bonds

Asset class	View	Movement	Rationale
Global investment grade (IG)	**Neutral**	↑	**Rationale of view change:** Prospective returns on IG corporate bonds have improved, with the implied credit risk premium now more generous than before. **Positive factors:** The macro environment remains supportive for credits – implied recession probabilities remain very low. The risk of defaults and downgrades appear limited for now. **Risks to consider:** 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. We still believe we can access growth at a better price through equity exposures.
USD investment grade	Neutral	↑	**Rationale of view change:** Prospective returns on US IG corporate bonds have improved, with the implied credit risk premium now more generous than before. **Positive factors:** US IG debt looks more attractive to us than European credit. We think carefully-selected US credit may outperform. **Risks to consider:** 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.
EUR and GBP investment grade	Underweight	–	**Rationale of underweight views:** EUR IG prospective returns are weighed down by a negative duration risk premium i.e. we are being penalised for bearing interest-rate risk. **Positive factors:** For the time being, the ECB's corporate bond-buying programme and pledge to reinvest maturing assets for "an extended period of time" remains supportive. Default rates also remain low.
Asia IG	Neutral	–	**Positive factors:** 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. **Risks to consider:** 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.
Global high-yield (HY)	Neutral	↑	**Rationale of view change:** Prospective returns on HY corporate bonds have improved, with the implied credit risk premium now more generous than before. **Positive factors:** 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. **Risks to consider:** Our measures show that we remain better rewarded by equities as a way to benefit from a strong economic backdrop.
US HY	Neutral	↑	**Rationale of view change:** Prospective returns on US HY corporate bonds have improved, with the implied credit risk premium now more generous than before. **Positive factors:** Broad-based strength in US economic activity continues to support corporate fundamentals. Tax reforms will also help. Default rates are relatively low. HY bonds also have a shorter effective duration, making them more exposed to growth than to interest-rate risk. **Risks to consider:** US HY credits remain vulnerable to a deterioration in economic data or the default outlook. A more aggressive Fed tightening cycle is a key risk.
Europe HY	Underweight	–	**Rationale of underweight views:** The carry offered by Euro HY is unattractive compared to European equities. The ECB Asset Purchase Programme (APP), which has so far been positive for this asset class, will be terminated by the end of this year. Overall, our measure of prospective risk-adjusted returns in EUR HY is consistent with an underweight positioning. **Positive factors:** The robust eurozone recovery, coupled with spill-over effects from the ECB APP remain supportive. The default outlook also looks benign.

Source: HSBC Global Asset Management. All numbers rounded to one decimal place

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Asia HY	Neutral	–	**Positive factors:** The carry offered by Asian High Yield looks attractive to us given the alternatives, with relatively high prospective risk-adjusted returns. Economic momentum is robust and inflationary pressures appear to have mostly stabilised. **Risks to consider:** 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.

Other

Asset class	View	Movement	Rationale
EM agg bond (USD)	**Neutral**	↑	**Rationale of view change:** Prospective returns on EM hard-currency bonds have improved, with the implied credit risk premium on corporate bonds now more generous than before. **Positive factors:** Investors' reach for yield may continue to support EM hard-currency bonds. **Risks to consider:** The risk of a more hawkish Fed and stronger USD poses a significant risk to USD-denominated debt holdings in the EM universe. USD debt leverage is high in some economies.
Gold	**Neutral**	–	**Positive factors:** Gold futures can offer reasonable diversification benefits to our multi-asset portfolios and have some inflation-hedging characteristics. **Risks to consider:** Based on our expected returns framework, prospective returns on gold futures look poor today given current market pricing. 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**	–	**Positive factors:** Commodity futures can offer reasonable diversification benefits to our multi-asset portfolios and have some inflation-hedging characteristics. **Risks to consider:** Based on our expected returns framework, prospective returns on commodity futures look poor today given current market pricing. This is primarily because there is a large negative expected roll yield (the cost of renewing futures contracts).
Real estate	**Neutral**	–	**Positive factors:** At the end of June 2018, global real estate equities offered a dividend yield of 4.0%, 154 basis points above that of wider equities, which is attractive in a low interest rate environment. In the long run, rents are linked to wider economic growth and offer a partial inflation hedge. Based on our outlook for rental growth and dividends, we believe real estate equities are priced to deliver reasonably attractive long-run returns compared to DM government bonds. **Risks to consider:** Real estate equities focused on retail property are susceptible to the pressures of ecommerce and changing shopping habits, although this is partly offset by strong demand for logistics buildings. A serious escalation in global trade disputes could harm occupier demand generally, particularly for countries heavily reliant on exports. Unexpected rises in interest rates could adversely affect prices in the short term. Brexit continues to cast a shadow on the UK, particularly in relation to Central London offices.

