On the “swoosh” recovery path

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Summary

Macro Outlook

- With lockdowns being lifted, economic activity is picking up quickly across a range of economies, albeit from depressed levels. However, the pace of recovery remains uncertain, especially beyond Q3.
- Our most likely scenario is a “swoosh” type recovery for the global economy; a sharp rebound in the near-term followed by a more gradual recovery. Developed markets are unlikely to reach pre-crisis levels of activity until 2022.
- Following the initial shock, we are already witnessing the emergence of relative winners (China, industrialised Asia) and losers (emerging markets ex Asia, smaller oil exporters, frontier economies, and the UK).
- The global economy needs ongoing support. The biggest downside risk to this “swoosh” scenario is a policy mistake. “Stimulus fatigue” could set-in over the second half of 2020.

Central Banks

- Balance sheets at most major central banks have expanded rapidly since March, to maintain the flow of credit to the corporate sector and accommodate government pledges to ease fiscal policy.
- Monetary policy makers remain committed to supporting the economic recovery. US Federal Reserve (Fed) officials have signalled a willingness to increase stimulus.
- The European Central Bank (ECB) has stated that it expects to utilise the full EUR1,350bn of purchases currently allowed under its bond buying programme.
- The People’s Bank of China (PBoC) is deploying a range of measures to support micro and small businesses. New policy measures are targeted and focussed on fine-tuning.
- But amid sharply rising public debt levels, there is a risk of “stimulus fatigue”.

Key Views

- We think pricing in many markets is consistent with our baseline expectation of a swoosh style economic recovery. This means that we do not have a big quarrel with market pricing at this point.
- There are upside risks to markets, linked to better news and price momentum. Meanwhile, downside risks include the re-emergence of the virus, policy error, or long-term damage to economies. We view these risks as roughly balanced which means markets could be range-bound in the coming months.
- Risk-taking can be rewarded by the market, but after the fastest rally on record, the hurdle for positive surprise is higher than it was, and prospective returns have fallen considerably.
- A handful of asset classes – Asia high-yield and selected equities – continue to offer relatively-high expected returns. For us, now is also the time to think hard about diversifying portfolios out of core developed market government bonds into a wider set of alternative asset classes.

Key Risks

- Uncertainty remains the pervasive feature of the macro environment. This creates scope for episodic volatility in investment markets.
- Fiscal policy error
- Stimulus fatigue sets-in & policy support is withdrawn too early
- Scarring effects of crisis
- High unemployment is sticky, long-run recovery is slow; virus 2nd wave
- Political risk returns
- Political risks and trade tensions are neglected and can shock markets

Source: HSBC Global Asset Management, Global Investment Strategy, August 2020
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Please refer to Basis of Views and Definitions section for additional information.
Investment Views

Investors can be rewarded for moderate risk-taking. We still favour developed market equities and credit assets. But there are a number of risks on the horizon, including the early withdrawal of fiscal policy support.

- **Global equities** – Expected returns remain attractive to us and equities should benefit from the ongoing economic recovery. We are now more positive on eurozone equities amid policy progress and relatively favourable virus case dynamics.
- **Government bonds** – Prospective returns look very low and there is uncertainty as to whether bonds can retain their diversification properties as policy support increasingly relies on targeted fiscal easing measures. We remain “underweight”.
- **Corporate bonds** – Central bank action remains a crucial support for this asset class, however we think investment grade bond valuations are now consistent with a neutral positioning.

![Asset Class Table]

<table>
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<tr>
<td>Global</td>
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<td>Eurozone</td>
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<td>Emerging Markets (EM)</td>
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<th>Government bonds</th>
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<td>Asset Class</td>
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<td>Developed Market (DM)</td>
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<td>Japan</td>
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<td>EM (local currency)</td>
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<td>Global investment grade (IG)</td>
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<td>USD IG</td>
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<td>EUR &amp; GBP IG</td>
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<td>Asia IG</td>
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<td>Global high-yield</td>
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<td>EM agg bond (USD)</td>
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<td>Gold</td>
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<td>Other commodities</td>
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<td>Real estate</td>
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<td>Asset Class</td>
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<td>EM Asian government bonds (USD)</td>
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<td>Asia ex-Japan equities</td>
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View: ▲ Overweight
▼ Underweight
Neutral
↑ Upgraded versus last month
↓ Downgraded versus last month

Tactical view:
View related to shorter-term investment horizon

Source: HSBC Global Asset Management, as at August 2020, and subject to change. The views expressed are those of HSBC Global Asset Management, they were held at the time of preparation, and are subject to change.
Please refer to Basis of Views and Definitions section for additional information.
Global equities rose further in July amid an ongoing global economic recovery and on encouraging Covid-19 vaccine and treatment developments.

- **Government bonds** – Core bonds found support from concerns over global Covid-19 case growth; in Europe, peripheral spreads continued to tighten as European Union (EU) heads of state agreed on a EUR750bn recovery fund.

- **Commodities** – Gold prices rallied on lower real government bond yields, a weaker US dollar and amid ongoing US-China tensions; oil prices edged up amid improving global demand conditions.

Past performance is not an indication of future performance.

Note: Asset class performance is represented by different indices.


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 July 2020 in USD, total return, month-to-date terms.

