Investment Monthly – May 2019

Credit assets are becoming expensive

Investments, annuity and insurance products				
ARE NOT A BANK DEPOSIT OR OBLIGATION OF THE BANK OR ANY OF ITS AFFILIATES	ARE NOT FDIC INSURED	ARE NOT INSURED BY ANY FEDERAL GOVERN-MENT AGENCY	ARE NOT GUARANTEED BY THE BANK OR ANY OF ITS AFFILIATES	MAY LOSE VALUE

HSBC

This commentary has been produced by HSBC Global Asset Management to provide a high-level overview of the recent economic and financial market environment, and is for information purposes only. The views expressed were held at the time of preparation; are subject to change without notice and may not reflect the views expressed in other HSBC Group communications or strategies. This marketing communication does not constitute investment advice or a recommendation to any reader of this content to buy or sell investments nor should it be regarded as investment research. The content has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination. You should be aware that the value of any investment can go down as well as up and investors may not get back the amount originally invested. Furthermore, any investments in emerging markets are by their nature higher risk and potentially more volatile than those inherent in established markets. Any performance information shown refers to the past and should not be seen as an indication of future returns. You should always consider seeking professional advice when thinking about undertaking any form of investment.

PUBLIC - For Client Use

Summary

Macro Outlook

- The global Nowcast (our big data analysis tool) remains below our sense of trend growth, although there are signs of an improvement, with a broad based pick up in March
- US growth remains above trend and the labour market is tight. Elsewhere growth is, on average, below trend
- There are signs of a recovery in the Chinese manufacturing sector. If sustained, this implies some potential upside to the global manufacturing cycle
- We remain of the view that we are in a "cyclical slowdown", rather than the beginning of a more severe recessionary environment

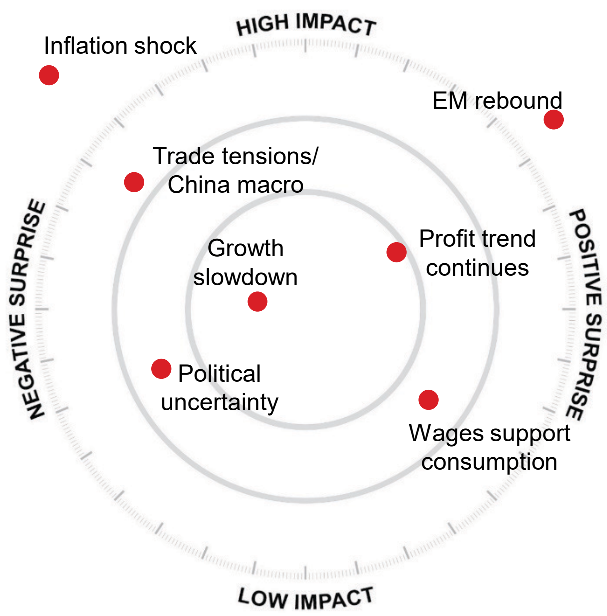
Central Banks

- The **US Federal Reserve (Fed)** remains "patient" and has no strong bias on the direction of the next policy move, amid subdued inflation and moderating growth
- The **European Central Bank (ECB)** turned dovish at its March meeting, signalling no rate hikes this year and a new round of cheap loans to banks
- The **Bank of England (BoE)** remains cautious on the UK economic outlook in the face of continuing Brexit-related uncertainty
- Inflation in Japan is set to remain well below the **Bank of Japan's (BoJ)** 2% target. Monetary policy is likely to remain expansionary for the time being
- The **People's Bank of China (PBoC)** has shown some signs it may be dialling back some of its monetary stimulus measures as the economy strengthens

Key Views

- Both equities and bonds have delivered positive returns year to date. However, there is no guarantee of this reoccurring in Q2
- For markets to continue to do well we think we will need to see a further pick up in economic activity. This could be driven by an improvement in China
- Corporate fundamentals have deteriorated versus last year, but remain solid. Analyst expectations imply a relatively low bar for an upward surprise
- In our view, US bonds have reached an extreme level of overvaluation, and the relative attractiveness of equity valuations versus bonds remains clear
- We have downgraded US and global investment grade (IG) bonds from neutral to underweight amid lower prospective risk-adjusted returns

Key Risks



Source: HSBC Global Asset Management, Global Investment Strategy, May 2019 and subject to change
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

r Client Use

Investment Views

The recent rally in credit asset prices has come at the expense of lower prospective returns

We downgrade US and global investment grade (IG) corporate bonds from neutral to underweight

- **Global equities** – corporate fundamentals look reasonable to us and analyst expectations for earnings growth are low, limiting the risk of a disappointment. Current valuations remain consistent with an overweight position
- **Government bonds** – inflation remains a neglected risk and we are being penalised for bearing risks related to unexpected interest rate changes. We remain underweight
- **Corporate bonds** – credit assets are becoming expensive. We move US and global IG to underweight and are monitoring high-yield and EM agg (USD) bonds

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)	**Neutral**	–
Gold	**Neutral**	–
Other commodities	**Neutral**	–
Real estate	**Neutral**	–

