Investment Monthly – March 2020

Age of Uncertainty: COVID-19

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Summary

Macro Outlook

- Global growth showed signs of picking up in late-2019, particularly in emerging markets with momentum in China building gradually since the summer. But the outbreak of COVID-19 will reverse this momentum
- China's growth rate is likely to be negative in Q1 versus the previous quarter. Countries with large economic linkages to China and with limited scope for policy support look vulnerable, such as the eurozone and Japan
- Positively, however, the US economy seems best insulated from the virus, with consumers in good financial health amid a robust labour market
- We also see policy supporting economies. Fed rate cuts are an option. Chinese authorities have already eased monetary policy, among other measures. We expect other economies to roll out similar initiatives to support growth

Central Banks

- The bar for a rate cut by the **US Federal Reserve (Fed)** is far lower than for a rate hike, especially given the downside risks from COVID-19
- The **European Central Bank (ECB)** could engage in more aggressive QE and/or deposit rate cuts amid the economic impact of COVID-19
- The **Bank of England (BoE)** voted 7-2 to keep rates on hold in January, but policy easing remains possible amid Brexit and COVID-19 uncertainty
- Following a sharp economic contraction in Q4 and risks from COVID-19, the **Bank of Japan (BoJ)** is likely to ease; although they remain fairly constrained
- The **People's Bank Of China (PBOC)** has been easing monetary policy in response to the outbreak of COVID-19 in China – we expect this to continue until activity has recovered

Key Views

- Risk-assets globally have faced some pressure following the outbreak of COVID-19, first in China and now more globally. Again, episodic volatility is a feature, not a bug, of the "age of uncertainty"
- Risk asset classes like global equities continue to offer a relative high risk premium versus "safety" asset classes like global bonds
- While COVID-19 is likely to deliver a significant hit to global activity, it can be relatively short-lived. Automatically adopting risk-off investment strategies may prove costly given current market pricing
- However, we need to monitor developments closely, with particular attention on: trends in corporate earnings and default rates, COVID-19 case growth, and high-frequency Chinese activity data
- Indeed, we acknowledge there are limits to what policy easing can achieve if lockdowns and supply chain disruptions persist or become widespread

Key Risks

#AgeOfUncertainty

Uncertainty remains the pervasive and central feature of the macro environment. This creates episodic volatility in investment markets

Growth/recession risk	Demand and supply shocks from China are not short-lived
Profits recession	Low profit growth / contraction & credit deterioration
Political uncertainty	Political and policy uncertainty dampen 'animal spirits'

Source: HSBC Global Asset Management, Global Investment Strategy, March 2020
All numbers rounded to one decimal place. The views expressed were held at the time of preparation, and are subject to change.
Please refer to Basis of Views and Definitions section for additional information

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Investment Views

The recent COVID-19 outbreak has raised volatility in markets. Despite short-term economic challenges, global policy stimulus is likely to help cushion the blow to the global economy and financial markets. For now, we still favour a pro-risk investment strategy

- **Global equities** – We remain overweight given the wide valuation gap versus bonds. Whilst short-term performance has been hit by the spread of COVID-19, downside potential is likely limited by proactive policy makers
- **Government bonds** – Valuations are relatively unattractive and policy is moving toward fiscal stimulus. We prefer inflation-linked bonds
- **Corporate bonds** – Most credit asset classes are overvalued in our view and corporate fundamentals are coming under pressure. We prefer equities
- **The COVID-19 situation is very fluid and we are monitoring high frequency macroeconomic/corporate fundamentals data and market trends very closely. We will communicate any portfolio changes through our usual macro and investment strategy communications suite**

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	**Overweight**	–
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	Overweight	–
Taiwan	Overweight	–

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

Source: HSBC Global Asset Management, as at March 2020, and subject to change. Please refer to Basis of Views and Definitions section for additional information

