IM

Investment Monthly

4 June 2018

The return of policy divergence

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 were little changed in May, as solid corporate earnings releases and broadly robust economic data was offset by volatility in emerging market assets
- The Fed left policy rates on hold in May and reiterated their "symmetric" inflation target, suggesting that they could tolerate a modest inflation overshoot
- In the eurozone, it appears that there may still be some "one-off" factors holding back growth, but underlying momentum also looks to have faded
- China's economic activity remains solid, although amid heightened external uncertainties, policy is likely to turn less restrictive
- In Japan, CPI inflation is expected to remain well below target this year, therefore the Bank of Japan is unlikely to exit its current policy setting in the near term

Policy divergence is coming back onto the agenda

Core inflation is strengthening in the US, but remains subdued in many other economies. Given the strength of US growth amid fiscal stimulus and a likely lack of spare capacity, the balance of risks is in favour of further widening of inflation differentials between the US and other countries. This has given the Fed enough confidence to push ahead with rate hikes, whilst other major DM central banks have recently become more cautious in exiting their accommodative policy stance. The return of the policy divergence theme has contributed to higher **US Treasury yields**, improving their relative attractiveness versus other DM government bond markets, which remain overvalued in our view (along with **DM corporate bonds**).

We continue to prefer **global equities and EM assets** as the best way to benefit from the upbeat global growth environment (even if some momentum has been lost this year). Corporate fundamentals remain strong, and we have had a bumper earnings season across both DM and EM economies. For EM assets, a rising US dollar is a potential headwind, along with higher US interest rates, reflected in recent volatility in EM asset prices. However, historical evidence suggests that a gradual increase in the dollar does not necessarily pose a major risk. Importantly, divergent political and economic regimes, as well structural vulnerabilities, mean that being selective is key.

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 May 2018, HSBC Global Asset Management's long-term expected return forecasts which were generated as at 30 April 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, EUR and GBP, and Asia investment-grade corporate bonds are determined relative to the global investment-grade corporate bond universe.

For Asia ex Japan equities, the underweight, overweight and neutral categories for the region at the aggregate level are also based on high-level asset allocation considerations applied in diversified, typically multi-asset portfolios. However, individual country views are determined relative to the Asia ex Japan equities universe as of 31 May 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 31 May 2018.

Equities

Asset class	View	Movement	Rationale
Global	**Overweight**	—	**Rationale of overweight views:** Our measure of the global equity risk premium (excess return over cash) is still reasonable given where we are in the profits cycle. Global economic growth 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 risk premia limit the ability of the market to absorb bad news. Episodic volatility may be triggered by concerns surrounding global trade protectionism, Chinese growth, 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 return to take on equity risk in this market. Risks from US protectionism also need to be considered, especially if further rounds of tit-for-tat actions materialise.
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 low real-wage growth and Brexit-related uncertainty.

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

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. Ultra-low ECB policy interest rates are likely to persist until the end of the decade. **Risks to consider:** The recent softening of activity indicators requires monitoring. Political risks remain amid the aftermath of 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.
Japan	Overweight	–	**Rationale of overweight views:** The relative valuation is attractive, in our view, whilst policy is supportive. 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, a moderation in world trade growth will weigh on GDP growth this year. Other headwinds include a consumption tax increase planned for October 2019, and weak wage growth.
Emerging Markets (EM)	Overweight	–	**Rationale of overweight views:** EM economic growth momentum continues to look good (especially relative to moderating 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, 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. We think 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 (robust 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 is at the forefront of building inflationary pressures. A more meaningful pick-up in inflation is a key risk scenario. **Positive factors:** Two-year Treasury yields are higher than US dividend yields. To us, this means we no longer need to be exposed to unwanted risks in order to reach target income levels. We also believe 10-year Treasuries can benefit from recession fears. We hold this position with a positive bias.
UK	Underweight	–	**Rationale of underweight views:** Prospective returns for UK gilts continue to look poor, and we are being penalised for bearing interest-rate risk. **Positive factors:** Amid downside risks to growth and inflation heading back toward target, 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 the ECB Asset Purchase Programme. **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:** 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 a rapid gains in the US dollar are key risks. 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
Past performance is not an indication of future returns.