Asian assets

Asset Class	View	View move
EM Asian fixed income	**Underweight**	–
Asia ex-Japan equities	**Overweight**	–
China	Overweight	–
India	Overweight	–
Hong Kong	Neutral	–
Singapore	Overweight	–
South Korea	Neutral	–
Taiwan	Neutral	–

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

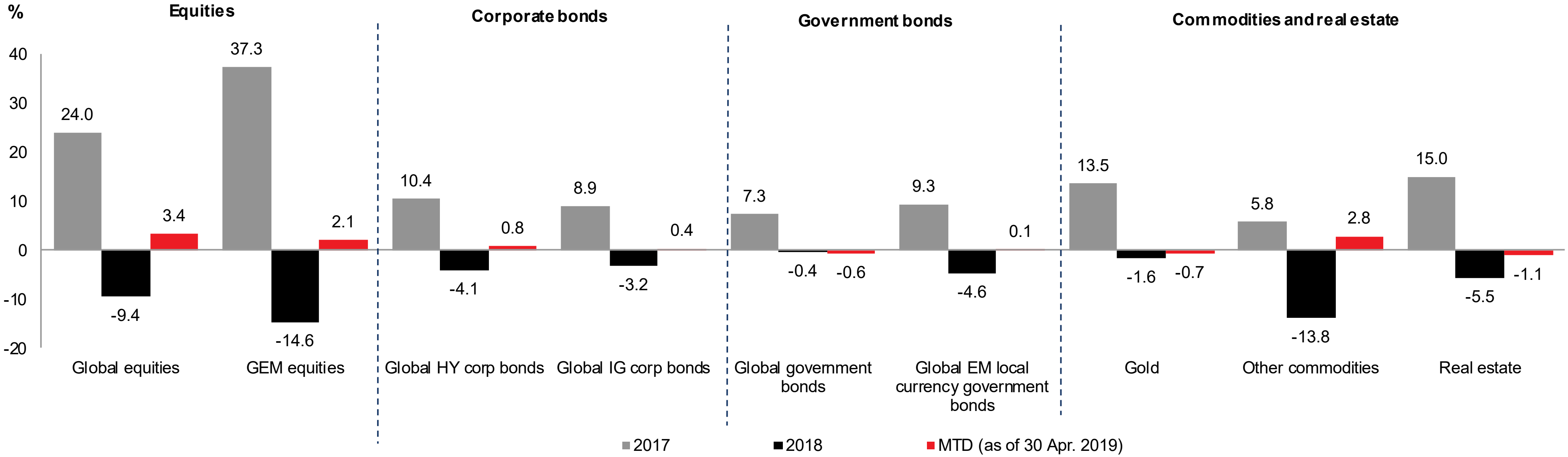
Source: HSBC Global Asset Management, Global Investment Strategy, May 2019 and subject to change
All numbers rounded to one decimal place. The views expressed were held at the time of preparation, and are subject to change.
Please refer to Basis of Views and Definitions section for additional information
.

PUBLIC - For Client Use

Asset Class Performance at a glance

Global equities rose in April amid improved optimism over US-China trade talks and upbeat macroeconomic data and corporate earnings releases

- **Government bonds** – US Treasuries and European bonds declined (yields rose) on the back of receding global growth concerns
- **Commodities** – oil prices rose amid political instability in Venezuela and Libya, and as the US ended sanctions waivers on Iranian oil imports



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 April 2019 in USD, total return, month-to-date terms

Source: HSBC Global Asset Management, Global Investment Strategy, May 2019 and subject to change
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
.

PUBLIC - For Client Use

Base case views and implications

Region	Monthly macroeconomic update	Base case view and implications
US	◆ GDP growth surprised to the upside at 3.2% annualised in Q1 amid boosts from net trade and inventories, although domestic demand cooled ◆ Inflationary pressures are well contained, with the Fed's preferred measure of core inflation at 1.6% yoy	◆ We still think US economic growth will moderate this year as fiscal stimulus wanes and past rate hikes bite ◆ Fed policy is likely to remain on hold as the threat of overheating diminishes and inflation remains subdued ◆ **We downgrade US investment grade corporate bonds to underweight on the back of lower prospective returns**
Europe	◆ **Eurozone:** Latest surveys suggest continuing headwinds for the export-oriented industrial sector, while services remains relatively robust ◆ **UK:** Q1 performance has been reasonably solid, although Brexit-related uncertainty continues to weigh on investment growth	◆ **Eurozone:** We think European equities remain relatively cheap, supporting our overweight stance ◆ **UK:** We remain comfortable with an overweight view on UK equities given our assessment of very attractive valuations
Asia	◆ **China:** There are ongoing signs of an economic recovery. Q1 GDP growth beat expectations, and industrial production rebounded strongly in March ◆ **India:** GDP growth remains strong, although there are signs of slowing domestic demand amid a fragile banking sector ◆ **Japan:** External headwinds and weak investment spending are weighing on the industrial sector. This year's consumption tax hike is a downside risk to spending	◆ **China:** Policy loosening 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 very attractive while monetary policy is supportive
Other EM	◆ **Brazil:** Disappointing data releases in Q1 may place the central bank under pressure to cut interest rates, although inflation may constrain action on this front ◆ **Russia:** High frequency indicators suggest domestic demand is picking up whilst external demand is softening ◆ **MENA:** Civil conflict, high unemployment and limited progress with structural reforms is weighing on the region's economic outlook	◆ The backdrop for EMs has improved amid a more cautious Fed, lower US bond yields and China policy easing ◆ EM central banks have switched from tightening into easing mode amid a dovish Fed and generally subdued inflation ◆ Geopolitical risk also remains prevalent, including lingering trade tensions and elections in India, Argentina, & South Africa

