

Investment Monthly – September 2019

Bond markets rally



Investments, annuity and insurance products



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Investment Monthly: Viewpoint

Acknowledging near-term risks and becoming more cautious

In the last few months, the global economy has stumbled amid worsening sentiment around US-China trade tensions, geopolitical risks and general late-cycle malaise. The global stock market, despite still having returned 12% this year, dipped in August. Although still positive on equities long-term, we advocate a more cautious stance for now.



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We've written a lot since last year about the need to ignore market "noise" and stay invested in equities.* It's proved a good call so far: global equities have delivered solid returns in 2019. This positive performance has come despite a meaningful pickup in volatility and a slowdown in global growth, in large part due to the ongoing US-China trade war. Most notably, Germany's economy shrank by 0.1% in Q2, while Singapore and South Korea, whose export-heavy economies make them bellwethers for the global economy, have also faced challenges. Singapore suffered a 3.3% contraction in Q2 while South Korea barely avoided recession in the first half of 2019¹.

We expect volatility to persist in the coming months, as the chess-game of trade tensions and geopolitics is hard for markets to predict.

Our four-point approach to portfolio strategy in the current climate:



1. Monitor risk and don't over-reach. With volatility likely to persist till year-end, clients should review their exposure to risky assets like equities and high-yield bonds, ensuring risk levels are appropriate.



2. Diversify by mixing in high quality bonds or switch into multi-asset strategies. Even though interest rates are unattractive, high quality bonds can provide downside protection for your portfolio. Multi-asset portfolios are an easy way to make sure appropriate diversification and risk-levels are maintained.**

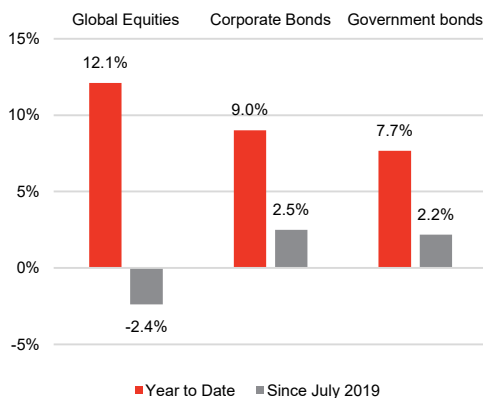


3. Consider safe-haven currencies that perform well amid volatility. "Safe-haven" currencies like US Dollars, Japanese Yen and Swiss Francs have historically done well in volatile periods.



4. Investing is a long-term undertaking and equities are currently more attractive than cash & bonds. Focus on low-volatility equity strategies that offer some protection from short-term volatility. These have the added benefit of sometimes providing attractive dividend yields that compound effectively over the long-term.

Chart 1: Equities and Bonds performance 2019



Source: Refinitiv Datastream; Global Equities: MSCI AC World; Corporate Bonds: Barclays Global Aggregate Corporate USD; Govnt Bonds: FTSE World Government Bond Index
Performance as of 30 Aug 19

¹ South Korea's economy barely avoided a recession by growing slightly by 1.1% in Q2 after shrinking in Q1

* Equity markets can be volatile. Stock prices rise and fall based on changes in an individual company's financial condition and overall market conditions. Stock prices can decline significantly in response to adverse market conditions, company-specific events, and other domestic and international political and economic developments.

** Diversification is a tool that may be used in an effort to manage risk and enhance returns. However, it does not guarantee a profit or protect against a loss. It also cannot eliminate the risk of fluctuating prices and uncertain returns.

Quarterly GDP contractions are always a cause for concern, since two in a row officially constitutes a recession. As Chart 2 shows, global manufacturing activity has slowed, and in some cases begun to shrink.

Central banks have been quick to respond. The US Federal Reserve showed its reactivity with a 0.25% interest rate cut at the end of July, with a further cut in September considered a foregone conclusion by markets. Other central banks have also cut rates or signalled a willingness to do so. If monetary policy isn't enough to mitigate the effects of the trade war, governments stand ready to invest money in their economies as well.

Will stock markets continue to rally?

That's a tricky question. One could argue that the markets have already factored in the above-mentioned interest cuts earlier this year, prompting the rally we've seen so far. Given the near-term risks and the unpredictability of global trade, it's hard to fault investors for being cautious.

Why cash still isn't the best option

While some may be tempted to sell up and move into cash, it's important to remember that interest rates are rock bottom, or even negative. In some parts of the developed world, cash rates are below the rate of inflation, meaning that the purchasing power of cash savers will diminish over time.

Bonds yields remain sparse

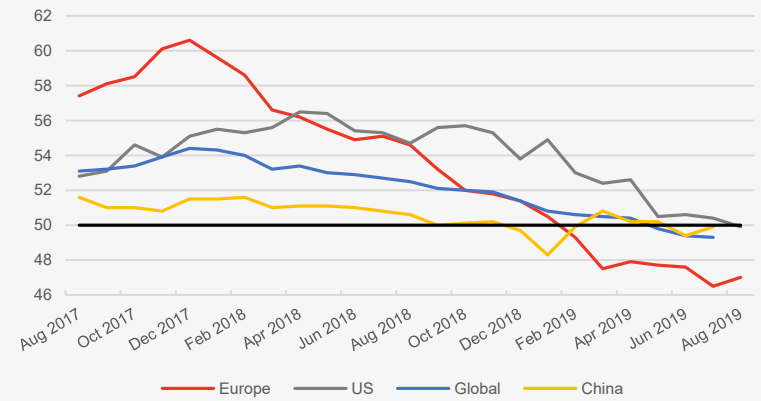
Yields on government and investment grade corporate bonds are still unattractive. For example, in Japan and many parts of Europe, negative government bond yields mean investors actually have to pay for the privilege of parking their money in this asset class.

Where does that leave equities?

As a result, we're still overweight on equities relative to cash or bonds, especially in the long term. Recent volatility also means that from a valuation perspective, equities are now even more attractive than high quality bonds, which have rallied recently.

