Investment Monthly – February 2020

Risks abound

HSBC

Investments, annuity and insurance products

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Summary

Macro Outlook

- Our global Nowcast picked up throughout Q4 of 2019 and now sits at just above 2%. US growth remains robust at a "trend-like" pace and is expected to remain steady throughout the year amid a strong labour market and consumer sector
- China's Nowcast picked up in December, with further policy easing likely. However, any recovery is likely to stall in the near-term given the disruption from the recent coronavirus. The size and duration of the impact on the economy remains highly uncertain
- Elsewhere, Japan has been a key underperformer, the government has recently announced a large fiscal stimulus package
- The unbalanced nature of growth leaves the global economy vulnerable to negative shocks. The good news is that low inflation allows policy makers to continue to focus on macro stabilisation

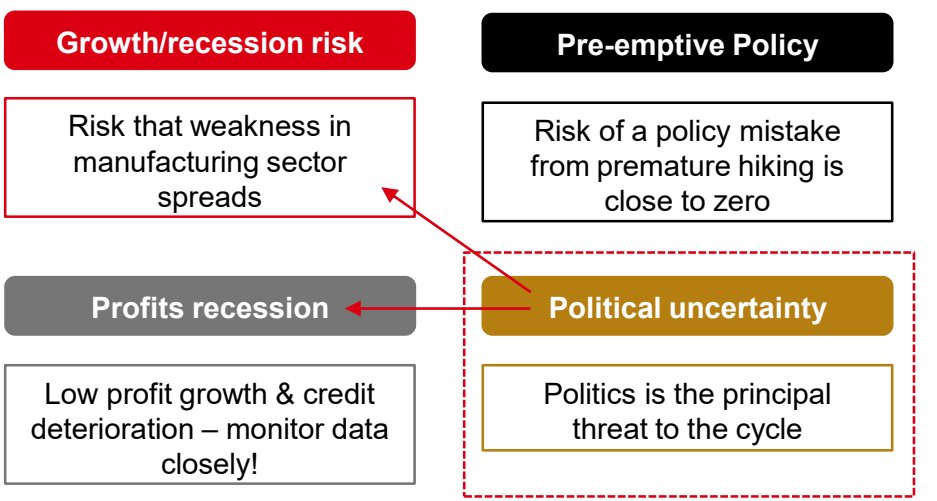
Central Banks

- After three cuts in 2019, the **US Federal Reserve (Fed)** has signalled a pause with growth at around trend. The bar for a rate cut is far lower than for a rate hike. Our working assumption remains at 0-1 rate cuts in 2020
- The **European Central Bank (ECB)** could engage in more aggressive QE and/or deposit rate cuts (due to weak growth and inflation). But splits on the Governing Council may constrain action. A policy review is also underway
- Weak growth and inflation led to two **Bank of England (BoE)** MPC members voting for a rate cut in January. Policy could be eased in the coming months
- Stressing downside risks from abroad, the **Bank of Japan (BoJ)** has signalled it could ease policy if economic activity cools. A trigger could be yen strength
- The **People's Bank of China (PBoC)** continued easing policy late in 2019 and is likely to offer more support if needed, but large-scale stimulus is unlikely

Key Views

- Geopolitical risks and political uncertainty continue to create episodic volatility. But in our view, moving to a conservative allocation is likely to be costly, as it was in 2019
- Stocks are not overvalued and there is room for a further rally, in our opinion. But we need to monitor profits trends closely, especially in the US
- Selected EM risk premiums look relatively high and the economic scenario is becoming more supportive. We continue to overweight EM risk
- The risk premium in global government bonds is negative. But a drastic sell-off in bonds requires a shift in fiscal policies or a sharp increase in inflation
- The outlook is mildly bearish for the US dollar given the Fed is on hold. However, the dollar can act as a safe haven if uncertainties rise

Key Risks



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

Investment Views

We are living in an "age of uncertainty" with persistent uncertainties around the macro outlook. Geopolitical tensions have shown they have the capacity to create episodic volatility in markets. But we think it is important not to be too conservative; this was a costly mistake for investors in 2019

- **Global equities** – We remain overweight given the wide valuation gap versus bonds. But, upside potential is likely to be capped by structural uncertainty while downside could be 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 toward 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

