IM

Investment Monthly

02 August 2017

US dollar declines as "reflation trade" falters

Key takeaways

- We remain neutral global equities and corporate bonds, and underweight developed market (DM) government bonds. We also continue to be overweight local currency emerging market (EM) government bonds and EM equities
- Global equities rose in July, supported by perceptions of a more dovish US Federal Reserve (Fed), an upbeat Q2 earnings season, and robust global economic data
- As expected, the Fed left policy unchanged at its July meeting, reiterating its expectation that inflation will stabilise around their 2% target over the medium term
- In the eurozone, recent data remains very strong. There are compelling arguments for the European Central Bank (ECB) to taper its bond-buying programme next year
- Recent UK economic data has shown signs of weakness as higher inflation bites into disposable incomes. The Bank of England are likely to keep policy on hold in August
- In China, while we expect a modest growth slowdown in H2 amid financial deleveraging, the official growth target of around 6.5% for 2017 should be met

The market has abandoned the "reflation" thesis

Despite continued positive global growth momentum, inflation trends in most major developed economies remain weak. Amid US policy paralysis, investors' confidence in the "reflation trade" has collapsed, reflected in a much weaker US dollar this year. Nevertheless, the Fed is likely to continue along its tightening path, aided by historically very loose US financial conditions and a conviction that inflation will eventually pick up. The ECB should also be in gradual tightening mode next year as it tapers its bond-buying programme. In this environment, and with some cyclical inflation pressures likely to eventually develop, we retain our underweight positioning in DM government bonds.

Meanwhile, the upbeat macro environment continues to favour risky asset classes. For global equities, valuations remain consistent with a neutral positioning, with a preference for Japan, Europe and EM Asia. Elsewhere, credits should be a natural beneficiary of a good growth/low volatility environment. But the credit "margin of safety" is thin, and we retain a neutral stance for the time being. Finally, we remain overweight in EM local currency debt and equities, although aggregate EM valuations no longer look anomalously cheap. For EM local debt, we think Latin America looks especially attractive.

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

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 July 2017, HSBC Global Asset Management's long-term expected return forecasts which were generated as at 30 June 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 31 July 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 31 July 2017.

Equities

Asset class	View	Movement	Rationale
Global	**Neutral**	—	**Positive factors:** Global economic growth momentum remains solid, driving global equity markets to deliver positive returns over the long term. Overall, support from still loose accommodative monetary policy and an increased willingness for looser fiscal policy will, in the medium and longer term, likely outweigh any headwinds from more modest Chinese growth, tighter US and eurozone monetary policy, and political uncertainty in many regions. **Risks to consider:** Fairly narrow implied equity premia (excess return over bonds) 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. Despite signs of legislative deadlock in Washington, fiscal stimulus under the Trump administration presents an upside risk to earnings. Overall, our measure of the implied risk premium (excess returns over government bonds) 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. The policy outlook under the Trump administration remains highly uncertain. We have also seen slight softness in US whole economy profits.
UK	Neutral	—	**Positive factors:** Positive global economic momentum (and potentially 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 a neutral positioning. **Risks to consider:** The prospective reward to 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.