Please refer to Basis of Views and Definitions section for additional information.
### Base case views and implications

#### Monthly macroeconomic update

**US**
- The easing of lockdowns resulted in a strong rebound in spending on consumer goods in May and June.
- However, spending on services is lagging, and the resurgence in Covid-19 case growth is likely to weigh on the pace of the recovery going forward.
- Congress is likely to enact another stimulus package that extends enhanced unemployment insurance. This will be important to support overall consumer spending.

**Europe**
- High frequency indicators in the eurozone point to a robust recovery in GDP, albeit from more depressed levels versus the US given the extent of lockdowns in the region.
- The economic recovery in the UK is lagging the eurozone due to the later and slower easing of its lockdown, a large share of services in the economy (that is more affected by social distancing measures), and Brexit uncertainty.

**Asia**
- China: China’s economy has rebounded rapidly as the country has successfully suppressed the virus and provided significant policy support. However, a weak global economy is a headwind to the export sector.
- India: India’s near-term outlook is poor with case growth remaining on an upward trend amid an underwhelming government fiscal response and strained banking sector.
- Japan: Japan’s recovery benefits from a healthy banking and corporate sector, strong policy support and a broad suppression of the virus. However, a recent uptick in case growth requires monitoring.

**Other EM**
- Brazil: The country is at the epicentre of the pandemic with no evidence that the situation is getting under control. Poor government debt dynamics also means there is a risk of austerity measures being introduced in 2021.
- Russia: Weak domestic demand, low oil prices and limited fiscal policy support have been major headwinds to the country’s recovery.
- MENA: The region’s recovery prospects are constrained by low oil prices and weak tourism flows. Some countries such as Saudi Arabia are already introducing austerity measures. Geopolitical risks also remain.

#### Base case view and implications

**US**
- We still hold an overweight view on US equities. However, a more cautious stance is warranted in the short-term amid domestic political uncertainty and unfavourable Covid-19 case dynamics.
- We remain underweight US Treasuries, although we recognise that valuations are attractive versus other government bond markets and Federal Reserve action limits the risk of higher yields.

**Europe**
- We have upgraded eurozone equities to overweight on the back of significant policy progress – particularly the EU joint recovery fund – and relatively favourable Covid-19 case dynamics.
- We are still comfortable with an overweight view on UK equities given highly attractive valuations and strong policy support.

**Asia**
- China: A rapid rebound in economic activity supports our overweight view on China equities. We continue to prefer Asian EM to other EM equity markets and retain our overweight view.
- India: We believe a cautious tactical view on Indian equities is warranted given significant economic headwinds posed by the virus.
- Japan: Japanese equities are attractively valued although low structural growth and constrained Bank of Japan (BoJ) policy space means we hold a neutral view.

**Other EM**
- We think it makes sense to be selective on EM assets.
- Many EM economies (especially outside of Asia) have limited capacity to manage the current health and economic crises, and are exposed to low commodity prices and investor outflows.
- Meanwhile, relative valuations versus DMs have narrowed.
- For us, the bright spot is EM Asia where a growth recovery in China can be a tailwind.

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### Asset class positioning

#### Equities

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<th>Rationale</th>
<th>Risks to consider</th>
<th>Tactical View</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global</td>
<td>▲</td>
<td>While the Covid-19 pandemic represents a very significant challenge for the global economy, the equity risk premium (excess return over risk-free assets) remains attractive amid lower developed market government bond yields.</td>
<td>There is high uncertainty about how quickly the global economy will recover to pre-virus levels of output. Corporate earnings growth requires close monitoring.</td>
<td>↫</td>
<td>Market volatility remains high and there is elevated uncertainty over the economic outlook</td>
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<td>Substantial policy easing has reduced downside tail risks</td>
<td>An important risk to monitor is for a policy mistake and a premature withdrawal of fiscal support, driven by politicians’ “stimulus fatigue”. Furthermore, virus risks have not disappeared.</td>
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<td>Many equity markets have recently recovered, dampening prospective returns</td>
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<tr>
<td>US</td>
<td>▲</td>
<td>Despite the recent rally, we believe the market is pricing in our baseline economic scenario of a “swoosh” recovery. There is no clear sign of “irrational exuberance” in pricing</td>
<td>Following the recent rally there is now a higher hurdle for positive surprises</td>
<td>↫</td>
<td>The dynamics of the economic recovery is are highly uncertain, especially given relatively unfavourable case growth numbers</td>
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<td>Exposure to big tech companies is also beneficial in our view</td>
<td>A Democratic clean sweep of Congress in the upcoming US elections could mean higher corporate taxes and market-unfriendly regulations. More generally there is a risk of fiscal policy under-delivery</td>
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<tr>
<td>Eurozone</td>
<td>▲</td>
<td>We upgrade to overweight as we believe the EU’s new joint recovery fund can help support the medium-term growth prospects of more vulnerable European economies</td>
<td>Eurozone containment measures have been relatively strict, resulting in a deep initial downturn. This is in the context of the eurozone’s weak pre-crisis economic performance, the risk of a hard Brexit later this year, and the potential for government pressure to maintain low dividends during the crisis</td>
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<td>We also think the fund should help diminish the risk of more economically fragile member states exiting the Eurozone, which can help compress the “political risk premium” we believe is embedded in the pricing of European risk assets</td>
<td>Furthermore, prospective risk-adjusted returns are attractive in our view; the ECB has so far been proactive and innovative in its policy approach, and Covid-19 case growth is broadly under control in most countries</td>
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<td>There is uncertainty over the effectiveness of contact tracing infrastructure in the coming months</td>
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## Asset class positioning
### Equities cont’d

