Investment Monthly

04 July 2018

This report is not a product recommendation and should not be constructed as an investment advice.

Global trade tensions escalate

Key takeaways

- We remain overweight global equities and local-currency emerging market (EM) government bonds. We also retain our underweight stance on developed market (DM) government bonds, and global investment grade (IG) and high-yield (HY) corporate bonds
- Global equity markets edged lower in June, as risk appetite continued to be hit by escalating US-China trade tensions. More generally, EM assets underperformed
- The Fed raised rates at their June policy meeting. The new interest rate projection points to two more hikes for 2018, and a total of three hikes in 2019
- The European Central Bank (ECB) announced its intention to stop its net bond-buying programme by the end of this year
- Chinese economic growth appears to have remained solid in Q2. Nevertheless, policies are turning more proactive in supporting domestic demand
- In Japan, CPI inflation is likely to remain below target in the near term, and therefore no significant shift in monetary policy from the Bank of Japan is expected

A tougher environment for investors in 2018

Market performance in 2018 has been poor. This has come as rising US inflation has exacerbated concerns over tightening Fed policy, pushing US Treasury (UST) yields higher. Meanwhile, DM activity growth lost momentum at the start of the year just as rising political uncertainty (e.g. Italy) and global trade tensions came to the fore. Amid a stronger US dollar, this has helped fuel anxieties over many exposed EMs.

The outlook around global trade policy is very unclear, with the risk of a further escalation in tensions. Positively, however, measures announced thus far should have a small economic impact. For the time being, global growth remains robust and we think the risk of recession is very low. We therefore maintain our pro-risk positions in multi-asset portfolios, with a preference for **global equities** and **EM assets** which offer us the best risk-adjusted prospective returns, in our view. We also maintain our underweight positioning in **DM government bonds**, which continue to offer low sustainable returns and find themselves in an unfavourable environment (building cyclical inflation and central bank policy tightening). However, we think the relative attractiveness of **USTs** has improved amid higher yields. Finally, **corporate bond** valuations still offer us a slim margin of safety against negative shocks, consistent with an underweight positioning in portfolios.

Equities

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

Government bonds

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

Corporate bonds

Asset class	View	View Move
Global investment grade (IG)	**UW**	–
USD IG	UW	–
EUR and GBP IG	UW	–
Asia	N	–
Global high-yield	**UW**	–
US	UW	–
Europe	UW	–
Asia	N	–

Other

Asset class	View	View Move
EM agg bond (USD)	**UW**	–
Gold	**N**	–
Other commodities	**N**	–
Real estate	**N**	–

Long-term asset class positioning (>12 months)

Basis of Views and Definitions of 'Long term Asset class positioning' tables

Views are based on regional HSBC Global Asset Management Asset Allocation meetings held throughout June 2018, HSBC Global Asset Management's long-term expected return forecasts which were generated as at 31 May 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.

Equities

Asset class	View	Movement	Rationale
Global	**Overweight**	—	**Rationale of overweight views:** Our measure of the global equity risk premium (excess return over cash) is still reasonable given where we are in the profits cycle. Global economic growth remains solid, driving global equity markets to deliver positive returns over the long term. Overall, support from still-loose monetary policy and fiscal policy (if needed) will, in the medium and longer term, likely outweigh any headwinds from more modest Chinese growth, monetary policy normalisation in DM economies, and political uncertainty in many regions. **Risks to consider:** Fairly narrow implied equity risk premia limit the ability of the market to absorb bad news. Episodic volatility may be triggered by concerns surrounding global trade protectionism, Chinese growth, and/or a potentially more rapid than expected Fed, ECB or BoJ normalisation of policy, coupled with political risks. A notable and persistent deterioration of the global economic outlook could also dampen our view.
US	Neutral	—	**Positive factors:** Despite a recent pickup in market volatility, corporate fundamentals remain strong, the earnings growth outlook looks solid (with upside risks from tax reform), and the US macroeconomic backdrop is still robust. Overall, our measure of the implied risk premium (excess returns over cash) remains consistent with a neutral positioning. **Risks to consider:** The magnitude of the boost to GDP growth from tax reform is likely to be small given where we are in the cycle. A more rapid than expected tightening of Fed policy also poses risks. We are getting closer to the critical point where we need to reassess whether we are being offered enough return to take on equity risk in this market. Risks from US protectionism also need to be considered, especially if further rounds of tit-for-tat actions materialise.
UK	Neutral	—	**Positive factors:** Major UK equity indices are heavily weighted to financial and resource stocks which should benefit from higher commodity prices and rising interest rates. Overall, however, current valuations are consistent with a neutral positioning, in our view. **Risks to consider:** The prospective reward for bearing equity risk in the UK is relatively low compared to other markets. The UK economy is underperforming amid low real-wage growth and Brexit-related uncertainty.
Eurozone	Overweight	—	**Rationale of overweight views:** Eurozone equities benefit from relatively high implied risk premia and scope for better earnings news given the region's earlier point in the activity cycle. Ultra-low ECB policy interest rates are likely to persist until the end of the decade. **Risks to consider:** The recent softening of activity indicators requires monitoring. EU-US trade barriers pose a significant risk to the outlook, as does the new populist government in Italy. ECB monetary policy may also be less accommodative than expected.