Source: HSBC Global Asset Management. All numbers rounded to one decimal place

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Corporate bond valuations improve

Markets: global equity markets rose in July amid easing trade concerns; Treasuries fell as Fed signalled further rate hikes

- **Global equity markets** rose in July, as upbeat corporate earnings results outweighed lingering global trade concerns. Risk appetite was also boosted by China's fiscal and monetary stimulus as well as the US and Europe agreeing on a ceasefire in their ongoing trade dispute
- In terms of **currencies**, the Turkish lira fell sharply against the US dollar amid higher than expected inflation data and as the central bank unexpectedly kept interest rates on hold. Asian currencies also declined, with the Chinese yuan underperforming
- **Developed market government bonds** finished the month lower (yields rose) as easing global trade tensions resulted in weakened demand for perceived safe-haven assets, whilst Fed Chair Powell signalled continued monetary policy tightening
- **Crude oil prices** fell over the month as US President Donald Trump put pressure on Saudi Arabia to ramp up oil output to overcome supply losses from other major producers. Investor concerns over an economic slowdown in China also weighed

US: Still robust economic activity; Fed will keep raising rates gradually, for now

- President Trump threatened to extend tariffs on all Chinese exports to the US. Meanwhile, he agreed with European Commission President Juncker to put the trade dispute on hold, but fell short of discussing auto tariffs in the deal
- US Q2 GDP expanded by 4.1% qoq annualised. Personal consumption contributed 2.7 percentage points (ppts), following a soft 0.4ppts in Q1, as income tax cuts fed into the economy. Our Nowcast for July is also tracking economic activity of close to 4.0%
- Multiple housing indicators (new home sales, building permits, etc.) contracted in June. Looking ahead, rising fixed mortgage rates are likely to offset some of the support from income tax cuts and a tightening labour market
- Amid strong economic data and despite rising trade tensions, Federal Reserve Chair Powell testified before Congress that the Fed would keep gradually raising rates, "for now". The next rate hike is likely to come in September

Europe: ECB on course to end QE this year; Bank of England likely to hike rates in August

- Recent **eurozone** activity indicators suggest growth has stabilised, following a weakening over Q1. Looking ahead, growth is likely to remain robust, although the industrial sector is vulnerable to a softening of global activity and further US tariffs
- Consistent with the European Central Bank's forward guidance, the recent stabilisation of activity data implies the bank's quantitative easing programme will end this year, with key policy rates remaining on hold "at least through the summer of 2019"
- **UK** core inflation unexpectedly fell in June, to 1.9% yoy, whilst June retail sales disappointed. However, the Bank of England may still push ahead with a rate hike in August given a strong labour market and very little spare capacity

Asia: Chinese policy easing should help contain risk of sharp slowdown; Bank of Japan downgrades inflation forecasts

- In **China**, monetary easing, a slower pace of regulatory tightening and more funding for key local government projects should help to stabilise credit growth and infrastructure investment in China, containing the risk of a sharp growth slowdown
- The Reserve Bank of **India** raised interest rates for a second straight meeting in August amid inflation risks. This reduces the urgency for further near-term tightening, as inflation and growth may be gradually peaking and financial conditions remain tight
- The Bank of **Japan** downgraded its inflation forecasts for the next three years and introduced forward guidance on policy rates, reiterating monetary policy will remain very accommodative "for an extended period of time", but with some greater flexibility