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 remain very low. 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 historically high, making them vulnerable to a faster pace of Fed tightening, in our view. **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. Robust 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 measures 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 solid amid robust global economic activity, and defaults are low. We prefer higher-rated HY bonds.
– US HY	Underweight	—	**Rationale of underweight views:** We think compressed credit risk premiums makes US HY credits vulnerable to even a slight deterioration in the data or default outlook. A more aggressive Fed tightening cycle is a key risk. **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 by Euro HY is unattractive compared to European equities. The ECB Asset Purchase Programme (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 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 is robust and inflationary pressures appear to have mostly stabilised. **Risks to consider:** A faster pace of Fed monetary 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.

Other

Asset Class	View	Movement	Rationale
EM agg bond (USD)	**Underweight**	—	**Rationale of underweight views:** The recent sell-off has improved prospective returns for dollar-denominated EM sovereign debt. This is interesting to keep monitoring, but it is not enough to make the asset class look attractive to us. 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.
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).

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

Real estate	**Neutral**	▬	**Positive factors:** We believe real estate equities are priced to deliver reasonably attractive long-run returns compared to developed-marked government bonds based on current dividend yields and our outlook for dividend growth. At the end of April 2018, the dividend yield from real estate equities of 4.0% was some 1.6 percentage points higher than that of wider equities. 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 retailers that do not have any online presence are suffering from the impact of internet shopping and we think this could continue to impact retail-focused stocks.

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 (192bp for the EMBI Global Asia as at 31 May) than in other regions of the EM space (476bp 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 US 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 industrial upgrading a key growth driver. Policy focus on (financial) risk prevention and ensuring quality and sustainable growth are medium-term positive, while macro policies are turning more supportive for domestic demand. Market structural changes (e.g. new listing regimes), financial liberalisation and supply-side reforms are potential longer-term catalysts. **Risks to consider:** Escalating US-China trade tensions is a key external risk, as well as renewed pressure on capital outflows due to higher US/global rates or resurgence of China macro concerns (e.g. credit risks). Tighter financial conditions amid policy efforts to control leverage and crack down on shadow banking activities are a headwind for infrastructure investment and the property sector. A setback in supply-side reform is another key risk.
– India	Overweight	▬	**Rationale of overweight views:** An ongoing gradual cyclical recovery supports earnings, as reforms implemented (e.g. GST) start paying off after short-term disruptions. The budget focus on the rural/agriculture sector via productivity enhancing schemes are positive for the relevant sectors. Public sector bank recapitalisation and RBI guidelines to accelerate NPA recognition should help facilitate the resolution process and enable a structural improvement in credit culture and quality. **Risks to consider:** Earnings estimates are still revised downwards, despite an improvement. Macro stability concerns (e.g. the twin deficits and inflation risks, etc.) remain in focus. Tighter financial conditions and banking sector issues may cap near-term investment growth. Faster pace of Fed policy normalisation, any oil supply shock and US protectionist policies are key external risks, while politics will remain important for the near-term macro and market outlook.
– Hong Kong	Neutral	▬	**Positive factors:** The expansionary FY19 budget is positive for the growth outlook. A recovery in mainland tourist inflow and solid domestic consumption thanks to a tight labour market and positive wealth effects support retail sales. Market liquidity remains ample. The Hong Kong economy has a strong external balance sheet, high household savings and a healthy banking sector, which should help keep Hong Kong resilient during Fed policy tightening. **Risks to consider:** Any substantial rise in HIBOR – due to higher US rates/closing LIBOR-HIBOR gap, capital outflows, and/or HKMA intervention with the weak-side of the USDHKD trading band being triggered could be a headwind for the Hong Kong asset markets and economy, though we do not see any imminent upward pressure on effective mortgage rates unless the prime rate rises. Rising US-China trade conflicts are a key risk, as well as China’s financial risk contagion.
– Singapore	Overweight	▬	**Rationale of overweight views:** A gradual 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. The 2018 budget is moderately expansionary, with 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 US protectionism, and are sensitive to the USD trend and global trade/demand growth. Deposit outflows cannot be ruled out on the back of US tax reform encouraging US companies to repatriate profits. The private residential property sector face the risk of higher rates and government intervention.

