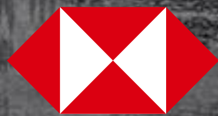
Investment Monthly – December 2019

The age of uncertainty



Investments, annuity and insurance products

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Summary

Macro Outlook

- Our global Nowcast remained stable over the last few months at around 2%. Growth should be supported by pro-active policy makers and resilient labour markets. But political risks are elevated - we are in an “age of uncertainty”
- US growth remains robust and is likely to remain stable at a “trend like” growth rate of around 2%. The economy is currently more dependent than usual on consumer spending
- Growth elsewhere is already below trend. Despite momentum over the last few months, the China Nowcast slowed in October. The eurozone and UK continue to underperform
- The unbalanced nature of growth leaves the global economy vulnerable to negative shocks. Policy makers continue to focus on limiting the risk of a further sharp slowdown in the economic cycle

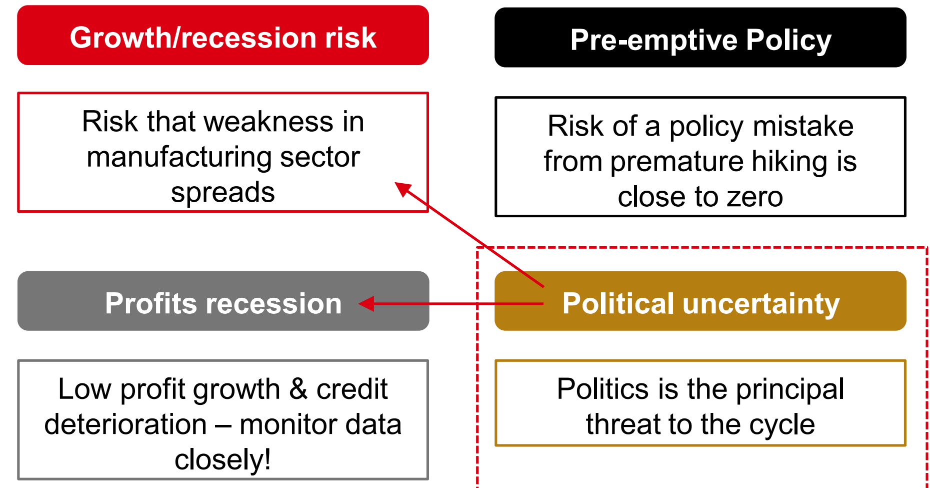
Central Banks

- The **US Federal Reserve (Fed)** cut rates at its November meeting but signalled an end to the easing cycle as long as there isn’t a material weakening in data
- The **European Central Bank (ECB)** remain in “wait and see” mode as they assess the impact of their significant policy easing package in September
- Two **Bank of England (BoE)** members voted for a rate cut in November, but the majority of rate-setters prefer to see how the political situation develops
- The **Bank of Japan (BoJ)** has signalled it could ease policy to achieve its inflation target, although has provided little detail on potential easing options
- The **People’s Bank of China (PBoC)** eased policy slightly in November and may offer more support where needed, but large-scale stimulus is unlikely

Key Views

- Investor sentiment has improved sharply in a short period of time led by some improvements in US-China trade negotiations. Risk asset classes have continued to rally while bond yields have risen somewhat
- We still see relatively attractive risk adjusted prospective returns in risky asset classes and we expect a “favourable baseline” in our macro view. Even after the recent sentiment shift, we should continue to take a pro-risk stance
- However, high levels of uncertainty limit upside potential – both for the economy and for markets
- We advocate a so-called “smart diversification”. Global bonds have been great risk hedges for multi-asset investors in recent years. But we might need to move beyond core bonds given current valuations

Key Risks



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

We maintain a cautious pro-risk stance given our "favourable baseline" macro view and relative valuations. However, outperformance in risk-assets is likely to be capped given we are in an "age of uncertainty"

- **Global equities** – We remain overweight given the wide valuation gap versus bonds. But, upside potential is likely to be capped by uncertainty while downside is limited by proactive policy makers
- **Government bonds** – We are underweight given our estimate of negative bond-risk premiums i.e. we are being penalised for bearing risks related to unexpected changes in interest rates or inflation. Policy is also moving towards fiscal stimulus. We prefer inflation-linked bonds
- **Corporate bonds** – Most credit asset classes are overvalued in our view and investors are being penalised for bearing interest rate and inflation risks - we prefer equities. Fundamentals have started to come under pressure this year

