Investment Monthly – November 2018

Global equity markets sell off

HSBC

Investments, annuity and insurance products

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Summary

Macro Outlook

- Global **growth has moderated** in 2018. However, our Nowcast (which tracks global and countries' economic growth using a "big data" approach) remains above 3%. Recession risk still looks low
- There is **divergence** between above-trend growth in the US, moderation in developed economies, and a clear loss of momentum in emerging economies
- Global monetary policy and inflation divergence persists. The US is leading the way on inflation and the Fed continues to tighten policy. European and Japanese inflation is subdued, although wage growth is picking up
- The outlook for **emerging markets (EM)** remains **challenging** amid Fed tightening, higher oil prices and unresolved trade tensions. However, China policy easing and the recent stabilisation of EM asset prices are positives

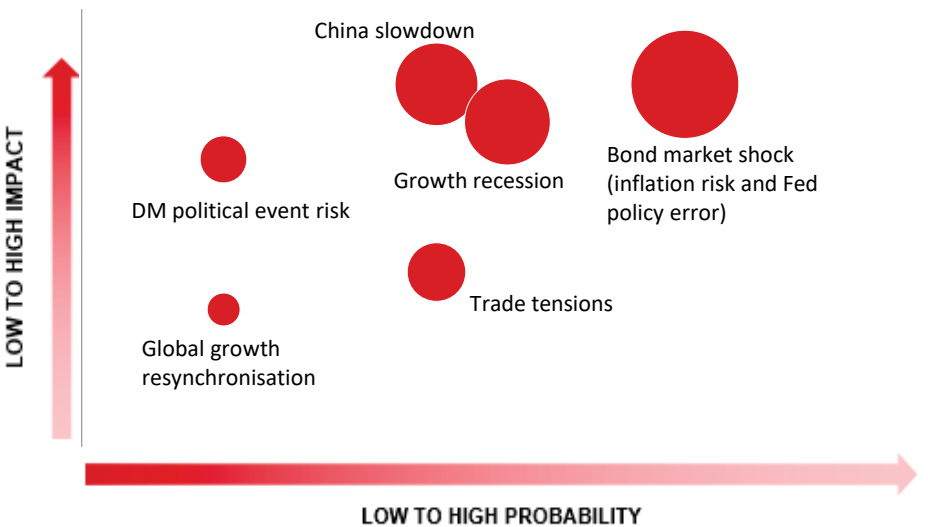
Central Banks

- **US Federal Reserve (Fed)** policy guidance remains for one more rate hike in 2018 – essentially in line with market expectations – with policy no longer described as being "accommodative" as rates approach "neutral" (estimated to be 3%)
- The **European Central Bank (ECB)** remains on track to terminate net bond buying by year-end. There are signs of wage pressures, although we do not expect the first interest rate hike until late-2019 at the earliest
- The **Bank of England** kept monetary policy on hold in September. The prospect for further "*gradual and limited*" rate hikes is pinned to Brexit developments and wage growth
- With **Japan's** inflation well below the central bank's 2% target, monetary policy is expected to remain expansionary, with further tweaks in yield targets possible

Key Views

- A recent key development has been higher long-term Treasury yields, following a pick up in short-term yields earlier this year
- This has been sparked by strong US economic data, and Fed comments implying that the US rate hiking cycle could be extended for longer
- **We are getting closer to the point where our preference for US equities over US Treasuries is being challenged**, but we are not quite there yet
- Corporate fundamentals are still good. Current valuations suggest **global equities remain the best way to benefit from reasonable growth trends**
- **We think EM risk is being well rewarded by the market**, especially local currency government bonds. Investor concerns about EMs have recently eased

Key Risks



Source: HSBC Global Asset Management, Global Investment Strategy, October 2018
Please refer to Basis of Views and Definitions section for additional information
Source: HSBC Global Asset Management. Subject to change
All numbers rounded to one decimal place.