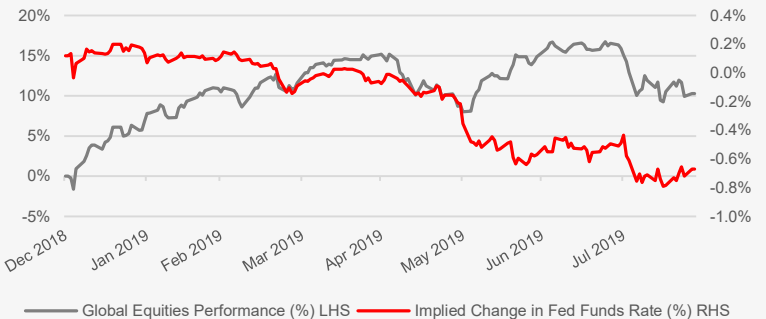
But this is very much a long-term positioning. Think a year or more. In the shorter-term, investors should be more cautious when considering higher-risk assets, especially in an economy that's vulnerable to downside shocks, jittery sentiment and heightened geopolitical risk.

Chart 2: Global manufacturing activity since August 2017 (a fall below 50 indicates a slowdown)



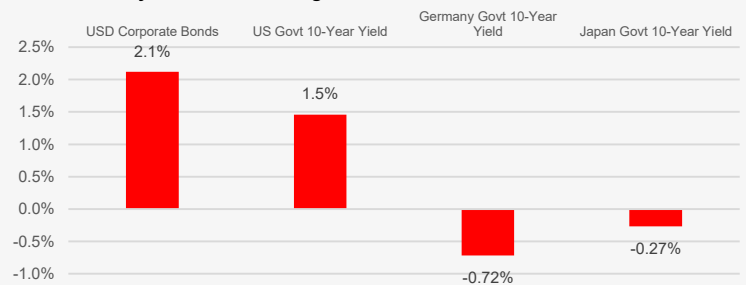
Source: Refinitiv Datastream; Latest PMI Data

Chart 3: Equities have already rallied on expectations of interest rate cuts



Source: Refinitiv Datastream: Global Equities: MSCI AC World

Chart 4: Bond yields are low to negative



Source: Refinitiv Datastream; Yields as of 28 Aug 19

Summary

Macro Outlook

- ◆ Global growth continues to face headwinds from a downturn in the industrial cycle and uncertainty related to trade tensions. Nevertheless, our global Nowcast remains stable at around 2%
- ◆ US growth is being supported by a solid labour market, while there is some evidence that Chinese growth is stabilising. But the latest escalation in US-China tensions keeps risks tilted to the downside
- ◆ US and global recession risk remains modest, although the extent of the downturn in the industrial sector and its impact on services activity requires monitoring. A “no-deal” Brexit is also a key risk going into Q4
- ◆ Positively, muted inflation trends globally keep the door open to monetary policy easing.

Key Views

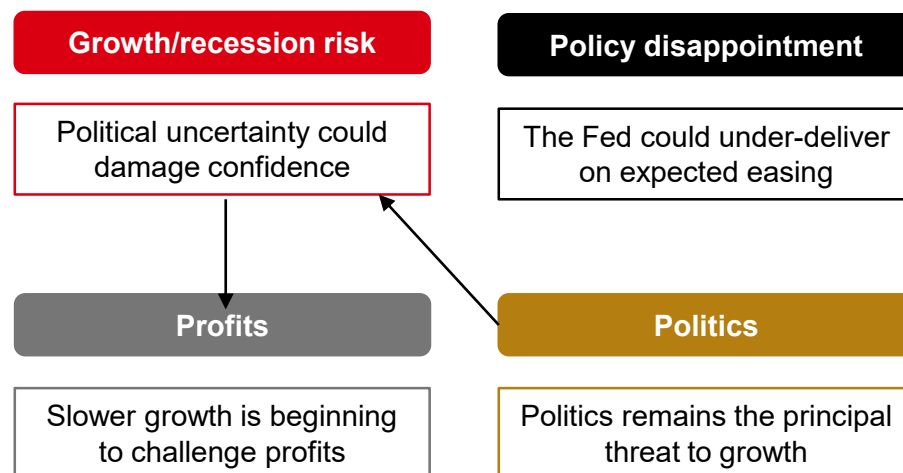
- ◆ A surprise escalation of the US-China conflict in early August, and worries that this conflict will damage economic growth, led to a sell-off across risky asset classes in August. Meanwhile, expectations that the Fed will cut rates further supported a rally in bonds
- ◆ This is a tricky environment. The valuation gap between bonds and equities continues to increase, so we continue to be pro-risk in multi-asset portfolios. But we need to be careful of not overextending the risk positioning. The global economy is vulnerable to shocks at this point
- ◆ UK gilts look vulnerable at this juncture. A fiscal easing implemented by the new UK government could challenge gilts' current pricing

Source: HSBC Global Asset Management, Global Investment Strategy, September 2019 . 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

Central Banks

- ◆ At July's **US Federal Reserve (Fed)** policy meeting, Chair Powell confirmed that the 25bp rate cut was 'insurance' against slower global growth, trade tensions and weak inflation. Further easing is likely in our opinion
- ◆ The **European Central Bank (ECB)** has struck a dovish tone. The September meeting is likely to see rate cuts and a re-launch of its bond buying programme
- ◆ The **Bank of England (BoE)** struck a cautious tone at its August's meeting, with the path for policy ultimately affected by upcoming political developments
- ◆ The **Bank of Japan (BoJ)** has signalled it could ease policy if economic activity cools. A further trigger could be yen strength
- ◆ Amid trade headwinds, the **People's Bank of China (PBoC)** is likely to act to maintain stable credit growth, with targeted support to private sector businesses

Key Risks



Investment Views

Our valuation work continues to suggest a pro-risk stance in multi-asset portfolios. However, given downside risks to global growth, we should be careful not to over extend the risk positioning

- ◆ **Global equities** – We remain overweight given valuations continue to improve versus increasingly expensive bonds. But given the global economy is vulnerable to further shocks at this point, we advocate a more cautious tactical (i.e. short-term) stance
- ◆ **Government bonds** – Relatively unattractive valuations keep us underweight in this segment. Large market moves during a month of poor liquidity, such as August, suggests to us chances of a near-term reversal in yields
- ◆ **Corporate bonds** – credit assets are overvalued in our view, and we prefer equities. Nevertheless, dovish central bank policy is supportive of this asset class