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 December 2019. The views expressed were held at the time of preparation, and are subject to change.
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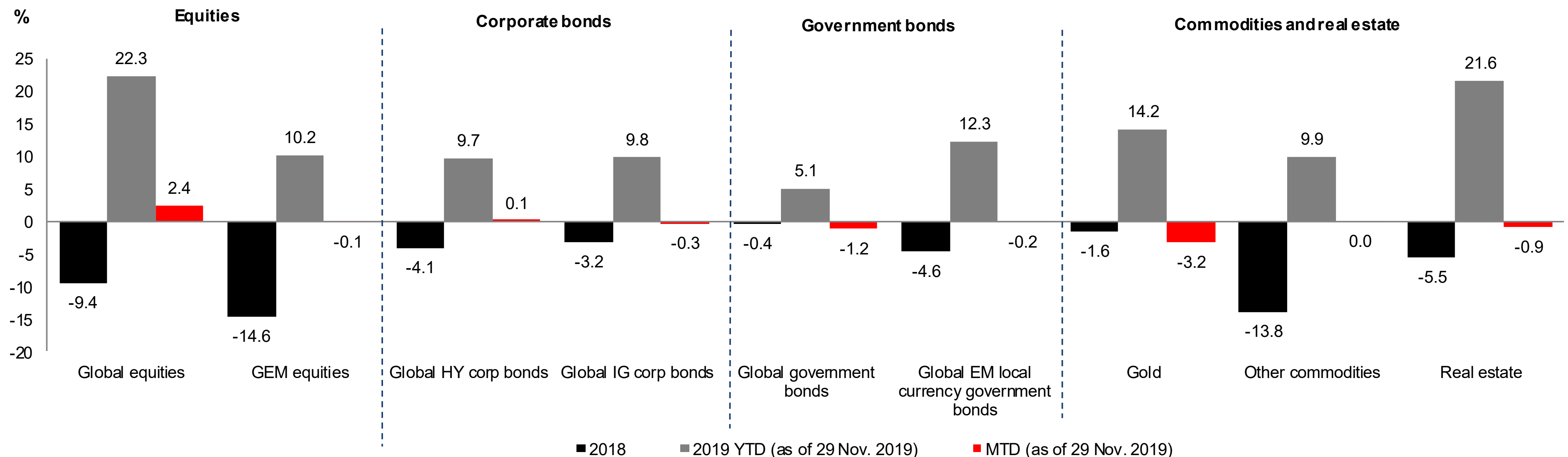
Asset Class Performance at a glance

Global equities rose in November as the US and China came closer to agreeing the terms of a "phase one" trade deal

- **Government bonds** – US and European government bonds fell (yields rose) in November amid improved investor risk-appetite – both President Xi and Trump suggested that China and the US are moving closer to a "phase one" trade deal
- **Commodities** – Brent crude oil prices were broadly flat on the month as the outlook for demand and supply was little changed – OPEC+ projected a balanced oil market for 2020

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 (Global Emerging Market) Equities**: MSCI Emerging Market Net Total Return USD Index. **Corporate Bonds:** Bloomberg Barclays Global HY Total Return Index value unhedged. Bloomberg Barclays Global IG Total Return Index unhedged. **Government bonds**: Bloomberg Barclays Global Aggregate Treasuries Total Return Index. JP Morgan EMBI Global Total Return local currency. **Commodities:** 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 November 2019 in USD, total return, month-to-date terms

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Base case views and implications

