IM
Investment Monthly

4 December 2017

High-yield credit valuations increasingly stretched

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 investment grade (IG) corporate bonds
- For US and global high-yield (HY) credits, although default and downgrade risks are low, our measure of implied credit risk premia (compensation for bearing credit risk) has compressed even further. We move to underweight
- Global equities rose again in November amid continuing robust economic data releases and as the US inched closer to a deal on tax reform
- Progress on US tax reform came as the House of Representatives passed its draft tax bill. As the US data flow remains robust, a December Fed rate hike is almost certain
- At its November policy meeting, the Bank of England raised its key interest rate by 25bp to 0.5%. However, a proper hiking cycle is unlikely given signs of economic weakness
- Containing financial risks in China remains a priority, with property tightening policies still in place despite a significant cooling of the housing market

High valuation risk to HY credits – look for opportunities elsewhere

Economic growth remains strong and synchronised across both DM and EM economies. This is a positive environment for risk assets. However, pricing is becoming increasingly stretched in a number of markets. **For US and global HY credits**, although default and downgrade risks are low, our measure of implied credit risk premia (compensation for bearing credit risk) has compressed even further. The margin of safety is very thin. We thus downgrade our view from neutral to underweight.

We are better rewarded by **equities** as a way to benefit from a strong economic backdrop. Relative valuations and fundamentals favour Japan, the eurozone and EMs.

Meanwhile, "low-flation" in many DMs persists but we believe cyclical inflationary pressures are likely to build over time. Indeed, expectations of higher wage growth has been a key driver of recent central bank policy tightening. Nevertheless, policy normalisation remains on an "uber-gradual" path which, along with the rising prospect of US tax reform, is supportive of reflation. Overall, valuations and fundamentals point to remaining underweight in **DM government bonds**.

Elsewhere, the recent selloff in **local-currency EM government bonds** further strengthens the valuation case for a multi-asset investor, and we retain our overweight view.

Equities

Asset Class	View*	View Move
Global	**OW**	–
US	N	–
UK	N	–
Eurozone	OW	–
Japan	OW	–
Emerging Markets (EM)	OW	–
CEE & Latam	N	–

Government bonds

Asset Class	View*	View Move
Developed Market (DM)	**UW**	**–**
US	UW	–
UK	UW	–
Eurozone	UW	–
Japan	UW	–
EM (local currency)	**OW**	**–**

Corporate bonds & other

Asset Class	View*	View Move
Global investment grade (IG)	**UW**	–
USD IG	UW	–
EUR and GBP IG	UW	–
Asia IG	N	–
Global high-yield	**UW**	↓
US	UW	↓
Europe	UW	–
Asia	N	–
EM agg bond (USD)	**UW**	**–**
Gold	**N**	**–**
Other commodities	**N**	**–**
Real estate	**N**	**–**

Asian assets

Asset Class	View*	View Move
EM Asian fixed income	UW	–
Asia ex-Japan equities	OW	–
China	OW	–
India	OW	–
Hong Kong	N	–
Singapore	OW	–
South Korea	OW	–
Taiwan	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 November 2017, HSBC Global Asset Management's long-term expected return forecasts which were generated as at 31 October 2017, our portfolio optimisation process and actual portfolio positions.

Icons: ↑ View on this asset class has been upgraded — No change ↓ View on this asset class has been downgraded

Underweight, overweight and neutral classifications are the high-level asset allocations tilts applied in diversified, typically multi-asset portfolios, which reflect a combination of our long-term valuation signals, our shorter-term cyclical views and actual positioning in portfolios. The views are expressed with reference to global portfolios. However, individual portfolio positions may vary according to mandate, benchmark, risk profile and the availability and riskiness of individual asset classes in different regions.

"Overweight" implies that, within the context of a well-diversified typically multi-asset portfolio, and relative to relevant internal or external benchmarks, HSBC Global Asset Management has (or would have) a positive tilt towards the asset class.

"Underweight" implies that, within the context of a well-diversified typically multi-asset portfolio, and relative to relevant internal or external benchmarks, HSBC Global Asset Management has (or would) have a negative tilt towards the asset class.