Equities			Government bonds			Corporate bonds & Alternatives			Asian assets		
Asset Class	View	View move	Asset Class	View	View move	Asset Class	View	View move	Asset Class	View	View move
Global	Overweight	–	Developed Market (DM)	Underweight	–	Global investment grade (IG)	Underweight	–	EM Asian fixed income	Underweight	–
US	Overweight	–	US	Underweight	–	USD IG	Underweight	–	Asia ex-Japan equities	Overweight	–
UK	Overweight	–	UK	Underweight	–	EUR & GBP IG	Underweight	–	China	Overweight	–
Eurozone	Overweight	–	Eurozone	Underweight	–	Asia IG	Neutral	–	India	Overweight	–
Japan	Overweight	–	Japan	Underweight	–	Global high-yield	Neutral	–	Hong Kong	Overweight	–
Emerging Markets (EM)	Overweight	–	EM (local currency)	Overweight	–	US high-yield	Neutral	–	Singapore	Overweight	–
CEE & Latam	Neutral	–				Europe high-yield	Neutral	–	South Korea	Neutral	–
						Asia high-yield	Overweight	–	Taiwan	Neutral	–
						EM agg bond (USD)	Underweight	–			
						Gold	Neutral	–			
						Other commodities	Neutral	–			
						Real estate	Neutral	–			

View move:

- No change
- ↑ Upgraded over the last month
- ↓ Downgraded over the last month

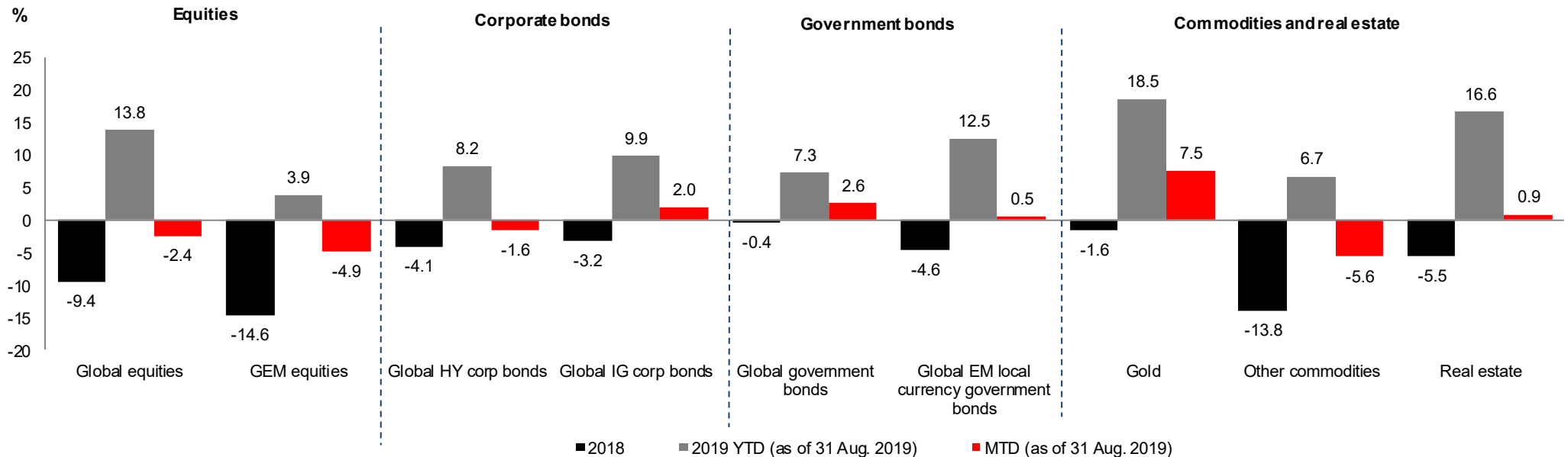
Source: HSBC Global Asset Management, as at September 2019, and subject to change
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Asset Class Performance at a glance

Global equities fell in August amid an escalation in US-China trade tensions and some disappointing economic data releases in Europe and China

- ◆ **Government bonds** – US Treasuries and European government bonds rallied on the back of escalating US-China trade tensions, and investor concerns over the global growth outlook
- ◆ **Commodities** – Brent crude oil prices fell on concerns over global economic growth and rising trade tensions

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/ 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 30 August 2019 in USD, total return, month-to-date terms

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Base case views and implications

Monthly macroeconomic update

US	>	<ul style="list-style-type: none"> ◆ A solid labour market continues to support consumer spending. The 12-month moving average of monthly non-farm job creation has held above 185,000 this year ◆ However, business investment and trade activity remain subdued amid US-China trade tensions
Europe	>	<ul style="list-style-type: none"> ◆ Eurozone: Manufacturing data are still very weak, although services sector activity remains resilient for now. Underlying inflation is stuck at about 1% ◆ UK: GDP contracted in Q2, although this was mainly due to the unwinding of Brexit related stockpiling in Q1. Labour market strength remains a key support
Asia	>	<ul style="list-style-type: none"> ◆ China: Disappointing data releases for July, including a weak industrial production print, are likely to see further policy support in the coming months ◆ India: GDP growth disappointed in Q2, while risks remain tilted to the downside amid a slow transmission between monetary policy easing and the real economy ◆ Japan: Growth remains sluggish amid external headwinds and a loss of momentum in business investment. This year's consumption tax hike is a risk
Other EM	>	<ul style="list-style-type: none"> ◆ Brazil: Positive reform momentum and improving financial conditions support the growth outlook. Recent weakness is mainly due to natural disasters ◆ Russia: Activity remains sluggish, amid subdued domestic demand. More positively, the industrial and construction sectors are performing well ◆ MENA: growth prospects are constrained by elevated geopolitical risks, a weaker global trade picture and oil production cuts