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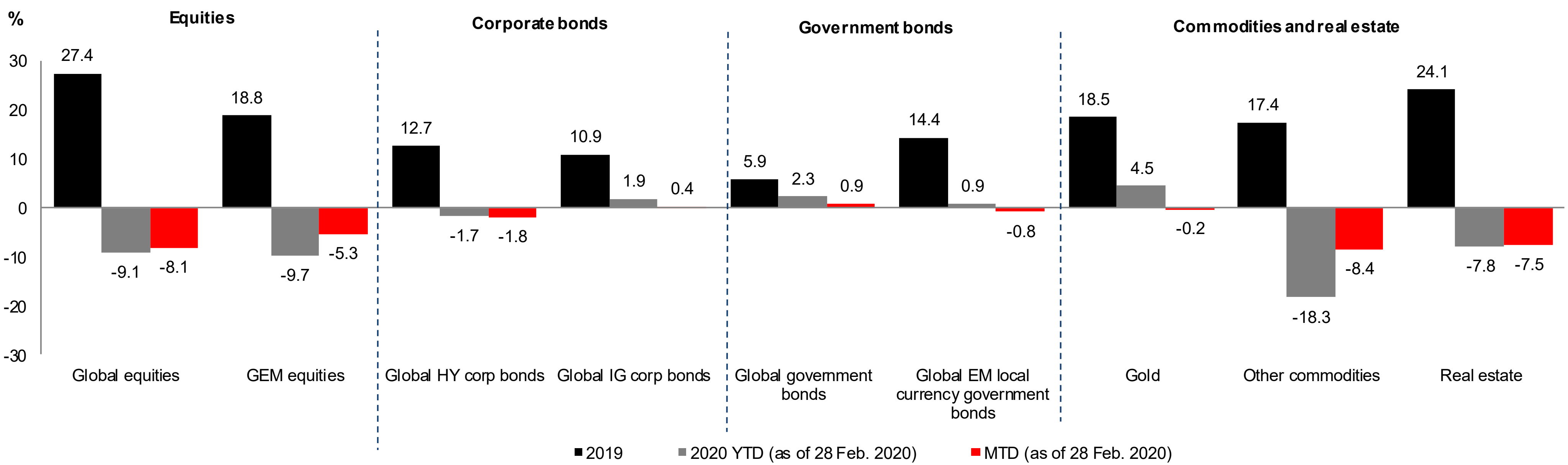
Asset Class Performance at a glance

Global equities fell in February as a rally earlier in the month following a fall in new cases of COVID-19 in China was offset by fears of a pandemic following a jump in new cases more globally

- **Government bonds** – Large gains were made as investors priced in further policy easing by the US FOMC and other global central banks amid COVID-19 concerns
- **Commodities** – Oil prices slumped as investors priced in a worsening global economic outlook; gold prices made further gains amid increased demand for perceived safe-haven assets

Past performance is not an indication of future performance



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 28 February 2019 in USD, total return, month-to-date terms

Please refer to Basis of Views and Definitions section for additional information

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Base case views and implications

	Monthly macroeconomic update	Base case view and implications
US	◆ Loose monetary policy, a robust labour market, and solid household fundamentals are supporting domestic consumption ◆ The economy remains relatively well insulated from developments abroad, but tail risks from COVID-19 exist. In the near-term, manufacturing, business investment and exports are exposed to weaker demand and supply chain disruptions	◆ The US economy is likely to grow moderately this year as fiscal stimulus wanes and the labour market matures ◆ Fed policy looks to be on hold but risks are largely tilted to the downside – loosening this year remains plausible ◆ US Treasury valuations are high and inflation risks are dismissed. Equities and inflation-linked bonds are preferable
Europe	◆ **Eurozone:** COVID-19 is expected to hit the economy via potential containment measures, while manufacturing will be hit by weaker Chinese demand and supply chain disruptions ◆ **UK:** Brexit and political uncertainty has negatively impacted confidence and growth, but fiscal spending and looser monetary policy stands ready to offset this	◆ **Eurozone:** European equities remain relatively cheap, although we acknowledge headwinds from weak growth ◆ **UK:** We continue to have a overweight view on UK equities given very attractive valuations
Asia	◆ **China:** The impact of COVID-19 is likely to have a significant impact on growth in the short-term. There is also uncertainty about how long the disruption will persist ◆ **India:** Private sector activity data continues to be weak, although policy easing efforts have been stepped up. Domestic consumption growth may be bottoming ◆ **Japan:** Economic data has weakened significantly following a VAT tax hike in Q4 2019 and a particularly bad typhoon season; COVID-19 is a key headwind	◆ **China:** Ongoing policy loosening will act in an attempt to support the Chinese economy ◆ **India:** The long-term structural growth potential remains positive, supporting our overweight view ◆ **Japan:** We believe the valuation of Japanese equities is still attractive, although weak economic growth creates challenges
Other EM	◆ **Brazil:** Positive reform momentum and improving financial conditions could support growth. Monetary policy easing should support growth ◆ **Russia:** Activity remains sluggish, amid subdued domestic demand. Recent monetary easing and planned infrastructure projects are likely to support growth ◆ **MENA:** Growth prospects are constrained by elevated geopolitical risks, oil price falls and production cuts, and weaker global growth amid the COVID-19 outbreak	◆ EMs could see short-term disruption to their economies given the measures taken by China to halt the spread of COVID-19 ◆ But this is likely to be temporary. The backdrop for EMs is supported by the Fed's easing bias, China policy stimulus, and more accommodative EM central banks/fiscal policy ◆ We remain overweight EM equities