"Neutral" implies that, within the context of a well-diversified typically multi-asset portfolio, and relative to relevant internal or external benchmarks HSBC Global Asset Management has (or would have) neither a particularly negative or positive tilt towards the asset class

For global investment-grade corporate bonds, the underweight, overweight and neutral categories for the asset class at the aggregate level are also based on high-level asset allocation considerations applied in diversified, typically multi-asset portfolios. However, USD investment-grade corporate bonds and EUR and GBP investment-grade corporate bonds are determined relative to the global investment-grade corporate bond universe.

For Asia ex Japan equities, the underweight, overweight and neutral categories for the region at the aggregate level are also based on high-level asset allocation considerations applied in diversified, typically multi-asset portfolios. However, individual country views are determined relative to the Asia ex Japan equities universe as of 30 November 2017.

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 November 2017.

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 accommodative monetary policy and fiscal policy (if needed) will, in the medium and longer term, likely outweigh any headwinds from more modest Chinese growth, US and eurozone monetary policy normalisation, 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 or ECB tightening cycle, coupled with political risks. A notable and persistent deterioration of the global economic outlook could also dampen our view.
US	Neutral	—	**Positive factors:** US profits data has shown improvement amid a broadly robust economic backdrop. Fiscal stimulus presents an upside risk to earnings. US equities have also been resilient in the face of Fed policy normalisation and supported by historically low volatility. Overall, our measure of the implied risk premium (excess returns over cash) remains consistent with a neutral positioning. **Risks to consider:** Relatively high current valuations lead to an implied risk premium that is lower than in many other developed markets. A more rapid than expected tightening of Fed policy also poses risks.
UK	Neutral	—	**Positive factors:** The potential for further sterling weakness supports the UK earnings outlook given a large dependency on foreign earnings. Gains in commodity prices would also be a positive. Overall, current valuations are consistent with our neutral positioning. **Risks to consider:** The prospective reward for bearing equity risk in the UK is relatively low compared to other markets. The UK economy is showing signs of weakness amid sterling-induced 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. Furthermore, ultra-low ECB policy interest rates are likely to persist until the end of the decade. **Risks to consider:** Valuations have become less attractive following the rally over the last year. Political risks also remain amid looming Italian general elections, 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:** Relative valuations and risk premia are attractive, in our view, whilst the Bank of Japan's (BoJ) very loose monetary policy and the government's recent fiscal stimulus may boost earnings. 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:** Aggregate EM equity valuations no longer look anomalously cheap. 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 and is embarking on an ambitious reform agenda, whilst Mexico's economy is resilient. We believe Poland, Russia and Hungary offer attractive risk premia. **Risks to consider:** Geopolitical tensions are also 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 Fed/ECB policy normalisation), global bond yields could move higher still. **Positive factors:** Government bonds still provide diversification benefits and reduce volatility within our multi-asset portfolios. Meanwhile, "secular stagnation" forces are powerful (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 if fiscal stimulus materialises. In addition, prospective returns still look low relative to competing asset classes. **Positive factors:** Today's environment of "price stability" means that the term premium (compensation for bearing duration risk) may be capped at a lower level than historically. We think ten-year US Treasuries offer a reasonable way to diversify portfolios at not too high a cost.
UK	Underweight	–	**Rationale of underweight views:** Although the UK economy could slow, boosting safe-haven demand for gilts, 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 a further reduction of ECB asset purchases after September 2018. **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 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 and idiosyncratic political risks. 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 premia mean that the margin of safety against negative shocks, such as a slight deterioration in the data or default outlook, is very thin. Given current pricing, we think there are better opportunities in other risky asset classes e.g. equities. We also prefer government bonds to IG credits as a safety asset. **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 premia, 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 than European credit. 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 view change:** Relative to the previous month, our measure of implied credit risk premia (compensation for bearing credit risk) have compressed even further. We are better rewarded by equities as a way to benefit from a strong economic backdrop. **Positive factors:** 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 view change:** The recent compression of credit risk premia 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 acceleration in 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.
– Europe HY	Underweight	–	**Rationale of underweight views:** The carry offered in Euro HY has declined in 2017 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 tapered in 2018. 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 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 the year. Consequently, prospective risk-adjusted returns now look poor relative to the opportunity set. The risk of a more hawkish Fed and rising 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, but the prospective return on offer is only slightly higher than competing asset classes such as DM investment grade (IG) credits.
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 1.4% 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:** The US has underperformed other listed property markets over the last 12 months in USD terms. Concerns over the health of some retailers have dragged down retail-oriented Real Estate Investment Trusts although recent takeover activity has boosted the prices of some stocks owning high quality malls. 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, especially 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 (151bp for the EMBI Global Asia as at 30 November) than in other regions of the EM space (417bp 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:** Earnings have benefited from a cyclical recovery, corporate actions and structural tailwinds. Margins and return-on-equity have also been boosted by capex discipline, more efficient operations and use of cash on balance sheets, and cost controls. Structural/ corporate governance reforms are potential catalysts in some markets. **Risks to consider:** A sharp rise in Treasury yields is a key risk. Fed balance-sheet reduction and ECB tapering could raise uncertainty. Other risks include US protectionist policies; geopolitical events; commodity-price and/or currency volatility; a fragile or faltering global growth recovery; and renewed concerns about China's growth, policy and financial risks.
– China	Overweight	—	**Rationale of overweight views:** Solid earnings growth, ROE recovery, corporate balance sheet optimisation and a stable macro environment are supportive. With stability remaining a priority, the focus on de-risking policies (e.g. deleveraging and property measures) and supply-side/structural reforms to ensure higher-quality and more balanced and sustainable growth is positive for Chinese equities in the medium term. SOE reform and A-shares' MSCI inclusion are potential catalysts. Industrial upgrading, higher-end consumption and opening up are among key investment themes. **Risks to consider:** Economic growth continues to rely heavily on credit, while structural headwinds persist (e.g. high leverage and inefficient SOEs and capital allocation). The recent property upcycle was fuelled by rising consumer leverage. Financial stability risks linger, especially related to shadow banking. Local governments' financing conditions have tightened and deleveraging raises near-term liquidity/default concerns. Other risks include renewed pressure on capital outflows; a setback in supply-side reform; property bubbles and burst; rising Sino-US tension; and geopolitical events.
– India	Overweight	—	**Rationale of overweight views:** 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, capex and GDP recovery. We expect a gradual cyclical recovery and a revival in earnings growth in the coming quarters, as reforms implemented (e.g. GST) will likely start paying off after short-term disruptions, aided by policy focus on infrastructure and affordable housing and the 7th Pay Commission boost to consumption. The theme of finalisation of savings supports domestic liquidity. **Risks to consider:** The lack of a clear turnaround in earnings growth so far and elevated relative valuations remain concerns. Bank asset quality issues linger and credit costs are high. A sustained rise in crude oil prices will have adverse macroeconomic implications. Disruptions in global financial markets, faster pace of Fed/ECB policy normalisation and US protectionist policies are among key external risks. With the election cycle approaching, political considerations may play a bigger role in driving economic decisions, with risk of increasing populist spending amid rising fiscal constraints.
– Hong Kong	Neutral	—	**Positive factors:** Hong Kong equities have been underpinned by a cyclical recovery with the upturn in trade, a recovery in inbound tourism, solid domestic consumption amid a stable labour market, and a robust property market. Policy address signals a more proactive fiscal policy with sizable tax cuts and higher spending. Further integration with China is a long-term positive for economic gains. **Risks to consider:** Tightening of liquidity conditions due to higher US rates, a stronger USD, and/or capital outflows; China's financial risk contagion; faltering global growth; rising protectionism; and geopolitical tension are key risks. A large and sustained rise in HIBOR pushing up mortgage rates will be headwind for the property sector. Policy address lacks details on land/housing policies.