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

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Asset class	View	Movement	Rationale
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 should weigh on GDP growth this year. Other headwinds include a consumption tax increase planned for October 2019, and weak wage growth. Protectionism is a key risk.
Emerging Markets (EM)	Overweight	—	**Rationale of overweight views:** EM economic growth momentum continues to look good (especially relative to moderating growth in DM). Based on current pricing, we also think there is still significant potential for (selected) EM currencies to appreciate over the medium term. Unhedged exposures to EM Asia offer the best risk-adjusted rewards, in our view. **Risks to consider:** There could be some near-term volatility as worries persist around the uncertain path for future Fed tightening, the potential for increased trade protectionism, economic transition in China, and the robustness of the global economy as a whole. Geopolitical uncertainty also poses risks.
Asia ex Japan	Overweight	—	**Rationale of overweight views:** We think Asia ex Japan equities have particularly attractive risk-adjusted returns and a reasonable "margin of safety" in current valuations should a less favourable macro backdrop emerge. Asian earnings growth is strong. Asian currencies are also poised to appreciate in the medium term. **Risks to consider:** A further rise in Treasury yields is a key risk. DM central bank policy normalisation could raise uncertainty. Other risks include US protectionist policies; geopolitical events; commodity-price and/or currency volatility; faltering global growth; and renewed concerns about China's growth and financial stability.
CEE & Latam	Neutral	—	**Positive factors:** Brazil exited recession in Q1 2017, whilst Mexico's economy is resilient. We believe Poland, Russia and Hungary offer attractive risk premiums. **Risks to consider:** Geopolitical tensions are high and unpredictable. We think high local cash rates and sovereign yields in many countries diminish the case for bearing equity risk.

Government bonds

Asset class	View	Movement	Rationale
Developed Markets (DM)	**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 deliver diversification benefits should there be a renewal of economic growth concerns. Also, "secular stagnation" forces remain (ageing populations, low productivity and investment), and the global pool of safety assets is limited.
US	Underweight	—	**Rationale of underweight views:** The US is at the forefront of building inflationary pressures. A more meaningful pick-up in inflation is a key risk scenario. **Positive factors:** Two-year Treasury yields are higher than US equity dividend yields. To us, this means we no longer need to be exposed to unwanted risks in order to reach target income levels. We also believe 10-year Treasuries can benefit from recession fears. We hold this position with a positive bias (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:** Amid downside risks to growth and inflation heading back toward target, UK monetary policy is likely to remain accommodative for a longer period.
Eurozone	Underweight	—	**Rationale of underweight views:** Similarly, core European bonds are overvalued, in our view. A key risk is the 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 could modify its yield targeting framework. **Positive factors:** The "Yield Curve Control" framework should limit volatility and reduce the risk of significantly higher yields in the near term.

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

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Asset class	View	Movement	Rationale
Emerging markets (EM)	**Overweight**	—	**Rationale of overweight views:** Most countries offer us 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 mean that being selective is key.

