IM
Investment Monthly

2 October 2018

Within EM equities, Asia remains a positive story

Key takeaways

- We have downgraded emerging market (EM) equities from overweight to neutral. But we remain overweight on Asia ex- Japan equities and local-currency EM government bonds. We also remain overweight on global equities, and underweight on developed market (DM) government bonds
- Global equity markets edged up in September, with investors broadly shrugging off an escalation in trade tensions between the US and China
- The Fed raised interest rates by 25bp in September, with monetary policy no longer described as "accommodative"
- Eurozone and UK GDP growth are holding up well, both expanding by 0.4% qoq in Q2, but downside risks remain
- In China, policy easing is now focussing on local government infrastructure spending, tax and tariff cuts and initiatives to stimulate consumption
- Japan's economic activity remains supported by a robust labour market and rising wage growth, whilst investment is being supported by limited spare capacity
- Our latest Nowcast shows a stabilisation in underlying economic activity in EM economies

EM Asian equities appear more attractive than other EM regions

There has been a clear loss of economic growth momentum in EM countries this year. However, the deterioration has not been uniform across the EM space. Consequently, we now prefer to fulfil our EM equity exposure in Asia, where economic growth has been comparatively robust (compared to Latin America for example) and structural characteristics are better. This preference for Asian equities means we retain our overweight stance on **Asia ex-Japan equities**, but downgrade our overall **EM equity** view to neutral. We still prefer taking EM risk through **local currency government bonds** where prospective risk-adjusted returns are higher than EM equities overall. We remain overweight in this segment, but being selective remains important.

Elsewhere, our views are unchanged this month. The current macroeconomic backdrop remains supportive for risk assets and the corporate sector continues to be robust. Based on current valuations, **global equities** remain the best way to benefit from this environment, in our view. We also remain neutral on **corporate bonds**, with valuations having improved year-to-date. Finally, we believe **DM government bonds** continue to offer low sustainable returns, although shorter-dated **US Treasuries** appear relatively attractive and can be a source of diversification.

Equities

Asset Class	View	View Move
Global	**OW**	–
US	N	–
UK	N	–
Eurozone	OW	–
Japan	OW	–
Emerging Markets (EM)	N	↓
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)	**N**	–
USD IG	N	–
EUR and GBP IG	UW	–
Asia IG	N	–
Global high-yield	**N**	–
US	N	–
Europe	UW	**–**
Asia	N	**–**
EM agg bond (USD)	**N**	–
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

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 2018, HSBC Global Asset Management's long-term expected return forecasts which were generated as at 31 August 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 28 September 2018.

Similarly, for EM government bonds, the underweight, overweight and neutral categories for the asset class at the aggregate level are also based on high-level asset allocation considerations applied in diversified, typically multi-asset portfolios. However, EM Asian Fixed income views are determined relative to the EM government bonds (hard currency) universe as of 28 September 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. We believe global equities still offer attractive rewards amid the risks to the growth outlook, whilst corporate fundamentals remain strong. 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 premiums could 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 US Federal Reserve, European Central Bank or Bank of Japan normalisation of policy, coupled with political risks. A notable and persistent deterioration of the global economic outlook could also dampen our view. Finally, rising wage growth in many DM economies may undermine corporate profits.
US	Neutral	—	**Positive factors:** Corporate fundamentals remain strong, the earnings growth outlook appears solid in our opinion (with upside risks from tax reform), and the US macroeconomic backdrop looks still robust. Overall, our measure of the implied risk premium (excess returns over cash) remains consistent with a neutral positioning. **Risks to consider:** Further Fed policy tightening poses risks, especially as the US economic cycle matures. 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 towards China 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. Brexit-related uncertainty is weighing on UK economic performance.
Eurozone	Overweight	—	**Rationale of overweight views:** Eurozone equities benefit from relatively high implied risk premiums 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. Economic activity indicators, including our Nowcast, have stabilised following a moderation earlier this year. **Risks to consider:** Export growth is vulnerable to the weaker global environment, protectionism risks and the lagged impact of euro strength. Political risks may be posed by the populist government in Italy and Brexit negotiations.