Other EM: Turkish economic activity slowing; inflation accelerating in Brazil

- Our **Turkey** Nowcast is showing a slowdown in economic activity, averaging just 6.5% annualised in Q2 versus 9.5% in Q1. The central bank kept interest rates unchanged in July despite high inflation
- The **Russian** Parliament approved an increase to VAT from 18% to 20%. Against this backdrop, the Central Bank of Russia kept the key rate at 7.25%, but signalled concerns over "how strongly the tax measures may affect inflation expectations"
- Similarly, the **South African Reserve Bank** held policy rates at 6.5% in July and shifted to a more hawkish stance. It stressed upside risks to the inflation outlook and now signalled five rate increases of 25bp by the end of 2020, instead of four previously
- Inflation in **Brazil** has accelerated in recent months, albeit due to temporary factors such as the truckers' strike which disrupted the economy's supply chain. The central bank is likely to reiterate this view at the August meeting, and leave the Selic rate unchanged at 6.5%

Source: HSBC Global Asset Management. All numbers rounded to one decimal place

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Global Strategic Asset Allocations

Global Strategic Asset Allocations (as at 29 June 2018)

Global equity markets edged lower in June, as risk appetite continued to be hit by escalating US-China trade tensions. EM stock indices underperformed, also weighed down by some weaker than expected Chinese economic activity data, and the Fed raising its interest-rate projections for 2018. Corporate fundamentals remain strong even if the market is more apprehensive than it was a few months ago. Overall, we believe global equities remain the best way to access growth – increased market volatility creates buying opportunities for us. In DM, we think Japan and Europe equities (hedged) continue to look attractive, while EM equity exposures also offer high prospective returns.

Credits and hard-currency EM bonds have become more attractive on a valuation basis, although we still believe we can access growth at a better price through equity exposures.

Finally, developed-market government bond valuations remain extreme, making them sensitive to any gradual inflationary pressures, a policy error or a sentiment shock, in our view. We remain underweight in this asset class. Nevertheless, we believe US Treasuries offer decent protection against a renewal of economic recession fears, and we are closer to a neutral stance in this segment. Meanwhile, as a result of the recent volatility in EMs, we find local-currency EM debt even more attractive.

Within the allocations of our global multi-asset model portfolios, the underweight in DM government bonds is only significantly visible within the model portfolio for Risk Profile 2, where the lower volatility target prevents too high an allocation to global equities.

Risk Profile 2 – Global Multi-Asset Model Portfolio

Asset Class	Current Model Portfolio	Reference SAA	Portfolio Tilt (June 2018)	Portfolio Tilt Change
Global Equities	**29.0%**	**26.0%**	**3.0%**	**0.0%**
Global Government Bonds	**19.9%**	**19.5%**	**0.4%**	**0.0%**
DM Government Bonds	10.9%	12.0%	-1.1%	0.0%
EM Government Bonds	9.0%	7.5%	1.5%	0.0%
Global Corporate Bonds	**44.0%**	**48.5%**	**-4.5%**	**0.0%**
Global Investment Grade	35.5%	38.0%	-2.5%	0.0%
Global High Yield	4.5%	6.0%	-1.5%	0.0%
EM Debt (Hard Currency)	4.0%	4.5%	-0.5%	0.0%
Global Real Estate	**5.0%**	**5.0%**	**0.0%**	**0.0%**
Cash	**2.1%**	**1.0%**	**1.1%**	**0.0%**
Total	**100.0%**	**100.0%**	**0.0%**	**0.0%**
Target Volatility		**5 - 8%**		

Risk Profile 3 – Global Multi-Asset Model Portfolio

Asset Class	Current Model Portfolio	Reference SAA	Portfolio Tilt (June 2018)	Portfolio Tilt Change
Global Equities	**55.5%**	**52.5%**	**3.0%**	**0.0%**
Global Government Bonds	**14.0%**	**12.5%**	**1.5%**	**0.0%**
DM Government Bonds	5.0%	5.0%	0.0%	0.0%
EM Government Bonds	9.0%	7.5%	1.5%	0.0%
Global Corporate Bonds	**24.5%**	**29.0%**	**-4.5%**	**0.0%**
Global Investment Grade	13.5%	16.0%	-2.5%	0.0%
Global High Yield	6.5%	8.0%	-1.5%	0.0%
EM Debt (Hard Currency)	4.5%	5.0%	-0.5%	0.0%
Global Real Estate	**5.0%**	**5.0%**	**0.0%**	**0.0%**
Cash	**1.0%**	**1.0%**	**0.0%**	**0.0%**
Total	**100.0%**	**100.0%**	**0.0%**	**0.0%**
Target Volatility		**8 - 11%**		