Corporate bonds

Asset class	View	Movement	Rationale
Global investment grade (IG)	**Underweight**	—	**Rationale of underweight views:** Low implied credit premiums mean that the margin of safety against negative shocks, such as a slight deterioration in the data or default outlook, is not very generous. We prefer a mix of government bonds and equities to credit. **Positive factors:** The macro environment remains supportive for credits – implied recession probabilities remain very low. The risk of defaults and downgrades appear limited for now.
USD investment grade	Underweight	—	**Rationale of underweight views:** Apart from low implied credit premiums, the "duration" of US IG corporate bonds — a measure of their sensitivity to shifts in underlying interest rates — is historically high, making them vulnerable to a faster pace of Fed tightening, in our view. **Positive factors:** US investment-grade debt looks more attractive to us than European credit. We think carefully-selected US credit may outperform.
EUR and GBP investment grade	Underweight	—	**Rationale of underweight views:** Alongside a compressed credit risk premium, EUR IG prospective returns are also weighed down by a negative duration risk premium i.e. we are being penalised for bearing interest-rate risk. **Positive factors:** For the time being, the ECB's corporate bond-buying programme and pledge to reinvest maturing assets for "an extended period of time" remains supportive. Default rates also remain low.
Asia IG	Neutral	—	**Positive factors:** Within the IG universe, the carry offered by Asian credits looks attractive relative to DM. Our measure of the implied credit risk premium is also relatively high. Robust underlying activity in EM Asia and a neutral monetary policy stance in most countries is also supportive. **Risks to consider:** A more aggressive than expected Fed policy normalisation poses a key risk, particularly for corporates who borrow in US dollars. Risks from rising protectionism cannot be ignored either, while the extent of Chinese leverage remains a long-term issue.
Global high-yield	Underweight	—	**Rationale of underweight views:** Our measures of implied high-yield (HY) credit risk premiums (compensation for bearing credit risk) are low. Our measures show we are better rewarded by equities as a way to benefit from a strong economic backdrop. **Positive factors:** HY bonds are more exposed to growth than to interest rate risk. Corporate fundamentals are solid amid robust global economic activity, and defaults are low. We prefer higher-rated HY bonds.
US HY	Underweight	—	**Rationale of underweight views:** We think compressed credit risk premiums makes US HY credits vulnerable to even a slight deterioration in the data or default outlook. A more aggressive Fed tightening cycle is a key risk. **Positive factors:** Broad-based strength in US economic activity continues to support corporate fundamentals. Tax reforms will also help. Default rates are relatively low. HY bonds also have a shorter effective duration, making them more exposed to growth than to interest rate risk.
Europe HY	Underweight	—	**Rationale of underweight views:** We find the carry offered by Euro HY unattractive compared to European equities. The ECB 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 Asset Purchase Programme (APP) remain supportive. The default outlook also looks benign.
Asia HY	Neutral	—	**Positive factors:** The carry offered by Asian High Yield looks attractive to us given the alternatives, with relatively high prospective risk-adjusted returns. Economic momentum is robust and inflationary pressures appear to have mostly stabilised. **Risks to consider:** A faster pace of Fed monetary policy normalisation poses a key risk, particularly for corporates who borrow in US dollars. Risks from rising protectionism cannot be ignored either, while the extent of Chinese leverage remains a long-term issue.

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

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Other

Asset class	View	Movement	Rationale
EM agg bond (USD)	**Underweight**	–	**Rationale of underweight views:** The recent sell-off has improved prospective returns for dollar-denominated EM sovereign debt. This is interesting to keep monitoring, but it is not enough to make the asset class look attractive to us. The risk of a more hawkish Fed and stronger US dollar (USD) poses a significant risk to USD-denominated debt holdings in the EM universe. USD debt leverage is high in some economies. **Positive factors:** Investors' reach for yield may continue to support EM hard-currency bonds.
Gold	**Neutral**	–	**Positive factors:** Gold futures can offer reasonable diversification benefits to our multi-asset portfolios and have some inflation-hedging characteristics. **Risks to consider:** Based on our expected returns framework, prospective returns on gold futures look poor today given current market pricing. This is due to the large negative expected roll yield (the cost of renewing futures contracts) and a negative expected spot price return.
Other commodities	**Neutral**	–	**Positive factors:** Commodity futures can offer reasonable diversification benefits to our multi-asset portfolios and have some inflation-hedging characteristics. **Risks to consider:** Based on our expected returns framework, prospective returns on commodity futures look poor today given current market pricing. This is primarily because there is a large negative expected roll yield (the cost of renewing futures contracts).
Real estate	**Neutral**	–	**Positive factors:** Dividend yields from global real estate equities were 3.9% at the end of May 2018, some 150 basis points higher than the dividend yield on wider equities. 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:** Stronger economic growth and potential inflation pressures have resulted in increases in some government bond yields, which have negatively impacted real estate equities. Although improved economic conditions are associated with more demand from occupiers of property (which is positive for rents, other things being equal), real estate equities can be sensitive to rises in government bond yields in the short term. Some retailers that do not have any online presence are suffering from the impact of internet shopping and we think this could continue to impact retail-focused stocks.