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

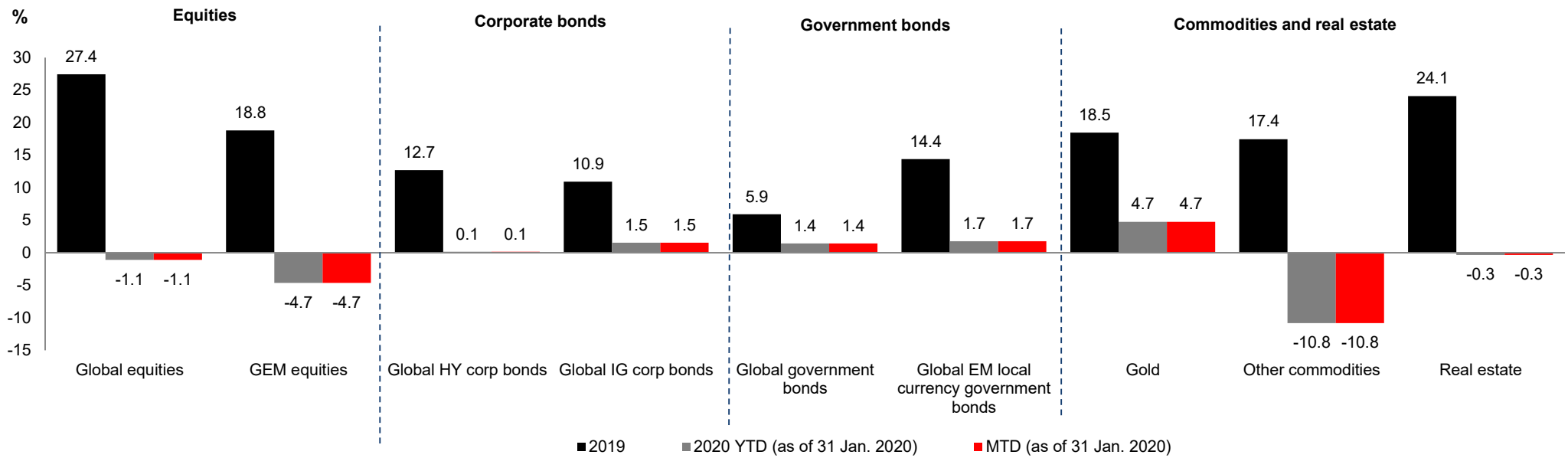
Source: HSBC Global Asset Management, as at February 2020, and subject to change.
Please refer to Basis of Views and Definitions section for additional information.

Asset Class Performance at a glance

Global equities fell in January as a rally early in the month was offset amid uncertainty following the outbreak of the novel coronavirus (2019-nCoV) in China

- **Government bonds** – US and European government bonds rose (yields fell) in January amid investor risk-off sentiment following the outbreak of 2019-nCoV in China, which has spread to countries around the world
- **Commodities** – Brent crude oil prices fell sharply amid a weakened demand outlook from China following the outbreak of the coronavirus, which has halted economic activity in the region. Other China sensitive commodities such as iron ore and copper also ended lower

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. **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 and real estate:** Gold Spot $/OZ (Gold); 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 January 2020 in USD, total return, month-to-date terms

Source: HSBC Global Asset Management, Global Investment Strategy, January 2020

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Base case views and implications

	Monthly macroeconomic update	Base case view and implications
US	◆ Accommodative monetary policy and a robust labour market continue to support household spending ◆ Activity in manufacturing, business investment and exports has been weak but there are now tentative signs these sectors are beginning to turn	◆ US economic growth is likely to be around "trend" this year as fiscal stimulus wanes and the labour market matures ◆ Fed policy looks to be on hold but risks are still likely tilted to the downside – some loosening this year remains 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 softening ◆ **UK:** Brexit and political uncertainty has negatively impacted confidence and growth, but fiscal spending and looser monetary policy stands ready to offset this	◆ **Eurozone:** European equities remain relatively cheap, although we acknowledge headwinds from weak growth ◆ **UK:** We have a strong overweight view on UK equities given very attractive valuations
Asia	◆ **China:** Activity has picked up in recent months amid policy loosening in 2019. However, the impact of the coronavirus remains highly uncertain ◆ **India:** Private sector activity data continues to be weak, although policy easing efforts have been stepped up. Consumption growth may be bottoming ◆ **Japan:** Economic data continues to be impacted by VAT tax hike in Q4 2019 but a recently-announced large fiscal package is encouraging for the outlook	◆ **China:** Ongoing policy loosening is a support to China's economy alongside signs global trade growth is bottoming ◆ **India:** The long-term structural growth potential remains positive, supporting our overweight view ◆ **Japan:** We believe the valuation of Japanese equities is still attractive, although weak economic growth is a downside risk
Other EM	◆ **Brazil:** Positive reform momentum and improving financial conditions could support growth. Monetary policy could be eased further given subdued 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 oil production cuts. A pick up in global trade could be supportive for the outlook	◆ The backdrop for EMs is supported by Fed loosening in 2019 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 3 February 2020. The views expressed were held at the time of preparation, and are subject to change.
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Long-term Asset class positioning tables (>12 months)