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– Singapore	Overweight	▬	**Rationale of overweight views:** Earnings and return on equity have recovered with a turnaround in the economy, amid a global trade/electronics upturn, continued public investment and modest fiscal stimulus. A revival in the property and credit cycles supports domestic demand. Bank asset quality concerns have eased. Productivity gains in some sectors and high dividend yield are 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. The country's structural transition from a labour-driven growth model to a productivity-driven one points to headwinds for private domestic spending and labour market slack. Rising protectionism and geopolitical tension pose risks to its open economy.
– South Korea	Overweight	▬	**Rationale of overweight views:** Korea is well positioned to ride ongoing global growth recovery and a tech upcycle. Earnings momentum remains positive. Higher dividend payouts and chaebol reform to enhance corporate governance and minority shareholders' rights are potential re-rating catalysts. Improving relations with China and a more expansionary fiscal policy are supportive. **Risks to consider:** Government populist/pro-labour policies (e.g. corporate/capital-gain tax hikes, telco tariff cuts, tighter regulation over bank mortgage/household lending and the housing market, minimum wage, and non-regular staff conversion, etc.) could affect earnings of relevant regulated industries. Geopolitical tension related to North Korea and US protectionist policies remain key risks.
– Taiwan	Neutral	▬	**Positive factors:** Firm global demand outlook and a new electronics product cycle support Taiwan's economy and earnings. New applications for smartphones, data centres, automotive electronics, and Internet of Things drive Taiwan's tech market growth. Opportunities are in certain non-tech sectors with growth stories or earnings visibility (e.g. infrastructure). Dividend yield is relatively high. **Risks to consider:** The sell-through of a major US smartphone could lead to near-term volatility in earnings of its supply-chain. Taiwan's export momentum may soften after the launch of new tech products, and its tech sector is facing tougher competition from China. Deterioration in cross-strait relations and US protectionism are risks. Tax reforms could affect profits and divided payouts.