Source: HSBC Global Asset Management. As at 2 March 2020. 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** –	While COVID-19 is a major headwind to near-term growth, it will reinforce policy support this year, both monetary and fiscal. Global policymakers are aided by low inflation and ultra-low borrowing costs Our measure of the global equity risk premium (excess return over cash) remains attractive relative to most fixed income assets – especially developed market government bonds	The recent outbreak of COVID-19 highlights that we remain in an "age of uncertainty". A further significant spread of the virus could present larger challenges that are currently priced by risk markets Before the coronavirus outbreak, earnings growth was expected to pick up this year. A big disappointment may weigh on investor sentiment and corporate appetite for hiring
US	**Overweight** –	US growth is relatively well insulated. The household sector looks financially sound. Corporate earnings remain at high levels The Fed enacted "insurance" policy easing in 2019. Further loosening this year is possible given downside risks to the global economy	A worsening in profit growth and credit fundamentals could challenge valuations and weaken the economic outlook A larger than expected disruption to global supply chains from COVID-19 could be a headwind to corporate sector resilience
Eurozone	**Overweight** –	Eurozone equities benefit from fairly high prospective risk-adjusted returns (on a hedged basis) Monetary policy remains highly accommodative, while some political risks (trade tensions, Italy's budget) have dissipated	COVID-19 is a challenge to eurozone's export-dependent and globally integrated manufacturing sector amid limited policy space Continued uncertainty around the future economic relationship with the UK could weigh on activity somewhat

Source: HSBC Global Asset Management. As at 2 March 2020. The views expressed were held at the time of preparation, and are subject to change. .
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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 that for other developed market (DM) equities	A further significant deterioration in UK growth and corporate fundamentals would be a major challenge
		Some greater Brexit clarity this year and a fiscal boost to growth may support domestically focused stocks	A stronger GBP on the back of greater Brexit clarity could cap gains in overseas earnings of UK listed stocks
Japan	**Overweight** —	We believe valuations are attractive, whilst monetary policy remains highly accommodative	Policy support is constrained relative to other countries by already ultra-low interest rates and high government debt levels
		Large corporate cash reserves provide firms with the scope to boost dividends or engage in stock repurchases	Japan's export-dependent and globally integrated manufacturing sector is vulnerable
Emerging Markets (EM)	**Overweight** —	EM economies are exposed to a slowdown in China, but EM equities tend to outperform on the back of Chinese stimulus	A further deterioration in EM earnings relative to DMs should be expected in the coming months
		The structural characteristics of EM economies are significantly better than in the past	From a valuation perspective, EM equities are not particularly cheap versus other equity markets or history
CEE & Latam	**Neutral** —	There has been a loss of economic growth momentum in Latin America, albeit with recent signs of stabilisation	Economic growth remains fragile, with many economies dependent on a better trade and industrial cycle outlook
		We think high local interest rates and sovereign yields in many countries diminish the case for bearing equity risk	Growth could be impacted by the rise of COVID-19, whilst geopolitical tensions remain elevated in many regions

