IM Investment Monthly

2 March 2018

US Treasuries sell off further amid equity market volatility

Key takeaways

- We remain overweight global equities and local-currency emerging market (EM) government bonds. We also retain our underweight stance on developed market (DM) government bonds, and global investment grade (IG) and high-yield (HY) corporate bonds
- Global equities fell and volatility spiked in February amid a further decline in US Treasury prices over the month
- Testifying to Congress, Fed Chair Powell reaffirmed a gradual path to raising interest rates and shrinking the balance sheet. He struck a confident tone on the economy
- The ECB's January policy meeting minutes stated the policy stance could be revisited early this year, potentially paving the way to end the bank's QE programme later in 2018
- China's recent PMI data indicates softer early-2018 activity growth amid relatively tight credit conditions. Exports have held up but there is a growing threat of US protectionism
- In Japan, Premier Abe reappointed BoJ Governor Kuroda for a second five-year term, pending confirmation by the parliament. Kuroda stated that the BoJ has no plan to change its current policy setting

US Treasury sell-off not yet a problem for equities

We remain in a bond unfriendly environment of gradually building cyclical inflation and central bank policy normalisation. As **DM government bonds** still offer low sustainable returns, maintaining an underweight stance in this asset class continues to make sense, in our view.

Higher inflation is a key risk, however the sharp increase in **US Treasury** yields this year has meant this asset class increasingly offers decent protection against a renewal of economic recession fears. We hold our underweight position here with a positive bias. Meanwhile, selective parts of **EM local currency government debt** remain attractive and we retain our overweight positioning.

Despite the roller-coaster ride in **global equities** this year, corporate fundamentals continue to be strong, the earnings growth outlook looks solid, and we are still in a "balanced expansion" of global growth. Higher bond yields have also yet to challenge our relative preference for equities versus bonds. This means that the recent sell-off is a buying opportunity, particularly in attractively valued markets (e.g. eurozone, Japan and EM Asia). We also see global equities as a better way to benefit from a strong growth environment versus **DM corporate bonds**, which are overvalued in our view.

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

OW = Overweight; N = Neutral; UW = Underweight

HSBC

Long-term asset class positioning (>12 months)

Basis of Views and Definitions of 'Long term Asset class positioning' table

Views are based on regional HSBC Global Asset Management Asset Allocation meetings held throughout February 2018, HSBC Global Asset Management's long-term expected return forecasts which were generated as at 9 February 2018, 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 28 February 2018.

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 28 February 2018.

Equities

Asset class	View	Movement	Rationale
Global	**Overweight**	—	**Rationale of overweight views:** Global economic growth momentum remains solid, driving global equity markets to deliver positive returns over the long term. Overall, support from still loose monetary policy and fiscal policy (if needed) will, in the medium and longer term, likely outweigh any headwinds from more modest Chinese growth, monetary policy normalisation in DM economies, and political uncertainty in many regions. **Risks to consider:** Fairly narrow implied equity premia (excess return over cash) limit the ability of the market to absorb bad news. Episodic volatility may be triggered by concerns surrounding Chinese growth, US economic policy, and/or a potentially more rapid than expected Fed, ECB or BoJ normalisation of policy, coupled with political risks. A notable and persistent deterioration of the global economic outlook could also dampen our view.
US	Neutral	—	**Positive factors:** Despite a recent pickup in market volatility, corporate fundamentals remain strong, the earnings growth outlook looks solid (with upside risks from tax reform), and the US macroeconomic backdrop is still robust. Overall, our measure of the implied risk premium (excess returns over cash) remains consistent with a neutral positioning. **Risks to consider:** The magnitude of the boost to GDP growth from tax reform is likely to be small given where we are in the cycle. A more rapid than expected tightening of Fed policy also poses risks. We are getting closer to the critical point where we need to reassess whether we are being offered enough to take on equity risk in this market.
UK	Neutral	—	**Positive factors:** Major UK equity indices are heavily weighted to financial and resource stocks which should benefit from higher commodity prices and rising interest rates. Overall, however, current valuations are consistent with a neutral positioning, in our view. **Risks to consider:** The prospective reward for bearing equity risk in the UK is relatively low compared to other markets. The UK economy is underperforming amid inflationary pressures and Brexit-related uncertainty.
Eurozone	Overweight	—	**Rationale of overweight views:** Eurozone equities benefit from relatively high implied risk premia and scope for better earnings news given the region's earlier point in the activity cycle. The recent sell-off is a buying opportunity. Ultra-low ECB policy interest rates are likely to persist until the end of the decade. **Risks to consider:** Political risks remain amid looming Italian general elections, lingering tensions in Spain (Catalonia) and Brexit-related uncertainty. A weaker UK economy may dent exports to a significant trading partner. ECB monetary policy may also be less accommodative than expected.