Investment Views

Within Asia ex. Japan equities, we move South Korea from overweight to neutral

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

- **Global equities** – Offer attractive rewards and we believe they are still the best way to access global growth. We prefer Eurozone and Japanese equities, which offer a greater margin of safety (e.g. against weaker growth/higher bond yields)
- **Government bonds** – We are underweight DM government bonds, although we find relatively attractive prospective risk-adjusted returns for shorter-dated US Treasuries. Local-currency EM government bonds have high prospective returns
- **Corporate bonds** – In our view, shorter-dated US investment grade, and USD denominated EM bonds look increasingly attractive. US high-yield prospective returns have also improved, although we still prefer exposure to equities

Equities

Asset Class	View	View move
Global	**Overweight**	–
US	Neutral	–
UK	Neutral	–
Eurozone	Overweight	–
Japan	Overweight	–
Emerging Markets (EM)	Neutral	–
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	Underweight	–
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

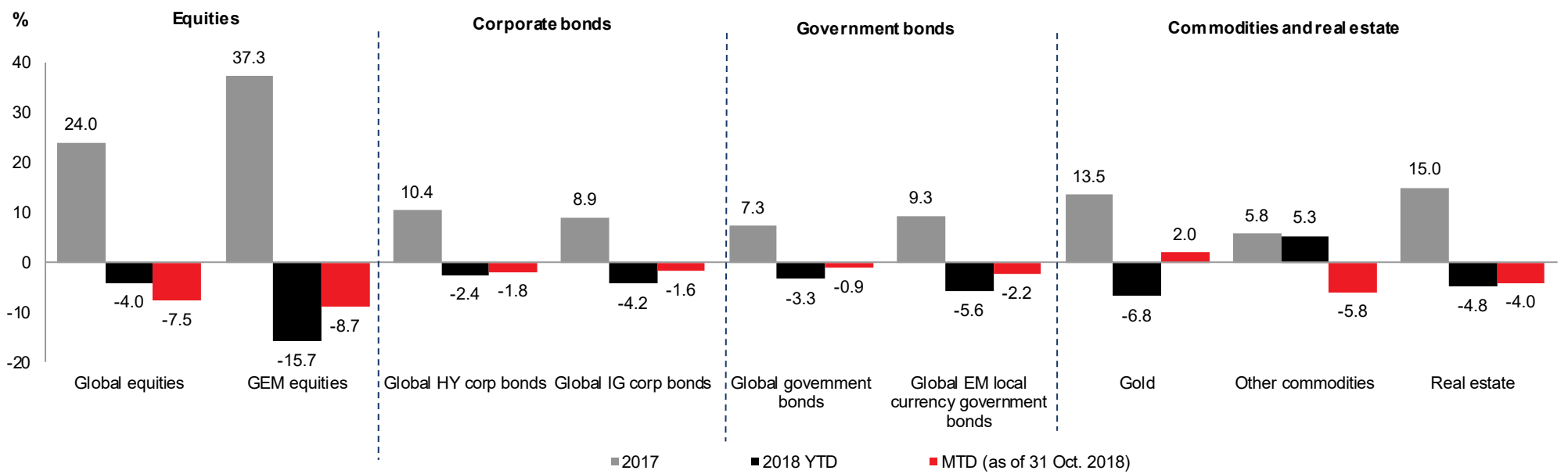
Source: HSBC Global Asset Management. Subject to change.
Please refer to Basis of Views and Definitions section for additional information

Asset Class Performance at a glance

Global equities fell in October, weighed down by concerns around the implication of rising US Treasury yields on broader financial conditions and global growth

- **Government bonds** – US Treasury yields rose (prices declined) on the back of strong US economic data, rising wage growth and as market expectations of interest rates aligned closer to the Fed
- **Commodities** – US dollar strength, rising US inventories and dampened risk appetite weighed on crude oil prices, which fell over the month. Gold prices rose

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. **GEM 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 October 2018 in USD, total return, month-to-date terms