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

– South Korea	Overweight	▬	**Rationale of overweight views:** The 'income-led' policy with a relatively accommodative fiscal policy helps mitigate housing policy impact and support consumption. Corporate governance reform amid the wider adoption of the stewardship code and share-holder friendly policies, such as higher dividend payouts and share buybacks, creates re-rating potential. The potential for reduced North Korea-related geopolitical risk and improving relations with China provides some near-term support. **Risks to consider:** Macro and regulatory headlines continue to drive markets, in the absence of strong fundamental catalysts and slower earnings momentum in the near term. Corporate income tax hike and capital-gain tax proposals plus labour policy (e.g. minimum wage hike, tighter working hour limits) and higher energy prices will likely raise costs and weigh on margins. Korea is exposed to US trade policy changes/Sino-US trade frictions, slower global growth cycle and geopolitics.
– Taiwan	Neutral	▬	**Positive factors:** External demand outlook remains broadly benign, and for certain tech products could improve. The tech sector may benefit from new growth drivers such as artificial intelligence, Internet of Things and 5G. The export recovery should spill over to domestic demand. The government's multi-year infrastructure investment plan begins to roll out. Dividend yield is relatively high. **Risks to consider:** Rising US-China trade tensions is one major risk, considering Taiwan's heavy involvement in the regional (tech) supply chain. The boost from the smartphone cycle late last year has faded, while Taiwan's tech sector is facing tough competition from China. Peaking global business cycle, rising political and military pressure on Taiwan by China and any oil shock are risks.

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

The return of policy divergence

Markets: global equities little changed in May; Italian bonds tumbled on rising political uncertainty

- **Global equities** were little changed in May, as solid corporate earnings releases and broadly robust economic data was offset by volatility in emerging market assets, lingering trade tensions, and rising political uncertainty in Europe
- Meanwhile, **DM government bonds** gained amid subdued risk appetite. The notable exception was in Europe, with Italian and Spanish bonds selling off sharply amid rising political uncertainty in both countries
- **Brent crude oil prices** rose over the month as US announced that it would pull out of the Iran nuclear deal and amid concerns over falling production in Venezuela

US: Fed reiterates the "symmetric" inflation target

- The Fed left policy rates on hold in May and reiterated their "symmetric" inflation target, suggesting that they could tolerate a modest inflation overshoot. Importantly, they also perceived the recent strength in healthcare services inflation as transitory
- Indeed, PCE healthcare services inflation rose just 0.1% month-on-month (mom) in April, relative to average of around 0.4% in the previous three months. Overall PCE core inflation held at an annual rate of 1.8% year-on-year (yoy)
- The US administration launched an investigation into auto imports on national security grounds, and decided not to extend tariff exemptions on steel and aluminium imports from the EU, Canada and Mexico. Trade negotiations with China continued
- General economic data remains broadly strong, with annual retail sales growth remaining on an upward trend. Meanwhile, the latest estimate of Q1 GDP at 2.2% quarter-on-quarter (qoq) annualised is roughly in line with 2017's growth rate

Europe: High frequency data in the eurozone continues to moderate; UK inflation heading towards BoE's 2% target

- The **eurozone** composite PMI fell to 54.1 in the flash estimate for May, below expectations of no change from April's reading of 55.1. This represents the lowest reading since November 2016, and follows sharp falls earlier in the year
- Despite the fall, the composite PMI is consistent with growth of around 0.4% qoq, matching Q1's rate of expansion. Overall, it appears that there may still be some "one-off" factors holding back growth, but underlying momentum also looks to have faded
- **UK** core inflation fell to 2.1% in April. Unless service sector inflation bounces back in the coming months, it is possible that UK core inflation drops below 2% over the summer. In this case, the BoE might find it difficult to justify another hike this year

Asia: Chinese policy likely to become less restrictive; little reason for the BoJ to exit from its current policy setting

- **China's** economic activity remains solid, although amid heightened external uncertainties, policy is likely to turn less restrictive. The government has announced tariff reductions and is likely to stay the course to further open its economy and financial sectors
- **India's** economy continues to recover from the twin shocks of demonetisation and the implementation of the Goods and Services Tax (GST). However, tighter financial conditions and banking sector issues are likely to weigh on near-term investment growth
- In **Japan**, CPI inflation is expected to remain well below target this year. Indeed, the BoJ has recently dropped its timeframe for achieving the inflation target. Therefore, there is little reason for the BoJ to exit from its current policy setting in the near term

Other EM: has US dollar strength ended the easing cycle in some countries?