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

Asset Class	View	Movement	Rationale
Eurozone	Overweight	—	**Rationale of overweight views:** We favour eurozone equities due to their higher implied risk premia and scope for better earnings news given the region's earlier point in the activity cycle. Furthermore, the monetary backdrop remains supportive, with ultra-low interest rates likely to persist until the end of the decade. **Risks to consider:** Valuations have become less attractive following the recent rally. According to recent polls, the upcoming Italian elections should see the Eurosceptic 5-star movement perform well. Also, the outcome of Brexit negotiations is highly uncertain. Brexit-related trade disruptions and/or slower UK GDP growth will likely hit eurozone exports. ECB monetary policy may also be less accommodative than expected.
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:** Domestic economic fundamentals are relatively sluggish, with an absence of momentum in wage growth, despite tight labour market conditions.
Emerging Markets (EM)	Overweight	—	**Rationale of overweight views:** We believe EM equities remain attractive for western-based investors (USD, GBP or EUR based) given our expectation of longer-term currency appreciation. However, we continue to be selective, focusing on countries with strong underlying macro fundamentals, and positive price momentum. **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. Countries, such as Poland, have low levels of US dollar-denominated debt, and along with Russia, Hungary and the Czech Republic 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)	**Underweight**	—	**Rationale of underweight views:** Prospective returns still look low relative to competing asset classes. In a bond-unfriendly environment (strong global activity, the prospect of fiscal easing), global bond yields could move higher still. **Positive factors:** Government bonds still provide diversification benefits and reduce volatility within multi-asset portfolios. Meanwhile, "secular stagnation" forces are powerful (ageing populations, low productivity and investment), and the global pool of safety assets is limited. Therefore, the "normalisation" of bond yields could take several years.
US	Underweight	—	**Rationale of underweight views:** The US labour market is at (or close to) full employment so underlying inflationary pressures are likely to 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 premia (compensation for bearing duration risk) may be capped at a lower level relative to history.
UK	Underweight	—	**Rationale of underweight views:** Prospective UK gilt returns remain very low. Although the UK economy could slow, any support in this respect may be offset by inflationary pressures. **Positive factors:** Amid downside risks to growth, UK monetary policy is likely to stay 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 likelihood of further tapering of the ECB APP after December 2017. **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, whilst the BoJ's commitment to peg 10-year yields close to zero could be re-evaluated. The BoJ has also recently reduced the amount of its JGB purchases. **Positive factors:** The "Yield Curve Control" framework should limit volatility and reduce the risk of higher yields in the near-term. Meanwhile, BoJ Governor Kuroda has indicated that cutting policy rates could play a central role in future policy decisions.
Emerging markets (EM)	**Overweight**	—	**Rationale of overweight views:** The yield available on EM sovereign bonds makes them attractive relative to DM government debt, in our view. Furthermore, our estimate of the sustainable return on EM currencies reinforces our choice to hold this position unhedged. **Risks to consider:** Spreads in the EM debt universe are at risk of widening as US policy tightens.

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)	**Neutral**	—	**Positive factors:** The prevailing macro environment remains supportive for credits. Implied recession probabilities are near zero – the default outlook appears benign. **Risks to consider:** Valuations do not appear anomalously cheap, with low implied credit premia meaning that the margin of safety is now very thin against any negative shocks (such as tighter than expected US monetary policy). We are neutral with a negative bias.
– USD investment grade	Neutral	—	**Positive factors:** US investment-grade debt looks more attractive than European credit. Carefully selected US credit may outperform. **Risks to consider:** Lower relative valuations for USD-denominated credit is offset in the nearer term by the risk of a more aggressive pace of Fed tightening. The US credit cycle is more mature than that in Europe which remains nascent.
– EUR and GBP investment grade	Neutral	—	**Positive factors:** The ECB's corporate bond-buying programme remains supportive. Meanwhile, in the eurozone, the latest survey data suggests a gradual improvement in credit conditions, and default rates remain low. Valuations are still around neutral levels. **Risks to consider:** European credits could be hit as the ECB tapers its APP. UK credits are vulnerable amid downside risks to the UK economic outlook.
Global high-yield	**Neutral**	—	**Positive factors:** Corporate fundamentals are improving following a pick-up in the global activity cycle. Defaults remain comparatively low and are likely to be contained to commodity-related sectors. **Risks to consider:** Further credit spread compression leaves a thin margin of safety. We are neutral with a negative bias.

Other

Asset Class	View	Movement	Rationale
Gold	**Neutral**	—	**Positive factors:** Gold futures can offer reasonable diversification benefits to multi-asset investors 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 because there is a 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 multi-asset investors 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 around 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 in recent months. Concerns over the health of some retailers have dragged down retail-oriented Real Estate Investment Trusts. In this environment, we believe higher quality malls and shopping centres are likely to outperform stocks with weaker portfolios. The UK's decision to leave the EU has reduced rental growth prospects, especially in central London, and increased uncertainty around future occupier demand.

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 tighter (161bp for the EMBI Global Asia as at 31 July) than in other regions of the EM space (434bp 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:** Improving earnings and profitability and more efficient use of cash levels on balance sheets support rising return on equity, amid an export recovery, better domestic growth, and supportive global and regional monetary policy. Structural reforms and shareholder-return policies are potential catalysts in some markets. Valuations are reasonable. **Risks to consider:** A sharp rise in Treasury yields is a key risk. Fed balance-sheet reduction and ECB tapering could raise uncertainty. US protectionist policies remain a major risk. Other risks include geopolitical events; commodity-price volatility; a fragile or faltering global growth recovery; and renewed concerns about China's growth and financial risks.