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High-yield credit valuations increasingly stretched

Markets: global equities higher again in November; US Treasury yield curve continued to flatten; crude oil prices gained

- **Global equities** rose again in November amid continuing robust economic data releases and as the US inched closer to a deal on tax reform. The MSCI AC World index closed 1.1% higher over the month, with US and Japanese markets outperforming.
- Meanwhile, the **US Treasury yield curve** continued to flatten, with shorter-dated bonds selling off as investors continued to anticipate a near-term Fed rate hike. European government bonds were underpinned by soft inflation data and ECB buying.
- Finally, crude **oil prices** rose, with gains mainly driven by the market pricing in an extension of OPEC's output cut deal, confirmed at the end of the month (all data above as of close of 30 November in local currency, price return, month-to-date terms).

US: tax reform took important steps forward; a December rate hike almost fully priced in

- **US** tax reform progressed in November as the House of Representatives passed its draft tax bill. If the Senate approves its own version, Congress will have to reconcile the differences between the two drafts before the final bill can be signed into law.
- Q3 GDP growth was revised higher to 3.3% qoq annualised from 3.0% in the previous release. This was partly driven by an upward revision to business fixed investment (2.4% qoq annualised versus 1.5% in the first estimate).
- The Fed's preferred measure of core inflation came in at 1.4% yoy in October, whilst the previous print was revised up. Together with the generally positive data flow, the market-implied probability of December rate hike rose over the month.

Europe: eurozone set to clock in highest growth in a decade this year; Bank of England raises rates

- The second estimate of Q3 **eurozone** GDP growth was confirmed at 0.6% qoq, with recent survey evidence suggesting another solid outcome in Q4. Growth for 2017 as a whole is now expected to hit a decade high.
- Despite strong economic growth, inflation remains weak, with core CPI inflation unexpectedly holding at 0.9% yoy in November. This implies the ECB will maintain its dovish stance going into 2018, with interest rates unlikely to rise until 2019 at the earliest.
- At its November policy meeting, the **Bank of England** raised its key interest rate by 25bp to 0.5%. Although the bank may raise rates again in the near term, a proper hiking cycle is unlikely given signs of economic weakness and subdued wage growth.

Asia: Containing financial risks in China remains a priority; positive growth momentum in Japan continues

- Containing financial risks in **China** remains a priority, with property tightening policies still in place despite a significant cooling of the housing market. SOE reform and opening up initiatives (Belt and Road/free trade zones/ports) will be a key focus of 2018.
- Weaker October activity data in **India** largely reflected festival-related distortions. As temporary disruptions from recent reforms fade away, growth may accelerate. Positively, Moody's sovereign rating upgrade was an acknowledgement of these reforms.
- In **Japan**, GDP rose for a seventh consecutive quarter in Q3, despite soft domestic demand and wage growth. BoJ officials hinted at the possibility of an earlier-than-expected adjustment of their QE programme, although inflationary pressures remain absent.