Source: HSBC Global Asset Management. Subject to change

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

Base case views and implications

	Monthly macroeconomic update	Base case view and implications
US	◆ US economic momentum remains solid, with business and household confidence still optimistic despite continuing trade tensions with China ◆ Steady employment and income growth should continue to support robust domestic demand in the coming months ◆ A split congress is expected as a result of the midterm elections on 6 November, which should have a limited impact on the economy and financial markets	◆ The Fed is likely to continue raising rates, which could undermine growth in the coming quarters as the recent fiscal stimulus wears off and US-China tensions potentially escalate ◆ We continue to favour US equities over US Treasuries based on current valuations, but we are close to the point where this view is challenged
Europe	◆ **UK:** The economy continues to grow at a moderate pace and has so far been resilient to Brexit uncertainty. Low unemployment is starting to feed into wage pressures, and the Bank of England continues to signal further tightening ahead ◆ **Eurozone:** Latest activity indicators have softened, although this partly reflects temporary factors affecting the German auto industry	◆ **UK:** Based on current valuations, we believe UK gilts are overvalued, whilst UK equities are also relatively unattractive **Eurozone:** Monetary policy is expected to remain relatively loose, although the end of QE is a risk for eurozone bonds. We have a strong preference for the bloc's equities
Asia	◆ **China:** Growth momentum remains broadly stable, although US-China trade tensions and slower credit growth are weighing on the outlook ◆ **India:** Recent macro data indicates a moderation in economic activity in H2 fiscal year 2019, amid tighter financial conditions, higher oil prices and fiscal constraints ◆ **Japan:** Growth remains relatively weak, although low unemployment and a pick-up in wage growth are buoying domestic demand and investment. Protectionism and next year's consumption tax hike are key risks to the outlook	◆ **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:** The Bank of Japan is likely to keep policy ultra-loose as inflation remains well below target. We think Japan's equities are attractively valued, especially compared to government bonds
Other EM	◆ **Brazil:** Growth should accelerate in 2019, following a crippling truckers' strike earlier this year. The recent election of Jair Bolsonaro as President may boost business confidence, especially if market-friendly reforms are enacted ◆ **Russia:** The economy is being supported by higher oil prices, but a planned VAT rate hike in 2019 is likely to weigh on activity ◆ **MENA:** Higher oil prices should support a growth recovery, also helped by the impact of modest reforms and stabilisation efforts undertaken in some countries	◆ EM economic momentum remains negative, weighed down by Fed tightening, trade tensions and higher oil prices ◆ We prefer to fulfil our EM equity exposure in Asia where economic and earnings growth has been relatively robust ◆ We have a strong preference for local currency EM government bonds, which offer very high risk adjusted returns

Source: HSBC Global Asset Management. Subject to change.
Please refer to Basis of Views and Definitions section for additional information

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, rising 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 notable and persistent 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 (with upside risks from tax reform), 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 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 towards China materialise.
Eurozone	**Overweight** –	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.	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.
Please refer to Basis of Views and Definitions section for additional information

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 and resource stocks which should benefit from higher commodity prices and rising interest rates. However, in our view current valuations are consistent with a neutral positioning.	We think the prospective reward for bearing equity risk in the UK is relatively low compared to other markets. Brexit-related uncertainty is weighing on UK economic performance.
Japan	**Overweight** ▬	We believe the relative valuation is attractive while policy is supportive. Large corporate cash reserves provide firms with the scope to boost dividends or engage in stock repurchases. The trend in corporate earnings growth remains positive.	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. Protectionism is a key risk.
Emerging Markets (EM)	**Neutral** ▬	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. The structural characteristics of EM economies are significantly better than in the past, while recent policy easing in China should help support EM economic activity in the short-term. Meanwhile, the risk of a further spike in the USD is being limited by a very gradual Fed tightening path.	EM growth momentum has weakened this year, with US-China trade tensions and the potential for further US dollar strength weighing on the outlook. Rising EM inflation 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. We prefer to fulfil our EM equity exposure in Asia where economic growth has been relatively robust (compared to Latin America for example) and macroeconomic structural characteristics are better.
CEE & Latam	**Neutral** ▬	There has been a loss of economic growth momentum in Brazil and Mexico in 2018, although activity remains fairly resilient. 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 cash rates and sovereign yields in many countries diminish the case for bearing equity risk.

Source: HSBC Global Asset Management. Subject to change.
Please refer to Basis of Views and Definitions section for additional information

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 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). 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.	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 two-year Treasuries. This is set against a backdrop of “price stability”. We hold this position with a 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. A key risk is the termination of the ECB Asset Purchase Programme this year.	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.	A more aggressive than expected tightening of Fed policy and a rapid gain in the US dollar are key risks. Diverging economic and political regimes in the EM universe also mean that being selective is key.