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

PUBLIC - For Client Use

.

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. We believe global equities still offer attractive rewards despite the risks to the growth outlook, while corporate fundamentals remain solid in our view. Subdued corporate earnings expectations imply a relatively low bar for an upward surprise. Policy support can help offset headwinds from more modest global growth, trade tensions, and political uncertainty in many regions.	Episodic volatility may be triggered by concerns about global economic growth and/or trade tensions, coupled with political risks. 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. Rising wage growth in many developed economies may undermine corporate profits.
US	**Overweight** –	US economic growth remains robust and continues to outperform other regions. The risk of a US recession remains modest. Positively, the Fed has signalled a more cautious approach to policy normalisation, while corporate fundamentals look reasonable.	The Fed could still tighten policy this year on the back of an inflation shock. This may weigh on economic growth, just as the boost from last year’s fiscal stimulus is fading. Risks from US protectionism also need to be considered.
Eurozone	**Overweight** –	Eurozone equities benefit from fairly high implied risk premiums (on a hedged basis). Ultra-low ECB policy interest rates are likely to persist until the early 2020s.	On an unhedged basis, we measure higher risk adjusted prospective returns in other developed markets. Economic activity indicators have deteriorated over the past year. Export growth is vulnerable to any further weakening in global activity and protectionism risks. Political risks may be posed by the populist government in Italy and Brexit.

Source: HSBC Global Asset Management, Global Investment Strategy, May 2019 and subject to change
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
.

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

- For Client Use

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

Equities cont'd

Asset class	View	Rationale	Risks to consider
UK	**Overweight** —	Our estimate of UK equity valuations has significantly improved over the past year. In our opinion, valuations are particularly attractive for GBP investors. In our view, sterling weakness amid a harder-than-expected Brexit outcome may support the earnings performance of multinationals with foreign currency revenues. Meanwhile, a resolution to the current Brexit impasse that lifts uncertainty, could see a rebound in UK growth that may support domestically oriented stocks.	Brexit uncertainty is weighing on economic growth, making for a potentially difficult backdrop for UK risk assets. However, we think investors are being rewarded for bearing these risks.
Japan	**Overweight** —	We believe valuations are attractive while policy is supportive. Large corporate cash reserves provide firms with the scope to boost dividends or engage in stock repurchases.	Japan's recent economic performance has been weak, and is vulnerable to world trade growth. Protectionism is a key risk. 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 more cautious Fed. EM central banks are also starting to loosen policy amid subdued inflation. 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.	Aggregate EM growth momentum remains fairly soft, with sluggish world trade growth weighing on the outlook. Furthermore, although Chinese authorities have eased policy, it remains to be seen if this will provide enough support.
CEE & Latam	**Neutral** —	There has been a loss of economic growth momentum in Latin America, although there are signs of stabilisation. Meanwhile, parts of CEE offer us attractive equity risk premiums.	Economic growth could deteriorate further, with many economies dependent on the global trade and industrial cycle. Geopolitical tensions are high and unpredictable. We think high local interest rates and sovereign yields in many countries diminish the case for bearing equity risk.

Source: HSBC Global Asset Management, Global Investment Strategy, May 2019 and subject to change
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
.

PUBLIC - For Client Use

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

Government Bonds

Asset class	View	Rationale	Positive factors to consider
Developed Markets (DM)	**Underweight –**	Prospective returns still look low. Higher inflation could push bond yields up and this remains a neglected risk. The relative value of equities against bonds continues to be clear.	Government bonds may still deliver diversification benefits should concerns over economic growth intensify. Also “secular stagnation” forces remain (ageing populations, low productivity and investment). The global pool of perceived “safety” assets is limited.
US	**Underweight –**	Prospective risk-adjusted returns look consistent with a full UW position. The US is at the forefront of building inflationary pressures. A meaningful pick-up in inflation is a key risk scenario. 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 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.
Eurozone	**Underweight –**	Core eurozone government bonds are overvalued, in our view. The market has lost the support of the ECB’s net asset purchases.	Core inflationary pressures in the region remain subdued, and economic growth has weakened. 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 and has started to modify its yield targeting framework.	The “Yield Curve Control” framework should limit volatility and reduce the risk of significantly higher yields in the near term.