Equities

Asset class	View	Rationale	Risks to consider
Global	**Overweight** **–**	We believe global equities continue to offer attractive prospective returns in our "favourable baseline" view of the global economy. The recent sell off due to the outbreak of 2019-nCoV cases could offer investment opportunities. Our measure of the global equity risk premium (excess return over cash) remains attractive relative to most fixed income assets – especially developed market government bonds. Prospective returns are underpinned by pro-active policy makers, which have been willing and able to lean against the downside growth risks because inflation is low and government borrowing is cheap.	Recent geopolitical tensions in the Middle East, the outbreak of the coronavirus in China, and the impeachment trial in the US highlights that we remain in an "age of uncertainty". A further significant deterioration of the global economic outlook could dampen this view. However, we believe the "cyclical slowdown" is showing signs of bottoming. Global recession risk is low, in our view. Corporate fundamentals have come under some pressure, although there has been signs of improvement in EM earnings data and a stabilisation in the US.
US	**Overweight** **–**	US economic growth is robust and corporate earnings remain at high levels. We think a near-term recession is unlikely. The Fed enacted some "insurance" policy easing in 2019, and whilst it is now signalling a pause, some loosening this year remains possible.	After strong performance in 2019, the US equity risk premium is now lower than in other markets. A worsening in profit growth and credit fundamentals could challenge valuations and weaken the economic outlook. Lingering risks from US-China trade tensions are likely to continue despite the announcement of a "phase one" deal in December.
Eurozone	**Overweight** **–**	In our opinion, Eurozone equities benefit from fairly high prospective risk-adjusted returns (on a hedged basis). The ECB eased policy in September 2019 and policy interest rates are likely to remain ultra-low for a prolonged period. Fiscal stimulus is also 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 would benefit from an improvement in the global trade cycle.	We measure higher risk-adjusted prospective returns in other developed market equities. Growth remains fragile, with the manufacturing sector under pressure – especially in Germany. The threat from fresh US tariffs on auto exports has also come into focus. Continued uncertainty around the future trading relationship with the UK could weigh on activity somewhat.

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 other developed market (DM) equities.	Growth is weak and a further significant deterioration in UK activity and corporate fundamentals would be a major challenge for UK equities.
		Some greater Brexit clarity this year and a fiscal boost to growth may support domestically focused stocks.	A stronger GBP on the back of greater Brexit clarity could cap gains in overseas earnings of UK listed stocks.
Japan	**Overweight** ▬	We believe valuations are attractive while monetary policy is supportive and a large fiscal stimulus package has recently been announced.	Japan's recent economic performance has been weak, with the October 2019 consumption tax still impacting the data. 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 previous loosening by the Fed. EM central banks are also continuing to loosen monetary conditions amid subdued inflation.	A stall in the recovery of global trade, and the manufacturing and tech cycle could halt EM momentum Although Chinese authorities have eased policy, it remains to be seen if this will provide enough support.
		We believe there is still significant potential for (selected) EM currencies to appreciate over the medium term.	
		The structural characteristics of EM economies are significantly better than in the past.	Corporate profitability disappointed in 2019, 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, albeit with recent signs of stabilisation.	Economic growth remains fragile, 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.	Geopolitical tensions are 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 and have fallen over the month. Investors are continuing to be penalised for bearing risks related to unexpected changes in interest rates or inflation. If the macro outlook continues to improve as we expect, bonds could sell-off. DM government bonds still have a role to play as a portfolio diversifier, but given current pricing, we prefer other diversifiers.	There is potentially a lack of triggers that could move yields significantly higher in the near term. Inflation is structurally subdued. "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. The bar for rate hikes is high.
UK	**Underweight**	Prospective returns for UK gilts continue to look poor, and we are being penalised for bearing interest-rate risk. Greater Brexit clarity and stronger growth could push yields higher.	The risk of no trade deal being agreed with the EU 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. The ECB appears to have limited room for further stimulus while 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 current 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 easing more aggressively in 2020 while the Fed remains neutral. 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 earnings growth.	According to Moody's, global default rates are expected to increase in the coming year, but to remain below the historical average of around 4%. Still-dovish central bank policy and low interest rates are positives.
USD investment grade	**Underweight** –	US IG valuations are high and we believe there is an inadequate margin of safety against downside risks. US IG could come under pressure from some recent worsening in corporate fundamentals.	US growth remains steady and the Fed still has a dovish tilt. The level of profitability remains relatively high, despite the growth rate having slowed. US corporate fundamentals are 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 restarted net asset purchases in 2019, including eurozone corporate bonds. Default rates also remain low – although they are forecast to rise this year.