Source: HSBC Global Asset Management. Subject to change.
Please refer to Basis of Views and Definitions section for additional information

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

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. 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.	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 High Yield 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.

Asset class	View	Rationale	Positive factors to consider
Europe high-yield	**Underweight** ▬	The carry offered by Euro HY is unattractive compared to European equities. The ECB's Asset Purchase Programme (APP), which has supported 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.	The robust eurozone recovery, coupled with spill-over effects from the ECB Asset Purchase Programme (APP) remains supportive. The default outlook also looks benign.

Source: HSBC Global Asset Management. Subject to change.
Please review end of publication for Basis of Views and Definitions

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 this year. Investors' reach for yield may continue to support this asset class.	The possibility 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** –	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.	In our view, prospective returns on commodity futures look poor. This is primarily because there is a large negative expected roll yield (the cost of renewing futures contracts).
Real Estate	**Neutral** –	Global real estate equities offer a dividend yield which we find 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.	Real estate equities focused on retail property are susceptible to the pressures of e-commerce 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. Unexpected rises in interest rates could adversely affect prices in the short term. Brexit continues to cast a shadow on the UK market.

Source: HSBC Global Asset Management. Subject to change.
Please refer to Basis of Views and Definitions section for additional information

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**	Current valuations have priced in a high level of macro concerns. Infrastructure-related sectors should benefit from fiscal support. Policies to calm market anxiety (e.g. share-pledge risks), support private enterprises and consumption, and improve credit transmission are positive. Market structural changes and financial liberalisation are potential long-term catalysts.	US-China trade tensions are a key external risk, as well capital outflows due to higher US rates or intensifying China macro concerns. Uncertainties over policy effectiveness, the property sector outlook, and structural reform prospects (incl. deleveraging) are concerns. Balancing often conflicting economic and financial goals poses policy challenges.

Source: HSBC Global Asset Management. Subject to change.
Please refer to Basis of Views and Definitions section for additional information

Long term Asset class positioning tables (>12 months)

Asian assets cont'd

Asset class	View	Rationale	Risks to consider
India equities	**Overweight**	The long-term structural story remains positive with substantial progress on key reforms, higher infrastructure spending, and improving governance and ease of doing business.	The trend in earnings estimate revisions remains weak, and we think valuations are unattractive. GDP growth will likely moderate following tighter financial conditions, slower global growth, higher oil prices and fiscal constraints.
		The government has taken measures to boost capital flows and control the current account deficit. The RBI's inflation-targeting credibility and proactive liquidity management also help.	Input cost increases hurt manufacturing profit margins. Macro stability and the rupee remain under pressure amid political uncertainties.
Hong Kong equities	**Neutral**	An expansionary fiscal policy is positive for the growth outlook. Robust (mainland) tourist inflows and solid domestic consumption support retail sales.	Any substantial rise in interbank lending rates is a headwind for asset markets and the economy. The property sector faces the risk from higher interest rates.
		Market liquidity is still abundant. The Hong Kong economy has a strong external balance sheet and a healthy banking sector.	Rising US-China trade conflicts, China's financial risk contagion, and volatile global financial conditions are also risks.
Singapore equities	**Overweight**	Economic growth is likely to maintain a healthy, albeit softer, pace amid a tighter labour market and expansionary fiscal policy.	Singapore faces the risk of tighter global financial conditions, moderating global demand and trade protectionism, and is sensitive to sharp moves in the USD.
		The relatively high dividend yield is positive. Singapore banks have robust net interest margins, benign asset quality, strong capital and yield support.	Tightening market liquidity is a risk. The housing market faces the challenges of rising mortgage rates/debt and policy measures.