Source: HSBC Global Asset Management. All numbers rounded to one decimal place
Past performance is not an indication of future returns.

Japan	Overweight	—	**Rationale of overweight views:** The relative valuation is attractive, in our view, whilst monetary and fiscal policy is supportive. The recent sell-off is a buying opportunity. Large corporate cash reserves provide firms with the scope to boost dividends or engage in stock repurchases. Earnings momentum remains positive. **Risks to consider:** Although there has been a pick-up in investment, domestic economic fundamentals are relatively sluggish.
Emerging Markets (EM)	Overweight	—	**Rationale of overweight views:** EM economic growth momentum continues to look good (especially relative to stable growth in DM). Based on current pricing, we also think there is still significant potential for (selected) EM currencies to appreciate over the medium term. Unhedged exposures to EM Asia offer the best risk-adjusted rewards, in our view. **Risks to consider:** There could be some near-term volatility as worries persist around the uncertain path for future Fed tightening, the potential for increased trade protectionism, economic transition in China, and the robustness of the global economy as a whole. Geopolitical uncertainty also poses risks.
CEE & Latam	Neutral	—	**Positive factors:** Brazil exited recession in Q1 2017 and has embarked on an ambitious reform agenda, whilst Mexico's economy is resilient. We believe Poland, Russia and Hungary offer attractive risk premiums. **Risks to consider:** Geopolitical tensions are high and unpredictable. High local cash rates and sovereign yields in many countries diminish the case for bearing equity risk.

Government bonds

Asset Class	View	Movement	Rationale
Developed Markets (DM)	**Under-weight**	—	**Rationale of underweight views:** Prospective returns still look low relative to competing asset classes. In a bond-unfriendly environment (strong global activity, the risk of cyclical inflationary pressures, and gradual DM central bank policy normalisation), global bond yields could move higher still. **Positive factors:** Government bonds can still deliver diversification benefits should there be a renewal of economic growth concerns. Also, "secular stagnation" forces remain (ageing populations, low productivity and investment), and the global pool of safety assets is limited.
US	Underweight	—	**Rationale of underweight views:** The US labour market is at (or close to) full employment so underlying inflationary pressures may build, especially following tax reform. A more meaningful pick-up in inflation is a key risk scenario. **Positive factors:** Our measure of the implied term premium (a measure of the compensation for bearing risk associated with unexpected interest rate changes) on 10-year US Treasuries is now significantly higher. We believe this asset class increasingly offers decent protection against a renewal of economic recession fears, and we hold this position with a positive bias.
UK	Underweight	—	**Rationale of underweight views:** The UK economy could continue to underperform, boosting safe-haven demand for gilts, but we think current valuations are extreme. **Positive factors:** Amid downside risks to growth, UK monetary policy is likely to remain accommodative for a longer period.
Eurozone	Underweight	—	**Rationale of underweight views:** Similarly, core European bonds are overvalued, in our view. A key risk is the eventual termination of ECB asset purchases. **Positive factors:** Core inflationary pressures in the region remain subdued, which should keep accommodative monetary policy in place for an extended period of time.
Japan	Underweight	—	**Rationale of underweight views**: Japanese government bonds (JGBs) are overvalued, in our view. The BoJ has also recently reduced the amount of its JGB purchases and could modify its yield targeting framework. **Positive factors:** The "Yield Curve Control" framework should limit volatility and reduce the risk of significantly higher yields in the near term.
Emerging markets (EM)	**Overweight**	—	**Rationale of overweight views:** Despite the recent strong performance, most countries still offer high prospective returns, especially relative to the opportunity set. Our estimate of the sustainable return on EM currencies reinforces our choice to hold this position unhedged. **Risks to consider:** A more aggressive than expected tightening of Fed policy. Diverging economic and political regimes in the EM universe mean that being selective is key.