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

Japan	Overweight	–	**Rationale of overweight views:** The relative valuation is attractive, in our view, whilst policy is supportive. Large corporate cash reserves provide firms with the scope to boost dividends or engage in stock repurchases. The trend in earnings growth 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. Protectionism is a key risk.
Emerging Markets (EM)	Neutral	↓	**Rationale of view change:** We prefer to fulfil our EM equity exposure in Asia where economic growth has been relatively robust (compared to Latin America for example) and macroeconomic structural characteristics are better. **Positive factors:** We think valuations offer a decent margin of safety, and there is still significant potential for (selected) EM currencies to appreciate over the medium term. The structural characteristics of EM economies are significantly better than in the past, whilst recent policy easing in China should help support EM economic activity in the short-term. Meanwhile, the risk of a further spike in the USD is being limited by a very gradual Fed tightening path. **Risks to consider:** EM growth momentum has weakened this year, with US-China trade tensions and the potential for further US dollar strength still undermining the growth outlook. Aggregate EM inflation has also edged up on the back of currency exchange rate weakness, limiting the scope for central banks to ease policy. Furthermore, although Chinese authorities have eased policy, it remains to be seen if this will provide enough support.
CEE & Latam	Neutral	–	**Positive factors**: There has been a loss of economic growth momentum in Brazil and Mexico in 2018, although activity remains fairly resilient, with Brazil's GDP growth still well above rates prevailing over 2015-6. Meanwhile, in CEE, we believe Poland, Russia and Hungary offer attractive equity risk premiums. **Risks to consider**: Economic growth could deteriorate further. 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)	**Underweight**	–	**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 offer 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 above 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. This is set against a backdrop of "price stability". We hold this position with a positive bias (i.e. close to neutral).
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:** Although the BoE has signalled a gradual tightening path, amid downside risks to growth and core inflation heading back toward target, monetary policy is likely to remain relatively accommodative.
Eurozone	Underweight	–	**Rationale of underweight views:** Similarly, core European bonds are overvalued, in our view. A key risk is the termination of the ECB Asset Purchase Programme this year. **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 has started to 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:** In our view, 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 gain in the US dollar are key risks. Diverging economic and political regimes in the EM universe also mean that being selective is key.

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

Asset Class	View	Movement	Rationale
Global investment grade (IG)	**Neutral**	—	**Positive factors:** Prospective returns on IG corporate bonds have improved this year. The macro environment remains supportive for credits – implied recession probabilities remain very low. The risk of defaults and downgrades appears limited for now. **Risks to consider:** Although credit premiums have risen, the margin of safety against negative shocks, such as a deterioration in the data or default outlook, is not large. We still believe we can access growth at a better price through equity exposures.
– USD investment grade	Neutral	—	**Positive factors:** Prospective returns on US IG corporate bonds have improved this year. US IG debt looks more attractive to us than European credit. We think carefully-selected US credit may outperform. **Risks to consider:** 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.
– EUR and GBP investment grade	Underweight	—	**Rationale of underweight views:** EUR IG prospective returns are 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 and pledge to reinvest maturing assets for "an extended period of time" 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 are 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:** Prospective returns on HY corporate bonds have improved this year. 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. **Risks to consider:** Our measures show that we remain better rewarded by equities as a way to benefit from a strong economic backdrop.
– US HY	Neutral	—	**Positive factors:** Prospective returns on US HY corporate bonds have improved this year. 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. **Risks to consider:** US HY credits remain vulnerable to a deterioration in economic data or the default outlook. A more aggressive than expected Fed tightening cycle is a key risk.
– Europe HY	Underweight	—	**Rationale of underweight views:** The carry offered by Euro HY is unattractive compared to European equities. The ECB's Asset Purchase Programme (APP), which has so far been positive for this asset class, will be terminated by the end of this year. 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 relatively stable. **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)	**Neutral**	—	**Positive factors:** Prospective returns on EM hard-currency bonds have improved this year. Investors' reach for yield may continue to support this asset class. **Risks to consider:** 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.
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 at present 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).