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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. Investors are being penalised for bearing risks around unexpected changes in interest rates or inflation DM government bonds still have a role to play as a portfolio diversifier, but given current pricing, we prefer other diversifiers	There is potentially a lack of triggers that could move yields significantly higher in the near term. Inflation is structurally subdued A further deterioration in the COVID-19 outbreak could further weigh on investor risk appetite, supporting demand for DM government bonds
US	**Underweight** —	The risk of higher inflation is dismissed by the market, and domestic growth continues to look robust 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 Low inflation may continue to help cap yields. Further Fed easing is a possibility should the outbreak of COVID-19 continue to worsen
UK	**Underweight** —	Prospective returns for UK gilts continue to look poor. Upcoming fiscal easing and stronger growth could push yields higher	A rise in yields may be capped by the risk of no trade deal being agreed with the EU at the end of 2020 and sub-target UK inflation
Eurozone	**Underweight** —	Eurozone government bonds are overvalued, in our view, while fiscal easing is also moving into focus. Inflation risks are dismissed	Core inflationary pressures in the region remains subdued, and the ECB may loosen policy further amid headwinds from COVID-19
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** —	This asset class benefits from high prospective returns and the limited risk of a dollar rally amid the Fed’s easing bias Furthermore, EM central banks have scope to reduce policy rates to support growth	A rapid gain in the US dollar could be triggered by widening growth differentials between the US and the rest of the world 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** —	We estimate that current valuations do not compensate us for risks related to unexpected changes in interest rates or inflation	According to Moody's, global default rates are expected to increase in the coming year, but to remain below the historical average of around 4%
		Corporate fundamentals are beginning to come under pressure, with near-term headwinds from COVID-19	Still-dovish central bank policy and low interest rates are positives. Policy rates could fall further amid the global outbreak of COVID-19
USD investment grade	**Underweight** —	US IG valuations are high and we believe there is an inadequate margin of safety against downside risks	US growth remains steady and the Fed has a dovish tilt. The level of profitability remains relatively high, despite the growth rate having slowed
		US IG could come under pressure from some recent worsening in corporate fundamentals	US corporate fundamentals are broadly robust, with typical levels of leverage, and a healthy ability to pay debt interest expenses
EUR and GBP investment grade	**Underweight** —	EUR IG prospective returns are also relatively unattractive. Moody's expects default rates to rise sharply in 2020	The ECB restarted net asset purchases in 2019, and they could be ramped up further this year

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	A stronger US dollar poses a risk, particularly for corporates with USD denominated debt

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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 are supported by a reasonable credit risk premium (compensation for risks related to corporate defaults) This growth-sensitive asset class may perform well if activity surprises to the upside following near-term disruptions	Our measures show that we remain better rewarded by equities as a way to benefit from still decent underlying economic fundamentals Recent signs of pressure on corporate fundamentals make us monitor this asset class closely
US high-yield	**Neutral** —	Robust US economic activity continues to support underlying corporate fundamentals Default rates are relatively low – although rising. A US recession is unlikely in our view	US HY credits remain vulnerable to a deterioration in the growth picture, falling corporate profits and the default outlook
Asia high-yield	**Overweight** —	Asia HY offers a decent buffer against bad news given its attractive valuation against the opportunity set Asian economic growth is vulnerable, although there is room for policy easing amid low inflation and borrowing costs	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 for now), although economic activity is vulnerable Monetary policy is still accommodative, while fiscal stimulus is also coming into focus	Eurozone growth could disappoint further, although for now problems seem to be concentrated in the manufacturing sector European political risks remain, with a “no trade-deal” Brexit at end-2020 still possible

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Long-term Asset class positioning tables (>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 has performed well since the outbreak of COVID-19	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	**Overweight** —	Selected commodities could be attractive hedges during scenarios of sharply rising risks – a continued possibility in this "age of uncertainty" We believe oil futures in particular look attractive due to a positive roll yield (the cost of renewing futures contracts) given the shape of the futures curve i.e. futures prices are less than spot prices	We still measure a large negative expected roll yield for some commodities (particularly wheat and corn) Whilst commodities can be a good diversifier in times of heightened political uncertainty, they are also sensitive to any negative growth or demand shocks which would reduce the effectiveness of the hedge
Real Estate	**Neutral** —	We believe prospective long run returns from global real estate equities imply a reasonable attractive return over developed market government bonds based on prevailing yields and our outlook for future dividend growth As at the end of January, the dividend yield on global real estate equities of 3.77%, over 140 basis points higher than the yield on general equities and 300 basis points above DM government bond yields	Real estate equities 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 Certain sectors and geographies are affected by ongoing concerns over COVID-19. Uncertainty over the terms of 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 exposure to vulnerable, idiosyncratic EMs also weighing on the outlook	A dollar appreciation shock is likely capped by the still-dovish Fed with relatively low risk of rate hikes