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

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Global trade tensions escalate

Markets: global equity markets edged lower in June; Italian bond yields fell back amid easing political concerns

- **Global equity markets** edged lower in June, as risk appetite continued to be hit by escalating US-China trade tensions. EM stock indices underperformed, also weighed down by some weaker than expected Chinese economic activity data, and the Fed raising its interest-rate projections for 2018. Many EM currencies also sold off sharply, led by the South African rand
- A more bullish Fed saw two-year **Treasury** yields finish the month 10bp higher at 2.53% (prices fell). In Europe, Italian and Spanish bonds rose on the back of easing domestic political uncertainty
- **Crude oil prices** rose over the month as although OPEC signalled its intention to increase production, it was agreed this would be done by complying more closely with the pact already agreed in November 2016. Support also came from the US administration pressing other countries to stop buying Iranian oil and data showing large declines in US crude inventories

US: Robust economic activity; whilst full blown trade war closer to reality

- The Fed raised rates at their June policy meeting. The new interest-rate projection points to two more hikes for 2018, and a total of three hikes in 2019. There was a small tweak to forward guidance, reflecting that interest rates are closer to neutral levels
- The US administration formally proceeded with tariffs on Chinese exports as a result of an investigation into Chinese technology practices. A 25% tariff on the first set of goods, worth USD34 billion, will take effect on 6 July
- Inflation inched higher in May. Core CPI came in at 2.2% year-on-year (yoy), versus 2.1% previously, whilst core PCE, the Fed's preferred measure of inflation, rose to 2.0% yoy (1.9% expected, 1.8% previously)
- Other economic data generally continued to suggest a robust economic backdrop (ISM surveys, retail sales, trade balance) but in a speech in Portugal, Fed Chair Powell suggested that businesses have become increasingly concerned about trade tensions

Europe: ECB announces end to asset purchases; Bank of England remains hawkish

- **Eurozone** inflation bounced back in May (headline inflation at 1.9% yoy) with energy-price inflation adding to the upward pressure. Meanwhile, Q1 growth was confirmed at 0.4% quarter-on-quarter, with a stronger than expected gain in consumer spending
- The European Central Bank (ECB) announced its intention to stop its net bond-buying programme by the end of this year. It aims to phase out monetary stimulus by reducing bond purchases from the current EUR30 billion/month to EUR15 billion/month in Q4
- **UK** inflation remains on a surprisingly fast downward trend, but the Bank of England struck a hawkish tone at their June policy meeting, suggesting the Q1 slowdown in UK GDP growth was temporary. This keeps the door open to an August rate hike

Asia: Chinese policy turning more supportive; Bank of Japan unlikely to materially shift policy stance in near term

- Growth in the **Chinese** economy appears to have remained solid in Q2, although policies are turning more proactive in supporting domestic demand, amid near-term growth headwinds from tight domestic credit conditions and rising US-China trade tensions
- Amid (largely external) risks to the growth outlook, the Reserve Bank of **India** hiked rates in June in a bid to preserve its inflation-targeting credibility and safeguard macroeconomic stability so as to sustain a growth recovery in the medium term
- In **Japan**, low inflation expectations and subdued wage growth mean CPI inflation is likely to remain below target in the near term, and therefore no significant shift in monetary policy is expected. Higher oil prices and protectionism are key economic risks

Other EM: Expected outcome in Mexican and Turkish Presidential election; Brazil vote next on the horizon