Base case view and implications

- ◆ US economic growth is likely to moderate this year as fiscal stimulus wanes and the labour market cycle matures
 - ◆ A lack of inflation pressure and increased downside risks to growth is likely to translate to Fed rate cuts this year
 - ◆ US Treasury valuations are at extreme levels. Equities remain preferable, in our view
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- ◆ **Eurozone:** European equities remain relatively cheap, supporting our overweight stance
 - ◆ **UK:** We remain comfortable with an overweight view on UK equities given our view of very attractive valuations
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- ◆ **China:** Ongoing policy loosening still has the potential to stabilise China's economy alongside global trade growth
 - ◆ **India:** The long-term structural story remains positive, supporting our overweight view
 - ◆ **Japan:** We believe the valuation of Japanese equities is still attractive while monetary policy is supportive
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- ◆ The backdrop for EMs has improved amid a dovish Fed and more accommodative EM central banks. We remain overweight EM equities.
 - ◆ However, corporate profitability has disappointed this year. Therefore, on a tactical (i.e. near-term) basis, we prefer local-currency government bonds, which also offer higher risk-adjusted prospective returns in our view.

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

Equities

Asset class	View	Rationale	Risks to consider
Global	Overweight —	Our measure of the global equity risk premium (excess return over cash) still looks reasonable given other opportunities.	Episodic volatility may be triggered by concerns about global economic growth and/or trade tensions, coupled with political risks.
		We believe global equities still offer attractive rewards despite the risks to the growth outlook.	A further significant deterioration of the global economic outlook could also dampen our view. However, we remain of the view that we are facing a “cyclical slowdown”, not a more severe recessionary environment.
US	Overweight —	Policy support can help offset headwinds from more modest global growth, trade tensions, and political uncertainty in many regions.	Corporate fundamentals are beginning to come under pressure. We are monitoring developments closely.
		US economic and earnings growth remains relatively robust. The risk of a US recession remains modest, in our view.	The boost from last year’s fiscal stimulus is fading.
Eurozone	Overweight —	Positively, the Fed is enacting “insurance” policy easing against downside risks.	Risks from US-China trade tensions also need to be considered.
		In our opinion, Eurozone equities benefit from fairly high implied risk premiums (on a hedged basis).	On an unhedged basis, we measure higher risk-adjusted prospective returns in other developed markets.
		Ultra-low ECB policy interest rates are likely to persist until the early 2020s. The ECB has also signalled further policy easing.	Economic growth remains fragile, with the manufacturing sector facing headwinds from elevated global uncertainty and softer global demand.
			Risks may be posed by Italy’s fiscal dynamics and the potential for economic disruption from a possible “no-deal” Brexit.

View:

— No change

↑ Upgraded over the last month

↓ Downgraded over the last month

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

Equities cont'd

Asset class	View	Rationale	Risks to consider
UK	Overweight —	The UK equity risk premium (excess return over cash) remains comfortably above the equity risk premium for developed market (DM) equities.	A much more significant deterioration in UK growth and corporate fundamentals would be a major challenge for UK equities.
		In our view, sterling weakness amid a “no-deal” Brexit outcome may support the earnings performance of UK-based multinationals with foreign currency revenues.	
		Meanwhile, a negotiated Brexit is likely to lift some uncertainty, supporting corporate investment. Higher UK growth may support domestically oriented stocks	
Japan	Overweight —	We believe valuations are attractive while policy is supportive.	Japan’s recent economic performance has been weak, and is vulnerable to a further slowdown. Protectionism is a key risk.
		Large corporate cash reserves provide firms with the scope to boost dividends or engage in stock repurchases.	Other headwinds include a consumption tax increase planned for October 2019.
Emerging Markets (EM)	Overweight —	The EM outlook is supported by policy easing in China and a dovish Fed. EM central banks are also starting to loosen policy amid subdued inflation.	Aggregate EM growth momentum remains fairly soft, with sluggish world trade growth weighing on the outlook.
		We believe there is still significant potential for (selected) EM currencies to appreciate over the medium term.	Furthermore, although Chinese authorities have eased policy, it remains to be seen if this will provide enough support.
		The structural characteristics of EM economies are significantly better than in the past.	Corporate profitability has disappointed this year and trade related uncertainties remain a downside risk. In our view, this justifies a more cautious stance on a tactical basis.
CEE & Latam	Neutral —	There has been a loss of economic growth momentum in Latin America, although there are signs of stabilisation.	Economic growth could deteriorate further, with many economies dependent on the global trade and industrial cycle. Geopolitical tensions are high and unpredictable.
		Meanwhile, parts of CEE offer us attractive equity risk premiums.	We think high local interest rates and sovereign yields in many countries diminish the case for bearing equity risk.