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<th>Risks to consider</th>
<th>Tactical view</th>
<th>Rationale</th>
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</thead>
<tbody>
<tr>
<td><strong>UK</strong></td>
<td></td>
<td>The UK equity risk premium (excess return over cash) remains comfortably above that for other developed market (DM) equities</td>
<td>The economic recovery in the UK is lagging the eurozone, with a large share of services in the economy (that is more affected by social distancing) being a headwind</td>
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<td></td>
<td>▲</td>
<td>The UK government and the Bank of England (BoE) have implemented a comprehensive and coordinated package of economic stimulus measures aimed at supporting businesses and employment</td>
<td>There is a risk that the UK exits its transition period with the EU at the end of this year with no trade deal in place</td>
<td></td>
<td>Low oil prices will put additional strain on earnings of energy companies, which have a proportionally high representation in UK equity indices</td>
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<tr>
<td><strong>Japan</strong></td>
<td>⇩</td>
<td>Japanese equities are attractively valued although low structural growth and constrained BoJ policy space means we hold a neutral view</td>
<td>Japan’s manufacturing sector is vulnerable to the very weak global economic environment and large inventories accumulated before the Covid-19 crisis</td>
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<td>Japan (along with other industrialised Asian economies) has made good progress in tackling the spread of Covid-19</td>
<td>A recent uptick in Covid-19 case growth requires monitoring</td>
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<tr>
<td><strong>Emerging Markets (EM)</strong></td>
<td>▲</td>
<td>We estimate valuations are broadly similar to DM equities. In our view, the bright spot is EM Asian markets which can benefit from China’s growth recovery and further policy actions</td>
<td>From a valuation perspective, EM equities are not particularly cheap versus other equity markets. Many EMs are at an earlier stage of the Covid-19 outbreak versus China</td>
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<td>Ultra-loose Fed policy and lower oil prices are significant tailwinds to many EM economies</td>
<td>The impact of the Covid-19 outbreak will lead to further deterioration in EM earnings. Lower oil prices are a major headwind to EM petro-economies. Overall, being selective is key</td>
<td></td>
<td>Many EM economies (especially outside of Asia) have limited capacity to manage the Covid-19 crisis, and are exposed to low commodity prices and investor outflows</td>
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# Asset class positioning

## Government Bonds

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<th>Positive factors to consider</th>
<th>Tactical view Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed Markets (DM)</td>
<td>◼️</td>
<td>Government bond prospective returns look very low</td>
<td>Current policy settings mean that bond prices are unlikely to be volatile or result in a sharp jump in yields</td>
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<td>We think governments are increasingly likely to depend on targeted fiscal measures to support growth, which may deteriorate the diversification properties of bonds</td>
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<tr>
<td>US</td>
<td>◼️</td>
<td>Prospective risk-adjusted returns look unattractive versus other asset classes. The US government is unleashing record levels of fiscal stimulus</td>
<td>Valuations look attractive to us, versus other government bond markets, especially up to five-year bonds. Disappointing economic data or pandemic news could see a further rally</td>
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<td></td>
<td>There is uncertainty if Treasuries can act as an effective diversifier asset</td>
<td>Low inflation and a “lower-for-longer” interest rate outlook should help cap yields</td>
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</tr>
<tr>
<td>UK</td>
<td>◼️</td>
<td>Prospective risk-adjusted returns continue to look very poor to us. The UK government is engaging in massive fiscal stimulus</td>
<td>The Bank of England has introduced supportive policy measures and signalled it is ready to do more should the situation further deteriorate</td>
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<tr>
<td>Eurozone</td>
<td>◼️</td>
<td>Valuations look unattractive and governments are easing fiscal policy. Weak government finances in the periphery is a key risk</td>
<td>The ECB has significantly ramped up its bond-buying programme and signalled it is ready to do more. Periphery spreads could tighten further on the back of the EU recovery fund</td>
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<tr>
<td>Japan</td>
<td>◼️</td>
<td>Japanese government bonds (JGBs) are overvalued, in our view</td>
<td>The “Yield Curve Control” framework should limit volatility. The risk of significantly higher yields in the near term is very limited</td>
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<tbody>
<tr>
<td>Emerging markets (EM) local currency</td>
<td>▲</td>
<td>Prospective returns are relatively high, although this is mainly due to declines in most EM currencies</td>
<td>Bond yields are reaching historical lows</td>
<td>➡️ We think a recovery in EM currencies is unlikely in the near-term. Many EM economies have limited capacity to manage the crisis</td>
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<td>Diverging economic impacts from the spread of Covid-19 along with different political regimes in the EM universe also mean that being selective is key</td>
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## Asset class positioning
### Investment grade corporate Bonds