Source: HSBC Global Asset Management. Subject to change.
Please refer to Basis of Views and Definitions section for additional information

Long term Asset class positioning tables (>12 months)

Asian assets cont'd

Asset class	View	Rationale	Risks to consider
South Korea equities	**Neutral**	We downgrade to neutral as we are cautious about the corporate earnings outlook given slower global growth, a tepid domestic economy, regulatory pressures, and risk of a softer semiconductor sector.	The high level of household leverage is a key macro risk. Labour-market headwinds to consumption persist, partly reflecting the impact of minimum-wage policy and corporate restructuring.
		However, we still find valuations attractive. An expansionary fiscal policy supports domestic demand.	Regulation is weighing on the housing market. Korea is exposed to the risk of rising trade tensions and the slowing semiconductor cycle.
		Any improvement in corporate governance and/or a substantial reduction in geopolitical risks provide long-term re-rating potential.	Corporate income tax hikes, labour policy and higher energy prices will likely raise costs and weigh on margins.
Taiwan equities	**Neutral**	We think Taiwan's relatively high dividend yield is appealing amid heightened market volatility. Recent export performance, which is highly correlated with the smartphone cycle, remains sound.	Earnings growth remains weak. A peaking tech cycle, escalating trade tensions and global demand slowdown are major concerns.
		The multi-year public infrastructure investment plan has been rolled out.	Global financial volatility, geopolitical tensions, rising political and military tensions with China, and higher oil prices are also risks.

Source: HSBC Global Asset Management. Subject to change.
Please refer to Basis of Views and Definitions section for additional information

Market data

October 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)	485	-7.4	-6.6	-2.7	-5.5	551	470	14.7
North America								
US Dow Jones Industrial Average	25,116	-6.2	-0.9	7.2	1.6	26,952	23,243	15.7
US S&P 500 Index	2,712	-7.2	-3.6	5.1	1.4	2,941	2,533	16.6
US NASDAQ Composite Index	7,306	-8.7	-5.2	8.8	5.8	8,133	6,631	21.3
Canada S&P/TSX Composite Index	15,027	-6.2	-8.2	-6.3	-7.3	16,586	14,640	14.6
Europe								
MSCI AC Europe (USD)	428	-6.9	-9.6	-11.0	-12.3	524	414	13.1
Euro STOXX 50 Index	3,207	-5.4	-8.6	-13.3	-8.5	3,709	3,091	13.2
UK FTSE 100 Index	7,116	-4.8	-7.0	-5.0	-7.4	7,904	6,852	12.6
Germany DAX Index*	11,487	-6.5	-9.8	-14.7	-11.1	13,597	11,051	12.3
France CAC-40 Index	5,100	-6.7	-7.2	-7.5	-4.0	5,657	4,897	13.6
Spain IBEX 35 Index	8,925	-4.1	-8.9	-15.1	-11.1	10,643	8,628	11.8
Italy FTSE MIB	19,149	-6.9	-12.1	-16.7	-12.4	24,544	18,411	10.5
Asia Pacific								
MSCI AC Asia Pacific ex Japan (USD)	472	-8.6	-12.9	-15.2	-17.2	617	459	12.1
Japan Nikkei-225 Stock Average	21,688	-10.6	-4.7	-3.3	-4.7	24,448	20,347	15.3
Australian Stock Exchange 200	5,841	-4.7	-6.9	-1.6	-3.7	6,374	5,625	14.8
Hong Kong Hang Seng Index	25,416	-6.3	-10.3	-11.1	-15.1	33,484	24,541	10.6
Shanghai Stock Exchange Composite Index	2,606	-7.6	-7.7	-23.3	-21.2	3,587	2,449	10.7
Hang Seng China Enterprises Index	10,279	-4.4	-6.3	-11.7	-12.2	13,963	9,903	8.0
Taiwan TAIEX Index	9,845	-9.8	-11.3	-8.9	-7.5	11,270	9,401	12.9
Korea KOSPI Index	2,024	-12.3	-12.2	-20.8	-18.0	2,607	1,986	8.3
India SENSEX 30 Index	34,501	-5.5	-8.1	2.7	1.3	38,990	32,484	18.9
Indonesia Jakarta Stock Price Index	5,821	-0.9	-3.5	-3.6	-8.4	6,693	5,558	15.2
Malaysia Kuala Lumpur Composite Index	1,704	-5.3	-4.7	-2.3	-5.2	1,896	1,658	16.5
Philippines Stock Exchange PSE Index	7,140	0.1	-8.9	-14.6	-16.6	9,078	6,791	16.7
Singapore FTSE Straits Times Index	3,060	-5.6	-8.1	-9.8	-10.1	3,642	2,956	12.4
Thailand SET Index	1,669	-4.5	-3.1	-2.7	-4.9	1,853	1,585	15.4
Latam								
Argentina Merval Index	29,491	-9.9	0.4	5.4	-1.9	35,462	24,618	9.0
Brazil Bovespa Index*	87,424	7.1	10.2	18.4	14.4	88,377	69,069	13.3
Chile IPSA Index	5,104	-4.1	-5.4	-8.7	-8.3	5,895	4,847	15.8
Colombia COLCAP Index	1,392	-7.9	-9.6	-3.3	-8.0	1,598	1,384	12.6
Mexico S&P/BMV IPC Index	43,943	-11.0	-11.1	-9.1	-11.0	51,121	43,407	14.9
EEMEA								
Russia MOEX Index	2,352	-4.0	1.6	12.9	11.5	2,502	2,065	5.4
South Africa JSE Index	52,950	-4.5	-7.8	-11.0	-11.0	61,777	50,033	12.4
Turkey ISE 100 Index*	90,783	-7.5	-6.6	-19.7	-21.3	121,532	84,655	7.1