	Monthly macroeconomic update	Base case view and implications
US	◆ A solid labour market continues to support household spending. Nevertheless, employment and wage growth have slowed in recent months ◆ Meanwhile, activity in the manufacturing, business investment and export sectors remains weak amid slower global growth and elevated political uncertainty	◆ US economic growth is likely to moderate over the next year as fiscal stimulus wanes and the labour market cycle matures ◆ The Fed is in pause mode but risks are still tilted to the downside – some loosening in 2020 is possible ◆ US Treasury valuations are high and inflation risks are dismissed. Equities and inflation-linked bonds are preferable
Europe	◆ **Eurozone:** A very weak manufacturing sector continues to be a drag on growth; the services sector continues to show resilience, despite some recent weakening ◆ **UK:** Brexit related uncertainty remains the key drag on growth but household spending remains reasonably strong, while fiscal policy is being loosened	◆ **Eurozone:** European equities remain relatively cheap, although we acknowledge headwinds from weak growth ◆ **UK:** We have a strong overweight view on UK equities given very attractive valuations
Asia	◆ **China:** Monetary policy continues to be loosened in response to some weak data releases. Growth has moderated but looks okay ◆ **India:** Private sector activity data continues to be weak, although policy easing efforts have been stepped up. Slowing consumption growth may be bottoming ◆ **Japan:** There are headwinds from the recent VAT tax hike but a recent pickup in investment is encouraging, while there are signs of an improvement in global trade	◆ **China:** Ongoing policy loosening still has the potential to stabilise China's economy alongside global trade growth ◆ **India:** The long-term structural story remains positive, supporting our overweight view ◆ **Japan:** We believe the valuation of Japanese equities is still attractive, although weak economic growth is a downside risk
Other EM	◆ **Brazil:** Positive reform momentum and improving financial conditions could support growth. Monetary policy has further room cut given low inflation ◆ **Russia:** Activity remains sluggish, amid subdued domestic demand. Monetary easing and planned infrastructure projects are likely to support growth ◆ **MENA:** Growth prospects are constrained by elevated geopolitical risks and a weaker global trade picture and oil production cuts	◆ The backdrop for EMs is supported by recent Fed loosening and more accommodative EM central banks ◆ We remain overweight EM equities, with signs that EM corporate earnings growth is recovering

Source: HSBC Global Asset Management. As at 1 December 2019. The views expressed were held at the time of preparation, and are subject to change.
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Long-term Asset class positioning tables (>12 months)

Equities

Asset class	View	Rationale	Risks to consider
Global	**Overweight** –	We believe global equities continue to offer attractive prospective returns in our "favourable baseline" view of the global economy. Our measure of the global equity risk premium (excess return over cash) has improved over recent months given the rally in government bonds. Prospective returns are underpinned by policy makers that have proved to be pro-active to slowing growth and increased political risks – this is because inflation is low and government borrowing is cheap	Geopolitical risks are high and US-China trade tensions are likely to persist – we are living in an "age of uncertainty". A further significant deterioration of the global economic outlook could dampen our view. However, we have experienced a "cyclical slowdown" which we think is showing signs of bottoming. Global recession risk is low. Corporate fundamentals are beginning to come under pressure, although there has been a tentative improvement in EM earnings data
US	**Overweight** –	US economic growth is robust and corporate earnings remain at high levels. We think a near-term recession is unlikely. The Fed has enacted "insurance" policy easing against downside risks, and whilst now being in pause mode, some loosening in 2020 is possible.	After strong performance this year, the US equity risk premium is now lower than in other markets. Further weakening in profit growths and credit fundamentals could challenge valuations and weaken the economic outlook. Lingering risks from US-China trade tensions are likely to continue despite the possibility of a "phase one" deal in the coming months.
Eurozone	**Overweight** –	In our opinion, Eurozone equities benefit from fairly high implied risk premiums (on a hedged basis). Ultra-low ECB policy interest rates are likely to persist for a while. The ECB has recently eased policy, and fiscal stimulus is coming into focus. For the time being, a fairly robust labour market is supporting service sector activity – although there are signs of some weakening. The region can benefit from improvements in the global trade cycle.	We measure higher risk-adjusted prospective returns in other developed market equities. Growth remains fragile, with the manufacturing sector facing headwinds from elevated global uncertainty and softer global demand. A key risk is that this spills over materially into services activity. Risks may be posed by Italy's fiscal dynamics and the potential for economic disruption from a possible "no-deal" Brexit.

Source: HSBC Global Asset Management. As at 2 December 2019. 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

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

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

Equities cont'd

Asset class	View	Rationale	Risks to consider
UK	**Overweight** —	The UK equity risk premium (excess return over cash) remains comfortably above the equity risk premium for developed market (DM) equities.	Growth is weak and a much more significant deterioration in UK activity and corporate fundamentals would be a major challenge for UK equities.
		Greater Brexit clarity in 2020 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 stocks.
Japan	**Overweight** —	We believe valuations are attractive while monetary policy is supportive.	Japan's recent economic performance has been weak, with headwinds from the impact of the consumption tax implemented in October 2019. The economy also remains vulnerable to developments in the global trade cycle.
		Large corporate cash reserves provide firms with the scope to boost dividends or engage in stock repurchases.	
Emerging Markets (EM)	**Overweight** —	EM equity risk premiums look relatively high. The EM macro outlook is supported by policy easing in China and recent loosening by the Fed. EM central banks are loosening policy amid subdued inflation.	Aggregate EM growth momentum remains fairly soft, with sluggish world trade growth weighing on the outlook.
		We believe there is still significant potential for (selected) EM currencies to appreciate over the medium term.	Furthermore, although Chinese authorities have eased policy, it remains to be seen if this will provide enough support.
		The structural characteristics of EM economies are significantly better than in the past.	Corporate profitability has disappointed this year, although there has recently been a tentative improvement in earnings growth.
CEE & Latam	**Neutral** —	There has been a loss of economic growth momentum in Latin America, although there are signs of stabilisation.	Economic growth is likely to moderate, with many economies dependent on a bottoming trade and industrial cycle.
		Parts of CEE offer us attractive equity risk premiums, but we think high local interest rates and sovereign yields in many countries diminish the case for bearing equity risk.	But, geopolitical tensions remain elevated in many regions and are highly unpredictable.

