IM
Investment Monthly

3 October 2017

“Goldilocks” economic backdrop continues

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
- Global equities rose in September amid easing geopolitical concerns, whilst higher oil prices and DM government bond yields boosted energy and financial stocks
- The Federal Open Market Committee (FOMC) confirmed that it would begin unwinding its balance sheet in October and signalled another rate hike before year-end
- The strength of the eurozone economy continues to be acknowledged by the European Central Bank (ECB), although there is little progress in reaching its inflation target
- China's moderate growth slowdown partly reflects efforts to reduce excess capacity, leverage and housing inventory, as well as contain financial risks

Strong and synchronised global growth environment persists

The “Goldilocks” mix of good global growth but subdued inflation continues. In particular, the persistence of low wage growth in many advanced economies is puzzling when compared to the tightness of labour markets. Even so, it still seems likely that cyclical inflation pressures will build over time, especially in the US. Therefore, at current pricing, DM government bonds look vulnerable, especially as global central banks normalise monetary policy, albeit very gradually. Being underweight in this asset class continues to make sense to us.

In a Goldilocks economy, the risk for investors comes from over-paying for riskier assets that benefit from continued good growth. In many parts of fixed income, risk pricing looks quite complacent, with the prospective risk-adjusted returns for US and European IG credits consistent with our underweight positioning. We remain neutral in the high-yield credit universe, with a preference for higher-rated bonds. By far the best reward for us backing “Goldilocks” is through global equities, with relative valuations and fundamentals favouring Japan. We also continue to emphasise EM equities and local-currency debt.

Equities

Asset Class	View	View Movement
Global	**Overweight**	–
US	Neutral	–
UK	Neutral	–
Eurozone	Overweight	–
Japan	Overweight	–
Emerging Markets (EM)	Overweight	–
CEE & Latam	Neutral	–

Government bonds

Asset Class	View	View Movement
Developed Market (DM)	**Underweight**	–
US	Underweight	–
UK	Underweight	–
Eurozone	Underweight	–
Japan	Underweight	–
EM (local currency)	**Overweight**	–

Corporate bonds & other

Asset Class	View	View Movement
Global investment grade (IG)	**Underweight**	–
USD IG	Underweight	–
EUR and GBP IG	Underweight	–
Asia IG	Neutral	–
Global high-yield	**Neutral**	–
US	Neutral	–
Europe	Neutral	–
Asia	Neutral	–
Gold	**Neutral**	–
Other commodities	**Neutral**	–
Real estate	**Neutral**	–

Asian assets

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

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 September 2017, HSBC Global Asset Management's long-term expected return forecasts which were generated as at 31 August 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 29 September 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 29 September 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 loose 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. 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 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. The policy outlook under the Trump administration remains highly uncertain. We have seen slight softness in US whole economy profits. 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 and uncertainty over Brexit negotiations. 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 currency 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 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 premium (compensation for bearing duration risk) may be capped at a lower level than historically.
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 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. 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.
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.

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. **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	**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. We prefer higher-rated HY bonds. **Risks to consider:** Further credit-spread compression leaves a thin margin of safety. We are neutral with a negative bias.
– US	Neutral	—	**Positive factors:** Broad-based acceleration in US economic activity continues to support corporate fundamentals. Default rates are relatively low and appear to have peaked as energy-related worries subside. **Risks to consider:** Substantial risk-premium compression leaves a thin margin of safety. Current pricing is 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 key risks.
– Europe	Neutral	—	**Positive factors:** The robust eurozone recovery, coupled with spill-over effects from the ECB Asset Purchase Programme (APP) remain supportive. **Risks to consider:** The ECB APP, which has so far been positive for this asset class, is likely to be tapered in 2018. The carry offered in Euro HY has declined in 2017 and now looks less attractive when compared to European equities. Overall, our measure of prospective risk-adjusted returns in EUR HY remains consistent with a neutral positioning.
– Asia	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
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 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 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).