Source: HSBC Global Asset Management. All numbers rounded to one decimal place
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Corporate bonds

Asset Class	View	Movement	Rationale
Global investment grade (IG)	**Under-weight**	—	**Rationale of underweight views:** Low implied credit premiums mean that the margin of safety against negative shocks, such as a slight deterioration in the data or default outlook, is very thin. We prefer a mix of government bonds and equities to credit. **Positive factors:** The macro environment remains supportive for credits – implied recession probabilities are near zero. The risk of defaults and downgrades appear limited for now.
– USD investment grade	Underweight	—	**Rationale of underweight views:** Apart from low implied credit premiums, the "duration" of US IG corporate bonds — a measure of their sensitivity to shifts in underlying interest rates — is at record highs, making them vulnerable to a more aggressive pace of Fed tightening. **Positive factors:** US investment grade debt looks more attractive to us than European credit. We think carefully selected US credit may outperform.
– EUR and GBP investment grade	Underweight	—	**Rationale of underweight views:** Alongside a compressed credit risk premium, EUR IG prospective returns are also weighed down by a negative duration risk premium i.e. we are being penalised for bearing interest-rate risk. **Positive factors:** For the time being, the ECB's corporate bond-buying programme remains supportive. Default rates also remain low.
– Asia investment grade	Neutral	—	**Positive factors:** Within the IG universe, the carry offered by Asian credits looks attractive relative to DM. Our measure of the implied credit risk premium is also relatively high. Accelerating underlying activity in EM Asia and a neutral monetary policy stance in most countries is also supportive. **Risks to consider:** A more aggressive than expected Fed policy normalisation poses a key 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.
Global high-yield	**Underweight**	—	**Rationale of underweight views:** Our measure of implied high-yield (HY) credit risk premiums (compensation for bearing credit risk) are low. Our measures show we are better rewarded by equities as a way to benefit from a strong economic backdrop. **Positive factors:** HY bonds are more exposed to growth than to interest rate risk. Corporate fundamentals are improving following a pick-up in the global activity cycle, and defaults are low. We prefer higher-rated HY bonds.
– US HY	Underweight	—	**Rationale of underweight views:** The recent compression of credit risk premiums makes US HY credits even more vulnerable to even a slight deterioration in the data or default outlook. A sustained fall in commodity prices and a more aggressive Fed tightening cycle all pose risks. **Positive factors:** Broad-based strength in US economic activity continues to support corporate fundamentals. Tax reforms will also help. Default rates are relatively low. HY bonds also have a shorter effective duration, making them more exposed to growth than to interest rate risk.
– Europe HY	Underweight	—	**Rationale of underweight views:** The carry offered in Euro HY has declined over the past year and now looks less attractive when compared to European equities. The ECB APP, which has so far been positive for this asset class, is likely to be terminated by 2019. Overall, our measure of prospective risk-adjusted returns in EUR HY is consistent with an underweight positioning. **Positive factors:** The robust eurozone recovery, coupled with spill-over effects from the ECB Asset Purchase Programme (APP) remain supportive. The default outlook also looks benign.
– Asia HY	Neutral	—	**Positive factors:** The carry offered by Asian High Yield looks attractive to us given the alternatives, with relatively high prospective risk-adjusted returns. Economic momentum continues to build and inflationary pressures appear to have mostly stabilised. **Risks to consider:** A Fed error in its normalisation of monetary policy poses a key 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.