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Real estate	**Neutral**	—	**Positive factors:** At the end of August 2018, global real estate equities offered a dividend yield of 3.9%, 154 basis points above that of wider equities, which is attractive in a low interest rate environment. In the long run, rents are linked to wider economic growth and offer a partial inflation hedge. Based on our outlook for rental growth and dividends, we believe real estate equities are priced to deliver reasonably attractive long-run returns compared to DM government bonds. **Risks to consider:** Real estate equities focused on retail property are susceptible to the pressures of e-commerce and changing shopping habits, although this is partly offset by strong demand for logistics buildings. A serious escalation in global trade disputes could harm occupier demand generally, particularly for countries heavily reliant on exports. Unexpected rises in interest rates could adversely affect prices in the short term. Brexit continues to cast a shadow on the UK, particularly in relation to Central London offices.

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 (176bp for the EMBI Global Asia as at 28 September) than in other regions of the EM space (474bp 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 attractive risk-adjusted returns. Asian economic growth has held up relatively well, earnings growth is strong and macroeconomic structural characteristics are better than in other EM regions. We think 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, along with DM central bank policy normalisation. 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:** Earnings growth is still solid with margin expansion and rising ROE. Macro policies have become more supportive of domestic demand. Easing deleveraging process/relaxation in regulatory tightening helps credit growth and the financial sector. Fiscal policy is expansionary with tax cuts and R&D investment and more funding for infrastructure projects. Market structural changes, supply-side reforms and financial liberalisation are potential longer-term catalysts. **Risks to consider:** Lingering US-China trade tensions are a key external risk, as well as renewed pressure on capital outflows due to higher US rates or intensifying China macro concerns. A setback in supply-side reforms, including financial reform (deleveraging, shadow banking cleanup, proper credit risk pricing, etc.), is another key risk. Balancing often conflicting economic and financial goals is a major policy challenge. The property sector continues to face tight funding conditions.
– India	Overweight	—	**Rationale of overweight views:** An ongoing cyclical recovery supports earnings growth. The long-term structural story remains positive with substantial progress on key reforms, higher infrastructure spending in priority areas, and improving governance standards and ease of doing business. The government has taken measures to boost capital flows, control the CAD and ease the pressure on the INR. The RBI's inflation-targeting credibility and proactive liquidity management help. India is relatively insulated from US-China trade tensions as it is a small part of the global supply chain. **Risks to consider:** Earnings estimate revision trend remains weak, and valuations are unattractive. Pressures on manufacturing profit margins are building from input cost increases. Macro stability remains under pressure (e.g. a wider current account/trade deficit, the risk of fiscal slippage and inflation risks from higher oil prices and a weak INR, etc.) and we believe tight fiscal and monetary policy is needed to support the INR. Capital flows and policy vigilance remain key to addressing concerns over credit and liquidity issues in the NBFC segment and potential contagion. Tightening global and domestic financial conditions and a substantial political calendar make us cautious.
– 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 high asset/housing prices support retail sales. Market liquidity is still abundant. The Hong Kong economy has a strong external balance sheet, high household savings and a healthy banking sector. **Risks to consider:** Any substantial rise in HIBOR is a headwind for the Hong Kong asset markets and economy. Policy risk remains alive for the property market, amid risks from higher interest rates (effectively with a rise in the prime rate) and supply increases. Rising US-China trade conflicts, China's financial risk contagion, and volatile global financial conditions are risks.
– Singapore	Overweight	—	**Rationale of overweight views:** Economic growth is likely to maintain a healthy, albeit softer, pace, with a gradual recovery in retail sales (ex. autos due to policy effects) and a tighter labour market. An expansionary fiscal policy supports growth. EPS growth expectation is higher in Singapore than other ASEAN markets and ROE is improving. The relatively high dividend yield is positive. **Risks to consider:** Singapore faces the risk of tighter global financial conditions, moderating global demand and trade protectionism, and are sensitive to the USD trend. Domestic liquidity is likely to remain tight amid sluggish deposit growth, firmer loan growth, and a gradual pace of higher SIBOR. The housing market face headwinds of rising mortgage rates/debt and policy cooling measures.