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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 over the last 12 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 particularly tight (159bp for the EMBI Global Asia as at 29 September) than in other regions of the EM space (402bp 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:** Return on equity is recovering, helped by more efficient use of cash on balance sheets and industry consolidation. Improving earnings and profitability, albeit with slowing momentum, amid solid economic growth, lower interest costs, and high liquidity are positive. Structural/corporate governance reforms are potential catalysts in some markets. We think 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 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:** We take a constructive view on the current modest growth slow-down, which partly reflects policy efforts to reduce excess capacity, leverage and housing inventory, contain financial risks, and enforce stricter environmental protection standards. These efforts should help improve the quality and sustainability of long-term economic development. Earnings growth and ROE continues to recover. The commodity and fast-growing sectors such as the Internet benefit from policy support and the structural changes in the economy. Supply-side/SOE reforms, A-shares' MSCI inclusion, and domestic pension fund investment 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). The recent property upcycle was fuelled by debt/rising consumer leverage. Financial deleveraging, shadow banking credit tightening, and higher funding costs raise liquidity/ default concerns. Other risks include rising Sino-US trade tensions, escalating geopolitical risks, global growth and policy uncertainties, a setback in supply-side reform/excess capacity cut; property bubbles & burst, and tighter financing conditions for local governments.
– India	Overweight	—	**Rationale of overweight views:** Part of the recent worsening of macroeconomic data can be attributed to supply-side disruptions and short-term pains from reforms (e.g. demonetisation, GST and anti-corruption measures, etc.). Structural reforms will help raise productivity growth and lay the foundation for sustainable growth. We expect a gradual cyclical recovery and a revival in earnings growth in the coming quarters, amid lower domestic interest rates; fiscal support for infrastructure and affordable housing; the 7th Pay Commission boost to consumption; and stable global growth. We expect the government to strike a balance between 'economic growth' and 'fiscal credibility.' **Risks to consider:** Macroeconomic data have deteriorated recently at the margin: slowing growth, higher (core) inflation, a wider current account deficit, and the risk of fiscal slippage due to revenue shortfalls and/or fiscal stimulus. There are concerns over an increase in populist spending in the run-up to the 2019 general elections and that policymakers may sacrifice macro stability for economic growth. High public bank NPAs and sluggish private capex remain key challenges. Indian equities' valuations remain elevated relative to their history and other regional markets. Other risks include faster pace of Fed/ECB 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 helped by inbound tourism and solid domestic demand amid a stable labour market, a robust property market, and moderate fiscal stimulus. Loan growth has accelerated and credit risk is low. Integration with China helps lift 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.

Source: HSBC Global Asset Management. All numbers rounded to one decimal place
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– 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/electronics cycle, as well as continued public investment, and modest fiscal stimulus. A recovery in the property and credit cycles, alongside a rise in productivity in some sectors, if sustained, could support domestic incomes and wealth and aid domestic demand. 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. Structural shifts point to headwinds for private domestic spending and labour market slack. Bank asset quality concerns have eased but linger with spotlight on banks' exposure to the offshore & marine segment.
– South Korea	Overweight	▬	**Rationale of overweight views:** Corporate governance reform to strengthen minority shareholders' rights, with the wider adoption of stewardship code, favourable shareholder return policy, and group restructuring are potential valuation re-rating catalysts. The earnings revision trend remains positive, albeit slowing. Korea's exports continue an improving trend amid ongoing synchronous global growth and a tech upcycle. The government's 2018 budget and medium-term fiscal plans to boost welfare spending, job growth and income should help support domestic demand/consumption. **Risks to consider:** There are growing concerns over the impact of the government's policies on earnings of regulated industries, such as tax hikes (including corporate, income and capital gain tax), telco tariff cuts, mortgage/regulatory tightening to curb property speculation, as well as pro-labour policies (e.g. minimum wage, non-regular staff conversion), as well as reform implementation risks. Escalated geopolitical risks related to North Korea, spillovers from the US-China tensions, continued controversy vs. China on THAAD deployment, and US protectionist policies are key risks.
– Taiwan	Neutral	▬	**Positive factors:** Constructive global demand outlook and an electronics up-cycle are supporting Taiwan's exports and industrial activities (with potential spillover to domestic demand and jobs) and earnings. We are 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 (e.g. boost from infrastructure spending). The proposed tax reform plan could benefit domestic retail investors and workers. MSCI Taiwan dividend yield is relatively high. **Risks to consider:** Earnings growth is likely to slow down into 2018. Consensus estimates have been cut amid weaker-than-expected Q2 results and Q3 guidance, especially on tech companies. TWD strength is a major headwind for exporter earnings and margins. 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. Proposed corporate tax changes could affect dividend payout policies and profits.