Other EM: Pension reform in Brazil returned to the spotlight; Turkey-US tensions continued

- **Brazil's** incoming economic data has been robust, with September retail sales rising to 6.4% yoy. However, the Ibovespa stock market index sold off last month, driven by uncertainty around the passage of pension reform.
- During November, **Russia's** MICEX index rallied, supported by higher oil prices. Meanwhile, although recent economic data has disappointed (October retail sales and industrial production), subdued inflation should allow further monetary policy easing.
- In **Turkey**, economic data remains resilient, with a pick-up seen in export growth. However, October inflation rose to 11.9% yoy, which may result in monetary policy tightening. Deteriorating diplomatic relations with the US and EU have also hit asset prices.
- **Mexico's** central bank held its policy rate at 7.00% in November, with forward guidance giving more weight on monetary conditions vis-à-vis the US. Therefore, given the likely trajectory of US rates, the bank is unlikely to cut rates in the near term.

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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)	505	1.8	5.6	22.3	19.8	506	411	17.5
North America								
US Dow Jones Industrial Average	24,272	3.8	10.6	26.9	22.8	24,328	19,139	19.3
US S&P 500 Index	2,648	2.8	7.1	20.4	18.3	2,658	2,187	19.8
US NASDAQ Composite Index	6,874	2.2	6.9	29.1	27.7	6,914	5,238	24.5
Canada S&P/TSX Composite Index	16,067	0.3	5.6	6.5	5.1	16,132	14,916	17.2
Europe								
MSCI AC Europe (USD)	480	0.1	3.5	26.4	20.1	484	376	15.6
Euro STOXX 50 Index	3,570	-2.8	4.3	17.0	8.5	3,709	2,984	15.4
UK FTSE 100 Index	7,327	-2.2	-1.4	8.0	2.6	7,599	6,679	14.9
Germany DAX Index*	13,024	-1.6	8.0	22.4	13.4	13,526	10,403	14.6
France CAC-40 Index	5,373	-2.4	5.6	17.4	10.5	5,536	4,490	15.7
Spain IBEX 35 Index	10,211	-3.0	-0.9	17.5	9.2	11,184	8,512	14.3
Asia Pacific								
MSCI AC Asia Pacific ex Japan (USD)	554	0.4	3.9	28.0	29.7	570	419	14.7
Japan Nikkei-225 Stock Average	22,725	3.2	15.7	24.1	18.9	23,382	18,225	19.3
Australian Stock Exchange 200	5,970	1.0	4.5	9.7	5.4	6,052	5,384	16.3
Hong Kong Hang Seng Index	29,177	3.3	4.3	28.0	32.6	30,200	21,489	13.1
Shanghai Stock Exchange Composite Index	3,317	-2.2	-1.3	2.1	6.9	3,450	3,017	14.6
Hang Seng China Enterprises Index	11,476	-0.3	1.6	16.6	22.1	12,101	9,117	8.7
Taiwan TAIEX Index	10,560	-2.2	-0.2	14.3	14.1	10,883	9,079	14.7
Korea KOSPI Index	2,476	-1.9	4.8	24.8	22.2	2,562	1,961	10.7
India SENSEX 30 Index	33,149	-0.2	4.5	24.4	24.5	33,866	25,754	21.6
Indonesia Jakarta Stock Price Index	5,952	-0.9	1.5	15.6	12.4	6,099	5,023	17.4
Malaysia Kuala Lumpur Composite Index	1,718	-1.7	-3.1	6.1	4.6	1,797	1,617	15.6
Philippines Stock Exchange PSE Index	8,254	-1.3	3.7	21.7	20.7	8,605	6,499	19.8
Singapore FTSE Straits Times Index	3,434	1.8	4.8	18.2	19.2	3,463	2,858	15.8
Thailand SET Index	1,697	-1.4	5.0	12.4	10.0	1,730	1,499	17.1
Latam								
Argentina Merval Index	26,905	-3.7	14.1	54.3	59.0	28,545	15,933	16.5
Brazil Bovespa Index*	71,971	-3.1	1.6	16.3	19.5	78,024	56,829	13.8
Chile IPSA Index	5,003	-10.5	-2.9	18.9	20.5	5,614	4,029	19.4
Colombia COLCAP Index	1,445	1.4	-2.5	12.4	6.9	1,509	1,286	16.3
Mexico Index	47,092	-3.2	-8.0	3.9	3.2	51,772	44,472	17.4
EEMEA								
Russia MICEX Index	2,101	1.8	3.9	-0.2	-5.9	2,294	1,775	7.1
South Africa JSE Index	59,773	1.3	5.8	19.0	18.0	61,299	48,936	16.3
Turkey ISE 100 Index*	103,984	-5.6	-5.5	40.5	33.1	115,093	71,793	8.3