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

Government Bonds

Asset class	View	Rationale	Positive factors to consider
Developed Markets (DM)	**Underweight** –	Prospective returns look very low. A significant degree of "bad news" about the macro-economy is still being priced in. If current investor worries do not fully materialise, bond yields could rise. DM government bonds still have a role to play as a portfolio diversifier, but given current pricing, we prefer alternative diversifiers.	There is potentially a lack of triggers that could move yields significantly higher in the near term. Inflation trends, for example, remain subdued. "Secular stagnation" forces remain (ageing populations, low productivity and investment). The global pool of perceived "safety" assets is limited.
US	**Underweight** –	The risk of higher inflation is dismissed by the market, and investor growth worries are overdone in our view. There is uncertainty if Treasuries can act as an effective "diversifier" asset given current market pricing.	Prospective risk-adjusted returns are higher in shorter-duration Treasuries. Inflation may remain subdued which would help cap yields.
UK	**Underweight** –	Prospective returns for UK gilts continue to look poor, and we are being penalised for bearing interest-rate risk. The potential for greater Brexit clarity and stronger growth could push yields higher.	The risk of a no trade deal Brexit at the end of 2020 under a Conservative-led government and sub target UK core inflation are likely to cap any rise in gilt yields.
Eurozone	**Underweight** –	Core eurozone government bonds are overvalued, in our view. Although the ECB has restarted net asset purchases, the market has already priced this in. Fiscal easing is also moving into focus.	Core inflationary pressures in the region remain subdued, and economic growth remains vulnerable to external developments. This should keep monetary policy accommodative for an extended period of time.
Japan	**Underweight** –	Japanese government bonds (JGBs) are overvalued, in our view. The BoJ has reduced the amount of its JGB purchases.	The "Yield Curve Control" framework should limit volatility and reduce the risk of significantly higher yields in the near term.

Asset class	View	Rationale	Risks to consider
Emerging markets (EM) local currency	**Overweight** –	In our view, most EM countries offer high prospective returns. The risk of a dollar rally is contained by the Fed's policy stance. EM countries have scope to reduce policy rates to support growth. We believe there is still significant potential for (selected) EM currencies to appreciate over the medium term.	A rapid gain in the US dollar is a key risk. This could be triggered by EM central banks turning more dovish than the Fed. Diverging economic and political regimes in the EM universe also mean that being selective is key.

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

Investment grade corporate Bonds

Asset class	View	Rationale	Positive factors to consider
Global investment grade (IG)	**Underweight** —	Prospective returns are consistent with an underweight position. In particular, there is a significantly negative duration risk premium. In other words, we are being penalised for bearing risks related to unexpected changes in interest rates or inflation. Corporate fundamentals are beginning to come under pressure - risks in DMs are increasing. However, there are tentative signs of a recovery in EM earnings growth	According to Moody's, global default rates are expected to increase in the coming year, but expected to remain below the historical average of around 4%. Still dovish central bank policy and low interest rates are positives.
USD investment grade	**Underweight** —	US IG valuations mean that we believe there is an inadequate margin of safety against downside risks. US IG could come under pressure from falling profitability and rising default rates	Positively, US growth remains steady and the Fed still has a dovish tilt. The level of profitability remains relatively high, although they have slowed recently. US corporate fundamentals are relatively broadly robust, with typical levels of leverage, and healthy interest rate coverage ratios (a measure of how easily a company can pay their interest expenses on outstanding debt).
EUR and GBP investment grade	**Underweight** —	EUR IG prospective returns are also weighed down by a relatively large negative duration risk premium. Moody's expects default rates to rise sharply in 2020.	The ECB has restarted net asset purchases, including eurozone corporate bonds. Default rates also remain low – although they are forecast to rise next 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. Reasonably solid activity in EM Asia and a more neutral monetary policy stance in most countries are also supportive.	A stronger US dollar poses a risk, particularly for corporates with USD denominated debt. Risks from rising protectionism cannot be ignored either, while the extent of Chinese leverage remains a long-term issue.