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“Goldilocks” economic backdrop continues

Markets: global equities gained in September; DM government bonds fell; crude oil prices rose as US refineries reopened

- **Global equities** rose in September amid easing geopolitical concerns, whilst higher oil prices and developed market government bond yields boosted energy and financial stocks. The MSCI AC World index closed 1.9% higher over the month.
- The outperformance of **European stocks** was supported by a weaker euro against the US dollar, with the latter gaining on the back of renewed optimism over US tax reform. Elsewhere, **EM stocks** performed less well, with the MSCI EM up 0.3%.
- Meanwhile **DM government bonds** and **gold** sold off as the Fed maintained its expectation of further rate hikes in the coming quarters. UK gilts saw a particularly large decline as the Bank of England struck a hawkish tone at its September meeting.
- Finally, crude **oil prices** rose over the month as US refineries reopened, and as OPEC and its allies signalled another extension of their output-cut deal (all data above as of close of 29 September in local currency, price return, month-to-date terms).

US: Trump unveils tax plan; Fed signals another rate hike in December

- At its September meeting, the Fed left interest rates unchanged and confirmed that it would begin unwinding its balance sheet in October. The new "dot plot" still points to one more rate hike by year-end, whilst the terminal rate was reduced to 2.75%.
- US President Trump unveiled a "framework" for tax reform, proposing to cut the official corporate tax rate to 20% from 35%. The plan would also simplify the tax code, reducing the number of individual income tax brackets to three from seven.
- Disappointingly for the Fed, core personal consumption expenditure (PCE) unexpectedly fell to 1.3% year-on-year (yoy) in August (1.4% previously). Nevertheless, Fed chair Yellen warned in a speech against tightening policy "too gradually".
- Other hard data for August (non-farm payrolls, retail sales and home sales) were softer than expected while Q2 GDP was revised up. Meanwhile, sentiment data for September, such as ISM and consumer sentiment surveys, remain at healthy levels.

Europe: ECB sets the stage for October announcement on next step for QE policy; Bank of England strikes hawkish tone

- The ECB continues to acknowledge the strength of the **eurozone** economy. At its September meeting, it upgraded this year’s growth forecast to 2.2%. Importantly, the European Commission’s measure of consumer confidence is at a multi-year high.
- However, the ECB is making little progress in reaching its inflation target. Core inflation has failed to breach the 1.2% level since early 2013. Most significantly, the continuing strength of the euro presents a significant headwind to inflationary pressures.
- Nevertheless, the ECB remains likely to taper its QE programme in 2018. This decision will be supported by (i) robust economic growth; (ii) scarcity in the government bond market and; (iii) Draghi’s conviction that inflation will eventually converge to target.
- The “bulk” of decision on QE is expected at the October meeting. However, given the inflation backdrop, the ECB is likely to act very cautiously, for example by not pre-announcing the end-date of the programme, or the profile of tapering down to zero.
- In the **UK**, the Bank of England struck a hawkish tone at its September meeting, with the minutes stating “a majority” of members believed that “some withdrawal of monetary stimulus is likely to be appropriate over the coming months”.

Asia: India mulls policy levers to help boost growth; Bank of Japan is likely to maintain ultra-loose policy stance

- **China’s** moderate growth slowdown partly reflects efforts to reduce excess capacity, leverage and housing inventory, as well as to contain financial risks. These efforts should help improve the quality and sustainability of the country’s economic development.
- **India’s** economic activity has been weakened by the transient supply shock from demonetisation and implementation of the Goods and Services Tax (GST). Consequently, the Indian government is mulling policy levers to help boost economic growth.
- In **Japan**, given the lack of progress in terms of boosting inflation, and the uncertainty surrounding the sustainability of the recent pickup in GDP growth, the Bank of Japan is likely to maintain its ultra-loose monetary policy stance.