Asset class	View	Rationale	Risks to consider
Asia investment grade	**Neutral** –	Within the IG universe, the carry (or "return") offered by Asian credits looks attractive relative to DM in our view. 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 is subdued. Monetary policy is still accommodative; the ECB restarted net asset purchases in 2019. 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 over to the service sector and labour markets is a risk. European political risks remain, with a "no trade-deal" Brexit at end-2020 still possible despite the 2019 UK General Election result.

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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**	Selected commodities could be attractive hedges in a scenario of sharply rising geopolitical risks – a possibility in this "age of uncertainty. We believe oil futures in particular look attractive due to a positive roll yield (the cost of renewing futures contracts) given the shape of the futures curve i.e. futures prices are less than spot prices.	We still measure a large negative expected roll yield for some commodities (particularly wheat and corn). Whilst commodities can be a good diversifier in times of heightened political uncertainty, they are also sensitive to any negative growth or demand shocks which would reduce the effectiveness of the hedge. Any unexpected oversupply of specific commodities could also put downward pressure on prices.
Real Estate	**Neutral**	We believe prospective long-run returns from global real estate equities imply a reasonable attractive return over developed market government bonds based on prevailing yields and our outlook for future dividend growth. As at the end of December, the dividend yield on global real estate equities of 3.83% was some 150 basis points higher than the yield on general equities and 300 basis points above DM government bond yields..	Real estate equities focused on retail property are vulnerable to growing e-commerce, although this is partly offset by strong demand for logistics space to support internet shopping. A serious escalation in global trade disputes would harm occupier demand. The prospect of future rent control is overhanging selected residential markets. Whilst UK real estate equities responded positively after the decisive general election, uncertainty over the terms of Brexit continues to overshadow the 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. A dollar appreciation shock is likely capped by the still-dovish Fed with relatively low risk of rate hikes.

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

Asian assets

Asset class	View	Rationale	Positive factors to consider
EM Asian Fixed Income	**Underweight**	From a near-term perspective, this asset class is sensitive to US monetary policy. While a cautious Fed in the US is positive for the asset class, Asian bond spreads look particularly tight compared with other EM regions, reducing their relative attractiveness.	From a long-term perspective, we believe return signals are still positive, backed by relatively sound economic fundamentals, stable inflation and credit quality.

Asset class	View	Rationale	Risks to consider
Asia ex-Japan equities	**Overweight**	We think this asset class offers attractive risk-adjusted returns. Economic growth in Asia has held up relatively well and macroeconomic structural characteristics are better than in other EM regions. We think Asian currencies are set to appreciate in the medium term.	A sharp rise in US Treasury yields and/or the US dollar is a risk, along with less dovish-than-expected DM central bank policy. Asian corporate earnings growth has recently deteriorated amid global trade tensions. Other risks include US protectionist policies, geopolitical events, commodity-price and/or currency volatility and renewed concerns about China's growth and financial stability.
China equities	**Overweight**	Recent economic data suggest cyclical growth stabilisation, which should help the outlook for corporate profits/ earnings amid tax cuts and other policy efforts to lower business funding costs and revive economic activity. Despite the short-term hit, a technical growth recovery is likely amid pent-up/restocking demand and counter-cyclical policy once there are signs that the coronavirus has been contained. The overall impact on MSCI China earnings may be moderate, given the significant weight of new economy sectors (e-commerce, IT, online entertainment). Potential catalysts include further opening up of the economy, capital market liberalisation, as well as a range of reforms by the central bank and the securities regulators to support the economy and markets.	The coronavirus outbreak is likely to have a transitory but significant impact on China's near-term economic activity, especially as the fear factor could restrict people's mobility and hurt consumer spending/ services. There could also be some supply-side impact from the lockdown policy and extended factory suspension. The key question remains on the inflection point of the epidemic which is still highly unclear. Heightened market volatility is expected. Countercyclical policy measures are not likely to address 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. There is still no clear path towards a long-term, comprehensive and sustainable US-China trade resolution. Trade talks could pose upside or downside risks.