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

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

Past performance is not an indication of future returns.

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

Market data (continued)

October 2018

Equity Indices - Total Return	3-month Change (%)	YTD Change (%)	1-year Change (%)	3-year Change (%)	5-year Change (%)	Dividend Yield (%)
Global equities	-6.2	-4.0	-0.8	25.1	35.2	2.6
US equities	-3.5	2.5	6.5	35.7	64.4	1.9
Europe equities	-9.2	-9.9	-8.4	7.7	7.3	3.8
Asia Pacific ex Japan equities	-12.3	-15.2	-12.9	21.2	13.2	3.6
Japan equities	-6.4	-7.0	-4.4	17.2	29.0	2.3
Latam equities	-0.9	-3.7	-2.0	43.2	-10.8	3.1
Emerging Markets equities	-11.6	-15.7	-13.3	20.9	4.6	3.1

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)	514	-0.2	0.0	0.2	-0.2
JPM EMBI Global	763	-2.0	-2.0	-5.4	-5.6
BarCap US Corporate Index (USD)	2,793	-1.5	-1.1	-3.0	-3.8
BarCap Euro Corporate Index (Eur)	245	-0.4	-0.3	-1.3	-0.8
BarCap Global High Yield (USD)	464	-1.5	-0.8	-1.0	-1.0
BarCap US High Yield (USD)	1968	-1.8	-0.4	0.9	0.9
BarCap pan-European High Yield (USD)	424	-1.0	-0.3	1.0	1.2
BarCap EM Debt Hard Currency	386	-1.5	-1.5	-3.4	-4.1
Markit iBoxx Asia ex-Japan Bond Index (USD)	191	-1.0	-0.5	-2.4	-2.5
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	241	-2.5	-1.6	-4.3	-4.5

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

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

Past performance is not an indication of future returns.
Please refer to Basis of Views and Definitions section for additional information

Market data (continued)

October 2018

Bonds	Close	End of last mth.	3-months Ago	1-year Ago	Year End 2017
US Treasury yields (%)					
3-Month	2.32	2.21	2.02	1.16	1.38
2-Year	2.87	2.81	2.68	1.61	1.88
5-Year	2.98	2.95	2.88	2.02	2.21
10-Year	3.15	3.06	3.01	2.37	2.41
30-Year	3.40	3.22	3.13	2.86	2.74
Developed market 10-year bond yields (%)					
Japan	0.12	0.13	0.12	0.06	0.04
UK	1.46	1.53	1.38	1.34	1.19
Germany	0.40	0.42	0.48	0.37	0.42
France	0.76	0.78	0.78	0.76	0.78
Italy	3.38	3.45	2.78	1.80	2.01
Spain	1.54	1.54	1.45	1.47	1.56

Commodities	Latest	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Gold	1,226	1.9	0.9	-3.8	-5.9	1,366	1,160
Brent Oil	74.4	-12.3	2.8	23.0	11.2	87	60
WTI Crude Oil	64.8	-13.8	-4.2	19.4	7.3	77	54
R/J CRB Futures Index	191	-4.5	-0.4	1.6	-1.5	207	183
LME Copper	5,992	-4.6	-2.9	-13.5	-17.3	7,348	5,773

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

Past performance is not an indication of future returns.