Other

Asset Class	View	Movement	Rationale
EM agg bond (USD)	**Underweight**	—	**Rationale of underweight views:** Dollar-denominated EM bonds have performed well over 2017. Consequently, prospective risk-adjusted returns now look poor relative to the opportunity set. The risk of a more hawkish Fed and stronger USD poses a significant risk to USD-denominated debt holdings in the EM universe. USD debt leverage is high in some economies. **Positive factors:** Investors' reach for yield may continue to support EM hard-currency bonds.
Gold	**Neutral**	—	**Positive factors:** Gold futures can offer reasonable diversification benefits to our multi-asset portfolios and have some inflation-hedging characteristics. **Risks to consider:** Based on our expected returns framework, prospective returns on gold futures look poor today given current market pricing. This is due to the large negative expected roll yield (the cost of renewing futures contracts) and a negative expected spot price return.

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Other commodities	**Neutral**	▬	**Positive factors:** Commodity futures can offer reasonable diversification benefits to our multi-asset portfolios and have some inflation-hedging characteristics. **Risks to consider:** Based on our expected returns framework, prospective returns on commodity futures look poor today given current market pricing. This is primarily because there is a large negative expected roll yield (the cost of renewing futures contracts).
Real estate	**Neutral**	▬	**Positive factors:** Based on our dividend growth assumptions and current yields, which offer a premium of over 1.6% points above the dividend yield from wider equities, we believe real estate equities are priced to deliver reasonably attractive long-run returns compared to developed-marked government bonds. In the long run, rents are positively related to wider economic growth and offer a partial inflation hedge. **Risks to consider:** Stronger economic growth and potential inflation pressures have resulted in increases in some government bond yields, which have negatively impacted real estate equities. Although improved economic conditions are associated with more demand from occupiers of property (which is positive for rents, other things being equal), real estate equities can be sensitive to rises in government bond yields in the short term. Some US office markets, such as New York and Washington, are suffering from excess supply. The UK's decision to leave the EU has reduced rental growth prospects in central London and increased uncertainty around future occupier demand in the UK.

Asian assets

Asset Class	View	Movement	Rationale
EM Asian Fixed Income	Underweight	▬	**Rationale of underweight views:** From a near-term perspective, this asset class is sensitive to US monetary policy. Whilst a gradual interest rate hike cycle in the US is positive for the asset class, Asian bond spreads look particularly tight (162bp for the EMBI Global Asia as at 28 February) than in other regions of the EM space (415bp for the EMBI Global Latin America for example), which reduces their relative attractiveness in the near to medium term. **Positive factors to consider:** From a long-term perspective, return signals are still positive, backed by relatively sound economic fundamentals, stable inflation and credit quality.
Asia ex-Japan Equities	Overweight	▬	**Rationale of overweight views:** We think Asia ex Japan equities have particularly attractive risk adjusted returns and a reasonable "margin of safety" in current valuations should a less favourable macro backdrop emerge. Asian earnings growth is strong. Asian currencies are also poised to appreciate in the medium term. **Risks to consider:** A further rise in Treasury yields is a key risk. DM central bank policy normalisation could raise uncertainty. Other risks include US protectionist policies; geopolitical events; commodity-price and/or currency volatility; faltering global growth; and renewed concerns about China's growth and financial stability.
– China	Overweight	▬	**Rationale of overweight views:** Solid earnings growth, ROE recovery and an overall stable macro environment are supportive. With stability remaining a priority, the focus on financial risk prevention (regulatory overhaul and deleveraging, etc.), supply-side reforms and environmental protection to ensure quality growth support Chinese equities in the medium term. Corporate innovation, SOE reform and a 'long-term mechanism" for property management (focus on supply and rental housing) are positives. A-shares' MSCI inclusion and market-oriented financial reforms are potential catalysts. **Risks to consider:** Risk of miscalculation of economic/market consequences of financial regulatory crackdown needs to be monitored. Deleveraging raises near-term liquidity concerns. Shadow banking risks linger. Tighter scrutiny of local government quasi-fiscal financing is a headwind for infrastructure investment. The recent property upcycle is accompanied by rising consumer debt. Structural headwinds persist (e.g. high leverage and inefficient capital allocation). Other risks include renewed pressure on capital outflows; a setback in supply-side reform; and rising Sino-US tension.
– India	Overweight	▬	**Rationale of overweight views:** A gradual cyclical recovery is helping revive corporate earnings, as reforms implemented (e.g. GST) should start paying off after short-term disruptions. Margins will likely improve, asset turnover is high and the ROE cycle has inflected upwards. The public sector bank recapitalisation plan should help accelerate the NPA resolution process, enable more effective policy transmission, and improve the prospect of a credit recovery. The government's budget focus on rural/agriculture mostly on productivity enhancing schemes are positive for the relevant sectors. **Risks to consider:** Elevated relative valuations remain a major concern. Faster pace of Fed/ECB policy normalisation and US protectionist policies are key external risks. Macro stability concerns (e.g. the risk of fiscal slippage, higher inflation and a wider trade/current account deficit), a busy election calendar, and the likelihood of a meaningful rise in equity supply are headwinds. Bank asset quality issues are not yet resolved and credit costs are high. A sustained rise in crude oil prices will have adverse macroeconomic implications. The long-term capital gains tax poses uncertainty.
– Hong Kong	Neutral	▬	**Positive factors:** The expansionary FY19 budget with a generous short-term relief package is positive for the growth outlook. An ongoing cyclical recovery is underpinned by the upturn in trade, a rebound in retail sales (amid a recovery in mainland tourist inflow and solid domestic consumption thanks to a tight labour market and positive wealth effects), and a robust property market. **Risks to consider:** Tightening of liquidity conditions due to higher US rates, a stronger USD, and/or capital outflows; China's financial risk contagion; Chinese authorities' tighter scrutiny of mainland buying of offshore financial products; and rising US protectionism or US-China trade conflicts are risks. Any substantial rise in HIBOR/mortgage rates will be headwind for the property sector.