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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, aided by the (lagged) effects of momentary easing (including measures to improve policy transmission and contain systemic risks of NBFCs* to the economy) as well as corporate income tax cuts and other fiscal (relief) measures. The central government missed the fiscal deficit target for FY20 but the FY21 Budget aims to achieve fiscal consolidation while retaining the longer-term growth focus and pushing towards infrastructure/capex. Steps to attract foreign inflows and the removal of Dividend Distribution Tax are positive. The long-term structural story remains positive with substantial progress on reforms to raise productivity, upgrading infrastructure, urbanisation, and improving governance and ease of doing business, including the large corporate income tax cut making India more globally competitive.	We see the risk that the current growth recovery could be shallower than expected, as the economy still faces NBFCs-led domestic credit issues, soft capex and job market, and an uncertain global outlook. Beyond the transitory food price spikes, we see some potential more persistent price pressures that could keep inflation above RBI target. The FY21 Budget provides no major stimulus that could spur demand quickly. Fiscal slippage risk remains as the budget depends heavily on disinvestment and telecom spectrum receipts, which hinge on execution and market conditions. The impact of (personal income) tax changes are uncertain. There are no major support measures for NBFCs or real estate as hoped for by investors prior to the budget announcement. Despite more competitive tax rates, other determinants for attracting foreign direct investment (e.g. skills, infrastructure, and land acquisition etc.) will take time to all come together. The government's ability to undertake tough reforms (e.g. land, labour) is to be tested.
Hong Kong equities	**Overweight** –	A decent dividend yield is supportive. Many multinational companies operate mostly outside of the city and are within sectors that leverage on Asia's longer-term growth potential. 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. More fiscal measures are expected in the 2020-21 budget. Accommodative global monetary policy settings alleviate some pressure on HK interest rates. Liquidity conditions in HK remain abundant. This, together with a relaxation of mortgage rules and relatively tight supply provide some near-term support to the housing market. Financial system appears sound.	Hong Kong's economy has deteriorated materially amid weakness in both external and domestic demand. Despite nascent signs of exports bottoming and some relief from easing of US-China trade tensions, HK, as a small open economy with large shares of tourism, consumption and services to GDP, is vulnerable to any negative economic shock from the coronavirus outbreak. Consensus earnings estimates have come down but probably have further to fall. Government measures could provide support but there will likely be some time lag for the effects of fiscal measures to kick in and policy effectiveness is key. The HK economy and asset markets remain exposed to any external demand shock or higher domestic interest rates due to large capital outflows. HK is also exposed to developments in China.
Singapore equities	**Overweight** –	Singapore's economy is seeing green shoots of a modest (albeit uneven) recovery as semiconductor drag eases. Shifting supply chains to ASEAN and steady pipeline of construction projects may aid capex in Singapore. An expansionary pre-election budget for 2020 is expected and the city state has ample fiscal policy ammunition to navigate macro headwinds. Valuations are attractive and a high dividend yield could provide support. The banking sector has strong balance sheets. Targeted property easing measures and planned spending on upgrading public and private housing estates support the private housing market.	Singapore is among the more vulnerable economies in Asia should the coronavirus outbreak escalate given its small open economy and tourism-related headwinds. Singapore is also vulnerable to uncertainties over global growth and geopolitics. The sustainability and strength of a cyclical recovery remains to be seen and there are signs of a slight softening of the labour market amid a year of growth weakness. The Singapore economy also faces structural constraints such as deteriorating demographics, rising labour costs, and high private sector debt levels. Tightening market liquidity remains a risk. Singapore is also sensitive to sharp moves in the USD.