Asset class	View	Rationale	Risks to consider
Emerging markets (EM) local currency	**Overweight –**	In our view, most EM countries offer high prospective returns, especially compared to the opportunity set. Our estimate of the sustainable return on EM currencies reinforces our choice to hold this position unhedged.	Further Fed rate hikes and a rapid gain in the US dollar are key risks, but the dollar could weaken on positive US-China trade developments Diverging economic and political regimes in the EM universe also mean that being selective is key.

Source: HSBC Global Asset Management, Global Investment Strategy, May 2019 and subject to change
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
.

PUBLIC - For Client Use

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** ↓	**As we were already underweight eurozone investment grade (IG) corporate bonds, the change in the US IG view means we have also moved from neutral to underweight Global IG, given the US and eurozone account for around 70% of Global IG corporate bonds.**	Corporate bonds may be supported by still decent macroeconomic and corporate fundamentals. The risk of significant defaults and downgrades appears limited for now. Dovish central bank policy is also a positive.
USD investment grade	**Underweight** ↓	**We have downgraded US investment grade (IG) corporate bonds from neutral to underweight because the recent rally in credit asset prices has come at the expense of lower prospective risk-adjusted returns.** We no longer believe there is an adequate margin of safety against downside risks. US IG could come under pressure from slowing US economic growth and falling profitability. The “rating drift” - a measure of the amount of IG issuers that have been upgraded versus downgraded - has fallen in the US and is slightly negative now (more downgrades than upgrades).	Positively, US growth remains robust and we do not expect it to fall below trend. The Fed is also signalling it will not raise rates anytime soon and the level of profitability remains high. 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 weighed down by a relatively large negative duration risk premium i.e. we are being penalised for bearing interest-rate risk.	The ECB’s pledge to reinvest maturing assets for “an extended period of time” is supportive. Default rates also remain low.

Asset class	View	Rationale	Risks to consider
Asia investment grade	**Neutral** —	Within the IG universe, the carry offered by Asian credits looks attractive relative to DM in our view. Reasonably solid underlying activity in EM Asia and a neutral monetary policy stance in most countries are also supportive.	Further Fed policy normalisation poses a risk, particularly for corporates who borrow in US dollars. Risks from rising protectionism cannot be ignored either, while the extent of Chinese leverage remains a long-term issue.

Source: HSBC Global Asset Management, Global Investment Strategy, May 2019 and subject to change
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
.

PUBLIC - For Client Use

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

High-yield corporate Bonds

Asset class	View	Rationale	Risks to consider
Global high-yield	**Neutral** —	Corporate fundamentals look solid amid decent global economic activity, and defaults are low. We prefer higher-rated HY bonds. This growth-sensitive asset class may perform well if activity surprises to the upside	HY bonds have also recently rallied, reducing prospective returns. We are monitoring this asset class closely. Our measures show that we remain better rewarded by equities as a way to benefit from a decent economic backdrop.
US high-yield	**Neutral** —	Still decent US economic activity continues to support corporate fundamentals. 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 growth risks are limited in our view.	Prospective returns on US HY corporate bonds have diminished on the back of recent price gains. US HY credits remain vulnerable to a deterioration in economic data or the default outlook. A more aggressive-than-expected Fed tightening cycle is a risk.
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 momentum appears robust, underlying corporate fundamentals look decent, and inflationary pressures appear relatively stable.	Further Fed monetary policy normalisation poses a risk, particularly for corporates who borrow in US dollars. Risks from rising protectionism cannot be ignored either, while the extent of Chinese leverage remains a long-term issue.
Europe high-yield	**Neutral** —	Underlying corporate fundamentals remain healthy (low default rates), and we are not expecting a eurozone recession in 2019. Monetary policy is still accommodative, with the ECB still far off from normalising interest rates.	Eurozone growth could disappoint further in 2019, although problems seem to be concentrated in the manufacturing sector European political risks remain, with uncertainties in Italy likely to be a lingering risk in 2019, while a no-deal Brexit is still possible.

Source: HSBC Global Asset Management, Global Investment Strategy, May 2019 and subject to change
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
.

PUBLIC - For Client Use

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

Alternatives

Asset class	View	Rationale	Risks to consider
EM agg bond (USD)	**Neutral** —	Investors' reach for yield may continue to support this asset class. A more dovish Fed also supports those EM economies with high USD-denominated debt holdings.	This asset class has recently rallied, reducing prospective returns. Therefore a cautious stance is warranted, in our view. The possibility of further Fed policy normalisation and a stronger US dollar remains a risk. USD debt leverage is high in some economies.
Gold	**Neutral** —	Gold futures can offer reasonable diversification benefits to our multi-asset portfolios and have some inflation-hedging characteristics. Gold performed well in the October and December 2018 selloffs.	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 during 2018. 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 global real estate equities are priced to deliver reasonably attractive long-run returns relative to DM government bonds. Current dividend yields offer a sizeable premium over wider equities and, in the long run, rents are linked to general economic growth, providing a partial inflation hedge.	In some countries, 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. Sudden rises in interest rates could adversely affect prices in the short term. In the UK, Brexit continues to overshadow the market.

