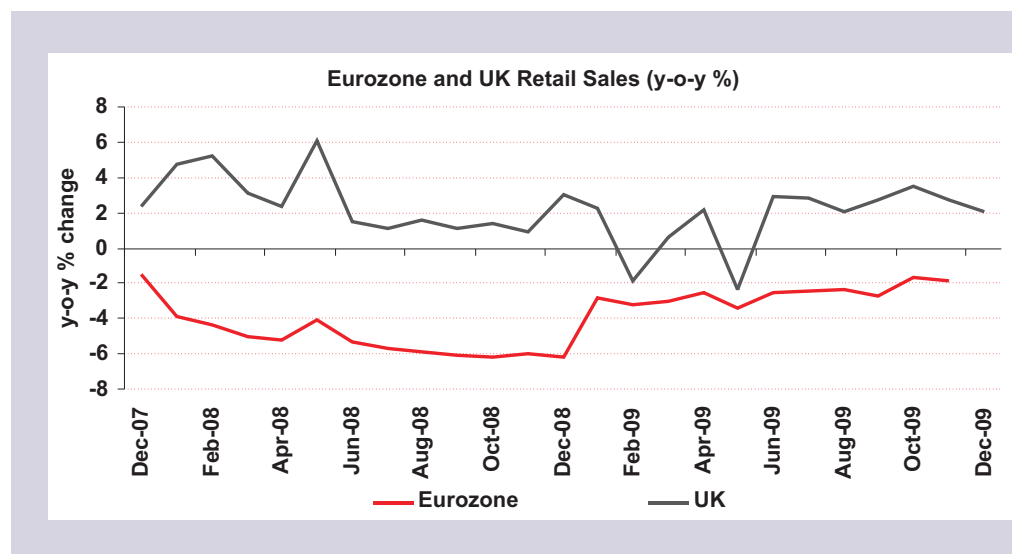


Global Investment Perspective

February 10

In January, the MSCI World index declined 4.2% on concerns that tougher regulations for US banks could impair growth. Greece’s debt situation sparked concerns over the ability of other countries to meet their repayment obligations. Concerns over early tightening of monetary conditions in emerging markets also added to the bearish mood during January.

Growth remains on a path to recovery, but could peak out soon... While the pace of economic recovery in developed markets remain constant, the rate of improvement in leading indicators could start to peak as one-off factors such as inventory rebuilding ends. As such, given record unemployment, subdued consumption (see chart) and high government indebtedness, especially in developed markets, the headwinds to a sustainable economic recovery remain. Furthermore, there is ongoing uncertainty about potential changes to the regulatory framework for the banking sector. An example of this in January was the announcement in the US of the “Volcker” plan.



Various sources, including HSBC Global Asset Management; Thomson Datastream; Bloomberg;
 ar = annual rate; nar = not annual rate

Inflation and interest rate hikes not immediate concerns...

Despite concerns that a strengthening economic recovery may fuel price increases, inflation should remain at manageable levels, especially in the developed markets given excess capacity and elevated levels of unemployment. As such, interest rates should remain low in general.

Emerging market equities displayed some turbulence during the month, owing to investor's concerns that central banks may accelerate the pace of monetary tightening. Although the year-on-year growth rate of China's annual inflation jumped to 1.9% from 0.6% in November - above analysts' expectations - this increase is from a low base at the start of 2009. Following record stimulus pump-priming, governments in emerging markets are likely to continue to fine-tune measures to prevent excess liquidity and to keep inflation in check. While the region's economies continued to show further strong evidence of recovery during January we remain mindful that if the pace of monetary tightening increases aggressively then this could have a negative impact on markets.

Maintain preference for defensive sectors

For the most part, equity valuation arguments explain our preference for defensive sectors, such as healthcare and telecommunication services over financials and cyclicals. The financial sector may experience particular volatility, especially given the counter intuitive mix of uncertainty surrounding the changing regulatory environment contrasted by the market's overly optimistic earnings outlook for banks.