- **Brazil's** activity data (industrial production, retail sales) came in mixed, whilst inflation slowed to 2.7% yoy. However, the recent decline in the Brazilian real posed upside risks to inflation, and prompted the central bank to leave the Selic rate unchanged
- Similarly, the **South African** central bank paused their easing cycle in May, leaving the benchmark rate unchanged at 6.50%, on the back of rand weakness and strengthening inflation. Core CPI accelerated by 0.4 percentage points to 4.5% in April
- Meanwhile, **Turkey's** central bank raised the late liquidity lending rate by a total of 6 percentage points to 19.50% during late May, in an effort to support the lira amid accelerating inflation and still worsening current account deficits
- The central bank of **Argentina** also raised interest rates in emergency meetings to support the peso, amid worries over the current account and the budget deficit. The country has formally requested a credit package of USD30 billion from the IMF

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

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)	509	-0.2	-1.8	9.7	-0.8	551	462	15.4
North America								
US Dow Jones Industrial Average	24,416	1.0	-2.5	16.2	-1.2	26,617	20,994	16.1
US S&P 500 Index	2,705	2.2	-0.3	12.2	1.2	2,873	2,406	17.0
US NASDAQ Composite Index	7,442	5.3	2.3	20.1	7.8	7,637	6,082	22.5
Canada S&P/TSX Composite Index	16,062	2.9	4.0	4.6	-0.9	16,421	14,786	15.6
Europe								
MSCI AC Europe (USD)	466	-4.1	-3.8	1.9	-4.6	524	446	14.0
Euro STOXX 50 Index	3,407	-3.7	-0.9	-4.2	-2.8	3,709	3,262	13.8
UK FTSE 100 Index	7,678	2.2	6.2	2.1	-0.1	7,904	6,867	14.1
Germany DAX Index*	12,605	-0.1	1.4	-0.1	-2.4	13,597	11,727	13.0
France CAC-40 Index	5,398	-2.2	1.5	2.2	1.6	5,657	4,995	14.7
Spain IBEX 35 Index	9,466	-5.2	-3.8	-13.0	-5.8	11,048	9,328	12.5
Asia Pacific								
MSCI AC Asia Pacific ex Japan (USD)	562	-1.2	-2.7	12.9	-1.3	617	497	13.4
Japan Nikkei-225 Stock Average	22,202	-1.2	0.6	13.0	-2.5	24,129	19,240	16.2
Australian Stock Exchange 200	6,012	0.5	-0.1	5.0	-0.9	6,150	5,630	16.0
Hong Kong Hang Seng Index	30,469	-1.1	-1.2	18.7	1.8	33,484	25,200	11.8
Shanghai Stock Exchange Composite Index	3,095	0.4	-5.0	-0.7	-6.4	3,587	3,041	12.1
Hang Seng China Enterprises Index	11,978	-2.9	-3.3	13.0	2.3	13,963	10,204	8.0
Taiwan TAIEX Index	10,875	2.0	0.6	8.3	2.2	11,270	10,033	14.1
Korea KOSPI Index	2,423	-3.7	-0.2	3.2	-1.8	2,607	2,310	9.4
India SENSEX 30 Index	35,322	0.5	3.3	13.4	3.7	36,444	30,681	18.7
Indonesia Jakarta Stock Price Index	5,984	-0.2	-9.3	4.3	-5.9	6,693	5,669	15.3
Malaysia Kuala Lumpur Composite Index	1,741	-6.9	-6.2	-1.4	-3.1	1,896	1,708	15.9
Philippines Stock Exchange PSE Index	7,497	-4.1	-11.5	-4.3	-12.4	9,078	7,457	17.4
Singapore FTSE Straits Times Index	3,428	-5.1	-2.6	6.8	0.7	3,642	3,193	13.6
Thailand SET Index	1,727	-3.0	-5.6	10.6	-1.5	1,853	1,556	15.7
Latam								
Argentina Merval Index	28,559	-4.8	-13.5	27.8	-5.0	35,462	20,462	7.6
Brazil Bovespa Index*	76,754	-10.9	-10.1	22.4	0.5	88,318	60,544	11.5
Chile IPSA Index	5,455	-4.5	-2.6	12.3	-2.0	5,895	4,718	16.2
Colombia COLCAP Index	1,547	-1.2	4.6	7.4	2.2	1,598	1,415	15.6
Mexico S&P/BMV IPC Index	44,663	-7.6	-5.9	-8.5	-9.5	51,772	44,429	15.5
EEMEA								
Russia MOEX Index	2,303	-0.2	0.3	21.2	9.2	2,377	1,775	6.1
South Africa JSE Index	56,158	-3.6	-3.7	4.8	-5.6	61,777	50,750	14.7
Turkey ISE 100 Index*	100,652	-3.5	-15.4	3.2	-12.7	121,532	96,926	6.9