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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** —	Chinese policymakers has ramped up its (mostly targeted) fiscal and credit/ monetary policy support for COVID-19-affected entities (especially SMEs and low-income individuals) and epidemic-control efforts. More easing measures are likely to shore up confidence and offset the epidemic impact Despite the short-term growth hit, a recovery is likely amid some pent-up/ restocking demand and counter-cyclical policy once the coronavirus is seen contained. The overall impact on MSCI China earnings in the medium term may be moderate, particularly given the significant weight of new economy sectors (e-commerce, IT, online entertainment) Potential catalysts include further opening up of the economy, capital market liberalisation, as well as a range of reforms by the central bank and the securities regulators to support the economy and markets	The coronavirus outbreak is likely to have a transitory but significant impact on China's near-term economic growth. PMIs and some high-frequency indicators have showed material weakness (well below normal) in economic activities post the COVID-19 outbreak and a slow pace of business/production resumption with low capacity utilization and slow return of (migrant workers) to their work-places. Corporate earnings may face near-term downside risks Countercyclical policy measures are not likely to address structural headwinds. Policy space is limited by weaker fiscal positions, high debt levels and falling credit efficiency. Problems at small banks and rising credit risks have impeded credit channels, supply-induced inflationary pressure is a near-term concern There is still no clear path towards a long-term, comprehensive and sustainable US-China trade resolution. Trade talks could pose upside or downside risks

Source: HSBC Global Asset Management. As at 2 March 2020. The views expressed were held at the time of preparation, and are subject to change. .
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For Client Use

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

Asian assets cont'd

Asset class	View	Rationale	Risks to consider
India equities	**Overweight** —	We expect a slow growth recovery in FY21 on a low base effect, traction from past policy actions, and expectation of a global recovery post a near-term COVID-19 shock. The impact of the coronavirus outbreak on India is likely to be smaller vs. other Asian peers as India is not that well integrated into the global supply chain and could somewhat benefit from lower oil/commodity prices. Exports and tourism have a relatively smaller share of GDP. The central government missed the fiscal deficit target for FY20 but the FY21 Budget aims to achieve fiscal consolidation while retaining the longer-term growth focus and pushing towards infrastructure/capex. Steps to attract foreign inflows and the removal of Dividend Distribution Tax are positive 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, including the large corporate income tax cut making India more globally competitive	We see the risk that the current growth recovery could be shallower than expected, as the economy still faces NBFCs-led domestic credit issues, soft capex and job market, and an uncertain global outlook. Weaker global growth and supply-chain disruptions in selected sectors such as pharma, automobiles and electronics, are still likely to have some adverse impact on India's near-term economic growth, posing earnings risks The FY21 Budget provides no major stimulus that could spur demand quickly. Fiscal slippage risk remains as the budget depends heavily on disinvestment and telecom spectrum receipts, which hinge on execution and market conditions. The impact of (personal income) tax changes are uncertain. Amid revenue concerns, near term broad-based fiscal support looks unlikely 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** —	The government has announced a highly expansionary 2020-21 budget with a massive counter-cyclical package, aimed at mitigating the disruption to near-term growth from the COVID-19 outbreak A decent dividend yield is supportive. Many multinational companies operate mostly outside of the city and are within sectors that leverage on Asia's longer-term growth potential Accommodative global monetary policy settings alleviate some pressure on HK interest rates. Liquidity conditions in HK remain abundant. This, together with a relaxation of mortgage rules and relatively tight supply provide some near-term support to the housing market. Financial system appears sound	Hong Kong's economy has deteriorated materially amid weakness in both external and domestic demand. HK, as a small open economy with large shares of tourism, consumption and services to GDP, is vulnerable to any negative economic shock from the COVID-19 outbreak Consensus earnings estimates have come down but probably have further to fall. Government measures could provide support but there will likely be some time lag for the effects to kick in and the timing of actual fiscal disbursement is also uncertain The HK economy and asset markets remain exposed to any external demand shock or higher domestic interest rates due to large capital outflows. HK is also exposed to developments in China
Singapore equities	**Overweight** —	Valuations are attractive and a high dividend yield helps limit the downside An expansionary FY2020 budget, with a 1% of GDP fiscal support for both households and companies, especially those sectors most affected by the COVID-19 outlook, could provide material offset and help support a growth recovery after a transitory shock Shifting supply chains to ASEAN and steady pipeline of construction projects may aid capex in Singapore. Tax rebates for some properties (e.g. retail and hospitality), targeted property easing measures and planned spending on upgrading housing estates support the private housing market	Singapore is among the more vulnerable economies in Asia should the COVID-19 outbreak escalate given its small open economy; the virus impact is expected to affect both the trade and services sectors. A sharp near-term growth slowdown Is expected The economy's starting conditions for 2020 were relatively weak even before the outbreak. There are signs of a slight softening of the labour market amid a year of growth weakness. Singapore also faces structural constraints such as worsening demographics, rising labour costs, and high private sector debts levels Tightening market liquidity remains a risk. Singapore is also sensitive to sharp moves in the USD.