Trimmed exposure to Latin America

We continue to see potential in Latin America, although the valuation discount to emerging Asia has narrowed somewhat and the pace of inflows may be less strong. As such, following a strong run, we have trimmed the size of the overweight to Latin America into strength. That said, we maintain our positive stance on Latin America as fundamentals remain supportive.

Remain positive on corporate bonds

We have held a positive view on corporate bonds for some time, both on investment grade and high-yield debt. The strong performance from these asset classes over the course of 2009 has left valuation levels less appealing than earlier in the year. But we believe the current yield spread levels are still attractive relative to history and relative to the very low levels of yields offered by government bonds.

Long-term concerns on the GBP persist, but concerns over Greece cloud short-term outlook for EUR

We continue to have some conviction on longer term strengthening of the EUR against the GBP because of the greater deterioration in the UK's public sector finances compared to those of the major eurozone countries. However, in the short term we have dropped our moderately negative position of the GBP versus the EUR as Greece's fiscal difficulties create uncertainty for the EUR.

Markets

US

Blurred Economic Outlook And Risk Of Negative Earnings Surprises Call For Caution

- The sustainability of an economic rebound is unsure. Improvements were seen in many areas, but unemployment is still high and consumption remains subdued. The risks for US corporations to deliver top-line growth are generally skewed to the downside, particularly given the very optimistic estimates for 2010 earnings. Therefore, we recommend maintaining a moderately cautious view on equities for the US and elsewhere relative to cash.

Europe

Valuations May Reflect Overly Optimistic Growth Expectations With Risk Of Further Price Correction

- We expect economic growth to remain below trend for the UK and the Eurozone, as headwinds remain, such as high unemployment and weak consumption. Current prices may reflect an overly optimistic level of future earnings growth for 2010. As such, the elevated risk of further price correction makes European equities appear less attractive than other developed markets. Balancing out the support from low interest rates and earnings risks, we recommend a moderately cautious position on equities versus cash.

Japan

Weak Spending And High Unemployment Continue To Weigh On Outlook For Demand

- While there is evidence of a recovery in manufacturing and industrial activity in Japan, similar improvements have yet to materialise in the domestic economy. Consumer spending remains weak and unemployment is still above the 5% mark, which is weighing on consumption and prices. Therefore, we have a moderately cautious view on the asset class, and maintain our underweight position versus cash, while we expect Japan to perform in line with other developed markets.

Emerging Markets

Trimmed Our Overweight Exposure To Latin America On Valuations, And Added Position In Turkish Market

- While we maintain our preference for Latin American equities over Emerging Asia, we acknowledge that the valuation gap is not as wide as it was. Therefore, we have decided to take some profits. In addition, we recommend a moderately overweight position in Turkish equities, which compares favourably on valuation grounds relative to other emerging markets, as well as having an encouraging outlook for the maintenance of earnings growth.

Asia ex Japan

Positive Newsflow Appears To Be Priced In With Risk For Earnings To Disappoint

- The outlook for the Asia-ex Japan economy remains positive. That said, there is growing concern of earlier monetary tightening. Valuations have returned to levels consistent with the first quarter of 2007 but share prices largely reflect the positive news. We believe that company earnings vulnerable to disappointments given overly optimistic EPS forecasts. We therefore maintain a moderately underweight allocation to Asia ex-Japan equities versus cash given the risks for earnings growth to disappoint.

Interest Rate / Fixed Income

US

Continue To Recommend A Neutral Position In US Treasuries Vs Cash

- The financial crisis and recession have triggered a sharp increase in public debt and raised concerns about sovereign default. However, macroeconomic headwinds and rising risk aversion have kept the demand for US government bonds reasonably buoyant. In addition, with capacity utilisation remaining low, we do not expect any inflationary pressures to affect yields in the near term. Overall, we recommend a neutral position in US Treasuries relative to cash.