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

–	China	Overweight	▬	**Rationale of overweight views:** Earnings growth and non-financial ROE continues to recover on better top/bottom-line growth and higher margin and helped by the commodity and fast-growing sectors such as the Internet (MSCI China), which benefit from policy support and the structural changes in the economy. Financial deleveraging and regulatory tightening is a long-term positive for the financial sector and real economy. SOE reform, A-shares' MSCI inclusion, domestic pension fund investment and any positive development in Sino-US relations are potential long-term catalysts. **Risks to consider:** Economic growth continues to rely on credit and policy stimulus rather than productivity improvements, amid structural headwinds (e.g. high leverage and inefficient SOEs and capital allocation). Financial deleveraging, shadow banking credit tightening, and higher funding costs pose liquidity/default and growth risks. Other risks include a significant growth slowdown; a setback in supply-side reform; property bubbles & burst, and global growth and policy uncertainties.
–	India	Overweight	▬	**Rationale of overweight views:** A revival in earnings growth later this year is likely aided by lower domestic rates; fiscal support for infrastructure and (affordable) housing; the 7th Pay Commission boost to (urban) consumption; and stable global growth. Goods and Services Tax could cause short-term disruption to economic activity, but will bring material long-term gains. The RBI has cut inflation forecasts significantly, opening the door for further easing, and speeded up bank NPA resolution process. Credible reforms, macro stability and structural tailwinds add to a cyclical recovery. **Risks to consider:** The year-to-date rally has compressed Indian equities' risk premium and led to elevated valuations relative to their history, limiting the scope for further valuation re-rating. Weak loan growth, public bank NPAs and sluggish private capex remain concerns. Farm loan waivers risk creating moral hazard for banks and pose risks to fiscal consolidation and future inflation. The 7th Pay Commission allowance hikes add to inflation/fiscal uncertainties. Other risks include faster pace of Fed/DM monetary policy normalisation; US protectionist policies; and a sharp rise in oil prices.
–	Hong Kong	Neutral	▬	**Positive factors:** Hong Kong equities have been underpinned by a cyclical recovery with the upturn in trade, improving retail sales thanks to a recovery in inbound tourism and solid domestic demand amid a stable labour market, a robust property market, and moderate fiscal stimulus. Integration with China (incl. the "Belt and Road" initiative) helps raise productivity of Hong Kong's service economy in the longer term. Hong Kong maintains a large liquidity buffer against potential capital outflows. **Risks to consider:** Hong Kong faces the risk of tightening of monetary conditions due to higher G3 rates/Fed balance sheet reduction, a stronger USD, and/or capital outflows. HIBOR moved higher in June, but the still wide HIBOR vs. LIBOR rate spread leaves the market vulnerable to a shift in sentiment. Any large rise in HIBOR pushing up mortgage rates would be headwind for the property sector, amid increased supply and policy overhang. Other risks include US/global protectionism, China's financial contagion and growth slowdown, and global demand uncertainties.
–	Singapore	Overweight	▬	**Rationale of overweight views:** Earnings and return on equity have recovered with a turnaround in Singapore's economy, amid a revival in global trade and electronics cycle, a pickup in loan growth, continued public investment, and modest fiscal stimulus. Bank asset quality concerns have eased with oil & gas NPL formation likely having passed its peak. The easing of property curbs and a better macro outlook should improve sales volumes due to pent-up demand, low supply, still low interest rates, and high affordability. MSCI Singapore dividend yield remains one of the highest in Asia. **Risks to consider:** Singapore's economy and asset markets face the risk of rising US interest rates and US/global protectionism, and are sensitive to the USD trend. The country's transition from a labour-driven growth model to a productivity-driven one remains challenging, with productivity gains still negative. Structural shifts point to headwinds for domestic demand and labour market slack.
–	South Korea	Overweight	▬	**Rationale of overweight views:** Earnings momentum has been strong with improving breadth, and the Korean economy has benefited from synchronous global growth. Expectations of increasing fiscal spending (to boost job creation) have improved domestic sentiment. Any improvement in China-Korea relations would be a positive. Chaebol reform to improve corporate governance and strengthen minority shareholders' rights, as well as favourable shareholder return policy and group restructuring are long-term catalysts. The risk-return profile remains favourable at the current level. **Risks to consider:** There are concerns over the trend of EPS upgrades and ROE improvement not being sustained; the impact of corporate tax hike and pro-labour policies (e.g. minimum wage, non-regular staff conversion) on earnings; tighter policy against chaebols (index heavyweights); and reform implementation risks. Geopolitical tensions (North Korea, China), US protectionist policies, and global demand/policy uncertainties remain risks. Currency is a wild card for exporter earnings.
–	Taiwan	Neutral	▬	**Positive factors:** Constructive global demand outlook and a new smartphone product cycle in H2 should support Taiwan's exports and industrial activities (with spillover to domestic demand and employment) and earnings growth, amid better commodity pricing and more infrastructure spending. We are fundamentally positive on the outlook for these tech sub-sectors benefiting from the trend for the industrial Internet of Things. There are opportunities in certain non-tech sectors with growth stories and earnings visibility. MSCI Taiwan dividend yield is relatively high. **Risks to consider:** TWD strength is a major headwind for (tech) earnings and margins, although much of manufacturing is China-based. Consensus EPS estimates have been cut on weaker-than-expected Q1 results due to substantial FX losses. Taiwan's tech sector is facing challenges from slower global demand growth for its product mix and tougher competition from China in the supply chain. Deterioration in cross-strait relations and US protectionist trade policies are major risks.