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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. Higher inflation or better-than-expected activity data could push bond yields up.	Recent momentum has been positive and there is potentially a lack of triggers that could move yields significantly higher in the near term.
		For us, the relative value of equities against bonds continues to be clear.	“Secular stagnation” forces remain (ageing populations, low productivity and investment). The global pool of perceived “safety” assets is limited. Government bonds may still deliver diversification benefits should concerns over economic growth intensify.
US	Underweight —	Prospective risk-adjusted returns look consistent with a full UW position. The risk of higher inflation is dismissed by the market.	Prospective risk-adjusted returns are higher in shorter-duration Treasuries.
		There is uncertainty if Treasuries can act as an effective “diversifier” asset given current market pricing.	Inflation may remain subdued despite rising wage growth and diminishing spare capacity. This would help cap yields.
UK	Underweight —	Prospective returns for UK gilts continue to look poor, and we are being penalised for bearing interest-rate risk.	Gilts could perform well if UK economic growth deteriorates and/or a “no-deal” Brexit materialises. Nevertheless, gilt issuance may increase on the back of UK fiscal stimulus.
Eurozone	Underweight —	Core eurozone government bonds are overvalued, in our view. Although the ECB is likely to restart net asset purchases, the market has already priced in this prospect to a degree.	Core inflationary pressures in the region remain subdued, and economic growth is 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 a dovish Fed policy stance. EM countries have scope to reduce policy rates to support growth.	A rapid gain in the US dollar is a key risk. This could be triggered by the Fed not delivering rate cuts as priced in by the market.
		We prefer this asset class to EM equities on a tactical (i.e. short-term basis).	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.	The risk of significant defaults and downgrades appears limited for now.
		Corporate fundamentals are beginning to come under pressure - risks in DMs are increasing and profitability has deteriorated faster than expected in Asia.	Dovish central bank policy is also a positive.
USD investment grade	Underweight —	US IG valuations mean that we believe there is an inadequate margin of safety against downside risks.	Positively, US growth remains robust and the Fed is in dovish mode. The level of profitability remains relatively high.
		US IG could come under pressure from slowing US economic growth and falling profitability.	Furthermore, the market is now pricing in an environment of mid-single digit global corporate earnings growth – in our view this limits the scope for a disappointment from here.
EUR and GBP investment grade	Underweight —	EUR IG prospective returns are also weighed down by a relatively large negative duration risk premium i.e. we are being penalised for bearing interest-rate risk.	The ECB is likely to restart asset purchases. Default rates also remain low.
Asset class	View	Rationale	Risks to consider
Asia investment grade	Neutral —	Within the IG universe, the carry (or “return”) offered by Asian credits looks attractive relative to DM, in our view.	A stronger US dollar poses a risk, particularly for corporates with USD denominated debt.
		Reasonably solid underlying activity in EM Asia and a neutral monetary policy stance in most countries are also supportive.	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 —	Decent corporate fundamentals and global economic activity are supportive, while default rates are low. We prefer higher-rated HY bonds.	Our measures show that we remain better rewarded by equities as a way to benefit from a decent economic backdrop.
		This growth-sensitive asset class may perform well if activity surprises to the upside	Global HY is “at risk” of a view change.
US high-yield	Neutral —	Still decent US economic activity continues to support corporate fundamentals.	US HY credits remain vulnerable to a deterioration in economic data or the default outlook.
		Default rates are relatively low. HY bonds also have a shorter effective duration, making them more exposed to growth than to interest-rate risk. US recession risk is modest in our view.	
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.	A stronger US dollar poses a risk, particularly for corporates with USD denominated debt.
		Economic growth appears fairly robust and inflationary pressures appear relatively stable.	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), and we are not expecting a eurozone recession in 2019.	Eurozone growth could disappoint further in 2019, although problems seem to be concentrated in the manufacturing sector.
		Monetary policy is still accommodative, with the ECB likely to restart asset purchases.	European political risks remain, with uncertainties in Italy likely to be a lingering risk in 2019, while a no-deal Brexit is still possible.

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

Alternatives

Asset class	View	Rationale	Risks to consider
Gold	Neutral —	Gold futures can offer reasonable diversification benefits to multi-asset portfolios and have some inflation-hedging characteristics. Gold performed well in the August 2019 equity market selloff.	In our view, prospective returns on gold futures look poor. This is due to the large negative expected roll yield (the cost of renewing futures contracts) and a negative expected spot-price return.
Other commodities	Neutral —	Commodity futures can offer us reasonable diversification benefits and have some inflation-hedging characteristics. Our measure of expected returns have improved over the past year. The energy sub-sector is the most attractive in our opinion.	We measure a large negative expected roll yield (the cost of renewing futures contracts) for many commodities (particularly wheat and corn).
Real Estate	Neutral —	We believe prospective long-term returns from global real estate equities imply a significant margin relative to DM government bonds. Current dividend yields offer a premium of around 145 basis points over wider equities. In the long run, rents are linked to general economic growth and provide a partial inflation hedge.	Real estate equities that are focused on retail property are vulnerable to growing e-commerce although this is partly offset by strong demand for logistics space to support internet shopping. A serious escalation in global trade disputes could harm occupier demand. The prospect of future rent control is overhanging selected residential markets. In the UK, 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 Overall, risk-adjusted returns look poor relative to the rest of the opportunity set.	Tactically, we are more neutral given that spreads are not at historical lows, and momentum is positive.

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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 —	<p>From a near-term perspective, this asset class is sensitive to US monetary policy.</p> <p>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.</p>	<p>From a long-term perspective, we believe return signals are still positive, backed by relatively sound economic fundamentals, stable inflation and credit quality.</p>
Asset class	View	Rationale	Risks to consider
Asia ex-Japan equities	Overweight —	<p>We think this asset class offers attractive risk-adjusted returns.</p> <p>Asian economic growth has held up relatively well and macroeconomic structural characteristics are better than in other EM regions.</p> <p>We think Asian currencies are set to appreciate in the medium term.</p>	<p>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.</p> <p>Asian corporate earnings growth has recently deteriorated amid global trade tensions.</p> <p>Other risks include US protectionist policies, geopolitical events, commodity-price and/or currency volatility and renewed concerns about China's growth and financial stability.</p>
China equities	Overweight —	<p>Consensus earnings forecasts for China remain one of the highest in Asia. Domestic policy efforts aim to stimulate the economy and markets, while dovish Fed/global central banks are supportive.</p> <p>Corporate earnings may also find support from VAT/fee cuts, lower corporate contributions to social security funds, and policy support for corporates' capital market financing. Meanwhile, the corporate sector may also benefit from reforms to overhaul the interest rate system aimed at improving monetary policy transmission and lowering corporate funding costs, as well as other policy easing efforts.</p> <p>Further opening up of the economy/financial services sector, capital market liberalisation/ benchmark index inclusion, and structural market reforms (e.g. the science and technology innovation board) are potential catalysts.</p> <p>The direct impact from existing US tariffs on MSCI China's aggregate earnings should be manageable (albeit material for selected companies).</p>	<p>While a lower comparison base may work in favour of the YoY earnings growth in H2 2019, we see downside risks from the recent escalation in trade tensions, a weaker RMB (though the FX impact on MSCI China may gradually weaken as the MSCI A-share inclusion factor continues to increase), and slower nominal GDP growth (with the return of a modest PPI deflation).</p> <p>We see the risk of state-led reforms failing to empower the market and delays in the implementation of structural reforms that may cause short-term pains. There are concerns about fundamental weakness in some small banks/financial institutions and funding/capital constraints weighing on credit growth. Structural headwinds and debt concerns remain a headwind to China's long-term growth.</p> <p>There is still no clear path towards a comprehensive US-China trade deal and existing tariffs have not been reduced or reversed. Extended uncertainty weighs on private sector sentiment and spending, though the risks are binary: any positive development could send the market higher.</p>