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<th>Tactical View</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Global investment grade (IG)</strong></td>
<td></td>
<td>The recent narrowing of spreads means prospective returns are consistent with a neutral positioning in our view</td>
<td>It will be crucial to monitor trends in corporate profitability, which could surprise to the downside</td>
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<td>DM central banks are engaged in significant purchases</td>
<td>We maintain a defensive positioning, looking for higher quality issuers, and avoiding impacted sectors</td>
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<tr>
<td><strong>USD investment grade</strong></td>
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<td>US IG valuations are now consistent with a neutral positioning as spreads have narrowed</td>
<td>US IG may come under further pressure from any unexpected deterioration in corporate fundamentals. US Covid-19 case dynamics are relatively unfavourable</td>
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<td>The Fed is purchasing IG corporate bonds for the first time in its history while the US government has introduced measures to support big businesses</td>
<td>The pre-virus backdrop for US corporate fundamentals was broadly robust, with typical levels of leverage, and a healthy ability to pay debt interest expenses</td>
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<tr>
<td><strong>EUR and GBP investment grade</strong></td>
<td></td>
<td>EUR IG prospective returns are now consistent with a neutral positioning</td>
<td>Moody’s expected a sharp rise in default rates in 2020 even before the outbreak of Covid-19. It will be important to monitor trends in corporate fundamentals</td>
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<td>The ECB and the BoE have increased their net asset purchases substantially, including corporate bonds. These could be ramped up further should risks continue to mount</td>
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<td><strong>Asia investment grade</strong></td>
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<td>There is a valuation gap versus DM counterparts, while Asian corporates may outperform on the back of growth outperformance in the region</td>
<td>Pockets of issuers remain vulnerable to the Covid-19 crisis. A focus on quality issuers remains important</td>
<td></td>
<td>Downside risks remain as downgrades and defaults pick up</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Recent USD weakness is a positive for corporates with USD denominated debt</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: HSBC Global Asset Management. As at 1 August 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.
## Asset class positioning
### High-yield corporate Bonds

<table>
<thead>
<tr>
<th>Asset class</th>
<th>Strategic View</th>
<th>Rationale</th>
<th>Risks to consider</th>
<th>Tactical view</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global high-yield</td>
<td>▲</td>
<td>Valuations still look reasonable and compare favourably with the start of the year. The Fed and ECB have implemented measures to support the market</td>
<td>Default rates are expected to increase this year, and it will be crucial to monitor any spillover from the struggling energy sector to the wider market</td>
<td>☐</td>
<td>Downside risks remain as downgrades and defaults pick up</td>
</tr>
<tr>
<td>US high-yield</td>
<td>▲</td>
<td>Prospective risk adjusted returns are consistent with our overweight position. The Fed has enacted measures to support the market</td>
<td>US HY credits remain vulnerable to the corporate profits and default outlook. Low oil prices pose a significant headwind to energy names</td>
<td>☐</td>
<td>Furthermore, we advocate a defensive positioning within high yield, looking for higher quality issuers, and avoiding impacted sectors. We are also aware of liquidity issues in some sectors</td>
</tr>
<tr>
<td>Asia high-yield</td>
<td>▲</td>
<td>Many Asian economies have managed to contain the spread of Covid-19 and can benefit from a growth recovery in China. Default rates should remain relatively low. Recent USD weakness is positive for corporates with USD denominated debt.</td>
<td>Many export-dependent Asian economies are vulnerable to the deteriorating global growth picture</td>
<td>☐</td>
<td></td>
</tr>
<tr>
<td>Europe high-yield</td>
<td>▲</td>
<td>Valuations are consistent with our overweight position</td>
<td>Underlying corporate fundamentals are fragile in the current environment while default rates are picking up</td>
<td>☐</td>
<td></td>
</tr>
</tbody>
</table>

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## Asset class positioning

### Alternatives

<table>
<thead>
<tr>
<th>Asset class</th>
<th>Strategic View</th>
<th>Rationale</th>
<th>Risks to consider</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold</td>
<td>↔</td>
<td>Gold futures can offer reasonable diversification benefits to multi-asset portfolios in a world of low bond yields and where bonds are potentially losing their diversification properties. Gold has performed very well since the outbreak of Covid-19 in the context of elevated uncertainty and lower interest rates</td>
<td>In our view, prospective returns on gold futures look poor. This is due to a negative expected roll yield (the cost of renewing futures contracts) and a negative expected spot-price return</td>
</tr>
<tr>
<td>Real Estate</td>
<td>↔</td>
<td>Despite a partial recovery, global real estate equity markets are around 25% below pre-crisis levels in USD terms. Dividend yields remain elevated, providing a wide margin over wider equity markets and developed market government bonds. We continue to believe that the market has over-discounted the negative impact that the virus will have on property markets globally. For investors able to accept continued high volatility, we believe prospective long-run returns imply a sufficient premium over extremely low policy rates</td>
<td>Covid-19 dominates the market. Sectors such as leisure, entertainment and many parts of the retail market are particularly exposed. In the short term, rental income from such sectors will likely fall. Some sectors, such as logistics, are experiencing healthy demand and rent collection rates remain high. The impact on rental growth and future dividends remains highly uncertain, particularly in the short term</td>
</tr>
<tr>
<td>EM agg bond (USD)</td>
<td>↔</td>
<td>Valuations have recently improved and reflect the higher downside risks to the EM outlook</td>
<td>The current environment is tricky for many EM economies and corporates. Many have limited fiscal and monetary power while their healthcare systems are weak. Defaults are expected to increase</td>
</tr>
<tr>
<td>Other commodities</td>
<td>↔</td>
<td>We think there is scope for certain commodities to perform well in the coming months. For example, silver prices could make further gains following the rally in gold, while copper and other industrial commodities could benefit from a continuation of the “swoosh” global economic recovery and strong rebound in China</td>
<td>Spot commodity prices remain vulnerable to the fragile global economy and the risk of further Covid-19 lockdowns</td>
</tr>
</tbody>
</table>

Cuts to miners’ exploration budgets and Covid-19 related disruptions also mean that new supply is limited