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

US dollar declines as "reflation trade" falters

Markets: global equities edged higher in July; German bunds fell; oil prices rallied on OPEC production cut hopes

- **Global equities** rose in July, supported by investor perceptions of a more dovish US Federal Reserve (Fed), an upbeat Q2 earnings season, and continuing robust global economic data. The MSCI AC World index closed 1.7% higher over the month.
- Market expectations of a more cautious Fed tightening cycle saw emerging market stocks outperform, with the MSCI EM gaining 4.4%. European stocks underperformed, however, on the back of further strength in the **euro** and large falls in healthcare stocks.
- In the government bond space, shorter-dated **US Treasuries** gained (yields fell) on a dovish Fed and continuing weak inflation prints. In Europe, 10-year German bunds declined amid expectations of the ECB tapering its bond buying programme next year.
- Finally, **oil prices** rallied over the month as data showed a fall in US crude inventories, whilst OPEC members signalled that deeper production cuts are possible (all data above as of close of 31 July in local currency, price return, month-to-date terms).

US: data continues to be upbeat, with Fed likely to remain in "auto-pilot" mode with rate hikes

- Data releases in the US were upbeat in July. The advance release of Q2 GDP jumped to 2.6% qoq annualised (+1.2% previously). Sentiment indicators (e.g. ISM surveys and the Conference Board Consumer Confidence index) also remain high.
- The labour market continues to tighten, with nonfarm payrolls rising by 222k in June, but wage growth remains lacklustre. Price pressures also remain tepid, with June core CPI inflation remaining at a 2-year low of 1.7% yoy.
- As expected, the Fed left policy unchanged at its July meeting, reiterating their expectation that inflation will "stabilise around the committee's 2 per cent objective over the medium term". One more rate hike by year-end remains our base case.
- The **US dollar** has weakened amid reduced market expectations of US fiscal stimulus and soft inflation prints. Along with higher equity prices and low credit spreads, overall financial conditions are very loose, which should allow the Fed to continue tightening.

Europe: downside of euro strength offset by other positive factors; UK economy looking increasingly fragile

- In the **eurozone**, recent data remains very strong, with Q2 GDP growth accelerating to 0.6% quarter-on-quarter. Crucially, continuing employment growth should offset the squeeze in real incomes from higher inflation versus 2014-16.
- Positively, hard data from the industrial sector is also beginning to pick up, with the PMI manufacturing survey suggesting we could see a further acceleration later this year, although the recent strength of the euro presents a downside risk to exporters.
- Nevertheless, euro strength is likely to be offset by continuing solid global demand conditions, whilst many European companies produce outside of the region and/or are hedged against currency risk. Business investment trends are also improving.
- In terms of monetary policy, the recent strength of economic data combined with scarcity issues in the government bond market and diminished deflation risks remain compelling arguments for the ECB to taper its bond-buying programme next year.
- Recent **UK** economic data has shown signs of weakness as higher inflation bites into disposable incomes. Retail sales growth has been on a downward trend since the beginning of 2017. The Bank of England are likely to keep policy on hold in August.

Asia: China on track to meet official growth target for 2017; Bank of Japan cuts inflation forecasts

- **China's** Q2 GDP delivered a positive surprise, maintaining 6.9% yoy growth. While we expect a modest growth slowdown in H2 amid financial deleveraging and property cooling measures, the official growth target of 'around 6.5%' for 2017 should be met.
- **India**'s June inflation falling below the lower bound of the central bank's target range (2%) opens up room for policy easing. Also, disruption to economic activity amid the rollout of the Goods and Services Tax has not been broad-based and is likely transitory.
- The Bank of **Japan** (BoJ) kept policy unchanged at its July meeting, although revised upward its projection for GDP growth this fiscal year (+0.3ppts to 1.7% yoy), whilst the forecast for CPI excluding fresh food was downgraded from 1.4% to 1.1%.