- Obrador, a populist candidate, won the 2018 **Mexican** Presidential election. His populist coalition is set to govern, but a recent moderation of his radical policy language should help lessen investor concerns
- President Erdogan was re-elected in the **Turkish 2018** Presidential election, which could see him speed up the implementation of the executive presidential system. Meanwhile, the central bank continued to raise interest rates to cope with rising inflation
- The truckers' strike in **Brazil** finally came to an end at the beginning of June, forcing the CEO of Brazil's state-controlled oil company to resign. The event highlights the vulnerability of the economy ahead of the general elections in October
- **Russia's** May manufacturing PMI fell below 50 (49.8) for the first time in two years, pointing to a contraction in activity. Meanwhile, the central bank left rates unchanged at 7.25%, and indicated an end to the easing cycle that began in 2015

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

Global Strategic Asset Allocations

Global Strategic Asset Allocations (as at 31 May 2018)

Global equities were little changed in May, as solid corporate earnings releases and broadly robust economic data was offset by volatility in emerging market assets, lingering trade tensions, and rising political uncertainty in Europe. Corporate fundamentals remain strong, we have had solid earnings seasons across developed and emerging markets and growth still looks good, even if momentum has slowed. Overall, we believe global equities remain the best way to access growth – increased market volatility creates buying opportunities for us. In DM, Japan and Europe equities (hedged) continue to look attractive, while we think EM equity exposures are also offering high prospective returns.

Credits are beginning to look attractive on a valuation basis, but the margin of safety is not generous. Fairly low implied credit premiums mean there is little insulation against negative shocks. We retain our underweight positioning for both US and European investment-grade and high-yield corporate debt.

Finally, developed market government bond valuations remain extreme, making them sensitive to any gradual inflationary pressures, a policy error or a sentiment shock, in our view. We remain underweight in this asset class. Nevertheless, we believe US Treasuries increasingly offer decent protection against a renewal of economic recession fears. Meanwhile, as a result of the recent volatility in EMs, local currency EM debt seems even more attractive to us.

Within the allocations of our global multi-asset model portfolios, the underweight in DM government bonds is only significantly visible within the model portfolio for Risk Profile 2, where the lower volatility target prevents too high an allocation to global equities.

Risk Profile 2 – Global Multi-Asset Model Portfolio

Asset Class	Current Model Portfolio	Reference SAA	Portfolio Tilt (May 2018)	Portfolio Tilt Change
Global Equities	**29.0%**	**26.0%**	**3.0%**	**-2.3%**
Global Government Bonds	**19.9%**	**19.5%**	**0.4%**	**1.7%**
DM Government Bonds	10.9%	12.0%	-1.1%	2.2%
EM Government Bonds	9.0%	7.5%	1.5%	-0.5%
Global Corporate Bonds	**44.0%**	**48.5%**	**-4.5%**	**3.0%**
Global Investment Grade	35.5%	38.0%	-2.5%	3.5%
Global High Yield	4.5%	6.0%	-1.5%	-1.0%
EM Debt (Hard Currency)	4.0%	4.5%	-0.5%	0.5%
Global Real Estate	**5.0%**	**5.0%**	**0.0%**	**-1.0%**
Cash	**2.1%**	**1.0%**	**1.1%**	**-1.4%**
Total	**100.0%**	**100.0%**	**0.0%**	**0.0%**
Target Volatility		**5 - 8%**		

Risk Profile 3 – Global Multi-Asset Model Portfolio

Asset Class	Current Model Portfolio	Reference SAA	Portfolio Tilt (May 2018)	Portfolio Tilt Change
Global Equities	**55.5%**	**52.5%**	**3.0%**	**-2.3%**
Global Government Bonds	**14.0%**	**12.5%**	**1.5%**	**2.3%**
DM Government Bonds	5.0%	5.0%	0.0%	2.3%
EM Government Bonds	9.0%	7.5%	1.5%	0.0%
Global Corporate Bonds	**24.5%**	**29.0%**	**-4.5%**	**1.0%**
Global Investment Grade	13.5%	16.0%	-2.5%	3.5%
Global High Yield	6.5%	8.0%	-1.5%	-2.5%
EM Debt (Hard Currency)	4.5%	5.0%	-0.5%	0.0%
Global Real Estate	**5.0%**	**5.0%**	**0.0%**	**0.0%**
Cash	**1.0%**	**1.0%**	**0.0%**	**-1.0%**
Total	**100.0%**	**100.0%**	**0.0%**	**0.0%**
Target Volatility		**8 - 11%**		

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

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Risk Profile 4 – Global Multi-Asset Model Portfolio