*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	-1.1	0.1	11.8	24.3	53.0
US equities	0.2	2.0	13.8	33.4	78.3
Europe equities	-2.3	-2.8	4.9	10.4	27.2
Asia Pacific ex Japan equities	-2.1	-0.4	15.9	22.6	40.2
Japan equities	-2.4	0.5	14.6	20.9	48.9
Latam equities	-16.0	-8.3	3.7	10.6	-16.8
Emerging Markets equities	-5.8	-2.6	14.0	19.7	24.8

All total returns quoted in USD terms and subject to one-day lag.
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 31 May 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)	514	0.4	0.8	1.2	-0.1
JPM EMBI Global	773	-1.1	-2.2	-1.7	-4.3
BarCap US Corporate Index (USD)	2,823	0.5	-0.1	0.1	-2.7
BarCap Euro Corporate Index (Eur)	245	-0.2	-0.3	0.6	-0.6
BarCap Global High Yield (Hedged in USD)	462	-0.8	-1.0	1.5	-1.4
Markit iBoxx Asia ex-Japan Bond Index (USD)	192	-0.1	-0.7	0.0	-2.1
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	244	-1.7	-2.9	0.5	-3.0

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	1.89	1.80	1.65	0.97	1.38
2-Year	2.43	2.49	2.25	1.28	1.88
5-Year	2.70	2.80	2.64	1.75	2.21
10-Year	2.86	2.95	2.86	2.20	2.41
30-Year	3.03	3.12	3.12	2.86	2.74
Developed market 10-year bond yields (%)					
Japan	0.03	0.05	0.05	0.04	0.04
UK	1.23	1.42	1.50	1.05	1.19
Germany	0.34	0.56	0.65	0.30	0.42
France	0.66	0.78	0.92	0.73	0.78
Italy	2.77	1.78	1.97	2.19	2.01
Spain	1.49	1.27	1.53	1.54	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	1.17	1.21	1.22	1.12	1.20	1.26	1.11
GBP/USD	1.33	1.38	1.38	1.29	1.35	1.44	1.26
CHF/USD	1.01	1.01	1.06	1.03	1.03	1.09	0.99
CAD	1.30	1.28	1.28	1.35	1.26	1.35	1.21
JPY	108.8	109.3	106.7	110.8	112.7	114.7	104.6
AUD	1.32	1.33	1.29	1.35	1.28	1.36	1.23
NZD	1.43	1.42	1.39	1.41	1.41	1.47	1.32
Asia							
HKD	7.84	7.85	7.83	7.79	7.81	7.85	7.79
CNY	6.41	6.33	6.33	6.82	6.51	6.84	6.24
INR	67.41	66.66	65.18	64.51	63.87	68.46	63.25
MYR	3.98	3.92	3.92	4.28	4.05	4.30	3.85
KRW	1,077	1,068	1,083	1,120	1,067	1,158	1,054
TWD	29.96	29.61	29.28	30.12	29.73	30.64	28.96
Latam							
BRL	3.72	3.51	3.25	3.23	3.31	3.77	3.08
COP	2,890	2,803	2,864	2,916	2,986	3,103	2,685
MXN	19.91	18.71	18.84	18.62	19.66	20.05	17.45
EEMEA							
RUB	62.41	62.98	56.35	56.62	57.69	65.04	55.56
ZAR	12.70	12.46	11.80	13.12	12.38	14.57	11.51
TRY	4.53	4.06	3.80	3.53	3.80	4.93	3.39

Commodities	Latest	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Gold	1,299	-1.3	-1.5	2.3	-0.3	1,366	1,205
Brent Oil	77.6	3.2	18.0	54.2	16.0	81	44
WTI Crude Oil	67.0	-2.2	8.8	38.7	11.0	73	42
R/J CRB Futures Index	203	0.4	4.6	12.8	4.6	207	166
LME Copper	6,852	0.7	-1.1	20.6	-5.5	7,313	5,553

Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 31 May 2018.
Past performance is not an indication of future returns.