Source: HSBC Global Asset Management, Global Investment Strategy, May 2019 and subject to change
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
.

PUBLIC - For Client Use

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. Asian economic growth has held up relatively well, corporate earnings growth looks strong and macroeconomic structural characteristics are better than in other EM regions. We think Asian currencies are set to appreciate in the medium term.	A further rise in US Treasury yields is a key risk, along with DM central bank policy normalisation. Other risks include US protectionist policies; geopolitical events; commodity-price and/or currency volatility and renewed concerns about China's growth and financial stability.
China equities	**Overweight** —	Recent data suggest that policy easing effects are kicking in and growth is bottoming out. Resilience of the economy allows the government to focus on structural reforms. Reforms aimed at improving policy transmission and levelling the playing field can help sustain growth prospects and reallocate capital to more efficient sectors. Despite official concerns about asset bubble risks, we do not expect any policy tightening until a sustained recovery is confirmed. VAT cuts, policy support for corporates' capital market financing, and other easing measures should help earnings. A dovish Fed and easing US-China trade tensions provide some support. Further opening up of the economy, capital market liberalisation/ benchmark index inclusion and structural market reforms (e.g. a new high-tech board) are potential re-rating catalysts.	Following the YTD gains, valuations of Chinese equities have become less attractive to us, though they are not yet stretched Other key risks include weakening corporate profits and margins; a short-lived cyclical recovery that fails to sustain; a US-China trade deal that disappoints market expectations; global protectionism; delays in the government rolling out market-friendly policies and reforms amid uncertainties over policy effectiveness and reform implementation; and tighter liquidity given the government's caution toward further stimulus Uncertain medium-to-long-term trade relations could accelerate shifts in corporate strategy and long-term planning on supply chain locations. Recent resilient property market data reinforces our view of a soft landing in the sector, but risks remain. Structural headwinds and financial stability/ debt concerns remain for China's long-term growth story.

Source: HSBC Global Asset Management, Global Investment Strategy, May 2019 and subject to change
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
.

PUBLIC - For Client Use

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

Asian assets cont'd

Asset class	View	Rationale	Risks to consider
India equities	**Overweight** –	Monetary and fiscal polices have turned pro-growth with public sector bank recapitalisation and relaxation in financial regulations. The farm income support programme (despite implementation challenges), tax benefits for the middle income class, and a modest rise in food prices support consumption. Consensus earnings outlook for India remains one of the strongest in the region. A patient Fed and improving external liquidly environment should support macro stability, the current account balance and the Rupee (INR). Bank asset quality is steadily improving and loan growth is picking up. The long-term structural story remains positive with substantial progress on key reforms, higher infrastructure spending, and improving governance and ease of doing business.	Valuations are fairly unattractive compared with other Asian markets. Earnings risks and political uncertainties given ongoing elections could keep near-term market volatility high. Any significant increase in crude oil prices is a key risk. Consumption growth trend is sluggish. Job creation is weak. Slower credit disbursal by non-bank finance companies, fiscal constraints and external uncertainties pose downside risks to near-term economic growth and corporate earnings. The pre-election FY20 interim budget prioritised populism over fiscal prudence with a pause on fiscal consolidation. The new glide path does not change the original target of achieving 3% of GDP by FY21, but the credibility of the target is questionable.
Hong Kong equities	**Neutral** –	A recovery in Chinese mainland tourist spending contributed to a sequential improvement in HK retail sales YTD. Equity market gains and any bottoming out of the housing market as well as a potential spillover of positive Chinese sentiment could help local consumer demand. Fiscal policy helps to cushion against downside risks though the budget reduces short-term relief measures and focuses on long-term development A pause to the Fed's tightening cycle and lower planned land supply for private housing could ease pressure on HK's property market. The Greater Bay Area Initiative will bring business opportunities and give a boost to HK's economic growth and competitiveness in the longer term.	The domestic asset markets face risks from tightening global and domestic financial conditions and are highly exposed to global market volatility/sentiment, although China's policy support and the pause on Fed rate hikes could offer some respite. Weaker global trade/demand growth, global protectionism/geopolitical risks and China's financial risk contagion are key risks. Uncertainties over an anticipated US-China trade deal and longer-term US-China relations remain, as well as the strength and sustainability of an ongoing Chinese demand recovery.
Singapore equities	**Overweight** –	Economic growth has slowed amid soft external demand, but the labour market and services sector have held up. The budget focuses on long-term economic transformation, with modest short-term fiscal impulse. Singapore will benefit from CPTPP[1] and it could marginally benefit from multinational companies looking to diversify their supply chain operations and manufacturing bases into ASEAN. The relatively high dividend yield is positive. Singaporean banks have robust asset quality and capital position.	Weakness in exports and manufacturing could spill over to domestic demand and weigh on employment and wage growth. Singapore faces the risk of tighter global financial conditions, slower global demand, and trade protectionism, and is sensitive to sharp moves in the USD. Tightening market liquidity is a risk. The housing market faces the challenges of higher mortgage rates/debt and policy measures, though the ongoing property price correction is largely priced in the valuations.