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

Asian assets cont'd

Asset class	View	Rationale	Risks to consider
India equities	Overweight —	<p>We expect a shallow cyclical recovery in H2FY20 amid more accommodative macro policies, particularly better transmission of monetary easing. Normal monsoon rainfall also helps. The recently announced set of sector-specific fiscal and reform measures (e.g. financials, autos) to improve ease of accessing credit and doing business along with Foreign Direct Investment (FDI) deregulation and big banking reform should support domestic sentiment and demand at the margin.</p> <p>The roll-back of the surcharge on capital gains for both domestic and foreign investors has provided some near-term relief to markets. The Reserve Bank of India's (RBI) dividend transfer (~0.3% of GDP more than assumed in the budget) could marginally help the fiscal space. Fed policy pivot capping US bond yields is supportive.</p> <p>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.</p>	<p>A sharp growth slowdown amid cyclical and structural headwinds poses downside risks to earnings, on the back of risk aversion in the financial and corporate sectors. Problems with NBFCs*; deterioration in consumer purchasing power/income gains; a weak investment/ construction cycle; and global growth and trade uncertainty are also headwinds. While the current valuations may have priced in much of the macro and earnings negativity, there appear few upside catalysts in sight.</p> <p>The fiscal headroom is limited for any meaningful stimulus, amid the high risk of tax revenue shortfall. Budget proposals such as taxes on share buybacks and raising public shareholding from 25% to 35% have weighed on near-term market sentiment. The NBFC measures in the budget may not be a long-term comprehensive solution.</p> <p>A tighter compliance/regulatory environment on multiple fronts weakened business sentiment, while higher cost of car ownership weighs on consumer demand. The government's ability to undertake tough reforms (e.g. land, labour) is to be tested.</p>
Hong Kong equities	Overweight —	<p>Valuation looks attractive to us, as multinational listed companies, operating mostly outside of Hong Kong, offer opportunities. Many of these companies are also within sectors that leverage on Asia's longer-term growth potential (e.g. consumer plays, insurance) and are seen as less exposed to global trade tensions.</p> <p>Earnings growth is expected to be among the highest in the region. A dovish Fed could ease some pressure on borrowing costs/financial conditions in HK; China's policy accommodation/liquidity easing should provide some support.</p>	<p>HK's economy has lost momentum with the risk biased to the downside, which could put some pressures on corporate earnings. The external environment remains challenging, with uncertainties over the global demand outlook, US-China trade standoff, concerns over de-globalisation, and other geopolitical tensions.</p> <p>A combination of a lower aggregate balance and a rising HKD loan-to-deposit ratio makes the HK money market increasingly sensitive to small changes in liquidity.</p> <p>China's financial risk contagion is a key risk. Any deterioration in China's macro outlook or reform prospects could have a negative spillover on HK.</p>
Singapore equities	Overweight —	<p>Relatively high dividend yields and pay-outs from banks are appealing, given low global interest rates, and should help support the market on the downside. Many Singapore-listed companies are pan-Asian plays that are less influenced by the weak domestic economy. The budget focuses on long-term economic transformation, with modest short-term fiscal impulse, but there is sufficient policy ammunition to navigate the global slowdown. The Monetary Authority of Singapore (MAS) could also ease policy at its October policy meeting.</p> <p>In the longer term, Singapore could marginally benefit from multinational companies looking to diversify their supply chain operations into ASEAN.</p>	<p>There are signs of continued weakness in exports and manufacturing spilling over to domestic demand, employment and wage growth, posing downside risks to the outlook for economic and corporate earnings growth. Singapore is vulnerable to slower global demand, trade protectionism, and a weak tech/ electronics cycle, with many of its listed companies having significant foreign sales exposure. It is sensitive to sharp moves in the USD.</p> <p>Tightening market liquidity is a risk. Higher financing costs and cooling measures have weighed on housing affordability and the market, though there are prospects of easier mortgage financing in the near term if Fed cut rates to support transaction volumes.</p>

* Non-banking financial company. Source: HSBC Global Asset Management. As at 2 September 2019. The views expressed were held at the time of preparation, and are subject to change.

Source: HSBC Global Asset Management, as at September 2019, and subject to change

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

Asian assets cont'd

Asset class	View	Rationale	Risks to consider
South Korea equities	Neutral —	<p>The semiconductor memory cycle seems to be bottoming amid ongoing inventory correction/production cuts. Any recovery in chip pricing/demand will be positive for Korean earnings.</p> <p>The Bank of Korea signaled it is prepared to cut rates should risks continue to rise.</p> <p>Over the medium term, Korea could potentially benefit from trade diversion and temporarily eased competition pressures from China in areas of sophisticated/ high-tech manufacturing due to US-China trade/tech standoff.</p>	<p>The rising trade tensions with Japan and persistent uncertainty from US-China trade frictions pose downside risks via the potential near-term impact on regional supply chains. Geopolitical risks related to North Korea remain a market overhang.</p> <p>Earnings expectations remain weak amid external challenges from soft global (CapEx) demand and a tepid domestic economy with subdued private sector sentiment, a high household debt level, ongoing housing market adjustments, as well as the labour market headwinds and corporate restructuring.</p>
Taiwan equities	Neutral —	<p>From a valuation perspective, Taiwan's relatively high dividend yield looks appealing to us, in the face of trade/geopolitical uncertainties and on lower global bond yields.</p> <p>Several industries have benefited from US-China trade/tech frictions and the shifting of some overseas production lines back to Taiwan (helping domestic investment). The expectation for an improvement in the semiconductor sector outlook is supportive.</p> <p>Macro policies remain accommodative. The government's multi-year infrastructure investment plan continues to roll out.</p>	<p>The outlook for Taiwan's economy and corporate earnings remains weak amid persistent external headwinds from soft global (CapEx) demand as well as the potential risk of a drag on business confidence and supply-chain interruptions arising from trade policy uncertainty.</p> <p>Rising political and operational defence tensions with China are risks, which might lead to Taiwan potentially being excluded from regional trade/investment agreements.</p> <p>Political noise and policy uncertainty are likely to rise, heading into 2020 presidential/national elections.</p>

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Source: HSBC Global Asset Management. As at 2 September 2019. The views expressed were held at the time of preparation, and are subject to change.