Important Information for Customers:
WARNING: THE CONTENTS OF THIS DOCUMENT HAVE NOT BEEN REVIEWED BY ANY REGULATORY AUTHORITY IN HONG KONG OR ANY OTHER JURISDICTION. YOU ARE ADVISED TO EXERCISE CAUTION IN RELATION TO THE INVESTMENT AND THIS DOCUMENT. IF YOU ARE IN DOUBT ABOUT ANY OF THE CONTENTS OF THIS DOCUMENT, YOU SHOULD OBTAIN INDEPENDENT PROFESSIONAL ADVICE.

This document has been issued by The Hongkong and Shanghai Banking Corporation Limited (the "Bank") in the conduct of its regulated business in Hong Kong and may be distributed in other jurisdictions where its distribution is lawful. It is not intended for anyone other than the recipient. 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. This document must not be distributed to the United States, Canada or Australia or to any other jurisdiction where its distribution is unlawful. All non-authorised reproduction or use of this document will be the responsibility of the user and may lead to legal proceedings.

This document has no contractual value and is not and should not be construed as an offer or the solicitation of an offer or a recommendation for the purchase or sale of any investment or subscribe for, or to participate in, any services. The Bank is not recommending or soliciting any action based on it.

The information stated and/or opinion(s) expressed in this document are provided by HSBC Global Asset Management Limited. We do not undertake any obligation to issue any further publications to you or update the contents of this document and such contents are subject to changes at any time without notice. They are expressed solely as general market information and/or commentary for general information purposes only and do not constitute investment advice or recommendation to buy or sell investments or guarantee of returns. The Bank has not been involved in the preparation of such information and opinion. The Bank makes no guarantee, representation or warranty and accepts no responsibility for the accuracy and/or completeness of the information and/or opinions contained in this document, including any third party information obtained from sources it believes to be reliable but which has not been independently verified. In no event will the Bank or HSBC Group be liable for any damages, losses or liabilities including without limitation, direct or indirect, special, incidental, consequential damages, losses or liabilities, in connection with your use of this document or your reliance on or use or inability to use the information contained in this document.

In case you have individual portfolios managed by HSBC Global Asset Management Limited, the views expressed in this document may not necessarily indicate current portfolios' composition. Individual portfolios managed by HSBC Global Asset Management Limited primarily reflect individual clients' objectives, risk preferences, time horizon, and market liquidity.

The information contained within this document has not been reviewed in the light of your personal circumstances. Please note that this information is neither intended to aid in decision making for legal, financial or other consulting questions, nor should it be the basis of any investment or other decisions. You should carefully consider whether any investment views and investment products are appropriate in view of your investment experience, objectives, financial resources and relevant circumstances. The investment decision is yours but you should not invest in any product unless the intermediary who sells it to you has explained to you that the product is suitable for you having regard to your financial situation, investment experience and investment objectives. The relevant product offering documents should be read for further details.

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. Such statements do not represent any one investment and are used for illustration purpose only. Customers are reminded that there can be no assurance that economic conditions described herein will remain in the future. Actual results may differ materially from those described in such forward-looking statements as a result of various factors. We can give no assurance that those expectations reflected in those forward-looking statements will prove to have been correct or come to fruition, and you are cautioned not to place undue reliance on such statements. We do not undertake any obligation to update the forward-looking statements contained herein, whether as a result of new information, future events or otherwise, or to update the reasons why actual results could differ from those projected in the forward-looking statements.

Investment involves risk. It is important to note that the capital value of investments and the income from them may go down as well as up and may become valueless 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. Past performance information may be out of date. For up-to-date information, please contact your Relationship Manager.

Investment in any market may be extremely volatile and subject to sudden fluctuations of varying magnitude due to a wide range of direct and indirect influences. Such characteristics can lead to considerable losses being incurred by those exposed to such markets. If an investment is withdrawn or terminated early, it may not return the full amount invested. In addition to the normal risks associated with investing, international investments may involve risk of capital loss from unfavourable fluctuations in currency values, from differences in generally accepted accounting principles or from economic or political instability in certain jurisdictions. Narrowly focused investments and smaller companies typically exhibit higher volatility. There is no guarantee of positive trading performance. 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. You should read all scheme related documents carefully.**

Issued by The Hongkong and Shanghai Banking Corporation Limited

Expiry: 01/12/2018