Source: HSBC Global Asset Management, Global Investment Strategy, May 2019 and subject to change
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
.

[1] The Comprehensive and Progressive Agreement for Trans-Pacific Partnership ("CPTPP") is a Free Trade Agreement ("FTA") between 11 countries: Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam.

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

Asian assets cont'd

Asset class	View	Rationale	Risks to consider
South Korea equities	**Neutral** —	South Korean equity valuations appear attractive. Negatives from a downturn in the semiconductor cycle may be largely priced in. An anticipated recovery in H2 could be supportive.	We remain cautious about the earnings outlook given some downside risks to global growth, concerns about lukewarm or a muted recovery in tech end-demand, a tepid domestic economy, labour market slack, and regulatory pressures (e.g. on the housing market).
		We expect some positive spillovers from China's growth recovery. US-China trade war risks have eased with a deal on the horizon.	Sluggish global trade and uncertain US trade policies remain key risks. US-China trade deal could come with both upside and downside risks.
		An expansionary fiscal policy supports domestic demand, though a focus on the welfare sector means weaker fiscal multiplier effects.	The high level of household leverage is a key macro risk, though household credit growth has slowed since 2017.
		The introduction of Stewardship Code and efforts to improve corporate governance and capital return/dividend policy have the potential to bring significant changes in the market.	Labour-market headwinds to consumption persist, partly reflecting the impact of minimum wage/labour policy and corporate restructuring.
Taiwan equities	**Neutral** —	We think Taiwan's relatively high dividend yield is appealing amid heightened market volatility. Concerns about US-China trade tensions have eased with a deal in the offing	Earnings outlook remains weak and there are limited new re-rating drivers from the tech sector (H2 demand recovery largely in the price), though Taiwan's focus on the non-memory semiconductor sector has helped it suffer less than Korea from a collapse in memory chip prices.
		Macro policies are likely to remain accommodative to support the economy.	Sluggish global trade remains a key risk, as well as the risk of global protectionism. Taiwanese tech firms face competition from China.
		Several industries and companies have benefited from US-China trade friction via order transfers/trade diversion (though such tailwind will likely fade with a trade deal).	Rising political and military tensions with China (which put Taiwan at risk of being excluded from regional trade/investment agreements) are risks. Political uncertainty due to 2020 presidential/national elections.

This commentary has been produced by HSBC Global Asset Management to provide a high level overview of the recent economic and financial market environment, and is for information purposes only. The views expressed were held at the time of preparation; are subject to change without notice and may not reflect the views expressed in other HSBC Group communications or strategies. This marketing communication does not constitute investment advice or a recommendation to any reader of this content to buy or sell investments nor should it be regarded as investment research. The content has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination. You should be aware that the value of any investment can go down as well as up and investors may not get back the amount originally invested. Furthermore, any investments in emerging markets are by their nature higher risk and potentially more volatile than those inherent in established markets. Any performance information shown refers to the past and should not be seen as an indication of future returns. You should always consider seeking professional advice when thinking about undertaking any form of investment.

Source: HSBC Global Asset Management, Global Investment Strategy, May 2019 and subject to change
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
.