* Non-banking financial company. Source: HSBC Global Asset Management. As at 2 March 2020.
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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	**Overweight**	The Korean economy showed signs of a cyclical recovery before the COVID-19 outbreak. The virus impact is typically seen as transitory and would not have a lasting negative spillovers to corporate balance sheets or household incomes A significant fiscal stimulus and an accommodative monetary policy may help provide some cushion against the economic fallout from the COVID-19 and help moderate the earnings impact. Korean companies, particularly large exporters, are largely maintaining their competitiveness in the global market The phase one US-China trade deal reduces an external risk. Over the medium term, Korea could potentially benefit from trade diversion and temporarily eased competition pressures from China	The spread of COVID-19 (locally and globally) will negatively impact the Korean economy in the near term, mainly through potential disruptions in manufacturing supply chains, domestic consumption, tourism and exports, posting downside risks to the near-term corporate earnings prospects Uncertainties remain over Korea's relations with Japan as well as US-China economic relations despite the extended trade truce. Slowing globalisation and geopolitical risks (including North Korea) remain concerns Private sector job gains remain weak. Housing policies remain tight (with the risk of further tightening) to rein speculation/bubble risks. The Korean economy and markets face structural headwinds from rising labor costs amid tighter regulation and an aging demographic structure, as well as a high household-debt level
Taiwan equities	**Overweight**	The Taiwanese economy saw signs of a tech-led cyclical recovery before the COVID-19 outlook. The virus impact is expected to be short-lived, while relief measures and accommodative macro policies could provide some cushion Forward earnings growth has picked up prior to the COVID-19 outlook. The epidemic impact on earnings is likely to be transitory and unlikely cause material fundamental deterioration. The relatively high dividend yield offers support Taiwan has benefited from trade diversion due to US-China trade frictions and its corporate capex has been supported by the industrial re-onshoring. Post-election policy continuity is expected, including the "welcome home" policies to attract investment, capital repatriation, and talent back to Taiwan	Taiwan's economy is vulnerable to the threat of a global pandemic and negative China spillover effects from the COVID-19 outbreak, through demand reduction and potential (tech) manufacturing supply-chain disruptions The outlook for Taiwan's economy and corporate earnings faces the challenges from the global demand outlook, trade protectionism and other geopolitical risks. Taiwan is excluded from regional trade/investment agreements Valuations of Taiwanese equities are not particularly attractive. Facing fierce competition from China, Taiwan will have to maintain its comparative advantage through continuous innovation. Taiwan also faces structural headwinds from unfavourable demographics

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Source: HSBC Global Asset Management. As at 2 March 2020. The views expressed were held at the time of preparation, and are subject to change. .
Please refer to Basis of Views and Definitions section for additional information