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

High-yield corporate Bonds

Asset class	View	Rationale	Risks to consider
Global high-yield	**Neutral** —	The pricing of duration risk is a drag on prospective returns, but there remains a reasonable credit risk premium (compensation for bearing risks associated with corporate defaults). This growth-sensitive asset class may perform well if activity surprises to the upside.	Our measures show that we remain better rewarded by equities as a way to benefit from a decent economic backdrop. Recent signs of pressure on corporate fundamentals make us monitor this asset class closely. Default rates are expected to increase in 2020 but only to historic average levels.
US high-yield	**Neutral** —	Robust US economic activity continues to support underlying corporate fundamentals. Default rates are relatively low – although rising. HY bonds also have a shorter effective duration, making them more exposed to growth than to interest-rate risk. 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** —	The carry (or “return”) offered by Asian HY looks attractive to us given the alternatives, with relatively high prospective risk-adjusted returns. Economic growth is holding up fairly well and inflationary pressures appear relatively stable.	A stronger US dollar poses a risk, particularly for corporates with USD denominated debt. Risks from rising protectionism cannot be ignored either, while the extent of Chinese leverage remains a long-term issue.
Europe high-yield	**Neutral** —	Underlying corporate fundamentals remain healthy (low default rates for now), although economic activity has recently deteriorated. Monetary policy is still accommodative, with the ECB restarting net asset purchases. Fiscal stimulus is also coming into focus.	Eurozone growth could disappoint further, although for now problems seem to be concentrated in the manufacturing sector. Spill overs to the service sector and labour markets is the risk. European political risks remain, with a “no-deal” Brexit 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 performed well in the August 2019 equity market selloff.	In our view, prospective returns on gold futures look poor. This is due to the large negative expected roll yield (the cost of renewing futures contracts) and a negative expected spot-price return.
Other commodities	**Overweight** ↑	**We upgrade our view on selected commodities given our expectation that they can perform well in a scenario of sharply rising geopolitical risks.** **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 shocks which would reduce the effectiveness of the hedge. Any unexpected oversupply of specific commodities could also put downward pressure on prices.
Real Estate	**Neutral** –	Based on our estimates of prospective long run returns, global real estate equities offer a reasonable margin over DM government bonds. The current dividend yield on global real estate equities is 128 basis point higher than wider equities and over 300 basis points above DM government bond yields (as at the end of October).	Real estate equities that are focused on retail property are vulnerable to growing e-commerce although this is partly offset by strong demand for logistics space to support internet shopping. A serious escalation in global trade disputes would harm occupier demand. The prospect of future rent control is overhanging selected residential markets. Brexit continues to overshadow the UK market.

Asset class	View	Rationale	Positive factors to consider
EM agg bond (USD)	**Underweight** –	Valuations are relatively unfavourable, with a negative duration risk premium. In other words, we are being penalised for bearing risks related to unexpected changes in interest rates or inflation. Exposure to vulnerable, idiosyncratic EMs also weighs on the outlook. Overall, risk-adjusted returns look poor relative to the rest of the opportunity set.	This asset class may perform well if key EM macroeconomic and political risks do not materialise. Dollar is unlikely to appreciate sharply given the limited risk of Fed 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** —	We expect sustained policy support to help stabilise cyclical domestic demand in the near-term. Corporate profits/earnings should find support from tax cuts and policy efforts to lower business funding costs. The US-China trade truce and hopes of the "phase one" deal are positive for the earnings outlook, along with a more stable RMB. An expected increase in input prices and the bottoming out of the industry cycle also support earnings. 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.	China's growth deceleration reflects both persistent external uncertainty and domestic (structural) headwinds. Room for policy easing face constraints from weaker fiscal positions, high-debt levels and falling credit efficiency. Problems at small banks and rising credit risks have also impeded credit channels. Countercyclical policy measures are not likely to address structural headwinds. We see the risk of state-led reforms failing to empower the market and delays in the implementation of structural reforms that may cause short-term pain. There is still no clear path towards a long-term, comprehensive US-China trade deal or resolution. That said, a breakthrough in trade talks or any major positive development such as tariff rollback could send the market higher.