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– Singapore	Overweight	▬	**Rationale of overweight views:** A trade-led economic recovery coupled with a pickup in private consumption along with a firmer labour market and a revival in the property and credit cycles supports corporate earnings and ROE, amid productivity gains in some sectors. Bank asset quality has stabilised. The 2018 budget is moderately expansionary, with the deferment of a 2% GST hike to 2021 at the earliest a relief and consumption-supportive measures. High dividend yield is positive. **Risks to consider:** Singapore's economy and asset markets face the risk of rising US interest rates and are sensitive to the USD trend. Deposit outflows cannot be ruled out on the back of US tax reform encouraging US companies to repatriate profits. Slowing global trade/demand growth, rising protectionism and geopolitical tensions pose risks.
– South Korea	Overweight	▬	**Rationale of overweight views:** Attractive valuations are the key appeal. The export-driven recovery is spreading to better domestic demand growth. Shareholder friendly policies, such as higher dividend payouts and share buybacks, and corporate governance improvement are potential re-rating catalysts. Improving relations with China and fiscal stimulus support consumption plays. **Risks to consider:** Earnings growth is decelerating and economic growth is likely to moderate. Tax proposals create near-term uncertainty (capital gains tax and corporate income tax hike). Labour policy (e.g. minimum wage hike, tighter working hour limits) will raise costs. Memory prices may be peaking. Geopolitical tension related to North Korea and US protectionist policies remain key risks.
– Taiwan	Neutral	▬	**Positive factors:** Positive global macro outlook supports Taiwan's economy and earnings. The tech sector may benefit from new drivers of demand such as artificial intelligence, Internet of Things and 5G, coupled with global capex uptick. There could be support from more life and pension funds and infrastructure spending. Dividend tax reform may favour retail inflows. Dividend yield is high. **Risks to consider:** Further TWD appreciation is likely to be negative for exporters. Taiwan's export growth may soften on slowing smartphone demand, and its tech sector is facing tougher competition from China within the supply-chain. Weaker-than-expected global trade or tech/semi capex demand growth, deterioration in cross-strait relations and US protectionism are risks.