Source: HSBC Global Asset Management. All numbers rounded to one decimal place
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– South Korea	Overweight	▬	**Rationale of overweight views:** Export growth ex. shipbuilding still holds up. The potential for reduced North Korea-related geopolitical risk and corporate governance reform create longer-term re-rating potential. The 'income-led growth' policy agenda/tax reform and an expansionary fiscal policy supports domestic demand. Earnings growth remain solid and valuations are attractive. **Risks to consider:** Labour market headwinds to consumption persist, partly reflecting the impact of the minimum wage policy and corporate restructurings. Regulation weighs on the housing market. Korea is exposed to trade protectionism, slower global demand and geopolitical risks. Corporate income tax hike, labour policy and higher energy prices will likely raise costs and weigh on margins.
– Taiwan	Neutral	▬	**Positive factors:** External demand outlook remains broadly benign, with recent data showing a moderate improvement in tech exports following several months of weak performance. There are new growth drivers in the tech sector such as artificial intelligence, Internet of Things and 5G. The multi-year public infrastructure investment plan begins to roll out. Dividend yield is relatively high. **Risks to consider:** Escalating US-China trade tensions and any global demand slowdown are major risks, considering Taiwan's heavy involvement in the regional (tech) supply chain. Taiwan's tech sector is facing tough competition from China. Global financial market volatility, geopolitical tensions and rising political and military pressure on Taiwan by China, and any oil shock are risks.

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Within EM equities, Asia remains a positive story

Markets: global stocks rose despite escalating US-China trade tensions; Indian assets underperformed

- **Global equity markets** edged up in September, with investors broadly shrugging off an escalation in trade tensions between the US and China. In DM, Japanese stocks outperformed, boosted by a weaker yen against the US dollar (supporting exporter shares). Within EM, most countries saw gains, although Indian stocks fell amid higher oil prices
- In **currency markets**, the Indian rupee fell against the US dollar over the month. Most other major EM currencies rose, however
- Meanwhile, **US Treasuries** declined (yields rose) on the back of strong US economic data and rising wage growth. Stronger risk appetite and fresh supply also weighed on the market. Core European bonds also fell over the month
- Finally, **crude oil prices** rose further in September as OPEC and allied producers confirmed they would not ramp up output in response to supply disruptions in other producing countries

US: Business as usual for the Fed, Trump proceeded with tariffs against China

- The Fed raised interest rates by 25bp in September. Monetary policy is no longer described as "accommodative", but Fed Chair Powell stressed that the language change bears little on the future pace of rate hikes. As before, this remains data dependent
- Non-farm payrolls rose 204k in August, but more importantly, wage growth rose to 2.9% yoy, a cyclical high. With the US labour market continuing to tighten and economic growth outperforming, there remains upside risks to US inflation accelerating
- Meanwhile, although August core CPI inflation came in at 2.2% yoy, below consensus expectations of 2.4% yoy, there was a large drag from volatile apparel prices. In a separate report, core PCE inflation rose 2.0% in August, in line with expectations
- The US pushed ahead with previously threatened tariffs on imports from China, worth USD200bn. The tariff will be initially set at 10% (beginning on 24 September) and raised to 25% in 2019 if a new trading relationship cannot be negotiated

Europe: eurozone and UK GDP growth holding up well, but downside risks remain

- In the **eurozone**, the final estimate of Q2 GDP growth was confirmed at 0.4% qoq, with a strong contribution from fixed investment, but household consumption was slightly weaker amid higher inflation, whilst there was a further drag from net trade
- Eurozone export growth remains vulnerable to a weaker global environment, risks from protectionism and the lagged impact of euro strength. Recent weakness in German capital goods orders is also a possible early sign of weaker fixed investment growth
- In the **UK**, recent activity data has held up fairly well, including a rebound in August retail sales and strong July GDP print. Nevertheless, Brexit negotiations remain a significant source of uncertainty for the economy and monetary policy going forward

Asia: China policy easing in place to limit downside growth risks; India takes measures to curb its current account deficit

- In **China**, downside risks to growth from an escalation of trade tensions with the US has seen policy easing with a focus now on local government infrastructure spending, tax and tariff cuts and initiatives to stimulate consumption
- **India** has taken measures to curb its current account deficit and attract capital inflows amid rising macro stability/external financing concerns. We think any option to support the rupee will need to come from tighter monetary/fiscal policies
- **Japan's** economic activity remains supported by a robust labour market and rising wage growth, whilst investment is being supported by limited spare capacity. The largest downside risks include protectionism and next year's consumption tax hike

Other EM: Tentative signs of stabilisation in EM ex-China economic activity, IMF increased bailout package to Argentina