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## Asset class positioning

### Asian assets

<table>
<thead>
<tr>
<th>Asset class</th>
<th>Strategic View</th>
<th>Rationale</th>
<th>Positive factors to consider</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EM Asian government bonds (USD)</strong></td>
<td>▼</td>
<td>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</td>
<td>From a long-term perspective, we believe sound economic fundamentals, stable inflation and credit quality are supportive</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Asset class</th>
<th>Strategic View</th>
<th>Rationale</th>
<th>Risks to consider</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Asia ex-Japan equities</strong></td>
<td>▲</td>
<td>We think this asset class offers attractive risk-adjusted returns. Many EM Asian governments have successfully suppressed the virus while their economies can benefit from a growth recovery in China. A bias to the tech sector is also beneficial</td>
<td>The region is not immune to a global recession or increased US-China political tensions. It will be important to monitor that short-term market action does not run too far ahead of fundamentals</td>
</tr>
<tr>
<td></td>
<td></td>
<td>We prefer EM Asian equities to other parts of EM</td>
<td>Other risks include unpredictable geopolitics, commodity-price and/or currency volatility</td>
</tr>
<tr>
<td><strong>China equities</strong></td>
<td>▲</td>
<td>Economic data prints confirm the V-shaped growth recovery and high frequency indicators point to a continued normalisation of activity, as the local outbreaks of coronavirus have continued to be contained</td>
<td>Services have lagged in the recovery owning partly due to cautious household behaviour</td>
</tr>
<tr>
<td></td>
<td></td>
<td>There is scope for further policy support, though measures are likely to be unconventional and targeted</td>
<td>The pace of monetary policy support will be balanced by concerns of financial stability</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Exposure to large Chinese tech companies has been beneficial and the further opening of Chinese capital markets are a medium-term driver</td>
<td>Heightened tensions between the US and China create large uncertainties</td>
</tr>
</tbody>
</table>

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## Asset class positioning

### Asian assets cont’d

<table>
<thead>
<tr>
<th>Asset class</th>
<th>Strategic View</th>
<th>Rationale</th>
<th>Risks to consider</th>
<th>Tactical View</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>India equities</strong></td>
<td>▲</td>
<td>Activity in India has gradually firmed as the country exited lockdowns, although this comes off a low base</td>
<td>The fiscal policy response to the pandemic has been relatively muted due to a wide fiscal deficit and challenged tax revenues</td>
<td>➸</td>
<td>Coronavirus cases have continued to surge prompting local lockdowns</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Financial conditions have already normalised and there is further space for monetary policy easing. Prospective risk-adjusted returns remain relatively attractive</td>
<td>Monetary policy transmission effectiveness is hampered in part by continued risk aversion in the banking sector</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Hong Kong equities</strong></td>
<td>▲</td>
<td>The equity risk premium remains attractive. Hong Kong interest rates have tracked global policy rates lower, supporting the property market</td>
<td>A third-wave of coronavirus in Hong Kong has resulted in the reimposition of strict lockdown measures, putting further pressure on service industries including retail, hospitality and tourism</td>
<td>➸</td>
<td>Hong Kong’s economy is likely to see a significant recession in H1. The economic outlook is very uncertain</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hong Kong remains an attractive hub for listings, and market activity has been robust despite the pandemic</td>
<td>Short-term negative sentiment and political tensions remain risks</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Singapore equities</strong></td>
<td>▲</td>
<td>Fiscal policy measures continue to support businesses and employment, and Singapore stands to benefit from the global recovery, primarily via semiconductor and biomedical manufacturing</td>
<td>Mobility trends have plateaued and social distancing restrictions remain in place suggesting that the economic recovery will be slow and uneven</td>
<td>➸</td>
<td>Singapore experienced an extended and strict lockdown, and is highly exposed to global trade conditions where there is considerable uncertainty</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Singapore’s perception as a regional safe haven has improved amid geopolitical tensions</td>
<td>Cautious household behaviour is likely to weigh on momentum in domestic consumption</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## Asset class positioning

### Asian assets cont’d

<table>
<thead>
<tr>
<th>Asset class</th>
<th>Strategic view</th>
<th>Rationale</th>
<th>Risks to consider</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Korea equities</td>
<td>▲</td>
<td>Korean equities have exposure to attractive sectors including tech and health care, and the country has continued to display progress in tackling the Covid-19 outbreak</td>
<td>Headwinds to the global economic recovery and trade volumes put pressure on export oriented companies</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Fiscal policy space remains ample and monetary policy is slightly dovish. The government is pushing for a revision to the tax code to further mitigate the impact of the pandemic</td>
<td></td>
</tr>
<tr>
<td>Taiwan equities</td>
<td>▲</td>
<td>Covid-19 has remained contained, supporting economic activity. Taiwan’s export and industrial activity have been robust due to structural tech-related demand including 5G, high-performance computing (HPC) and work-from-home trends</td>
<td>The non-tech sector has lagged partly due to household cautiousness, while the tech sector remains exposed to geopolitical tensions between the US and China. Trade protectionism and a relocation of supply chains remains medium-term risks</td>
</tr>
</tbody>
</table>