Market data

February 2020

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)	513	-8.2	-6.2	1.8	-9.3	581	491	15.4
North America								
US Dow Jones Industrial Average	25,409	-10.1	-9.4	-2.0	-11.0	29,569	24,681	16.6
US S&P 500 Index	2,954	-8.4	-5.9	6.1	-8.6	3,394	2,722	17.5
US NASDAQ Composite Index	8,567	-6.4	-1.1	13.7	-4.5	9,838	7,292	24.0
Canada S&P/TSX Composite Index	16,263	-6.1	-4.6	1.7	-4.7	17,971	15,892	14.9
Europe								
MSCI AC Europe (USD)	427	-9.7	-8.6	-3.7	-12.1	492	420	13.1
Euro STOXX 50 Index	3,329	-8.6	-10.1	0.9	-11.1	3,867	3,239	13.0
UK FTSE 100 Index	6,581	-9.7	-10.4	-7.0	-12.8	7,727	6,460	12.1
Germany DAX Index*	11,890	-8.4	-10.2	3.3	-10.3	13,795	11,266	12.9
France CAC-40 Index	5,310	-8.5	-10.1	1.3	1.3	6,111	5,152	13.4
Spain IBEX 35 Index	8,723	-6.9	-6.7	-6.0	-6.0	10,100	8,409	11.5
Italy FTSE MIB	21,984	-5.4	-5.5	6.4	-6.5	25,483	19,536	10.8
Asia Pacific								
MSCI AC Asia Pacific ex Japan (USD)	509	-4.3	-2.8	-2.6	-7.9	575	480	13.7
Japan Nikkei-225 Stock Average	21,143	-8.9	-9.2	-1.1	-10.6	24,116	20,111	16.9
Australian Stock Exchange 200	6,441	-8.2	-5.9	4.4	-3.6	7,197	6,097	17.1
Hong Kong Hang Seng Index	26,130	-0.7	-0.8	-8.7	-7.3	30,280	24,900	10.2
Shanghai Stock Exchange Composite Index	2,880	-3.2	0.3	-2.1	-5.6	3,288	2,685	10.9
Hang Seng China Enterprises Index	10,302	0.6	0.0	-9.4	-7.8	11,882	9,732	8.0
Taiwan TAIEX Index	11,292	-1.8	-1.7	8.7	-5.9	12,198	10,180	15.0
Korea KOSPI Index	1,987	-6.2	-4.8	-9.5	-9.6	2,277	1,892	11.1
India SENSEX 30 Index	38,297	-6.0	-6.1	6.8	-7.2	42,274	35,927	20.6
Indonesia Jakarta Stock Price Index	5,453	-8.2	-9.3	-15.4	-13.4	6,636	5,288	12.6
Malaysia Kuala Lumpur Composite Index	1,483	-3.2	-5.1	-13.2	-6.7	1,701	1,456	15.2
Philippines Stock Exchange PSE Index	6,788	-5.7	-12.3	-11.9	-13.1	8,420	6,701	13.4
Singapore FTSE Straits Times Index	3,011	-4.5	-5.7	-6.3	-6.6	3,415	2,987	12.4
Thailand SET Index	1,341	-11.5	-15.7	-18.9	-15.1	1,748	1,317	14.0
Latam								
Argentina Merval Index	34,973	-12.8	1.4	1.4	-16.1	44,471	22,484	4.6
Brazil Bovespa Index*	104,172	-8.4	-3.8	9.0	-9.9	119,593	89,409	12.7
Chile IPSA Index	4,123	-9.8	-9.2	-22.0	-11.7	5,345	4,121	13.0
Colombia COLCAP Index	1,550	-4.6	-3.9	2.7	-6.8	1,682	1,457	11.0
Mexico S&P/BMV IPC Index	41,324	-6.3	-3.5	-3.5	-5.1	45,955	38,266	13.8
EEMEA								
Russia MOEX Index	2,785	-9.5	-5.1	12.1	-8.6	3,227	2,452	6.3
South Africa JSE Index	51,038	-9.0	-7.8	-8.9	-10.6	59,545	50,875	11.1
Turkey ISE 100 Index*	105,994	-11.0	-0.9	1.4	-7.4	124,537	83,535	5.8

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

Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 28 February 2020. .

Please refer to Basis of Views and Definitions section for additional information

For Client Use

Past performance is not an indication of future returns.

Market data (continued)

February 2020

Equity Indices - Total Return	3-month Change (%)	YTD Change (%)	1-year Change (%)	3-year Change (%)	5-year Change (%)	Dividend Yield (%)
Global equities	-5.9	-9.1	3.9	22.4	31.0	2.7
US equities	-5.4	-8.1	7.7	30.7	50.5	2.0
Europe equities	-8.1	-11.6	-0.6	13.2	6.5	4.0
Asia Pacific ex Japan equities	-2.4	-7.8	0.1	18.4	19.7	3.1
Japan equities	-8.5	-10.4	1.1	10.4	19.7	2.7
Latam equities	-8.4	-17.0	-11.9	1.1	4.2	3.5
Emerging Markets equities	-3.0	-9.7	-1.9	15.4	14.4	2.9