Other EM: declining inflation motivates monetary policy easing in Brazil and South Africa; but political risks remain high

- As expected, **Brazil's** central bank cut the Selic rate by 1 percentage point to 9.25% amid easing inflationary pressures, with forward guidance also becoming more dovish. However, heightened political uncertainty is likely to weigh on the economy.
- The Reserve Bank of **South Africa** unexpectedly cut interest rates to 6.75%, motivated by easing inflation and a recessionary economic environment. Economic confidence is weak amid political uncertainties and after recent credit rating downgrades.
- Elsewhere, the Central Bank of **Turkey** kept its main policy rates unchanged at its July meeting, arguing the inflation outlook has yet to improve. Positively, growth has remained resilient, supported by government spending and stimulus measures.
- Similarly, the Central Bank of **Russia** maintained its key rate in July, at 9.00%. Although headline CPI ticked higher in June to 4.4% yoy (target at 4%), the nascent economic recovery amid low core inflation leaves room for further rate cuts later this year.

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)	478	2.7	4.9	14.8	13.2	480	403	16.9
North America								
US Dow Jones Industrial Average	21,891	2.5	4.5	18.8	10.8	21,930	17,884	18.0
US S&P 500 Index	2,470	1.9	3.6	13.7	10.3	2,484	2,084	18.9
US NASDAQ Composite Index	6,348	3.4	5.0	23.0	17.9	6,461	5,034	24.0
Canada S&P/TSX Composite Index	15,144	-0.3	-2.8	3.8	-0.9	15,943	14,319	17.0
Europe								
MSCI AC Europe (USD)	464	3.0	5.6	16.6	16.0	468	374	15.3
Euro STOXX 50 Index	3,449	0.2	-3.1	15.3	4.8	3,667	2,893	14.8
UK FTSE 100 Index	7,372	0.8	2.3	9.6	3.2	7,599	6,616	15.4
Germany DAX Index*	12,118	-1.7	-2.6	17.2	5.5	12,952	10,093	13.4
France CAC-40 Index	5,094	-0.5	-3.3	14.7	4.8	5,442	4,293	15.2
Spain IBEX 35 Index	10,502	0.6	-2.0	22.3	12.3	11,184	8,229	14.8
Asia Pacific								
MSCI AC Asia Pacific ex Japan (USD)	529	4.8	8.8	21.2	24.0	533	419	14.5
Japan Nikkei-225 Stock Average	19,925	-0.5	3.8	20.3	4.2	20,318	15,921	17.1
Australian Stock Exchange 200	5,721	0.0	-3.4	2.8	1.0	5,957	5,052	16.1
Hong Kong Hang Seng Index	27,324	6.1	11.0	24.8	24.2	27,558	21,489	13.2
Shanghai Stock Exchange Composite Index	3,273	2.5	3.8	9.9	5.5	3,301	2,932	14.5
Hang Seng China Enterprises Index	10,828	4.5	5.9	20.9	15.3	11,043	8,971	8.7
Taiwan TAIEX Index	10,427	0.3	5.6	16.1	12.7	10,546	8,880	14.9
Korea KOSPI Index	2,403	0.5	8.9	19.2	18.6	2,453	1,931	10.3
India SENSEX 30 Index	32,515	5.2	8.7	15.9	22.1	32,673	25,718	20.3
Indonesia Jakarta Stock Price Index	5,841	0.2	2.7	12.0	10.3	5,910	5,023	16.7
Malaysia Kuala Lumpur Composite Index	1,760	-0.2	-0.5	6.5	7.2	1,797	1,614	16.3
Philippines Stock Exchange PSE Index	8,018	2.2	4.7	0.7	17.2	8,107	6,499	19.1
Singapore FTSE Straits Times Index	3,330	3.2	4.9	16.1	15.6	3,355	2,761	15.2
Thailand SET Index	1,576	0.1	0.6	3.4	2.1	1,601	1,343	15.6
Latam								
Argentina Merval Index	21,582	-1.5	2.7	36.6	27.6	22,624	15,026	13.0
Brazil Bovespa Index*	65,920	4.8	0.8	15.0	9.5	69,488	55,696	12.6
Chile IPSA Index	5,065	6.7	5.6	23.0	22.0	5,082	4,007	18.8
Colombia COLCAP Index	1,481	1.3	8.0	13.2	9.6	1,492	1,271	14.7
Mexico Index	51,012	2.3	3.6	9.3	11.8	51,772	43,999	18.7
EEMEA								
Russia MICEX Index	1,920	2.1	-4.8	-1.3	-14.0	2,294	1,775	6.0
South Africa JSE Index	55,207	7.0	2.6	4.6	9.0	55,391	48,936	15.7
Turkey ISE 100 Index*	107,531	7.1	13.6	42.6	37.6	108,606	71,793	9.6