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# Market data

## July 2020

<table>
<thead>
<tr>
<th>Equity Indices</th>
<th>Close</th>
<th>MTD Change (%)</th>
<th>3M Change (%)</th>
<th>1-year Change (%)</th>
<th>YTD Change (%)</th>
<th>52-week High</th>
<th>52-week Low</th>
<th>Fwd P/E (X)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>World</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MSCI AC World Index (USD)</td>
<td>552</td>
<td>5.1</td>
<td>12.8</td>
<td>5.3</td>
<td>-2.4</td>
<td>581</td>
<td>379</td>
<td>22.6</td>
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<tr>
<td><strong>North America</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>US Dow Jones Industrial Average</td>
<td>26,428</td>
<td>2.4</td>
<td>8.6</td>
<td>-1.6</td>
<td>-7.4</td>
<td>29,569</td>
<td>18,214</td>
<td>23.8</td>
</tr>
<tr>
<td>US S&amp;P 500 Index</td>
<td>3,271</td>
<td>5.5</td>
<td>12.3</td>
<td>9.8</td>
<td>1.2</td>
<td>3,394</td>
<td>2,192</td>
<td>25.5</td>
</tr>
<tr>
<td>US NASDAQ Composite Index</td>
<td>10,745</td>
<td>6.8</td>
<td>20.9</td>
<td>31.4</td>
<td>19.8</td>
<td>10,840</td>
<td>6,631</td>
<td>37.8</td>
</tr>
<tr>
<td>Canada S&amp;P/TSX Composite Index</td>
<td>16,169</td>
<td>4.2</td>
<td>9.4</td>
<td>-1.4</td>
<td>-5.2</td>
<td>17,971</td>
<td>11,173</td>
<td>24.7</td>
</tr>
<tr>
<td><strong>Europe</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>MSCI AC Europe (USD)</td>
<td>430</td>
<td>3.6</td>
<td>12.0</td>
<td>-4.2</td>
<td>-11.4</td>
<td>492</td>
<td>307</td>
<td>20.4</td>
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<tr>
<td>Euro STOXX 50 Index</td>
<td>3,174</td>
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<td>8.4</td>
<td>-8.4</td>
<td>-15.2</td>
<td>3,867</td>
<td>2,303</td>
<td>20.2</td>
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<tr>
<td>UK FTSE 100 Index</td>
<td>5,898</td>
<td>-4.4</td>
<td>-0.1</td>
<td>-22.3</td>
<td>-21.8</td>
<td>7,690</td>
<td>4,899</td>
<td>18.4</td>
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<tr>
<td>Germany DAX Index*</td>
<td>12,313</td>
<td>0.0</td>
<td>13.4</td>
<td>1.0</td>
<td>-7.1</td>
<td>13,795</td>
<td>8,256</td>
<td>19.4</td>
</tr>
<tr>
<td>France CAC-40 Index</td>
<td>4,784</td>
<td>-3.1</td>
<td>4.6</td>
<td>-13.3</td>
<td>-13.3</td>
<td>6,111</td>
<td>3,632</td>
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<td>Spain IBEX 35 Index</td>
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<td>-0.6</td>
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<td>-23.3</td>
<td>10,100</td>
<td>5,815</td>
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<tr>
<td>Italy FTSE MIB</td>
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<td>-1.5</td>
<td>7.9</td>
<td>-10.8</td>
<td>-18.8</td>
<td>25,483</td>
<td>14,153</td>
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<td><strong>Asia Pacific</strong></td>
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<td></td>
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</tr>
<tr>
<td>MSCI AC Asia Pacific ex Japan (USD)</td>
<td>552</td>
<td>7.5</td>
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<td>6.3</td>
<td>-0.2</td>
<td>575</td>
<td>384</td>
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<tr>
<td>Japan Nikkei-225 Stock Average</td>
<td>21,710</td>
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<td>7.5</td>
<td>0.9</td>
<td>-8.2</td>
<td>24,116</td>
<td>16,358</td>
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<td>Australian Stock Exchange 200</td>
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<td>-11.3</td>
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<tr>
<td>Hong Kong Hang Seng Index</td>
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<tr>
<td>Shanghai Stock Exchange Composite Index</td>
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<td>3,459</td>
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<td>Hang Seng China Enterprises Index</td>
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<td>11,502</td>
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<tr>
<td>Taiwan TAIEX Index</td>
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<td>13,032</td>
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<td>Korea Kospi Index</td>
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<td>India SENSEX 30 Index</td>
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<td>Indonesia Jakarta Stock Price Index</td>
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<td>Malaysia Kuala Lumpur Composite Index</td>
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<td>Philippines Stock Exchange PSE Index</td>
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<td>-4.5</td>
<td>4.0</td>
<td>-26.3</td>
<td>-24.1</td>
<td>8,217</td>
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<td>Singapore FTSE Straits Times Index</td>
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<td>-21.5</td>
<td>3,360</td>
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<td>Thailand SET Index</td>
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<td>969</td>
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<td><strong>Latam</strong></td>
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<td></td>
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<td>Argentina Merval Index</td>
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<td>50.4</td>
<td>17.1</td>
<td>18.2</td>
<td>50,091</td>
<td>22,061</td>
<td>12.7</td>
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<tr>
<td>Brazil Bovespa Index*</td>
<td>102,912</td>
<td>8.3</td>
<td>27.8</td>
<td>1.1</td>
<td>-11.0</td>
<td>119,593</td>
<td>61,691</td>
<td>52.4</td>
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<td>Chile IPSA Index</td>
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<td>1.0</td>
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<td>-14.0</td>
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</tr>
<tr>
<td>Colombia COLCAP Index</td>
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<td>-0.7</td>
<td>-27.4</td>
<td>-31.8</td>
<td>1,682</td>
<td>881</td>
<td>11.5</td>
</tr>
<tr>
<td>Mexico S&amp;P/BMV IPC Index</td>
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<td>1.5</td>
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</tr>
<tr>
<td><strong>EEMEA</strong></td>
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<td></td>
</tr>
<tr>
<td>Russia MOEX Index</td>
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<td>9.8</td>
<td>6.3</td>
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<td>3,227</td>
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<td>South Africa JSE Index</td>
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<td>-2.4</td>
<td>59,105</td>
<td>37,178</td>
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<tr>
<td>Turkey ISE 100 Index*</td>
<td>1,127</td>
<td>-3.3</td>
<td>11.5</td>
<td>10.4</td>
<td>-1.5</td>
<td>1,245</td>
<td>819</td>
<td>9.8</td>
</tr>
</tbody>
</table>