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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 modest growth recovery in the coming quarters after a sharp slowdown since late 2018, aided by momentary easing (including measures to improve policy transmission and contain systemic risks of non-bank financial firms to the economy) and fiscal policy support (e.g. corporate income tax cuts and policy measures to revive the property sector and lift public investment). The large corporate income tax cut should improve corporate profits and balance sheets. In the longer-term, making India globally competitive in terms of tax rates is likely to support the business environment. 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.	We see the risk that an expected growth recovery could be shallower than expected, as the economy still faces domestic credit issues, weak monetary policy transmission, soft investment and job market, and an uncertain global outlook The corporate tax cut may not drive an imminent meaningful economic turnaround, as aside from passing on some benefits to consumers, companies could use tax savings for de-leveraging or share buybacks rather than investment. Sluggish growth drags down tax collections, which coupled with tax cuts and fiscal relief measures increases fiscal risks. Despite more competitive tax rates, other determinants for attracting Foreign Direct Investment (e.g. skills, infrastructure, and land acquisition etc.) will take time to come together. The government's ability to undertake tough reforms is to be tested.
Hong Kong equities	**Overweight** ▬	The decent dividend yield is supportive. Current valuations have largely reflected the subdued growth outlook. Many multinational companies operate mostly outside of the city and are within sectors that leverage on Asia's longer-term growth potential. The government has rolled out multiple relief/stimulus packages including boosting loans to small businesses, measures to improve people's livelihood and cutting banks' capital buffers to mitigate an economic downturn. Fed rate cuts have helped ease global financial conditions and alleviated some pressure on HK interest rates. This, together with a recent relaxation of mortgage rules may provide some near-term support to the housing market.	Hong Kong's growth has deteriorated materially. The economy could weaken further amid persistent external and domestic uncertainty, which has weighed heavily on private sector sentiment and spending. Consensus earnings estimates have come down but probably have further room to fall. Government measures could provide support but there will likely be some time lag for the effects of fiscal measures to kick in. The 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 could provide support. The banking sector has strong balance sheets. The private housing market has been holding up, despite macro headwinds. Targeted property easing measures and planned spending on upgrading public and private housing estates, together with monetary easing and a large fiscal impulse could provide a boost to growth. Singapore has sufficient fiscal policy ammunition to navigate economic slowdowns, and could benefit from multinational companies looking to diversify supply chain operations into ASEAN in the longer term.	There are signs of continued weakness in exports and manufacturing spilling over to domestic demand, services and the labour market. Weaker growth could put downward pressure on corporate earnings and add concerns over bank asset quality. Singapore is one of the most externally exposed economies in the region and is vulnerable to softer global growth and trade protectionism. Tightening market liquidity remains a risk. Singapore is also sensitive to sharp moves in the USD.

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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** ▬	An expected improvement in the global trade and the industrial cycle supports the outlook for Korea given its global cyclical sensitivity. Forward earnings growth is picking up. An ongoing semiconductor sector recovery should drive a rebound in Korea's earnings. The economic outlook is supported by a significant fiscal stimulus planned for next year and an accommodative monetary policy. Over the medium term, Korea could potentially benefit from trade diversion and temporarily eased competition pressures from China.	Uncertainties over Korea's relations with Japan and US-China frictions pose risks via the potential impact on regional supply chains. It may take time for the recent positive sentiment readings to translate into a solid consumption trend. Private sector job gains remain weak. 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** ▬	Fading drags from global trade and the capital expenditure cycle should benefit Taiwan, though the tech sector recovery appears largely priced in. Forward earnings growth is picking up. Taiwan has benefited from trade diversion/redistribution due to US-China trade frictions and its corporate capital expenditure has been supported by industrial re-onshoring A relatively benign outlook for the business environment and accommodative macro policy stance could support steady labour market conditions and domestic consumer demand.	Despite a relatively high dividend yield, equity valuations are not particularly attractive and have likely priced in a cyclical recovery. The outlook for Taiwan's economy and corporate earnings faces the challenges from the global demand outlook and trade protectionism. Taiwan is excluded from regional trade/investment agreements. 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 December 2019. 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