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US Treasuries sell off further amid equity market volatility

Markets: global equities and US Treasuries fell (yields rose) in February; US dollar recovered

- **Global equities** fell in February amid a further decline in **US Treasury** prices over the month. Volatility also spiked. The MSCI AC World index closed 3.7% lower (as of close of 28 February in local currency, price return, month-to-date terms).
- Rising Treasury yields have been primarily driven by expectations of stronger cyclical inflationary pressures in 2018. This has fed into expectations of a more rapid pace of US monetary policy normalisation, also weighing on equities.
- Increased market expectations of US interest rate increases supported a recovery in the **US dollar** over the month, which in turn weighed on **oil and gold prices**. Oil prices were also hit by a rebound in US crude inventories and a sharp rise in US production.

US: Trump signed the Bipartisan Budget Act of 2018; Fed Chair Powell more hawkish in first testimony to Congress

- President Trump signed into law the Bipartisan Budget Act of 2018 which raises caps for both defense and nondefense spending and suspends the debt ceiling until March 2019. Nevertheless, its economic impact is expected to be marginal
- Testifying to Congress, Fed Chair Powell reaffirmed the Fed's gradual path to raising interest rates and shrinking the balance sheet. However, he has become increasingly confident in the growth outlook, which was perceived as hawkish by the market
- Average hourly earnings and core CPI inflation for January came in stronger than expected, registering 2.9% yoy and 1.8% yoy respectively. This has fuelled concerns over inflationary pressures, but it is early to call a regime shift away from "price stability"
- Meanwhile, retail sales fell 0.3% mom in January, despite the implementation of tax cuts. This was possibly due to a delay in updating the withholding tax schedule by the Internal Revenue Service. Meanwhile, consumer confidence remains elevated

Europe: ECB minutes signal hawkish adjustment in forward guidance; Bank of England tightening constrained by soft data

- **Eurozone** macro momentum is likely to remain robust as 2018 progresses, with upside risks to investment growth, whilst consumption is likely to remain solid as the labour market continues to tighten.
- The minutes from the **ECB's** January policy meeting stated that "language pertaining to the monetary policy stance could be revisited early this year", potentially paving the way to end the bank's bond-buying programme later in 2018
- Providing ammunition to the doves on the **Bank of England's** Monetary Policy Committee, the second estimate of Q4 2017 UK GDP was downgraded to 0.4% qoq, while the unemployment rate in the three months to December unexpectedly rose to 4.4%

Asia: Chinese activity growth moderating amid relatively tight credit conditions; Kuroda reappointed as BoJ Governor

- **China's** recent PMI data indicates softer early-2018 activity growth amid relatively tight credit conditions, a financial regulatory crackdown, and an environmental protection campaign. Exports have held up but there is a growing threat of US protectionism.
- Although the Reserve Bank of **India** (RBI) has maintained a neutral policy stance, upside risks to stronger growth and inflation raise the potential for more hawkish rhetoric in the coming months.
- In **Japan**, Premier Abe reappointed BoJ Governor Kuroda for a second five-year term, pending confirmation by the parliament. Kuroda stated that the BoJ has no plan to change its current policy setting.

Other EM: most economies see economic activity gain momentum, although idiosyncratic risks remain

- As expected, **Brazil**'s Monetary Policy Committee (Copom) cut the Selic policy rate by 25bp to a new record low of 7.25% at its February meeting. Looser monetary policy is helping to support the country's recovery, although political risks remain.
- Meanwhile, **Mexico** grew less than expected in Q4 (at +1.5% yoy), with activity weighed on by declining oil production and uncertainty related to NAFTA. Meanwhile, higher inflation and policy tightening by Banco de Mexico has also been a headwind.
- In **South Africa**, political headwinds dissipated somewhat after Ramaphosa's election as the country's new President and the budget for FY 2018/19 contained a number of important measures, most notably a VAT rate hike.
- **Russia's** main activity indicators surprised to the upside in January, with real retail sales and wage data firming whilst industrial production jumped higher. The central bank also remains firmly in easing mode as inflation remains well below target.