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)	584	1.2	2.8	10.2	3.1
JPM EMBI Global	890	-0.8	2.8	9.9	0.9
BarCap US Corporate Index (USD)	3,361	1.3	4.0	15.8	3.7
BarCap Euro Corporate Index (Eur)	261	-0.4	0.7	5.2	0.8
BarCap Global High Yield (USD)	510	-1.6	1.0	5.7	-1.3
BarCap US High Yield (USD)	2153	-1.4	0.6	6.1	-1.4
BarCap pan-European High Yield (USD)	471	-1.6	0.2	8.5	-1.2
BarCap EM Debt Hard Currency	442	-0.3	2.6	9.1	0.9
Markit iBoxx Asia ex-Japan Bond Index (USD)	220	0.9	2.7	10.2	2.3
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	275	-0.3	1.2	7.4	0.4

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 28 February 2020. .

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For Client Use

Market data (continued)

February 2020

Bonds	Close	End of last mth.	3-months Ago	1-year Ago	Year End 2019
US Treasury yields (%)					
3-Month	1.27	1.54	1.57	2.43	1.54
2-Year	0.91	1.31	1.61	2.51	1.57
5-Year	0.94	1.31	1.63	2.51	1.69
10-Year	1.15	1.51	1.78	2.72	1.92
30-Year	1.68	2.00	2.21	3.08	2.39
Developed market 10-year bond yields (%)					
Japan	-0.16	-0.07	-0.08	-0.03	-0.02
UK	0.44	0.52	0.70	1.30	0.82
Germany	-0.61	-0.44	-0.36	0.18	-0.19
France	-0.29	-0.18	-0.05	0.57	0.12
Italy	1.10	0.93	1.23	2.75	1.41
Spain	0.28	0.23	0.41	1.17	0.46

Commodities	Latest	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Gold	1,586	-0.2	8.3	20.7	4.5	1,689	1,266
Brent Oil	50.5	-13.1	-19.1	-23.5	-23.5	76	48
WTI Crude Oil	44.8	-13.2	-18.9	-21.8	-26.7	67	43
R/J CRB Futures Index	159	-6.4	-9.7	-12.7	-14.2	190	158
LME Copper	5,635	1.2	-3.9	-13.4	-8.7	6,609	5,518

Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 28 February 2020. .

Please refer to Basis of Views and Definitions section for additional information

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Market data (continued)

February 2020

Currencies (vs USD)	Latest	End of last mth.	3-mths Ago	1-year Ago	Year End 2019	52-week High	52-week Low
Developed markets							
DXY index	98.13	97.39	98.27	96.16	96.39	99.91	95.74
EUR/USD	1.10	1.11	1.10	1.14	1.12	1.14	1.08
GBP/USD	1.28	1.32	1.29	1.33	1.33	1.35	1.20
CHF/USD	1.04	1.04	1.00	1.00	1.03	1.05	0.98
CAD	1.34	1.32	1.33	1.32	1.30	1.36	1.30
JPY	107.9	108.4	109.5	111.4	108.6	112.4	104.5
AUD	1.54	1.50	1.48	1.41	1.43	1.55	1.39
NZD	1.60	1.55	1.56	1.47	1.49	1.62	1.44
Asia							
HKD	7.79	7.76	7.83	7.85	7.79	7.85	7.76
CNY	6.99	6.91	7.03	6.69	6.96	7.19	6.67
INR	72.18	71.36	71.74	70.75	71.38	72.73	68.29
MYR	4.22	4.10	4.18	4.07	4.09	4.24	4.05
KRW	1,215	1,192	1,181	1,124	1,156	1,223	1,124
TWD	30.29	30.24	30.51	30.80	29.99	31.73	29.85
Latam							
BRL	4.47	4.28	4.24	3.76	4.02	4.51	3.72
COP	3,524	3,421	3,517	3,080	3,287	3,549	3,073
MXN	19.64	18.84	19.53	19.28	18.93	20.26	18.52
ARS	62.21	60.35	59.91	39.14	59.87	62.34	39.56
EEMEA							
RUB	66.84	63.96	64.34	65.97	61.95	67.65	60.88
ZAR	15.66	15.03	14.67	14.08	14.00	15.86	13.81

Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 28 February 2020.

Please refer to Basis of Views and Definitions section for additional information

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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 **January 2019**, HSBC Global Asset Management’s long-term expected return forecasts which were generated as **at 31 January 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 **31 January 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 **28 February 2019**.

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