November 2019

Equity Indices	Close	MTD Change (%)	3M Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low	Fwd P/E (X)
World								
MSCI AC World Index (USD)	547	2.3	7.0	11.4	20.0	550	435	17.2
North America								
US Dow Jones Industrial Average	28,051	3.7	6.2	9.8	20.3	28,175	21,713	18.9
US S&P 500 Index	3,141	3.4	7.3	13.8	25.3	3,154	2,347	19.0
US NASDAQ Composite Index	8,665	4.5	8.8	18.2	30.6	8,706	6,190	26.1
Canada S&P/TSX Composite Index	17,040	3.4	3.6	12.1	19.0	17,121	13,777	15.8
Europe								
MSCI AC Europe (USD)	467	1.3	7.3	10.3	15.7	472	391	14.9
Euro STOXX 50 Index	3,704	2.8	8.1	16.7	23.4	3,733	2,909	15.3
UK FTSE 100 Index	7,347	1.4	1.9	5.2	9.2	7,727	6,537	13.5
Germany DAX Index*	13,236	2.9	10.9	17.6	25.4	13,374	10,279	15.4
France CAC-40 Index	5,905	3.1	7.7	18.0	24.8	5,967	4,556	15.9
Spain IBEX 35 Index	9,352	1.0	6.1	3.0	9.5	9,588	8,286	12.8
Italy FTSE MIB	23,259	2.5	9.1	21.2	26.9	23,828	17,914	11.7
Asia Pacific								
MSCI AC Asia Pacific ex Japan (USD)	524	0.3	5.8	6.4	9.7	547	462	15.1
Japan Nikkei-225 Stock Average	23,294	1.6	12.5	4.2	16.4	23,608	18,949	17.9
Australian Stock Exchange 200	6,846	2.7	3.7	20.8	21.2	6,894	5,410	18.0
Hong Kong Hang Seng Index	26,346	-2.1	2.4	-0.6	1.9	30,280	24,897	10.5
Shanghai Stock Exchange Composite Index	2,872	-1.9	-0.5	11.0	15.2	3,288	2,441	11.6
Hang Seng China Enterprises Index	10,302	-2.2	2.2	-3.0	1.7	11,882	9,732	8.1
Taiwan TAIEX Index	11,490	1.2	8.2	16.2	18.1	11,668	9,319	17.5
Korea KOSPI Index	2,088	0.2	6.1	-0.4	2.3	2,252	1,892	14.7
India SENSEX 30 Index	40,794	1.7	9.3	12.7	13.1	41,164	34,426	22.6
Indonesia Jakarta Stock Price Index	6,012	-3.5	-5.0	-0.7	-2.9	6,636	5,767	16.0
Malaysia Kuala Lumpur Composite Index	1,562	-2.3	-3.1	-7.0	-7.6	1,732	1,548	16.4
Philippines Stock Exchange PSE Index	7,739	-3.0	-3.0	5.0	3.7	8,420	7,348	17.0
Singapore FTSE Straits Times Index	3,194	-1.1	2.8	2.4	4.1	3,415	2,993	12.9
Thailand SET Index	1,591	-0.7	-3.9	-3.1	1.7	1,748	1,547	16.9
Latam								
Argentina Merval Index	34,500	-1.4	40.2	9.6	13.9	44,471	22,484	2.5
Brazil Bovespa Index*	108,233	0.9	7.0	20.9	23.2	109,672	83,892	15.0
Chile IPSA Index	4,539	-4.3	-5.5	-11.2	-11.1	5,516	4,408	14.8
Colombia COLCAP Index	1,612	-1.3	3.4	16.9	21.6	1,667	1,291	12.6
Mexico S&P/BMV IPC Index	42,820	-1.2	0.5	2.6	2.8	45,600	38,266	15.1
EEMEA								
Russia MOEX Index	2,935	1.4	7.1	22.7	23.9	3,009	2,258	6.5
South Africa JSE Index	55,349	-1.9	0.2	9.2	5.0	59,545	50,079	12.1
Turkey ISE 100 Index*	106,904	8.6	10.5	12.0	17.1	108,210	83,535	8.1

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

Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 29 November 2019.

Past performance is not an indication of future returns.

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

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Market data (continued)

November 2019

Equity Indices - Total Return	3-month Change (%)	YTD Change (%)	1-year Change (%)	3-year Change (%)	5-year Change (%)	Dividend Yield (%)
Global equities	7.5	22.3	13.7	40.3	41.8	2.5
US equities	7.8	27.2	15.7	49.1	62.9	1.8
Europe equities	7.6	19.1	13.6	34.0	17.9	3.7
Asia Pacific ex Japan equities	6.4	12.6	9.5	31.3	25.8	3.2
Japan equities	9.7	17.2	9.3	27.8	39.9	2.4
Latam equities	2.8	6.5	5.6	24.2	1.1	3.1
Emerging Markets equities	6.1	10.2	7.3	29.5	16.6	2.8