Other EM: growth continues but pockets of weakness linger

- **Brazil’s** economy grew for the second straight quarter in Q2, although the pace (+0.2% qoq) was lower than in Q1. Nevertheless, upbeat data for July (industrial production and retail sales) suggest economic activity has had a solid start to Q3.
- **Russia's** central bank cut rates by 50bps to 8.5% in September as inflation fell to a post-Soviet low of 3.3% yoy in August. A stabilising economy and prudent fiscal policy prompted a major rating agency to upgrade the country outlook to "positive".
- **Turkish** assets (equities, bonds, lira) fell sharply in August on renewed political instability at the border. Meanwhile, the central bank left rates unchanged, stating that policy needs to be kept tight until the inflation outlook improves.
- The **South African** Reserve Bank (SARB) left the repurchase rate unchanged at 6.75% as it assessed that the "balance of risks has deteriorated". The decision was a close call, with three out of six voting for a reduction by 25 basis points.

Source: HSBC Global Asset Management. All numbers rounded to one decimal place
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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)	487	1.8	4.5	16.6	15.4	488	403	17.1
North America								
US Dow Jones Industrial Average	22,405	2.1	5.3	23.5	13.4	22,420	17,884	18.4
US S&P 500 Index	2,519	1.9	4.1	17.1	12.5	2,519	2,084	19.3
US NASDAQ Composite Index	6,496	1.0	5.7	23.3	20.7	6,498	5,034	24.3
Canada S&P/TSX Composite Index	15,635	2.8	2.8	6.0	2.3	15,943	14,468	17.6
Europe								
MSCI AC Europe (USD)	478	3.1	5.5	19.2	19.6	479	374	15.6
Euro STOXX 50 Index	3,595	5.1	3.6	20.2	9.2	3,667	2,923	15.3
UK FTSE 100 Index	7,373	-0.8	0.3	6.6	3.2	7,599	6,677	15.3
Germany DAX Index*	12,829	6.4	3.3	23.3	11.7	12,952	10,175	14.2
France CAC-40 Index	5,330	4.8	3.4	19.9	9.6	5,442	4,343	15.7
Spain IBEX 35 Index	10,382	0.8	-1.4	18.0	11.0	11,184	8,512	14.4
Asia Pacific								
MSCI AC Asia Pacific ex Japan (USD)	530	-0.5	4.1	16.2	24.2	546	419	14.4
Japan Nikkei-225 Stock Average	20,356	3.6	0.7	21.9	6.5	20,481	16,112	17.5
Australian Stock Exchange 200	5,682	-0.6	-2.3	3.8	0.3	5,957	5,052	15.9
Hong Kong Hang Seng Index	27,554	-1.5	6.1	16.1	25.2	28,248	21,489	12.6
Shanghai Stock Exchange Composite Index	3,349	-0.4	5.0	11.7	7.9	3,392	2,993	14.7
Hang Seng China Enterprises Index	10,910	-3.4	4.6	11.4	16.1	11,462	9,117	8.4
Taiwan TAIEX Index	10,330	-2.4	-0.9	11.4	11.6	10,664	8,880	14.6
Korea KOSPI Index	2,394	1.3	0.0	15.7	18.2	2,453	1,931	10.3
India SENSEX 30 Index	31,284	-1.4	1.4	12.4	17.5	32,686	25,718	20.1
Indonesia Jakarta Stock Price Index	5,901	0.6	1.2	8.6	11.4	5,936	5,023	17.6
Malaysia Kuala Lumpur Composite Index	1,756	-1.0	-0.9	5.1	6.9	1,797	1,614	16.4
Philippines Stock Exchange PSE Index	8,171	2.7	4.9	5.9	19.5	8,322	6,499	20.1
Singapore FTSE Straits Times Index	3,220	-1.7	-1.2	11.6	11.8	3,355	2,761	14.9
Thailand SET Index	1,673	3.5	6.0	12.2	8.4	1,691	1,343	16.9
Latam								
Argentina Merval Index	26,078	10.6	21.5	55.8	54.1	26,175	15,189	15.3
Brazil Bovespa Index*	74,294	4.9	19.4	27.3	23.4	76,420	56,829	14.3
Chile IPSA Index	5,342	3.7	12.9	31.8	28.7	5,351	4,007	20.8
Colombia COLCAP Index	1,488	0.4	2.0	10.6	10.0	1,509	1,271	16.4
Mexico Index	50,346	-1.7	2.3	5.6	10.3	51,772	43,999	18.6
EEMEA								
Russia MICEX Index	2,077	2.7	10.4	4.1	-7.0	2,294	1,775	7.2
South Africa JSE Index	55,580	-1.7	8.2	5.5	9.7	56,897	48,936	15.7
Turkey ISE 100 Index*	102,908	-6.5	2.7	33.5	31.7	110,531	71,793	8.8