Source: HSBC Global Asset Management. All numbers rounded to one decimal place

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Risk Profile 4 – Global Multi-Asset Model Portfolio

Asset Class	Current Model Portfolio	Reference SAA	Portfolio Tilt (June 2018)	Portfolio Tilt Change
Global Equities	**79.0%**	**76.0%**	**3.0%**	**0.0%**
Global Government Bonds	**9.0%**	**7.5%**	**1.5%**	**0.0%**
DM Government Bonds	0.0%	0.0%	0.0%	0.0%
EM Government Bonds	9.0%	7.5%	1.5%	0.0%
Global Corporate Bonds	**6.0%**	**10.5%**	**-4.5%**	**0.0%**
Global Investment Grade	0.5%	3.5%	-3.0%	0.0%
Global High Yield	3.5%	3.5%	0.0%	0.0%
EM Debt (Hard Currency)	2.0%	3.5%	-1.5%	0.0%
Global Real Estate	**5.0%**	**5.0%**	**0.0%**	**0.0%**
Cash	**1.0%**	**1.0%**	**0.0%**	**0.0%**
Total	**100.0%**	**100.0%**	**0.0%**	**0.0%**
Target Volatility		**11 - 14%**		

The above 'Current Portfolio' is based on regional HSBC Global Asset Management Asset Allocation meetings held throughout July 2018. The 'SAA Portfolio' is the result of HSBC Global Asset Management's portfolio optimisation process. These model portfolios are expressed in USD.

Key Terms

- **Strategic Asset Allocation Portfolio:** Within AMG's multi-asset investment process, the 'SAA' refers to the 'Strategic Asset Allocations', which are generated through optimising long-term estimates of both expected return and covariance. These form the portfolios' reference allocation for each risk level.
- **Current Portfolio:** The 'Current Portfolio' represents the portfolio's current target exposure. This reflects any active positions currently held in the portfolio (i.e. 'over/under weight' positions relative to the SAA).
- **Portfolio Tilt:** The difference between the 'Current Portfolio' and 'SAA Portfolio' allocations. Positive values reflect overweight exposure i.e. where a positive outlook on a particular asset class is currently held. Conversely, negative values reflect underweight positions i.e. where the team currently maintain a more cautious outlook.
- **Portfolio Tilt Change**: The change in Portfolio Tilts from the previous Multi-Asset Strategy meeting.

Risk Profiles

Each of the three portfolios outlined above match different customer risk profiles, as defined by their target long-term volatility bands:

- **Risk Profile 2** has a long-term target volatility of 5-8%. This portfolio typically has a substantial allocation to fixed income investments and some allocations to growth-oriented investments such as equities.
- **Risk Profile 3** has a long-term target volatility of 8-11%. This portfolio typically has allocations to both fixed income investments and growth-oriented investments such as equities.
- **Risk Profile 4** has a long-term target volatility of 11-14%. This portfolio typically has a high allocation to growth-oriented investments with higher risk levels.

Note:

The 'Strategic Asset Allocations' detailed above may sometimes appear to differ from the 'Long-term Asset Class positioning' table on pages 2 and 3 primarily due to portfolio constraints which include achieving portfolio volatility within the target long-term volatility bands and minimum and maximum asset class weights.

The above 'Current Portfolio' allocations are based on HSBC Global Asset Management's current outlook and portfolio positioning. These positions are revisited on a monthly basis. The allocations are for illustrative purposes and are designed to be broadly representative of our current multi-asset positioning. Actual portfolio positioning may differ by product or client mandate due to manager discretion, local requirements, portfolio constraints and other additional factors.

The 'Current Portfolio' allocations do not consider the investment objectives, risk tolerance or financial circumstances of any particular client. They should not be relied upon as investment advice, research, or a recommendation by HSBC Global Asset Management. Asset allocation and diversification may not protect against market risk, loss of principal or volatility of returns.

The reference index for 'Equities' is the MSCI All Country World Index (ACWI), which includes both developed and emerging market equities. The reference index for 'Real Estate' is the FTSE EPRA/NAREIT Developed Index, which is designed to track the performance of listed real estate companies and Real Estate Investment Trusts (REITs).