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

Market data (continued)

October 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	96.58	95.51	94.66	94.82	92.12	97.20	88.25
EUR/USD	1.14	1.15	1.17	1.16	1.20	1.26	1.13
GBP/USD	1.29	1.30	1.31	1.32	1.35	1.44	1.27
CHF/USD	1.00	1.02	1.01	1.00	1.03	1.09	0.99
CAD	1.31	1.28	1.30	1.29	1.26	1.34	1.23
JPY	112.9	113.7	111.7	114.2	112.7	114.7	104.6
AUD	1.40	1.39	1.35	1.30	1.28	1.42	1.23
NZD	1.51	1.52	1.47	1.45	1.41	1.56	1.34
Asia							
HKD	7.84	7.83	7.85	7.80	7.81	7.85	7.79
CNY	6.95	6.87	6.82	6.60	6.51	6.98	6.24
INR	73.56	72.91	68.43	64.60	63.87	74.48	63.25
MYR	4.18	4.14	4.07	4.23	4.05	4.24	3.85
KRW	1,138	1,119	1,121	1,114	1,067	1,145	1,054
TWD	30.89	30.65	30.61	30.15	29.73	31.17	28.96
Latam							
BRL	3.72	3.94	3.75	3.27	3.31	4.21	3.12
COP	3,220	3,017	2,896	3,065	2,986	3,228	2,685
MXN	20.22	18.79	18.59	19.07	19.66	20.96	17.94
EEMEA							
RUB	65.63	65.51	62.96	58.19	57.69	70.84	55.56
ZAR	14.58	14.36	13.22	14.07	12.38	15.70	11.51
TRY	5.60	5.99	4.99	3.81	3.80	7.24	3.72

Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 31 October 2018
Please refer to Basis of Views and Definitions section for additional information.

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

- Views are based on regional HSBC Global Asset Management Asset Allocation meetings held throughout **October 2018**, HSBC Global Asset Management's long-term expected return forecasts which were generated as **at 30 September 2018**, our portfolio optimisation process and actual portfolio positions.
- **Icons:** ↑ View on this asset class has been upgraded – No change ↓ View on this asset class has been downgraded.
- Underweight, overweight and neutral classifications are the high-level asset allocations tilts applied in diversified, typically multi-asset portfolios, which reflect a combination of our long-term valuation signals, our shorter-term cyclical views and actual positioning in portfolios. The views are expressed with reference to global portfolios. However, individual portfolio positions may vary according to mandate, benchmark, risk profile and the availability and riskiness of individual asset classes in different regions.
- "*Overweight*" implies that, within the context of a well-diversified typically multi-asset portfolio, and relative to relevant internal or external benchmarks, HSBC Global Asset Management has (or would have) a positive tilt towards the asset class.
- "*Underweight*" implies that, within the context of a well-diversified typically multi-asset portfolio, and relative to relevant internal or external benchmarks, HSBC Global Asset Management has (or would) have a negative tilt towards the asset class.
- "*Neutra*l" implies that, within the context of a well-diversified typically multi-asset portfolio, and relative to relevant internal or external benchmarks HSBC Global Asset Management has (or would have) neither a particularly negative or positive tilt towards the asset class.
- For global investment-grade corporate bonds, the underweight, overweight and neutral categories for the asset class at the aggregate level are also based on high-level asset allocation considerations applied in diversified, typically multi-asset portfolios. However, USD investment-grade corporate bonds and EUR and GBP investment-grade corporate bonds are determined relative to the global investment-grade corporate bond universe.
- For Asia ex Japan equities, the underweight, overweight and neutral categories for the region at the aggregate level are also based on high-level asset allocation considerations applied in diversified, typically multi-asset portfolios. However, individual country views are determined relative to the Asia ex Japan equities universe as of **31 October 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 October 2018**.

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