*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	5.0	17.3	18.9	23.7	62.5
US equities	4.5	13.9	18.7	32.7	88.1
Europe equities	6.0	22.5	22.5	13.2	46.1
Asia Pacific ex Japan equities	5.2	26.9	19.4	21.6	38.4
Japan equities	3.4	14.3	12.8	23.7	65.5
Latam equities	15.6	26.7	24.5	-1.2	-9.3
Emerging Markets equities	7.6	27.8	21.1	15.0	21.6

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 29 September 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)	510	-0.5	0.6	-0.3	2.2
JPM EMBI Global	804	0.0	2.3	4.1	8.7
BarCap US Corporate Index (USD)	2,868	-0.2	1.2	1.9	5.2
BarCap Euro Corporate Index (Eur)	245	-0.2	1.1	0.5	1.8
BarCap Global High Yield (USD)	465	0.7	2.3	8.8	7.7
Markit iBoxx Asia ex-Japan Bond Index (USD)	195	-0.1	1.3	1.9	4.8
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	250	0.6	2.5	6.1	6.2

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	1.04	0.99	1.02	0.25	0.50
2-Year	1.48	1.33	1.37	0.73	1.19
5-Year	1.94	1.70	1.85	1.12	1.93
10-Year	2.33	2.12	2.27	1.56	2.44
30-Year	2.86	2.73	2.81	2.28	3.07
Developed market 10-year bond yields (%)					
Japan	0.06	0.00	0.06	-0.09	0.04
UK	1.36	1.03	1.25	0.72	1.24
Germany	0.46	0.36	0.45	-0.12	0.20
France	0.74	0.66	0.80	0.18	0.68
Italy	2.11	2.04	2.15	1.21	1.81
Spain	1.60	1.55	1.52	0.91	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	1.19	1.14	1.12	1.05	1.21	1.03
GBP/USD	1.34	1.29	1.30	1.30	1.23	1.37	1.18
CHF/USD	1.03	1.04	1.05	1.04	0.98	1.06	0.97
CAD	1.25	1.25	1.30	1.31	1.34	1.38	1.21
JPY	112.5	110.0	112.2	101.0	117.0	118.7	101.2
AUD	1.28	1.26	1.30	1.31	1.39	1.40	1.23
NZD	1.39	1.39	1.37	1.38	1.44	1.47	1.32
Asia							
HKD	7.81	7.83	7.81	7.76	7.76	7.83	7.75
CNY	6.65	6.59	6.79	6.67	6.95	6.96	6.44
INR	65.28	63.91	64.63	66.86	67.92	68.86	63.57
MYR	4.22	4.27	4.29	4.12	4.49	4.50	4.10
KRW	1,145	1,128	1,141	1,099	1,206	1,212	1,100
TWD	30.32	30.17	30.40	31.38	32.33	32.45	29.90
Latam							
BRL	3.16	3.15	3.30	3.26	3.26	3.51	3.04
COP	2,938	2,946	3,048	2,893	3,002	3,208	2,831
MXN	18.25	17.89	18.04	19.52	20.73	22.04	17.45
EEMEA							
RUB	57.55	58.04	59.42	63.08	61.54	66.87	55.70
ZAR	13.56	13.00	13.02	13.89	13.74	14.65	12.31
TRY	3.56	3.45	3.53	3.00	3.52	3.94	3.00

Commodities	Latest	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Gold	1,280	-3.1	2.8	-3.0	11.1	1,358	1,121
Brent Oil	57.5	9.9	21.3	16.9	1.3	59	44
WTI Crude Oil	51.7	9.4	15.0	8.0	-3.8	55	42
R/J CRB Futures Index	183	1.2	6.5	-1.5	-4.9	196	166
LME Copper	6,481	-4.5	9.1	33.9	17.1	6,970	4,633

Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 29 September 2017.
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