Source: HSBC Global Asset Management. All numbers rounded to one decimal place

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Market Data

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)	520	2.9	2.0	8.8	1.3	551	470	15.7
North America								
US Dow Jones Industrial Average	25,415	4.7	5.2	16.1	2.8	26,617	21,600	16.3
US S&P 500 Index	2,816	3.6	6.4	14.0	5.3	2,873	2,417	17.5
US NASDAQ Composite Index	7,672	2.2	8.6	20.9	11.1	7,933	6,177	22.9
Canada S&P/TSX Composite Index	16,434	1.0	5.3	8.5	1.4	16,586	14,786	15.9
Europe								
MSCI AC Europe (USD)	476	3.2	-1.8	2.7	-2.3	524	452	14.3
Euro STOXX 50 Index	3,525	3.8	-0.3	2.2	0.6	3,709	3,262	14.2
UK FTSE 100 Index	7,749	1.5	3.2	5.1	0.8	7,904	6,867	13.8
Germany DAX Index*	12,806	4.1	1.5	5.7	-0.9	13,597	11,727	13.4
France CAC-40 Index	5,511	3.5	-0.2	8.2	3.7	5,657	4,995	14.8
Spain IBEX 35 Index	9,871	2.6	-1.1	-6.0	-1.7	10,758	9,328	12.9
Asia Pacific								
MSCI AC Asia Pacific ex Japan (USD)	543	0.7	-4.6	2.5	-4.7	617	515	13.3
Japan Nikkei-225 Stock Average	22,554	1.1	0.4	13.2	-0.9	24,129	19,240	16.4
Australian Stock Exchange 200	6,280	1.4	5.0	9.8	3.5	6,306	5,639	16.1
Hong Kong Hang Seng Index	28,583	-1.3	-7.2	4.6	-4.5	33,484	26,864	11.5
Shanghai Stock Exchange Composite Index	2,876	1.0	-6.7	-12.1	-13.0	3,587	2,691	11.3
Hang Seng China Enterprises Index	11,025	-0.4	-10.6	1.8	-5.8	13,963	10,405	7.8
Taiwan TAIEX Index	11,058	2.0	3.7	6.0	3.9	11,270	10,189	14.1
Korea KOSPI Index	2,295	-1.3	-8.8	-4.5	-7.0	2,607	2,244	9.1
India SENSEX 30 Index	37,607	6.2	7.0	15.7	10.4	37,712	31,082	19.8
Indonesia Jakarta Stock Price Index	5,936	2.4	-1.0	1.6	-6.6	6,693	5,558	15.4
Malaysia Kuala Lumpur Composite Index	1,784	5.5	-4.6	1.4	-0.7	1,896	1,658	17.1
Philippines Stock Exchange PSE Index	7,672	6.6	-1.9	-4.3	-10.4	9,078	6,924	18.0
Singapore FTSE Straits Times Index	3,320	1.6	-8.1	-0.3	-2.4	3,642	3,176	13.3
Thailand SET Index	1,702	6.7	-4.4	8.0	-3.0	1,853	1,556	15.8
Latam								
Argentina Merval Index	29,287	12.5	-2.4	35.7	-2.6	35,462	20,845	8.5
Brazil Bovespa Index*	79,220	8.9	-8.0	20.2	3.7	88,318	65,925	11.9
Chile IPSA Index	5,434	2.5	-4.8	7.3	-2.3	5,895	4,847	16.1
Colombia COLCAP Index	1,527	-3.2	-2.5	3.1	0.9	1,598	1,415	14.6
Mexico S&P/BMV IPC Index	49,698	4.3	2.8	-2.6	0.7	51,722	44,429	17.6
EEMEA								
Russia MOEX Index	2,321	1.1	0.6	20.9	10.0	2,379	1,921	5.9
South Africa JSE Index	57,432	-0.3	-1.4	4.0	-3.5	61,777	53,027	14.3
Turkey ISE 100 Index*	96,952	0.4	-7.0	-9.8	-15.9	121,532	88,169	7.0

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

Equity Indices - Total Return	3-month Change (%)	YTD Change (%)	1-year Change (%)	3-year Change (%)	5-year Change (%)
Global equities	2.6	2.6	11.0	29.3	54.1
US equities	6.7	6.3	15.6	39.1	79.1
Europe equities	-0.8	-0.2	5.6	13.7	28.2
Asia Pacific ex Japan equities	-3.5	-3.1	5.3	30.8	41.9
Japan equities	-3.1	-1.6	8.8	19.8	42.4
Latam equities	-9.0	-3.0	0.7	26.5	-2.2
Emerging Markets equities	-5.5	-4.6	4.4	29.3	29.2

All total returns quoted in USD terms and subject to one-day lag.