PUBLIC - For Client Use

Market data

April 2019

Equity Indices	Close	MTD Change (%)	3M Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low	Fwd P/E (X)
World								
MSCI AC World Index (USD)	525	3.2	6.9	3.0	15.2	529	435	15.7
North America								
US Dow Jones Industrial Average	26,593	2.6	6.4	10.1	14.0	26,952	21,713	16.5
US S&P 500 Index	2,946	3.9	8.9	11.2	17.5	2,953	2,347	17.7
US NASDAQ Composite Index	8,095	4.7	11.2	14.6	22.0	8,176	6,190	23.8
Canada S&P/TSX Composite Index	16,581	3.0	6.7	6.2	15.8	16,673	13,777	15.1
Europe								
MSCI AC Europe (USD)	457	3.0	6.2	-5.8	13.2	490	391	13.7
Euro STOXX 50 Index	3,515	4.9	11.2	-0.6	17.1	3,596	2,909	14.1
UK FTSE 100 Index	7,418	1.9	6.4	-1.2	10.3	7,904	6,537	13.0
Germany DAX Index*	12,344	7.1	10.5	-2.1	16.9	13,204	10,279	13.6
France CAC-40 Index	5,586	4.4	11.9	1.2	18.1	5,657	4,556	14.5
Spain IBEX 35 Index	9,571	3.6	5.7	-4.1	12.1	10,291	8,286	12.4
Italy FTSE MIB	21,881	2.8	10.9	-8.7	19.4	24,544	17,914	11.0
Asia Pacific								
MSCI AC Asia Pacific ex Japan (USD)	538	1.7	5.3	-5.4	12.8	581	459	14.2
Japan Nikkei-225 Stock Average	22,259	5.0	7.1	-0.9	11.2	24,448	18,949	15.3
Australian Stock Exchange 200	6,325	2.3	7.9	5.7	12.0	6,391	5,410	16.5
Hong Kong Hang Seng Index	29,699	2.2	6.3	-3.6	14.9	31,593	24,541	11.5
Shanghai Stock Exchange Composite Index	3,078	-0.4	19.1	-0.1	23.4	3,288	2,441	11.8
Hang Seng China Enterprises Index	11,542	1.4	4.6	-6.4	14.0	12,590	9,762	8.8
Taiwan TAIEX Index	10,968	3.1	10.4	2.9	12.8	11,262	9,319	15.9
Korea KOSPI Index	2,204	2.9	-0.1	-12.4	8.0	2,517	1,985	12.2
India SENSEX 30 Index	39,032	0.9	7.7	11.0	8.2	39,487	33,292	19.0
Indonesia Jakarta Stock Price Index	6,455	-0.2	-1.2	7.7	4.2	6,636	5,558	15.9
Malaysia Kuala Lumpur Composite Index	1,642	-0.1	-2.4	-12.2	-2.9	1,877	1,610	16.3
Philippines Stock Exchange PSE Index	7,953	0.4	-0.7	1.7	6.5	8,214	6,791	16.9
Singapore FTSE Straits Times Index	3,400	5.8	6.6	-5.9	10.8	3,642	2,956	13.4
Thailand SET Index	1,674	2.1	1.9	-6.0	7.0	1,798	1,547	14.7
Latam								
Argentina Merval Index	29,571	-11.6	-18.6	-1.4	-2.4	37,875	24,618	6.8
Brazil Bovespa Index*	96,353	1.0	-1.1	11.9	9.6	100,439	69,069	11.8
Chile IPSA Index	5,187	-1.4	-4.0	-9.2	1.6	5,731	4,999	15.0
Colombia COLCAP Index	1,574	-0.9	8.8	0.5	18.7	1,634	1,291	12.4
Mexico S&P/BMV IPC Index	44,597	3.0	1.4	-7.8	7.1	50,603	39,272	14.2
EEMEA								
Russia MOEX Index	2,559	2.5	1.5	10.9	8.0	2,600	2,193	5.8
South Africa JSE Index	58,528	3.7	8.1	0.5	11.0	60,299	50,033	13.4
Turkey ISE 100 Index*	95,416	1.7	-8.3	-8.5	4.5	108,171	84,655	6.5

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

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

Past performance is not an indication of future returns.

All numbers rounded to one decimal place. The views expressed were held at the time of preparation, and are subject to change.

PUBLIC - For Client Use

Market data (continued)

April 2019

Equity Indices - Total Return	3-month Change (%)	YTD Change (%)	1-year Change (%)	3-year Change (%)	5-year Change (%)	Dividend Yield (%)
Global equities	7.5	16.0	5.1	38.1	40.0	2.5
US equities	9.3	18.3	12.7	49.1	67.4	1.9
Europe equities	7.7	14.8	-3.0	22.3	6.4	3.8
Asia Pacific ex Japan equities	5.7	13.4	-2.7	40.2	30.4	3.3
Japan equities	1.9	8.1	-7.2	22.2	36.8	2.4
Latam equities	-5.8	8.3	-5.1	30.0	-3.7	3.0
Emerging Markets equities	3.2	12.2	-5.0	37.7	21.9	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)	540	0.1	2.0	5.4	3.1
JPM EMBI Global	823	0.1	2.2	5.2	6.7
BarCap US Corporate Index (USD)	2,991	0.5	3.3	6.5	5.7
BarCap Euro Corporate Index (Eur)	253	0.7	2.8	3.0	3.9
BarCap Global High Yield (USD)	491	0.9	3.2	5.4	7.7
BarCap US High Yield (USD)	2077	1.4	4.1	6.7	8.8
BarCap pan-European High Yield (USD)	447	1.6	5.2	5.7	7.6
BarCap EM Debt Hard Currency	411	0.4	2.2	4.4	5.3
Markit iBoxx Asia ex-Japan Bond Index (USD)	204	0.4	2.9	6.4	5.0
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	263	0.4	4.0	5.9	7.9

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 April 2019.

Past performance is not an indication of future returns.

All numbers rounded to one decimal place. The views expressed were held at the time of preparation, and are subject to change.

PUBLIC - For Client Use

Market data (continued)

April 2019

Bonds	Close	End of last mth.	3-months Ago	1-year Ago	Year End 2018
US Treasury yields (%)					
3-Month	2.41	2.38	2.38	1.80	2.35
2-Year	2.27	2.26	2.46	2.49	2.49
5-Year	2.28	2.23	2.44	2.80	2.51
10-Year	2.50	2.41	2.63	2.95	2.68
30-Year	2.93	2.81	3.00	3.12	3.01
Developed market 10-year bond yields (%)					
Japan	-0.05	-0.09	0.00	0.05	-0.01
UK	1.18	1.00	1.22	1.42	1.28
Germany	0.01	-0.07	0.15	0.56	0.24
France	0.37	0.32	0.55	0.78	0.71
Italy	2.55	2.49	2.59	1.78	2.74
Spain	1.00	1.09	1.19	1.27	1.41

Commodities	Latest	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Gold	1,284	-0.7	-2.8	-2.4	0.1	1,347	1,160
Brent Oil	72.8	6.4	17.6	-3.2	35.3	87	50
WTI Crude Oil	63.9	6.3	18.8	-6.8	40.7	77	42
R/J CRB Futures Index	184	0.3	2.6	-8.8	8.5	207	168
LME Copper	6,415	-1.0	4.0	-5.8	7.5	7,348	5,725

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

Past performance is not an indication of future returns.