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

Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 31 July 2020.

Past performance is not an indication of future returns.

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

PUBLIC - For Client Use
Market data (continued)
July 2020

<table>
<thead>
<tr>
<th>Equity Indices - Total Return</th>
<th>3-month Change (%)</th>
<th>YTD Change (%)</th>
<th>1-year Change (%)</th>
<th>3-year Change (%)</th>
<th>5-year Change (%)</th>
<th>Dividend Yield (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global equities</td>
<td>13.4</td>
<td>-1.3</td>
<td>7.2</td>
<td>22.5</td>
<td>42.7</td>
<td>2.2</td>
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<tr>
<td>US equities</td>
<td>13.8</td>
<td>3.3</td>
<td>12.5</td>
<td>39.7</td>
<td>68.0</td>
<td>1.8</td>
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<tr>
<td>Europe equities</td>
<td>13.0</td>
<td>-9.4</td>
<td>-1.3</td>
<td>0.8</td>
<td>8.3</td>
<td>2.9</td>
</tr>
<tr>
<td>Asia Pacific ex Japan equities</td>
<td>16.4</td>
<td>1.3</td>
<td>9.0</td>
<td>13.0</td>
<td>40.3</td>
<td>2.7</td>
</tr>
<tr>
<td>Japan equities</td>
<td>4.2</td>
<td>-8.6</td>
<td>1.3</td>
<td>5.3</td>
<td>16.0</td>
<td>2.6</td>
</tr>
<tr>
<td>Latam equities</td>
<td>24.3</td>
<td>-28.1</td>
<td>-25.2</td>
<td>-18.2</td>
<td>2.8</td>
<td>3.4</td>
</tr>
<tr>
<td>Emerging Markets equities</td>
<td>17.8</td>
<td>-1.7</td>
<td>6.5</td>
<td>8.8</td>
<td>34.8</td>
<td>2.5</td>
</tr>
</tbody>
</table>

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.

<table>
<thead>
<tr>
<th>Bond indices - Total Return</th>
<th>Close</th>
<th>MTD Change (%)</th>
<th>3-month Change (%)</th>
<th>1-year Change (%)</th>
<th>YTD Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>BarCap GlobalAgg (Hedged in USD)</td>
<td>595</td>
<td>1.1</td>
<td>1.9</td>
<td>6.4</td>
<td>5.0</td>
</tr>
<tr>
<td>JPM EMBI Global</td>
<td>897</td>
<td>3.7</td>
<td>12.8</td>
<td>4.1</td>
<td>1.8</td>
</tr>
<tr>
<td>BarCap US Corporate Index (USD)</td>
<td>3,514</td>
<td>3.3</td>
<td>6.9</td>
<td>12.4</td>
<td>8.4</td>
</tr>
<tr>
<td>BarCap Euro Corporate Index (Eur)</td>
<td>260</td>
<td>1.5</td>
<td>3.0</td>
<td>-0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>BarCap Global High Yield (USD)</td>
<td>512</td>
<td>3.6</td>
<td>11.0</td>
<td>1.3</td>
<td>-1.0</td>
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<tr>
<td>BarCap US High Yield (USD)</td>
<td>2198</td>
<td>4.7</td>
<td>10.4</td>
<td>4.1</td>
<td>0.7</td>
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<tr>
<td>BarCap pan-European High Yield (USD)</td>
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<td>7.0</td>
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<td>-2.5</td>
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<td>BarCap EM Debt Hard Currency</td>
<td>449</td>
<td>3.6</td>
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<td>2.7</td>
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<tr>
<td>Markit iBoxx Asia ex-Japan Bond Index (USD)</td>
<td>225</td>
<td>2.2</td>
<td>6.3</td>
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<td>4.5</td>
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<tr>
<td>Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)</td>
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<td>2.2</td>
<td>9.1</td>
<td>3.2</td>
<td>1.1</td>
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</table>

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 July 2020.