Source: HSBC Global Asset Management, as at September 2019, and subject to change

Market data

August 2019

	Close	MTD Change (%)	3M Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low	Fwd P/E (X)
Equity Indices								
World								
MSCI AC World Index (USD)	511	-2.6	3.8	-2.3	12.1	533	435	15.8
North America								
US Dow Jones Industrial Average	26,403	-1.7	6.4	1.7	13.2	27,399	21,713	17.4
US S&P 500 Index	2,926	-1.8	6.3	0.9	16.7	3,028	2,347	17.7
US NASDAQ Composite Index	7,963	-2.6	6.8	-1.8	20.0	8,340	6,190	23.9
Canada S&P/TSX Composite Index	16,442	0.2	2.5	1.1	14.8	16,673	13,777	15.1
Europe								
MSCI AC Europe (USD)	436	-3.0	1.4	-5.5	7.9	472	391	13.7
Euro STOXX 50 Index	3,427	-1.2	4.5	1.0	14.2	3,574	2,909	14.2
UK FTSE 100 Index	7,207	-5.0	0.6	-3.0	7.1	7,727	6,537	12.7
Germany DAX Index*	11,939	-2.0	1.8	-3.4	13.1	12,656	10,279	14.0
France CAC-40 Index	5,480	-0.7	5.2	1.4	15.8	5,673	4,556	14.7
Spain IBEX 35 Index	8,813	-1.8	-2.1	-6.2	3.2	9,665	8,286	11.8
Italy FTSE MIB	21,323	-0.4	7.7	5.2	16.4	22,357	17,914	10.9
Asia Pacific								
MSCI AC Asia Pacific ex Japan (USD)	495	-4.7	-0.8	-7.5	3.7	547	459	14.1
Japan Nikkei-225 Stock Average	20,704	-3.8	0.5	-9.5	3.4	24,448	18,949	14.9
Australian Stock Exchange 200	6,604	-3.1	3.2	4.5	17.0	6,876	5,410	16.7
Hong Kong Hang Seng Index	25,725	-7.4	-4.4	-7.8	-0.5	30,280	24,541	10.3
Shanghai Stock Exchange Composite Index	2,886	-1.6	-0.4	5.9	15.7	3,288	2,441	11.4
Hang Seng China Enterprises Index	10,083	-5.5	-2.9	-7.3	-0.4	11,882	9,732	8.1
Taiwan TAIEX Index	10,618	-1.9	1.1	-4.0	9.2	11,097	9,319	16.1
Korea KOSPI Index	1,968	-2.8	-3.6	-15.3	-3.6	2,357	1,892	12.7
India SENSEX 30 Index	37,333	-0.4	-6.0	-3.4	3.5	40,312	33,292	19.2
Indonesia Jakarta Stock Price Index	6,328	-1.0	1.9	5.2	2.2	6,636	5,622	15.3
Malaysia Kuala Lumpur Composite Index	1,612	-1.4	-2.3	-11.4	-4.6	1,823	1,572	16.7
Philippines Stock Exchange PSE Index	7,980	-0.8	0.1	1.6	6.9	8,420	6,791	17.1
Singapore FTSE Straits Times Index	3,107	-5.9	-0.4	-3.3	1.2	3,415	2,956	12.3
Thailand SET Index	1,655	-3.3	2.1	-3.9	5.8	1,767	1,547	16.5
Latam								
Argentina Merval Index	24,609	-41.5	-27.5	-16.0	-18.8	44,471	23,862	4.7
Brazil Bovespa Index*	101,135	-0.7	4.2	31.9	15.1	106,650	74,275	12.7
Chile IPSA Index	4,804	-3.4	-3.5	-8.8	-5.9	5,516	4,589	14.4
Colombia COLCAP Index	1,560	-0.2	4.9	1.1	17.6	1,634	1,291	12.0
Mexico S&P/BMV IPC Index	42,623	4.3	-0.3	-14.0	2.4	50,042	38,266	14.0
EEMEA								
Russia MOEX Index	2,740	0.0	2.8	16.8	15.6	2,848	2,258	6.0
South Africa JSE Index	55,260	-2.7	-0.7	-5.8	4.8	59,545	50,033	12.4
Turkey ISE 100 Index*	96,718	-5.3	6.8	4.3	6.0	105,930	83,535	7.0

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

Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 30 August 2019.

Past performance is not an indication of future returns.

Market data (continued)

August 2019

	3-month Change	YTD Change	1-year Change	3-year Change	5-year Change	Dividend Yield
Equity Indices - Total Return	(%)	(%)	(%)	(%)	(%)	(%)
Global equities	4.3	13.8	-0.3	30.1	30.8	2.6
US equities	6.6	18.1	2.2	40.5	56.2	1.9
Europe equities	2.0	10.7	-3.0	18.8	5.4	3.9
Asia Pacific ex Japan equities	0.3	5.9	-4.8	20.8	11.2	3.4
Japan equities	2.8	6.8	-5.6	17.0	25.4	2.6
Latam equities	-2.4	3.6	8.9	17.7	-18.8	3.1
Emerging Markets equities	-0.2	3.9	-4.4	18.3	1.9	3.0

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.

	Close	Change	Change	Change	Change
Bond indices - Total Return		(%)	(%)	(%)	(%)
BarCap GlobalAgg (Hedged in USD)	572	2.3	4.5	10.7	9.3
JPM EMBI Global	867	0.5	4.8	13.1	12.5
BarCap US Corporate Index (USD)	3,223	3.1	6.3	13.3	13.9
BarCap Euro Corporate Index (Eur)	262	0.6	3.7	6.6	7.6
BarCap Global High Yield (USD)	498	-1.4	2.4	7.4	9.3
BarCap US High Yield (USD)	2119	0.4	3.3	6.6	11.0
BarCap pan-European High Yield (USD)	464	1.0	4.7	8.9	11.6
BarCap EM Debt Hard Currency	428	0.0	3.7	10.5	9.7
Markit iBoxx Asia ex-Japan Bond Index (USD)	213	1.4	3.3	10.3	9.5
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	266	-0.8	1.2	8.6	9.1

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 30 August 2019.