All numbers rounded to one decimal place. The views expressed were held at the time of preparation, and are subject to change.

PUBLIC - For Client Use

Market data (continued)

April 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	97.48	97.28	95.58	91.84	96.17	98.33	91.80
EUR/USD	1.12	1.12	1.14	1.21	1.15	1.20	1.11
GBP/USD	1.30	1.30	1.31	1.38	1.28	1.37	1.24
CHF/USD	0.98	1.00	1.01	1.01	1.02	1.05	0.98
CAD	1.34	1.33	1.31	1.28	1.36	1.37	1.27
JPY	111.4	110.9	108.9	109.3	109.7	114.6	104.9
AUD	1.42	1.41	1.37	1.33	1.42	1.48	1.30
NZD	1.50	1.47	1.45	1.42	1.49	1.56	1.42
Asia							
HKD	7.84	7.85	7.85	7.85	7.83	7.85	7.79
CNY	6.73	6.71	6.70	6.33	6.88	6.98	6.33
INR	69.57	69.16	71.09	66.66	69.77	74.48	66.53
MYR	4.13	4.08	4.10	3.92	4.13	4.20	3.92
KRW	1,168	1,135	1,113	1,068	1,111	1,168	1,065
TWD	30.91	30.83	30.72	29.61	30.55	31.17	29.64
Latam							
BRL	3.92	3.92	3.65	3.51	3.88	4.21	3.51
COP	3,233	3,189	3,107	2,803	3,254	3,303	2,799
MXN	18.95	19.43	19.11	18.71	19.65	20.96	18.41
ARS	44.22	43.32	37.31	20.54	37.67	46.53	20.53
EEMEA							
RUB	64.62	65.76	65.38	62.98	69.35	70.84	60.95
ZAR	14.30	14.50	13.25	12.46	14.35	15.70	12.18

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

Past performance is not an indication of future returns.

All numbers rounded to one decimal place. The views expressed were held at the time of preparation, and are subject to change.

PUBLIC - For Client Use

For Professional Clients and intermediaries within countries set out below; and for Institutional Investors and Financial Advisors in Canada and the US. This document should not be distributed to or relied upon by Retail clients/investors.

The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. Past performance contained in this document is not a reliable indicator of future performance whilst any forecasts, projections and simulations contained herein should not be relied upon as an indication of future results. Where overseas investments are held the rate of currency exchange may cause the value of such investments to go down as well as up. Investments in emerging markets are by their nature higher risk and potentially more volatile than those inherent in some established markets. Economies in Emerging Markets generally are heavily dependent upon international trade and, accordingly, have been and may continue to be affected adversely by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. These economies also have been and may continue to be affected adversely by economic conditions in the countries in which they trade. Mutual fund investments are subject to market risks, read all scheme related documents carefully.

The contents of this document may not be reproduced or further distributed to any person or entity, whether in whole or in part,

PUBLIC - For Client Use

Important information:

The contents of this document may not be reproduced or further distributed to any person or entity, whether in whole or in part, for any purpose. All non-authorized reproduction or use of this document will be the responsibility of the user and may lead to legal proceedings. The material contained in this document is for general information purposes only and does not constitute advice or a recommendation to buy or sell investments. Some of the statements contained in this document may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors. We do not undertake any obligation to update the forward-looking statements contained herein, or to update the reasons why actual results could differ from those projected in the forward-looking statements. This document has no contractual value and is not by any means intended as a solicitation, nor a recommendation for the purchase or sale of any financial instrument in any jurisdiction in which such an offer is not lawful. The views and opinions expressed herein are those of HSBC Global Asset Management Global Investment Strategy Unit and HSBC Securities (USA) Inc. at the time of preparation, and are subject to change at any time. These views may not necessarily indicate current portfolios' composition. Individual portfolios managed by HSBC Global Asset Management primarily reflect individual clients' objectives, risk preferences, time horizon, and market liquidity.

The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. Past performance contained in this document is not a reliable indicator of future performance while any forecasts, projections and simulations contained herein should not be relied upon as an indication of future results. Where overseas investments are held the rate of currency exchange may cause the value of such investments to go down as well as up. Investments in emerging markets are by their nature higher risk and potentially more volatile than those inherent in some established markets. Economies in Emerging Markets generally are heavily dependent upon international trade and, accordingly, have been and may continue to be affected adversely by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. These economies also have been and may continue to be affected adversely by economic conditions in the countries in which they trade. Mutual fund investments are subject to market risks, read all related documents carefully.

PUBLIC - For Client Use