*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	5.5	14.6	17.1	19.8	67.4
US equities	3.9	11.4	15.3	33.1	92.8
Europe equities	6.7	18.4	19.8	5.5	51.8
Asia Pacific ex Japan equities	10.0	26.0	24.5	13.1	45.0
Japan equities	6.2	12.1	14.2	19.2	65.0
Latam equities	6.4	19.2	18.0	-12.7	-11.8
Emerging Markets equities	10.2	25.5	24.8	7.3	26.2

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 31 July 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)	508	0.3	0.6	-0.7	1.8
JPM EMBI Global	790	0.7	1.2	4.6	6.9
BarCap US Corporate Index (USD)	2,851	0.7	2.2	1.5	4.6
BarCap Euro Corporate Index (Eur)	244	0.8	0.6	0.4	1.4
BarCap Global High Yield (USD)	460	1.0	1.8	10.2	6.3
Markit iBoxx Asia ex-Japan Bond Index (USD)	194	0.6	1.2	1.7	4.0
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	245	0.9	0.0	5.6	4.4

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	1.07	1.01	0.79	0.25	0.50
2-Year	1.35	1.38	1.26	0.66	1.19
5-Year	1.84	1.89	1.81	1.02	1.93
10-Year	2.29	2.30	2.28	1.45	2.44
30-Year	2.90	2.83	2.95	2.18	3.07
Developed market 10-year bond yields (%)					
Japan	0.08	0.08	0.01	-0.20	0.04
UK	1.23	1.26	1.08	0.68	1.24
Germany	0.54	0.47	0.32	-0.12	0.20
France	0.80	0.81	0.83	0.10	0.68
Italy	2.09	2.15	2.28	1.17	1.81
Spain	1.48	1.52	1.64	1.02	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	1.18	1.14	1.09	1.12	1.05	1.18	1.03
GBP/USD	1.32	1.30	1.30	1.32	1.23	1.34	1.18
CHF/USD	1.03	1.04	1.01	1.03	0.98	1.06	0.97
CAD	1.25	1.30	1.37	1.30	1.34	1.38	1.24
JPY	110.3	112.4	111.5	102.1	117.0	118.7	99.5
AUD	1.25	1.30	1.34	1.32	1.39	1.40	1.24
NZD	1.33	1.36	1.46	1.39	1.44	1.47	1.32
Asia							
HKD	7.81	7.81	7.78	7.76	7.76	7.81	7.75
CNY	6.73	6.78	6.89	6.64	6.95	6.96	6.62
INR	64.19	64.58	64.25	67.00	67.92	68.86	63.93
MYR	4.28	4.29	4.34	4.07	4.49	4.50	3.98
KRW	1,119	1,144	1,138	1,120	1,206	1,212	1,090
TWD	30.21	30.43	30.21	31.95	32.33	32.45	29.93
Latam							
BRL	3.13	3.31	3.18	3.25	3.26	3.51	3.04
COP	2,986	3,046	2,943	3,071	3,002	3,208	2,822
MXN	17.80	18.12	18.82	18.75	20.73	22.04	17.45
EEMEA							
RUB	59.78	58.87	56.93	65.94	61.54	67.45	55.70
ZAR	13.19	13.07	13.37	13.88	13.74	14.75	12.31
TRY	3.52	3.52	3.55	2.99	3.52	3.94	2.91

Commodities	Latest	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Gold	1,269	2.2	0.1	-6.0	10.2	1,368	1,121
Brent Oil	52.7	9.9	1.8	24.0	-7.3	58	42
WTI Crude Oil	50.2	9.0	1.7	20.6	-6.6	55	39
R/J CRB Futures Index	183	4.5	0.5	0.9	-5.1	196	166
LME Copper	6,369	7.3	11.0	29.3	15.1	6,430	4,582

Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 31 July 2017.
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: 28/02/2018.