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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

Market data (continued)

August 2019

	Close	End of last mth.	3-months Ago	1-year Ago	Year End 2018
Bonds					
US Treasury yields (%)					
3-Month	1.98	2.06	2.34	2.09	2.35
2-Year	1.50	1.87	1.92	2.63	2.49
5-Year	1.39	1.83	1.91	2.74	2.51
10-Year	1.50	2.01	2.12	2.86	2.68
30-Year	1.96	2.52	2.57	3.02	3.01
Developed market 10-year bond yields (%)					
Japan	-0.28	-0.16	-0.10	0.10	-0.01
UK	0.48	0.61	0.89	1.43	1.28
Germany	-0.70	-0.44	-0.20	0.33	0.24
France	-0.41	-0.19	0.21	0.68	0.71
Italy	1.00	1.54	2.67	3.23	2.74
Spain	0.10	0.28	0.71	1.47	1.41

	Latest	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Commodities							
Gold	1,520	7.5	16.5	26.5	18.5	1,555	1,181
Brent Oil	60.4	-7.3	-6.3	-21.9	12.3	87	50
WTI Crude Oil	55.1	-5.9	3.0	-21.1	21.3	77	42
R/J CRB Futures Index	170	-4.6	-2.9	-11.7	0.3	202	167
LME Copper	5,676	-4.2	-2.6	-5.0	-4.8	6,609	5,625

Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 30 August 2019.

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Market data (continued)

August 2019

Currencies (vs USD)	Latest	End of last mth.	3-mths Ago	1-year Ago	Year End 2018	52-week High	52-week Low
Developed markets							
DXY index	98.92	98.52	97.75	95.14	96.17	99.10	93.81
EUR/USD	1.10	1.11	1.12	1.16	1.15	1.18	1.10
GBP/USD	1.22	1.22	1.26	1.30	1.28	1.34	1.20
CHF/USD	1.01	1.01	1.00	1.03	1.02	1.05	0.98
CAD	1.33	1.32	1.35	1.30	1.36	1.37	1.28
JPY	106.3	108.8	108.3	111.0	109.7	114.6	104.5
AUD	1.48	1.46	1.44	1.39	1.42	1.50	1.35
NZD	1.58	1.52	1.53	1.51	1.49	1.59	1.44
Asia							
HKD	7.84	7.83	7.84	7.85	7.83	7.85	7.78
CNY	7.16	6.88	6.91	6.83	6.88	7.18	6.65
INR	71.41	68.80	69.70	71.00	69.77	74.48	68.29
MYR	4.21	4.13	4.19	4.11	4.13	4.23	4.05
KRW	1,211	1,183	1,191	1,113	1,111	1,223	1,105
TWD	31.33	31.10	31.60	30.72	30.55	31.73	30.47
Latam							
BRL	4.15	3.81	3.92	4.06	3.88	4.21	3.59
COP	3,442	3,280	3,380	3,048	3,254	3,495	2,961
MXN	20.06	19.15	19.62	19.09	19.65	20.66	18.50
ARS	59.50	43.88	44.79	36.88	37.67	62.00	35.35
EEMEA							
RUB	66.72	63.66	65.44	67.47	69.35	70.84	62.50
ZAR	15.20	14.34	14.58	14.69	14.35	15.70	13.24

Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 30 August 2019

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

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

- ◆ Views are based on regional HSBC Global Asset Management Asset Allocation meetings held throughout **August 2019**, HSBC Global Asset Management's long-term expected return forecasts which were generated as **at 31 July 2019**, our portfolio optimisation process and actual portfolio positions.
- ◆ **Icons:** ↑ View on this asset class has been upgraded – No change ↓ View on this asset class has been downgraded.
- ◆ Underweight, overweight and neutral classifications are the high-level asset allocations tilts applied in diversified, typically multi-asset portfolios, which reflect a combination of our long-term valuation signals, our shorter-term cyclical views and actual positioning in portfolios. The views are expressed with reference to global portfolios. However, individual portfolio positions may vary according to mandate, benchmark, risk profile and the availability and riskiness of individual asset classes in different regions.
- ◆ "*Overweight*" implies that, within the context of a well-diversified typically multi-asset portfolio, and relative to relevant internal or external benchmarks, HSBC Global Asset Management has (or would have) a positive tilt towards the asset class.
- ◆ "*Underweight*" implies that, within the context of a well-diversified typically multi-asset portfolio, and relative to relevant internal or external benchmarks, HSBC Global Asset Management has (or would) have a negative tilt towards the asset class.
- ◆ "*Neutral*" implies that, within the context of a well-diversified typically multi-asset portfolio, and relative to relevant internal or external benchmarks HSBC Global Asset Management has (or would have) neither a particularly negative or positive tilt towards the asset class.
- ◆ For global investment-grade corporate bonds, the underweight, overweight and neutral categories for the asset class at the aggregate level are also based on high-level asset allocation considerations applied in diversified, typically multi-asset portfolios. However, USD investment-grade corporate bonds and EUR and GBP investment-grade corporate bonds are determined relative to the global investment-grade corporate bond universe.
- ◆ For Asia ex Japan equities, the underweight, overweight and neutral categories for the region at the aggregate level are also based on high-level asset allocation considerations applied in diversified, typically multi-asset portfolios. However, individual country views are determined relative to the Asia ex Japan equities universe as of 31 July 2019.
- ◆ Similarly, for EM government bonds, the underweight, overweight and neutral categories for the asset class at the aggregate level are also based on high-level asset allocation considerations applied in diversified, typically multi-asset portfolios. However, EM Asian Fixed income views are determined relative to the EM government bonds (hard currency) universe as of **30 August 2019**.

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