* Non-banking financial company. Source: HSBC Global Asset Management. As at 3 February 2020.
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Long-term Asset class positioning tables (>12 months)

Asian assets cont'd

Asset class	View	Rationale	Risks to consider
South Korea equities	**Overweight**	The Korean economy has showed signs of a cyclical recovery, led by better external demand and an improvement in the industrial cycle, especially the semiconductor sector. Solid employment gains support household purchasing power, and the phase one US-China trade deal reduces an external risk. The economic outlook is supported by a significant fiscal stimulus planned for this year and an accommodative monetary policy. Forward earnings growth is picking up. An ongoing semiconductor sector demand pickup with recovering chip prices should drive a rebound in Korea's earnings/ profits. Over the medium term, Korea could potentially benefit from trade diversion and temporarily eased competition pressures from China.	The Korean economy is exposed to the spread of the coronavirus, given its close ties to China in terms of geography and economic activity. There are potential negative spillover impact from regional manufacturing supply chain, in addition to a hit to the tourism-related service sector. Uncertainties remain over Korea's relations with Japan as well as US-China economic relations despite the extended trade truce. Slowing globalisation and geopolitical risks (including North Korea) remain concerns. Private sector job gains remain weak. Housing policies remain tight (with the risk of further tightening) to rein speculation/bubble risks. The Korean economy and markets face structural headwinds from rising labor costs amid tighter regulation and an aging demographic structure, as well as a high household-debt level.
Taiwan equities	**Overweight**	We have seen further signs of a cyclical recovery particularly in manufacturing and exports, led by the tech/semiconductor sector. A relatively benign outlook for the business environment and accommodative macro policies (including the infrastructure programmes) could support domestic demand resilience. Forward earnings growth is picking up. Valuations may not be very attractive but the relatively high dividend yield offers support. Taiwan has benefited from trade diversion due to US-China trade frictions and its corporate capex has been supported by the industrial re-onshoring. Post-election policy continuity is expected, including the "welcome home" policies to attract investment, capital repatriation, and talent back to Taiwan.	Valuations are not particularly attractive and have likely priced in a tech recovery. Taiwan's economy is vulnerable to any demand shock from the worsening of the coronavirus outbreak, while tech supply chains could face near-term disruption if there is further delay to China's factory reopening timings in key locations. The outlook for Taiwan's economy and corporate earnings faces the challenges from the global demand outlook, trade protectionism and other geopolitical risks. Taiwan is excluded from regional trade/investment agreements. Facing fierce competition from China, Taiwan will have to maintain its comparative advantage through continuous innovation. Taiwan also faces structural headwinds from unfavourable demographics.

Source: HSBC Global Asset Management. As at 3 February 2020. The views expressed were held at the time of preparation, and are subject to change.
Please refer to Basis of Views and Definitions section for additional information