Asset Class	Current Model Portfolio	Reference SAA	Portfolio Tilt (May 2018)	Portfolio Tilt Change
Global Equities	**79.0%**	**76.0%**	**3.0%**	**-2.2%**
Global Government Bonds	**9.0%**	**7.5%**	**1.5%**	**0.0%**
DM Government Bonds	0.0%	0.0%	0.0%	0.0%
EM Government Bonds	9.0%	7.5%	1.5%	0.0%
Global Corporate Bonds	**6.0%**	**10.5%**	**-4.5%**	**2.3%**
Global Investment Grade	0.5%	3.5%	-3.0%	0.0%
Global High Yield	3.5%	3.5%	0.0%	1.5%
EM Debt (Hard Currency)	2.0%	3.5%	-1.5%	0.8%
Global Real Estate	**5.0%**	**5.0%**	**0.0%**	**0.0%**
Cash	**1.0%**	**1.0%**	**0.0%**	**0.0%**
Total	**100.0%**	**100.0%**	**0.0%**	**0.0%**
Target Volatility		**11 - 14%**		

The above 'Current Portfolio' is based on regional HSBC Global Asset Management Asset Allocation meetings held throughout June 2018. The 'SAA Portfolio' is the result of HSBC Global Asset Management's portfolio optimisation process. These model portfolios are expressed in USD. These portfolios are to indicate the direction of the asset class view and the magnitude of the view. It acts as guidance on Over Weight, Neutral and Under Weight in context of an asset allocation.

Key Terms

- **Strategic Asset Allocation Portfolio:** Within AMG's multi-asset investment process, the 'SAA' refers to the 'Strategic Asset Allocations', which are generated through optimising long-term estimates of both expected return and covariance. These form the portfolios' reference allocation for each risk level.
- **Current Portfolio:** The 'Current Portfolio' represents the portfolio's current target exposure. This reflects any active positions currently held in the portfolio (i.e. 'over/under weight' positions relative to the SAA).
- **Portfolio Tilt:** The difference between the 'Current Portfolio' and 'SAA Portfolio' allocations. Positive values reflect overweight exposure i.e. where a positive outlook on a particular asset class is currently held. Conversely, negative values reflect underweight positions i.e. where the team currently maintain a more cautious outlook.
- **Portfolio Tilt Change**: The change in Portfolio Tilts from the previous Multi-Asset Strategy meeting.

Risk Profiles

Each of the three portfolios outlined above match different customer risk profiles, as defined by their target long-term volatility bands:

- **Risk Profile 2** has a long-term target volatility of 5-8%. This portfolio typically has a substantial allocation to fixed income investments and some allocations to growth-oriented investments such as equities.
- **Risk Profile 3** has a long-term target volatility of 8-11%. This portfolio typically has allocations to both fixed income investments and growth-oriented investments such as equities.
- **Risk Profile 4** has a long-term target volatility of 11-14%. This portfolio typically has a high allocation to growth-oriented investments with higher risk levels.

Note:

The 'Strategic Asset Allocations' detailed above may sometimes appear to differ from the 'Long-term Asset Class positioning' table on pages 2 and 3 primarily due to portfolio constraints which include achieving portfolio volatility within the target long-term volatility bands and minimum and maximum asset class weights.

The above 'Current Portfolio' allocations are based on HSBC Global Asset Management's current outlook and portfolio positioning. These positions are revisited on a monthly basis. The allocations are for illustrative purposes and are designed to be broadly representative of our current multi-asset positioning. Actual portfolio positioning may differ by product or client mandate due to manager discretion, local requirements, portfolio constraints and other additional factors.

The 'Current Portfolio' allocations do not consider the investment objectives, risk tolerance or financial circumstances of any particular client. They should not be relied upon as investment advice, research, or a recommendation by HSBC Global Asset Management. Asset allocation and diversification may not protect against market risk, loss of principal or volatility of returns.

The reference index for 'Equities' is the MSCI All Country World Index (ACWI), which includes both developed and emerging market equities. The reference index for 'Real Estate' is the FTSE EPRA/NAREIT Developed Index, which is designed to track the performance of listed real estate companies and Real Estate Investment Trusts (REITs).