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Please refer to Basis of Views and Definitions section for additional information.
## Market data (continued)
### July 2020

<table>
<thead>
<tr>
<th>Bonds</th>
<th>Close</th>
<th>End of last mth.</th>
<th>3-months Ago</th>
<th>1-year Ago</th>
<th>Year End 2019</th>
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</thead>
<tbody>
<tr>
<td><strong>US Treasury yields (%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>3-Month</td>
<td>0.08</td>
<td>0.13</td>
<td>0.08</td>
<td>2.06</td>
<td>1.54</td>
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<tr>
<td>2-Year</td>
<td>0.11</td>
<td>0.15</td>
<td>0.20</td>
<td>1.87</td>
<td>1.57</td>
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<td>5-Year</td>
<td>0.20</td>
<td>0.29</td>
<td>0.36</td>
<td>1.83</td>
<td>1.69</td>
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<tr>
<td>10-Year</td>
<td>0.53</td>
<td>0.66</td>
<td>0.64</td>
<td>2.01</td>
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<tr>
<td>30-Year</td>
<td>1.19</td>
<td>1.41</td>
<td>1.28</td>
<td>2.52</td>
<td>2.39</td>
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<tr>
<td><strong>Developed market 10-year bond yields (%)</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Japan</td>
<td>0.01</td>
<td>0.02</td>
<td>-0.04</td>
<td>-0.16</td>
<td>-0.02</td>
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<tr>
<td>UK</td>
<td>0.10</td>
<td>0.17</td>
<td>0.23</td>
<td>0.61</td>
<td>0.82</td>
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<tr>
<td>Germany</td>
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<td>-0.46</td>
<td>-0.59</td>
<td>-0.44</td>
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<tr>
<td>France</td>
<td>-0.19</td>
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<td>-0.11</td>
<td>-0.19</td>
<td>0.12</td>
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<tr>
<td>Italy</td>
<td>1.01</td>
<td>1.26</td>
<td>1.76</td>
<td>1.54</td>
<td>1.41</td>
</tr>
<tr>
<td>Spain</td>
<td>0.34</td>
<td>0.46</td>
<td>0.72</td>
<td>0.28</td>
<td>0.46</td>
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<table>
<thead>
<tr>
<th>Commodities</th>
<th>Latest</th>
<th>MTD</th>
<th>3-month</th>
<th>1-year</th>
<th>YTD Change</th>
<th>52-week High</th>
<th>52-week Low</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
<td>Change (%)</td>
<td>Change (%)</td>
<td>Change (%)</td>
<td>Change (%)</td>
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<td></td>
</tr>
<tr>
<td>Gold</td>
<td>1,976</td>
<td>10.9</td>
<td>17.2</td>
<td>39.8</td>
<td>30.2</td>
<td>1,983</td>
<td>1,401</td>
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<td>Brent Oil</td>
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<td>5.2</td>
<td>71.3</td>
<td>-33.6</td>
<td>-34.4</td>
<td>72</td>
<td>16</td>
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<tr>
<td>WTI Crude Oil</td>
<td>40.3</td>
<td>2.5</td>
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<td>-34.0</td>
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<td>-40</td>
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<td>R/J CRB Futures Index</td>
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<td>101</td>
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<td>LME Copper</td>
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<td>23.6</td>
<td>8.2</td>
<td>3.9</td>
<td>6,633</td>
<td>4,371</td>
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</table>

Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 31 July 2020.

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Please refer to Basis of Views and Definitions section for additional information.
Market data (continued)

July 2020

<table>
<thead>
<tr>
<th>Currencies (vs USD)</th>
<th>Latest</th>
<th>End of 3-mths Ago</th>
<th>1-year Ago</th>
<th>Year End 2019</th>
<th>52-week High</th>
<th>52-week Low</th>
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<tr>
<td>Developed markets</td>
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<td>DXY index</td>
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<td>97.39</td>
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<td>EUR/USD</td>
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<td>1.10</td>
<td>1.11</td>
<td>1.12</td>
<td>1.19</td>
</tr>
<tr>
<td>GBP/USD</td>
<td>1.31</td>
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<td>1.26</td>
<td>1.22</td>
<td>1.33</td>
<td>1.35</td>
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<tr>
<td>CHF/USD</td>
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<td>1.04</td>
<td>1.01</td>
<td>1.03</td>
<td>1.10</td>
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<tr>
<td>CAD</td>
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<td>1.36</td>
<td>1.39</td>
<td>1.32</td>
<td>1.30</td>
<td>1.47</td>
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<tr>
<td>JPY</td>
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<td>107.9</td>
<td>107.2</td>
<td>108.8</td>
<td>108.6</td>
<td>112.2</td>
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<tr>
<td>AUD</td>
<td>1.40</td>
<td>1.45</td>
<td>1.54</td>
<td>1.46</td>
<td>1.43</td>
<td>1.81</td>
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<tr>
<td>NZD</td>
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<td>1.55</td>
<td>1.63</td>
<td>1.52</td>
<td>1.49</td>
<td>1.83</td>
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<td>Asia</td>
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<tr>
<td>HKD</td>
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<td>CNY</td>
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<tr>
<td>INR</td>
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<td>75.51</td>
<td>75.10</td>
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<td>MYR</td>
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<td>KRW</td>
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<td>1,204</td>
<td>1,183</td>
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<td>TWD</td>
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<td>Latam</td>
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<tr>
<td>BRL</td>
<td>5.22</td>
<td>5.47</td>
<td>5.49</td>
<td>3.81</td>
<td>4.02</td>
<td>5.97</td>
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<td>ARS</td>
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<td>43.88</td>
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<td>EEMEA</td>
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<tr>
<td>RUB</td>
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<td>ZAR</td>
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<td>18.53</td>
<td>14.34</td>
<td>14.00</td>
<td>19.35</td>
</tr>
</tbody>
</table>

Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 31 July 2020.

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Please refer to Basis of Views and Definitions section for additional information.
Views are based on regional HSBC Global Asset Management Asset Allocation meetings held throughout July 2020, HSBC Global Asset Management’s long-term expected return forecasts which were generated as at 30 June 2020, 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 30 June 2020.

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 July 2020.
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