Market data

January 2020

Equity Indices	Close	MTD Change (%)	3M Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low	Fwd P/E (X)
World								
MSCI AC World Index (USD)	559	-1.2	4.5	13.7	-1.2	580	486	16.4
North America								
US Dow Jones Industrial Average	28,256	-1.0	4.5	13.0	-1.0	29,374	24,681	17.7
US S&P 500 Index	3,226	-0.2	6.2	19.3	-0.2	3,338	2,682	18.5
US NASDAQ Composite Index	9,151	2.0	10.4	25.7	2.0	9,451	7,225	24.7
Canada S&P/TSX Composite Index	17,318	1.5	5.1	11.4	1.5	17,666	15,483	15.4
Europe								
MSCI AC Europe (USD)	473	-2.6	2.5	9.8	-2.6	492	420	14.1
Euro STOXX 50 Index	3,641	-2.8	1.0	15.2	-2.8	3,814	3,125	14.2
UK FTSE 100 Index	7,286	-3.4	0.5	4.6	-3.4	7,727	6,969	13.2
Germany DAX Index*	12,982	-2.0	0.9	16.2	-2.0	13,640	10,864	14.1
France CAC-40 Index	5,806	-2.9	1.3	16.3	-2.9	6,110	4,946	14.5
Spain IBEX 35 Index	9,368	-1.9	1.2	3.4	-1.9	9,710	8,409	12.3
Italy FTSE MIB	23,237	-1.1	2.4	17.8	-1.1	24,198	19,268	11.6
Asia Pacific								
MSCI AC Asia Pacific ex Japan (USD)	532	-3.7	1.9	4.1	-3.7	575	480	13.9
Japan Nikkei-225 Stock Average	23,205	-1.9	1.2	11.7	-1.9	24,116	20,111	17.6
Australian Stock Exchange 200	7,017	5.0	5.3	19.7	5.0	7,145	5,849	18.3
Hong Kong Hang Seng Index	26,313	-6.7	-2.2	-5.8	-6.7	30,280	24,900	10.0
Shanghai Stock Exchange Composite Index	2,977	-2.4	1.6	15.2	-2.4	3,288	2,560	9.9
Hang Seng China Enterprises Index	10,241	-8.3	-2.8	-7.2	-8.3	11,882	9,732	7.7
Taiwan TAIEX Index	11,495	-4.2	1.2	15.7	-4.2	12,198	9,910	15.2
Korea KOSPI Index	2,119	-3.6	1.7	-3.9	-3.6	2,277	1,892	11.4
India SENSEX 30 Index	40,723	-1.3	1.5	12.3	-1.3	42,274	35,287	21.7
Indonesia Jakarta Stock Price Index	5,940	-5.7	-4.6	-9.1	-5.7	6,636	5,767	13.8
Malaysia Kuala Lumpur Composite Index	1,531	-3.6	-4.2	-9.1	-3.6	1,732	1,518	15.1
Philippines Stock Exchange PSE Index	7,201	-7.9	-9.7	-10.1	-7.9	8,420	7,129	14.0
Singapore FTSE Straits Times Index	3,154	-2.1	-2.4	-1.1	-2.1	3,415	3,040	12.4
Thailand SET Index	1,514	-4.2	-5.5	-7.8	-4.2	1,748	1,496	15.0
Latam								
Argentina Merval Index	40,105	-3.8	14.6	10.4	-3.8	44,471	22,484	5.0
Brazil Bovespa Index*	113,761	-1.6	6.1	16.8	-1.6	119,593	89,409	13.5
Chile IPSA Index	4,572	-2.1	-3.6	-15.4	-2.1	5,516	4,408	13.6
Colombia COLCAP Index	1,624	-2.3	-0.6	12.2	-2.3	1,678	1,447	10.9
Mexico S&P/BMV IPC Index	44,108	1.3	1.8	0.3	1.3	45,955	38,266	14.3
EEMEA								
Russia MOEX Index	3,077	1.0	6.3	22.0	1.0	3,227	2,448	6.8
South Africa JSE Index	56,080	-1.8	-0.6	3.6	-1.8	59,545	53,244	11.7
Turkey ISE 100 Index*	119,140	4.1	21.0	14.5	4.1	124,537	83,535	6.6

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

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

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

Past performance is not an indication of future returns.

Market data (continued)

January 2020

Equity Indices - Total Return	3-month Change (%)	YTD Change (%)	1-year Change (%)	3-year Change (%)	5-year Change (%)	Dividend Yield (%)
Global equities	4.9	-1.1	16.0	36.9	50.4	2.4
US equities	6.9	0.2	21.2	47.8	73.4	1.8
Europe equityes	2.8	-2.5	13.2	26.3	24.8	3.7
Asia Pacific ex Japan equities	2.3	-3.7	7.0	27.9	29.0	3.0
Japan equities	1.3	-1.4	11.2	22.9	39.7	2.4
Latam equities	-0.2	-5.6	-3.5	19.1	23.5	3.2
Emerging Markets equities	2.3	-4.7	3.8	25.5	24.5	2.7

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)	577	1.8	1.5	9.0	1.8
JPM EMBI Global	897	1.7	3.5	11.5	1.7
BarCap US Corporate Index (USD)	3,316	2.3	2.9	14.5	2.3
BarCap Euro Corporate Index (Eur)	262	1.2	0.9	6.3	1.2
BarCap Global High Yield (USD)	519	0.4	3.0	9.0	0.4
BarCap US High Yield (USD)	2183	0.0	2.4	9.4	0.0
BarCap pan-European High Yield (USD)	479	0.5	2.9	12.6	0.5
BarCap EM Debt Hard Currency	443	1.3	2.8	10.2	1.3
Markit iBoxx Asia ex-Japan Bond Index (USD)	218	1.4	1.9	9.8	1.4
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	276	0.7	1.8	8.9	0.7

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 January 2020.