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)	568	-0.1	-0.8	10.0	8.4
JPM EMBI Global	866	-0.2	-0.2	14.0	12.3
BarCap US Corporate Index (USD)	3,230	0.3	0.2	15.9	14.2
BarCap Euro Corporate Index (Eur)	259	-0.3	-1.2	6.5	6.3
BarCap Global High Yield (USD)	505	0.3	1.4	9.8	10.8
BarCap US High Yield (USD)	2140	0.3	1.0	9.7	12.1
BarCap pan-European High Yield (USD)	471	1.1	1.5	13.1	13.2
BarCap EM Debt Hard Currency	430	-0.1	0.6	11.8	10.3
Markit iBoxx Asia ex-Japan Bond Index (USD)	214	0.1	0.6	11.5	10.1
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	272	0.3	2.0	12.5	11.3

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 29 November 2019.

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Market data (continued)

November 2019

Bonds	Close	End of last mth.	3-months Ago	1-year Ago	Year End 2018
US Treasury yields (%)					
3-Month	1.57	1.52	1.98	2.34	2.35
2-Year	1.61	1.52	1.50	2.79	2.49
5-Year	1.63	1.52	1.39	2.81	2.51
10-Year	1.78	1.69	1.50	2.99	2.68
30-Year	2.21	2.18	1.96	3.29	3.01
Developed market 10-year bond yields (%)					
Japan	-0.08	-0.14	-0.28	0.09	-0.01
UK	0.70	0.63	0.48	1.36	1.28
Germany	-0.36	-0.41	-0.70	0.31	0.24
France	-0.05	-0.10	-0.41	0.68	0.71
Italy	1.23	0.92	1.00	3.21	2.74
Spain	0.41	0.23	0.10	1.50	1.41

Commodities	Latest	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Gold	1,464	-3.2	-3.7	19.7	14.2	1,557	1,220
Brent Oil	62.4	3.7	3.3	6.3	16.0	76	50
WTI Crude Oil	55.2	1.8	0.1	8.3	21.5	67	42
R/J CRB Futures Index	177	-0.1	3.7	-2.8	4.0	190	167
LME Copper	5,864	1.2	3.8	-5.4	-1.7	6,609	5,518

Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 29 November 2019.

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Market data (continued)

November 2019

Currencies (vs USD)	Latest	End of last mth.	3-mths Ago	1-year Ago	Year End 2018	52-week High	52-week Low
Developed markets							
DXY index	98.27	97.35	98.92	97.27	96.17	99.67	95.03
EUR/USD	1.10	1.12	1.10	1.13	1.15	1.16	1.09
GBP/USD	1.29	1.29	1.22	1.27	1.28	1.34	1.20
CHF/USD	1.00	1.01	1.01	1.00	1.02	1.04	0.98
CAD	1.33	1.32	1.33	1.33	1.36	1.37	1.30
JPY	109.5	108.0	106.3	113.6	109.7	113.9	104.5
AUD	1.48	1.45	1.48	1.37	1.42	1.50	1.35
NZD	1.56	1.56	1.58	1.45	1.49	1.61	1.44
Asia							
HKD	7.83	7.84	7.84	7.82	7.83	7.85	7.78
CNY	7.03	7.04	7.16	6.96	6.88	7.18	6.67
INR	71.74	70.93	71.41	69.58	69.77	72.46	68.29
MYR	4.18	4.18	4.21	4.18	4.13	4.23	4.05
KRW	1,181	1,164	1,211	1,121	1,116	1,223	1,105
TWD	30.51	30.45	31.40	30.84	30.71	31.73	30.33
Latam							
BRL	4.24	4.02	4.15	3.87	3.87	4.28	3.64
COP	3,517	3,380	3,442	3,234	3,250	3,547	3,048
MXN	19.53	19.23	20.06	20.37	19.65	20.66	18.75
ARS	59.91	59.65	59.50	37.75	37.67	62.00	36.41
EEMEA							
RUB	64.32	64.14	66.78	66.98	69.72	69.78	62.50
ZAR	14.67	15.10	15.20	13.87	14.35	15.50	13.24

Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 29 November 2019

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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 **November 2019**, HSBC Global Asset Management's long-term expected return forecasts which were generated as **at 31 October 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 October 2019.**
- Similarly, for EM government bonds, the underweight, overweight and neutral categories for the asset class at the aggregate level are also based on high-level asset allocation considerations applied in diversified, typically multi-asset portfolios. However, EM Asian Fixed income views are determined relative to the EM government bonds (hard currency) universe as of **30 November 2019**.

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