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Market Data

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)	518	-4.4	2.5	16.6	1.0	551	442	15.7
North America								
US Dow Jones Industrial Average	25,029	-4.3	3.1	20.3	1.3	26,617	20,380	16.9
US S&P 500 Index	2,714	-3.9	2.5	14.8	1.5	2,873	2,322	17.4
US NASDAQ Composite Index	7,273	-1.9	5.8	24.8	5.4	7,506	5,769	22.2
Canada S&P/TSX Composite Index	15,443	-3.2	-3.9	0.3	-4.7	16,421	14,786	15.2
Europe								
MSCI AC Europe (USD)	484	-6.0	0.8	17.6	-0.8	524	408	14.0
Euro STOXX 50 Index	3,439	-4.7	-3.7	3.6	-1.9	3,709	3,307	13.7
UK FTSE 100 Index	7,232	-4.0	-1.3	-0.4	-5.9	7,793	7,073	13.7
Germany DAX Index*	12,436	-5.7	-4.5	5.1	-3.7	13,597	11,850	12.8
France CAC-40 Index	5,320	-2.9	-1.0	9.5	0.1	5,567	4,897	14.6
Spain IBEX 35 Index	9,840	-5.8	-3.6	3.0	-2.0	11,184	9,581	12.8
Asia Pacific								
MSCI AC Asia Pacific ex Japan (USD)	578	-4.9	4.4	24.0	1.5	617	461	13.7
Japan Nikkei-225 Stock Average	22,068	-4.5	-2.9	15.4	-3.1	24,129	18,225	16.4
Australian Stock Exchange 200	6,016	-0.4	0.8	5.3	-0.8	6,150	5,630	16.0
Hong Kong Hang Seng Index	30,845	-6.2	5.7	29.9	3.1	33,484	23,439	12.1
Shanghai Stock Exchange Composite Index	3,259	-6.4	-1.7	0.5	-1.4	3,587	3,017	12.8
Hang Seng China Enterprises Index	12,382	-8.7	7.9	20.2	5.7	13,963	9,882	7.9
Taiwan TAIEX Index	10,815	-2.6	2.4	10.9	1.6	11,270	9,563	13.9
Korea KOSPI Index	2,427	-5.4	-2.0	16.1	-1.6	2,607	2,068	9.4
India SENSEX 30 Index	34,184	-5.0	3.1	18.9	0.4	36,444	28,716	22.2
Indonesia Jakarta Stock Price Index	6,597	-0.1	10.8	22.5	3.8	6,693	5,351	16.9
Malaysia Kuala Lumpur Composite Index	1,856	-0.7	8.1	9.6	3.3	1,881	1,692	16.6
Philippines Stock Exchange PSE Index	8,475	-3.3	2.7	17.5	-1.0	9,078	7,146	18.6
Singapore FTSE Straits Times Index	3,518	-0.5	2.5	13.6	3.4	3,612	3,104	14.2
Thailand SET Index	1,830	0.2	7.8	17.3	4.4	1,853	1,529	16.5
Latam								
Argentina Merval Index	33,011	-5.5	22.7	72.7	9.8	35,462	18,718	11.1
Brazil Bovespa Index*	85,354	0.5	18.6	28.0	11.7	88,318	60,315	13.3
Chile IPSA Index	5,603	-4.3	12.0	28.5	0.7	5,895	4,360	18.8
Colombia COLCAP Index	1,478	-5.1	2.3	11.5	-2.3	1,598	1,316	13.8
Mexico Index	47,438	-6.0	0.7	1.2	-3.9	51,772	46,598	16.1
EEMEA								
Russia MICEX Index	2,297	0.3	9.3	12.8	8.9	2,377	1,775	6.5
South Africa JSE Index	58,325	-2.0	-2.4	14.0	-2.0	61,777	50,737	16.1
Turkey ISE 100 Index*	118,951	-0.5	14.4	36.0	3.1	121,532	87,639	8.5

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

Equity Indices - Total Return	3-month Change (%)	YTD Change (%)	1-year Change (%)	3-year Change (%)	5-year Change (%)
Global equities	2.8	1.2	18.8	27.2	61.6
US equities	2.8	1.8	16.4	34.0	92.0
Europe equities	1.1	-0.5	20.9	14.0	35.3
Asia Pacific ex Japan equities	4.8	1.7	27.3	28.7	38.3
Japan equities	3.7	3.0	21.8	32.0	64.3
Latam equities	13.9	9.1	21.1	24.8	-8.1
Emerging Markets equities	7.0	3.3	30.5	29.4	27.7

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.

Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 28 February 2018.
Past performance is not an indication of future returns.

Market Data (continued)

Bond indices - Total Return	Close	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)
BarCap GlobalAgg (Hedged in USD)	510	-0.2	-0.7	1.6	-0.9
JPM EMBI Global	791	-2.0	-1.5	3.3	-2.2
BarCap US Corporate Index (USD)	2,827	-1.6	-1.7	2.2	-2.6
BarCap Euro Corporate Index (Eur)	246	0.0	-0.6	1.5	-0.3
BarCap Global High Yield (Hedged in USD)	467	-1.0	0.0	4.8	-0.4
Markit iBoxx Asia ex-Japan Bond Index (USD)	193	-0.8	-1.1	1.9	-1.4
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	252	-0.7	0.3	3.8	-0.1

Total return includes income from dividends and interest as well as appreciation or depreciation in the price of an asset over the given period

Bonds	Close	End of last mth.	3-mths Ago	1-year Ago	Year End 2017
US Treasury yields (%)					
3-Month	1.65	1.46	1.26	0.60	1.38
2-Year	2.25	2.14	1.78	1.26	1.88
5-Year	2.64	2.51	2.14	1.93	2.21
10-Year	2.86	2.71	2.41	2.39	2.41
30-Year	3.12	2.93	2.83	3.00	2.74
Developed market 10-year bond yields (%)					
Japan	0.05	0.08	0.03	0.05	0.04
UK	1.50	1.51	1.33	1.15	1.19
Germany	0.65	0.70	0.37	0.21	0.42
France	0.92	0.97	0.68	0.89	0.78
Italy	1.97	2.02	1.74	2.08	2.01
Spain	1.53	1.42	1.44	1.64	1.56

Currencies (vs USD)	Latest	End of last mth.	3-mths Ago	1-year Ago	Year End 2017	52-week High	52-week Low
Developed markets							
EUR/USD	1.22	1.24	1.19	1.06	1.20	1.26	1.05
GBP/USD	1.38	1.42	1.35	1.24	1.35	1.43	1.21
CHF/USD	1.06	1.07	1.02	0.99	1.03	1.09	0.98
CAD	1.28	1.23	1.29	1.33	1.26	1.38	1.21
JPY	106.7	109.2	112.5	112.8	112.7	115.5	105.6
AUD	1.29	1.24	1.32	1.31	1.28	1.36	1.23
NZD	1.39	1.36	1.46	1.39	1.41	1.47	1.32
Asia							
HKD	7.83	7.82	7.81	7.76	7.81	7.83	7.76
CNY	6.33	6.29	6.61	6.87	6.51	6.92	6.25
INR	65.18	63.59	64.46	66.69	63.87	66.89	63.25
MYR	3.92	3.90	4.09	4.44	4.05	4.46	3.87
KRW	1,083	1,068	1,088	1,130	1,067	1,161	1,058
TWD	29.28	29.14	30.01	30.68	29.73	31.14	28.96
Latam							
BRL	3.25	3.19	3.27	3.11	3.31	3.41	3.06
COP	2,864	2,831	3,016	2,926	2,986	3,103	2,760
MXN	18.84	18.60	18.63	20.11	19.66	20.10	17.45
EEMEA							
RUB	56.35	56.19	58.43	58.38	57.69	61.01	55.56
ZAR	11.80	11.85	13.70	13.13	12.38	14.57	11.51
TRY	3.80	3.76	3.92	3.65	3.80	3.98	3.39

Commodities	Latest	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Gold	1,318	-2.0	3.4	5.6	1.2	1,366	1,195
Brent Oil	65.8	-4.7	3.5	18.3	-1.6	71	44
WTI Crude Oil	61.6	-4.8	7.4	14.1	2.0	67	42
R/J CRB Futures Index	194	-1.7	2.5	1.7	0.0	201	166
LME Copper	6,931	-2.6	2.5	16.0	-4.4	7,313	5,463

Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 28 February 2018.
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