- Our latest Nowcast shows a stabilisation in underlying activity in EM ex-China. We currently measure economic activity of 3.7% in Q3, slightly above 3.6% in Q2
- The IMF agreed to increase the bailout package to **Argentina** by USD7.1bn to USD57bn. This has helped stabilised investor confidence, following the resignation of Argentina's central bank governor, Luis Caputo
- In **Turkey**, the central bank raised the one-week repo rate by 625bp to 24%, against expectations of a smaller hike to 21.00%. This has partly contributed to a strong performance of the lira in September

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)	524	0.3	4.5	8.2	2.2	551	485	15.9
North America								
US Dow Jones Industrial Average	26,458	1.9	9.3	18.2	7.0	26,769	22,333	16.9
US S&P 500 Index	2,914	0.4	7.3	16.1	9.0	2,941	2,508	18.1
US NASDAQ Composite Index	8,046	-0.8	7.2	24.7	16.6	8,133	6,455	24.1
Canada S&P/TSX Composite Index	16,073	-1.2	-0.7	2.9	-0.8	16,586	14,786	15.6
Europe								
MSCI AC Europe (USD)	463	0.5	2.0	-2.4	-5.0	524	444	13.9
Euro STOXX 50 Index	3,399	0.2	1.0	-4.6	-3.0	3,709	3,262	14.1
UK FTSE 100 Index	7,510	1.0	-1.4	2.6	-2.3	7,904	6,867	13.5
Germany DAX Index*	12,247	-0.9	0.6	-3.6	-5.2	13,597	11,727	13.4
France CAC-40 Index	5,493	1.6	4.1	3.8	3.4	5,657	5,038	14.7
Spain IBEX 35 Index	9,389	-0.1	-2.1	-9.1	-6.5	10,643	9,111	12.4
Italy FTSE MIB Index	20,712	2.2	-3.4	-8.3	-5.2	24,544	20,236	11.5
Asia Pacific								
MSCI AC Asia Pacific ex Japan (USD)	526	-1.7	-1.0	-0.1	-7.7	617	506	13.2
Japan Nikkei-225 Stock Average	24,120	5.5	8.3	18.4	6.0	24,307	20,285	17.1
Australian Stock Exchange 200	6,208	-1.8	-0.1	9.5	2.3	6,374	5,651	15.9
Hong Kong Hang Seng Index	27,789	-0.4	-2.5	1.3	-7.1	33,484	26,220	11.4
Shanghai Stock Exchange Composite Index	2,821	3.5	1.2	-15.5	-14.7	3,587	2,644	11.5
Hang Seng China Enterprises Index	11,018	1.3	1.4	1.3	-5.9	13,963	10,197	8.3
Taiwan TAIEX Index	11,006	-0.5	3.3	6.9	3.4	11,270	10,189	14.2
Korea KOSPI Index	2,343	0.9	1.2	-1.3	-5.0	2,607	2,218	9.4
India SENSEX 30 Index	36,227	-6.3	3.4	15.8	6.4	38,990	31,244	19.6
Indonesia Jakarta Stock Price Index	5,977	-0.7	5.5	2.3	-6.0	6,693	5,558	15.6
Malaysia Kuala Lumpur Composite Index	1,793	-1.5	7.7	2.0	-0.2	1,896	1,658	17.3
Philippines Stock Exchange PSE Index	7,277	-7.4	3.0	-10.8	-15.0	9,078	6,924	16.7
Singapore FTSE Straits Times Index	3,257	1.4	0.0	0.9	-4.3	3,642	3,103	13.2
Thailand SET Index	1,756	2.0	9.8	5.4	0.2	1,853	1,585	16.4
Latam								
Argentina Merval Index	33,462	14.2	24.9	30.7	11.3	35,462	24,618	9.3
Brazil Bovespa Index*	79,342	3.5	10.6	7.9	3.8	88,318	69,069	11.7
Chile IPSA Index	5,284	0.2	0.5	-0.5	-5.1	5,895	4,847	15.6
Colombia COLCAP Index	1,506	-2.4	-3.2	1.3	-0.5	1,598	1,415	13.4
Mexico S&P/BMV IPC Index	49,504	-0.1	5.3	-1.3	0.3	51,121	44,429	16.8
EEMEA								
Russia MOEX Index	2,475	5.5	10.0	19.5	17.3	2,494	2,038	5.9
South Africa JSE Index	55,708	-5.0	-0.2	1.3	-6.4	61,777	53,027	13.6
Turkey ISE 100 Index*	99,957	7.8	3.9	-2.6	-13.3	121,532	84,655	7.4