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)	505	-0.7	0.0	8.4	-1.5	551	462	15.3
North America								
US Dow Jones Industrial Average	24,271	-0.6	0.7	14.0	-1.8	26,617	21,279	15.8
US S&P 500 Index	2,718	0.5	2.9	12.3	1.7	2,873	2,408	17.1
US NASDAQ Composite Index	7,510	0.9	6.3	22.2	8.8	7,807	6,082	22.7
Canada S&P/TSX Composite Index	16,278	1.3	5.9	7.0	0.4	16,489	14,786	15.7
Europe								
MSCI AC Europe (USD)	461	-0.9	-3.1	1.8	-5.4	524	449	13.9
Euro STOXX 50 Index	3,396	-0.3	1.0	-2.2	-3.1	3,709	3,262	13.6
UK FTSE 100 Index	7,637	-0.5	8.2	3.9	-0.7	7,904	6,867	13.7
Germany DAX Index*	12,306	-2.4	1.7	-0.9	-4.7	13,597	11,727	12.7
France CAC-40 Index	5,324	-1.4	3.0	3.3	0.2	5,657	4,995	14.3
Spain IBEX 35 Index	9,623	1.7	0.2	-8.6	-4.2	10,758	9,328	12.4
Asia Pacific								
MSCI AC Asia Pacific ex Japan (USD)	539	-4.1	-4.3	6.0	-5.4	617	499	13.1
Japan Nikkei-225 Stock Average	22,305	0.5	5.4	10.3	-2.0	24,129	19,240	15.8
Australian Stock Exchange 200	6,195	3.0	7.6	6.5	2.1	6,251	5,639	16.4
Hong Kong Hang Seng Index	28,955	-5.0	-3.8	11.5	-3.2	33,484	25,200	11.5
Shanghai Stock Exchange Composite Index	2,847	-8.0	-9.9	-10.7	-13.9	3,587	2,757	11.0
Hang Seng China Enterprises Index	11,073	-7.6	-7.7	6.1	-5.4	13,963	10,204	7.6
Taiwan TAIEX Index	10,837	-0.3	-0.1	4.0	1.8	11,270	10,189	13.8
Korea KOSPI Index	2,326	-4.0	-4.5	-2.9	-5.7	2,607	2,272	8.9
India SENSEX 30 Index	35,423	0.3	7.4	14.8	4.0	36,444	30,681	18.3
Indonesia Jakarta Stock Price Index	5,799	-3.1	-6.3	-0.5	-8.8	6,693	5,661	14.6
Malaysia Kuala Lumpur Composite Index	1,692	-2.8	-8.9	-4.5	-5.9	1,896	1,658	16.2
Philippines Stock Exchange PSE Index	7,194	-4.0	-9.9	-7.6	-15.9	9,078	6,924	16.6
Singapore FTSE Straits Times Index	3,269	-4.7	-4.6	0.3	-3.9	3,642	3,193	12.9
Thailand SET Index	1,596	-7.6	-9.7	1.1	-9.0	1,853	1,556	14.7
Latam								
Argentina Merval Index	26,037	-8.8	-16.3	21.3	-13.4	35,462	20,845	7.0
Brazil Bovespa Index*	72,763	-5.2	-14.8	16.9	-4.8	88,318	62,035	11.0
Chile IPSA Index	5,301	-2.8	-4.3	12.1	-4.7	5,895	4,726	15.7
Colombia COLCAP Index	1,577	2.0	8.3	8.1	4.2	1,598	1,415	16.0
Mexico S&P/BMV IPC Index	47,663	6.7	3.3	-3.1	-3.4	51,772	44,429	16.7
EEMEA								
Russia MOEX Index	2,296	-0.3	0.9	22.1	8.8	2,377	1,878	5.9
South Africa JSE Index	57,611	2.6	3.9	12.2	-3.2	61,777	51,146	14.4
Turkey ISE 100 Index*	96,520	-4.1	-16.0	-3.7	-16.3	121,532	92,289	6.9

*Indices expressed as total returns. All others are price returns.