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

Past performance is not an indication of future returns.

Market data (continued)

January 2020

Bonds	Close	End of last mth.	3-months Ago	1-year Ago	Year End 2018
US Treasury yields (%)					
3-Month	1.54	1.54	1.52	2.38	1.54
2-Year	1.31	1.57	1.52	2.46	1.57
5-Year	1.31	1.69	1.52	2.44	1.69
10-Year	1.51	1.92	1.69	2.63	1.92
30-Year	2.00	2.39	2.18	3.00	2.39
Developed market 10-year bond yields (%)					
Japan	-0.07	-0.02	-0.14	0.00	-0.02
UK	0.52	0.82	0.63	1.22	0.82
Germany	-0.44	-0.19	-0.41	0.15	-0.19
France	-0.18	0.12	-0.10	0.55	0.12
Italy	0.93	1.41	0.92	2.59	1.41
Spain	0.23	0.46	0.23	1.19	0.46

Commodities	Latest	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Gold	1,589	4.7	5.0	20.3	4.7	1,611	1,266
Brent Oil	58.2	-11.9	-3.4	-6.0	-11.9	76	55
WTI Crude Oil	51.6	-15.6	-4.8	-4.1	-15.6	67	50
R/J CRB Futures Index	170	-8.3	-3.7	-5.2	-8.3	190	167
LME Copper	5,567	-9.8	-4.0	-9.8	-9.8	6,609	5,518

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

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

Past performance is not an indication of future returns.

Market data (continued)

January 2020

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	97.39	96.39	97.35	95.58	96.39	99.67	95.57
EUR/USD	1.11	1.12	1.12	1.14	1.12	1.15	1.09
GBP/USD	1.32	1.33	1.29	1.31	1.33	1.35	1.20
CHF/USD	1.04	1.03	1.01	1.01	1.03	1.04	0.98
CAD	1.32	1.30	1.32	1.31	1.30	1.36	1.30
JPY	108.4	108.6	108.0	108.9	108.6	112.4	104.5
AUD	1.50	1.43	1.45	1.37	1.43	1.50	1.38
NZD	1.55	1.49	1.56	1.45	1.49	1.61	1.44
Asia							
HKD	7.76	7.79	7.84	7.85	7.79	7.85	7.76
CNY	6.94	6.96	7.04	6.70	6.96	7.18	6.67
INR	71.35	71.38	70.93	71.09	71.38	72.41	68.29
MYR	4.10	4.09	4.18	4.10	4.09	4.23	4.05
KRW	1,192	1,156	1,164	1,113	1,156	1,223	1,115
TWD	30.22	30.04	30.45	30.74	30.04	31.73	29.85
Latam							
BRL	4.28	4.03	4.02	3.65	4.03	4.29	3.66
COP	3,421	3,277	3,380	3,107	3,277	3,547	3,048
MXN	18.84	18.93	19.23	19.11	18.93	20.26	18.65
ARS	60.35	59.87	59.65	37.31	59.87	62.00	37.13
EEMEA							
RUB	63.92	61.99	64.14	65.41	61.99	67.17	60.89
ZAR	15.03	14.00	15.10	13.25	14.00	15.50	13.32

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

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

Past performance is not an indication of future returns.

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

- Views are based on regional HSBC Global Asset Management Asset Allocation meetings held throughout **January 2020**, HSBC Global Asset Management's long-term expected return forecasts which were generated as **at 30 December 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.
- "*Neutra*l" implies that, within the context of a well-diversified typically multi-asset portfolio, and relative to relevant internal or external benchmarks HSBC Global Asset Management has (or would have) neither a particularly negative or positive tilt towards the asset class.
- For global investment-grade corporate bonds, the underweight, overweight and neutral categories for the asset class at the aggregate level are also based on high-level asset allocation considerations applied in diversified, typically multi-asset portfolios. However, USD investment-grade corporate bonds and EUR and GBP investment-grade corporate bonds are determined relative to the global investment-grade corporate bond universe.
- For Asia ex Japan equities, the underweight, overweight and neutral categories for the region at the aggregate level are also based on high-level asset allocation considerations applied in diversified, typically multi-asset portfolios. However, individual country views are determined relative to the Asia ex Japan equities universe as of **31 December 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 **31 January 2020**.

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