*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	6.1	22.0	24.6	26.0	68.1
US equities	7.4	19.9	22.1	33.4	100.6
Europe equities	3.8	23.3	29.9	14.1	41.5
Asia Pacific ex Japan equities	4.4	32.9	31.4	25.8	40.9
Japan equities	9.9	23.1	24.3	36.1	77.5
Latam equities	-5.0	18.5	19.5	-2.7	-13.4
Emerging Markets equities	3.3	32.5	32.8	19.6	25.3

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 30 November 2017.
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)	513	0.2	0.1	3.1	2.8
JPM EMBI Global	803	-0.3	-0.1	10.2	8.6
BarCap US Corporate Index (USD)	2,876	-0.1	0.1	6.2	5.5
BarCap Euro Corporate Index (Eur)	248	-0.2	0.7	3.4	2.7
BarCap Global High Yield (USD)	467	-0.3	1.0	10.0	8.0
Markit iBoxx Asia ex-Japan Bond Index (USD)	195	-0.2	0.1	5.1	5.0
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	251	-0.2	1.2	7.1	6.8

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 2016
US Treasury yields (%)					
3-Month	1.26	1.13	0.99	0.48	0.50
2-Year	1.78	1.60	1.33	1.11	1.19
5-Year	2.14	2.02	1.70	1.84	1.93
10-Year	2.41	2.38	2.12	2.38	2.44
30-Year	2.83	2.88	2.73	3.03	3.07
Developed market 10-year bond yields (%)					
Japan	0.03	0.06	0.00	0.02	0.04
UK	1.33	1.33	1.03	1.42	1.24
Germany	0.37	0.36	0.36	0.27	0.20
France	0.68	0.75	0.66	0.75	0.68
Italy	1.74	1.82	2.04	1.99	1.81
Spain	1.44	1.45	1.55	1.55	1.38

Currencies (vs USD)	Latest	End of last mth.	3-mths Ago	1-year Ago	Year End 2016	52-week High	52-week Low
Developed markets							
EUR/USD	1.19	1.16	1.19	1.06	1.05	1.21	1.03
GBP/USD	1.35	1.33	1.29	1.25	1.23	1.37	1.20
CHF/USD	1.02	1.00	1.04	0.98	0.98	1.06	0.97
CAD	1.29	1.29	1.25	1.34	1.34	1.38	1.21
JPY	112.5	113.6	110.0	114.5	117.0	118.7	107.3
AUD	1.32	1.31	1.26	1.35	1.39	1.40	1.23
NZD	1.46	1.46	1.39	1.41	1.44	1.47	1.32
Asia							
HKD	7.81	7.80	7.83	7.76	7.76	7.83	7.75
CNY	6.61	6.64	6.59	6.89	6.95	6.96	6.44
INR	64.46	64.75	63.91	68.39	67.92	68.39	63.57
MYR	4.09	4.23	4.27	4.47	4.49	4.50	4.08
KRW	1,088	1,120	1,128	1,169	1,206	1,212	1,076
TWD	30.01	30.16	30.17	31.87	32.33	32.45	29.88
Latam							
BRL	3.27	3.27	3.15	3.39	3.26	3.49	3.04
COP	3,016	3,042	2,946	3,074	3,002	3,103	2,831
MXN	18.63	19.15	17.89	20.57	20.73	22.04	17.45
EEMEA							
RUB	58.43	58.34	58.04	64.11	61.54	64.42	55.70
ZAR	13.70	14.13	13.00	14.09	13.74	14.57	12.31
TRY	3.92	3.79	3.45	3.44	3.52	3.98	3.34

Commodities	Latest	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Gold	1,275	0.3	-3.5	8.7	10.6	1,358	1,121
Brent Oil	63.6	3.6	21.4	26.0	11.9	65	44
WTI Crude Oil	57.4	5.6	21.5	16.1	6.9	59	42
R/J CRB Futures Index	189	0.9	4.6	-0.1	-1.7	196	166
LME Copper	6,762	-1.1	-0.4	16.1	22.2	7,177	5,420

Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 30 November 2017.
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