Eurozone

Retain Preference For Corporate Debt On Valuation Grounds

- Supply concerns could place pressure on Eurozone bond prices, as governments continue to issue record amounts of debt to support their economies. However, these concerns seem to be already largely reflected in the bond prices. Regarding Greece's significant debt level, while we do not expect it to default, the situation is likely to generate some volatility in the bond market. Overall, given the exceptionally low yields offered by government bonds, our preference remains for corporate debt on valuation grounds.

Investment Grade

Underlying Conditions And The Demand For Yield Remain Supportive For This Asset Class

- Abundant market liquidity searching for higher yields, as well as ongoing balance sheet repair in the corporate and financial sectors, mean that investment grade credit remains well supported. Despite our central thesis for an extended period

of relatively low economic growth in the developed markets, we reiterate our positive view on investment grade corporate bonds. Valuations are still historically attractive, company fundamentals are improving and technicals should stay supportive of the asset class.

High Yield

Demand Dynamics For Such Asset Class And Fundamentals Remain Supportive

- New issuance continues to be met with strong demand. In a longer term context, current yield levels remain appealing. We expect credit returns in 2010 to be attractive, although not as high as for 2009. Default risk will be meaningfully lower over the course of the year. Overall, we reiterate our positive view on the asset class, although stress that liquidity risks remain.

Emerging-Market Debt

Valuations Remain Less Attractive Than Developed Market High Yield Corporate Bonds And Worries Over Greece Sovereign Debt Add To Concerns

- Versus the previous month the relative valuation picture is little changed with emerging-market debt continuing to look less attractive relative to high yield corporate debt. Furthermore, investors may display more caution regarding emerging-sovereign debt, as several governments are facing increasing challenges to meet their financing needs, as evidenced by the situation in Greece. Overall, we maintain our negative stance on USD denominated emerging-market debt relative to developed markets' credit.

Commodity

Oil

Subdued Demand And Variability In Risk Appetite Are Likely To Mean Oil Will Continue To Fluctuate In A Range

- Supply and demand dynamics are slowly improving as are global growth prospects. But the overall level of economic activity is likely to continue to keep oil demand at subdued levels. Therefore, we maintain our target range for oil within the US\$60-\$80 price range, as subdued demand and ongoing variability in risk appetite are likely to keep the oil price fluctuating within a range.

Currency

US Dollar (USD)

Neutral Position Balances Central Scenario Of Low Interest Rate Environment With Renewed Flight To USD

- Two competing forces influence our decision to remain neutral on the USD. Slower than expected global growth could influence investors to buy the relatively safe USD, which would be positive for the currency. While this is not our central scenario, it is not a risk that can be ruled out either. On the other hand a low interest rate environment, which is likely to be in play for the calendar year 2010, is not supportive for the currency.

Sterling (GBP)

Short-Term Direction Of GBP Relative To EUR Unclear Given UK Fiscal Problem And Greece Debt Issue

- The long term fundamental position of GBP is little changed since last month and we continue to believe that an underweight position against EUR is justified because of the UK's worse fiscal position compared to that of the major eurozone countries. However, in the short term, the direction of the GBP relative to the EUR is unclear given the magnitude of uncertainties impacting the EUR from the Greece debt issue.

Euro (EUR)

Maintain Neutral Position As Resolution Of Greece Fiscal Issue Will Be A Major Swing Factor In The Short Term

- The resolution of the Greek fiscal difficulties and potentially other countries as well is not clear cut and is likely to continue to be a disruptive factor that will increase volatility. Despite the nascent economic recovery we retain neutral position in view of the short-term factors playing on the EUR.

Japanese Yen (JPY)

Retain Neutral Position As Potential For Volatility Is High

- Early in January, the new finance minister commented on his desire to see the JPY at appropriate levels (ie lower) and as such market commentators continue to anticipate some official action. The currency markets may react swiftly to sell the JPY if and when such action occurs. All the time that other low interest rate currencies, particularly USD, continue to look more attractive as carry trade alternatives, the potential for further short-term JPY strength exists.

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