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.

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

Past performance is not an indication of future returns.

Market Data (continued)

Bond indices - Total Return	Close	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)
BarCap GlobalAgg (Hedged in USD)	515	0.0	0.6	1.3	0.1
JPM EMBI Global	781	2.1	-0.1	-1.1	-3.3
BarCap US Corporate Index (USD)	2,830	0.8	0.8	-0.7	-2.5
BarCap Euro Corporate Index (Eur)	246	0.3	0.0	0.6	-0.4
BarCap Global High Yield (Hedged in USD)	468	1.7	0.4	1.8	-0.2
Markit iBoxx Asia ex-Japan Bond Index (USD)	192	0.8	0.1	-0.6	-1.9
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	246	2.1	-1.2	0.1	-2.6

Total return includes income from dividends and interest as well as appreciation or depreciation in the price of an asset over the given period

Bonds	Close	End of last mth.	3-months Ago	1-year Ago	Year End 2017
US Treasury yields (%)					
3-Month	2.02	1.91	1.80	1.07	1.38
2-Year	2.67	2.53	2.49	1.35	1.88
5-Year	2.85	2.74	2.80	1.84	2.21
10-Year	2.96	2.86	2.95	2.29	2.41
30-Year	3.08	2.99	3.12	2.90	2.74
Developed market 10-year bond yields (%)					
Japan	0.06	0.03	0.05	0.08	0.04
UK	1.33	1.28	1.42	1.23	1.19
Germany	0.44	0.30	0.56	0.54	0.42
France	0.73	0.66	0.78	0.80	0.78
Italy	2.72	2.67	1.78	2.09	2.01
Spain	1.40	1.32	1.27	1.48	1.56

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							
EUR/USD	1.17	1.17	1.21	1.18	1.20	1.26	1.15
GBP/USD	1.31	1.32	1.38	1.32	1.35	1.44	1.28
CHF/USD	1.01	1.01	1.01	1.03	1.03	1.09	0.99
CAD	1.30	1.31	1.28	1.25	1.26	1.34	1.21
JPY	111.9	110.8	109.3	110.3	112.7	114.7	104.6
AUD	1.35	1.35	1.33	1.25	1.28	1.37	1.23
NZD	1.47	1.48	1.42	1.33	1.41	1.50	1.34
Asia							
HKD	7.85	7.85	7.85	7.81	7.81	7.85	7.79
CNY	6.82	6.62	6.33	6.73	6.51	6.84	6.24
INR	68.55	68.47	66.66	64.19	63.87	69.13	63.25
MYR	4.07	4.04	3.92	4.28	4.05	4.30	3.85
KRW	1,119	1,115	1,068	1,119	1,067	1,150	1,054
TWD	30.63	30.48	29.61	30.21	29.73	30.74	28.96
Latam							
BRL	3.76	3.88	3.51	3.13	3.31	3.97	3.08
COP	2,889	2,932	2,803	2,986	2,986	3,080	2,685
MXN	18.65	19.91	18.71	17.80	19.66	20.96	17.57
EEMEA							
RUB	62.53	62.78	62.98	59.78	57.69	65.04	55.56
ZAR	13.28	13.73	12.46	13.19	12.38	14.57	11.51
TRY	4.91	4.59	4.06	3.52	3.80	4.97	3.39

Commodities	Latest	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Gold	1,224	-2.3	-6.9	-3.6	-6.1	1,366	1,211
Brent Oil	74.3	-6.5	-1.2	41.0	11.0	81	50
WTI Crude Oil	68.8	-7.3	0.3	37.1	13.8	75	46
R/J CRB Futures Index	195	-2.9	-3.7	6.5	0.3	207	175
LME Copper	6,300	-4.9	-7.4	-1.1	-13.1	7,348	5,988

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

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