Equity Indices - Total Return	3-month Change (%)	YTD Change (%)	1-year Change (%)	3-year Change (%)	5-year Change (%)
Global equities	0.6	-0.4	10.5	26.7	56.8
US equities	3.4	2.6	14.1	37.3	82.0
Europe equities	-1.6	-3.4	4.7	11.6	32.9
Asia Pacific ex Japan equities	-3.5	-4.2	8.8	24.4	43.4
Japan equities	-2.2	-2.0	9.9	20.5	42.7
Latam equities	-17.8	-11.2	0.3	7.0	-11.4
Emerging Markets equities	-7.8	-6.7	7.9	19.4	27.7

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 29 June 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	0.2	0.2	1.5	0.1
JPM EMBI Global	766	-1.0	-3.5	-2.5	-5.2
BarCap US Corporate Index (USD)	2,807	-0.6	-1.0	-1.0	-3.3
BarCap Euro Corporate Index (Eur)	245	0.0	-0.3	1.1	-0.6
BarCap Global High Yield (Hedged in USD)	460	-0.4	-1.1	1.1	-1.8
Markit iBoxx Asia ex-Japan Bond Index (USD)	191	-0.6	-1.3	-0.9	-2.7
Markit iBoxx Asia ex-Japan High-Yield Bond Index (USD)	240	-1.6	-3.9	-1.2	-4.6

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-months Ago	1-year Ago	Year End 2017
US Treasury yields (%)					
3-Month	1.91	1.89	1.70	1.02	1.38
2-Year	2.53	2.43	2.27	1.37	1.88
5-Year	2.74	2.70	2.56	1.85	2.21
10-Year	2.86	2.86	2.74	2.27	2.41
30-Year	2.99	3.03	2.97	2.81	2.74
Developed market 10-year bond yields (%)					
Japan	0.03	0.03	0.04	0.06	0.04
UK	1.28	1.23	1.35	1.25	1.19
Germany	0.30	0.34	0.49	0.45	0.42
France	0.66	0.66	0.72	0.80	0.78
Italy	2.67	2.77	1.78	2.15	2.01
Spain	1.32	1.49	1.16	1.52	1.56

Currencies (vs USD)	Latest	End of last mth.	3-mths Ago	1-year Ago	Year End 2017	52-week High	52-week Low
Developed markets							
EUR/USD	1.17	1.17	1.23	1.14	1.20	1.26	1.13
GBP/USD	1.32	1.33	1.40	1.30	1.35	1.44	1.28
CHF/USD	1.01	1.01	1.05	1.05	1.03	1.09	0.99
CAD	1.31	1.30	1.29	1.30	1.26	1.34	1.21
JPY	110.8	108.8	106.4	112.2	112.7	114.7	104.6
AUD	1.35	1.32	1.30	1.30	1.28	1.36	1.23
NZD	1.48	1.43	1.38	1.37	1.41	1.48	1.32
Asia							
HKD	7.85	7.84	7.85	7.81	7.81	7.85	7.79
CNY	6.62	6.41	6.29	6.79	6.51	6.81	6.24
INR	68.47	67.41	65.18	64.63	63.87	69.09	63.25
MYR	4.04	3.98	3.87	4.29	4.05	4.30	3.85
KRW	1,115	1,077	1,066	1,141	1,067	1,158	1,054
TWD	30.48	29.96	29.17	30.40	29.73	30.64	28.96
Latam							
BRL	3.88	3.72	3.31	3.30	3.31	3.97	3.08
COP	2,932	2,890	2,794	3,048	2,986	3,103	2,685
MXN	19.91	19.91	18.19	18.04	19.66	20.96	17.45
EEMEA							
RUB	62.78	62.41	57.28	59.42	57.69	65.04	55.56
ZAR	13.73	12.70	11.84	13.02	12.38	14.57	11.51
TRY	4.59	4.53	3.94	3.53	3.80	4.93	3.39

Commodities	Latest	MTD Change (%)	3-month Change (%)	1-year Change (%)	YTD Change (%)	52-week High	52-week Low
Gold	1,253	-3.5	-5.5	0.6	-3.8	1,366	1,205
Brent Oil	79.4	2.4	13.0	67.5	18.8	81	46
WTI Crude Oil	74.2	10.6	14.2	65.0	22.7	74	44
R/J CRB Futures Index	200	-1.2	2.6	16.6	3.4	207	171
LME Copper	6,626	-3.3	-1.3	11.5	-8.6	7,348	5,792

Sources: Bloomberg, HSBC Global Asset Management. Data as at close of business 29 June 2018.

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Disclaimer:

Expiry: September 01, 2018

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