*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	3.8	10.3	47.9	50.3
US equities	7.5	10.2	17.7	61.1	83.9
Europe equities	2.5	-2.6	0.4	27.1	17.5
Asia Pacific ex Japan equities	0.0	-5.5	2.6	45.5	29.9
Japan equities	3.5	1.6	10.2	38.3	36.1
Latam equities	6.5	-6.9	-8.1	51.0	-11.7
Emerging Markets equities	1.1	-7.7	0.1	43.8	18.0

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 28 September 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)	515	-0.4	0.0	0.9	0.0
JPM EMBI Global	780	1.8	1.9	-2.7	-3.5
BarCap US Corporate Index (USD)	2,834	-0.4	1.0	-1.1	-2.3
BarCap Euro Corporate Index (Eur)	245	-0.3	0.0	0.1	-0.6
BarCap Global High Yield (Hedged in USD)	470	1.4	2.3	1.2	0.4
Markit iBoxx Asia ex-Japan Bond Index (USD)	193	-0.1	1.2	-1.0	-1.5
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	247	0.6	2.6	-1.0	-2.1

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

Bonds	Close	End of last mth.	3-mths Ago	1-year Ago	Year End 2017
US Treasury yields (%)					
3-Month	2.20	2.09	1.91	1.05	1.38
2-Year	2.82	2.63	2.51	1.45	1.88
5-Year	2.95	2.74	2.71	1.89	2.21
10-Year	3.06	2.86	2.84	2.31	2.41
30-Year	3.21	3.02	2.97	2.87	2.74
Developed market 10-year bond yields (%)					
Japan	0.12	0.10	0.03	0.07	0.04
UK	1.57	1.43	1.26	1.37	1.19
Germany	0.47	0.33	0.32	0.48	0.42
France	0.80	0.68	0.70	0.76	0.78
Italy	3.14	3.23	2.78	2.12	2.01
Spain	1.50	1.47	1.36	1.62	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	1.16	1.16	1.16	1.18	1.20	1.26	1.13
GBP/USD	1.30	1.30	1.31	1.34	1.35	1.44	1.27
CHF/USD	1.02	1.03	1.00	1.03	1.03	1.09	0.99
CAD	1.29	1.30	1.32	1.24	1.26	1.34	1.23
JPY	113.7	111.0	110.5	112.3	112.7	114.7	104.6
AUD	1.38	1.39	1.36	1.27	1.28	1.41	1.23
NZD	1.51	1.51	1.48	1.38	1.41	1.54	1.34
Asia							
HKD	7.83	7.85	7.85	7.81	7.81	7.85	7.79
CNY	6.87	6.83	6.63	6.66	6.51	6.94	6.24
INR	72.49	71.00	68.79	65.51	63.87	72.97	63.25
MYR	4.14	4.11	4.04	4.23	4.05	4.24	3.85
KRW	1,109	1,113	1,124	1,149	1,067	1,150	1,054
TWD	30.53	30.72	30.58	30.39	29.73	30.88	28.96
Latam							
BRL	4.05	4.06	3.86	3.18	3.31	4.21	3.12
COP	2,966	3,048	2,950	2,943	2,986	3,111	2,685
MXN	18.72	19.09	19.72	18.16	19.66	20.96	17.94
EEMEA							
RUB	65.56	67.47	62.79	57.92	57.69	70.84	55.56
ZAR	14.14	14.69	13.77	13.51	12.38	15.70	11.51
TRY	6.06	6.54	4.58	3.56	3.80	7.24	3.56

Commodities	Latest	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Gold	1,193	-0.7	-4.5	-7.4	-8.5	1,366	1,160
Brent Oil	82.7	6.8	6.3	44.1	23.7	83	55
WTI Crude Oil	73.3	4.9	-0.3	42.1	21.2	75	49
R/J CRB Futures Index	195	1.1	-1.9	6.6	0.7	207	180
LME Copper	6,258	4.7	-5.5	-4.0	-13.6	7,348	5,773

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